

Fat Prophets take some profits

Leading VoIP (voice over internet protocol) provider, MNF Group (ASX.MNF) has released full year results, with another year of strong organic top-line growth with revenues rising 15% to \$220.7 million. Earnings before interest, tax, depreciation, and amortisation rose by a more modest 3% to \$24.6 million, due to a one-off investment into the Pennytel brand launch of \$2.3 million.

Net profit after tax fell 1.7% to \$11.9 million. This has disappointed the market, with the shares losing around 18% on the day of the announcement. We issued a mid-week alert on the same day recommending that Members hold the shares as we viewed the reaction as excessive. The shares have since recovered some ground and sit around 11% below the pre-results' announcement levels. After further consideration we believe it is prudent to take some profits at this juncture.

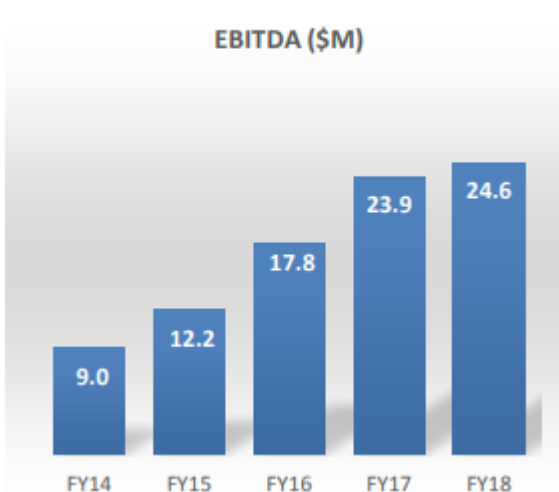
We recommend Members sell half their holdings in MNF Group. This represents a gain of around 325% on our original buy recommendation (excluding dividends). We will retain a holding in MNF Group for longer term exposure.

Full year results

MNF has been priced for growth for some time, and has over the years delivered on the promise, in spades. The full year result was a solid one in our view, but clearly not strong enough given the valuation metrics. We are therefore wary that there may be some 'recalibration' by the market in the months ahead, particularly with the shares still trading on around 32 times FY19 earnings.

At the top line the result was a good one, with FY18 revenues rising 15% to \$220.7 million. Earnings before interest, tax, depreciation, and amortisation rose by a more modest 3% to \$24.6 million, due to a one-off investment into the Pennytel brand launch of \$2.3 million. This resulted in a final net profit after tax falling 2% to \$11.9 million. The company increased the full year dividend by 1% to 8.35 cents per share fully franked, being a 51% pay-out ratio. Earnings per share declined 6% to 16.25 cents, with some dilutionary impact following the 2017 share placement and SPP.

Result	FY17	FY18	Change
Revenue	\$191.8m	\$220.7m	+15%
Gross Margin	\$58.6m	\$69.0m	+18%
EBITDA	\$23.9m	\$24.6m	+3%
NPAT	\$12.1m	\$11.9m	-2%
Dividend	8.25cps	8.35cps	+1%
EPS	17.32cps	16.25cps	-6%

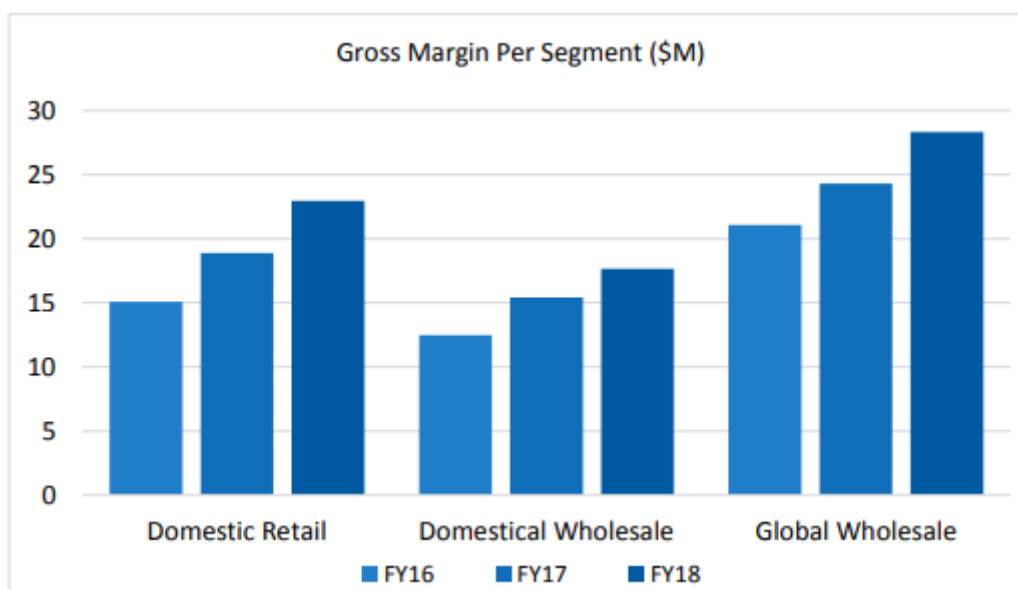


Source: Company results announcement

While investors were expecting more upward action on the bottom line, underlying margins were still strong. The 'gross margin' (GM) rose 18% to \$69.0 million. The company did however note that GM was slightly below expectations due to volatility in Global Wholesale revenues in H2.

The performance was nonetheless underpinned by strong growth across all segments. The company's domestic retail business saw GM gain 15%, driven by strong demand from Enterprise and Government, as well as SME customers. The unit also enjoyed a full year's contribution from the acquired CCI business.

Management expects further growth at the retail business as new technology continues to 'disrupt voice communications' and following the roll-out of the NBN. The company notes that the CCL acquisition is performing well with H2 margins up 10% while the Pennytel relaunch is yet to have a meaningful impact.



Source: Company results announcement

MNF's Domestic Wholesale segment performed well with GM up 15% as well. The unit now has 300 wholesale customers, and around three quarters of GM are of a recurring nature. The total number of numbers hosted on the company's Symbio network now stands at some 3.2 million.



Summary

Leading VoIP provider, MNF Group has released full year results, with another year of strong organic top-line growth with revenues rising 15% to \$220.7 million. Net profit after tax fell 1.7% to \$11.9 million which has disappointed the market.

The shares have regained some ground from their post announcement lows, but we believe it is prudent to take some profits at this juncture. MNF has been priced for growth for some time, and has over the years delivered on the promise, in spades. The full year result was a solid one in our view, but clearly not strong enough given the valuation metrics. We are therefore wary that there may be some 'recalibration' by the market in the months ahead, particularly with the shares still trading on around 32 times FY19 earnings. This is also consistent with a weaker technical picture emerging.

We recommend Members sell half their holdings in MNF Group. This represents a gain of around 325% on our original buy recommendation. We will retain a holding in MNF Group for longer term exposure.

Disclosure: MNF Group is held in the Concentrated Australian Share and Small/Mid-Cap managed account portfolios.

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Snapshot MNF

MNF Group

Latest Closing Price: \$5.18

MNF Group Limited is an Australia-based provider of Internet protocol (IP)-based voice-over-Internet protocol (VoIP), data and video services, as well as enhanced service applications to residential and business enterprise customers. As of June 2012, the Company had over 97,000 customers across all parts of Australia, New Zealand and Asia. The Company's services include short message service (SMS) and audio conferencing with e-mail fax, virtual public branch exchange (PBX), naked asymmetrical digital subscriber line 2+ (ADSL2+), session initiation protocol (SIP) trunking, multi-line VoIP and mobile VoIP. The Company, together with its subsidiaries, primarily derives its revenue from fees and call charges from residential and enterprise customers, as well as from sales of customer premises equipment.

Market Capitalisation:\$378.75m

	FY1	FY2
Price to Earnings	32.0	21.1
Dividend Yield (%)	1.6	-
Price to Book	5.0	4.7
Return on Equity (%)	16.4	20.4
EV/EBITDA	14.7	11.8