

Fat Prophets Take Profits

In late October, **MNF Group** (ASX.MNF) announced plans to raise capital via a Share Purchase Plan to reduce debt and bolster working capital. However, with the share price currently trading below the offer price, we believe there will be few takers. Furthermore, management's FY19 forecast is underwhelming and implies a cloudier outlook going forward.

What's New?

In our previous coverage of the stock in Mid-October (FAT-AUS-894) we looked at the company's Inabox (ASX.IAB) acquisition and how it will impact the financials going forward. The company also provided FY19 Guidance factoring in the acquisition's impact which wasn't well-received by the market and led to underwhelming share price performance.

We did note though that the company has, historically, done a solid job growing its business via acquisitions and that Inabox looks to be a decent one. Accordingly, we expect its value to shine through over a longer time horizon.

Following that, the company announced a capital raising activity via a Share Purchase Plan (SPP) on 19 October 2018. The company announced that it was offering the SPP to eligible shareholders who were registered holders of ordinary shares in the Company as at 7:00 PM (AEDT) on 18 October 2018 residing in Australia or New Zealand with an **'issue price' of A\$4.40**.

The SPP is intended for debt reduction and to fund working capital though management did not provide a 'cap' on the amount they intend to raise. Based on the tone of the filing and the presentation (Annual General Meeting), it seems that management doesn't expect to raise a sizable figure with a quote that 'EPS impact is immaterial'.

The company also provided an indicative timetable illustrating the SPP:

Key Dates

Record Date	7:00pm (AEDT), 18 October 2018
Offer opens	25 October 2018
Offer closes	5:00pm (AEDT), 8 November 2018
Allotment date	15 November 2018
Despatch of holding statements	19 November 2018

All dates specified in this Offer Booklet are indicative and may be subject to change.

Source: 25 October 2018 SPP Offer Booklet

As indicated in the timetable, the SPP has been open since the 25th of October and is set to close Thursday, 5:00 PM (AEDT) 08 November. Considering that the share price is currently trading below (~5.9%) the 'issue price', we don't recommend Members participate.

Going forward, and reviewing management's outlook for FY19, we note that organic growth seems to have tapered off compared to historical achievements and is quite underwhelming considering that, on a valuation front, the shares have been priced for growth and have been for some time.

FY19 Organic MNF Forecast

	FY18 actual	FY19 forecast	Δ
Gross Margin	\$69.0m	\$74.0m	+7%
EBITDA[^]	\$24.4m	\$26.5m	+9%
Net Interest	\$0.6m	\$0.4m	
Acquisition costs	\$0.3m	\$0.7m	
Non-cash option costs	\$0.4m	\$0.6m	
Depreciation	\$4.3m	\$5.2m	
Amortisation	\$2.0m	\$2.2m	
Tax	\$4.9m	\$4.8m	
NPAT	\$11.9m	\$12.6m	+6%
Earnings per share (cents)	16.3	17.2	+6%

Source: 30 October 2018 Annual General Meeting Presentation

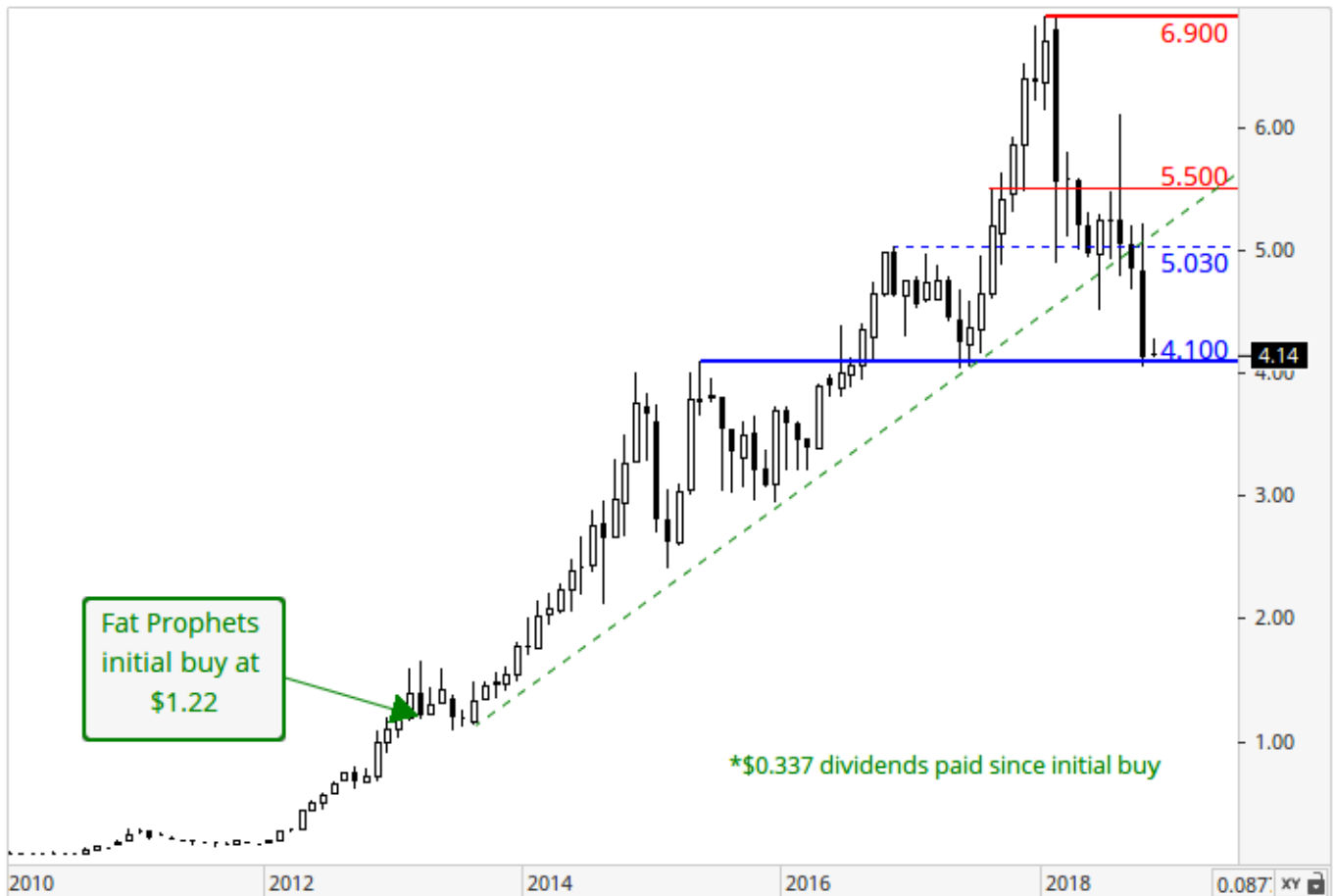
This outlook of an anaemic 6% organic growth on EPS, though sustainable, is not strong enough in our view to warrant current valuations while the technical picture has weakened. On the daily chart,

prices have entered a corrective phase of the overall technical cycle after printing a high of \$6.90 earlier in the year, as marked by the horizontal red line. Support has also given way at the \$4.89 region. Dynamic resistance at the 50-day moving average (red line) at \$4.65 has also failed to hold. The 2018 low of \$4.51 has also fallen. Psychological support at \$4 is now due a test.

MNF Group Limited - MNF (ASX) - 1 Day CandleStick Chart - AUD



With reference to the monthly chart, structural support was breached at the \$5.03 region as shown by the horizontal blue dashed-line. In the grand scheme of things, a solid long-term uptrend remains intact as evident from the series of higher lows and higher highs since 2012. However, a move to support at \$4.10 is about to test this theory.



With the forward FY19 outlook underwhelming and a weak technical outlook, we believe there may be more room for retracement going forward. While the shares are resting slightly above the support level of \$4.10, **we believe that it's best to take profits and fully exit from the position while still ahead.**

Summary

MNF Group recently announced a capital raising effort via a share purchase plan. However, with the open market shares trading at a discount to the 'issue price' of A\$4.40, we recommend Members not take up their entitlements.

On the valuation front, the shares are trading at a forward PE multiple of 32.7 times implying that the shares have been priced for rapid growth. The technical outlook has weakened. Thus, **we believe that it's best to take profits and fully exit from the position while still ahead.**

Accordingly, **we recommend Members SELL their holdings in MNF Group (ASX.MNF).** Coverage of the stock will cease immediately.

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Snapshot MNF

MNF Group

Latest Closing Price: \$4.14

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: \$303.51m

	FY1	FY2
Price to Earnings	32.7	20.6
Dividend Yield (%)	1.6	2.5
Price to Book	5.0	3.9
Return on Equity (%)	16.4	18.4
EV/EBITDA	12.0	10.3