LONG: Sea Limited (NYSE: SE)

Consumer Sector | Alternative Investments Group | Phoenician Investment Fund

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Business Overview

Sea Limited: A Three-Headed Digital Giant at an Inflection Point

Sea Limited is the leading consumer internet platform in Southeast Asia and Latin America, pioneering integrated digital ecosystems across e-commerce, fintech, and gaming. The company serves 740M+ quarterly active users, empowering consumers and small businesses while shaping the future of digital commerce in high-growth emerging markets.

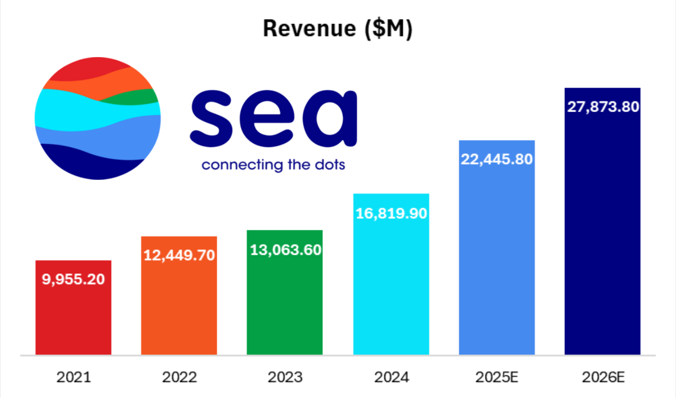
Sea Limited's Business Model

Three-segment flywheel ecosystem: Gaming (Garena) acquires users at scale → migrate to e-commerce (Shopee) → monetize via fintech (Monee) → data improves targeting across all segments, creating self-reinforcing network effects

Singapore-based platform serving 1.2B+ population across Southeast Asia (Indonesia, Thailand, Vietnam, Philippines, Malaysia, Taiwan) and Brazil: regions with low digital penetration (<15% e-commerce) and massive growth runway

Asset-light marketplace with proprietary logistics: Third-party seller model with improving take rates (13.3% in Q3 2025) and SPX Express network (2nd-largest in SEA, handles 50%+ of orders), achieving EBITDA-positive across all segments for first time in company history

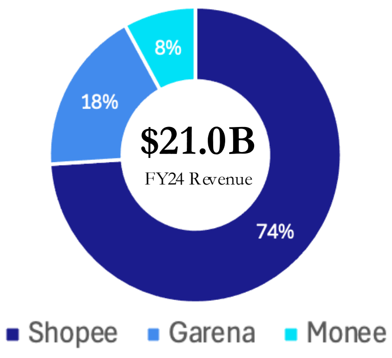
Historical Performance



Key Financials

Ticker: NYSE: SE
Share Price: $87.82
Market Cap: $52.34B
2024 Revenue: $16.8B
Gross Margin: 42.84%
Enterprise Value: $56.63B
FY '24 EBITDA: $1.366M
EV/EBITDA: 27.98
Forward P/E: 27.25x
52-Week High: $199.30
52-Week Low: $77.05

Sea Limited's LTM Revenue Mix



Shopee: 10.9B orders, $100.5B GMV, 52% SEA market share, take rate expanding to 13.3%

Garena: Free Fire with 670M users, ~56% EBITDA margins, single-game concentration risk

Monee: $7.9B loan book, 34M borrowers, 1.0-1.1% NPL via Shopee data-driven underwriting

Competitive Moat

- **Proprietary Logistics Moat**: SPX Express (2nd-largest in SEA) handles 50%+ of orders, owns 200+ micro-fulfillment centers in Indonesia, enables 24-48hr delivery: critical advantage in fragmented emerging markets with unreliable third-party logistics
- **Dominant Scale**: 52% SEA market share, 10.9B orders (3x nearest competitor), enabling network effects and EBITDA-positive margins at scale
- **First-Mover & Regulatory Navigation**: Entered SEA before Lazada scaled (2015), built deep SME/regulatory relationships, operates localized playbooks (13 languages, country-specific payments) difficult for Western platforms to replicate
- **AI Differentiation**: Proprietary Sailor2 LLM (500B tokens, 15 SEA languages), OpenAI partnership, 80% customer service automation, a defensible technology moat as AI transforms commerce

Navigating Competitive Currents in a Shifting Macro Climate

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Competitors Across Sea Limited's 3 Segments

Comparable Companies Analysis				
Company	Share Price	Enterprise Value	Market Cap.	Forward P/E
Alibaba	$164.64	378.92B	392.21B	18.35x
Grab	$4.26	12.82B	17.61B	48.08x
MercadoLibre	$2,021.50	108.48B	102.68B	30.12x
Net Ease	$119.61	77.31B	[illegible]	[illegible]
Pinduoduo	$104.46	[illegible]	[illegible]	[illegible]
Sea Limited	**$114.44**	**[illegible]**	**67.09B**	**29.33x**
Tencent	$69.58	[illegible]	[illegible]	15.50x

Strategic Partnerships & Synergies

Meta

SAMSUNG

adidas

Premium "100 Million Dollar Club" Growth: Shopee Mall serves as the primary engine for moving up the value chain, hosting exclusive programs for elite partners like Apple, Samsung, L'Oreal, and Adidas. By incentivizing brands to cross the US$100M GMV threshold, Shopee secures high-margin advertising spend and priority inventory, directly improving the platform's overall take rate and consumer trust

Meta-Integrated Social Commerce: A strategic 2025/2026 collaboration with Meta enables brand partners to run "Collaborative Ads" across Facebook and Instagram with seamless, one-click checkout on Shopee. This synergy has effectively lowered customer acquisition costs for premium brands by 14x ROI in key categories like Electronics, while utilizing Shopee-exclusive data to drive higher conversion for high-ticket items

Expansion Into New Markets

Brazil Monetization Pivot: Capitalizing on top-tier market share by raising seller commissions to peer levels as of Q1 2026. This transition from "growth-at-all-costs" to a high-margin monetization phase leverages a densified SPX Express network to drive sustainable regional profitability

Fintech Ecosystem Scaling: [illegible] Monee is accelerating "off-Shopee" growth through a [illegible] consumer/SME loan book, up 69.8% YoY. The segment is rapidly diversifying into high-margin digital banking and insurance hubs across Southeast Asia and Latin America

Macroeconomic Environment

Secular Growth Runway: Operations are positioned within regions with <15% e-commerce penetration, providing a massive structural runway as digital adoption continues to outpace global averages. Recent fee hikes by regional competitors signal an industry-wide shift toward profitability, providing headroom for Sea's own take-rate expansion

Self-Sustaining Flywheel: The high-margin Garena segment serves as a cash-flow anchor, with Q3 2025 bookings up 51.1% YoY and a 55.4% EBITDA margin. This internal capital funds ecosystem-wide growth in commerce and fintech without the need for dilutive external financing

Setup & Situation

Market Context and Stock Performance Journey

Sea's share price has surged following its profitability inflection and revenue reacceleration, as the company transitioned from speculative hypergrowth to sustainable cash generation across all three segments, positioning the stock for continued appreciation as SeaMoney's fintech scaling and Shopee's margin expansion demonstrate the durability of its integrated ecosystem model despite intensifying competition

Stock Performance Since IPO

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Thesis 1.0: Market Modeling Sea as a Consulting Firm Instead of a Platform

Sea's margin expansion is not contingent on e-commerce efficiency alone; the structural mix shift toward advertising and fintech yield, both carrying **80%+ gross margins**, creates a non-linear compounding effect that consensus models are missing **by 300-600bps**.

Our View Vs. Consensus

Consensus

- E-commerce margins are structurally capped; competitive reinvestment prevents target achievement. Sea's cost structure resembles Grab/GoTo, perpetual investment, perpetual disappointment
- SG&A and R&D will remain elevated given the multi-geography complexity. Bears point to Q3 2025 margin compression (0.6% GMV) as evidence ceiling has been hit

Our View

- The market is combining three distinct margin profiles: logistics (thin), advertising (80-90% gross margin), and fintech yield (40-50% at scale) – and averaging them incorrectly
- Every 1% shift of revenue from logistics to advertising adds roughly 400-500bps to blended gross margin with zero incremental cost. Gross margin expanding 400+ bps per year is the leading indicator the market is ignoring.

1st Layer (Core Marketplace Fees and Logistics)

This is Shopee's transaction and fulfillment engine. Margins are thin, but improving as SPX Express scales. With over 50% of orders fulfilled in-house, route density lowers per-package costs and reduces shipping subsidies. The key driver is operating leverage — more volume through fixed infrastructure improves unit economics across the network

2nd Layer (Advertising & Value-Added Services)

This is Shopee's most powerful margin expansion driver. Advertising is growing rapidly, with rising ad take rates and 80–90% gross margins. Because ad inventory is embedded within existing traffic, incremental revenue carries almost no incremental cost. As GMV and seller competition increase, ad monetization scales disproportionately to costs.

3rd Layer (Fintech Yield)

Monee's lending business already generates ~30% EBITDA margins and could reach 40–50% at scale. With strong underwriting and low NPLs, lending economics (high net interest margins with controlled losses) differ fundamentally from e-commerce. As the loan book grows and provisions normalize, fintech becomes a major EBITDA and net income contributor

	FY2025E	FY2026E	FY2027E	FY2028E
Street Consensus	13.8%	14.2%	17.2%	
Our Estimate	**15.2%**	**17.3%**	**23.4%**	
Delta	+140bps	+310bps	+620bps	

Thesis 2.0: Monee Is Being Valued as a Liability, Not a Fintech Franchise

Consensus View

- 70%+ loan book growth signals unsustainable credit risk and loosening underwriting standards
- Effectively valued at zero or negative within Sea's blended multiple
- Rapid growth will inevitably produce NPL deterioration as the cycle turns

Our View

- Monee underwrites against $3B+ quarterly behavioral data points: no bank can replicate this moat
- Off-Shopee Spay Later growing 300%+ YoY; still <10% of book; standalone fintech TAM barely unlocked
- Applying even a 4x discount to Nubank comps implies $12B+ of value absent from current EV

Monee Loan Book Growth vs. NPL90+ Ratio

The Expansion Signal

Off-Shopee SPayLater grew 300%+ YoY in Q3 2025 and is still under 10% of the loan book. When this crosses 20%, Monee is no longer a captive Shopee feature: it is a standalone financial services business serving the 70%+ of SEA adults who are underbanked. That is the re-rate trigger

The Data Moat

Monee's underwriting model is built on Shopee's 3B+ quarterly orders: purchase frequency, GMV per buyer, repayment behavior, category mix. No traditional bank or neobank can access this signal. It is proprietary by construction, not by license

The Valuation Gap

Sea's current EV of ~$70B. Nubank trades at 7x revenue. Applying a 50% discount to Monee's $3B+ annualized revenue implies $10-12B of standalone value the market is not pricing. MercadoPago at 12x revenue implies $36B. The gap between zero and either figure is the thesis

Monee's 70%+ loan book growth on a **1.0-1.1% NPL90+ ratio** is not a credit risk story, it is the world's most defensible digital lending moat, underwritten by 3B+ quarterly Shopee orders. The market ascribes **near-zero value** to a segment comparable companies trade at **7-12x revenue**, creating a $40-60B valuation gap hiding inside Sea's blended multiple

Thesis

Thesis 3.0: Sea Has Crossed From Survival Mode to Compounding Mode

A 0.56 PEG ratio on a platform simultaneously executing a **$1B buyback**, deploying Google AI agents across Shopee and Garena, and compounding Brazil's monetization curve with a better tooling than Sea had in 2019 isn't a cheap stock. It is a **mispriced compounder** at the exact moment three independent capital allocation decisions confirm management's conviction in the platform's durability

Google AI Partnership

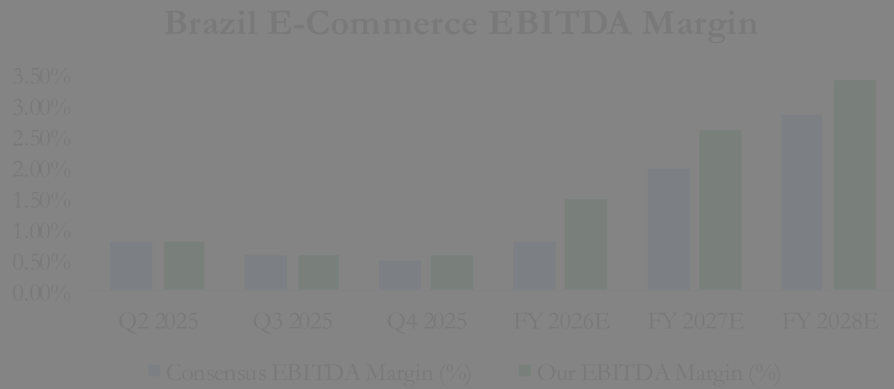
AI agents for Shopee shopping and Garena game development (Feb. 2026) drive higher conversion rates → more ad inventory monetization at scale. Faster content production lowers Garena development costs while expanding 53% EBITDA margin base. Moat extender at near-zero incremental co[illegible] and competitors must b[illegible]ild in-house

$1B Share Buyback

First-ever buyback executing at 0.56 PEG = management buying aggressively at trough valuation. First-ever buyback signals confidence that advertising inflection + Brazil profitability + fintech scaling is structurally underearned by consensus. Supported by $7.4B net cash and $4.6B annual operating cash flow as company transitions from growth story to cash generation machine

SG&A as a Percentage of [illegible] vs. [illegible]/Our E[illegible]

Metric	FY2024	FY202[illegible]	[illegible]2026	FY2027E	FY2028E
Consensus	30.0%	2[illegible]	[illegible].8%	23.5[illegible]	22.[illegible]%
Actual/Our Est.	28.5%	25.8%	22.5%	20.1%	18.5%
Delta (bps)	-150	-40	-230	-340	-360
Improvement YoY	-	-70bps	-330bps	-240bps	-160bps



Brazil Monetization

Already EBITDA positive after just 5 years (vs. MercadoLibre's 15+ year path). Shopee Mall GMV doubled YoY in Q3 2025 as premium category penetration accelerates. SPX Express matched MercadoLibre delivery efficiency in 5 years vs. their 20 with an asset-light model proving superior economics

Valuation

Discounted Cash Flow Analysis

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Discounted Cash Flow Analysis

EBITDA	$1,079	$1,366	$3,437	$4,845	$6,269	$7,820	$9,236
(-) D&A	($441)	($390)	($372)	($470)	($573)	($676)	($778)
EBIT	$638	$976	$3,065	$4,375	$5,695	$7,143	$8,458
(-) Taxes on EBIT	($128)	($195)	($613)	($875)	($1,139)	($1,429)	($1,692)
NOPAT	$511	$781	$2,452	$3,500	$4,556	$5,715	$6,766
(+) D&A	$441	$390	$372	$470	$573	$676	$778
(-) CapEx	($242)	($318)	($514)	($646)	($788)	($930)	($1,069)
(-) Δ NWC	($299)	($1,085)	($344)	($440)	($537)	($634)	($729)
Unlevered Free Cash Flow	$41[illegible]	($232)	$1,966	$2,883	$3,804	$4,827	$5,746

TERMINAL VALUE & DCF VALUATION

Perpetuity Growth Method	
Terminal Year UFCF (FY2029E)	$5,74[illegible]
Terminal Growth Rate	2.5%
WACC	7.4%
Terminal Value (Perpetuity)	$120,18[illegible]
Exit Multiple Method	
Terminal Year EBITDA (FY2029E)	$9,23[illegible]
Exit EV/EBITDA Multiple	20.0x
Terminal Value (Exit Multiple)	$184,71[illegible]
Implied Exit Multiple (Perp. Growth)	13.0x

DCF VALUATION

	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E
Discount Period	1	2	3	4	5
Discount Factor	0.931x	0.867x	0.807x	0.752x	0.700x
PV of UFCF	$1,831	$2,500	$3,071	$3,628	$4,021

	Perpetuity Growth
Sum of PV of UFCFs	$15,050
PV of Terminal Value	$84,108
TV as % of Total EV	84.8%
Enterprise Value	$99,158

EQUITY VALUE BRIDGE

	Perpetuity Growth
Enterprise Value	$99,158
(-) Net Debt (+ Net Cash)	$8,729
(-) Minority Interest	($122)
Equity Value	$107,765
Shares Outstanding	638.2
Implied Share Price	$168.85

Base Case

Enterprise Value	$76,765
(-) Net Debt (+ Net Cash)	$8,729
(-) Minority Interest	($122)
Equity Value	$85,382
Shares Outstanding	638.2
Implied Share Price	$133.80

Bear Case

Enterprise Value	$28,345
(-) Net Debt (+ Net Cash)	$8,729
(-) Minority Interest	($122)
Equity Value	$36,952
Shares Outstanding	638.2
Implied Share Price	$57.90

Reverse DCF

Inputs	
Current stock price	87.[illegible]
Shares outstanding (million)	54[illegible]
Perpetuity growth rate	3.0%
Desired return (discount rate)	10.00%
FCF year 1 (million)	3803.20
Growth rate year 1-10	1.03%

Inputs
Formula

Cash flow estimates	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
FCF	3,803.20	3,842.53	3,882.26	3,922.41	3,962.97	4,003.95	4,045.36	4,087.19	4,129.45	4,172.16
Growth		1.03%	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%	1.03%

Discounted FCFs	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
FCF	3,803.20	3,842.53	3,882.26	3,922.41	3,962.97	4,003.95	4,045.36	4,087.19	4,129.45	4,172.16
Present value	3,457.45	3,175.64	2,916.80	2,679.06	2,460.69	2,260.13	2,075.91	1,906.70	1,751.29	1,608.55
Sum discounted CFs	24,292.23									

Terminal value	
TV	61,390.29
Present Value TV	23,668.61
Total equity value	
Total equity value	47,960.84
Value per share	
Intrinsic Value	87.76
Upside/downside	0.00%

Risk & Mitigants: TikTok Competition, Credit Quality, and Operating Leverage

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I. TikTok Shop Market Share Erosion

RISK
- TikTok Shop GMV 4x'd to $22.6B (28% SEA share)
- Threatens Shopee ad monetization if share < 45%
- Algorithmic discovery disrupts fashion/beauty

MITIGANT
- ✓ **SPX Express 5-year infrastructure lead** (50%+ penetration, 24-48hr delivery)
- ✓ **Different use cases:** planned purchases (3.1B orders) vs. impulse discovery
- ✓ **Accelerating momentum:** GMV +28%, mktg -4.3%, rev +30%

GMV +28%
Q3 2025 YoY growth
while marketing spend fell 4.3%

II. Credit Cycle Turn / NPL Deterior

RISK
- 70%+ loan book growth to $7.9B may mask credit issues
- NPL spike to 3-4% = $200M+ annual ea
- Off-Shopee expansion (300%+ growth) = riskier borrowers

MITIGANT
- ✓ **Proprietary data moat:** 3B+ quarterly orders = unique behavioral signals
- ✓ **Best-in-class NPL90+** at 1.0% vs. 2-3% peers
- ✓ **Proven discipline:** loan book +70% while NPLs fell 1.2% → 1.0%

1.0% NPL
Best-in-class credit quality
vs. 2-3% digital lending peers

III. Operating Leverage Thesis Fails to Materialize

RISK
- Thesis: SG&A to 18.5% vs. consensus 22.1% (360bps gap)
- AI/SPX/marketing efficiency could underdeliver
- 8 markets, 3 businesses may sustain high SG&A

MITIGANT
- ✓ **Already visible:** Opex +5.7% vs. rev +30%; margin 5.1% → 10.3%
- ✓ **Structural:** 80% AI customer service, SPX 50%+ penetration
- ✓ **Precedent:** Amazon SG&A 25% → 10% on same trajectory

10.3%
Operating margin (Q3 '25)
up from 5.1% — 2x expansion

Catalyst Path: Key Sign-Posts That Lead To Alpha Generation

Positioning, Set-Up, and Sentiment

Despite all three segments reaching EBITDA-positive, revenue accelerating +36% YoY, and a $1B buyback, consensus EPS has been revised down. The Street has an avg. target ~$152 implying ~72% upside from ~$88. Catalyst execution can drive significant re-rating.

Key Events / KPIs to Track

Events	Data Points To Track
Brazil Take-Rate Expansion	Track Shopee Brazil commission revenue post-March hike as a direct proxy, measuring **seller retention and order volume resilience** vs. MercadoLibre's fee structure to validate pricing power thesis
Mon[illegible]ff-Shopee P[illegible]etr[illegible]on	Monitor of[illegible]hopee S[illegible]Later as [illegible] of t[illegible]l loan book (currently <10%, target 20%+); prov[illegible]es visib[illegible]to **stan[illegible]tech franchise value** and SOTP re-r[illegible]g pot[illegible]tial
[illegible]	Trac[illegible]d ta[illegible]-ra[illegible] ex[illegible]on a[illegible]d a[illegible] revenue as % of Shopee marketplace revenue; every **1% shi[illegible] from logistics to advertising adds ~400-500bps** to blended gross margin at near-zero incremental cost

Event Path: How Does the Street Become Aligned with Our View

Near-Term (<12 Months):

Q4/FY2025 Earnings (Mar 3):
Consensus at $0.81 EPS / $6.43B rev. Beat-and-raise with fintech revenue +53% YoY and first buyback disclosure resets Street expectations on margin durability

Brazil Monetization Proof Point:
Q1-Q2 results reveal seller retention under new commission structure; EBITDA-positive Brazil after just 5 years (vs. MercadoLibre's 15+) validates LatAm pricing power

Google AI Agentic Rollout:
Agentic shopping prototype across Shopee x Google goes live; Garena AI dev tools reduce content costs; Monee pilots AP2 payments, a moat extender at near-zero incremental cost

Long-Term

Platform Economics Re-Rating:
Monee crosses 20% off-Shopee threshold, transitioning from captive feature to standalone fintech franchise. Combined with ad take-rate inflection and $1B buyback completion, consensus models shift from blended margins to proper three-layer platform economics (logistics + advertising + fintech yield), closing the 300-600bps margin gap our model identifies