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PagSeguro & Wirecard stocks under fire – One is an excellent opportunity while the other one not.

Two leaders in the fintech industry, PagSeguro (PAGS US) and Wirecard (WDI GY) are under pressure today. We provide here with a brief comment on what is affecting the stocks and our current positioning.

PagSeguro

PagSeguro, a significant position in our Mobile Payments and Fintech certificates, has been announcing today that Universo Online (“UOL”), one of its major shareholders, will be divesting 16.75 million shares (around 5% of PAGS’s outstanding shares). The placement will take place on 17 October 2019. The stock fell as much as 20% in early trading.

Moreover, PagSeguro reported preliminary results for 3Q19. Earnings fell short of consensus by 4%, likely pressured by higher costs. However, the company continues to expand its active users base, which is expected to reach approximately 1.9 million (+470’000 since 30 June 2019). Active merchants over the last 12 months are expected to exceed the 5 million mark (+1.2 million from a year ago and slightly more than 300’000 new active merchants in the quarter).

We believe that the expanding user and active merchants base are the leading indicators to look at about this company. PagSeguro has shown a top-line growth of 13x from FY14 to FY18, and there’s no end in sight.

Moreover, we do not see the Universo Online’s offering as an issue as it has already sold a 4% stake in the company earlier this year and would remain a significant shareholder (45% stake) after the completion of this offering. Controlling companies can unload shares for reasons having nothing to do with perceived growth potential. We maintain our conviction in the company but don’t add at current levels as the weighting we have in the name is already quite high.

Wirecard

Wirecard fell as much as 23.1% in early trading today.

The sell-off is due to the release by the Financial Times (“FT”) of internal company documents that cast further doubts on Wirecard’s accounting practices. The FT decided to publish these documents to counter the repeated assertions by Wirecard that the newspaper was relying on fake material in its previous articles targeting the company.

The documents show that there was a concerted effort to mislead Wirecard’s auditor, Ernst & Young. In particular, the FT’s latest article focuses on Al Alam Solutions, a Dubai-based company that contributed to half of Wirecard’s profits in 2016. Al Alam Solutions would have processed hundreds of millions of dollars in payments for Wirecard in 2016 and 2017. The FT claims to have strong indications that much of the processing did not take place. When contacted by the FT, almost all customers that were supposed to have used Al Alam Solutions either did not know the Dubaiian firm or had shut down operations before appearing in Wirecard’s books.

Wirecard categorically rejects the FT’s allegations.

Although Wirecard was one of our key positions in our Mobile Payments and Fintech portfolios for years, we currently do not hold any shares of the company. All positions were

exited in February 2019, when the police in Singapore started the investigation for falsifying accounts. We will review our positioning only once this saga comes to an end...if it will ever comes to an end...

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