

# **Overview**







E-commerce



Digital Financial Services

Sea Limited is a dominant e-commerce, gaming, and fintech player in Southeast Asia. Its e-commerce arm Shopee holds the No.1 market position across Southeast Asia. SE is also the market leader in the region's digital lending and gaming businesses. This Singapore-based company utilizes technology to build and scale its platforms across Southeast Asia (64.0%), Taiwan, and expanding global markets such as Latin America.

Forrest Li established a company named Garena.

Underwent a corporate rebranding and adopted the name Sea Ltd.
Listed on the New York Stock Exchange.

Posted its first profitable year since its IPO with an annual net income of US\$162.7 million for the 2023 financial year.

2009

2014

2017

2022

2024

Ranked as the largest internet company in Singapore by The Economist.

Tencent offloaded a US\$3 billion investment in Sea.

# **History**

# THE SCALABLE LIFECYCLE



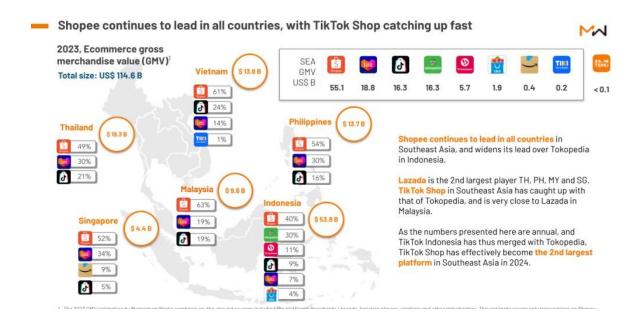
Sea Ltd (SE US) - Profitability						
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	
12 Months Ending	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	
Returns						
Return on Assets	-20.6%	-14.0%	-9.2%	0.8%	2.1%	
Return on Invested Capital	-36.0%	-21.1%	-10.3%	6.7%	9.9%	
Return on Equity	-47.3%	-27.6%	-28.4%	2.3%	5.2%	
Margins						
Gross Margin	30.8%	39.1%	41.6%	44.7%	42.8%	
EBITDA Margin	-24.0%	-11.7%	-6.4%	7.4%	6.3%	
Operating Margin	-29.8%	-15.9%	-11.9%	1.7%	3.9%	
Net Income Margin	-37.0%	-20.6%	-13.3%	1.2%	2.6%	
Solvency & Liquidity						
Financial Leverage	3.06	2.53	2.93	2.82	2.67	
Interest Coverage	0.87	-5.89	12.52	-4.06	-5.99	
Current Ratio	1.93	2.11	1.83	1.44	1.49	
Quick Ratio	1.91	2.09	1.81	1.43	1.48	
Cash Ratio	1.33	1.29	0.87	0.34	0.21	

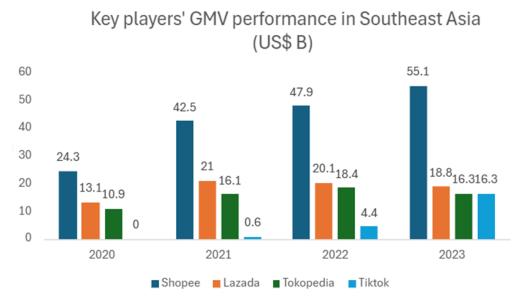
# Next Stage: Hypergrowth?

# **Business Lines: Shopee**

Shopee is a technology company focused mainly on e-commerce. Shopee was first launched in Singapore in 2015, and has grown to become the largest e-commerce platform in Southeast Asia and Taiwan. The majority (74.6%) of Sea Ltd.'s revenue comes from its E-commerce (Shopee).

Shopee's GMV has consistently maintained a significant leading stage over its competitors and has been steadily growing, while TikTok has experienced rapid development since 2021 and is poised to be a strong contender in the e-commerce market in the future.



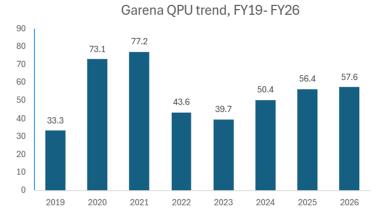


# **Business Lines: Garena and SeaMoney**

### Garena

Garena operates as the digital entertainment division of Sea, managing Garena+, an online gaming and social platform established in 2010. This platform facilitates the discovery, download, and play of online games. Garena distributes game titles in various countries across Southeast Asia and Taiwan.





# SeaMoney

SeaMoney is an internet services company specialized in digital payments and financial services. Its offerings include mobile wallet services, payment processing, credit offerings, and related digital financial products and services. These are available in seven markets across Southeast Asia and Taiwan under various brands, including ShopeePay, SPayLater, SLoan, and even SeaBank and MariBank.









# **Industry Analysis**

### **E-Commerce**



# Southeast Asia's e-commerce market is projected to reach US\$370 billion by 2030

Mobile-first consumer base and live commerce accounted for 15% of order volume in Q4 2024

### **Streamlined Logistics**

Two-day delivery is now standard for half of the region's orders

### **Intensified Competition**

New entrants leverage social media and mergers to challenge established players

# **Gaming**



### Mobile gaming wave

There is a shift towards on-the-go entertainment. Mobile gaming has emerged as the dominant force in the Southeast Asian gaming market

Asia Pacific market forecast to grow at a 10.9% CAGR from 2024 to 2030

However, Southeast Asia market forecast to grow at a 0.19% CAGR from 2025 to 2030

# Digital Financial Services

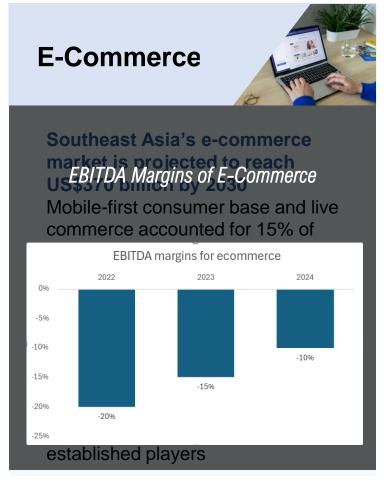
## **Digital payments and lending**

Make up over 90% of earnings, driven by

- Gap in traditional banking
- High smartphone penetration
- Unbanked population
- Rising digital literacy
- Supportive regulations

can unlock vast opportunities amid growing competition

# **Industry Analysis**







# **Key Drivers**

# Company

### **E-commerce (Shopee): Sustained Market Leadership and Expanding Profitability**

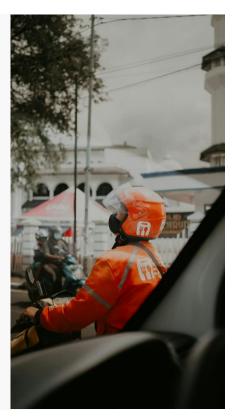
Shopee's 2024 GMV surged 28% to over \$100 billion, driven by 40% active buyer growth in Southeast Asia and Brazil, boosted by live-streaming (15% of orders), higher commissions, ad revenue, and Al-driven efficiencies that lifted Q4 EBITDA margins to 0.5%, advancing toward its 2-3% target

### Digital Financial Services (SeaMoney): High Growth with Stable Credit Quality

SeaMoney's Q4 2024 revenue surged 55% YoY, with full-year adjusted EBITDA hitting \$700 million (+30%), driven by a 60% loan book growth to \$5 billion and 26 million active users, half borrowing from Shopee. Integration with Shopee's PayLater, digital banking licenses in four markets, and a stable 1.2% NPL ratio position it for earnings growth and valuation upside against rivals like Grab and Gojek in 2025

## Digital Entertainment (Garena): Free Fire's Resilience and New Growth Catalysts

Garena's Digital Entertainment bookings surged 34% YoY in 2024, driven by Free Fire's dominance as the world's most-downloaded mobile game (100M+ daily users, up 28% YoY), smart localization (e.g., 90% user growth in Nigeria), a 43% rise in esports viewership, and an 8.2% paying user ratio, with its valuation multiple climbing to 12x amid plans for portfolio expansion and double-digit 2025 bookings growth



# **Key Risks**

# 1. Company

### **E-Commerce Competition**

Intense rivalry from TikTok Shop, Lazada, and Mercado Libre could squeeze margins and market share due to high marketing costs and slower user growth.

### **Gaming Concentration**

Heavy reliance on Free Fire exposes Garena to risks from declining engagement or underperforming launches, alongside regulatory pressures.

#### **Fintech Credit Risk**

Sea Money's rapid expansion in lending and digital banking increases credit risk if underwriting practices weaken, compounded by compliance challenges.

### **Expansion-Driven Cash Burn**

Investments in new verticals and regions might strain profitability if scaling efforts fail.



# **Key Risks**

# 2. Industry

### **Macroeconomic Volatility**

Economic slowdowns, inflation, and currency fluctuations - especially with USD-denominated costs - could hinder GMV growth and affect Sea Money's credit quality.

### **Regulatory Risk**

Rapid changes in e-commerce, gaming, and fintech regulations could lead to compliance challenges.



# **SWOT Analysis: Shopee**

### **Strengths**

- **GMV** surpassed \$100 billion in 2024, driven by strong growth in Southeast Asia and Brazil, where monthly active buyers rose over 40% YoY.
- Increased commission fees in key markets (Thailand, Malaysia, Singapore) led to higher revenue per transaction.
- Advertising revenue grew by 50 basis points, now comprising 2% of GMV, with room for continued expansion.
- Al chatbot adoption resolved 80% of customer queries, resulting in a 30% YoY reduction in service costs and a 40% cut in refund resolution time, enhancing operational efficiency.

#### **Opportunities**

- Aggressive expansion into Brazil and emerging markets offers significant growth opportunities.
- Integration with YouTube for livestreaming has already boosted daily orders in regions like Indonesia, achieving a sixfold increase, with potential for similar impacts in other regions.
- Advertising revenue, currently around 2% of GMV, holds significant potential for expansion as ad penetration deepens, providing an additional avenue for revenue growth.

#### Weakness

- Aggressive competition from TikTok Shop, Lazada, and MercadoLibre may increase customer acquisition costs, erode market share, and compress margins.
- High marketing spend may not guarantee customer retention, posing risks to long-term profitability.
- Heavy investments in live streaming, short-form video, and regional expansion (e.g., Brazil) could result in high cash burn if returns fail to materialize.





E-commerce

#### **Threats**

- **Economic slowdowns,** inflation, or recessions could negatively impact consumer spending, which would hurt Shopee's GMV growth.
- **FX volatility** could negatively affect profitability, especially if local currencies depreciate against the dollar.
- Exposure to multiple currencies with USDdenominated costs increases foreign exchange risk, potentially impacting profitability in emerging markets.





# **SWOT Analysis: SeaMoney**

### **Strengths**

- SeaMoney's DFS segment experienced rapid growth in 2024, with a loan book exceeding \$5 billion and 26 million active users.
- Strong revenue from lending products like PayLater highlights SeaMoney's ability to serve the underbanked population effectively.
- Despite high APRs (5% to 100%) on consumer loans, non-performing loans remain low at 1.2%, indicating effective credit risk management.

#### Weakness

- SeaMoney's initial growth was closely tied to Shopee's success.
- Rapid growth in SeaMoney's DFS segment increases exposure to credit risk, with potential profitability impact if economic slowdowns, poor underwriting, or rising defaults lead to more NPLs.
- Increased regulatory scrutiny may pose challenges to sustainable expansion, especially in emerging markets with evolving financial regulations.





- Digital banking licenses in four markets position SeaMoney for growth and diversification, especially in underbanked emerging regions.
- Loan book growth expected to exceed Shopee's GMV growth in 2025, highlighting a strong opportunity to scale lending revenue and expand financial services.
- Entry into insurance tech builds on SeaMoney's user base, providing diversification and new revenue opportunities in digital financial services.



Digital Financial Services

#### **Threats**

Economic downturns or rising defaults could lead to **higher non-performing loans (NPLs)**, negatively affecting SeaMoney's profitability.

- Poor underwriting practices pose a risk of increased loan defaults, further straining financial performance.
- Heightened regulatory **risks in financial services**, **particularly around AML and KYC compliance**, could raise operating costs and slow growth as SeaMoney scales.
- Increased regulatory scrutiny in financial services could slow expansion efforts and require greater investment in compliance infrastructure.





# **SWOT Analysis: Garena**

### **Strengths**

- Free Fire remains the **most downloaded** mobile game globally, with 100 million daily active users and a 28% YoY increase.
- User growth in emerging markets, such as Nigeria, surged by 90% YoY, highlighting strong global expansion.
- The Free Fire World Series experienced a 43% YoY increase in viewership, reinforcing Free Fire's leadership in mobile esports.

#### Weakness

- Garena's heavy reliance on Free Fire for gaming revenue makes it vulnerable to declines in user engagement, game popularity, or lifecycle maturity.
- Non-renewal of licensing agreements
   (typically lasting 2–7 years) poses a significant risk to revenue continuity, increasing dependency on successful new game launches.



### **Opportunities**

- Garena's successful content localization (e.g., Ramadan campaigns, Naruto collaborations) has boosted user engagement in emerging markets; expanding this strategy can drive growth in culturally sensitive regions.
- Plans to launch new games offer a path to diversify the gaming portfolio, reducing overreliance on Free Fire and capturing additional market share.
- The 43% YoY viewership growth in the Free Fire World Series highlights the potential of esports expansion to increase revenue through partnerships and sponsorships.



Digital entertainment

#### **Threats**

- Delays or failures in launching new successful games could result in significant financial risks and limit future growth.
- Regulatory scrutiny related to **gaming addiction** and content regulation poses a
  threat to market access—Free Fire's ban in
  Bangladesh exemplifies this risk.
- Potential for **age restrictions** or governmentimposed limitations on game content may further limit user base growth and affect revenue potential.





# **Comparables approach**

1

# **Earnings Multiples**

Forward P/E

### **Recent profitability:**

Sea Ltd. has only recently become profitable, so a forward P/E gives a glimpse into how the market expects those profits to grow.

Forward EV/EBITDA

### **Profitability Considerations:**

While EBITDA helps account for earlystage profitability, it may still be somewhat volatile as Sea scales. 2

# Sales Multiples

Forward P/S

## **High-Growth Emphasis**:

Forward P/S is particularly useful for a fast-growing company like Sea, where revenue expansion is a key value driver.

Forward EV/Sales

### Revenue-Focused:

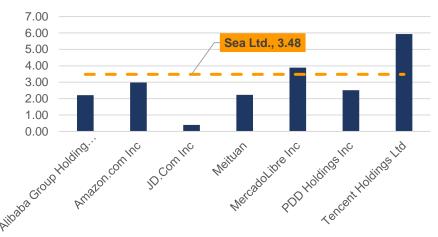
Like P/S, EV/Sales emphasizes Sea's top-line growth potential, crucial for its ecommerce and digital segments.

### **Useful for High-Growth Firms:**

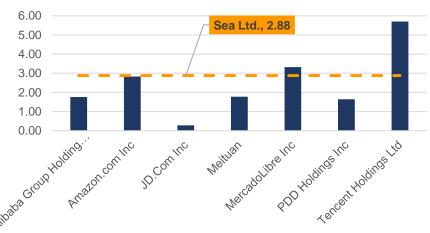
Highlights the scale of Sea's revenue generation without getting overly skewed by near-term earnings fluctuations

# Valuation using Comparables (As a whole)





## As a whole EV/Next year sales



### **Implied share price**

### Sea Ltd's projected 2025E Financials

	EBITDA	Sales
As a whole	844.9	21,154.58

#### **Median Values for Selected Multiples**

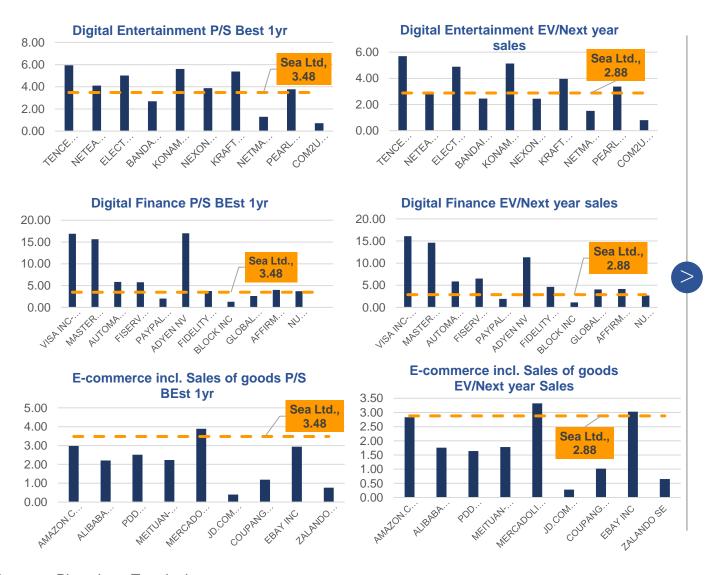
	P/S BEst 1yr	EV/Next year sales
Median	2.51	1.78

#### **Calculations**

	P/S BEst 1yr	EV/Next year sales
Implied EV as a whole		37,655.15
Cash	8,620.58	
Debt	4,110.63	
Implied equity value	53,097.99	42,165.09
Implied share price	100.79	80.04

Sources: Bloomberg Terminal

# Valuation using Comparables (Sum of the parts)



### Implied share price

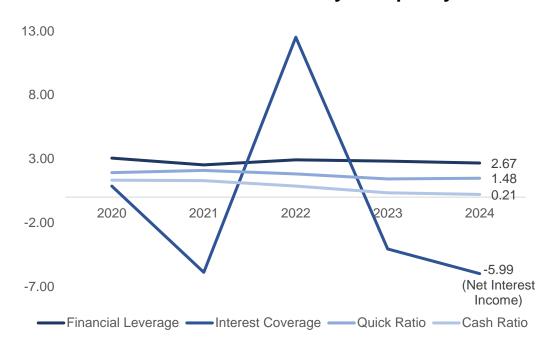
Sea Ltd's projected 2025E Financials				
	EBITDA	Sales		
E commerce incl. Sales of goods	130.3	1,5942.72		
Digital entertainment	564.3	2,139.86		
Digital Financial Services	150.3	3,072		
Median Values for Selected Mu	ıltiples			
Median Values for selected multiples	P/S BEst 1yr	EV/Next year sales		
Digital Entertainment	3.99	3.145		
Digital Finance	4.01	4.63		
E-commerce incl. Sales of goods	2.23	1.76		
Calculations				
Implied EV by business lines	P/S BEst 1yr	EV/Next year sales		
E commerce incl. Sales of goods	35,552.26	28,059.18		
Digital entertainment	8,538.04	6,729.86		
Digital Financial Services	12,318.72	14,223.36		
Implied Enterprise Value (EV)		49,012.40		
Cash	8,620.58			
Debt	4,110.63			
Implied equity value	56,409.02	53,522.34		
Implied share price	107.08	101.60		

Sources: Bloomberg Terminal

# **Financial Health Diagnosis**



# Sea Ltd's Stable Solvency & Liquidity



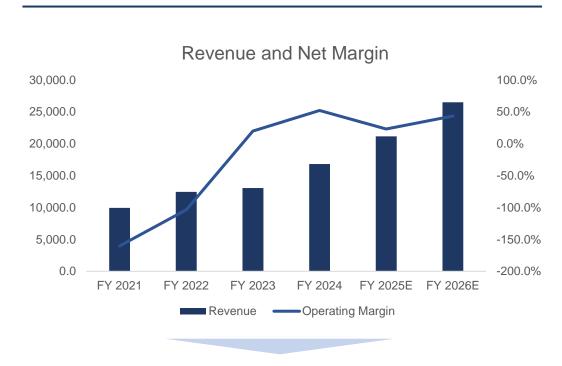
Sea Ltd is financially healthy and stable while operating at a better efficiency.

Sea Ltd's Altman Z-score = 3.54 (Safe zone: > 3); Beneish M-Score = -3.03 (Less Likely a Manipulator < -1.78)

Sources: Bloomberg, GuruFocus

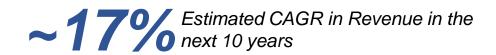
# **Financial Projection & Analysis**

### **Surges in Revenue & Operating Margin**



Sea Ltd is gradually realizing its massive top-line growth and profitability, thanks to improved GMV (Shopee) and better user experience (Shopee & Garena).

### What Do We Expect?



~ 19% Forecasted CAGR in FCFF in the next 10 years

### **Valuation Assumptions**



4.3% LT growth for Terminal Value calculation (ASEAN's GDP growth rate by IMF prediction)

2.1% Pre-tax Cost of Debt
2.1%

13.9% Estimated Levered WACC with 6.9% Debt Effective tax rate for all forecast periods

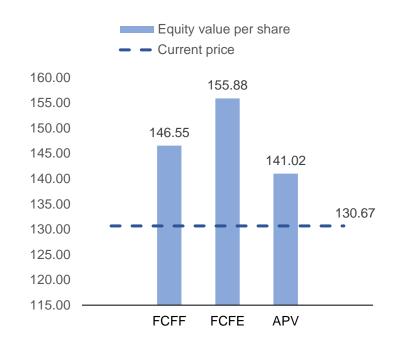
Sources: Bloomberg and Financial Forecasts

Adjusted Present Value (APV) approach does not need us to assume constant Debt / Value ratio for every forecast period.

# **Discounted Cash Flow (DCF) Valuations**

# Sea Ltd's DCF valuations indicate upsides to current price

SE: Valuation (US\$ m)	<b>FCFF</b>	<b>FCFE</b>	APV
Enterprise value	72,801.3		69,887.0
Add in initial (year 0) cash and mkt. securities	8,620.6		8,620.6
Asset value in year 0	81,421.9		78,507.6
Subtract out value of firm's debt today	4,110.6		4,110.6
Subtract out value of firm's pref shares today	0.0		0.0
Subtract out minority interest today	105.2		105.2
Equity value	77,206.0	82,120.0	74,291.7
Total number of shares	526.8	526.8	526.8
Equity value per share	146.55	155.88	141.02
Upside/ (Downside)	12.2%	19.3%	7.9%



Current share price might be a mix of results caused by: transitory macroeconomic effects e.g. announcements of tariffs + market's overreaction + normal market volatility

Sources: Financial Forecasts and Valuations

# **Sensitivity Analysis**

<b>FCFF</b>				WACC		
	146.55	12.9%	13.4%	13.9%	14.4%	14.9%
ر te	3.3%	156.21	146.89	138.51	130.94	124.08
term Rate	3.8%	161.28	151.28	142.33	134.29	127.01
g-t ⁄th	4.3%	166.95	156.16	146.55	137.96	130.23
Long-t Growth	4.8%	173.31	161.60	151.24	142.02	133.76
<b>-</b> 9	5.3%	180.52	167.72	156.47	146.52	137.66

<u>APV</u>		Unlevered WACC, rA				
	141.02	12.9%	13.4%	13.9%	14.4%	14.9%
ر te	3.3%	142.42	137.61	133.02	128.63	124.42
term Rate	3.8%	146.57	141.59	136.82	132.27	127.91
~ <u>~</u>	4.3%	151.15	145.97	141.02	136.29	131.75
Long- rowtl	4.8%	156.25	150.85	145.68	140.75	136.03
9	5.3%	161.93	156.29	150.89	145.73	140.80

<b>FCFE</b>		Cost of Equity				
	155.88	13.8%	14.3%	14.8%	15.3%	15.8%
ر te	3.3%	166.55	156.76	147.89	139.82	132.45
term n Rate	3.8%	171.51	161.10	151.71	143.18	135.43
g-t ⁄th	4.3%	177.01	165.88	155.88	146.85	138.66
Long-t Growth	4.8%	183.11	171.16	160.47	150.86	142.18
J ē	5.3%	189.93	177.03	165.55	155.28	146.04

Sea Ltd's DCF valuations are more sensitive to discount rates for FCFF and FCFE approaches, we therefore prefer APV that is less sensitive to unlevered or pre-tax WACC.

Sources: Financial Forecasts and Valuations

# What Do Other Analysts Have to Say about Sea Ltd's Valuations

Most of them are optimistic about Sea Ltd, at an average consensus target price of US\$155.54, which is 19% above the current market price of US\$130.67.

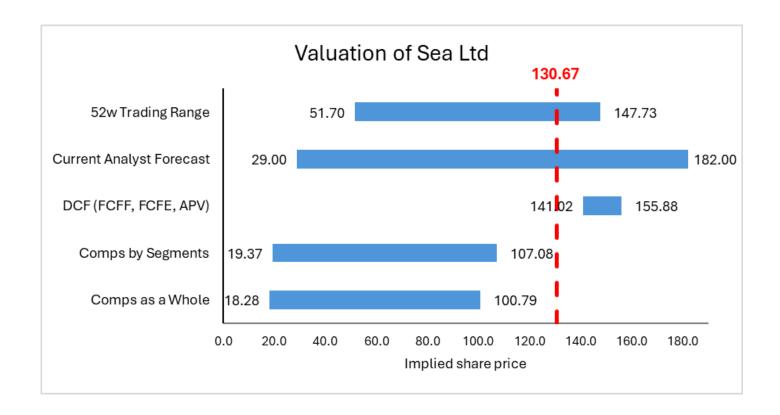
Do we agree on their views?

Recommendation	No. of Analysts	% Total
Buy	35	87.5%
Hold	4	10.0%
Sell	1	2.5%
	Consensus Target rice	\$155.54 (19.0% upside)

"I am naturally drawn to numbers but one of the ironies of working with numbers is that the more I work with them, the more skeptical I become about purely number-driven arguments."

~ Aswath Damodaran

# Football Field of Sea Ltd's Valuations



Our choice of target price is based on <u>DCF's</u> <u>APV approach</u>, yielding US\$141.02 per share.

Comparable analysis, which provides us with a wide range of implied share prices due to the company's **early stage of growth**, may not give us apple-to-apple comparisons against international large-cap companies.

Current price of US\$130.67 (as of March 28, 2025) is considered <u>undervalued</u> given the company's growth prospect and improving profitability.

We rate and recommend Sea Ltd a BUY with target price of US\$ 141.02 with potential upside of 7.9% (as of March 28, 2025).

Sources: Financial Forecasts and Valuations