

TIM

Sector: Telecoms

BUY

Price: Eu0.28 - Target: Eu0.42

Free-to-Run Plan: High Confidence in TIM Consumer Turnaround

Giorgio Tavolini +39-02-77115.279

giorgio.tavolini@intermonte.it

Andrea Randone +39-02-77115.364

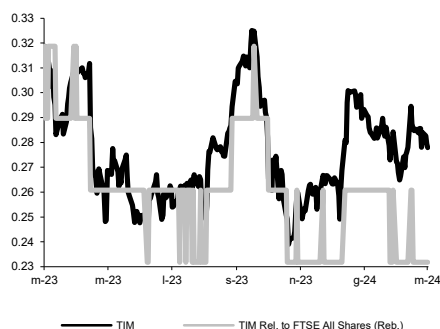
andrea.randone@intermonte.it

Stock Rating

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

Next Events CMD today at 1:30pm CET ([link](#))

TIM - 12M Performance



Stock Data

Reuters code:	TLIT.MI		
Bloomberg code:	TIT IM		
Performance	1M	3M	12M
Absolute	2.3%	5.5%	-12.8%
Relative	-4.4%	-4.4%	-30.3%
12M (H/L)	0.33/0.24		
3M Average Volume (th):	159,247.07		

Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	4,260
Total Mkt Cap (Eu mn):	6,003
Mkt Float - Ord (Eu mn):	2,773
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data

Book Value (Eu mn):	12,620
BVPS (Eu):	0.59
P/BV:	0.5
Net Financial Position (Eu mn):	-25,830
Enterprise Value (Eu mn):	31,833

- Free-To-Run business plan in a nutshell:** beyond the different scope (TIM Sparkle now re-included, but with almost neutral contribution to FCF), the new targets are largely consistent with the previous hints provided in November last year and imply strong management confidence in the turnaround of TIM Consumer, mostly through a transformational plan involving €0.4bn of savings by 2026. This upside represents 80% of the expected increase in Domestic EBITDAaL-less-CapEx between 2023 and 2026. While our estimates are more conservative, we believe this goal is achievable, given management's successful track record in implementing a similar cost-cutting plan so far. Consequently, the re-appointment of management is crucial for the successful delivery of this BP. Moreover, the recovery in the domestic market could potentially be expedited in the event of market repair or consolidation.
- Key targets:** group revenue to grow at a 3% 2023-26 CAGR (in line with previous hints) to c.€15.8bn in 2026 (ex-Sparkle: €14.9bn, our exp. €14.8bn); TIM Domestic revenues to grow at a 2% CAGR to c.€10.7bn in 2026 (ex-Sparkle: €9.8bn, our exp. €9.7bn). In 2024 group revenues are expected to rise 3-4%, 2-3% in Domestic. 8% CAGR in group adj. EBITDAaL to c.€4.4bn in 2026 (ex-Sparkle: €4.2bn, our exp. €3.9bn); for TIM Domestic, adj. EBITDAaL CAGR of 9-10% to €2.5bn in 2026 (ex-Sparkle: €2.3bn, our exp. €1.9bn). In 2024 group organic EBITDAaL to rise 8-9%; 9-10% for TIM Domestic. Group EBITDAaL-less-CapEx up to c.€2.2bn in 2026 (our exp: €1.7bn), while rising to €1.1bn at domestic level in 2026 (our exp. €0.5bn).
- Leverage more than halving in 3 years.** Leverage expected to come down from 3.8x at YE23 to 1.6-1.7x by 2026, before considering shareholder remuneration (no indication in the press release) and any earn-out on the NetCo sale, which implies YE26 net debt of €7.0-7.5bn, slightly above our €6.4bn estimate (i.e. €4.8bn excluding the €1.45bn earn-out, weighted for a 50% chance, the sale of TIM Sparkle for €0.8bn and the €0.66bn dividend payout we were assuming in our estimates). This gap could be justified by c.€0.5-1.0bn of restructuring costs (we expect more details today).
- Submission of outgoing Bod's slate.** The slate comprises 15 members, maintaining Labriola as CEO for his second term and appointing Gorno Tempini (Chairman of CDP), as well as proposing Figari (corporate lawyer) for the position of independent Chair. The Board unanimously resolved to propose the appointment of a 9-member Board with a 3-year term.
- BUY confirmed; target still €0.42 on Ords / €0.44 on Savs.** If today's CMD provides clarity, investors currently on the sidelines may gradually enter the stock, without waiting for the closing of the NetCo deal (expected by July). Our TPs do not incorporate potential upside of c.€0.25 per share from a re-rating of TIM Consumer to a 'fair' multiple of 5.5x EV/EBITDAaL (or 7.8x EV/EBITDAaL for the entire Domestic ServiceCo). This re-rating would be accelerated in the event of consolidation in Italy driving market repair. We retain a preference for savings shares (TP at €0.44), which could benefit from greater speculative appeal related to their potential conversion into ordinary shares and the payment of 3 dividends in arrears thanks to the capital gain from the NetCo disposal (we expect more clarity on this point today).

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	15,788	16,296	16,581	16,950	17,328
EBITDA Adj (Eu mn)	6,029	6,383	6,616	6,849	7,024
Net Profit Adj (Eu mn)	-217	-437	-257	143	521
EPS New Adj (Eu)	-0.010	-0.020	-0.012	0.007	0.024
EPS Old Adj (Eu)	-0.010	-0.030	-0.012	0.007	0.024
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.2	4.9	4.8	4.7	4.7
EV/EBIT Adj	nm	37.2	27.1	21.0	18.1
P/E Adj	nm	nm	nm	41.5	11.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.2	4.0	3.9	3.9	3.8

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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&P500 Index, most of those on the MIBEX 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.

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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.

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BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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

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Emittente	%	Long/Short

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