

# Metrofile Holdings Ltd

## Great Top-line Growth

Share Code: MFL – Market Cap: R1.3bn – PE: 10.0x – DY: 5.8%

12m Target Price	496cps
Share Price	310cps
Implied Return	60%

Business Support | South Africa

### H1:23 Results: Revenue & Digital Growth Occurring

- Revenue rose +19% y/y to R564m (H1:22 – R474m), driven by a +61% y/y growth in digital services but revenue mix and costs moved against the Group's margins and saw EBITDA only rise +6% y/y & HEPS lift +1% y/y to 15.0cps (H1:22 - 14.9cps).
- Management returned R22.6m to shareholders through share buy-backs (c.6cps) and have declared a dividend of 9cps (H1:23 - 9cps).
- We have somewhat lifted our forecast revenue expectations but also tried to factor more sustained inflationary pressures and higher interest rates into the Group's forecast period.

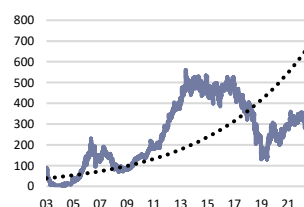
### Our Thoughts: Bottom-line Growth Coming...

- While the current period was somewhat disappointing from a margin perspective (we did guide for margin pressure in H1:23 in our previous note), we do expect revenue growth to start to drop to the bottom-line in H2:23E.
- The new go-to-market sales team in MRM South Africa, IronTree's continuing (if not accelerating) growth, Metrofile VYSION's success in the enterprise space, & a growing MRM Middle East (mostly digital services) are all likely to grow in contribution to the Group over time and, thus, the Group's growth profile should start to move towards these businesses with their digital tailwinds.

### Forecast, Valuation and Implied Return: Relatively Cheap

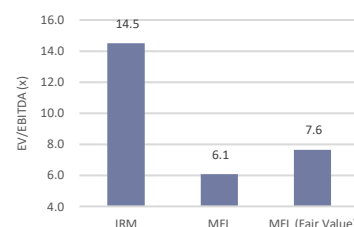
- We see Metrofile's fair value as 426cps (previously: 404cps), or c.37% higher than its current share price.
- Importantly, our fair value implies an EV/EBITDA of 7.6x & a PE of 13.8x, which compares attractively to Iron Mountain's current EV/EBITDA of 14.5x & PE of 27.4x.
- Rolling our fair value forward, we arrive at a 12m TP of 496cps (previously: 473cps), implying an attractive c.60% return (including dividends) from these levels.

Share Price – Metrofile Holdings Ltd



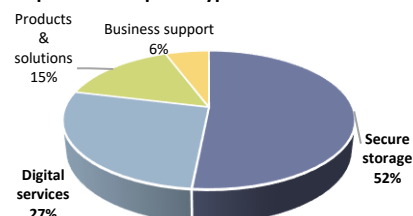
Sources: I-Net Bridge, Blue Gem Research

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 21A	YoY %	H1:22A	FY 22A	YoY %	H1:23A	FY 23E	YoY %	FY 24E	YoY %
Revenue	933	3%	474	980	5%	564	1,140	16%	1,225	7%
EBITDA	323	7%	157	325	1%	166	356	10%	386	9%
HEPS (cps)	31.9cps	29%	14.9cps	30.8cps	-3%	15.0cps	33.7cps	9%	38.1cps	13%
Return on Equity (%)	24.8%	-	24.6%	23.9%	-	23.0%	23.4%	-	23.7%	-
Price Earnings Ratio (x)	9.7x	-	9.7x	10.1x	-	10.0x	9.2x	-	8.1x	-
DPS (cps)	15cps	15%	9cps	18cps	20%	9cps	20cps	11%	23cps	15%
Dividend Yield (%)	4.8%	-	5.5%	5.8%	-	5.8%	6.5%	-	7.4%	-

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



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BLUE GEM RESEARCH

Key Forecast (R m)	FY 21A	YoY %	H1:22A	FY 22A	YoY %	H1:23A	FY 23E	YoY %	FY 24E	YoY %
<b>Revenue</b>	<b>933</b>	<b>3%</b>	<b>474</b>	<b>980</b>	<b>5%</b>	<b>564</b>	<b>1,140</b>	<b>16%</b>	<b>1,225</b>	<b>7%</b>
MRM South Africa	549	1%	265	539	-2%	303	601	11%	623	4%
MRM Rest of Africa	100	-6%	45	91	-9%	52	100	10%	107	7%
MRM Middle East	77	42%	47	86	10%	48	91	7%	103	12%
Products & Services (including IronTree)*	207	4%	113	264	27%	157	348	32%	392	13%
*IronTree (included in Products & Services)	-	0%	5	37	>100%	4	82	122%	106	30%
<b>EBITDA</b>	<b>323</b>	<b>7%</b>	<b>157</b>	<b>325</b>	<b>1%</b>	<b>166</b>	<b>356</b>	<b>10%</b>	<b>386</b>	<b>9%</b>
<i>EBITDA Margin (%)</i>	<i>34.6%</i>	<i>-</i>	<i>33.2%</i>	<i>33.2%</i>	<i>-</i>	<i>29.4%</i>	<i>31.2%</i>	<i>-</i>	<i>31.5%</i>	<i>-</i>
Operating Profit	241	11%	112	240	0%	118	264	10%	288	9%
Net finance charges	-49	-24%	-23	-49	-1%	-27	-59	21%	-64	8%
<b>Net Profit (Parents)</b>	<b>138</b>	<b>&gt;100%</b>	<b>65</b>	<b>134</b>	<b>-3%</b>	<b>65</b>	<b>145</b>	<b>8%</b>	<b>163</b>	<b>12%</b>
<i>Weighted Ave. Number of Shares (millions)**</i>	<i>433.7</i>	<i>1%</i>	<i>433.7</i>	<i>433.7</i>	<i>0%</i>	<i>432.2</i>	<i>430.4</i>	<i>-1%</i>	<i>427.2</i>	<i>-1%</i>
<b>EPS (Continuing Operations - cps)</b>	<b>31.9cps</b>	<b>&gt;100%</b>	<b>14.9cps</b>	<b>30.8cps</b>	<b>-3%</b>	<b>15.0cps</b>	<b>33.7cps</b>	<b>9%</b>	<b>38.1cps</b>	<b>13%</b>
<b>HEPS (cps)</b>	<b>31.9cps</b>	<b>29%</b>	<b>14.9cps</b>	<b>30.8cps</b>	<b>-3%</b>	<b>15.0cps</b>	<b>33.7cps</b>	<b>9%</b>	<b>38.1cps</b>	<b>13%</b>
<i>Price Earnings Ratio (x)</i>	<i>9.7x</i>	<i>-</i>	<i>9.7x</i>	<i>10.1x</i>	<i>-</i>	<i>10.0x</i>	<i>9.2x</i>	<i>-</i>	<i>8.1x</i>	<i>-</i>
<b>Dividend Per Share (cps)</b>	<b>15cps</b>	<b>15%</b>	<b>9cps</b>	<b>18cps</b>	<b>20%</b>	<b>9cps</b>	<b>20cps</b>	<b>11%</b>	<b>23cps</b>	<b>15%</b>
<i>Dividend Yield (%)</i>	<i>4.8%</i>	<i>-</i>	<i>5.5%</i>	<i>5.8%</i>	<i>-</i>	<i>5.8%</i>	<i>6.5%</i>	<i>-</i>	<i>7.4%</i>	<i>-</i>
<i>Dividend Cover (x)</i>	<i>2.1x</i>	<i>-</i>	<i>1.7x</i>	<i>1.7x</i>	<i>-</i>	<i>1.7x</i>	<i>1.7x</i>	<i>-</i>	<i>1.7x</i>	<i>-</i>
Property, Plant & Equipment	595	0%	610	610	2%	601	593	-3%	564	-5%
Goodwill	314	-1%	382	372	19%	372	372	0%	410	10%
Intangible Assets	44	-13%	40	68	55%	68	60	-11%	89	48%
Total Assets	1,353	-2%	1,477	1,492	10%	1,541	1,522	2%	1,525	0%
Shareholder's Equity (Parent)	559	12%	525	560	0%	563	620	11%	688	11%
NAV per share (cps)	129cps	17%	121cps	129cps	0%	132cps	145cps	12%	161cps	11%
Net Debt	434cps	-18%	448cps	446cps	3%	493cps	393cps	-12%	436cps	11%
<i>Net Debt:EBITDA (x)</i>	<i>1.3x</i>	<i>-</i>	<i>2.8x</i>	<i>1.4x</i>	<i>-</i>	<i>3.0x</i>	<i>1.1x</i>	<i>-</i>	<i>1.1x</i>	<i>-</i>
<i>Net Debt:Equity (%)</i>	<i>0.8</i>	<i>-</i>	<i>0.9</i>	<i>0.8</i>	<i>-</i>	<i>0.9</i>	<i>0.6</i>	<i>-</i>	<i>0.6</i>	<i>-</i>
<i>Free Cash Flow / EBITDA Conversion (%)</i>	<i>65%</i>	<i>-</i>	<i>77%</i>	<i>65%</i>	<i>-</i>	<i>35%</i>	<i>52%</i>	<i>-</i>	<i>67%</i>	<i>-</i>
<b>Free Cash Flow Yield (%)</b>	<b>10.3%</b>	<b>-</b>	<b>16.3%</b>	<b>10.5%</b>	<b>-</b>	<b>7.4%</b>	<b>9.1%</b>	<b>-</b>	<b>12.7%</b>	<b>-</b>
<b>Return on Equity (%)</b>	<b>24.8%</b>	<b>-</b>	<b>24.6%</b>	<b>23.9%</b>	<b>-</b>	<b>23.0%</b>	<b>23.4%</b>	<b>-</b>	<b>23.7%</b>	<b>-</b>
<b>Return on Assets (%)</b>	<b>10.2%</b>	<b>-</b>	<b>8.8%</b>	<b>9.0%</b>	<b>-</b>	<b>8.4%</b>	<b>9.5%</b>	<b>-</b>	<b>10.7%</b>	<b>-</b>
<i>Price Earnings Ratio (x)</i>	<i>9.7x</i>	<i>-</i>	<i>9.7x</i>	<i>10.1x</i>	<i>-</i>	<i>10.0x</i>	<i>9.2x</i>	<i>-</i>	<i>8.1x</i>	<i>-</i>
<i>Price-to-Book (x)</i>	<i>2.4x</i>	<i>-</i>	<i>2.6x</i>	<i>2.4x</i>	<i>-</i>	<i>2.4x</i>	<i>2.1x</i>	<i>-</i>	<i>1.9x</i>	<i>-</i>
<i>Current Ratio</i>	<i>1.3x</i>	<i>-</i>	<i>1.2x</i>	<i>1.3x</i>	<i>-</i>	<i>1.4x</i>	<i>1.8x</i>	<i>-</i>	<i>1.6x</i>	<i>-</i>

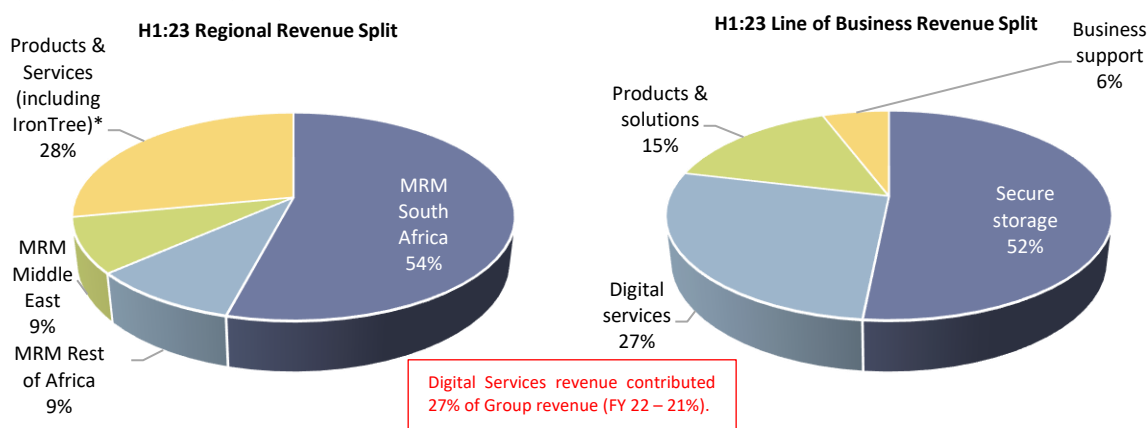
Sources: Metrofile Holdings various reports, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions; \* IronTree is consolidated into the Group's Products & Services segment. We have shown it separately here for information purposes; \*\* We do not forecast any share buy-backs, though we note that management have specifically highlighted this as part of their capital allocation strategy, and we expect this to be forthcoming & earnings enhancing at the current share price.

## Summary of H1:23 Results

Amidst continuing global uncertainty and domestic macro pressures, Metrofile’s H1:23 period showed a nice uplift in top-line growth (which we do expect to gently accelerate). Unfortunately this growth was obscured by inflationary pressures and higher interest rates. Despite this, the core digital migration trajectory remains intact (digital and cloud were the 2<sup>nd</sup> largest revenue contributor and grew at +61% y/y – Figure 1) while the core box and service business remained resilient.

- Revenue rose +19% y/y to R564m (H1:22 – R474m), predominantly driven by a +61% y/y growth in digital services. Even when excluding the consolidation effects of IronTree, Group revenue *organically* grew +13% y/y, boosted by a good recovery in Products & Solutions and (low margin) scanning volumes.
- Net box volumes were disappointingly -1% y/y to 11.3m (FY 22: 11.4m) as South African destruction offset good +2% and +5% y/y net box growth in the Rest of Africa and the Middle East segments. Pricing is also (slowly) starting to play out positively but should only annualize in future results.
- The combination of higher costs of fuel, staff, insurance (all ‘cost of doing business’ costs) *and* a strategic investment into a IT and a strong go-to-market team (both should only show benefits into H2:23E and onwards, the former through better systems and the latter through revenue growth) all ate into revenue growth to see EBITDA rise only +6% y/y, Operating Profits +5% y/y and Profit Before Tax of +7% y/y. Not all of this margin pressure was from costs, though, and as noted above the high volume of low margin scanning revenues shifted revenue mix against the Group’s historical margin.
- Ultimately, this all saw HEPS rise +1% y/y to 15.0cps (H1:22 – 14.6cps) from which management has declared a 9.0cps (H1:22 – 9.0cps) dividend.
- Management bought back R22.6m shares (effectively returning c.6cps) and, once combined with the above dividend, can be seen to effectively returning c.15cps to shareholders or all of the profits generated during this period (despite the growth and investments made).
- Finally, cash generation was uncharacteristically weak, but this was due to the growth in revenue and slower paying debtors. Revenue growth should hopefully continue, but management have asserted that collections have strongly improved post-period and debtor days are back to historic norms.

Figure 1: Metrofile Holdings Regional & Segmental Revenue



Sources: Metrofile Holdings various reports & Blue Gem Research workings and assumptions; \*Includes IronTree for the full H1:23 period

- While our revenue expectations were correct *and* we did guide for higher H1:23 costs, some of the margin pressure was more than expected. We also did not appreciate the pace of rising rates pushing through the Group’s financials in our previous results note. We have slightly hiked our forecast revenue but also attempted to capture the shorter-term inflationary impacts and higher net finance charges while keeping our longer-term expectations anchored and watching the digital migration of the Group carefully. Collectively, this sees us lower our FY 23E HEPS forecast by c.3% but we still see a good H2:23E period and a steady acceleration of digital growth initiatives into FY 24E and beyond.

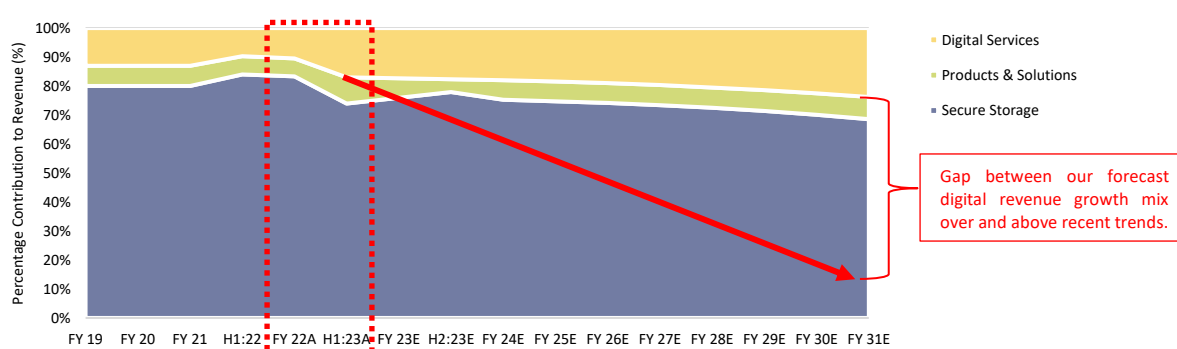
## MRM South Africa

Forecast & DCF (Rm's):	H1:22	FY 22A	H1:23A	FY 23E	H2:23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	0.3%	2.1%	-1.0%	-0.8%		2.9%	2.1%	1.4%	0.6%	-0.1%	-0.9%	-1.6%	-2.4%
Non-storage Revenue (%)	16.0%	20.0%	26.0%	24.0%		24.8%	25.2%	25.8%	26.6%	27.5%	28.6%	29.9%	31.4%
EBITDA Margin (%)	43.9%	46.3%	37.9%	40.2%		39.4%	39.4%	39.0%	38.2%	37.2%	35.8%	34.1%	32.0%
Revenue	265	539	303	601		623	653	681	707	730	750	767	781
Growth (y/y %)	-51.7%	103.4%	-43.8%	11.4%		3.7%	4.9%	4.3%	3.8%	3.2%	2.7%	2.3%	1.8%
EBITDA	116	250	115	241		246	257	266	270	272	269	261	250
Working Capital	-	-0	-	-21		1	-4	-3	-3	-2	-1	-2	-1
Capex	-	-17	-	-41		-22	-18	-12	-6	-43	-43	-43	-42
Tax	-25	-53	-26	-54		-55	-58	-60	-61	-62	-61	-59	-56
Free Cash Flow (FCF)	92	179	89	126	36	169	177	190	200	164	163	158	151
Discount Factor					0.94	0.84	0.75	0.67	0.60	0.53	0.48	0.43	0.38
Discounted FCF					34	142	133	127	120	88	78	67	561
Enterprise Value (EV)													R1,351m
EV/EBITDA (x)													5.4x

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

- Revenue grew +14% y/y but EBITDA slipped -1% y/y as the go-to-market team costs are included in this segment. As a key consolidated sales function, the team’s costs onboard before they start generating higher sales, although management have asserted a quicker monetization of sales activities than expected and we expect to see an uptick in H2:23E from this initiative that should, hopefully, start to contribute a net positive to the Group.
- Net box growth of -1% y/y was disappointing but comes from higher destructions that cleared out low-and-no revenue legacy boxes. Incoming boxes are priced at better rates and, thus, average revenue/box should rise, though this will take a while to annualize through this segment.
- Revenue from paper services picked up strongly, though, as box activity grew following the easing of the pandemic into an endemic and the returning of many to the office.
- Other than adjusting our net box and average boxes for the period, we have also shifted our pricing assumptions slightly higher but further absorbed a higher opex from higher inflationary pressures.
- Some unknowns remain how fast and how complete the return to office environment is and the activity-level from boxes. Likewise, the go-to-market sales team addition (i.e. Added costs in H1) is already gaining good traction and how much this accelerates top-line growth is an unknown (i.e. How much revenue this starts to add from H2:23E onwards?).

Figure 2: MRM South Africa - Revenue Contribution (Historical & Forecast)



Sources: Metrofile Holdings, various records & Blue Gem Research workings & assumptions

- As can be seen in Figure 2, the MRM South Africa’s revenue *mix* in this segment is shifting steadily in favour of digital services while the traditional storage business maintains its core run-rate.
- While hard to say the pace of revenue mix change over time (and we have arguably been conservative in forecasts the growth rate of digital revenues – as can be seen by extending the red line above from its most recent trajectory), we are confident to say that the digital growth tailwinds are likely to remain in the Group and, as the nominal revenue amount from these services rises, it should lift the Group’s forward growth rate towards its own growth rate.

## MRM Rest of Africa

Forecast & DCF (Rm's):	H1:22	FY 22A	H1:23A	FY 23E	H2:23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	3.0%	5.5%	2.0%	2.2%		6.7%	6.2%	5.7%	5.2%	4.7%	4.2%	3.7%	3.2%
Non-storage Revenue Contribution (%)	21.0%	12.0%	16.0%	11.7%		11.6%	11.4%	11.2%	11.1%	10.9%	10.8%	10.8%	10.7%
EBITDA Margin (%)	47.5%	47.7%	47.2%	44.4%		44.1%	44.8%	45.2%	45.4%	45.4%	45.1%	44.6%	43.8%
Revenue	45	91	52	100		107	116	126	136	146	156	166	176
Growth (y/y %)	-54.9%	102.8%	-42.5%	9.6%		7.0%	8.9%	8.4%	7.9%	7.4%	7.0%	6.5%	6.0%
EBITDA	21	43	25	44		47	52	57	62	66	70	74	77
Working Capital	-	1	-	-3		-0	-1	-1	-1	-1	-1	-1	-1
Capex	-	-11	-	-4		-12	-12	-13	-14	-14	-14	-14	-13
Tax	-3	-8	-4	-6		-7	-8	-9	-10	-11	-12	-12	-13
Free Cash Flow (FCF)	18	25	21	31	10	28	31	34	37	41	44	47	50
Discount Factor					0.90	0.72	0.58	0.47	0.38	0.31	0.25	0.20	0.16
Discounted FCF					9	21	18	16	14	12	11	9	105
Enterprise Value (EV)													R215m
EV/EBITDA (x)													4.6x

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

- Net box growth of +2% y/y, robust pricing and new clients all contributed to a good period in the MRM Rest of Africa segment (namely, Kenya, Botswana and Mozambique).
- Revenue grew +17% y/y (with some forex tailwinds), operating leverage lifted operating profits further by +32% y/y and the EBITDA margin remained strong at 47% (H1:22 – 47%).
- While these operations are predominantly box-related, management is exploring how to introduce digital services into their offering, likely with very little capex and leveraging the Group's existing MRM South Africa operations. We have not modelled any of this in but will be watching for a revenue mix change in future results to indicate (possibly high margin) traction from this potential vector.
- We have lowered net box growth in FY 23E from +7.0% y/y to only +2.2% y/y to reflect the slower Kenyan financial services sector but have lifted our pricing model, thus seeing revenue rise fractionally. Margins, though, factor in higher inflation too and, thus, our forecast bottom-line for FY 23E remains static to our previous note.

## MRM Middle East

Forecast & DCF (Rm's):	H1:22	FY 22	H1:23	FY 23E	H2:23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	2.0%	7.9%	5.0%	15.5%		15.0%	14.7%	14.4%	14.1%	13.7%	13.4%	13.0%	12.6%
Non-storage Revenue Contribution (%)	76.2%	73.0%	70.5%	67.1%		65.4%	63.7%	62.1%	60.5%	58.9%	57.4%	56.0%	54.6%
EBITDA Margin (%)	31.5%	22.1%	24.9%	19.7%		24.9%	29.8%	34.4%	38.7%	42.7%	46.4%	49.9%	53.1%
Revenue	47	86	48	91		103	115	129	145	163	183	206	231
Growth (y/y %)	-39.8%	10.4%	2.7%	6.8%		12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	12.2%	12.1%
EBITDA	15	19	12	18		26	34	44	56	70	85	103	122
Working Capital	-	-1	-	-3		-1	-2	-2	-2	-2	-2	-2	-3
Capex	-	-11	-	-7		-8	-9	-11	-13	-15	-17	-20	-23
Tax	-	-	-	-		-	-	-	-	-	-	-	-
Free Cash Flow (FCF)	15	7	12	8	-3	17	24	32	42	53	66	80	97
Discount Factor					0.90	0.72	0.58	0.47	0.38	0.31	0.25	0.20	0.16
Discounted FCF					-3	12	14	15	16	16	16	16	308
Enterprise Value (EV)													R410m
EV/EBITDA (x)													25.4x

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

- While hard to tell from the flat top-line (+3% y/y), MRM Middle East had a superb year. The prior period included a one-off c.R5m high-margin project that did not repeat in the current H1:23 period. If we strip this out of the prior period revenue, MRM Middle East saw organic (almost entirely digital) growth of +15~17% y/y. A similar exercise can be applied to the segment's bottom-line. All this is extremely exciting for an increasingly important segment in the Group.
- During the period, Metrofile Holdings acquired an additional 15% stake in this segment's underlying business (taking the Group's interest from 80% to 95%). A total of c.R25.5m was paid for this stake, implying an Enterprise Value of c.R170m, which compares favourably versus our estimated fair value of c.R410m for this segment. Management has confirmed that they believe the pricing of this deal

was favourable to the Group, but also leaves existing management with a 5%-stake and, thus, still with “skin in the game” aligning them with the business’s interests.

- Given this segment’s above-average growth profile, large weighting of digital revenues (c.70% of H1:23 revenues were digital services) and the upweighting of the Group’s shareholding percentage in the business, MRM Middle East is increasing in importance and contribution to the Group’s consolidated results. We consider this a good thing.

## Product & Services

### Products & Services (including IronTree Internet Services\*)

Forecast & DCF (Rm's):	H1:22	FY 22A	H1:23	FY 23E	H2:23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Non-storage Revenue Contribution (%)	94.2%	95.0%	96.0%	96.2%		96.6%	96.9%	97.2%	97.5%	97.7%	97.9%	98.0%	98.1%
EBITDA Margin (%)	18.3%	17.9%	18.9%	27.2%		28.9%	30.1%	30.6%	31.1%	30.5%	28.6%	29.5%	29.3%
Revenue*	118	264	161	348		392	441	491	548	604	656	712	760
*IronTree Revenue (inc. above)	5	37	29	82		106	133	160	192	220	242	267	283
Growth (y/y %)	-43.2%	27.4%	36.6%	31.7%		12.9%	12.3%	11.4%	11.7%	10.2%	8.5%	8.6%	6.8%
EBITDA	22	47	30	95		114	133	150	170	184	187	210	222
Working Capital	-	-8	-	-16		-4	-7	-7	-8	-7	-6	-8	-6
Capex	-	-18	-	-25		-27	-30	-33	-36	-40	-	-48	-53
Tax	-4	-8	-5	-18		-22	-26	-30	-34	-35	-34	-38	-39
Free Cash Flow (FCF)	18	14	26	36		10	60	69	80	93	102	147	116
Discount Factor						0.94	0.84	0.75	0.67	0.60	0.53	0.48	0.43
Discounted FCF						10	50	52	54	56	54	70	50
Enterprise Value (EV)**													R1,296m
EV/EBITDA (x)													23.1x

Sources: Metrofile Holdings, Iress, Profile Media & Blue Gem Research workings & assumptions; \*IronTree revenue shown separately for illustrative purposes, but it is consolidated into the segment for forecast and valuation purposes; \*\* EV includes both existing businesses and 100% of IronTree EV, where IronTree minorities are taken out of the Group Sum-of-the-Parts (Table 5)

- Products & Services had a strong period with revenue bolting ahead by +37% y/y and, even excluding IronTree’s full consolidation for the period, saw revenue growth of +12% y/y. Particularly, Metrofile VYSION (the Group’s greenfield workflow automation solution) saw sales grow +50% y/y.
- Tidy Files was negatively impacted by a flooding of its factory in December but more than made up for this loss of production and—despite loadshedding interruptions—Tidy Files achieved revenue growth.
- A complex number of variables are operating in this segment but, on balance, we see FY 23E prospects improving further in H2:23E and have lifted our forecast revenue and EBITDA by +3% and +11% respectively.
- Further out, how IronTree begins to accelerate through cross-selling (little of that occurred in these numbers so far) and how Metrofile VYSION captures the enterprise market will be key in forward revenues. We have, broadly, maintained our long-term assumptions here but may consider revising them (up or down) as the time goes on and a longer running track record is established in digital services here.

## Macro Environment

### Global Environment:

- COVID has receded:** While COVID is not gone, the pandemic has devolved into an endemic. Importantly from an economic perspective, Government lockdowns around the world have been completely lifted. This is a net positive for economies as activity can and, in most sectors, is returning to normal.
- Higher inflation, higher interest rates & higher recessionary risks:** Globally and domestically, inflation remains higher than recent history that has necessitated strongly restrictive monetary policies from around the world. While the speed and levels of inflation and global interest rates are unprecedented in recent history, it is hard to know where and when both will peak and if this occurs before or after they have pushed regional and/or global economies into a recession and/or credit crisis-like effects.

- **Geopolitics remains a key concern:** The Russian-Ukraine war continues while China-US tensions remain high, particularly around Taiwan. Increasingly, unrest is being seen in countries around the world as inflation, energy prices and food become increasing pressure points in society. This is hard to forecast or predict from our perspective but remains a headwind against growth.

### Domestic Environment: Driven by Eskom, Transnet & Global Events

- **Eskom failure:** Continuous and relentless loadshedding by South Africa’s power utility, Eskom, remains in effect. The cost, interruptions, and knock-on effects of this and the increasing probability of a complete grid failure continue to weight on the domestic economy.
- **Transnet failure:** 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. We continue watching this closely, but at this point we do not yet know the shape or form of private sector help in this area.
- **Greylisting of South Africa:** The recent FATF greylisting of South Africa has occurred and, at this junction, its ultimate effects are unknown on the South African economy, its capital flows and linkages into the global economy.
- **Political Risk:** Finally—and intricately linked to the failure of Eskom and Transnet—South Africa is walking through a period of elevated political risk leading up to the 2024 National Election.

### Forecast, Valuation & 12m TP Update

- Earlier in this note, we highlighted some of our segmental-level assumptions adjustments. These adjustments were mostly to the H2:23E/FY 24E period and we have left most of our long-term assumptions unchanged (see our [Initiation of Coverage](#) for detail & backing on these). We believe that they remain valid.
- We have updated some model-wide assumptions and variables, namely:
  - Adjusted our risk-free rate to reflect the South African 10-year bond’s higher yield of 10.02% (previously: 10.60%), &
  - Lifted our Cost of Debt to reflect the SARB interest rate hike (*and* assumed a *further* series of 50bps in rate hikes coming during the period).
- The combination of the segmental-level work and the updated global assumptions arrive at a Sum-of-the-Parts (SOTP) fair value of 426cps (previously: 404cps) which is quite a bit higher than the 300cps-range the share price is currently trading at.

**Table 6: Metrofile Group’s Sum-of-the-Parts (SOTP) Fair Value & 12m TP**

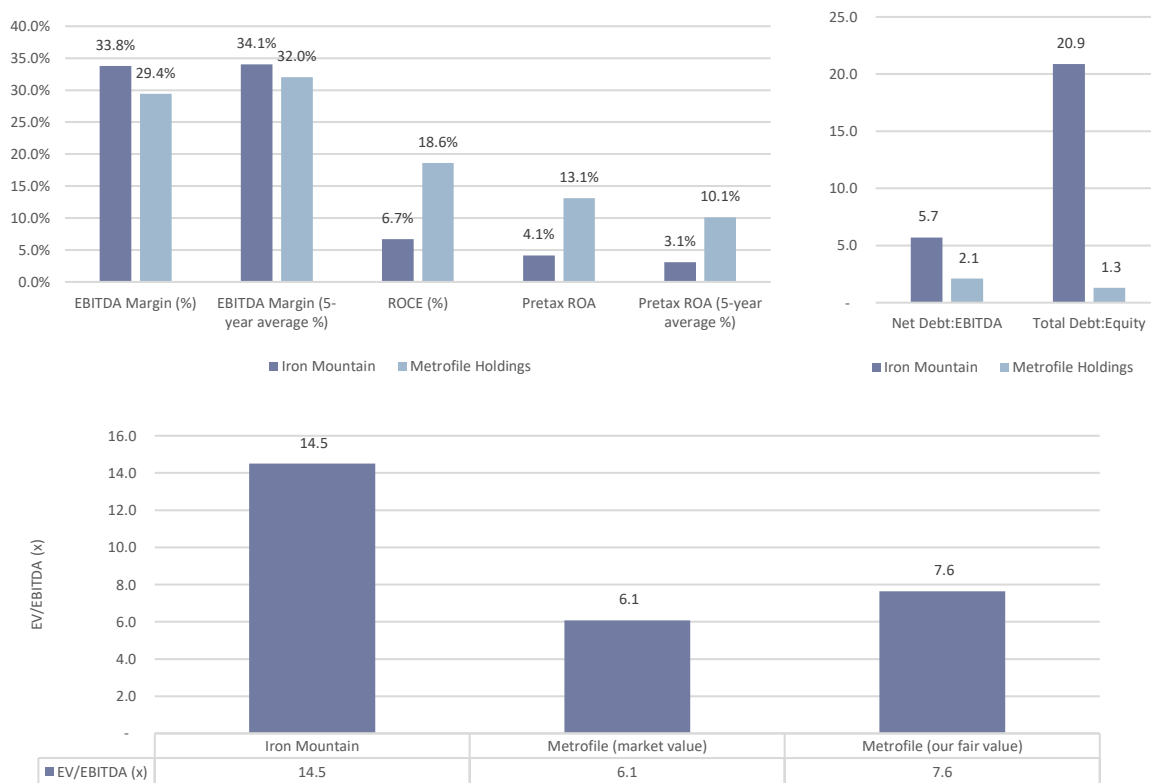
	Sum-of-the-Parts	Implied EV/EBITDA (x)	Implied Price Earnings (x)
MRM South Africa	R1,350,934,872	5.4x	
MRM Rest of Africa	R215,163,848	4.6x	
MRM Middle East	R409,804,638	25.4x	
Product & Solution	R1,296,419,082	23.1x	
Less: IronTree (30%-minorities)	-R66,971,541		
Group	-R656,156,821		
<b>Enterprise Value (EV)</b>	<b>R2,549,194,079</b>	<b>7.6x</b>	
Net Debt, Acquisition & Lease Liabilities	-R703,284,000		
<b>Fair Value</b>	<b>R1,845,910,079</b>		<b>13.8x</b>
<b>Fair Value (cps)</b>	<b>426cps</b>		<b>13.8x</b>
<b>12m TP (cps)</b>	<b>496cps</b>		<b>13.2x</b>

Sources: Metrofile, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions; \* Includes IronTree’s enterprise value; \*\* Previously not included in net debt, removes c.34cps value.

- Table 6’s SOTP fair value for Metrofile implies an EV/EBITDA of 7.6x and a Price Earnings (PE) of 13.8x.
- Both of these measures compare attractively to Iron Mountain (IRM) which is trading at an EV/EBITDA of 14.5x and a PE of 27.4x (Figure 3).

- Iron Mountain operates predominantly in the USA (which has a materially lower risk-free rate and better sovereign rating) and the Group is materially larger than Metrofile, thus weakening this comparison.
- Yet, it is equally valid to point out that Metrofile has in fact the same-or-better returns and a significantly lower relative debt (even if we include IFRS 16 leases into its gearing) in its capital structure.
- Hence, for a listed comparative, we still believe Iron Mountain remains a reasonably good peer to compare Metrofile and its valuation against. And, against this measure, Metrofile remains attractive.

Figure 3: 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.
- What is clear with the latter comparison is how much *higher* the market values these digital businesses *despite* all of them earnings far inferior returns on their capital. As a greater percentage of Metrofile’s revenues come from the digital space, this fact may start to become more material and see the Group’s valuation re-rating upwards.

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

Name	Market Cap. (USD bn)	EV/EBITDA (x)	FCF Yield (%)	PE (x)	P/S (x)	Dividend Yield (%)	Dividend Yield (5-year ave. %)	ROCE (%)	Pretax ROA	Pretax ROA (5-year ave. %)
Iron Mountain	\$15,2bn	14.5x	267.9%	27.4x	3.0x	4.7%	6.8%	6.7%	4.1%	3.1%
Metrofile Holdings	\$0.73bn	6.1x	2.9%	10.0x	1.3x	5.8%	5.8%	18.6%	13.1%	10.1%
<b>Metrofile Discount</b>		<b>58%</b>	<b>-99%</b>	<b>63%</b>	<b>58%</b>	<b>23%</b>	<b>-14%</b>			
<b>Digital Storage Peer Average</b>		<b>20.1x</b>	<b>5.0%</b>	<b>64.1x</b>	<b>6.1x</b>	<b>2.2%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>3.4%</b>	<b>-1.3%</b>
Equinix Inc	\$64bn	23.8x	0.9%	90.1x	8.8x	2.0%	1.8%	4.2%	2.8%	2.3%
Digital Realty Trust	\$30bn	22.3x	2.8%	91.8x	6.6x	4.6%	3.5%	1.5%	1.1%	2.4%
Dropbox Inc	\$7bn	14.2x	11.1%	10.5x	3.0x	0.0%	0.0%	0.0%	6.2%	-8.6%

Sources: Refinitiv, various reports & Blue Gem Research workings & assumptions (March 2023)



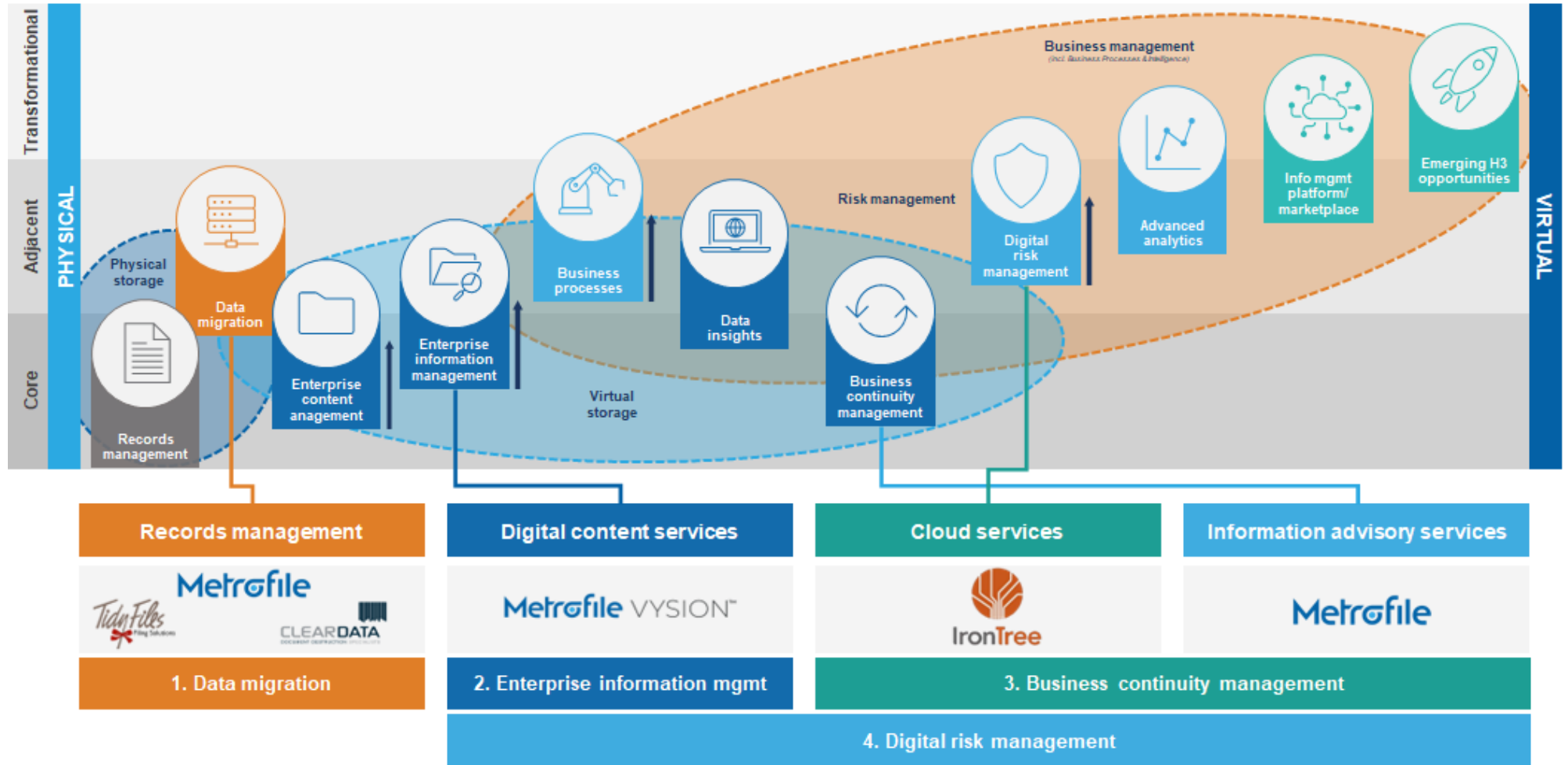
- All in all, we are comfortable with our segmentally-driven SOTP fair value for Metrofile and believe that against relative measures it holds up as a justifiable valuation.
- Rolling our fair value for Metrofile forward by our Cost of Equity, we arrive at a 12m TP of 496cps (previously: 473cps) which implies an attractive 60% 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:**
  - Global and domestic inflationary, rising rates and recessionary pressures,
  - Sovereign and macro risks, including South African, African & Middle Eastern and economic/political deterioration and 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,
  - 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.

### Annexure A: Illustration of Metrofile’s Digital Evolution



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*\* Market prices have all been taken during 15 March 2023.*

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