

# TIM

Sector: Telecoms

# BUY

Price: Eu0.27 - Target: Eu0.41

## 3Q To Mirror FY23 Trajectory, Short-Term M&A Appeal to Stay High

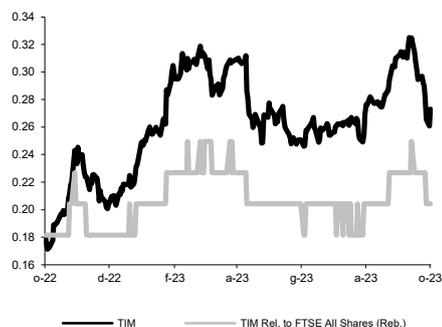
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### Stock Rating

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		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	-12.1%	6.4%	50.4%
Relative	-12.0%	5.6%	17.7%
12M (H/L)	0.33/0.17		
3M Average Volume (th):	157,886.41		

### Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	4,185
Total Mkt Cap (Eu mn):	5,855
Mkt Float - Ord (Eu mn):	2,724
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):	32,335

- 3Q23 preview.** The company should report 3Q trends broadly in line with 2Q, as we assume almost flat domestic service revenues (o/w fixed +0.5%, mobile -3%) and confirm the positive trajectory in adj. Domestic EBITDA (3Q: +0.8-0.9%, 2Q: +0.5%), implying c. 4% growth in 4Q (easier comp on energy/labour costs and ongoing upside from repricing) leaving our FY estimate unchanged (+0.5%, target: *flat-to-low single digit growth*). Net debt should be around €21bn, up from €20.8bn in 2Q, to reflect seasonal NWC trends and higher domestic CapEx (NRRP milestones). Overall, this is consistent with the FY trajectory (our exp. €21.1bn debt) assuming a greater release of NWC in 4Q and not yet including the cash-in of 20% of grants from NRRP (€0.5bn advance payment available as of this year).
- Divisional highlights.** Domestic Fixed: stabilisation of service revenues to be confirmed (3Q: +0.5%, 2Q: +0.2%, 1Q: -1.8%) supported by selective price hikes (€70mn upside in FY23 o/w €40mn on fixed) and improving KPIs (we assume better FttX net adds driven by back-to-school season), while equipment should have benefited from €50m of sales linked to the renewal of last year's deal signed with Open Fiber in white zones, now extended to grey zones. Domestic Mobile: service revenues to have improved marginally QoQ (3Q: -3.0%, 2Q: -4.2%, 1Q: -3.8%) on the back of increasing market rationality. TIM Brasil: in local currency, we see a mid-single-digit top line trend (+4.8%) and high single-digit EBITDA growth (+8.3%) to reflect a tougher comparison base (full consolidation of Oi in 3Q22), while KPIs should have continued to benefit from migration from pre-paid to post-paid.
- No change in estimates. 2023 guidance to be 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 achievement of FY guidance.
- Final offer for NetCo by the weekend.** KKR is expected to submit a binding offer for the NetCo (€21bn +€2bn earn-out) by the end of this week. Following last week's meeting with Vivendi (VIV), MEF reiterated its commitment for a shared plan with KKR and the lack of alternative solutions. As things stand, we see no alternatives to a disposal of the network, a liquidity event that can ensure a structural reduction in TIM's debt by c.€17bn and guarantee sustainable leverage for the ServiceCo (1.5-2.0x with less than €5bn debt). Personnel still represents one of the stumbling blocks for the deal: TIM's delayering plan foresees a domestic ServiceCo with c.17k employees, more than double the 8k demanded by VIV. However, we cannot rule out the NetCo absorbing much of the excess should a more favourable regulatory regime be recognised able to remunerate (through a cost-plus mechanism) costs for the construction, management and maintenance of the network, which realistically require more resources, including in terms of personnel.
- BUY; target still €0.41 (ords) and €0.44 (savs).** We confirm the BUY rating on TIM Ords with TP of €0.41/share, which is built on a €20bn valuation for the NetCo, a floor able to guarantee a structural reduction of the debt to a sustainable level that does not include upside of €0.24/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	5.1	5.0
EV/EBIT Adj	nm	nm	nm	28.2	21.3
P/E Adj	22.8	nm	nm	nm	30.8
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