

## Beyond AI – Quality across the EM Index

A narrower market focus on obvious AI winners has created overlooked opportunities among high-quality emerging market companies trading at unusually attractive valuations. Portfolio holdings such as Bank Central Asia, MercadoLibre, Bharti Airtel, Walmex and Raia Drogasil are already using AI to improve efficiency, customer engagement and competitive advantage. With strong fundamentals underpinning each business, this disconnect between market pricing and long-term value creation presents a compelling opportunity for the overall portfolio.

We concluded our April report highlighting that the rapid rise in liquidity rushing into AI-linked semiconductor and related AI data centre stocks over the past year has in many cases been funded by indiscriminate selling of other stocks – some are on our EM Approval List and in our existing portfolio. This has negatively impacted our relative performance; however, this selling of so called ‘non-AI’ stocks has created some exceptional bargains, which we have been adding to over the past six months.

Crucially, many of these stocks are potentially significant beneficiaries of AI by way of improved productivity and potential revenues gains. All these companies are the leaders in their respective industries, and as such, have the scale and heft to deploy AI technologies on a deeper, more widespread basis than their peers, which has the additional potential of improving their long-term competitive position, market share, growth and returns on capital. Essentially, this enhances the companies’ ability to create increased levels of shareholder value.

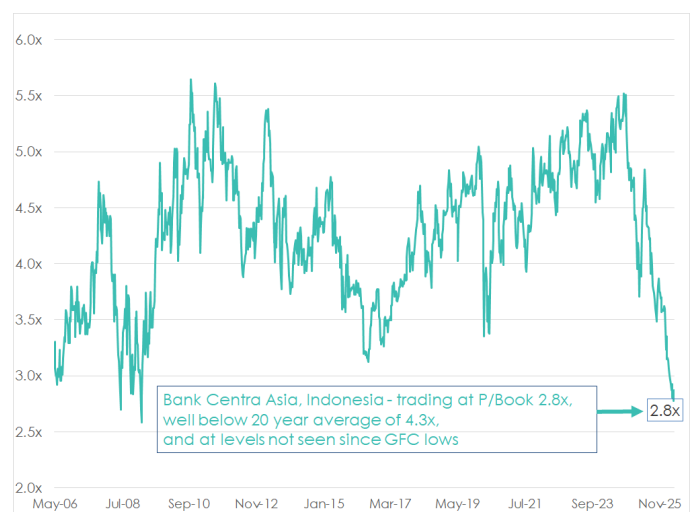
Looking at the current valuations of these stocks, many are trading at five, ten, and even twenty-year low multiples, ‘nadir’ valuations, which has really caught our attention. Indeed, the upside from AI in many cases is not being priced into these stocks at all, representing a ‘free option’. This clearly speaks to

the intrinsic value in our EM portfolio at present and thus provides an attractive entry point in our view for new and existing investors. The following is a selection of companies currently in the Northcape EM portfolio exhibiting these characteristics.

### PT Bank Central Asia, Financial, Indonesia

Bank Central Asia (BCA) is now trading at its lowest multiple over the past twenty years (see Exhibit 1), in line with its GFC low – and by the way it has material potential to reduce costs and improve returns on capital by deploying AI – an opportunity the market is completely ignoring today!

**Exhibit 1: Bank Central Asia Price/Book (x), 2006-2026**  
(Source: Bloomberg)



At BCA's 1Q26 result briefing the company went into some detail specifying the boost to efficiency and customer experience from AI, including:

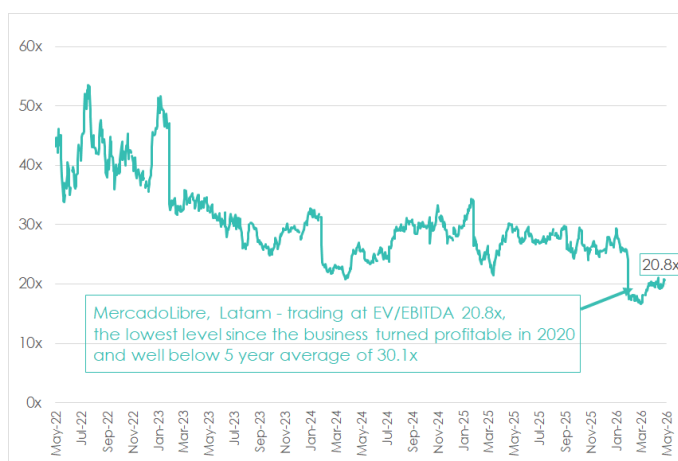
- 40% reduction on financial document processing versus manual processing,
- 30% reduction in online account opening times versus manual processing,
- 40% YoY reduction in ATM downtime,
- 28% YoY improvement in savings deposits growth from AI analytics, and
- 56% YoY reduction in fraud complaints.

As a consequence of these AI initiatives, BCA is expected to limit its costs growth to 3%, well below revenue growth of 8-10%, creating significant positive operating leverage.

### MercadoLibre, E-commerce/Financial services, Latam

MercadoLibre is presently trading at its lowest multiple since it turned profitable in 2020 (see Exhibit 2).

**Exhibit 2: MercadoLibre EV/EBITDA (x), 2022-2026**  
(Source: Bloomberg)



Due to increased investments in AI and in ecommerce logistics, operating margins for MercadoLibre have been reduced in 2026, which in turn has had a very negative impact on the stock price (and reduced the stock valuation). However, these investments have yielded very strong

improvements in platform efficiency (quicker, more effective, product searches) and thus customer satisfaction has improved. This has accelerated unit sales and improved revenue growth, which rose to +49% in 1Q26 – the fastest quarterly growth rate since 2Q22. In time, we expect the cost of these investments, especially in AI, to enhance MercadoLibre's competitive position and improve its long-term operating margins.

By way of example, at the 1Q26 result briefing the following important statements were made by the CEO with respect to AI:

**Ariel Szarftejn (CEO):** "In terms of agentic and impact, I think it's worth highlighting the fact that we deployed LLMs in search in ecommerce for the first time this quarter, and basically that is live in Brazil, Mexico, and Argentina. So now we are using this technology to better understand users' intent combining both knowledge on the user behind the query and better interpretation of the query itself. And the impact is basically very visible across the funnel. We have higher conversions as buyers find what they are looking for much faster. We have better advertising returns as our search also improves the quality of the results that our ad-tech stack is generating. We have higher -- stronger engagement from our users as the discover buying or selling experience actually improves. And clearly, this is one of the contributors to the great performance we had first quarter of 2026. This is one piece in a much broader GenAI strategy for the ecommerce marketplace and we are very happy with the results that we've seen so far..."

In shipping, an AI-powered assistant that provides reps with real-time process information and performance challenges has increased productivity across our fulfillment network. In Fintech, our AI Assistant is becoming more proactive. In Brazil, it now alerts users to negative balances in accounts connected via Open Finance and identifies funds

*held elsewhere that could be earning a higher yield with Mercado Pago — and crucially, it can act on these opportunities instantly, moving balances between accounts within seconds. This is a meaningful step beyond a traditional assistant: it is not just surfacing information; it is helping users take action...*

*AI tools continue to drive significant improvements in sales force productivity, contributing to the strong market share gains we are seeing across the region. Productivity gains across our technology teams are among the most tangible results of our AI investment. Headcount grew 8% YoY in Q126 – a carryover effect of 2025 hiring – but productivity KPIs are growing 7-10x faster. Many of our most senior engineers that were previously spending most of their time reviewing code are now also building code because of the productivity gains enabled by AI tools. Rollbacks – code that is returned to its developer due to errors – are materially lower YoY."*

MercadoLibre has grown its staff levels for managing its IT platform from less than 5,000 in 2021 to over 20,000 in 2025, which has seen its total product and technology costs grow from US\$0.6 billion in 2021 to US\$2.3 billion in 2025. This area covers IT engineering, coding, web development, telecoms and payments to third party IT providers, and according to the company the level of future hiring is expected to slow materially with the benefits of AI. Consequently, we would see stabilising IT head count as an important source of operating leverage, improving both margins, and returns on capital for MercadoLibre. This outcome is not reflected in MercadoLibre's current valuation in our view.

### **Bharti Airtel, Telecoms, India**

Bharti Airtel is one of India's leading telecommunications providers, serving more than 390 million wireless subscribers across mobile, broadband, enterprise, and digital services. Following years of industry consolidation, the Indian telecom market has effectively evolved into a duopoly. Bharti's premium

customer base, superior network quality, and strong execution have enabled it to consistently gain high-value subscribers while benefiting from a favourable industry structure and ongoing tariff increases.

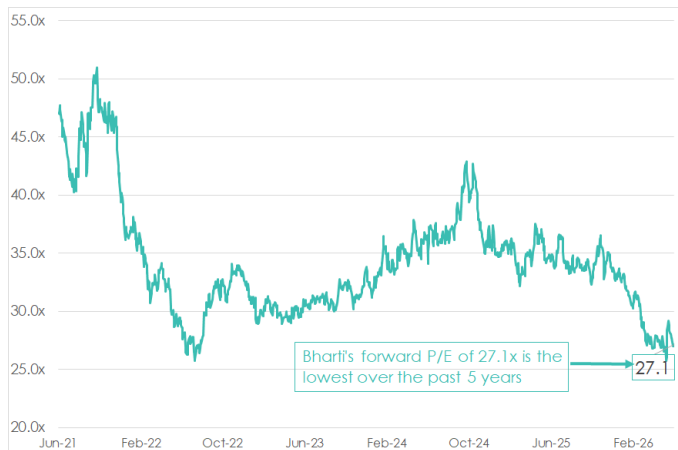
An underappreciated AI opportunity for Bharti is the potential for AI-enabled smartphones to accelerate both smartphone adoption and drive long-term ARPU (Average Revenue per User) growth. Historically, major device innovation cycles such as 3G, 4G, video streaming and mobile payments have driven consumers to upgrade handsets and consume more data. AI may represent the next such cycle. New AI-powered smartphones offer capabilities such as real-time translation, voice-based assistants, and AI search and productivity tools, many of which require more advanced hardware and faster connectivity. This could encourage consumers to upgrade devices sooner and migrate towards higher-value mobile plans.

For Bharti, the opportunity is less about directly monetising AI and more about benefiting from the second-order effects. If AI makes smartphones more useful and increases engagement with digital services, it should drive higher data consumption, accelerate device upgrades and support continued premiumisation of mobile plans. Given Bharti's position as India's premium telecom operator, they are well placed to benefit from these trends. Over time, this should support a larger smartphone subscriber base, higher data usage per customer and continued migration to premium plans, driving both subscriber revenue growth and sustained ARPU expansion.

Bharti Airtel currently trades on 27.1x P/E, a notable discount to its historical average despite being a fundamentally stronger business today. Since 2015, revenue has compounded at 19% annually and India mobile ARPU has grown at a 12.2% CAGR. Importantly, these gains have been achieved alongside industry consolidation, rising market share, expanding margins and significantly improved free

cash flow generation, suggesting the market is not fully reflecting the enhanced quality of the business.

**Exhibit 3: Bharti Airtel forward P/E (x), 2021-2026**  
(Source: Bloomberg)



### Walmex, Grocery Retailing, Mexico

The use of AI technology in grocery retailing is in its nascent stage of development but as one of the largest retailers in the world, Walmart (Walmex's parent company) is adopting and trialling many uses of the technology. Walmart's scale allows it to invest heavily in these technologies and be at the very forefront of the implementation of AI.

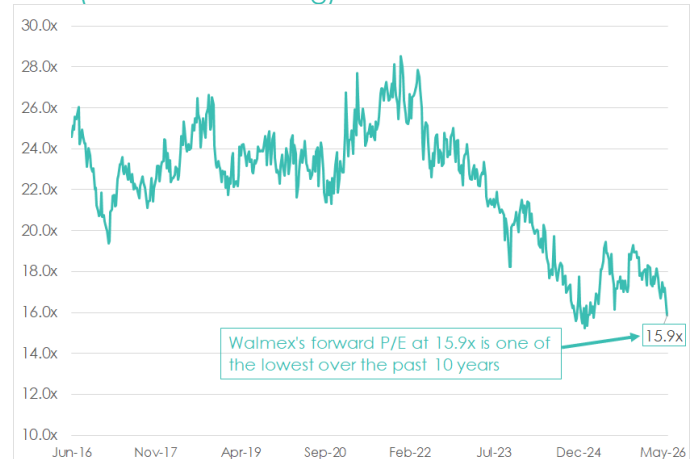
Some examples of where Walmart is introducing AI include:

- **Advanced Forecasting:** AI models can incorporate complex local variables, (weather disruptions, macroeconomic environment etc) to predict product demand at a granular level;
- **Computer Vision Inspection:** Cameras evaluating inventory can flag expiring produce or damaged packaging before it reaches the shop floor; and
- **Route Optimisation:** Proprietary logistics machine learning can determine optimal dispatch times and delivery maps to reduce fuel costs and minimise delivery times.

These examples are just some of the ways Walmart is introducing AI technology into its operations, and

these initiatives not only improve the shopping experience but reduce costs. Walmex can take advantage of the investment of its US parent and introduce initiatives that can generate significant productivity gains and/or increased sales.

**Exhibit 4: Walmart de Mexico forward P/E (x), 2016-2026**  
(Source: Bloomberg)

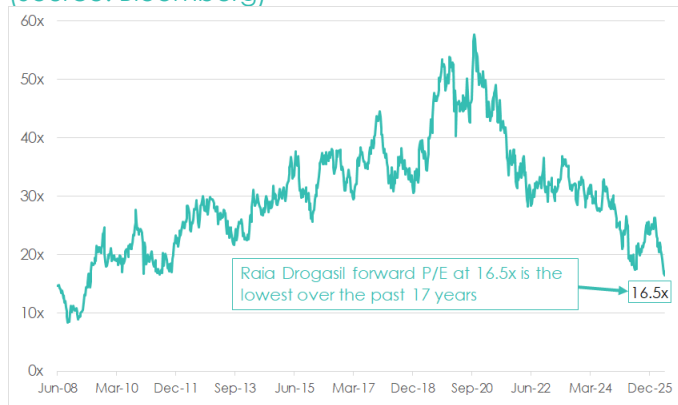


The ability to leverage Walmart's investment in AI therefore gives Walmex a significant competitive advantage over smaller local retailers in Mexico. Moreover, Walmex's forward P/E at 15.9x is one of the lowest seen over the past ten years and indicates that the upside from AI technologies is not factored into the current valuation (see Exhibit 4).

### Raia Drogasil, Pharmacies, Brazil

Raia Drogasil is presently trading at its lowest forward P/E multiple in 17 years (see Exhibit 5), despite continuing to deliver strong financial results. In 1Q26, revenue rose +20% YoY and EBITDA increased +32% YoY, highlighting the disconnect between valuation and fundamentals. We view Raia Drogasil as a clear example of the 'strong getting stronger' - the industry leader is using its scale, balance sheet, and execution advantage to widen the gap versus weaker peers, particularly in a higher cost of capital environment.

**Exhibit 5:** Raia Drogasil forward P/E (x), 2008-2026  
(Source: Bloomberg)



Within this market, Raia Drogasil is the clear number one pharmacy chain in Brazil. It has the largest store base, the strongest balance sheet, the best unit economics, and the most developed omnichannel platform. The company's capital allocation track record is excellent, with new stores generating real IRRs of around 20%, while its scale is becoming increasingly difficult for peers to match - Raia Drogasil's annual organic growth alone is nearly equivalent to the size of the number four player, and its annual capex is larger than the EBITDA of its competitors.

A key source of Raia Drogasil's advantage is inventory management. All pharmacy chains need to carry roughly 10,000 SKUs, but around 60% of these are very low-turnover items – often just one or two boxes of a given drug. This creates a major scale advantage. Raia Drogasil's sales per store are around 40% higher than its nearest competitor, and roughly double most other drugstore chains, allowing it to turn the same required inventory base much faster. The result is structurally better margins, stronger free cash flow, and higher ROIC. Raia Drogasil can then reinvest that cash generation into faster store expansion, further reinforcing its leadership. Between 2018 and 2021, Raia Drogasil added nearly three times more stores than the other major chains combined.

AI should further strengthen this flywheel. On the inventory side, Raia Drogasil is using AI to forecast SKU-level demand up to twelve months ahead, improving purchasing and replenishment decisions. For a pharmacy chain carrying thousands of slow-moving SKUs, this is highly valuable. Better forecasting means less cash tied up in stock, fewer excess purchases and lower inventory days – without sacrificing availability.

On the sales side, Raia Drogasil is using GenAI to personalise customer engagement at scale, using customer data to tailor offers, reminders and promotions across the app, loyalty programs, and in stores. In-store, its MIA AI assistant supports staff with product recommendations and medicine information. The result should be higher conversion, larger baskets, and better service – using AI to sharpen the advantages that already make Raia Drogasil the sector leader.

**Exhibit 5:** The Northcape team visiting Raia stores in December 2025



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