

# Latin America Retail & eCommerce

## 1Q23E – Little good news as rates, policy generally weigh on results

Price Objective Change

### Salary mass, inflation, credit growth and observations

Job creation and wage improvements are driving salary mass growth in most markets. However, individual wages are generally lagging food inflation, which in combination with greater spending on leisure and away-from-home occasions, appear to be weighing on discretionary categories. In an effort to sustain higher spending levels, consumers are generally taking on greater debt in Chile, Colombia, Mexico and Peru while sustaining higher levels of credit growth in Brazil. We perceive aggregate weakness in discretionary segments, particularly in lower, and more heavily indebted, income groups.

### Cross-border, bankruptcy, dispersion in growth/profit

As markets lap high prior-year consumption levels and interest rates remain elevated, we generally look for deceleration and contraction, particularly in more leveraged economies and market segments. We also suggest that cross-border eCommerce growth in Brazil is materially altering historical consolidation patterns following periods of economic distress, as tax arbitrage undercuts traditional leadership. We find exceptions driven by the Americanas bankruptcy filing, Mexico's 20% minimum wage increase, near-shoring and low indebtedness, innovation, and consolidation as well-capitalized market leaders outperform.

### Lowering estimates, updating price objective

We are lowering EPS estimates and price objective for: Assaí, converting former Extra locations more slowly and at higher cost.

#### Exhibit 1: We are lowering price objective for Assaí

Summary price objective changes

Company	BofA Ticker	Investment Opinion		Currency	Price Objective		
		From	To		From	To	% Chg.
Assaí	XFCXF	C-2-7	C-2-7	BRL	23.0	20.0	-13.0%
Assaí ADR	ASAI	C-2-7	C-2-7	USD	22.0	19.5	-11.4%

Source: BofA Global Research

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Equity  
Latin America  
Retail & eCommerce

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**Refer to important disclosures on page 8 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 5.**

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Timestamp: 26 April 2023 05:09PM EDT

**Exhibit 2: We expect a wide range of results for 1Q23**

LatAm Retail and eCommerce estimates for 1Q23 – Figures in millions, Post IFRS-16 figures

Company	Currency	Report Date	SSS		Net Revenue			EBITDA			EBITDA Margin			Net Income		
			1Q22	1Q23E	1Q22	1Q23E	% Chg	1Q22	1Q23E	% Chg	1Q22	1Q23E	% Chg	1Q22	1Q23E	% Chg
Arcos Dorados	USD	17-May	42.0%	24.9%	791	943	19.2%	78	90	15.1%	9.9%	9.6%	-34 bps	25	30	24.1%
Assaí Atacadista	BRL	4-May	6.7%	8.0%	11,443	15,304	33.7%	752	953	26.8%	6.6%	6.2%	-34 bps	214	132	-38.4%
FEMSA	MXN	28-Apr	n.a.	n.a.	147,636	176,703	19.7%	19,694	20,976	6.5%	13.3%	11.9%	-147 bps	3,986	15,764	295.5%
CBD	BRL	3-May	-0.9%	6.0%	3,910	4,501	15.1%	224	220	-2.1%	5.7%	4.9%	-86 bps	(149)	(329)	120.2%
MercadoLibre Inc.	USD	3-May	n.a.	n.a.	2,248	2,829	25.8%	223	318	42.5%	9.9%	11.2%	131 bps	65	97	49.7%
Natura &Co.	BRL	8-May	n.a.	n.a.	8,253	8,382	1.6%	596	669	12.4%	7.2%	8.0%	77 bps	(643)	(339)	-47.2%

Post-IFRS 16

Adjusted EBITDA figures for Arcos Dorados, Assaí, GPA and Natura

Net Income continuing operations for CBD

SSS for Assaí and CBD excludes calendar effects. CBD SSS considers Brazil operations only

Source: BofA Global Research estimates

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# 1Q23E: We expect exceptionally wide breadth

- **Arcos Dorados (ARCO):** We expect strong same store sales growth and market share gains, despite some q/q deceleration. Easing food costs, operating leverage and digital initiatives should mitigate the impact of higher royalties. Lower net financing costs and taxes expected to drive earnings growth, as ARCO laps prior-year FX gains.
- **Assaí (ASAI):** We forecast same-store sales to decelerate sequentially as some categories start to show signs of deflation, limiting the format's attractiveness, while delayed expansion limits new space contribution to sales growth; price investment and Extra hypermarket conversions should slow operating leverage, while higher interest rates also contribute to EPS contraction. We are reviewing our estimates to incorporate the delay in the conversions openings, and as a result we are lowering our 2023E/2024E/2025E EPS forecasts from R\$0.98/1.49/2.11 R\$0.90/1.33/1.92, and we are also lowering our price objective from R\$23 to R\$20 (ADR from US\$22 to US\$19.50), still based on a 15x multiple of forward year (2024E) EPS, a narrow discount to wholesale and atacarejo peers like PriceSmart, as we continue to perceive Assaí to be exceptionally well managed and positioned to further consolidate the Brazilian food retail and wholesale markets over the longer term. We reiterate our Neutral rating on the shares.

**Exhibit 3: Assaí summary estimate changes**

Lowering estimates and PO; reiterate Neutral rating; BRL mn

	ASAI3 BZ			ASAI US					
	From	To		From	To		From	To	
Opinion	C-2-7	C-2-7		C-2-7	C-2-7				
Price Objective (BRL)	23.00	20.00		22.00	19.50				
	2023E			2024E			2025E		
	From	To	% Chg	From	To	% Chg	From	To	% Chg
Net Revenue	75,777	73,011	-3.6%	89,769	87,220	-2.8%	100,909	97,959	-2.9%
EBITDA	5,357	5,066	-5.4%	6,646	6,354	-4.4%	7,660	7,321	-4.4%
Net Income	1,323	1,208	-8.7%	2,007	1,798	-10.4%	2,840	2,594	-8.7%
EPS (R\$)	0.98	0.90	-8.2%	1.49	1.33	-10.7%	2.11	1.92	-9.0%

Source: BofA Global Research estimates

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- **FEMSA (FEMSA/FMX):** We expect top-line momentum to remain strong at OXXO, but loyalty and digital initiatives, as well as KOF margin pressure, could limit consolidated EBITDA growth. A gain on the sale of Heineken shares is likely to drive

strong headline earnings growth. We look for additional disclosure on Envoy Solutions, OXXO's international, and soft discount operations.

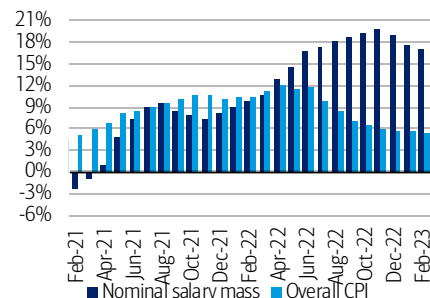
- **MercadoLibre (MELI):** We look for MELI to accelerate market share gains, and sustain strong GMV and TPV growth rates despite pressures on consumer spending. Better monetization, credit and advertising contributions, and operating leverage should drive EBIT margin expansion and earnings growth. Headline non-performing loans likely to remain high, but we look for commentary on improvements in the quality of newer cohorts.
- **GPA (PCAR):** We expect Brazilian supermarkets SSS to decelerate sequentially, still lagging inflation, and we also forecast some deceleration for Exito, which was previously benefitting from strong demand and market exits. As GPA continues to review its assortment, we expect the sale of discontinued inventory to pressure margins, while high interest rates also contribute for a net loss in the quarter.
- **Natura &Co (NTCO):** We look for comps to ease sequentially as NTCO laps Omicron and Russia/Ukraine war disruption in 1Q22. FX will be a headwind, and we continue to perceive challenges at The Body Shop and Avon. High funding costs forecast to drive a net loss ahead of the sale of Aesop, which should enable deleveraging. Our forecasts do not yet book Aesop as a discontinued operation.



# Consumer Diagnostics

## Exhibit 4: Nominal salary mass leading inflation by 11.5 ppts in February

Brazil, Nominal salary mass vs Overall CPI, %Chg y/y

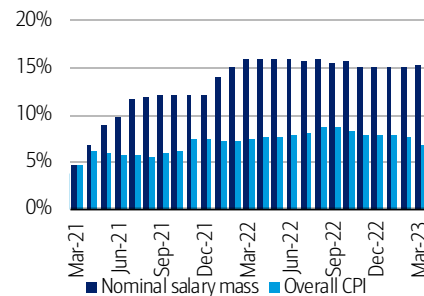


Source: IBGE, BofA Global Research

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## Exhibit 5: Salary mass up a nominal 15.4% in March

Mexico, Nominal salary mass vs Overall CPI, %Chg y/y

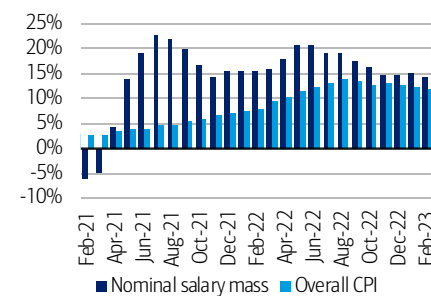


Source: INEGI, BofA Global Research

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## Exhibit 6: Salary mass 2.5 ppts ahead of overall inflation

Chile, Nominal salary mass vs Overall CPI, %Chg y/y

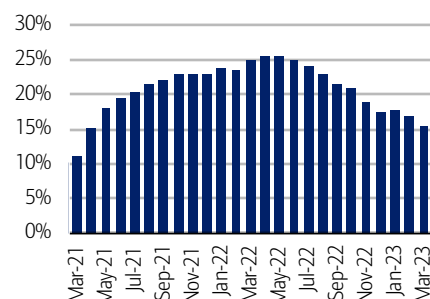


Source: INE

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## Exhibit 7: Brazil consumer credit growth running 15.4% in last print

Brazil, consumer credit, %Chg y/y

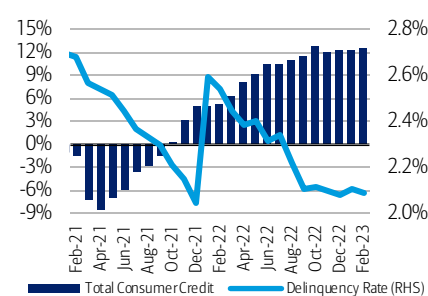


Source: Banco Central do Brasil, BofA Global Research

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## Exhibit 8: Consumer credit growth remains strong, up 12.6% in February

Mexico, consumer credit, %Chg y/y

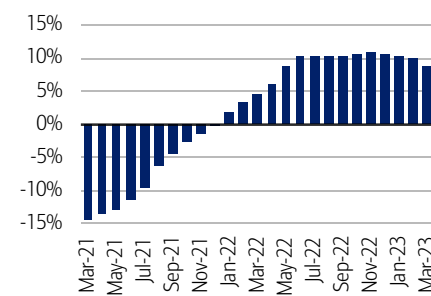


Source: Banco de Mexico, BofA Global Research

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## Exhibit 9: Consumer credit growth is accelerating recently

Chile, consumer credit, %Chg y/y

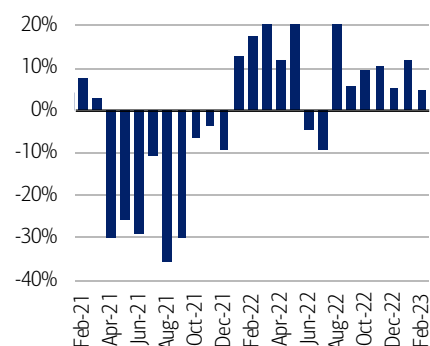


Source: Banco Central de Chile, BofA Global Research

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## Exhibit 10: Government spending up 4.6% y/y in last print

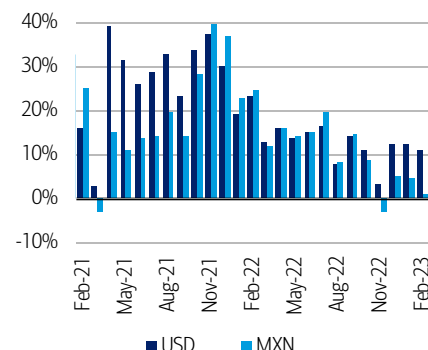
Total Government expenditure, %Chg y/y



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## Exhibit 11: Remittances decelerating, but still growing

Mexico, Remittances, %Chg y/y



Source: Banco de Mexico, BofA Global Research

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**Exhibit 12: Companies referenced**

Company ratings and prices as of April 25, 2023

Company	BofA Ticker	Bloomberg Ticker	Rating	Price	Price Currency
Arcos Dorados	ARCO	ARCO US	B-1-7	7.89	USD
Assaí Atacadista	XFCXF	ASAI3 BZ	C-2-7	12.52	BRL
FEMSA	FMXUF	FEMSAUBD MM	A-1-8	172.93	MXN
GPA	GPSAF	PCAR3 BZ	C-3-9	14.94	BRL
MercadoLibre	MELI	MELI US	C-1-9	1,247.28	USD
Natura &Co	XZVAF	NTCO3 BZ	C-1-8	10.55	BRL

Source: Bloomberg, BofA Global Research

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**Price objective basis & risk****Arcos Dorados (ARCO)**

Our \$10 price objective is based on a 15x forward-year (2024E) EPS, within ARCO's historical valuation range and supported by strong execution and market share gains.

Risks to our price objective are weaker investor sentiment, operating restrictions, COVID or other transmission concerns, corporate governance, including differential voting and no tagalong rights, competition, weaker local FX rates, asset write-downs, higher input costs, rising labor costs, excessive investment requirements, restrictions on promotions and advertising, other regulatory changes, execution challenges, competition, macroeconomic sluggishness, debt and/or franchise agreement breaches, and political uncertainties.

**Assaí Atacadista (XFCXF / ASAI)**

Our PO of R\$20 (US\$19.5 per ADS) is based on a 15x multiple of 2024E EPS, a narrow discount to wholesale and atacarejo peers like PriceSmart, as we continue to perceive Assai to be exceptionally well managed and positioned to further consolidate the Brazilian food retail and wholesale markets over the longer term

Risks to our price objective are weaker investor sentiment, an erosion in demand, food deflation, competition, execution lapses, higher funding costs, dilutive acquisitions, adverse tax or regulatory changes and corporate governance.

**CBD (GPSAF)**

Our R\$14 price (ADR US\$2.8) objective is based on a 10x 2024E EPS estimate for Almacenes Exito, as contingencies, competition, capital structure and tax reform place GPA's longer term value at risk.

Downside risks to our price objective are macroeconomic weakness, an erosion in market sentiment, consumption sluggishness, higher interest rates, tax or regulatory changes, electricity rationing, contingencies or other liabilities, competition, execution challenges, dilutive acquisitions, corporate governance and adverse consolidation events. Upside risks to our price objective are stronger investor sentiment, stronger demand, lower interest rates, more benign competition, better execution, favorable industry consolidation, and favorable tax or regulatory changes

**CBD (CBD)**

Our R\$14 price (ADR US\$2.8) objective is based on a 10x 2024E EPS estimate for Almacenes Exito, as contingencies, competition, capital structure and tax reform place GPA's longer term value at risk.



Downside risks to our price objective are macroeconomic weakness, an erosion in market sentiment, consumption sluggishness, higher interest rates, tax or regulatory changes, electricity rationing, contingencies or other liabilities, competition, execution challenges, dilutive acquisitions, corporate governance and adverse consolidation events. Upside risks to our price objective are stronger investor sentiment, stronger demand, lower interest rates, more benign competition, better execution, favorable industry consolidation, and favorable tax or regulatory changes.

### **FEMSA (FMX)**

Our price objective of Ps210 (US\$110 per ADS) is based on a 20% discount to net asset value, and equates to a 20x multiple of forward-year (2024E) EPUnit. We incorporate market value for Coca-Cola FEMSA and use a tax-adjusted value for Heineken. We assume a 10.8x 2023E EV/EBITDA for FEMSA's remaining retail, quick service restaurant, fuel, logistics and specialized distribution businesses, within the range of its regional peer group. We view this as appropriate given OXXO's strong brand positioning and longer-term growth potential, as well as Mexican political risk. We value FEMSA's digital wallet, Spin, using a DCF to equity exercise (nominal cost of equity of 12.2%, terminal growth rate of 5%), and apply a 30% discount.

Risks to our price objective are macroeconomic weakness, an erosion in investor sentiment, store closures or other disruption, currency weakness, adverse policy developments, adverse tax or regulatory changes, higher delinquency rates, competition, rising raw materials prices, execution challenges, dilutive acquisitions, and corporate governance.

### **FEMSA (FMXUF)**

Our price objective of Ps210 (US\$110 per ADS) is based on a 20% discount to net asset value, and equates to a 20x multiple of forward-year (2024E) EPUnit. We incorporate market value for Coca-Cola FEMSA and use a tax-adjusted value for Heineken. We assume a 10.8x 2023E EV/EBITDA for FEMSA's remaining retail, quick service restaurant, fuel, logistics and specialized distribution businesses, within the range of its regional peer group. We view this as appropriate given OXXO's strong brand positioning and longer-term growth potential, as well as Mexican political risk. We value FEMSA's digital wallet, Spin, using a DCF to equity exercise (nominal cost of equity of 12.2%, terminal growth rate of 5%), and apply a 30% discount.

Risks to our price objective are macroeconomic weakness, an erosion in investor sentiment, store closures or other disruption, currency weakness, adverse policy developments, adverse tax or regulatory changes, higher delinquency rates, competition, rising raw materials prices, execution challenges, dilutive acquisitions, and corporate governance.

### **Mercadolibre (MELI)**

Our price objective of \$1,680 is based on a sum-of-the-parts exercise valuing commerce contributions at 1.0x 2024E gross merchandise value (GMV) and fintech revenue streams at 0.2x 2024E total payments value (TPV). Our benchmarks are at the higher-end of peer comparables, due to MELI's scale, sophistication and geographic diversification.

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.

### **Natura &Co Holding SA (XZVAF / NTCO)**

Our R\$22 price objective (\$8.50 per ADR) is based on a 30% discount to a revenue-based sum-of-the-parts exercise, benchmarked against industry peers with similar growth and quality profiles. We use a 4x 2023E revenue multiple for Aesop and a 1.7x multiple for Natura & Co Latam.

Risks to our price objective are more sluggish-than-expected economic growth, poor execution or adverse regulatory pressure on Aesop's China entry, an inability to migrate consultants towards social selling, supply and production disruptions, competition, higher raw material prices, higher funding costs, wider-than-expected losses at Avon and The Body Shop, currency weakness, regulatory and tax changes, dilutive acquisitions, and erosion of investor sentiment.

## **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.

## **Special Disclosures**

BofA Securities is acting as Financial Advisor to Natura & Co Holding SA regarding the potential control sale of its stake at Aesop Retail Pty Ltd to L'Oreal SA, which was announced on April 3, 2023.

## Latin America - Consumer Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arcos Dorados	ARCO	ARCO US	Robert E. Ford Aguilar, CFA
	Arezzo & Co	XARZF	ARZZ3 BZ	Robert E. Ford Aguilar, CFA
	Chedraui	GCHF	CHDRAUIB MM	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
	Magazine Luiza	MGZZF	MGLU3 BZ	Robert E. Ford Aguilar, CFA
	Mercadolibre	MELI	MELI US	Robert E. Ford Aguilar, CFA
	Multilaser	XMTLF	MLAS3 BZ	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
	Petz	XUXUF	PETZ3 BZ	Robert E. Ford Aguilar, CFA
	RaiaDrogasil S.A.	RAIAF	RADL3 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
	Zamp S.A	XZMPF	ZAMP3 BZ	Robert E. Ford Aguilar, CFA
<b>NEUTRAL</b>				
	Alpargatas S.A.	SRDDF	ALPA4 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
	Cencosud	XCSCF	CENCOSUD CI	Robert E. Ford Aguilar, CFA
	CVC	CVCBF	CVCB3 BZ	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
	Lojas Renner SA	LORPF	LREN3 BZ	Robert E. Ford Aguilar, CFA
<b>UNDERPERFORM</b>				
	Alsea	ALSSF	ALSEA* MM	Robert E. Ford Aguilar, CFA
	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
	Marisa Lojas SA	XZSMF	AMAR3 BZ	Robert E. Ford Aguilar, CFA
	Soriana	ONZBF	SORIANAB MM	Robert E. Ford Aguilar, CFA
	Via S/A	GBXPF	VIA3 BZ	Robert E. Ford Aguilar, CFA
	Walmex	WMMVF	WALMEX* MM	Robert E. Ford Aguilar, CFA
	Walmex	WMMVY	WMMVY US	Robert E. Ford Aguilar, CFA
<b>RVW</b>				
	Americanas SA	BZWHF	AMER3 BZ	Robert E. Ford Aguilar, CFA

## Disclosures

## Important Disclosures

## Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	22	66.67%	Buy	15	68.18%
Hold	4	12.12%	Hold	3	75.00%
Sell	7	21.21%	Sell	3	42.86%

## Equity Investment Rating Distribution: Consumer Products Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	36	49.32%	Buy	16	44.44%
Hold	17	23.29%	Hold	8	47.06%
Sell	20	27.40%	Sell	9	45.00%



**Equity Investment Rating Distribution: Health Care Group (as of 31 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	232	56.86%	Buy	104	44.83%
Hold	86	21.08%	Hold	44	51.16%
Sell	90	22.06%	Sell	23	25.56%

**Equity Investment Rating Distribution: Restaurants Group (as of 31 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	15	50.00%	Buy	7	46.67%
Hold	8	26.67%	Hold	4	50.00%
Sell	7	23.33%	Sell	6	85.71%

**Equity Investment Rating Distribution: Retailing Group (as of 31 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	89	53.94%	Buy	37	41.57%
Hold	34	20.61%	Hold	14	41.18%
Sell	42	25.45%	Sell	23	54.76%

**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: Textiles/Apparel Group (as of 31 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	13	52.00%	Buy	5	38.46%
Hold	6	24.00%	Hold	6	100.00%
Sell	6	24.00%	Sell	2	33.33%

**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.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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