

E-commerce Retail

2Q23 Preview: The quarter has changed, but the photograph is still the same

E-commerce Retail

Main takeaways:

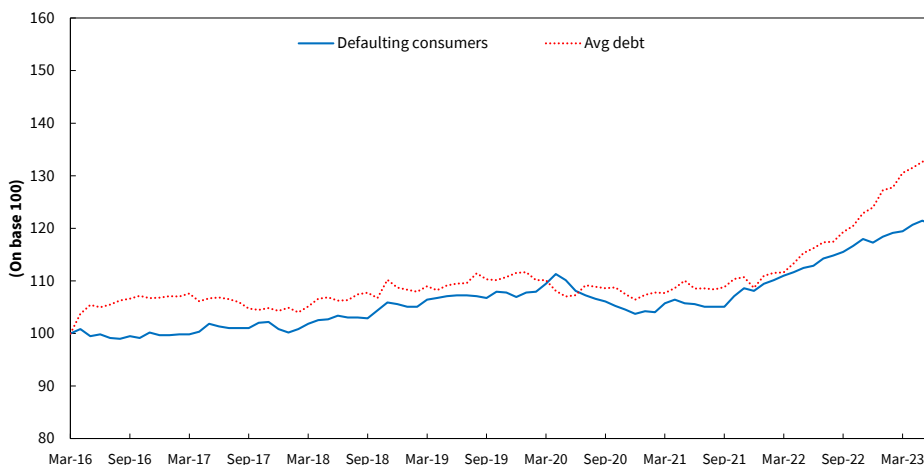
- This quarter the DIFAL pass-through and the slowdown in credit granting should pressure the companies' gross margins. However, marketplace growth, both in terms of sales volume and take-rate, should mitigate the impact;
- We expect Magazine Luiza to post a higher quality result when compared to Via, but still weak nonetheless;
- In our estimates, Magazine Luiza and Via are expected to report net losses of BRL 269m and BRL 551m, respectively;
- We are cutting MGLU3's 12M target price to BRL 4.50 (previously at BRL 5.00). For Via, we are more pessimistic about the short term, we cut the target price to BRL 2.00 (previously at BRL 3.00).

The quarter has changed, but the picture is still the same. Faced with a significantly restrictive interest rate, the discretionary retail sector has been slowing down its credit concession in the last months.

Although we have seen a sequential drop in defaults as of June 2023 (Serasa), the indicator still remains at a high level - 71.45 million people are in default, i.e., 66% of Brazil's current economically active population.

Graph 1: Evolution of defaulting consumers and average Brazilian debt, elaborated by Genial based on data from Serasa.

Overview Serasa | Jun/23



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Company

MGLU3 BZ Equity
Neutral

Price: R\$ 3,01 (August 7, 2023)
Target Price 12M: R\$ 4,50

VIIA3 BZ Equity
Neutral

Price: R\$ 1,87 (August 7, 2023)
Target Price 12M: R\$ 2,00

The final equation is complicated, a genuine sum of multiple vectors. With price-sensitive consumers, we observe two distinct movements:

(I) With wide access to digital channels and facing tight spending power, we are seeing the expanded middle class (BC class) prioritizing price and switching part of their spending from high-ticket products to services. Pure online companies, such as Amazon, Mercado Livre and Shopee, and lower coupon items gain purchasing relevance for this target audience.

In data consolidated by MCC/Neotrust since 2018, Brazil's online sales presented the worst 2nd quarter in its history, falling -4.2% y/y. If, on the one hand, Mercado Livre consolidated itself as the channel's positive highlight in 2Q23 (GMV Digital Brasil +25.0% y/y), we expect Magazine Luiza's (GMV Digital Est. +8.2% y/y) and Via's (GMV Digital Est. -1.5% y/y) sales volume to show much weaker performance in the period.

(II) The D/E classes end up being the most affected by the still restrictive political-monetary scenario. As brick & mortar stores are usually the main consumption channel for this segment and given the decline in credit concession by retailers, which has been signaled over the last few quarters, we expect a decrease in the growth of this channel.

In this quarter, the DIFAL pass-through and the decrease in credit granting should lower the companies' gross margin. However, marketplace growth, both in terms of sales volume and take-rate, may soften the impact.

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Magazine Luiza (NEUTRAL, Price Target 23E R\$4.50)

The company will release its earnings on Monday (Aug 14). We are cutting Magazine Luiza's 12M target price to BRL 4.50 (previously at BRL 5.00), reiterating our **NEUTRAL** recommendation.

In our view, Magazine Luiza should post a weak result, but above its main competitor (Via). As it was in Q1 2023, the retailer should report growth in all three sales channels (brick-and-mortar, 1P online and 3P). We estimate a Total GMV of BRL 14.86bn (+6.8% y/y).

Regarding profitability, Magalu's gross margin should continue to be impacted by DIFAL - we still do not expect a full pass-through this quarter. However, marketplace sales volume growth, together with the channel's higher average take-rate, should soften the y/y gross margin decline. We estimate a gross profit of BRL 2.37bn (-3.4% y/y) and a gross margin of 28.0% (-60bps y/y).

Wearing the motto "Simplify Magalu" in 2023, we expect the retailer to continue benefiting from the SG&A expense reduction it has been undertaking over the past 12 months (synergies from acquisitions, headcount reduction in stores, distribution centers and offices). PDA dynamics should prove very similar to Q1, with older credit vintages weighing on the portfolio.

Gross margin pressure should be dragged onto operating profit, we estimate an EBITDA at BRL 437mn (-11.9% y/y) and an operating margin of 5.2% (-60bps). With no escape from the impact of higher financial expenses, Magalu should report a net loss of BRL 269mn (+99.2% y/y) and a negative net margin of 3.2% (-160bps y/y).

Table 1: Genial's estimates for Magazine Luiza.

MAGAZINE LUIZA	2Q23 E	2Q22 C	% y/y bps	Bloomberg Cons.*	% Genial / Bloomberg	1Q23 C	% q/q bps
Total Net GMV	14.863	13.923	6,8%	N/A	-	15.548	-4,4%
GMV Brick-and-Mortar	4.005	3.890	3,0%	N/A	-	4.236	-5,5%
GMV E-commerce	10.858	10.033	8,2%	N/A	-	11.312	-4,0%
GMV 1P on-line	6.555	6.387	2,6%	N/A	-	6.949	-5,7%
GMV 3P	4.304	3.646	18,0%	N/A	-	4.363	-1,4%
Take-rate	14,5%	14,5%	0 bps	N/A	-	13,7%	81 bps
Gross Sales	10.560	10.367	1,9%	N/A	-	11.312	-6,6%
Same Store Sales (%)	0,2%	-8,2%	-	N/A	-	6,7%	-643 bps
Net Revenue	8.465	8.562	-1,1%	8.802	-3,8%	9.067	-6,6%
COGS	(6.096)	(6.110)	-0,2%	(6.297)	-3,2%	(6.588)	-7,5%
Gross profit	2.369	2.453	-3,4%	2.505	-5,4%	2.479	-4,5%
% Gross margin	28,0%	28,6%	-66 bps	28,5%	-48 bps	27,3%	64 bps
EBIT	60	187	-67,7%	237	-74,6%	16	269,6%
% EBIT margin	0,7%	2,2%	-147 bps	2,7%	-198 bps	0,2%	53 bps
Depreciation and Amortization	(317)	(271)	17,2%	(301)	5,3%	(308)	3,1%
Adj. EBITDA	437	496	-11,9%	539	-18,8%	457	-4,2%
% Adj. EBITDA margin	5,2%	5,8%	-63 bps	6,1%	-95 bps	5,0%	13 bps
Net financial expenses	(581)	(494)	17,6%	N/A	-	(632)	-8,1%
Income Tax	252	172	46,2%	N/A	-	225	12,0%
Net Income	(269)	(135)	99,2%	(154)	74,6%	(391)	-31,3%
% Net margin	-3,2%	-1,6%	-160 bps	-1,7%	-143 bps	-4,3%	114 bps

* Retrieved on July 10, 2023

Via (NEUTRAL, Target Price 23E R\$2.00)

The company will report its balance sheet this Thursday (Aug 10). We are adopting a "cautiously negative" posture for Via. In addition to the strong impact of financial expenses in 2023 (a factor already known by the market, given the company's high leverage), the abrupt change of a large part of the board (six executives leaving throughout 2023) in a highly competitive scenario (cross-borders gaining traction) makes us question the company's ability to deliver solid operational results in the short term.

With no space for high-risk recommendations and understanding that there is a natural maturity curve since the entrance of new executives and adjustments to the operating model, we are cutting our 2023E price target for VIIA3 to BRL 2.00 (from BRL 3.00) - upside of 10.0% to Monday's closing price (Aug 7) -, with a **NEUTRAL** recommendation.

We expect Via to report a quarter with a smaller growth divergence across channels. Unlike Magalu, we estimate that the company's 1P GMV should follow the same direction as the market, close to the 4.2% drop consolidated by Neotrust.

The slowdown in credit concession should impact the GMV growth in brick-and-mortar, which in our view should grow a shy low single digit y/y, with the largest contribution coming from store openings in the last 12 months. We expect Total GMV to grow close to neutral at BRL 10.29bn (+1.4% y/y).

Regarding profitability, the deceleration of physical stores should impact the company's gross margin. We estimate a gross profit of BRL 7.54bn (-6.5% y/y) and a gross margin of 29.8% (-160bps y/y).

The negative carry should follow onto EBITDA, which should also drop y/y, considering the company's operational deleveraging. We estimate an EBITDA at BRL 427mn and an operating margin of 5.7% (-340bps y/y).

With no revenue growth, rising costs and increased expenses (both operational and financial), we believe the bottom line should spook the market this Thursday. We estimate a net loss of BRL 551m and a negative margin of 7.3% (-739bps y/y).

Table 2: Genial's estimates for Via.

VIA	2Q23 E	2Q22 C	% y/y bps	Bloomberg Cons.*	% Genial / Bloomberg	1Q23 C	% q/q bps
Total Net GMV	10.295	10.157	1,4%	N/A	-	10.074	2,2%
GMV Brick-and-Mortar	5.663	5.455	3,8%	N/A	-	5.536	2,3%
GMV E-commerce	4.632	4.702	-1,5%	N/A	-	4.538	2,1%
GMV IP on-line	3.165	3.356	-5,7%	N/A	-	3.077	2,9%
GMV 3P	1.467	1.346	9,0%	N/A	-	1.461	0,4%
Take-rate	12,0%	13,2%	-120 bps	N/A	-	12,0%	-3 bps
Gross Sales	9.003	8.988	0,2%	N/A	-	8.788	2,5%
Same Store Sales (%)	1,0%	11,8%	-	N/A	-	9,0%	-
Net Revenue	7.534	7.646	-1,5%	7.525	0,1%	7.354	2,5%
COGS	(5.291)	(5.247)	0,8%	(5.215)	1,5%	(4.994)	5,9%
Gross profit	2.243	2.399	-6,5%	2.310	-2,9%	2.360	-4,9%
% Gross margin	29,8%	31,4%	-160 bps	30,7%	-92 bps	32,1%	-232 bps
EBIT	(25)	446	-105,6%	156	-115,9%	274	-109,1%
% EBIT margin	-0,3%	5,8%	-616 bps	2,1%	-240 bps	3,7%	-406 bps
Depreciation and Amortization	(290)	(212)	36,8%	(334)	-13,0%	(245)	18,4%
Adj. EBITDA	427	690	-38,1%	490	-12,8%	675	-36,8%
% Adj. EBITDA margin	5,7%	9,0%	-336 bps	6,5%	-84 bps	9,2%	-351 bps
Net financial expenses	(893)	(574)	55,6%	N/A	-	(826)	8,1%
Income Tax	367	134	174,0%	N/A	-	256	43,4%
Net Income	(551)	6	-	(330)	66,9%	(297)	85,4%
% Net margin	-7,3%	0,1%	-739 bps	-4,4%	-292 bps	-4,0%	-327 bps

* Retrieved on July 10, 2023

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under Review	Under review	5%

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