

Internet - ASEAN

SE Asian merchants' perspective on how TikTok fares versus e-com platforms

Industry Overview

TikTok: Brand awareness- tool for merchants to advertise

We spoke to merchants and industry participants in SE Asia to better understand what TikTok is doing in the market and how the e-com players are responding to it. Based on our interactions, we think merchants are now incrementally selling on TikTok as well as seeing value on the platform (given better ROI on investments & broadening the user-base). As TikTok is a closed loop system, merchants can push product ads on the app. Good content works to create brand awareness and can also be tracked completely on TikTok as it gets converted within the same app. So a merchant knows how much is spent on TikTok and what the earnings are from it. On e-com platforms, conversion tracking is not that strong as it is difficult to have visibility on how much traffic from Facebook, Instagram, YouTube etc. leads to transactions. TikTok users are predominantly women and skewed to younger population (below 20 years), helping merchants widen their reach.

Merchant economics: Cheaper to sell on TikTok vs others

The merchants we spoke to indicated that TikTok is cheaper as compared to other platforms; E-com platforms charge c.8-9.3% as core take-rate and payment fees, whereas TikTok charges around 5-7%. Beyond this, merchants pay to influencers (approx. 5-20% depending on SKUs) on TikTok or spend on advertisements (10-20% of net payoffs) on e-com platforms. But these payments are optional and vary from merchant to merchant.

Discounts/marketing expenses selectively increasing now

E-com platforms have scaled back on offering discounts in the last 6 months. Merchants we spoke to indicated that they think Shopee pulled back more. TikTok was able to capitalize on this and opportunistically expanded in SE Asian markets. However, since April-23, merchants are seeing that e-com platforms have selectively resumed discounts, vouchers etc. and have started to spend on marketing again.

TikTok caters to impulsive users; core buyers on Shopee

Our checks also indicate that TikTok is aiming to increase AOV and start selling other categories on their platforms. The evolution of categories on TikTok would bring up AOVs (currently \$5-10) and growth. We think TikTok will continue to gain market share in SE Asia. This would come at the expense of existing e-com platforms. We view Shopee as vulnerable and see risks to market share loss. We maintain our Neutral rating on Sea on balanced risk-reward. However, we note that purchases on TikTok are more impulsive, where AOV is lower and returns are relatively higher. This may likely lead to stagnation of market share at a particular level. The core intent-based purchases will likely continue to happen on the main e-commerce platforms like Shopee as they give consumers a better shopping experience. Their apps are a lot more sophisticated – users get credit card discounts, vouchers, cashbacks etc. From a consumer standpoint, the overall experience is much better and thus, AOVs are high on these apps.

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[Live streaming commerce: A look at how E-com names are responding to TikTok](#)

[TikTok in SE Asia: Steady traction continues for its seller-app in e-com](#)

SKU: Stock keeping units
AOV: Average order value

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Merchants' thoughts on SE Asia E-com

Platform positioning/perceptions: In terms of platform positioning in the market, the customer perception is **1)** Shopee is more focused on beauty and fashion; **2)** Lazada is a bit more premium and stronger in electronics and kids/baby category and **3)** Tokopedia (only present in Indonesia) has more local merchants and is being used for more digital transactions. Lazada has a lot of products coming from China due to its Alibaba/Taobao relationship. Shopee has more female shoppers than Lazada.

Worse likely behind for Lazada: Merchants think most of Lazada's legacy issues (which led to losing market share) are largely behind. Lazada mgmt. is now better analyzing local markets and tailoring offers to different markets. Also, they have the highest 1P last mile delivery fleet helping them better control customer experience.

3 methods of conversion on TikTok: The way consumers engage with TikTok is significantly different when compared to traditional platforms. It is an entertainment platform first where product discovery is on impulse basis (in that browsing moment). On TikTok conversions happen in 3 different ways:

1. About 70-80% conversion is from live streaming by influencers. It is much more natural, accessible and engaging;
2. Merchants have video/product that is pushed on platforms and through the link provided consumers land on TikTok page; Conversion rate is 20% in such cases.
3. By shopping on TikTok shop, a marketplace like Shopee/Lazada. Not many users are aware of this app. Hence this accounts for 5%-10% of conversions. With improving consumer awareness, the traction of this app may improve.

TikTok offers better ROI for merchants when compared to traditional e-com platforms based on the merchants we spoke with. As TikTok is a closed loop system, merchants can push product ads on the app. The good content works to create brand awareness and can also be tracked completely on TikTok as it gets converted on the same app. So, a merchant knows how much is spent on TikTok and what are the earnings from it. TikTok has strategic advantage as they are vertically integrated.

E-com platforms do not have this, but merchants said that they can buy keyword search. These search results will push product ads for which merchants have bid for. E-com platforms have to share a part of the advertisement spent with other media platforms. Conversion tracking is not that strong as it is difficult to have visibility on how much traffic from Facebook, Instagram, YouTube etc. leads to transactions on these e-com platforms.

Live streaming better on TikTok: TikTok has a very strong affiliate program where one can sign up as influencer. These influencers are given 5-15% of net sales for the content they create. Payout is also quick on TikTok. As against this, the live streaming is in nascent stages and hence not that strong on traditional platforms. Traffic is driven from influencers that are creating content on Facebook/Instagram/YouTube, which cannot be tracked.

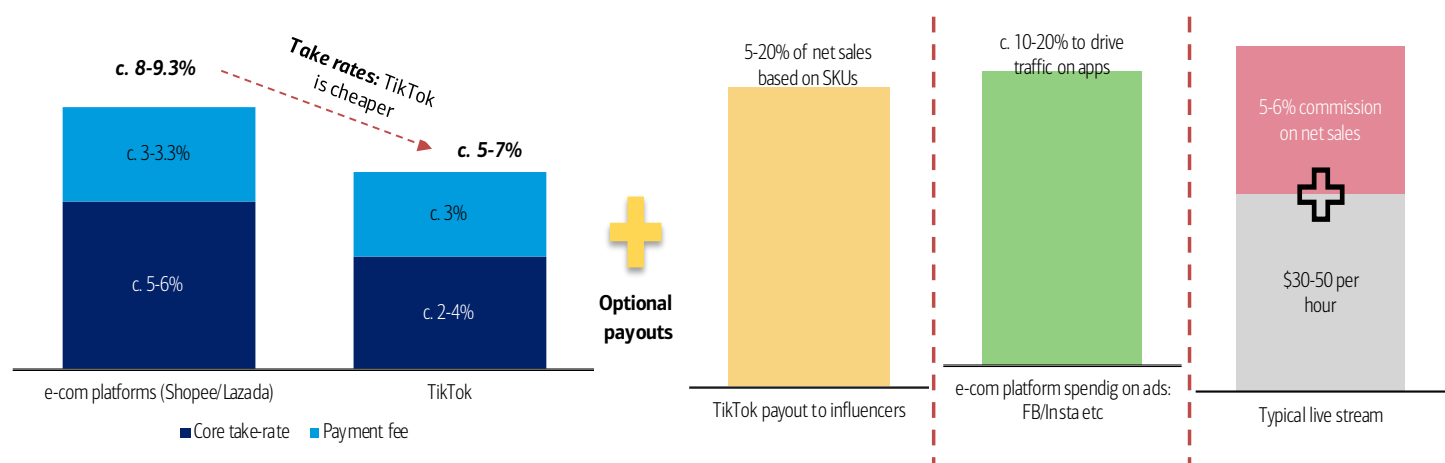
Merchant economics for selling on platforms: The merchants we spoke to indicate that TikTok is cheaper as compared to other platforms; E-com platforms charge c.8-9.3% as core take-rate/payment fees and TikTok charges around 5-7%. Beyond this, merchants pay to influencers (5-20% depending on SKUs) on TikTok or spend on advertisements (10-20% of net payoffs) on e-com platforms. But these payments are optional and vary from merchant to merchant.

- **Core take-rate:** E-com platforms charge c. 5-6% take- rate (some increase in Oct/Nov-22 from 5% to 6%). TikTok is anywhere between 2-4% as the take-rate. Payment fees is largely similar now between e-com platforms (c.3-3.3%) and TikTok (c.3%). When it started TikTok was charging zero payment fees.

- **Optional: Influencer/ad payments:** For instance, TikTok pays 5-20% of net sales based on different SKUs to influencers. Merchant offers this to their network of influencers and is paid on success rate, avg c.10-15% to influencers based on category of products. Shopee/Lazada don't have affiliates; but equivalent is spent on advertisements. Social media ads are used to drive traffic on their apps. Merchant can pay around 10-20% of net payoffs on Facebook/Instagram/YouTube etc. to drive traffic to their shop. All 3 platforms have live streaming. Merchant feedback is TikTok is better. Each live stream is paid 30-50\$/hour + 5/6% commission based on net sales.

Exhibit 1: Merchant economics: Take rates comparison & other payments comparison

Merchants pay to influencers (5-20% depending on SKUs) on TikTok or spend on advertisements (10-20% of net payoffs) on e-com platforms.



Source: BofA Global Research; Live streaming could be part of payout for influencers but may be different for e-com platforms

BofA GLOBAL RESEARCH

Who are TikTok users? TikTok users are predominantly women & skewed to young population, mostly 20 years or below. As a result, the spending power is less. Category focus of the users on TikTok is mostly beauty and fashion as it is easier to demonstrate/communicate these products. Shopee/Lazada has a bit older population, but some overlap remains. A common thing amongst majority of the consumers (of all age groups) is that they are not platform loyal. They are price-sensitive and hence could flip around to get the best deal/price.

E-com platforms scaled back on offering discounts: In the last 6 months. Merchants we spoke to indicated that they think on a relative basis Shopee pulled back a lot more. TikTok was able to capitalize on this and opportunistically expanded in all other SE Asian markets after initially launching in Indonesia. However, off-late the merchants are seeing that e-com platforms have selectively resumed discounts, vouchers etc. and started to spend on marketing again.

How are the E-com platforms looking to retain users? Merchants acknowledged that the platforms are pushing on live streaming; they use influencers that are more accessible. They also use celebrities or people with more followers. These platforms are selectively also giving cashbacks to retain customers and maintain loyalty programs. E.g., loyalty points could be redeemed on special items/in-game purchases etc. – thus trying to make the user sticky.

Price objective basis & risk

Sea Limited (SE; C-2-9; \$78.41)

Our PO of USD92 is based on a sum-of-the-parts valuation. We value Garena's gaming business at USD14 per share or 5.5x 2024E EV/EBITDA, which is at a discount to global peers.

The Shopee business is valued at USD63 per share based on 0.4x 2024E EV/GMV (vs 0.3x 2023E EV/GMV earlier) and in our view fairly reflects Shopee's rapid growth, increasingly dominant position in one of the fastest-growing e-commerce regions in the world and optionality in Latin America.

We value its Digital Banking unit at 1x EV/IC (USD2/share) given growth optionality, its SeaMoney digital payments business at 0.05x EV/TPV for 2024E (USD8/share), and Sea Capital PE fund at 1.2x EV/IC (USD2/share).

Upside: 1) faster-than-expected revenue growth with profitability, 2) good traction of more self-developed games

Downside: 1) continued higher losses, 2) higher competition in SE Asia e-com markets, leading to slowing revenue growth.

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	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	WiseTech Global Limited	WTCHF	WTC AU	Ware Kuo
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	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar

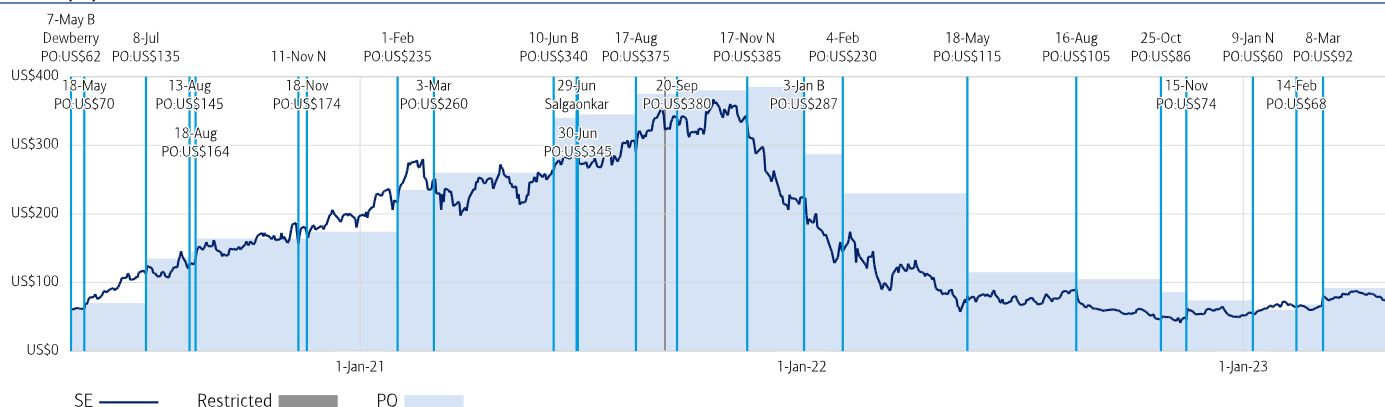
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