

Mercadolibre

5 factors underscore our enthusiasm,
reiterate Buy

Maintain Rating: BUY | PO: 1,680.00 USD | Price: 1,226.49 USD

MELI leveraged to rate cuts

Anticipated rate cuts should lift take rates due to lower factoring costs for credit card receivables. Brazil futures call for cuts of 260bp by the end of '24, adding an estimated 25bp to commerce take rates. eCommerce rivals appear unable to invest in price, but we look for MELI to pass on savings in the competitive mPOS business. We also see potential upside to other businesses and markets.

ARS devaluation could hit EPS by less than 5%

The net impact from an ARS devaluation could be more modest than expected. The Blue Chip Swap Rate vs. official FX rate suggests a potential devaluation of ~50% (Exhibit 1), implying an estimated 11% hit to revenue and 18% to EBIT. Transfer pricing of Argentina-based services and lower FX losses could limit the EPS impact to less than 5%, and in some scenarios could conceivably be positive.

Transitional frictions should ease as businesses scale

Slowing developer additions suggest a likely inflection in 2024, and disciplinary logistics fees are promising. New wallet and digital account functionality could accelerate the path to profitability, as loss-making geographies near breakeven. Provisions could be a near-term headwind as origination picks up, but a long-term tailwind. Industry disruption, narrower tax disadvantages and high ASP financing could also transform 1P categories.

Advertising still has considerable runway

Advertising remains at just 1.4% of GMV vs. Amazon at 6.5%, and considerable improvement in products, placement, ad creation and management tools will accelerate adoption, in our view. MELI generates about \$280mln in EBIT for every point of advertising penetration. [See our report on MELI's ad opportunity.](#)

The promise of a highly compelling bundle

In our view, MELI offers one of the region's most compelling, loyalty-oriented, content and discount bundles. Its offer includes Disney+, Star+, and discounts on Lionsgate+, HBO Max, Paramount+ and Deezer. Adoption appears to substantially boost engagement, and we look for wider awareness and ecosystem benefits as the program evolves.

We maintain our Buy rating and \$1,680 PO on MELI.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.67	9.58	15.83	24.07	32.96
EPS Change (YoY)	NM	473.7%	65.2%	52.1%	36.9%
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	734.4x	128.0x	77.5x	51.0x	37.2x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	93.3x	41.9x	30.3x	24.2x	18.7x
Free Cash Flow Yield*	-1.6%	1.3%	1.4%	2.1%	1.7%

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Stock Data

Price	1,226.49 USD
Price Objective	1,680.00 USD
Date Established	12-Apr-2023
Investment Opinion	C-1-9
52-Week Range	611.46 USD - 1,365.64 USD
Mrkt Val (mn) / Shares Out (mn)	61,579 USD / 50.2
Average Daily Value (mn)	555.68 USD
BofA Ticker / Exchange	MELI / NAS
Bloomberg / Reuters	MELI US / MELI.OQ
ROE (2023E)	35.6%
Net Dbt to Eqty (Dec-2022A)	-51.7%

ESGMeter™ High

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MELI: Mercadolibre
GMV: Gross Merchandise Volume
TPV: Total Payment Volume
ASP: Average selling price
1P: first party

Related report

[Loyalty, content, activation, cross vertical catalyst, new revenue and big savings](#)

* For full definitions of *IQmethod*SM measures, see page 6.

iQprofileSM Mercadolibre

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.4%	12.5%	14.9%	15.1%	15.2%
Return on Equity	5.2%	28.7%	35.6%	37.3%	35.4%
Operating Margin	6.2%	9.8%	11.1%	12.0%	12.8%
Free Cash Flow	(1,006)	787	861	1,281	1,065

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	-4.6x	2.6x	1.8x	1.6x	1.1x
Asset Replacement Ratio	3.1x	1.1x	1.1x	1.1x	1.2x
Tax Rate	61.8%	38.2%	35.9%	31.8%	31.1%
Net Debt-to-Equity Ratio	-61.3%	-51.7%	-63.9%	-77.1%	-73.2%
Interest Cover	1.9x	3.2x	3.8x	4.6x	4.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	7,069	10,537	13,041	16,032	20,577
% Change	77.9%	49.1%	23.8%	22.9%	28.3%
Gross Profit	3,005	5,163	6,554	8,214	10,760
% Change	75.8%	71.8%	26.9%	25.3%	31.0%
EBITDA	645	1,437	1,982	2,484	3,222
% Change	177.0%	122.9%	37.9%	25.3%	29.7%
Net Interest & Other Income	(200)	(254)	(216)	(155)	(240)
Net Income (Adjusted)	83	482	795	1,208	1,655
% Change	NM	478.8%	64.8%	52.0%	36.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	92	482	795	1,208	1,655
Depreciation & Amortization	204	403	531	556	579
Change in Working Capital	(1,348)	(1,290)	(477)	(56)	(738)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	670	1,645	583	199	271
Capital Expenditure	(624)	(453)	(571)	(627)	(702)
Free Cash Flow	-1,006	787	861	1,281	1,065
% Change	NM	NM	9.4%	48.8%	-16.9%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	4,457	5,702	6,640	10,086	13,283
Trade Receivables	3,137	4,780	5,918	9,711	13,022
Other Current Assets	581	471	591	818	1,139
Property, Plant & Equipment	807	993	1,113	1,184	1,307
Other Non-Current Assets	1,119	1,790	2,326	2,453	2,580
Total Assets	10,101	13,736	16,587	24,252	31,331
Short-Term Debt	1,285	2,131	2,457	4,624	6,756
Other Current Liabilities	4,551	6,430	8,222	12,425	15,621
Long-Term Debt	2,233	2,627	2,501	2,502	2,504
Other Non-Current Liabilities	128	206	244	331	424
Total Liabilities	8,569	11,908	13,954	20,411	25,834
Total Equity	1,532	1,827	2,633	3,842	5,497
Total Equity & Liabilities	10,101	13,735	16,587	24,252	31,331

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Internet/e-Commerce

Company Description

MercadoLibre is Latin America's largest online marketplace operator, with a presence in 20 countries, including Brazil, Argentina, Mexico, Colombia, Chile and Venezuela. The company also operates online classifieds with listings for real estate, vehicles, and services, an online payments solution, MercadoPago, and shipping solution, MercadoEnvios. MELI completed a \$333mln IPO on August 15, 2007. The shares trade exclusively on Nasdaq.

Investment Rationale

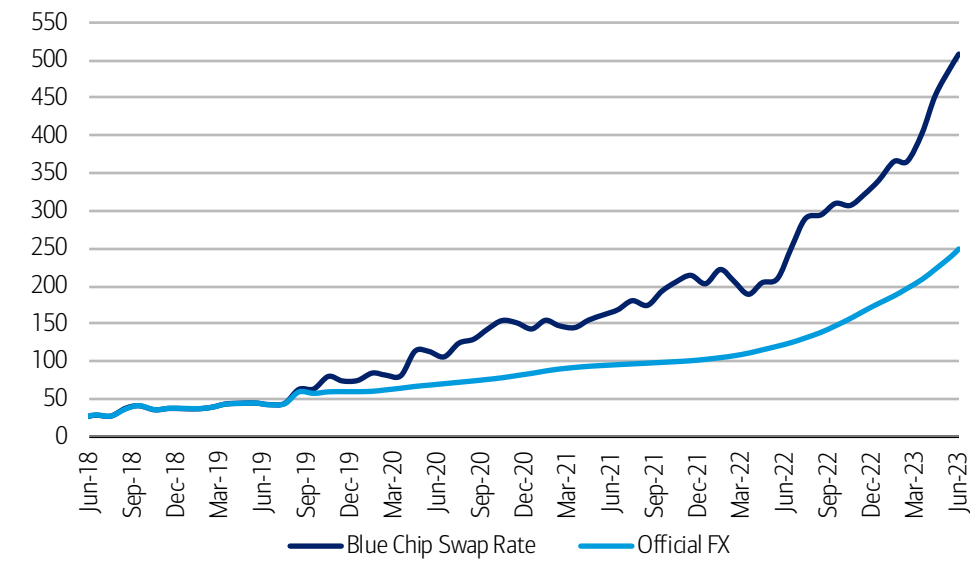
MELI is Latin America's eCommerce leader. Regional penetration rates remain low, and we see considerable opportunity for further market growth. MELI is systematically improving Net Promoter Scores by reducing transaction frictions and increasing control of payments and fulfillment. Rollout of marketplace enhancements is driving faster growth in smaller markets. Inventory centralization could also enable MELI to move into more relevant and higher velocity categories. FX and headline risk.

Stock Data

Average Daily Volume

453,068

Exhibit 1: Argentina's Blue Chip Swap Rate is about 50% weaker than the official rate
ARS/USD FX



Source: Bloomberg and BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

Mercadolibre (MELI)

Our price objective of \$1,680 is based on a sum-of-the-parts exercise valuing commerce contributions at 1.0x 2024E gross merchandise value (GMV) and fintech revenue streams at 0.2x 2024E total payments value (TPV). Our benchmarks are at the higher-end of peer comparables, due to MELI's scale, sophistication and geographic diversification.

Risks to our price objective are slower economic growth, an erosion in investor sentiment, macroeconomic sluggishness, currency weakness or devaluation, political turmoil, competition or new market entrants, execution challenges, greater-than-anticipated margin investment, higher delinquencies, higher funding costs, rising working capital needs, technological problems, cost increases, regulatory difficulties, and tax changes.

Analyst Certification

We, Robert E. Ford Aguilar, CFA, Vinicius Pretto and Wellington Santana, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arcos Dorados	ARCO	ARCO US	Robert E. Ford Aguilar, CFA
	Arezzo & Co	XARZF	ARZZ3 BZ	Robert E. Ford Aguilar, CFA
	Chedraui	GCHF	CHDRAUIB MM	Robert E. Ford Aguilar, CFA
	FEMSA	FMX	FMX US	Robert E. Ford Aguilar, CFA
	FEMSA	FMXUF	FEMSAUBD MM	Robert E. Ford Aguilar, CFA
	Grupo SOMA	XNASF	SOMA3 BZ	Robert E. Ford Aguilar, CFA
	Hypera Pharma	XHPYF	HYPE3 BZ	Robert E. Ford Aguilar, CFA
	Kimberly-Clark de México	KCDMF	KIMBERA MM	Robert E. Ford Aguilar, CFA
	Lojas Quero-Quero	XZUXF	LJQQ3 BZ	Robert E. Ford Aguilar, CFA
	Lojas Renner SA	LORPF	LREN3 BZ	Robert E. Ford Aguilar, CFA
	Magazine Luiza	MGZZF	MGLU3 BZ	Robert E. Ford Aguilar, CFA
	Mercadolibre	MELI	MELI US	Robert E. Ford Aguilar, CFA
	Multilaser	XMTLF	MLAS3 BZ	Robert E. Ford Aguilar, CFA
	Natura &Co Holding SA	XZVAF	NTCO3 BZ	Robert E. Ford Aguilar, CFA
	Natura &Co Holding SA	NTCO	NTCO US	Robert E. Ford Aguilar, CFA
	Petz	XUXUF	PETZ3 BZ	Robert E. Ford Aguilar, CFA
	RaiaDrogasil S.A.	RAIAF	RADL3 BZ	Robert E. Ford Aguilar, CFA
	Track & Field	XWZRF	TFCO4 BZ	Robert E. Ford Aguilar, CFA
	Vivara	XUVZF	VIVA3 BZ	Robert E. Ford Aguilar, CFA
	Zamp S.A	XZMPF	ZAMP3 BZ	Robert E. Ford Aguilar, CFA
NEUTRAL				
	Alpargatas S.A.	SRDDF	ALPA4 BZ	Robert E. Ford Aguilar, CFA
	Assaí Atacadista	XFCXF	ASAI3 BZ	Robert E. Ford Aguilar, CFA
	Assaí Atacadista	ASAI	ASAI US	Robert E. Ford Aguilar, CFA
	Cencosud	XCSCF	CENCOSUD CI	Robert E. Ford Aguilar, CFA
	Falabella	XDIYF	FALAB CI	Robert E. Ford Aguilar, CFA
	Grupo Carrefour Brasil	XLDPF	CRFB3 BZ	Robert E. Ford Aguilar, CFA
UNDERPERFORM				
	Alsea	ALSSF	ALSEA* MM	Robert E. Ford Aguilar, CFA
	CBD	CBD	CBD US	Robert E. Ford Aguilar, CFA
	CBD	GPSAF	PCAR3 BZ	Robert E. Ford Aguilar, CFA
	CVC	CVCBF	CVCB3 BZ	Robert E. Ford Aguilar, CFA
	El Puerto de Liverpool	ELPQF	LIVEPOLC MM	Robert E. Ford Aguilar, CFA
	Marisa Lojas SA	XZSMF	AMAR3 BZ	Robert E. Ford Aguilar, CFA
	Soriana	ONZBF	SORIANAB MM	Robert E. Ford Aguilar, CFA



Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Via S/A	GBXPF	VIA3 BZ	Robert E. Ford Aguilar, CFA
	Walmex	WMMVF	WALMEX* MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVY	WMMVY US	Robert E. Ford Aguilar, CFA
RVW	Americanas SA	BZWHF	AMER3 BZ	Robert E. Ford Aguilar, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

DenominatorTotal Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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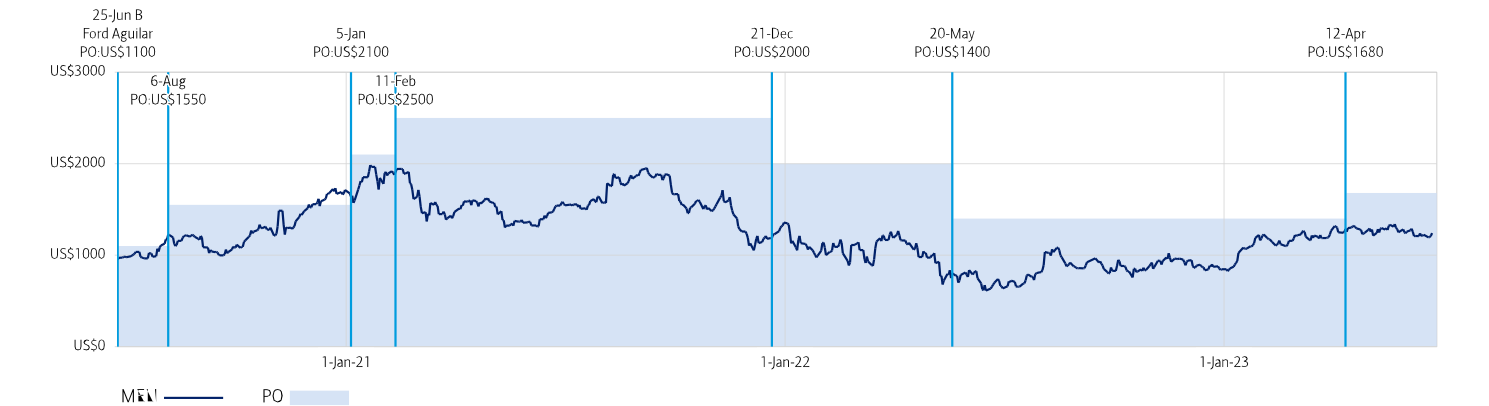
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Mercadolibre (MELI) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Mar 2023)

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%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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