

## Meeza QSTP LLC (MEZA)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.406	Target Price	QR4.025
Implied Upside	18.2%		

### Leasing of Remaining 1MW of Capacity Bolsters Investment Case; Maintain Accumulate

Following Meeza reaching a QR100mn agreement with an international hyperscaler to lease out the remaining 1MW spare capacity of the M-Vault4 datacenter (DC) until 2036, we reiterate our Accumulate rating and maintain our PT of QR4.025/share. We had waited for this announcement for a while based on management's guidance. We are not making any changes to our forecasts until we get more details from the management. Our call is augmented by Meza's immediate plans to add 12MW to the 14.4MW (at end-FY2023) over the next 2-3years and longer-term plans to increase capacity to 50MW. This expansion is supported by robust global demand outstripping supply in primary and secondary markets as several hyperscalers announce audacious plans to erect/expand their datacenter capacities to meet AI needs, coupled with favorable government policy signals (Digital Agenda 2030). During the latest 2Q2024 earnings season, Meeza's results were mixed, with a 3.2% YoY decline in net profit (better than feared) and a 25.7% revenue drop (worse than expected). However, stronger-than-expected margins, with NPM adding 4.5ppts YoY, driven by a favorable sales mix shift towards high-margin datacenter and managed services segments, beat our estimates. Revenue was primarily weighed down by cloud and solutions services units, printing considerably lower than the base period and behind our estimates. We were, however, encouraged by the margin expansion, with all major margin lines at their highest since the beginning of last year.

#### Highlights

- We believe Meeza's DC unit will be the primary driver of both revenue and bottom-line growth for the foreseeable future. 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. Notably, one of its major clients/tenants (Microsoft), established a data center region in Qatar in 2022, which bodes well for Meeza.
- While Meeza already boasts about half of Qatar's DC inventory, it plans to expand its DCs further by ~80% over the next 2-3years to roughly 26MW of IT load – then expected to hit 50MW by 2030. We estimate its DC business contribution to continue to grow and account for about three-quarters of group value in the terminal period from ~58% in 2022. Over the years, Meeza had relied on a steady 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 FY2023/1H2024 and with this announcement is set to jump to the 90s range. This acquisition of premium customers should translate to a generous and secure dividend flow in the medium- to long-term.
- Meeza's 2Q2024 NP declined 3.2% YoY but climbed 56.3% QoQ to QR18.2mn, beating our estimate of QR14.0mn. The NP was driven primarily by a strong GP margin, which printed at 35.0% from 25.8% in 2Q2023 and 31.0% in 1Q2024. We had estimated a GP margin of 27.9%. The revenue mix changed in favor of higher-margin segments (i.e. datacenter and managed services, while solutions services experienced a decline due to a high base.) Solutions services unit is expected to taper off this year following a bumper 2023. The NP margin expanded to 19.1% from 14.7% in 2Q2023 and 13.9% in 1Q2024, compared with an estimate of 13.5%. Our model does factor-in a gradual improvement in margins as the datacenter unit revenue contribution increases but this set of results shows a much faster improvement than we had imagined.

#### 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) Margin expansion to close in on global peers (4) Global companies/hyperscalers selecting Qatar as a DC regional host (5) Entry into Saudi (6) AI adoption still in nascent stage portending future acceleration (7) Momentum and/or growth trade.

#### Recommendation, Valuation and Risks

- Recommendation and Valuation: We maintain our Accumulate rating and our 12-month QR4.025 PT, implying 18.2% upside. Our PT 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)	36.71	35.51	26.77	18.82	15.17	12.17
EV/EBITDA (x)	18.25	16.12	12.84	10.27	8.57	7.07
DPS (QR)	0.08	0.08	0.11	0.16	0.20	0.24
DY (%)	2.4%	2.5%	3.3%	4.6%	5.8%	7.2%

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	QR3.406
Dividend Yield (%)	2.4
Bloomberg Ticker	MEZA QD
ADR/GDR Ticker	N/A
Reuters Ticker	MEZA.QA
ISIN	QA000PK2KD10
Sector*	Consumer Goods
52wk High/Low (QR)	3.844/2.263
3-m Average Vol. (mn)	0.4
Mkt. Cap. (\$ bn/QR bn)	0.6/2.2
EV (\$ bn/QR bn)	0.6/2.3
Shares O/S (mn)	649.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	5.5
Return vs. Listing Price (%)	57.0
Fiscal Year-End	December 31

Source: Bloomberg (as of September 01, 2024), \*Qatar Exchange (as of September 01, 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

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

### Contacts

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

Saugata Sarkar, CFA, CAIA  
 Head of Research  
[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

Shahan Keushgerian  
 Senior Research Analyst  
[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

Phibion Makuwerere, CFA  
 Senior Research Analyst  
[phibion.makuwerere@qnbfs.com.qa](mailto: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.