Meeza QSTP LLC (MEZA)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.560	Target Price	QR4.025
Implied Upside	13.1%		

Mixed 2Q2024 Results But Margin Strength and Growth Prospects Intact; Maintain Accumulate

Meeza's 2Q2024 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 are encouraged by the margin expansion, with all major lines (GP, EBITDA, EBIT, and NP) at their highest since the beginning of last year. Despite a strong YTD share price run (+24.1%), we maintain our Accumulate rating and QR4.025 PT, anticipating further upside upon clarity on expansion plans and customer acquisition.*** *Meeza's datacenter segment, guided to reach 50MW capacity by 2030 (from 14.4MW at end-FY2023), presents significant value potential. This 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).*

Highlights

- **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 (ie. Datacenter (DC) and manages 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%. Given the unexpected marked jump in margins we will try to get more color on the drivers and their sustainability. 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.
- **Meeza's 2Q2024 revenue declined by 25.7% YoY but rose 13.1% to QR95.2mn compared with QR103.4mn forecasted.** While the datacenter, managed services, workplaces services, and master system integrator services segments came closer to expectations, cloud and solution services units printed much lower than expectations.
- **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 1/2 years 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 FY2023/1Q2024 and is expected to jump to the 90s range once negotiation with an international client is 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)** 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 13.1% 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	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
EPS (QR)	0.09	0.10	0.13	0.18	0.22	0.28
P/E (x)	38.37	37.11	27.98	19.67	15.85	12.72
EV/EBITDA (x)	19.06	16.80	13.36	10.67	8.88	7.31
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	QR3.560
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)	3.844/2.220
3-m Average Vol. (mn)	0.7
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)* (%)	5.5
Return vs. Listing Price (%)	64.1
Fiscal Year-End	December 31

Source: Bloomberg (as of July 29, 2024), *Qatar Exchange (as of July 28, 2024); Note: FO is foreign ownership

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Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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