



# Buy MercadoLibre

David Gardner | April 26, 2017 | [Buy Recommendation](#)

CURRENT PRICE: [MELI](#) \$ 971.44 ↑ \$ 17.67 (1.9%) Cập nhật vào 04/26/2017

**CORRECTION:** The original version of this report gave an incorrect number for MercadoLibre's revenue as a percentage of gross merchandise volume in 2015. It was about 9.1%. We're sorry for the error.

**This is the fourth time we've recommended MercadoLibre!** When we re-recommend a stock, it's a sign of extra confidence in a company we already know well. While we don't advocate buying too much of any stock, we think you should give this one a longer look as you build a well-diversified portfolio of 15 or more stocks to own for at least three to five years.

This month's recommendation scarcely needs an introduction. Latin American e-commerce powerhouse **MercadoLibre** ([NASDAQ: MELI](#)) is one of our most popular stocks. It's been a fixture on our scorecard for the past eight years. It's one of our Starter Stocks, as well as a frequent Best Buy Now. And today, I'm formally recommending it for a *fourth* time.

Members who bought after any of our previous recommendations have made out pretty well. Each position is beating the market — by more than 1,200 percentage points in the case of our original selection from February 2009, and by about 60 percentage points for our two most recent nods. Why am I convinced that a fourth serving will be similarly rewarding?

Having the right business in the right place at the right time is a pretty simple formula for success, but it's perhaps more impressive that MercadoLibre has succeeded with the right business in some of the world's most troubled economies. That hasn't stopped it from growing at an impressive pace, a testament to both the company's management team and the business' network effect. And if those winds eventually shift to MercadoLibre's back, we'll see a great performance become even better.

MercadoLibre is a long-term winner, and it's not too late to profit from its rise.

## Small Footprint, Big Attitude

MercadoLibre was initially conceived by CEO Marcos Galperin as he worked on his MBA at Stanford. He launched the site in 1999, and five years later, it was selling almost \$300 million worth of merchandise across its platform. In those days, it was often billed as "the eBay of Latin America," focusing on an online auction and a payment service similar to **PayPal** ([NASDAQ: PYPL](#)). It was so successful, eBay decided to stop competing on its turf and invest in it instead.

Lately, as MercadoLibre has focused on its platform for fixed-price sales, shipping, and advertising, there's been a different comparison: **Amazon.com** ([NASDAQ: AMZN](#)). Unlike Amazon, MercadoLibre sells only third-party goods and doesn't take possession of inventory. But its success is similarly impressive. In 2016, \$8 billion in gross merchandise value (GMV) was sold over MercadoLibre's platform, with the company

### WHAT IT DOES

MercadoLibre operates an e-commerce system in 19 Latin American countries, including Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay, and Venezuela.

### WHY BUY

- MercadoLibre continues to push its big advantage, leading market share in most of the countries it serves.
- Revenue and profits are growing despite difficult economic climates in the company's main markets.
- Brazil's deep economic recession appears to be leveling out.

### KEY DATA

- **Headquarters:** Buenos Aires, Argentina
- **Website:** [MercadoLibre investor relations](#)
- **Sign of a Breaker:** First Mover
- **Market Cap:** \$9.9 billion
- **Cash/Debt:** \$488 million / \$314 million
- **Revenue (2014/'15/'16):** \$557 million / \$652 million / \$844 million
- **Earnings (2014/'15/'16):** \$73 million / \$106 million / \$136 million
- **Recent Price:** \$223.82

### BUYER'S GUIDE

- **Industry:** Retail
- **Size:** Mid Cap
- **Region:** Latin America
- **Risk:** 5 out of 25 ([see all our stocks here](#))
- **Crushability:** Carbon Steel ([see the full scale here](#))
- **Most similar to:** Zillow, Shopify

capturing about 10.6% of that (\$844 million) as revenue and about 2.4% (\$195 million) as operating income. Those are similar figures to eBay itself — which captured 10.7% of GMV as revenue last year and 2.8% as operating income — yet MercadoLibre has less than a tenth of eBay's GMV. Indeed, just 3.1% of Amazon's *revenue* dropped to the operating income line last year. MercadoLibre is getting similar leverage off its platform at a far smaller scale by acting solely as the middleman.

Moreover, it continues to improve. Revenue as a percentage of GMV was around 9.1% in 2015 and 7.8% in 2014. So even if GMV growth were to slow, the company should be able to continue boosting profits and cash flow. In fact, we're expecting a reacceleration of GMV growth.

## Trouble at Home

Recall that 54% of MercadoLibre's revenue comes from Brazil, and another 31% from Argentina. These have not exactly been easy times in those markets. Brazil, in particular, has seen a stark change of fortunes since we first recommended MercadoLibre in 2009.

Back then, investors and economists were abuzz about the so-called BRIC nations. Brazil, Russia, India, and China were leading global economic growth, and a thesis originally put forward by **Goldman Sachs** ([NYSE: GS](#)) suggested that by 2050, Brazil and Russia would lead the world in the supply of raw materials.

That's a long time from now, so there's no telling how things may change. But since 2014, Brazil has been in the midst of the biggest depression in its history. China's once-massive demand for Brazil's commodities began to evaporate a few years ago, as that country saw its own growth slow and began to focus more on internal consumption. Both Brazil's government and state-owned oil company **Petrobras** ([NYSE: PBR](#)) have been wracked by massive scandals. The currency and the stock market went into freefall, and the economy entered deep recession.

In 2015, Brazil's economy contracted 3.8%. Retail sales fell 4.3%. And yet MercadoLibre's revenue rose 17% *in dollars*. That's particularly remarkable considering that the Brazilian *real* declined 33% in value in 2015. Even taking Brazil on its own, sales were up 6.2%.

In 2016, Brazil's economy shrank another 3.6%. Retail sales fell a record 6.2%. But MercadoLibre's revenue rose 30%. In Brazil, dollar-denominated revenue climbed 56.6%.

Brazil is still in recession, but the International Monetary Fund and most economists are forecasting at least tepid growth this year. Likewise, Argentina's GDP shrank 2.3% in 2016, but is now growing and expected to rise at a healthy pace (in the 3% range) in 2017. We're not here to make macroeconomic calls, but we don't think we need to see robust economic growth for MercadoLibre's prospects to improve. Simple stabilization of the currency — which has already begun with both the Brazilian *real* and the Argentinian *peso* — and some improvement in Brazil's record-high unemployment rate (currently over 12%) should help the retail climate and get more people online. Latin America is still relatively early in its shift to e-commerce, and the past few years haven't made things easier for anyone.

## Risks and When We'd Sell

MercadoLibre's remarkable success has not been lost on competitors. eBay was once happy to leave Latin America to MercadoLibre and be a passive investor, but no more; it rolled out its own Spanish- and Portuguese-language sites across Latin America in 2014. Amazon competes in most of MercadoLibre's markets, as does **Alibaba** ([NYSE: BABA](#)). And homegrown competition is rising. Sites like Buscapé, Americanas, Submarino, and Cnova are all fighting for online shoppers. MercadoLibre has a long lead, but it will need to keep spending to improve its services and user experience, and that could cut into margin improvement.

Also, while we expect Brazil's economy to improve, the timing, strength, and longevity of any recovery is highly uncertain. Moreover, it may not immediately bring strong benefits to MercadoLibre. It is possible that as inflation eases — which is happening now — consumers will temporarily cut back on spending and rebuild savings.

## The Foolish Bottom Line

MercadoLibre's huge success under difficult conditions is no accident. Galperin and his team have delivered thousands of packages across Latin America and delivered great returns for investors. With economic conditions stabilizing and hopefully soon improving in the company's biggest markets, we may finally get to see what MercadoLibre can do when it isn't running uphill.

*Karl Thiel contributed to this report.*

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*Financial data from S&P Global Market Intelligence.*

*Data as of April 21, 2017.*

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[Aaron Bush](#) owns shares of Amazon, MercadoLibre, PayPal Holdings, Shopify, Zillow Group (A shares), and Zillow Group (C shares). [David Gardner](#) owns shares of Amazon, MercadoLibre, and Zillow Group (C shares). [David Kretzmann](#) owns shares of Amazon, MercadoLibre, Zillow Group (A shares), and Zillow Group (C shares). [Tom Gardner](#) owns shares of Shopify, Zillow Group (A shares), and Zillow Group (C shares). The Motley Fool owns shares of Amazon, eBay, MercadoLibre, PayPal Holdings, Shopify, Zillow Group (A shares), and Zillow Group (C shares).



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Market data provided by FactSet and Web Financial Group.