

Sea Ltd (SE US)

Still a proxy to ASEAN digitisation

Free Fire slowdown hits guidance

Sea's 4Q21 revenue of USD3.2b (+106% YoY) was ahead of our and the street's estimate. However, guidance for Garena bookings disappointed. We cut our FY22-23E revenue by 8-9% but slash our SOTP TP by 56% to USD160 to factor in i) earnings slow-down and lower multiples for Garena, as well as ii) switch to FY23E P/S instead of FY22E P/GMV for e-commerce. While the stock price might face overhang in the near term, we continue to view Sea as a champion of economic digitisation in Southeast Asia and hence maintain our BUY rating.

Economies reopening slows Free Fire

Guidance for Garena's FY22 bookings was USD2.9-3.1b (FY21: USD4.7b, FY20: USD3.2b). This takes into account headwinds from i) further reopening of economies globally, and ii) the recent India ban of Free Fire (FF). Garena is developing new games across multiple genres. However, as these games are nascent, meaningful revenue contributions might either come later in the year or when Garena has sufficiently built user scale and penetration that paves the way for monetisation.

Guidance for Shopee in line with our est.

GAAP revenue guidance for Shopee (FY22: USD8.9-9.1b, +155.4% YoY at midpoint) is broadly in line with our prev. est. of USD9.2b. Key points to note are i) Southeast Asia and Taiwan are expected to hit positive adj. EBITDA in 2022; ii) LatAm could double Shopee TAM - and current focus is on Brazil; and iii) take rates direction of high-single digit to low-teens over a longer horizon is on track. The priority on Brazil and exit from France shows Shopee's capital discipline to maximize sustainable long-term returns, in our view.

Swing factors

If Garena turns out more resilient than we anticipate, this could provide upside risk to our TP as we value the segment on FY22 P/E. This in turn could be driven by restoration of FF availability in India, or simply stronger than expected resilience in FF engagement. While we believe we are conservative on opex assumptions, we believe there is still residual risk that we may underestimate investments needed for Shopee and SeaMoney.

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,376	9,955	13,330	18,279	25,058
EBITDA	(1,123)	(1,329)	(1,699)	(481)	1,362
Core net profit	(1,618)	(2,045)	(2,489)	(1,449)	67
Core FDEPS (cts)	(327.5)	(352.7)	(437.0)	(248.0)	11.4
Core FDEPS growth(%)	nm	nm	nm	nm	nm
Net DPS (cts)	0.0	0.0	0.0	0.0	0.0
Core FD P/E (x)	nm	nm	nm	nm	nm
P/BV (x)	29.1	16.9	12.4	15.1	12.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAA (%)	(20.6)	(14.0)	(13.7)	(8.1)	0.3
EV/EBITDA (x)	nm	nm	nm	nm	43.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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BUY

Share Price USD 117.09
 12m Price Target USD 160.00 (+37%)
 Previous Price Target USD 379.00

Company Description

Sea is an internet company that has businesses in gaming, e-commerce and digital financial services.

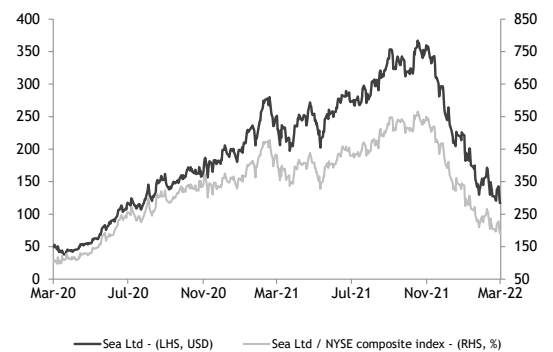
Statistics

52w high/low (USD) 366.99/117.09
 3m avg turnover (USDm) 262.6
 Free float (%) 100.0
 Issued shares (m) 555
 Market capitalisation USD64.9B
 USD64.9B

Major shareholders:

Tencent 18.7%
 Li Xiaodong 12.6%
 Gang Ye 7.7%

Price Performance



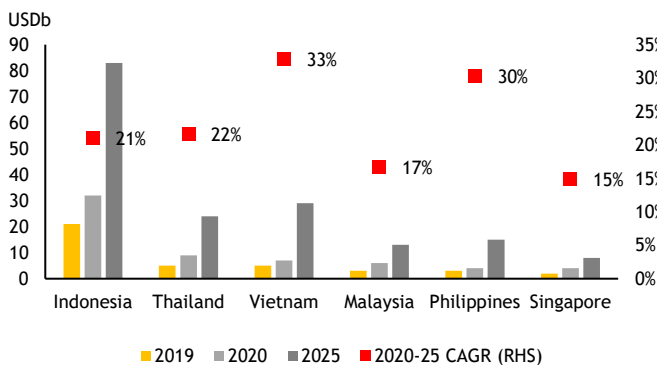
	-1M	-3M	-12M
Absolute (%)	(19)	(54)	(53)
Relative to index (%)	(15)	(53)	(56)

Source: FactSet

Value Proposition

- Sea is a Singapore-founded internet company with businesses in digital entertainment, e-commerce, and digital financial services.
- Sea is a beneficiary of accelerated digitisation in a post-Covid-19 landscape (e.g. increased usage and stickiness of e-commerce and digital payments).
- Sea believes in prioritising user acquisition and retention through aggressive marketing and providing compelling product proposition, so that it can maximise monetisation later on.
- Sea's strength is also in its ability to adapt for local preferences, which helps it excel in regions with heterogeneous cultures such as in Southeast Asia.
- We believe that Sea has a strong competitive advantage due to the network effects of its products - which are already leaders in their respective verticals.

Shopee is exposed to fast growing ASEAN e-commerce GMV

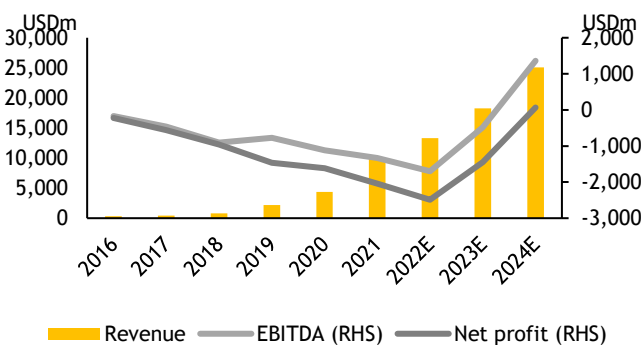


Source: Google, Temasek, Bain

Financial Metrics

- We forecast FY21-24E revenue CAGR of 36%, driven by e-commerce and digital financial services.
- We also expect Sea to achieve breakeven in FY24E.
- We expect Sea to continue being in a net cash position through FY24E, and have enough cash to fund investments in e-commerce and digital financial services. Digital entertainment is still an important source of cashflow.

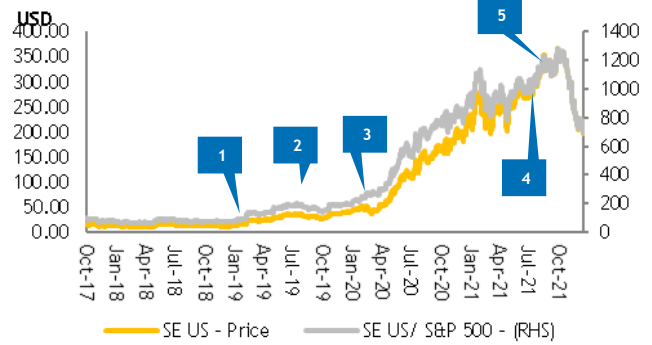
Revenue, EBITDA and net profit projections



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, FactSet, Maybank IBG Research

- Strong 4Q18 and 1Q19 results on continual success of Free Fire
- 2Q19 loss widened despite results beat
- Sea was beneficiary of Covid-19, and share price rallied alongside e-commerce peers.
- Stronger than expected 2Q21 results, driven by Garena and Shopee, and company raising guidance.
- Sell-off due to concerns of normalising growth for Garena Free Fire, as well as broader weakness for pre-earnings growth companies amid hawkish Fed outlook.

Swing Factors

Upside

- Stronger than expected user growth (across all businesses)
- Stronger than expected GMV/TPV growth for e-commerce/ digital financial services.
- Stronger than anticipated monetisation rates across its businesses

Downside

- If investors are impatient with any delay in Sea's profitability turnaround.
- Slowing user growth metrics, especially if this is due to increasing competition across Sea's offerings.
- Signs of Free Fire losing market share, especially if Garena remains heavily reliant on Free Fire to drive revenue growth

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Risk Rating & Score ¹	Not Rated
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³	NA

Business Model & Industry Issues

- As an internet business, we believe social issues is the most relevant, followed by governance and then environmental.
- In the e-commerce business, driving social good (e.g. providing and teaching merchants how to use services) is integral to sustainably grow the platform and to retain merchants while monetising them. For instance, in Indonesia, 57% of MSMEs reported that they generated higher profits on Shopee than on other marketplaces.
- We believe the key issue for Garena are i) addiction and ii) compliance to local laws. For instance, Bangladesh is reportedly trying to ban Free Fire (alongside other addictive apps like PUBG and Tik Tok). Garena's response to appease authorities is important.
- The financial sector is also a highly regulated one. In our view SeaMoney's growth will be in part influenced by not just adherence to local laws, but how SeaMoney advances government agendas (e.g. facilitate roll-out of financial assistance in Malaysia and regulatory support for digital banking initiatives in ASEAN).
- Data security is also a critical ESG factor. Sea has employed various security measures to ensure this. (e.g. encryption of sensitive data, monitoring for unauthorized access etc).

Material E issues

- Aside the increased use of packaging materials associated with e-commerce as compared to traditional commerce, we do not see much environmental issues as the remaining businesses are digital based (i.e. gaming and digital financial services)
- We believe carbon emissions via the servers that Sea is also a key environmental footprint, although not much has been discussed in Sea's sustainability report pertaining environmental factors.

Material S issues

- Sea Limited aims to build highly diverse teams within the company.
- Of Sea's >30,000 global workforce, 46% are females. Furthermore, 46% of the middle to senior management positions are held by females. SEA also boast a diverse culture of over 50 different nationalities in their company.
- Sea strongly believes in hiring and grooming local talent, and is one of the largest employers of fresh graduates across Southeast Asia.
- In 2020, Sea conducted more than 5,000 training sessions for their employees.
- During the Covid-19 pandemic, Shopee provided financial support and relief to SMEs by easing operational costs and attracting new customers. Shopee also provided the SMEs with online courses to help the SMEs to scale and succeed their business in the long run. Furthermore, SEA Limited committed more than USD 35m worth of COVID-19 Seller Support Packages across their markets, and provided monetary donation of more than USD 510,000.

Key G metrics and issues

- The board consist of 6 members. Out of which, 3 are non-executive.
- From a data security standpoint, Sea is committed in ensuring that the processing of personal data of consumers, employers and other stakeholders are carried out lawfully. Sea states that it uses its data collected to improve products to better serve its communities.
- Given a large part of Sea's competitive advantage is derived from the network effects from its large user base across multiple markets, compliance with laws is of utmost importance. Further, we believe complementing its growth strategies with government agenda.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

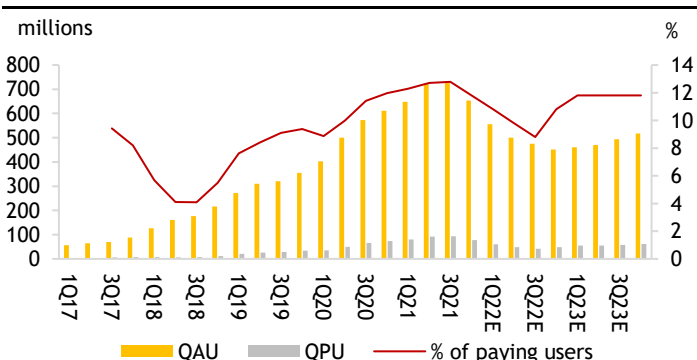
Guidance break down

- Digital entertainment: Bookings to be within USD2.9-3.1b (-36% YoY at mid-point), and more comparable to 2020 levels of USD3.2b. Rationale given was reopening of economies post-Covid, as well as the ban in India. Management referred to current guidance as giving back some gains from Covid and its forecast at this juncture is “more art than science” in light of current uncertainties. Sea did not break down the proportion of headwinds from reopening of economies vs. India ban. We were expecting bookings of >USD5b.
- E-commerce: GAAP revenue guidance is USD8.9-9.1b (+75.7% YoY at mid-point). This is relatively in line with our previous expectation of USD9.2b.
- Digital finance: GAAP revenue guidance is USD1.1-1.3b (+155.4% YoY at mid-point). We were anticipating c.USD700m previously.

Additional takeaways

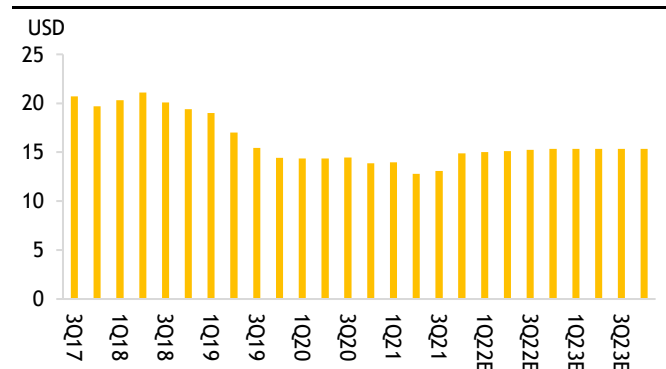
- Sea emphasized long-term profitability metrics and potential for Shopee and SeaMoney, although management still sees Garena as an important source of cashflows.
- In that regard, Shopee is on track to deliver positive adj. EBITDA before HQ exp. in Southeast Asia and Taiwan in 2022; SeaMoney to be cash flow positive by 2023.
- Garena is working on multiple prototype games and expects to expand its game portfolio in 2022 and beyond. However, management does not expect much contribution from new games in 2022, as initial priorities are to build user base and penetration. Genres include multiplayer action, role-playing, sandbox and casual. Garena continues to see FF as a key IP franchise and will add features to the game.
- Circling back to Shopee, LatAm is a key growth market, with prime focus on Brazil (launched late-2019). Brazil 4Q21 orders were 140m (+400% YoY) and accounted for c.4% of e-commerce revenue.
- In Indonesia, Shopee is the largest e-commerce platform and gross orders grew 88% YoY, which Sea claims is much faster than its next competitor.
- Decision for Shopee to exit France - While Shopee is always open to exploring markets, this shows its discipline with capital to exit markets that it believes may not provide long-term sustainable returns.

Fig 1: Garena user metrics



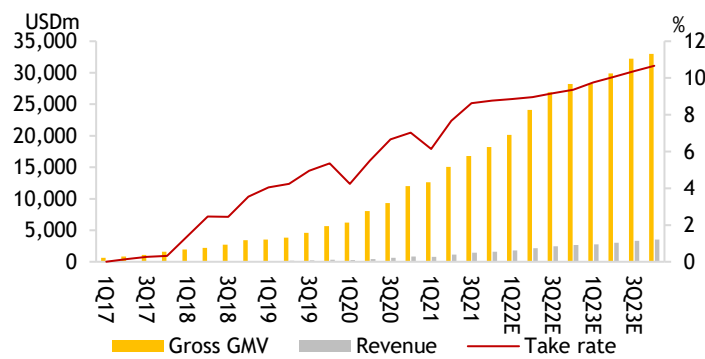
Source: Company, Maybank IBG Research

Fig 2: Garena ARPPU



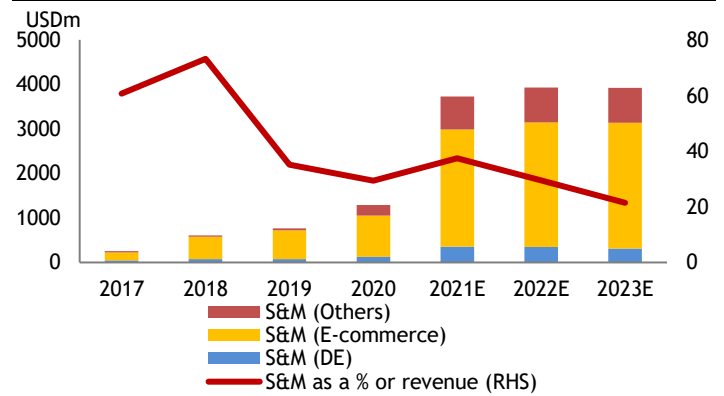
Source: Company, Maybank IBG Research

Fig 3: Shopee GMV, Revenue and take rate



Source: Company, Maybank IBG Research

Fig 4: Sales & marketing expenses



Source: Company, Maybank IBG Research

Fig 5: Forecast revisions

USDm	FY22			FY23		
	New	Old	change	New	Old	change
DE bookings	3,030	5,364	-44%	3,513	6,471	-46%
E-commerce GAAP revenue	9,052	9,188	-1%	12,626	13,010	-3%
Revenue	13,330	14,685	-9%	18,279	19,799	-8%
Gross profit	4,178	5,527	-24%	5,922	7,585	-22%
EBITDA	(1,699)	(581)	192%	(481)	1,514	-132%
PATMI	(2,489)	(1,712)	45%	(1,449)	(56)	2502%

Source: Maybank IBG Research

Fig 6: 4Q21 performance summary

Items (USDm)	4Q21	4Q20	3Q21	YoY	QoQ	FY21E	FYA vs FYE
Digital entertainment bookings	1,149	1,013	1,221	13%	-6%	4,680	100
E-commerce GMV	18,200	11,998	16,796	52%	8%	64,856	97
E-commerce GAAP revenue	1,595	842	1,450	89%	10%	5,201	96
Service revenue							
Digital entertainment (revenue)	1,415	693	1,099	104%	29%	3,861	112
E-commerce and other services (revenue)	1,483	657	1,310	126%	13%	4,673	98
Sales of goods	324	217	280	50%	16%	1,129	95
Total revenues	3,222	1,567	2,689	106%	20%	9,662	103
Gross profit	1,311	534	1,009	146%	30%	3,593	108
Net income/(loss) after minority	(618)	(524)	(571)	18%	8%	(1,948)	105

Source: Company, Maybank IBG Research

Fig 7: Peer comps

Company	BBG Code	Price (LC)	Mcap USDm	P/E (x)			EPS CAGR	EV /EBITDA (x)		P/S (x)	
				FY1	FY2	FY3		FY1	FY2	FY1	FY2
Digital entertainment											
Tencent	700 HK	421.20	517,720	22.5	22.3	18.9	5%	15.8	14.4	5.8	5.1
Electronic Arts	EA US	130.09	36,584	18.6	17.3	15.2	14%	12.5	11.7	4.8	4.5
Take Two Interactive	TTWO US	162.00	18,697	32.8	25.8	18.7	8%	21.4	16.9	5.4	4.5
Netease	NTESE US	95.34	67,434	20.2	17.3	16.0	9%	14.7	12.3	4.3	3.8
Zynga	ZNGA US	9.08	10,265	23.5	19.8	18.2	30%	13.0	10.5	3.3	3.0
NCSOFT	036570 KS	443,500	8,098	15.6	13.3	14.8	18%	10.5	8.5	3.3	3.0
Netmarble	251270 KS	102,500	7,328	25.6	23.1	28.3	7%	17.7	15.4	2.8	2.5
Nexon	3659 JP	2,488	19,418	20.9	17.1	19.0	1%	12.7	9.4	6.7	5.8
Bandai Namco	7832 JP	8,370	16,133	24.7	21.6	18.9	26%	12.7	11.4	2.2	2.1
Average				22.3	21.4	18.5	7%	15.4	13.8	5.4	4.8
E-commerce											
Alibaba	BABA US	105.19	289,212	13.2	11.9	10.2	1%	8.8	6.9	2.1	1.9
JD.com	JD US	71.63	95,538	44.7	33.7	23.5	23%	37.1	23.7	0.6	0.5
Meituan	3690 HK	172.20	120,300	-	-	141.1	10%	NA	NA	4.2	3.2
Pinduoduo	PDD US	51.86	64,996	115.0	51.5	27.7	NM	NA	NA	4.2	3.2
VIPSHOP	VIPS US	8.67	5,212	6.3	5.7	5.4	5%	2.1	1.3	0.3	0.3
Amazon.com	AMZN US	3,071	1,562,794	62.7	42.5	28.3	19%	19.0	14.3	2.9	2.5
eBay	EBAY US	54.59	32,073	12.5	11.3	10.5	9%	10.0	9.2	3.1	2.9
Shopify	SHOP US	694	79,151	214.9	137.9	85.5	8%	173	105.7	13.0	9.8
MercadoLibre	MELI US	1,127	56,805	157.7	83.5	45.2	NM	62.1	38.8	5.9	4.5
Rakuten	4755 JP	974	13,379	-	-	25.2	NM	22.3	7.1	0.8	0.7
Bukalapak	BUKA IJ	338	2,425	-	-	-	NM	-9.5	NA	18.3	12.1
Baozun	BZUN US	10.53	713	29.3	13.7	7.7	10%	9.9	4.6	0.5	0.4
Average				64.0	42.3	33.8	10%	25.1	0.4	3.2	2.7
Payments and fintechs											
Visa	V US	216.12	358,418	30.2	25.5	21.9	19%	22.9	19.8	12.5	11.0
Mastercard	MA US	360.82	349,898	34.6	28.0	22.9	23%	26.2	21.4	15.6	13.2
Paypal	PYPL US	111.93	130,399	24.1	19.3	15.5	16%	16.5	13.1	4.4	3.7
Square	SQ US	127.50	65,870	94.0	58.7	48.1	16%	83.7	51.4	3.5	2.8
Average				35.7	28.0	23.3	20%	27.7	21.8	11.9	10.2

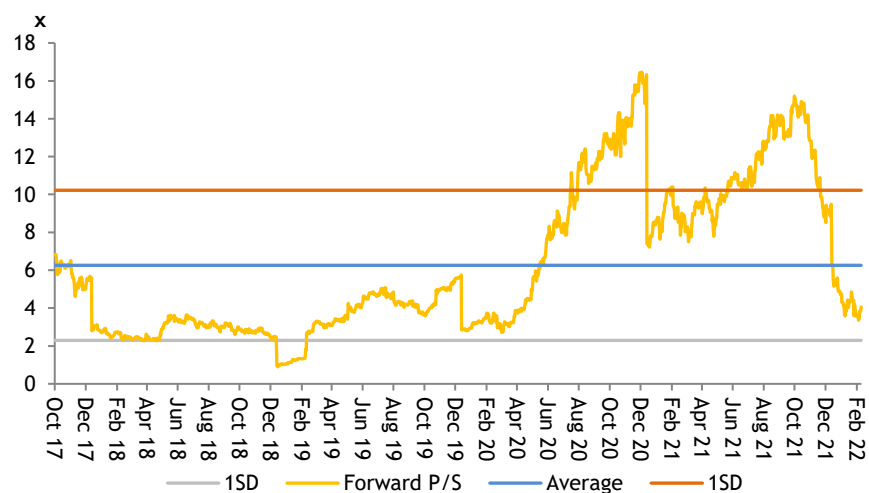
Source: FactSet, Bloomberg, Maybank IBG Research

Fig 8: SOTP

Business	Methodology	Multiple	Item	Value (USDm)	Value of business (USDm)	Note
Digital entertainment	P/E	19	FY22E P/E	1,226	23,302	15% discount to global peers on account of Free Fire concentration and FY22 slowdown
E-commerce	P/S	4.1	FY23E P/S	12,626	51,765	50% premium to global peers due to faster growth rate than global peers; slight discount to MELI trading at 4.5x.
Digital financial services	P/TPV	0.15	FY23E TPV	60,047	9,007	Brought down from 0.4x to factor in global derating in fintech peers
					FY22E net cash (USDm)	7,224
					Equity value (USDm)	91,297
					Number of shares (m)	569.66
					Value per share (USD)	160

Source: Maybank IBG Research

Fig 9: Forward P/S chart



Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	nm	nm
Core P/E (x)	nm	nm	nm	nm	nm
Core FD P/E (x)	nm	nm	nm	nm	nm
P/BV (x)	29.1	16.9	12.4	15.1	12.4
P/NTA (x)	29.1	16.9	12.4	15.1	12.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	0.2	nm	nm	nm	2.1
EV/EBITDA (x)	nm	nm	nm	nm	43.1
EV/EBIT (x)	nm	nm	nm	nm	82.0

INCOME STATEMENT (USD m)

Revenue	4,375.7	9,955.2	13,330.1	18,278.8	25,057.7
EBITDA	(1,122.6)	(1,329.1)	(1,698.7)	(480.8)	1,361.9
Depreciation	(180.8)	(254.0)	(365.1)	(483.1)	(645.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(1,303.3)	(1,583.1)	(2,063.8)	(963.9)	716.4
Net interest income / (exp)	(123.4)	(102.9)	(163.0)	(185.6)	(217.1)
Associates & JV	0.7	5.0	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(56.5)	(29.5)	0.0	0.0	0.0
Pretax profit	(1,482.5)	(1,710.4)	(2,221.8)	(1,144.4)	504.3
Income tax	(141.6)	(332.9)	(266.1)	(302.7)	(436.1)
Minorities	6.1	(1.4)	(1.4)	(1.4)	(1.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(1,618.1)	(2,044.7)	(2,489.3)	(1,448.6)	66.8
Core net profit	(1,618.1)	(2,044.7)	(2,489.3)	(1,448.6)	66.8

BALANCE SHEET (USD m)

Cash & Short Term Investments	7,026.1	10,799.4	9,785.2	9,640.4	11,077.0
Accounts receivable	363.0	388.3	511.3	701.1	961.1
Inventory	64.2	117.5	184.1	274.0	358.0
Property, Plant & Equip (net)	386.4	1,030.0	652.1	718.8	826.3
Intangible assets	39.8	52.5	34.7	33.3	32.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2,576.2	6,368.3	6,438.4	6,779.6	7,307.1
Total assets	10,455.7	18,756.0	17,605.7	18,147.2	20,561.6
ST interest bearing debt	0.0	100.0	100.0	100.0	100.0
Accounts payable	121.6	213.6	221.9	277.9	352.0
LT interest bearing debt	1,840.4	3,475.7	3,814.0	3,534.2	2,500.0
Other liabilities	5,073.0	7,542.0	8,139.0	9,840.0	12,189.0
Total Liabilities	7,035.4	11,331.6	12,274.6	13,752.3	15,141.4
Shareholders Equity	3,382.9	7,398.7	5,306.9	4,372.0	5,398.7
Minority Interest	37.3	25.7	24.3	22.9	21.5
Total shareholder equity	3,420.2	7,424.4	5,331.2	4,394.9	5,420.2
Total liabilities and equity	10,455.7	18,756.0	17,605.7	18,147.2	20,561.6

CASH FLOW (USD m)

Pretax profit	(1,482.5)	(1,710.4)	(2,221.8)	(1,144.4)	504.3
Depreciation & amortisation	180.8	254.0	365.1	483.1	645.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	1,525.9	1,759.2	306.8	799.6	772.8
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	331.5	(94.1)	364.6	245.5	238.4
Cash flow from operations	555.6	208.6	(1,185.4)	383.8	2,160.9
Capex	(336.3)	(497.8)	(399.9)	(548.4)	(751.7)
Free cash flow	219.3	(289.1)	(1,585.3)	(164.6)	1,409.2
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	2,970.2	0.2	0.0	0.0	0.0
Change in Debt	1,110.8	2,600.0	0.0	0.0	0.0
Other invest/financing cash flow	(374.8)	4,631.6	(3,367.4)	155.6	223.2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	3,621.2	3,843.0	(1,578.1)	na	na

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	101.1	127.5	33.9	37.1	37.1
EBITDA growth	nm	nm	nm	nm	nm
EBIT growth	nm	nm	nm	nm	nm
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	nm
Core net profit growth	nm	nm	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	nm	nm	nm	nm	5.4
EBIT margin	nm	nm	nm	nm	2.9
Pretax profit margin	nm	nm	nm	nm	2.0
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	nm	0.3
Revenue/Assets (x)	0.4	0.5	0.8	1.0	1.2
Assets/Equity (x)	3.1	2.5	3.3	4.2	3.8
ROAE (%)	na	na	na	na	na
ROAA (%)	(20.6)	(14.0)	(13.7)	(8.1)	0.3
Liquidity & Efficiency					
Cash conversion cycle	16.7	9.0	9.5	11.3	12.0
Days receivable outstanding	22.6	13.6	12.1	11.9	11.9
Days inventory outstanding	5.4	5.4	5.9	6.7	7.1
Days payables outstanding	11.4	10.0	8.6	7.3	7.1
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.9	2.1	1.9	1.6	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.7	1.4	1.3	1.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	3.3
Debt/EBITDA (x)	nm	nm	nm	nm	1.9
Capex/revenue (%)	7.7	5.0	3.0	3.0	3.0
Net debt/ (net cash)	(5,185.7)	(7,223.7)	(5,871.1)	(6,006.2)	(8,477.0)

Source: Company; Maybank

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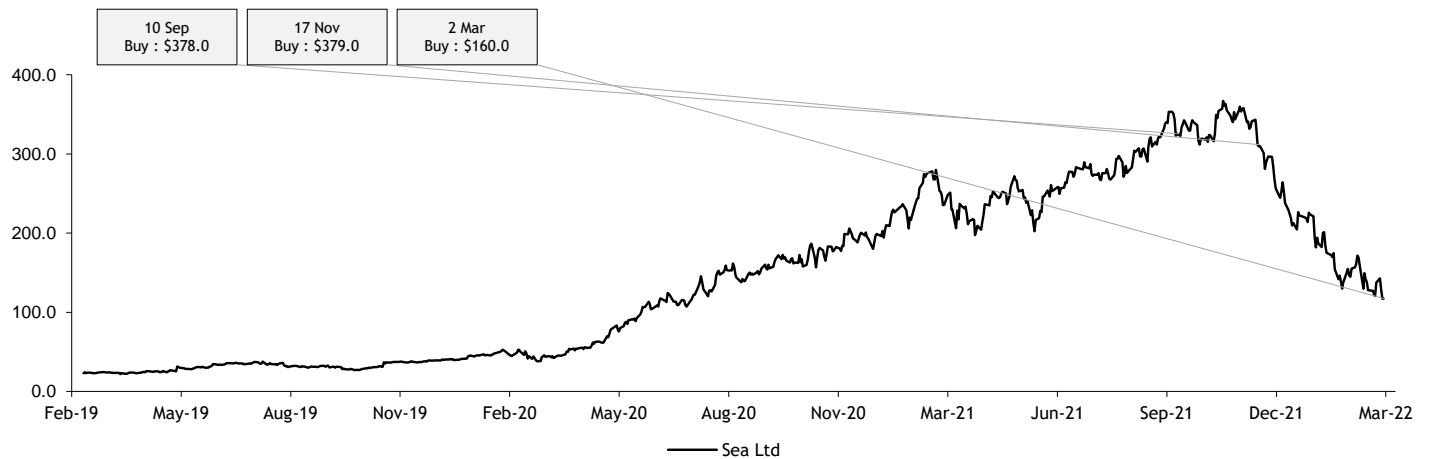
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