

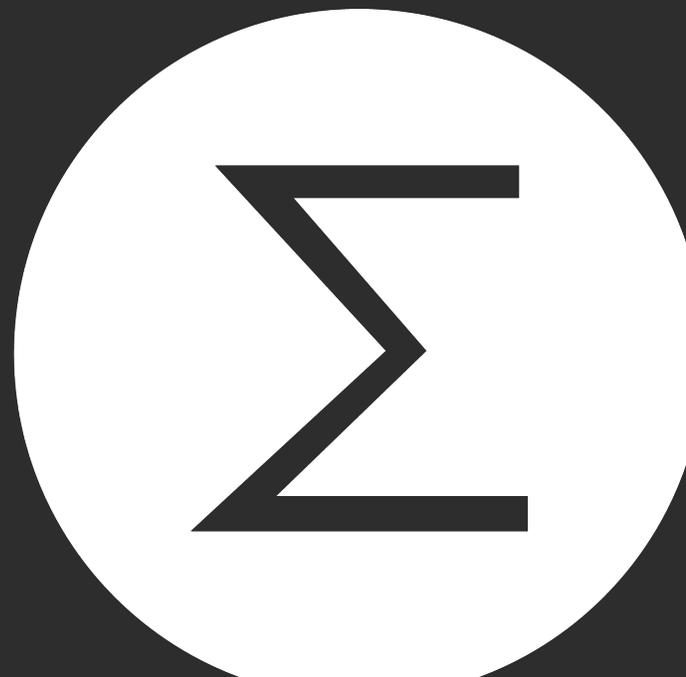


SUMZERO

MARKET COMMENTARY

THE TRIPLE E-THREAT:
*SEA LTD POSITIONED FOR GROWTH IN
A SURGING INTERNET ECONOMY*

NOVEMBER 12, 2019



EXECUTIVE SUMMARY

Why are Lone Pine and other multi-billion dollar hedge funds invested in this Singaporean gaming conglomerate?

After reviewing investment ideas by numerous SumZero community contributors who have perceived an untapped opportunity in Sea Ltd due to its powerful trifecta of diverse holdings in a rapidly-expanding market, we were compelled to present a summary of their insights.

Notably, Sea Ltd. is the third most searched-for company within the SumZero Buyside community in 2019, and there have been seven ideas posted on this name within the last twelve months.

COMPANY OVERVIEW

Sea Ltd. is a Singapore-based, US-listed (NYSE: SE) conglomerate driving growth and valuation through three key businesses: Garena (gaming), Shopee (eCommerce), and AirPay (digital payments) in the Greater Southeast Asia (GSEA) market containing Indonesia, Thailand, Philippines, Malaysia, Vietnam, Singapore, and Taiwan.

INVESTOR SENTIMENT

Opportunities in Sea Ltd. have already been identified and realized by a number of hedge funds [1], led by Tiger Global who reported holding \$451.7M USD in stock in March, followed by Hillhouse Capital's \$254.4M position. Other stakeholders include Jericho, Lone Pine, and Alkeon, while Sachem Head and Whale Rock Capital have recently taken \$86.9M and \$72.7M positions respectively this year. Analysts are equally bullish with all 11 of those watching SE rating it a Buy [2]. This confidence is well-founded: in its Q3 2019 ER, Sea Ltd. reported a total adjusted revenue of \$763.3M USD, representing a 214.3% increase YOY from Q3 2018's \$242.8M, and raised guidance for both gaming and eCommerce for 2019.

The stock is up 173.85% YTD and up 17.7% today alone after earnings were reported before market open.

Sea's incredible success with Shopee – the leading eCommerce platform in Southeast Asia – built on its domination of the mobile gaming market with Garena. With both entities now backed by AirPay, Sea is positioning itself as a major regional market-maker.

MAJOR GROWTH CATALYSTS

The GSEA market is comprised of 600M people – 360M of them internet users; 90% connecting through mobile devices – with a high population of millennials driving the internet economy, predicted by Google, Temasek, and Bain & Co to grow from \$100 billion USD in 2019 to \$300 billion by 2025. [3]

As the developer of Free Fire and the publisher of Call of Duty: Mobile and League of Legends (LoL), Sea's gaming subsidiary Garena is dominating the Southeast Asia mobile gaming market, thanks in part to Free Fire's optimization for regional mobile devices and Garena's right of first refusal granted by Chinese social media and gaming behemoth Tencent, which holds a 35% stake in the company. **Call of Duty: Mobile, released on October 1, 2019, enjoyed a record-breaking launch with over 100M downloads during its first week [4], while League of Legends remains the most played PC game in the world [5] ten years after its launch.** LoL is rumored to have a mobile version under development [6], which would make Garena's robust gaming portfolio even more formidable.

While Sea's position in gaming has been its primary earner, it is on the verge of being eclipsed by Shopee, its rapidly-expanding eCommerce platform established in 2015 and aggressively funded by Garena's revenue. In the four years since its founding, Shopee has gone from having no share in a competitive market to dominating it with no signs of slippage. **Shopee's premiere position in the GSEA market was recently underscored by its increase in e-commerce adjusted revenue from \$71.2M USD in Q3 2018 to \$257.2M in Q3 2019: a 261% increase YOY [7].**

Although only approximately half of all adults use traditional banking services, digital financial services continue to grow in a competitive marketplace. HSBC's Colin Davis, Head of ASEAN Equity Research, notes that digital payments could reach \$1T USD by 2025 [8], which would account for nearly one out of every two dollars spent regionally. **Google, Temasek, and Bain expect that e-Wallets like AirPay, which supports counter services as well as Shopee and in-game transactions, will go from \$22B USD in 2019 to over \$114B by 2025.**

LOOKING AHEAD

While Garena continues to be the main earner for Sea, we anticipate that Shopee's aggressive growth in the crowded eCommerce marketplace will allow it to hold and expand its position, which, in turn, will amplify AirPay's utility and profitability. Its three core businesses are appropriately diverse and reflect its consumer demographic, making Sea Ltd. a "triple threat" in GSEA's swelling internet economy.

HOW TO READ MORE & GET IN TOUCH

For deeper insights, including fundamental and technical analysis on Sea Ltd. and other market opportunities, please visit the [Sea Ltd Entity Page](#) on SumZero.

If you want to discuss Sea Ltd or the broader online gaming sector, please get in touch with us. You may reach the author of this report by emailing team@sumzero.com.

To apply for SumZero membership, please reach out to access@sumzero.com or visit www.sumzero.com/apply.

Thank you for reading and please stay tuned for more SumZero manager commentary on online gaming, e-commerce, and related market trends.

SOURCES

[1] <https://finance.yahoo.com/news/hedge-funds-never-bullish-sea-203512952.html>

[2] <https://quotes.wsj.com/SE/research-ratings>

[3] https://www.blog.google/documents/47/SEA_Internet_Economy_Report_2019.pdf

[4] <https://sensortower.com/blog/call-of-duty-mobile-first-week>

[5] <https://www.pcgamer.com/8-million-people-play-league-of-legends-every-day-making-it-the-most-popular-game-on-pc/>

[6] <https://www.pcgamesn.com/league-of-legends/mobile>

[7] <https://cdn.garenanow-a.akamaihd.net/webmain/static/resource/seagroup/pressrelease/2019-11-12%20Sea%20Third%20Quarter%202019%20Infographic.pdf>

[8] <https://www.gbm.hsbc.com/insights/global-research/asean-primed-for-digital-growth>

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The research on SumZero cuts through the noise that pervades the industry and provides its community with in-depth, actionable investment research and data. SumZero offers ancillary services in support of our research platform. These services include capital introduction, buyside career placement, media placement and more.

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