



PagSeguro Draws Upside Calls as PagBank Monetization Opportunity Emerges

Ticker/Price: PAGA \$33.39

Analysis:

PagSeguro (PAGA) with 2,000 March \$35 calls bought yesterday for \$2.15 to open in a stock replacement. PAGA has seen buyers in the February \$35 calls and Feb. \$37.50 calls and shares back around a level popular with put sales between the June \$35 strike and Jan. \$35 strike, the latter over \$900k. PAGA has pulled back from 52-week highs near \$55 and forming a multi-month base under \$38/\$39 which measures up to \$47.50 and a high-volume node from September. A run back above the 200-day at \$38 can also shift sentiment after hitting the 61.8% Fibonacci retracement. The \$11.51B company trades 24.29X earnings and 9X sales with 25%+ EPS growth and 26% revenue growth. PAGA was a hot name to start 2019 that has faded a bit as growth expectations got ahead of itself but remains positioned well in an explosive long-term micro-merchant payments market. A key development late in 2019 was the emergence of PagBank which launched in Q2 as a provider of consumer-focused financial tech solutions like digital bank transfers, high-yield savings accounts, online loans and prepaid and cash debit cards. The service has quickly gained momentum with active users topping 1.9M and the company sees the business generating 30% of revenues from it within 3-5 years. Engagement has been strong with an 70% growth in bill payments and 52% increase in TPV from prepaid cards. It also creates better retention and engagement between users and huge TAM with the low-income population largely underserved in Brazil by big banks. According to the company, nearly 68M people in Brazil are without a bank account and they believe they are less than 1% penetrated currently. PAGA has been investing heavily in the launch and product which has weighed on margins but gaining significant share and now nearly 40% of their sign-ups have evolved into using at least three products from the company. The higher engagement and stickier product will help monetization efforts in late 2020 and early 2021 and better revenue diversification. PAGA foresees monetization from wire transfers, bill payments, and mobile top-ups in the near-future. Analysts have an average target for shares of \$44 with 7 buy ratings and 2 hold. Cantor with a \$46 PT noting that while the company is going through some growing pains it has the right products in the right market at the right time. Keybank with a \$45 PT and the analyst saying he expects focus to shift to long-term seller growth, momentum with PagBank and the associated investment profile. Short interest is 5.4% and up from around 3.5% in October. Hedge fund ownership fell 17.85% in Q3, Winslow Capital a big seller of 3.5M shares. Polar Capital, Alta Park, Castle Hook and Compass Group notable buyers while Samlyn Capital a top holder.

Hawk Vision:



Hawk's Perspective: PAGA has been a laggard for a while not and forming a nice base. I have an alert set for \$36.50 to watch how it acts back around the 200-day. PagBank is a really interesting product with a bright long-term future given the market opportunity.

Confidence Ranking: \$\$