Intermonte

Milan, 03 August 2023

Italian Equity Research – 2Q23 Results

TIM

BUY

Sector: Telecoms

Price: Eu0.27 - **Target: Eu0.41**

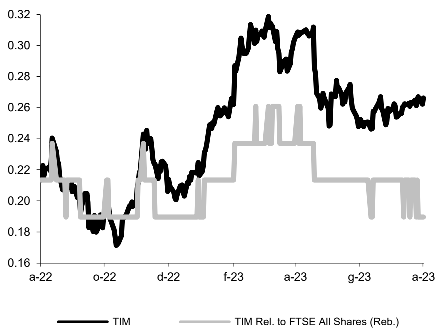
Italy Back to Growth, FY Outlook Confirmed with Upside Risk on FCF

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

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event 3Q Results Out 8 November

TIM - 12M Performance



Stock Data			
Reuters code:			TLIT.MI
Bloomberg code:			TIT IM
Performance	**1M**	**3M**	**12M**
Absolute	3.3%	-0.2%	24.8%
Relative	-0.3%	-7.5%	-2.9%
12M (H/L)			0.32/0.17
3M Average Volume (th):			122,399.35

Shareholder Data	
No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	4,082
Total Mkt Cap (Eu mn):	5,650
Mkt Float - Ord (Eu mn):	2,657
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data	
Book Value (Eu mn):	13,398
BVPS (Eu):	0.63
P/BV:	0.4
Net Financial Position (Eu mn):	-26,479
Enterprise Value (Eu mn):	32,129

- **2Q23 results.** With TIM Brasil results out earlier this week (1% above our exp), the focus shifts to delivery in Italy. 2Q domestic numbers were marginally above our/consensus expectations, confirming the return to growth after almost 20 quarters: revenues up 0.6% YoY, service revenue moving towards stabilization (-0.9% YoY, with fixed already stabilized at +0.2% while mobile -4%) and, moreover, adj. EBITDA up 0.5% YoY (1Q: -2.8%). Group net profit negative by "only" -€51mn in 2Q (1Q: -€622mn), thanks to noteworthy lack of meaningful non-recurring items in this quarter (just €10mn at Group level, o/w €7mn Domestic). Despite the small beat on EBITDA and lower CapEx (-1% vs exp.), Group EFCF-AL was below expectations (-€236mn, our exp. -€146mn, cons. -€160mn) burdened by NWC absorption, higher financial expenses YoY and FX, but net debt-AL broadly in line at €20.8bn.
- **Divisional highlights in Italy.** Mobile service revenues (2Q: -4.2%, 1Q: -3.8%) still affected by MTR reduction (1.2pp YoY) and lower customer base trend YoY, but KPIs improving looking at human net adds (2Q: -28k, 1Q: -141k; our exp. -80k), the first positive balance in MNP (+5k) since the entry of Iliad and the Consumer ARPU trend (flat at €11.0/month, ex MTR). Fixed service revenues stabilisation (2Q: +0.2%, 1Q: -1.8%) enjoyed higher ARPU (+5% ex activation fees drag) despite stable line losses (2Q: -75k, 1Q: -74k) and weaker UBB trends in both retail (2Q: +44k, 1Q: +70k) and wholesale (2Q: +16k, 1Q: +35k). On ServiceCo "entities": ongoing repositioning for TIM Consumer (serv. rev. -5%) with selective price-ups (€70mn upside in FY23 o/w €40mn on fixed) and 2% growth in serv.rev. for both TIM Enterprise (strong pipeline, high visibility on contract duration) and NetCo (new regulated prices, FTTH rollout on track).
- **2023 guidance confirmed with upside risks on FCF:** Equity FCF to be flat to positive in 2H considering the partial release of NRRP funds (c.€0.5bn). Domestic recovery in 2H (better comp on energy&labour, selective repricing, new wholesale tariffs) to support FY guidance achievement. Transformational plan: €0.2bn additional savings achieved in 2Q (c. 50% of incremental FY target). Debt refinancing: €3.3bn raised since the start of the year; as at end-July, on a pro forma basis, Group liquidity margin covers all maturities until 2025. NetCo timeline: 9-12 months for corporate &regulatory approval from the deadline set for the binding offer (30 Sep); ServiceCo sustainability: commitment to improve cash generation profile of TIM ServiceCo (higher EBITDAaL, lower CapEx). Ex NetCo leverage at 1.5-2.0x: target consistent with the one set at CMD last year (<€5bn) assuming >€3bn adj. EBITDAaL for ServiceCo in FY23 (our exp. €3.3bn) but now achievable even without additional M&A (e.g. partial sale of TIM Enterprise).
- **No change in estimates.** Our estimates are in line with FY guidance; FY domestic adj. EBITDA growth (our exp. +0.5% YoY) implies 2% growth in 2H which seems sustainable given the much easier comparison base, while we still assume -€0.1bn EFCF in FY, implying a +€0.1bn reversal in 2H.
- **BUY; target still €0.41 (ords) and €0.44 (savs).** The speculative appeal from the NetCo deal (binding offer from KKR by end of September, potential involvement of F2i/CDP/MEF), the return to growth in Italy and the latest sector developments (price hikes, potential in-market consolidation, NRRP) bode well for the near future, supporting a more pro-investment environment, better returns on capital and more sustainable competition. We think the market is significantly undervaluing TIM's break-up value and the material upside from CEO Labriola's transformational plan, based on improving operating models across the entities (NetCo separation, EnterpriseCo expansion, ConsumerCo turnaround, TIM Brasil integration with Oi), and more sustainable cost structures. Our €0.41 TP reflects a base case NetCo valuation (EV €20bn, 10x EV/EBITDAaL) as a floor to bring debt back to a sustainable level and does not include the upside of €0.23/share from a re-rating of the ConsumerCo to a "fair" multiple of 5x EV/EBITDAaL.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	15,316	15,788	16,008	16,234	16,585
EBITDA Adj (Eu mn)	6,228	6,029	6,282	6,428	6,651
Net Profit Adj (Eu mn)	256	-217	-117	2	189
EPS New Adj (Eu)	0.012	-0.010	-0.005	0.000	0.009
EPS Old Adj (Eu)	0.012	-0.010	-0.005	0.000	0.009
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.0	5.2	5.1	5.1	5.0
EV/EBIT Adj	nm	nm	nm	28.4	21.3
P/E Adj	22.2	nm	nm	nm	30.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.2	4.2	4.2	4.1