

# ASEAN Industry Focus

## Internet Sector

Refer to important disclosures at the end of this report

DBS Group Research. Equity

9 Jun 2022

### Is the EV-to-revenue metric dead?

- Sea Ltd (SE) is likely to turn EBITDA-positive in 2024; Grab Holding (GRAB) in 2025 at the earliest
- Prefer SE for a clearer path to profitability, and below 6x EV to five-year EBITDA valuation vs. its peers at 12-month forward EBITDA of 14x-30x; suggests 100%-400% upside potential in total over the next four years subject to execution risks.
- BUY SE with revised 12-month target price of US\$126 (prev US\$115), implying 46% upside potential. Our bear-case fair value for [SE](#) & [GRAB](#) is US\$93 & US\$2.14 respectively.

**SE is likely to turn EBITDA-positive in 2024 vs -15% EBITDA margin in 2022F.** Garena is seeing a stabilisation of its monthly user base since April 2022; it had declined sharply due to the India ban in Feb 2022. Our channel checks indicate that "Free Fire" is seeing a slower drop of only 2-3m users each month, which is more than offset by "Free Fire MAX" adding 4-5m users each month. Southeast Asia e-commerce is seeing less intense competition, as Tokopedia followed the commission rate hikes done by Shopee in Feb 2022.

**GRAB is likely to turn adjusted EBITDA-positive at the earliest by 2025, vs. -72% adj EBITDA margin in 2022F.** GRAB's mobility segment to benefit from lower competition from Gojek in Singapore, coupled with rising demand for mobility across the region Food delivery is also seeing a less aggressive ShopeeFood in Indonesia, whose market share has been rather stable over the last three months.

**We use normalised five-year EBITDA margins and EV/EBITDA multiples to derive our revised target prices.** With small players facing a funding squeeze, large players with strong net cash positions should fare better in 2023/24 in our view. For our valuation, we use a conservative 12x FY27F EV/EBITDA discounted back by 10% each year. At SE, we project a conservative EBITDA margin of 17%, leading to FY27F EBITDA of US\$8.6bn. E-commerce peers are trading at 14x-30x 12-month forward EV/EBITDA while projected EBITDA margins for Amazon, eBay, and PayPal in 2022 range from 14%-34%. For GRAB, we project a 12% EBITDA margin, leading to a FY27F EBITDA of US\$1.1bn. This is based on projected margins of 11%-12% for Uber and DoorDash in 2024, which do not have the cross-selling benefits of GRAB.

NASDAQ : 12,086.27

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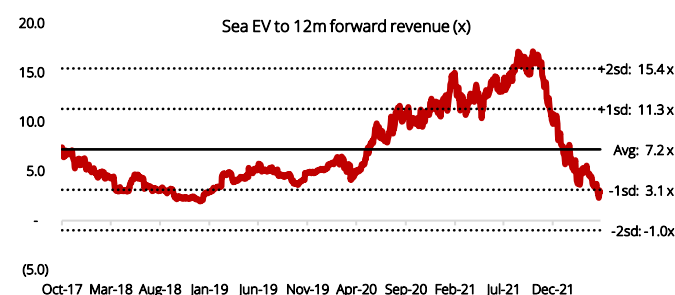
#### STOCKS

	Price US\$	Mkt Cap US\$m	12-mth		Rating
			Target Price US\$	Performance (%) 3 mth 12 mth	
<a href="#">SEA Ltd</a>	88.81	49,290	126	(10.3) (65.5)	BUY
<a href="#">Grab Holdings Ltd</a>	2.85	11,448	2.85	(2.6) (74.3)	HOLD

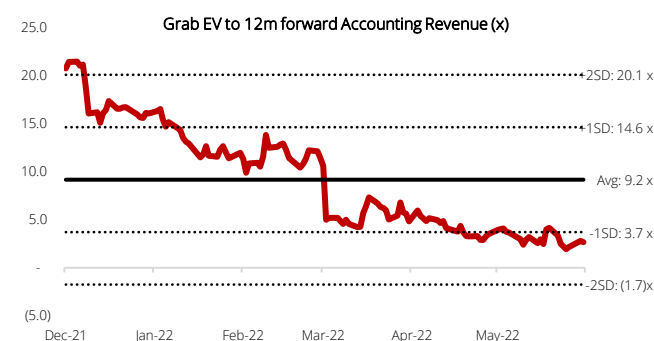
Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 8 Jun 2022

### Sea Ltd is trading at 3.1x EV to 12m forward revenue, near its -1SD valuation



### GRAB is trading at 2.7x EV to 12m forward revenue vs -1SD of 3.7x in its short history since listing in late 2021



Source: Reuters, DBS Bank



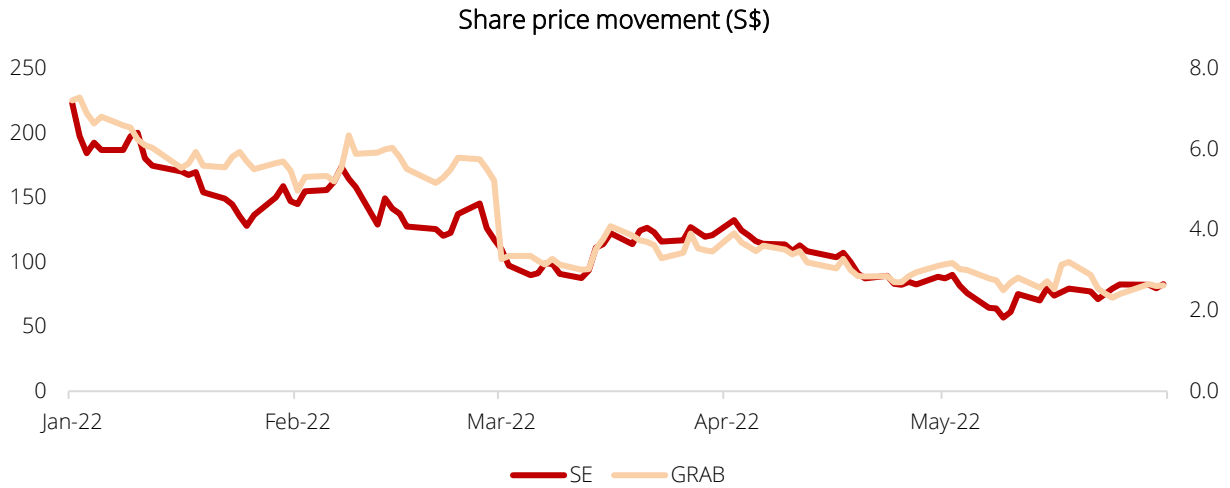
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**UPDATE ON INTERNET STOCKS**

**Market moved away from EV-to-revenue metrics with focus on profitability – SE & GRAB dropped 63% & 64% YTD, respectively**



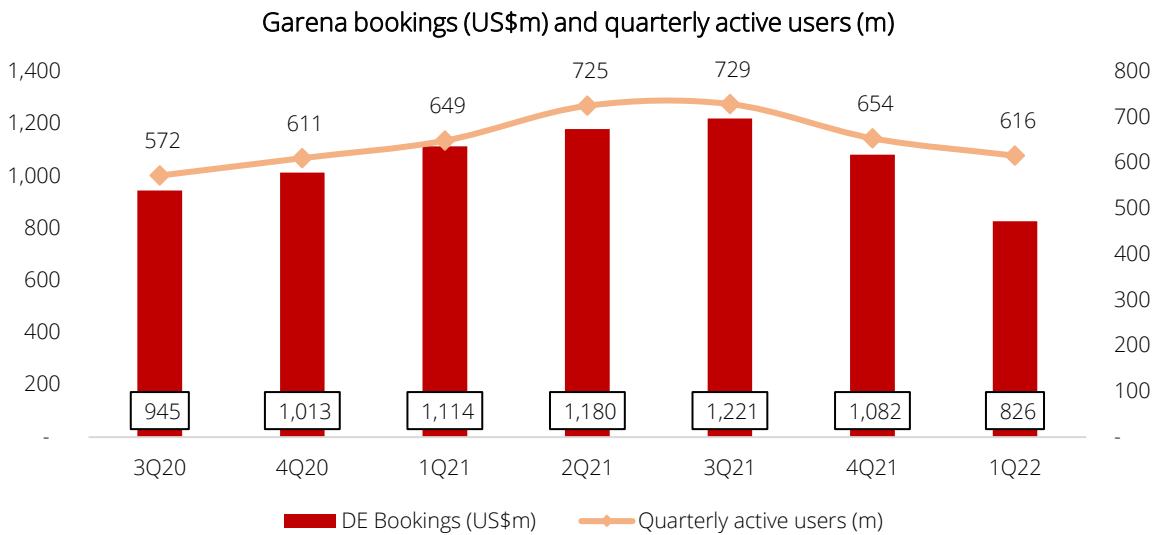
Source: Reuters, DBS Bank

**Gaming – Garena**

Garena user base is likely to bottom out in 2Q22F, led by the rising popularity of Free Fire Max. The Free Fire ban in India in Feb 2022, coupled with the easing of movement

restrictions, resulted in a sharp decline in Garena’s average user base in 1Q22.

**Quarterly active users seem to be stabilising following the ban in India**



Source: Company, DBS Bank

Free Fire MAX was launched officially on 28 Sep 2021 and its user base has been growing steadily across high-end smartphone users. Our channel checks indicate that Free Fire, which lost 10m net users each month on average from Jan-Mar 2022, mainly due to the India ban, is seeing only 2-3m net drop in its user base since end-Mar 2022. Free Fire MAX, on the other

hand, continues to acquire 4-5m net users each month. This suggests a potential stabilisation of Garena's user base in 3Q22F. We expect to see Garena's user base bottom out in 2Q22F, with a 1-2m rise from 3Q22F onwards, led by Free Fire Max.

### Free Fire ranking in terms of active users (as of 2 June 2022)

Phones		Geographical ranking (all phones)	
Android	iOS	Country	Ranking
Roblox	ROBLOX	Indonesia	4
Candy Crush Saga	Pokémon GO	Brazil	3
<b>Free Fire</b>	Clash Royale	Argentina	4
Mobile Legends: Bang Bang	Subway Surfers	Malaysia	4
Clash Royale	Candy Crush Saga	United States	n/a
Clash of Clans	Clash of Clans	Vietnam	2
PUBG MOBILE	Homescapes		
Pokémon GO	Wordle by Goldfinch Studios		
Minecraft Pocket Edition	New Words With Friends		
Brawl Stars	Call of Duty: Mobile		

Source: data.ai, DBS Bank

(n/a\* - ranking is beyond 10)

### Top mobile games downloaded worldwide (overall from Play Store and App Store)

#	November 2021	December 2021	January 2022	February 2022	March 2022
1	PUBG Mobile	<b>Garena Free Fire</b>	<b>Garena Free Fire</b>	<b>Garena Free Fire</b>	Merge Master
2	<b>Garena Free Fire</b>	Rocket League Sideswipe	Subway Surfers	Subway Surfers	<b>Garena Free Fire</b>
3	Merge Animals 3D	Subway Surfers	Roblox	Merge Master	Subway Surfers
4	Subway Surfers	Poppy Road Game	Candy Crush Saga	Candy Crush Saga	Army Commander
5	Candy Crush Saga	Roblox	Race Master 3D	Roblox	Fil The Fridge
6	Ludo King	Race Master 3D	Ludo King	PUBG Mobile	Roblox
7	Roblox	Oil Tanker Truck Driving	PUBG Mobile	Twerk Race 3D	Fishdom
8	K-Sniper Challenge	Brain Story	Count Masters	Ludo King	Ludo King
9	PUBG Mobile	Candy Crush Saga	Sponge Art	Fishdom	PUBG Mobile
10	Cookie Carver	Antistress	Magic Tiles 3	Find the Alien	Candy Crush Saga

Source: SensorTower, DBS Bank

### E-commerce and food delivery – Shopee and ShopeeFood

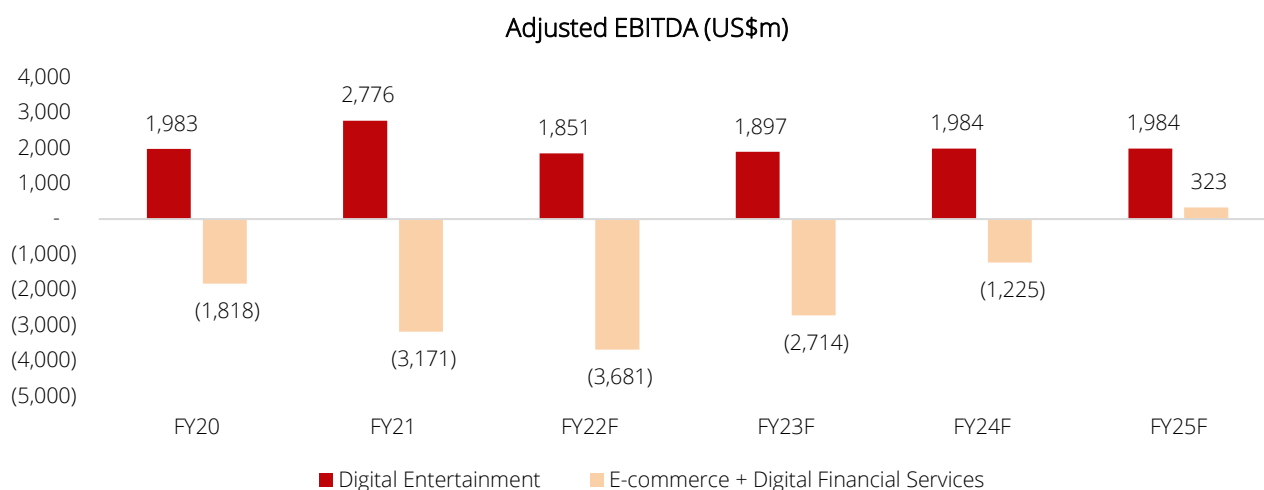
The US\$60bn Indonesian e-commerce market is experiencing an improved take rate. For instance, market leader Tokopedia has revised its take rates y-o-y during 1Q22, ranging from 1.50%-2.00%, and has witnessed increasing orders, resultantly enhancing overall revenue. While continuing to dominate the Southeast Asian region,

Shopee is making great strides in the Latin American market, especially in Brazil. Shopee's adjusted EBITDA in Southeast Asia & Taiwan, excluding headquarter (HQ) losses, came at only US\$0.04 per order, compared to US\$0.15 in 4Q21 and US\$0.12 in 1Q21, due to the reduction in discounts and subsidies. Shopee is on track to

achieve positive adjusted EBITDA before allocation of HQ costs in Southeast Asia and Taiwan by FY22F. The cash flows generated from this juncture onwards will be utilised largely

to cover the losses generated in newer markets, especially Brazil, from FY23F onwards.

**E-commerce and digital financial services combined EBITDA is expected to achieve breakeven by FY25F**



Source: Company, DBS Bank

**Adjusted EBITDA loss per order seems to be narrowing**

	1Q21	4Q21	1Q22
<b>Number of orders (m)</b>			
SE Asia and Taiwan	1,044	1,788	1,660
Brazil	43	141	147
Other new markets	-	35	56
Total orders	1,087	1,965	1,863
<b>% mix</b>			
SE Asia and Taiwan	96.0%	91.0%	89.0%
Brazil	4.0%	7.2%	8.0%*
Other new markets	0.0%	1.8%	3.0%*
<b>E-commerce EBITDA loss (US\$m)</b>			
SE Asia and Taiwan	(125.22)	(268.16)	(66.40)
Brazil	(120.16)	(282.89)	(223.44)
Other new markets		(26.69)	(123.37)
<b>Adjusted EBITDA loss pre-HQ</b>	(245.39)	(577.74)	(413.21)
HQ costs	(167.51)	(300.00)	(329.61)
<b>Adjusted EBITDA loss</b>	(412.90)	(877.74)	(742.82)
Adj. EBITDA loss per order pre-HQ (US\$) <b>SEA &amp; TW</b>	(0.12)	(0.15)	(0.04)
Adj. EBITDA loss per order pre-HQ (US\$) <b>Brazil</b>	(2.76)	(2.00)	(1.52)
Adj. EBITDA loss per order pre-HQ (US\$)	(0.23)	(0.29)	(0.22)
Adj. EBITDA loss per order (US\$)	(0.38)	(0.45)	(0.40)

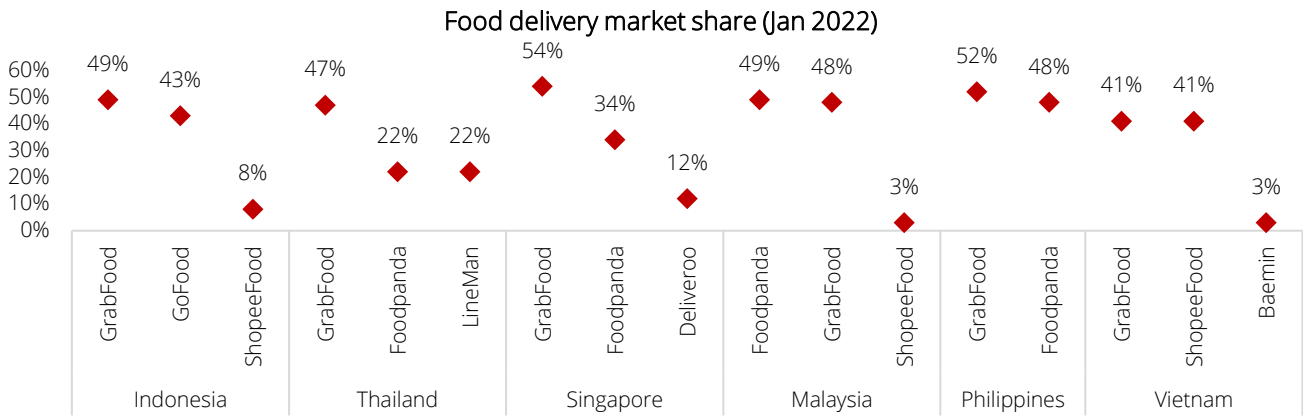
\*Estimated by DBS bank, as the company did not disclose info in 1Q22

Source: Company, DBS Bank

**Delivery wars are getting less intense in Indonesia.** When ShopeeFood entered the food delivery space, it adopted aggressive promotional tactics to acquire customers, according to Momentum Works. By January 2022,

ShopeeFood was able to achieve a market share of 8%. However, our industry checks indicate that the market share of ShopeeFood has been stable over the last three months, as it has become less aggressive in promotions lately.

**GRAB continues to be the clear market leader across the Southeast Asian region in food delivery**



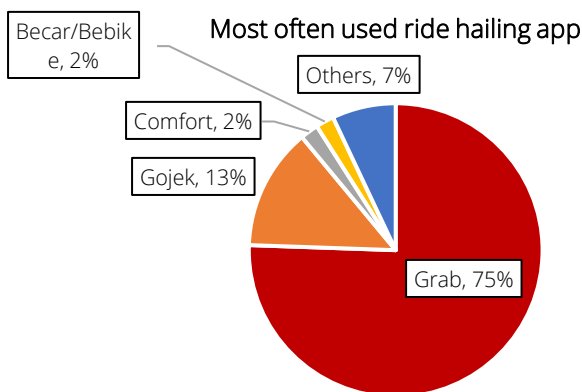
Source: Momentum Works, DBS Bank

**Mobility**

In Singapore, the intensity of competition from Gojek has reduced, while in Indonesia, the competition from Gojek continues to be stable. GRAB's mobility take rate is one of the highest globally; however, it declined q-o-q to 23% in 1Q22, largely due to the increase in its base incentives. Upon achieving an adequate supply of drivers and when drivers start to generate significant income, it should increase the driver supply and reduces the base incentives gradually.

According to BlackBox, GRAB is the clear winner among ride-hailing apps in terms of brand popularity across all six markets, with 75% of users choosing GRAB as their most often used app. Gojek is in second place, with 13% of the market. GRAB has the most market share (94%) in Malaysia and the Philippines (91%). GRAB has a six-fold or greater edge over the next competitor in three other markets. In Vietnam, for example, GRAB significantly outperforms Gojek (73% to 10%).

**GRAB is preferred by over 75% of Southeast Asian consumers for mobility services**



Source: BlackBox, DBS Bank

### Stock picks

**Prefer Sea Ltd for a clearer path to profitability.** Sea Ltd has guided for EBITDA breakeven for (i) its e-commerce business in Southeast Asia and Taiwan by 2022, excluding headquarter (HQ) losses and (ii) its combined e-commerce and fintech business by 2025. GRAB has guided for EBITDA breakeven for its delivery business by 2023, but there is no guidance on its fintech business, where it is facing intense heat from both GoPay and ShopeePay.

**We use normalised long-term EBITDA margins to derive our revised TP of US\$126 for Sea Ltd and US\$2.85 for GRAB.**

With e-commerce peers trading at 14-30x 12-month forward EV/EBITDA, we use 12x EV to EBITDA in five years, discounted back by 10% each year.

We project a conservative EBITDA margin of 17% at SE leading to a FY27F EBITDA of US\$8.6bn. This is towards the lower end of the projected EBITDA margins of 14%-34% for mature peers such as Amazon, eBay, and PayPal in 2022. On a segmental basis, we have assumed EBITDA margins of 40% for Garena and 15% for both e-commerce and fintech for FY27F. In our estimates, SE has just enough cash of

US\$5bn – to burn before achieving EBITDA breakeven in FY24F. Hence, we do not add the net cash of US\$5bn in our valuation, as it will be burnt over the next three years.

For GRAB, we project a 12% EBITDA margin, leading to US\$1.1bn EBITDA in FY27F. This is based on projected margins of 11%-12% for mature peers such as Uber and DoorDash in 2024, which do not have the cross-selling benefits of GRAB. GRAB has net cash of US\$6bn currently, out of which we expect US\$4bn to be burnt over the next four years before achieving EBITDA breakeven. So, we add US\$2bn net cash to derive our equity value.

**Our bear-case fair value for SE is US\$93.** This is based on only 15% EBITDA margin assumption in FY27F (vs 17% margins under the base-case) and 10x EV /EBITDA multiple (vs 12x under the base case).

**Our bear-case fair value for GRAB is US\$2.14.** This is based on only 10% EBITDA margin assumption in FY27F (vs 12% margins under the base-case) and 10x EV /EBITDA multiple (vs 12x under the base case).

### Our valuations for Sea Ltd and GRAB

Sea Ltd	FY27
Revenue	50,362
EBITDA margin	17%
EBITDA	8,562
GRAB	FY27
Revenue	9,080
EBITDA margin	12%
Adjusted EBITDA	1,090

US\$m	EV/EBITDA (x)	FY27F EBITDA (US\$m)	Enterprise value (EV)	EV in FY22F discounted at 10%	Excess cash on top of cash to be burnt before EBITDA breakeven	Equity value in FY22F	Number of shares (m)	Target price (US\$)
SE	12	8,562	102,738	70,172	-	70,172	556	126
GRAB	12	1,090	13,075	10,931	2,000	12,931	3,840	2.85

Source: Reuters, DBS Bank

**The Sensitivity of our valuation to EBITDA margins and EV/EBITDA multiple**

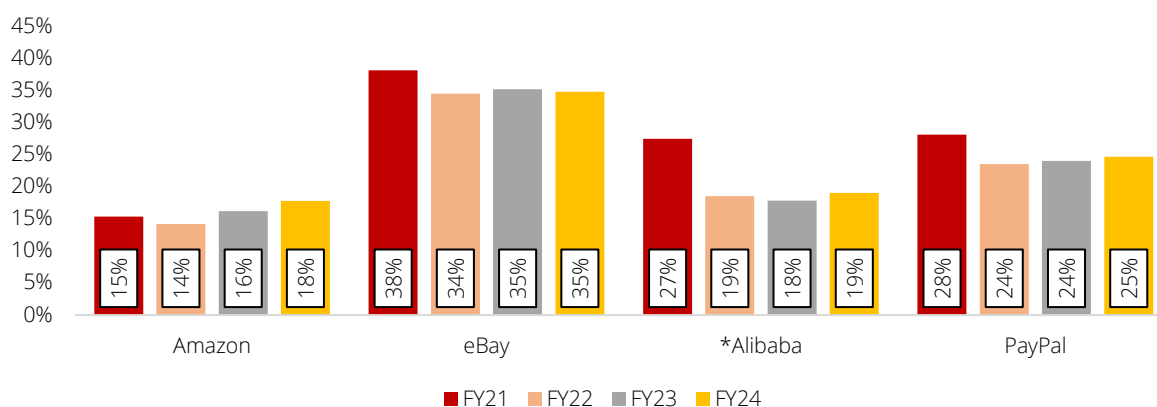
SE		FY27F Group EBITDA margin		
		15%	17%	20%
FY27F EV/EBITDA (x)	10.0	93	105	124
	12.0	111	<b>126</b>	148
	15.0	139	158	186

GRAB		FY27F Group EBITDA margin		
		10%	12%	15%
FY27F EV/EBITDA (x)	10.0	2.14	2.46	2.94
	12.0	2.46	<b>2.85</b>	3.43
	15.0	2.94	3.43	4.15

Source: DBS Bank

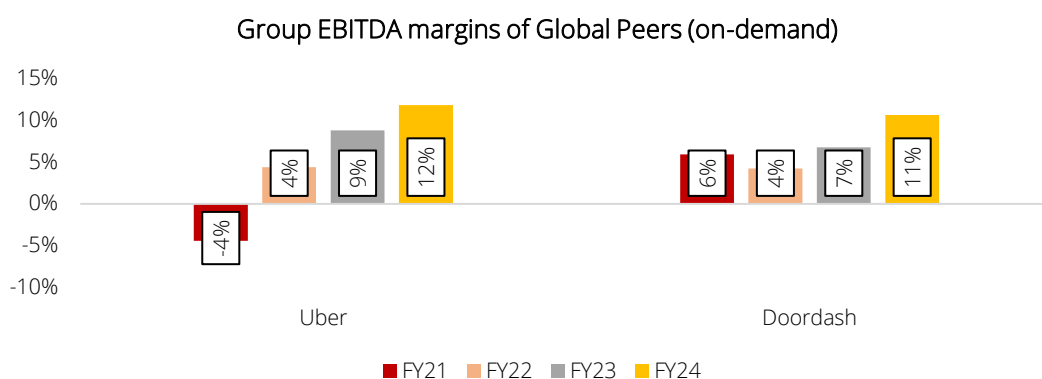
**Group EBITDA margins of e-commerce peers range from 14-34% in FY22F**

Group EBITDA margins of Global Peers (e-commerce + fintech)



\*Mar YE company  
Source: Reuters, DBS Bank

**Group EBITDA margins of on-demand peers range average at 11% in FY24F**



Source: Reuters, DBS Bank

**EV/EBITDA of leading e-commerce players**

	FY22F	FY23F	FY24F
Amazon	16.9	12.7	9.9
eBay	8.8	8.2	7.9
Mercadolibre	45.8	29.2	20.4

Source: Reuters, DBS Bank

**EV/EBITDA of mobility & food delivery players**

	FY22F	FY23F	FY24F
Uber	42.8	17.7	11.1
Doordash	92.4	46.6	25.6

Source: Reuters, DBS Bank



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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)

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\*Share price appreciation + dividends

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