

NFON

Pan-European Cloud PBX

NFON is leader of the German multi-tenant PBX market, with a more than 25% market share as well as being the only European Cloud PBX player with a pan-European presence. European demand for cloud-based hosted PBX/IPCentrix systems should grow strongly to 2025 as the telecom sector switches to All IP systems. NFON's advantages of scale, in-house IP, high recurring revenues and €50m new IPO funding provide the group with the tools to pursue its ambition to dominate the European market. On a FY19e EV/sales of 1.8x, the stock trades at a 43% multiple discount to its peers.

Strategy to lead Europe: Improve, build and acquire

NFON has a clear strategy to gain European market leadership. It plans to increase its marketing and sales activities to achieve greater market penetration of existing and new markets. R&D and new product development is a key focus of the group, occupying 59 staff. The group recently launched Cloudya, a new version of NFON Client, an easy-to-use call and phone management interface. NFON also plans to develop open APIs further to allow broad access for third-party solutions. It will also expand into new European markets including France and Italy.

European market: Strong catch-up growth expected

According to MZA consultants, Cloud PBX penetration in Continental Europe (CE) and the UK was 9% and 13% at end 2017, substantially lagging North America at 19%. It also forecasts Cloud PBX markets in CE and the UK to double by 2022, growing at a CAGR of 16% boosted by the switch-off of ISDN and the emerging dominance of All IP systems. Multi-tenant systems are expected gain market share in this period as they continue to gain customer confidence. GDPR rules should also work in favour of EU companies as US competitors find compliance difficult as they are unable to prevent EU customer data flowing into their US infrastructure.

Valuation: Trading below peers on EV/revenue

NFON reported €20.6m in H118 revenues, up 22%. This was driven by a 29% increase in recurring revenues (a high 80% of total, up from 76% in H117) and flat, one-off revenues. For FY18 management guides for a c 30% increase in customer seats, recurring revenue of 75-80% of the total and revenue growth clearly ahead of the 17% reported in 2017. NFON currently looks to be relatively attractively priced on a 2019e EV/revenue multiple of 1.8x. This is a 43% discount to its peer group averaging 3.7x. NFON's closest European peer Gamma Telecom trades at a 2.3x multiple.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/16	30.4	(0.4)	(1.4)	12.5	N/A	0.9	N/A
12/17	35.7	0.2	(1.8)	10.7	540.0	1.0	N/A
12/18e	44.8	(7.5)	(10.2)	(0.65)	N/A	N/A	N/A
12/19e	61.4	(7.5)	(9.5)	(0.69)	N/A	N/A	N/A

Source: NFON, Bloomberg

Telecommunications

Price €11

Market cap €152

Share price graph



Share details

Code	NFN
Shares in issue	13.8m
Net cash (€m) as at 30 June 2018	44.0

Business description

Founded in 2007 NFON is the only pan-European Cloud PBX operator. It provides telephony services via the internet to 288k seats at more than 15,000 businesses in 13 European countries, including Germany, Austria, the UK and Spain. Listed in H118 NFON has 216 staff and 1,100 sales partners.

Bull

- Potential to become dominant European player from pan-European strategy, economies of scale and advantage of using its own PBX system IP.
- High 80% recurring revenues and high operating leverage set to boost margins as revenues grow.
- European cloud PBX market forecast to double over next five years. GDPR favours EU over US providers.

Bear

- Consensus is forecasting EBITDA losses to 2020.
- Highly competitive market.
- Ongoing R&D spend required to maintain cutting edge in products.

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