

# TIM

Sector: Telecoms

# BUY

Price: Eu0.21 - Target: Eu0.42

## Seeking Clarity: Unpicking the FCF Puzzle and Ambitious Targets

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### Stock Rating

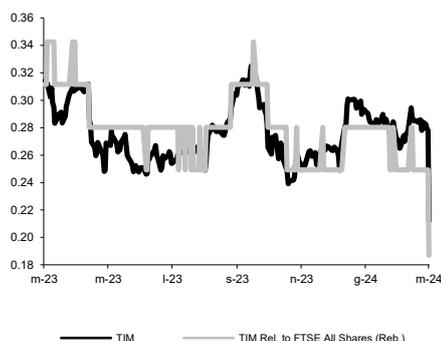
**Rating:** Unchanged

**Target Price (Eu):** Unchanged

	2024E	2025E	2026E
Chg in Adj EPS	0.0%	0.0%	0.0%

**Next Events** AGM 23<sup>rd</sup> April 2024

### TIM - 12M Performance



### Stock Data

**Reuters code:** TLIT.MI

**Bloomberg code:** TIT IM

Performance	1M	3M	12M
Absolute	-20.9%	-19.6%	-32.0%
Relative	-28.3%	-30.4%	-50.5%
12M (H/L)	0.33/0.21		
3M Average Volume (th):	191,330.71		

### Shareholder Data

**No. of Ord shares (mn):** 15,329

**Total no. of shares (mn):** 21,357

**Mkt Cap Ord (Eu mn):** 3,247

**Total Mkt Cap (Eu mn):** 4,573

**Mkt Float - Ord (Eu mn):** 2,113

**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:** 0.4

**Net Financial Position (Eu mn):** -25,830

**Enterprise Value (Eu mn):** 30,403

■ **The day after the storm:** yesterday's debacle (TIM Ords -24%) was driven by a mix of elements explaining a major mismatch in expectations: a €1bn higher starting point on YE24 net debt, higher WKC outflows for restructuring charges (mostly in 2024 and 2025), and much higher financial charges (€0.8bn, 2x consensus, due to recently-issued high-interest bonds). Most importantly, the highly ambitious operating target of 9-10% growth in domestic EBITDAaL for 2024 reflects extreme confidence in a TIM Consumer turnaround, and is also crucial for keeping YE26 leverage targets (1.6-1.7x) within the industry average of 2x. In the lead-up to the 23 April AGM vote for the new Board of Directors, the current management has a limited window of opportunity to offer further clarity and rebuild market confidence in the Free-to-Run strategy. Currently, replacing management without a clear alternative plan would probably damage the stock price more than sticking with the existing (albeit unconvincing) plan. We believe the current plan can be revised and communicated better to regain market confidence.

■ **FCF puzzle under scrutiny.** Later in this report we provide a reconciling table on FCF. 2026 is seen as the first "normal" year for FCF generation (€0.9bn EFCF, €0.6bn net cash flow), as 2024 is expected to burn cash (reflecting the cost of separation and non-recurring personnel items), as is FY25, to a lesser extent (still absorbing WKC for restructuring charges). For 2024, TIM will remain an integrated player for at least 6 months, this implies a €1bn impact (notably WKC outflow) on top of non-recurring personnel costs (€0.45bn). The company currently expects a debt-to-EBITDA ratio of ≤2x at the end of 2024, which translates to approximately €7.6bn in net debt, much higher than the pro-forma figure of €6.6bn resulting from the current consensus estimate for FY24 (€20.8bn) net of NetCo sale proceeds (€14.2bn). With a higher starting point for FY24 net debt (around €7.6bn, ≤2x), FY26 targets envisage a de-leverage trajectory to €7.0-7.5bn, i.e. 1.6-1.7x EBITDAaL. This range does not yet account for any potential earnout or the Sparke sale, which could further bolster de-leverage by at least an additional €3bn.

■ **Are ambitious front-loaded targets for the Domestic business sustainable?** This question directly addresses the main point of discussion. The CEO assured investors they are on track with the 9-10% growth target based on quarterly progress. However, he cautioned that 1Q might not be fully representative due to seasonal headwinds, with a stronger performance expected in the latter half of the year. We remain sceptical about such high growth being achieved in FY24. 3Q and 4Q of 2023 might offer challenging comparison bases, as strong EBITDAaL performance last year benefited from lower energy and labour costs and price hikes. Time will tell whether the company can overcome these hurdles.

■ **Investment case.** Yesterday's setback deeply shook the market. In order to restore confidence in the equity story, and with an eye to self-preservation in terms of their own confirmation, in the very near future management needs to critically rethink the plan, providing greater clarity on the various moving parts and the achievability of the announced targets. Pending further clarity on the company's strategy and before revising our model, we confirm our BUY rating, mostly on valuation grounds (€0.9bn EFCF in FY26 implies an 18% yield, or ~10% discounted at today) but also on the very high chance of radically improving the leverage profile through monetisation of TIM Sparke (100% EV: €0.8bn) and the NetCo earn-out (€2.5bn), not embedded in the current BP.

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	4.6	4.5	4.5
EV/EBIT Adj	nm	37.2	25.9	20.0	17.4
P/E Adj	nm	nm	nm	31.6	8.7
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.

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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.

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

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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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