

DLocal

4Q is a mixed print

Maintain Rating: BUY | PO: 18.00 USD | Price: 13.78 USD

Shares reacting to take rate and balance dynamics

Under heightened investor scrutiny following the November 2022 short report, DLO delivered somewhat mixed 4Q results, with significant TPV upside, though revenues and adj. EBITDA margins slightly missed Street. A 22.5% q/q decline in corporate cash, to \$248M, was not a good optic in the aftermath of the short report, as DLO took short-term measures to re-assure lenders and merchants (this is expected to normalize starting in 2Q). Meanwhile, we think that shares are over-reacting today primarily to mix-related dynamics that are pressuring take rates (management claims that there is no material like-for-like pricing pressure). 4Q gross/net take rates of 3.6%/1.7% declined vs. 4.1%/2.0% in 3Q due to a higher share of local-to-local payouts (vs. cross-border), faster growth from large merchants, and country mix (i.e., Nigeria strong, Argentina weak). DLO provided new guidance metrics for FY23 (revs ahead of Street, adj. EBITDA modestly below), reflecting increased transparency. DLO also provided enhanced disclosures disaggregating revs by geography and TPV by product and flow type, which should be well received. NRR remained robust at 146% in 4Q, with FY22 NRR of 165% exceeding guidance of 150%+. We remain bullish on DLO's unique business model and best-in-class financial profile. We maintain our Buy rating.

Robust TPV/revs guidance for 1Q and 2023

DLO guided to 1Q23 TPV of \$3.5B-\$3.6B (66%-71% y/y growth, above BofAe/Street at \$3.15B/\$3.34B), revs of \$135M-\$138M (54%-58% y/y growth, above BofAe/Street at \$127M/\$133M), and gross profit of \$57M-\$59M (31%-35% y/y growth, below BofAe/Street at \$63M). Implied 1Q gross/net take rate was 3.8%-3.9%/1.6%-1.7% vs. BofAe/Street at 4.0%/2.0% and 4.0%/1.9%, respectively, and management suggested that this is a decent proxy for FY23 take-rate expectations. DLO does not intend to provide quarterly guidance going forward. For FY23, DLO expects revenues of \$620M-\$640M (48%-53% y/y growth, ahead of BofAe/Street at \$588M/\$619M), NRR of 140%-150%, and adj. EBITDA of \$200M-\$220M (vs. BofAe/Street at \$205M/\$228M, implying margins of 31.3%-35.5% vs. 2022 at 36.5%).

More on 4Q and new disclosures

For 4Q, TPV of \$3.30B came in above BofAe/Street at \$2.88B/\$2.99B, growing 78% y/y. 4Q revs of \$118M increased 55% y/y and 5.9% q/q, consistent with BofAe/Street at \$117M/\$119M. Rev/gross profit take rate of 3.6%/1.7% were ~50/~30bps lower than BofAe. New merchant revs in 4Q were \$7.0M (5.9% of total revs vs. 7.0% in 3Q22 and can be lumpy). Adj. EBITDA/margins of \$40.4M/34.1% were below BofAe at \$42.9M/36.8% and Street at \$42.3M/35.5%. Client concentration continues to improve as DLO's top 10 merchants were 50% of revs in 2022 vs. 56% in 2021. In 4Q, DLO added Honduras to its portfolio of countries, bringing the total to 40. New disclosures: By geography, Latam/Asia & Africa generated 78%/22% of total 4Q revs (stable q/q and vs. 94%/6% y/y), with Brazil/Mexico/Argentina/Chile contributing 20%/19%/12%/12%. Pay-ins/pay-outs were 71%/29% of 4Q TPV (vs. 75%/25% q/q and 76%/24% y/y), and cross-border/local-to-local were 53%/47% of 4Q TPV (vs. 56%/44% q/q and 63%/37% y/y).

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Timestamp: 05 April 2023 11:42AM EDT

05 April 2023

Equity

Jason Kupferberg
Research Analyst
BofAS
+1 646 855 1961
jason.kupferberg@bofa.com

Cassie Chan
Research Analyst
BofAS
+1 646 855 1829
cassie.chan@bofa.com

Melissa Chen
Research Analyst
BofAS
+1 646 855 2589
melissa.chen3@bofa.com

Mihir Bhatia
Research Analyst
BofAS
+1 415 676 3575
mihir.bhatia@bofa.com

Tyler DuPont
Research Analyst
BofAS
+1 646 855 2944
tyler.dupont@bofa.com

Stock Data

Price	13.78 USD
Price Objective	18.00 USD
Date Established	22-Dec-2022
Investment Opinion	C-1-9
52-Week Range	9.03 USD - 34.35 USD
Mrkt Val (mn) / Shares Out (mn)	4,315 USD / 313.1
Average Daily Value (mn)	20.30 USD
BofA Ticker / Exchange	DLO / NAS
Bloomberg / Reuters	DLO US / DLO.OQ
ROE (2022E)	42.6%
Net Dbt to Eqty (Dec-2021A)	-118.5%

ESGMeter™ **NLA**

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NRR: net retention rate

revs: revenues

TPV: total payment volume

vs.: versus

Price objective basis & risk

DLocal (DLO)

Our \$18 PO is based on a blend of 30x C23E adj. EPS (representing a PEG of approximately 0.7x, around a 60% discount to that of the S&P 500 given DLO's exposure to emerging markets) and our discounted cash flow (DCF) model. Our DCF model is based on a weighted-average cost of capital (WACC) of 17% and a 4% long-term growth rate.

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DLocal (DLO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	229	53.88%	Buy	107	46.72%
Hold	105	24.71%	Hold	50	47.62%
Sell	91	21.41%	Sell	29	31.87%

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