Meeza QSTP LLC (MEZA)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.165	Target Price	QR4.025
Implied Upside	27.2%		

3Q2024 Miss As Solutions Services Drag, DC Offers Long-Term Upside; Maintain Accumulate

Meeza reported a steep 25.7% YoY and 33.5% QoQ decline in 3Q2024 net profit, underperforming expectations, driven largely by a 10.5% YoY and 15.9% QoQ drop in revenue. *As anticipated, the solutions services unit was the main source of weakness, but the extent of the decline was far more severe than forecast. We estimate the decline to have been ~79% YoY to ~QR4mn vs. a decrease of 5.7% to QR18mn that we had penciled in — a difference of ~78%. Comparatively, our revenue estimates for Meeza's annuity-driven, higher-margin businesses — datacenter (DC) and managed services — deviated moderately, with a 6.3% and 3.2% miss, respectively.* ***While this set of results is disappointing, we remain optimistic about Meeza's long-term prospects, particularly its datacenter business.*** *Meeza has immediate plans to add 12MW of capacity to its 14.4MW over the next 2-3years, plus longer-term plans to raise capacity to 50MW. This expansion is supported by robust global demand outstripping supply in primary and secondary markets, driven by hypescalers expanding capacity to meet AI-driven needs, alongside a supportive domestic policy framework under the Digital Agenda 2030.* ***In the meantime, the continued improvement in margins and the recent deal to lease 1MW of datacenter capacity – raising utilization to ~96% from ~85% – should stem the decline in its lumpy solutions services business.*** *We plan to update our forecasts after the conference call and there are specifically two primary pieces of information we are looking for:* ***(1)*** *further clarity on solution services activity levels; and* ***(2)*** *more details on the recently leased 1MW of DC capacity for more that QR100mn over ~12 years.* ***We expect to revise down our solutions services' 4Q/FY2024 estimates, but this should be somewhat offset by increased contributions from the newly leased 1MW DC capacity.*** *This 1MW could contribute an additional QR8+mn per year, with most of that flowing directly to the bottom line due to lower marginal costs.* ***Notwithstanding the 3Q2024 miss, we retain our Accumulate rating and QR4.025 PT.***

Highlights

- **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 solutions services declines. However, the NP margin shrank due to the operating leverage effect, coming in at 15.1% from 18.2% in 3Q2023 and 19.1% in 2Q2024, compared with an estimate of 16.8%.
- **Meeza's 3Q2024 revenue declined by 10.5% YoY and 15.9% QoQ to QR80.1mn compared with QR97.5mn forecasted.** Based on management's short commentary accompanying the results, we estimate that DC and managed services grew 7.5% (to QR35.6mn vs QR38.0mn expected) and 20.3% (to QR31.0mn vs. QR32mn expected) YoY, contrasted with solutions services, which fell by 79.5% YoY from QR19.1mn to QR3.9mn vs. QR18.0mn expected. No individual details were provided for the smaller units – cloud services, workplaces services, master system integrator services – but we estimate that together they grew revenue by 68.7% to QR9.6mn YoY in-line with QR9.5mn expected.
- **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 this 1MW deal, it rises 96% — historical data suggests this is the highest it has been, and further supporting the positive demand outlook.**

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 27.2% 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)	0.09	0.09	0.12	0.18	0.22	0.27
P/E (x)	34.11	34.18	25.92	18.05	14.48	11.58
EV/EBITDA (x)	16.99	15.24	12.23	9.77	8.16	6.75
DPS (QR)	0.08	0.08	0.11	0.15	0.19	0.24
DY (%)	2.6%	2.6%	3.4%	4.8%	6.0%	7.5%

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	QR3.165
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)	3.844/2.263
3-m Average Vol.	520,135
Mkt. Cap. ($ bn/QR bn)	0.6/2.1
EV ($ bn/QR bn)	0.6/2.1
Shares O/S (mn)	649.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	5.9
1-Year Total Return (%)	30.2
Fiscal Year-End	December 31

Source: Bloomberg (as of October 22, 2024), *Qatar Exchange (as of October 21, 2024); Note: FO is foreign ownership

Phibion Makuwerere, CFA
+974 4476 6589
phibion.makuwerere@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*		**Risk Ratings** *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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

Contacts

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
Doha, Qatar

Saugata Sarkar, CFA, CAIA
Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa