

uCloudlink Group Inc. – Third Quarter Earnings Highlight Growth With Sales Channel Expansion and Product Advancements

uCloudlink Group Inc. (NASDAQ:UCL)

Share Price: \$1.36

Current Valuation: \$10.00



Key Statistics

52 Week Range	\$0.97-\$2.56
Avg. Volume (3 months)	21,574
Shares Outstanding	37.49M
Market Capitalization	\$50.98M
EV/Revenue	0.3x
Cash Balance*	\$27.68M
Analyst Coverage	2

*Cash balance as of Q3 2024

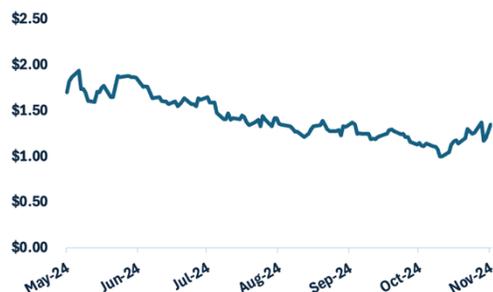
Revenue (in \$mm)

Dec - FY	2022A	2023A	2024E
1Q	15.6	18.0	18.1
2Q	18.0	22.0	22.4
3Q	18.2	23.9	25.2
4Q	19.6	21.7	25.3
FY	71.5	85.6	91.0

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	0.09
4Q	(0.03)	(0.05)	0.05
FY	(0.64)	0.08	0.21

Stock Price Chart



Hunter Diamond, CFA
Vivian Zhang
research@diamondequityresearch.com

Investment Highlights

- Third Quarter Earnings Highlights** - uCloudlink reported its financial results for Q3 2024, with total revenues of \$25.2 million, up 5.6% year over year, *compared to our estimate of \$25.7 million*. The increase was primarily due to a 29.1% YoY increase in PaaS and SaaS service revenues, which was driven by increased use of services by business partners to improve operational efficiencies, and a 9.3% increase in product sales with the launch of new GlocalMe products. The overall gross margin was 48.4% versus 51.2% in Q3 2023, with the service gross margin continuing to expand to 60.0% and the gross margin of product sales declining to 23.1%. Total operating expenses were \$10.0 million compared with \$9.2 million a year ago, mainly due to the increase in S&M expenses as the company continued to invest in promoting its newly launched products. Net income for Q3 2024 was \$3.4 million, or \$0.09 per basic and diluted ADS, versus a net income of \$3.5 million or \$0.09 per basic and diluted ADS in the year-ago period, *beating our estimate of net income of \$2.5 million or \$0.07 per basic and diluted ADS*. As of September 30, 2024, UCL's cash and cash equivalents totaled \$27.7 million, compared to \$26.8 million as of June 30, 2024. *uCloudlink's cash position continued to improve in line with our expectations. Backed by a strengthened cash position and balance sheet, the company appears well-positioned to expand revenue streams through a synergistic product pipeline and target long-term growth with further improved operational efficiency.*
- New Sales Channel Cooperation Highlighting Future Growth Potential** – uCloudlink has entered into an agreement with one of the largest airport retail channels in the U.S., aiming to expand the sales channels of its GlocalMe products and promote future sales growth more efficiently. As of November 2024, there have been three GlocalMe Life products, including Unicord, RoamPlug, and KeyTracker, available in stores at 38 U.S. airports to facilitate people's travel through this partnership, according to the company. uCloudlink anticipates to sign an agreement with another major U.S. airport retail channel in the fourth quarter, with cooperation with other airport channels in Europe and the U.S. in progress. We view cooperation with global airport retail channels as significant, which is expected to further expand the sales channels of its products and enhance the company's brand value, while potentially driving sales efficiently and growth.
- 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

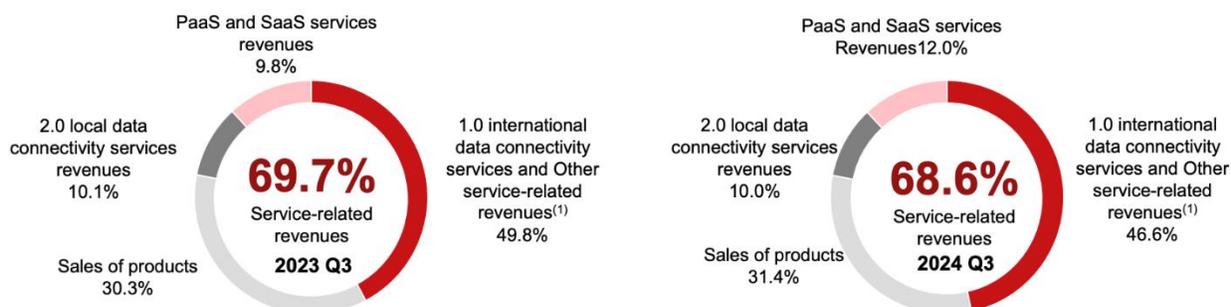
uCloudlink operates as an innovative mobile technology company that offers the world's first and leading mobile data traffic sharing marketplace to users globally. Leveraging its integral cloud SIM technology, it allows users to enjoy a smooth mobile connectivity experience without limitation to one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

Third Quarter 2024 Results

For the three months ending September 30, 2024, uCloudlink reported total revenues of \$25.2 million, an increase of 5.6% from \$23.9 million in Q3 2023. Specifically, services revenues were \$17.3 million, up 3.9% from \$16.6 million over the year, primarily due to an increase from \$13.8 million to \$14.0 million in revenues from data connectivity services, which was aided by the accelerated recovery of international travel, and a 29.1% YoY increase in revenues from PaaS and SaaS services as its business partners increasingly leveraged PaaS and SaaS services to improve operational efficiency. Revenues from sales of products grew by 9.3% YoY to \$7.9 million, mainly due to higher sales of data-related products. In terms of geographic distribution, Japan as the largest segment contributed 46.6% of total revenues, mainland China contributed 27.8%, while North America and other countries contributed 12.8% and the remaining 12.8%, respectively, compared to 44.2%, 17.2%, 26.3%, and 12.3%, respectively, in Q3 2023. Overall gross profit was \$12.2 million, or 48.4% in gross margin, compared to \$12.2 million, or 51.2% in gross margin in the same period last year. Total operating expenses were \$10.0 million, compared to \$9.2 million in Q3 2023: R&D expenses decreased by 10.3% YoY to \$1.4 million; S&M expenses were \$5.4 million, up 41.5% over the year, as the company continued to invest in promoting its newly launched products; and G&A expenses declined by 16.2% to \$3.2 million, primarily attributable to a streamlined personnel cost structure. uCloudlink’s net income for Q3 2024 was \$3.4 million, or \$0.09 per basic and diluted ADS, compared to a net income of \$3.5 million, or \$0.09 per basic and diluted ADS in the year-ago period.

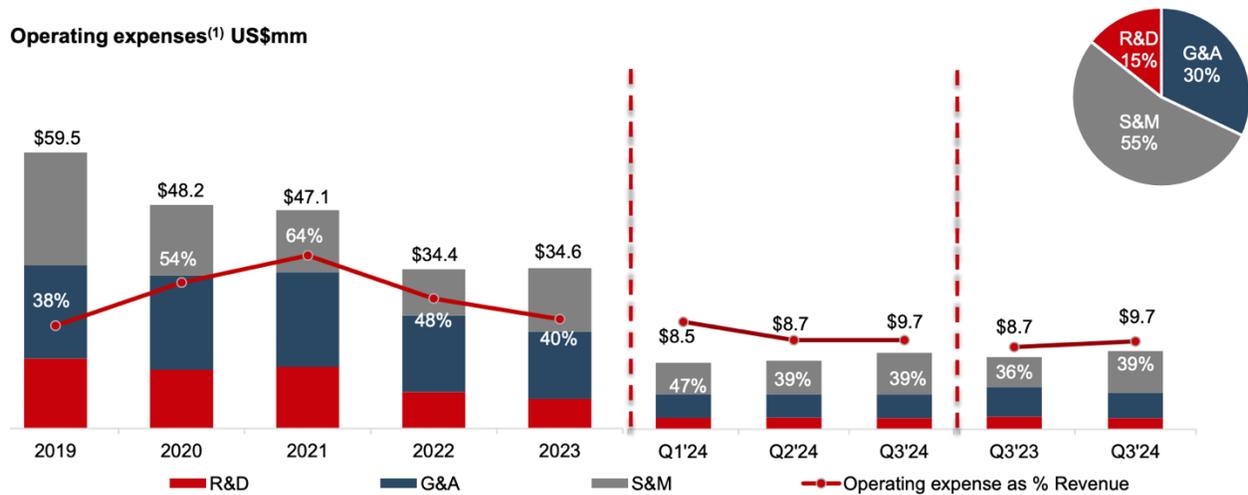
Variance Table (\$ in millions, except per share data)			
	Q3 2024E	Q3 2024A	Variance (Actual Versus Result)
Revenue	25.7	25.2	(0.5)
EPS	0.07	0.09	0.02

Source: Diamond Equity Research



Source: UCL Investor Presentation November 2024

Operating expenses⁽¹⁾ US\$mm

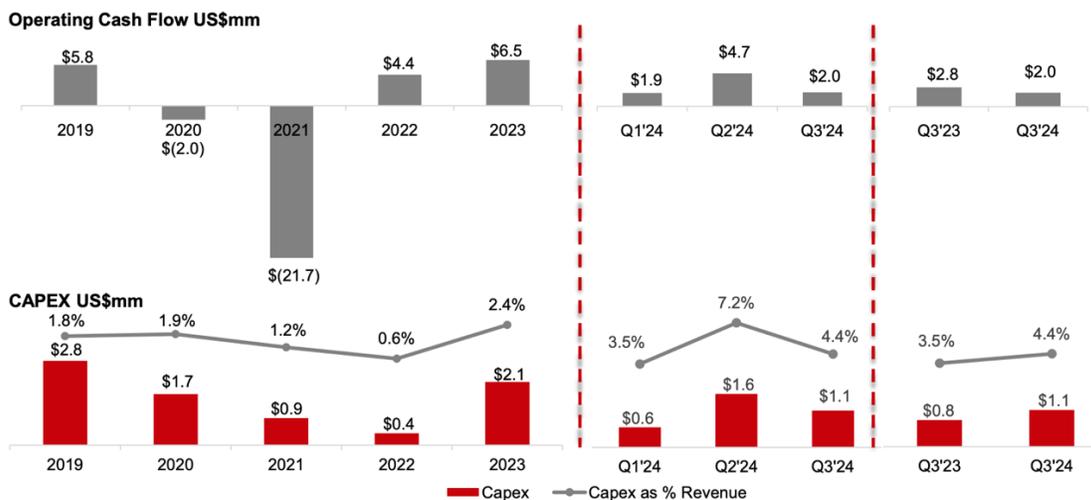


Source: UCL Investor Presentation November 2024

Liquidity and Balance Sheet

As of September 30, 2024, uCloudlink’s cash and cash equivalents totaled \$27.7 million, compared to \$26.8 million as of June 30, 2024, primarily due to the net inflow of \$2.0 million from operations and net proceeds of \$1.1 million from bank borrowings, partially offset by a payment of \$1.1 million for capital expenditures and a repayment of \$1.8 million for bank borrowings. CAPEX was \$1.1 million compared to \$0.8 million in the same period of 2023. We view the company’s continued positive operating cash flows further strengthening its balance sheet, demonstrating an ability to achieve financial sustainability to support its long-term operations and growth targets.

Operating Cash Flow US\$mm



Source: UCL Investor Presentation November 2024

Management Guidance

uCloudlink expects total revenues to be between \$25.0 and \$30.0 million for Q4 2024, representing an increase of 15.2% to an increase of 38.2% 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 2,759 business partners in 61 countries and regions, with aggregated mobile data allowances from 389 mobile network operators (MNOs) globally as of September 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 September 30, 2024, UCL had 183 patents with 158 approved and 25 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	3Q24A	4Q24E	FY24E	FY25E
REVENUES:											
Revenues from services	91.11	46.15	37.80	46.23	58.57	13.54	14.17	17.29	17.36	62.35	72.77
Sales of products	67.27	43.42	36.03	25.23	27.01	4.59	8.19	7.91	7.96	28.65	32.18
Total net revenues	158.38	89.57	73.83	71.46	85.58	18.13	22.36	25.19	25.32	90.99	104.95
Cost of services	(35.59)	(26.39)	(21.56)	(20.35)	(24.32)	(4.74)	(5.63)	(6.92)	(6.60)	(23.88)	(25.47)
Cost of products sold	(57.87)	(34.87)	(30.43)	(18.58)	(19.29)	(3.39)	(5.73)	(6.08)	(5.81)	(21.01)	(21.88)
Total cost of revenues	(93.46)	(61.26)	(51.99)	(38.93)	(43.61)	(8.13)	(11.36)	(13.00)	(12.41)	(44.89)	(47.35)
Gross (loss) profit	64.92	28.31	21.84	32.53	41.97	10.00	10.99	12.19	12.91	46.10	57.60
OPERATING EXPENSES:											
Sales and marketing expenses	(24.37)	(29.26)	(13.62)	(10.31)	(14.30)	(4.05)	(4.29)	(5.36)	(5.41)	(19.11)	(19.94)
Research and development expenses	(15.11)	(26.36)	(13.70)	(8.43)	(6.46)	(1.48)	(1.49)	(1.44)	(1.42)	(5.82)	(5.25)
General and administrative expenses	(20.22)	(43.22)	(28.55)	(18.73)	(17.12)	(3.39)	(3.30)	(3.21)	(3.76)	(13.65)	(13.64)
Other expense, net	0.29	7.55	(11.88)	(14.27)	(1.50)	(0.58)	0.34	1.15	(0.45)	0.45	0.00
Total operating expenses	(59.41)	(91.29)	(67.75)	(51.73)	(39.38)	(9.49)	(8.74)	(8.85)	(11.04)	(38.13)	(38.83)
EBIT	5.51	(62.98)	(45.91)	(19.19)	2.59	0.51	2.25	3.34	1.87	7.97	18.77
Interest income	0.19	0.04	0.01	0.02	0.07	0.01	0.03	0.01	0.01	0.06	0.07
Interest expenses	(0.44)	(0.29)	(0.19)	(0.44)	(0.13)	(0.06)	(0.05)	(0.04)	(0.04)	(0.19)	(0.18)
Amortization of beneficial conversion feature				(0.15)							
Income(loss) before income tax	5.26	(63.23)	(46.08)	(19.76)	2.52	0.47	2.23	3.31	1.84	7.85	18.66
Income tax expenses (benefits)	(0.06)	(0.19)	(0.24)	(0.16)	(0.07)	(0.02)	(0.05)	0.00	(0.05)	(0.12)	(0.28)
Share of profit in equity method investment, net of tax			0.29	0.07	0.36	(0.02)	0.05	0.08	0.06	0.18	0.31
Adj. Net profit/(loss)	5.21	(63.42)	(46.04)	(19.85)	2.81	0.43	2.24	3.39	1.85	7.91	18.70
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	2.24	3.39	1.85	7.91	18.70
Earnings per share											
Basic	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.01	0.01	0.00	0.02	0.05
Diluted	0.01	(0.25)	(0.16)	(0.06)	0.01	0.00	0.01	0.01	0.00	0.02	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	0.06	0.09	0.05	0.21	0.48
Diluted	0.10	(2.49)	(1.61)	(0.64)	0.08	0.01	0.06	0.09	0.05	0.21	0.48
Weighted Average no. of Shares outstanding (in M)											
Basic	232.18	259.85	285.98	312.49	371.73	374.77	375.49	377.12	378.12	376.37	386.37
Diluted	232.18	259.85	285.98	312.49	371.73	374.77	375.49	377.12	378.12	376.37	386.37

Source: Diamond Equity Research

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