

# Regional Company Update

## SEA Ltd

Bloomberg: SE US | Reuters: SE.US

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Feb 2022

### BUY

Last Traded Price (18 Feb 2022): US\$127.7

(NASDAQ : 13,548.07)

Price Target 12-mth: US\$272 (95% upside) (Prev US\$278)

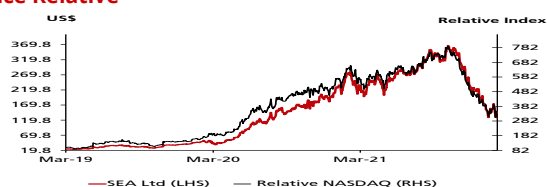
#### Analyst

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#### What's New

- E-commerce business in Southeast Asia, likely to see narrower losses in 4Q21F and EBITDA breakeven in 2H22F, renewing faith in its growth strategy.
- Our checks indicate good traction for Free Fire Max – contributing ~20% of total Free Fire in-app revenue
- BUY with a revised TP of US\$272 to factor the ban of Free Fire in India. Even if we value e-commerce & fintech at only S\$134 per share (vs. base valuation of S\$184), gaming comes free.

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Revenue	4,376	9,304	12,890	17,797
EBITDA	(1,287)	(1,425)	(1,188)	219
Pre-tax Profit	(1,594)	(1,856)	(1,684)	(280)
Net Profit	(1,736)	(1,866)	(1,693)	(224)
Net Pft (Pre Ex.)	(1,736)	(1,866)	(1,693)	(224)
Net Pft Gth (Pre-ex) (%)	(18.6)	(7.5)	9.3	86.7
EPS (US cts.)	(364)	(347)	(315)	(41.7)
EPS Pre Ex. (US cts.)	(364)	(347)	(315)	(41.7)
EPS Gth Pre Ex (%)	(9)	5	9	87
Diluted EPS (US cts.)	(364)	(347)	(315)	(41.7)
Net DPS (US cts.)	0.0	0.0	0.0	0.0
BV Per Share (US cts.)	709	988	674	632
PE (X)	nm	nm	nm	nm
PE Pre Ex. (X)	nm	nm	nm	nm
P/Cash Flow (X)	503.9	nm	nm	129.8
EV/EBITDA (X)	nm	nm	nm	305.3
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	18.0	12.9	18.9	20.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	(76.4)	(42.9)	(37.9)	(6.4)
Earnings Rev (%)		0	15	815
Consensus EPS (US)		(299)	(264)	(85)
Other Broker Recs:		B: 32	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Gaming comes free

#### Investment Thesis:

Offers higher e-commerce growth than its peers. Sea Ltd. (SE) offers a 54% e-commerce revenue CAGR over FY21-23F, higher than any other major e-commerce player and more than double the average CAGR of 24% of its global peers. This stems from a 38% CAGR in gross merchandise value (GMV) coupled with rising take rates.

Southeast Asian e-commerce to join gaming business in funding new growth initiatives. With Free Fire Max receiving a good response, we expect stable cash flows for the gaming business over the next three years. Southeast Asian e-commerce business is likely to join the gaming business in funding growth initiatives in 2023 – e-commerce in Latin America & Europe, food delivery & fintech in Southeast Asia. Fintech and food delivery to transform Shopee into an everyday app. Its e-wallet will monetise Shopee's user base via lending, insurance services, and transform Shopee into an everyday app in tandem with its food delivery service.

Potential catalyst: narrower losses in Southeast Asia e-commerce business in 4Q21F on 1 March.

#### Valuation:

BUY with a revised TP of US\$272. SE is trading at EV to 12-month forward revenue of 5.0x, vs. its 7.4x historical average. Our TP is the sum of (i) US\$185 per share for e-commerce & fintech based on 7.4x FY23F revenue; (ii) US\$71 (prev US\$83) for gaming, based on 20x FY22F earnings; and (iii) net cash position of US\$10 per share. *Even if e-commerce & fintech are valued at S\$134 per share using 7.4x FY22F revenue, gaming business is free at the current price.*

#### Where we differ:

Our FY22F/23F group revenue is 5%/3% below the consensus. The first year of the economy re-opening may lead to slower e-commerce & gaming growth. We project adj EBITDA to breakeven in FY23F, vs. the street's FY22F breakeven, due to rising losses from the newer markets.

#### Key Risks to Our View:

Our bear-case TP is US\$147 per share. Under this scenario, we assume long-term e-commerce EBITDA margins of ~12% (22% under the base-case) due to an irrational competition.

#### At A Glance

Issued Capital (m shrs)	555
Mkt. Cap (US\$m/US\$m)	51,389 /
Major Shareholders (%)	
Li Xiaodong	12.6
Gang Ye	7.7
T Rowe Price Group Inc	6.9
Free Float (%)	66.2
3m Avg. Daily Val (US\$m)	1,515.8
GIC Industry : Communication Services / Media & Entertainment	



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ed: JS/sa: YM, PY, CS



Live more, Bank less

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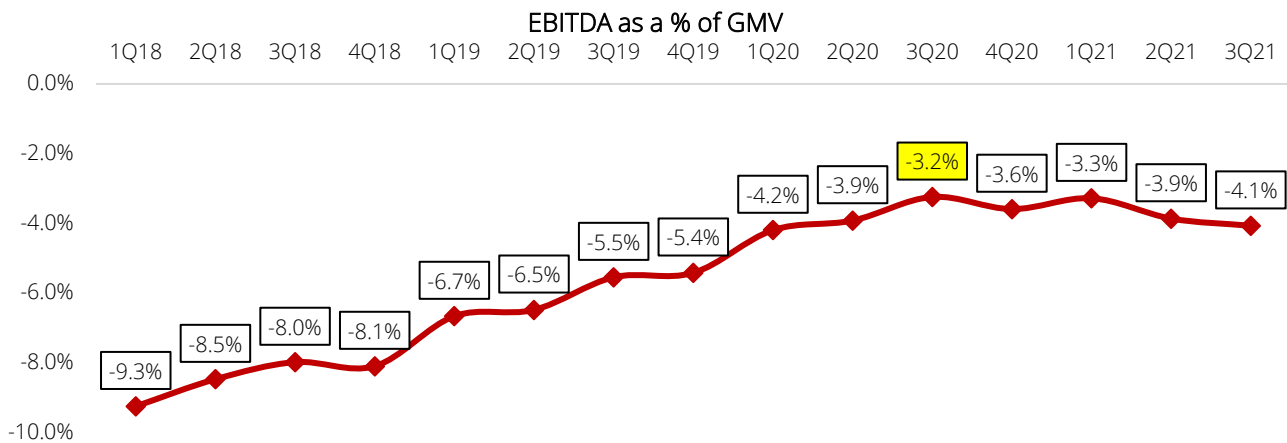
**WHAT'S NEW**

**Rising e-commerce losses mask impending EBITDA breakeven in Southeast Asia**

Shopee is likely to achieve EBITDA breakeven in Southeast Asia in 2H22. Till 3Q20, Shopee was able to progressively reduce the EBITDA losses as a % of GMV, which touched a low of 3.2%, as seen in the chart below. During late 2020, Shopee started to ramp up its Brazil operations massively. We have assumed that 3Q20 data mainly represents data pertaining to Southeast Asia. At this point, the overall operating expenses as a % of GMV was at 9.9% in Southeast Asia. We think that take rate has to be higher than 9.9% in Southeast Asia for Shopee to breakeven in the whole region. We also hear that Shopee has been aggressively monetising the existing markets by increasing commission from sellers

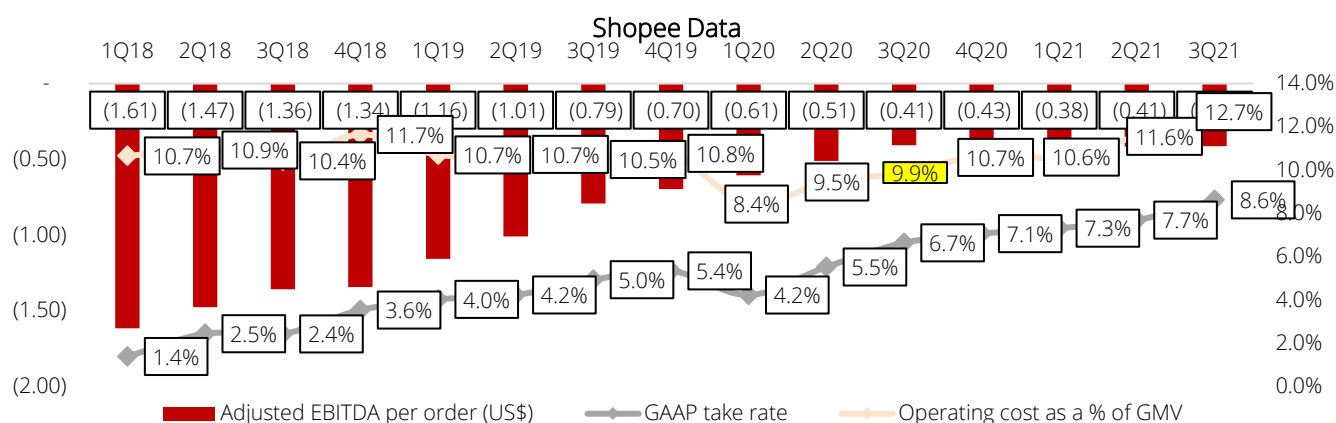
on the platform while lowering discounts offered to customers. This is also reflected in Shopee's take rate of 8.6% in 3Q21, up 190 basis points in the last year. Shopee has also disclosed separately that it had a positive EBITDA in Taiwan and Malaysia in 1Q19 and 2Q21, respectively. Based on our estimate, by 4Q22F, Shopee's take rate in Southeast Asia could grow by another 140 basis points, to 10.0% higher than 9.5%-10.0% opex as a percentage of GMV. We expect Shopee to generate a low single-digit EBITDA margin in 2023F, which could be deployed to fund Shopee's expansion into new markets in Latin America and Europe.

**3Q20 EBITDA as a % of GMV implies that Shopee was progressing towards achieving EBITDA breakeven in Southeast Asia**



Source: Company, DBS Bank

**If take rates exceed ~9.9%, Southeast Asia could achieve EBITDA breakeven**



Source: Company, DBS Bank

**Shopee's entry into new markets.** In September 2021, Shopee tested new shores in Poland and then two months later, Shopee entered the booming e-commerce industry in France and Spain. Before the end of November, Shopee entered the highly competitive e-commerce market in India to compete with the likes of Amazon and Flipkart. Shopee's entry into Argentina in January 2022 made the country the 16th region where Shopee operates. However,

the recent ban on Free Fire in India due to Sea Ltd.'s alleged Chinese affiliations, may force Shopee to re-evaluate its India e-commerce entry in our view. Following are some of the key comparisons between the new markets of Shopee based on the e-commerce penetration rates, take rates offered by the industry, and the profitability overview. We think that Shopee has a better chance of attaining profitability in countries where incumbent players are already profitable.

**Comparison of various markets in terms of take rate and profitability metrics**

Country/Region	E-commerce penetration rate	Take rate	Profitability of local peers	Profitability overview
Poland	10.0%	10.0%	Allegro is profitable	Adjusted EBITDA margin of Allegro is at 38.2% in 3Q21 Net profit margin at 26.3% in 3Q21
France	13.1%	13.0%	Several profitable companies	EBITDA margin of Cdiscount stood at 4.9% in 1H21
Spain	7.0%	15.0%	Several profitable companies	El Corte Ingles' EBITDA margin at 4.3%
India	6.6%	14.0%	No profitable companies	In FY20, Flipkart, Amazon, PayTM Mall, and Snapdeal have cut their losses by 10% y-o-y combined
Argentina	3.2%	12.2%	Mercado Libre in Argentina is profitable	Group net income margin of Mercado Libre stood at 5.1% and EBIT margin stood at 8.6% in 3Q21. Direct margin in Argentina for Mercado Libre was at 27.7% in FY20

Source: Companies, Statista, Global E-commerce Leaders Forum, IBEF, Kearney, The First News, The Motley Fool, Savills, Seeking Alpha, Trak, Access Asia, E-commerce News, DBS Bank

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	Southeast Asia	Latin America
Regions GDP (US\$bn)	3,100	5,600
Regions population (m)	677	598
Internet penetration	70%	79%

Source: CNBC, Internet World Stats, DBS Bank

### Overview of the key newer markets

Country	Summary
Poland	<ul style="list-style-type: none"> <li>Shopee's first entry into Europe is through Poland</li> <li>Allegro continues to remain the leading e-commerce player (36% market share), where even Amazon could not topple the locally grown player</li> <li>Marketplace revenue accounts for 87.4% of the total revenue, and 3Q21 take rate stood at 10.3% while adjusted EBITDA margin was at 42% (5% of GMV)</li> <li>AliExpress had its first independent logistics centre built in Poland, catering to the domestic market and other neighbouring countries such as the Czech Republic, Austria, Slovakia, and Germany</li> </ul>
France	<ul style="list-style-type: none"> <li>Take rates are at 13% on average, and it is the third largest e-commerce market</li> <li>Average basket size per user is valued at US\$71 (+2.6% y-o-y) in 2020</li> <li>Amazon is the leading player in the oligopolistic e-commerce industry</li> <li>Over 75% of all e-commerce sites in France have turned profitable, while an estimated 12% of the remainder have achieved breakeven</li> </ul>
Spain	<ul style="list-style-type: none"> <li>The 13<sup>th</sup> largest e-commerce marketplace dominated by players such as AliExpress, Amazon, El Corte Ingles, Carrefour, and Mediamarkt</li> <li>Upon launching Amazon Prime in 2011, it enhanced its logistics capabilities and product offerings to cement its position as the leading player in Spain's e-commerce sector</li> </ul>
India	<ul style="list-style-type: none"> <li>With penetration levels like Indonesia, India presents immense opportunities for e-commerce players</li> <li>India is expected to become the third largest player after the US and China</li> <li>No player has achieved breakeven, however, they are gradually mitigating their losses</li> <li>Amazon, Flipkart, and Snapdeal continue to be the dominant players</li> </ul>
Argentina	<ul style="list-style-type: none"> <li>Mercado Libre is the undisputed market leader, with Amazon making some progress</li> <li>The largest market in Latin America where food and beverages, garments, and domestic appliances (also including furniture and decoration) were the top three bestselling categories</li> <li>LATAM players generally focus on building their own logistics and storage facilities. However, this doesn't seem to bode well for the players, considering the additional investments and expenses in maintaining logistics facilities</li> </ul>

Source: DBS Bank

### Gaming Business Dynamics

**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 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 monetization, where Free Fire Max has a lot of room to improve.

**Overall, Free Fire topped in gaming downloads in 2021.**

According to App Annie, Free Fire provided to be the pre-eminent title in the hugely popular Battle Royale (Shooting) sub-genre. Meanwhile, the other huge Battle Royale product

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– PUBG MOBILE – remained the No.1 game in terms of monthly average users globally. In terms of in-app purchases leading to higher customer spend, ROBLOX sat at the top.

**Secret sauce of Free Fire's success.** Garena has optimised its game for low-end mobile devices, designed short game missions of less than 15 minutes to fit with mobile time frames, and created a character and universe (Chrono) around the footballer Ronaldo.

**Is Free Fire's time in India over?** Garena's Free Fire has been banned in India following the removal of the application from both the Google Play Store and Apple App Store. The Free Fire application is unable to be downloaded across the popular app stores in India. We suspect that it could be due to its alleged affiliations with Chinese company Tencent, as India has been going after Chinese apps. In 2020, India's Ministry of Electronics and Information Technology had previously prohibited many applications owing to alleged data privacy concerns. However, the Indian Government has yet to make a statement.

**India's revenue contribution could be less than 5% of Garena revenue, in our estimates.** In terms of monthly

active users, India comprises an estimated 10%-15% of Free Fire's global user base, but in terms of revenue, India contributes less than 5% of Garena's global revenue of US\$3.4bn expected in 2021F, as per our estimates. Paying users as a percentage of monthly active users (MAUs) should be less than 5% in India, vs. 13% globally, in our estimates.

**We project stable gaming bookings over the next few years, conservatively.** During 9M21, gaming bookings rose 62%, led by a 43% rise in paying users to 92m, due to the lockdown effect favouring Battle Royale games where players operate in teams. Going forward, we project gaming bookings to remain flattish as economies re-open and virtual socialisation might be less of a virtue. This is already reflected in 3Q21, where quarterly paying users (QPUs) as a percentage of quarterly average users (QAUs) rose only 1.1% q-o-q to 93m.

We project a 17% drop in paying users, to 78m in 2022F, and a recovery to 88m in 2023F. This might lead to a 2.5% drop in FY22F bookings, to US\$4.5bn, and 7% drop in gaming adjusted EBITDA, to US\$2.5bn. We project FY23F bookings to recover to US\$4.6bn and adj EBITDA to US\$2.6bn.

### Free Fire rank among grossing apps across all mobile game types as of 13<sup>th</sup> Feb 2022

Country	16 <sup>th</sup> Nov 2021		5 <sup>th</sup> Jan 2022		13 <sup>th</sup> 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

**Top Mobile Games Downloaded Worldwide (overall from Google Play Store and Apple App Store)**

#	September 2021	October 2021	November 2021	December 2021
1	Pokemon Unite	<b>Garena Free Fire</b>	PUBG: New State	<b>Garena Free Fire</b>
2	Destiny Run	Candy Challenge 3D	<b>Garena Free Fire</b>	Rocker League Sideswipe
3	<b>Garena Free Fire</b>	Roblox	Merge Animals 3D	Subway Surfers
4	Subway Surfers	Cookie Carver	Subway Surfers	Poppy Rope Game
5	PUBG Mobile	Subway Surfers	Candy Crush Saga	Roblox
6	Roblox	456	Ludo King	Race Master 3D
7	Ludo King	Yes or No?	Roblox	Oil Tanker Truck Driving
8	Fidget Toys Trading	PUBG Mobile	K-Sniper Challenge	Brain Story
9	Make 'Em	Car Driving School	PUBG Mobile	Candy Crush Saga
10	Stone Miner	Candy Crush Saga	Cookie Carver	Antistress

Source: SensorTower, DBS Bank

**Top Grossing Mobile Games Worldwide (overall including Google Play Store and Apple App Store)**

#	September 2021	October 2021	November 2021	December 2021
1	Genshin Impact	Honor of Kings	PUBG Mobile	PUBG Mobile
2	Honor of Kings	PUBG Mobile	Genshin Impact	Genshin Impact
3	PUBG Mobile	Candy Crush Saga	Honor of Kings	Roblox
4	Harry Potter: Magic Awakened	<b>Garena Free Fire</b>	Coin Master	Coin Master
5	Candy Crush Saga	League of Legends: Wild Rift	Lineage W	Honor of Kings
6	Roblox	Roblox	Candy Crush Saga	Candy Crush Saga
7	Coin Master	Coin Master	Roblox	Pokemon GO
8	Uma Musume Pretty Derby	Genshin Impact	<b>Garena Free Fire</b>	<b>Garena Free Fire</b>
9	<b>Garena Free Fire</b>	Harry Potter: Magic Awakened	Three Kingdom Tactics	Uma Musume Pretty Derby
10	Fate/Grand Order	Pokemon GO	Uma Musume Pretty Derby	Lineage W

Source: SensorTower, DBS Bank

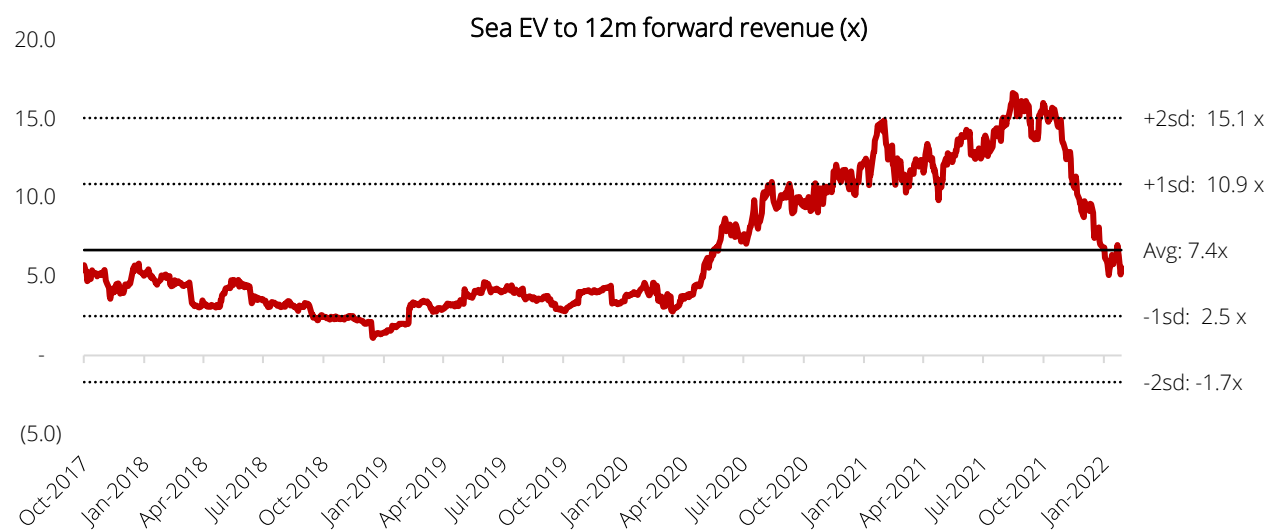
**Overall, we trim our FY22F/23F GAAP group revenue by 3%.**

We lowered our FY22F/23F GAAP revenue by 3%, largely stemming from a 10%/11% reduction in gaming revenue during FY22F/23F. The cut is twofold, coming from: i) Ban of Free Fire in India and ii) an overall slowdown in the popularity of games falling under the Battle Royale genre.

For digital entertainment, we project Quarterly Paying Users (QPU) of 78m/88m in FY22F/23F (previously 102m/110m). We expect QPU to form 11%/12% of total QAUs in FY22F/23F. In 2020, Free Fire benefited from significant tailwinds due to movement restrictions.

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**SE is trading at 5.0x EV to 12m forward GAAP revenue, below its average of 7.4x**



Source: Reuters, DBS Bank

### Our revised projections

#### Our revised GAAP revenue and adjusted EBITDA estimates (US\$m)

	19A	20A	21F	22F	23F
<b>GAAP Revenue</b>					
Digital Entertainment	1,136.0	2,016.0	3,487.2	3,844.0	3,766.9
E-Commerce & Other Services	834.3	2,167.1	5,234.6	8,032.4	12,398.7
Digital Financial Services	9.2	60.8	423.8	840.0	1,440.0
Other Services	195.8	131.8	158.1	173.9	191.3
	<b>2,175.4</b>	<b>4,375.7</b>	<b>9,303.7</b>	<b>12,890.3</b>	<b>17,796.9</b>
<b>Adjusted EBITDA</b>					
Digital Entertainment	1,021.9	1,982.7	2,746.7	2,543.0	2,599.5
E-Commerce & Other Services	(1,043.4)	(1,306.9)	(2,512.6)	(2,249.1)	(619.9)
Digital Financial Services	(113.4)	(511.1)	(687.8)	(894.2)	(1,052.4)
Other Services	(28.0)	(39.6)	(39.5)	(34.8)	(19.1)
Unallocated expenses	(132.8)	(308.4)	-	-	-
Share based compensation	117.069	290.2	-	-	-
	<b>(178.6)</b>	<b>107.0</b>	<b>(493.3)</b>	<b>(635.0)</b>	<b>908.1</b>

Source: Company, DBS Bank

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**BUY with a revised TP of US\$272.** SE is trading at EV to 12-month forward revenue of 5.0x, vs. its 7.4x historical average. Our TP is the sum of (i) US\$185 per share for e-commerce & fintech based on 7.4x FY23F revenue; (ii) US\$71 (prev US\$83) for gaming, based on 20x FY22F earnings; and (iii) net cash position of US\$10 per share. Even if e-commerce & fintech are valued at S\$134 per share using 7.4x FY22F revenue, gaming comes free at the current price.

### Sum-of-the parts valuation for Sea Ltd

	Valuation method	Amount (US\$m)	Multiple	Enterprise Value (US\$m)	Per Share (US\$)
Digital Entertainment	P/12-month forward gaming earnings	2,169	20.2	43,764	78
E-commerce and Digital Finance	P/24-month forward revenue	13,839	7.4	102,406	184
Net cash/(debt)				5,356	10
Equity Value				151,527	
Number of shares (m)				557.75	
Price per share				271.68	

### Peer Multiple for gaming – average 12-month forward P/E is 20x

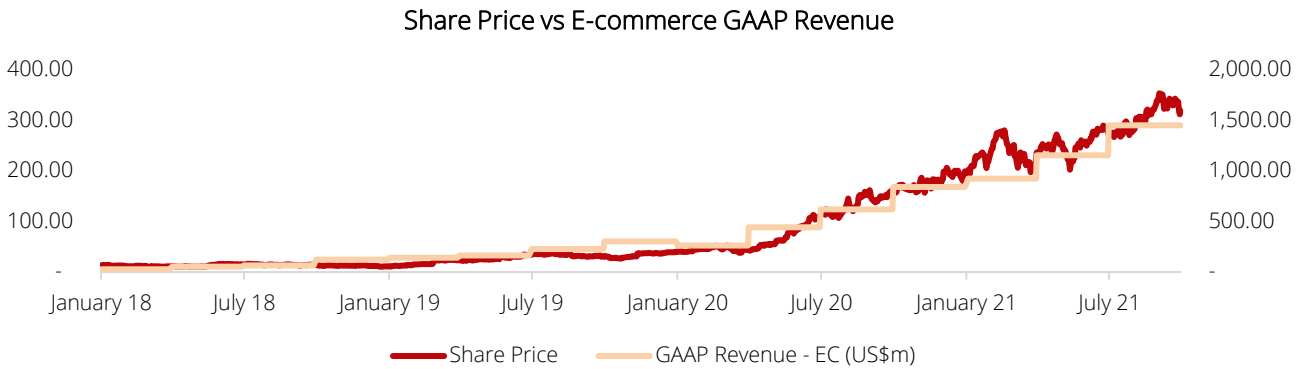
Developers	Company Name	P/E
	Nintendo Co Ltd	16.65
	Activision Blizzard Inc	22.86
	Take Two Interactive Software	33.74
	NetEase Inc	24.02
	NHN Entertainment Corp	14.22
Average excluding Sea		22.30
Publishers		
	Square Enix	17.16
	NCSOFT	24.39
	Nexon	19.73
	Netmarble	22.88
Average excluding Sea		18.77
	Long-term developing contribution	40%
	Long-term publishing contribution	60%
	Garena P/E	20.2

Source: Reuters, Company, DBS Bank



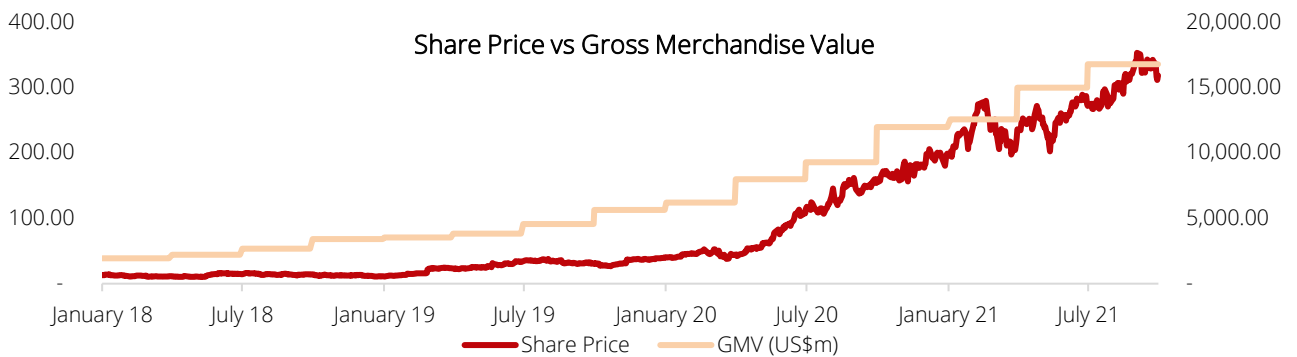
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**SE's share price has a 98% positive correlation with e-commerce GAAP revenue**



Source: Reuters, Company, DBS Bank

**SE's share price has a 97% positive correlation with Shopee GMV**



Source: Reuters, Company, DBS Bank

**Company Background**

Sea Limited (Sea) engages in the digital entertainment, e-commerce, and digital financial service businesses primarily in seven countries across Greater Southeast Asia.

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## Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Annual active users of Garena (m)	314	521	735	713	734
Shopee Orders (m)	1,212	2,787	6,132	9,198	13,337
Shopee Merchandise value per	14.5	12.7	10.5	9.66	9.18

## Segmental Breakdown

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (US\$m)</b>					
Digital Entertainment	1,136	2,016	3,487	3,844	3,767
E-Commerce	834	2,167	5,235	8,032	12,399
Digital Financial Services	9.22	60.8	424	840	1,440
Others	0.0	0.0	0.0	0.0	0.0
Others	196	132	158	174	191
<b>Total</b>	<b>2,175</b>	<b>4,376</b>	<b>9,304</b>	<b>12,890</b>	<b>17,797</b>

## Income Statement (US\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	2,175	4,376	9,304	12,890	17,797
Cost of Goods Sold	(1,570)	(3,027)	(5,548)	(7,149)	(9,548)
<b>Gross Profit</b>	<b>605</b>	<b>1,349</b>	<b>3,756</b>	<b>5,742</b>	<b>8,249</b>
Other Opng (Exp)/Inc	(1,496)	(2,816)	(5,347)	(7,060)	(8,163)
<b>Operating Profit</b>	<b>(891)</b>	<b>(1,467)</b>	<b>(1,592)</b>	<b>(1,318)</b>	<b>85.7</b>
Other Non Opng (Exp)/Inc	(463)	0.0	0.0	0.0	0.0
Associates & JV Inc	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Net Interest (Exp)/Inc	(14.3)	(123)	(261)	(363)	(363)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(1,372)</b>	<b>(1,594)</b>	<b>(1,856)</b>	<b>(1,684)</b>	<b>(280)</b>
Tax	(85.9)	(142)	(9.3)	(8.4)	56.1
Minority Interest	(5.1)	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(1,463)</b>	<b>(1,736)</b>	<b>(1,866)</b>	<b>(1,693)</b>	<b>(224)</b>
Net Profit before Except.	(1,463)	(1,736)	(1,866)	(1,693)	(224)
EBITDA	(770)	(1,287)	(1,425)	(1,188)	219
<b>Growth</b>					
Revenue Gth (%)	163.1	101.1	112.6	38.5	38.1
EBITDA Gth (%)	15.4	(67.1)	(10.8)	16.7	nm
Opg Profit Gth (%)	(9.9)	64.6	8.5	(17.2)	(106.5)
Net Profit Gth (Pre-ex) (%)	(52.2)	(18.6)	(7.5)	9.3	86.7
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	27.8	30.8	40.4	44.5	46.3
Opg Profit Margin (%)	(41.0)	(33.5)	(17.1)	(10.2)	0.5
Net Profit Margin (%)	(67.2)	(39.7)	(20.1)	(13.1)	(1.3)
ROAE (%)	(318.2)	(76.4)	(42.9)	(37.9)	(6.4)
ROA (%)	(39.4)	(22.1)	(14.4)	(11.0)	(1.4)
ROCE (%)	(45.4)	(33.3)	(19.7)	(14.0)	1.0
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	N/A
Net Interest Cover (x)	(62.4)	(11.9)	(6.1)	(3.6)	0.2

SE GAAP Revenue is expected to rise at a CAGR of 40% over FY21-23F supported by a 54% CAGR of e-commerce

Source: Company, DBS Bank

## SEA Ltd

## Quarterly Income Statement (US\$m)

FY Dec	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021
Revenue	1,212	1,567	1,764	2,281	2,689
Cost of Goods Sold	(805)	(1,033)	(1,118)	(1,350)	(1,680)
<b>Gross Profit</b>	<b>408</b>	<b>534</b>	<b>645</b>	<b>931</b>	<b>1,009</b>
Other Oper. (Exp)/Inc	(713)	(891)	(994)	(1,265)	(1,467)
<b>Operating Profit</b>	<b>(305)</b>	<b>(357)</b>	<b>(348)</b>	<b>(334)</b>	<b>(459)</b>
Other Non Opg (Exp)/Inc	(34.2)	(93.9)	(3.8)	(9.9)	14.0
Associates & JV Inc	0.93	1.38	0.60	0.60	1.43
Net Interest (Exp)/Inc	(40.1)	(30.6)	(19.4)	(15.2)	(26.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(379)</b>	<b>(480)</b>	<b>(371)</b>	<b>(358)</b>	<b>(470)</b>
Tax	(46.4)	(44.2)	(51.0)	(75.2)	(101)
Minority Interest	5.27	0.98	(0.6)	0.23	(2.0)
<b>Net Profit</b>	<b>(420)</b>	<b>(524)</b>	<b>(423)</b>	<b>(433)</b>	<b>(573)</b>
Net profit bef Except.	(420)	(524)	(423)	(433)	(573)
EBITDA	(258)	(304)	(292)	(272)	(382)

## Growth

Revenue Gth (%)	37.4	29.2	12.6	29.3	17.9
EBITDA Gth (%)	22.1	(17.9)	4.2	6.7	(40.6)
Opg Profit Gth (%)	(18.1)	17.0	(2.5)	(4.1)	37.3
Net Profit Gth (Pre-ex) (%)	6.9	24.7	(19.3)	2.5	32.2

## Margins

Gross Margins (%)	33.6	34.1	36.6	40.8	37.5
Opg Profit Margins (%)	(25.2)	(22.8)	(19.8)	(14.6)	(17.1)
Net Profit Margins (%)	(34.6)	(33.4)	(24.0)	(19.0)	(21.3)

## Balance Sheet (US\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	319	386	985	1,679	1,894
Invts in Associates & JVs	35.5	35.5	32.3	29.0	25.8
Other LT Assets	460	1,095	1,290	1,908	3,553
Cash & ST Invts	3,221	6,293	10,075	8,059	6,597
Inventory	26.9	64.2	115	160	220
Debtors	187	363	800	1,108	1,530
Other Current Assets	975	2,219	2,219	2,219	2,219
<b>Total Assets</b>	<b>5,224</b>	<b>10,456</b>	<b>15,517</b>	<b>15,162</b>	<b>16,038</b>
ST Debt	57.6	74.5	74.5	74.5	74.5
Creditor	69.4	122	297	411	568
Other Current Liab	2,235	4,440	4,972	6,196	7,140
LT Debt	1,501	2,018	4,518	4,518	4,518
Other LT Liabilities	188	381	300	300	300
Shareholder's Equity	1,162	3,383	5,317	3,625	3,400
Minority Interests	10.2	37.3	37.3	37.3	37.3
<b>Total Cap. &amp; Liab.</b>	<b>5,224</b>	<b>10,456</b>	<b>15,517</b>	<b>15,162</b>	<b>16,038</b>
Non-Cash Wkg. Capital	(1,116)	(1,916)	(2,135)	(3,121)	(3,738)
Net Cash/(Debt)	1,663	4,200	5,482	3,466	2,004
Debtors Turn (avg days)	23.9	22.9	22.8	27.0	27.1
Creditors Turn (avg days)	13.4	12.2	14.2	18.4	19.0
Inventory Turn (avg days)	8.1	5.8	6.1	7.1	7.4
Asset Turnover (x)	0.6	0.6	0.7	0.8	1.1
Current Ratio (x)	1.9	1.9	2.5	1.7	1.4
Quick Ratio (x)	1.4	1.4	2.0	1.4	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	15.8	11.8	22.7	31.4	43.4

Source: Company, DBS Bank

## SEA Ltd

## Cash Flow Statement (US\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	(1,372)	(1,594)	(1,856)	(1,684)	(280)
Dep. & Amort.	126	180	166	130	133
Tax Paid	(85.9)	(27.2)	(52.3)	(9.3)	(8.4)
Assoc. & JV Inc/(loss)	3.24	3.24	3.24	3.24	3.24
Chg in Wkg.Cap.	738	738	263	986	682
Other Operating CF	465	820	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>(125)</b>	<b>121</b>	<b>(1,477)</b>	<b>(574)</b>	<b>529</b>
Capital Exp.(net)	(246)	(247)	(1,041)	(1,443)	(1,992)
Other Invs.(net)	(117)	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(640)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(363)</b>	<b>(887)</b>	<b>(1,041)</b>	<b>(1,443)</b>	<b>(1,992)</b>
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	1,041	0.0	2,500	0.0	0.0
Capital Issues	1,538	3,733	3,800	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>2,580</b>	<b>3,733</b>	<b>6,300</b>	<b>0.0</b>	<b>0.0</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	2,091	2,967	3,782	(2,016)	(1,462)
Opg CFPS (US cts.)	(198)	(129)	(323)	(290)	(28.4)
Free CFPS (US cts.)	(85.0)	(26.4)	(468)	(375)	(272)

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Sachin MITTAL

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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)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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