Equity Research

MERCADO LIBRE

3Q23 Review: The greenest grass in the neighborhood

LatAmTech

Main takeaways for e-commerce:

(i) Sequential growth in e-commerce net revenue came as a positive surprise; **(ii)** GMV above expectations; **(iii)** Continued positive momentum in Brazil; **(iv)** Growth in items sold in Argentina helps better figures; **(v)** Mexico stands out in GMV growth; **(vi)** Argentina's macro scenario worsens during the quarter; **(vii)** E-commerce Take-rate comes in line with expectations and grows +170bps y/y.

Main takeaways for Fintech:

(i) TPV expansion above our expectations; **(ii)** Off-Platform TPV growing in all operations; **(iii)** Digital Account TPV continues on a strong growth trend; **(iv)** Acquiring TPV driven by online payment processing; **(v)** Credit portfolio growth driven by Brazil and Mexico; **(vi)** Credit card operation portfolio shows strong acceleration; **(vii)** Improvement in defaults over 90 days continues to occur; **(viii)** However, short time defaults (NPL<90) increases once again; **(ix)** Fintech Take-Rate contracts -40bps y/y; **(x)** Fintech revenue grows +33.2% y/y.

Consolidated Result:

(i) Net revenue above expectations (+4.2% vs. Genial Est.); **(ii)** COGS up, but in line with our projections; **(iii)** Strong gross margin gain (+294bps y/y); **(iv)** SG&A also on the rise; **(v)** Marketing expenses up (+32.4% y/y; +15.1% q/q), due to the new Meli + program; **(vi)** PDA increases vs. total credit portfolio (-7.4% 3Q23 vs. -10.7% 3Q22); **(vii)** EBIT shows robust growth and great margin expansion due to dilution of expenses; **(viii)** Foreign exchange losses continue to have a negative impact due to Argentina situation; **(ix)** Net income clocked in at US$359mn, up +178% y/y, showing a stronger acceleration than estimates (us and consensus); **(x)** Our **BUY rating** remains, with a **slight increase** in the **12M Target Price** to **US$1,575** (vs. US$1,520 previously) for **MELI (Nasdaq)**.

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Company

MELI US Equity
Buy

Price: US$ 1,319.50 (02-Nov-2023)
Target Price 12M: US$ 1,575 (Nasdaq)

MELI34 BZ Equity
Target Price 12M: R$ 65 (B3)

Mercado Libre reported its results on November 1st, approximately on the market close of the Nasdaq-NY, where the company is listed. **Net income showed a strong expansion** of +178% y/y, reaching the US$359mm mark, also growing on a sequential basis by +37.1% q/q. Total net revenue came in at US$3.7bn (+4.2% vs. Genial Est.), with **e-commerce revenue growth standing out**, having clocked in at US$2.1bn (+5.8% vs. Genial Est.), delivering an increase of +45.3% y/y and 9.9% q/q, with **Brazil posting strong GMV on a sequential basis even after two quarters had passed since the Americanas' event.** EBIT was posted at 685mn (+33.5% vs. Genial Est.), up by +131.3% y/y and 22.8% q/q. There was **considerable expansion in both margins**, with gross picking up to +294bps y/y and net accelerating +475bps. **The figures were above our estimates and consensus**.

2Q23 Review

E-commerce

Sequential growth in e-commerce net revenue surprises. Mercado Libre reported an acceleration of +45.3% y/y in net revenue, reaching US$2.1bn (+5.8% vs. Genial Est.). The e-commerce segment once again stood out against a troubled macroeconomic backdrop, especially in Argentina.

GMV above expectations. Total GMV reached US$11.4bn (+6.1% vs. Genial Est.) and grew significantly year-on-year (+31.8% y/y), also showing a sequential acceleration of +8.1% q/q.

Growth in items successfully sold in Argentina helped. Even with the voracious inflation squeezing the population's purchasing power, Mercado Libre felt few repercussions, and managed to improve its performance in the country's e-commerce segment. We saw an increase of +13% y/y in the number of items successfully sold, a significant rise vs. the average of 1% over the last three consecutive quarters. Tactical measures such as adjustments to the financing offer, promotional campaigns and changes to marketing strategies were implemented to boost sales.

As a result, the Company once again managed to deliver above-inflation growth, consolidating an acceleration of +8.0% y/y in local GMV (in USD), towards the US$2.5bn mark (-4.5% vs. Genial Est.). Despite a good performance considering the challenging macro situation in Argentina, the figure was slightly below our estimates and showed a sequential decline of -0.8% q/q, basically flat.

Argentina's macro scenario worsened during the quarter. Even with a resilient performance in the face of high inflation, Argentina continues to be the worst performer among the three main countries. As the macroeconomic situation worsens, upscaled by uncertainties about presidential elections, Mercado Libre was able to implement strategic measures and anticipate demand to realize the gains mentioned above. Even so, we reiterate our position of softer growth in the region.

Continued positive momentum in Brazil. Above estimates, performance in Brazil was driven by the +27% y/y increase in the number of items successfully sold, the highest growth since 4Q21. The expansion in that particular figure reached double-digit levels in all categories offered, as a result of promotional activities carried out throughout the quarter. GMV in Brazil stood at US$5.3bn (+11.7% vs. Genial Est.), consolidating an increase of +38.0% y/y and 13.5% q/q.

Following last quarter's strong pace, Mexico stands out in GMV growth. Mercado Libre in Mexico showed impressive GMV growth of +59.0% y/y, reaching US$1.6bn (+3.3% vs. Genial Est.). The number of items successfully sold accelerated by +38% y/y, with the Home and Industrial, and Clothing and Sports categories standing out in particular. In addition, cross-border commerce is outpacing overall GMV growth and is an area of strategic priority for the Company.

E-commerce Take-rate comes in line with expectations and grows +170bps y/y. The Company reported a take-rate of 18.7% (-8bps vs. Genial Est.) in 3Q23, with expressive annual growth of +170bps, and driven by a sequential upward movement of +30bps q/q. As we highlighted in our preview report, we found three reasons to justify this performance: **(i)** greater penetration of Ads revenues; **(ii)** a review of the marketplace flat fee, which took place in July; and **(iii)** higher Shipping revenues.

Table 1. E-commerce Operational Data (3Q23 vs. Genial Est.)

	3Q23A	3Q23E		3Q22A		2Q23A	
[USD m]	Reportado	Genial Est.	% R/E | bps	Reported	% y/y | bps	Reported	% q/q | bps
Total GMV	**11.360**	**10.712**	**6,1%**	**8.618**	**31,8%**	**10.506**	**8,1%**
GMV Argentina	2.474	2.590	-4,5%	2.291	8,0%	2.496	-0,8%
GMV Brasil	5.324	4.765	11,7%	3.858	38,0%	4.689	13,5%
GMV México	2.581	2.500	3,3%	1.623	59,0%	2.487	3,8%
% Commerce Take Rate	**18,7%**	**18,8%**	**-8bps**	**17,0%**	**+170bps**	**18,4%**	**0,3p.p**
Commerce Net Revenue	**2.128**	**2.012**	**5,8%**	**1.465**	**45,3%**	**1.936**	**9,9%**

Source: Genial Investimentos, Mercado Libre.

Mercado Pago

TPV expansion above our expectations. Transacted volume totaled US$47.2bn (+46.9% y/y; +12.3% q/q), reaching +6.2% vs. Genial Est. With yet another robust performance, TPV was driven by a better-than-expected Acquiring figures and sustained growth in Digital Accounts.

TPV Off-Platform growing in all operations. The solid growth trends in both the acquiring business and digital accounts benefited mainly the volume transacted off-platform. Off-Platform TPV accelerated in the three main countries of operation, consolidating FX-Neutral growth of +145.4% y/y (+52.9% y/y in USD). Off-Platform TPV totaled US$35.3bn (+6.2% vs. Genial Est.), while On-Platform TPV stood at US$11.9bn (+6.0% vs. Genial Est.).

TPV Digital Account continues on a strong growth trend. With the addition of 6.1mn new "wallet payers" to the base over the LTM, Mercado Libre consolidated an expansion of +65.7% y/y in the volume transacted by digital accounts. TPV Digital Accounts reached US$17.5bn (+65.7% y/y; +18.4% q/q), clocking in at above our estimates (+4.5% vs. Genial Est.).

Following the trend we expected, Argentina's performance made a strong contribution to this growth. The population's demand for simple financial solutions that protect consumers from the inflationary context led the number of users of Mercado Pago's interest-bearing accounts to surpass the 10mn mark in the country for the first time. We understand that this financial flow increases the volume transacted via other wallet products, allowing for continued expansion of TPV related to digital accounts.

TPV Acquiring driven by online payment processing. TPV Acquiring clocked in at US$29.7bn (+7.2% vs. Genial Est.), consolidating a relevant performance through an increase of +37.7% y/y and 9.0% q/q. As we quoted in our preview report, we already expected a positive performance in online payments. Even so, we believe that the robust triple-digit growth posted more than offset the effect of the sectoral slowdown in the MPoS business in Brazil, where the competitive environment and the price war on MDRs continue to form barriers to growth.

Table 2. TPV Data (3Q23 vs. Genial Est.)

	3Q23A	3Q23E		3Q22A		2Q23A	
[USD m]	Reported	Genial Est.	% R/E | bps	Reported	% y/y | bps	Reported	% q/q | bps
Total TPV	**47.256**	**44.501**	**6,2%**	**32.170**	**46,9%**	**42.064**	**12,3%**
TPV Acquiring	29.708	27.715	7,2%	21.579	37,7%	27.246	9,0%
TPV Digital Account	17.548	16.785	4,5%	10.591	65,7%	14.818	18,4%
TPV Off-Platform	35.283	33.208	6,2%	23.080	52,9%	30.990	13,9%
TPV On-Platform	11.973	11.293	6,0%	9.090	31,7%	11.074	8,1%
% Fintech Take Rate	**3,45%**	**3,64%**	**-19bps**	**3,85%**	**-40bps**	**3,52%**	**-7bps**

Source: Genial Investimentos, Mercado Libre.

Mercado Credito

Credit portfolio growth driven by Brazil and Mexico. The consolidated credit portfolio reached US$3.4bn (+22.6% y/y; +4.7% q/q). The expansion of the portfolio was mainly driven by credit operations in Brazil and Mexico, which were able to compensate for the shrinkage of the portfolio in Argentina, due to the shortage of the exchange rate for US$ and the extremely challenging macroeconomic environment for credit.

Credit card portfolio shows strong acceleration. The credit card portfolio showed an acceleration of +50.9% y/y and +15.4% q/q - driven by the credit card operation in Brazil, where the company reaccelerated issuance as of last quarter, and by the growth of the new card operation in Mexico, which began in February.

We believe that the efforts made over the last year to improve credit scoring tools and prioritize "low risk" users have materialized in a better performance of the new cohorts within the card operation. We observed a sequential growth rate of the portfolio showing greater progress quarter after quarter (+15.4% q/q vs. +12.8% q/q 2Q23 vs. +8.5% q/q 1Q23).

Additionally, in Brazil, Mercado Libre launched a new credit card for small businesses that use the marketplace or payment processing systems, seeking to foster the acceleration of the acquiring business amid the competitive environment, as well as encouraging sellers on the platform. Even so, as this product began to be offered this quarter, we believe that the impacts on portfolio growth are still subtle. However, we are optimistic about the initiatives to create an environment more conducive to accelerating market share, and we should see a greater progress of this product over the next few quarters.

Better dynamics in delinquencies over 90 days is still occurring. NPL>90 decelerated for the third consecutive quarter, reaching 20.3% of the total portfolio (vs. 25.1% in 2Q23). We understand that this dynamic is a result of the conservative positioning in terms of originations taken over the last 12M, so that the focus on low-risk cohorts has improved delinquency levels, helping to mitigate the impacts of portfolio aging.

However, short term defaults have risen again. In line with our expectations, delinquencies below 90 days (NPL<90) showed a sequential acceleration, reaching 10.6% of the credit portfolio (vs. 9.9% in 2Q23). In our view, this movement naturally tends to occur as the company begins to reaccelerate the pace of originations. Consolidating both indicators, the total percentage of the portfolio in default cooled again, reaching 30.9% (vs. 35.0% in 2Q23 vs. 37.7% in 1Q23), so we believe that the NPL<90 indicator still remains under control.

However, as we have commented in previous reports, short time delinquency continues to be an indicator that we will monitor over the next few quarters. We believe that successive deterioration in short-term defaults could put new pressure on NPL>90 and harm the profitability of the credit operation.

Table 3. Credit Portfolio (3Q23 vs. Genial Est.)

	3Q23A	3Q23E		3Q22A		2Q23A	
[USD m]	Reported	Genial Est.	% R/E | bps	Reported	% y/y | bps	Reported	% q/q | bps
Total Credit Portfolio	**3.402**	**3.662**	**-7,1%**	**2.774**	**22,6%**	**3.250**	**4,7%**
On-line Merchant	418	467	-10,5%	410	2,0%	429	-2,6%
In-store Merchant	294	311	-5,5%	280	5,0%	278	5,8%
Consumer	1.827	2.030	-10,0%	1.512	20,8%	1.795	1,8%
Credit Cards	863	875	-1,4%	572	50,9%	748	15,4%

Source: Genial Investimentos, Mercado Libre.

Fintech

Fintech Take-Rate contracts -40bps y/y. The Fintech take-rate totaled 3.45% (-40bps y/y; -7bps q/q). The rate's decrease comes mainly from **(i)** a slower pace of expansion in credit operations compared to last year and **(ii)** a cut in the ex-credit take-rate, due to the practice of more competitive MDRs to boost the acquiring business in the midst of a very competitive scenario.

Fintech revenue grows +33.2% y/y. Consolidating the dynamics of Mercado Pago + Mercado Crédito, Fintech net revenue was US$1.6bn (+33.2% y/y; +10.3% q/q), slightly higher than we projected (+2.1% vs. Genial Est.).

With the gradual resumption of growth in the portfolio and a more normalized comparative base for credit operations, we see a return to a more elastic pace of growth, considering that, until then, Mercado Libre had been on a downward trajectory in recent quarters (33.2% y/y vs. 24% y/y in 2Q23 vs. 40% y/y in 1Q23 vs. 75% y/y vs. in 4Q22).

Table 4. Key Operational (3Q23 vs. Genial Est.)

	3Q23A	3Q23E		3Q22A		2Q23A	
[USD m]	Reported	Genial Est.	% R/E | bps	Reported	% y/y | bps	Reported	% q/q | bps
Total GMV	**11.360**	**10.712**	**6,1%**	**8.618**	**31,8%**	**10.506**	**8,1%**
% Commerce Take Rate	18,7%	18,8%	-8bps	17,0%	+170bps	18,4%	+30bps
Commerce Net Revenue	**2.128**	**2.012**	**5,8%**	**1.465**	**45,3%**	**1.936**	**9,9%**
Total TPV	**47.256**	**44.501**	**6,2%**	**32.170**	**46,9%**	**42.064**	**12,3%**
% Fintech Take Rate	3,45%	3,64%	-19bps	3,85%	-40bps	3,52%	-7bps
Fintech Net Revenue	**1.632**	**1.598**	**2,1%**	**1.225**	**33,2%**	**1.479**	**10,4%**
Total Net Revenue	**3.760**	**3.610**	**4,2%**	**2.690**	**39,8%**	**3.415**	**10,1%**

Source: Genial Investimentos, Mercado Libre.

Consolidated

Consolidated net revenue exceeds expectations. Once again, Mercado Libre achieved strong growth (39.8% y/y; 10.1% q/q), posting a net revenue of US$3.8bn (+4.2% vs. Genial Est.). In the e-commerce vertical, revenue was up by +45.3% y/y. In the Fintech vertical, Mercado Libre saw net revenue accelerate by +33.2% y/y.

COGS increased, but in line with our projections. The Company reported a total cost of US$1.8bn (+31.5% y/y; +4.1% q/q), in line with our estimates (-1.6% vs. Genial Est.). The increase in costs is related to the impact of new logistics investments aimed at increasing the fulfillment footprint, as we had expected.

Strong gross margin gain. In our view, there were three main drivers of gross profitability this quarter: **(i)** greater dilution of costs related to CX, **(ii)** a rise in "Collection Fees" originating from a volume transacted via own acquiring and **(iii)** better margins in the 1P segment (which surprises us).

These dynamics more than offset the pressure of higher logistics costs, allowing for a strong margin gain. Gross margin, which clocked in at 53.1%, end up showing a robust expansion both year-on-year (+294bps y/y) and sequentially (+269bps q/q).

SG&A also on the rise. Mercado Libre reported SG&A amounting -US$1.3bn (+24.5% y/y; +12.7% q/q), fully in line with our projections (+0.5% vs. Genial Est.). The increase occurred due to three factors: **(i)** Sales and marketing acceleration; **(ii)** R&D improvements; **(iii)** slightly more intense PDA. However, despite the increase in SG&A, the company showed better margin dynamics due to the dilution of its operating expenses.

Marketing expenses grew due to the new Meli + program. The Company reported marketing expenses of US$441mn (+32.4% y/y; +15.1% q/q), just a little bit higher than estimates (+2.0% vs. Genial Est.). The main reason for this increase was the effort in media and activations to strengthen the branding of the new Meli+ initiative, as we mentioned in our preview.

R&D increased due to higher headcount. Mercado Libre reported R&D expenses of -US$396mn, an increase of +7.6% q/q and +42.4% y/y. This increase was driven by higher headcount, following the strategy of innovation and development of new products, something that was already expected by us given the expansion plan announced at the beginning of the year.

PDA increases in relation to the total credit portfolio. Provisioning expenses clocked in at US$277mn (-0.4% y/y; +24.8% q/q), in line with our estimates (+1.2% vs. Genial Est.). Considering the slightly higher pace of originations, PDA expenses increased their representativeness in relation to the portfolio sequentially, reaching 8.1% (vs. 6.8% in 2Q23). Even so, we see a significant reduction of -225bps y/y (vs. 10.4% in 3Q22), generating gains on an annual basis.

EBIT shows growth and margin expansion due to the dilution of expenses. Reported EBIT was US$685mn (+131.3% y/y; +22.8% q/q), exceeding our expectations (+33.5% vs. Genial Est.), due to a stronger revenue performance and marginally lower costs than we were anticipating in some lines. In terms of margin, the Company posted an increase of +721bps y/y and +189bps q/q, as a result of the dilution of expenses, mainly G&A, and a better gross margin.

Foreign exchange losses continue to have an impact. The macroeconomic situation in Argentina is still having a negative impact on the foreign exchange operations line, with a reported figure of -US$239mn (+236.6% y/y; +31.3% q/q). It's important to mention that the exchange rates practiced by the market are much higher than the country's official data. Even so, we don't see any additional concerns, considering that last quarter we made very conservative adjustments to our model in relation those assumptions linked to the operation in Argentina. For more details, we recommend reading the "Our Take" section, which can be found at our last quarterly report, attached (MELI: The market's Tango).

Net income quite above our and consensus estimates. The company surprised with a net income of US$359mn (+22.0% vs. Genial Est.), beating our expectations and consensus by a wide margin, and showing strong growth of +178.0% y/y and +37.1% q/q. To crown the robust result, the Company posted a considerable increase in net margin (+475 bps y/y; +188 bps q/q).

Table 5. Income Statement (3Q23 vs. Genial Est.)

	3Q23A	3Q23E		3Q22A		2Q23A	
[USD m]	Reported	Genial Est.	% R/E | bps	Reported	% y/y | bps	Reported	% q/q | bps
Total Net Revenue	**3.760**	**3.610**	**4,2%**	**2.690**	**39,8%**	**3.415**	**10,1%**
E-commerce	2.128	2.012	5,8%	1.465	45,3%	1.936	9,9%
Fintech	1.632	1.598	2,1%	1.225	33,2%	1.479	10,3%
(-) COGS	(1.765)	(1.793)	-1,6%	(1.342)	31,5%	(1.695)	4,1%
Gross Profit	1.995	1.816	9,8%	1.348	**48,0%**	1.720	**16,0%**
% Gross Margin	53,1%	50,3%	+274bps	50,1%	+294bps	50,4%	+269bps
(-) SG&A	(1.310)	(1.303)	0,5%	(1.052)	24,5%	(1.162)	12,7%
EBIT	**685**	**513**	**33,5%**	**296**	**131,3%**	**558**	**22,8%**
% EBIT Margin	18,2%	14,2%	+401bps	11,0%	+721bps	16,3%	+189bps
Net Profit	**359**	**294**	**22,0%**	**129**	**178,0%**	**262**	**37,1%**
% Net Margin	9,5%	8,2%	+139bps	4,8%	+475bps	7,7%	+188bps

Source: Genial Investimentos, Mercado Libre.

Our take on Mercado Libre

We believe that the troubled scenario in Argentina is still scaring investors away from the stock. However, in our view, this is much more of a market noise that amplifies the price asymmetry. The diversification, both in terms of geographic areas of operation and also in terms of business, provides Mercado Libre with a result that is almost always above our expectations and consensus. This time was no different.

Even with the exchange rate issue due to the situation in Argentina still squeezing the bottom line, net income was the biggest positive highlight, growing by +178% y/y and marking a result +22% above our expectations.

Ever since we made our assuming coverage of the company, we have always been supporters of the Mercado Libre's investment thesis. We really like the idea of a business ecosystem, connecting different needs and offering a complete platform for sellers and buyers. Breaking paradigms since the first online shopping movements in the early 2000s, the creation of Mercado Pago was a sure shot to support the flow of purchases and ensure the best alignment of interests between buyers and sellers, helping to expunge the mistrust that existed at the time for online purchases.

Today, that mistrust has been more than overcome, with ~60% of consumers in Latin American countries, Mercado Libre's focus, making up to five online purchases a month. Especially in long tail categories, this number is even higher. So, the Mercado Libre group's plans for Mercado Pago are starting to take off for further ambitions. The company's entry into the digital banking business is one of those projects that is increasingly taking shape and acting as a very important pillar for the significant growth in Mercado Libre's results in recent quarters.

Dovish posture in Brazil favors an increase in originations. As interest rates fall, in view of the third consecutive cut in the SELIC rate by another -50bps to 12.75%, we see more and more room for Mercado Libre to accelerate credit originations again. For e-commerce, some investors had doubts as to whether Mercado Libre would be able to maintain a sequential growth rate, given the fading effect of the Americanas' event.

As time went by, it seemed natural to believe that the growth's pace would be slower, considering the size of the base overlap between the two companies before the event took place, restricting the space for future gains. However, surprising the market, sequential GMV growth remains strong (+13.5% q/q), with the e-commerce division in Brazil more than a thousand miles ahead of the competition, also reaching an increase of +38.0% y/y and clocking in at +11.7% above our estimates.

Taking advantage of solid investments in Mexico. Regarding Mexico, interest rates have been kept at 11.25%. However, Banxico indicated in its last statement in September that the inflation situation is still persistent and that prices should only return to the 3% target in 2025. Considering the new credit card product in this location, we believe that the pace of issuance will remain slow until credit conditions become more favorable.

As a counterpoint, on the e-commerce side, the country continues to expand at a fast pace, with an already robust logistics network, in the face of an operation that for a long time consumed a lot of the company's CAPEX and didn't always operate with positive margins. Today, Mercado Libre is reaping the rewards of its victory by having invested in the country, widening its lead over Amazon, even though the latter benefits from a structure closer to the US. GMV growth marks in Mexico was impressive, up +59.0% y/y, beating our estimates by +3.3%, demonstrating the power of the country's profitability after years of investment.

Initiatives within the acquiring segment to gain market share. In the acquiring business, as competition is strong in price terms, with several players fighting each other (Stone, PagSeguro, Getnet, Cielo), the NDR does indeed tend to fall from now on, which is another point of concern for the investors we spoke to. In the fierce fight for market share within the bottom range of the SMB category, Mercado Pago has been working on initiatives, such as launching a new credit card for small businesses that use the marketplace or payment processing systems. With the opening of a more positive credit cycle for Brazil, we believe that these initiatives should help encourage the growth of Off-Platform TPV from now on and increase the penetration of Mercado Pago's market share, which according to our model, stands at 6.76%. Despite the still timid progress this quarter, we expect improvements in this area as early as 4Q23 and throughout 2024.

NPL<90 days remains our only point of criticism. The rate of NPL over 90 days decreased for the third consecutive quarter to 20.3% of the total portfolio, compared to 25.1% in 2Q23, due to a conservative approach to lending over the last year, with a focus on lower risk cohorts. On the other hand, delinquencies below 90 days (NPL<90) accelerated to 10.6% of the loan portfolio vs. 9.9% in 2Q23, an expected trend as the company increases the pace of originations. Overall, the percentage of the total portfolio in default (Bad Debt) fell again to 30.9%, compared to 35.0% in 2Q23 and 37.7% in 1Q23. Although the NPL<90 indicator remains under control, the constant increase in short-term defaults could increase the pressure on NPL>90 in the future and impact the profitability of the credit operation, which we see as the first sign that bad debts could increase again in the future.

The greenest grass in the neighborhood. We've always been optimistic about Mercado Libre's investment thesis, and we believe that retail peers in Latin America should increasingly look at the company's figures with the feeling that "the grass is always greener on the other side". So much so that we know that Mercado Libre is still trading at a premium over its peers, running at stretched multiples, with an **EV/EBITDA 2024E** of **19.2x**.

So, we can't say that Mercado Libre is a particularly discounted company. But that doesn't mean it isn't still attractive. Even at high levels, the indicator is below the pre-2018 historical average of 29.0x (the period before the investment in logistics and financial solutions). Regarding this, our take is that the current price does not accurately reflect the numerous growth possibilities we foresee for the Company, which remain firm. Our **BUY rating** remains, with a **slight increase** in the **12M Target Price** to **US$1,575** (vs. US$1,520 previously) for **MELI (Nasdaq)**. For the **MELI34 BDRs (B3)**, the **12M Target Price** is now **R$65.00** (vs. 60.00 previously), suggesting an **upside** of **+19.36%**.

Appendix: Mercado Libre

Figure 1. Mercado Libre – Income Statement in US$ Millions (Genial Est. 2023-2028)

Preview (R$mm) Income Statement	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Operating Revenue	**12.884**	**16.431**	**19.979**	**25.615**	**28.592**	**32.287**	**35.948**	**40.190**	**45.428**
(-) COGS	(5.947)	(7.386)	(8.732)	(10.945)	(12.375)	(14.045)	(15.706)	(17.596)	(19.797)
Gross Profit	**6.937**	**9.046**	**11.247**	**14.670**	**16.218**	**18.243**	**20.242**	**22.594**	**25.631**
(-) Expenditures	(4.971)	(6.122)	(6.865)	(8.412)	(9.429)	(10.669)	(11.817)	(13.148)	(14.777)
EBITDA	**1.966**	**2.924**	**4.382**	**6.258**	**6.789**	**7.574**	**8.426**	**9.446**	**10.854**
D&A	(493)	(648)	(837)	(964)	(968)	(1.141)	(1.320)	(1.502)	(1.696)
EBIT	**1.473**	**2.276**	**3.545**	**5.294**	**5.821**	**6.433**	**7.105**	**7.944**	**9.158**
Financial Results	234	481	644	626	480	809	920	1.647	1.975
EBT	**1.380**	**2.829**	**4.083**	**6.105**	**6.488**	**7.560**	**8.266**	**9.909**	**11.595**
(-) Taxes	(527)	(1.080)	(1.559)	(2.330)	(2.476)	(2.886)	(3.155)	(3.782)	(4.426)
Net Profit	**853**	**1.749**	**2.525**	**3.775**	**4.011**	**4.674**	**5.111**	**6.127**	**7.169**
Rate of Return									
Net Margin (%)	6,62%	10,64%	12,64%	14,74%	14,03%	14,48%	14,22%	15,24%	15,78%

Figure 2. Mercado Libre – Cash Flow in US$ Million (Genial Est. 2023-2028)

Discounted Cash Flow (DCF)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Revenue	**12.884**	**16.431**	**19.979**	**25.615**	**28.592**	**32.287**	**35.948**	**40.190**	**45.428**
COGS	(10.918)	(13.508)	(15.597)	(19.358)	(21.803)	(24.714)	(27.523)	(30.744)	(34.574)
EBITDA Adj.	**1.966**	**2.924**	**4.382**	**6.258**	**6.789**	**7.574**	**8.426**	**9.446**	**10.854**
(+) Provision Expenses	1.079	1.287	992	871	1.023	1.125	1.210	1.285	1.362
(-) Taxes	(527)	(1.080)	(1.559)	(2.330)	(2.476)	(2.886)	(3.155)	(3.782)	(4.426)
(+/-) Δ WK	170	598	501	1.092	298	467	303	364	513
(-) Capex	(679)	(1.182)	(1.237)	(1.313)	(1.465)	(1.654)	(1.842)	(2.059)	(2.328)
Unlevered FCFF	**2.010**	**2.546**	**3.079**	**4.578**	**4.169**	**4.626**	**4.941**	**5.253**	**5.976**

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