

# MercadoLibre (Buy) - Target lift to \$1,600; Model update post Q3s

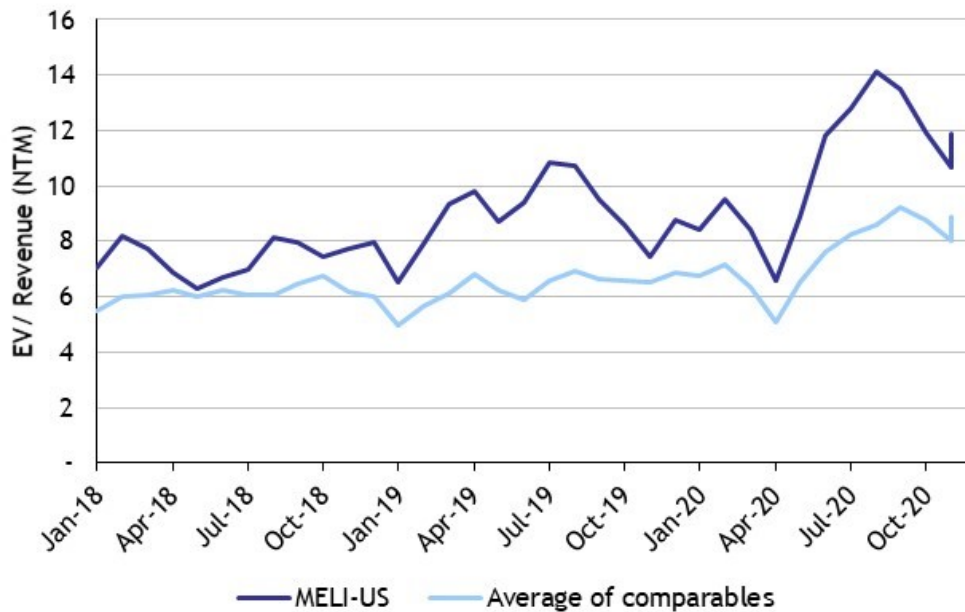
By Somit Datta | November 6, 2020

We ran through in detail our thoughts on MercadoLibre Q3s after the print. **We are now updating estimates and revising our target from \$1,450 to \$1,600/share.**

See [MercadoLibre Q3s – Strong beat; Credit getting more focus](#) for details on results.

Note that despite the bounce yesterday, MELI hasn't broadened its premium versus Payment and E-Commerce peers.

## NTM EV/Revenue vs Peers (E-Commerce and Payment blend)\*



\* Factset. Note, we use our numbers on MELI since initiation but Factset prior to that. This partly explains the

*step down in the multiple in Oct-20 (we are well ahead of sell-side consensus)*

As a reminder revenue trends came in well ahead of our and consensus expectations and we have pushed up estimates. See changes to estimates below.

In moving up numbers, we would highlight the following:

- Management appears to be feeling better about the underlying Brazil E-Commerce asset such that it feels it can compete more competitively in Q4 promotions. This looks to be a combination of:
  1. Better logistics (less reliance on *Correios*)
  2. Greater 1P optionality (an important tool in the kit for promotions). The CFO wouldn't disclose the exposure to 1P but it's likely to be low to mid-single digit of GMV
  3. More competitive pricing on key verticals such as Electronics. As well suggestive of strong GMV for Q4, it's reassuring for LT value creation in the business.
- As well as E-Commerce, Fintech is performing well. We are enthused about efforts to monetise m-wallets (particularly in Brazil) and the development of Credit. However, in the near-term the bulk of the revenue beat is coming from a combination of:
  1. Higher factoring linked to stronger GMV (on-platform factoring is booked in Fintech even though MDRs are not), and
  2. A return to better TPV on the Acquirer business, with MPOS in particular called out this quarter as having returned to pre-Covid levels. Upside for MPOS could come from moving up the value chain on merchants, as evidenced by the launch of Point Smart which offers a number of incremental services for merchants (better battery, free 4G data plan, greater payment options (chipped cards, as well as QR), printing.
- PIX will launch in Brazil in Q4 (November 16th). We don't expect a revolution overnight but it's fair to see this as the start of a positive force for both,
  1. E-Commerce more broadly, and

2. App engagement as the ~45-50m unbanked in Brazil are able to make payments on-line.

- The Andean region received more focus on the call than in the past and will start to build toward a more meaningful contribution to group GMV going forward.
- We are mindful of being too positive on profitability developments given the business is being run for growth. With that said, and after a beat at EBITDA, on the call CFO Pedro Arnt suggested that MELI had been able to find good growth at a higher level of profitability. This would be an additional positive, although ultimately the market's focus will likely remain on the top line.

We show our changes to estimates below, noting that we are still some way ahead of formal consensus.

**Changes to estimates, USD millions**

<b>NEW NSR</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Revenue	3,973	6,198	8,437
Gross profit	1,755	2,599	3,481
margin	44.2%	41.9%	41.3%
EBITDA	324	306	612
margin	8.2%	4.9%	7.3%
EBIT	215	135	359
Net income	197	116	266

<b>OLD NSR (ON INITIATION)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Revenue	3,839	5,761	7,965
Gross profit	1,766	2,591	3,512
margin	46.0%	45.0%	44.1%
EBITDA	175	283	509
margin	4.6%	4.9%	6.4%
EBIT	83	117	239
Net income	70	101	182

<b>% change</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Revenue	3.5%	7.6%	5.9%
Gross profit	-0.6%	0.3%	-0.9%
EBITDA	85.2%	7.9%	20.4%
EBIT	160.3%	16.1%	50.2%
Net income	179.9%	14.9%	45.7%

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Full 12-month historical recommendation changes are available on request

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