

Mercadolibre

Mexico anti-trust review finds fault with buy box, streaming and logistics

Maintain Rating: BUY | PO: 2,000.00 USD | Price: 1,746.37 USD

COFECE finds competitive barriers, proposes remedies

The investigative team of Mexico's anti-trust regulator, the Comision Federal de Competencia Economica (COFECE), announced preliminary findings of competitive barriers among dominant marketplaces. COFECE cited concerns related to bundling of streaming and other services, buy box transparency, and logistics. The team also proposed remedies to be implemented over a three- to six-month period should the commission accept the proposals. MELI and Amazon will have an opportunity to respond, and we anticipate a process lasting 8-12 months prior to a final ruling. COFECE has not alleged wrongdoing by either company. We reaffirm our Buy rating on Mercadolibre.

Unbundling of streaming and other services

COFECE investigators allege that loyalty programs including streaming and other services unrelated to the marketplace (e.g., music and games) "artificially" attract consumers and create new barriers to entry. The team is proposing that MELI and Amazon be required to unbundle non-marketplace services and cease platform promotion.

Transparency into buy box algorithm

COFECE investigators allege that a lack of transparency into buy box determinants limits a merchant's ability to optimize commercial terms. They propose that MELI and AMZN disclose algorithm variables and weights used to determine the buy box.

Unbundling logistics, and algorithm modifications

COFECE's investigative team also believes that the use of house logistics in search algorithms and the lack of alternatives adversely impact competition and the development of third-party infrastructure. It proposes requiring both platforms to remove house logistics from search algorithms, create an API to enable integration with all third-party shippers, and modify "Prime" and "Full" designations to include shipping alternatives.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.67	9.58	19.86	31.84	45.30
EPS Change (YoY)	NM	473.7%	107.3%	60.3%	42.3%
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	1,045.7x	182.3x	87.9x	54.8x	38.6x
EV / EBITDA*	134.1x	60.1x	31.4x	29.0x	21.4x
Free Cash Flow Yield*	-1.1%	0.9%	1.5%	1.9%	2.4%

* For full definitions of *IQmethod*SM measures, see page 5.

14 February 2024

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Stock Data

Price	1,746.37 USD
Price Objective	2,000.00 USD
Date Established	27-Nov-2023
Investment Opinion	C-1-9
52-Week Range	1,063.02 USD - 1,800.09 USD
Mkt Val (mn) / Shares Out (mn)	88,186 USD / 50.5
Free Float	95.8%
Average Daily Value (mn)	616.13 USD
BofA Ticker / Exchange	MELI / NAS
Bloomberg / Reuters	MELI US / MELI.OQ
ROE (2023E)	42.1%
Net Dbt to Eqty (Dec-2022A)	-51.7%
ESGMeter™	High

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"](#).

Abbreviations:

MELI: Mercadolibre

API: Application Programming Interface

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM Mercadolibre

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.4%	12.5%	20.1%	19.8%	20.5%
Return on Equity	5.2%	28.7%	42.1%	43.2%	40.4%
Operating Margin	6.2%	9.8%	15.5%	14.4%	15.7%
Free Cash Flow	(1,006)	787	1,342	1,677	2,157

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	-4.6x	2.6x	1.9x	1.4x	1.2x
Asset Replacement Ratio	3.1x	1.1x	1.0x	0.9x	0.9x
Tax Rate	61.8%	38.2%	45.8%	37.1%	34.8%
Net Debt-to-Equity Ratio	-61.3%	-51.7%	-70.1%	-82.2%	-86.3%
Interest Cover	1.9x	3.2x	5.5x	7.2x	11.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	7,069	10,537	14,404	16,633	21,693
% Change	77.9%	49.1%	36.7%	15.5%	30.4%
Gross Profit	3,005	5,163	7,329	8,484	11,133
% Change	75.8%	71.8%	42.0%	15.8%	31.2%
EBITDA	645	1,437	2,756	2,984	4,030
% Change	177.0%	122.9%	91.8%	8.3%	35.0%
Net Interest & Other Income	(200)	(254)	(393)	161	96
Net Income (Adjusted)	83	482	998	1,608	2,288
% Change	NM	478.8%	107.0%	61.1%	42.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	92	482	998	1,608	2,288
Depreciation & Amortization	204	403	527	591	616
Change in Working Capital	(1,657)	(1,418)	(1,323)	15	(246)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	979	1,773	1,665	(11)	73
Capital Expenditure	(624)	(453)	(526)	(525)	(574)
Free Cash Flow	-1,006	787	1,342	1,677	2,157
% Change	NM	NM	70.5%	25.0%	28.6%
Share / Issue Repurchase	1,034	(148)	(356)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	595	1,064	335	610	1,243

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	4,457	5,702	6,818	9,106	12,505
Trade Receivables	3,137	4,780	6,903	8,523	11,724
Other Current Assets	581	471	768	925	1,216
Property, Plant & Equipment	807	993	1,140	1,074	1,032
Other Non-Current Assets	1,119	1,790	2,754	3,037	3,352
Total Assets	10,101	13,736	18,383	22,665	29,830
Short-Term Debt	1,285	2,131	2,591	3,201	4,445
Other Current Liabilities	4,551	6,430	9,791	11,802	15,344
Long-Term Debt	2,233	2,627	2,183	2,184	2,185
Other Non-Current Liabilities	128	206	288	339	430
Total Liabilities	8,569	11,908	15,467	18,142	23,018
Total Equity	1,532	1,827	2,916	4,524	6,811
Total Equity & Liabilities	10,101	13,735	18,383	22,665	29,830

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Internet/e-Commerce

Company Description

MercadoLibre is Latin America's eCommerce leader, with a presence in 20 countries, including Brazil, Argentina, Mexico, Colombia, Chile and Peru. Its marketplace accounts for about 97% of GMV. The company also operates online classifieds with listings for real estate, vehicles, and services, and a shipping solution (MercadoEnvios). Its fintech arm includes online and offline payments processing and digital accounts (MercadoPago), and credit business (MercadoCredito). The shares trade on Nasdaq.

Investment Rationale

MELI is Latin America's eCommerce leader. Regional penetration rates remain low, and we see potential for growth. MELI is improving service levels and reducing frictions, and we see opportunities across verticals, including both marketplace and first-party commerce, advertising, loyalty, payments and fintech. Cross-border eCommerce threats appear to be fading quickly as political opposition to Brazil's \$50 de minimis for cross-border eCommerce escalates.

Stock Data

Average Daily Volume

352,806

Initial takeaways

The COFECE investigation is industry-wide, and does not allege wrongdoing

The COFECE investigation was into marketplaces in general, and focused on MELI and Amazon based on market share and high Herfindahl-Hirschman Index (HHI) scores. In our view, the HHI is an oversimplified measure that effectively equates industry concentration with market power and anti-competitive behavior, and fails to account for differences in industry structure or elements of natural monopoly. COFECE's proposals also fail to recognize consumer benefit, which we look for the commission to weigh more deliberately.

The procedure now moves to a process with the full commission

Following the end of the investigation, the COFECE process now moves to the full Board of Commissioners, consisting of nine members. The investigative team will be given a forum to present its findings. MELI and Amazon will be given an opportunity to defend and present arguments, introduce new evidence and expert economic and legal opinions, and propose alternative solutions. The full process is expected to take 8-12 months, and MELI could move to litigate afterwards.

Unbundling of streaming services would likely hit AMZN harder than MELI

MELI+ membership in Mexico is believed to have fewer than 1mn subscribers and the bundle is believed to be near breakeven. As a result, we look for limited adverse impact to MELI. Its largest rival, however, could suffer disproportionately due to a greater reliance on content. The current proposal, however, also suggests the unbundling of all unrelated digital services as well as MELI's ability to promote within its platform, potentially limiting new horizontal platform opportunities.

MELI may already be Mexico's fastest and least expensive shipper

The COFECE recommendation effectively to unbundle shipping would allow third-party shippers to contest platform volumes, but also suggests a continued ability to weight algorithms with other elements, including quality, speed, and presumably shipping costs. Given MELI's 70%+ fulfillment penetration in Mexico, high last mile densities, growing ability to mix items from multiple sellers into a single box, and the advent of a MELI delivery day, we believe MELI will likely to prove the fastest and most cost-efficient option for sellers, an outcome we believe can be easily reflected in platform algorithms. MELI does, however, lose an estimated 3ppts of GMV (gross merchandise value) in fulfillment and shipping subsidies, and we suggest the proposal is likely to delay monetization.

Buy box opacity

MELI's buy box is not a black box, and the company does share key elements of its algorithm with sellers. Greater transparency into all variables and weightings would allow search to be gamed and could result in areas of quality lapse, in our view. Elements promoting platform synergies could also be at risk.

Price objective basis & risk

Mercadolibre (MELI)

Our price objective of \$2,000 is based on a sum-of-the-parts exercise valuing commerce contributions at 0.9x 2025E gross merchandise value (GMV) and fintech revenue streams at 0.2x 2025E off-platform total payments value (TPV). Our benchmarks are at the higher-end of global peers (commerce 0.2-0.9x, fintech 0.1-0.2x), due to MELI's leadership and growth potential.

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				
	Alsea	ALSSF	ALSEA* MM	Robert E. Ford Aguilar, CFA
	Arcos Dorados	ARCO	ARCO US	Robert E. Ford Aguilar, CFA
	Arezzo & Co	XARZF	ARZZ3 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
	Chedraui	GCHF	CHDRAUIB MM	Robert E. Ford Aguilar, CFA
	CVC	CVCBF	CVCB3 BZ	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
	Mercadolibre	MELI	MELI US	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
	RaiaDrogasil S.A.	RAIAF	RADL3 BZ	Robert E. Ford Aguilar, CFA
	Smartfit	XSMRF	SMFT3 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
NEUTRAL				
	Alpargatas S.A.	SRDDF	ALPA4 BZ	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
	Magazine Luiza	MGZZF	MGLU3 BZ	Robert E. Ford Aguilar, CFA
	Multilaser	XMTLF	MLAS3 BZ	Robert E. Ford Aguilar, CFA
	Petz	XUXUF	PETZ3 BZ	Robert E. Ford Aguilar, CFA
UNDERPERFORM				
	CBD	CBD	CBD US	Robert E. Ford Aguilar, CFA
	CBD	GPSAF	PCAR3 BZ	Robert E. Ford Aguilar, CFA
	El Puerto de Liverpool	ELPQF	LIVEPOLC MM	Robert E. Ford Aguilar, CFA
	Grupo Casas Bahia SA	GBXPF	BHIA3 BZ	Robert E. Ford Aguilar, CFA
	Lojas Renner SA	LORPF	LEN3 BZ	Robert E. Ford Aguilar, CFA

Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Soriana	ONZBF	SORIANAB MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVF	WALMEX* MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVY	WMMVY US	Robert E. Ford Aguilar, CFA

iQ^{method}™ 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

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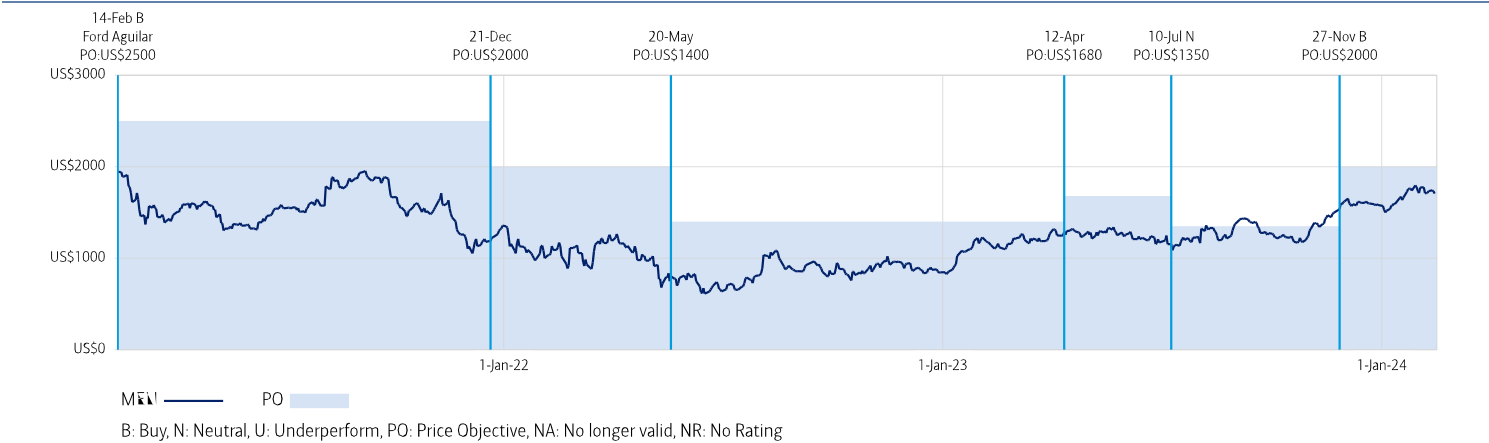
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Mercadolibre (MELI) Price Chart



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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%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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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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