

Regional Company Update

SEA Ltd

Bloomberg: SE US | Reuters: SE.US

Refer to important disclosures at the end of this report

Ure oDBS Group Research . Equity

29 Oct 2020

BUY

Last Traded Price (27 Oct 2020): US\$172.3 (NYSE: 13,199.9)
Price Target 12-mth: US\$190 (10% upside)

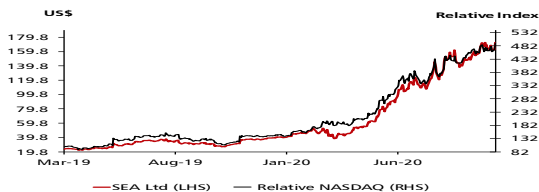
Analyst

Sachin MITTAL +65 66823699 sachinmittal@db.com

What's New

- Indonesia e-commerce gross merchandise value (GMV) is expected to overtake India's GMV in FY2020F
- Shopee revised up its commissions and fulfillment services price in Sep and Oct respectively
- Maintain BUY with an unrevised TP of US\$190

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2019A	2020F	2021F	2022F
Revenue	2,175	5,113	7,839	10,385
EBITDA	(770)	(215)	(215)	334
Pre-tax Profit	(1,372)	(446)	(506)	(49.8)
Net Profit	(1,463)	(449)	(509)	(50.0)
Net Pft (Pre Ex.)	(1,463)	(449)	(509)	(50.0)
Net Pft Gth (Pre-ex) (%)	(52.2)	69.3	(13.4)	90.2
EPS (US cts.)	(335)	(97.0)	(110)	(10.8)
EPS Pre Ex. (US cts.)	(335)	(97.0)	(110)	(10.8)
EPS Gth Pre Ex (%)	(19)	71	(13)	90
Diluted EPS (US cts.)	(432)	(97.0)	(110)	(10.8)
Net DPS (US cts.)	0.0	0.0	0.0	0.0
BV Per Share (US cts.)	266	154	44.4	33.6
PE (X)	nm	nm	nm	nm
PE Pre Ex. (X)	nm	nm	nm	nm
P/Cash Flow (X)	nm	120.0	93.7	52.7
EV/EBITDA (X)	nm	nm	nm	232.3
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	64.7	111.5	387.8	512.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	(318.2)	(47.8)	(110.6)	(27.7)
Earnings Rev (%):	-	-	-	-
Consensus EPS (US cts.):		(226)	(162)	(31.0)
Other Broker Recs:		B: 16	S: 2	H: 1

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

Monetising e-commerce amid rising usage

Investment Thesis:

Maintain BUY on surging popularity of Free Fire. Sea Ltd's in-house developed game, Free Fire continues to be aided by movement restrictions due to COVID-19 and PUBG ban in India, one of PUBG's largest markets. The mounting cash flows from gaming business would be a big competitive edge in (i) consolidating its leadership position in the e-commerce business and (ii) kick-starting growth of its nascent payment business.

We project FY19-22F adj. revenue compound annual growth rate (CAGR) of 91% for e-commerce, 34% for gaming and 182% for payments business.

Potential catalyst: Growth in e-commerce adj. revenue, coupled with sustained growth in profits in the gaming business.

Valuation:

Maintain BUY with an unrevised TP of US\$190. We value e-commerce business at US\$97/share (prev S\$87), gaming business at US\$85 (prev US\$90) and payment business at US\$4 (prev US\$2.60).

Where we differ:

Our FY20F/21F adj. revenue are 9%/20% above consensus. Sea can burn more cash in e-commerce to raise its market share on higher profits from the gaming business. We expect e-commerce and DFS segments to continue to report adj. EBITDA losses in FY20F/21F due to the intense competition.

Key Risks to Our View:

Key risks are over-dependence on Free Fire game and weak cross-border commerce business. Our projections could be at risk if Free Fire slows down next year and if Sea cannot develop a pipeline of new games. For e-commerce, cross-border revenue could disappoint due to the regulatory issues.

At A Glance

Issued Capital (m shrs)	488
Mkt. Cap (US\$m)	57,814
Major Shareholders (%)	
Gang Ye	9.4
Capital Group Cos Inc/The	8.3
Sands Capital Management	8.1
Free Float (%)	74.2
3m Avg. Daily Val (US\$m)	574.9

GIC Industry: Communication Services / Media & Entertainment



DBS
Live more, Bank less

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WHAT'S NEW

Update on Shopee

Shopee: Sea Ltd's e-commerce segment



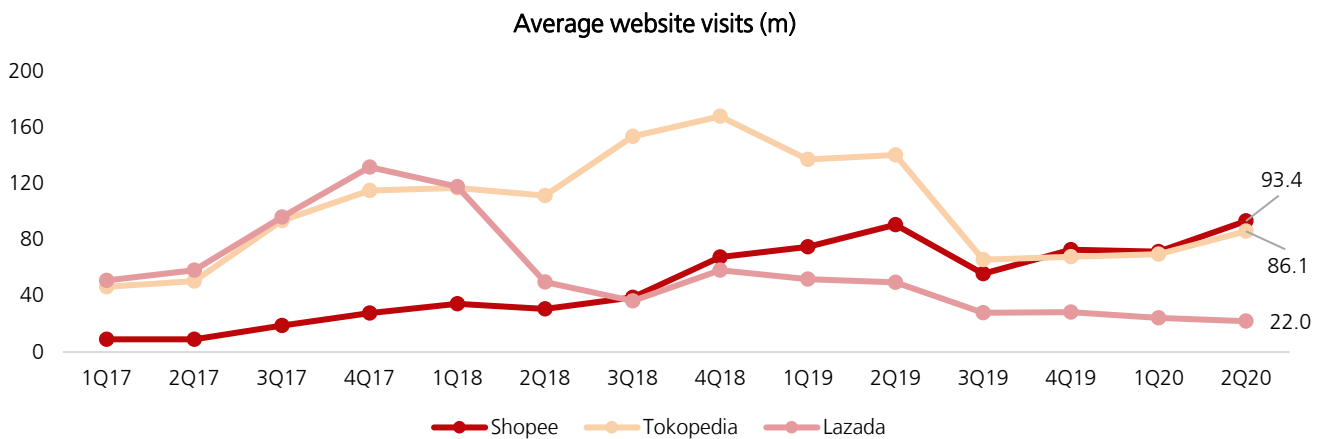
Sea launched Shopee in 2015 and since then Shopee has expanded rapidly due to the mounting free cash flow from gaming. This is Sea's biggest competitive edge in the e-commerce business as many competitors face funding pressure. Shopee sellers include individuals and small businesses (C2C) and brands and large retailers (B2C).

GMV of products supplied through Shopee was US\$17,576m for 1,212m orders placed during FY19. The highest contribution to the total GMV by product category at present is from fashion (almost one-third of total sales), followed by health and beauty segment. Indonesia currently accounts for ~40% of Shopee's orders. Shopee is available as a mobile app and as a website.

Shopee is the leading e-commerce player in Indonesia based on the number of website visits; second in terms of GMV. Indonesia is the largest market with US\$23bn gross merchandise value (GMV) in 2019, while Singapore is the most advanced market with highest per capita spend on e-commerce. Shopee and Lazada are regional powerhouses, with presence in all six countries and being among the top three platforms in all countries. SEA is home to more than 100 e-commerce players, comprising several international brands and a large pool of domestic players.

With regard to Indonesia, the largest regional market, Shopee was able to overtake Tokopedia to become the most visited e-commerce website in 4Q19, and has since held its leadership position. Tokopedia dominated throughout the initial three quarters while Shopee's peak sale events such as 11.11 and 12.12 were pivotal in pushing it to the top spot by the end of the year. Product content diversity was the widely adopted strategy to heighten user activity on e-commerce platforms. However, Tokopedia with annual estimated run-rate GMV in 2019 of ~US\$15.8bn, is the largest e-commerce platform in the archipelago by GMV.

Shopee is the leading e-commerce player in Indonesia based on the number of website visits



Source: iPrice, DBS Bank

Indonesia's e-commerce growth is set to rise at a faster rate than India by 2020F. Indonesia's e-commerce market is projected to grow at a CAGR of 75% during FY17-20F to reach a gross GMV of US\$40bn in 2020F (previous US\$35bn), largely supported by COVID-19 related consumer purchasing behavior and other tailwinds. The projected FY20F GMV value in Indonesia is expected to surpass India's

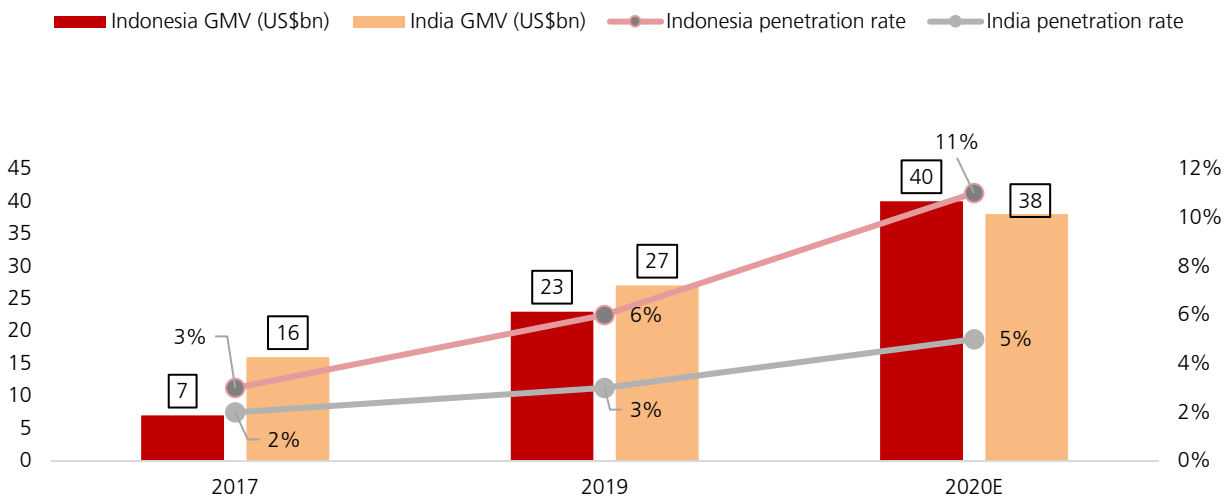
estimates of US\$38bn. The outperformance is expected to stem from two ends; a) driven by buyers who are increasingly exploring online channels for purchases and b) sellers who are leveraging online platform to promote their businesses. Furthermore, on the profitability aspect, Indonesia e-commerce platforms are functioning better than Indian counterparts.

Factors that are driving the rapid growth in Indonesia compared to India are: a) the retail spend per capita is ~2-2.5x higher than India; b) internet penetration rate in Indonesia is over 65% compared to India's 40% as of July 2019; c) Indonesia boasts a higher urbanization rate compared to India (56% vs. 33%); d) aggressive marketing strategies such as subsidies in Indonesia as a percentage of

fulfilled GMV is ~3-4% vs. India's 2%. Moreover, Indonesia e-commerce platforms have strengthened user engagement by means of live streaming, gamification and in-built messaging and e) Indonesia has a larger online penetration rate in categories such as electronics which represents higher GMV compared to India which has daily essentials and fashion as the major categories.

Indonesia's gross GMV is projected to reach US\$40bn compared to India's US\$38bn

Indonesia and India - GMV and e-commerce penetration rate



Source: Redseer Consulting, DBS Bank

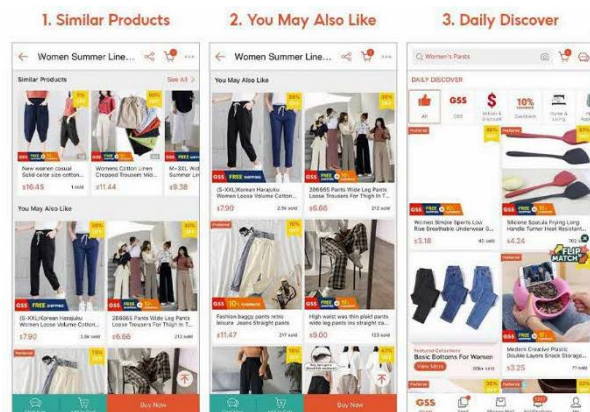
Sea monetizes Shopee platform through a number of means.

1. Advertising

Cost per click advertising model for promoting listings. There are three types of paid ads that sellers can use to advertise their products on Shopee.

Keyword ads - keyword ads show the seller's products at prominent positions on the search results page when shoppers search for keywords that the seller has bid for.

Targeting ads - Targeting ads showcase the products in multiple sections of the Shopee platform to shoppers interested in products similar or complementary to the seller's. Targeting ads are of three types: "similar products", "you may also like", "daily discover".



Source: Company, DBS Bank

Shop ads - Shop ads will show the seller's shop at the top of the search results page. The seller can decide which keywords the shop ad will show up for by bidding for them.

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2. Commissions

Commission Fee is an access fee charged on sellers for gaining the benefit of listing products on Shopee Mall. Commissions fees are charged on all completed product

sales, based on the price of the product listing. The commission fee is calculated as 1%-5% of the product listing price as applicable minus any seller-borne vouchers and price discounts. This fee is automatically deducted from the seller's escrow account after an order is completed.

Shopee increased commission fees in Taiwan, Indonesia and Vietnam in September 2020

Country	Category	New commission fee	Previous commission fee
Indonesia	Across categories	1.0, 3.0%, 5.0%	1.0, 3.0%, 5.0%
	Star Sellers* (C2C)	1.5%	1.0%
Taiwan	Electronic	3.0%-4.0%	3.0%
	Non-electronic	6.0%	5.0%
	C2C	2.0%	2.0%
Vietnam	Across categories	3.0%-5.0%	1.0%-2.0%
Malaysia	Electronics / Baby & Toys	3.0%	3.0%
	Non-electronic	5.0%	5.0%
Singapore	Electronic	2.0%	2.0%
	Non-electronic	5.0%	5.0%
Thailand	Electronic	3.0%	3.0%
	Non-electronic	5.0%	5.0%
Philippines	Across categories	2.0%	2.0%

* *Shopee Star Program (Star Seller) is an appreciation for active sellers who have good customer service. (Examples of criteria include: Chat reply percentage = >80%; The store has a rating = >4.5)*

Indonesia: Examples of product categories under each commission fee rate

Commission fee	Product category
1%	Vehicles, computer, video games & home electronics, metal fashion accessories, staple, food supplements & medical devices, mobile phones & accessories, cameras & accessories
3%	Computer & accessories, contact lenses, instant food, hobbies & collections, baby essentials
5%	Vehicle parts, fashion for infant & children, beauty, cable & spare parts, jewellery, sweets/ fresh food/ frozen food, home fixtures, clothing and bags, books & crafts, watches

Source: Company

3. Value Added Services

Service by Shopee – Service by Shopee (SBS) is a service that lets sellers relinquish the processing and selling of products to Shopee itself. SBS offers a range of services including inventory management, online store operations, and fulfilment services. In addition, sellers will also enjoy

additional benefits such as free shipping and product exposure through Shopee24. Terms and conditions for free shipping can vary per the Shopee market. For Shopee Indonesia, the sellers can avail of free shipping up to Rp50,000 per checkout. Shopee24 is an express delivery service. Availing of the SBS program means that the products will be part of the Shopee24 promotions.

Shopee is attempting to improve monetization of its fulfillment service in Indonesia



Source: Company

	Current fee (October 2020)	Previous fee (till September 2020)
Storage fee	60-90 days - Rp1,000/product/month 90-120 days - Rp2,000/product/month >120 days - Rp4,000/product/month	Free, but there's an additional fee for products that have not been sold for >60days: Rp2,000/product/month
Packaging fee	Rp4,500/sold product	Rp6,500/sold product
Human resource fee	Rp1,000/product	Free
Store and chat management fee	Rp1,000/product	Free
Special promotion	Discount is applicable to total fee 1,000 products sold - 10% discount 2,000 products sold - 20% discount 3,000 products sold - 30% discount	Discount is applicable on product handling fee 1,000 products sold - 15% discount 2,000 products sold - 20% discount 3,000 products sold - 45% discount

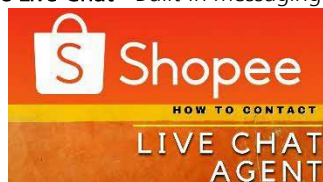
Source: Company, DBS Bank

Shopee Logistics Services – Shopee Logistics Services (SLS) is customized to help sellers with complex logistical needs such as cross-border fulfilment. Fees are charged from sellers for these services. With this feature seller can arrange shipping from within the Shopee app. As an example, In Singapore Ninja Van, Singapore Post and J&T Express are Shopee supported logistics partners.

Shopee Feed – Shopee Feed is a platform on Shopee App that lets sellers showcase their products and engage followers directly through photos and videos.



Shopee Live Chat - Built-in messaging feature



Shopee Live - Shopee Live is a feature that allows sellers to broadcast their product via live stream to not only showcase the products but also to interact with potential buyers.



Shopee Mall - Shopee Mall hosts brands and large retailers, prominently features their distinct logos, and offers a premium shopping experience. This currently focus on long-tail high-margin categories, such as fashion, health and beauty, home and living, and baby products. Shopee Mall sellers are strongly encouraged to invest towards paid ads.



Shopee Premium - Launched in September 2020 with a dedicated in-app ecosystem to offer premium brands more opportunities for immersive brand storytelling. For example, the 'Brand Spotlight' page showcases curated products in an editorial layout, with a mix of long-form articles and videos to illustrate their brand ethos in richer ways. Sellers on Shopee Premium can also tap on Shopee's core engagement features such as Shopee Live, Shopee Feed, and Shopee Games to build and deepen connections with their customers.



Shopee University - Offers courses and tutorials for sellers to learn about ways to enhance sales.



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4. Direct Sales

Direct product sales either via outright sales (where Shopee assumes the risk of inventory) or through consignment sales (where the supplier assumes the risk of inventory). Shopee charges mark ups on outright sales and commissions/fees on consignment sales.

Several successful campaigns carried out by Shopee has led to the e-commerce player emerging as a leading platform throughout Asean, such as:

- a) **Cashback programmes via ShopeePay** – Shopee offers cashback offers to selected sellers to boost seller traffic and sales performance. The cashback program has been running since July 2019 in selected countries, and has provided significant sales uplift to all participating sellers.
- b) **Free delivery without a minimum order quantity** – Offered to selected sellers during festival seasons
- c) **Brand ambassadors** – Shopee uses regional celebrities as brand ambassadors to attract buyers to its platform. As an example, in Thailand the “Shopee Celebrity Club” features a series of online stores opened by personalities including Woonsen Virithipa, Janie Tienphosuwan and Opal Panisara.

- d) **Shopping promotion festivals** – Shopee carries out several extensive shopping festivals with Single’s day 11.11 and Harbolnas (National Online Shopping Day in Indonesia) 12.12 sales promotions being the biggest events.



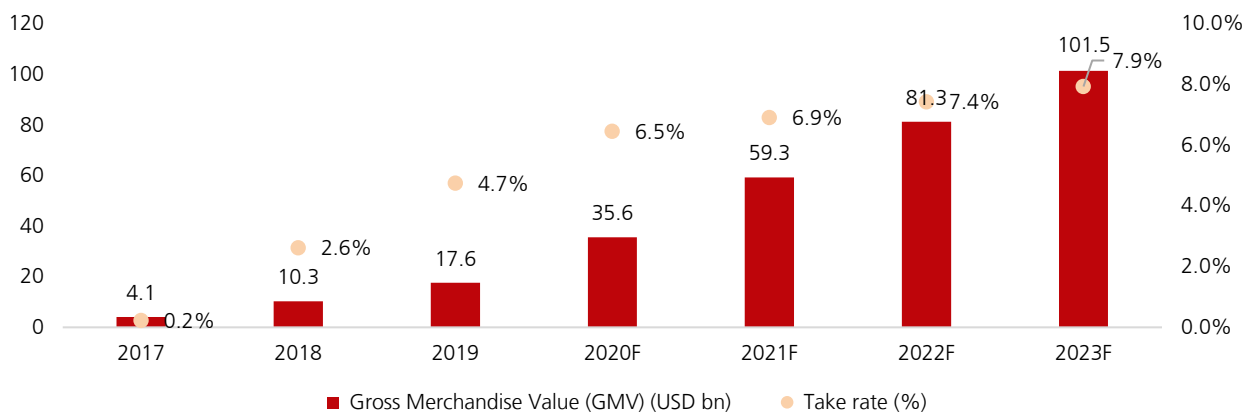
- e) **In-app games** – Coming from a gaming background, Shopee relies on in-app games to boost user engagement with Shopee app. Currently, the app offers a range of games including Goyang Shopee, Kuis Shopee, Shopee Potong, Shopee Lucky Prize, Shopee Live, and Shopee Tangkap.



Leading indicators for Shopee

1. Gross Merchandise Value

E-commerce GMV and take rate



Source: Company, DBS Bank

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Gross Merchandise Value (GMV) is the total value of orders of products and services in the Shopee marketplace. The market leadership of an e-commerce platform is generally assessed using the GMV in a given period of time. The pandemic has acted as a major catalyst in driving Shopee’s GMV and has boosted the number of orders over the past few months. For instance, food, groceries and household items have witnessed surging demand followed by health supplements which are generally higher-GMV items. The third category which contributed the boost is toys and games and then followed by electronics. These categories are generally higher in GMV compared to Shopee’s pre-COVID categories which are health and beauty and fashion.

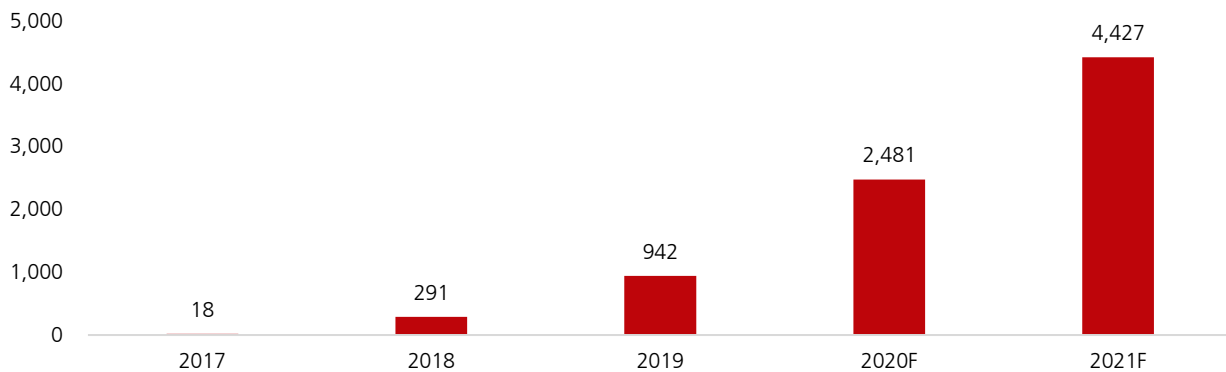
Shopee will continue to invest to capture market share instead of monetization and the pandemic has forced many sellers and brands as well as mid-sized SMEs to go online

presenting an opportunity for Shopee to add more sellers with a large assortment to its platform. Adding more sellers will expand the ecosystem and this will result in growth in the industry. The larger the platform become, Shopee can be more scalable to monetize.

We expect Shopee’s GMV to reach ~US\$35.6bn in FY20F, led by deeper penetration into Greater Southeast Asia, particularly Indonesia, one of the fastest growing e-commerce markets in the region. Indonesia currently accounts for ~40% of Shopee’s orders. Shopee is currently focusing on expanding its foothold in the under penetrated e-commerce regions in Southeast Asia instead of monetizing into commission revenue. We expect Shopee’s GMV from e-commerce to expand to US\$59.3bn by FY21F vs. US\$17.6bn in FY19, growing at a FY19-21F CAGR of ~84%.

2. Adjusted revenue

Shopee: Adjusted revenue (US\$m)



Source: DBS Bank

E-commerce segment’s adjusted revenue is a non-GAAP (Generally Accepted Accounting Principle) measure which combines sales revenue of the e-commerce segment (consisting of adjusted marketplace revenue and adjusted product revenue) with the net effect of sales incentives. Shopee’s adj. revenue of the e-commerce segment comprise

50% from commission revenue and the remaining from value added services.

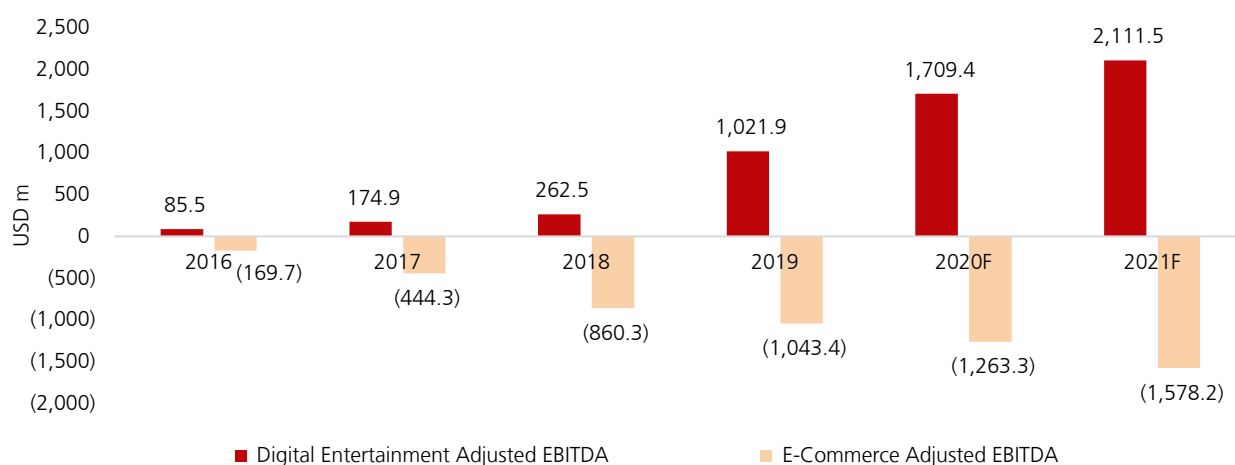
We expect e-commerce segment’s adjusted revenue to reach US\$4.4bn by FY21F, growing at a FY19-21F CAGR of ~117, accelerated by COVID-19 movement restrictions and the rising popularity of cross-border e-commerce purchases.

Adj. revenue and EBITDA estimates

	17A	18A	19A	20F	21F
Adjusted Revenue					
Digital Entertainment	495.9	661.0	1,767.4	2,713.4	3,640.6
E-Commerce & Other Services	41.4	374.2	1,138.0	2,725.5	4,721.0
Digital Financial Services	16.3	13.5	11.2	80.0	156.0
	553.6	1,048.7	2,916.6	5,518.9	8,517.6
Adjusted EBITDA					
Digital Entertainment	174.9	262.5	1,021.9	1,709.4	2,111.5
E-Commerce & Other Services	(462.5)	(914.4)	(1,071.4)	(1,336.8)	(1,637.0)
Digital Financial Services	(36.7)	(32.2)	(113.4)	(420.6)	(428.0)
Unallocated expenses	(36.5)	(68.1)	(132.8)	-	-
Share based compensation	28.6	58.1	117.1	-	-
	(332.1)	(694.0)	(178.6)	(47.9)	46.6

Source: DBS Bank

Digital entertainment vs. E-commerce adjusted EBITDA



Source: Company, DBS Bank

We maintain BUY at a TP of US\$190. Following the 2Q20 results, we believe that Sea will continue to reap more benefits out of its first self-developed game Free Fire, with a record high of 49.9m in quarterly paying users in 2Q20, paired with garnering market share in its ecommerce arm.

Since Sea operates in three distinct business segments, we have used sum-of-the-parts (SOTP) as the valuation methodology in arriving at our valuation of US\$92bn or US\$190 per share.

		Amount (US\$m)	Multiple	Enterprise Value (US\$m)	Per Share (US\$)
Digital Entertainment	P/12-month forward earnings	1,652	25.0	41,297	84.67
E-commerce and other service	P/12-month forward GMV (Gross Merchandise Value)	47,420	1.0	47,420	97.23
Digital Financial Services	EV/12-month forward revenue	118.0	17.6	2,071	4.25
Total Enterprise Value				90,788	186.14
Net cash/(debt)				1,645	3.39
Minority interest				(10)	
Equity Value				92,432	
Number of shares (m)				487.74	
Price per share				189.51	

Source: DBS Bank

We value Digital Entertainment (DE) at US\$41bn (US\$85 per share), at EV/12-month forward earnings multiple of 25.0x.

Earlier, we used the EV/EBIT (enterprise value to earnings before interest and taxes) multiple to determine the valuation for the DE segment but since the DE segment's earnings have displayed robust growth over the last seven quarters, we believe the PE (Price to Earnings) multiple might reflect an appropriate valuation for the DE segment. The PE multiple of 25.0x is based on a 60%/40% split between gaming developers and publishers. The weightages are in line with company's long-term earnings expectations.

Peer Analysis – Digital Entertainment (Garena)

Company Name	12-month forward
Major Gaming Developers	
Nintendo Co Ltd	21.08
Activision Blizzard Inc	24.98
Take Two Interactive Software	34.69
NetEase Inc	24.16
NHN Entertainment Corp	19.79
Average	24.94
Major Gaming Publishers	
Square Enix	21.7
NCSOFT	22.2
Nexon	19.5
Netmarble	47.6
Average	24.2
Long term game development	60%
Long term game publishing	40%
P/E	24.6

Source: DBS Bank

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We value the e-commerce (EC) arm at US\$47bn (US\$97 per share), at a P/12-month forward GMV of 1.0x. The multiple of 1.0x is based on Chinese and global peers that are in line with Shopee’s growth profile. Chinese peers are trading at P/12-month forward GMV multiples of 0.3-0.6x while global peers are trading at multiples averaging ~3.0x. Given Sea’s market concentration in South East Asia, we have given the global peer multiples a discount of 50%.

Shopee’s major categories ‘Fashion’ and ‘Beauty’ are starting to pick up despite being discretionary product segments and are expected to further contribute to Shopee’s top line. We believe GMV-based metrics are more suitable to value Shopee at this juncture, given the 66%+ projected growth in GMV over the next three years. We do not opt for earnings-based multiples due to lack of clarity as to when Shopee would generate positive EBITDA. We have switched from sales-based metrics to GMV-based metrics given the management’s continued focus on gaining market share at the cost of commissions revenue.

Peer Analysis – E-commerce

Company Name	Price to 12-month forward GMV	Discount	Multiple
Major E-commerce players			
JD.com	0.32	0%	0.32
Mercadolibre	2.81	50%	1.40
Amazon	3.20	50%	1.60

P/GMV 0.99

Source: DBS Bank

We value digital financial services (DFS) segment at US\$2bn (US\$4.3 per share). Taking account of the growth potential of SeaMoney and its value add to Sea’s ecosystem, we value SeaMoney at an EV/FY21F adjusted revenue multiple of

17.6x, resulting in a valuation of US\$2,071m. Looking ahead, Sea expects to see significant growth in digital payments during 2020 as more people shop online due to the COVID-19 movement restrictions which in turn have opened up demand for digital payment options. However, we believe that SeaMoney or the DFS segment will continue to report adjusted EBITDA losses for another two years owing to aggressive competition.

Peer Analysis – Digital Financial Services (SeaMoney)

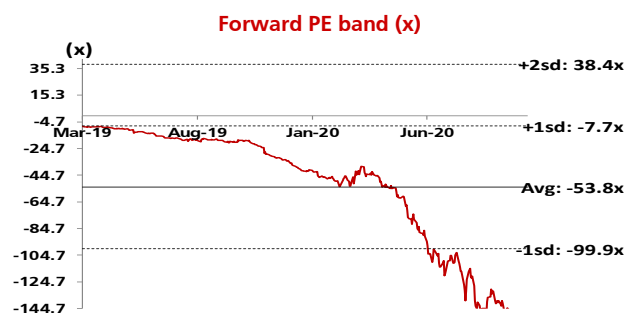
Company Name	Forward Enterprise Value to Sales (EV/Sales)
PayPal Holdings Inc	12.23
Mastercard Inc	21.21
Visa Inc	19.22
Average	17.55
EV/Sales	17.6x

Source: 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.

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Annual active users of	170	314	456	547	602
Shopee Orders (m)	605	1,212	2,666	4,532	6,344
Shopee Merchandise	17.0	14.5	13.3	13.1	12.8

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (US\$m)					
Digital Entertainment	462	1,136	2,491	3,290	3,769
E-Commerce	270	834	2,297	4,099	6,039
Digital Financial Services	11.5	9.22	80.0	156	254
Others	0.0	0.0	0.0	0.0	0.0
	83.5	196	245	294	323
Total	827	2,175	5,113	7,839	10,385

Income Statement (US\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	827	2,175	5,113	7,839	10,385
Cost of Goods Sold	(812)	(1,570)	(3,100)	(4,531)	(5,544)
Gross Profit	14.8	605	2,013	3,309	4,841
Other Opng (Exp)/Inc	(1,004)	(1,496)	(2,408)	(3,764)	(4,840)
Operating Profit	(989)	(891)	(396)	(455)	0.79
Other Non Opg (Exp)/Inc	54.7	(463)	0.0	0.0	0.0
Associates & JV Inc	(3.1)	(3.2)	(3.2)	(3.2)	(3.2)
Net Interest (Exp)/Inc	(19.8)	(14.3)	(47.3)	(47.3)	(47.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(957)	(1,372)	(446)	(506)	(49.8)
Tax	(4.1)	(85.9)	(2.2)	(2.5)	(0.3)
Minority Interest	(0.2)	(5.1)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(961)	(1,463)	(449)	(509)	(50.0)
Net Profit before Except.	(961)	(1,463)	(449)	(509)	(50.0)
EBITDA	(910)	(770)	(215)	(215)	334
Growth					
Revenue Gth (%)	99.7	163.1	135.0	53.3	32.5
EBITDA Gth (%)	(97.2)	15.4	72.1	0.0	nm
Opg Profit Gth (%)	96.8	(9.9)	(55.6)	15.1	(100.2)
Net Profit Gth (Pre-ex) (%)	(71.5)	(52.2)	69.3	(13.4)	90.2
Margins & Ratio					
Gross Margins (%)	1.8	27.8	39.4	42.2	46.6
Opg Profit Margin (%)	(119.6)	(41.0)	(7.7)	(5.8)	0.0
Net Profit Margin (%)	(116.2)	(67.2)	(8.8)	(6.5)	(0.5)
ROAE (%)	(851.1)	(318.2)	(47.8)	(110.6)	(27.7)
ROA (%)	(46.0)	(39.4)	(8.0)	(7.9)	(0.7)
ROCE (%)	(83.8)	(45.4)	(14.7)	(20.5)	0.0
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	N/A
Net Interest Cover (x)	(50.0)	(62.4)	(8.4)	(9.6)	0.0

Source: Company, DBS Bank

SEA Ltd

Quarterly Income Statement (US\$m)

FY Dec	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	436	610	777	715	882
Cost of Goods Sold	(339)	(407)	(512)	(508)	(681)
Gross Profit	97.4	203	265	207	201
Other Oper. (Exp)/Inc	(332)	(391)	(495)	(475)	(574)
Operating Profit	(235)	(187)	(230)	(268)	(373)
Other Non Opg (Exp)/Inc	1.93	9.08	(0.6)	26.6	45.0
Associates & JV Inc	(1.1)	(1.1)	(0.7)	(1.1)	(0.5)
Net Interest (Exp)/Inc	0.62	(1.1)	(7.8)	(15.3)	(37.4)
Exceptional Gain/(Loss)	(31.8)	1.77	(6.8)	(0.1)	0.0
Pre-tax Profit	(265)	(179)	(246)	(258)	(366)
Tax	(15.3)	(27.4)	(36.0)	(23.2)	(27.8)
Minority Interest	(1.0)	(1.5)	(1.9)	(0.7)	0.57
Net Profit	(281)	(208)	(284)	(282)	(393)
Net profit bef Except.	(249)	(209)	(277)	(281)	(393)
EBITDA	(205)	(155)	(196)	(230)	(331)

Growth

Revenue Gth (%)	24.0	39.9	27.4	(8.0)	23.4
EBITDA Gth (%)	3.8	24.5	(26.1)	(17.4)	(44.1)
Opg Profit Gth (%)	(2.0)	(20.1)	22.7	16.4	39.3
Net Profit Gth (Pre-ex) (%)	(1.9)	(16.0)	32.3	1.6	39.6

Margins

Gross Margins (%)	22.3	33.3	34.1	28.9	22.8
Opg Profit Margins (%)	(53.8)	(30.7)	(29.6)	(37.4)	(42.3)
Net Profit Margins (%)	(64.4)	(34.0)	(36.5)	(39.4)	(44.6)

Balance Sheet (US\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	192	319	368	503	675
Invts in Associates & JVs	26.3	35.5	32.3	29.0	25.8
Other LT Assets	263	460	800	1,298	1,951
Cash & ST Invts	1,004	3,221	3,315	3,290	3,643
Inventory	37.7	26.9	63.3	97.1	129
Debtors	97.8	187	440	674	893
Other Current Assets	572	975	975	975	975
Total Assets	2,193	5,224	5,992	6,866	8,291
ST Debt	0.86	57.6	57.6	57.6	57.6
Creditor	37.2	69.4	163	250	331
Other Current Liab	1,148	2,235	3,358	4,654	6,048
LT Debt	1,063	1,501	1,501	1,501	1,501
Other LT Liabilities	183	188	188	188	188
Shareholder's Equity	(243)	1,162	714	205	155
Minority Interests	3.68	10.2	10.2	10.2	10.2
Total Cap. & Liab.	2,193	5,224	5,992	6,866	8,291
Non-Cash Wkg. Capital	(478)	(1,116)	(2,044)	(3,158)	(4,383)
Net Cash/(Debt)	(60.2)	1,663	1,756	1,732	2,085
Debtors Turn (avg days)	35.2	23.9	22.4	25.9	27.5
Creditors Turn (avg days)	11.4	13.4	14.5	17.6	20.4
Inventory Turn (avg days)	11.8	8.1	5.6	6.8	7.9
Asset Turnover (x)	0.4	0.6	0.9	1.2	1.4
Current Ratio (x)	1.4	1.9	1.3	1.0	0.9
Quick Ratio (x)	0.9	1.4	1.0	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	16.7	15.8	36.6	56.1	74.3

Issue of ADSs in FY19 to support expansion in the near term.

Source: Company, DBS Bank

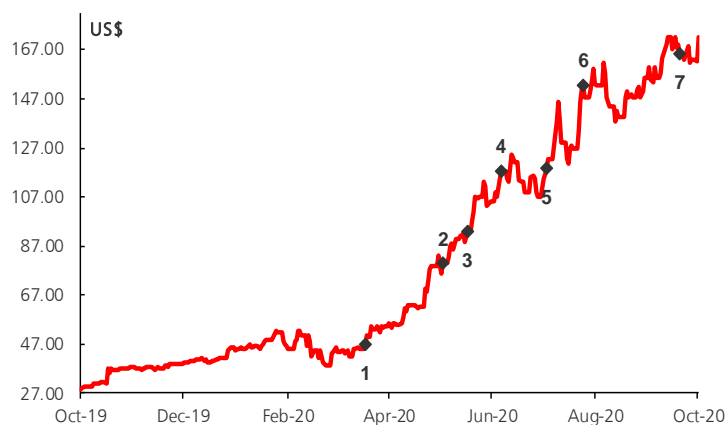
SEA Ltd

Cash Flow Statement (US\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	(957)	(1,372)	(446)	(506)	(49.8)
Dep. & Amort.	103	188	181	241	333
Tax Paid	(4.1)	(85.9)	(27.2)	(2.2)	(2.5)
Assoc. & JV Inc/(loss)	3.07	3.24	3.24	3.24	3.24
Chg in Wkg.Cap.	373	738	953	1,114	1,227
Other Operating CF	(171)	403	0.0	0.0	0.0
Net Operating CF	(654)	(125)	664	849	1,511
Capital Exp.(net)	(178)	(246)	(570)	(874)	(1,158)
Other Invt.(net)	(69.6)	(117)	0.0	0.0	0.0
Invt 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	22.7	0.0	0.0	0.0	0.0
Net Investing CF	(225)	(363)	(570)	(874)	(1,158)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	564	1,041	0.0	0.0	0.0
Capital Issues	4.57	1,538	0.0	0.0	0.0
Other Financing CF	(22.2)	0.0	0.0	0.0	0.0
Net Financing CF	547	2,580	0.0	0.0	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(332)	2,091	93.3	(24.8)	353
Opg CFPS (US cts.)	(302)	(198)	(62.6)	(57.2)	61.5
Free CFPS (US cts.)	(244)	(85.0)	20.2	(5.4)	76.4

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Apr 20	46.99	59.76	BUY
2:	29 May 20	79.80	72.46	HOLD
3:	12 Jun 20	92.98	72.50	FULLY VALUED
4:	02 Jul 20	117.62	72.50	SELL
5:	29 Jul 20	118.69	72.50	SELL
6:	20 Aug 20	152.64	183.00	BUY
7:	16 Oct 20	165.20	190.00	BUY

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

Source: DBS Bank

Analyst: Sachin MITTAL

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

Completed Date: 29 Oct 2020 08:26:43 (SGT)

Dissemination Date: 29 Oct 2020 09:18:10 (SGT)

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com