

uCloudlink Group Inc. – Revenue and Earnings Exceed Expectations with Sizeable Growth Potential for GlocalMe Life Business

uCloudlink Group Inc. (NASDAQ:UCL)

Share Price: \$1.48

Current Valuation: \$10



Key Statistics

52 Week Range	\$1.17-\$3.97
Avg. Volume (3 months)	42,350
Shares Outstanding	37.49M
Market Capitalization	\$55.50M
EV/Revenue	0.5x
Cash Balance*	\$24.70M
Analyst Coverage	1

*Cash balance as of Q1 2024

Revenue (in \$mm)

Dec - FY	2022A	2023A	2024E
1Q	15.6	18.0	18.1
2Q	18.0	22.0	22.2
3Q	18.2	23.9	26.1
4Q	19.6	21.7	31.5
FY	71.5	85.6	98.0

Earnings Per ADS (in \$)

Dec - FY	2022A	2023A	2024E
1Q	(0.27)	0.06	0.01
2Q	(0.22)	(0.02)	0.02
3Q	(0.15)	0.09	0.05
4Q	(0.03)	(0.05)	0.06
FY	(0.64)	0.08	0.14

Stock Price Chart



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Investment Highlights

- Q1 Earnings and Revenues Surpass Expectations** - uCloudlink reported its financial results for Q1 2024, with total revenues of \$18.1 million, up 0.7% year over year, *exceeding our estimate of \$17.8 million*. The increase was primarily due to a 6.9% YoY increase in revenues from data connectivity services, which was driven by the continued recovery of its UCL 1.0 international data connectivity services business, and a 3.4% increase in revenues from PaaS and SaaS services, partially offset by a 9.8% decrease in products sales. Margin profile continued to improve in Q1 2024: overall gross margin was 55.2% versus 47.8% in Q1 2023, *reaching a record high since FY2019*, as high-margin UCL 1.0 and PaaS and SaaS businesses further contributed to the company's revenue growth. Total operating expenses were \$9.0 million compared with \$7.6 million a year ago, primarily due to an increase in S&M expenses with the company launching new products in the quarter. UCL's net income for Q1 2024 was \$0.4 million, or \$0.01 per basic and diluted ADS, versus \$2.1 million or \$0.06 per basic and diluted ADS in the year-ago period, *beating our estimate of \$0.1 million or \$0.01 per basic and diluted ADS*. *We believe this growth momentum can potentially continue, as the company introduced new business lines to diversify revenue streams and expand market presence, while continuing to generate significant revenues from the resuming international data connectivity services business with further improved profit margins.*
- GlocalMe Life Enables Access Within Broader Markets with Long-Term Growth Potential** – uCloudlink has made progress in rolling out innovative solutions in the quarter since it reorganized its business lines, such as GuardFlex Pro (GlocalMe Mobile/Fixed Broadband), a dual broadband CPE supporting reliable wireless connectivity that UCL showcased at MWC 2024, and a smart tracker, the company's first soft-launched GlocalMe Life product that offers accurate tracking with proprietary connectivity and location technologies, compared to other similar tracking products only utilizing Bluetooth in market. GlocalMe Life appears to be another promising business beyond traditional UCL 1.0 and 2.0 data connectivity services, *as it enables the company to tap into wide markets to engage with a broader end user base in more frequent daily life scenarios besides travel*, such as item tracking, pet management, and emergency communication. UCL plans to unveil three GlocalMe Life products and an upgraded GlocalMe App on May 23 at VivaTech 2024 in Paris, with more Easy Life X series products under development. The company expects to generate meaningful revenues from the smart tracker and Easy Life X series products since Q3 2024, with recurring revenues from subscription and services anticipated in the future.
- Valuation Update** - Our valuation for UCL remains \$10, combining discounted cash flow and comparable company analysis, which is contingent on the company maintaining its successful execution.

Company Description

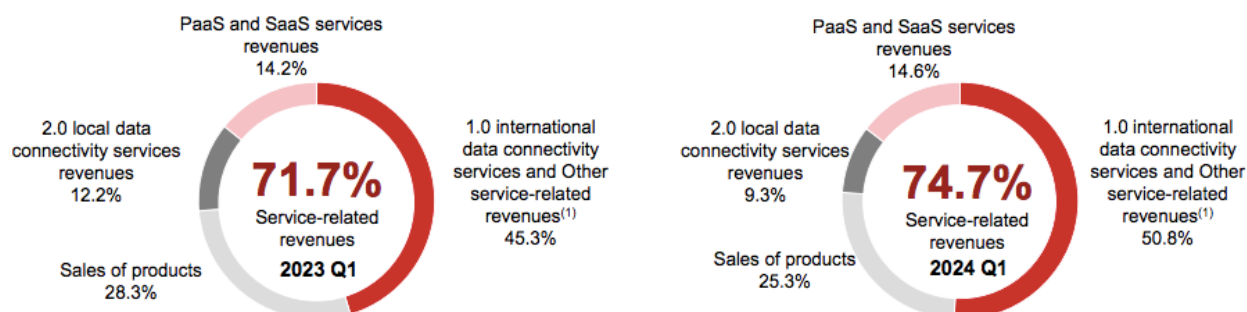
uCloudlink operates as an innovative mobile technology company that offers the world's first and leading mobile data traffic sharing marketplace to users globally. Leveraging its integral cloud SIM technology, it allows users to enjoy a smooth mobile connectivity experience without limitation to one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

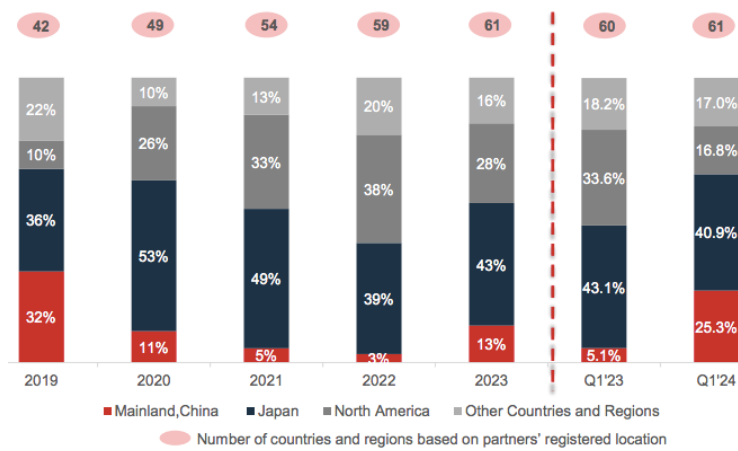
First Quarter 2024 Results

For the three months ending March 31, 2024, uCloudlink reported total revenues of \$18.1 million, up 0.7% from \$18.0 million in Q1 2023. Revenues from data connectivity services were \$10.7 million, an increase of 6.9% compared with \$10.0 million in the year-ago period, primarily due to higher revenues from international data connectivity services, which grew 15.4% YoY to \$9.0 million, aided by the accelerated recovery of international travel, and was partially offset by a decrease in revenues from local data connectivity services to \$1.7 million from \$2.2 million in the same period of 2023. Revenues from PaaS and SaaS services were \$2.64 million, up 3.4% from \$2.56 million in Q1 2023. Revenues from sales of products decreased from \$5.1 million to \$4.6 million due to the decrease in sales of terminals. In terms of geographic distribution, Japan as UCL’s largest market contributed 40.9% of total revenues, North America contributed 16.8%, while mainland China and other countries contributed 25.3% and the remaining 17.0%, respectively, compared to 43.1%, 33.6%, 5.1%, and 18.2%, respectively, in Q1 2023. Overall gross profit was \$10.0 million, or 55.2% in gross margin, compared to \$8.6 million, or 47.8% in gross margin in the same period of 2023, with improved gross margins on both services and sales of products. Total operating expenses were \$9.0 million, compared to \$7.6 million in Q1 2023: R&D expenses increased by 13.4% YoY to \$1.5 million, primarily due to the increase in share-based compensation expenses; S&M expenses increased to \$4.1 million, up 38.7% over the year, due to the increase in promotion expenses, operating lease payments, and employee benefit expenses; and G&A expenses declined by 1.3% to \$3.4 million, primarily attributable to the decrease in share-based compensation expenses. uCloudlink’s net income for Q1 2024 was \$0.4 million, or \$0.01 per basic and diluted ADS, compared to a net income of \$2.1 million, or \$0.06 per basic and diluted ADS in the year-ago period. *We see the potential for the company to deliver sustainable long-term growth through diversified revenue streams, as the company launches more innovative solutions such as GlocalMe Life products that can be applied in a wider range of high-frequent life scenarios to capture a broader end user base and market share.*

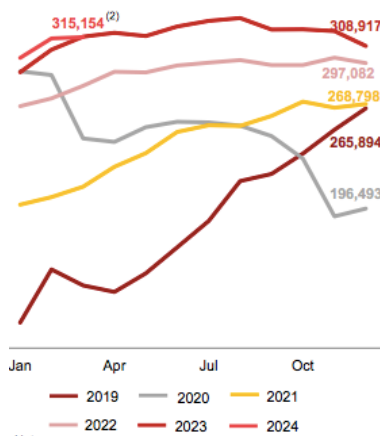
Variance Table (\$ in millions, except per share data)			
	Q1 2024E	Q1 2024A	Variance (Actual Versus Result)
Revenue	17.8	18.1	0.30
EPS	0.00	0.01	0.01

Source: Diamond Equity Research

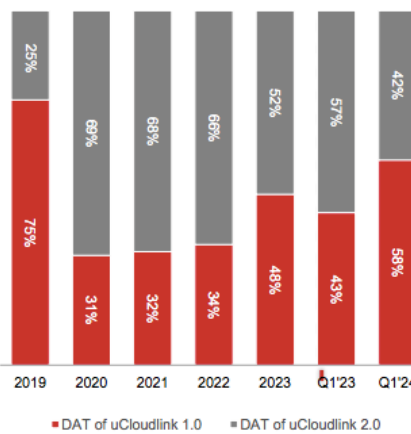




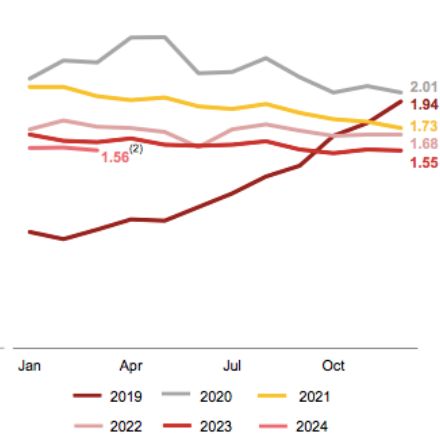
Daily Active Terminals (DAT) ⁽¹⁾
Terminals



DAT Breakdown: uCloudlink 1.0 vs. 2.0 ⁽¹⁾



Daily Data Usage per Terminal ⁽¹⁾
GB



Source: UCL Investor Presentation May 2024

Liquidity and Balance Sheet

As of March 31, 2024, uCloudlink's cash and cash equivalents totaled \$24.7 million, compared to \$23.4 million as of December 31, 2023, primarily due to the net inflow of \$1.9 million from operations and proceeds of \$0.3 million from bank borrowings, partially offset by net outflow of \$0.6 million in capital expenditure and repayments of \$0.1 million in bank borrowings. CAPEX was \$0.6 million compared to \$0.4 million in the same period of 2023. *Positive operating cash flows demonstrated UCL's ability to achieve financial sustainability to support its long-term operations and growth, further strengthening its balance sheet.*

Management Guidance

uCloudlink expects total revenues to be between \$22.0 and \$24.0 million for Q2 2024, representing an increase between 0.1% and 9.2% 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 2,595 business partners in 61 countries and regions, with aggregated mobile data allowances from 382 mobile network operators (MNOs) globally as of March 31, 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 March 31, 2024, UCL had 178 patents with 141 approved and 37 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	2Q24E	3Q24E	4Q24E	FY24E	FY25E
REVENUES:											
Revenues from services	91.11	46.15	37.80	46.23	58.57	13.54	15.32	17.32	20.44	66.62	82.34
Sales of products	67.27	43.42	36.03	25.23	27.01	4.59	6.91	8.79	11.11	31.40	37.83
Total net revenues	158.38	89.57	73.83	71.46	85.58	18.13	22.23	26.11	31.55	98.01	120.18
Cost of services	(35.59)	(26.39)	(21.56)	(20.35)	(24.32)	(4.74)	(6.44)	(7.27)	(8.58)	(27.03)	(32.11)
Cost of products sold	(57.87)	(34.87)	(30.43)	(18.58)	(19.29)	(3.39)	(4.97)	(6.33)	(8.00)	(22.69)	(25.73)
Total cost of revenues	(93.46)	(61.26)	(51.99)	(38.93)	(43.61)	(8.13)	(11.41)	(13.60)	(16.58)	(49.72)	(57.84)
Gross (loss) profit	64.92	28.31	21.84	32.53	41.97	10.00	10.82	12.51	14.96	48.30	62.34
OPERATING EXPENSES:											
Sales and marketing expenses	(24.37)	(29.26)	(13.62)	(10.31)	(14.30)	(4.05)	(4.12)	(4.46)	(4.53)	(17.15)	(15.62)
Research and development expenses	(15.11)	(26.36)	(13.70)	(8.43)	(6.46)	(1.48)	(1.52)	(1.52)	(1.56)	(6.08)	(6.01)
General and administrative expenses	(20.22)	(43.22)	(28.55)	(18.73)	(17.12)	(3.39)	(3.67)	(3.83)	(5.78)	(16.66)	(15.62)
Other expense, net	0.29	7.55	(11.88)	(14.27)	(1.50)	(0.58)	(0.37)	(0.34)	(0.19)	(1.47)	(0.60)
Total operating expenses	(59.41)	(91.29)	(67.75)	(51.73)	(39.38)	(9.49)	(9.67)	(10.15)	(12.05)	(41.36)	(37.86)
EBIT	5.51	(62.98)	(45.91)	(19.19)	2.59	0.51	1.15	2.36	2.91	6.93	24.48
Interest income	0.19	0.04	0.01	0.02	0.07	0.01	0.00	0.00	(0.01)	0.01	0.01
Interest expenses	(0.44)	(0.29)	(0.19)	(0.44)	(0.13)	(0.06)	(0.04)	(0.03)	(0.03)	(0.15)	(0.19)
Amortization of beneficial conversion feature				(0.15)							
Income(loss) before income tax	5.26	(63.23)	(46.08)	(19.76)	2.52	0.47	1.12	2.33	2.88	6.79	24.30
Income tax expenses (benefits)	(0.06)	(0.19)	(0.24)	(0.16)	(0.07)	(0.02)	(0.28)	(0.58)	(0.82)	(1.70)	(6.08)
Share of profit in equity method investment, net of tax			0.29	0.07	0.36	(0.02)	0.07	0.18	0.16	0.39	0.48
Adj. Net profit/(loss)	5.21	(63.42)	(46.04)	(19.85)	2.81	0.43	0.90	1.93	2.22	5.48	18.71
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)										
Net income/(loss) attributable to Company	2.37	(64.71)	(46.04)	(19.85)	2.81	0.43	0.90	1.93	2.22	5.48	18.71
Earnings per share											
Basic	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.00	0.01	0.01	0.01	0.05
Diluted	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.00	0.01	0.01	0.01	0.05
Earnings per ADS (10 Class A equal to 1 ADS)											
Basic	0.10	(2.49)	(1.61)	(0.64)	0.08	0.01	0.02	0.05	0.06	0.14	0.48
Diluted	0.10	(2.49)	(1.61)	(0.64)	0.08	0.01	0.02	0.05	0.06	0.14	0.48
Weighted Average no. of Shares outstanding (in M)											
Basic	232.18	259.85	285.98	312.49	371.73	374.77	376.77	378.77	379.77	379.73	389.73
Diluted	232.18	259.85	285.98	312.49	371.73	374.77	376.77	378.77	379.77	379.73	389.73

Source: Diamond Equity Research

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