

TIM

Sector: Telecoms

BUY

Price: Eu0.26 - Target: Eu0.41

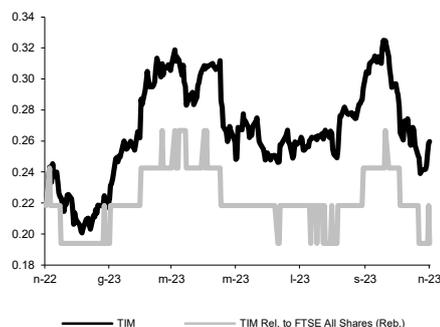
NetCo Sale Approved by Board: a Turning Point in the Equity Story

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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	-11.1%	2.0%	19.0%
Relative	-15.3%	2.5%	-5.2%
12M (H/L)	0.33/0.20		
3M Average Volume (th):	182,422.16		

Shareholder Data	
No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	3,981
Total Mkt Cap (Eu mn):	5,566
Mkt Float - Ord (Eu mn):	2,591
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):	32,045

- Sale of NetCo:** yesterday evening, the TIM BoD approved KKR's binding offer for the NetCo by an overwhelming majority (11 votes in favour, 3 against) without (unexpectedly) convening any consultative shareholder meeting. We believe that this "bold" decision reflects the BoD's high level of conviction on the appeal of the KKR proposal and strong legal grounds on the basis of legal opinions. KKR's offer values the NetCo (excluding Sparkle) at a base EV of €18.8bn, slightly above our assumption in our SOP (€19.9bn but including €1.4bn for Sparkle). The offer could go up to €22bn including some price adjustments and earn-outs: a) up to €2.5bn in the event of a consolidation deal involving the NetCo and the introduction of regulatory changes benefiting the NetCo, within 30 months of closing; b) €0.4bn if some sector incentives come into effect by end-2025. Closing expected in summer 2024, once preparatory activities (completion of the transfer of the primary network to FiberCop) are completed and after the regulatory greenlight (Antitrust and Golden Power, in particular). Finally, the BoD gave the CEO a mandate to receive an improved offer for Sparkle (deadline extended to 5 Dec.) and rejected the Merlyn plan as not in line with the Group delayering plan.
- €14bn deleveraging for TIM, another €1bn possible from Sparkle.** NetCo disposal (earnouts) enables TIM to cut its net debt by c. €14bn (from the current c. €21bn) at the time of closing, giving the Group ServiceCo a solid capital structure and a net debt/EBITDA ratio of <2x (after lease). Despite deterioration of the macro-economic environment, this is an improvement on the deleveraging target presented at the CMD in July 2022. At that time, TIM talked about €16bn deleveraging but this target included the disposal of Sparkle (c. €1bn according to press, €1.4bn in our SOP) and a minority stake (40%) in TIM Enterprise, enabling the Group ServiceCo to go to <€5bn net debt. The deal rationale is not solely financial: it also has significant industrial benefits. In addition to reducing debt and freeing up resources, TIM will gain the opportunity to operate in the domestic market with fewer regulatory constraints, which will contribute to maintaining the strategic flexibility outlined in the delayering plan.
- VIV's threats did not intimidate the Board.** As expected, Vivendi (VIV) has promptly reacted saying it will use any legal means at its disposal to challenge the TIM BoD decision, as it would allegedly deprive each shareholder of the right to express their opinion at the shareholder meeting, as well as the related right of withdrawal for dissenting shareholders. We believe the TIM BoD has made the right decision in accordance with the current regulation (this is a managerial decision: no change envisaged to the company's purpose) based on the various legal opinions it has received, therefore we see very little chance that the NetCo sale could be challenged or blocked by a judge if VIV takes legal action.
- BUY; target still €0.41 (ords) and €0.44 (savs).** We confirm the BUY rating on TIM Ords with a TP of €0.41/share, which is built on a €20bn valuation for the NetCo, a floor able to guarantee a structural reduction of debt to a sustainable level that does not include upside of €0.23/share from a re-rating of the ConsumerCo to a "fair" multiple of 5x EV/EBITDAaL. We retain a preference for savings shares (TP at €0.44), which on disposal of the NetCo could benefit from greater speculative appeal related to conversion into ordinary shares and payment of two dividends in arrears for c.€0.33bn thanks to the capital gain from the disposal of the asset.

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	5.0	4.9
EV/EBIT Adj	nm	nm	nm	27.9	21.1
P/E Adj	21.7	nm	nm	nm	29.3
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.2	4.2	4.1	4.1

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