

INVESTOR'S EDGE

# MercadoLibre is likely to see Amazon-like stock growth

The e-commerce company  
operates in South America

*"If you buy the same securities everyone else is buying, you will have the same results as everyone else." — Sir John Templeton*



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On April 3, 2016, I recommended readers buy shares of Amazon in this column. Had you taken my advice then — as I know many of you did — your investment would have grown by 360% at the time of this writing, or a 47% annualized return. Needless to say, if you indulged in any impulsive Amazon orders over these years, your investment in the company has more than paid for them!

Enjoy, my friends.

For the record, I still believe a purchase of Amazon is a fine long-term buy and a core portfolio holding. However, in this column I'm recommending a lesser known name in the same industry that also offers substantial upside potential over the next few years and well beyond.

First, it's no secret that international stocks have woefully lagged U.S. stocks over the last decade. In fact, the spread between the performance of these two asset categories has been at some of its widest levels ever. Meaning, of course, that hunting for successful investments in overseas markets may yield smart returns.

One foreign company with explosive growth potential that I suggest buying is MercadoLibre. The company offers essentially the same services as Amazon yet serves the fertile growth market of Latin America.

MercadoLibre (ticker symbol: MELI) was founded in 1999 and is headquar-

Buenos Aires, Argentina. Translated to English — “Free Market” — MercadoLibre is the largest e-commerce and online payments company in Latin America, boasting close to 350 million registered users and present in 20 countries including Brazil, Mexico, Columbia and Chile. The company is incorporated in the United States and its shares trade exclusively on the NASDAQ, where it boasts a nearly \$50 billion market cap.

As a comparison, Amazon currently has a \$1 trillion market cap, which gives an indication of the growth potential of this industry around the world.

Similar to Amazon in the United States, and Alibaba in China, MercadoLibre provides a vast online marketplace for consumers to buy and sell merchandise from electronics and cell phones to furniture and jewelry. Users can also advertise on the site and have access to a state-of-the-art online payment system.

MercadoLibre commands a dominant position in several rapidly growing Latin American industries.

Unlike much of the developed world, online shopping and e-commerce are relatively emerging trends in Latin America penetrating only 5% of the continent’s total retail sales. Over the next five years, that number is expected to more than double as Latin American consumers “catch up” to the rest of the world in online shopping.

Last year, more than 13 million Latin American consumers did their first ever online shopping purchase. As the industry leader, it’s no surprise that MercadoLibre’s revenue grew a whopping 70% year over year and will assuredly continue to benefit from the long path of growth ahead for e-commerce in Latin America.

MercadoLibre’s business extends beyond just online shopping. In fact, nearly 50% of the company’s revenue comes from other high-tech solutions including advertising, payments, and software hosting. Most interestingly is the company’s state-of-the-art online payment system, Mercado Pago. Similar to Apple Pay, PayPal or Venmo, Mercado Pago is an app that allows users to pay and collect

money without cash or credit cards.

Like e-commerce, Latin America has been behind the rest of the world when it comes to cashless transactions. In fact, millions of consumers still don’t even have a credit card and are just starting to complete their first online or card-based transactions. Mercado Pago is leading this digital payment revolution in Latin America and saw its fintech revenue leap 83% year over year.

Within Latin America, MercadoLibre commands an industry leading role both in e-commerce and digital payments. Considering the rapid regional growth in these industries, MercadoLibre is well-positioned for the years ahead.

For international mutual funds, MercadoLibre is a top holding in many well-respected fund families including American Funds, Vanguard, and T. Rowe Price. The company is also rated a buy by several brokerage houses including J.P. Morgan, UBS, and Bank of America.

Readers should be aware that MercadoLibre is not cheap and probably never will be. In fact, many emerging growth companies that go on to become major successes rarely ever sell at a bargain. So, if your investment work is spent avoiding these types of companies in their earlier stages simply because of high valuations, you will likely miss out on many big winners.

I rate MercadoLibre a buy for the growth portion of your portfolio.

After all, I believe in “free markets.”

*Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at [jburns@jwburns.com](mailto:jburns@jwburns.com).*

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