



# MercadoLibre, Inc (MELI)

## Investment Proposal

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<b>LISTING</b> NASDAQ	<b>SECTOR</b> Consumer Cyclical	<b>INDUSTRY</b> Internet retail	<b>CURRENT PRICE</b> \$1178.90
<b>REVENUE</b> \$2.81B	<b>MARKET CAP</b> \$59.72B	<b>BETA</b> 1.62	<b>PE RATIO</b> N/A

- MercadoLibre, Inc. operates online commerce platforms in Latin America. It operates MercadoLibre Marketplace, an automated online commerce platform that enables businesses and individuals to list merchandise and conduct sales and purchases online; and MercadoPago FinTech, a financial technology solution platform, which facilitates transactions on and off its marketplaces by providing a mechanism that allows its users to send and receive payments online, and allows merchants to process transactions via their Websites and mobile apps, as well as in their brick-and-mortar stores through QR and mobile points of sale.
- The company also offers MercadoFondo, an asset management product; and MercadoCredito, a lending solution. In addition, it provides MercadoEnvios logistics solution, which offers its platform technological and operational integration services with third-party carriers and other logistics service providers, as well as fulfillment and warehousing services for sellers.
- Further, the company provides MercadoLibre Classifieds service that enables users to list their offerings related to motor vehicles, vessels, aircraft, and real estate and services outside the Marketplace platform.
- Additionally, it offers MercadoLibre Advertising platform, which enables retailers and various other consumer brands to promote their products and services on the Internet by providing branding and performance marketing solutions.
- The company also provides MercadoShops, a software-as-a-service hosted online store solution that enables users to set-up, manage, and promote their own Webstores. The company was founded in 1999 and is headquartered in Buenos Aires, Argentina.

Source: Yahoo, Finviz

**Industry Analysis:**

- Long term growth in e-commerce, 20% yoy growth in sales worldwide (2019).
- Opportunities to automate many of the steps related to e-commerce, increase productivity.
- Trends have been accelerated thanks to COVID-19.

**Company Analysis :**

- Strong ecosystem that supports all their customers, from e-commerce, credit, shipping and advertising.
- Strong penetration of the shipping/logistics market. Mercado Envíos account for 91% of the market.
- Huge potential for future growth as the LATAM market matures and as the population adopts the internet and online shopping

**Competitor Analysis:**

- MercadoLibre is a large company in terms of market cap which allows it to dominate the region and not allow smaller competitors to take away market share.
- The company has very strong growth numbers and while it is loss making, its revenue growth points towards a path of profitability.

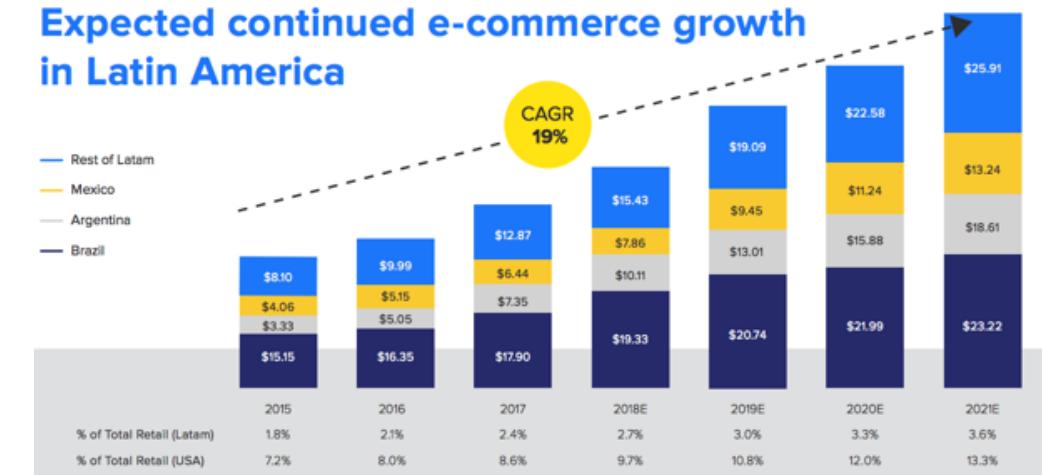
**Technical Analysis:**

- Stock is down 10% from its ATH price of \$1270. Although this is less than its peers, ETSY is down 17% from its ATH
- Long term trend is up.

- By the end of 2019 the global e-commerce market had sales reaching \$3.5 trillion and represented 14% of the total share of global retail sales. It's predicted that by the end of 2020, global e-commerce sales will reach \$4.2 trillion and make up 16% of total retail sales. And these numbers are only predicted to go up as we continue into the '20s. The long-term trend for growth is enormous! Pre-COVID-19, e-commerce retail sales in Latin America trailed the US by 3x (est. 12%, 2019), China 10x (est. 50%, 2019).
- Manufacturers and traditional brands are increasingly bypassing retail partners and selling direct to consumers. Traditional 'brick and mortar' stores have seen stagnant growth for years. The e-commerce revolution allows brands to access their customers in new ways and direct.
- By 2021, analysts estimate 53.9% of all e-commerce sales will happen on mobile devices. This opens doors for advertisers and commerce platforms to access new customers that would otherwise never exist in a traditional 'brick and mortar' store. With automation many of the manual, repetitive, and time-consuming tasks can be reduced which increases productivity, both in platform and through the supply chain.
- The growth in e-commerce is set to be seen outside of the U.S. By the end of 2020, 1.4B people are expected to join the world's middle class, and most of them (approximately 85%) will be in the Asia Pacific region (APAC). In APAC, e-commerce grew 25% last year, topping \$2.27 trillion USD. China, with an estimated \$1.9 trillion in e-commerce sales in 2019, online sales in China are three times that of the U.S. In fact, China's share of the global e-commerce market is 54.7% or nearly twice that of the next five countries combined. Latin America also boasts of accelerated e-commerce growth, including the world's fastest grower, Mexico.
- COVID-19 has put eCommerce growth on steroids, shortens the market penetration from years to months. The pandemic generated significant changes in consumer behaviour, which translated into new penetration of e-commerce and online payments in the south American region. A study by Kantar confirms the trend as online retail grew almost 4x in a matter of four weeks after March 16th, 2020.

## Opportunities for Growth

### Expected continued e-commerce growth in Latin America



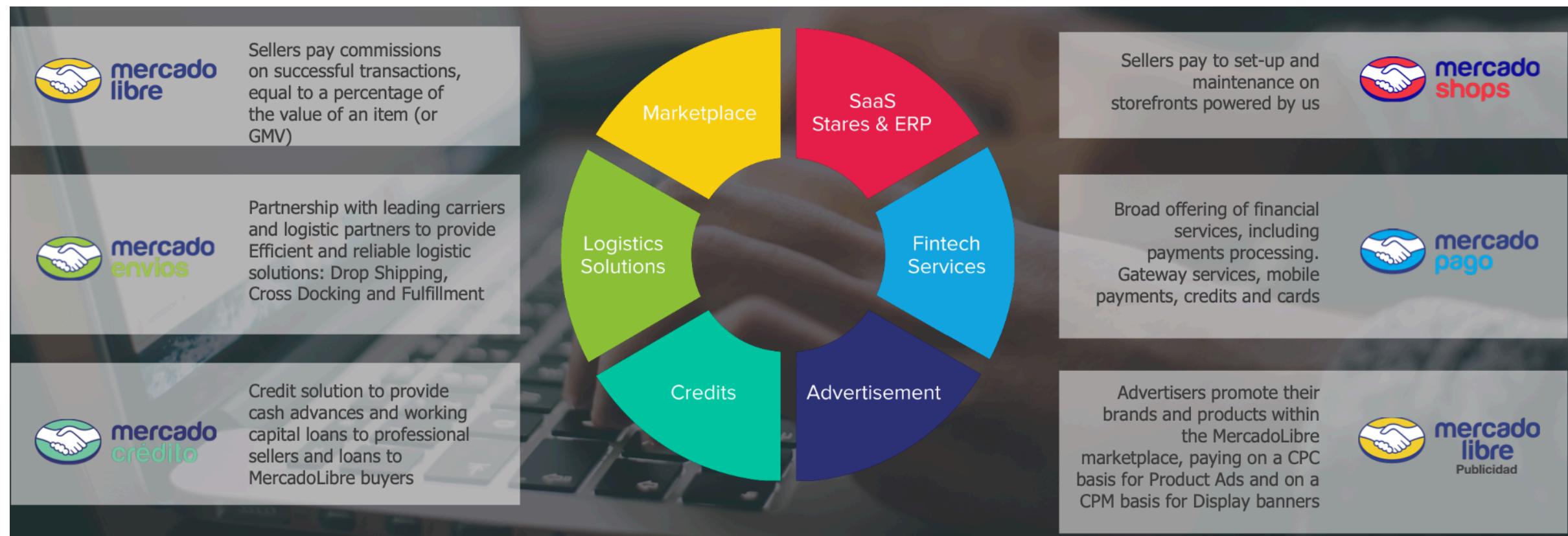
### Top 10 countries, ranked by retail ecommerce sales growth, 2019



**Business Model:**

- Unlike their competitors, they are not only an e-commerce platform but have an entire ecosystem to support sellers and buyers. As a result they are the leading technology company in developing E-commerce and payment solutions and host the largest online commerce and payments ecosystem in Latin America.
- They operate in latin America, with the strongest revenue coming from Brazil. They are the leading e-commerce website by unique visitors in Latam. In brazil they have almost 3x the amount of website visits than Amazon. There are only 200M online shoppers in LATAM, yet their ecosystem reaches 86.3M last year.
- The ecosystem is easy to use, free shipping and contains loyalty schemes to retain customers. There are 32M buyers and 4M sellers on the platform that range from hobby sellers (6%) SME sellers (70%) and official stores (15%)

FINANCIAL SUMMARY	
\$1,698M Commerce Revenues	+\$1,110M Fintech Revenues
	<b>\$2,808M Total Net Revenues</b>



**The numbers:**

- Strong YoY growth in revenue with a gross margin of 47.50%,
- Healthy balance sheet, that has very low debt and \$3B in cash.
- Gross merchandise volume is up 102% YoY on a neutral FX basis and items sold on the e-commerce platform is up 101% YoY.
- Payment volume and transactions are up 143% and 123% YoY respectively.
- One thing to note, local LATAM currencies have depreciated a lot this year. Yet they report in \$. As a result Financial results show a very different picture.

**Opportunities for growth:**

- Only 70% of Brazil are online, of which 415 are online buyers. There is a huge market to expand into, not only in Brazil but across LATAM.
- Many don't have bank accounts in LATAM. In Mexico only 37% have a bank account and 70% in Brazil. As a result people us non traditional ways accessing credit and transferring money. Mercado offers a broad range of services for these people.



Country	2019 Revenue (\$ Millions)	YoY growth	YTD depreciation against \$
Brazil	1461.5	68.7%	36.1%
Argentina	456.3	79.8%	23.9
Mexico	275.2	166%	15.8
Other	103.3	17.7%	-

	Year Ended December, 31				
	2019 (*)	2018 (*)	2017 (*)	2016 (*)	2015 (*)
Statement of income data:					
Net revenues (**)	2,296.3	1,439.7	1,216.5	844.4	651.8
Cost of net revenues	(1,194.2)	(742.6)	(496.9)	(307.5)	(215.0)
Gross profit	1,102.1	697.0	719.6	536.9	436.8

	At December 31,				
	2019	2018	2017	2016	2015
Balance sheet data:					
Total assets	\$ 4,781.7	\$ 2,239.5	\$ 1,673.2	\$ 1,367.4	\$ 1,003.6
Long term debt	631.4	602.2	312.1	301.9	294.3
Total liabilities	2,699.7	1,902.8	1,347.4	938.6	664.1
Net assets	2,082.0	336.7	325.8	428.9	339.5
Mandatorily redeemable convertible preferred stock	98.8	—	—	—	—
Common stock	0.05	0.05	0.04	0.04	0.04
Equity	1,983.1	336.7	325.8	428.9	339.5
Cash dividend declared per common share	\$ —	\$ —	\$ 0.600	\$ 0.600	\$ 0.412



Name	Revenue (USD million)	Sales growth (YoY)	Gross margin	Net margin	ROE	P/E	Forward P/E	PEG	Price to Sales	Market Cap (USD million)
MercadoLibre	2,810	61.10%	45.90%	N/A	-7.96%	N/A	450	765	21.38	60,020
Alibaba	71,985	28.19%	45.18%	27.50%	21.51%	30.89	31.85	1.51	10.8	813,868
Ebay	11,200	18.20%	74.01%	18.7%	59.95%	8.30	15.29	1.30	54.27	37,536
Wayfair	11,470	83.70%	18.30%	-5.35%	N/A	N/A	N/A	37.86	2.75	29,269
Pinduoduo	4,300	67.30%	81.16%	N/A	-33.35%	N/A	132.2	2.51	24.63	106,400

- MercadoLibre's sales growth is very high at 61.10% and is in the middle of the comparable companies. Furthermore, its gross margin is also high in the 40% range.
- While it is loss making its growth is very high and the long term prospects look bright where the company will be able to make a healthy profit.
- Its forward P/E is extremely high meaning that it may sustain high valuation levels in the years to come.
- It is quite a large company in terms of Market Cap, this will allow it to dominate its region of Central and South America and create a stranglehold on the industry in that region.



Source: Trading view



Source: Trading view

MERCADOLIBRE INC · 1D · Cboe BZX



1178.90 -22.50 (-1.87%)

1152.00 28.95 1180.95

225.00%

SPX, SPCFD 3508.01

200.00%

EBAY, CBOE BZX 54.27

188.39%

ETSY, CBOE BZX 119.66

173.64%

PDD, CBOE BZX 89.20

163.95%

W, CBOE BZX 310.94

150.00%

SHOP, CBOE BZX 1042.06

120.21%



100.44%



Source: Trading view



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