

MNF

AUD \$1.220

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It's all about The Voice

My Net Fone (ASX: MNF) is a niche telecommunications entity which provides voice-centric products and services to customers via its own modern Voice-over-Internet-Protocol (VoIP) network. Thematically, we are **attracted by the company's solid positioning, as the industry structurally migrates from a copper-based telephony environment to an internet-based one.** As it progressively rolls out, the National Broadband Network (NBN) will further enable this migration by providing My Net Fone's existing and potential customers with robust internet speeds which are ideal for facilitating VoIP.

We believe that recent complementary and highly **accretive acquisitions are likely to propel My Net Fone to its next stage of growth.** The company's stock is trading at less than 13 times sustainable Earnings per Share (EPS), despite this strong earnings growth outlook, while the potential for further synergistic purchases remains, given the company's net cash balance sheet position and solid free cash flow profile.

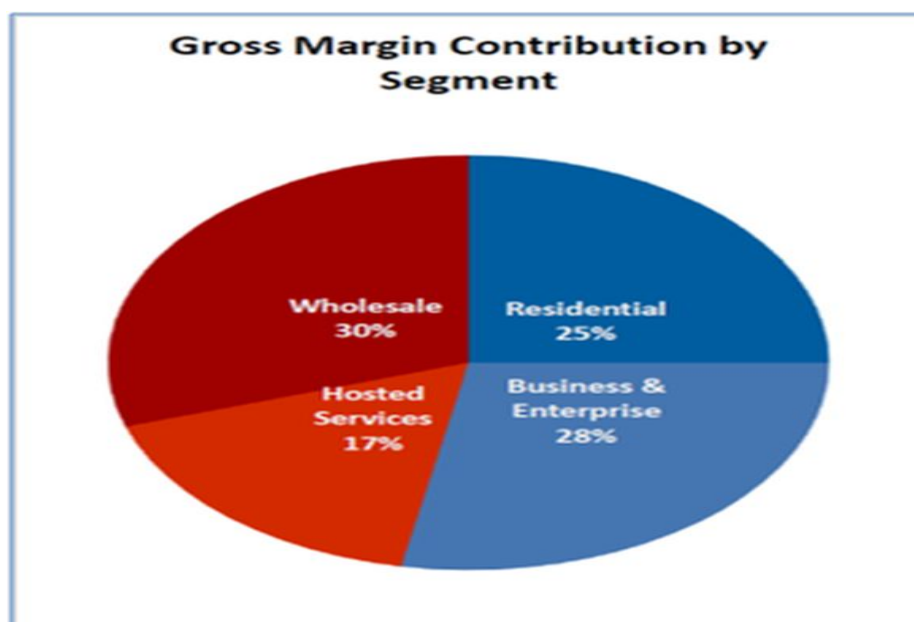


For these reasons, **we introduce My Net Fone into the Fat Prophets Portfolio today, and recommend the stock as a Buy for Members.**

The business model

The fundamental philosophy underpinning My Net Fone's entire business model is the belief that **phone numbers and voice communications will remain critical for both consumers and businesses**—a view that we readily share, at least for the foreseeable future. In accordance with this philosophy, **My Net Fone delivers a comprehensive suite of voice telecommunications solutions to customers, using its own VoIP network** covering the whole of Australia, New Zealand, Singapore, and completely bypassing the old copper-based fixed-line infrastructure.

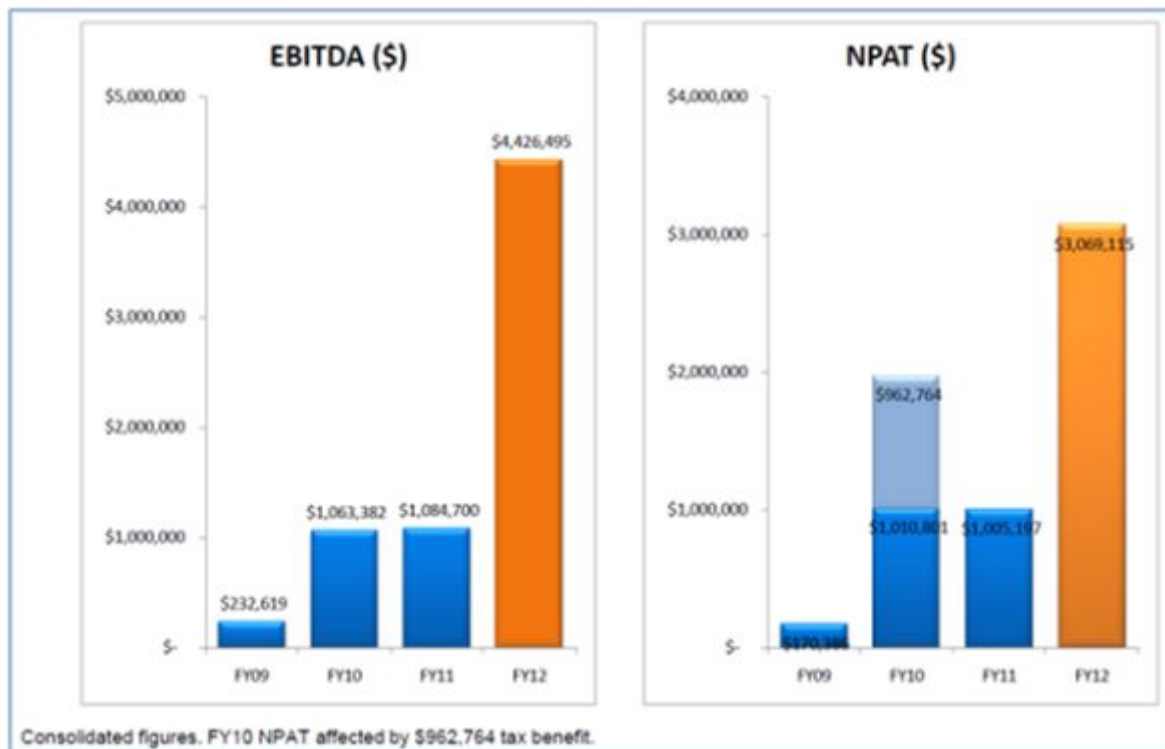
At the retail level, this means providing voice and data services to meet the communications needs of ordinary consumers and business/government enterprises. At the wholesale level, My Net Fone provides managed services and wholesale voice telecommunications carriage for big business and government customers. The dual focus means the company's business is well-diversified across four distinct areas, providing a fair degree of resilience to its earnings profile.



As the company focuses purely on providing voice-centric applications and services, hosted on its own proprietary software systems and with its own VoIP network, it is not saddled with maintaining expensive "non-core" infrastructure. As a result, **My Net Fone is not as capital-intensive as most other telecommunications service providers.** Likewise, the company allows its business and wholesale customers to avoid maintaining expensive and complex infrastructure themselves, by utilising My Net Fone's cloud-based features and functions hosted on its own VoIP network.

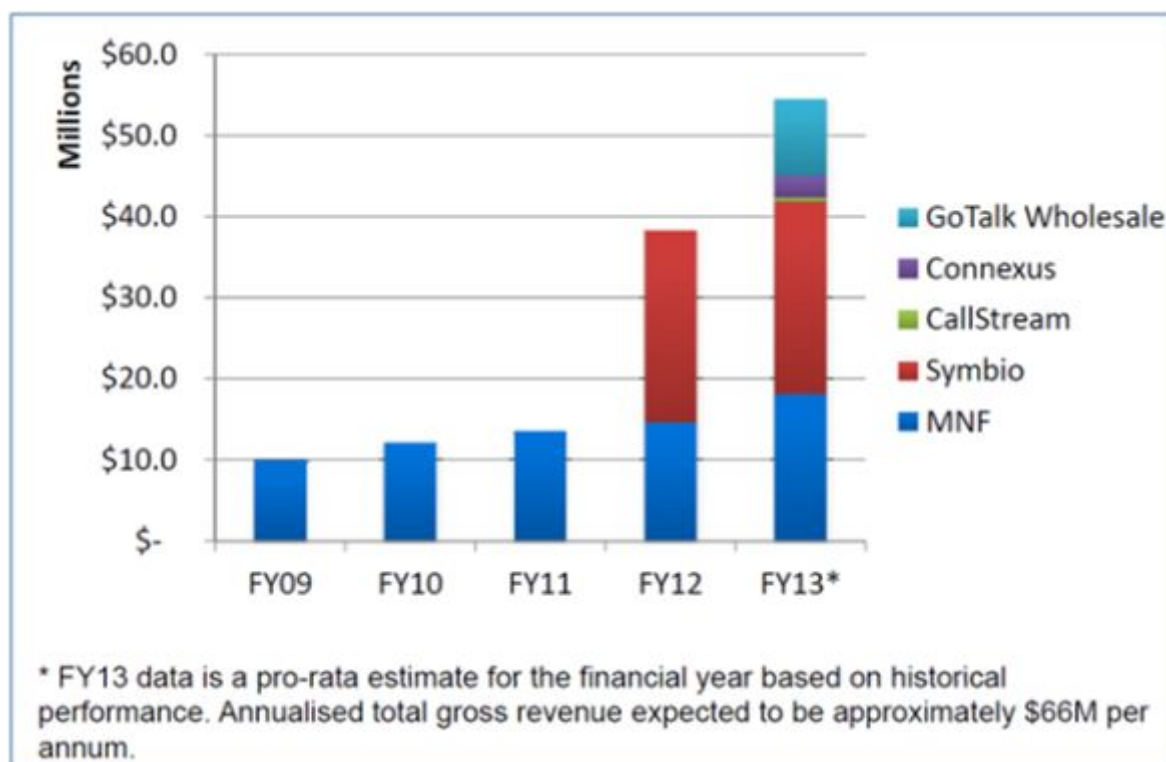
Track record

My Net Fone was founded in 2004 and listed on the ASX in 2006. Its track record since turning profitable in fiscal 2009 is shown below.



While it has achieved solid organic growth since its birth, it was not until the acquisition of Symbio during fiscal 2012 that My Net Fone elevated its growth profile to another level. The purchase was not only the company's first, but it represented an important vertical integration step, as My Net Fone first grew using Symbio's network, infrastructure and hosted services. By subsequently acquiring Symbio (earnings accretive from the outset), My Net Fone has secured access to Symbio's services and its national VoIP network, thereby, preventing them from falling into competitors' hands.

Since then, the company has made a series of additional acquisitions, all complementary to its core VoIP business model and purchased at cheap multiples. In fact, Call Stream was acquired at 1.0 times earnings (\$0.6 million), Connexus (at 2.9 times) and the most recent GoTalk at 3.3 times. On a proforma basis, these acquisitions catapult My Net Fone's revenue base from less than \$40 million in fiscal 2012 to around \$55 million in fiscal 2013, or around \$66 million on a full annualised basis.



Valuation

Incorporating the annualised impact of all the recent acquisitions, management recently provided an earnings picture as shown below. It suggests that My Net Fone is an \$8 million Earnings before Interest, Tax Depreciation and Amortisation (EBITDA) business, with \$5 million in net profit.

	Old FY13 FC (\$M)	New FY13 FC (\$M)	Annualised (\$M)
EBITDA Contribution Summary			
Old MyNetFone/Symbio Group	\$4.70	\$4.70	\$4.70
CallStream addition	N/A	\$0.30	\$0.60
Connexus addition	N/A	\$0.83	\$2.16
GoTalk addition	N/A	\$0.20	\$0.42
Total EBITDA	\$4.70	\$6.03	\$7.88
Estimated Depreciation	\$0.30	\$0.36	\$0.50
Estimated Tax	\$1.10	\$1.70	\$2.21
Estimated NPAT	\$3.30	\$3.97	\$5.17

This equates to an EPS of around 8.3 cents. However, we believe this figure is highly conservative, as it assumes no organic growth in CallStream and Connexus from their most recent reported numbers. More importantly, it is based on estimated earnings from the GoTalk acquisition before any synergies, which may amount to around \$2 million per annum in 2-3 years' time.

Conservatively adjusting for these factors, **we believe the sustainable EPS for My Net Fone is around 9.5 cents**. At the current price of \$1.22, this implies a price-earnings ratio of 12.8 times—a low multiple given the company's undoubted strong growth profile and potential for further accretive bolt-on acquisitions.

Turning to the charts, the bullish moving average cross in place is suggestive of momentum to favour the upside. Though a retracement is potentially at hand, we would expect support to be underpinned at the 50 day moving average of \$1.10 should weakness pave its way south.

With reference to the weekly chart, a decisive break above resistance located at the \$1.325 level would spark a strong boost of upward momentum to follow. This will thus translate to further gains to be had over the broader term timeframe.



Summary

We are attracted by My Net Fone’s solid voice-centric positioning in the telecommunications market, as the industry structurally migrates from a copper-based telephony environment to an internet-based one. Rather than concerned, we see the NBN as an opportunity longer term, by providing the company’s existing and potential customers with robust internet speeds which are ideal for facilitating VoIP—the core foundation of My Net Fone’s business.

The company’s **stock is trading at less than 13 times sustainable EPS, despite the strong earnings growth outlook** (driven by the recent accretive acquisitions). Furthermore, **the potential for further synergistic purchases remains, given My Net Fone’s net cash balance sheet position and solid free cash flow profile.**

For these reasons, we **introduce My Net Fone into the Fat Prophets Portfolio today, and we recommend the stock as a Buy for Members around current levels.**

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Snapshot MNF

My Net Fone

Latest Closing Price: \$1.22

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: \$76m

	FY1	FY2
Price to Earnings	19.1	12.8
Dividend Yield (%)	2.1	3.1
Price to Book	15.4	9.0
Return on Equity (%)	80.8	69.6
EV/EBITDA	11.8	8.0

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