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Seeking Balance

The performance of Nu Holdings' shares has not tracked closely with the fundamental performance of its business, says Daniel Bakalarz. Trying as that can be, his long-term enthusiasm for its investment prospects remains undimmed.

One bet long-term value investors make is that a company's market value will at least at some point in the future accurately reflect the fundamental performance and earnings power of its business. Positive or negative gaps may exist for any number of reasons, but you'll get paid eventually when the market "gets it right."

Nu Holdings' stock since the company's initial public offering in late 2021 has seen plenty of ups and downs. By far Latin America's largest online bank, the shares have fallen 25% or more 10 times since the IPO at $9 per share. They traded as low as $3.25 in mid-2022 and hit an all-time high of just under $19 early this year.

That volatility, however, has been somewhat at odds with how well the business has performed. Nu's quarterly gross revenues of $5.9 billion in Q2 of this year were 9x the level at the IPO. Earnings turned positive in 2023 and net margins last year were above 40%. "Of all the stocks we own, I'd say the correlation between the price of the stock and the intrinsic value of the business has been the lowest," says Unison Asset Management's Daniel Bakalarz, who made the case for the shares in *VII* last year [*VII*, February 27, 2025].

The culprit for the volatility is likely its home base and primary market, Brazil. Since its founding in 2013, the company has had to navigate a succession of political regimes and inconsistent, at best, fiscal and monetary policies that have whipsawed inflation and interest rates. As if on cue, the surprise results of last weekend's Brazilian presidential election tanked Brazilian stocks – Nu's shares (which trade on the NYSE) at a recent $11.60 have fallen 23% since then.

Bakalarz's enthusiasm for Nu's prospects remains undimmed. He says he's thinking about its investment potential today by answering three questions: "What protects us? What's going to pay us? What could surprise us?"

For protection he cites the company's already established business in Brazil, where the digital-only bank has a significant cost advantage over incumbents. For "what's going to pay us," he cites continued low-investment expansion in customers'

INVESTMENT SNAPSHOT

Nu Holdings
(NYSE: NU)

NU PRICE HISTORY



Share Information (@10/30/26):

Price	**11.61**
52-Week Range	11.20 – 18.98

Valuation Metrics (@10/30/26):

	NU	S&P 500
P/E (TTM)	15.8	23.5
Forward P/E (Est.)	11.9	19.2

ORIGINAL BOTTOM LINE – February 27, 2025

Daniel Bakalarz believes this is a special business with tremendous organic growth potential, but whose stock today compared to the future opportunity "looks quite cheap." Even assuming a decline in the earnings multiple and a headwind from the deprecation of the Brazilian real, he believes the shares today offer a prospective IRR in the mid teens.

NEW BOTTOM LINE

While the company's share price is often misaligned with how well its business is performing, Daniel Bakalarz in his base-case scenario – assuming continued healthy organic growth in Brazil, Mexico and Colombia – envisions a mid-teens IRR on the stock.

Sources: S&P Capital IQ, company reports, other publicly available information

wallet share in Brazil by cross-selling new products and services, and high growth in new markets Mexico and Colombia, where it is following the same playbook as in Brazil. The "surprise" would be if the company's recently launched expansion in the U.S. pays off. It has committed to spend an estimated $160-170 million a year to establish its U.S. business – which includes buying naming rights to Inter Miami's professional soccer stadium – by targeting the 70-plus million Hispanics and Brazilians that live in the U.S. first with inter-country money-remittance services and then by cross-selling new products.

Based on five-year estimates, he believes the current Brazilian operation is worth today's overall market value, growth in Brazil, Mexico and Colombia would translate into a mid-teens IRR on the stock, and that if the "moonshot" U.S. effort pays off that could double the compound return. "The asymmetry between risk and reward here is very compelling," he says. VII