

MercadoLibre, Inc. (MELI)

\$728.45 (As of 02/18/20)

Price Target (6-12 Months): **\$765.00**

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: B

Momentum: F

Summary

MercadoLibre's fourth quarter results benefited from strengthening online-to-offline offerings. Moreover, growing adoption of MercadoPago and robust mobile-point-of-sale business contributed well to the total payment volume growth. Rapid adoption of Mobile Wallet remained a tailwind. Also, strong performance of Mercado Fondo and Mercado Credito was positive. Additionally, solid momentum across free shipment program led to robust shipments growth via Mercado Envios. The company remains optimistic about its FinTech and logistics businesses. Notably, the stock has outperformed its industry over a year. However, rising expenses related to warehousing, free shipping subsidies and mPOS discounts are impacting margins. Further, mounting marketing spending remain a major negative. Also, rising competition in e-commerce market is a risk.

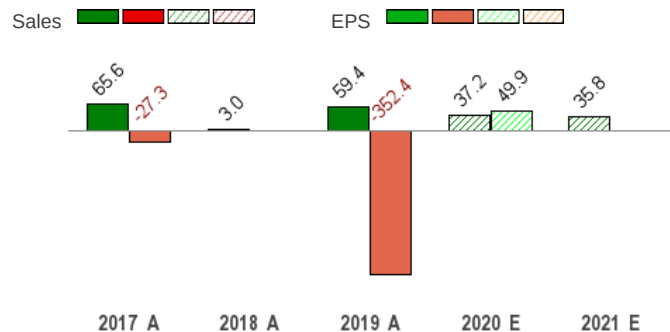
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$744.29 - \$358.07
20 Day Average Volume (sh)	572,838
Market Cap	\$36.2 B
YTD Price Change	27.4%
Beta	1.57
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 42% (147 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-60.9%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-70.0%
Expected Report Date	05/07/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	855 E	954 E	1,009 E	1,108 E	4,277 E
2020	657 E	742 E	817 E	914 E	3,150 E
2019	474 A	545 A	603 A	674 A	2,296 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.32 E	\$0.14 E	\$0.17 E	\$0.53 E	\$1.08 E
2020	-\$0.35 E	-\$0.49 E	-\$0.41 E	\$0.00 E	-\$1.86 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	15.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/18/2020. The reports text is as of 02/19/2020.

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.

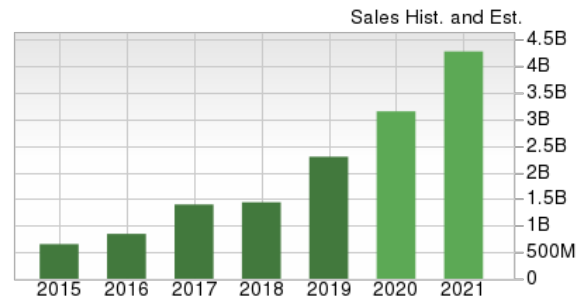
MercadoLibre advertising program enables advertisers and seller to display their product ads on the company's webpages.

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 \$1.38 billion at the end of the fourth-quarter 2019. The company has no long-term debt. The strong liquidity position helps 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 Q4

MercadoLibre reported fourth-quarter 2019 loss of \$1.11 per share, missing the Zacks Consensus Estimate of a loss of 69 cents. Moreover, the figure is wider than a loss of 5 cents and 97 cents reported in the year-ago quarter and previous quarter, respectively.

Mounting marketing spending affected the company's profitability during the reported quarter.

Revenues improved 11.8% sequentially and 57.5% on a year-over-year basis (84.4% on an FX neutral basis) to \$674.3 million. Further, the figure surpassed the Zacks Consensus Estimate of \$668 million.

The top line was driven by accelerating marketplace and non-marketplace revenues, which grew 55.3% and 60% 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 across Brazil, Argentina and Mexico remains a major positive.

Additionally, strong performance of Mercado Fondo and Mercado Credito contributed to the results.

Further, the company's rising gross merchandise volume (GMV), courtesy of robust e-commerce platform was tailwind. Also, strong momentum across free shipment program led to robust shipments growth via Mercado Envios during the reported quarter.

Nevertheless, the company's well-performing FinTech and logistics businesses are tailwinds. Further, its strong focus toward delivering enhanced user experience remains a positive.

Quarter in Detail

Brazil: Net revenues in the fourth quarter were \$428.3 million (63.5% of total revenues), up 61.4% year over year. This can be attributed to improved gross billings, which surged 29.5% on a year-over-year basis. Further, gross merchandise volume (GMV) improved 23% year over year, owing to growing number of items sold in this region.

However, the company witnessed weak momentum in Brazil across Black Friday or seasonal campaign.

Argentina: This market generated revenues of \$132.4 million (19.6% of revenues), which climbed 45.8% year over year. Gross billings in this country improved 40.9% from the year-ago quarter. Further, the company witnessed solid growth in GMV in this country, which soared 109% year over year owing to robust marketing campaigns.

Mexico: Net revenues in the reported quarter were \$84.8 million (12.6% of revenues), up 86.4% year over year. This was primarily came on the back of robust GMV, which improved 53% from the prior-year quarter that can be attributed to solid execution of fulfillment operations, marketing investments and product assortment. Additionally, gross billings were up 91.1% from the year-ago quarter.

Other countries: These markets generated revenues of \$28.7 million (4.3% of total revenues), surging 9.1% on a year-over-year basis. The company's gross billings in these countries were up 9.8% on a year-over-year basis. GMV growth was flat on a year-over-year basis.

Key Metrics

GMV of \$3.9 billion improved 19.7% year over year and 39.7% on FX neutral basis.

Total confirmed registered users at the end of the reported quarter were 320.6 million, improving 19.9% year over year. However, new confirmed registered users during the period were 14.6 million, declining 22.3% on a year-over-year basis.

Number of successful items sold was 109.5 million, up 27.9% year over year. Moreover, number of successful items shipped surged 49.1% year over year to 92.6 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 63.5% on a year-over-year basis to \$8.7 billion, driven by strong performance of MercadoPago in off-platform payments volume (online-to-offline), which grew 121.3% from the year-ago quarter. Further, the company gained traction in QR payments in Brazil and Mexico, which was a positive.

Additionally, MPOS business witnessed TPV growth of 126.1% year over year. Further, rapid adoption of MercadoLibre's Mobile Wallet generated \$1.3 billion in transactions. This marked the first time it crossed \$1 billion mark and contributed significantly to the results.

TPV on marketplace was \$3.7 billion, up 23.9% year over year. Further, total payments transactions increased 127.3% year over year to 285.5 million.

Unique buyers improved 26.8% year over year to 24.1 million. Moreover, unique sellers were 4.2 million, up 2.4% from the prior-year quarter.

Operating Details

For the fourth quarter, gross margin was 45.7%, contracting 210 basis points (bps) year over year. This can be attributed to rising warehousing costs and inventory costs on account of strong sales of MPOS devices.

Quarter Ending 12/2019

Report Date	Feb 10, 2020
Sales Surprise	0.94%
EPS Surprise	-60.87%
Quarterly EPS	-1.11
Annual EPS (TTM)	-1.64

Operating expenses as a percentage of total revenues came in 55.9%, expanding significantly by 790 bps year over year.

The company reported a loss from operations of \$68.9 million, significantly wider than the year-ago quarter's loss of \$820,000.

Balance Sheet

As of Dec 31, 2019, cash and cash equivalents were \$1.38 billion, declining from \$1.42 billion as of Sep 30, 2019.

Short-term investments were \$1.6 billion in the fourth quarter, down from \$1.7 billion in the previous quarter.

Accounts receivable amounted to \$35.4 million, up from \$35.1 million in the third quarter. Further, inventory at the end of the fourth quarter was \$8.6 million, up from \$4.6 million at the end of previous 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 19% in the past six-month period and 97.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail And Wholesale sector are up 19.7% and 14.4% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 22% and 18.9%, respectively.

The S&P 500 index is up 16.8% in the past six-month period and 20.3% in the past year.

The stock is currently trading at 10.97X forward 12-month sales, which compares to 4.25X for the Zacks sub-industry, 1.09X for the Zacks sector and 3.57X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$765 price target reflects 11.52X 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	10.97	4.25	1.09	3.57
	5-Year High	13.22	5.76	1.11	3.57
	5-Year Low	5.22	3.1	0.8	2.54
	5-Year Median	7.69	4.58	0.92	3
P/B TTM	Current	17.77	7.88	5.42	4.66
	5-Year High	109.69	10.72	5.87	4.68
	5-Year Low	10.79	4.68	3.6	2.85
	5-Year Median	19.12	7.97	4.87	3.62
EV/Sales TTM	Current	14.79	5.42	1.33	3.31
	5-Year High	18.56	8.09	1.33	3.31
	5-Year Low	5.7	4.18	0.88	2.16
	5-Year Median	10.51	6.2	1.06	2.79

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (147 out of 255)



Top Peers

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	MELI Neutral	X Industry	S&P 500	AMZN Neutral	BABA Outperform	EBAY Neutral
VGM Score	F	-	-	B	C	B
Market Cap	36.21 B	1.72 B	24.50 B	1,073.12 B	561.09 B	30.15 B
# of Analysts	7	3	13	13	6	15
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	1.48%
Value Score	F	-	-	D	D	C
Cash/Price	0.09	0.10	0.04	0.05	0.10	0.09
EV/EBITDA	924.05	8.41	14.25	27.87	25.38	11.96
PEG Ratio	NA	1.34	2.08	2.89	1.17	1.11
Price/Book (P/B)	17.77	5.26	3.28	17.29	4.55	10.50
Price/Cash Flow (P/CF)	3,576.41	19.24	13.68	32.15	38.15	11.34
P/E (F1)	NA	27.76	19.12	78.02	30.19	12.53
Price/Sales (P/S)	15.77	2.13	2.67	3.83	7.96	2.79
Earnings Yield	-0.26%	1.96%	5.23%	1.28%	3.31%	7.97%
Debt/Equity	0.38	0.21	0.70	0.38	0.14	2.52
Cash Flow (\$/share)	0.20	0.42	6.93	67.05	5.78	3.34
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	-42.08%	16.19%	10.84%	110.19%	33.64%	-2.66%
Proj. EPS Growth (F1/F0)	49.83%	12.79%	7.11%	20.08%	27.71%	6.78%
Curr. Cash Flow Growth	-93.98%	4.42%	7.81%	31.33%	6.63%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	-41.56%	14.92%	8.25%	49.26%	30.02%	-6.76%
Current Ratio	2.73	1.64	1.24	1.10	1.75	1.16
Debt/Capital	30.18%	20.58%	42.37%	27.39%	12.78%	71.58%
Net Margin	-7.49%	0.33%	11.76%	4.13%	34.90%	16.54%
Return on Equity	-3.44%	10.09%	16.86%	21.07%	15.82%	50.71%
Sales/Assets	0.51	1.02	0.55	1.41	0.44	0.54
Proj. Sales Growth (F1/F0)	37.18%	16.51%	4.05%	19.18%	30.75%	-1.57%
Momentum Score	F	-	-	A	F	A
Daily Price Chg	-0.89%	0.00%	-0.38%	0.97%	0.41%	-0.71%
1 Week Price Chg	13.78%	1.91%	1.65%	2.67%	1.43%	5.36%
4 Week Price Chg	10.63%	-0.56%	0.39%	13.94%	-0.78%	6.02%
12 Week Price Chg	24.92%	3.07%	4.84%	19.96%	13.26%	5.93%
52 Week Price Chg	98.37%	-0.05%	14.99%	32.45%	29.58%	2.21%
20 Day Average Volume	572,838	120,884	1,996,897	4,317,731	15,401,942	15,026,283
(F1) EPS Est 1 week change	-9.92%	0.00%	0.00%	0.23%	0.00%	0.14%
(F1) EPS Est 4 week change	-69.97%	0.00%	-0.01%	5.51%	-0.61%	5.58%
(F1) EPS Est 12 week change	-69.28%	0.00%	-0.21%	4.06%	-0.98%	5.58%
(Q1) EPS Est Mthly Chg	-1,660.00%	-2.05%	-0.26%	2.80%	-3.07%	5.80%

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	F
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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