

Nu Holdings

The following is an excerpt from Asheville Capital's 2024 Annual Letter. It is not investment advice.

Nu Holdings is a company we initiated a small position in during 2024. Known as "Nubank," it is a Brazil-based Latin American neobank operating entirely online without physical branches. Nubank has transformed banking in the region through its technology-driven, customer-centric approach. Its value proposition lies in eliminating traditional banking fees, simplifying financial services, and providing greater accessibility to underserved yet tech-savvy customers across Brazil, Mexico, and Colombia. By prioritizing transparency, low costs, and seamless user experiences, Nubank has become the largest and most profitable neobank in the world outside of China.

From a capital efficiency perspective, it is hard to find a better business anywhere in the world than Nubank. It costs Nubank ~\$10 to acquire a new customer, which is not only best-in-class relative to all other global neobanks, but also many multiples lower than that of their direct competitors. These ultra-low acquisition costs are achieved primarily because 80-90% of Nubank's new customers come through word-of-mouth. Furthermore, it costs only \$0.90 per month to serve a customer, while the average monthly revenue per active customer (ARPAC) is \$11. Re-read that sentence, because it is incredible.

This efficiency has driven significant operating leverage as ARPAC has climbed while costs remained flat. Over the last two years, net income margins have increased to 19% from 4%, and ROE has risen from 5% to 30%. Despite already having nearly 110 million customers, Nubank's growth runway remains long and profitable. The company's more mature customer cohorts generate \$24 of ARPAC, suggesting the average ARPAC of \$11 has considerable upside potential at minimal incremental cost.

Additionally, while about 50% of the Brazilian population holds a Nubank account, the penetration of services like personal loans, savings accounts, investments, insurance, and business banking remains low. Nubank is also rapidly scaling in Mexico and Colombia, two markets where it has operated for only a few years but is scaling quickly within.

At approximately 20x NTM earnings, Nubank is valued below the S&P 500 yet is growing its earnings 5-6x faster, supported by exceptionally high ROIICs. While I am highly optimistic about Nubank's prospects and consider it among the best businesses in the portfolio, it remains a small position today due to certain risks. The company operates in an emerging market that is particularly vulnerable to economic slowdowns, and its interest-rate sensitivity adds an additional layer of uncertainty. Furthermore, while its expansion into Mexico holds significant potential, success is not guaranteed, especially given competition from Mercado Pago – a highly capable player that I greatly respect.