

PagSeguro Digital Ltd

'24 guidance above BofA/Street estimates;
4Q23 in line

Maintain Rating: BUY | PO: 16.00 USD | Price: 13.83 USD

Third consecutive quarter of net margin expansion

GAAP net income growth accelerated to +20% YoY (+8% in 3Q), reaching R\$488mn, in line with BofAe. The quarter reflected improving revenue growth and better than expected opex, while take-rate came weaker than BofAe. Revenue growth accelerated to 10% YoY, supported by TPV acceleration (21% YoY, well above industry growth of 10%, which does not include Pix). Take-rate was negatively impacted by client mix, which is expected to continue in coming quarters. Opex reflected controlled selling and administrative expenses, while flattish financial expenses were supported by lower rates and deposits growth. All in, GAAP net margin reached 11.2% (+100bp QoQ), third consecutive quarter of expansion. We maintain our Buy.

Guidance suggests 19% NI growth, 7% above BofAe

The company provided non-GAAP net income guidance of R\$2,050-R\$2,150mn for '24, suggesting expansion of 16%-22% vs '23 (19% in mid-point). Mid-point of guidance is 7%/6% above BofA/BBG consensus estimates and incorporates TPV of R\$441-457bn (2% above BofAe). TPV guidance suggests growth of 12%-16% vs '23 (14% in mid-point), likely implying market share gains (vs our industry growth forecast of 11%). Guidance also suggests i) gross margin expansion of at least 110bp (we assume 280bp), ii) D&A+ POS write-off of R\$1.9-2.0bn (vs R\$2.0bn BofAe) and iii) capex of R\$2.0-2.2bn (vs R\$2.4bn BofAe). Finally, mgmt. suggested in the conference call opex growth above inflation and tax rate similar to '23 levels.

Key operating highlights

TPV (=): growth accelerated to 21% (vs 11% in 3Q), in line with BofAe, supported by improvement on all segments, greater share of wallet, and maturation of existing clients.

Active clients (-): client base fell 200k QoQ (vs BofAe with -80k), reflecting the focus on clients with better unit economics and new risk assessment/onboarding procedures.

Net take rate (-): was 6bp below BofAe (2.31%, -14bp QoQ), negatively impacted by mix (lower focus on longtail) and seasonality.

PagBank (+): revenues decreased 30% YoY (similar pace seen in 3Q23), explained by the interchange cap on prepaid and debit cards implemented in Apr '23. The loan book kept shrinking (-7% YoY and -3% QoQ), driven by weak unsecured loans performance more than offsetting payroll loans 57% YoY growth. Deposits reached R\$28bn (+33% YoY), despite the lower funding cost (94.4% of Selic from 96.4% in 4Q22)

Financial expenses (=): fell 2% YoY, as lower average Selic and greater contribution of client deposits (lower cost of funding) offset the strong increase in TPV.

Total expenses (+): increased 8% YoY (5% below BofAe), reflecting i) controlled selling expenses (-5% YoY), ii) COGS pressured by TPV (+10% YoY) and iii) administrative expenses growth of 34%, as 4Q22 was positively impacted by provisions reversal.

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12665370

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Equity

Mario Pierry
Research Analyst
BofAS
+1 646 743 0047
mario.pierry@bofa.com

Antonio Ruetter >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4225
antonio.ruetter@bofa.com

Flavio Yoshida >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4588
flavio.yoshida@bofa.com

Ernesto Gabilondo >>
Research Analyst
Merrill Lynch (Mexico)
+52 55 5201 3428
ernesto.gabilondo@bofa.com

Stock Data

Price	13.83 USD
Price Objective	16.00 USD
Date Established	16-Jan-2024
Investment Opinion	C-1-9
52-Week Range	6.93 USD - 13.89 USD
Mkt Val (mn) / Shares Out (mn)	4,478 USD / 323.8
Free Float	99.6%
Average Daily Value (mn)	37.95 USD
BofA Ticker / Exchange	PAGS / NYS
Bloomberg / Reuters	PAGS US / PAGS.N
ROE (2023E)	13.9%
Net Dbt to Eqty (Dec-2022A)	-15.4%
ESGMeter™	Medium

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POS: point of sales

SMB: small and medium businesses

TPV: Total payment volume

4Q23 review

Exhibit 1: PagSeguro – 4Q23 earnings review

GAAP net income came in line with BofAe

R\$ mn	4Q/22	3Q/23	4Q/23E	4Q/23A	YoY	QoQ	vs.BofAe
Transaction Activities	2,304	2,269	2,528	2,441	6%	8%	-3%
Financial Income	1,615	1,691	1,861	1,833	13%	8%	-2%
Other Financial Income	43	66	63	73	70%	11%	17%
Total Revenue and Income	3,962	4,026	4,451	4,347	10%	8%	-2%
Cost of Services	2,000	1,992	2,258	2,200	10%	10%	-3%
Administrative Expenses	109	203	187	147	34%	-28%	-22%
Selling Expenses	435	378	445	412	-5%	9%	-7%
Operating expenses	2,545	2,573	2,891	2,759	8%	7%	-5%
Operating income	1,417	1,453	1,561	1,588	12%	9%	2%
EBITDA	1,724	1,799	1,932	1,954	13%	9%	1%
Financial Expenses	855	820	839	841	-2%	3%	0%
Total Costs and Expenses	3,481	3,470	3,806	3,714	7%	7%	-2%
Earnings Before Taxes	480	557	645	633	32%	14%	-2%
Net Income - GAAP	408	411	488	488	20%	19%	0%
Extraordinary income (expenses)	(4)	(29)	(22)	(32)	667%	11%	49%
Net Income - non - GAAP	411	440	510	520	26%	18%	2%
EPS - reported (R\$)	1.24	1.27	1.51	1.51	22%	19%	0%
EPS - non-GAAP (R\$)	1.25	1.36	1.57	1.61	29%	18%	2%
EPS - reported (US\$)	0.23	0.26	0.31	0.31	34%	21%	0%
EPS - non-GAAP (US\$)	0.23	0.27	0.32	0.33	41%	20%	2%
Operating margin	35.8%	36.1%	35.1%	36.5%	76 bp	45 bp	147 bp
EBITDA margin	43.5%	44.7%	43.4%	45.0%	145 bp	27 bp	155 bp
GAAP net margin	10.3%	10.2%	11.0%	11.2%	95 bp	103 bp	26 bp
Effective tax rate	14%	21%	21%	18%	332 bp	-318 bp	-323 bp
TPV - R\$bnn	94.3	99.8	113.2	113.7	21%	14%	0%
Active clients (th)	7,100	6,700	6,620	6,500	-8%	-3%	-2%
Net adds (th)	(200)	(100)	(80)	(200)	nmf	100%	nmf
Monthly TPV per client	4.4	4.9	5.7	5.7	32%	17%	1%
Gross MDR	2.44%	2.27%	2.23%	2.15%	-30 bp	-13 bp	-9 bp
Financial Income per TPV	1.71%	1.69%	1.64%	1.61%	-10 bp	-8 bp	-3 bp
Take rate	4.16%	3.97%	3.88%	3.76%	-40 bp	-21 bp	-12 bp
Net take rate	2.59%	2.46%	2.37%	2.31%	-28 bp	-14 bp	-6 bp
COGS per TPV	2.12%	2.00%	2.00%	1.93%	-19 bp	-6 bp	-6 bp
Operating expenses per TPV	0.58%	0.58%	0.56%	0.49%	-9 bp	-9 bp	-7 bp
Financial Expenses per TPV	0.91%	0.82%	0.74%	0.74%	-17 bp	-8 bp	0 bp
Total costs and expenses per TPV	3.60%	3.40%	3.30%	3.17%	-44 bp	-23 bp	-13 bp

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

PagSeguro Digital Ltd (PAGS)

Our PO of US\$16 is derived from a target P/E of 14x to our '24 GAAP EPS estimate. The target PE is one standard deviation below the historical average, challenging perspectives for the industry in the long-term.

Downside risks: 1) more intense competition from peers, which could lead to take-rate pressure, 2) regulatory changes that could pressure profitability, 3) weaker macro economic scenario in Brazil, which could negatively impact TPV growth, and 4) slower decline in interest rates, which would maintain financial expenses pressured.

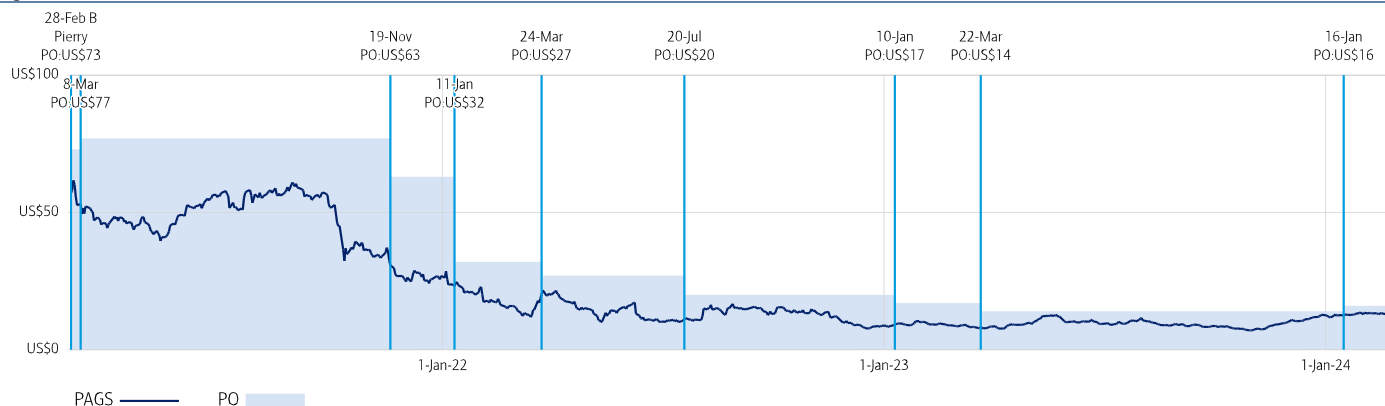
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PagSeguro (PAGS) Price Chart



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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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