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Americas
Equity Research
Telecommunications Services

Stock Note

MercadoLibre Q4s

Quick Take – Revenue beat, Credit expansion

Analyst

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- **What's new:** MercadoLibre reported numbers which were 10% ahead of consensus at the revenue line, driven by both Commerce (steady GMV, better take rate) as well as Fintech (TPV slowdown but better take also,). As expected, this didn't filter through to the net level as management stepped up investment efforts after a quieter Q2/Q3 lockdown period in its market (and as per prior trading update).
- **Commerce:** MELI continues to gain share in Brazil, seeing accelerating GMV growth (to 84% from 74% y/y in Q3). Promos were pushed more aggressively in Q4, as expected, whilst logistics continues to expand (although Brazil remains some way off the poster child of Mexico for fulfilment, which reached 60% here (30% in Brazil)). The take moved up 70 bps to 13.7% in Q4, suggesting recent pricing initiatives are working.
- **Fintech:** The *Credito* book expanded to almost $500m, with NPLs holding steady. We expect more initiatives here, with a Brazilian credit card in pilot. Management has also launched its first insurance product. The one area of slight disappointment was levelling off in wallet users/TPV although this was perhaps to be expected after the strong Coronavoucher take up in Q3.
- **Estimates and Valuation:** With street revenue still needing to move up, this should support the stock. After a pull back from its recent peak, we see the stock on 13x EBITDA

Buy

Ticker:	MELI:US
Price Target:	USD2,000
Potential change:	+15%

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Summary highlights – Commerce and Fintech revenue growth strong

- **Group GMV was up 110% y/y in Q4 at the group level, only just shy of the very high Q3 levels (117%) witnessed during peak lockdowns**
  - Brazilian GMV growth progression (reaching 84% y/y) continues to stand out as MELI continues to win back share here
    - Management was a lot more aggressive around Black Friday (x2 sales versus the prior year) and other promos in Q4, supported by strategic use of 1P initiatives
  - Management will continue to use 1P strategically but it won't be a pillar of strategy going forward
- **Take rates stepped up again on Commerce, by 70bps in Q4 vs Q3, once again supporting a strong <u>Group revenue beat of 10% vs the street (1% ahead of us)</u>**
  - Further Ad initiatives could support the take rate also going forward
- **Focus on logistics remains strong**
  - Managed Network penetration is up to 80% on a consolidated basis (64% in Q3); Brazil is at 76%
    - While a big driver of Brazilian success, Mexico is actually the poster child for logistics. Fulfilment here is very strong, reaching 60% of volumes on-platform. In Brazil it is still just 30% suggesting upside to come.
- **Fintech – TPV slowed to 134% y/y, but take-rate compensated; Credit accelerates, wallet engagement slows**
  - Management accelerated the loan book at Credito, up to almost $500m (from <$300m the prior quarter)
    - Delinquencies/NPLs continue to track favourably
    - Both consumer and merchant book increased. A credit card continues to be in pilot mode in Brazil, with launch expected in the coming months we sense (weeks would be better). Other initiatives included loans to pay utility bills as well as small consumer loans.
  - Management has also <u>launched an insurance product</u>, offering theft and damage for electronics; this can be taken at point of sale (on the MELI App) or anytime after purchase on the Pago App, on subscription. Attachment rates not yet disclosed
  - After a phenomenal step up in Q3 (supported by Coronavouchers), mobile wallet users levelled off slightly (~14m) and TPV did likewise; this got a fair bit of questioning on the call, as regards initiatives to drive ongoing engagement
    - Cash cards (linked to wallet balances continue to be promoted)
    - QR usage through the wallet has recovered to 20% of total use, while P2P and utility bills remain most dominant
- **Profitability was a touch weaker this quarter, as expected**
  - This was in-line at the net level with the pre-Q4 trading statement provided by management back in January

Q4 results – Another double digit consensus revenue beat

- **We summarise the key results below. As a reminder, management had pre-guided for Q4 for ongoing good growth momentum and lower net income losses than in the Q4 19 period**
  - Revenue came in 1% ahead of us but 10% ahead of consensus; Better Brazil and Mexico helped drive this
    - Given growth rates were broadly stable (see next slides) this suggests consensus continued to build in a reasonable slowdown
  - Gross profit missed us by 10%, driven by higher COGS coming 1P; this mix shift is proving hard to predict over time
  - Other expenses (G&A, Sales & Marketing, Product and Tech) such that this didn't noticeably materialise at EBITDA
  - Net loss of $51m was just lower than the Q4 2019 net loss of $54m (as per guidance)

Results summary

		NSR		Cons	
Group	**Q4 20**	**Q4 20e**	**% diff**	**Q4 20e**	**% diff**
GMV	6.57	6.95	-5%	6.35	3%
TPV	15.94	17.32	-8%	16.35	-2%
Revenue	1,327	1,312	1%	1,210	10%
- of which					
Brazil	721	693	4%	649	11%
Argentina	323	355	-9%	324	0%
Mexico	204	184	11%	190	7%
Other	79	80	-1%	47	68%
Gross profit	489	544	-10%	523	-6%
margin	36.8%	41.5%		43.2%	
Direct profit	181	140	29%		
% margin	13.6%	10.7%			
EBITDA	7	25	-71%	53	
% margin	0.6%	1.9%		4.3%	
EPS	-1.00	-0.58	nm	0.15	nm

Q4 revenue growth – very strong Q3 rate holding steady

- **We summarise the growth rates below**
- **At the group level, in local FX, growth rates for both E-Commerce and Fintech were remarkably stable vs Q3**

Y/Y growth rates

Revenue, local FX	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
Group					**71%**	**123%**	**148%**	**149%**
- Brazil	91%	89%	78%	74%	56%	87%	112%	121%
- Argentina	82%	112%	119%	103%	123%	223%	257%	230%
- Mexico	229%	260%	153%	-2%	81%	139%	139%	157%
Fintech					**83%**	**86%**	**105%**	**105%**
- Brazil					65%	47%	66%	74%
- Argentina					130%	185%	224%	185%
- Mexico					150%	168%	142%	163%
Commerce					**62%**	**149%**	**181%**	**180%**
- Brazil					48%	120%	154%	161%
- Argentina					117%	258%	286%	269%
- Mexico					71%	134%	139%	155%

Revenue, USD	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
Group	**48%**	**63%**	**70%**	**42%**	**38%**	**61%**	**85%**	**97%**
- Brazil	64%	74%	77%	61%	31%	36%	57%	68%
- Argentina	-8%	14%	39%	27%	42%	110%	145%	144%
- Mexico	221%	265%	146%	1%	74%	96%	111%	140%
Fintech					**45%**	**34%**	**52%**	**60%**
- Brazil					40%	7%	22%	33%
- Argentina					46%	85%	122%	111%
- Mexico					140%	119%	113%	146%
Commerce					**33%**	**80%**	**109%**	**124%**
- Brazil					25%	60%	88%	99%
- Argentina					38%	133%	165%	173%
- Mexico					64%	92%	110%	139%

Local growth rates for group, Fintech and E-Commerce held steady in Q4 - having picked up materially over Q2 and Q3 in the peak lockdown months

Brazil and Mexico accelerated…whilst Argentina slowed slightly

More favourable exchange rates mean this translated into accelerating USD revenue growth

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Q4 - Profitability dip as management guided to; expect investments to continue

- **We summarise margin performance below:**
  - At the time of the Q3s, and in subsequent pre-guidance for Q4, management had indicated that investment levels would rise after the slowdown in activity in the peak Covid Summer months
  - Gross profit was noticeably weaker given the increased significance of 1P (and associated COGS) while overall direct margins (which also include other opex, but exclude centra/corporate overheads) fell as expected
    - Mexico turned negative again in Q4
  - Management reminded the market that elevated investment levels will, in the main typically persist where it sees attractive growth opportunities

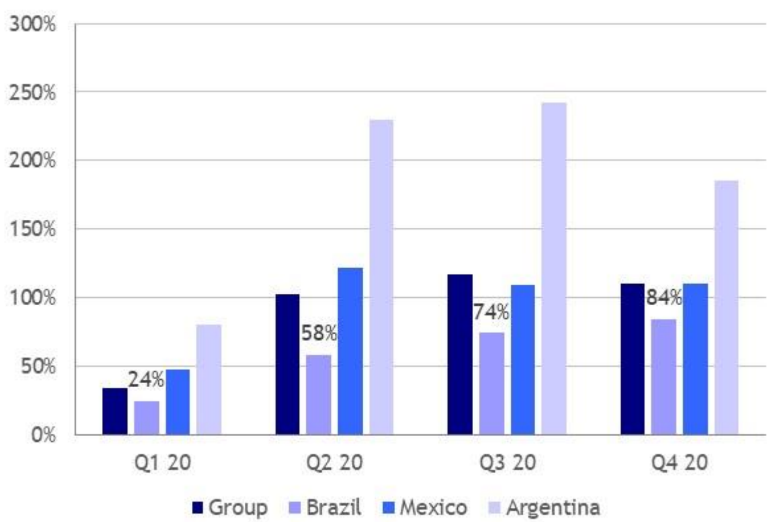
Profitability summary

	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
Gross profit margin	50.7%	47.6%	47.7%	47.2%	50.0%	50.0%	47.1%	45.7%	48.0%	48.6%	43.0%	36.8%
Direct margin	**Q1 18**	**Q2 18**	**Q3 18**	**Q4 18**	**Q1 19**	**Q2 19**	**Q3 19**	**Q4 19**	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**
Brazil	3.9%	9.7%	13.9%	17.7%	25.5%	19.0%	4.9%	12.8%	18.8%	30.2%	18.0%	14.4%
Argentina	43.8%	32.0%	27.8%	21.1%	27.7%	26.3%	23.8%	18.8%	24.0%	28.3%	32.1%	24.9%
Mexico	-54.7%	-125.0%	-21.4%	-21.5%	-20.1%	-32.3%	-45.0%	-60.2%	-21.1%	12.2%	3.7%	-5.7%
Group	13.4%	8.9%	14.3%	11.6%	20.0%	13.9%	2.4%	3.4%	13.2%	26.9%	20.0%	13.6%
EBITDA margin	-5.7%	-5.0%	0.1%	2.3%	5.4%	0.9%	-10.3%	-7.1%	-1.2%	13.9%	10.0%	0.6%
EBIT margin	**-9.2%**	**-8.4%**	**-3.1%**	**-0.2%**	**2.1%**	**-2.3%**	**-13.6%**	**-10.2%**	**-4.6%**	**11.3%**	**7.4%**	**-1.9%**

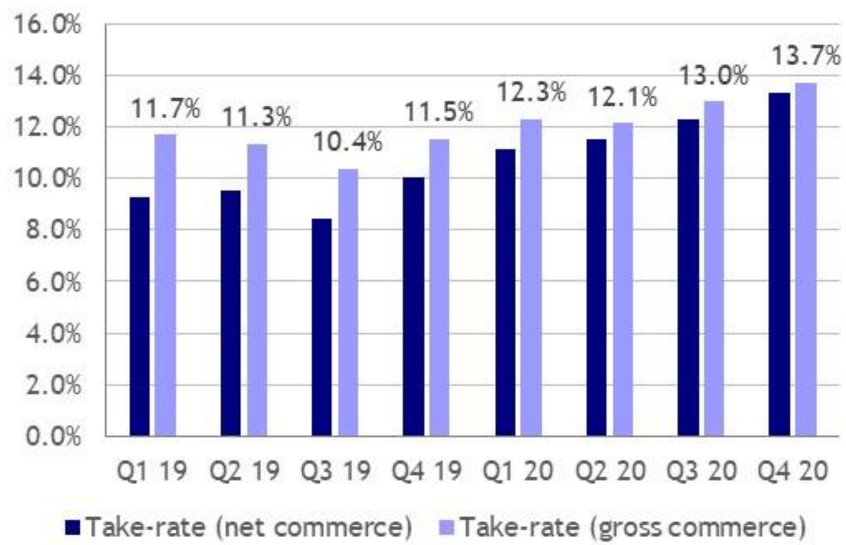
GMV trends – Brazil improvement continues; Take rates continue to move up

- **Group GMV was up 110% y/y in Q4 at the group level, only just shy of the very high Q3 levels (117%)**
  - Brazilian improvements continued to drive this, up 84% y/y, an improvement from 74% the prior Q
    - Management stressed that it had continued to take share over the course of the year
- **Take rates were up again to 13.7%**
  - Continuing recent positive momentum, up 70 bps this quarter based off gross revenue

GMV by market, y/y (constant FX)



Take rate*

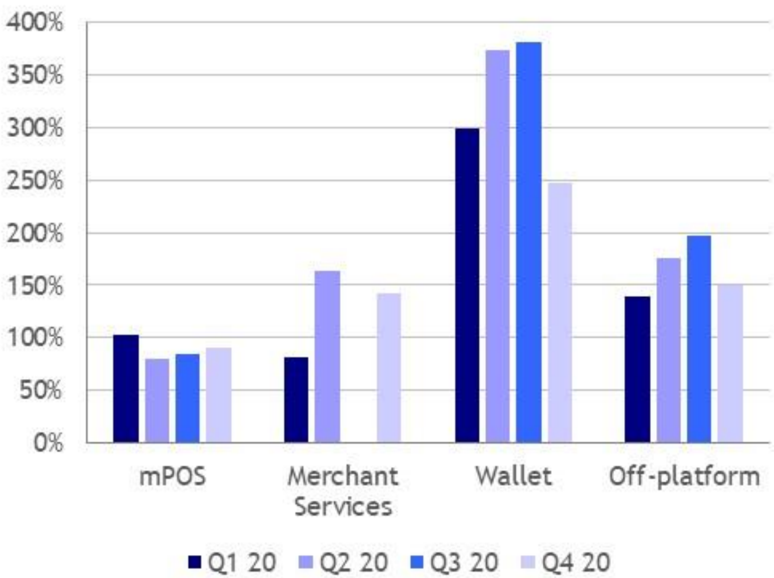


** Take rate defined as Gross Commerce (including subsidies over GMV)*

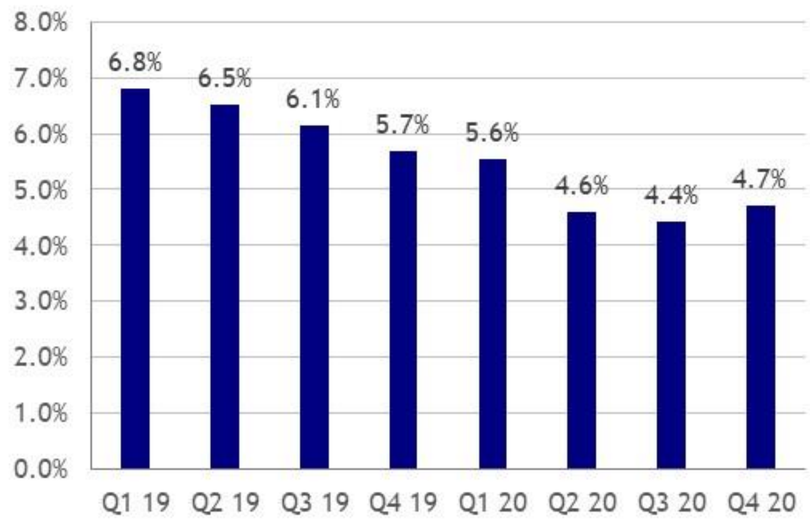
Payment trends – Take rates up

- **MELI saw TPV dip slightly in Q4 to 134% from 161% in Q3**
- **Off-platform slowed as we show below, driven by:**
  - A slowdown in wallet growth; sequentially wallet TPV was only up 3% compared to 52% the prior quarter
  - MPOS growth nudged up, approaching pre-Covid levels as shops reopened
  - Merchant Services (online) of 143% continued to be strong despite the re-emergence of bricks and mortar
- **Take rates increased this quarter, to 4.7% from 4.6% in Q3**
  - **In part this is likely to be due to the lower share of wallet TPV this quarter**

TPV off platform – by segment, y/y



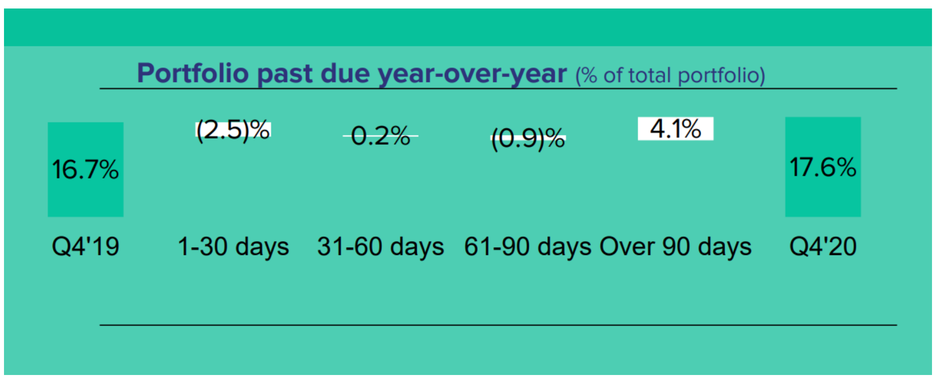
Fintech take rates



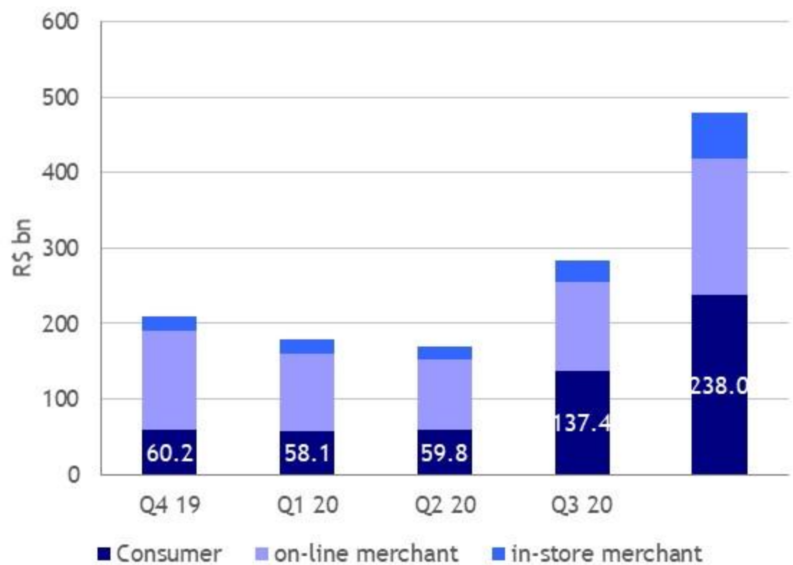
Credit confidence returning

- **Mercado Credito saw a strong pick up in the size of the loan book**
  - This reached almost $500m at the end of the year
  - Originations were in excess of $500m this quarter, x4 versus Q4 2019
  - NPL profile continues to be healthy in Q4

Credito delinquencies*



Credito developments (loan book)

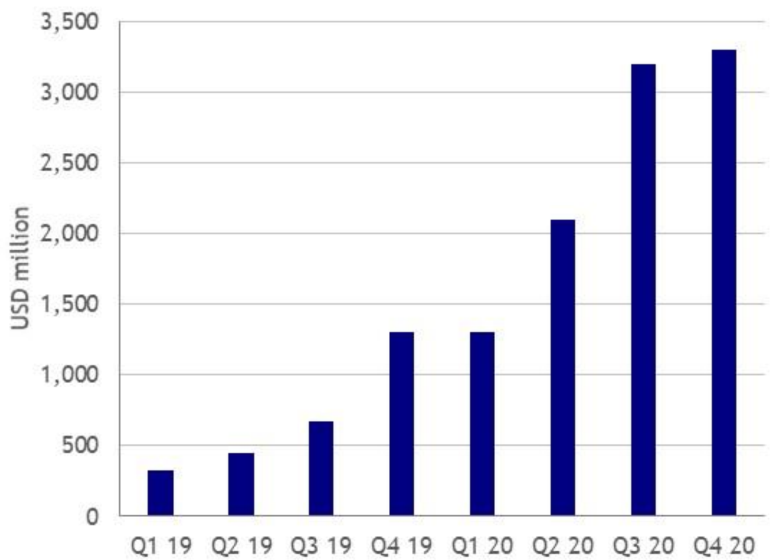


** From Q4 MercadoLibre presentation material*

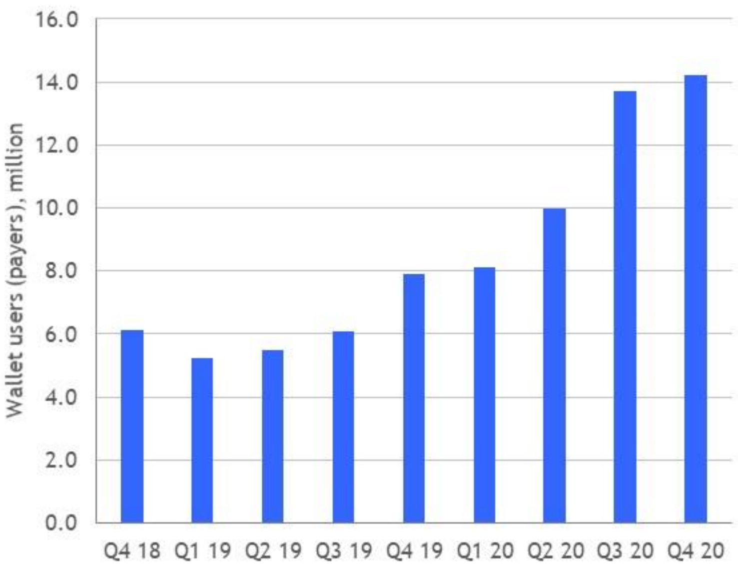
Wallet momentum slows after rapid Q3 pick up

- **Mobile Wallet users (payers) only increased from 13.7m to 14.2m in Q4**
  - This compared to the dramatic step up in Q3, from 8m in Q2, in part due to the Coronavoucher scheme
  - Wallet TPV also slowed quite dramatically, almost flat vs Q3 ($3.3bn in Q4) – implying broadly flat usage per wallet sequentially
    - As stores have opened up, QR contribution has increased back to 20% of wallet TPV
    - The bulk of the rest of wallet TPV continues to come from P2P and utility bill payment

Wallet TPV levels off in Q4



Waller users level off in Q4



** From Q3 MercadoLibre presentation material*

Disclosures

12 month historical recommendation changes are available on request

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