

Metrofile Holdings Ltd

Great Top-line Growth

Share Code: MFL – Market Cap: R1.3bn – PE: 9.3x – DY: 6.0%

12m Target Price	500cps
Share Price	300cps
Implied Return	65%

Business Support | South Africa

FY 23 Results: Double-digit Organic Growth

- Metrofile revenue grew per our forecasts at +16y/y (+3% added via the consolidation of IronTree for the full period and, importantly, +13% of this growth was organic in nature) but EBITDA was slightly lighter than we expected at R345m (FY 22: R325m) as inflationary pressure, the full cost of the prior year's established go-to-market team was carried and necessary IT upgrades were all carried in these results.
- The Group bought back 10m shares, helping HEPS grow +5% y/y to 32.1cps (FY 22: 30.8cps) and the dividend was maintained at 18cps (FY 22: 18cps).

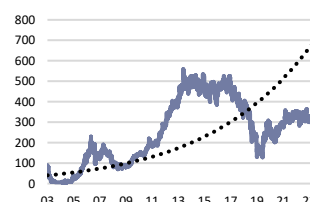
Our Thoughts: Two Large, Near-term Contract Wins Offer Upside

- The Group's MRM South Africa and MRM Middle East both won *significant* contracts during the period. While the South African one's timing is hard to know (we have excluded it from our forecasts), the Middle Eastern contract should start generating revenue from the end of FY 24E (included in our forecasts from the start of FY 25E).
- Note:** These two contracts *alone* add c.+20% to Group annual revenues for the periods they occur, we cannot understate how significant they (and their timing) are to Metrofile's next couple of financial years.

Forecast, Valuation and Implied Return: Inexpensive quality

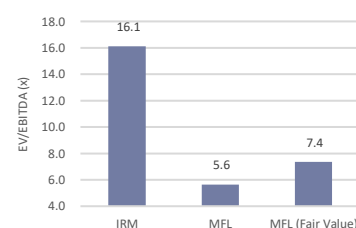
- We see Metrofile's fair value as 423cps (previously: 426cps), implying an EV/EBITDA of 7.4x & a PE of 13.2x (comparing attractively to Iron Mountain's current EV/EBITDA of 16.1x & PE of 47.8x).
- Rolling our fair value forward, we arrive at a 12m TP of 500cps (previously: 496cps), implying an attractive c.65% return (including dividends) from these levels.
- Given the fast growth in Digital Services over the period and the significant premium these businesses trade at in public markets, we are increasingly expecting some sort of inflection points in the coming years where Metrofile's valuation starts to reflect the growing percentage of revenue coming from Digital Services.

Share Price – Metrofile Holdings Ltd



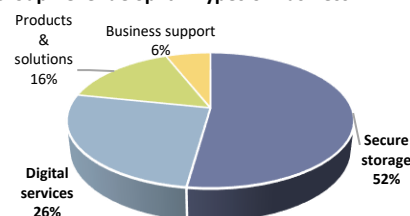
Sources: I-Net Bridge, Blue Gem Research

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 %	FY 22A	YoY %	FY 23A	YoY %	FY 24E	YoY %	FY 25E	YoY %
Revenue	933	3%	980	5%	1,134	16%	1,236	9%	1,443	17%
EBITDA	323	7%	325	1%	345	6%	378	10%	422	12%
HEPS (cps)	31.9cps	29%	30.8cps	-3%	32.1cps	4%	33.0cps	3%	40.9cps	24%
Return on Equity (%)	24.8%	-	23.9%	-	24.5%	-	22.4%	-	24.8%	-
Price Earnings Ratio (x)	9.4x	-	9.7x	-	9.3x	-	9.1x	-	7.3x	-
DPS (cps)	15cps	15%	18cps	20%	18cps	0%	19cps	6%	23cps	21%
Dividend Yield (%)	5.0%	-	6.0%	-	6.0%	-	6.3%	-	7.7%	-

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 %	FY 22A	YoY %	FY 23A	YoY %	FY 24E	YoY %	FY 25E	YoY %
Revenue	933	3%	980	5%	1,134	16%	1,236	9%	1,443	17%
MRM South Africa	549	1%	539	-2%	613	14%	647	6%	693	7%
MRM Rest of Africa	100	-6%	91	-9%	105	15%	113	8%	124	10%
MRM Middle East	77	42%	86	10%	99	15%	109	11%	205	88%
Products & Services	207	4%	264	27%	318	20%	367	15%	421	15%
EBITDA	323	7%	325	1%	345	6%	378	10%	422	12%
<i>EBITDA Margin (%)</i>	<i>34.6%</i>	<i>-</i>	<i>33.2%</i>	<i>-</i>	<i>30.4%</i>	<i>-</i>	<i>30.5%</i>	<i>-</i>	<i>29.3%</i>	<i>-</i>
Operating Profit	241	11%	240	0%	255	6%	284	11%	321	13%
Net finance charges	-49	-24%	-49	-1%	-58	18%	-89	54%	-88	-1%
Net Profit (Parents)	138	>100%	134	-3%	138	3%	140	1%	173	24%
<i>Weighted Ave. Number of Shares (millions)*</i>	<i>433.7</i>	<i>1%</i>	<i>433.7</i>	<i>0%</i>	<i>429.2</i>	<i>-1%</i>	<i>424.0*</i>	<i>-1%*</i>	<i>424.0*</i>	<i>0%*</i>
EPS (Continuing Operations - cps)	31.9cps	>100%	30.8cps	-3%	32.1cps	4%	33.0cps	3%	40.9cps	24%
HEPS (cps)	31.9cps	29%	30.8cps	-3%	32.1cps	4%	33.0cps	3%	40.9cps	24%
<i>Price Earnings Ratio (x)</i>	<i>9.4x</i>	<i>-</i>	<i>9.7x</i>	<i>-</i>	<i>9.3x</i>	<i>-</i>	<i>9.1x</i>	<i>-</i>	<i>7.3x</i>	<i>-</i>
Dividend Per Share (cps)	15cps	15%	18cps	20%	18cps	0%	19cps	6%	23cps	21%
<i>Dividend Yield (%)</i>	<i>5.0%</i>	<i>-</i>	<i>6.0%</i>	<i>-</i>	<i>6.0%</i>	<i>-</i>	<i>6.3%</i>	<i>-</i>	<i>7.7%</i>	<i>-</i>
<i>Dividend Cover (x)</i>	<i>2.1x</i>	<i>-</i>	<i>1.7x</i>	<i>-</i>	<i>1.8x</i>	<i>-</i>	<i>1.7x</i>	<i>-</i>	<i>1.8x</i>	<i>-</i>
Property, Plant & Equipment	595	0%	610	2%	607	-1%	591	-3%	573	-3%
Goodwill	314	-1%	372	19%	374	0%	412	10%	412	0%
Intangible Assets	44	-13%	68	55%	70	3%	100	44%	85	-16%
Total Assets	1,353	-2%	1,492	10%	1,575	6%	1,008	-36%	1,110	10%
Shareholder's Equity (Parent)	559	12%	560	0%	563	1%	624	11%	700	12%
NAV per share (cps)	129cps	17%	129cps	0%	133cps	3%	147cps	11%	165cps	12%
Net Debt	434	-18%	446	3%	496	11%	582	17%	498	-14%
<i>Net Debt:EBITDA (x)</i>	<i>1.3x</i>	<i>-</i>	<i>1.4x</i>	<i>-</i>	<i>1.4x</i>	<i>-</i>	<i>1.5x</i>	<i>-</i>	<i>1.2x</i>	<i>-</i>
<i>Net Debt:Equity (%)</i>	<i>0.8</i>	<i>-</i>	<i>0.8</i>	<i>-</i>	<i>0.9</i>	<i>-</i>	<i>0.9</i>	<i>-</i>	<i>0.7</i>	<i>-</i>
Approximate Free Cash Flow	209	75%	213	2%	169	-21%	239	142%	254	106%
Free Cash Flow / EBITDA Conversion (%)	65%	-	65%	-	49%	-	63%	-	60%	-
Free Cash Flow Yield (%)	10.4%	-	10.5%	-	8.4%	-	11.9%	-	12.6%	-
Return on Equity (%)	24.8%	-	23.9%	-	24.5%	-	22.4%	-	24.8%	-
Return on Assets (%)	10.2%	-	9.0%	-	8.8%	-	13.9%	-	15.6%	-
<i>Price Earnings Ratio (x)</i>	<i>9.4x</i>	<i>-</i>	<i>9.7x</i>	<i>-</i>	<i>9.3x</i>	<i>-</i>	<i>9.1x</i>	<i>-</i>	<i>7.3x</i>	<i>-</i>
<i>Price-to-Book (x)</i>	<i>2.3x</i>	<i>-</i>	<i>2.3x</i>	<i>-</i>	<i>2.3x</i>	<i>-</i>	<i>2.0x</i>	<i>-</i>	<i>1.8x</i>	<i>-</i>
<i>Current Ratio</i>	<i>1.3x</i>	<i>-</i>	<i>1.3x</i>	<i>-</i>	<i>0.5x</i>	<i>-</i>	<i>1.0x</i>	<i>-</i>	<i>0.4x</i>	<i>-</i>

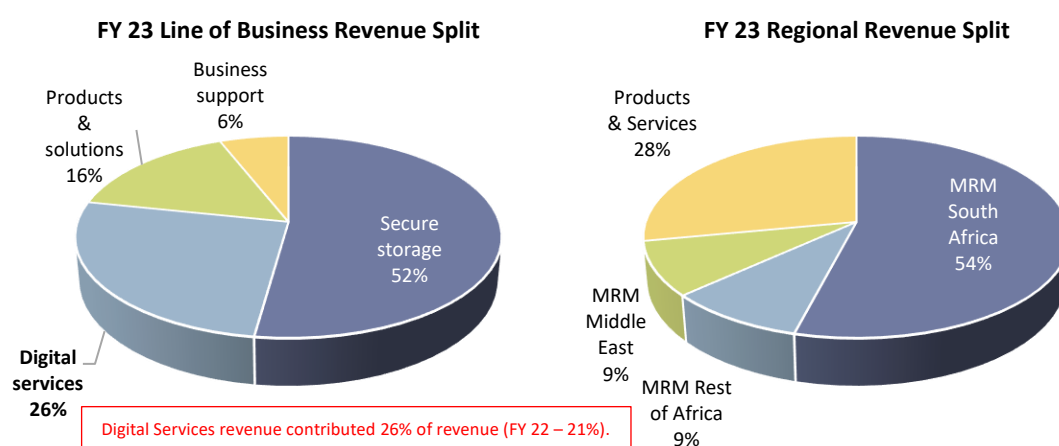
Sources: Metrofile Holdings various reports, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions; * We do not forecast any share buy-backs, though we note that management have specifically highlighted this as part of their capital allocation strategy, and we expect this to be forthcoming & earnings enhancing at the current share price.

Summary of FY 23 Results

Metrofile Holdings (code: MFL) reported a period characterized by strong revenue growth lifted by increasing digital revenues pushing against interest rate and inflationary headwinds lower down the P&L:

- Group revenue grew spot on with our expectations at +16y/y (+3% added via the consolidation of IronTree for the full period and, importantly, +13% of this growth was organic in nature):
 - **Excluding IronTree’s full consolidation for the period, Digital Services still grew +32% y/y (+44% including IronTree) and contributed 26% of Group revenue for the period.**
 - Unfortunately, MRM South Africa’s public sector net box outflows pushed Group net boxes backwards by -3% y/y, but good box price increases and Middle Eastern (+10%) and African (+3%) net box growth helped offset this – Note the large contracts won post-year end here.
 - Other strong topline growth drivers were the newly established go-to-market industry team starting to yield wins, and a recovery in Products and Solutions.

Figure 1: Metrofile Holdings Regional & Segmental Revenue



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

- Group EBITDA was slightly lighter than we expected at R345m (FY 22: R325m) as inflationary pressure, the full cost of the prior year’s established go-to-market team was carried and necessary IT upgrades were all carried in these results.
- Likewise, interest rates carried on rising during the period, pushing Group net finance costs +18% to R58m (in line with our forecasts of R59m), taking some shine of the bottom-line.
- The Group bought back 10m shares at an average price of 336cps, which helped Headline Earnings Per Share (HEPS) grow +5% y/y to 32.1cps (FY 22: 30.8cps) or slightly below our forecast of 33.7cps. The dividend was maintained at 18cps (FY 22: 18cps).
- Cash conversion was somewhat lower with only 80% of EBITDA converting into operating cash flow (FY 22: 95%, & historically this is normally close to 100%), but management highlight this as a focus area in the coming year and we expect it to normalize.
- From lower cash generation, capex and acquisitive spend (the above noted share buy-back and the acquisition of a further 15% of the Middle Eastern business), net debt rose +11% but the Group remained well within covenants and refinanced its facilities at a slightly lower all-in rate (-0.25bps).
- **Interestingly and as hinted during the interim period, the Group has won two significant contracts:**
 - **MRM South Africa: R417m revenue over 3 years**
 - This is in the public sector space and, after being awarded the tender, is now being legally contested by one of the unsuccessful bidders. Management is confident that the Group’s successful bid will be upheld but are uncertain as to the timing of this contract due to this legal challenge.

- At R417m revenue over 3 years, this adds R139m per year or +12% to Group revenues, which is significant, though should incur some upfront capex.
- That said, given the uncertainty of the timing of this revenue, we have decided not to factor it into our forecasts and, thus, note it as a key upside risk to our forecasts.
- **MRM Middle East: R180m revenue over 2 years**
 - This project is not just valuable in size (it adds +8% to Group revenues for the two years it runs) but it also is an extension of existing activities and, thus, should attract little additional capex to execute on (i.e. better margins).
 - Management expect this contract to begin towards the back half of H2:24E, but we have only taken its revenues into account in the FY 25E and FY 26E forecast periods.
- **Given that these two contracts alone add c.+20% to Group annual revenues for the periods they occur, we cannot understate how significant they (and their timing) are Metrofile’s next couple of financial years.**

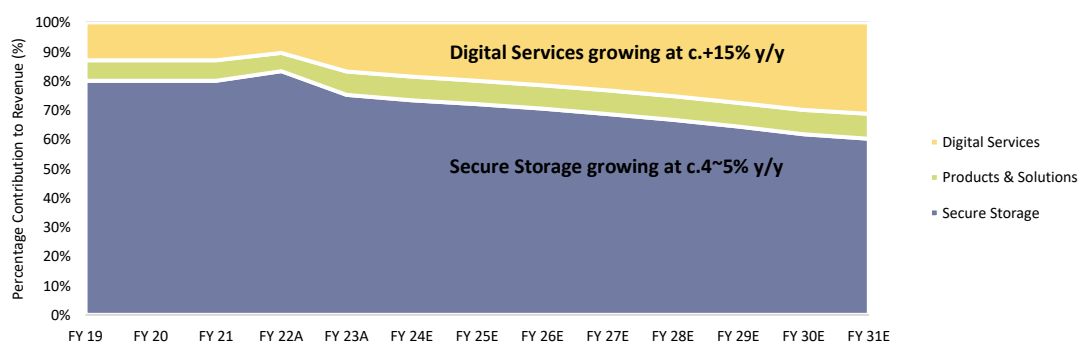
MRM South Africa

Forecast & DCF (Rm's):	FY 22A	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	2.1%	-4.5%	2.4%	1.6%	0.9%	0.1%	-0.6%	-1.4%	-2.1%	-2.9%
Non-storage Revenue (%)	20.0%	25.0%	26.6%	28.0%	29.6%	31.4%	33.5%	35.8%	38.4%	40.0%
EBITDA Margin (%)	46.3%	40.9%	40.1%	40.1%	39.9%	39.5%	38.9%	38.1%	37.3%	34.9%
Revenue	539	613	647	693	739	785	832	880	928	957
Growth (y/y %)	103.4%	13.8%	5.5%	7.1%	6.7%	6.3%	6.0%	5.7%	5.5%	3.1%
EBITDA	250	251	259	278	295	310	324	335	346	334
Working Capital	-0	-18	-3	-6	-8	-10	-8	-8	-9	-5
Capex	-17	-14	-7	-6	-3	-1	-12	-12	-12	-12
Tax	-53	-56	-57	-62	-66	-70	-74	-77	-80	-77
Free Cash Flow (FCF)	179	163	191	205	217	229	229	238	244	240
Discount Factor			0.88	0.78	0.69	0.61	0.54	0.48	0.43	0.38
Discounted FCF			169	160	151	141	125	114	104	914
Enterprise Value (EV)										R1,878m
EV/EBITDA (x)										7.5x

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

- MRM South Africa performed better than we expected with revenue growing to R613m (FY 22: R539m) but the increased mix of image processing revenues (low margin) and the full period’s cost of the go-to-market team all created some downward pressure on its margins. Despite this, this segment outperformed our forecast EBITDA of R241m to generate EBITDA of R251m (FY 22: R249.5m).
- A key disappointment was in the box volumes that saw a net decrease of -4% y/y (we had forecast -1% net box contraction) and centred around public sector withdrawals and destructions that we do not expect to be repeated. Despite the volume headwinds, we calculate that some good price increases were absorbed by the market and—especially as net withdrawals open capacity up for new inflows without concomitant capex required—we expect this to add nicely to FY 24E/25E.

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



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

- In terms of segmental forecasts, we have stuck to our traditional historical average box growth, though lowered some capex expectations in this segment for two reasons: (1) Spare capacity in the box footprint from the recent redemptions implies less required expansionary capex, & (2) Capex flatlines as Digital Services grows boosting free cash flow but at the expense of EBITDA margin.
- Finally, we have pushed box pricing up to current levels and assumed it is maintained. We have further increased our digital and services revenues expectations to reflect the improving growth prospects.
- Note the disputed public sector contract worth R417m over 3 years that was won post period. Due to the uncertainty around it and its timing, we have not included it in our forecasts though we note how it would add c.22% to MRM South Africa’s annual revenues.

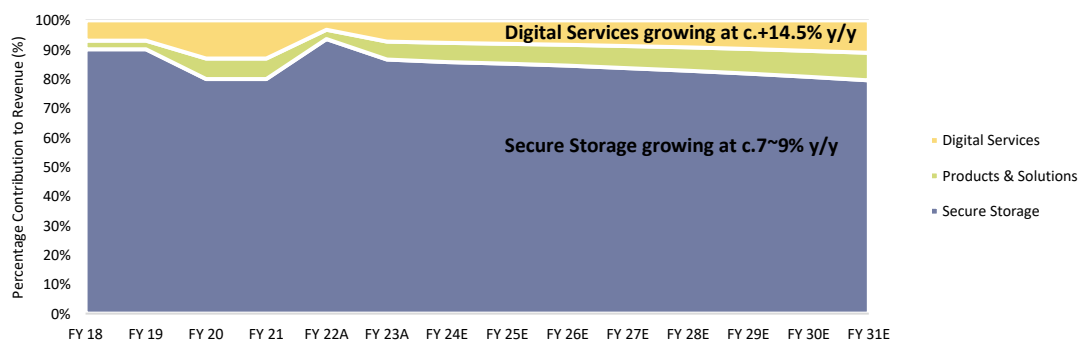
MRM Rest of Africa

Forecast & DCF (Rm's):	FY 22A	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	5.5%	2.8%	6.6%	6.1%	5.6%	5.1%	4.6%	4.1%	3.6%	3.1%
Non-storage Revenue Contribution (%)	12.0%	16.0%	16.7%	17.3%	17.9%	18.7%	19.5%	20.4%	21.5%	22.7%
EBITDA Margin (%)	47.7%	42.3%	42.7%	43.9%	44.9%	45.6%	46.1%	46.5%	46.7%	46.7%
Revenue	91	105	113	124	136	148	161	174	188	202
Growth (y/y %)	102.8%	14.9%	8.2%	9.8%	9.4%	9.0%	8.6%	8.2%	7.9%	7.5%
EBITDA	43	44	48	55	61	68	74	81	88	94
Working Capital	1	-3	-1	-1	-2	-2	-2	-2	-2	-2
Capex	-11	-12	-31	-32	-34	-35	-36	-36	-35	-34
Tax	-8	-8	-9	-11	-12	-14	-16	-17	-19	-21
Free Cash Flow (FCF)	25	21	8	10	13	16	21	26	31	38
Discount Factor			0.79	0.63	0.50	0.40	0.31	0.25	0.20	0.16
Discounted FCF			6	7	7	7	7	6	6	7
Enterprise Value (EV)										R122m
EV/EBITDA (x)										2.8x

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

- Consisting of Kenya, Botswana and Mozambique, MRM Rest of Africa traded in line with our revenue and EBITDA expectations. Revenue grew +15% y/y to R105m (FY 22: R91m) and EBITDA was maintained at R44m (FY 22: R43m).
- A key miss at a Group level was in our effective tax rate assumptions that were too low and management explain that most of this originated from this regional segment. They expect this to reverse in the next period and, thus, we have kept our flat effective tax rate assumptions unchanged.
- Net boxes grew +3% y/y and, excitingly, Digital Service revenues are starting to pick up as the Group’s operations in these regions spearhead sales here.

Figure 3: MRM Rest of Africa - Revenue Contribution (Historical & Forecast)



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

- We have maintained our baseline box growth assumptions while slightly lifting our Digital Services run-rate. We have updated inflationary inputs but maintained capex and related assumptions. Some of the geographic growth is hard to model, though we consider it upside risk (as opposed to downside).

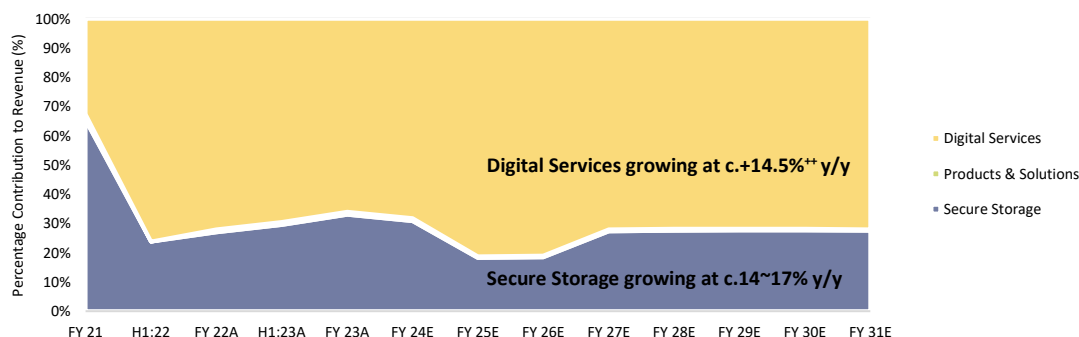
MRM Middle East

Forecast & DCF (Rm's):	FY 22A	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	7.9%	9.7%	14.4%	13.9%	13.4%	12.9%	12.4%	11.9%	11.4%	10.9%
Non-storage Revenue Contribution (%)	73.0%	67.0%	69.2%	80.8%	80.5%	70.5%	70.3%	70.2%	70.2%	70.3%
EBITDA Margin (%)	22.1%	27.6%	30.4%	18.8%	24.7%	42.6%	46.7%	50.5%	53.9%	57.1%
Revenue	86	99	109	205	235	180	207	237	271	310
Growth (y/y %)	10.4%	15.3%	10.7%	87.7%*	14.8%	-23.5%**	14.7%	14.6%	14.4%	14.3%
EBITDA	19	27	33	39	58	77	97	120	146	177
Working Capital	-1	-3	-1	-11	-4	5	-4	-4	-5	-5
Capex	-11	-12	-20	-24	-28	-32	-37	-43	-49	-56
Tax	0	0	-2	-3	-5	-6	-8	-10	-12	-15
Free Cash Flow (FCF)	6	11	9	1	21	43	48	63	80	101
Discount Factor			0.79	0.63	0.50	0.40	0.31	0.25	0.20	0.16
Discounted FCF			7	1	11	17	15	16	16	325
Enterprise Value (EV)										R408m
EV/EBITDA (x)										15.0x

Sources: Metrofile Holdings, Iress, Profile Media & Blue Gem Research workings & assumptions; * Start of the contract; ** End of the contract

- Along with general Digital Services revenues, MRM Middle East (UAE and Oman) continues to grow above the Group's average with its revenues beating our expectations of R91m to come in at R98m (FY 22: R85m) and EBITDA far better than expected at R27.2m (FY 22: R18.9m).
- Digital Services remains the region's major contributor but its net box volumes did grow at double digits (+10% y/y) while implied pricing remained robust.
- The Group acquired an additional 15% in E-file Masters LLC (UAE) for R28m (initial R15.3m and a top-up payment should the business achieve AED6.1m EBITDA at the earlier of 30 June 2023 or 2024). The 15% paid for minorities implies an equity value of c.R186m, which compares favourably with our implied Enterprise Value of c.R408m for the segment and is value accretive from a Group capital allocation perspective.

Figure 4: MRM Middle Easter Revenue Contribution - (Historical & Forecast)



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

- We have kept our major long-term assumptions unchanged here, though the region has seen a corporate tax rate increase to 9% (FY 23: 0%). Similarly to the MRM Rest of Africa segment, we have not specifically modelled geographic expansion and consider this an upside risk to our forecasts.
- As with MRM South Africa, we note that this region has won a significant contract post-year end. This project is not just valuable in size (it adds +8% to Group revenues for the two years it runs) but it also is an extension of existing activities and, thus, should attract little addition capex to execute on (i.e. better margins). Management expect this contract to begin towards the back half of H2:24E, but we have only taken its revenues into account in the FY 25E and FY 26E forecast periods.

Product & Services

Products & Services

Forecast & DCF (Rm's):	FY 22A	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Non-storage Revenue Contribution (%)	95.0%	96.0%	96.5%	96.8%	97.2%	97.4%	97.7%	97.9%	98.0%	98.1%
EBITDA Margin (%)	17.9%	18.1%	20.4%	22.0%	22.8%	23.6%	23.3%	21.8%	23.0%	21.0%
Revenue*	264	318	367	421	478	545	612	679	753	799
Growth (y/y %)	27.4%	20.4%	15.4%	14.7%	13.7%	13.9%	12.4%	10.9%	10.9%	6.1%
EBITDA	47	57	75	93	109	129	143	148	173	168
Working Capital	-8	-13	-7	-9	-11	-12	-12	-12	-14	-9
Capex	-18	-18	-20	-22	-24	-26	-29	-32	-35	-39
Tax	-8	-10	-14	-18	-21	-25	-27	-27	-32	-29
Free Cash Flow (FCF)	14	17	34	44	54	65	74	77	91	92
Discount Factor			0.88	0.78	0.69	0.61	0.54	0.48	0.43	0.38
Discounted FCF			30	34	37	40	40	37	39	502
Enterprise Value (EV)*										R760m
EV/EBITDA (x)										13.2x

Sources: Metrofile Holdings, Iress, Profile Media & Blue Gem Research workings & assumptions; * EV includes both existing businesses and 100% of IronTree EV, where IronTree minorities are taken out of the Group Sum-of-the-Parts (Table 7)

- An increasingly important segment as it encompasses IronTree and Metrofile VYISION (both central to the Group's digital strategy), Products & Services grew revenues +20% y/y to R317m (FY 22: R264m) and EBITDA +22% y/y to R57.4m (FY 22: R47.2m).
- Tidy Files recovered despite flooding that occurred December 2022/January 2023 while Metrofile VYISION (only started two years ago) continued to grow fantastically with workflow automation related sales.
- IronTree is ahead of budget and management are planning the expansion of its services into other geographies. Given this great performance, management have an acquisition related liability totalling R79.1m on balance sheet that they do expect to payout during the course of FY 24E (we have taken this off our forecast balance sheet and netted it into cash). While this likely keeps net debt (and related finance costs) higher for longer, it does also consolidate minorities (30% shareholding) and, given IronTree's excellent performance and potential to accelerate this growth into the rest of the Group via cross-selling, we believe that this application of capital should be accretive.
- We have largely kept our forecast assumptions the same here and see excellent growth coming from this segment, though have added back minorities for IronTree from the latter half of FY 24E (fully included from FY 25E for annualizing comparisons).
- It is worth noting how Digital Services growth in the Group (particularly emanating out from this segment) is at a lower EBITDA margin than the traditional box business of the Group. Where Digital Services loses out in margin, it makes up in requiring materially *less* capex and, thus, generating much higher free cash flows. The free cash flow boost coupled with a double-digit long-term growth rate potential should compound across reporting periods to—in three to five years' time—arrive at a Group with arguably structurally different profitability (higher growth, lower margin, and higher free cash flow). We have attempted to model this, but it is an ongoing process to be refined at each reporting period.

Macro Environment

Global Environment:

- **COVID has receded:** This will (hopefully) be the last time we reference the COVID pandemic, as its effects are now in the base and the virus has mutated into an endemic. We have assumed that it stays this way but do note this as an outlier risk in the environment.
- **Higher inflation, higher interest rates & higher recessionary risks:** While global inflation appears to have peaked a number of months ago, across most economies (most importantly, the USA) inflation remains above Central Bank targets despite some of the steepest interest rate hikes in history. Future

interest rates hikes remain a risk in this environment, especially noting the more recent rallies in energy and food prices while labour costs also seem to steadily be rising.

- **Geopolitics remains a key concern:** While the Ukraine-Russia war drags on, a large looming risk is the US-China relations and its knock-on into global economies, supply chains, and inflation.

Domestic Environment: Driven by Eskom, Transnet & Global Events

- **Eskom failure:** The local power utility’s generation remain pressure with almost permanent levels of loadshedding (i.e. managed blackouts) occurring. As the private sector (and, indeed, Metrofile via its solar PV capex) increasingly goes off grid, this should have less impact on the economy, but remains a large background risk and a drag on the country’s fiscus.
- **Transnet failure:** More recently, the mismanagement of Transnet has seen large amounts of lost exports and forced more trucks onto domestic roads. Being such a critical part of the domestic economy, we highlight the negative drag and knock-on effects of Transnet’s failure (or, at very best, underperformance) on the local economy.
- **Greylisting of South Africa:** The recent FATF greylisting of South Africa has occurred and, at this junction, its ultimate effects on the South African economy are unknown as its effects on global capital flows and these linkages into the local economy.
- **Political Risk:** Finally—and intricately linked to the failure of Eskom and Transnet—South Africa is going 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 FY 24E/25E period and we have left most (but not all) 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:
 - Adjusted our risk-free rate to reflect the South African 10-year bond’s higher yield of 10.66% (previously: 10.02%), &
 - Lifted our Cost of Debt to reflect the SARB interest rate hike (*and* assumed a *further* series of c.100bps 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 423cps (previously: 426cps) which is quite a bit higher than the 300cps-range the share price is currently trading at.

Table 7: 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	R1,856,993,413	7.4x	-
MRM Rest of Africa	R120,601,057	2.7x	-
MRM Middle East	R398,451,718	14.6x	-
Product & Solution*	R746,527,089	13.0x	-
Less: IronTree (30%-minorities)	-R35,601,985	-	-
Group	-R550,444,281	-	-
Enterprise Value (EV)	R2,536,527,011	7.4x	-
Net Debt, Acquisition & Lease Liabilities	(R743,106,000)		
Fair Value	R1,793,421,011	7.4x	13.2x
Fair Value (cps)	423cps	-	13.2x
12m TP (cps)	500cps	-	15.0x

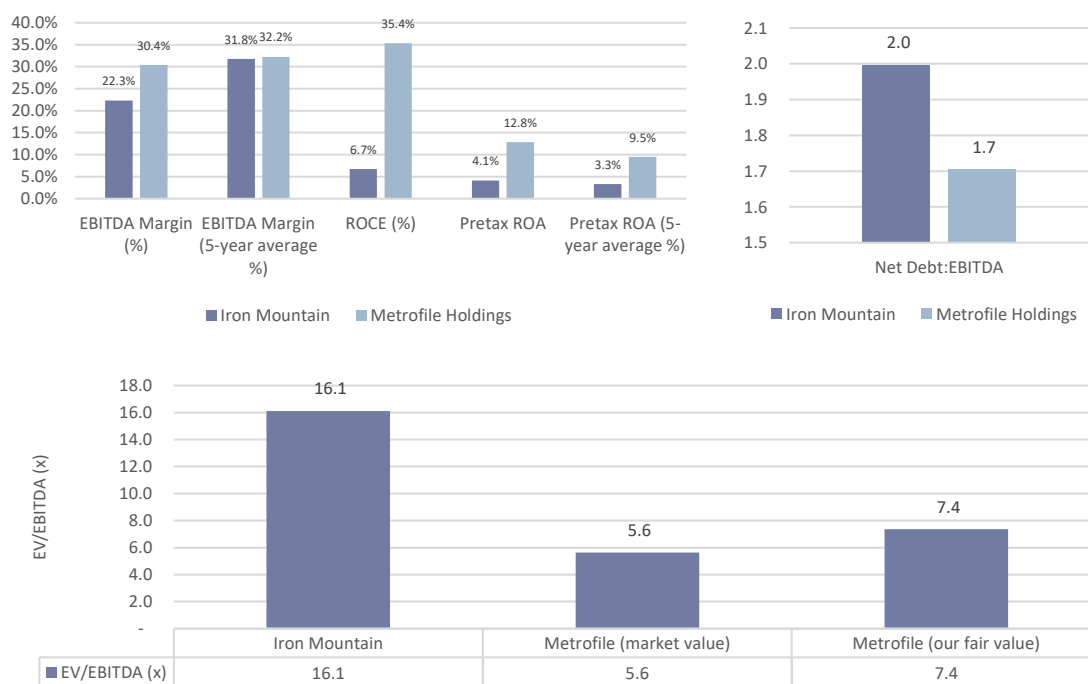
Sources: Metrofile, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions; * Includes IronTree’s enterprise value

- Table 7’s SOTP fair value for Metrofile implies an EV/EBITDA of 7.4x and a Price Earnings (PE) of 13.2x.
- Both of these measures compare attractively to Iron Mountain (IRM) which is trading at an EV/EBITDA of 16.1x and a PE of 47.8x (Figure 5).
- 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 believe Iron Mountain remains a reasonably good (global) peer to compare Metrofile and its valuation against. And, against this measure, Metrofile remains attractive in both fundamentals and valuation, despite its smaller size and Emerging Market risk.

Figure 5: Metrofile Holdings versus Iron Mountain



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

- Given Metrofile’s Digital Services growth, it is worth taking this listed peer comparison one step further, and, in Table 8, we compare key metrics between the two documents storage groups *and* their pure-play digital competitors with digital-only substitute products and services.
- What is clear with this comparison is how much *higher* the market values these digital businesses *despite* most of them earning inferior profits and/or returns on their capital.
- Logically, as a greater percentage of Metrofile’s revenues come from the digital space, this comparison may start to become more material and see the Group’s valuation re-rating upwards (i.e. from a pure-play box storage business to a digital and data services business where market multiples appear nearly *fourfold* or *more* higher!).

Table 8: 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)	DY (%)	Dividend Yield (5-year average %)	ROCE (%)	Pretax ROA	Pretax ROA (5-year average %)
Iron Mountain	\$18bn	16.1x	0.6%	47.8x	3.4x	4.2%	6.5%	6.7%	4.1%	3.3%
Metrofile Holdings	\$0.7bn	5.6x	31.9%	9.3x	1.1x	6.0%	5.6%	35.4%	12.8%	9.5%
Metrofile Discount to Iron Mountain		65%	5357%	80%	67%	43%	-15%			
Digital Storage Peer Average		20.6x	4.8%	64.5x	6.7x	1.9%	1.8%	8.9%	3.4%	-0.1%
Equinix Inc	\$68bn	20.5x	0.8%	84.5x	8.9x	1.9%	1.8%	4.2%	2.8%	2.5%
Digital Realty Trust	\$37bn	21.1x	5.6%	94.0x	7.3x	4.0%	3.6%	1.5%	1.1%	2.3%
Dropbox Inc	\$9bn	20.2x	8.0%	15.0x	3.9x	0.0%	0.0%	21.1%	6.2%	-5.3%

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

- All in all, we are comfortable with our segmentally-driven SOTP fair value for Metrofile and, given the relative valuation comparatives, this remains a justified valuation approach and a reasonable absolute valuation for the Group’s share.

- Rolling our fair value for Metrofile forward by our Cost of Equity, we arrive at a 12m TP of c.500cps (previously: 496cps) which implies an attractive c.65% return (including dividends) from these levels.

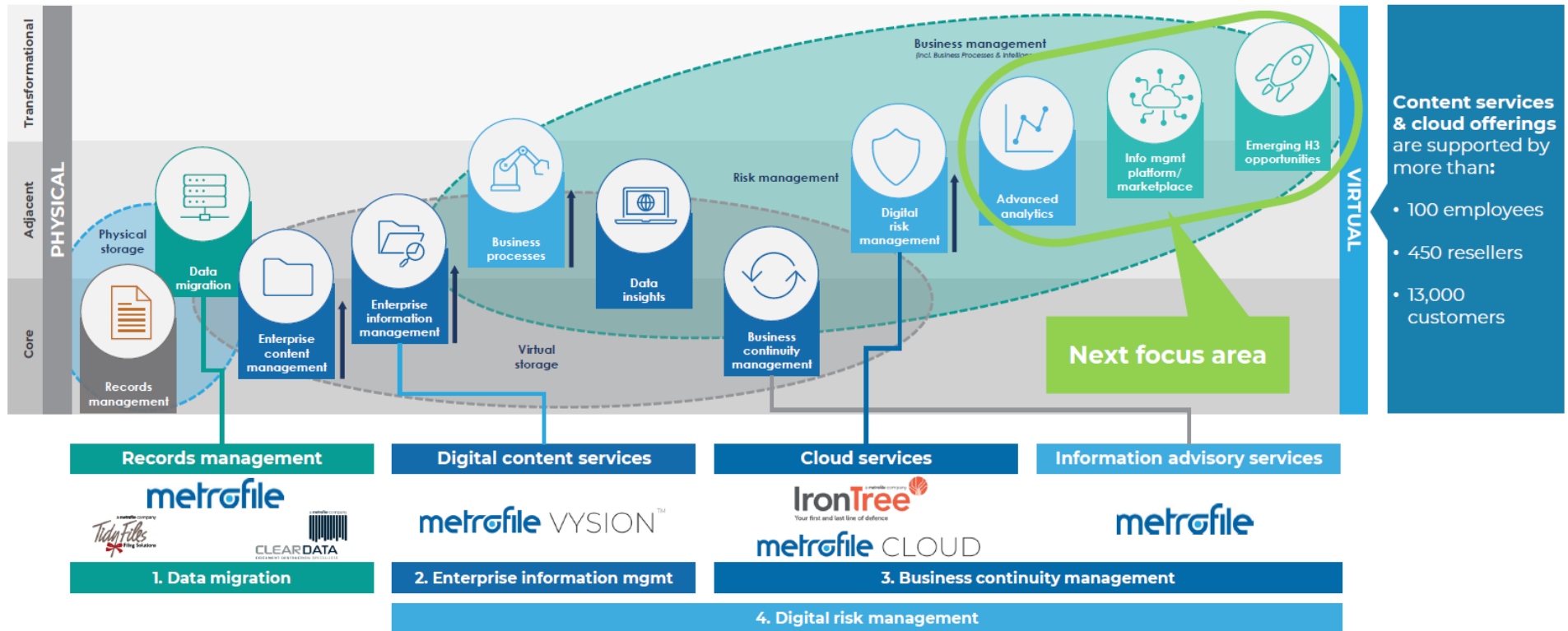
Key Risks to our Forecast & Valuation

A summary of the key risks to our view and valuation of Metrofile (though note the two large contracts highlighted in the MRM South Africa and MRM Middle East, and noted below, as specific forecast risks):

- **Downside risks:**
 - Global and domestic inflationary and recessionary pressures, particularly in how these influence interest rates via Central Bank decisions,
 - 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 (this risk is increasingly receding as management are proving successful with this 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.

Note: Another notable risk to both up- and downside is the *timing* of the two large contracts won in South Africa and the Middle East businesses, including their ultimate margins and whether or not the legal challenge against the South African contract is successful or not. We have pushed the timing of the Middle Eastern contract out to the first month of FY 25E and we have *not* included any revenues into the South African MRM segment from the local contract.

Annexure A: Illustration of Metrofile’s Digital Evolution



Source: Metrofile Holdings

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Confused by this report? View our [methodology](#), [FAQ](#) and [this disclaimer](#).

** Market prices have all been taken during 15 September 2023 and/or closing prices on 22 September 2023.*

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