

ASEAN Industry Focus

Internet Sector

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DBS Group Research . Equity

24 Feb 2022

Three tech titans battle vigorously

- Grab (GRAB) might hurt its own mobility margins to make Gojek irrelevant in Singapore
- Sea Ltd. (SE) is gaining market share in the delivery business in Indonesia at the cost of Grab & Gojek;
- Grab's fintech business to suffer a setback from GoTo in Indonesia
- Downgrade GRAB to HOLD while SE remains a BUY as both stocks are trading at similar valuations

Grab might hurt its own mobility margins to make Gojek irrelevant in Singapore. With its recent rise in driver incentives and consumer discounts, Grab wants to halt Gojek's mobility share in Singapore. With a small user base and mounting losses, Gojek might lose the business case to launch delivery & payments in Singapore.

Sea Ltd. (SE) is rapidly gaining market share in the delivery business in Indonesia. SE gained 8% market share in Indonesia's delivery business in 2021 since its launch in March 2021 and is likely to at least double its share in 2022F as evident from its promotions.

Grab's fintech business to suffer a setback from GoTo in Indonesia. Grab's OVO might find it hard to completely replace the loss of Tokopedia's payment business despite the addition of new ecosystem partners in 2022 in our view.

E-commerce monetisation on the rise. Sales generated by Shopee Ads tripled from 1H21 to 2H21, and we expect this to continue in 2022. Shopee will also be building a sampling channel to help brands attract new shoppers.

SE should trade at at least 30% premium to GRAB due to its bigger scale and higher margin potential. We cut GRAB's FY22F/23F adj revenue by 9%/11% and raise its adj EBITDA losses sharply by 74%/92%. *Our previous bear-case scenario has become our base-case for GRAB.* Our revised TP for GRAB is US\$5.60 translating to 5x FY22F adj revenue. Our new bear-case TP for Grab is US\$4.12. We prefer SE at unchanged TP of US\$272. Our bear case TP for SE remains at US\$147. Its e-commerce business in Southeast Asia is likely to see narrower losses in 4Q21F and EBITDA breakeven in 2H22F, renewing faith in its growth strategy. Our checks also indicate good traction for Free Fire Max

NASDAQ : 13,037.49

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STOCKS

	Price US\$	Mkt Cap US\$m	12-mth		Rating
			Target Price US\$	Performance (%) 3-mth 12-mth	
SEA Ltd.	121	66,843	272	(58.4) (52.4)	BUY
Grab Holdings	5.30	19,828	5.60	(60.5) (61.1)	HOLD

Source: DBS Bank, Bloomberg Finance L.P.

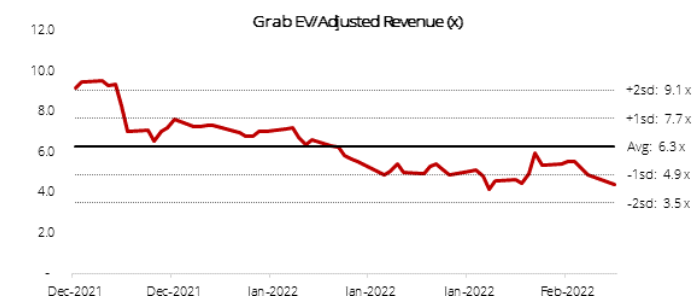
Closing price as of 23 Feb 2022

SE is trading at a 4.5x EV to 12-month forward revenue, below its 7.4x average



Source: Reuters, DBS Bank

GRAB is trading at a 4.5x EV to 12-month forward adj revenue vs. the 6.3x average of its short-listing history



Source: Reuters, DBS Bank



Watchlist the stock on Insights Direct to receive prompt updates

ed: BM/ sa: DT, PY, CS



Live more, Bank less

Grab has raised its driver incentives in Singapore as a solution to deal with the driver shortage. Our industry checks indicate that the number of rides in Singapore are up 30%-40% compared to the number in Sep 2021. In fact, there is a shortage of drivers now, forcing Grab to raise its driver incentives. This is partly in response to Gojek's move whereby it cut the commission rate paid by drivers from 20% to 10% until the end of 2022 to help them earn more amid the COVID-19 pandemic.

We understand that most drivers prefer Grab to Gojek, if driver incentives are similar, due to more nearby pick-up locations at Grab. Gojek often sends drivers to far-off pick-ups wasting drivers' time and leading to long-customer waiting time. This is due to in-house developed mapping technology of Grab, which is far more accurate than other solutions such as Google Map.

Grab's ongoing promotions in Singapore, which is its largest ride-hailing market in the region

TOP OFFERS	DISCOUNT	EXPIRY
Grab Voucher: S\$3 OFF 3 GrabCar Rides	S\$3	28 February 2022
Grab Promo Code: S\$8 OFF First Ride	S\$8	28 February 2022
Grab Discount Code: 8% OFF Grab Gift Cards Sitewide	8%	28 February 2022
Grab Voucher: Up To S\$20 OFF Gift Card Purchases	S\$20	28 February 2022
Grab Voucher Code: S\$3 OFF GrabRide Orders	S\$3	28 February 2022
Grab Promo Code Singapore: 5% OFF Your Rides	5%	28 February 2022
Grab Promo Code: Extra S\$10 OFF First Grab Ride	S\$10	23 April 2022

Source: iPrice Group, DBS Bank

To push Gojek into a corner, Grab has raised consumer discounts since the start of 2022. In native Indonesia, Gojek offers a slew of services ranging from food and grocery deliveries to financial services, though these have yet to be introduced in Singapore. With Grab's mobility market share at ~80% in Singapore, the business case for more services is still very weak for Gojek. Gojek burnt US\$141m in 2019 and might have incurred even bigger losses in 2021, in our estimates. Grab has started aggressive consumer promotions as shown above to stop further market share gains for Gojek. The idea is to dent the business case for Gojek to start any new services in Singapore and focus on its native market in Indonesia only.

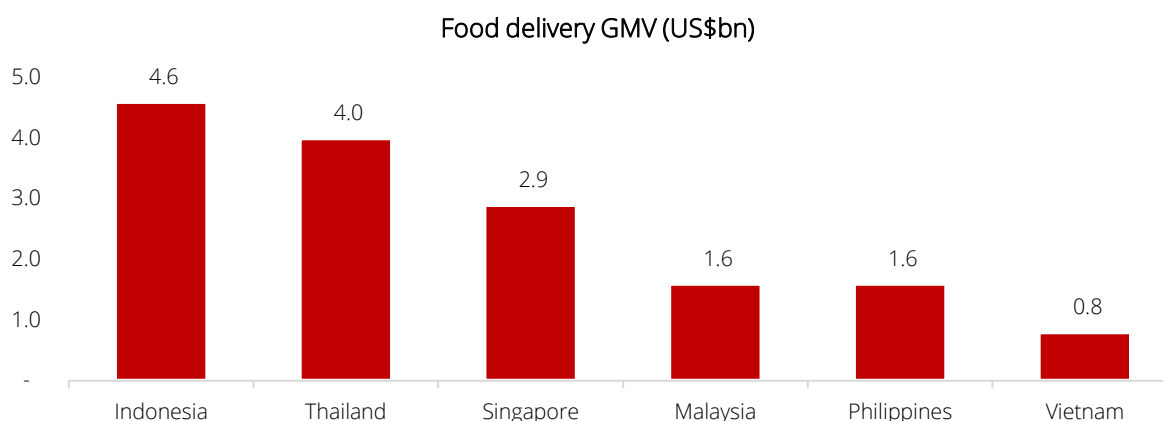
Potential loss of Tokopedia's payment business in Indonesia could possibly explain Grab trying to push out Gojek in Singapore. Currently, Grab's OVO is still available as a payment option on Tokopedia but is not the preferred option. Without Tokopedia's business, OVO might start to weaken although OVO is expanding the number of use cases across other e-commerce platforms such as Bukalapak and Lazada. However, Tokopedia's gross merchandise value

(GMV) is huge – was US\$14bn in 2020, even bigger than Grab's regional GMV, so it might not be easy for Grab to replace the loss of Tokopedia.

Rising competition in the delivery business in Indonesia

Grab witnessing intense competition in Indonesian delivery business from Shopee of Sea Ltd. ShopeeFood entered Indonesia in Mar 2021. The market was primarily dominated by GrabFood and GoFood. *According to Momentum Works, the market is now dominated by Grab at 49%, followed by GoFood at 43% and ShopeeFood at 8%.* Across Southeast Asia, Grab holds the dominant place in Indonesia, Thailand, Singapore, Vietnam, and the Philippines in terms of market share, while in Malaysia, it lost to FoodPanda, which grabbed a market share of 49% compared to Grab's 48%. The food delivery market in Southeast Asia is valued at US\$15.5bn. Indonesia contributed US\$4.6bn, accounting for 38% of the Southeast Asian market, followed by Thailand and Singapore at US\$4bn and US\$2.9bn, respectively.

Indonesia accounts for 38% of the Southeast Asian food delivery market



Source: Momentum Works, DBS Bank

Ongoing ShopeeFood promotions in Indonesia

TOP 10 OFFERS	DISCOUNT	THE PERIOD OF VALIDITY
Shopee x Mandiri Promo Code Rp 50 THOUSAND Cashback Shopping Save	IDR 50 THOUSAND	01 April 2022
Shopee Special Free Shipping Voucher This Month	FREE SHIPPING	28 February 2022
Shopee Cashback Voucher Code 15% Wholesale All Products	15%	March 20, 2022
Shopee Voucher 50% Off Special Old Date	50%	28 February 2022
Shopee Voucher Code Rp 100 THOUSAND Discount Special BRI 3.3 Sale	IDR 100 THOUSAND	03 March 2022
Shopee Voucher Code 50% Discount Buy Philips Products	50%	28 February 2022
Shopee Promo Code Discount Rp 300 THOUSAND Pay Using BNI	IDR 300 THOUSAND	28 February 2022
Shopee Cashback Voucher Code Rp. 20 THOUSAND Shop as much	IDR 20 THOUSAND	March 20, 2022
Shopee Vouchers Discount up to 55% Shopping for Wardah Products	55%	28 February 2022
Shopee Voucher Code Save IDR 50 THOUSAND with BRI	IDR 50 THOUSAND	01 August 2022

Source: iPrice Group, DBS Bank

ShopeeFood is making strides in the food delivery industry in Southeast Asia. Its initial two markets, Indonesia and Malaysia, had presented immense market opportunities largely due to a rising population and growing smartphone and internet penetration. The food delivery markets in these two countries were mainly led by Grab having a strong foothold because of the ride-hailing services. There are other players such as FoodPanda in Malaysia who offer a standalone service. However, Grab as a super app offers a broad range of offerings enabling cross selling of these services. Similarly, Sea Ltd., through its e-commerce and the fintech arm, is attempting to cross sell its food delivery services through the super app model. Sea Ltd. will continue to aggressively expand in the food delivery space, especially from the free cash flow generated from its gaming business.

Rising monetisation of e-commerce

Advertising and sampling will be the key monetisation push for 2022. According to *Business Times*, Shopee's Chief Operating Officer Terence Pang has mentioned that sales generated by Shopee Ads tripled from 1H21 to 2H21. Brands on Shopee Mall can now buy new homepage banner display ads to showcase their campaigns. Shopee will also be one of the first e-commerce platforms to integrate Facebook Ads for online sellers. And with consumers looking to try products before buying them online, the company will be building a sampling channel to help brands in the FMCG, beauty and toys, and kids and babies categories to attract new shoppers. Shoppers can buy product samples and receive vouchers for their next purchase. Brands that participated in the pilot of this initiative at the 12.12 shopping event in 2021 recruited up to 90% of its new buyers through this.

Gaming Update

Free Fire ranks among grossing apps across all mobile game types as of 13 Feb 2022

Country	16 Nov 2021		5 Jan 2022		13 Feb 2022	
	iOS	Android	iOS	Android	iOS	Android
Indonesia	36	3	37	3	n/a	3
Brazil	1	1	2	1	2	1
Argentina	1	1	2	1	1	1
Malaysia	10	2	14	2	12	2
United States	3	3	8	5	3	5
Vietnam	4	1	13	3	12	2 and 5*

*Free Fire MAX

N/a - Ranking is beyond 50

Source: App Annie, DBS Bank

Free Fire Max is contributing ~20% of Free Fire in-app revenue with less than 10% of Free Fire total user base. Since its launch in Sep 2021, Free Fire's monetisation has been on a rather solid trajectory. Our channel checks indicate that Free Fire Max is contributing ~20% of the total Free Fire in-app purchase revenue from Nov 2021 to Feb 2022. Free Fire also gets a substantial portion of its revenue from ad monetisation, where Free Fire Max has a lot of room to improve.

Recommendation

Downgrade GRAB to HOLD, as losses may not narrow in FY22F. We cut GRAB's FY22F/23F adj revenue by 9%/11% and raise its adj EBITDA losses sharply by 74%/92%. Our revised TP of US\$5.60 for GRAB was our bear case TP previously in case of a sharp rise in competition. Our new bear case TP is US\$4.12 for GRAB based on 3x FY22F adj revenue - average multiple of Uber & Doordash - in case adj EBITDA losses are higher than our expectations.

We prefer SE and maintain BUY with unchangd TP of US\$272. Its e-commerce business in Southeast Asia is likely to see narrower losses in 4Q21F and EBITDA breakeven in 2H22F, renewing faith in its growth strategy. Our checks also indicate good traction for Free Fire Max. Our bear case TP for SE is US\$147, assuming long-term EBITDA margins are 12% for the e-commerce business, vs. 22% under the base case. Our bear-case TP translates to 5.5x FY22F adjusted revenue.

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
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*Share price appreciation + dividends

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