

Meeza QSTP LLC (MEZA)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.118	Target Price	QR4.025
Implied Upside	29.1%		

Strong 4Q2024 Beat as Solutions Services Recover; Flattish QR0.08 DPS; Maintain Accumulate

Although we had downwardly revised our 4Q2024 earnings estimates, due to consecutive misses since the beginning of FY2024, the beat by MEZA in 4Q2024 was emphatic on both the top- and bottom-line. The 4Q2024 net profit jumped 29.8%/52.2% YoY/QoQ, while revenue rose 2.8%/43.4% YoY/QoQ. These better-than-expected results were driven primarily by decent sales growth in higher-margin segments YoY/QoQ plus sequential recovery in lumpy solutions services revenue. Solutions services had significantly disappointed in 9M2024 but the unit's revenue decreased less-than-expected by 5.5% YoY and spiked more-than-expected sequentially by almost nine-fold during 4Q2024. The strong final quarter of 2024 ensured that group full year earnings ended positive, marginally up by 0.4% erasing a decline seen in 9M2024. While revenue still ended FY2024 lower by 11.5%, primarily due to solutions services unit underperformance, sales growth in higher-margin segments (datacenter & managed services) more than offset this overall annual group revenue decline to produce a small FY2024 bottom-line growth. Despite considerable capex needs, the board proposed a decent QR0.08 DPS vs QR0.081 previously/expected, solidifying the investment thesis that is premised on above-average earnings growth for the foreseeable future. Meanwhile, Meeza has officially kicked started its highly-anticipated 12MW-IT-load datacenter (DC) expansion program; it announced the first phase last month, which entails the construction of 4MW. Currently, it has 14.4MW of IT load, and the planned intermediate 12MW expansion should take MEZA's DC capacity to 26.4MW of IT load in roughly the next 2.5 years. Meeza has longer-term plans to raise capacity to 50MW of IT load. This expansion is supported by robust global demand outstripping supply in primary and secondary markets, driven by hyperscalers expanding capacity to meet AI-driven needs, alongside a supportive domestic policy framework under the Digital Agenda 2030. Moreover, the continued improvement in margins and the recent deal (announced during 3Q2024) to lease remaining 1MW of datacenter capacity – raising utilization level to ~96% (effectively now at full capacity) from ~85% – should stem the decline in its lumpy solutions services business. We positively view the 4MW-DC expansion announcement as well as the solid 4Q/FY2024 results/dividend and improving margins. Consequently, we retain our Accumulate rating and QR4.025 PT.

Highlights

- Meeza's 4Q2024 NP climbed 29.8% and 52.2% YoY and QoQ to QR18.4mn, beating our QR13.1mn estimate. The NP was primarily driven by good top-line growth by DC & managed services units, complemented by a resurgence in the solutions services segment. GP margin improved YoY, printing at 29.1% from 27.6% in 4Q2023 but lower than 31.7% in 3Q2024. We had estimated a GP margin of 30.0%. The GP margin is benefitting from the shift in revenue composition in favor of higher-margin segments (i.e., DC and managed services, as solutions services declines.)
- Meeza's 4Q2024 revenue increased by 2.8% YoY and 43.4% QoQ to QR114.8mn compared with QR101.6mn forecasted. We estimate that DC revenue grew 8.9% YoY/7.0% QoQ (to QR38.1mn vs QR37.4mn expected), while managed services rose 10%/6.8% YoY/QoQ (to QR33.2mn vs. QR32mn expected). That is contrasted with solutions services, which fell by 5.5% YoY but spiked 791.7% QoQ to QR34.9mn vs. QR20.9mn expected. We estimate the smaller units – cloud services, workplaces services, master system integrator services – together fell by 7.6%/5.1% to QR8.8mn YoY/QoQ vs. QR11.2mn expected.
- We believe Meeza's DC unit will be the primary driver of both revenue and bottom-line growth for the foreseeable future as it expands its capacity. 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.

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 29.1% 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	FY2024	FY2025E	FY2026E	FY2027E	FY2028E
EPS (QR)	0.093	0.093	0.105	0.151	0.191	0.230
P/E (x)	33.60	33.49	29.80	20.61	16.32	13.57
EV/EBITDA (x)	16.74	16.72	13.71	10.80	8.90	7.46
DPS (QR)	0.08	0.08	0.10	0.14	0.18	0.22
DY (%)	2.6%	2.6%	3.2%	4.6%	5.8%	7.0%

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	QR3.118
Dividend Yield (%)	2.6
Bloomberg Ticker	MEZA QD
ADR/GDR Ticker	N/A
Reuters Ticker	MEZA.QA
ISIN	QA000PK2KD10
Sector*	Consumer Goods
52wk High/Low (QR)	3.844/2.576
3-m Average Vol.	312,252
Mkt. Cap. (\$ bn/QR bn)	0.6/2.0
EV (\$ bn/QR bn)	0.6/2.1
Shares O/S (mn)	649.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	6.4
1-Year Total Return (%)	19.5
Fiscal Year-End	December 31

Source: Bloomberg (as of February 04, 2025), *Qatar Exchange (as of February 04, 2025); Note: FO is foreign ownership

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Income Statement (QR'000)

GROUP	FY2023	FY2024	FY2025E	FY2026E	FY2027E	FY2028E
REVENUE	422,917	374,215	427,761	514,519	604,292	697,678
Data center	135,302	146,158*	163,255	224,703	290,145	360,914
Managed services	112,800	126,010*	131,714	140,941	149,406	156,885
Workplace services	15,016	14,332	12,714	12,714	12,714	13,201
Cloud services	16,853	15,462	30,272	38,210	46,318	53,832
Solution services	134,758	64,912	78,427	85,045	91,372	97,255
Master system integrator	8,188	7,340	11,380	12,907	14,336	15,590
GROSS PROFIT	114,720	118,251	127,283	159,650	191,757	225,593
EBITDA	123,474	123,188	155,045	205,745	259,032	329,198
OPERATING PROFIT	64,874	66,811	75,748	105,205	134,877	165,201
NET PROFIT	60,219	60,430	67,906	98,165	123,997	149,092

Source: Company data, QNBFS Research; *Estimates

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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