Results Note
18 March 2024

Metrofile Holdings Ltd

Tougher than Expected Interim Period

Share Code: MFL – Market Cap: R1.1bn – PE: 8.5x – DY: 6.3%

12m Target Price	**456cps**
Share Price	**256cps**
Implied Return	**78%**

Business Support | South Africa

H1:24 Results: Headwinds constrained revenues & hurt margins

- Metrofile Holdings reported a much tougher H1:24 period than we had expected with several headwinds either constraining revenue growth or negatively impacting on short-term margins.
- Revenue grew +2% but this below inflationary pressures (labour costs increased +11%) and EBITDA decreased 4%.
- Higher interest rates increased the financing burden and saw HEPS for H1:24 decline 13% to 13.0cps (H1:23 – 15.0cps).
- In line with earnings, the dividend was lowered to 7cps (H1:23 – 9cps) and management bought back 1.5m shares in the market at a c.297cps VWAP.
- The Group's cash flow remained exceptionally strong (R160m of EBITDA converted into R143m of operating cash flow) and debt levels remained reasonable.

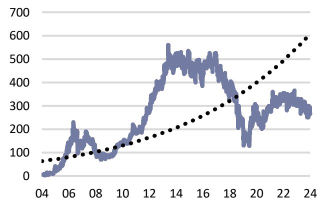
Our Thoughts: Strong recurring underpin to revenues & cash flows

- Physical and digital subscription revenues make up 62% of Metrofile's revenue, underpinning a strong base of recurring cash generation from which management continues to build out the Group's digital strategy, this period being no exception.
- On this digital strategy, IronTree, cloud & digital service revenue continue growing & we expect their contribution to Group revenue mix to grow (see **Figure 2, 3** & **4** in this report).

Forecast, Valuation and Implied Return: Undervalued

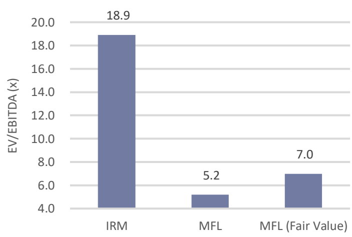
- We see Metrofile's fair value as 390cps (previously: 423cps), implying an EV/EBITDA of 7.0x & a PE of 12.9x (comparing attractively to Iron Mountain's current EV/EBITDA of 18.9x & PE of 129x).
- Rolling our fair value forward, we arrive at a total return 12m TP of 456cps (previously: 500cps), implying a high c.78% return (including dividends) from these levels.
- Our short-term forecasts were optimistic & have been lowered. Yet the fundamentals remain in place for Metrofile to defend its core business while it keeps investing into faster-growing, long-tail digital services businesses that are steadily transforming the Group. See **Table 8** for global comparisons here.

10-year Share Price – Metrofile Holdings Ltd



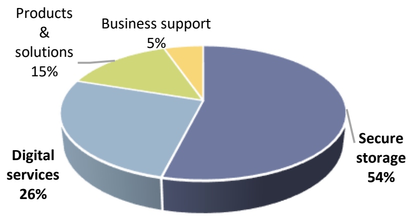
Sources: I-Net Bridge, Blue Gem Research

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)	*YoY %*	FY 22A	*YoY %*	H1:23A	FY 23A	*YoY %*	H1:24	FY 24E	*YoY %*	FY 25E	*YoY %*
Revenue	*3%*	980	*5%*	564	1,134	*16%*	577	1,195	*5%*	1,293	*8%*
EBITDA	*7%*	325	*1%*	166	345	*6%*	160	330	*-4%*	374	*13%*
HEPS (cps)	***29%***	**30.8cps**	***-3%***	**15.0cps**	**32.1cps**	***4%***	**13.0cps**	**27.2cps**	***-15%***	**33.5cps**	***23%***
ROE (%)	-	*23.9%*	-	*23.0%*	*24.5%*	-	*19.4%*	*18.6%*	-	*20.8%*	-
Price Earnings (x)	-	*8.3x*	-	*8.3x*	*8.0x*	-	*8.5x*	*9.4x*	-	*7.6x*	-
DPS (cps)	*15%*	18cps	*20%*	9cps	18cps	*0%*	7cps	15cps	*-17%*	19cps	*27%*
Dividend Yield (%)	-	*7.0%*	-	*7.0%*	*7.0%*	-	*6.3%*	*5.9%*	-	*7.4%*	-

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

Key Forecast (R m)	H1:22A	FY 22A	YoY %	H1:23A	FY 23A	YoY %	H1:24	FY 24E	YoY %	FY 25E	YoY %
Revenue	**474**	**980**	*5%*	**564**	**1,134**	*16%*	**577**	**1,195**	*5%*	**1,293**	*8%*
MRM South Africa	265	539	*-2%*	303	613	*14%*	312	643	*5%*	680	*6%*
MRM Rest of Africa	45	91	*-9%*	52	105	*15%*	49	105	*0%*	113	*8%*
MRM Middle East	47	86	*10%*	48	99	*15%*	61	116	*18%*	120	*4%*
Products & Services		264	*27%*	161	318	*20%*	156	330	*4%*	379	*15%*
EBITDA	**157**	**325**	***1%***	**166**	**345**	***6%***	**160**	**330**	***-4%***	**374**	***13%***
EBITDA Margin (%)	*33.2%*	*33.2%*	-	*29.4%*	*30.4%*	-	*27.7%*	*27.6%*	-	*29.0%*	-
Operating Profit	112	240	*0%*	118	255	*6%*	111	243	*-5%*	282	*16%*
Net finance charges	-23	-49	*-1%*	-27	-58	*18%*	-32	-76	*32%*	-89	*17%*
Net Profit (Parents)	**65**	**134**	*-3%*	**65**	**138**	*3%*	**55**	**115**	*-17%*	**142**	*23%*
*Weighted Ave. Number of Shares (millions)**	*433.7*	*433.7*	*0%*	*432.2*	*429.2*	*-1%*	*422.6*	*422.2**	*-2%**	*422.2**	*0%**
EPS (Continuing Operations - cps)	**14.9cps**	**30.8cps**	*-3%*	**15.0cps**	**32.1cps**	*4%*	**13.0cps**	**27.2cps**	*-15%*	**33.5cps**	*23%*
HEPS (cps)	**14.9cps**	**30.8cps**	*-3%*	**15.0cps**	**32.1cps**	*4%*	**13.0cps**	**27.2cps**	*-15%*	**33.5cps**	*23%*
Price Earnings Ratio (x)	*8.0x*	*8.3x*	-	*8.3x*	*8.0x*	-	*8.5x*	*9.4x*	-	*7.6x*	-
Dividend Per Share (cps)	**9cps**	**18cps**	***20%***	**9cps**	**18cps**	***0%***	**7cps**	**15cps**	***-17%***	**19cps**	***27%***
Dividend Yield (%)	*6.6%*	*7.0%*	-	*7.0%*	*7.0%*	-	*6.3%*	*5.9%*	-	*7.4%*	-
Dividend Cover (x)	*1.7x*	*1.7x*	-	*1.7x*	*1.8x*	-	*1.9x*	*1.8x*	-	*1.8x*	-
Property, Plant & Equipment	610	610	*2%*	601	607	*-1%*	604	602	*-1%*	585	*-3%*
Goodwill	382	372	*19%*	372	374	*0%*	373	412	*10%*	412	*0%*
Intangible Assets	40	68	*55%*	68	70	*3%*	64	100	*44%*	85	*-16%*
Total Assets	1,477	1,492	*10%*	1,541	1,575	*6%*	1,539	1,004	*-36%*	1,077	*7%*
Shareholder's Equity (Parent)	525	560	*0%*	563	563	*1%*	567	617	*10%*	680	*10%*
NAV per share (cps)	121cps	129cps	*0%*	132cps	133cps	*3%*	134cps	146cps	*10%*	161cps	*10%*
Net Debt	448	446	*3%*	493	496	*11%*	507	586	*18%*	508	*-13%*
Net Debt:EBITDA (x)	*2.8x*	*1.4x*	-	*3.0x*	*1.4x*	-	*3.2x*	*1.8x*	-	*1.4x*	-
Net Debt:Equity	*0.9*	*0.8*	-	*0.9*	*0.9*	-	*0.9*	*1.0*	-	*0.7*	-
Free Cash Flow	120	213	*2%*	58	169	*-21%*	127	204	*121%*	230	*113%*
Free Cash Flow / EBITDA Conversion (%)	77%	65%	-	35%	49%	-	80%	62%	-	61%	-
Free Cash Flow Yield (%)	***18.5%***	***11.9%***	-	***8.4%***	***9.4%***	-	***7.1%***	***11.4%***	-	***12.9%***	-
Return on Equity (%)	***24.6%***	***23.9%***	-	***23.0%***	***24.5%***	-	***19.4%***	***18.6%***	-	***20.8%***	-
Return on Assets (%)	***8.8%***	***9.0%***	-	***8.4%***	***8.8%***	-	***7.1%***	***11.4%***	-	***13.2%***	-
Price Earnings Ratio (x)	*8.0x*	*8.3x*	-	*8.3x*	*8.0x*	-	*8.5x*	*9.4x*	-	*7.6x*	-
Price-to-Book (x)	*2.1x*	*2.0x*	-	*1.9x*	*1.9x*	-	*1.9x*	*1.8x*	-	*1.6x*	-
Current Ratio	*1.2x*	*1.3x*	-	*1.4x*	*0.5x*	-	*1.1x*	*1.1x*	-	*0.6x*	-

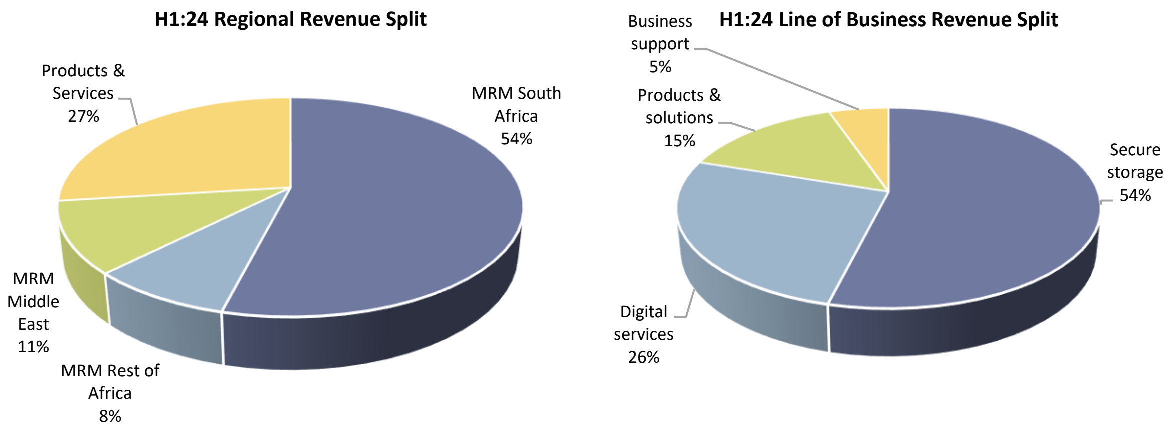
*Sources: Metrofile Holdings various reports, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions; * We do not forecast any share buy-backs, though we note that management have specifically highlighted this as part of their capital allocation strategy, and we expect this to be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

Summary of H1:24 Results

Metrofile Holdings (code: MFL) reported a much tougher H1:24 period than we had expected as several headwinds went against the Group's performance:

- While box growth was reasonable, pricing saw good recovery and cloud revenues continued to grow, (non-cloud) digit, services and product revenues were surprisingly weak for a range of reasons of which only one of these reasons could we argue was under management's control (challenges within scanning centres in MRM South Africa which have since been rectified; we expect more normal scanning revenues and margins in H2:24E but without any concomitant sales catch-up).
- Group revenue grew +2% but this was not enough to offset inflationary pressures (labour costs increased +11%) and EBITDA decreased 4%.
- Higher interest rates increased the financing burden and—combined with the above negative operating leverage—saw HEPS for H1:24 decline 13% to 13.0cps (H1:23 – 15.0cps).
- In line with earnings, the dividend was lowered to 7cps (H1:23 – 9cps) and management bought back 1.5m shares in the market at c.297cps.
- While all somewhat disappointing, the Group's cash flow remained exceptionally strong (R160m of EBITDA converted into R143m of operating cash flow) and the Group's debt reasonable (net debt would have decreased slightly but grew +3% due to the share buy-back; & refinancing of facilities was achieved on improved terms during the period).

Figure 1: Metrofile Holdings Regional & Segmental Revenue



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

- Critically, the H1:24 scanning challenges appear to be behind the Group, IronTree and cloud-revenues continue growing and storage's net box real revenues remain stable. From this base, H2:24E is expected to be slightly better than H1:24 and FY 25E should be a more "normal" year.
- Combined, the physical and digital subscription revenues make up 62% of Group revenue. While the physical revenues should track inflation and net box volumes, digital subscription revenues can be expected to grow at double digits for years to come and, indeed, should grow in significance in the Group (it currently contributes approximately a third of all digital revenues).
- Overall, while a disappointingly tough period that showed our short-term forecasts were too optimistic, the fundamentals remain in place for Metrofile to defend (and slowly grow) its core box business while it keeps investing into faster-growing, long-tail digital services businesses that are steadily transform the Group. This process could, arguably, also transform the Group's market valuation – See **Table 8** for global comparisons, particularly note the valuation uplift in this cohort of digital document storage peers.

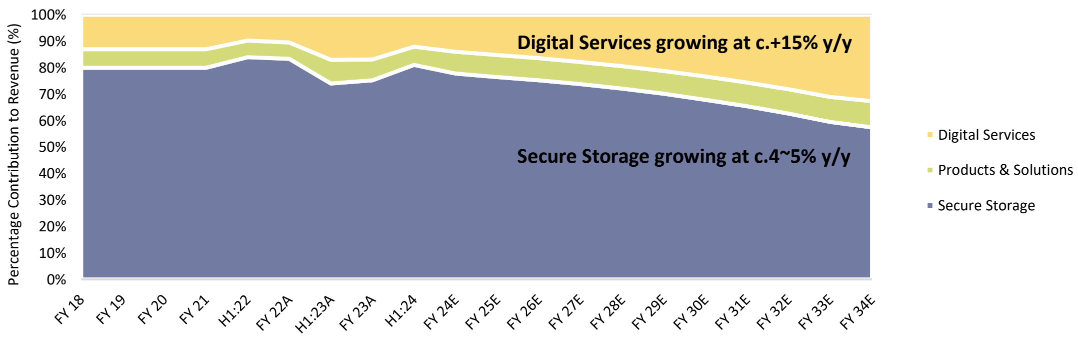
MRM South Africa

Forecast & DCF (Rm's):	FY 23A	H1:24	FY 24E	H2:24E	FY 25E	FY 26E	FY 27E	…	FY 33E	FY 34E
Net Box Growth (y/y %)	*-4.5%*	*-1.0%*	*-0.2%*		*0.9%*	*1.3%*	*0.5%*	…	*-4.0%*	*-4.7%*
Non-storage Revenue (%)	*25.0%*	*19.0%*	*22.2%*		*23.5%*	*24.8%*	*26.2%*	…	*39.7%*	*41.6%*
EBITDA Margin (%)	*40.9%*	*34.4%*	*39.7%*		*42.0%*	*41.6%*	*41.3%*	…	*35.0%*	*32.0%*
Revenue	**613**	**312**	**643**		**680**	**724**	**770**	**…**	**1,043**	**1,067**
Growth (y/y %)	*13.8%*	*2.8%*	*4.9%*		*5.7%*	*6.4%*	*6.4%*	…	*4.6%*	*17.8%*
EBITDA	251	107	256		285	301	318	…	365	341
Working Capital	-18	-	0		-7	-7	-8	…	-8	1
Capex	-14	-	-42		-3	-5	-2	…	-10	-10
Tax	-56	-24	-58		-66	-70	-74	…	-88	-82
Free Cash Flow (FCF)	**163**	**84**	**156**	**72**	**210**	**220**	**234**	**…**	**259**	**251**
Discount Factor				*0.94*	*0.83*	*0.74*	*0.65*	…	*0.31*	*0.40*
Discounted FCF				**68**	**175**	**162**	**153**	**…**	**81**	**946**
Enterprise Value (EV)										**R2,154m**
EV/EBITDA (x)										***8.9xx***

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

- Net boxes were -1% versus our expectations of some catch-up as office activity recovered (+2%) but pricing was somewhat better than we had forecast. Management do note that increasing office activity did see an uptick in boxes in Q2:24 that may carry into H2:24E. Unfortunately, scanning revenues were negatively impacted by operational issues that have subsequently been corrected but ate into segmental margins.
- Combined revenue grew +1% to R311.5m (H1:23 – R309.3m), which was not enough to offset inflationary pressures and saw EBITDA decline 10%.

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



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

- In terms of MRM South Africa's segmental forecasts, we have:
  - **Secure storage**: Lowered our net box expectations for FY 24E from 9.4m to 9.3m but increased our revenue/box up by c.6.9% which results in storage revenues rising slightly above our previous forecast.
  - **Products & Services**: We have kept our previous forecast unchanged and the uptick in office activity in Q2:24 bodes well for these revenues.
  - **Digital Services** (i.e. Scanning revenues): We have not assumed any catch-up from the H1:24 period but have assumed that the process improvements see H2:24E period hit a run-rate equivalent to H2:23 with no growth but more normal margins.
  - Our long-term assumption set for the segment remains more or less unchanged, though updated for the current macroeconomic data.

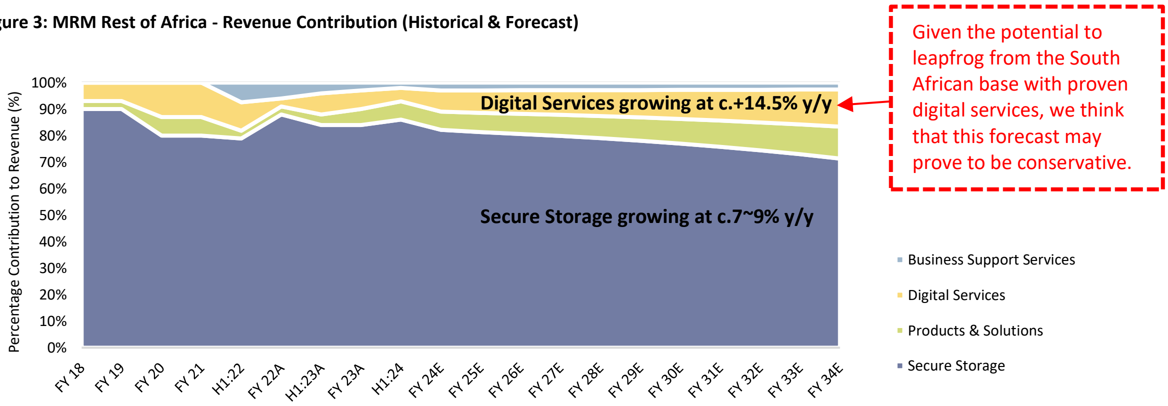
MRM Rest of Africa

Forecast & DCF (Rm's):	FY 23A	H1:24	FY 24E	H2:24E	FY 25E	FY 26E	FY 27E	...	FY 33E	FY 34E
Net Box Growth (y/y %)	*2.8%*	*1.0%*	*2.1%*		*6.4%*	*5.9%*	*5.4%*	...	*2.4%*	*1.9%*
Non-storage Revenue Contribution (%)	*16.0%*	*14.0%*	*17.8%*		*18.7%*	*19.3%*	*20.1%*	...	*27.0%*	*28.6%*
EBITDA Margin (%)	*42.3%*	*60.3%*	*42.9%*		*45.2%*	*46.3%*	*47.1%*	...	*48.8%*	*48.6%*
Revenue	**105**	**49**	**105**		**113**	**124**	**136**	...	**216**	**231**
Growth (y/y %)	*14.9%*	*-53.3%*	*0.1%*		*8.0%*	*9.7%*	*9.3%*	....	*7.3%*	*7.1%*
EBITDA	44	29	45		51	57	64	...	105	112
Working Capital	-3	-	1		-1	-2	-2	...	-2	-1.0
Capex	-12	-	-9		-32	-34	-35	...	-31	-27
Tax	-8	-6	-9		-10	-12	-13	...	-24	-26
Free Cash Flow (FCF)	**21**	**24**	**28**	**4**	**7**	**10**	**14**	...	**48**	**58**
Discount Factor				*0.87*	*0.66*	*0.50*	*0.37*	...	*0.07*	*R0.12*
Discounted FCF				**3**	**5**	**5**	**5**	...	**3**	**92**
Enterprise Value (EV)										**R136m**
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 saw softer than expected net box growth of +1% but positive operational results was achieved in all territories (Kenyan Shilling depreciated by c.15% versus the South African Rand over H1:24 mitigating some of this growth on consolidation into the Group's results in Rands).
- Revenue was 7% lower but EBITDA rose +19% as a positive outcome of a long-running dispute in Kenya was resolved in Metrofile's favour (R8m one-off gain in H1:24). Excluding this gain, this segment's margins were in line with expectations. While we do not expect another one-off gain, we do expect some increased business to flow with this dispute behind the Kenyan operation but find this hard to quantify and have left it out of our forecast's assumptions.

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



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

- In terms of MRM Rest of Africa's segmental forecasts:
  - We have lowered our expect full-year net box growth down to +2% y/y,
  - Lightened our expected revenue/box (in Rands) and slightly lowered our expected inflation rate in the revenue/box going forward,
  - Rebased some of the operating costs to reflect weaker African currencies too (i.e. lower Rand-denominated amounts – though this factor makes some of this forecasting difficult as the currencies may in fact strengthen over periods).
  - We do note that our (long-term)forecast of digital services growth into Africa (+14.5% CAGR as opposed MRM South Africa's +15% CAGR over the same forecast period) may prove to be conservative.
  - Finally, we have made sure to exclude the one-off benefit from H1:24 in H2:24E (worth c.R8m), negative impacting our full-year forecast margin.
  - Similar to MRM South Africa, our long-term assumption set for the segment remains more or less unchanged, though updated for the current macroeconomic data.

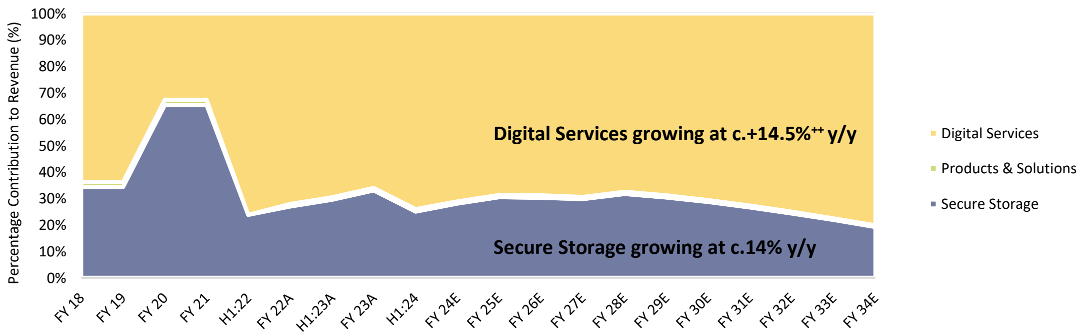
MRM Middle East

Forecast & DCF (Rm's):	FY 23A	H1:24	FY 24E	H2:24E	FY 25E	FY 26E	FY 27E	…	FY 33E	FY 34E
Net Box Growth (y/y %)	*9.7%*	*4.0%*	*7.5%*		*11.9%*	*9.9%*	*7.9%*	…	*-4.1%*	*-6.1%*
Non-storage Revenue Contribution (%)	*67.0%*	*75.0%*	*72.0%*		*69.6%*	*69.7%*	*70.2%*	…	*78.2%*	*80.8%*
EBITDA Margin (%)	*27.6%*	*12.5%*	*23.4%*		*21.2%*	*26.5%*	*31.1%*	…	*43.0%*	*45.1%*
Revenue	**99**	**61**	**116**		**120**	**137**	**156**	**…**	**275**	**304**
Growth (y/y %)	*15.3%*	*27.6%*	*17.7%*		*3.6%*	*14.2%*	*13.5%*	…	*10.8%*	*10.7%*
EBITDA	27	8	27		26	36	48	…	118	137
Working Capital	-3	-	-1		-1	-2	-3	…	-4	-2.499730843
Capex	-12	-	-10		-19	-19	-18	…	-7	-7
Tax	-	-	-2		-2	-3	-4	…	-10	-12
Free Cash Flow (FCF)	**13**	**8**	**13**	**6**	**4**	**12**	**24**	**…**	**97**	**116**
Discount Factor				*0.89*	*0.71*	*0.56*	*0.45*	…	*0.11*	*R0.18*
Discounted FCF				**5**	**3**	**7**	**11**	**…**	**11**	**305**
Enterprise Value (EV)										**R398m**
EV/EBITDA (x)										***17.3x***

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

- Consisting of operations in the United Arab Emirates and Oman, MRM Middle East saw much stronger revenue growth than we expected (+28% versus our forecast of +10%) but margin pressure the resulted in EBITDA slumping -36%.
- Softer than prior periods, net box growth was only +4% in the region, though Digital Services continue to dominate this operation's revenue (74% of segmental revenue – **Figure 4**).
- Due to aggressive actions by a large incoming competitor in the region, MRM Middle East took a tactical decision to lower pricing on a project. Defending the project (and its associated revenues and box flows) was the key reason for revenue rising but margin lowering. The take-on of a new project also saw take-on costs but we expect this investment to improve revenues and margins going forward.

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



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

- In terms of MRM Middle East's segmental forecasts:
  - We have lowered year-end expected boxes slightly,
  - Kept revenue/box pricing assumptions the same,
  - Rolled forward some of the above-expected revenue growth but also rolled-forward the higher cost-base to reflect lower margins for the full-year.
  - All other long-term assumptions have been maintained unchanged.
- We remain quite optimistic on the region and, particularly, its large digital services contribution combined with its exposure to a reasonably faster-growing economies with strong energy security.
- We do note rising geopolitical risk in pockets across the broader Middle East region and we are watching closely to see if this risk spreads and/or has any effect across operations here.

Product & Services

Products & Services

Forecast & DCF (Rm's):	**FY 23A**	**H1:24**	**FY 24E**	**H2:24E**	**FY 25E**	**FY 26E**	**FY 27E**	**FY 32E**	**FY 33E**	**FY 34E**
Non-storage Revenue Contribution (%)	*96.0%*	*100.0%*	*100.0%*		*100.0%*	*100.0%*	*100.0%*	…	*100.0%*	*100.0%*
EBITDA Margin (%)	*18.1%*	*17.7%*	*12.2%*		*14.2%*	*15.1%*	*16.0%*	…	*15.1%*	*12.7%*
Revenue*	**318**	**156**	**330**		**379**	**431**	**491**	**…**	**878**	**931**
Growth (y/y %)	*20.4%*	*-3.2%*	*4.0%*		*14.8%*	*13.6%*	*13.8%*	…	*9.4%*	*6.0%*
EBITDA	57	28	40		54	65	78	…	132	118
Working Capital	-13	-	-1		-8	-9	-10	…	-14	2
Capex	-18	-	-20		-22	-24	-26	…	-47	-51
Tax	-10	-4	-5		-7	-9	-12	…	-14	-8
Free Cash Flow (FCF)	**17**	**23**	**15**	**-8**	**16**	**23**	**30**	**…**	**57**	**61**
Discount Factor				*0.94*	*0.83*	*0.74*	*0.65*	…	*0.31*	*0.28*
Discounted FCF				**-8**	**13**	**17**	**20**	**…**	**18**	**352**
Enterprise Value (EV)*										**R504m***
EV/EBITDA (x)										***8.8x***

*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**)*

- While the Products & Services segment came in below our expectations (revenue +1% and EBITDA -1%), the nuance is really in the underlying businesses (that are all quite different to each other) and their performance:
  - Tidy Files: As predominantly a products business, Tidy Files has come off a number of challenging periods including lockdowns, loadshedding and KwaZulu Natal's flooding. This business saw challenges continue and, indeed, we do question its long-term fit in the broader Metrofile group.
  - ClearData: As a confidential destructions business, demand was driven by POPI legislative requirements and some client acquisitions.
  - Metrofile VYSION: As an enterprise software sales business, the exponential growth of prior periods reversed as customers delayed purchase decisions and pushed out implementations. This negatively impacted on this segment's revenues and profits. We do expect VYSION to recover, but its non-subscription sales will remain lumpy.
  - IronTree: As a subscription-based cloud-based IT provider, IronTree has carried on growing strongly during the period and, indeed, we expect it to continue doing so. Metrofile's final vendor amount is payable in H2:24 and we expect this to be paid from cash on the Group's balance sheet.
- In terms of Products & Services segmental forecasts, we have assumed H2:24E returns to normal levels but no catch-up in the lower revenue in H1:24 occurs in Digital Services and Products & Solutions revenue streams. IronTree keeps growing in line with our forecasts and we expect the Vendor Liability of c.R81m (final warranty payment for IronTree's acquisition) to be paid in cash by Metrofile in H2:24E (we have taken it out of Group cash on Metrofile's balance sheet).

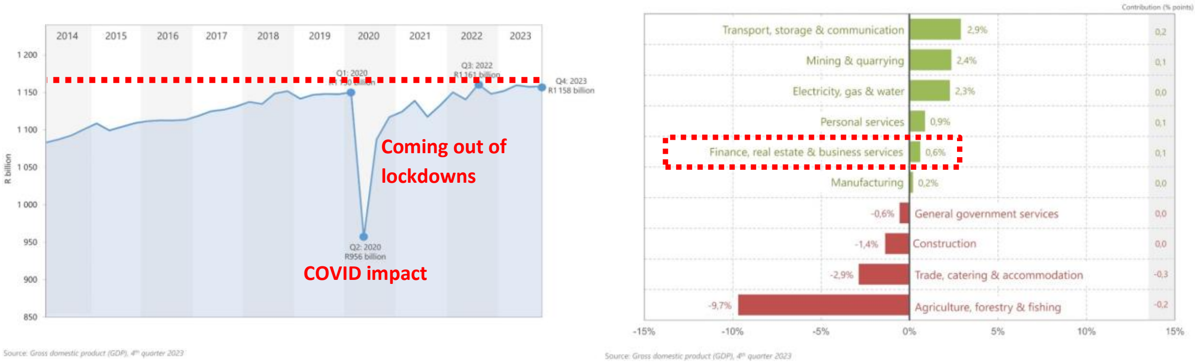
Macro Environment

Global Environment: Risky

- **Higher inflation, higher interest rates & higher recessionary risks:** Reiterating what we have said in previous reports, global inflation remains above most central bank targets and, although inflation is coming down slowly, it remains to be seen if/when it arrives at target ranges. In the meantime, aggressively hiked interest rates across the world remain high and keep economies under pressure.
- **Geopolitics remains a key concern**: With two major regional wars still ongoing and a large number of hot conflicts in various zones combined with a long list of major elections occurring (8 out of the world's 10 most populous countries are holding major elections), the world's geopolitics retains the ability to create unexpected event risk (at worst) and increasing global frictional costs (at best).

Domestic Environment: Driven by Eskom, Transnet & Global Events

Figure 5: South African GDP (left) **& Sector Contribution** (right – key sector for Metrofile MRM South Africa Storage is Finance**)**



Source: StatsSA (link)

- **Lack of domestic growth**: **Figure 5** highlights the absolute lack of South African GDP growth. More pertinent to Metrofile (partly because of its local client-base and partly due to its propensity to generate documents that require secure storage) the South African financial sector is growing slightly above GDP growth of +0.1% y/y at +0.6% y.y, which is a marginal positive for Metrofile.
- **Government SOE failures**: From Eskom (i.e. power) to Transnet (i.e. transport, railways and ports) and increasingly appearing the water and municipal services sides, the public sector continues to be the largest source of risk for businesses, general employment, and domestic GDP growth.
- **Greylisting of South Africa**: South Africa's greylisting remains in place and, although some movement has been made to address the listing, the ultimate success of these actions and eventual impact on the country and its finances are uncertain.
- **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 adjusted. 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 10.36% (previously: 10.66%), but
  - Kept our Cost of Debt flat (we hiked this in the previous results note due to rising interest rates but now see flat-to-slightly-down rates for the forecast period).
- The combination of the segmental-level work and the updated global assumptions arrive at a Sum-of-the-Parts (SOTP) fair value of 390cps (previously: 423cps) which is quite a bit higher than the 256cps-range the share price is currently trading at.

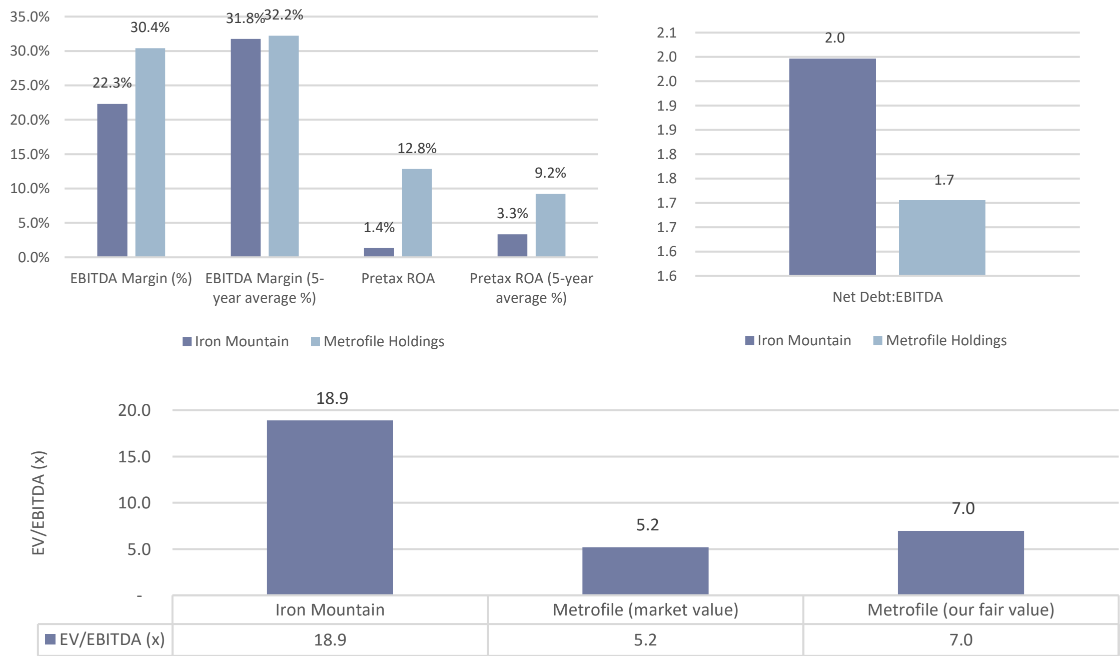
Table 7: Metrofile Group's Sum-of-the-Parts (SOTP) Fair Value & 12m TP

	Sum-of-the-Parts	Implied EV/EBITDA (x)	Implied Price Earnings (x)
MRM South Africa	R2,153,779,145	8.9x	
MRM Rest of Africa	R135,966,493	2.8x	
MRM Middle East	R397,784,775	17.3x	
Product & Solution*	R504,074,428	8.8x	
Less: IronTree (30%-minorities)	(R36,107,124)		
Group Central Costs	(R796,196,585)		
Enterprise Value (EV)	R2,359,301,132	7.0x	
Net Debt, Acquisition & Lease Liabilities	(R706,119,000)		
Fair Value	**R1,653,182,132**		**12.9x**
Fair Value (cps)	**390cps**		**12.9x**
12m TP (cps)	**456cps**		**14.7x**

*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 7.0x (Previously: 7.4x) and a Price Earnings (PE) of 12.9x (Previously: 13.2x).
- Both of these measures compare attractively to Iron Mountain (IRM) which is trading at an EV/EBITDA of 18.9x & PE of 129x (**Figure 6**).
    - 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 6: Metrofile Holdings versus Iron Mountain

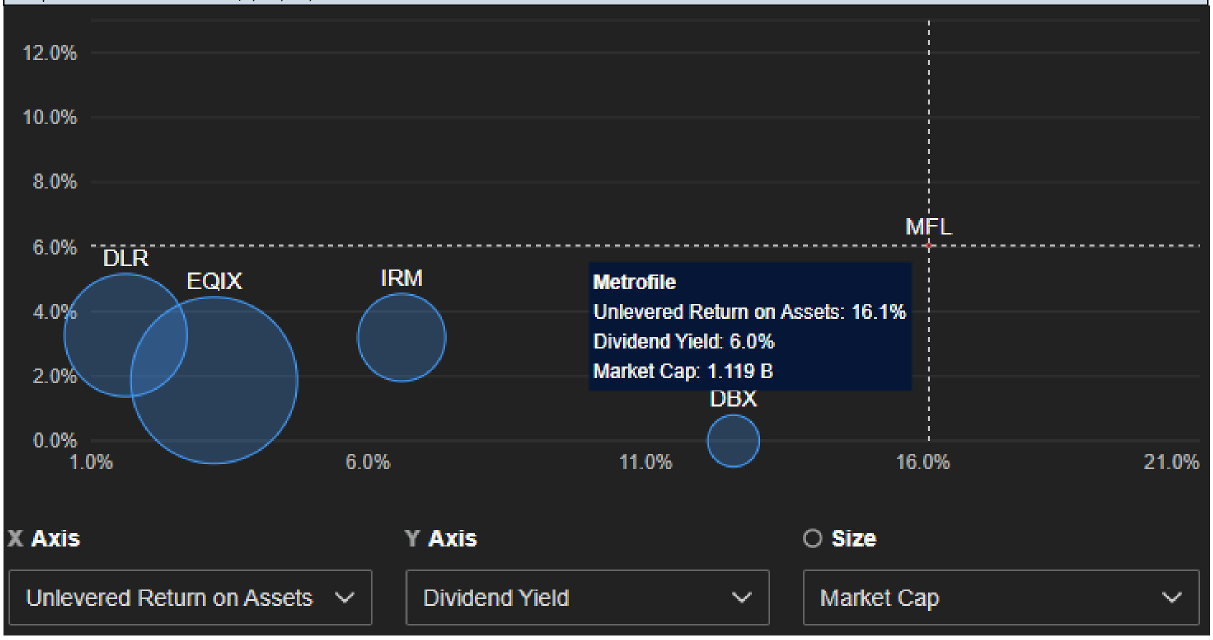


Sources: Refinitiv, InvestPro, Koyfin & Blue Gem Research workings and assumptions (March 2024)

- 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.
    - Our conclusion is that the market is willing to pay a premium on the present digital business models with a view that the future returns will look superior to current returns, and/or
    - That the market wants a discount on the traditional storage model given that it is uncertain what future returns will look like in this space with growing digital competitors.
- 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.

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)	Dividend Yield (%)	Dividend Yield (5-year average %)	Pretax ROA	Pretax ROA (5-year average %)
Iron Mountain	$23,782,471,105	18.9x	7.5%	129.8x	4.3x	3.2%	6.2%	1.4%	3.3%
Metrofile Holdings	$61,549,352	5.2x	20.4%	8.6x	1.0x	6.0%	5.4%	12.8%	9.2%
Metrofile Discount		***73%***	***172%***	***93%***	***77%***	***89%***	***-13%***		
Digital Storage Peer Average		**24.3x**	**3.6%**	**51.5x**	**7.4x**	**2.6%**	**2.7%**	**8.1%**	**1.5%**
Equinix Inc	$86,114,980,735	30.2x	0.6%	88.3x	10.5x	1.9%	1.7%	3.6%	2.6%
Digital Realty Trust Inc	$46,681,641,797	27.1x	-0.2%	50.5x	8.5x	3.3%	3.6%	2.4%	2.4%
Dropbox Inc	$8,262,499,475	15.5x	10.4%	15.7x	3.3x	-	-	18.2%	-0.4%



Sources: Refinitiv, ValuePro, various company reports & Blue Gem Research workings & assumptions (March 2024)

- 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 total return 12m TP of c.456cps (previously: 500cps) which implies an attractive c.78% return (including dividends) from these levels.

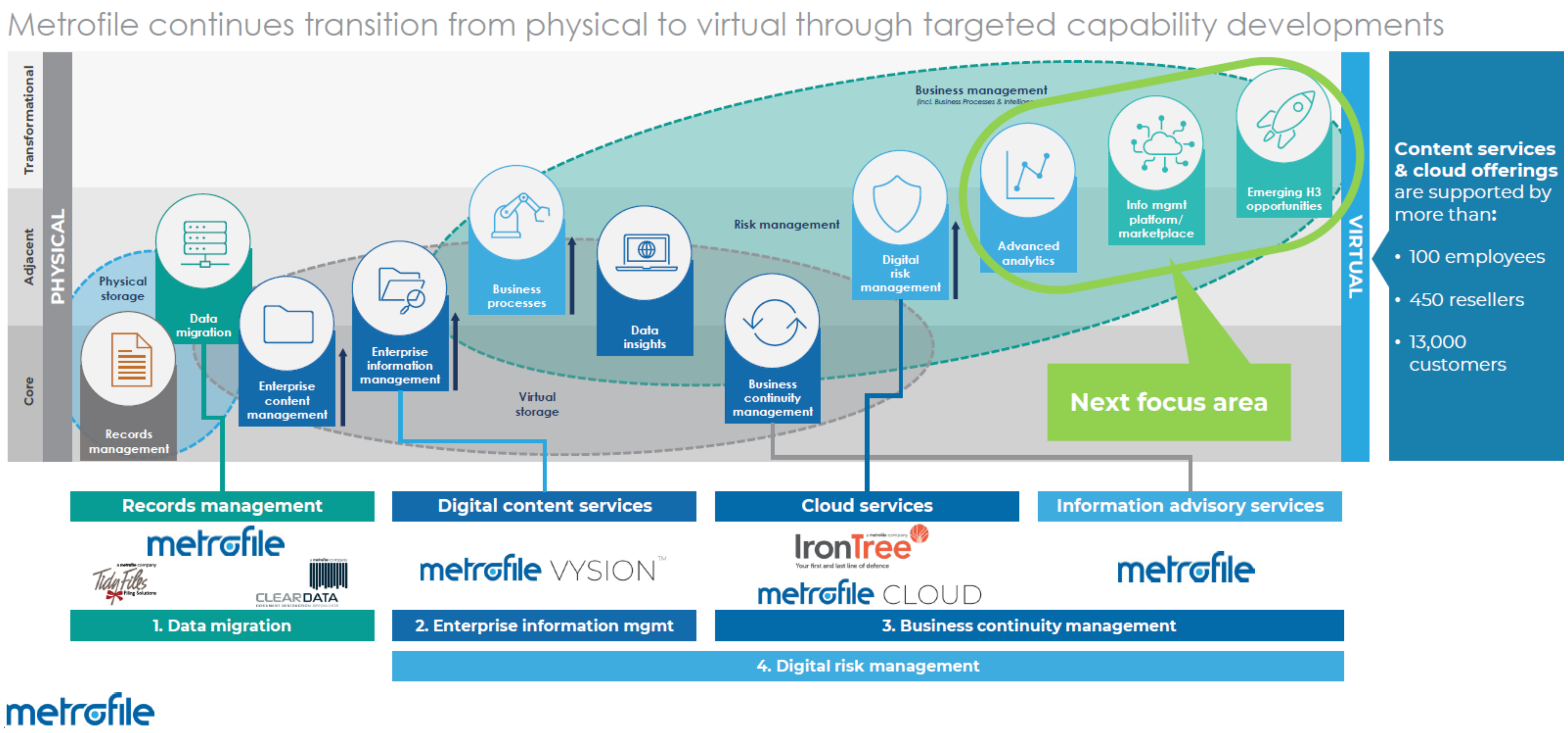
Key Risks to our Forecast & Valuation

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

- **Downside risks:**
  - Global and domestic inflationary and recessionary pressures, particularly in how these influence interest rates via Central Bank decisions,
  - Sovereign, geopolitical and macro risks, including South African, African & Middle Eastern (particularly relevant from the Israel/Hamas conflict and any expansion that may threaten Metrofile's existing Middle Eastern business) 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, &
- The timing, margin, & execution of the two large contracts announced in the prior period in the MRM South Africa and MRM Middle East.

Annexure A: Illustration of Metrofile's Digital Evolution



Source: Metrofile Holdings

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** Market prices have all been taken during March 2024 and/or closing prices on 15 March 2024.*

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