

Meeza QSTP LLC (MEZA)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.554	Target Price	QR4.025
Implied Upside	13.3%	Old Target Price	QR3.262

Upgrading Our Base Case to 50MW DC Capacity in Terminal Year; Upgrade Rating to Accumulate

Our previous bullish case has now become the base case. Recall, in our Meeza [initiation note](#) we put forward three outlook/growth theses: Bear, Base and Bull. In the Base case we assumed 35.8MW of capacity in the terminal year of our model for Meeza's datacenter (DC) unit, while our Bull case penciled in 48.5MW, mimicking expected industry growth outlook. **Now for the first time, during Meeza's latest IR 1Q2024 call, management guided for 50MW capacity by 2030 for its DC segment. This marginally exceeds our original bullish case scenario plus Meeza acknowledges that this is still on the conservative side.** On management's part, the guidance is reinforced by latest global DC market developments – demand continue to outstrip supply in primary and secondary markets as several hyperscalers announce audacious plans to erect/expand their DC capacities to meet AI needs – as well as positive policy signals ([Digital Agenda 2030](#)) by the government. **Consequently, we upgrade our base model to 50MW capacity in the terminal year of our model for Meeza's DC unit. Also, we raise our TP and upgrade our call to Accumulate from Market Perform.**

Highlights

- **Latest 1Q2024 earnings missed our estimates: Meeza's NP rose 7.1% YoY but declined 17.9% QoQ to QR11.7mn vs. our estimate of QR13.8mn. The YoY NP growth was driven primarily by a strong GP margin which printed at 31.0% from 26.3% in 1Q2023 and 27.6% in 4Q2023. We had estimated a GP margin of 30.0%.** The revenue mix changed in favor of the higher margin datacenter unit, while the solutions services segment saw a base effects-related decline. Solutions services unit is expected to taper off this year following a bumper 2023. The NP margin expanded to 13.9% from 11.6% in 1Q2023 and 12.7% in 4Q2023, compared with an estimate of 13.4%. **Meeza's 1Q2024 revenue declined by 10.1%/24.6% YoY/QoQ to QR84.2mn compared with QR102.8mn forecasted.**
- **We see the datacenter DC unit as the primary driver of company value in future. We estimate Meeza's DC business contribution to continue to grow and account for about three-quarters of group value in the terminal period up from ~58% in 2022.** While the cloud segment is also set to continue experiencing a relatively larger growth rate, its overall contribution to the group will likely remain low. Managed and solution services should exhibit mature business growth levels.
- **While Meeza already boasts about half of Qatar's DC inventory, it is on track to expand its DCs further by ~80% over the next ~2 ½ years. In the Digital Agenda 2030, the government is prioritizing cutting-edge digital infrastructure that make Qatar a more attractive digital destination.** Over the years, Meeza had relied on a steady colocation business flow from local corporates and GREs, while the sudden interest from hyperscalers such as Microsoft and social media giants (e.g. Meta) has been accompanied by a spike in utilization rates of Meeza's DCs. Average utilization rate was 85% in FY2023/1Q2024 and is expected to jump to the 90s range this year.
- **In the short- to medium-term, we see group revenue edging lower by 2.0% in 2024, picking up in 2025/26 by 21.4%/19.5%. The flat revenue expectation in 2024 is due to the normalizing of solutions services activity from 2023's high base. We forecast NP growth of 3.4% in 2024, 32.6% in 2025 and 42.2% in 2026.** The relatively higher bottom-line growth stems from the gradual change in revenue composition to higher-margin DC business. This should, in turn, translate to a generous and secure dividend flow helped by its long-term contracts with premium customers.
- **Momentum and/or growth stock. We note the strong share price performance of Meeza in the last few months, aided by its inclusion in the Small Cap Index by MSCI.** Also thematically, there is strong momentum globally for companies perceived to be direct beneficiaries of AI such as Meeza, which could see the stock price move markedly ahead of its fundamentals in the short to medium term.

Catalysts

- **Catalysts: (1)** Successful execution of planned expansion plans **(2)** Announcement of new contracts (including emanating from smart cities) to increase utilization of spare capacity **(3)** Entry into Saudi **(4)** Margin expansion to close in on global peers **(5)** Global companies/hyperscalers selecting Qatar as a DC regional host **(6)** AI adoption still in nascent stage portending future acceleration **(7)** Momentum and/or growth trade.

Recommendation, Valuation and Risks

- **Recommendation and Valuation: We change our rating to Accumulate from Market Perform and increase our 12-month TP to QR4.025, implying 13.3% upside.** Our TP is a weighted average of various valuation models: DCF (80%), EBITDA Exit Multiple (5%) and Relative-Valuation (15%). Our primary thesis is that Meeza's yesteryear as well as imminent investments into its DC business are intersecting with a secular opportunity in the data economy. Qatar's nascent DC economy is set to benefit from favorable global supply-demand dynamics that have put emerging DC markets in the spotlight as primary & secondary DC markets globally struggle to cope with natural supply chain constraints (e.g. power availability). Locally, Meeza's unique strong market positioning in the DC market (#1 market share) puts it in a prime position to benefit from the demand expected from hyperscalers, global social media giants, corporates (including GREs) and smart cities.
- **Risks: (1)** Execution risk **(2)** Perennial tail risks related to tech of either incurring exorbitant costs to stay ahead of the technology curve or, on the other extreme, the costs of trailing the technology curve **(3)** High capex **(4)** Customer concentration risk & margin-squeeze by hyperscalers **(5)** Electricity availability/cost/renewables requirements **(6)** Cyber-attacks **(7)** National data sovereignty laws mandating in-country data storage **(8)** Geopolitics.

Key Financial Data and Estimates

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
EPS (QR)	0.09	0.10	0.13	0.18	0.22	0.28
P/E (x)	38.28	37.03	27.92	19.63	15.82	12.69
EV/EBITDA (x)	19.02	16.77	13.34	10.65	8.87	7.30
DPS (QR)	0.08	0.08	0.11	0.16	0.20	0.24
DY (%)	2.3%	2.4%	3.1%	4.4%	5.5%	6.9%

Source: Company data, QNBFS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

Key Data

Current Market Price	QR3.554
Dividend Yield (%)	2.3
Bloomberg Ticker	MEZA QD
ADR/GDR Ticker	N/A
Reuters Ticker	MEZA.QA
ISIN	QA000PK2KD10
Sector*	Consumer Goods
52wk High/Low (QR)	3.844/2.22
3-m Average Vol. (mn)	1.4
Mkt. Cap. (\$ bn/QR bn)	0.6/2.3
EV (\$ bn/QR bn)	0.7/2.4
Shares O/S (mn)	649.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	5.3
Return vs. Listing Price (%)	63.8
Fiscal Year-End	December 31

Source: Bloomberg (as of May 30, 2024), *Qatar Exchange (as of May 30, 2024); Note: FO is foreign ownership

Phibion Makuwerere, CFA

+974 4476 6589

phibion.makuwerere@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Valuation Summary
Weighted Valuation

Method	Weight in Overall MEZA's Valuation	MEZA's Upside Potential
DCF	80%	20.3%
EEM	5%	47.0%
International Comparison	5%	25.5%
P/E, 2024E	1.3%	8.1%
EV/EBITDA, 2024E	1.3%	33.1%
P/E, 2025E	1.3%	23.0%
EV/EBITDA, 2025E	1.3%	37.8%
Local Comparison	10%	-66.0%
DSM All Share Index Dividend Yield 2024E	5.0%	-73.5%
DSM All Share Index P/E, 2024E	5.0%	-58.5%
Weighted Average Upside Potential for MEZA Shares	100.0%	13.3%

Source: QNB FS Research

Condensed Financial Statements & Forecasts
Condensed Income Statement (QR)

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
REVENUE	422,917	414,254	502,704	600,924	697,571	830,391
GROSS PROFIT	114,720	117,950	150,125	187,073	221,466	270,622
EBITDA	123,514	146,551	192,296	247,965	314,847	406,869
OPERATING PROFIT	64,914	70,282	96,775	131,198	162,569	206,453
NET PROFIT	60,259	62,291	82,607	117,487	145,793	181,698

Source: Company data, QNB FS Research

Balance Sheet (QR)

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
Non-current asset						
Property, Plant & Equipment	475,280	603,262	716,000	811,503	978,259	1,170,366
RoU Assets	143,231	132,214	121,198	110,181	99,164	88,148
Contract Assets	11,162	10,933	13,268	15,860	18,411	21,916
Other	4,447	4,447	4,447	4,447	4,447	4,447
Total non-current assets	634,120	750,856	854,913	941,991	1,100,281	1,284,877
Current assets						
Prepayments & other	18,754	18,754	18,754	18,754	18,754	18,754
Due from related parties	43,719	42,823	51,967	62,120	72,111	85,842
Contract assets	120,548	118,079	143,290	171,287	198,835	236,694
Trade & other receivables	122,978	120,459	146,179	174,740	202,843	241,465
Cash & bank balances	250,018	225,366	301,401	307,110	240,138	244,644
Total Current assets	556,017	525,481	661,591	734,012	732,682	827,400
Total assets	1,190,137	1,276,337	1,516,504	1,676,002	1,832,963	2,112,277
EQUITY AND LIABILITIES						
Share capital	648,980	648,980	648,980	648,980	648,980	648,980
Statutory reserve	14,541	20,770	29,030	40,779	55,358	73,528
Retained earnings	55,980	57,917	75,859	106,597	131,675	163,477
Total equity	719,501	727,667	753,869	796,356	836,013	885,985
Non-current liability						
Employees' end of service benefits	11,251	11,632	11,978	12,300	12,606	12,902
Contract liability	33,466	32,780	39,780	47,552	55,200	65,710
Lease	148,396	144,956	141,692	138,557	135,554	132,690
Borrowings	121,597	209,523	397,449	485,375	573,301	761,227
Total non-current liability	314,710	398,891	590,898	683,783	776,661	972,528
Current liability						
Contract liability	16,104	15,774	19,142	22,882	26,562	31,620
Lease	9,934	9,704	9,485	9,275	9,074	8,883
Borrowings	13,404	12,073	10,742	9,411	8,080	6,749
Due to related parties	6,193	6,193	6,193	6,193	6,193	6,193
Trade & other payables	110,291	106,035	126,174	148,101	170,379	200,319
Total current liability	155,926	149,779	171,736	195,863	220,289	253,764
Total liabilities	470,636	548,670	762,635	879,646	996,950	1,226,292
Total equity and liabilities	1,190,137	1,276,337	1,516,504	1,676,002	1,832,963	2,112,277

Source: Company data, QNB FS Research

Cash Flow Statement (QR)

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
Cash Flow from Operating Activities	96,251	136,409	144,503	191,426	255,398	327,427
Cash Flow from Investing Activities	(1,389)	(183,346)	(189,356)	(189,196)	(295,733)	(371,902)
Cash Flow from Financing Activities	(48,249)	22,285	120,888	3,480	(26,637)	48,982
Change in Cash	46,613	(24,652)	76,035	5,710	(66,972)	4,506
Cash Beginning of Period	203,405	250,018	225,366	301,401	307,110	240,138
Cash End of Period	250,018	225,366	301,401	307,110	240,138	244,644

Source: Company data, QNB FS Research

Key Ratios

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
Growth Rates						
Revenue	19.8%	-2.0%	21.4%	19.5%	16.1%	19.0%
Gross Profit	7.6%	2.8%	27.3%	24.6%	18.4%	22.2%
EBITDA	-0.4%	18.7%	31.2%	28.9%	27.0%	29.2%
EBIT	2.1%	8.3%	37.7%	35.6%	23.9%	27.0%
NP	15.6%	3.4%	32.6%	42.2%	24.1%	24.6%
EPS	N.A.	3.4%	32.6%	42.2%	24.1%	24.6%
DPS	N.A.	3.4%	32.6%	42.2%	24.1%	24.6%
CFPS	N.A.	41.7%	5.9%	32.5%	33.4%	28.2%
AFFOPS	N.A.	16.0%	32.7%	36.4%	29.1%	29.8%
Operating Ratios						
Gross Margin	27.1%	28.5%	29.9%	31.1%	31.7%	32.6%
EBITDA Margin	29.2%	35.4%	38.3%	41.3%	45.1%	49.0%
EBIT Margin	15.3%	17.0%	19.3%	21.8%	23.3%	24.9%
Net Margin	14.2%	15.0%	16.4%	19.6%	20.9%	21.9%
Working Capital Ratios						
Prepayment days	22.2	23.1	19.4	16.5	14.4	12.2
Receivables days	111.3	111.3	111.3	111.3	111.3	111.3
Contract asset days	104.0	104.0	104.0	104.0	104.0	104.0
Payable Days	130.6	130.6	130.6	130.6	130.6	130.6
Contract liability days	42.8	42.8	42.8	42.8	42.8	42.8
Finance Ratios						
Debt-to-Equity	40.8%	51.7%	74.2%	80.7%	86.8%	102.7%
Net Debt-to-Equity	6.0%	20.7%	34.2%	42.1%	58.1%	75.0%
Net Debt-to-Capital						
Net Debt-to-EBITDA	0.35	1.03	1.34	1.35	1.54	1.63
Interest Coverage	3.67	3.93	4.39	5.09	5.59	6.01
Return Ratios						
ROIC	8.5%	8.0%	9.6%	11.6%	12.3%	13.3%
ROE	8.4%	8.6%	11.0%	14.8%	17.4%	20.5%
ROA						
Earnings Yield	2.61%	2.70%	3.58%	5.09%	6.32%	7.88%
Dividend Yield	2.28%	2.36%	3.12%	4.44%	5.51%	6.87%
AFFO Yield	3.92%	4.55%	6.04%	8.24%	10.63%	13.80%
Liquidity Ratios						
Current Ratio	1.8	1.3	1.1	1.1	0.9	0.9
Quick Ratio	1.8	1.3	1.1	1.1	0.9	0.9
Valuation						
EV/Sales	5.6	5.9	5.1	4.4	4.0	3.6
EV/EBITDA	19.0	16.8	13.3	10.7	8.9	7.3
EV/EBIT	36.2	35.0	26.5	20.1	17.2	14.4
P/E	38.3	37.0	27.9	19.6	15.8	12.7
PEG - 3YR CARG	0.6	0.7	0.5	0.3	0.3	0.2
P/CF	17.87	15.41	11.58	9.04	7.16	5.55
P/BV	3.21	3.17	3.06	2.90	2.76	2.60

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

Contacts

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
Doha, Qatar

Saugata Sarkar, CFA, CAIA
Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”) QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.