

Meeza QSTP LLC (MEZA)

Recommendation	Accumulate	Risk Rating	R-3
Share Price	QR2.723	Target Price	QR3.116
Implied Upside	14.4%		

4Q2023 Earnings/Dividend Beat on Higher Revenues and GP Margin; Stay Accumulate

For now we maintain our Accumulate rating and TP after Meeza's 4Q2023 net profit came in at QR14.2mn and managed to beat our estimate of QR12.9mn. The beat emanates primarily from a better top-line print that was further buttressed by a higher GP margin than we had modeled. G&A expenses were in line with our forecasts. FY2023 NP rose 15.5% to QR60.2mn and EPS came in at QR0.093 vs. 0.090 expected. The board of directors proposed a cash dividend distribution of QR0.08/share for FY2023 better than QR0.06 we had expected, and translating to a DY of ~3.0%. The proposed final dividend still need to be approved at the AGM. While DPS is not comparable with FY2022, the total dividend paid out jumped ~185% to QR52.6mn from QR18.4mn in the previous year.

Highlights

- A higher top-line growth and lower depreciation than we had expected saw Meeza's 4Q2023 NP of QR14.2mn beat our QR12.4mn estimate by 14.9%.** Meeza's 4Q2023 revenue grew by 10.0%/24.9% YoY/QoQ to QR111.7mn compared with QR102.6mn forecasted. GP margin was higher at 27.6% vs. 26.4% modeled, driven primarily by lower depreciation costs than we had modeled. The company does not provide quarterly depreciation metrics but full year numbers show that it declined by 10.4% to QR44.6mn vs QR47.6mn modeled.
- Strong 4Q2023 top-line growth from solutions services, cloud services and workplace services,** which climbed 34.8% (to QR40.0mn), 79.1% (to QR5.5mn) and 22.4% (to QR2.3mn) YoY, respectively. This was offset by the datacenter (DC) segment, managed services and master system integrator services, declining 1.8% (to QR34.8mn), 1.2% (to QR30.2mn) and 45.8% (to QR1.8mn) YoY, respectively. FY2023 group revenue rose 19.8% to QR422.9mn driven by solutions services (+71%), managed services (+22%) and cloud (+47%), offset by datacenters (-2%), workplace services (-8%) and master system integrator (-45%).
- We think its datacenter unit will be the primary driver of both revenue and bottom-line growth in 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. Overall, Meeza has so far onboarded three premium hyperscaler and social media platforms with a fourth one expected soon.
- While Meeza already boasts almost half of Qatar's DC inventory, it is on track to expand its DCs further by ~80% over the next 2-3 years – RFPs have already been issued and negotiations are advanced. 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 and is expected to jump to the 90s range once negotiation with an international client are finalized. This acquisition of premium customers should translate to a generous and secure dividend flow in the medium- to long-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 selecting Qatar as a DC regional host **(6)** AI adoption still in nascent stage portending future acceleration.

Recommendation, Valuation and Risks

- Recommendation and Valuation: We reiterate our Accumulate rating and a 12-month TP of QR3.116, implying 14.4% upside.** Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation. 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, driven by the insatiable need for reliable electronic data storage and computing power.
- 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
EPS (QR)	0.09	0.10	0.12	0.18	0.22
P/E (x)	29.35	26.53	22.29	14.74	12.36
EV/EBITDA (x)	14.66	12.71	10.21	7.98	6.80
DPS (QR)	0.08	0.06	0.08	0.12	0.14
DY (%)	3.0%	2.4%	2.8%	4.3%	5.1%

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	QR2.723
Dividend Yield (%)	3.0%
Bloomberg Ticker	MEZA QD
ADR/GDR Ticker	N/A
Reuters Ticker	MEZA.QA
ISIN	QA000PK2KD10
Sector*	Consumer Goods
52wk High/Low (QR)	3.061/2.220
3-m Average Vol. (mn)	0.6
Mkt. Cap. (\$ bn/QR bn)	0.5/1.8
EV (\$ bn/QR bn)	0.5/1.8
Shares O/S (mn)	649.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	5.0
Return vs. Listing Price (%)	25.5
Fiscal Year-End	December 31

Source: Bloomberg (as of February 07, 2024), *Qatar Exchange (as of February 07, 2024); Note: FO is foreign ownership

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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

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