

Monthly IGet Retail Sales Tracking

Retail Sales Cool Down Even More in January

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What's New

The restricted IGet index (which excludes sales of construction materials and vehicles) fell 17.0% YoY in January, while the broad IGet index retracted 10.7% YoY. These results reinforce retail activity's negative trend of recent months bolstered by the worsening macroeconomic scenario. According to our Macroeconomic team, this weakening stems from inflationary pressure, production chain hurdles and household demand shifting towards services (to the detriment of goods).

All retail categories retracted, with furniture and appliances (-53.6% YoY) and construction materials (-23.5% YoY) the lowlights. The supermarket category (which has the heaviest weight among indicators) continued to weaken (-16.8% YoY), while the automotive parts and pieces segment showed some resilience (4.9% YoY). Apparel's downward trajectory decelerated, dropping 7.4% on a YoY basis.

Our View

As expected, **furniture and electronics** dropped the most, falling 53.6% YoY. In our view, this weak performance was in line with statement from Magazine Luiza and Via's management of a challenging 2022 that would directly affect B&M and 1P e-commerce sales, which in general have ~60% exposure to items in these categories. We believe that MGLU3 and VILA3's weaker performance compared to MELI and AMER3 in the last months are a direct reflection of the latter two's lower exposure to durable goods.

Food retail fell 16.8% YoY — surprisingly high, in our opinion, as the segment is usually less volatile than other retail segments. If these numbers are confirmed by PMC (IBGE's monthly retail sales survey) retail sales, it could pressure food retail stocks in 1H22, as hard comps could hurt result for the majority of our coverage. In this segment, Grupo Mateus remains our top pick, as we expect it to benefit from its ongoing expansion strategy and not face the integration challenges faced by both Carrefour and Assaí.

The **apparel** sub-segment dropped 7.4% in the IGet index, a steeper drop than previewed (-1.2% YoY). Despite this decline, we expect companies with solid execution track records (e.g., Lojas Renner) and successful inorganic expansion to outperform peers.

Figure 1 - IGet Index details

	IGet				
	Weights (%)	Dec-21		Jan-22	
		QoQ (%)	YoY (%)	QoQ (%)	YoY (%)
Restricted IGet	64.6	-4.1	-7.6	-8.6	-17.0
Fuels Products	8.9	-0.3	-10.4	-3.1	-16.9
Supermarkets	32.8	-7.2	-9.5	-3.7	-16.8
Apparel	6.6	-1.3	-9.9	-4.2	-7.4
Electronics and Furniture	7.9	-7.0	-25.8	-42.6	-53.6
Others	8.4	-3.1	10.8	-7.0	6.6
Construction Material	9.5	5.6	-1.8	-23.6	-23.5
Automotive Parts	25.9	0.2	11.2	-1.6	4.9
Broad IGet	100.0	-1.9	-1.6	-5.7	-10.7

Source: Santander

Net/Net: In this inaugural edition of our monthly report, we highlight our Macroeconomic team's IGet data. Our aim is to use this leading indicator to help investors navigate the retail industry by providing early data on the economic activity of three main categories: (i) furniture and electronics; (ii) food retail; and (iii) apparel retail.

This month's data points to the continuation of the macroeconomic deterioration seen since late 2021, which reinforces our more cautious view on the sector and our preference towards more defensive segments like food retail (top pick: GMAT3), companies with solid execution records (LREN3) and long-term compounders (PETZ3).

IGet is a proprietary index developed by Santander's Macroeconomic team in partnership with GetNet. To read this month's full version (with more detailed analysis that include PMC Retail Sales forecast) developed by our Macro Team, click here: https://cms.santander.com.br/sites/WPS/documentos/arq-IGET-janeiro-040222/22-02-07_130139_220207+iget+janeiro+22.pdf

IGet data is usually published within the first 10 days of following month, with a preview published by the third week of each month.

Figure 2 - GetNet logo



Source: GetNet

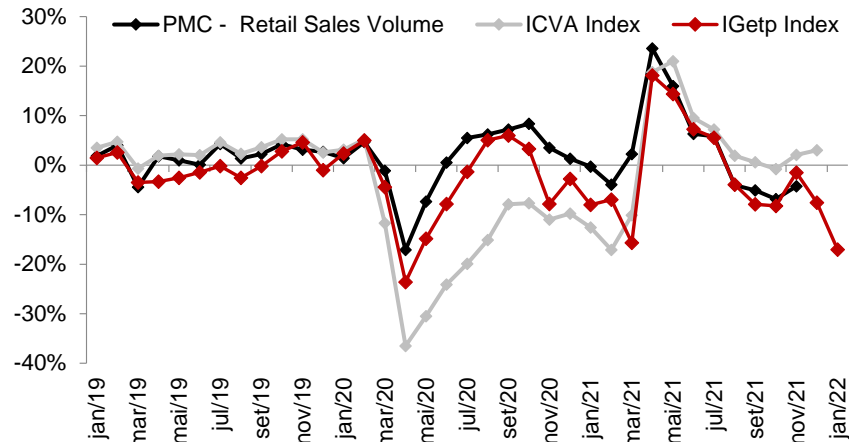
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In partnership with Getnet, our Economics team developed the IGet indicator (Getnet Index). The indicator uses information from transactions in the national acquiring market and aims to expand the set of information for analyzing the trajectory of economic activity in Brazil, mainly the retail segment. We monitor the income of a sample of establishments that use Getnet as a means of payment. The sample contains anonymous information from establishments of different sizes and regions, being a very representative selection of the segment in the country.

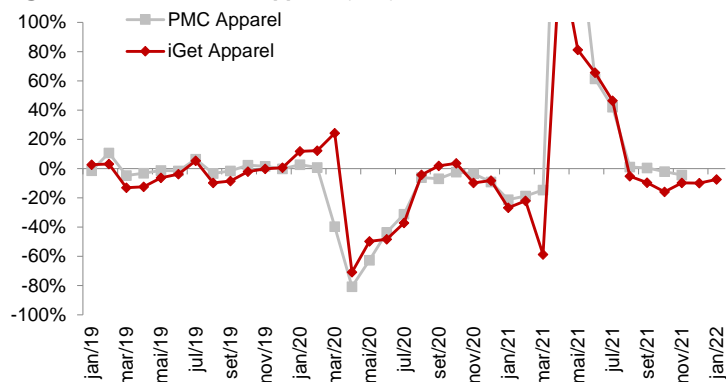
Figure 3 - PMC Retail Sales x IGet and ICVA (YoY)



Source: PMC-IBGE, Cielo and Santander

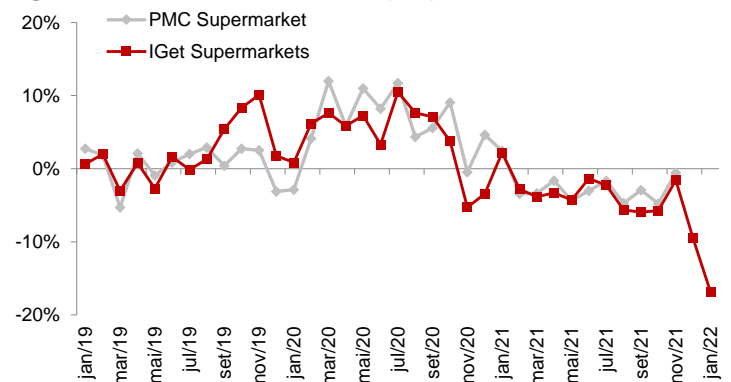
In the charts below, we compare Santander's IGet to IBGE sales data for key segments (supermarkets, apparel and furniture/electronics) since January 2019. With time, categories that used to have higher discrepancies (e.g., electronics and furniture) have now converged. Nonetheless, we believe the observable trends are similar and useful.

Figure 4 - PMC x IGet in Apparel (YoY)



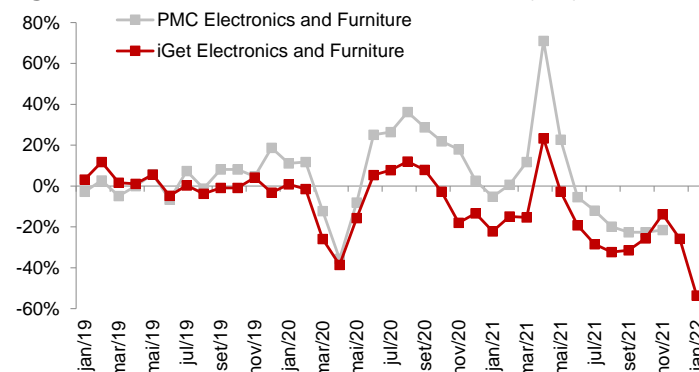
Source: PMC-IBGE and Santander

Figure 5 - PMC x IGet in Food Retail (YoY)



Source: PMC-IBGE and Santander

Figure 6 - PMC x IGet in Electronics and Furniture (YoY)



Source: PMC-IBGE and Santander

Figure 7 - Companies Mentioned (R\$)

Ticker	Company	Rating	Target Price	Current Price
AMER3	Americanas SA	Neutral	35.00	32.00
GMAT3	Grupo Mateus	Outperform	10.00	5.64
LREN3	Lojas Renner	Outperform	40.00	26.67
MGLU3	Magazine Luiza	Outperform	11.00	6.53
MELI US	Mercado Libre	Outperform	1520.00	999.74
PETZ3	Petz	Outperform	28.00	17.67
VIIA3	Via	Neutral	5.80	4.22
GETT11	Getnet	Not Rated	-	3.30

Source: Santander estimates and Bloomberg

Americanas S.A. - Valuation & Risks

Our YE2022 target price is based on a sum of the parts model, composed of: (i) DCF analysis for LAME's B&M operation, for which we consider a WACC of 9.7% and a perpetuity growth rate of 4.0% and (ii) 62% stake at B2W, which we evaluate through a multiple analysis. Main risks include: (1) lower-than-expected SSS, (2) increased competition, (3) delayed store openings and (4) lower profitability from e-commerce (B2W Digital).

Grupo Mateus - Valuation & Risks

Our YE2022 target price is based on a DCF analysis for which we consider a WACC of 13% and a perpetuity growth rate of 4.0%. Main risks include: (1) Increased competition in their core states by national chains; (2) shortage of good locations (lowering new store's IRR); and (3) non-renewable of significant fiscal benefit in Maranhão state.

Lojas Renner - Valuation & Risks

Our YE2022 target price is based on a DCF analysis for which we consider a WACC of 10.3% and a perpetuity growth rate of 4.0%. Main risks include: (1) lower-than-expected SSS; (2) increased competition; (3) deterioration in the Consumer Finance business, with rising NPLs and delinquency rates; (4) disruptions in push & pull logistics, leading to possible wrong orders or stock-outs at the store level; and (5) FX depreciation weighing on imported goods.

Magazine Luiza - Valuation & Risks

Our valuation is based on a Blended method, considering 50% from a DCF method and 50% from a Multiple perspective. Regarding multiples, we value B&M Operation at a target of 10x EV/EBITDA on the company's estimated physical stores EBITDA in 2022EE and the Digital Operation at 1x EV/GMV on our 2025E GMV, discounting it to present value using a 10.3% WACC.

Mercado Libre - Valuation & Risks

Our YE2022 target price is based on a SOTP approach comprised of: (i) marketplace business; (ii) Mercado Pago; (iii) Mercado Credito; and (iv) Mercado Ads. Main risks to the case include (1) lower marketplace and Mercado Pago growth; (2) Further deterioration of macroeconomic indicators in the main countries it operates; (3) Increased competition ; (4) Higher-than-expected margin compression related to the free shipping strategy and competition in the payments industry.

Petz - Valuation & Risks

Our YE2022 target price is based on a DCF analysis for which we consider a WACC of 10.1% and a perpetuity growth rate of 5.0%. Main risks include: (1) Cobasi starting to ramp-up store openings; (2) ecommerce competition from other retailers and pure players from pet focused; (3) shortage of good locations (lowering new store's IRR).

Via - Valuation & Risks

Our YE2022 target price is based DCF, we use a WACC of 12.5% and a perpetuity growth rate of 3.0%. Main risks include: (1) further deterioration in macroeconomic indicators; (2) increased competition online; (3) operational difficulties with marketplace scaling; (3) aggressive pricing policies from competitors.

Key to Investment Codes*

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		Covered with This Rating	Provided with Investment Banking Services in the Past 12 months
Outperform	Expected to outperform the local market benchmark by more than 10%	59.56%	31.25%
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Underperform	Expected to underperform to local market benchmark	4.04%	1.47%
Under Review		6.99%	3.68%

The numbers above reflect our Latin American universe as of Feb 07 2022.

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