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Nu Holdings | Latin America

Purple Clash: The Bull-Bear Debate

We hosted a roundtable with investors to discuss NU. Bulls pointed to underappreciated upside in payroll loans and long-term structural strengths, and argue short-term risks may be priced in. Bears focused on NIM pressure, growth challenges, and macro uncertainty. We are bullish: NU is our Top Pick.

We hosted an investor roundtable on Nubank that offered valuable insight into current sentiment and key debates. Interestingly, the balance between bulls and bears appeared nearly even, while many investors with deep familiarity are currently on the sidelines — having previously been either long or short the stock. Key topics included the path of net interest margin (NIM), the new private payroll loan product, PIX financing, the macroeconomic backdrop, and overall competitive dynamics in Brazil. We'd like to thank the 30+ local and international investors who participated and shared their perspectives.

Positive Takeaways

- Private Payroll Loans: Overlooked Upside.** Several investors see the new private payroll loan product as an underappreciated growth engine that could expand credit access without significantly pressuring risk-adjusted NIM. Nubank's cost and tech advantages position it well to dominate this product.
- Short-Term Risks Seen as Priced In.** Investors noted that concerns like PIX and NIM pressure appear to be reflected in the current share price. Some see a very attractive entry point, especially with long-term growth drivers intact.
- Structural Advantages Support Long-Term Story.** Nubank's low cost-to-serve and superior tech stack continue to support significant cross selling and market share opportunity; high ROE should ensue.

Negative Takeaways

- Ongoing NIM Dynamics.** Concerns persist around the drag from PIX financing and potential cannibalization from lower-yielding private payroll loans. Even some bulls were cautious on NIM over the next quarter or so.
- Negative Second-Order Effects from Private Payroll Loans.** Investors worry the product could lead to higher credit card NPLs and open the door for incumbents to compete more aggressively for NU's lower-income customers.
- Skepticism on Growth Durability.** Some believe NU has already maxed out its credit market share, especially in credit cards and unsecured loans, and lacks a clear edge in high-income segments or the increasingly crowded payroll loan space.
- Macro Uncertainty.** With Brazil's 2H25 macro outlook uncertain, some investors question NU's continued credit growth and stable delinquency.

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Nu Holdings Ltd. (NU.N, NU UN)
Top Pick

Brazil Financial Institutions | Brazil

Stock Rating	Overweight			
Industry View	No Rating			
Price target	US\$18.00			
Shr price, close (Apr 10, 2025)	US\$10.25			
Mkt cap, curr (mm)	US\$51,147			
52-Week Range	US\$16.15-9.02			
Fiscal Year Ending	12/24	12/25e	12/26e	12/27e
EPS (US\$)**	0.40	0.56	0.88	1.32
Prior EPS (US\$)**	-	-	-	-
P/E	26.2	18.2	11.6	7.8
EPS (US\$)§	0.43	0.56	0.81	1.17
Div yld (%)	-	-	-	-

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

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Bears note that incumbent banks remain more conservative.

Roundtable reinforces our conviction in NU — our Top Pick in Latam. We believe our panel accurately reflects the prevailing bear thesis on NU. In our view, most of the arguments raised were either backward-looking (e.g., concerns about PIX or card growth deceleration), fundamentally inaccurate (e.g., claims that private payroll loans neutralize NU's tech advantages or that NU lacks lending expertise), dismissive of key forward growth drivers (e.g., overlooking the earnings impact from success in payroll loans and the competitive edge from NU's massive cost advantage), or already priced in (e.g., issues around PIX, NIM, and card growth are well-known and reflected in both valuation and consensus estimates).

We believe Nubank is well-positioned to build one of the most valuable banking franchises in Latam with superior technology, best-in-class customer satisfaction, and strong unit economics. We think the market is significantly underestimating Nubank's ability to deliver growth and profitability — particularly cross-selling personal and payroll loans in Brazil and building a successful franchise in Mexico and Colombia. The sharp sell-off as of late has created a very compelling entry opportunity, in our view. At the current \$10.25 per share, NU is trading at 18.2x '25e P/E and 11.6x '26 P/E, highly attractive relative to our two-year growth expectations. We see EPS growth of 43% in 2025 and 57% in 2026. For more details, please see: [The Path to \\$100 Billion](#), [The Rise of Digital Payroll Loans](#), [NuCel: Dialing Up the Growth Opportunity](#), [A Purple-Sky Growth Opportunity](#), and [The Rise of Digital Banks](#).

Takeaways from Investor Roundtable

Positive Takeaways

Private Payroll Loans: Overlooked Upside. A few investors aligned with our positive view of the new private payroll loan product in Brazil — especially regarding its impact on risk-adjusted NIM and growth opportunity.

They argued that risk-adjusted NIM may remain broadly in line with that of unsecured personal loans. One investor noted that gross yields for lower-income clients are unlikely to compress materially at this stage, given the lingering uncertainty around the true cost of risk of the new payroll loan product. For example, borrowers now paying 6-8% interest rates on unsecured loans are not necessarily going to be offered significantly lower yields, given said uncertainties of the payroll product. A more gradual phase-in seems likely — mitigating downside risk to NU's risk-adjusted NIM.

Several panel participants also suggested that the opportunity in payroll loans is being overlooked. Given Nubank's cost-to-serve and technology advantages, it's well-positioned to capture outsized market share as this product scales. One investor highlighted NU's uniquely short-duration unsecured loan book, as opposed to the incumbents' much longer-dated profile. This opens the door for relatively better affordability improvements as NU refinances unsecured loans into payroll loans.

For more details on private payroll loans, please see our recent dispatch: [Private Payroll Loans Offer Upside, While Business Dynamics Remain Resilient](#).

Short-Term Risks Seen as Priced In. Multiple investors argued that short-term concerns — such as slower PIX financing and uncertainty around NIMs — are already reflected in the stock. One investor noted that NU's shares were caught up in the broader risk-off trade tied to tariffs, despite lacking fundamental exposure to this. This has created an attractive entry point, with long-term drivers still intact.

Structural Advantages Support Long-Term Story. Some longer-term bulls emphasized that Nubank's core advantages — best-in-class cost to serve and superior tech capabilities — remain firmly in place. These enable the company to offer more affordable and accessible financial products, supporting continued market share gains. Many see this translating into sustained ROE in the high 20% to 30% range.

Negative Takeaways

Ongoing NIM Concerns. Investors remain focused on near-term NIM dynamics, particularly the PIX financing slowdown and potential cannibalization from private sector payroll loans.

Some investors still lack conviction on how much pressure PIX financing will place on NIM over the coming quarters. Even some bulls acknowledged this is a short-term concern. One investor noted that once the "noise" around PIX financing settles, NU's investment case could look much more attractive. Importantly, the company continues to stress that it's a matter of *when*, not *if*, PIX growth resumes.

Several bears remain skeptical that private payroll loans will be accretive to NIM. They argue that as borrowers migrate from higher-yielding unsecured products to lower-yielding payroll loans, risk-adjusted margin will decline. One investor suggested that even if NU captures significant market share, the volume impact may not fully offset NIM pressure. Others took a more balanced view, acknowledging some initial NIM drag, but arguing that volume growth should compensate over time, especially given the affordability improvement and better risk profile of lower-income clients.

Negative Second-Order Effects from Private Payroll Loans. Some investors flagged potential knock-on risks tied to the new payroll loan product:

- Since payments are deducted directly from salaries, payroll loans will be senior to credit cards — raising concerns that NPLs may rise in NU's credit card book, particularly among lower-income clients.
- There is also concern that NU's stronghold on lower-income customers could be challenged. As the new product makes it easier for incumbent banks to lend into this segment. In other words, incumbents may seek to re-engage with clients they previously avoided due to risk concerns.

Skepticism on Growth Durability. Some investors expressed doubts about NU's ability to sustain credit growth. On cards, they argue that market share gains may have peaked, and that NU lacks a clear path to penetrate the high-income segment. A similar sentiment was shared on unsecured personal loans, where there may be limited room to grow given the affordability challenges that come with high interest rates (6 to 8% per month) and already broad customer reach. In private payroll loans, some noted that the new system levels the tech playing field — allowing any lender to tap into salary deductions — diminishing NU's edge.

Macro Uncertainty. Investors appear divided on how the Brazilian macro backdrop will evolve in 2H25. Some voiced concerns about a potential recession, while others questioned whether the current stability in growth and employment is sustainable. One investor noted the divergence between NU's continued credit expansion and the more conservative stance of incumbent banks. If macro ultimately deteriorates, bears believe NU may ultimately be forced to pull back on growth.

Financial Model

Exhibit 1: Nu Holdings — Consolidated Income Statement.

<i>US\$ Millions</i>	2021	2022	2023	2024	2025e	2026e	2027e
Interest Income	1,047	3,555	6,440	9,631	13,038	17,709	22,463
Fee and commission income	651	1,237	1,589	1,886	2,248	2,968	3,846
Total Revenue	1,698	4,792	8,029	11,517	15,286	20,677	26,309
Transaction Expenses	117	176	216	260	337	438	533
Loan-Loss Provisions	481	1,405	2,285	3,169	3,870	4,736	5,830
Interest and Other Financial Expenses	367	1,548	2,037	2,835	3,940	5,081	5,318
Total Costs of Services	965	3,129	4,538	6,264	8,147	10,255	11,682
Gross Profit	733	1,663	3,491	5,253	7,139	10,422	14,627
Customer Support and Operations	191	335	488	605	772	1,030	1,272
Marketing Expenses	80	153	171	246	316	429	547
General and Administrative Expenses	403	695	753	848	971	1,102	1,246
Share-based Compensation	225	282	289	408	482	637	788
Other Operating Income/(Expense)	(4)	(150)	(250)	(351)	(433)	(569)	(675)
Operating Expenses	903	1,616	1,952	2,458	2,974	3,768	4,528
Other Income/(Expense)	-	-	-	-	-	-	-
Income Before Income Taxes	(170)	47	1,539	2,795	4,166	6,654	10,099
Income Taxes	(5)	56	509	823	1,362	2,259	3,505
Non-controlling interests	(0)	(0)	-	-	-	-	-
Net Income	(165)	(9)	1,031	1,972	2,804	4,395	6,594
Full Diluted Shares Outstanding (mm)	4,871	4,851	4,989	4,990	4,990	4,990	4,990
EPS (US\$)	(0.04)	(0.00)	0.21	0.39	0.56	0.88	1.32
(+) Share-based Compensation	225	282	289	408	482	637	788
(-) Tax effect on share-based comp	60	73	90	137	159	210	260
(-) One-Time Gain / (Loss)	(6)	(4)	34	36	-	-	-
Adjusted Gain / Loss for the year	6	204	1,196	2,208	3,127	4,822	7,122
Adjusted EPS (US\$)	0.00	0.04	0.24	0.44	0.63	0.97	1.43
Profitability							
Gross Margin	43%	35%	43%	46%	47%	50%	56%
Efficiency Ratio	77%	55%	36%	31%	29%	27%	24%
Operating Margin	-10%	1%	19%	24%	27%	32%	38%
Net Margin	-10%	0%	13%	17%	18%	21%	25%
Adj Net Margin	0%	4%	15%	19%	20%	23%	27%
Adj ROA	0%	1%	3%	5%	5%	6%	7%
Adj ROE	0%	4%	21%	31%	35%	39%	40%

Source: Company Data, Morgan Stanley Research Estimates (e).

Exhibit 2: Nu Holdings — Consolidated Balance Sheet.

<i>US\$ Millions</i>	2021	2022	2023	2024	2025e	2026e	2027e
<u>Assets</u>							
Cash and cash equivalents	2,706	4,172	5,923	9,186	8,697	8,206	9,872
Securities	10,020	12,859	16,748	18,283	27,486	38,713	50,649
Credit card receivables, net	4,781	8,233	12,414	12,259	15,453	19,339	23,538
Loans to customers, net	1,195	1,673	3,202	5,322	11,107	19,911	29,885
Deferred tax assets	361	811	1,538	1,818	2,610	3,804	5,147
PP&E + Intangible Assets	86	210	335	373	454	552	671
Miscellaneous assets & collateral	641	958	1,364	1,198	1,296	1,403	1,519
Other financial assets at amortized cost	69	1,000	1,821	1,492	1,917	2,421	2,901
Other assets	-	-	-	-	-	-	-
Total Assets	19,859	29,917	43,345	49,931	69,022	94,348	124,181
<u>Liabilities</u>							
Deposits	9,667	15,809	23,691	28,855	42,130	59,121	78,052
Payables to credit card network	4,882	7,055	9,755	9,334	11,208	13,731	16,439
Borrowings and financing	157	586	1,136	1,730	2,723	3,986	5,423
Other liabilities	709	1,577	2,356	2,365	2,510	2,664	2,828
Total Liabilities	15,416	25,026	36,939	42,284	58,571	79,503	102,742
Shareholders' Equity	4,441	4,891	6,406	7,646	10,450	14,846	21,439
Equity attributable to non-controlling interests	2	-	-	1	-	-	-
Total Liabilities and Equity	19,859	29,917	43,345	49,931	69,022	94,348	124,181

Source: Company Data, Morgan Stanley Research Estimates (e).

Exhibit 3: Nu Holdings — Key Ratios.

US\$ Millions	2021	2022	2023	2024	2025e	2026e	2027e
Summary Financials							
Total Clients (MM)	53.9	74.7	93.9	114.3	130.7	147.4	162.6
Active Clients (MM)	41.1	61.2	78.0	94.9	107.1	119.8	132.0
Net Revenue	1,698	4,792	8,029	11,517	15,286	20,677	26,309
Interest Income	1,047	3,555	6,440	9,631	13,038	17,709	22,463
Fee and commission	651	1,237	1,589	1,886	2,248	2,968	3,846
Gross Profit	733	1,663	3,491	5,253	7,139	10,422	14,627
Operating Expenses	903	1,616	1,952	2,458	2,974	3,768	4,528
Net Income	(165)	(9)	1,031	1,972	2,804	4,395	6,594
Adj. Net Income	6	204	1,196	2,208	3,127	4,822	7,122
EPS (US\$)	(0.04)	(0.00)	0.21	0.39	0.56	0.88	1.32
Adj. EPS (US\$)	0.00	0.04	0.24	0.44	0.63	0.97	1.43
Card Receivables	4,781	8,233	12,414	12,259	15,453	19,339	23,538
Loans to Customers	1,195	1,673	3,202	5,322	11,107	19,911	29,885
Deposits	9,667	15,809	23,691	28,855	42,130	59,121	78,052
Shareholders Equity	4,441	4,891	6,406	7,646	10,450	14,846	21,439
Growth Rates							
Total Clients (MM)	62%	38%	26%	22%	14%	13%	10%
Active Clients (MM)	89%	49%	27%	22%	13%	12%	10%
Net Revenue	130%	182%	68%	43%	33%	35%	27%
Interest Income	173%	240%	81%	50%	35%	36%	27%
Fee and commission	84%	90%	28%	19%	19%	32%	30%
Gross Profit	124%	127%	110%	50%	36%	46%	40%
Operating Expenses	116%	79%	21%	26%	21%	27%	20%
Net Income	-4%	-95%	-11544%	91%	42%	57%	50%
Adj. Net Income	-124%	3129%	486%	85%	42%	54%	48%
EPS (US\$)	-9%	-95%	-11199%	91%	43%	57%	50%
Adj. EPS (US\$)	-120%	3252%	475%	84%	42%	54%	48%
Card Receivables	64%	72%	51%	-1%	26%	25%	22%
Loans to Customers	584%	40%	91%	66%	109%	79%	50%
Deposits	73%	64%	50%	22%	46%	40%	32%
Shareholders Equity	914%	10%	31%	19%	37%	42%	44%
Profit Margins & Key Ratios							
Gross Margin	43%	35%	43%	46%	47%	50%	56%
Efficiency Ratio	77%	55%	36%	31%	29%	27%	24%
Operating Margin	-10%	1%	19%	24%	27%	32%	38%
LLP/Avg Loans	11%	17%	18%	19%	17%	14%	13%
Net Margin	-10%	0%	13%	17%	18%	21%	25%
Adj Net Margin	0%	4%	15%	19%	20%	23%	27%
Adj ROA	0%	1%	3%	5%	5%	6%	7%
Adj ROE	0%	4%	21%	31%	35%	39%	40%
ARPAC - Yearly (US\$)	55	93	116	133	152	182	209
ARPAC - Monthly (US\$)	4.6	7.7	9.6	11.0	12.6	15.2	17.4
Cost to Serve - Yearly (US\$)	10.0	9.9	10.2	10.0	11.0	12.9	14.3
Cost to Serve - Monthly (US\$)	0.8	0.8	0.8	0.8	0.9	1.1	1.2
Revenue By Country							
Brazil	1,645	4,506	7,430	10,249	13,149	16,572	19,707
Mexico	30	201	414	817	1,436	2,994	4,998
Colombia	1	20	81	157	352	764	1,259
Other / Holding	23	65	105	294	350	347	345
Revenue Contribution							
Brazil	97%	94%	93%	89%	86%	80%	75%
Mexico	2%	4%	5%	7%	9%	14%	19%
Colombia	0%	0%	1%	1%	2%	4%	5%
Other / Holding	1%	1%	1%	3%	2%	2%	1%

Source: Company Data, Morgan Stanley Research Estimates (e).

Valuation Methodology and Risks

Nu Holdings Ltd. (NU.N)

Our valuation work and price targets are based on residual income analysis. In our residual income model, the value of the firm is mainly a function of the magnitude of the spread between return on equity and cost of equity (performance spread) and the time period in which management can generate returns in excess of the cost of equity (economic growth horizon). Our valuation model uses a discount rate of 14.9% and long-term ROE of 35%.

Risks to Upside

- Increasing penetration of financial products in LatAm
- Successful geographical expansion
- New products added to the platform
- Improving cross-sell initiatives
- M&A

Risks to Downside

- Asset quality deterioration
- Regulatory headwinds
- Tougher competition could impact margins
- Execution risk of international expansion
- Potential conflicts of interest between controlling and minority holders

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(as of March 31, 2025)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1516	40%	387	46%	26%	694	40%
Equal-weight/Hold	1682	44%	380	45%	23%	805	47%
Not-Rated/Hold	3	0%	0	0%	0%	0	0%
Underweight/Sell	598	16%	81	10%	14%	227	13%
Total	3,799		848			1726	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

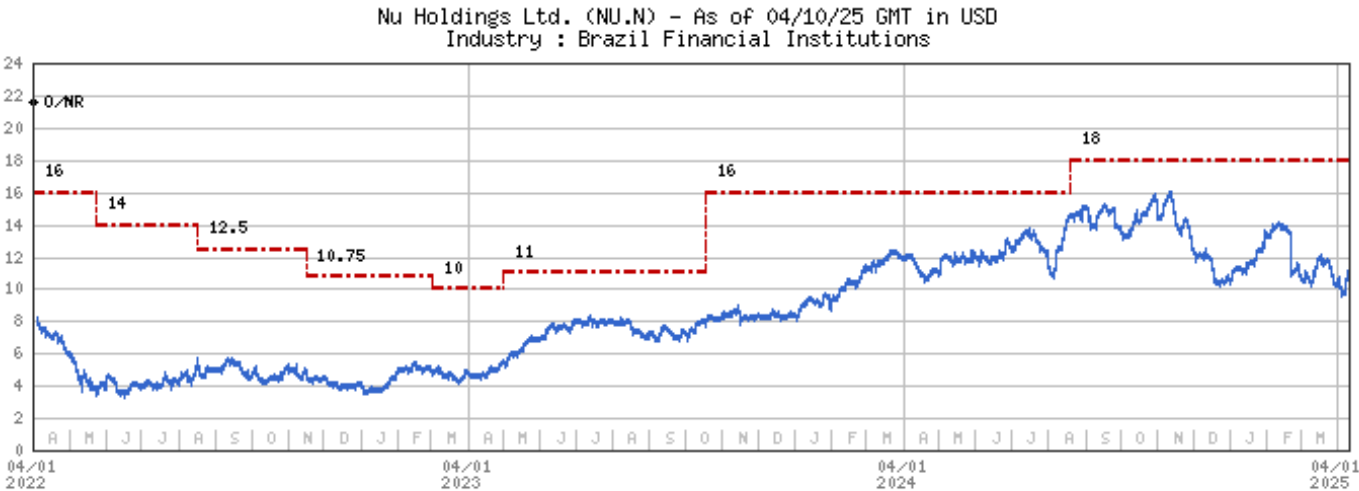
Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 4/1/20 : /NR; 1/3/22 : 0/NR
Price Target History: 1/3/22 : 16; 5/24/22 : 14; 8/17/22 : 12.5; 11/16/22 : 10.75; 3/3/23 : 10; 5/1/23 : 11; 10/18/23 : 16; 8/20/24 : 18

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.
Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Brazil Financial Institutions

COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/10/2025)
Jorge Echevarria		
BB Seguridade Participacoes S.A. (BBSE3.SA)	U (06/25/2023)	R\$39.66
Caixa Seguridade Participacoes S.A. (CXSE3.SA)	O (06/10/2021)	R\$15.16
Porto Seguro (PSSA3.SA)	O (11/02/2022)	R\$38.80
Jorge Kuri		

B3 SA BRASIL BOLSA BALCAO (B3SA3.SA)	E (07/21/2017)	R\$11.86
Banco Bradesco (BBD.N)	O (08/07/2019)	US\$2.11
Banco BTG Pactual SA (BPAC11.SA)	O (03/28/2017)	R\$33.58
Banco do Brasil (BBAS3.SA)	O (03/07/2018)	R\$27.56
Banco Pan SA (BPAN4.SA)	O (11/29/2022)	R\$7.14
Banco Santander Brasil (BSBR.N)	O (08/07/2019)	US\$4.47
Inter & Co Inc. (INTR.O)	U (06/13/2018)	US\$5.06
Itau Unibanco Holding S.A. (ITUB.N)	O (06/17/2024)	US\$5.37
Nu Holdings Ltd. (NU.N)	O (01/03/2022)	US\$10.25
PagSeguro Digital (PAGS.N)	U (09/04/2024)	US\$8.05
StoneCo Ltd. (STNE.O)	U (09/04/2024)	US\$10.98
XP Inc (XP.O)	E (04/22/2024)	US\$12.92

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