

## **DLocal**

# 4Q is a mixed print

Maintain Rating: BUY | PO: 18.00 USD | Price: 13.78 USD

## Shares reacting to take rate and balance dynamics

Under heightened investor scrutiny following the November 2022 short report, DLO delivered somewhat mixed 4Q results, with significant TPV upside, though revenues and adj. EBITDA margins slightly missed Street. A 22.5% q/q decline in corporate cash, to \$248M, was not a good optic in the aftermath of the short report, as DLO took shortterm measures to re-assure lenders and merchants (this is expected to normalize starting in 2Q). Meanwhile, we think that shares are over-reacting today primarily to mix-related dynamics that are pressuring take rates (management claims that there is no material like-for-like pricing pressure). 4Q gross/net take rates of 3.6%/1.7% declined vs. 4.1%/2.0% in 3Q due to a higher share of local-to-local payouts (vs. cross-border), faster growth from large merchants, and country mix (i.e., Nigeria strong, Argentina weak). DLO provided new guidance metrics for FY23 (revs ahead of Street, adj. EBITDA modestly below), reflecting increased transparency. DLO also provided enhanced disclosures disaggregating revs by geography and TPV by product and flow type, which should be well received. NRR remained robust at 146% in 4Q, with FY22 NRR of 165% exceeding guidance of 150%+. We remain bullish on DLO's unique business model and best-inclass financial profile. We maintain our Buy rating.

## Robust TPV/revs guidance for 1Q and 2023

DLO guided to 1Q23 TPV of \$3.5B-\$3.6B (66%-71% y/y growth, above BofAe/Street at \$3.15B/\$3.34B), revs of \$135M-\$138M (54%-58% y/y growth, above BofAe/Street at \$127M/\$133M), and gross profit of \$57M-\$59M (31%-35% y/y growth, below BofAe/Street at \$63M). Implied 1Q gross/net take rate was 3.8%-3.9%/1.6%-1.7% vs. BofAe/Street at 4.0%/2.0% and 4.0%/1.9%, respectively, and management suggested that this is a decent proxy for FY23 take-rate expectations. DLO does not intend to provide quarterly guidance going forward. For FY23, DLO expects revenues of \$620M-\$640M (48%-53% y/y growth, ahead of BofAe/Street at \$588M/\$619M), NRR of 140%-150%, and adj. EBITDA of \$200M-\$220M (vs. BofAe/Street at \$205M/\$228M, implying margins of 31.3%-35.5% vs. 2022 at 36.5%).

### More on 4Q and new disclosures

For 4Q, TPV of \$3.30B came in above BofAe/Street at \$2.88B/\$2.99B, growing 78% y/y. 4Q revs of \$118M increased 55% y/y and 5.9% q/q, consistent with BofAe/Street at \$117M/\$119M. Rev/gross profit take rate of 3.6%/1.7% were ~50/~30bps lower than BofAe. New merchant revs in 4Q were \$7.0M (5.9% of total revs vs. 7.0% in 3Q22 and can be lumpy). Adj. EBITDA/margins of \$40.4M/34.1% were below BofAe at \$42.9M/36.8% and Street at \$42.3M/35.5%. Client concentration continues to improve as DLO's top 10 merchants were 50% of revs in 2022 vs. 56% in 2021. In 4Q, DLO added Honduras to its portfolio of countries, bringing the total to 40. New disclosures: By geography, Latam/Asia & Africa generated 78%/22% of total 4Q revs (stable q/q and vs. 94%/6% y/y), with Brazil/Mexico/Argentina/Chile contributing 20%/19%/12%/12%. Payins/pay-outs were 71%/29% of 4Q TPV (vs. 75%/25% q/q and 76%/24% y/y), and crossborder/local-to-local were 53%/47% of 4Q TPV (vs. 56%/44% q/q and 63%/37% y/y).

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### **Stock Data**

Price 13.78 USD Price Objective 18.00 USD 22-Dec-2022 Date Established C-1-9 Investment Opinion 9.03 USD - 34.35 USD 52-Week Range Mrkt Val (mn) / Shares Out 4315 USD / 313 1

Average Daily Value (mn) 20 30 LISD BofA Ticker / Exchange DLO / NAS Bloomberg / Reuters DLO US / DLO.00 ROE (2022E) 42 6% Net Dbt to Eqty (Dec-2021A) -118.5% ESGMeter™

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NRR: net retention rate

revs: revenues

TPV: total payment volume

vs.: versus

## Price objective basis & risk

### **DLocal (DLO)**

Our \$18 PO is based on a blend of 30x 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 our discounted cash flow (DCF) model. Our DCF model is based on a weighted-average cost of capital (WACC) of 17% and a 4% long-term growth rate.

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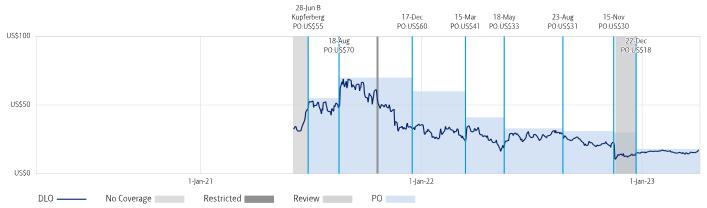
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## **Important Disclosures**

### DLocal (DLO) Price Chart



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

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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%
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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