

StoneCo

A bittersweet beat in 4Q23; founder leaving the board

Maintain Rating: BUY | PO: 20.00 USD | Price: 17.47 USD

Net income beat on lower expenses and effective tax rate

Stone delivered better-than-expected adjusted net income of R\$564mn (+177% YoY and 12% above BofAe); net margin expanded for an eighth consecutive quarter to 17.4%. NI annualizes to R\$2.3bn, well above guidance of more than R\$1.9bn and Consensus of R\$2.0bn. However, the stock has come under pressure after hours, as: i) the beat was supported by lower expenses and effective tax rate, while revenues came 6% below BofAe, and ii) the Company announced that Andre Street, its Founder and Chairman, will be leaving the board of directors. We maintain our Buy due to solid operating trends.

Andre Street stepping down from the board

The Company announced the departure of three board members, including that of the Chairman/Founder and Vice-Chairman, and appointed Mauricio Luchetti (board member since 2022) as Chairman and Gilberto Caldart (board member since Dec. 2023) as Vice-Chairman. Mr. Luchetti (66 years of age) has vast experience on several industries, while Mr. Caldart (64 years) has considerable experience in the payments industry. The timing of such changes was a negative surprise and follows Berkshire's recent sale of shares. Mr. Street controls 7% of total shares and 37% of the voting rights. He must maintain at least 25% of the voting rights in order to nominate the Chairman, and at least 15% of the voting rights to nominate one board member.

Positive operating dynamics in the quarter

The quarter reflected several positive operating dynamics, in line with the Company's strategy to gain market share in the MSMB segment, increase client engagement with banking products (evidenced by solid TPV growth, deposit and credit book expansion) and deliver operating leverage. Meanwhile, weaker revenue growth reflected negative seasonality in 4Q, related to weaker product mix.

On track to deliver on '24 guidance

Mgmt. maintained its '24 guidance: i) MSMB TPV >R\$412bn (+18% YoY), ii) deposits >R\$7.0bn (+14%), iii) credit book >R\$0.8bn (2.6x), iv) MSMB take-rate >2.49% (+4bp), and v) adjusted administrative expenses <R\$1.1bn (+7%), which point to net income of >R\$1.9bn (+22%). We note that even adjusting the effective tax rate to 23% in this quarter, net income annualizes to R\$2.0bn.

Key operating highlights

TPV (=): expanded 13% YoY (vs 11% YoY in 3Q), in line with BofAe, and above industry growth of 10% YoY in 4Q. Growth continued to be driven by MSMBs, which expanded 20% YoY (in line with 3Q), while large accounts fell 18% YoY (-23% in 3Q).
(Cont'd on next page)

18 March 2024

Equity

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Stock Data

Price	17.47 USD
Price Objective	20.00 USD
Date Established	16-Jan-2024
Investment Opinion	C-1-9
52-Week Range	8.63 USD -19.46 USD
Mrkt Val / Shares Out (mn)	5,711 USD / 326.9
Free Float	93.4%
Average Daily Value	77.22 USD
BofA Ticker / Exchange	STNE / NAS
Bloomberg / Reuters	STNE US / STNE.QQ
ROE (2023E)	10.9%

ARPAC: Average revenue per active client

Mg: margin

MSMB: Micro Small and Medium Businesses

TPV: Total payment volume

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Active clients (-): net adds of 191k fell from 316k in 3Q23, reflecting a sharp contraction on MSMB adds (192k from 317k), while key accounts continued to shrink, but at a slower pace (-1k vs. -3k in 3Q23). All in, total client base reached 3.5mn.

Take rate (-): reached 2.73%, -11bp QoQ, reflecting i) lower MSMB take (2.43%, -6bp QoQ), negatively impacted by seasonality, and ii) software revenues growing slower than TPV. All in, total revenues expanded 20% YoY (+25% YoY in 3Q).

Costs and expenses (+): COGS expanded 15%, slightly above TPV growth impacted by provisions for loan losses, investments and D&A. Selling expenses increased 12% YoY, while administrative expenses decreased 6% YoY, leading to total operating expenses growth of 9% YoY. Operating margin expanded 470bp YoY (reaching 51.8%).

Financial expenses (+): expanded 3% YoY, well below volume growth, reflecting lower average Selic rate in the period.

Financial solutions (=): banking client base reached 2.1mn (+9% QoQ), 60% of the acquiring client base. The credit portfolio reached R\$309mn (2.7x QoQ), while deposits expanded R\$6.1bn (+37% QoQ), reflecting higher levels of cash-in as a result of the combination of the banking and payment solution, as well as positive seasonal effects. Banking ARPAC of R\$28 increased 11% QoQ, driven by Pix QR code transactions more than offsetting lower yield over deposits given Selic rate reduction.

Linx/Software (-): revenues fell 4% YoY (+6% in 3Q), reflecting the enterprise vertical 16% YoY contraction. Adj. EBITDA margin of 16% (from 21% in 3Q) was impacted by restructuring costs of R\$11.5mn. Excluding this effect, Adj. EBITDA mg would be 19%.

Tax rate (+): effective tax rate of 11.7% came well below BofAe (24%), reflecting R&D tax incentives and gains from subsidiaries abroad (subject to different statutory tax rates Q23 review)

Exhibit 1: Q23 earnings summary

Non-GAAP net income came 12% above BofAe

R\$ mn	4Q/22	3Q/23	4Q/23E	4Q/23A	YoY	QoQ	vs. BofAe
Net Revs from Transactions	778	869	950	868	12%	0%	-9%
Net Revs from Subscription	465	463	502	459	-1%	-1%	-9%
Financial Income	1,332	1,621	1,837	1,771	33%	9%	-4%
Other Financial Income	132	187	180	151	14%	-19%	-16%
Revenue and Income	2,706	3,140	3,469	3,249	20%	3%	-6%
Cost of Services	698	774	856	803	15%	4%	-6%
Administrative Expenses	327	278	291	309	-6%	11%	6%
Selling Expenses	406	442	496	454	12%	3%	-8%
Operating expenses	1,431	1,494	1,643	1,565	9%	5%	-5%
Operating income	1,275	1,646	1,827	1,683	32%	2%	-8%
Financial Expenses	912	1,059	1,098	943	3%	-11%	-14%
Total Costs and Expenses	2,567	2,636	2,848	2,510	-2%	-5%	-12%
EBT	139	504	621	738	430%	47%	19%
Adjusted EBT	275	545	664	638	132%	17%	-4%
Net Income - GAAP	79	411	474	656	733%	60%	39%
Extraordinary income (expenses)	22	1,111	31	(92)	nmf	nmf	nmf
Net Income - non-GAAP	204	435	505	564	177%	30%	12%
EPS - reported (R\$)	0.25	1.26	1.45	2.03	720%	61%	40%
EPS - non-GAAP (R\$)	0.64	1.33	1.54	1.75	172%	31%	13%
Operating margin	47.1%	52.4%	52.7%	51.8%	471 bp	-59 bp	-84 bp
Adj. EBT margin	10.2%	17.3%	19.1%	19.6%	947 bp	230 bp	52 bp
Non-GAAP net margin	7.5%	13.9%	14.5%	17.4%	984 bp	351 bp	282 bp
Effective tax rate	26.1%	20.1%	24.0%	11.7%	-1441 bp	-848 bp	-1234 bp
TPV - R\$bn	100	104	111	114	13%	9%	2%
Active clients (th)	2,584	3,331	3,581	3,522	36%	6%	-2%
Gross take rate	2.57%	2.84%	2.95%	2.73%	16 bp	-11 bp	-22 bp
MDR	0.78%	0.84%	0.85%	0.76%	-1 bp	-7 bp	-9 bp
Software	0.46%	0.45%	0.45%	0.40%	-6 bp	-4 bp	-5 bp
Financial income	1.33%	1.56%	1.65%	1.56%	23 bp	0 bp	-9 bp

Source: BofA Global Research, Company

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Price objective basis & risk

StoneCo (STNE)

Our PO of US\$20 is derived from a target P/E of 16x on our '24 non-GAAP EPS estimate. Our target PE multiple is one standard deviation below historical average, challenging perspectives for the industry in the long-term and execution risks.

Downside risks: 1) increased competition, which could limit growth in clients and TPV, and lead to lower profitability, 2) potential regulatory changes, which could pressure pre-payment revenues, 3) poor execution in deploying the credit product could lead to high credit losses.

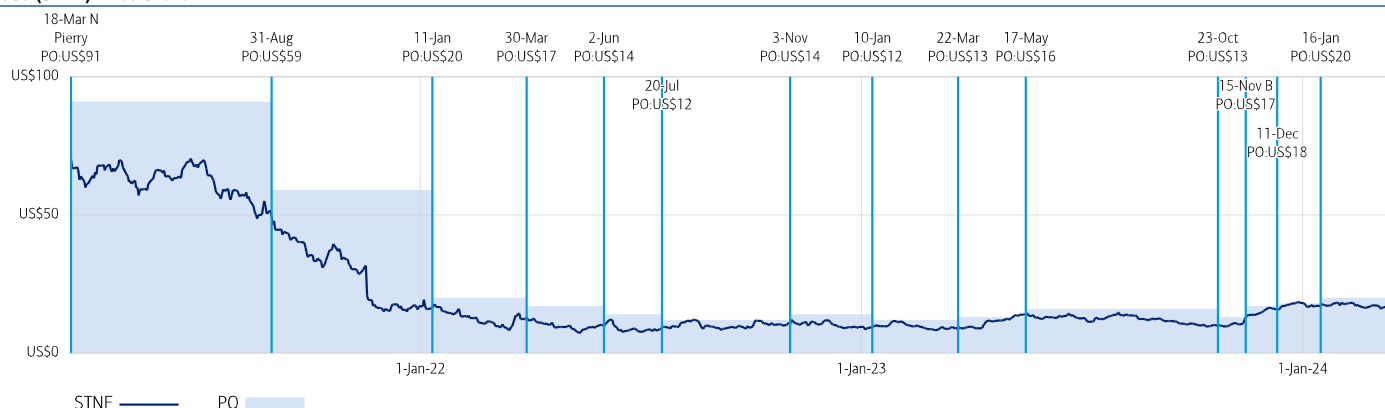
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StoneCo (STNE) Price Chart



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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%

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Buy	1895	53.62%	Buy	1083	57.15%
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Underperform	N/A	≥ 20%

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