

## Meeza QSTP LLC (MEZA)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.099	Target Price	QR4.025
Implied Upside	29.9%		

### 4MW-DC Expansion Announced & QR135mn Murabaha Facility Signed; Maintain Accumulate

Meeza has officially kicked started its highly-anticipated 12MW-IT-load datacenter (DC) expansion program, by announcing the first phase, which entails the construction of 4MW. Meeza first published its short- to medium-term plans to add 12MW of capacity in its listing prospectus in 2023. Currently, it has 14.4MW of IT load, and the planned intermediate 12MW expansion should take its 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. While Meeza's 3Q/9M2024 set of results were below our estimates, mainly due to underperformance by its lumpy solutions services unit, we remain optimistic about Meeza's longer-term prospects, particularly its DC business. In the meantime, the continued improvement in margins and the recent deal to lease 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. This 1MW contract worth over QR100mn for ~12 years could contribute an additional QR8+mn per year, with most of that flowing directly to the bottom-line due to lower marginal costs. We believe investors will view this 4MW-DC expansion announcement positively as it forms an important first step in Meeza's LT expansion plans and validates our thesis on the stock. We retain our Accumulate rating and QR4.025 PT.

#### Highlights

- We believe Meeza's DC unit will be the primary driver of both revenue and bottom-line growth for the foreseeable future. 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 reach 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 its recent 1MW deal, it rises to 96% — historical data suggests this is the highest it has been, and further supporting the positive demand outlook.
- Meeza's balance sheet remains strong even after taking on a QR135mn Murabaha facility with Dukhan Bank to help fund this expansion. If we lever up its latest 9M2024 balance sheet, Meeza's net debt-to-equity ratio increases to ~24% from ~5%.
- 4Q2024 preview and medium-term forecasts: We expect Meeza's net profit to decline 7.7% YoY but rise 8.2% QoQ in 4Q2024 to QR13.1mn, while revenue should register a 12.7% decrease YoY and 21.8% increase QoQ. Meanwhile, we forecast FY2025E net profit to grow 23.2%, accelerating to 44.6% in FY2026E. We project revenue growth of 18.5% and 20.3% in FY2025E and FY2026E, respectively.
- 3Q2024 review: Meeza's 3Q2024 NP declined 25.7% and 33.5% YoY and QoQ to QR12.1mn, missing our QR16.4mn estimate. The NP was primarily weighed by a shortfall in the top-line even as the GP margin improved YoY, printing at 31.7% from 29.3% in 3Q2023 and 35.0% in 2Q2024. We had estimated a GP margin of 32.2%. The GP margin is benefitting from the shift in revenue composition in favor of higher-margin segments (DC and managed services), as low-margin solutions services declines. Meeza's 3Q2024 revenue declined by 10.5% YoY and 15.9% QoQ to QR80.1mn compared with QR97.5mn forecasted.

#### 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 29.9% 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 (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)	0.093	0.085	0.10	0.15	0.19	0.23
P/E (x)	33.40	36.50	29.62	20.49	16.22	13.49
EV/EBITDA (x)	16.64	16.33	13.63	10.74	8.85	7.42
DPS (QR)	0.08	0.08	0.10	0.14	0.18	0.22
DY (%)	2.6%	2.6%	3.2%	4.7%	5.9%	7.1%

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	QR3.099
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.	323,510
Mkt. Cap. (\$ bn/QR bn)	0.6/2.0
EV (\$ bn/QR bn)	0.6/2.0
Shares O/S (mn)	649.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	6.5
1-Year Total Return (%)	17.4
Fiscal Year-End	December 31

Source: Bloomberg (as of January 20, 2025), \*Qatar Exchange (as of January 20, 2025); Note: FO is foreign ownership

### Income Statement (QR'000)

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
<b>REVENUE</b>	<b>422,917</b>	<b>360,999</b>	<b>427,761</b>	<b>514,519</b>	<b>604,292</b>	<b>697,678</b>
GROSS PROFIT	114,720	115,241	127,283	159,650	191,757	225,593
EBITDA	123,474	122,094	155,045	205,745	259,032	329,198
OPERATING PROFIT	64,874	62,116	75,748	105,205	134,877	165,201
<b>NET PROFIT</b>	<b>60,219</b>	<b>55,106</b>	<b>67,906</b>	<b>98,165</b>	<b>123,997</b>	<b>149,092</b>

Source: Company data, QNBFS Research

### Balance Sheet (QR'000)

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
<b>Non-current asset</b>						
Property, Plant & Equipment	475,280	440,752	565,706	673,425	761,540	916,577
RoU Assets	143,231	132,214	121,198	110,181	99,164	88,148
Contract Assets	11,162	9,528	11,290	13,580	15,949	18,414
Other	4,447	4,447	4,447	4,447	4,447	4,447
<b>Total non-current assets</b>	<b>634,120</b>	<b>586,941</b>	<b>702,640</b>	<b>801,633</b>	<b>881,100</b>	<b>1,027,586</b>
<b>Current assets</b>						
Prepayments & other	18,754	18,754	18,754	18,754	18,754	18,754
Due from related parties	43,719	37,318	44,220	53,188	62,469	72,122
Contract assets	120,548	102,899	121,929	146,658	172,247	198,866
Trade & other receivables	122,978	104,973	124,387	149,615	175,719	202,874
Cash & bank balances	249,978	394,152	457,687	443,975	445,710	479,029
<b>Total Current assets</b>	<b>555,977</b>	<b>658,096</b>	<b>766,976</b>	<b>812,190</b>	<b>874,898</b>	<b>971,646</b>
<b>Total assets</b>	<b>1,190,097</b>	<b>1,245,037</b>	<b>1,469,616</b>	<b>1,613,823</b>	<b>1,755,998</b>	<b>1,999,231</b>
<b>EQUITY AND LIABILITIES</b>						
Share capital	648,980	648,980	648,980	648,980	648,980	648,980
Statutory reserve	14,537	20,047	26,838	36,654	49,054	63,963
Retained earnings	55,945	51,596	58,446	79,563	94,419	106,590
<b>Total equity</b>	<b>719,462</b>	<b>720,623</b>	<b>734,264</b>	<b>765,198</b>	<b>792,453</b>	<b>819,533</b>
<b>Non-current liability</b>						
Employees' end of service benefits	11,251	11,632	11,978	12,300	12,606	12,902
Contract liability	33,466	28,566	33,849	40,715	47,818	55,208
Lease	148,396	145,027	141,830	138,759	135,816	133,009
Borrowings	121,597	209,523	397,449	485,375	573,301	761,227
<b>Total non-current liability</b>	<b>314,710</b>	<b>394,747</b>	<b>585,106</b>	<b>677,148</b>	<b>769,542</b>	<b>962,346</b>
<b>Current liability</b>						
Contract liability	16,104	13,746	16,288	19,592	23,010	26,566
Lease	9,934	9,708	9,494	9,289	9,092	8,904
Borrowings	13,404	12,073	10,742	9,411	8,080	6,749
Due to related parties	6,193	6,193	6,193	6,193	6,193	6,193
Trade & other payables	110,290	87,946	107,528	126,993	147,628	168,939
<b>Total current liability</b>	<b>155,925</b>	<b>129,667</b>	<b>150,246</b>	<b>171,478</b>	<b>194,004</b>	<b>217,352</b>
<b>Total liabilities</b>	<b>470,635</b>	<b>524,414</b>	<b>735,352</b>	<b>848,626</b>	<b>963,545</b>	<b>1,179,698</b>
<b>Total equity and liabilities</b>	<b>1,190,097</b>	<b>1,245,037</b>	<b>1,469,616</b>	<b>1,613,823</b>	<b>1,755,998</b>	<b>1,999,231</b>

Source: Company data, QNBFS Research

### Cash Flow Statement (QR'000)

GROUP	FY2023	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
<b>Cash Flow from Operating Activities</b>	<b>96,211</b>	<b>127,160</b>	<b>120,498</b>	<b>154,645</b>	<b>203,204</b>	<b>265,817</b>
<b>Cash Flow from Investing Activities</b>	<b>(1,389)</b>	<b>(5,089)</b>	<b>(179,439)</b>	<b>(178,936)</b>	<b>(183,494)</b>	<b>(290,189)</b>
<b>Cash Flow from Financing Activities</b>	<b>(48,249)</b>	<b>22,103</b>	<b>122,476</b>	<b>10,579</b>	<b>(17,976)</b>	<b>57,692</b>
Change in Cash	46,573	144,174	63,535	(13,712)	1,735	33,319
Cash Beginning of Period	203,405	249,978	394,152	457,687	443,975	445,710
<b>Cash End of Period</b>	<b>249,978</b>	<b>394,152</b>	<b>457,687</b>	<b>443,975</b>	<b>445,710</b>	<b>479,029</b>

Source: Company data, QNBFS Research

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

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