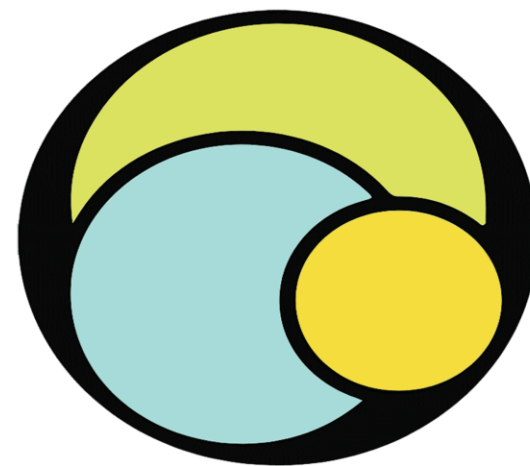




It is our core belief that Pagseguro is heavily undervalued and therefore we are seeking a value investment strategy on the basis that we believe Pagseguro will make substantial returns. We are therefore seeking a £700 investment where their shares are currently valued at \$9.76.

Pagseguro (PAGS) is a Brazilian fintech company that provides payment processing, digital banking, and financial services solutions, all largely targeted towards small to medium sized businesses and merchants, where they represent 34.6% of the SME digital payments market, and yet still with a sizeable, and growing market share of larger merchants also, totalling to 10% of the total payments market in Brazil.



***Pag
Seguro***



ESG



PagSeguro boasts a leading Environmental score of 8.8 according to Bloomberg. One of their main achievements is that their carbon emissions are 10x lower than those of a traditional bank, and they were able to reduce their scope 2 emissions by 83% in 2023 through using renewable energy sources.

PagSeguro also has a leading Social score of 3.38 according to Bloomberg. They pride themselves on having social investment as their main ESG pillar. In 2023, the company made significant donations to non-profits, where they invested R\$2,363,000 in supporting projects through tax incentive laws such as the FUMCAD Act and the sports and culture incentive acts.



According to Bloomberg, PagSeguro has a lagging Governance score. However, according to PagSeguro's own sustainability reporting, they have solid corporate governance guiding within their operations, focusing on transparency, accountability, treating shareholders equitably and combining corporate governance and responsibility

Greenhouse Gas Emissions (tCO₂e)

	2021	2022	2023
Scope 1			
Stationary combustion	0.206	0.888	1.020
Mobile combustion	303.985	112.198	-
Fugitive emissions	3.064	215.739	84.401
Total	307.255	328.825	85.421
Scope 2			
Location-based approach	470.146	202.735	94.210
Purchase-based approach	-	130.153	21.542
Total	470.146	130.153	21.542
Scope 3			
Transportation and distribution (upstream)	-	1,926.992	1,492.479
Transportation and distribution (downstream)*	2,194.009	-	-
Waste generated in operations	-	81.818	53.452
Business travel	822.983	4,920.310	6,334.693
Worker commuting	1,430.063	1,591.395	1,799.729
Total	4,447.055	8,520.515	9,680.353
TOTAL	5,224.456	8,979.493	9,787.316
Emissions intensity (per worker)	0.77	1.24	1.35

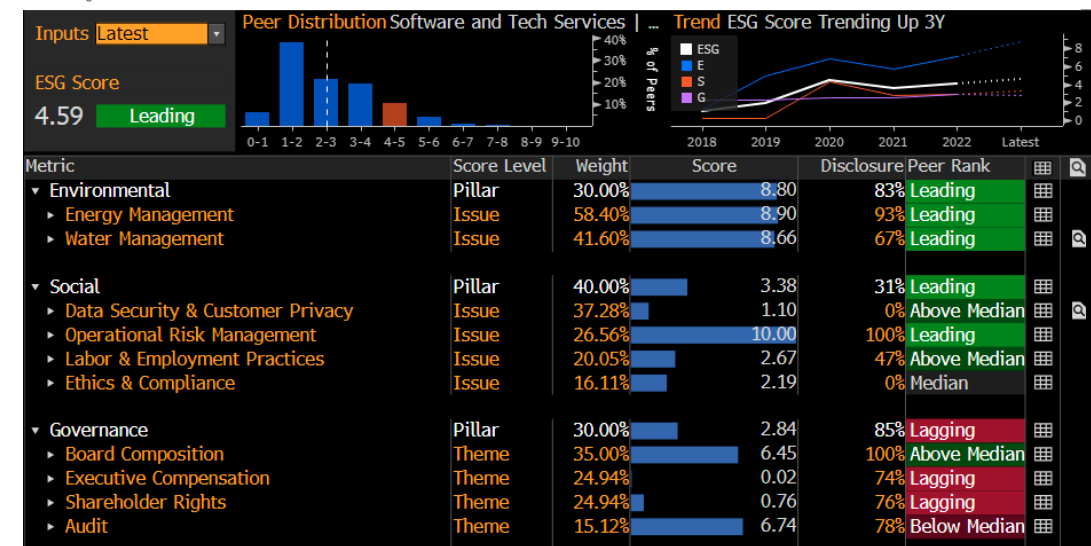
Biogenic emissions (biogenic tCO₂e)

	2021	2022	2023
Scope 1	74.527	27.542	0.120
Scope 3	1,166.029	1,833.209	4,951.629
TOTAL	1,240.556	1,860.751	4,951.749

* In 2021, emissions related to "Transportation and distribution (upstream)" were incorrectly classified as "Transportation and distribution (downstream)" due to a methodological error.

ESG Risk Rating **CORE** ?

18.5 Low Risk





Company Analysis

Revenue Sources

As mentioned earlier, as an extension of their distribution of card readers, they charge merchants a fee every time a payment is made using their device or platform. These smaller transactions from smaller businesses build up over time, creating a snowball effect of revenue, rather than in large chunks. Though one might think that the innate selling of the card devices would incur large sums of revenue, these card readers are typically priced low to attract a wide customer base, with Pagseguro relying more on the snowball effect mentioned previously. Through their digital banking platform, dubbed 'PagBank', they also earn interest on the deposits of customers and also offer loans to the small businesses they operate with.

Business Model

Brazil has notoriously had many difficulties when it comes to traditional banking, owing to bureaucratic roadblocks and high interest rates. This is where PagSeguro comes in, making the accessibility of financial services more transparent and widespread. It's mainly focused on small businesses, however, it does have applications to the individual consumer as well. Pagseguro takes pride in its digital payments platform and card reader devices, sold to a wide variety of businesses to streamline the exchange of income.

Using PagSeguro introduces massive cost savings, which are crucial to maintaining peak financial performance. By having multiple branches like payments, accounts, and risk management on a single platform, it streamlines the whole process for merchants and individual consumers. According to a study conducted by FinTech Insights, companies that used PagSeguro experienced a 25% decrease in third-party transaction fees. In addition, the capability of the platform to prevent fraud and mismanagement minimizes financial risks, while eliminating a high-maintenance IT infrastructure results in cost savings.



Company Analysis

Capital Structure

On the capital structure side, since 2006, they have typically been conservative when it comes to their levels of debt; however, in recent times, this status has changed. This was primarily due to the expansion of their Pagbank and the introduction of their loan offering service, which required more financial aid to get started. They finance themselves through instruments such as receivables-backed securities and interbank deposits (CDBs), as well as retained earnings. While leverage is moderate compared to traditional banks, the composition of their balance sheet exposes them to several emerging risks. One notable risk is their exposure to higher default rates, as they are inherently linked to smaller merchants and businesses, which can suffer the most during economic downturns, affecting Pagseguro's steady stream of income.

Key Performance Indicators

Total Payment volume must be taken into account, as this is a core metric that governs their operations. Growth in TPV is indicative of increased market outreach and client success. PagSeguro has seen substantial TPV growth and diversification with a 35% increase in payments coming through large merchants, a move from their typical micro merchants, which still saw a substantial increase in TPC growth with nearly an additional 20% of payments coming from micro merchants.

Recently, Barclays updated its price target on PagSeguro. When Barclays has previously updated their price target for PagSeguro, they typically end up surpassing this estimate either up or down in line with what the analysts have recommended.

PAGS - Updating estimates. Trimming PT to \$12 on peer multiples

We revise out estimates and trim our PT to \$12 (vs. \$13 prior). While we increase our FY26 EPS forecast, we trim our P/E multiple based on peer multiples. In Q1 we lift gross profit to R\$1,870 mln (vs. R\$1,768 mln) due to a higher take rate. For FY25 we modestly trim gross profits to R\$8.11 bln (vs. R\$8.14 bln prior). In FY26 we trim gross profit to R\$8.77 bln (vs. R\$8.87 bln prior) and we lift GAAP EPS to R\$8.92 (vs. R\$8.70 prior). Our PT of \$12 is based on the average of a FY26 (1) GAAP-based valuation using an ~8x P/E multiple and GAAP EPS of R\$8.92 and (2) non-GAAP-based valuation using a ~7x P/E multiple and non-GAAP EPS of R\$9.12.

PagSeguro Closes Above 200-Day Moving Average By Bloomberg Automation

- (Bloomberg) -- PagSeguro Digital Ltd. shares closed above their 200-day moving average.
- In the past five years, PagSeguro crossed above this level 13 times and rose an average 1.2% in the next five days
 - The Relative Strength Index (RSI) is neither overbought nor oversold, and the MACD indicates an upward trend
 - The stock rose 10% today to \$9.35 and had a total return of 49% this year
 - PagSeguro shares are trading at 6.9 times blended forward earnings estimates, compared with the two-year average of 8.1. Its blended forward price-to-earnings ratio is 57% below the peer average of 16.2, compared with a 55% discount over the past two years

	Gain	Loss	Total
No. of events	9	3	13
Average return	7%	-16%	1.2%



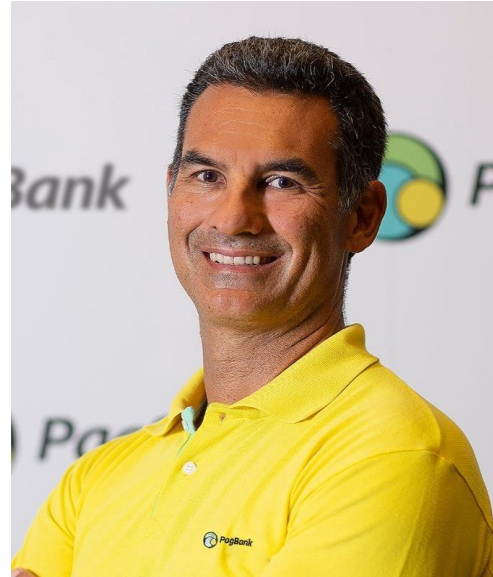
PagSeguro is supported by favourable DCF valuation metrics, with a 2% growth rate and 23.77% WACC, where the use of these figures has been designed to mitigate risks and offer a conservative potential valuation of \$11.51, suggesting significant undervaluation with expected returns of 17.92%. PagSeguro has already seen a substantial outperformance against other indexes and firms YTD, having seen a 55% increase in valuation, massively surpassing the traditionally strong S&P 500, which has seen a -5% growth as investors seek less volatile and alternative markets with high growth opportunities. PagSeguro presents an attractive investment opportunity where its leadership in payments and strategic focus on innovation in POS and PIX payment systems, as well as its dominance in the Brazilian SME payments market, makes it a compelling buy.



Management Team



Ricardo Dutra is the Principal Executive Officer of PagSeguro, where he was previously the CEO for 6 years between 2016 and 2022. He had previously held several managerial positions for PagSeguro's parent company, the UOL group, before joining Bain as a management consultant in 2007.



Alexandre Magnani is the CEO of PagSeguro, where he was previously the director of the company's acquiring business unit and successfully completed the company's only 3 acquisitions during that time. Prior to this, he also spent 15 years with Mastercard leading their LatAm business development sector.



Artur Schunk is the CFO and CAO of PagSeguro, where he had previously held a variety of managerial finance roles for PagSeguro's parent company, the UOL group. Before this, he had been Walmart Brazil's FP&A and strategy director.



Strengths (Internal, Positive Factors)

- Strong Market Position in Brazil
- Diversified Service Offering
- Robust Tech Infrastructure
- Financial Health

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STRENGTHS

W

WEAKNESSES

Weaknesses (Internal, Negative Factors)

- Heavy Concentration in Brazilian Market
- Thin Margins in Competitive Segments
- Credit Risk Exposure
- Limited International Diversification

Opportunities (External, Positive Factors)

- Digital and Financial Inclusion Tailwinds
- E-commerce and SME Growth
- Regulatory Tailwinds
- Potential for Regional Expansion

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OPPORTUNITIES

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THREATS

Threats (External, Negative Factors)

- Intense Fintech Competition
- Macroeconomic Instability
- Cybersecurity & Fraud Risk
- Regulatory Changes



Porter's 5 Forces

Threat of New Entrants

- Less capital intensive than traditional banking
- Regulatory hurdles from central bank
- Established brand and user base

Bargaining Power of Suppliers

- Reliance on Visa and Mastercard
- Cloud, security, and software suppliers in competition

Bargaining Power of Buyers

- Merchants and consumers are highly sensitive to fees
- Fintech customers can still easily switch to rivals
- Consumers demand constant innovation and user-friendly features

Threat of Substitutes

- Large number of alternative payment methods
- Large platforms like and e-commerce apps now integrate payments directly, bypassing traditional fintechs

Industry Rivalry

- Brazil's fintech space is crowded with competitors
- Pricing pressure as companies undercut each other
- Competitors focus on customer acquisition





VRIO Matrix

Resource / Capability	Valuable?	Rare?	Inimitable?	Organised to Exploit?	Sustainable Advantage
Strong Brand in Brazil	Yes	Yes	No	Yes	Temporary Competitive Advantage
Integrated Financial Ecosystem (PagBank + POS)	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Proprietary Tech Platform	Yes	Yes	Partially	Yes	Temporary Competitive Advantage
Financial Inclusion Focus in Underserved Markets	Yes	Partially	Yes	Yes	Sustainable Competitive Advantage
Large User Base & Network Effects	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Access to Capital & Market Listing	Yes	No	No	Yes	Competitive Parity



Investment Thesis

So why PagSeguro?

They currently hold a dominant position in a growing market where Brazil is experiencing significant digital transformation, with the use of cash dropping 5% between 2023 and 2024 alone and set to drop to half what it currently is in the next few years. Digital payment adoption 20% in 2018 to 90% in 2024, and the number of digital payment users increased from 42 million to nearly 193 million in the same period. With their expansion into PIX payments likely expanding their market from Brazil to all of LatAm.

PagBank has become Brazil's second-largest digital bank, serving over 30 million users, now ahead of StoneCo and just behind Nubank. Through PagBank, they have been able to offer a variety of financial services, including POS and credit card services, with which Brazil is yet to see an explosive use of credit cards, and financial advisory services, positioning PagSeguro as a significant player in payment processing and online banking.

PagSeguro has seen strong financial performance over the past few years, where in 2024, it reported a revenue of R\$18.33 billion, marking a 16.92% increase from the previous year, and a net income of R\$2.12 billion, up 27.98%, this consistent growth YoY illustrates PagSeguros strong financial performance which has led to them consistently outperforming their market peers. PagSeguros focuses on expanding its customer base and contributes to long-term profitability with TPVs growing YoY, and the volume of users growing YoY is another key indicator of its long-term financial performance.

PagSeguros strong focus on its social impact is ultimately what has led it to dominate the Brazilian SME market through its initiatives to provide financial and payment services to previously underserved populations, such as SMEs as well as their promotion of financial literacy has supported many Brazilians in setting up their own businesses, growing both their own revenue base and developing the Brazilian economy.

We believe that PagSeguro is substantially undervalued, where it is trading at a forward P/E ratio of 7.06, which is low compared to others in the industry. Our analysis indicates a price target of \$11.51, whilst other analysts have a consensus price target of \$11.88, indicating a potential upside of approximately 17.92% for our analysis and 21.85% for other analysts' consensus from its current price.



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