Results Note
16 March 2022

Metrofile Holdings Ltd

Tough Period but Digital is Growing

Share Code: MFL – Market Cap: R1.5bn – PE: 10.5x – DY: 4.5%

12m Target Price	472cps
Share Price	335cps
Implied Return	41%

Business Support | South Africa

H1:22 Results: Tough Period

- Metrofile's H1:22 period saw domestic riots & elections, the implementation of the POPIA, Kenyan regulatory pressures, COVID lockdowns & supply chains disruptions.
- The Group's revenue rose +4% y/y (driven by the Middle East and Digital Services), though margin pressure lowered Operating Profit -2% y/y.
- Strong cash generation allowed the Group to degear further (*despite* acquiring IronTree during this period) & the combination of lower finance charges & a lower effective tax rate (attributable to the Middle East) saw HEPS grow +1% y/y.
- Implementing a new dividend policy, management has hiked the interim dividend by +29% y/y.

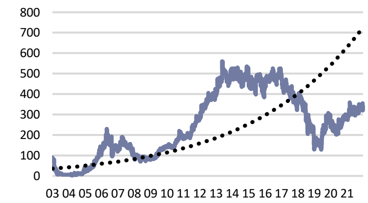
Our Thoughts: H2:22 Recovery + Digital is Growing

- Many of the headwinds in H1:22 should abate during H2:22E, thus we expect some upside in the coming full FY 22E results.
- Already in Q2 management saw box volumes in South Africa recovering while H2:22E should also see a full six month's consolidation from IronTree (it was only consolidated for a *single* month in H1:22).
- Perhaps not obvious at first glance, but Digital Services now contributes 20% of the Group's revenues. We are extremely bullish on developments in this space and expect Digital Services to be a growing vector in future results.

Forecast, Valuation and Implied Return: Margin of Safety

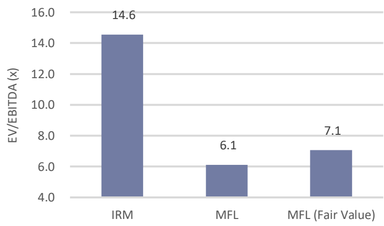
- We see Metrofile's fair value as 405cps (previously: 428cps), or c.20% higher than its current share price.
- Importantly, our fair value of 405cps for Metrofile implies an EV/EBITDA of 7.1x & a PE of 12.7x, which compares attractively to Iron Mountain's EV/EBITDA of 14.6x & PE of 31.1x.
- In fact, when compared to Iron Mountain, Metrofile has the same-or-better returns & significantly less gearing.
- Rolling the 405cps fair value forward, we arrive at a 12m TP of 472cps (previously: 497cps). This implies an attractive +41% return (including dividends) from these levels.

Share Price – Metrofile Holdings Ltd



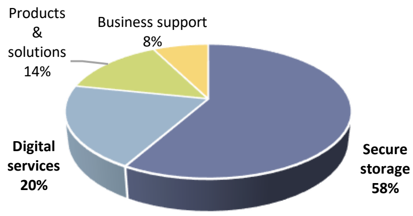
Sources: I-Net Bridge, Blue Gem Research

EV/EBITDA Comparison – IRM vs MFL



Sources: Refinitiv, Blue Gem Research

Group Revenue Split – Types of Business



Sources: Various, Blue Gem Research estimates

Key Forecast (R m)	FY 20A	YoY %	FY 21A	YoY %	H1:22A	FY 22E	YoY %	FY 23E	YoY %	FY 24E	YoY %
Revenue	903	*-1%*	933	*3%*	474	998	*7%*	1,068	*7%*	1,147	*7%*
EBITDA	302	*11%*	323	*7%*	157	329	*2%*	363	*10%*	403	*11%*
HEPS (cps)	**24.8cps**	***25%***	**31.9cps**	***29%***	**14.9cps**	**32.1cps**	***1%***	**35.3cps**	***10%***	**41.3cps**	***17%***
Return on Equity (%)	***-3.0%***	-	***24.8%***	-	***24.6%***	***22.8%***	-	***23.1%***	-	***24.8%***	-
Price Earnings (x)	13.5x	-	10.5x	-	10.5x	10.4x	-	9.5x	-	8.1x	-
DPS (cps)	13.0cps	*30%*	15.0cps	*15%*	9.0cps	20.0cps	*34%*	23.5cps	*17%*	27.5cps	*17%*
Dividend Yield (%)	***3.9%***	-	***4.5%***	-	***5.1%***	***6.0%***	-	***7.0%***	-	***8.2%***	-

Sources: Profile Media, Refinitiv, Metrofile Holdings, & Blue Gem Research workings and assumptions

Key Forecast (R m)	FY 20A	YoY %	FY 21A	YoY %	H1:22A	FY 22E	YoY %	FY 23E	YoY %	FY 24E	YoY %
Revenue	**903**	*-1%*	**933**	*3%*	**474**	**998**	*7%*	**1,068**	*7%*	**1,147**	*7%*
MRM South Africa	543	*-2%*	549	*1%*	265	545	*-1%*	567	*4%*	595	*5%*
MRM Rest of Africa	106	*1%*	100	*-6%*	45	92	*-8%*	98	*7%*	106	*8%*
MRM Middle East	55	*31%*	77	*42%*	47	81	*4%*	89	*10%*	98	*11%*
Products & Services (excluding IronTree)*	200	*-5%*	207	*4%*	113	212	*3%*	223	*5%*	234	*5%*
IronTree (consolidated)*	-	*0%*	-	*0%*	5	34	*>100%*	75	*120%*	95	*26%*
EBITDA	**302**	***11%***	**323**	***7%***	**157**	**329**	***2%***	**363**	***10%***	**403**	***11%***
EBITDA Margin (%)	*33.4%*	-	*34.6%*	-	*33.2%*	*33.0%*	-	*34.0%*	-	*35.1%*	-
Operating Profit	217	*-3%*	241	*11%*	112	239	*-1%*	268	*12%*	295	*10%*
Net finance charges	-65	*-6%*	-49	*-24%*	-23	-41	*-18%*	-41	*0%*	-41	*0%*
Net Profit (Parents)	**-15**	*-296%*	**138**	*>100%*	**65**	**139**	*1%*	**153**	*10%*	**179**	*17%*
Weighted Ave. Number of Shares (millions)	*431.2*	*3%*	*433.7*	*1%*	*433.7*	*433.7*	*0%*	*433.7*	*0%*	*433.7*	*0%*
EPS (Continuing Ops. - cps)	**-3.4**	*-138%*	**31.9**	*>100%*	**14.9**	**32.1**	*1%*	**35.3**	*10%*	**41.3**	*17%*
HEPS (cps)	**24.8cps**	*25%*	**31.9cps**	*29%*	**14.9cps**	**32.1cps**	*1%*	**35.3cps**	*10%*	**41.3cps**	*17%*
Price Earnings Ratio (x)	*13.5x*	-	*10.5x*	-	*10.5x*	*10.4x*	-	*9.5x*	-	*8.1x*	-
Dividend Per Share (cps)	**13cps**	***30%***	**15cps**	***15%***	**9cps**	**20cps**	***34%***	**24cps**	***17%***	**28cps**	***17%***
Dividend Yield (%)	***3.9%***	-	***4.5%***	-	***5.1%***	***6.0%***	-	***7.0%***	-	***8.2%***	-
*Dividend Cover (x)***	*1.9x*	-	*2.1x*	-	*1.7x*	*1.6x*	-	*1.5x*	-	*1.5x*	-
Property, Plant & Equipment	598	*3%*	595	*0%*	610	512	*-14%*	424	*-17%*	330	*-22%*
Goodwill	317	*-28%*	314	*-1%*	382	331	*5%*	331	*0%*	349	*5%*
Intangible Assets	50	*-12%*	44	*-13%*	40	71	*62%*	64	*-10%*	86	*33%*
Total Assets	1,378	*0%*	1,353	*-2%*	1,477	1,467	*8%*	1,532	*4%*	1,600	*4%*
Shareholder's Equity (Parent)	499	*-12%*	559	*12%*	525	611	*9%*	662	*8%*	722	*9%*
NAV per share (cps)	110cps	*-17%*	Cps	*17%*	121cps	141cps	*9%*	153cps	*8%*	166cps	*9%*
Net Debt	527	*-12%*	434	*-18%*	448	227	*-48%*	87	*-62%*	-19	*-122%*
Net Debt:EBITDA (x)	*1.7x*	-	*1.3x*	-	*2.8x*	*0.7x*	-	*0.2x*	-	*-0.0x*	-
Net Debt:Equity (%)	*1.1*	-	*0.8*	-	*0.9*	*0.4*	-	*0.1*	-	*-0.0*	-
Free Cash Flow / EBITDA Conversion (%)	79	*26%*	184	*57%*	130	209	*64%*	176	*49%*	197	*49%*
Free Cash Flow Yield (%)	***4.0%***	-	***9.7%***	-	***13.7%***	***12.4%***	-	***11.4%***	-	***13.7%***	-
Return on Equity (%)	***-3.0%***	-	***24.8%***	-	***24.6%***	***22.8%***	-	***23.1%***	-	***24.8%***	-
Return on Assets (%)	***-1.1%***	-	***10.2%***	-	***8.8%***	***9.5%***	-	***10.0%***	-	***11.2%***	-
Price Earnings Ratio (x)	*13.5x*	-	*10.5x*	-	*5.2x*	*10.4x*	-	*9.5x*	-	*8.1x*	-
Price-to-Book (x)	*3.0x*	-	*2.6x*	-	*2.8x*	*2.4x*	-	*2.2x*	-	*2.0x*	-
Current Ratio	*1.4x*	-	*1.3x*	-	*1.2x*	*2.2x*	-	*3.1x*	-	*2.6x*	-

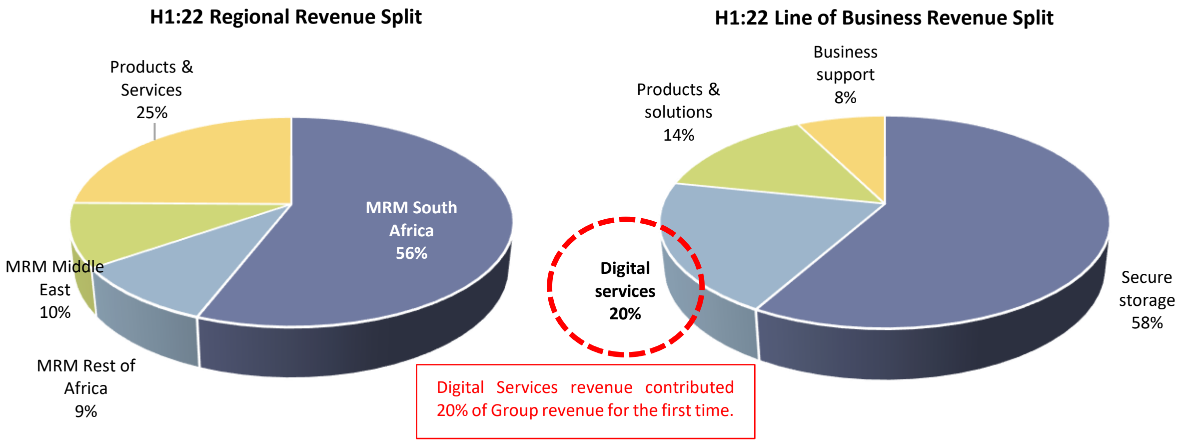
*Sources: Metrofile Holdings various reports, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions; * IronTree is consolidated into the Group's Products & Services segment. We have shown it separately here for information purposes and, while we do full forecasts for the business, we only consolidate 7-months in FY 22E and then 12-months from there on.; ** The Group's dividend policy has changed to a range between 1.5x and 1.7x, depending on capital requirements for the Group's Digital Strategy. Given that we do not forecast any more acquisitions, we have shifted this policy to the low-end and, thus, reflect the higher dividend flow. That said, management remains intent on the Digital Strategy and there could well be further acquisitions.*

Summary of H1:22 Results

Metrofile Holdings (code: MFL) reported a tumultuous H1:22 period that saw domestic riots, the implementation of the POPIA, domestic elections, Kenyan regulatory pressures, COVID & supply chains disruptions:

- Revenue rose +4%, driven by good growth in both the Middle East and Digital Services and offset by paper services and Kenyan regional weakness.
- **Net box growth was achieved in *all* regions with net boxes growing +1% p/p rising to 11.3m boxes (30 June 2021: 11.1m).** More subtly, though, South African box destructions (triggered by POPIA compliance awareness) centred on some of the higher-margin boxes that saw MRM South Africa revenue flat but Operating Profit slip backwards. This has already stabilized post-period and we remain bullish on MRM South Africa's prospects (indeed, in Q2:22 this had already started to reverse as destructions dropped and box inflows recovered).
- Furthermore, in Kenya COVID debt repayment relief saw pressure on its financial sector that materialized in revenue challenges in this region (despite good net box growth).
- This put pressure on the EBITDA margin and translated into Operating Profit slipping -2% y/y.
- **All this obscures the fact that Digital Services now contribute 20% of the Group's revenues, despite IronTree only being consolidated for a *single* month during this period.** We are extremely bullish on developments in this space and expect Digital Services to be a growing vector in future results.
- The Group remained cash generative (H1:22 cash conversion of 99%) & degeared even further (-5% net debt reduction, excluding IFRS 16 leases) *despite* having acquired IronTree during the period (see our previously published 'Acquisition of IronTree Internet Services' note).
- The above all trickled down to a small uptick in HEPS to 14.9cps (H1:21 – 14.8cps) and a strong +29% y/y hike in the Group's interim dividend to 9.0cps (H1:21 – 7.0cps).
- The hike in the dividend resulted from a change in dividend policy where management now target a dividend cover of between 1.5x to 2.0x. This provides flexibility to allocate into new opportunities—particularly their Digital Strategy—without risking the balance sheet. We see this dividend policy change as a clever move adding flexibility that should add value over time.

Figure 1: Metrofile Holdings Regional & Segmental Revenue



Sources: Metrofile Holdings various reports & Blue Gem Research workings and assumptions

- In H2 and into FY 23E, we expect a return to offices to generate added paper, box flow & paper services that should benefit traditional storage across all regions. In this regard, South Africa and Kenya should see normalisation that boosts H2 and FY 23E's contribution.
- With a focussed Group, clear strategy and recovering core markets, Metrofile's H2:22 period is set to recover some of the softness in H1:22 and we remain bullish on the FY 22E period while excited for future periods as, particularly, the digital strategy lifts the Group's long-term growth rate.

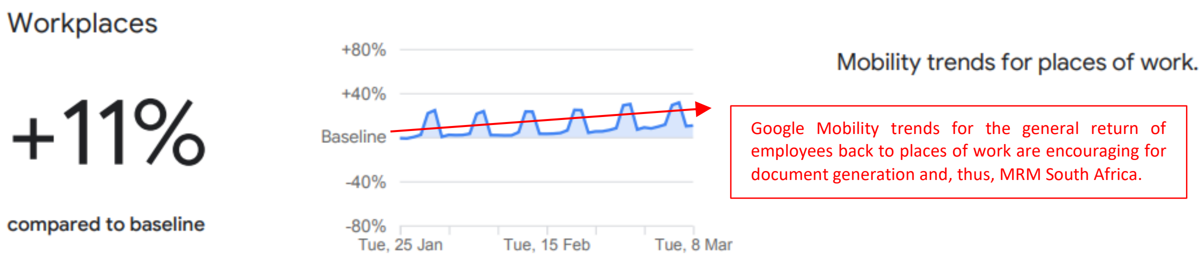
MRM South Africa

Forecast & DCF (Rm's):	**H1:22**	**FY 22E**	**H2:22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**	**FY 27E**	**FY 28E**	**FY 29E**	**FY 30E**	**FY 31E**
Net Box Growth (y/y %)	*0.3%*	*0.1%*	-	*2.4%*	*1.9%*	*1.4%*	*0.9%*	*0.4%*	*-0.1%*	*-0.6%*	*-1.1%*	*-1.6%*
Non-storage Revenue (%)	*16.0%*	*18.4%*	-	*18.8%*	*19.1%*	*19.5%*	*19.9%*	*20.5%*	*21.1%*	*21.8%*	*22.7%*	*23.6%*
EBITDA Margin (%)	*43.9%*	*44.4%*	-	*44.1%*	*44.3%*	*44.2%*	*44.0%*	*43.5%*	*42.8%*	*41.9%*	*40.7%*	*39.4%*
Revenue	**265**	**545**	**-**	**567**	**595**	**621**	**646**	**669**	**690**	**710**	**728**	**743**
Growth (y/y %)	*-51%*	*105%*	-	*4.0%*	*4.8%*	*4.4%*	*4.0%*	*3.6%*	*3.2%*	*2.8%*	*2.5%*	*2.1%*
EBITDA	116	242	-	250	263	275	284	291	295	297	296	293
Working Capital	-	14	-	-2	-3	-3	-2	-2	-1	-1	-0	0
Capex	-	-40	-	-55	-53	-51	-49	-45	-41	-37	-32	-26
Tax	-25	-55	-	-57	-60	-63	-65	-67	-68	-69	-69	-68
Free Cash Flow (FCF)	**92**	**162**	**70**	**136**	**147**	**158**	**167**	**176**	**184**	**191**	**196**	**199**
Discount Factor			*0.95*	*0.86*	*0.78*	*0.70*	*0.64*	*0.57*	*0.52*	*0.47*	*0.42*	*0.38*
Discounted FCF			**66**	**117**	**114**	**111**	**106**	**101**	**96**	**90**	**83**	**903**
Enterprise Value (EV)												**R1,788m**
EV/EBITDA (x)												***7.3x***

Sources: Metrofile Holdings, Iress, Profile Media & Blue Gem Research workings & assumptions

- MRM South Africa saw revenue flat (-1% y/y) as a decline in paper services was offset by growing traction in the digital services streams.
- While net box *did* grow during the period (+0.3% p/p), the introduction of the POPIA triggered a range of non-banking customers reassessing their legacy (and higher margin) boxes and pushing for many of these to be destroyed. This shifted the secure storage margin, but in Q2 box growth had already recovered and management remain confident in this recovery for the H2:22E period.
- Other added complications include the KwaZulu Natal riots in July that added some direct costs (should not repeat in H2), local government elections pushing the timing of public sector work outwards, and remote working keeping document generation levels from offices lower than normal.
- The domestic riots have not resurfaced, the local government elections are behind us and—if activity levels in *Google Mobility Trends* (Figure 2) are anything to go by—workers are steadily returning to offices and document generation should follow.

Figure 2: Google Mobility Trends for South Africa (8 March 2022)



Source: Google (https://www.google.com/covid19/mobility/)

- We have slightly lowered our view of gross box inflows for MRM South Africa while capturing the one-off POPIA-driven rise in H1's destructions during the full FY 22E period.
- Furthermore, we have adjusted to reflect the service weakness H1:22 and see a recovery in H2:22E, though not enough to offset some of the lost revenue in H1:22.
- We have kept all other assumptions unchanged from our previous report.

MRM Rest of Africa

Forecast & DCF (Rm's):	FY 21	H1:22	FY 22E	H2:22	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	*3.0%*	*3.0%*	*4.0%*	-	*7.0%*	*6.5%*	*6.0%*	*5.5%*	*5.0%*	*4.5%*	*4.0%*	*3.5%*	*3.0%*
Non-storage Revenue Contribution (%)	*20.0%*	*21.0%*	*22.3%*	-	*21.4%*	*20.4%*	*19.5%*	*18.7%*	*18.0%*	*17.3%*	*16.8%*	*16.4%*	*16.0%*
EBITDA Margin (%)	*57.0%*	*47.5%*	*51.0%*	-	*51.9%*	*53.2%*	*54.4%*	*55.4%*	*56.2%*	*56.8%*	*57.3%*	*57.6%*	*57.8%*
Revenue	**100**	**45**	**92**	**-**	**98**	**106**	**114**	**122**	**131**	**140**	**148**	**157**	**165**
Growth (y/y %)	*-6.0%*	*-54%*	*104%*	-	*7.0%*	*8.0%*	*7.7%*	*7.3%*	*7.0%*	*6.6%*	*6.2%*	*5.8%*	*5.4%*
EBITDA	57	21	47	-	51	56	62	68	74	79	85	90	96
Working Capital	1	-	3	-	-1	-1	-1	-1	-1	-1	-0	-0	-0
Capex	-5	-	-2	-	-3	-3	-4	-4	-4	-4	-4	-3	-3
Tax	-10	-3	-7	-	-8	-9	-10	-12	-13	-14	-16	-17	-18
Free Cash Flow (FCF)	**42**	**18**	**41**	**23**	**39**	**43**	**47**	**52**	**56**	**61**	**65**	**70**	**74**
Discount Factor				*0.91*	*0.75*	*0.62*	*0.51*	*0.42*	*0.35*	*0.29*	*0.24*	*0.20*	*0.16*
Discounted FCF				**20**	**29**	**27**	**24**	**22**	**20**	**17**	**15**	**14**	**180**
Enterprise Value (EV)													**R368m**
EV/EBITDA (x)													***6.8x***

Sources: Metrofile Holdings, Iress, Profile Media & Blue Gem Research workings & assumptions

- Kenyan authorities allowing a debt repayment moratorium put pressure on the in-country financial sector, which translated into lower active filing and image processing revenues for MRM Rest of Africa (which is dominated by the Kenyan region, though also has operations in Botswana and Mozambique). Due to this, revenue retreated -13% y/y, EBITDA slid -10% y/y and Operating Profits fell by -35% y/y.
- Interestingly, though, net box growth continued in these regions (albeit below average) and saw a +3.0% p/p growth in secure storage volumes.
- We have softened our gross box inflows somewhat, though see FY 23E as shifting back to more normal growth rates. Likewise, we have tweaked our revenue/box variable to also reflect the tighter Kenyan environment.

MRM Middle East

Forecast & DCF (Rm's):	FY 21	H1:22	FY 22E	H2:22 E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	*6.2%*	*2.0%*	*5.2%*	-	*10.1%*	*9.7%*	*9.2%*	*8.7%*	*8.3%*	*7.8%*	*7.3%*	*6.8%*	*6.3%*
Non-storage Revenue Contribution (%)	*36.0%*	*76.2%*	*67.2%*	-	*67.0%*	*66.4%*	*65.8%*	*65.4%*	*65.0%*	*64.8%*	*64.6%*	*64.6%*	*64.6%*
EBITDA Margin (%)	*18.8%*	*31.5%*	*18.2%*	-	*21.7%*	*25.6%*	*29.3%*	*32.6%*	*35.8%*	*38.6%*	*41.3%*	*43.8%*	*46.0%*
Revenue	**77**	**47**	**81**	**-**	**89**	**98**	**108**	**119**	**131**	**144**	**158**	**173**	**190**
Growth (y/y %)	*41.7%*	*-40%*	*4.1%*	-	*9.8%*	*10.5%*	*10.4%*	*10.2%*	*10.1%*	*9.9%*	*9.8%*	*9.6%*	*9.4%*
EBITDA	15	15	15	-	19	25	32	39	47	56	65	76	87
Working Capital	-2	-	2	-	-1	-1	-1	-1	-1	-1	-1	-1	-1
Capex	10	-	-1	-	-1	-1	-2	-2	-2	-2	-2	-2	-2
Tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow (FCF)	**22**	**15**	**16**	**1**	**17**	**23**	**29**	**36**	**44**	**53**	**62**	**73**	**84**
Discount Factor				*0.91*	*0.75*	*0.62*	*0.51*	*0.42*	*0.35*	*0.29*	*0.24*	*0.20*	*0.16*
Discounted FCF				**1**	**13**	**14**	**15**	**15**	**15**	**15**	**15**	**14**	**275**
Enterprise Value (EV)													**R393m**
EV/EBITDA (x)													***17.1x***

Sources: Metrofile Holdings, Iress, Profile Media & Blue Gem Research workings & assumptions

- MRM Middle East was a highlight of the period as strong digital services growth in the United Arab Emirates drove revenue growth of +21% y/y and more than doubled Operating Profit (+156% y/y).
- Net box growth for the region was +2.0% p/p but Digital Services remains the key driver making up c.76% of its revenues.
- While the region's pipeline remains exceptionally exciting, the mix of projects for H2:22E is harder to forecast and management does not fully expect to repeat this performance in the coming period.
- We have lifted our run-rate for Middle Eastern Digital Services revenue (albeit still below H1:22) while keeping most of our other assumptions relatively flat. We still expect a good year out of this region but see recovery in the other segments driving more of H2:22E's result.

Product & Services

Products & Services (excluding IronTree Internet Services*)

Forecast & DCF (Rm's):	FY 21	H1:22	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Non-storage Revenue Contribution (%)	*94%*	*94%*	*94%*	*94%*	*94%*	*95%*	*95%*	*95%*	*95%*	*96%*	*96%*	*96%*
EBITDA Margin (%)	*16.1%*	*18.3%*	*18.1%*	*18.9%*	*19.6%*	*20.4%*	*21.2%*	*22.0%*	*22.8%*	*23.7%*	*24.5%*	*26.0%*
Revenue	**207**	**118**	**212**	**223**	**234**	**246**	**258**	**271**	**285**	**300**	**315**	**334**
Growth (y/y %)	*3.8%*	*-43%*	*2.5%*	*5.0%*	*5.0%*	*5.0%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.2%*	*6.0%*
EBITDA	33	22	38	42	46	50	55	60	65	71	77	87
Working Capital	3	-	1	-4	-3	-3	-3	-3	-2	-2	-2	2
Capex	-34	-	-15	-19	-20	-23	-25	-27	-30		-36	-40
Tax	-5	-4	-6	-6	-7	-7	-8	-9	-10	-10	-11	-13
Free Cash Flow (FCF)	**-2**	**18**	**19**	**13**	**16**	**18**	**19**	**21**	**23**	**58**	**28**	**37**
Discount Factor				*0.86*	*0.78*	*0.70*	*0.64*	*0.57*	*0.52*	*0.47*	*0.42*	*0.38*
Discounted FCF				**11**	**12**	**12**	**12**	**12**	**12**	**27**	**12**	**306**
Enterprise Value (EV)												**R418 m**
EV/EBITDA (x)												***10.8x***

***IronTree Internet Services (we will consolidated this business into "Product & Services" segment from FY 23E)**

Forecast & DCF (Rm's):	H1:22	FY 22E	H2:22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
EBITDA Margin (%)	*0.0%*	*54.8%*		*41.5%*	*45.9%*	*49.6%*	*51.1%*	*52.5%*	*51.9%*	*49.0%*	*46.0%*	*40.8%*
Revenue	**5**	**34**		**75**	**95**	**118**	**142**	**170**	**196**	**215**	**237**	**252**
Growth (y/y %)	-	-		*120%*	*26.0%*	*25.0%*	*20.0%*	*20.0%*	*15.0%*	*10.0%*	*10.0%*	*6.3%*
EBITDA	-	19	-	31	43	59	72	89	102	106	109	103
Working Capital	-	2	-	-7	-3	-4	-4	-5	-4	-3	-4	-2
Capex	-	-6	-	-13	-16	-20	-24	-28	-33	-36	-39	-42
Tax	-	-5	-	-8	-11	-14	-18	-21	-24	-24	-24	-21
Free Cash Flow (FCF)	**-**	**10**	**-**	**4**	**14**	**21**	**27**	**35**	**41**	**42**	**42**	**37**
Discount Factor			*0.95*	*0.86*	*0.78*	*0.70*	*0.64*	*0.57*	*0.52*	*0.47*	*0.42*	*0.38*
Discounted FCF			**-**	**4**	**11**	**15**	**17**	**20**	**21**	**20**	**18**	**64**
Enterprise Value (EV)												**R190m**
EV/EBITDA (x)												***15.1x***

Sources: Metrofile Holdings, Iress, Profile Media & Blue Gem Research workings & assumptions

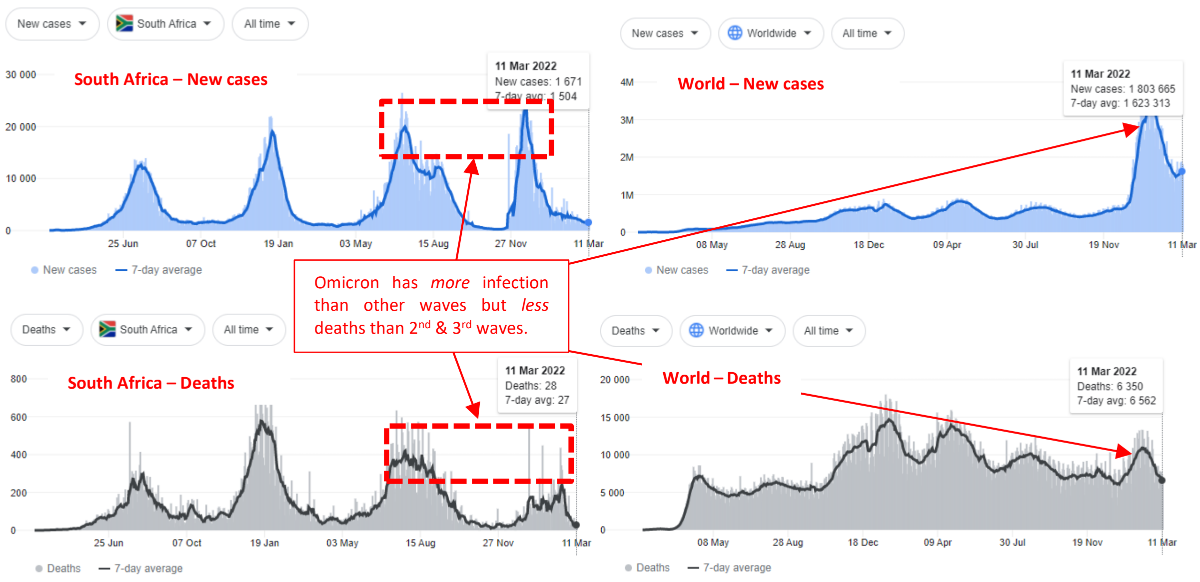
- Revenue grew +21% y/y, expanding margins and lifting EBITDA by +32% y/y. All this drove Operating Profits +67% y/y.
- Cleardata (confidential destruction) and Metrofile Vysion (business process automation) drove this growth while Tidy Tiles (more traditional paper-based filing and document solutions) continued to struggle against demand- and supply-based headwinds.
- Tidy Files was impacted by lockdowns, disruptions in its supply (it struggled to get some raw inputs during the period) and management are now carefully looking at its cost-base and, arguably, its strategic fit into the Group.
- Metrofile Vysion excites us, and it will be interesting (and, arguably important for the Group's Digital Strategy) to if its H1 traction can continue into H2 and, indeed, future reporting periods.
- The recently acquired IronTree was only consolidated into this segment for *one* month (contributing R4.7m revenue and R0.8m net profit):
    - Annualized for the full interim period, this would have boosted this segment's revenue by c.+24% y/y).
    - Not just will H2:22E see a full consolidation of this business into the Group, but management feedback is that the business is growing month-on-month and integrating well into the Group.
    - We estimate that in FY 22E, alone, this business could add c.+2~4% to the Group's revenue. Given that IronTree's net profit margin is c.17% versus Metrofile's current c.14%, IronTree's bottom-line contribution to the Group could be even higher.
    - See our above forecast for IronTree.
- Overall, we have kept our IronTree forecasts unchanged but significantly lifted our expected contribution from Digital Services (namely, Metrofile Vysion) while seeing a soft recovery in Tidy File into FY 23/24E.

Macro Environment

Global Environment: COVID-19 receding but inflationary and geopolitical risks rising

- Unlike earlier variants, the Omicron-variant of COVID is more contagious but less deadly (Figure 3). Intuitively, viruses want to propagate and, thus, COVID mutating steadily into more "normal" seasonal waves is logical and, with Omicron, appears to be happening.
- There remain risks, from China's 'Zero COVID' policy negatively impacting global trade and commodity demand to future COVID mutations turning out to be more deadly, but we believe that these risks (coupled with increasing vaccination rates) are receding.

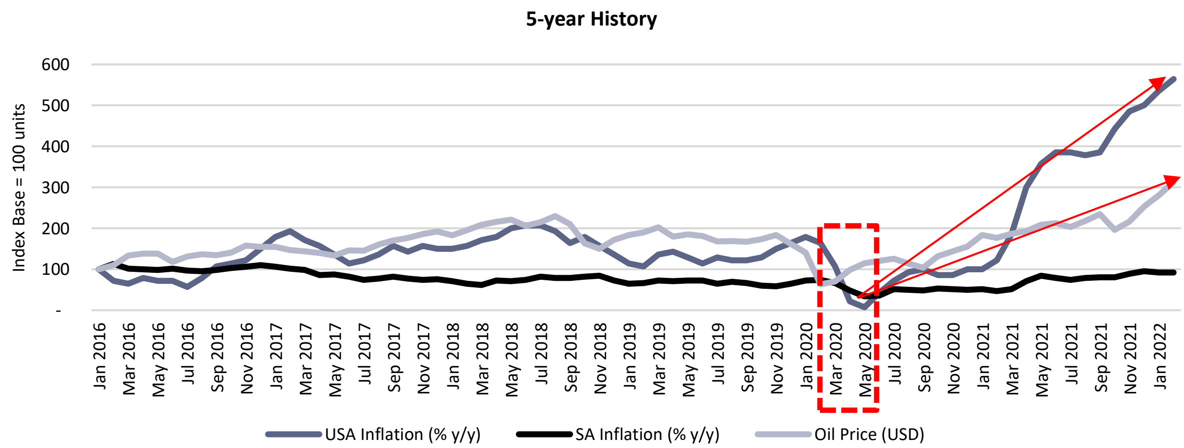
Figure 3: COVID-19's Omicron – More Contagious, Less Fatal

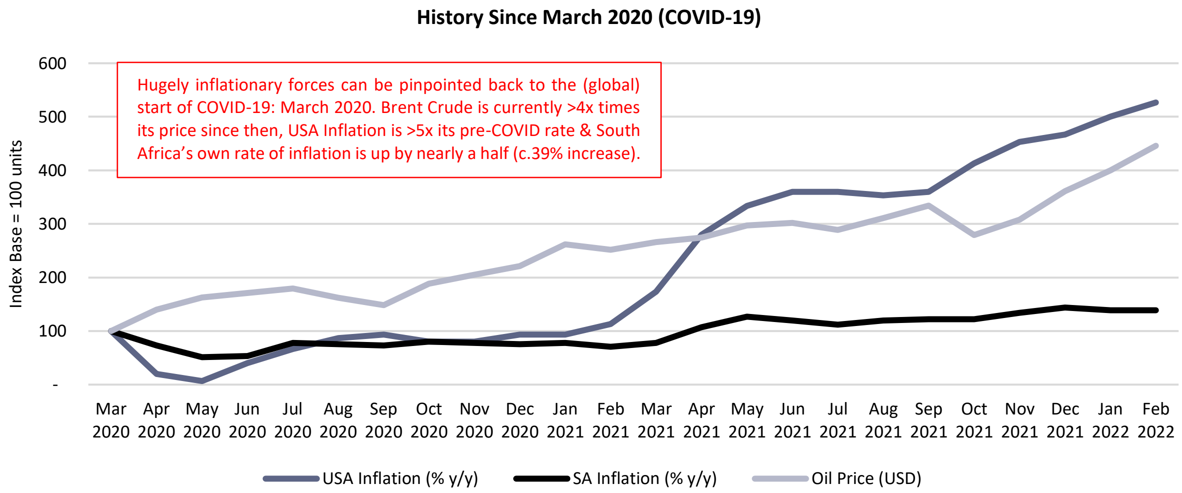


Source: JHU CSSE COVID-19 Data

- Unfortunately, one of the consequences of COVID and rolling lockdowns has been a huge disruption to global trade. This has created both shortages of key global products and commodities (from semiconductors to oil and coal) to spiralling freight rates and expanded delivery times.
- Coupling the global supply disruptions with the record amounts of fiscal and monetary stimulus has seen large price increases (Figure 4) that, ultimately, are manifesting in rising inflationary pressures around the world.

Figure 4: USA & South African Inflation Indexed to Brent Crude Oil Price





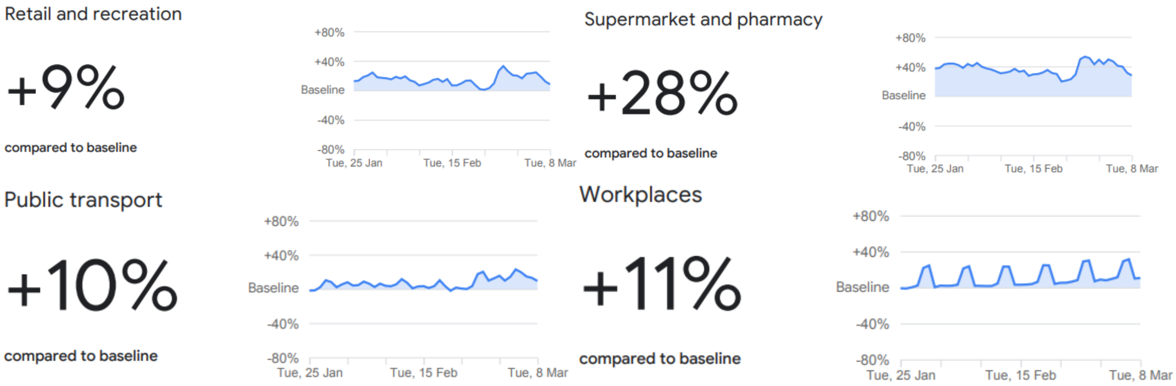
Source: Refinitiv & Blue Gem Research workings & assumptions; USA Nominal CPI (y/y), SA CPI (y/y) and Brent Crude Futures Spot Price in USD's used.

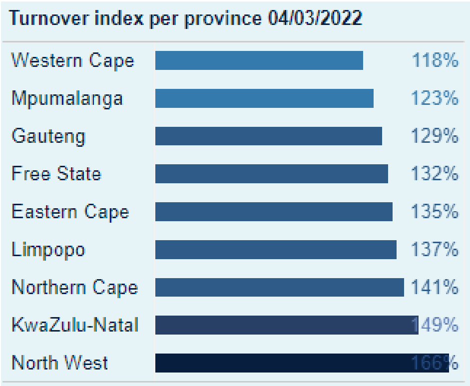
- Most central banks (including the USA's Federal Reserve) have either hiked or indicated that they are going to hike interest rates due to this inflationary pressure.
- Unfortunately, in this environment, Russia has launched an unprovoked invasion of Ukraine. Besides the risk of dragging Europe (and, perhaps, the world) into war, the direct and most immediate impact on the world has been the harsh sanctioning of Russian exports (Russa exports c.10% of the world oil, c.40% of Europe's gas consumption and c.40% of the world's palladium) and the collapse in Ukraine's key wheat exports. All these added supply constraints have seen energy, hard and soft commodities rallying dramatically that should, logically, manifest in even higher inflation.
- Therefore, the key risks in this global environment are:
  - Geopolitical and the risk of the (currently regional) conflict spreading,
  - Rising inflationary impulses become embedded and sticky,
  - The significantly higher oil price dims global growth rates, &
  - How central banks (especially the US Fed) react to this toxic mix of elements.

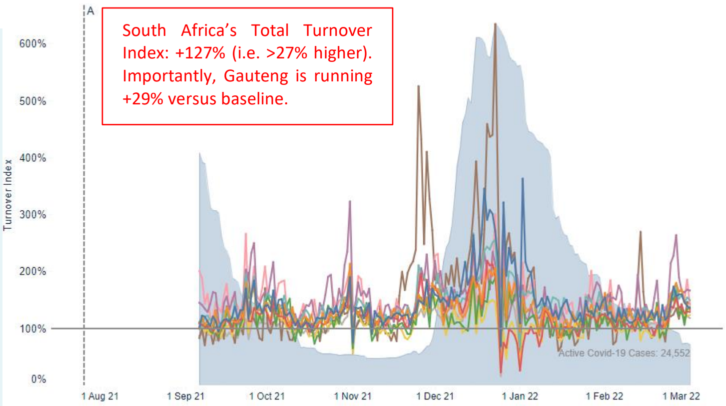
Domestic Environment: Post-COVID South Africa recovering & a net beneficiary of world events

- Amidst the complicated, risky global environment, South Africa appears to be recovering from its 4th Wave excellently:
  - Figure 3 shows the receding 4th Wave in South Africa, &
  - *Google Mobility* and *Yoco Payments* data points all show a strong rebound in domestic activity and economic activity (Figure 5). While these data points are somewhat anecdotal and have their own biases, they *are* granular *and* real-time, and therefore also usual.

Figure 5: South African Activity Data – Google Mobility & Yoco Small Business Recovery Monitor







Sources: Google.com & Yoco.com

- Economically & politically, South Africa does appear to be improving, though some of this is fortuitous and could change depending on global events:
    - **Eskom**: While Eskom remains a major risk to South Africa and rolling blackouts sporadically continue, the Government's move to unbundle the utility, lift self-generation regulations to 100MW & push to get further rounds of renewables online are all positives that lower this risk going forward.
    - **Transnet**: While Transnet remains an inefficient national operator creating large bottlenecks for a commodity-led exporting country like South Africa, recent moves to privatize (or, at least, let private operators onto the national railways) could unleash large pent-up export demand for South Africa's bulk commodities.
    - **Government debt & tax revenues**: High commodity prices have created a windfall in large tax revenues that relieves some pressure on Government finances. Given the robust outlook for commodities (&, indeed, the potential to unlock large volume growth in commodity exports from de-bottlenecking Transnet), South Africa's budget deficit's trajectory may be improving.
    - **Rand, interest rates & inflation**: The combination of the above (especially commodity exports, most notably the platinum group metals that Russia is now blocked from exporting) have seen a relatively strong Rand and modest inflation (as compared to the USA inflation trajectory). While the South African Reserve Bank (SARB) has begun a hiking cycle, the current trajectory does not appear overly onerous to the domestic economy.
    - **Political Risk**: Finally, the risk of political instability, growing poverty and the upcoming ANC National Elective Conference (NEC) all add downside risks to these above-noted positives.
- We argue that the above is (currently) a net positive for South African economic activity but needs to be viewed within the context of the major global risks noted earlier and, any global contagion, could well spread domestically too and more than offset the above-listed positives.

Forecast, Valuation & 12m TP Update

- Earlier in this note, we have touched on some of our segmental-level assumptions adjustments. These adjustments were mostly to the H2:22E period and we have left most of our long-term assumptions unchanged (see our Initiation of Coverage for detail & backing on these).
- We have updated some model-wide assumptions and variables, namely:
    - Lifted our risk-free rate to reflect the South African 10-year bond's higher yield of 9.86% (previously: 9.58%),
    - Lifted our Cost of Debt to reflect the SARB interest rate hike, &
    - Adjusted our dividend policy to reflect the change (shifting the Group's expected payout ratio to 1.5x from FY 23E as we do not forecast any acquisitions).

- The combination of the segmental-level work and the updated global assumptions arrive at a Sum-of-the-Parts (SOTP) fair value of 405cps (previously: 428cps). This has come down slightly over this period as the combination of slightly softer FY 22E forecasts and a higher discount rate more than offset the positives from IronTree, Metrofile Vysion & MRM Middle East's higher growth rate, the net debt reduction and more attractive dividend policy.

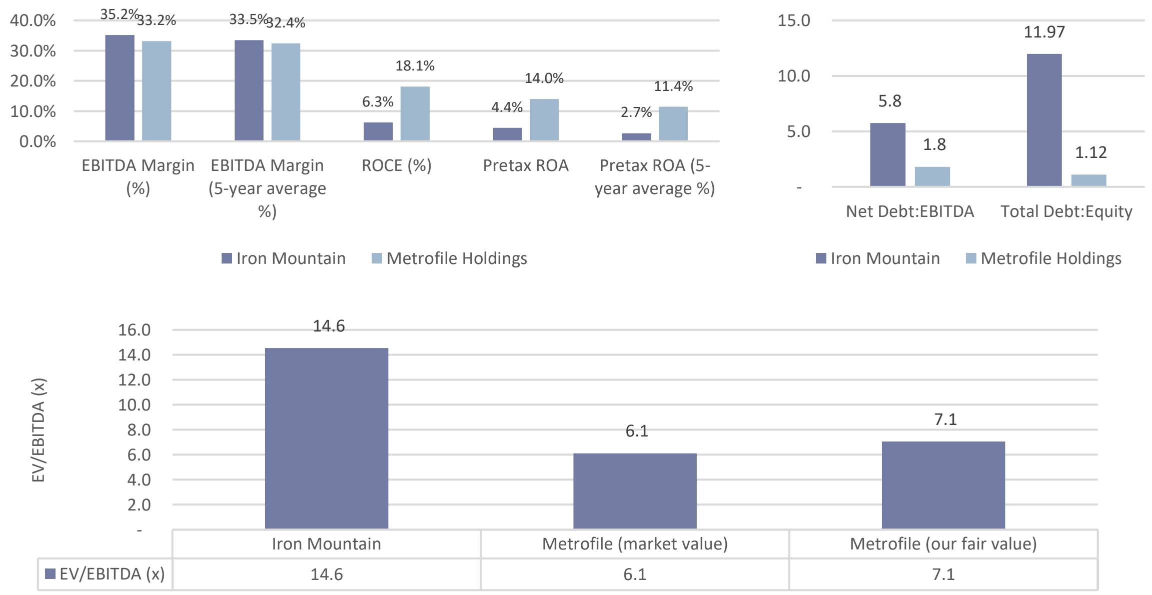
Table 5: Metrofile Group's Sum-of-the-Parts (SOTP) Fair Value & 12m TP

	Sum-of-the-Parts	Implied EV/EBITDA (x)	Implied Price Earnings (x)
MRM South Africa	R1,788,394,264	7.3x	
MRM Rest of Africa	R368,360,295	6.8x	
MRM Middle East	R392,740,592	17.1x	
Product & Solution	R417,530,148	10.8x	
Irontree Internet Services (70%-share)	R189,506,782		
Group	-R863,662,307		
Enterprise Value (EV)	R2,292,869,776	7.1x	
Net Debt & Acquisition Liabilities	-R534,295,000		
Fair Value	**R1,758,574,776**		**12.7x**
Fair Value (cps)	**405cps**		**12.7x**

Sources: Metrofile, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions

- Table 5's SOTP fair value for Metrofile implies an EV/EBITDA of 7.1x and a Price Earnings (PE) of 12.7x.
- Both of these measures compare attractively to Iron Mountain (IRM) which is trading at an EV/EBITDA of 14.6x and a PE of 31.1x (Figure 6).
- Despite the lower valuation than Iron Mountain, it is worth noting that Metrofile has in fact the same-or-better returns and a significantly lower relative debt in its capital structure.

Figure 6: Metrofile Holdings versus Iron Mountain



Sources: Refinitiv, Koyfin & Blue Gem Research workings and assumptions

- Taking this comparison one step further, in Table 6 we unpack key metrics between the two documents storage groups *and* their pure-play competitors with digital substitutes.

Table 6: Metrofile Holdings versus Iron Mountain, Equinix, Digital Realty Trust & Dropbox Inc

Name	Market Cap. (USD)	EV/EBITDA (x)	FCF Yield (%)	PE (x)	P/S (x)	Dividend Yield (%)	ROCE (%)	Pretax ROA	Pretax ROA (5-yr ave.)
Iron Mountain	$13,920m	14.6x	1.0%	31.1x	3.1x	5.5%	6.3%	4.4%	2.7%
Metrofile Holdings	$96m	6.1x	6.1%	10.5x	1.5x	4.9%	18.1%	14.0%	11.4%
Metrofile Discount		***58%***	***525%***	***66%***	***52%***	***-12%***			
Digital Storage Peer Ave.		**22.0x**	**2.2%**	**55x**	**7.2x**	**1.4%**	**47.1%**	**6.0%**	**-3.1%**
Equinix Inc	$62,016m	26.4x	-0.2%	123x	9.4x	1.3%	4.2%	2.2%	2.2%
Digital Realty Trust	$37,710m	23.3x	-2.2%	22.4x	8.5x	3.0%	2.0%	5.0%	2.2%
Dropbox Inc	$7,820m	16.4x	9.0%	19.8x	3.6x	0.0%	135.1%	10.9%	-13.8%

Sources: Refinitiv, various reports & Blue Gem Research workings & assumptions

- All in all, we are comfortable with our segmentally-driven SOTP fair value for Metrofile and believe that against relative measures it holds up as a justifiable valuation.
- Rolling this fair value for Metrofile forward by our Cost of Equity, we arrive at a 12m TP of 472cps (previously: 497cps) which implies an attractive +41% return (including dividends) from these levels.

Key Risks to our Forecast & Valuation

A summary of the key risks to our view and valuation of Metrofile:

- **Downside risks:**
  - Sovereign and macro risks, including South African, African & Middle Eastern economic/political deterioration and COVID-19 prospects,
  - A faster macro transition to digital and/or a higher decline in the physical document storage market than we have predicted,
  - Any growth or pricing assumptions missing to the downside,
  - Poor execution on or weak traction gained with Metrofile Holdings' digital strategy, &
  - All the numerous domestic and macro risks we highlighted in our macro section of this report.
- **Upside risks:**
  - Sovereign and macro risks, including South African, African & Middle Eastern economic/political improving and COVID-19 receding quicker than expected,
  - A slower macro transition to digital and/or a lower decline in the physical document storage market than we have predicted,
  - Any growth or pricing assumptions missing to the upside,
  - Excellent execution on or strong traction gained with Metrofile Holdings' digital strategy, &
  - Any delisting/takeover bid materializing for Metrofile.

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** Market prices have all been taken at Close on 11 March 2022 or intra-day 15 March 2022.*

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