

BUY

# Sea Ltd. (SE)

## 1Q24 Earnings Review: Strong bottom-line beat but maintain our Shopee breakeven at 3Q24E as it reinvests to strengthen its moats

SE	12m Price Target: <b>\$86.00</b>	Price: <b>\$64.46</b>	Upside: <b>33.4%</b>
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Sea reported 1Q24 results. Our key takeaways from the print are as follows. **Ecommerce adj. EBITDA loss delivered a strong beat at -US\$22mn** (GSe -US\$94mn/consensus -US\$128mn), **implying over US\$200mn qoq improvement** (notably with ongoing improvement in live commerce unit economics); with Shopee also achieving **record-high order volume, GMV, and revenue this quarter** (though this partly came from higher seasonality, e.g., Ramadan uplift in Indonesia, whereas **Q2 is expected to be the lowest seasonality quarter**). Despite lingering uncertainty on the competitive environment, management remains **confident in Shopee’s ability to defend its market leadership through its operational moats** (in-house logistics servicing enabling superior unit economics, price competitiveness including vs cross border entrants) while **reiterating its FY24 guidance & 2-3% EBITDA/GMV long-term margin target**. Management also shared how Shopee/Tiktok both have been able to see share gains, which have come at the expense of **share loss among weaker peers Lazada/Tokopedia standalone**. **Gaming also delivered a strong beat with 57.1% EBITDA margins on Free Fire’s strong performance**, though the priority is to ensure the title’s longevity as an **evergreen franchise** (vs incremental margin expansion).

We expect the **near-term debate** to continue revolving around changes in **competitive intensity** & impact on **Shopee’s breakeven**, which **we still expect to come by 3Q24E** (despite Q1’s beat, as our latest checks suggest Shopee is still reinvesting incremental profits in Q2; **hence we do not expect immediate breakeven**). We also believe the debate will start **shifting from only focusing on what Tiktok will do to what Shopee can achieve**.

**Pang Vittayaamnuykoon**  
+65-6889-2470 | pang.vit@gs.com  
Goldman Sachs (Singapore) Pte

**Kelsey Santoso**  
+65-6889-2473 | kelsey.santoso@gs.com  
Goldman Sachs (Singapore) Pte

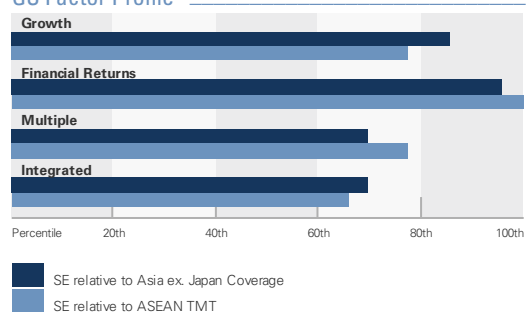
### Key Data

Market cap:	\$38.2bn
Enterprise value:	\$33.9bn
3m ADTV:	\$378.8mn
Singapore	ASEAN TMT
M&A Rank:	3
Leases incl. in net debt & EV?:	No

### GS Forecast

	12/23	12/24E	12/25E	12/26E
<b>Revenue (\$ mn) New</b>	<b>13,062.9</b>	<b>15,511.2</b>	<b>18,580.5</b>	<b>20,513.7</b>
Revenue (\$ mn) Old	13,062.9	15,307.5	18,027.2	19,961.8
EBITDA (\$ mn)	788.0	903.1	2,297.2	3,721.7
<b>EPS (\$) New</b>	<b>0.94</b>	<b>2.20</b>	<b>5.09</b>	<b>7.46</b>
EPS (\$) Old	0.94	2.35	4.36	6.32
P/E (X)	61.0	29.3	12.7	8.6
P/B (X)	5.2	5.3	4.4	3.4
Dividend yield (%)	0.0	0.0	0.0	0.0
CROCI (%)	65.9	21.9	65.0	108.3
	<b>3/24</b>	<b>6/24E</b>	<b>9/24E</b>	<b>12/24E</b>
EPS (\$)	0.36	0.50	0.63	0.71

### GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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**Sea Ltd. (SE)**

Rating since Nov 14, 2017

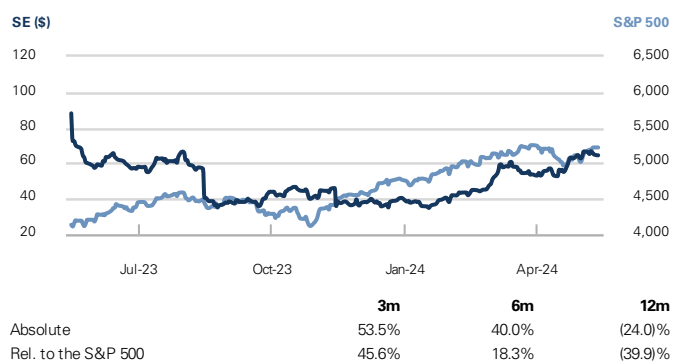
**Ratios & Valuation**

	12/23	12/24E	12/25E	12/26E
P/E (X)	61.0	29.3	12.7	8.6
P/B (X)	5.2	5.3	4.4	3.4
FCF yield (%)	5.3	3.0	6.4	9.9
EV/EBITDAR (X)	25.4	17.9	9.0	5.7
EV/EBITDA (excl. leases) (X)	25.4	17.9	9.0	5.7
CROCI (%)	65.9	21.9	65.0	108.3
ROE (%)	2.4	4.7	22.2	29.8
Net debt/equity (%)	(59.1)	(62.5)	(77.5)	(86.4)
Net debt/equity (excl. leases) (%)	(59.1)	(62.5)	(77.5)	(86.4)
Interest cover (X)	8.3	11.7	46.7	83.1
Days inventory outst, sales	3.3	3.2	3.3	3.8
Receivable days	7.4	6.8	6.7	6.9
Days payable outstanding	15.2	13.1	11.4	11.8
DuPont ROE (%)	2.2	4.5	19.9	25.9
Turnover (X)	0.7	0.8	0.8	0.8
Leverage (X)	2.8	2.9	2.6	2.3
Gross cash invested (ex cash) (\$)	2,454.2	2,764.4	2,493.1	2,474.7
Average capital employed (\$)	531.0	2,681.0	2,274.0	1,729.7
BVPS (\$)	11.09	12.06	14.65	19.11

**Growth & Margins (%)**

	12/23	12/24E	12/25E	12/26E
Total revenue growth	4.9	18.7	19.8	10.4
EBITDA growth	211.9	14.6	154.4	62.0
EPS growth	131.0	134.2	131.6	46.6
DPS growth	NM	NM	NM	NM
EBIT margin	2.6	3.0	10.1	16.3
EBITDA margin	6.0	5.8	12.4	18.1
Net income margin	1.1	2.0	9.1	14.2

**Price Performance**



Source: FactSet. Price as of 13 May 2024 close.

**Income Statement (\$ mn)**

	12/23	12/24E	12/25E	12/26E
Total revenue	13,062.9	15,511.2	18,580.5	20,513.7
Cost of goods sold	(7,229.9)	(8,793.7)	(9,721.0)	(9,887.1)
SG&A	(2,779.2)	(3,385.2)	(3,899.9)	(4,030.8)
R&D	(1,164.1)	(1,203.3)	(1,226.9)	(1,223.1)
Other operating inc./.(exp.)	(1,547.6)	(1,660.1)	(1,857.4)	(2,035.3)
<b>EBITDA</b>	<b>788.0</b>	<b>903.1</b>	<b>2,297.2</b>	<b>3,721.7</b>
Depreciation & amortization	(446.0)	(434.2)	(421.9)	(384.4)
<b>EBIT</b>	<b>342.0</b>	<b>468.9</b>	<b>1,875.3</b>	<b>3,337.3</b>
Net interest inc./.(exp.)	290.2	308.6	333.8	453.8
Income/(loss) from associates	-	-	-	-
<b>Pre-tax profit</b>	<b>431.7</b>	<b>682.6</b>	<b>2,209.1</b>	<b>3,791.1</b>
Provision for taxes	(262.7)	(341.3)	(375.5)	(644.5)
Minority interest	(19.0)	(25.2)	(135.3)	(232.2)
Preferred dividends	-	-	-	-
<b>Net inc. (pre-exceptionals)</b>	<b>150.0</b>	<b>316.1</b>	<b>1,698.2</b>	<b>2,914.3</b>
Post-tax exceptionals	-	-	-	-
<b>Net inc. (post-exceptionals)</b>	<b>150.0</b>	<b>316.1</b>	<b>1,698.2</b>	<b>2,914.3</b>
<b>EPS (basic, pre-exception) (\$)</b>	<b>0.25</b>	<b>0.55</b>	<b>2.94</b>	<b>5.00</b>
<b>EPS (diluted, pre-exception) (\$)</b>	<b>0.25</b>	<b>0.55</b>	<b>2.94</b>	<b>5.00</b>
<b>EPS (basic, post-exception) (\$)</b>	<b>0.25</b>	<b>0.55</b>	<b>2.94</b>	<b>5.00</b>
<b>EPS (diluted, post-exception) (\$)</b>	<b>0.25</b>	<b>0.55</b>	<b>2.94</b>	<b>5.00</b>
DPS (\$)	-	-	-	-
Div. payout ratio (%)	0.0	0.0	0.0	0.0

**Balance Sheet (\$ mn)**

	12/23	12/24E	12/25E	12/26E
Cash & cash equivalents	4,221.4	4,634.6	6,899.3	9,968.1
Accounts receivable	262.7	312.4	370.5	405.0
Inventory	125.4	148.2	191.1	234.2
Other current assets	7,164.4	7,898.0	8,037.8	8,654.8
<b>Total current assets</b>	<b>11,773.9</b>	<b>12,993.3</b>	<b>15,488.7</b>	<b>19,262.1</b>
Net PP&E	1,207.7	1,092.5	1,053.3	1,128.2
Net intangibles	50.8	36.6	22.4	8.2
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	5,850.8	5,852.4	5,853.9	5,859.9
<b>Total assets</b>	<b>18,883.2</b>	<b>19,974.8</b>	<b>22,418.3</b>	<b>26,258.5</b>
Accounts payable	342.5	288.5	317.2	322.9
Short-term debt	146.7	146.7	146.7	146.7
Short-term lease liabilities	-	-	-	-
Other current liabilities	7,679.8	8,534.4	9,386.4	10,538.8
<b>Total current liabilities</b>	<b>8,169.0</b>	<b>8,969.6</b>	<b>9,850.3</b>	<b>11,008.3</b>
Long-term debt	119.3	119.3	119.3	119.3
Long-term lease liabilities	-	-	-	-
Other long-term liabilities	3,897.4	3,897.4	3,897.4	3,897.4
<b>Total long-term liabilities</b>	<b>4,016.7</b>	<b>4,016.7</b>	<b>4,016.7</b>	<b>4,016.7</b>
<b>Total liabilities</b>	<b>12,185.7</b>	<b>12,986.3</b>	<b>13,867.0</b>	<b>15,025.0</b>
Preferred shares	-	-	-	-
Total common equity	6,593.8	6,884.7	8,447.6	11,129.7
<b>Minority interest</b>	<b>103.8</b>	<b>103.8</b>	<b>103.8</b>	<b>103.8</b>
<b>Total liabilities &amp; equity</b>	<b>18,883.2</b>	<b>19,974.8</b>	<b>22,418.3</b>	<b>26,258.5</b>
Net debt, adjusted	(3,955.4)	(4,368.6)	(6,623.3)	(9,702.2)

**Cash Flow (\$ mn)**

	12/23	12/24E	12/25E	12/26E
Net income	150.0	316.1	1,698.2	2,914.3
D&A add-back	446.0	434.2	421.9	384.4
Minority interest add-back	(12.0)	(25.2)	(135.3)	(232.2)
Net (inc)/dec working capital	849.1	699.8	790.1	1,096.4
Other operating cash flow	646.5	0.0	0.0	-
<b>Cash flow from operations</b>	<b>2,079.7</b>	<b>1,424.9</b>	<b>2,774.9</b>	<b>4,162.9</b>
Capital expenditures	(265.8)	(319.0)	(382.8)	(459.3)
Acquisitions	14.2	14.2	14.2	14.2
Divestitures	-	-	-	-
Others	(1,688.1)	-	-	-
<b>Cash flow from investing</b>	<b>(5,804.5)</b>	<b>(1,011.7)</b>	<b>(520.3)</b>	<b>(1,084.0)</b>
Repayment of lease liabilities	-	-	-	-
Dividends paid (common & pref)	-	-	-	-
Inc/(dec) in debt	-	-	-	-
Other financing cash flows	358.0	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>358.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total cash flow</b>	<b>(3,366.7)</b>	<b>413.2</b>	<b>2,254.7</b>	<b>3,078.9</b>
Free cash flow	1,813.9	1,105.9	2,392.2	3,703.6

Source: Company data, Goldman Sachs Research estimates.

## Ecommerce

- GMV up +2% qoq/+36% yoy to US\$23.5bn (+2% vs GSe/+5% vs consensus) as Shopee continues to deliver solid growth momentum while improving the bottom line with adj. EBITDA loss narrowing from -US\$225mn in 4Q23 to -US\$22mn. While the +57% yoy order volume growth implies AOV decline, management commented that AOV fluctuations are largely a function of country mix (as opposed to structural/fundamental factors).
  - **Asia markets** adj. EBITDA turned back to positive at US\$11.5mn in the quarter vs -US\$192.9mn in 4Q23/US\$275.8mn in 1Q23. Management continues to see its leadership in terms of market share and expects to be at least 2x larger vs other players in the market.
    - In ASEAN, management sees the competitive landscape becoming more rational. Hypothetically if competitors become more irrational, management says that they are always willing to make the best decision for longer-term opportunities. However, given the current competitive advantages that Shopee has invested on (e.g., in logistics / live streaming), management sees the likelihood of an extreme reaction being small, as Shopee has additional levers to pull.
    - In Taiwan in particular, despite new entrant CPNG, management still sees Shopee's market share being stable.
  - **Other markets** recorded adj. EBITDA of -US\$33.2mn vs -US\$32.4mn in 4Q23/-US\$68.1mn in 1Q23, with unit economics reflecting sustained improvement in Brazil where loss per order narrowed 88% yoy to -US\$0.04 in 1Q24 (vs -US\$0.05 in 4Q23 and -US\$0.10 in Q3). Management said that they still see further growth upside in Brazil where they are currently bigger than MELI in terms of number of orders but are still 1/3 the size in term of GMV.
  - Management shared that **Shopee Live** continues to see strong uptake (while c.15% penetration of Asia orders is in line with December levels, 1Q24 being an all-time-high quarter for Shopee's orders imply continued growth on absolute basis) in tandem with improving unit economics.
  - In regard to Temu, management sees itself having much better price competitiveness, especially as Temu relies on a cross-border model.
- **Looking ahead, we expect FY24E GMV growth of 22%** (vs reiterated guidance of high teens), with qoq trends influenced by seasonality factors. Following the uplift in Q1 (particularly Ramadan in Indonesia & Chinese New Year in other Asia markets), management expects Q2 to be a seasonally weaker quarter - GSe GMV -3% qoq/+27% yoy. Beyond near-term debates on the **path to breakeven** (which **we still expect to come by 3Q24E / not immediate breakeven** with our latest tracking suggesting Shopee is still reinvesting in Q2 - see below), the company still sees a **2-3% EBITDA/GMV long-term margin target** being achievable, with ample monetization headroom from commission & advertising take rates. In particular, management said that they still see meaningful room for ads take rate to improve,

as Shopee ADs take rate is still far below peers in China and US. They are looking to achieve this through 1) driving higher seller participation - by continuing to develop simpler products for all sellers, 2) increasing ad efficiency through better technology - increasing the conversion rate so they can serve more ad users, and 3) improving organic app traffic.

- During the call, management also shared its operational focus for Shopee, including on **further improving price competitiveness** (by working closely with sellers) & **service quality** which encompasses its in-house logistics **Shopee Express** (servicing **over 50%/70% orders in Asia/Brazil**, per management) with the company recently placing additional focus on next-day deliveries & streamlining the returns/refund process - all in efforts to solidify Shopee's ecosystem advantages on both buyer/seller fronts. SPX (Shopee express) has become Shopee's key differentiator with c.70% of SPX orders in Asia delivered within 3 days of order placement. SPX cost per order also decreased by 15% for Asia and 23% for Brazil in 1Q24.
- On **consumer vouchers**, we have seen both Shopee & Tiktok giving more vouchers in early May ([Exhibit 1](#)) compared to the Ramadan peak in late March ([Exhibit 2](#)), though **Shopee appears to be taking a much more targeted approach** with most of the discount vouchers only applicable to certain store/seller types – e.g., Mall/B2C & C2C star sellers, which is also the case for Shopee's social commerce offerings e.g. discount vouchers applicable on listings by sellers subscribed under live xtra program (where sellers pay additional 3-5% commission), golden tick (new feature akin to verified account for creators selected by Shopee, which we believe is part of Shopee's **efforts to increase content quality**), and select categories (with [exclusion list](#) effective since end April specifying categories where live/video promotions are not applicable), alongside cashback vouchers more likely to induce repeat purchases (vs Tiktok which still relies on direct discount subsidies with less restrictions). Notably, our **price sampling** ([Exhibit 3](#)) shows that final cost to customer on Tiktok is currently c.8% cheaper than Shopee on average based on our products sampling, with total discount c.40%/30% on Tiktok/Shopee (despite both continuing to give comparable number of vouchers). Notably, higher spending on the consumer side would be **partly offset by ongoing rationalization on the merchant side** with commission hikes across all platforms (details [here](#)), with Tiktok/Tokopedia having raised their seller commissions since May 1 to match what Shopee has been charging in Indonesia.

**Exhibit 1: Indonesia ecommerce vouchers**

**Indonesia: 6 May 2024**

	Shopee	Tiktok	Tokopedia
<b>Product discount</b>			
- Number of vouchers	1, 2, 3 (mall, star, choice) / 1 (mall, choice)	3 / 26	1 / 1
- Minimum spend	IDR 50k, 50-300k, 0 / 200k	IDR 125k-1mn / 15-55k	IDR 100k
- Quantum	IDR 10k, 4-5%, 50-100% / 10%	IDR 11.2-90k / 7.5-35k	30% / 11%
- Cap	NA, IDR 100k, 10-50k / 100k	NA	IDR 15k / 100k
<b>Cashback</b>			
- Number of vouchers	2	-	-
- Minimum spend	IDR 50k	-	-
- Quantum	5-7%	-	-
- Cap	IDR 50-100k	-	-
<b>Shipping</b>			
- Number of vouchers	4 / 3	1	-
- Minimum spend	IDR 0 / 30k	IDR 25k	-
- Quantum	Freeship	IDR 15k	-
<b>Live/short video-specific</b>			
- Number of vouchers	5 (1 video, 4 live) / 2 (golden tick) / 3 (live xtra) / 3 (select category, 2 live + 1 video)	-	-
- Minimum spend	IDR 0 / 30k / 30-100k / 30-50k	-	-
- Quantum	Freeship / 15-20% / 15-30% / 10-12%	-	-
- Cap	NA / IDR 40k / 15-100k / 15-40k	-	-
<b>Total platform vouchers</b>	<b>29</b>	<b>30</b>	<b>2</b>

Showing platform-wide vouchers (excluding store-specific), some are limited to certain SKUs Total disc buyer receives would come from direct disc applied on listing (not reflected here) & vouchers collected For Shopee, vouchers may be limited to specific store/seller types where indicated

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 2: Indonesia ecommerce vouchers (prior, peak Ramadan)**

**Indonesia: Peak Ramadan sale vouchers (25 Mar 2024)**

	Shopee	Tiktok	Tokopedia
<b>Product discount</b>			
- Number of vouchers	1 / 1 / 2 (7-9pm)	3 / 15	2 / 2
- Minimum spend	IDR 100k / 50k / 0	IDR 400k-2mn / 23-145k	IDR 100k / 100k
- Quantum	10% / IDR 15k / 50%	IDR 50-240k / 5-27k	12-30% / 5-10%
- Cap	IDR 100k / NA / 5k	NA	IDR 30-100k / 300k
<b>Cashback</b>			
- Number of vouchers	2	-	1 / 1
- Minimum spend	IDR 15-100k	-	NA
- Quantum	10-50%	-	3% / 100%
- Cap	IDR 10-100k	-	IDR 5mn / 50k
<b>Shipping</b>			
- Number of vouchers	2 / 2 (12-2pm) / 2 (3-7pm)	1	1
- Minimum spend	IDR 0	IDR 0	IDR 0
- Quantum	Freeship	IDR 70k	IDR 5k
<b>Live/short video-specific</b>			
- Number of vouchers	2 (12-2pm, live xtra) / 1 (all live) / 1 (video) / 5	-	-
- Minimum spend	IDR 0	-	-
- Quantum	50-90% / 15% / 50% / freeship	-	-
- Cap	IDR 15k / 40k / 15k / NA	-	-
<b>Total platform vouchers</b>	<b>21</b>	<b>19</b>	<b>7</b>

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 3: Tiktok & Shopee Indonesia price comparison**

Data collected from both platforms' local Indonesian mobile app

Collected: 6 May 2024

Indonesia ecom price sampling (Rp)	List price		Disc price		Final cost		Total disc		Final cost (vs 8 Apr)		Final cost (vs 25 Mar)		Final cost (T) vs (S)
	Tiktok	Shopee	Tiktok	Shopee	Tiktok	Shopee	Tiktok	Shopee	Tiktok	Shopee	Tiktok	Shopee	
1 Somethinc calm down cream 30gr	142,000	142,000	129,000	103,200	124,360	99,109	-12%	-30%	6%	-20%	7%	25%	25%
2 Somethinc niacinamide serum 40ml	163,900	163,900	149,000	149,000	143,640	143,091	-12%	-13%	6%	16%	9%	15%	0%
3 Skintific 3pcs bundle glowing set	499,000	507,000	315,000	349,000	315,000	349,000	-37%	-31%	-10%	-1%	-7%	11%	-10%
4 Skintific ceramide cream 30gr	169,000	169,000	119,000	122,000	119,000	122,000	-30%	-28%	-14%	-12%	-5%	11%	-2%
5 Scarlett Whitening 3pc EDP bundle	225,000	225,000	183,000	183,000	183,000	175,000	-19%	-22%	1%	-4%	5%	10%	5%
6 Avoskin exfoliating toner 100ml	195,000	195,000	142,000	165,000	130,469	165,000	-33%	-15%	3%	15%	-1%	N/A	-21%
7 Avoskin exfoliating 2pc set	444,000	444,000	289,000	322,000	265,531	289,800	-40%	-35%	N/A	-7%	N/A	68%	-8%
8 SAFF&Co SOTB perfume	299,000	299,000	229,000	249,000	201,170	224,100	-33%	-25%	-6%	-9%	-6%	23%	-10%
9 SAFF&Co SOTB perfume mini	89,000	89,000	59,000	59,000	51,830	59,000	-42%	-34%	-3%	2%	1%	34%	-12%
10 Aerostreet black t-shirt	119,800	119,800	59,900	59,900	57,992	54,055	-52%	-55%	-3%	-6%	6%	48%	7%
11 Aerostreet black shoes	319,800	319,800	159,900	159,900	154,808	151,905	-52%	-53%	12%	-1%	6%	30%	2%
12 Jiniso high waist jeans, baggy	627,143	627,143	186,000	189,000	143,335	179,550	-77%	-71%	-9%	-10%	-5%	6%	-20%
13 Jiniso high waist jeans, loose	598,571	627,143	178,000	189,000	170,665	179,550	-71%	-71%	32%	-10%	19%	0%	-5%
14 Rabbani hijab innova (M)	74,800	74,800	50,194	62,084	26,336	57,919	-65%	-23%	-36%	-5%	-47%	8%	-55%
15 Rabbani hijab innova (XL)	89,800	89,800	73,636	74,534	38,636	69,534	-57%	-23%	-39%	-5%	-44%	5%	-44%
16 Tropicana slim stevia 50 sachets	69,000	69,000	58,900	62,700	58,900	62,700	-15%	-9%	8%	-1%	85%	40%	-6%
17 Samsung Galaxy A05 6/128GB	2,499,000	2,299,000	sold out	2,129,000	sold out	2,129,000	N/A	-7%	N/A	0%	N/A	-7%	N/A
18 Baby happy pants diaper M32	150,000	62,000	24,395	50,000	24,395	50,000	-84%	-19%	N/A	N/A	-25%	43%	-51%
<b>Median</b>							<b>-40%</b>	<b>-26%</b>	<b>-3%</b>	<b>-5%</b>	<b>0%</b>	<b>15%</b>	<b>-8%</b>
<b>Mean</b>							<b>-43%</b>	<b>-31%</b>	<b>-3%</b>	<b>-4%</b>	<b>0%</b>	<b>22%</b>	<b>-12%</b>

Disc price = discounted directly on listing (without having to apply voucher), final cost = after applying any other applicable voucher; sampling is done on shelf/searched SKUs; Shipping cost/discount not shown above (free shipping voucher widely available on both platforms)

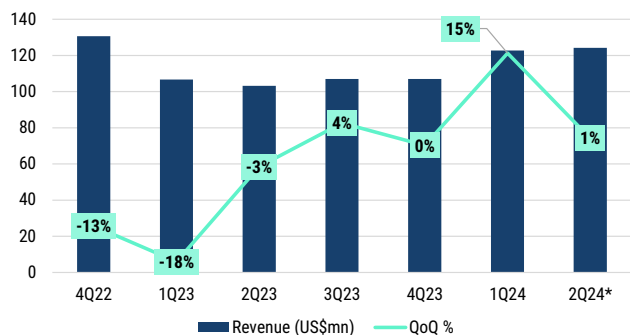
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

- While **uncertainty remains on how Tiktok's regulatory challenges in the US would affect its strategy here**, we believe **Shopee can continue maintaining its market leadership** given the following. **1)** In the near to medium term, both Shopee & Tiktok can **take share away from weaker players** – namely **Lazada**, where our channel checks indicate that it continues to lose market share with the company now focusing on cutting down losses while adopting a centralized (instead of localized) strategy. Notably, **app data tracking** (see Exhibit 10) shows that Shopee commands higher MAU vs Tiktok across most markets (with the gap widening since 3Q23 which coincides with Shopee's strategic pivot to growth), while Lazada has been flat/declining (with Thailand/Philippines remaining the only 2 markets where it appears to have meaningful presence). **2) Long-term success** hinges on having **sustainable competitive moats**, where we see **Shopee's logistics** (enabling Shopee to have superior unit economics vs Tiktok which relies on 3PLs) & strong track record in **localization** (local management teams driving key operational decisions) giving it an edge over Tiktok. **3)** In our view, Bytedance would also have to weigh the potential ROI here against **ASEAN's smaller profitable TAM compared to what could've been captured in the US**, especially with the next stage of growth for Tiktok likely to turn more challenging, as it would have to expand into search-based commerce (where it has a limited track record).
- While we do not see **cross border** being the key opportunity set in ASEAN given regulators' strong stance against it in Indonesia (c.50% of the region's TAM) & wider assortment of affordable SKUs already available (vs large gap between cross border entrants & incumbent ecommerce platforms in developed markets), Shopee has recently rolled out a new **Shopee Choice** feature (where users can enjoy bundle discounts for low priced SKUs) with an adapted version in Indonesia (emphasis on best value *local* SKUs, instead of cross border) which we see as one of its pre-emptive measures against Temu (currently present in the Philippines & Malaysia).

# Gaming

- Garena delivered a **beat on top & bottom line** with gross billings +5% vs GSe/+7% vs consensus (driven by stronger than expected quarterly active users & pay ratio) and **57.1% EBITDA margins** significantly exceeding GSe/consensus at 50.9%/50.4% on Free Fire’s strong performance (with higher margin self-developed title contributing favourably to the mix). As with ecommerce, we note that Q1 included uplift from several regional holidays, e.g., Ramadan in Indonesia & Chinese New Year celebrated across Arena of Valor’s key markets including Taiwan (hence the spike in Feb, see [Exhibit 7](#)), whereas Q2 is expected to be a lower seasonality quarter.
- Despite the strong margin expansion in Q1, we tweak our quarterly forecasts for this year to reflect seasonality factors with S&M spending peaking towards year-end (hence lower EBITDA/bookings of 54.2% in 4Q24E), though we still expect Garena to sustain margins at c.55% over the long-term.
- In the longer term, we remain positive on Free Fire’s potential as a **long-lived franchise game**, with active user & bookings already on a recovery path alongside Garena’s efforts to sustain the franchise - including its newly announced collaboration with Japanese media conglomerate Kadokawa Corporation (9468.JP, not covered) to produce an **anime adaptation of Free Fire**. We note that Kadokawa has produced multiple successful anime movies including *Your Name* in 2016 & *Weathering with You* in 2019.

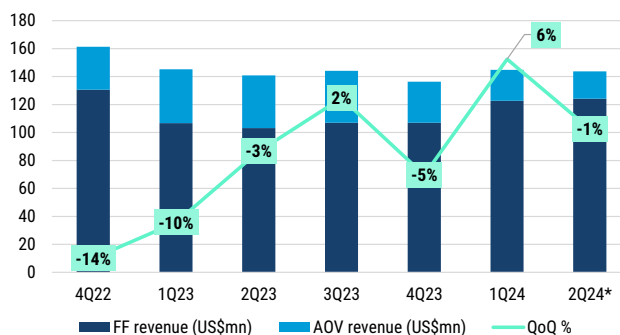
**Exhibit 4: Free Fire + Max: Quarterly net revenue (US\$m)**



\*2Q24 extrapolated using April data

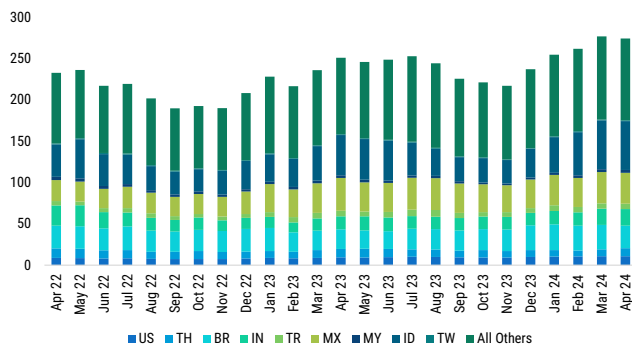
Source: SensorTower

**Exhibit 5: Free Fire + Arena of Valor: Quarterly net revenue (US\$m)**



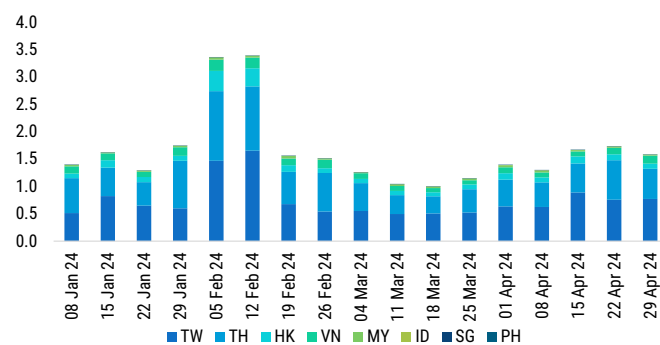
Source: SensorTower

Exhibit 6: Free Fire + Max: Monthly active user "MAU" (mn)



Source: SensorTower

Exhibit 7: Arena of Valor: Weekly net revenue (US\$m)



Source: SensorTower

## Fintech

- GAAP revenue came in line with expectations at US\$499mn with adj. EBITDA of US\$149mn (slightly above GSe US\$141mn/in line with consensus). This quarter, **Sea has started disclosing its off-balance sheet loans** outstanding at US\$0.6bn (mainly consists of channeling arrangements with financial institution partners) which together with US\$2.7bn on-book made up US\$3.3bn total gross loans outstanding (+29% yoy). While loan growth will continue to be a function of ecommerce GMV (main use case for BNPL), Sea is also looking to **expand the off-Shopee lending business**, e.g., cash loans & offline BNPL.
- Within the broader financials space in Indonesia, we've seen emerging asset quality concerns within the lower-income segment observed by other lenders namely incumbent bank BBRI that specializes in microloans (covered by Melissa Kuang) with our financials team expecting higher credit cost, slower loan growth, and margin pressure for the bank. While this may present risks to near-term loan growth, **we still see Sea as having the strongest fintech exposure among ASEAN internet platforms**, with proven track record as reflected by its loanbook of over US\$3bn vs Grab US\$326mn/GoTo US\$125mn as of FY23 (used as comparison with Grab yet to report 1Q24 results). On credit quality, Sea's NPL (>90 days past due) has also remained stable qoq at 1.4% in 1Q24.

## Estimates & Valuation

### What to do with the stock

Post-results, our group GAAP revenue for FY24-26E increases by 1-3% mainly from higher ecommerce & fintech top line, with our group adj. EBITDA changed from US\$1.6bn/US\$3.1bn/US\$4.4bn to US\$1.8bn/US\$3.4bn/US\$4.9bn on the better profitability outlook across segments. Overall, our 12-month SOTP-based TP shifts from US\$82 to US\$86 (valuation methodology unchanged).

**Exhibit 8: SE: Summary of estimate revisions**

Sea Ltd. (US\$m)	GS (New)			GS (Old)			% difference		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
<b>Group</b>									
GAAP revenue	15,511	18,581	20,514	15,308	18,027	19,962	1%	3%	3%
Adj. revenue	18,816	22,384	24,575	18,541	21,639	23,823	1%	3%	3%
Adj. EBITDA	1,816	3,398	4,921	1,644	3,052	4,365	10%	11%	13%
GAAP net income	316	1,698	2,914	520	1,508	2,547	-39%	13%	14%
Operating cash flow	1,425	2,775	4,163	1,621	2,473	3,766	-12%	12%	11%
<b>Ecommerce</b>									
GAAP revenue	11,467	14,121	15,695	11,243	13,491	14,858	2%	5%	6%
Adj. EBITDA	65	908	2,070	(41)	1,021	1,958	260%	-11%	6%
GMV	95,436	108,583	119,065	93,463	103,744	112,718	2%	5%	6%
# of orders (mn)	10,903	12,103	12,947	10,087	11,196	11,868	8%	8%	9%
AOV (US\$)	8.8	9.0	9.2	9.3	9.3	9.5	-6%	-3%	-3%
Marketplace take rate	10.7%	11.5%	11.5%	10.7%	11.5%	11.5%	-1bps	0bps	0bps
EBITDA / GMV margin	0.1%	0.8%	1.7%	0.0%	1.0%	1.7%	11bps	-15bps	0bps
<b>Gaming</b>									
GAAP revenue	1,822	1,889	1,941	1,799	1,903	2,031	1%	-1%	-4%
Gross billings	2,024	2,098	2,156	1,999	2,114	2,257	1%	-1%	-4%
Adj. EBITDA	1,118	1,158	1,189	1,016	1,074	1,146	10%	8%	4%
EBITDA / bookings margin	55.2%	55.2%	55.1%	50.8%	50.8%	50.8%	439bps	439bps	439bps
QAUs	596	602	606	559	564	569	7%	7%	7%
Pay ratio	8.0%	8.0%	8.0%	7.5%	7.7%	8.0%	45bps	30bps	0bps
ARPPU	10.7	10.9	11.1	11.9	12.2	12.4	-10%	-10%	-10%
<b>Fintech</b>									
GAAP revenue	2,105	2,465	2,783	2,068	2,338	2,629	2%	5%	6%
Lending revenue	2,017	2,285	2,465	1,966	2,152	2,328	3%	6%	6%
Adj. EBITDA	657	1,004	1,128	626	941	1,044	5%	7%	8%

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 9: SE: SOTP Summary**

	Current		EV/GTV (x)		EV/Sales (x)		EV/EBITDA (x)		Implied PE (x)		Rev. CAGR	Valuation Method
	Value (US\$ mn)	\$/sh % of NAV	24E	25E	24E	25E	24E	25E	24E	25E	21-24E	
GARENA	12,408	21 24%			6.8	6.6	11.1	10.7	13.9	13.4	-25%	DCF, 12%, 3%
SHOPEE	35,519	60 70%	0.4	0.3	3.1	2.5			NA	72.4	31%	
ASEAN+TW+HQ	30,667	52 60%	0.4	0.3	3.1	2.6					25%	DCF, 12%, 5%
Latam	4,852	8 10%	0.3	0.2	3.1	2.0						
SEAMONEY	16,838	28 33%	0.5	0.4	8.0	6.8	25.6	16.8			65%	8X 24E EV/S
SEA, CORE	64,764	109 127%	0.7	0.6	3.9	3.2			52	22	14%	
Net cash	3,303	6 6%										2023E net cash minus the convertible note out of strike
NAV, pre holdco discount	68,067	115 133%	0.7	0.6	4.1	3.4						
Holdco discount	(17,017)	(29) -33%										25% holdco discount
<b>Total SOTP</b>	<b>51,050</b>	<b>86 100%</b>	<b>0.5</b>	<b>0.4</b>	<b>3.0</b>	<b>2.6</b>	<b>28.1</b>	<b>15.0</b>	<b>41</b>	<b>17</b>	<b>14%</b>	
# of shares (mn)		593										FDS

Source: Goldman Sachs Global Investment Research

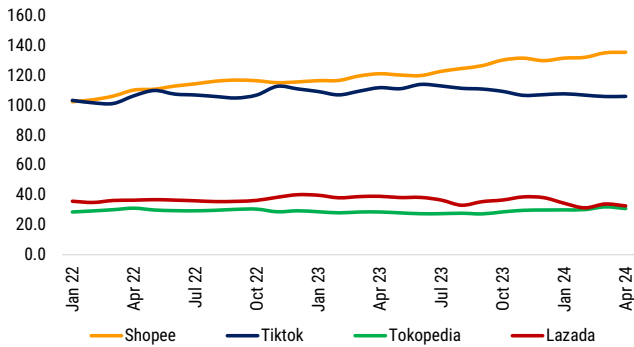
## Appendix: Tracking ecommerce app user trends

In this section, we leverage SensorTower app data to compare user trends across key ecommerce platforms across Shopee’s markets. We note that Tiktok refers to the company’s original social media app (as its shop function is embedded within the same app). Our key observations:

- Shopee commands higher MAU than Tiktok in most markets (Indonesia, Vietnam, Philippines, Malaysia, Singapore), notably extending its lead since Jul-23 which coincides with Shopee’s pivot back to a growth-led strategy in 3Q23. Elsewhere, Tiktok has the lead in Thailand & Brazil (though Shopee has already surpassed MercadoLibre’s MAU).

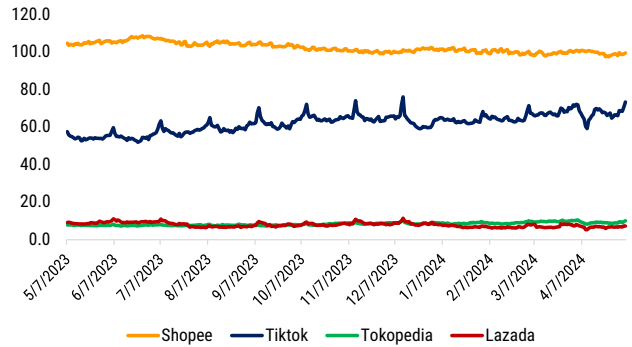
- While Tiktok still leads on DAU basis across most countries, Indonesia is the exception where Shopee has higher DAU.
- Thailand remains the only market where Lazada still has traction, elsewhere it's flat/declining with Shopee commanding sizeable lead.

**Exhibit 10: Indonesia ecommerce: Monthly active users (mn)**



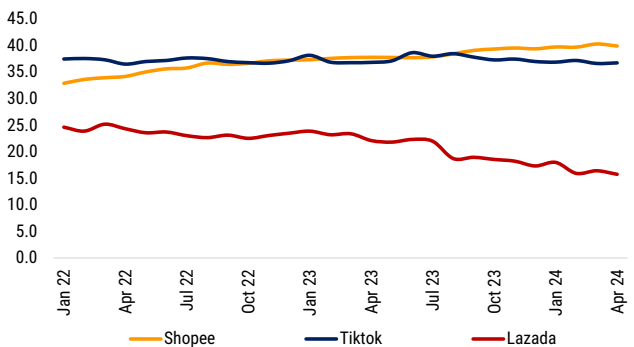
Source: SensorTower

**Exhibit 11: Indonesia ecommerce: Daily active users (mn)**



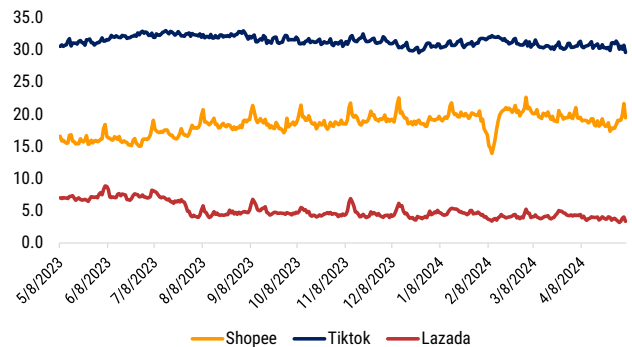
Source: SensorTower

**Exhibit 12: Vietnam ecommerce: Monthly active users (mn)**



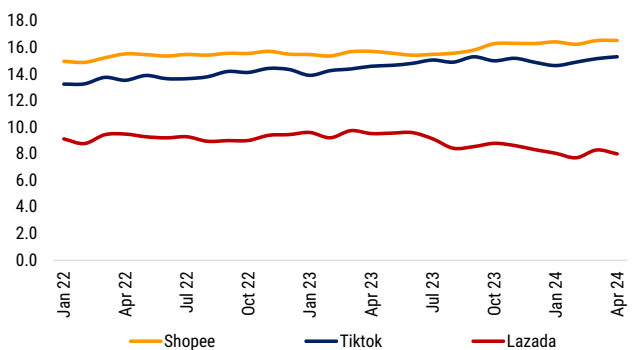
Source: SensorTower

**Exhibit 13: Vietnam ecommerce: Daily active users (mn)**



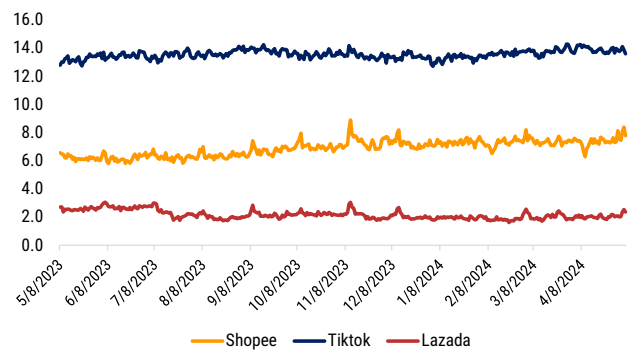
Source: SensorTower

**Exhibit 14: Malaysia ecommerce: Monthly active users (mn)**



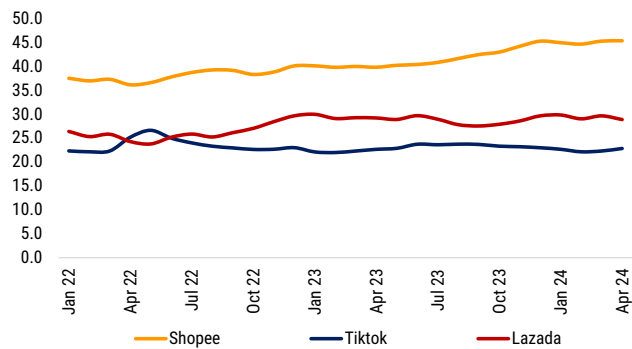
Source: SensorTower

**Exhibit 15: Malaysia ecommerce: Daily active users (mn)**



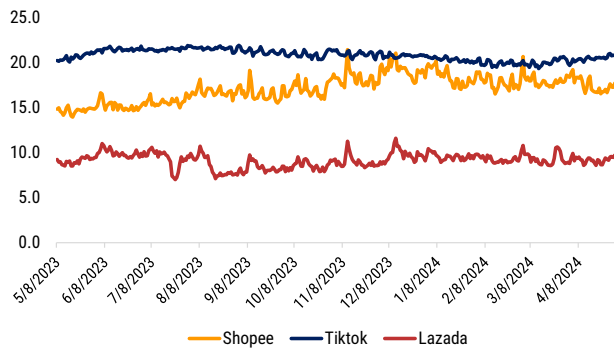
Source: SensorTower

**Exhibit 16: Philippines ecommerce: Monthly active users (mn)**



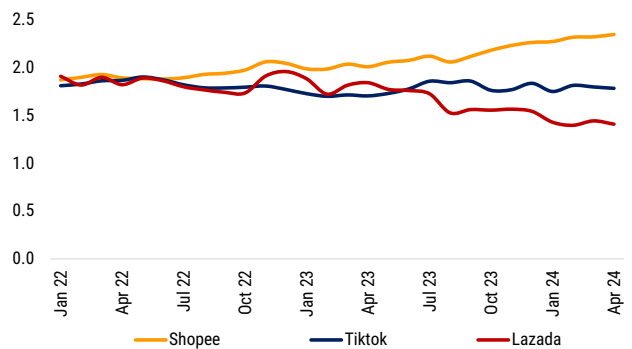
Source: SensorTower

**Exhibit 17: Philippines ecommerce: Daily active users (mn)**



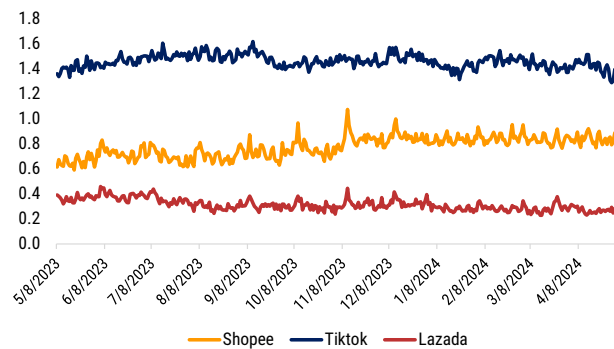
Source: SensorTower

**Exhibit 18: Singapore ecommerce: Monthly active users (mn)**



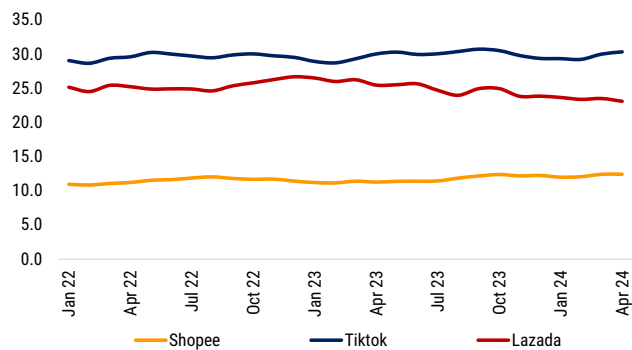
Source: SensorTower

**Exhibit 19: Singapore ecommerce: Daily active users (mn)**



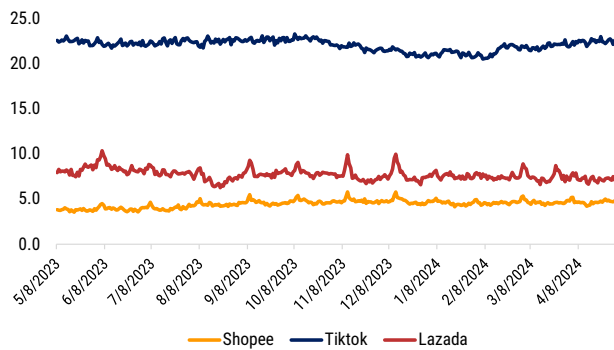
Source: SensorTower

**Exhibit 20: Thailand ecommerce: Monthly active users (mn)**



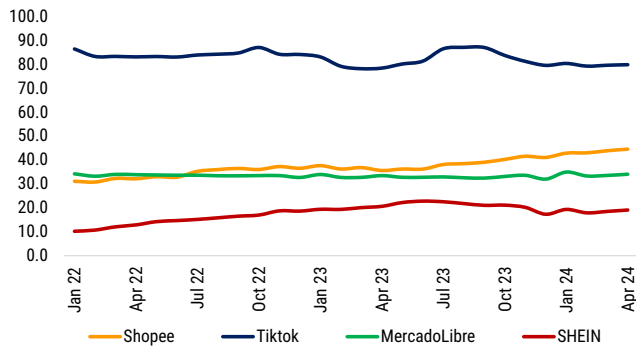
Source: SensorTower

**Exhibit 21: Thailand ecommerce: Daily active users (mn)**



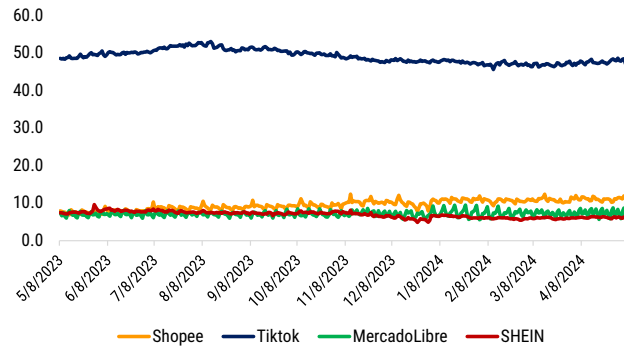
Source: SensorTower

**Exhibit 22: Brazil ecommerce: Monthly active users (mn)**



Source: SensorTower

**Exhibit 23: Brazil ecommerce: Daily active users (mn)**



Source: SensorTower

### Investment Thesis - Sea Ltd.

Sea is a leading Asia Internet company with #1 market share in terms of gaming revenues, e-commerce gross merchandise value, as well as a leading position in digital finance in Southeast Asia/Taiwan, and rapid expansion of its footprint in Brazil. **We see Sea as the winner of the growing gaming, e-commerce, and digital finance markets in Asia**, given its early mover advantage, solid track record and brand recognition in gaming, as well as its increasing monetization and profitability in e-commerce. We also see further upside potential from its successful move into LatAm.

While we acknowledge the **risk of heightened near-term volatility given limited visibility on the magnitude of Shopee’s spending**, we are **Buy rated with the stock having traded down significantly** and our scenario analysis implying risk-reward that is skewed to the upside.

### Price target risks and methodology - Sea Ltd.

**Valuation methodology:** Our 12-month, SOTP-based target price is US\$86 – using a DCF (12% WACC/3% TGR for gaming, 12%/5% for ASEAN+TW ecom, 14%/5% for LatAm ecom) and target EV/S (8x 2024E) for fintech, to which we apply a holdco discount of 25%, and net cash assuming SE has to buy back all its active convertible notes.

**Key risks:** 1) Higher than expected competition, including from global live commerce & cross border platforms; 2) macro & regulatory risks, FX volatility; 3) execution in new markets, e.g., Brazil; 4) inability to derive synergies across segments.

# Disclosure Appendix

## Reg AC

I, Pang Vittayaamnuykoon, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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Goldman Sachs had an investment banking services client relationship during the past 12 months with: Sea Ltd. (\$64.46)

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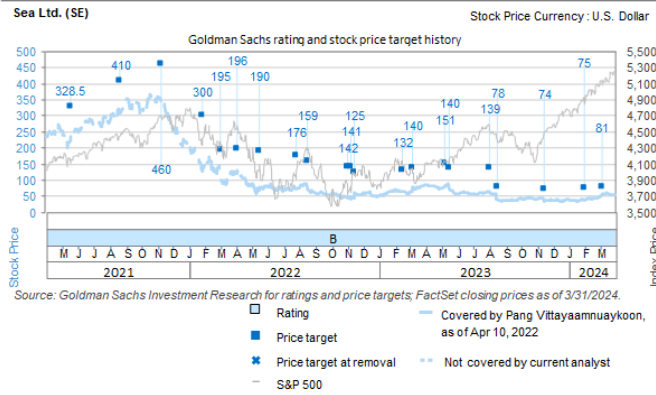
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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	48%	36%	16%	64%	56%	41%

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