

Meeza QSTP LLC (MEZA)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR3.609	Target Price	QR3.262
Implied Upside	-9.6%	Old Target Price	QR3.116

1Q2024 Earnings Miss on Declining Revenue But Expanding Margins; Move To Market Perform

Meeza's 1Q2024 net profit grew 7.1% YoY but missed our estimates mainly due to a decline in revenue both YoY and sequentially. We had expected revenue to increase YoY but without accompanying financial footnotes provided in this latest set of results it is difficult to assess where the weakness emanated from among its six divisions. However, realized margins were better YoY/QoQ which ensured positive bottom-line growth. Reported margins were slightly stronger than modeled. The Meeza share price has had a strong run in recent weeks, up 25.8% YTD. Thus, we change our rating of the stock to Market Perform from Accumulate. However, we raise our TP to QR3.262/share after incorporating FY2023/4Q2023 results (which beat our estimates) as well as management's comments/guidance in our model. Net-net, model adjustments had a net positive effect on FCF – while we marginally trimmed margins, we have eased our capex intensity assumptions. Also, WACC has increased due to upward repricing of the risk-free rate by the market.

Highlights

- Meeza's NP rose 7.1% YoY but declined 17.9% QoQ to QR11.7mn, vs. 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%. It is likely the revenue mix changed in favor of higher margin segments such as datacentre, while a segment such as solutions services may have experienced a decline due to a high base, as guided by management. Solutions services unit is expected to taper of 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 think its datacenter (DC) 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 about half of Qatar's DC inventory, it is on track to expand its DCs further by ~80% over the next ~2 1/2 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 change our rating to Market Perform from Accumulate and increase our 12-month TP of QR3.262, implying 9.6% downside. While the company remains one of our favorites, the stock price is beginning to look a bit elevated after a strong run since the beginning of the year. 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	0.13	0.19	0.24
P/E (x)	38.90	37.26	27.02	19.06	15.02
EV/EBITDA (x)	19.32	16.35	12.39	9.50	8.13
DPS (QR)	0.08	0.08	0.12	0.17	0.21
DY (%)	2.2%	2.3%	3.2%	4.6%	5.8%

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	QR3.609
Dividend Yield (%)	2.2
Bloomberg Ticker	MEZA QD
ADR/GDR Ticker	N/A
Reuters Ticker	MEZA.QA
ISIN	QA000PK2KD10
Sector*	Consumer Goods
52wk High/Low (QR)	3.75/2.22
3-m Average Vol. (mn)	1.1
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 (%)	66.3
Fiscal Year-End	December 31

Source: Bloomberg (as of April 30, 2024), *Qatar Exchange (as of April 30, 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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