

MercadoLibre, Inc. (MELI)

\$607.80 (As of 01/03/20)

Price Target (6-12 Months): **\$517.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 11/05/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: B

Momentum: D

Summary

MercadoLibre is currently bearing the brunt of increasing warehousing cost of managed network and expenses related to infrastructure transition on public clouds. Moreover, costs related to free shipping subsidies and discounts on mPOS devices are weighing on margin expansion. Further, mounting interest accrual on convertible bonds remains a headwind. Nevertheless, robust MercadoPago and MercadoEnvios continue to aid the company's total payment volume and shipments, respectively. Further, the company's strong mobile wallet initiatives are key catalysts. Notably, the stock has outperformed the industry it belongs to over a year. However, accumulating bad debts remains a major concern for its financial performance in the near term. Further, rising competition from e-commerce giants poses a serious threat to its market position.

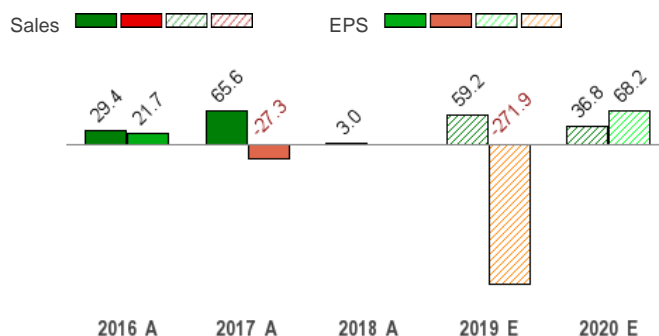
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$698.98 - \$315.73
20 Day Average Volume (sh)	343,898
Market Cap	\$30.2 B
YTD Price Change	6.3%
Beta	1.59
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 20% (202 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9,800.0%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/25/2020
Earnings ESP	0.0%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	14.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	667 E	753 E	828 E	917 E	3,135 E
2019	474 A	545 A	603 A	670 E	2,292 E
2018	321 A	335 A	355 A	428 A	1,440 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.02 E	-\$0.05 E	-\$0.34 E	\$0.25 E	-\$0.97 E
2019	\$0.13 A	\$0.31 A	-\$0.97 A	-\$0.67 E	-\$3.05 E
2018	-\$0.29 A	-\$0.25 A	-\$0.23 A	-\$0.05 A	-\$0.82 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

Overview

Buenos Aires, Argentina based MercadoLibre, Inc. (MELI) is one of the largest e-commerce platforms in Latin America. The company is a market leader in e-commerce in Brazil, Argentina, Colombia, Chile, Ecuador, Costa Rica, Peru, Mexico, Venezuela and Uruguay based on unique visitors and page views.

The company also operates e-commerce platform in Honduras, Nicaragua, Dominican Republic, Salvador, Panama, Guatemala, Paraguay, Bolivia, and Portugal.

MercadoLibre reported revenues of \$1.44 billion in 2018. The company offers a bunch of six integrated e-commerce services:

MercadoLibre Marketplace enables businesses and individuals to conduct sales, purchase online and list their merchandise.

MercadoLibre Classifieds offers online classified listing services for motor vehicles, real estate and services. These listing charge only optional placement fees and hence they are different from Marketplace listings.

MercadoPago FinTech platform allows users to send and receive payments seamlessly within MercadoLibre's marketplace. Outside of this, merchants are allowed to process payments via websites, mobile apps and mobile point of sale.

MercadoLibre advertising program enables advertisers and seller to display their product ads on the company's webpages.

MercadoShops online webstores solution aids users in managing and promoting their online stores.

MercadoEnvios logistics service provides integration with third-party carriers and logistics service providers to the sellers on the company's platform.

In 2018, MercadoLibre had four reportable geographic segments— Brazil, Argentina, Mexico and Other Countries. Brazil generated 60.2% of the company's revenues. Argentina, Mexico and Other Countries generated 26.3%, 7.5% and 6.1% of revenues, respectively.

Effective Dec 1, 2017, MercadoLibre deconsolidated its Venezuelan subsidiaries. The company no longer includes the balances, results of operations and cash flows of the Venezuelan subsidiaries in its consolidated financial statements.



Reasons To Sell:

- ▼ Margins are currently under pressure due to increased investments toward free shipping, loyalty programs and improvement in customer services, marketing, chargebacks, as well as higher maintenance, hosting and fraud prevention cost. Especially, free shipping and loyalty programs are currently at initial stages of deployment and will increasingly put pressure on margins as its deployment speeds up.
- ▼ MercadoLibre is exposed to high foreign exchange risk. The company operates in 18 different countries with different currencies and has to convert the money earned into dollars as required by the Securities and Exchange Commission (SEC). Thus, appreciation or depreciation of the U.S. dollar versus foreign currencies could severely impact the company's financial results.
- ▼ E-commerce, with a large user base worldwide, has turned out to be a sweet spot with more and more companies jumping on the bandwagon and further intensifying the competitive scenario. MercadoLibre faces tough competition from Amazon, Rakuten, Cnova, Aliexpress to name a few. Competition from brick-and-mortar stores such as Wal-Mart, Casas Bahia, Garbarino and Falabella are also increasing at a considerable rate. Lack of appropriate counter strategies could be a matter of worry in the long run.
- ▼ MercadoLibre's business segments experience seasonality. Fewer listings after Christmas, summer vacation and other holidays result in weaker demand in the first quarter. Year-end shopping season causes stronger demand in the fourth quarter. But the first quarter remains the weakest for the company in a year. The seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult.

Increased expenses, intensifying competition from Amazon and Wal-Mart, high foreign exchange risk and seasonality are major overhangs.

Risks

- MercadoLibre is well positioned to take advantage of the changing ways in which people buy and sell. Being a well-established e-commerce player in Latin America, the company is well poised to take advantage of increasing Internet penetration. With its advanced technological and commercial solutions, MercadoLibre is capable of addressing typical cultural and geographic challenges associated with operating an online commerce platform in this part of the world.
 - The company has designed its services in a manner that it can take advantage of synergies between them. MercadoLibre Marketplace is a fully-automated, user-friendly online commerce service that allows both businesses and individuals to list products and buy and sell online in both fixed-price and auction-based format. To complement this service, the company developed MercadoPago, an integrated online payments solution that provides merchants smooth checkout and payment processes on their websites and also allows users to transfer money to each other with ease through the website or MercadoPago App. Additionally, the company launched MercadoCredito in Argentina in 2016 designed to extend loans to specific merchants. Further, to improve its non-marketplace unit, the company developed MercadoLibre Classifieds Service, MercadoLibre advertising program, MercadoShops and MercadoEnvios shipping program. MercadoLibre Classifieds Service is an online classified listing service that allows list and purchase vessels, aircraft, motor vehicles, real estate and services in all countries where the company operates. This service is a major source of traffic to the company's website. The advertising program allows businesses to promote their products and services on the company's webpages and associated vertical sites. MercadoShops is an online store solution that allows users to run their own online stores. MercadoEnvios is a shipping program that enables sellers to use the company's existing distribution chain to sell their products in a cost-efficient manner. These integrated services offer better cross-usage and gives users a strong reason to stick to the company's platform. The result is a growing user base which is positively impacting top-line growth. Additionally, the strengthening mobile wallet initiatives of the company are aiding its performance in all the major regions like Brazil, Argentina and Mexico.
 - The company's focus on increasing monetization of transactions is a big positive. Its initiatives are helping it to maximize revenues it receives from transactions. These initiatives include increasing fee structure, selling advertising on its platform, offering other e-commerce services and expanding fee-based features.
 - MercadoLibre has a strong balance sheet with cash and investments balance of \$1.42 billion at the end of the third-quarter 2019. The company has no long-term debt. The strong liquidity position helps the company pursue any strategic initiatives including acquisitions.
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Last Earnings Report

MercadoLibre Reports Loss in Q3

MercadoLibre reported third-quarter 2019 loss of 97 cents per share (adjusted for valuation allowance on deferred tax assets in Mexico and Colombia), against the Zacks Consensus Estimate for earnings of 1 cent.

Further, the figure was wider than a loss of 23 cents per share reported in the year-ago quarter. Notably, the company reported earnings of 31 cents per share in the previous quarter.

Revenues improved 10.6% sequentially and 69.7% on a year-over-year basis (90.5% on an FX neutral basis) to \$603 million.

Increasing total payments volume (TPV) acted as the key catalyst in driving the third-quarter top line. Moreover, solid performance by Mercado Pago positively impacted the results. Merchant and consumer credit business also performed well on the back of robust Mercado Credito.

Additionally, solid momentum of mobile-point-of-sale (MPOS) business across Brazil, Argentina and Mexico contributed to the results.

Further, the company's solid performance across all its reporting regions and robust e-commerce platform were major positives. Robust shipments via Mercado Envios also drove revenues, primarily backed by the company's strengthening free shipment program.

However, the figure missed the Zacks Consensus Estimate of \$605 million.

Increasing expenses especially those related to marketing and branding activities remained a major headwind. This negatively impacted the margin expansion. Further, accumulating bad debts remain a concern.

Nevertheless, the company's well-performing FinTech and logistics businesses drove the top line. Further, its strong focus toward delivering enhanced user experience remains a positive. All these are expected to instill optimism in the stock.

Quarter in Detail

Brazil: Net revenues in the third quarter were \$389.9 million (64.7% of total revenues), up 76.6% year over year. This can be attributed to improved gross billings, which surged 43% on a year-over-year basis. Further, gross merchandise volume (GMV) improved 24% year over year in this region.

Argentina: This market generated \$116.2 million revenues (19.3% of revenues), which advanced 38.8% year over year. Gross billings in this country improved 37.3% from the year-ago quarter. Further, the company witnessed solid growth in GMV in this country, which was up 80.2% year over year.

Mexico: Net revenues in the reported quarter were \$71.4 million (11.8% of revenues), up 146.2% year over year. Year-over-year growth came on the back of robust GMV, which improved 47% from the prior-year quarter. Additionally, gross billings were up 99.2% from the year-ago quarter.

Other countries: These markets generated revenues of \$25.5 million (4.2% of total revenues), surging 16.9% on a year-over-year basis. The company's gross billings in these countries were up 18.2% on a year-over-year basis. Notably, GMV in Colombia and Chile was up 50% and 32%, respectively, from the year-ago quarter.

Key Metrics

GMV of \$3.6 billion improved 21.6% year over year and 36.8% on FX neutral basis.

Total confirmed registered users at the end of the reported quarter were 306 million, improving 22.9% year over year. However, new confirmed registered users during the period were 13.8 million, declining 1.4% on a year-over-year basis.

Number of successful items sold was 98 million, up 17.4% year over year. Moreover, number of successful items shipped surged 49.5% year over year to 81.2 million. This can be attributed to strong performance of MercadoEnvios and optimization strategies for the company's free shipping program.

Total payment volume (TPV) was up 66.2% on a year-over-year basis to \$7.6 billion, driven by strong performance of MercadoPago. Additionally, the company's online-to-offline payment offerings continued to gain traction in the third quarter, thanks to robust MPOS business. Notably, MPOS business witnessed TPV growth of 141.2% year over year. Further, the company saw rapid adoption of its Mobile Wallet.

TPV on marketplace was \$3.4 billion up 24.2% year over year. Further, total payments transactions increased 118.5% year over year to 227 million.

Unique buyers improved 25.1% year over year to 22.4 million. Moreover, unique sellers were 4.4 million, up 2.3% from the prior-year quarter.

Operating Details

For the third quarter, gross margin was 47.2%, contracting 60 bps year over year. This can be attributed to rising shipping subsidies and warehousing costs of managed network.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-0.31%
EPS Surprise	-9,800.00%
Quarterly EPS	-0.97
Annual EPS (TTM)	-0.58

Operating expenses as a percentage of total revenues came in 60.7%, expanding significantly from 50.9% in the year-ago quarter.

The company reported a loss from operations of \$81.9 million, significantly wider than the year-ago quarter's loss of \$11 million.

Balance Sheet & Cash Flow

As of Sep 30, 2019, cash and cash equivalents were \$1.42 billion, improving from \$1.12 billion as of Jun 30, 2019. Short-term investments were \$1.73 billion, down from \$1.79 billion in the previous quarter.

In the third quarter, cash generated from operations was \$206.9 million compared with \$27.6 million in the second quarter.

Recent News

On **Aug 27, 2019**, MercadoLibre joined forces with a Mexico-based technology company, Uniko, and introduced a joint platform – Mercado Libre. Notably, the platform combines MercadoLibre's e-commerce platform with Uniko's superior mastery of the gift registry space.

Valuation

MercadoLibre shares are down 3.5% in the six-month period but up 84.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail And Wholesale sector are up 7% and 6.6% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 23.2% and 20.9%, respectively.

The S&P 500 index is up 9.3% in the six-month period and 25.7% in the past year.

The stock is currently trading at 9.6X forward 12-month sales, which compares to 4.13X for the Zacks sub-industry, 1.07X for the Zacks sector and 3.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.22X and as low as 5.22X, with a 5-year median of 7.69X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$517 price target reflects 8.17X forward 12-month sales.

The table below shows summary valuation data for MELI

Valuation Multiples - MELI					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	9.60	4.13	1.07	3.47
	5-Year High	13.22	5.77	1.1	3.47
	5-Year Low	5.22	3.1	0.8	2.54
	5-Year Median	7.69	4.58	0.9	3
P/B TTM	Current	14.82	7.38	5.15	4.41
	5-Year High	109.69	10.73	5.82	4.45
	5-Year Low	10.79	4.69	3.58	2.85
	5-Year Median	19.12	7.98	4.79	3.6
EV/Sales TTM	Current	13.57	5.11	1.27	3.23
	5-Year High	18.56	8.12	1.27	3.3
	5-Year Low	5.7	4.13	0.88	2.16
	5-Year Median	10.43	6.19	1.05	2.8

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 252)



Top Peers

JD.com, Inc. (JD)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
Alibaba Group Holding Limited (BABA)	Neutral
eBay Inc. (EBAY)	Neutral
Etsy, Inc. (ETSY)	Neutral
Fiverr International Lt. (FVRR)	Neutral
Wayfair Inc. (W)	Neutral
Walmart Inc. (WMT)	Neutral

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	MELI Underperform	X Industry	S&P 500	AMZN Neutral	BABA Neutral	EBAY Neutral
VGM Score	F	-	-	D	D	B
Market Cap	30.21 B	3.15 B	23.66 B	929.60 B	552.13 B	29.25 B
# of Analysts	3	3	13	13	7	14
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.00%	1.56%
Value Score	F	-	-	D	D	B
Cash/Price	0.11	0.14	0.04	0.05	0.07	0.11
EV/EBITDA	760.14	7.34	13.88	32.43	25.85	9.93
PEG Ratio	NA	1.34	1.99	2.60	1.14	1.21
Price/Book (P/B)	14.82	4.68	3.36	16.45	5.48	8.95
Price/Cash Flow (P/CF)	2,984.09	19.82	13.62	36.24	37.54	13.44
P/E (F1)	NA	24.76	18.74	71.48	29.51	12.44
Price/Sales (P/S)	14.74	1.84	2.67	3.50	8.58	2.69
Earnings Yield	-0.16%	1.93%	5.32%	1.40%	3.39%	8.04%
Debt/Equity	0.38	0.25	0.72	0.40	0.17	2.36
Cash Flow (\$/share)	0.20	0.45	6.94	51.74	5.78	2.67
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-38.47%	16.19%	10.56%	116.18%	29.66%	-5.49%
Proj. EPS Growth (F1/F0)	68.03%	13.27%	7.41%	27.90%	28.55%	4.33%
Curr. Cash Flow Growth	-93.98%	2.56%	14.83%	85.21%	6.63%	0.23%
Hist. Cash Flow Growth (3-5 yrs)	-41.56%	14.92%	9.00%	48.43%	30.02%	-8.09%
Current Ratio	2.73	1.64	1.23	1.10	1.38	1.41
Debt/Capital	30.18%	24.51%	42.92%	28.45%	15.19%	70.28%
Net Margin	-5.87%	0.33%	11.08%	4.27%	34.02%	18.33%
Return on Equity	-1.29%	9.21%	17.10%	22.52%	14.92%	41.12%
Sales/Assets	0.52	0.78	0.55	1.45	0.44	0.51
Proj. Sales Growth (F1/F0)	36.78%	14.90%	4.20%	18.48%	33.26%	2.15%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	-0.39%	-0.31%	-0.61%	-1.21%	-1.26%	-0.94%
1 Week Price Chg	1.13%	0.38%	0.13%	4.66%	1.52%	-0.33%
4 Week Price Chg	5.06%	3.86%	2.60%	7.73%	8.50%	3.36%
12 Week Price Chg	12.06%	3.10%	8.87%	8.99%	30.67%	-5.19%
52 Week Price Chg	104.93%	8.27%	29.34%	24.97%	66.16%	26.98%
20 Day Average Volume	343,898	183,597	1,603,615	2,979,273	12,103,104	6,776,030
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.22%	-0.37%	0.00%
(F1) EPS Est 12 week change	-149.65%	-3.85%	-0.57%	-18.91%	1.72%	-4.90%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-2.70%	-0.20%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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