Milan, 02 August 2024

Italian Equity Research – 2Q24 Results

TIM

BUY

Sector: Telecoms

Price: Eu0.23 - **Target: Eu0.38**

Back to Business, Delivering Robust Performance in 1H

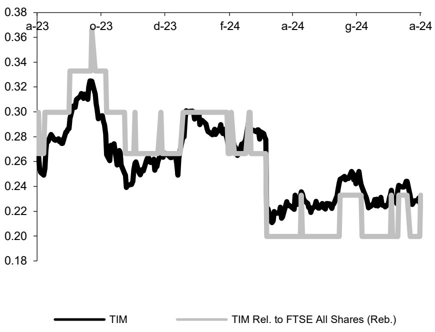
Giorgio Tavolini +39-02-77115.279
giorgio.tavolini@intermonte.it
Andrea Randone: +39-02-77115.364
andrea.randone@intermonte.it

- **2Q24 results.** 2Q results came in above our estimates /consensus, with ServCo delivering across all metrics. The company reaffirmed FY24 guidance for ServCo, in particular the YE debt target of €7.5bn, ≤2x EBITDAaL, implying positive net cash flow of c.€0.6bn in 2H. TIM Consumer: top line stabilisation ongoing (flat revenues), partly thanks to selective repricing in 1H (9.6mn lines of which 5.6mn fixed, annualised upside of c.€91mn). This is encouraging, particularly with stable churn rates, as it suggests further rationalisation of the traditionally competitive Italian market amid ongoing structural changes. TIM Enterprise posted solid 6% growth, in line with the 2024-26 CAGR, backed by connectivity and ICT (61% of total), with strong Cloud revenues (+19%) supported by PSN. TIM Brasil continued to show strong growth, primarily fuelled by the post-paid sector and a strategic repositioning to value (ARPU +7% YoY). Group EBITDAaL was +10% YoY (domestic +13.5%), with ~70% generated by two healthy businesses in TIM Brasil and TIM Enterprise. Transformation Plan execution ongoing: >€100m EBITDAaL-CapEx savings achieved in 1H. Liquidity: most of the cash remaining after the deconsolidation of gross debt will be used for bridge repayments, unwinding derivatives, and repaying bank loans, leaving €2.4bn in net cash. The liquidity margin covers maturities to 2028.
- **Positive feedback from the call**. Management expressed confidence in finalising the sale of Sparkle and INWIT, more visibility on the restoration of the 1998 concession fee by the end of September. TIM Consumer and TIM Enterprise are to remain as BUs rather than legally separate companies, but we believe this should not prevent the Group from engaging in M&A deals for each unit. On NetCo, ServCo is not committed to specific volumes, allowing it to purchase FTTH services from other providers, such as Open Fiber in white and grey zones. In our view, this flexibility incentivises FiberCop to consider a prompt deal with Open Fiber (more chance for TIM to cash-in earnouts on NetCo). Competitive landscape stable, some aggression from energy providers. No significant ForEx headwinds expected on 2H FCF trends.
- **BUY confirmed; target still €0.38 for TIM Ords /€0.40 for TIM Savs. No change in estimates.** After the NetCo sale (not yet reflected in current stock prices, in our view), the Group's focus shifts to the sustainability of the ServCo business model and management's ability to execute a turnaround strategy for TIM Consumer and to strengthen TIM Enterprise, while also seizing M&A opportunities. We remain positive on the stock, as we believe the financial profile could improve materially in the near future: the Free-To-Run plan does not include additional benefits, which could be worth up to 100% of the current market cap, related to the cash-in of the earnout on the disposal of the NetCo (up to €2.9bn), the sales of Sparkle (€0.8bn) and of the non-core stake in INWIT (€0.3bn) and the likely return of the 1998 licence fee (€1bn). We confirm our target of €0.38 for TIM Ords and maintain a preference for TIM Savs (€0.40). Our TP does not incorporate upside of ~€0.26 from a potential re-rating of TIM Consumer to a "fair" multiple of 6x EV/EBITDAaL (or 7.6x for the entire domestic ServCo, the same multiple offered by Fastweb for Vodafone Italia), which could be immediately crystallised through market repair/consolidation or disposal of the asset.

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Events: 26 Sep: 1H24 Final Results

TIM - 12M Performance



Stock Data			
Reuters code:			TLIT.MI
Bloomberg code:			TIT IM
Performance	**1M**	**3M**	**12M**
Absolute	1.2%	2.6%	-14.1%
Relative	3.7%	5.2%	-25.7%
12M (H/L)			0.33/0.21
3M Average Volume (th):			198,303.14

Shareholder Data	
No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	3,506
Total Mkt Cap (Eu mn):	5,043
Mkt Float - Ord (Eu mn):	2,282
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data	
Book Value (Eu mn):	13,356
BVPS (Eu):	0.63
P/BV:	0.4
Net Financial Position (Eu mn):	-7,602
Enterprise Value (Eu mn):	12,645

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	15,788	16,296	14,642	14,732	15,189
EBITDA Adj (Eu mn)	6,029	6,383	4,406	4,485	4,702
Net Profit Adj (Eu mn)	-217	-437	-104	-59	217
EPS New Adj (Eu)	-0.010	-0.020	-0.005	-0.003	0.010
EPS Old Adj (Eu)	-0.010	-0.020	-0.005	-0.003	0.010
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	4.3	4.1	2.9	2.8	2.7
EV/EBIT Adj	nm	30.9	21.0	10.6	8.7
P/E Adj	nm	nm	nm	nm	22.5
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.3	3.2	1.7	1.7	1.6

DISCLAIMER (for more details go to DISCLAIMER)

ANALYST CERTIFICATION

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certify that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

The analyst responsible for the report is not a) a resident of US; b) an associated person of a U.S. broker-dealer; c) supervised by a supervisory principal of a U.S. broker-dealer. This Research Report is distributed in the U.S. through Plural Securities LLC, 950 3rd Ave, Suite 1702, NY 10022, USA.

GUIDE TO FUNDAMENTAL RESEARCH

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 June 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

Intermonte is acting as financial advisor to Retex S.p.A. – Società Benefit in relation to the voluntary public tender offer launched on Alkemy S.p.A.

Intermonte is acting as financial advisor to Eagle S.p.A. and intermediary responsible for coordinating the collection of sale requests in relation to the sell-out procedure on Greenthesis S.p.A.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Civitanavi Systems, Cy4Gate, Esprinet, GPI, Greenthesis (formerly Ambienthesis), Growens, Illimity Bank, Maire Tecnimont, SAES Getters, Tinexta, Unidata and WIIT.

Intermonte SIM is acting as counterparty to WIIT Fin S.r.l. in connection with call and put options having WIIT S.p.A. shares and dividends as reference underlying.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Alkemy, Anima Holding, Antares Vision, Aquafil, Avio, Banca Ifis, Banca Sistema, Civitanavi Systems, Cyberoo, Cy4gate, DHH, El.En, Elica, Emak, Esprinet, Fimit - Fondo Alpha, Fine Foods, Franchi Umberto Marmi, Go Internet, GPI, Greenthesis (formerly Ambienthesis), IEG, Iervolino & Lady Bacardi Entertainment, IndelB, Intred, Luve, Matica Fintec, Mondadori, Notorious Pictures, Omer, Pharmanutra, Reevo, Relatech, Reply, Revo Insurance, Reway, Sababa Security, Saes Getters, Sciuker Frames, Servizi Italia, Sesa, Seri Industrial, Somec, Star7, SyS-Dat Group, Talea, Tamburi, Tinexta, Tesmec, The Italian Sea Group, TXT, Unidata, Webuild and WIIT.

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following company: Banca Sistema.

Intermonte SIM performes as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco, FCA, FTMIB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STM, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM, through Websim, which constitute the digital division of Intermonte, acts as a Financial Content Provider on the following companies: Abitare In, Alkemy, Allcore, Almawave, Banca Sistema, Bifire S.P.A., B&C Speakers, Casta Diva Group, Cleanbnb, Cofle, Crowdfundme, Cube Labs, Cy4gate, Cyberoo, Digital Bros, Digital Magics, Digitouch, Doxee, Ediliziacrobatica Spa, Eles, Elica, Emak, Energy, Esi, Esprinet, Eviso, Fae Technology, Fiera Milano, Fope, FOS, Franchi Umberto Marmi, Giglio Group, GPI, High Quality Food, Ikonisys, Intercos, Intred, ISCC Fintech, Lemon Sistemi, Lventure Group, Maps Group, Masi Agricola, Matica Fintec, Neodecortech, Notorious Pictures, Olidata, Osai Automation System, Racing Force Group, Relatech, Reti, Sciuker Frames, SG Company, Solid World Group, Spindox Digital Soul, Talea, Tamburi, Tesmec, Tinexta, TMP Group, Tps Group, Trendevice, Ulisse Biomed, Wiit.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short