

Nubank

Boosting cash-in through partnership with third largest supermarket in Mexico

Maintain Rating: NEUTRAL | PO: 11.70 USD | Price: 11.41 USD

The partnership is key to boost cash-in option

Nubank announced an agreement with Soriana, third largest B&M food-retailer in Mexico. Clients will be able to deposit cash via the supermarkets' registers (part of Mastercard's Arcus network). Soriana has almost 800 points-of-sales, providing significant capillarity (and better access to C and D classes). We view the potential deal as positive, as it should improve cash-in in option Mexico, where 80% of consumption is paid in cash. Nonetheless, despite NU's strong earnings momentum, we maintain our Neutral rating, given demanding valuation (8.5x trailing P/B, vs ROE of 25% in '24E).

Learning from Mexican banks experience

The partnership is similar to others in Mexico, but remunerating cash deposits at a higher yield should be a key differentiator (Nu remunerates clients at 15%, above reference rate of 11.25% and traditional banks at 7-8%). Most of the Mexican banks have alliances with correspondent networks to take cash deposits, such as pharmacies, restaurants, and gas stations – similar to Nu's move. Users will be able to deposit as much as Ps5.0k (or \$295). In '23, Nu Mex registered c.Ps1.0bn in deposits.

Strategic move on a cash-based economy

Mexico remains a cash intensive economy, with c.80% of consumption paid with cash, 12% with debit and only 7% paid with a credit card. In comparison, credit cards account for 35% of consumption in Brazil and 45% in more developed countries. In Mexico, cards are mainly used for paying hospital bills and purchases at retailers. As such, we believe this strategy will help Nu Mexico to attract lower income segments in the C-segment, while today the bulk of deposits are likely coming from the A and B segments.

Lessons from Inbursa's partnership with Walmart

Inbursa has an exclusive alliance to serve Walmart's clients. Inbursa pays around Ps5 for every transaction done in Walmart, which represents an important acquisition cost. Nu Mexico will have to pay Soriana a fee for every cash-in / cash-out transaction, although the value was not disclosed. As such, Inbursa's strategy has shifted into digital channels in order to reduce the acquisition costs through Walmart or Sanborn's stores.

Open door for more alliances, as deal is not exclusive

While Walmart is out of the radar given Inbursa's exclusivity, we believe there could be other potential alliances with networks. We note that OXXO has the largest distribution network in the country and already operates a digital account (Spin), which is exploring opportunities to accelerate lending activities.

12 March 2024

Equity

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Stock Data

Price	11.41 USD
Price Objective	11.70 USD
Date Established	22-Feb-2024
Investment Opinion	C-2-9
52-Week Range	4.13 USD -11.61 USD
Mrkt Val / Shares Out (mn)	56,927 USD / 4,989.2
Free Float	77.5%
Average Daily Value	440.41 USD
BofA Ticker / Exchange	NU / NYS
Bloomberg / Reuters	NU US / NU.N
ROE (2024E)	0%
ESGMeter™	NLA

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Timestamp: 12 March 2024 11:16PM EDT

Price objective basis & risk

Nubank (NU)

We calculate our price objective of \$11.7 based on a target P/E multiple of 20x our '25 EPS estimate, which is in line with other high growth financial companies.

Downside risks to our price objective are: margin pressure from increased investments in new geographies and products as well as adverse changes to the regulatory environment. Upside risks are faster growth into new geographies, products and segments.

Analyst Certification

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Nubank (NU) Price Chart



NU — No Coverage PO

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

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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