

DLocal

## Strong set of 1Q results

Reiterate Rating: BUY | PO: 16.00 USD | Price: 13.98 USD

## Upside across key metrics should be + for shares

We think shares should be trading higher following DLO's strong 1Q print, with upside vs. BofAe/Street across all key metrics, while corporate cash balances showed signs of normalizing. Gross/net take rates of 3.8%/1.7% were relatively stable vs. 3.6%/1.7% in 4Q, fluctuating due to business mix. As we expected, '23 guidance was maintained. We remain bullish on DLO's unique business model and best-in-class financial profile; reiterate Buy.

## Nigeria now largest revenue contributor

Nigeria, which has higher than average gross take rate but lower gross profit margin due to higher processing costs, represented 20% of 1Q23 revs (largest single country contributor) vs. 2% in 1Q22. Competition in the country is relatively sparse and the operating environment is complex; as a result, six of DLO's top 10 merchants are now doing cross-border and local-to-local in Nigeria. 1Q23 gross profit margins of 45% would have been 54% ex. Nigeria. Management also called out Egypt, Morocco, Indonesia, and Malaysia as countries of growing relevance.

## Progress on normalizing corporate cash balances

DLO's own cash balances declined \$15M q/q, reflecting \$37M of share buybacks. This balance would have increased by \$20M including profits which were pending settlement at the end of 1Q. DLO released \$13.8M funds from restricted cash (\$9.9M of advances given to merchants and ~\$3.9M of cash held as standby letters of credit guarantees) to its own funds. DLO expect further normalization of cash during the balance of '23.

## Updating F23/F24 estimates following 1Q results

We adjust our F23 and F24 net rev/adj. EPS ests to \$638M/\$0.57 from \$635M/\$0.55 prior and \$880M/\$0.71 vs. \$876M/\$0.69 prior, respectively. We increase our PO to \$16 (from \$15 prior). **See inside for details on 1Q.**

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.26	0.43	0.57	0.71	0.89
GAAP EPS	0.26	0.42	0.57	0.71	0.89
EPS Change (YoY)	NA	65.4%	32.6%	24.6%	25.4%
Consensus EPS (Bloomberg)			0.53	0.72	0.95
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	53.8x	32.5x	24.5x	19.7x	15.7x
GAAP P/E	53.8x	33.3x	24.5x	19.7x	15.7x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	36.4x	23.6x	17.4x	14.1x	11.3x
Free Cash Flow Yield*	2.4%	3.5%	6.7%	6.7%	6.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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Timestamp: 18 May 2023 11:35AM EDT

18 May 2023

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	15.00	16.00
2023E EPS	0.55	0.57
2024E EPS	0.69	0.71
2025E EPS	0.87	0.89

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## Stock Data

Price	13.98 USD
Price Objective	16.00 USD
Date Established	18-May-2023
Investment Opinion	C-1-9
52-Week Range	9.03 USD - 33.63 USD
Mrkt Val (mn) / Shares Out (mn)	4,378 USD / 313.1
Average Daily Value (mn)	25.44 USD
BofA Ticker / Exchange	DLO / NAS
Bloomberg / Reuters	DLO US / DLO.OQ
ROE (2023E)	36.2%
Net Dbt to Eqty (Dec-2022A)	-116.1%
ESGMeter™	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> DLocal

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	NA	38.1%	39.2%	26.1%	25.8%
Return on Equity	58.4%	39.2%	36.2%	24.8%	24.8%
Operating Margin	34.3%	30.5%	30.7%	27.6%	25.5%
Free Cash Flow	107	153	294	292	274

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.2x	1.8x	1.5x	1.1x
Asset Replacement Ratio	0.4x	0.1x	1.8x	3.1x	4.2x
Tax Rate	8.9%	9.6%	10.8%	10.8%	10.8%
Net Debt-to-Equity Ratio	-118.5%	-116.1%	-131.9%	-121.4%	-124.5%
Interest Cover	NM	5.2x	7.4x	9.3x	11.8x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	244	419	638	880	1,199
% Change	NA	71.6%	52.2%	38.0%	36.3%
Gross Profit	130	202	293	375	492
% Change	NA	55.0%	45.1%	27.9%	31.3%
EBITDA	99	153	208	257	320
% Change	NA	54.4%	35.7%	23.6%	24.6%
Net Interest & Other Income	2	(8)	(8)	(6)	(6)
<b>Net Income (Adjusted)</b>	<b>82</b>	<b>133</b>	<b>178</b>	<b>221</b>	<b>278</b>
<b>% Change</b>	<b>NA</b>	<b>62.9%</b>	<b>33.2%</b>	<b>24.6%</b>	<b>25.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	78	109	167	212	268
Depreciation & Amortization	5	8	10	10	10
Change in Working Capital	25	21	125	92	29
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1	17	10	9	9
Capital Expenditure	(2)	(1)	(18)	(31)	(42)
<b>Free Cash Flow</b>	<b>107</b>	<b>153</b>	<b>294</b>	<b>292</b>	<b>274</b>
<b>% Change</b>	<b>NA</b>	<b>44.0%</b>	<b>91.4%</b>	<b>-0.5%</b>	<b>-6.1%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	336	468	771	1,464	1,297
Trade Receivables	191	240	593	933	1,383
Other Current Assets	2	59	60	55	52
Property, Plant & Equipment	2	3	9	30	61
Other Non-Current Assets	51	56	57	57	57
<b>Total Assets</b>	<b>583</b>	<b>826</b>	<b>1,491</b>	<b>2,539</b>	<b>2,850</b>
Short-Term Debt	1	1	1	1	1
Other Current Liabilities	298	422	903	1,330	1,806
Long-Term Debt	3	3	3	3	3
Other Non-Current Liabilities	1	1	2	2	2
<b>Total Liabilities</b>	<b>303</b>	<b>427</b>	<b>909</b>	<b>1,336</b>	<b>1,812</b>
<b>Total Equity</b>	<b>280</b>	<b>400</b>	<b>582</b>	<b>1,203</b>	<b>1,039</b>
<b>Total Equity &amp; Liabilities</b>	<b>583</b>	<b>826</b>	<b>1,491</b>	<b>2,539</b>	<b>2,850</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Computer Services

## Company Description

Founded in 2016, DLocal is a global payment and technology company that powers both cross-border and local-to-local eCommerce payments for over 330 merchants in 29 emerging market countries through its proprietary, cloud based platform. DLO enables global merchants to get paid (pay-in) and to make payments (pay-out) online, while enabling merchants to connect with over 600 local payment methods across geographies, all accessible through a single direct API.

## Investment Rationale

We view DLO as a niche payments and technology company with a defensible moat that addresses pain points for global enterprise merchants by solving the complexities of processing eCommerce payments in emerging market geographies. DLO has an enviable customer base comprised of some of the largest and fastest-growing enterprises in the world (i.e., AMZN and GOOG), and a very attractive blend of organic growth and profitability, both well in excess of peers.

## Stock Data

Average Daily Volume 1,819,791

## Quarterly Earnings Estimates

	2022	2023
Q1	0.10A	0.12A
Q2	0.10A	0.14E
Q3	0.12A	0.15E
Q4	0.11A	0.15E

## Additional details on 1Q + PO change

- 1Q TPV of \$3.574M (70% y/y growth) was above BofAe/Street at \$3.549M/\$3.563M (69%/70% growth) and in-line with guidance of \$3.5B-\$3.6B (66%-71% y/y growth).
- 1Q revs of \$137M increased 57% y/y, slightly above BofAe/Street at \$136M (56% y/y growth) and within guidance of \$135M-\$138M (54%-58% y/y growth).
- Client concentration worsened slightly, with DLO's top 10 merchants representing 58% of total revenues, up from 55% q/q and 52% y/y.
- New merchant revs were \$8.9M in 1Q (6.5% of total revs), up from \$7.0M in 4Q (5.9% of total revs) and can be lumpy.
- 1Q NRR of 147% was in line with FY23 guide of 140%-150%.
- 1Q gross profit of \$61.8M (45% y/y growth) was above BofAe/Street/guidance at \$58M/\$59M/\$57M-\$59M.
- 1Q Rev/gross profit take rate of 3.8%/1.7% were in line with BofAe/Street at 3.8%/1.6% and relatively stable vs. 3.6%/1.7% in 4Q.
- 1Q Adj. EBITDA/margins of \$45.5M/33.1% were above BofAe at \$41.7M/30.5% and Street at \$42.2M/31%.
- By geography, Latam/Asia & Africa generated 72%/28% of total 1Q revs (vs. 78%/22% q/q and vs. 89%/11% y/y).
  - Brazil contributed 17% (vs. 20% q/q and 21% y/y).
  - Mexico contributed 17% (vs. 19% q/q and 15% y/y).
  - Argentina contributed 15% (vs. 15% q/q and 24% y/y).
  - Chile contributed 10% (vs. 12% q/q and 14% y/y).
  - Other LatAm contributed 13% (vs. 16% q/q and 15% y/y).
  - Nigeria contributed 20% (vs. 12% q/q and 2% y/y).
  - Other Africa & Asia contributed 9% (vs. 9% y/y).
- By product type, pay-ins/pay-outs were 70%/30% of 1Q TPV (vs. 71%/29% q/q and 78%/22% y/y).
- Cross-border/local-to-local were 55%/45% of 1Q TPV (vs. 53%/47% q/q and 62%/38% y/y).
- Consistent with management commentary last quarter, DLO is not providing quarterly guidance. Management re-affirmed full year 2023 guidance for revenues of \$620M-\$640M, NRR of 140%-150%, and adj. EBITDA of \$200M-\$220M.
- On June 8, DLO will be hosting its inaugural Investor Day, in-person in NYC.
- We increase our PO to \$16 (from \$15 prior), based on a blend of 29x C23E adj. EPS (vs. 27x prior, 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, near-term decrease in corporate cash balance, and risk of further take rate degradation) and our discounted cash flow (DCF) model. Our DCF model is based on a weighted-average cost of capital (WACC) of 16% (from 17% prior) and a 4% long-term growth rate.



## Price objective basis & risk

### DLocal (DLO)

Our \$16 PO is based on a blend of 29x 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 risk of further take rate degradation) and our discounted cash flow (DCF) model. Our DCF model is based on a weighted-average cost of capital (WACC) of 16% and a 4% long-term growth rate.

Downside risks are geographic concentrations, competition, recent management departures, near-term sentiment overhang from the short seller report, further take rate degradation, migration to new internal systems, and cross-border exchange rates.

## Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Baring's BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackrock TCP Capital Corp	TCPC	TCPC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Block Inc	SQ	SQ US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	CI&T	CINT	CINT US	Jason Kupferberg
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	DLocal	DLO	DLO US	Jason Kupferberg
	EngageSmart	ESMT	ESMT US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FISV	FISV US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	Owl Rock Capital Corporation	ORCC	ORCC US	Derek Hewett
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia

## US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Ellington Financial	EFC	EFC US	Derek Hewett
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Paymentus	PAY	PAY US	Jason Kupferberg
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG Real Estate Finance Trust	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Angel Oak Mortgage Inc.	AOMR	AOMR US	Derek Hewett
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	New York Mortgage Trust	NYMT	NYMT US	Derek Hewett
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

## **IQmethod<sup>SM</sup> 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

### **Denominator**

Total 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

*IQmethod<sup>SM</sup>* is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

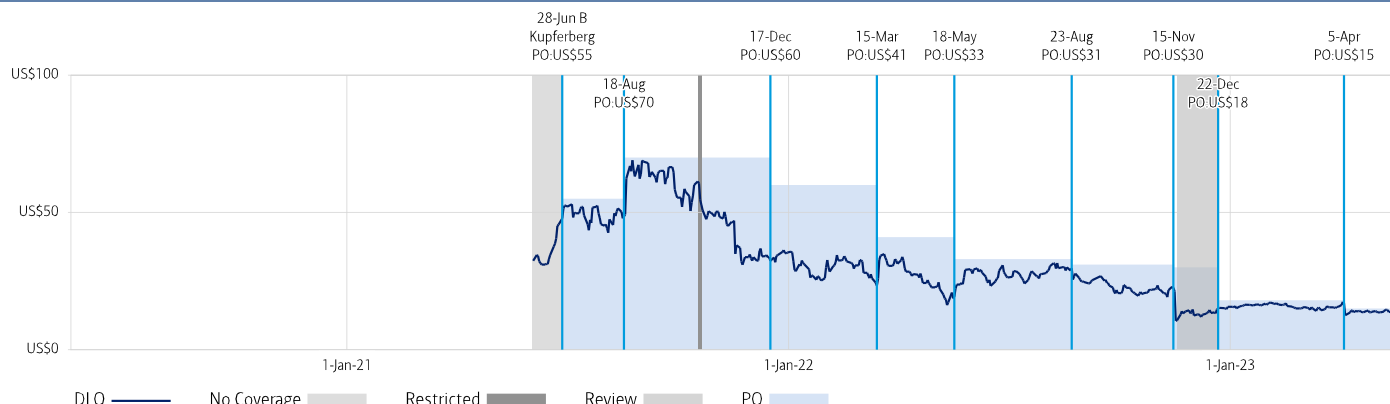
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# Disclosures

## Important Disclosures

### DLocal (DLO) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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