SEA (SE US)

1H26: Solid Delivery Across All Segments; Outlook Raised

Highlights

- 1H26 revenue of US$14.9b (+47% yoy) was better than expected, representing 60% of our forecast, driven by all business segments.
- Shopee's take rate rose to about 14.6%, Monee's loan book grew to US$11.1b (+62.5% yoy), and Garena bookings normalised to US$763.5m.
- Maintain BUY with an unchanged target price of US$181.18, after rolling our valuation base to 2027F and factoring in a re-rating.

2Q26 Results

Year to 31 Dec (S$m)	2Q25	1Q26	2Q26	qoq%	yoy%
Revenue	5,259	7,097	7,788	10	48
Gross Profit	2,410	3,146	3,550	13	47
Adj. EBITDA	829	1,034	917	(11)	11
Digital Entertainment	368	574	430	(25)	17
E-Commerce	228	223	255	14	12
Digital Financial Service	255	275	288	5	13
Net profit	414	438	458	5	11
Core net profit	406	428	441	3	9
Gross Margin (%)	45.8%	44.3%	45.6%	+1.3bps	(0.2)bps
Adj. EBITDA Margin (%)	15.8%	14.6%	11.8%	(2.8)bps	(4.0)bps

Source: SEA, UOB Kay Hian

Analysis

- **Revenue beat, earnings in line.** SEA reported 2Q26 revenue of US$7.8b (+48% yoy), with all three segments contributing to the upside. PATMI of US$441m (+9% yoy) lagged the revenue beat but remains in line with expectations. This brought 1H26 revenue to US$14.9b (+47% yoy) and earnings to US$868.7m (+7% yoy), representing 60% and 47% of our forecasts respectively. 1H26 adjusted EBITDA of US$1.95b (+12% yoy) was led largely by Garena on strong bookings and operating leverage in 1H26.
- **E-commerce (Shopee): Strong GMV and monetisation drive EBITDA guidance upgrade.** 2Q26 GMV reached a record US$38.3b (+28% yoy, +3% qoq), while revenue grew 48% yoy to US$5.6b, driven by 66% yoy growth in core marketplace revenue and >70% yoy ad revenue growth. Content-led commerce and faster delivery gained traction. Adjusted EBITDA rose to US$255m (+12% yoy, +15% qoq), reflecting improving scale despite continued logistics investment. Management now expects Shopee to achieve US$1.0b of adjusted EBITDA in 2026, vs its previous guidance of no less than 2025's US$881m.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	16,820	22,938	29,720	33,338	37,325
EBITDA	1,962	3,437	4,052	4,498	4,904
Operating profit	662	1,985	2,561	2,919	3,298
Net profit (rep./act.)	444	1,578	1,689	2,094	2,587
Net profit (adj.)	444	1,578	1,689	2,094	2,587
EPS (US$ cent)	83.4	265.2	276.8	336.3	406.4
PE (x)	137.6	43.3	41.5	34.1	28.2
P/B (x)	7.3	5.4	4.9	4.4	3.8
EV/EBITDA (x)	31.8	18.1	15.4	13.9	12.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	2.6	6.9	5.7	6.3	6.9
Net debt/(cash) to equity (%)	(29.5)	(48.9)	(57.0)	(60.9)	(65.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	5.9	15.1	12.6	13.6	14.6
Consensus net profit (US$m)	-	-	1,882	2,683	3,554
UOBKH/Consensus (x)	-	-	0.90	0.78	0.73

Source: SEA, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	US$114.80
Target Price	US$181.18
Upside	57.8%

Stock Data

Sector	Communication Services
Bloomberg ticker	SE US
Shares issued (m)	567.0
Market cap (US$m)	70,313.2
3-mth avg daily t'over (US$m)	438.4

Price Performance (%)

52-week high/low				US$199.3/US$77.05
1mth	3mth	6mth	1yr	YTD
3.3	32.4	1.3	(22.2)	(10.0)

Balance Sheet Metrics

FY26 NAV/Share (US$)	23.41
FY26 Net Cash/ Share (US$)	13.35

Price Chart

Source: Bloomberg

Company Description

Sea has developed an integrated platform consisting of digital entertainment, ecommerce and digital financial services, each localised to meet the unique characteristics of its markets.

- **Digital financial services (Monee): Credit growth remains strong while asset quality improves.** 2Q26 revenue rose 59% yoy and 17% qoq to US$1.4b, while the loan book expanded 63% yoy and 12% qoq to US$11.1b (US$10.0b on-book, US$1.1b off-book), supported by an approximately 34% yoy increase in active credit users to >40m and continued expansion of credit use cases beyond Shopee. NPL ratio improved to 1.0% from 1.1% in 1Q26, despite continued rapid loan book growth, supporting management's confidence in its risk capabilities. Adjusted EBITDA of US$288m grew 13% yoy and 5% qoq. Management remains confident in Monee's long-term growth and earnings potential.
- **Digital entertainment (Garena): 2Q26 normalised from an exceptional 1Q26 but engagement remains healthy.** 2Q26 bookings moderated to US$764m (+16% yoy, -18% qoq) following an exceptionally strong 1Q26, while paying users rose 10% yoy to 68.1m and the paying-user ratio improved to 10.2% from 9.3% in 2Q25. Revenue of US$747m (+34% yoy) and adjusted EBITDA of US$430m (+17% yoy) reflected strong operating leverage. Free Fire remained the key earnings anchor with >100m average daily active users, while Garena continued to diversify its portfolio through the recently announced Palworld Online and Monster Hunter Outlanders, both based on strong, globally recognised IP.
- **2Q26 results strengthen the bull case across all three segments:**
  a) **Shopee's EBITDA guidance upgrade signals a better growth-profitability balance.** The new US$1.0b 2026 adjusted EBITDA target, vs the previous floor of US$881m, suggests that continued investment in logistics and ecosystem growth is becoming less margin-diluted as Shopee scales. Further monetisation gains and improving unit economics remain the key catalysts.
  b) **Monee's expansion beyond Shopee broadens its growth runway.** Management continues to push credit use cases beyond the Shopee ecosystem, which should reduce Monee's dependence on e-commerce-linked lending and expand its addressable market. In our view, a successful execution could increasingly position Monee as a standalone financial-services platform and a larger contributor to group earnings.
  c) **Garena's investment case is increasingly about portfolio diversification rather than a Free Fire recovery.** With Free Fire having stabilised as a durable core franchise, the next re-rating catalyst is Garena's ability to build additional meaningful titles around globally recognised IP. The addition of Palworld Online and Monster Hunter Outlanders could reduce reliance on a single franchise and improve the sustainability of Garena's earnings profile if successfully executed.

Valuation/Recommendation

- **Maintain BUY with an unchanged SOTP-based target price of US$181.18,** representing an upside of 57.8%. We roll our valuations over to 2027F, pegging Shopee at an unchanged 2.5x 2027F P/S, in line with peers' average, Garena at 14 x 2027F PE and Monee at 21x 2027F PE as peers re-rated. We also increase the share count to reflect the updated number of shares from 591m to 611m shares due to the vesting of share options.

Earnings Revision/Risk

- We raise our 2026/27 revenue forecasts by 17%/14%, respectively, following the 1H26 beat and stronger growth across SEA's business segments. However, we keep our earnings forecasts relatively unchanged, as Garena's bookings are expected to normalise seasonally in 2H26, while continued investment in logistics and AI caps near-term margin upside.

Share Price Catalyst

- New release of self-developed games.
- Higher-than-expected market share and margin in the operating countries.

SOTP Valuation Summary

	2027F net profit/ sales (US$m)	Valuation Method	Valuation (X)	Fair Value (US$)
Digital Entertainment	1,752 (net profit)	1x average peers PE	14	40.10
E-Commerce	20,713 (sales)	1x average peers PS	2.5	84.68
Digital Financial Services	1,357 (net profit)	1x average peers PE	21	46.20
Net Cash	6,229 (net cash)			10.19
Total				181.18

Source: UOB Kay Hian

Key Statistics

Year to Dec (US$m)	2Q25	1Q26	2Q26	qoq % chg	yoy % chg
Digital Entertainment					
Bookings (US$m)	662	931	764	-17.9	15.5
Quarterly active users (m)	665	667	666	0.0	0.2
Quarterly paying users (QPU) (m)	62	73	68	-6.5	10.0
Booking per QPU (US$)	11	13	11	-12.3	5.0
Revenue per QPU (US$)	9	10	11	14.6	21.5
E-commerce					
Orders (m)	3,300	4,000	4,200	5.0	27.3
GMV per order	9.0	9.3	9.1	-2.2	1.0
(US$)	28.6	36.7	37.1	1.6	30.4

Source: UOB Kay Hian

Profit & loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	22,938.5	29,720.1	33,338.4	37,325.5
EBITDA	3,437.1	4,051.7	4,498.4	4,904.5
Deprec. & amort.	1,451.8	1,490.7	1,579.1	1,606.5
EBIT	1,985.3	2,561.0	2,919.3	3,298.0
Total other non-operating income	(1.9)	(43.4)	(43.4)	(41.4)
Associate contributions	(18.9)	0.0	0.0	1.0
Net interest income/(expense)	297.5	292.0	350.2	455.8
Pre-tax profit	2,262.0	2,809.5	3,226.1	3,713.4
Tax	(651.1)	(1,077.2)	(1,087.5)	(1,082.4)
Minorities	(32.7)	(43.8)	(44.2)	(44.0)
Net profit	1,578.1	1,688.5	2,094.4	2,587.0
Net profit (adj.)	1,578.1	1,688.5	2,094.4	2,587.0

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	1,306.8	1,312.8	1,318.8	1,326.8
Other LT assets	4,814.6	4,874.8	4,909.5	4,949.5
Cash/ST investment	6,419.5	8,427.6	10,290.4	12,732.4
Other current assets	16,873.8	18,774.7	20,791.7	23,052.8
Total assets	29,414.8	33,390.0	37,310.5	42,061.6
ST debt	283.2	283.2	283.2	283.2
Other current liabilities	14,397.4	14,897.7	15,453.5	16,224.8
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	1,531.7	1,531.7	1,531.7	1,531.7
Shareholders' equity	12,541.0	14,278.4	16,421.6	19,057.5
Minority interest	121.8	165.6	209.8	253.7
Total liabilities & equity	29,414.8	33,390.0	37,310.5	42,061.6

Cash flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	5,024.5	5,195.2	2,957.8	3,616.7
Pre-tax profit	2,280.9	2,809.5	3,226.1	3,712.4
Tax	(651.1)	(1,077.2)	(1,087.5)	(1,082.4)
Deprec. & amort.	0.0	369.2	372.0	375.0
Associates	(18.9)	0.0	0.0	1.0
Working capital changes	2,570.4	3,035.6	447.2	610.8
Non-cash items	171.3	58.1	0.0	0.0
Other operating cashflows	672.0	0.0	0.0	0.0
Investing	(4,408.7)	(1,648.6)	(1,137.2)	(1,215.8)
Capex (growth)	0.0	(365.9)	(367.6)	(369.3)
Investment	607.6	(1,282.7)	(769.6)	(846.6)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(5,016.3)	0.0	0.0	0.0
Financing	1,623.2	(1,538.5)	48.8	49.8
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	413.5	(510.4)	0.0	0.0
Loan repayment	1,209.7	0.0	0.0	0.0
Others/interest paid	0.0	(1,028.1)	48.8	49.8
Net cash inflow (outflow)	2,239.0	2,008.1	1,869.4	2,450.8
Beginning cash & cash equivalent	4,081.6	6,419.5	8,421.0	10,281.6
Changes due to forex impact	98.8	0.0	0.0	0.0
Ending cash & cash equivalent	6,419.5	8,427.6	10,290.4	12,732.4

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	15.0	13.6	13.5	13.1
Pre-tax margin	9.9	9.5	9.7	9.9
Net margin	6.9	5.7	6.3	6.9
ROA	6.1	5.4	5.9	6.5
ROE	15.1	12.6	13.6	14.6
Growth				
Turnover	36.4	29.6	12.2	12.0
EBITDA	75.2	17.9	11.0	9.0
Pre-tax profit	194.1	24.2	14.8	15.1
Net profit	255.2	7.0	24.0	23.5
Net profit (adj.)	255.2	7.0	24.0	23.5
EPS	218.0	4.4	21.5	20.9
Leverage				
Debt to total capital	2.2	1.9	1.7	1.4
Debt to equity	2.3	2.0	1.7	1.5
Net debt/(cash) to equity	(48.9)	(57.0)	(60.9)	(65.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.