

MercadoLibre, Inc. (MELI)

\$924.00 (As of 06/15/20)

Price Target (6-12 Months): **\$970.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
 (Since: 01/08/20)
 Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
 Zacks Style Scores: **VGM:F**
 Value: F | Growth: F | Momentum: A

Summary

MercadoLibre is benefiting from strengthening online-to-offline offerings. Further, robust mobile-point-of-sale business and growing adoption of MercadoPago are contributing to the total payment volume growth. Also, rapid adoption of Mobile Wallet remains a tailwind. Growing merchant and consumer credit business on the back of robust Mercado Credito is a positive. Further, MercadoLibre's robust free shipping program is aiding shipments growth via MercadoEnvios. The company remains optimistic about its FinTech and logistics businesses. The stock has outperformed the industry on a year-to-date basis. However, rising expenses related to warehousing, free shipping subsidies and mPOS discounts are impacting margins. Further, mounting marketing spending remains a major negative. Also, rising competition in e-commerce market is a risk.

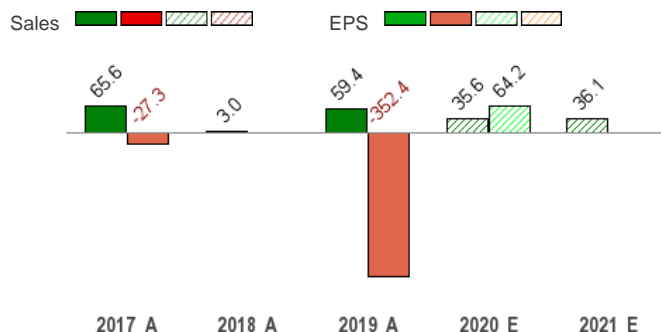
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$964.84 - \$422.22
20 Day Average Volume (sh)	482,990
Market Cap	\$45.9 B
YTD Price Change	61.6%
Beta	1.69
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Top 23% (57 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.3%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	4.3%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	18.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	865 E	1,115 E	1,194 E	1,322 E	4,238 E
2020	652 A	783 E	831 E	921 E	3,113 E
2019	474 A	545 A	603 A	674 A	2,296 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.58 E	\$0.58 E	\$0.75 E	\$1.34 E
2020	-\$0.44 A	\$0.00 E	-\$0.22 E	-\$0.28 E	-\$1.33 E
2019	\$0.13 A	\$0.31 A	-\$0.97 A	-\$1.11 A	-\$3.71 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 06/15/2020. The reports text is as of 06/16/2020.

Overview

Buenos Aires, Argentina based MercadoLibre, Inc. 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 \$2.3 billion in 2019. 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.

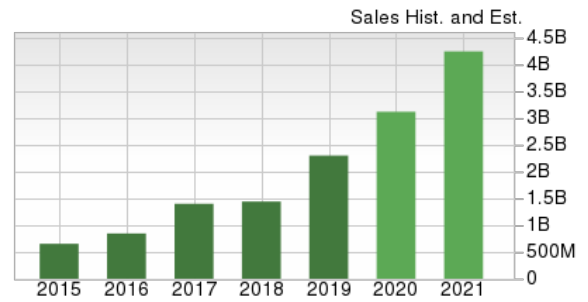
MercadoLibre advertising program enables advertisers and seller to display their product ads on the company's webpages.

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.

MercadoLibre has four reportable geographic segments— Brazil, Argentina, Mexico and Other Countries. In 2019, Brazil generated 63.6% of the company's revenues. Argentina, Mexico and Other Countries generated 19.9%, 12% and 4.5% 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 Buy:

- ▲ 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 solution, 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 \$2.63 billion at the end of the first-quarter 2020 compared to \$2.98 billion at the end of the fourth-quarter 2019. Although the figure has declined sequentially, the company has no current as well as long-term debt at present. The strong liquidity position will help the company pursue any strategic initiatives including acquisitions.

The company's integrated and synergized e-commerce services, growing user base, increasing monetization and strong financial position are positives.

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.

Last Earnings Report

MercadoLibre Reports Loss in Q1

MercadoLibre reported first-quarter 2020 loss of 44 cents per share, wider than the Zacks Consensus Estimate of a loss of 43 cents. Notably, the company had reported earnings of 13 cents per share in the year-ago quarter.

Revenues improved 37.6% on a year-over-year basis (70.5% on an FX neutral basis) to \$652.1 million. Further, the figure surpassed the Zacks Consensus Estimate of \$644 million.

The top line was driven by accelerating commerce and fintech revenues, which grew 32.7% and 45.2% year over year, respectively.

Further, increasing total payments volume (TPV) on the back of robust Mercado Pago and mobile-point-of-sale (MPOS) business remained a major positive. Moreover, solid TPV growth via Mobile Wallet contributed to the results.

Additionally, expanding international footprints of Mercado Fondo drove the results.

Further, the company's rising gross merchandise volume (GMV), courtesy of accelerating mobile GMV remained positive. Also, strong momentum across free shipment program led to robust shipments growth via MercadoEnvios during the reported quarter.

Additionally, the company's warehouses and managed logistics network remained fully functional during the first quarter despite the coronavirus pandemic.

Quarter in Detail

Brazil: Net revenues in the first quarter were \$397.4 million (60.9% of total revenues), up 31.4% year over year. This can be attributed to GMV in the country, which improved 15% year over year, courtesy of growing number of items sold in this region.

Argentina: This market generated revenues of \$132.9 million (20.4% of revenues), which soared 41.6% year over year. The company witnessed solid growth in GMV in this country, which surged 81.5% year over year owing to robust marketing campaigns.

Mexico: Net revenues in the reported quarter were \$94.7 million (14.5% of revenues), up 73.7% year over year. This primarily came on the back of robust GMV, which improved 54.5% from the prior-year quarter.

Other countries: These markets generated revenues of \$27 million (4.1% of total revenues), climbing 17.2% on a year-over-year basis.

Key Metrics

GMV of \$3.4 billion improved 10.6% year over year and 34.2% on FX neutral basis.

New confirmed registered users during the period were 13 million, increasing 5.7% on a year-over-year basis.

Number of successful items sold was 105.7 million, up 27.7% year over year. Moreover, number of successful items shipped surged 44.6% year over year to 90.2 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 43.5% on a year-over-year basis to \$8.1 billion, driven by strong performance of MercadoPago and off-platform payments volume (online-to-offline), which grew 139.5% from the year-ago quarter.

Additionally, MPOS business witnessed TPV growth of 103.3% year over year. Further, rapid adoption of MercadoLibre's Mobile Wallet generated \$1.3 billion in transactions, up 299.2% year over year. Further, user base of mobile wallet grew 155.1% from the year-ago quarter.

TPV on marketplace was \$3.2 billion, up 10.6% year over year. Further, total payments transactions increased 102% year over year to 290.7 million.

Unique active users stood at 43.2 million, up 30.9% year over year.

Operating Details

For the first quarter, gross margin was 48%, contracting 200 basis points (bps) year over year. This can be attributed to rising warehousing costs and fulfillment costs.

Operating expenses as a percentage of total revenues came in 52.5%, expanding significantly by 460 bps year over year.

The company reported a loss from operations of \$29.7 million, against the year-ago quarter's income of \$10.1 million.

Balance Sheet

As of Mar 31, 2020, cash and cash equivalents were \$1.1 billion, declining from \$1.4 billion as of Dec 31, 2019.

Short-term investments were \$1.56 billion in the first quarter, down from \$1.59 billion in the previous quarter.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	1.28%
EPS Surprise	-2.33%
Quarterly EPS	-0.44
Annual EPS (TTM)	-2.21

Accounts receivable amounted to \$34.1 million, up from \$35.4 million in the fourth quarter. Further, inventory at the end of the first quarter was \$12.1 million, up from \$8.6 million at the end of prior 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 up 61.5% in the year-to-date period and 49.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail And Wholesale sector are up 28% and 9.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 32.4% and 18.2%, respectively.

The S&P 500 index is down 4.7% in the year-to-date period but up 6.1% in the past year.

The stock is currently trading at 12.66X forward 12-month sales, which compares to 4.19X for the Zacks sub-industry, 1.1X for the Zacks sector and 3.44X 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 7.64X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$970 price target reflects 13.29X 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	12.66	4.19	1.1	3.44
	5-Year High	13.22	5.99	1.13	3.44
	5-Year Low	5.22	3.16	0.81	2.53
	5-Year Median	7.64	4.72	0.95	3.02
P/B TTM	Current	24.71	7.61	5.01	4.19
	5-Year High	109.69	11.2	5.97	4.56
	5-Year Low	10.79	4.89	3.66	2.83
	5-Year Median	19.14	7.96	4.92	3.66
EV/Sales TTM	Current	17.8	5.73	1.35	3
	5-Year High	18.56	8.52	1.38	3.46
	5-Year Low	5.7	3.92	0.89	2.13
	5-Year Median	10.61	6.34	1.11	2.83

As of 06/15/2020

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
eBay Inc. (EBAY)	Outperform	1
Fiverr International Lt. (FVRR)	Outperform	2
JD.com, Inc. (JD)	Outperform	1
Wayfair Inc. (W)	Outperform	1
Amazon.com, Inc. (AMZN)	Neutral	3
Alibaba Group Holding Limited (BABA)	Neutral	3
Etsy, Inc. (ETSY)	Neutral	2
Walmart Inc. (WMT)	Neutral	3

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	MELI	X Industry	S&P 500	AMZN	BABA	EBAY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	F	-	-	C	F	B
Market Cap	45.93 B	1.98 B	21.70 B	1,283.19 B	552.21 B	33.65 B
# of Analysts	7	3	14	13	7	12
Dividend Yield	0.00%	0.00%	1.95%	0.00%	0.00%	1.34%
Value Score	F	-	-	F	D	B
Cash/Price	0.06	0.13	0.06	0.04	0.10	0.13
EV/EBITDA	1,373.83	6.68	12.55	33.65	24.99	12.95
PEG Ratio	NA	3.07	2.96	5.25	1.48	1.09
Price/Book (P/B)	24.71	5.41	2.99	19.66	4.49	15.87
Price/Cash Flow (P/CF)	2,187,655.25	25.37	11.61	38.37	32.37	14.34
P/E (F1)	NA	48.09	21.21	128.48	26.56	13.90
Price/Sales (P/S)	18.56	1.92	2.26	4.33	7.59	3.20
Earnings Yield	-0.14%	-0.01%	4.43%	0.78%	3.76%	7.18%
Debt/Equity	0.42	0.27	0.76	0.36	0.14	3.87
Cash Flow (\$/share)	0.00	0.44	7.01	67.05	6.70	3.34
Growth Score	F	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-45.77%	12.78%	10.87%	102.38%	36.01%	0.82%
Proj. EPS Growth (F1/F0)	64.27%	-2.31%	-10.58%	-12.97%	9.22%	21.73%
Curr. Cash Flow Growth	-99.77%	-5.32%	5.46%	31.33%	14.08%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	-83.10%	11.55%	8.55%	49.26%	32.08%	-6.76%
Current Ratio	2.23	1.84	1.29	1.08	1.91	1.34
Debt/Capital	32.15%	27.49%	45.06%	26.42%	12.94%	79.46%
Net Margin	-8.28%	-3.36%	10.54%	3.56%	29.16%	44.44%
Return on Equity	-5.29%	9.54%	16.08%	17.83%	14.56%	63.44%
Sales/Assets	0.54	1.12	0.55	1.42	0.42	0.55
Proj. Sales Growth (F1/F0)	35.58%	0.00%	-2.59%	24.13%	29.97%	-5.34%
Momentum Score	A	-	-	A	D	A
Daily Price Chg	3.08%	1.24%	0.98%	1.09%	-0.28%	0.48%
1 Week Price Chg	3.40%	-2.33%	-7.25%	2.50%	-0.87%	-2.38%
4 Week Price Chg	16.29%	9.49%	5.45%	6.03%	0.81%	12.68%
12 Week Price Chg	101.90%	65.72%	39.81%	35.20%	23.08%	81.82%
52 Week Price Chg	49.31%	0.00%	-4.47%	36.41%	35.72%	22.76%
20 Day Average Volume	482,990	294,461	2,587,370	3,762,045	21,370,804	11,555,293
(F1) EPS Est 1 week change	2.93%	0.00%	0.00%	0.20%	0.00%	1.72%
(F1) EPS Est 4 week change	4.33%	0.00%	0.00%	1.40%	-4.78%	11.88%
(F1) EPS Est 12 week change	-5.63%	-31.28%	-15.39%	-27.48%	-6.06%	15.21%
(Q1) EPS Est Mthly Chg	100.00%	0.00%	0.00%	4.51%	-3.18%	34.01%

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	F
Momentum Score	A
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.

Disclosures

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