dLocal (DLO): The Margin Illusion and the Structural Mispricing

High-Conviction Buy Pitch — Synthesizing fundamental acceleration, Q3 2026 earnings validation, and technical accumulation.

The Mispricing

The market is punishing DLO with a distressed **~12x EV/EBIT** multiple, falsely equating an optical margin compression (driven by a strategic volume mix shift) with a terminal loss of pricing power.

The Economic Reality

The core infrastructure is actively compounding absolute Gross Profit dollars (+28% YoY), accelerating operating leverage (58% conversion in Q3), and generating pristine free **cash flow** (125% net income conversion).

The Setup

Deep-value multiples combined with **hyper-growth fundamentals,** coiled in a multi-year technical base with asymmetric upside.

Investment Scorecard

Current Price: $13.76

Target Price: $22.50

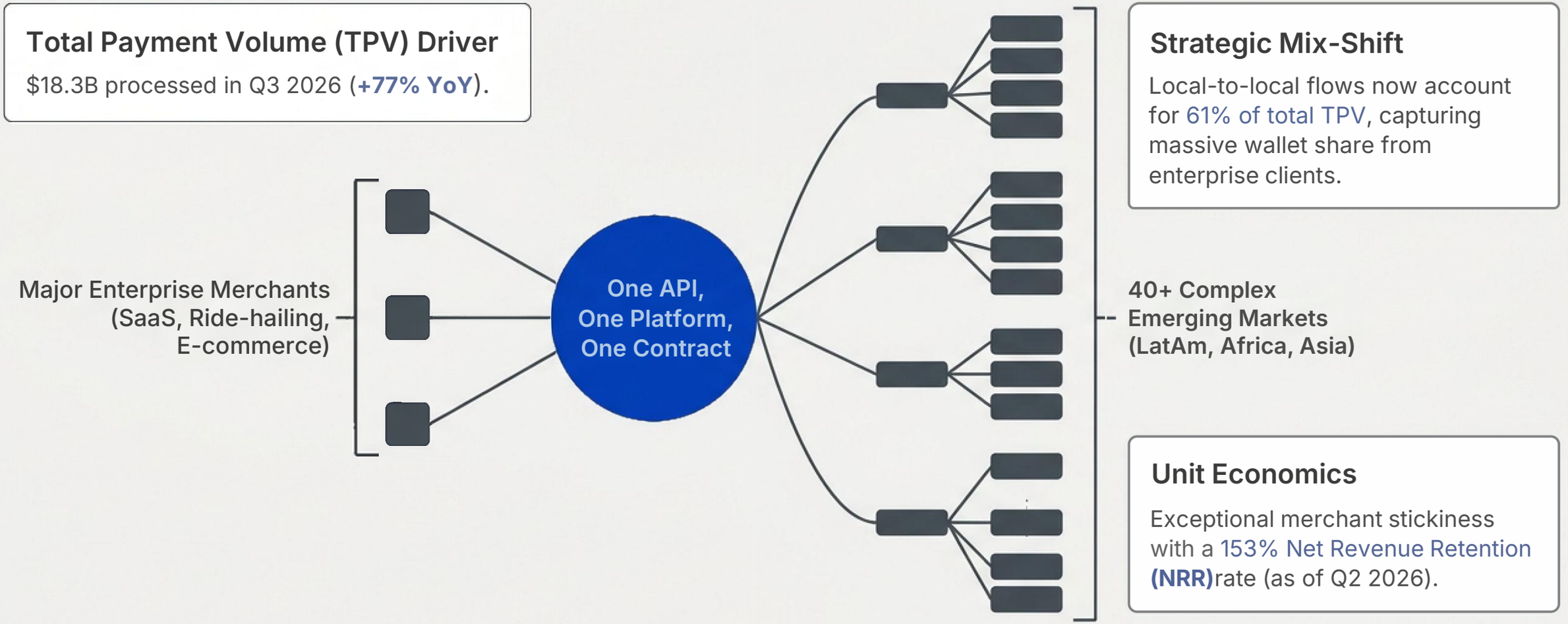
Upside Potential: +63%

Implied Forward Multiple: 18.0x EV/EBIT

The Business Engine: A Monopoly on Complexity

Total Payment Volume (TPV) Driver

$18.3B processed in Q3 2026 (**+77% YoY**).



Strategic Mix-Shift

Local-to-local flows now account for 61% of total TPV, capturing massive wallet share from enterprise clients.

Unit Economics

Exceptional merchant stickiness with a 153% Net Revenue Retention **(NRR)**rate (as of Q2 2026).

dLocal shields global tech giants from local tax, FX, and regulatory friction through proprietary smart routing, creating an oligopolistic infrastructure moat that yields up to 1.2% additional revenue for merchants through higher authorization rate

The Variant Perception:
Identifying the Structural Mispricing

The MarketIllusion

Perception

Terminal decay in core take rates and permanent loss of operating leverage.

Valuation Implication

Punished with a distressed 11.99x EV/EBIT multiple.

The Error

Obsessively tracking the percentage of the blended take rate, fundamentally misreading a strategic mix-shift toward local-to-local volume as a loss of competitive pricing power.

The Economic Reality

Reality

Highly scalable, capital-light infrastructure capturing unprecedented volume.

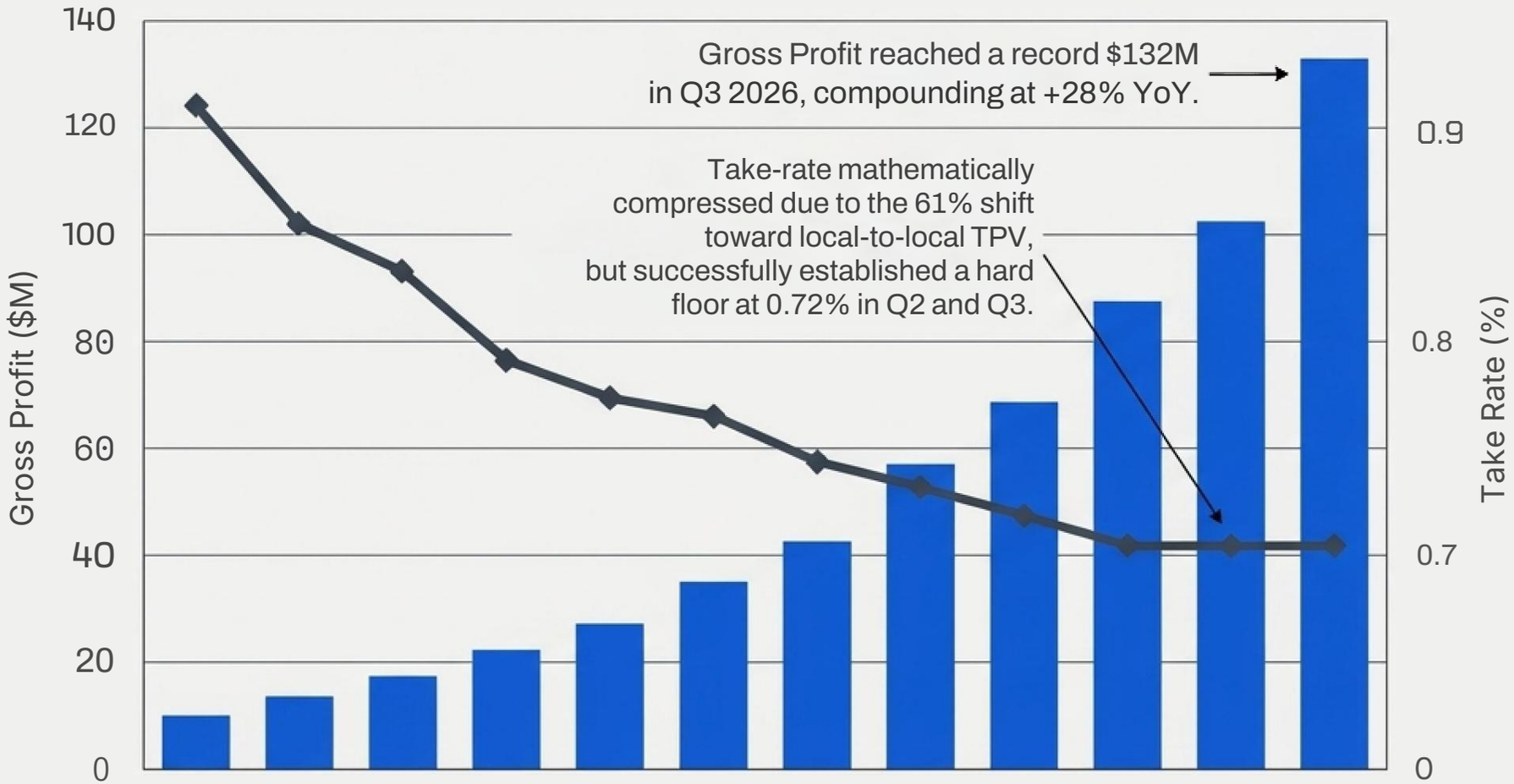
Fundamental Truth

The optical margin compression is a mathematical byproduct of scaling lower-margin local volume, but absolute cash flow generation and operating leverage are aggressively compounding beneath the surface.

The Advantage

The tollbooth remains highly monetizable at scale.

Fundamental Reality I: Absolute Dollar Compounding vs. Optical Compression

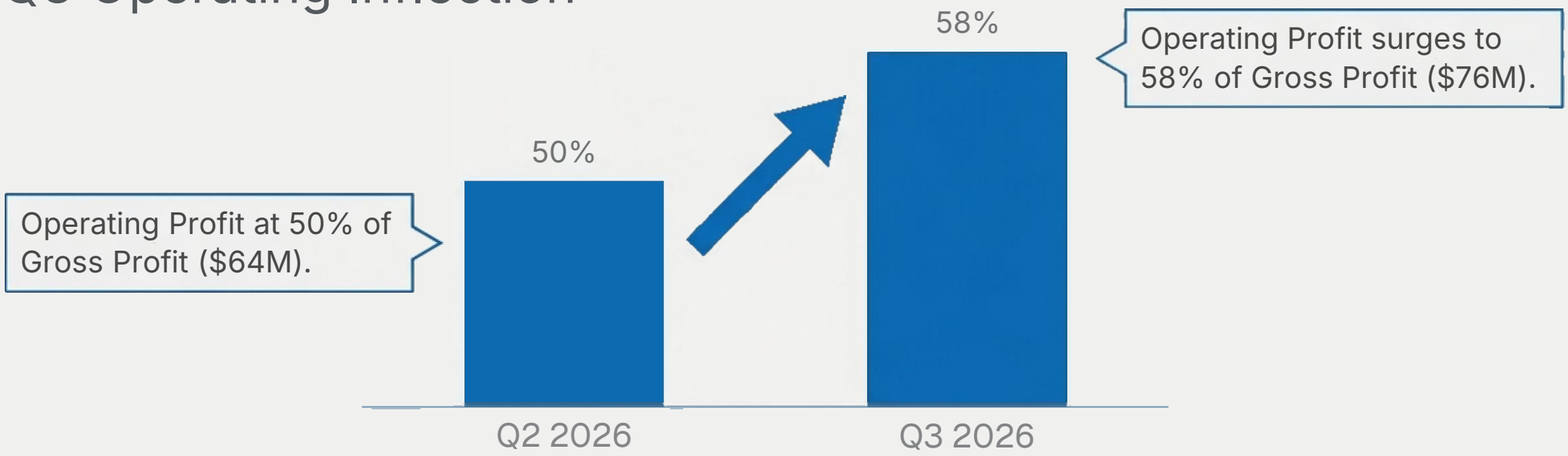


The Mix-Shift Math

A 0.72% yield on $18.3B in TPV generates significantly more absolute cash than a 1.2% yield on a much smaller cross-border base.

The One API moat remains intact; pricing power has not been lost, volume has simply been captured.

Fundamental Reality II:
The Q3 Operating Inflection



H2 Promise Realized

Management explicitly guided that heavy operational expenditures from the 2025 **investment cycle** would scale. Q3 proves the H2 margin expansion materialized aggressively.

Outpacing Gross Profit

Operating Profit climbed37% YoY in Q3, vastly outpacing the 28% **Gross Profit** growth.

The Bottom Line

Incremental gross profit dollars are now flowing almost entirely to the **bottom line,** proving the highly automated infrastructure requires minimal additional OPEX to process volume surges.

Pristine Cash Flow & Capital Allocation

Step 1: Hyper Cash Generation

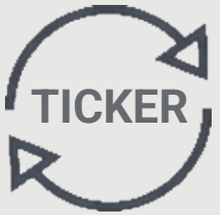
$99M in Adjusted Free Cash Flow generated in Q3 2026 alone.

Step 2: The 125% Conversion Engine

Capital-light footprint yields a **>125% Adjusted** FCF conversion rate on reported Net Income.

Maintenance capex is near zero.

Step 3: Non-Dilutive Shareholder Returns



Aggressive defense of the equity base with zero dilutive share issuance.

Capital Action Callout

Active $300M share repurchase authorization. Management executed ~$34M in buybacks during Q3, actively utilizing cash to shrink the float during temporary price weakness. A new $150M holding-company credit facility provides further buyback liquidity without stranding local subsidiary cash.

Catalyst Realized: Q3 2026 Earnings Definitively Trigger the Bull Case

	Q3 Scorecard Matrix	Result	Verdict
✓	**Metric 1:** TPV Hyper-Growth	$18.3B (+77% YoY)	Massive beat against the 50%-60% full-year guidance baseline.
✓	**Metric 2:** Gross Profit Compounding	$132M (+28% YoY)	Beats the high end of the 22.5%-27.5% guided range. Take-rate established a hard sequential floor at 0.72%.
✓	**Metric 3:** Operating Leverage	58% Op Profit/GP conversion (+37% YoY growth)	Decisive confirmation of the H2 margin inflection thesis.

The Market Disconnect

The market punished a slight top-line revenue miss ($398M vs $407M est.) driven strictly by Q4 FX headwinds in LatAm, entirely ignoring the profound, structural stabilization of the take-rate and the massive cash flow inflection

Valuation Engine: Priced for Distress, Executing for Hyper-Growth



Conservative Valuation Assumptions

> The 18.0x target multiple is an intentional discount to DLO's historical median (16.0x+ baseline plus premium) to heavily account for emerging market FX and regulatory risks.

The market is currently pricing DLO at ~12x EV/EBIT—a multiple typically reserved for shrinking legacy businesses, not platforms generating 77% TPV growth and 37% operating profit growth.

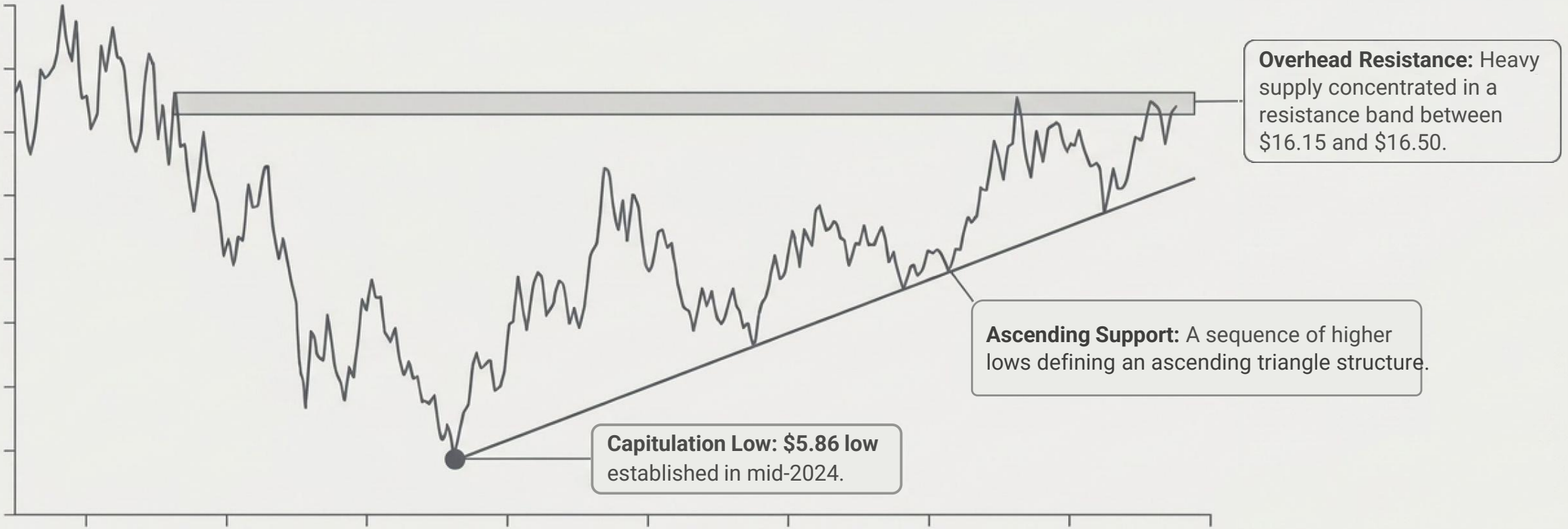
Scenario Expected Value Framework

BULL (25% Prob)	BASE (55% Prob)	BEAR (20% Prob)
TPV >70% YoY. Take-rate stabilizes at 0.75%.	TPV 55-60% YoY. Take-rate optically compresses to ~0.70%.	TPV <35% YoY. Severe take-rate compression (<0.60%).
Op Profit >55% of GP.	Op margins hold near 50%.	Opex outpaces GP.
Target Fwd P/E: 20.0x.	Target Fwd P/E: 16.0x.	Target Fwd P/E: 9.0x.
Target: $23.00	**Target: $14.08**	**Target: $4.95**

Probability-Weighted Expected Value (PWEV) = $14.48

Insight: The current price ($13.76) represents a discount even to the blended PWEV. The market is pricing in a Base Case scenario with zero credit given to the Bullish geographic expansion currently scaling in Africa and Asia.

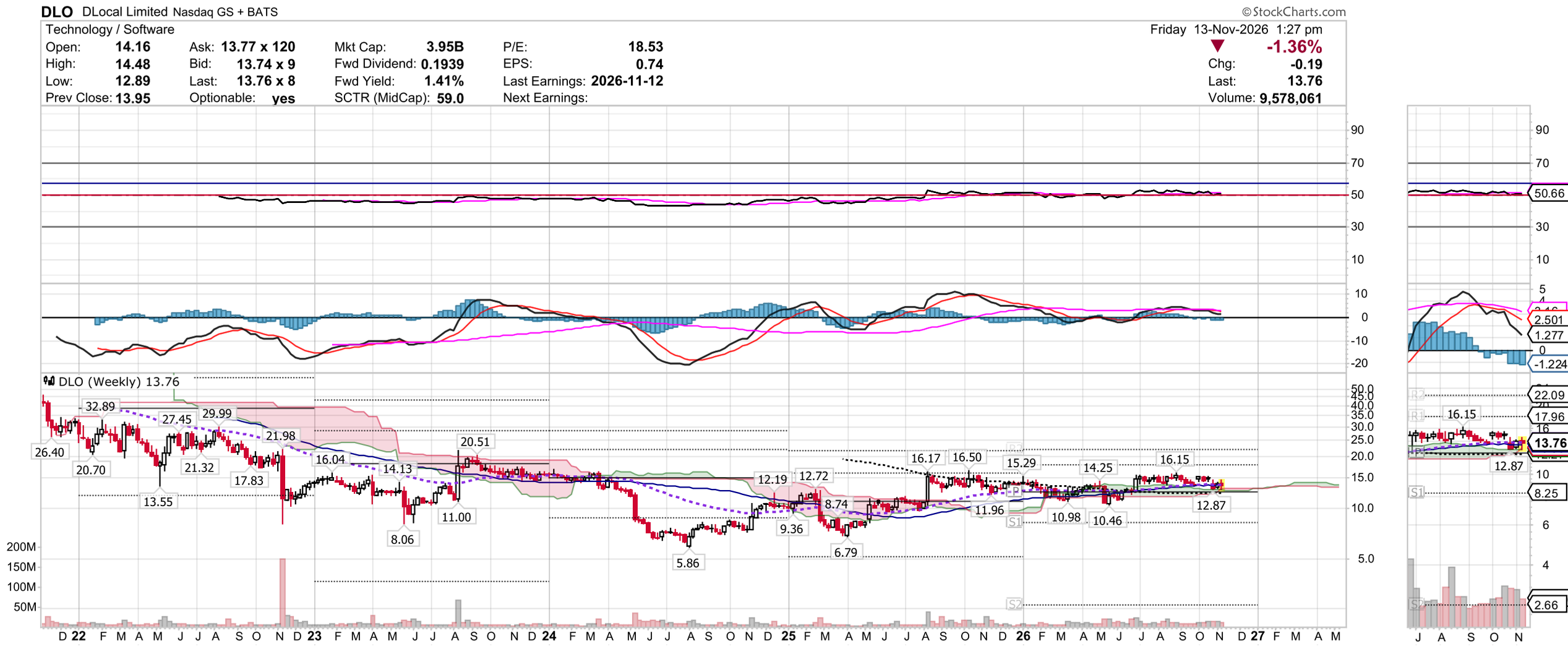
Technical Anatomy: The Multi-Year Accumulation Base



Technical Context

- Transitioning from a severe structural bear market into a mature, multi-year accumulation regime.
- Price is currently entangled in equilibrium with its medium-term averages (38-EMA and 61-SMA), having thoroughly digested prior historical supply.

Technical Momentum & Highly Asymmetric Risk/Reward



Risk/Reward Parameters

Downside Risk: Structurally capped by the rising sequence of higher lows.$12.27 acts as a hard technical floor and risk-management invalidation level.

Upside Catalyst: A breakout above the $16.15–$16.50 resistance zone confirms the completion of the multi-year base and triggers a measured move significantly higher.

Synthesis & Tactical Action Plan

Fundamental Inflection

The optical take-rate compression has found a hard floor at **0.72%.** Absolute Gross Profit is compounding at **28%** and Operating Leverage has violently inflected to 58%in Q3.

Valuation Disconnect

Priced for distress at**~12x EV/EBIT**. The market fundamentally misinterprets a highly profitable, 77% TPV growth mix-shift as a loss of pricing power.



Technical Asymmetry

Coiled in a massive multi-year accumulation base. Extreme momentum compression signals an impending breakout, with a hard structural floor protecting downside risk at $12.87.

Tactical Action

Recommendation: Aggressive accumulation of spot equity at current levels ($13.76).

Target / Stop: Base target of $22.50 (+63% upside). Invalidation below $12.27 structural support. Capitalize on the volatility squeeze before institutional consensus recognizes the H2 margin inflection.

Stance and Disclosure

Stance: Long-term bullish

Disclosure: I currently do not hold a position in DLO.

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Educational purposes only. Not investment advice.