NetRoadshow Event Transcript

Transcript Only - Meeza H1 2026 Results Call

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Omar Maher (Moderator)

Good morning and good afternoon, everyone. This is Omar Maher from EFG Hermes. I'd like to welcome everyone to MEEZA's 1H 2026 Results Conference Call. I'm pleased to be joined by Mr. Mohamed Alghaithani, Chief Executive Officer of MEEZA; and Mr. James Corby, Chief Financial Officer. As usual, the call will begin with a discussion of the key highlights of the period, and this will be followed by the Q&A session. And I will now hand the call over to Yaman Al Jundi, Investor Relations Director for the safe harbor statement. Thank you.

Yaman Al Jundi (Director – Investor Relations)

Thank you, Omar, and thank you all for joining us. A couple of items before we begin. The investor presentation is also available on the Investor Relations section of our website. And I call your attention to the disclaimer on Slide 2, which is an important part of this presentation regarding any information provided and any forward-looking statements made. I'll now hand over to our CEO, Mr. Mohamed Alghaithani.

Mohamed Alghaithani (Chief Executive Officer)

Good afternoon, everybody, and thank you very much for joining us for MEEZA H1 results. We'll give you highlights about the first half of this year. We'll talk first about the growth drivers, then the financial results, and we'll end up by operational highlights. Completed and hand over and start the MV4 expansion project. It was in June. It was a very successful project, although it was a really difficult project because MV4 expansion, 4 megawatt was part of the original MV4 site, and we have to do many integrations in all systems.

It was done successfully with the help of our client and our test and commissioning consultants. Moving to the second site, which is MV6, the 24 megawatt. We have -- we are almost completing the foundations and ground floor works. We start also preparing for the columns and next phase of the construction, expected to finish by the next year, end of the year, Q4. All are good, and we are in a good progress.

For MV7, we have completed the Stage 4 design, and we are tendering now, and we are in the last -- we have completed -- we are in the technical evaluation, and we expect by next month, we will be awarded the project and start the 16-megawatt project. MV8 is on track, expected to complete by Q4. We are on track. There is no issues despite the geopolitics issue. All of the projects have no issue in the supply chain or the construction itself. Moving to financial results. This year is a very good year.

As mentioned before, there was -- despite the geopolitics issue, we have 15% increase in year-on-year revenue growth, achieving to QAR 217.3 million, 9 points in year-on-year EBITDA growth, achieving QAR 62.7 million and net profit contributed to MEEZA increased by 5%. Year-to-date, the CapEx, we have spent around QAR 171 million. And our DC pipeline is continued to grow. Operational highlights, we have secured [indiscernible] (04:16) from the Dukhan Bank. This takes us to QAR 2.7 billion to secure our project funding.

The net pipeline, we have a healthy pipeline around QAR 1.2 billion. This includes many service and solution businesses. The current backlog around QAR 3 billion, including long-term DC clients and including Black Arrow. Next slide, Yaman. So this is a highlight for our data centers. So we are continue growing. We have -- by end of this year, we'll achieve 22 megawatts. So already we are 18 megawatts live and we'll keep continue and adding more capacity in the coming three years, achieving 62 megawatts, which is more than 3x the last capacity.

As mentioned before, this is the pictures from the site. MV6 in your left-hand side, most of the ground floor have completed and we start putting the columns to prepare for ground floor construction, then we'll move to the first floor. In the middle is the restoration for the MV7, which will have 16 megawatts state-of-the-art. And in your right-hand side, the MV8, which is a 4 megawatt, and we expect the delivery and commissioning by Q4 this year. Next slide. I'll hand over the financial results to Mr. James Corby, the CFO.

James Corby (Chief Financial Officer)

Great. Thank you very much, Mohamed. Good afternoon, everyone. So starting with Slide 7, looking at the consolidated results for H1 this year versus 2025. As Mohamed said, despite the conflict, consolidated revenues grew 15.2%, reaching QAR 217.3 million with top line growth in the key segments of Managed Services and Data Center Services, also aided by the contribution from Black Arrow. This is the last period where data center revenue is not going to increase significantly due to capacity expansion.

As you know, the 4 megawatts for MV4 extension came online at the back end of June. So that will impact Q3 significantly. Net profit attributable to MEEZA grew 5.1% to QAR 30.1 million from revenue growth and EBITDA flow-through. Moving to Slide 8, stand-alone financial results for MEEZA. So excluding Black Arrow, growth in data center and managed services and cloud services was offset by lower solutions performance due to market pressure. This led to a 4.5% decline in revenue.

Stand-alone net profit declined 5.2% year-on-year, further impacted by lower net financing income with lower interest rates and lower cash on hand as we're now funding 10% of the data center expansion from our own cash balance. Moving to Slide 9. Looking at the Q2 results for FY '26 versus Q2 2025. Q2 revenues increased by 9.5% year-on-year due to organic growth and the impact of the Black Arrow contribution. As a result, EBITDA and net profit increased by 14.4% and 5%, respectively.

Moving to Slide 10. Q2 versus Q1. Comparing Q2 to Q1, consolidated revenues increased by 7.5% due to the improving market environment and Ramadan being in Q1. As a result, EBITDA and net profit increased by 25% and 18%, respectively. Slide 11. This is the gross margin by segment that we always present. Gross profit improved by 22% to QAR 67.6 million in the first half. The consolidated gross margins improved by 1.8 percentage points to 31.1% due to the increased contribution from Managed Services and Black Arrow.

This was partially offset by lower data center gross margin due to hyperscaler fit-outs at the MV4 extension, which are much lower than the normal data center colocation margins. Excluding one-offs, the underlying data center margin was 37.1%. Slide 12, showing the profitability margins quarterly, pleasing movement, both EBITDA and net profit margins rose in the quarter due to growth in recurring revenue streams.

Moving to Slide 13, the CapEx. As Mohamed alluded to, there's been a significant CapEx ramp-up during the first six months for data center expansion with CapEx for H1 reaching QAR 171.5 million. Annualized return on capital employed is lower due to the increase in financing ahead of data center activation.

Slide 14, cash flow and the financial position. Working capital and cash from operations has been impacted by the conflict with a slowdown in collections. Net debt position closed at QAR 170 million with QAR 140 million cash and QAR 309 million in financing. QAR 55 million in dividends were distributed in FY '26 on FY '25 results. We'll now move to the Q&A section.

Omar Maher (Moderator)

We'll take the first question from Phani Kanumuri.

Phani Kanumuri (Analyst)

The first one is regarding Black Arrow margins. It seems to be at 38%. I mean, it seems to be higher than usual. Is this the run rate that you can expect in terms of Black Arrow margins? I mean, I'll ask other questions, too. So what is the CapEx outlook for this year? And the third one is on solutions. Like it has been a bit weak. How do we expect 2H to evolve from solutions perspective?

James Corby (Chief Financial Officer)

Phani, thanks for the question. So yes, the Black Arrow margin.

Mohamed Alghaithani (Chief Executive Officer)

I'll answer the last question about the solutions. Solutions is affected by the geopolitical situation. It's not affecting only Qatar, but the whole -- I think the whole world was affected by this geopolitics. We expect after de-escalation of the situation in the region, we will -- we have a good healthy pipeline and we are competing in many solutions projects. James, you can take the other two questions.

James Corby (Chief Financial Officer)

Thanks, Mohamed. Yes. In terms of the Black Arrow gross margin, we're expecting it to be a similar amount, really between 35% and 40% over the next few quarters. In relation to our CapEx forecast, obviously, it's going to ramp up more as MV6 gets more built or the percentage completion increases. It's really a dependency on MV7. As Mohamed said, we're expecting to award the GC of that building in August. So I can't give you a definitive figure at this stage, but I'd expect it to be over QAR 400 million.

Phani Kanumuri (Analyst)

Okay. Maybe one quick follow-up. So in the light of the geopolitical tensions, like your working capital has come down. Do you expect that to improve over 2H? Or do you think the situation needs to stabilize for the working capital to stabilize?

Mohamed Alghaithani (Chief Executive Officer)

I will take that question. The situation has improved really significantly in the last few weeks. We start improvement in the market, and we expect this to continue. It's really -- we can't say a definitively question it will be improved or it will be, but we are in a good position.

Omar Maher (Moderator)

Next question is from Yong Wei Lee. Young, could you try again, please? Perhaps we could move to the next one, you fix your microphone. Next one is from Sid Bachir.

Yong Wei Lee (Analyst)

I just have -- my question is really pertaining to the conflicts in the region. We've seen some data centers being hit in some of the neighboring countries. I'm just wondering how is that affecting the take-up of some of the capacities you've got coming up in the future like the rest of the MV5, MV6. Are those being put out now to be secured for clients to take up the capacity? And of course, the second question is should some of those situations that happen to other data centers come over to Qatar, what sort of measures are there? And is the insurance that will cover such situations, for example?

Mohamed Alghaithani (Chief Executive Officer)

Well, it's really difficult to answer your question because nobody knows what is going to happen. However, we've been approached by the government as well as all other entities here in Qatar. First of all, the safety of people is the priority #1. And then second is all the critical assets for the government being secured and we've been approached. We've been giving feedback. The situation here in Qatar is much better than the other regions. Hopefully, the escalation will end and that the situation will come to an end. I hope I answered your question because there is no straight answer for that.

Yong Wei Lee (Analyst)

Yes, I'm sorry to put it this...

Mohamed Alghaithani (Chief Executive Officer)

We are very optimistic. Qatar is -- the government of Qatar is doing a very great job. And I would say that we are in a safe position.

Yong Wei Lee (Analyst)

But does insurance cover such situations or is it...

Mohamed Alghaithani (Chief Executive Officer)

I don't think there is any insurance company will insure against war acts. So let's hope for the best, and we pray for each other.

Yong Wei Lee (Analyst)

And what about clients securing the capacity that you've got coming online? How much of that has been secured?

James Corby (Chief Financial Officer)

Yes. So yes, we've had a similar question or questions over the last few months for sure. I think there's been no change in our customer sentiment for signing the capacity that we're building. So as we said, 6 megawatts of the MV6 building has already been sold, and we're in the final stages of selling a further 8 megawatts at that data center. MV7, we're very close as well to signing the contract for the initial 8 megawatts of that data center, and we've already sold 1.6 megawatts of MV8. So there's been no change in sentiment from our customer base in relation to taking on capacity that we're building.

Mohamed Alghaithani (Chief Executive Officer)

And just to add that we are in contact with many other clients. It's still not mature. It's still talks, but we see there is a big interest in the capacity and the future expansion that means we plan to do.

Yong Wei Lee (Analyst)

Sorry, just on a follow-up question. Does that -- what's happening in the region, does it change how data centers will be designed going forward? Is there anything that can be done to make them more secure?

Mohamed Alghaithani (Chief Executive Officer)

It's secured, but I don't know what you exactly mean by more secured. I couldn't hear your question.

Yong Wei Lee (Analyst)

No, no. I mean the design phase, is there any -- which can make this less prone to damage if hit. I mean I know this is just really hypothetical question. I'm just -- I mean, what's happened recently is just a bit unprecedented, and it's catching a lot of us by surprise.

Mohamed Alghaithani (Chief Executive Officer)

Okay. Well, the design is the most secure standards like earthquakes or floods or the stuff can handle stuff. But other than this, beyond our control, we can't comment on that.

Omar Maher (Moderator)

I think we can go back to Sid Bachir now.

Sid Bachir (Analyst)

Am I audible?

Mohamed Alghaithani (Chief Executive Officer)

Yes.

Sid Bachir (Analyst)

I have one question regarding the data center gross margin. So year-on-year, the gross margin was down 640 bps. I just want to know if this was caused by the low margin fit-out. And are you expecting the gross margin to return to the 40% now that MV4 is online?

James Corby (Chief Financial Officer)

Yes. So I communicated in the call that the underlying gross margin, excluding fit-outs and other one-offs was 37.1%. Our guidance on gross margin for data centers has always been 35% to 40%. The newer builds that we have, the cost per megawatt, the CapEx cost per megawatt, we've brought down. So yes, we do expect gross margins on the data center space to be above 35% in the coming periods.

Omar Maher (Moderator)

Next one is from Phibion Makuwerere.

Phibion Makuwerere (Analyst)

I hope you can hear me. Congratulations on the good results. I've got one or two questions to ask. So the first one is around the CapEx. Just wondering whether you have got the sort of an indication of how much you used per megawatt for the 4 megawatts that have just come online, what you actually realized eventually? That's one. And then the other one is on capacity. What was the capacity achieved this quarter? And the new capacity that has just come online, is it already running at full capacity or you expect it to gradually ramp up to maximum capacity?

Mohamed Alghaithani (Chief Executive Officer)

For the new capacity, it's already sold out. So revenue will start. Full utilization, 100% or the full MV4 8 megawatts.

James Corby (Chief Financial Officer)

The first question in relation to the CapEx per megawatt of MV4 extension, approximately between $13 million and $13.5 million per megawatt.

Omar Maher (Moderator)

Next question is from Mohammed Al-Qahtani.

Mohammed Al-Qahtani (Analyst)

This is Mohammed Al-Qahtani. I have a question, an extension to Young's question. On the insurance front, have you, like, noticed anything when it comes to prices? And if so, what's the delta there?

James Corby (Chief Financial Officer)

I can take this one. So we have contacted our insurance broker in relation to cover for war. But the cost of insurance is extremely high and the limits are low. So it doesn't make financial sense at this stage.

Mohammed Al-Qahtani (Analyst)

Yes, that's clear. What about like regular normal -- your normal insurance policy for data centers? Has anything changed on that front because of the geopolitical situation?

James Corby (Chief Financial Officer)

No. We've actually done a pretty good job in terms of with our brokers to actually bring the insurance cost down year-on-year. So obviously, our insurance cost is going up because our asset base is increasing. But per megawatt, our insurance cost is actually coming down a little bit.

Mohammed Al-Qahtani (Analyst)

So policies in general haven't increased due to the geopolitical situation.

James Corby (Chief Financial Officer)

No. Obviously, our renewal period is January to December. So it will be interesting to see what prices we get towards the end of this year for next year. I expect there will be some cost increases. But I don't think anything that's going to materially impact our data center margin.

Omar Maher (Moderator)

Next question is from Rian Durham.

Rian Durham (Analyst)

Congrats on a great first half. My question is regarding the dividend. How should we be thinking about the dividend from here? Is sort of the current level sustainable through the sort of MV6, 7, 8 build-out? Or should we expect sort of the dividend to be scaled back? And then my second question is on sort of the receivables level. Should we expect that to sort of normalize before the end of the year?

James Corby (Chief Financial Officer)

So yes, the dividend assumptions in our long-range plan is about a 70% payout, and that's still achievable with our CapEx and data center expansion. So yes, in our models, we've got a 70% payout. As you know, Qatar is a dividend-centric market, and the Board will always look to pay a dividend where possible. And what was your second question, sorry?

Rian Durham (Analyst)

It was regarding the sort of levels of receivables. Should we expect that to sort of come down by the end of the year?

James Corby (Chief Financial Officer)

Yes. So as Mohamed said, things are improving definitely over the last few weeks. We've received quite a substantial amount of collections. We've actually also implemented a new order to cash system into our IT environment, which is significantly helping things as well. So Yes. We expect it to get back to probably around 120 million for MEEZA alone by the end of the year.

Omar Maher (Moderator)

Next question is from Alawi Amiri.

Alowi Alimirah (Analyst)

I have a couple of questions. So the first one, you mentioned more than once that this positive result is despite the conflict. So what is the estimate in terms of if this conflict wasn't there, the growth for the first half?

James Corby (Chief Financial Officer)

Good question. The main impact for the conflict for MEEZA and Black Arrow, Black Arrow, first of all. So Black Arrow were unable to access some sites due to the conflict. Some of their customers Qatar Armed Forces, the airport, et cetera. So during the early stages of the conflict, they were unable to access sites, which has slowed down their solutions onetime revenue.

And then for MEEZA, the overall economic situation during that period for the six weeks, things obviously slowed down, decisions obviously weren't being made during that period of time. So -- but that, again, as you can see from the results, impacted our solutions line. So I would say the conflict probably decreased our revenue by between QAR 10 million and QAR 20 million in H1.

Alowi Alimirah (Analyst)

And then in terms of maybe questions in terms of -- due to this conflict, are you seeing more opportunities or less opportunities that may emerge post hopefully soon cease fires and conflict being resolved?

Mohamed Alghaithani (Chief Executive Officer)

I couldn't hear you.

Alowi Alimirah (Analyst)

So my question is that post this conflict, once it's resolved, hopefully soon, are you seeing more potential more demand post this conflict from government-related entities, et cetera? Because we're hearing in terms of more diversified economy, more compute, et cetera, that may result in higher demand for you?

Mohamed Alghaithani (Chief Executive Officer)

Our pipeline -- there are many discussions. There are many potential projects, especially for data centers from clients within Qatar and from outside Qatar. So it's just been slowed down because of the geopolitics, but there is still discussion. We are in discussion with one client is a quite big site, but it's still -- it's not mature. Still we are talking about technical things slow down a little bit. But we think post this conflict, I think there is potential for growth.

Omar Maher (Moderator)

Next question is from Ahmed Kamel.

Ahmed Kamel (Analyst)

We understand that Qai and Brookfield joint venture now is like will start or already started building their own data center. Is there still potential for MEEZA to do business with Qai? Does this anyhow impact your expansion plans?

Mohamed Alghaithani (Chief Executive Officer)

We are in talk with Qai for one of their projects, it's not the major one. They are planning to build their own data center, specifically for AI and their intention is to grab more business FDI is here in Qatar with the help of Brookfield. Their strategy is quite different from MEEZA, but there are some collaboration and some projects.

Ahmed Kamel (Analyst)

How much of the business of Qai when it comes to data center you are targeting?

Mohamed Alghaithani (Chief Executive Officer)

As I told you, they have different strategy. Their data center strategy is totally different than MEEZA. Their client segment is totally different than MEEZA. To be honest, I don't know what's the numbers that they plan to do at this stage.

Omar Maher (Moderator)

Next, we have a question from [Rami Kumar] says, looking past the current investment cycle and DC build-out, what is the minimum revenue and EBITDA that MEEZA envisions at the end of the investment cycle in 2029, 2030?

James Corby (Chief Financial Officer)

Could you repeat the question?

Omar Maher (Moderator)

It says looking past the current investment cycle and DC build-out, what is the minimum revenue and EBITDA that MEEZA envisions at the end of the investment cycle in 2029, 2030?

James Corby (Chief Financial Officer)

Yes. I mean we've communicated this previously as well. I mean our target is to get our revenue over QAR 1 billion and have a net profit margin of in excess of 20%. I know that doesn't answer the EBITDA margin question, but yes, it's -- we're typically looking at net profit at this stage.

Omar Maher (Moderator)

Thank you, James. And next one is anonymous. It says, why is data center performance -- why the data center performance in 2Q was lower year-on-year?

James Corby (Chief Financial Officer)

Again, it's a good question. In Q2 last year, we had a one-off revenue adjustment, and that obviously didn't repeat because it was a one-off. But as I said on the call, this is going to be the last period for the next three years where you're not going to see a significant increase in data center revenue period-to-period.

Omar Maher (Moderator)

Thank you. Next one is from Ankit Bansal. It says, given the ambitious capacity expansion plans and the resulting requirement for debt financing, what are your expectations for cost of financing going forward? And how much do you pay currently?

James Corby (Chief Financial Officer)

You can see the rates that we're paying in our financial statements for the financing that we have. Our financing is very well priced. If not a QMRL, it's below that. So yes, our financing is very well priced.

Omar Maher (Moderator)

Next question is, what could be the M4 site revenues likely to 3Q 2026, I guess, asking about the potential revenue base for the MV4 in the third quarter.

James Corby (Chief Financial Officer)

It depends on the -- obviously, the ramp-up of the hyperscaler using the electricity of the facility, but it could be somewhere around QAR 8 million upside.

Omar Maher (Moderator)

And next, there is a question from Wei Chao.

Wei Chao (Analyst)

Just a question in terms of your client mix in your data centers, how much of it is currently with the hyperscalers and how much of it is with local entities? And will this mix change in your future expansion?

James Corby (Chief Financial Officer)

Again, a good question. Approximately 55% to 60%, probably close to 60% is now hyperscaler. And as we build out, as Mohamed was alluding to in the pictures that you saw, MV6 is a hyperscaler facility, so is MV7. MV6 is a 24-megawatt building, MV7 is a 16-megawatt building. And then MV8 is a 4-megawatt building, and that is non-hyperscaler. So as our capacity rolls out, the contribution from hyperscaler will increase. But currently, between 55% and 60%.

Wei Chao (Analyst)

And is this coming from the same hyperscaler? Or is it different hyperscalers? Like what is the concentration like?

James Corby (Chief Financial Officer)

It's primarily from one, but we have between -- yes, I mean, I think we have four hyperscalers at the moment.

Omar Maher (Moderator)

Next one is a question from [Ahmed].

Unknown Speaker (Analyst)

Just a quick one on the 2028 on Slide 5, I believe. It seems that you guys have locked in some free capacity, but shifted a little bit to 2029. Can you confirm my read-through on that and maybe give us a little bit of background on that side of the equation on the ramp-up?

James Corby (Chief Financial Officer)

Yes. Yes. That is in relation to MV4, I think it's just a slight movement of one quarter of the capacity, but we are bringing on the capacity slightly later, I think 1Q later, but more capacity coming online from day one. So the reason behind that is we're building more capacity to come online. It's just one shift in a quarter.

Omar Maher (Moderator)

Reminder in case anyone has any questions before we wrap up.

Mohamed Alghaithani (Chief Executive Officer)

Any more questions?

Omar Maher (Moderator)

No more questions in the queue. Mohamed, if you would like to make any concluding remarks.

Mohamed Alghaithani (Chief Executive Officer)

Yes, of course. First of all, I would like to thank you all for trusting MEEZA, and I see a big number of attendees for this call. We have a very good half of this year, and we expect to increase -- keep continuing our growth in the coming years. We will be more than happy for any investor who have to call us for more questions, we'll be more than happy to answer your questions.

Omar Maher (Moderator)

Thank you, Mohamed. Thank you, James, and Yaman and thank you, everyone, for your participation. This concludes the call, and have a good rest of the day. Thank you.