

## uCloudlink Group Inc. – Earnings and Revenues Exceed Expectations with New Product Launches and Numerous Potential Opportunities

uCloudlink Group Inc. (NASDAQ:UCL)

Share Price: \$1.34

Current Valuation: \$10.00



### Key Statistics

52 Week Range	\$1.17-\$2.96
Avg. Volume (3 months)	42,350
Shares Outstanding	37.49M
Market Capitalization	\$50.24M
EV/Revenue	0.3x
Cash Balance*	\$26.83M
Analyst Coverage	2

\*Cash balance as of Q2 2024

### Revenue (in \$mm)

Dec - FY	2022A	2023A	2024E
1Q	15.6	18.0	18.1
2Q	18.0	22.0	22.4
3Q	18.2	23.9	25.7
4Q	19.6	21.7	31.3
FY	71.5	85.6	97.5

### Earnings Per ADS (in \$)

Dec - FY	2022A	2023A	2024E
1Q	(0.27)	0.06	0.01
2Q	(0.22)	(0.02)	0.06
3Q	(0.15)	0.09	0.07
4Q	(0.03)	(0.05)	0.05
FY	(0.64)	0.08	0.19

### Stock Price Chart



Hunter Diamond, CFA  
Vivian Zhang  
[research@diamondequityresearch.com](mailto:research@diamondequityresearch.com)

### Investment Highlights

- Q2 Earnings and Revenues Exceed Expectations** - uCloudlink reported its financial results for Q2 2024, with total revenues of \$22.4 million, up 1.7% year over year, *exceeding our estimate of \$22.2 million*. The increase was primarily due to a 0.5% YoY increase in revenues from data connectivity services, which was driven by the continued recovery of international travel, and a 3.9% increase in revenues from sales of products. In terms of geographic distribution, Japan remains UCL's largest market, contributing 46.2% of total revenues, while revenues from mainland China increased significantly by 106% YoY to \$5.3 million, contributing 23.5% of total revenues as international tourism continues to recover, indicating the company's explosive growth potential in China. Margin profile continued to improve in Q2 2024: overall gross margin was 49.2% versus 44.9% in Q2 2023, with increased gross margins on both services and sales of products. Total operating expenses were \$9.1 million compared with \$9.0 million a year ago. UCL's net income for Q2 2024 was \$2.2 million, or \$0.06 per basic and diluted ADS, versus a net loss of \$0.9 million or \$0.02 per basic and diluted ADS in the year-ago period, *beating our estimate of net income of \$0.9 million or \$0.02 per basic and diluted ADS*. *Backed by an improved cash position and balance sheet, we see the potential for the company to deliver sustainable long-term growth through diversified revenue streams, as the company launches more innovative solutions targeting meaningful revenues with improved profit margins and operational efficiency.*
- New GlocalMe Life Products Have Been Released And On Sale** – uCloudlink introduced its first three new GlocalMe Life devices at VivaTech 2024: GlocalMe Life KeyTracker, a lightweight smart tracker that attaches to personal belongings and provides accurate tracking through proprietary connectivity and location technologies; GlocalMe Life RoamPlug, a universal travel adapter combining smart charging technology and a mobile hotspot to provide internet connectivity; and GlocalMe Life Unicord, a USB C to C cable with built-in mobile Wi-Fi capabilities that can be used not only for charging but also as a hotspot. The above products have all been launched for sale in June, allowing the company to target wider markets and engage with a broader end-user base in more frequent daily life scenarios besides travel. We view the launch of these solutions as further expanding the company's product offerings and diversifying its revenue streams with long-term growth potential. The GlocalMe Life business is expected to generate additional meaningful revenues starting in Q3 2024.
- Valuation Update** - Our valuation for UCL remains \$10.00, combining discounted cash flow and comparable company analysis, which is contingent on the company maintaining its successful execution.

### Company Description

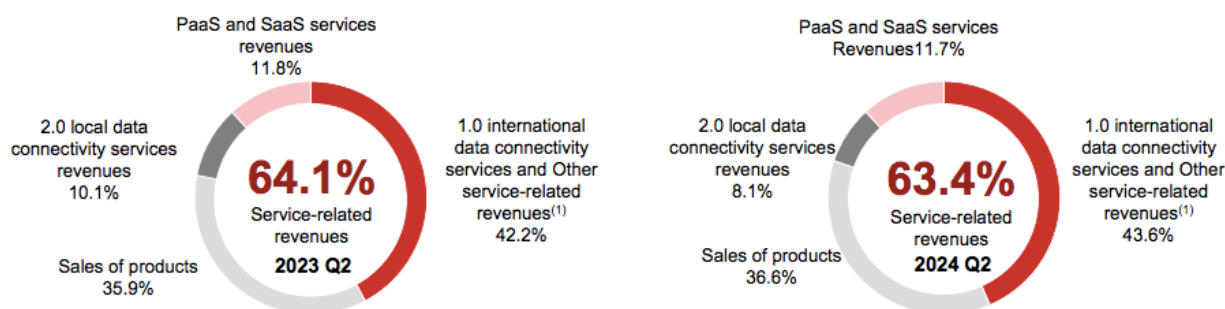
uCloudlink operates as an innovative mobile technology company that offers the world's first and leading mobile data traffic sharing marketplace to users globally. Leveraging its integral cloud SIM technology, it allows users to enjoy a smooth mobile connectivity experience without limitation to one MNO. uCloudlink was incorporated in 2014 and is headquartered in Kowloon, Hong Kong.

## Second Quarter 2024 Results

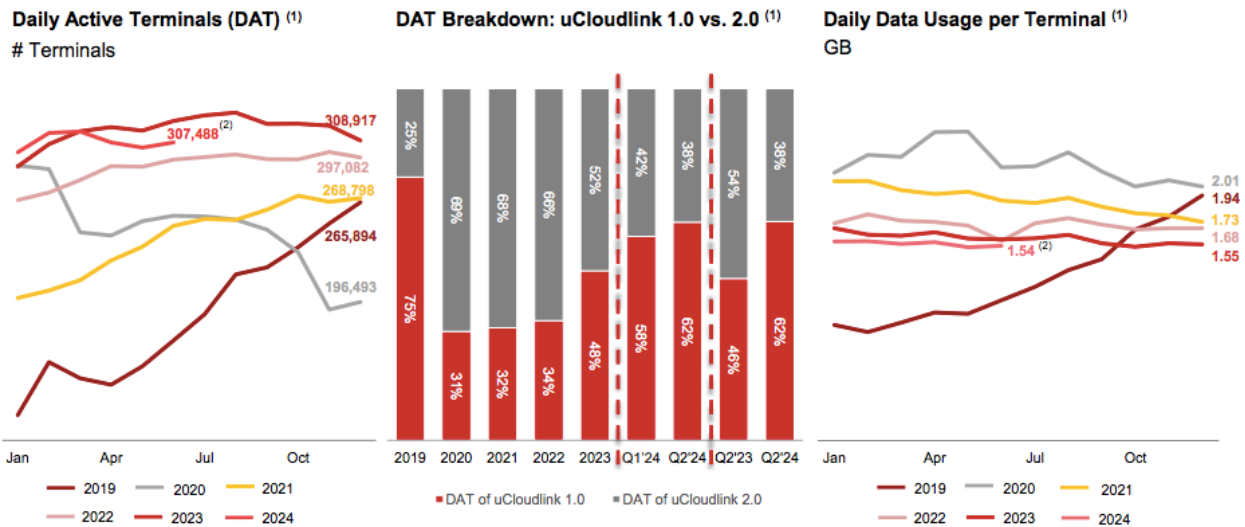
For the three months ending June 30, 2024, uCloudlink reported total revenues of \$22.4 million, an increase of 1.7% from \$22.0 million in Q2 2023. Services revenues were \$14.2 million, up 0.5% from \$14.1 million over the year, primarily due to an increase from \$9.0 million to \$9.4 million in revenues from international data connectivity services, which was aided by the accelerated recovery of international travel, and a 0.9% YoY increase in revenues from PaaS and SaaS services, partially offset by a decrease from \$2.2 million to \$1.8 million in revenues from local data connectivity services. Revenues from sales of products grew by 3.9% YoY to \$8.2 million, mainly due to higher sales of data-related products. In terms of geographic distribution, Japan as UCL’s largest market contributed 46.2% of total revenues, North America contributed 14.6%, while mainland China and other countries contributed 23.5% and the remaining 15.7%, respectively, compared to 43.0%, 29.5%, 11.6%, and 15.9%, respectively, in Q2 2023. Overall gross profit was \$11.0 million, or 49.2% in gross margin, compared to \$9.9 million, or 44.9% in gross margin in the same period last year, with improved gross margins on both services and sales of products. Total operating expenses were \$9.1 million, compared to \$9.0 million in Q2 2023: R&D expenses decreased by 4.1% YoY to \$1.5 million; S&M expenses were \$4.3 million, up 22.1% over the year due to the increase in promotional fees and staff costs, which was partially offset by a decrease in share-based compensation expenses; and G&A expenses declined by 14.8% to \$3.3 million, primarily attributable to the decrease in share-based compensation expenses and staff costs, partially offset by an increase of \$0.3 million in provision of bad debt expense and an increase in communication fees. uCloudlink’s net income for Q2 2024 expanded to \$2.2 million, or \$0.06 per basic and diluted ADS, compared to a net loss of \$0.9 million, or \$0.02 per basic and diluted ADS in the year-ago period.

Variance Table (\$ in millions, except per share data)			
	Q2 2024E	Q2 2024A	Variance (Actual Versus Result)
Revenue	22.2	22.4	0.2
EPS	0.02	0.06	0.04

Source: Diamond Equity Research



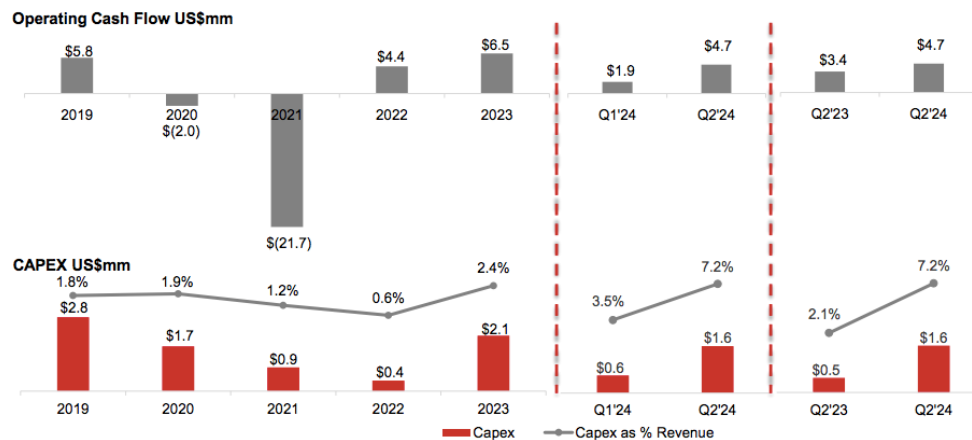
Source: UCL Investor Presentation August 2024



Source: UCL Investor Presentation August 2024

## Liquidity and Balance Sheet

As of June 30, 2024, uCloudlink’s cash and cash equivalents totaled \$26.8 million, compared to \$24.7 million as of March 31, 2024, primarily due to the net inflow of \$4.7 million from operations, partially offset by a payment of \$1.6 million for capital expenditures and a repayment of \$0.8 million for bank borrowings. CAPEX was \$1.6 million compared to \$0.5 million in the same period of 2023. *We view the company’s continued positive operating cash flows further strengthening its balance sheet, as demonstrating UCL’s ability to target financial sustainability to support its long-term operations and growth.*



Source: UCL Investor Presentation August 2024

## Management Guidance

uCloudlink expects total revenues to be between \$24.0 and \$28.0 million for Q3 2024, representing an increase of 0.4% to an increase of 17.2% compared to the same period of 2023.

## Investment Thesis

uCloudlink is targeting the large mobile data connectivity service market driven by the increasing adoption of mobile devices and internet penetration. This includes the local data connectivity market, the international roaming market as well as the global IoT market. In addition, the robust development of the entire IoT industry further drives the demand for the data usage and connectivity services as we approach 5G widespread adoption, where entirely new applications will be possible in various application scenarios such as mobile broadband (MBB) and fixed broadband (FBB), industrial automation, autonomous driving, AR/VR, internet of vehicles, cargo transportation and logistics and cloud computing, which may require new mobile data connectivity solution for users, hardware vendors and carriers with higher speed and more reliable connections. uCloudlink operates as an innovative mobile technology company that offers the world’s first and leading mobile data traffic sharing marketplace to billions of users globally, serving 2,699 business partners in 61 countries and regions, with aggregated mobile data allowances from 392 mobile network operators (MNOs) globally as of June 30, 2024. Leveraging its integral cloud SIM technology and architecture, which allows dynamic selection of network services based on signal coverage and cost, and intelligent distribution of data traffic in the SIM card pool to terminals that may support multiple end devices through its cloud SIM platform, the company provides mobile data connectivity services with reliable connections, high speeds and competitive pricing, allowing users to enjoy a smooth mobile connectivity experience without limitation to one particular MNO. Currently the company operates its business under what they refer to as uCloudlink 1.0 and uCloudlink 2.0 models. Under the UCL1.0, the company primarily offers pocket WIFI leasing, mobile WIFI retail, GMI mobile phone roaming, and other related services for international travelers that need mobile data connectivity services across different countries, although we note various products also are compatible in local markets. Products of UCL 2.0 stage includes home broadband, GMI mobile phone data service, IoT data service and other related services, and aim to provide mobile data connectivity services to local users across different MNOs in a single country. uCloudlink is well positioned to capture growing mobile data connectivity service market segments by leveraging its sophisticated cloud SIM and HyperConn technology, distinct mobile data traffic sharing marketplace enabling a smooth mobile connectivity experience, and seasoned management team with years of operational experience in industry. As of June 30, 2024, UCL had 182 patents with 153 approved and 29 pending approval. Beyond traditional UCL1.0 and 2.0 data connectivity businesses, the company was actively exploring additional business opportunities beyond portable Wi-Fi terminals by introducing four distinct business lines in 2024, which include **GlocalMe Mobile/Fixed Broadband, GlocalMe SIM, GlocalMe Life, and IoT Solutions**, with each line having an expanded array of comprehensive data connectivity solutions to build its broader GlocalMe ecosystem. The company’s GlocalMe Life aims to integrate technology with daily life through higher-quality connections, enabling uCloudlink to extend its business into more frequent life scenarios in addition to travel, such as item tracking, pet management, and emergency communication. We believe that uCloudlink appears to be well-positioned to deliver long-term sustainable growth with expanded market presence, as its reorganized product lines backed by proprietary cloud SIM and HyperConn technology target broader consumer base with more diversified products to be launched and generate meaningful revenues since 2024, which represents huge market opportunities. *Given uCloudlink’s growth potential and relatively inexpensive valuation, the company in our view offers investors a unique opportunity to invest in the growing data connectivity industry, as 5G adoption expands, which is likely to benefit from the institutional money flowing into the global mobile data connectivity service industry.*

*uCloudlink is targeting the enormous mobile data connectivity service market driven by the increasing adoption of mobile devices and internet penetration, and the surging demand for optimal mobile data traffic solutions with high speed and reliable connections, as 5G adoption grows*

*We view uCloudlink as well positioned to capture market segments with its sophisticated cloud SIM technology and architecture, distinct mobile data traffic sharing marketplace enabling a smooth mobile connectivity experience, and seasoned management team with years of operational experience in the industry*

## Risk Factors

- uCloudlink’s business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19. uCloudlink depends on network operators for their wireless networks, infrastructure, and data traffic. Any disruptions of or limitations on the company’s use of such networks, infrastructure and data traffic may adversely affect its business and financial results
- The company’s ability to grow its business and user base for its service may be limited unless it can continue to obtain data traffic at favorable rates
- Litigation at uCloudlink is still ongoing. The company is, and may in the future be, subject to intellectual property claims, which are costly to defend, could result in significant damage awards, disrupt its business operation, and could limit its ability to use certain technologies in the future
- Since the governments in countries and regions such as China and Japan have or will strengthen the enforcement of regulation over use of M2M cards and real-name registration for SIM card users, the development of its 2.0 business may be slowed down
- The company is highly regulated in all its areas of operations and could be impacted by regulatory changes
- If expansions into new businesses do not achieve the expected results, the company’s future operations and growth prospects may be materially and adversely affected
- Trading range of ADSs are highly volatile, which could result in large losses for investors. The company’s ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are in China
- Founders hold substantial ownership of company; two founders own roughly 50% of outstanding shares and 92% of the aggregate voting power and their interests may not always be aligned with independent shareholders
- uCloudlink has limited liquidity and overall awareness, limiting its ability to obtain fair valuation
- uCloudlink is a small capitalization business and as such may struggle to attract sufficient sell-side coverage and exposure and will face specific executional risk factors because of its smaller size relative to large capitalization equities

***These Risk Factors Are Not Comprehensive. For Full List of Risk Factors Please Read uCloudlink Group Inc.’s Latest Prospectus and/or 20F Filing Risk Factors***

## Income Statement

(\$ in M)	FY19A	FY20A	FY21A	FY22A	FY23A	1Q24A	2Q24A	3Q24E	4Q24E	FY24E	FY25E
<b>REVENUES:</b>											
Revenues from services	91.11	46.15	37.80	46.23	58.57	13.54	14.17	16.89	20.88	65.48	78.35
Sales of products	67.27	43.42	36.03	25.23	27.01	4.59	8.19	8.81	10.45	32.04	40.31
<b>Total net revenues</b>	<b>158.38</b>	<b>89.57</b>	<b>73.83</b>	<b>71.46</b>	<b>85.58</b>	<b>18.13</b>	<b>22.36</b>	<b>25.70</b>	<b>31.33</b>	<b>97.52</b>	<b>118.66</b>
Cost of services	(35.59)	(26.39)	(21.56)	(20.35)	(24.32)	(4.74)	(5.63)	(6.42)	(7.94)	(24.72)	(28.21)
Cost of products sold	(57.87)	(34.87)	(30.43)	(18.58)	(19.29)	(3.39)	(5.73)	(6.17)	(7.31)	(22.60)	(27.41)
<b>Total cost of revenues</b>	<b>(93.46)</b>	<b>(61.26)</b>	<b>(51.99)</b>	<b>(38.93)</b>	<b>(43.61)</b>	<b>(8.13)</b>	<b>(11.36)</b>	<b>(12.59)</b>	<b>(15.25)</b>	<b>(47.32)</b>	<b>(55.62)</b>
<b>Gross (loss) profit</b>	<b>64.92</b>	<b>28.31</b>	<b>21.84</b>	<b>32.53</b>	<b>41.97</b>	<b>10.00</b>	<b>10.99</b>	<b>13.12</b>	<b>16.08</b>	<b>50.20</b>	<b>63.04</b>
<b>OPERATING EXPENSES:</b>											
Sales and marketing expenses	(24.37)	(29.26)	(13.62)	(10.31)	(14.30)	(4.05)	(4.29)	(4.35)	(4.37)	(17.07)	(17.80)
Research and development expenses	(15.11)	(26.36)	(13.70)	(8.43)	(6.46)	(1.48)	(1.49)	(1.51)	(1.57)	(6.05)	(5.93)
General and administrative expenses	(20.22)	(43.22)	(28.55)	(18.73)	(17.12)	(3.39)	(3.30)	(3.81)	(6.08)	(16.58)	(15.43)
Other expense, net	0.29	7.55	(11.88)	(14.27)	(1.50)	(0.58)	0.34	(0.32)	(0.71)	(1.27)	(0.95)
<b>Total operating expenses</b>	<b>(59.41)</b>	<b>(91.29)</b>	<b>(67.75)</b>	<b>(51.73)</b>	<b>(39.38)</b>	<b>(9.49)</b>	<b>(8.74)</b>	<b>(9.99)</b>	<b>(12.73)</b>	<b>(40.96)</b>	<b>(40.11)</b>
<b>EBIT</b>	<b>5.51</b>	<b>(62.98)</b>	<b>(45.91)</b>	<b>(19.19)</b>	<b>2.59</b>	<b>0.51</b>	<b>2.25</b>	<b>3.12</b>	<b>3.35</b>	<b>9.24</b>	<b>22.94</b>
Interest income	0.19	0.04	0.01	0.02	0.07	0.01	0.03	0.02	0.01	0.07	0.08
Interest expenses	(0.44)	(0.29)	(0.19)	(0.44)	(0.13)	(0.06)	(0.05)	(0.05)	(0.05)	(0.20)	(0.20)
Amortization of beneficial conversion feature				(0.15)							
<b>Income(loss) before income tax</b>	<b>5.26</b>	<b>(63.23)</b>	<b>(46.08)</b>	<b>(19.76)</b>	<b>2.52</b>	<b>0.47</b>	<b>2.23</b>	<b>3.10</b>	<b>3.31</b>	<b>9.11</b>	<b>22.82</b>
Income tax expenses (benefits)	(0.06)	(0.19)	(0.24)	(0.16)	(0.07)	(0.02)	(0.05)	(0.77)	(1.43)	(2.28)	(5.70)
Share of profit in equity method investment, net of tax			0.29	0.07	0.36	(0.02)	0.05	0.18	0.08	0.29	0.36
<b>Adj. Net profit/(loss)</b>	<b>5.21</b>	<b>(63.42)</b>	<b>(46.04)</b>	<b>(19.85)</b>	<b>2.81</b>	<b>0.43</b>	<b>2.24</b>	<b>2.50</b>	<b>1.95</b>	<b>7.12</b>	<b>17.47</b>
Accretion of Series A-2 ordinary shares and Series A Preferred Shares	(2.54)	(1.29)									
Allocation to Series A-2 ordinary shares											
Income allocation to participating preferred shareholders	(0.30)										
<b>Net income/(loss) attributable to Company</b>	<b>2.37</b>	<b>(64.71)</b>	<b>(46.04)</b>	<b>(19.85)</b>	<b>2.81</b>	<b>0.43</b>	<b>2.24</b>	<b>2.50</b>	<b>1.95</b>	<b>7.12</b>	<b>17.47</b>
<b>Earnings per share</b>											
Basic	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.01	0.01	0.01	0.02	0.05
Diluted	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.01	0.01	0.01	0.02	0.05
<b>Earnings per ADS (10 Class A equal to 1 ADS)</b>											
Basic	0.10	(2.49)	(1.61)	(0.64)	0.08	0.01	0.06	0.07	0.05	0.19	0.45
Diluted	0.10	(2.49)	(1.61)	(0.64)	0.08	0.01	0.06	0.07	0.05	0.19	0.45
<b>Weighted Average no. of Shares outstanding (in M)</b>											
Basic	232.18	259.85	285.98	312.49	371.73	374.77	375.49	377.49	378.49	376.56	386.56
Diluted	232.18	259.85	285.98	312.49	371.73	374.77	375.49	377.49	378.49	376.56	386.56

Source: Diamond Equity Research

## Disclosures

Diamond Equity Research, LLC has created and distributed this report. This report is based on information we consider reliable, including the subject of the report. This report does not explicitly or implicitly affirm that the information contained within this document is accurate and/or comprehensive, and as such should not be relied on in such a capacity. All information contained within this report is subject to change without any formal or other notice provided. Diamond Equity Research, LLC is not a FINRA registered broker/dealer or investment adviser and does not provide investment banking services and follows customary internal trading procedures pending the release of the report found on [disclosure page](#).

This document is not produced in conjunction with a security offering and is not an offering to purchase securities. This report does not consider individual circumstances and does not take into consideration individual investor preferences. Recipients of this report should consult professionals around their personal situation, including taxation. Statements within this report may constitute forward-looking statements, these statements involve many risk factors and general uncertainties around the business, industry, and macroeconomic environment. Investors need to be aware of the high degree of risk in small capitalization equities, including the complete potential loss of their investment.

Diamond Equity Research LLC is being compensated by uCloudlink Group Inc. for producing research materials regarding uCloudlink Group Inc. and its securities, which is meant to subsidize the high cost of creating the report and monitoring the security, however the views in the report reflect that of Diamond Equity Research. All payments are received upfront and are billed for research engagement. As of 08/21/2024 the issuer had paid us \$140,000 for our research services, consisting of \$20,000 for an initiation report and \$15,000 for six update notes in the first year of coverage and \$35,000 in the second, third and fourth year of coverage for update notes during the term, which commenced 06/01/2021 and is renewable annually. Diamond Equity Research LLC may be compensated for non-research-related services, including presenting at Diamond Equity Research investment conferences, press releases and other additional services. The non-research related service cost is dependent on the company, but usually does not exceed \$5,000. The issuer has not paid us for non-research related services as of 08/21/2024. Issuers are not required to engage us for these additional services. Additional fees may have accrued since then.

Diamond Equity Research, LLC is not a registered broker dealer and does not conduct investment banking or receive commission sharing revenue arrangements related to the subject company of the report. The price per share and trading volume of subject company and companies referenced in this report may fluctuate and Diamond Equity Research, LLC is not liable for these inherent market fluctuations. The past performance of this investment is not indicative of the future performance, no returns are guaranteed, and a loss of capital may occur. Certain transactions, such as those involving futures, options, and other derivatives, can result in substantial risk and are not suitable for all investors.

Photocopying, duplicating or otherwise altering or distributing Diamond Equity Research, LLC reports is prohibited without explicit written permission. This report is disseminated primarily electronically and is made available to all recipients. Additional information is available upon request. For further questions, please contact [research@diamondequityresearch.com](mailto:research@diamondequityresearch.com)