

ASEAN Industry Focus

Internet

Refer to important disclosures at the end of this report

DBS Group Research. Equity

30 Jan 2023

Is TikTok Shop a major threat?

- TikTok focusing on live e-commerce in Southeast Asia.
- TikTok to be more potent in advertising rather than e-commerce space due to three key reasons
- We prefer [Sea Ltd](#) and [Bukalapak](#); downgrade [GRAB](#) to Fully Valued

TikTok has a strong presence in the Southeast Asia especially Indonesia. Indonesia contributed 70% of TikTok's e-commerce gross merchandise value (GMV) in FY21 and over 40% of user downloads in Southeast Asia. According to Sensor Tower, TikTok maintained its top spot as the highest grossing mobile app in the region, implying its advertising revenue continues to grow (+40% y-o-y in Nov 2022). Overall, TikTok is trailing behind only YouTube as of 2Q22.

Live- e-commerce has grown in China but not in developed markets like UK. China's live e-commerce penetration has grown from less than 2% in 2018 to 19% in 2022. Incumbent Alibaba's Taobao Live really helped to grow live e-commerce in China. TikTok's e-commerce business did not take-off in the UK due to poor product quality, lengthy returns & refund processes, and slow logistics etc.

Live e-commerce might evolve into a niche market in Indonesia due to three key reasons. While impulsive buying behavior and cheap pricing favor live e-commerce in Indonesia, we see three key barriers. (i) an absence of support from incumbent players (ii) Unlike China, it might be culturally inappropriate for content creators to wear provocative outfits in a Muslim majority Indonesia, (iii) lack of novelty products in Indonesia compared to China coupled with lengthy returns and refund process in Indonesia.

We like Sea Ltd (SE) and Bukalapak (BUKA). SE and BUKA are our top picks due to their earlier EBITDA breakeven in 2023F. SE and Grab are trading at similar Enterprise Value (EV) to FY23F Revenue multiple, while we argue for SE to trade at 30-35% premium to GRAB due to its (i) 9-12-month earlier EBITDA breakeven (ii) superior EBITDA margin potential in the long term. Our bear-case TP of US\$55 for SE implies limited downside risk. BUKA is attractive at slightly negative EV ignoring its large net cash position. Our TP of Rp355 for BUKA implies just 1.9x EV/FY23F revenue. Our bear-case TP of Rp255 for BUKA implies limited downside risk

NASDAQ : 11,621.71

Analyst

Sachin MITTAL +65 66823699
sachinmittal@dbs.com

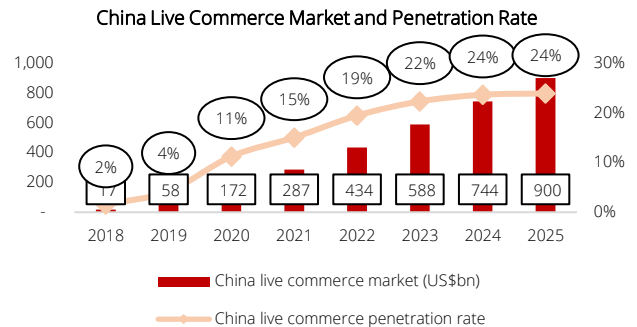
STOCKS

	Price LCY	Mkt Cap US\$m	12-mth Target Price LCY	Performance (%)		Rating
				3 mth	12 mth	
SEA Ltd	68.55	38,507	100.00	38.4	(49.5)	BUY
Grab Holdings Ltd	3.71	14,288	2.93	46.1	(37.5)	FULLY VALUED
Bukalapak	290	29,887	355	5.1	(16.2)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

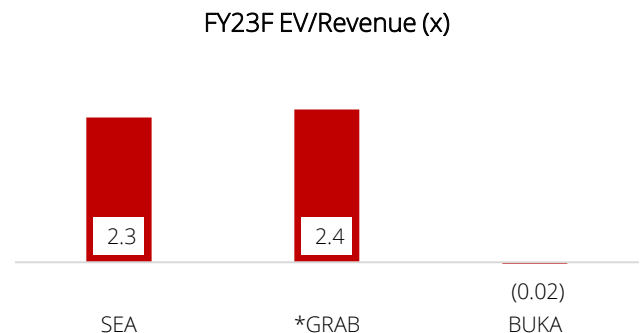
Closing price as of 27 Jan 2023

Live commerce penetration rate in China as of 2022 was 19%



Source: iResearch, DBS Bank

BUKA is the cheapest, SE is trading at similar multiples to GRAB while we argue for a 30-35% premium for SE



*Based on Gross Revenue defined as GMV * Take Rate

Source: Reuters, Companies, DBS Bank

Taking a leaf out of China's Live ecommerce growth for SEA

How has Livestream e-commerce been a successful concept in China?

Livestreaming is an important tool for firms to boost sales and for smaller operators to have greater access to customers. During the pandemic, livestreaming evolved dramatically as a result of Alibaba collaborating with its online retail business Taobao to connect an ecommerce store to an online live stream broadcast. The ability to watch and purchase at the same time increased sales, resulting in live commerce becoming a crucial component of China's ecommerce business.

Taobao Live is the market leader with a 68.5% share, followed by Douyin and Kuaishou. Other large Chinese internet businesses, such as JD.com and Baidu, are also attempting to expand their presence. Furthermore, as per insider intelligence, Douyin is extremely popular among smartphone users in China. When it was launched in 2016, just 1% of China's internet users used the TikTok sister app, and in 2022, it is estimated to be 71%, and is projected to rise to an astounding 81% by 2026.

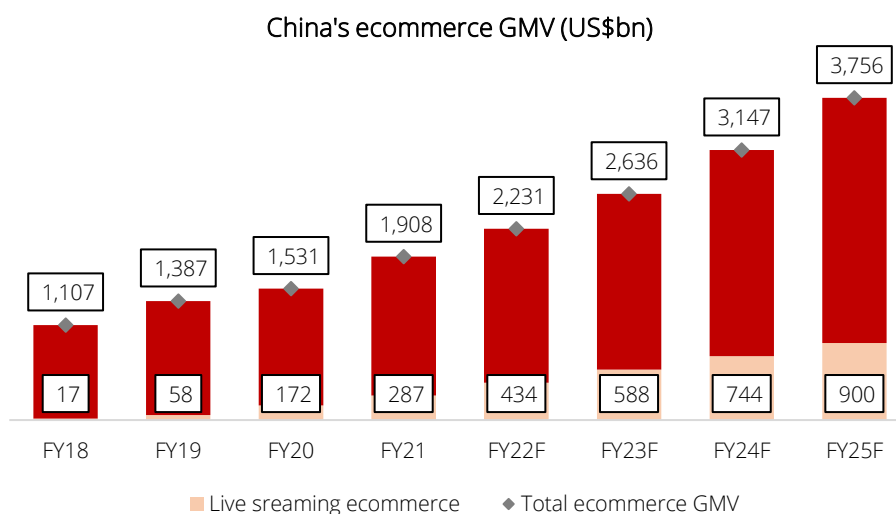
The purchasing culture in Asia has pushed live-stream shopping to easily grow in China as consumers in Asia have

a habit to order products online and get them delivered in just a few minutes or within the same day. This contrasts with the West where consumers are yet to explore this experience on a massive scale. Livestream shopping is also an art to direct the right product to customers as product categories such as cosmetics and household products are easily demonstrated by influencers. Being the largest industrial output country and the largest retail market in the world is helping China to see rapid growth in the Livestream concept.

According to iResearch, livestreaming e-commerce (LSEC) GMV of China grew at a CAGR of 122% over FY19-21, reaching US\$287bn in FY21 while e-commerce GMV grew 17% over the same period, which is 2.5x of Southeast Asia's (SEA) e-commerce GMV in FY21. LSEC is expected to grow at a CAGR of 33% over FY21-25F to US\$900bn in FY25F (e-commerce CAGR is 18% over the same period).

Meanwhile, LSEC's share of total e-commerce GMV will rise to 24% in FY25F (vs. 15% in FY21F) as this concept is increasingly driving video platforms revenue and traffic growth. Average daily active users of livestreaming platforms in China was over 350m in 2021 and is expected to reach 513m by 2025, with the average daily time spent per user increasing from 40 minutes in 2021 to 52 minutes in 2025.

Live streaming e-commerce in China is expected to grow at a CAGR of 33% over 2021-2025



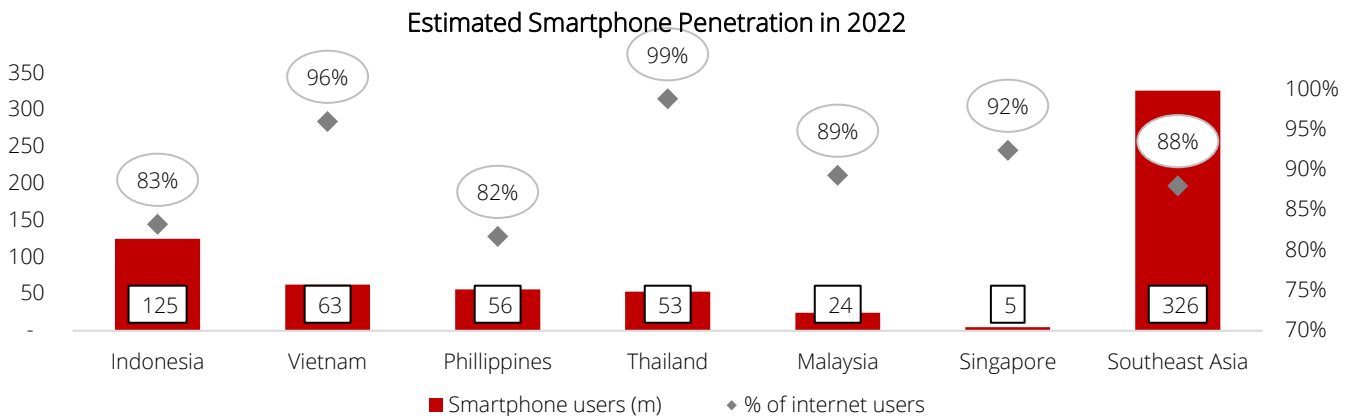
Source: iResearch, DBS Bank

Can Live e-commerce growth of China be replicated in Southeast Asia (SEA)?

SEA being home to 4 out of 10 countries worldwide with the greatest number of active TikTok users, and 5 out of 10 countries with the highest retail e-commerce sales growth globally, is projected to be TikTok Shop's most promising region led by **Indonesia**. GMV of TikTok e-commerce in 2021 totaled about US\$951m, of which 70% or more came from Indonesia. As per Sensor Tower data, **TikTok has garnered about 200m user downloads in Indonesia**, accounting for more than 40% of the entire SEA region. **SEA region accounts for 21% of e-commerce sales worldwide as of 2022**. Meanwhile, the Philippines and

Indonesia account for 25.9% and 23% of the global increase in e-commerce sales. The older generation is adapting to the new era by using the internet and social media channels at a similar pace as younger generation, underpinned by higher smartphone usage in SEA. Since livestreams provide very similar shopping experience where consumers can have personal attachment with products, pandemic-era online shopping habits are likely to stay.

Smartphone penetration rate in Southeast Asia stands at 88% in 2022



Source: Insider intelligence, DBS Bank

Established brands and merchants in general have done little in SEA with regards to live selling. This can be due to lack of go-to-market guidance, tools, and case studies, rather than any inherent dangers of live selling as a sales channel. Brands that want to take the lead in their e-commerce category in SEA must be able to participate in this new arena and develop a live selling strategy.

Platforms like Alibaba's Taobao and TikTok's sister app Douyin were instruments to the success of the live commerce ecosystem in China. Platforms such as Meta, Instagram, TikTok, Shopee, Lazada, Tokopedia etc. are crucial players for live commerce to grow in SEA, as they help consumers discover products, have integrated payment solutions, and offer logistics solutions to enable an efficient ecosystem and enhance customer experience through live commerce.

The dominance of Facebook in user traffic differentiates SEA from China for live commerce growth. Platforms have played an important role in China in establishing an ecosystem of suppliers, and hosts/Key Opinion Leaders (KOLs), Multi-channel networks (MCNs), and actively routing consumer traffic to live commerce, where the loop check out, payment, and logistics is closed. However, in SEA, many hosts and sellers are streaming on Facebook, which is the dominant social media platform in the region with good traffic and content recommendation.

However, unlike TikTok and ecommerce platforms, Facebook has demonstrated no intention to develop similar live e-commerce, because it is more focused on advertising. This has led to an array of enablers such as Avana, Shopleveline, and Upmesh to fill the gap and assist merchants with inventory and sales management, regional logistics, payment gateways, data analytics tools, customer support, and so on.

Furthermore, for SEA live ecommerce companies to expand, more reputable and established brands of wanted items and enticing bargains are required to enhance the user experience for live commerce and minimize decision-making time. Content platforms like TikTok may need to create differentiation in products and promotions compared to

Shopee’s marketplace. Influencers require training to make the streaming experience engaging and lively for consumers to increase conversion and sales. For live e-commerce to be successful, platforms will have to find a way to convince consumers that purchasing products on Facebook or TikTok is as simple and safe as the purchasing experience via Shopee or Amazon.

The small differences between platforms in China and SEA leading to vast customer experience

	Douyin vs TikTok	Payment and logistics are fully integrated into the shopping cart.
		Shopping carts are not yet available in all Southeast Asian nations. It is being implemented gradually.
	Tmall live vs Shopee Live	Procedures and products are standardised allowing for advanced features (e.g. viewers can book time to watch live streaming for a particular product type)
		Majority of vendors are individuals, and the contents vary. There is no way to standardize.
	WeChat vs Facebook	Customers are exposed through their current social networks. Even though it has a robust commercial environment, live traffic is smaller.
		Customers' exposure is unrelated to their contacts. Although live traffic is substantially higher, it lacks a robust commercial environment.

Source: Momentum Works, DBS Bank

However, it is unlikely that SEA will follow China’s exact trajectory of explosive growth in live ecommerce but will grow at a slower pace since SEA’s internet users who participate in live ecommerce comprise ~20-40% while China is at 50% and consumer engagement also needs to improve drastically.

Why has TikTok shop failed in the UK?

The low pricing strategy that TikTok Shop implemented in SEA has yet to achieve the expected success in the UK as customers there do not view cheap products to be the best quality whereas in SEA, customers prefer price over product quality. Western consumers are not as familiar with mobile-friendly environments as they continue to use PCs and laptops for daily activities such as paying bills,

shopping, and entertainment. This contrasts with consumers in SEA who have adopted more mobile-friendly environments to perform daily activities. TikTok users in the UK still see the app only as a social platform and live shopping is still new to them.

Successful marketing campaign held by TikTok Shop in ASEAN is leading to rising popularity

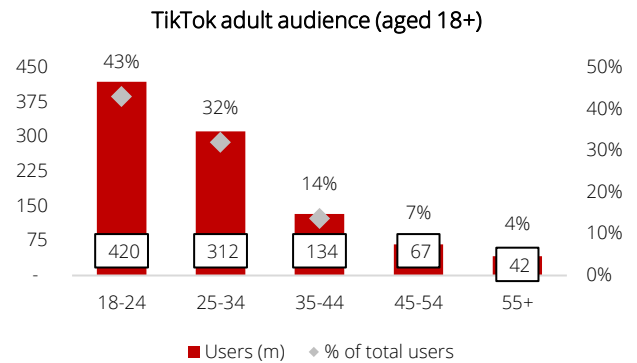
Indonesia (Ramadan season in April 2022) – TikTok witnessed a 493% increase in orders and a 92% increase in GMV during the period. During the entire month, total live streams received almost 2bn views.

Singapore (August 2022) – During the campaign period, TikTok saw an increase in daily GMV by 3 times compared to average daily levels a week before the event.

Malaysia (End of July 2022) - TikTok’s daily GMV was up by 85%.

Impact of Generation Z on e-commerce. Generation Z have initiated their shopping habits with highly advanced technology and e-commerce platforms. Moreover, Generation Z have moved from e-commerce to social commerce which has become the main online shopping source for them. According to Forbes, a study revealed that 98% of the population from Generation Z owns a smartphone which gives them easy access to e-commerce and provides the ability to choose a suitable product for them from different channels. Accordingly, Generation Z will play a major role in the livestream e-commerce market in SEA. And, TikTok has been a popular social media platform in the region.

TikTok adult audience (aged 18+)

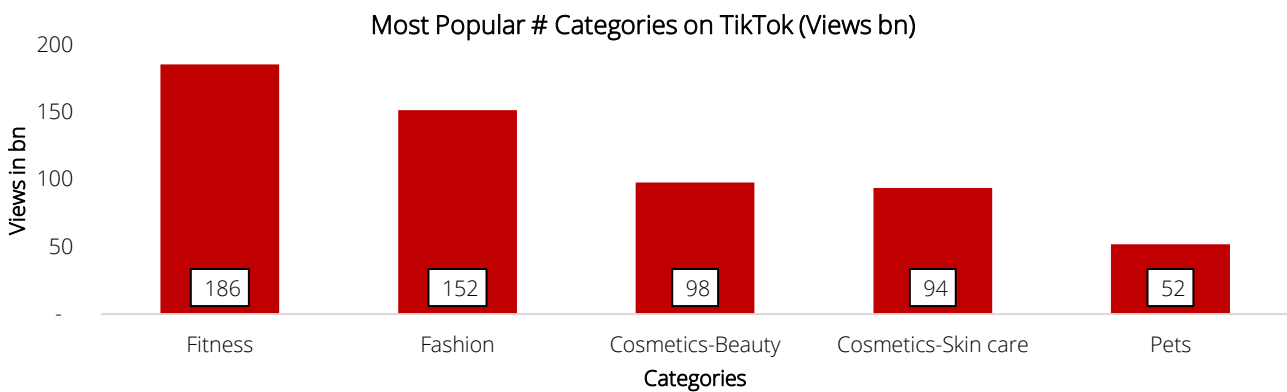


Source: Shopify, DBS Bank

What are the product categories available in TikTok Shop?

We have noticed that video content has the propensity to become viral. This is one of the reasons TikTok has become one of the world's fastest-growing social networking apps. With over 1bn monthly active users, it has become a popular platform for e-commerce businesses to promote their products. Below are the top categories on TikTok.

Fitness related content has been viewed the most on TikTok



Source: TikTok, DBS Bank

1. Fitness

The popularity of the fitness category has increased. It is one of the most popular categories, with over 186bn views. There is a wide range of things available, ranging from fitness bands to yoga mats and even traditional gym equipment.

2. Fashion

The fashion category has received a huge 152bn views, making it one of the most popular. This category also provides access to hundreds of various things such as clothing, footwear, jewelry, and so on.

3. Cosmetics

Makeup artists from all over the world utilize TikTok. As a result, the site is a haven for beauty influencers. On the app, the hashtags #skincare and #beauty have received over 94bn and 98bn views, respectively.

4. Pets

TikTok's #pets have received over 52bn views. According to the American Kennel Club, 86% of pet owners prefer to

purchase online. So, this category encompasses everything from pet food to toys and scratching.

5. Entertainment

The bulk of individuals use TikTok to cheer themselves up by viewing humorous short clips. As a result, the Entertainment category is among the most popular on the platform. This category includes a wide range of things such as magic kits, toys, and even sound bars.

TikTok is likely to be big in the advertising industry, YouTube holds the dominant position in Southeast Asia's streaming market with a share of 54% of all video consumption in the region. Along with YouTube, TikTok have taken a larger portion of the premium subscription services' market share during 2Q22. **TikTok enjoys a market share of 37%** (+14% y-o-y) with an estimated monthly active user (MAU) base of 173m.

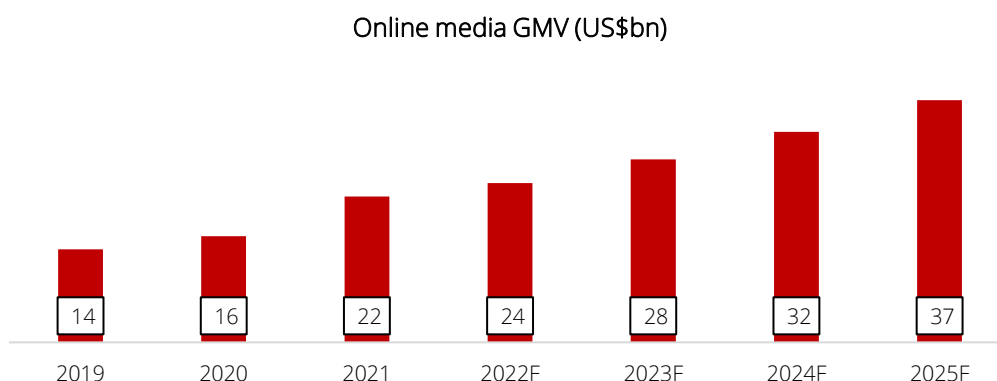
Furthermore, TikTok continues to be the top grossing mobile app across both iOS and Android in Southeast Asia, according to Sensor Tower. This implies that TikTok's advertising revenue continues to grow in the Southeast Asian region. It is estimated that TikTok generated revenue of US\$8.6m, a y-o-y increase of 40% during November 2022. Malaysia continues to be the largest contributor at 33%, followed by Indonesia and Vietnam accounting for 21% and 17% respectively.

TikTok maintains its top spot as the highest grossing mobile app in Southeast Asia

Overall revenue	Oct-22	Nov-22
1	TikTok	TikTok
2	Google One	Google One
3	YouTube	Vidio
4	Tinder	YouTube
5	Bigo Live	iQIYI
6	Vidio	Tencent Video
7	iQIYI	Tinder
8	Tencent Video	Bigo Live
9	LINE	Facebook
10	Viu	Viu

Source: Sensor Tower, DBS Bank

Online media GMV in Southeast Asia is expected to rise at a CAGR of 15% during 2022-25, of which ad revenue is expected to rise at a CAGR of 13% during the same period



Source: Google Temasek and Bain, DBS Bank

Success stories of companies in Southeast Asia which leverage on advertising on TikTok

Companies	How did it use TikTok advertising?	How did it benefit?
Genify Studio, a game developer	It used TikTok's In-Feed Ads and used screen recordings of users playing their games for ads, instead of working with a film production team. Beyond Vietnam, Genify used TikTok's Automated Creative Optimization to mix and match creative assets across their various international campaigns to create multiple ads and then evaluate the optimal combination of variables to best reach their target audience.	TikTok platform provided information on user behaviour and interest enabling to identify customers for effective targeting, and the automation on the platform is also useful in optimising the efficiency of ad delivery. Its user engagement reached an all-time high as the ads' conversion rate hit 30.85% and it received over 6m impressions and 275,000 clicks. In total, it saw total installations rise to 61,000.
Dear Me Beauty, a beauty brand	Launched an In-Feed Ads campaign on TikTok during Harbolnas (12.12), Indonesia's annual online shopping campaign. It worked with popular creators to show off its products, provide reviews, and display their results.	The campaign helped Dear Me Beauty reach more than 7.2m users and saw a 60% sales increase during the campaign period. The campaign also generated 92,000 profile visits and increased its TikTok followers by more than 60,000 in only 16 days. Dear Me Beauty was also able to expand its reach and increase business sales. While Dear Me Beauty's customers were previously from big cities, they are now able to tap into new audiences through TikTok.

Source: TikTok, DBS Bank

Live-e-commerce might evolve into a niche market in Indonesia due to three key reasons.

(i) An absence of support from incumbent players.

According to iResearch, live e-commerce accounts for over 19% of e-commerce in China, rising from 2% in 2018. The key catalyst behind this growth was the incumbent local players especially Alibaba. During 2016, the e-commerce giant partnered with its online shopping subsidiary Taobao to connect an online live stream broadcast with an online store. Alibaba also leveraged on the pandemic where it encouraged people to gain interactive and immersive experiences. Taobao Live currently enjoys a market share of 68.5% followed by Douyin and Kuaishou. Alibaba claimed that the conversion rate in live commerce varies between 15-30% compared to a traditional e-commerce hover between 1-1.5%. Furthermore, there is an immense support from Alibaba to strengthen the Taobao Live platform by seeking to cultivate 200,000 new live streamers and 10,000 live streaming accounts in key industries and sectors.

This support is not visible in Indonesia as none of the traditional e-commerce players are profitable yet to

embrace a new trend. It can also be noticed that many merchants are willing to sell on Facebook as it is the most widely used social media in Indonesia. And unlike TikTok and other e-commerce platforms such as Shopee or Tokopedia, Facebook has demonstrated no intention to develop similar live e-commerce, because it is more focused on advertising.

(ii) Unlike China, it might be culturally inappropriate for content creators to wear provocative outfits in a Muslim majority Indonesia. 87% of Indonesia's population are Muslims where it has conservative cultural norms and dress codes. Therefore, it might be culturally inappropriate for content creators to wear provocative outfits and can lead to unwanted attention or harassment. Additionally, many religious communities in Indonesia may take offense to such clothing, as it is considered immodest and disrespectful of their beliefs. Therefore, content creators, especially those who produce content for a Muslim audience, should dress modestly in their videos and photos.

(iii) Lack of novelty products in Indonesia compared to China coupled with lengthy returns and refund process in

Indonesia. There are several reasons why Indonesia may not have as many novelty products as China. 1) country has a relatively low level of economic development, which can limit the resources available for research and development of new products, 2) political and regulatory environment may not be as conducive to innovation as in China, 3) many people in Indonesia may not have the disposable income or access to the latest technologies that would allow them to purchase and use novelty products.

Furthermore, Indonesia has a lengthy return and refund process may be due to lack of clear regulations and guidelines for retailers and consumers to follow, the legal system may not be as efficient as in China, which can slow down the process of resolving disputes and processing refunds. Another reason could be that the company's policy is not customer-friendly, and the process is not streamlined.

Furthermore, cultural factors may play a role, as some businesses in Indonesia may be less focused on customer satisfaction and more focused on preserving relationships with customers.

Our top picks

SE and BUKA are our preferred stocks due to their earlier EBITDA breakeven compared to GRAB. Overall, SE's EBITDA breakeven is expected in 3Q23F (prev 2Q24F). We project a US\$1.8bn reduction in losses from Shopee partly offset by US\$0.5bn drop in EBITDA from gaming. Shopee is expected to self-funding its own expansion from 3Q23F onwards. BUKA seeks to achieve EBITDA breakeven by end of 2023, similar timeline as SE and much earlier than GRAB. BUKA achieved its contribution breakeven target during 3Q22, in line with its guidance with adjusted EBITDA as a % of TPV at -0.79%. BUKA's net cash position plus the value of its mutual

fund investment is Rp224 per share. The market value of its investments is Rp49 per share, implying a slightly negative enterprise value. Our TP of Rp355 implies a 1.9x FY23F EV-to-sales in line with SE's current valuation.

We use normalised long-term EBITDA margins to derive our TP of US\$100 for SE and Rp355 for BUKA. With ecommerce peers trading at 10-20x 12-month forward EV/EBITDA, we use a 12x EV to EBITDA in five years, discounted back by 12% each year. We project a conservative EBITDA margin of 20% (previous 17%) at SE leading to a FY27F EBITDA of US\$7.3bn. This is towards the lower end of the projected EBITDA margins of 14%-34% for mature peers such as Amazon, eBay, and PayPal in 2022. On a segmental basis, we have assumed EBITDA margins of 27% for Garena, and 20% for both ecommerce and fintech for FY27F.

In our estimates, SE has just enough cash of U\$3.3bn and we expect it will utilise this before achieving EBITDA breakeven. Hence, we have not considered it for our equity value calculation. We project a conservative 12% EBITDA margin for BUKA leading to a FY27F EBITDA of Rp1,101bn. This is below the lower end of the EBITDA margins of 14%-34% for mature peers such as Amazon, eBay, and Alibaba in 2022.

Our bear-case fair value for SE is US\$55. This is based on a 16% EBITDA margin assumption in FY27F (vs. 20% margins under the base-case) and a 10x EV /FY27F EBITDA multiple (vs. 12x under the base case).

Our bear-case fair value for BUKA is Rp264. This is based on an 8% EBITDA margin assumption in FY27F (vs. 12% margins under the base-case) and a 10x EV /FY27F EBITDA multiple (vs. 12x under the base case)

DBS Revenue and normalised EBITDA margins assumptions in 5-years (FY27F)

SE (US\$m)	FY27F
Revenue	36,387
EBITDA margin	20%
Adj EBITDA	7,277
GRAB (US\$m)	FY27F
Gross Revenue	9,264
EBITDA margin	12%
Adj EBITDA	1,112
BUKA (Rpbn)	FY27F
Revenue	9,177
EBITDA margin	12%
Adj EBITDA	1,101

Source: DBS Bank

DBS estimated valuations for SE and BUKA

	EV/EBITDA (x)	FY27F EBITDA (US\$m)	Enterprise Value (EV)	EV in FY23F discounted at 12%	Excess cash on top of cash to be burnt before EBITDA breakeven	Equity Value in FY23F (US\$m)	Number of shares (m)	Target Price (US\$)
SE	12.0	7,277	87,329	55,499	-	55,499	557	100

	EV/EBITDA (x)	FY27F EBITDA (US\$m)	Enterprise Value (EV)	EV in FY23F discounted at 12%	Excess cash on top of cash to be burnt before EBITDA breakeven	Equity Value in FY23F (Rpbn)	Number of shares (m)	Target Price (Rp)
GRAB	12.0	1,112	13,214	8,480	3,500	11,980	4088	293

	EV/EBITDA (x)	FY27F EBITDA (Rpbn)	Enterprise Value (EV)	EV in FY23F discounted at 12%	Net cash/(debt) (Rpbn)	Investment in Allobank + Allofresh (Rpbn)	Equity Value in FY23F (Rpbn)	Number of shares (m)	Target Price (Rp)
BUKA	12.0	1,101	13,214	8,398	23,100	5,100	37,098	103	355

Source: Companies, DBS Bank

The sensitivity of our valuation to EBITDA margins and EV/EBITDA multiple

SE		FY27F Group EBITDA margin		
		18%	20%	22%
EV/EBITDA (x)	10	75	83	91
	12	90	100	110
	15	112	125	137

GRAB		FY27F Group EBITDA margin		
		10%	12%	15%
EV/EBITDA (x)	10	2.58	2.58	2.58
	12	2.93	2.93	2.93
	15	3.45	3.45	3.45

BUKA		FY27F Group EBITDA margin		
		10%	12%	15%
EV/EBITDA (x)	10	330	342	359
	12	342	355	375
	15	359	375	401

Source: DBS Bank

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Dennis Lam
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

SINGAPORE

DBS Bank Ltd

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

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

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