

TIM

Sector: Telecoms

BUY

Price: Eu0.21 - Target: Eu0.36

Revising Estimates Following Clarification on FCF Evolution

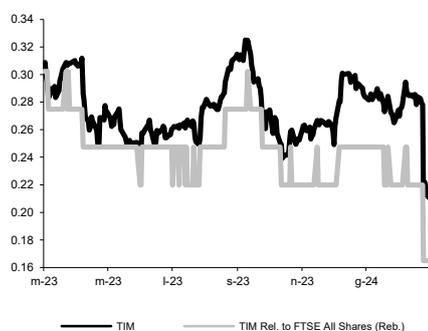
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Stock Rating

Rating: Unchanged
Target Price (Eu): from 0.42 to 0.36

Next Events AGM 23rd April 2024

TIM - 12M Performance



Stock Data

Reuters code: TLIT.MI
 Bloomberg code: TIT IM

Performance	1M	3M	12M
Absolute	-23.1%	-18.5%	-32.5%
Relative	-30.0%	-29.5%	-54.3%
12M (H/L)	0.33/0.21		
3M Average Volume (th):	237,504.31		

Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	3,231
Total Mkt Cap (Eu mn):	4,534
Mkt Float - Ord (Eu mn):	2,103
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):	30,364

■ **A wrap-up of recent events.** This week TIM provided some additional information on the 2024-26 business plan initially presented last Thursday. The stock debacle (TIM Ords -24% since last Thursday) has been driven by a mix of elements that point to a major mismatch on 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). Most importantly, the highly ambitious operating target of 9-10% growth of 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.

■ **Estimates update*.** We adapt our pro forma estimates (ex NetCo) to new 2024-26 outlook. In particular, we add TIM Sparkle back into the domestic perimeter (neutral impact at FCF level), rebalance the mix between TIM Consumer and TIM Enterprise (based on FY23 actual figure, FY24-26 divisional targets not provided), capture FCF items according to the latest information provided by the company, and remove previous assumptions on dividends (for both TIT and TITR) as we expect TIM to be loss making in FY24-25. At domestic EBITDAaL level, our estimates (+3.7% CAGR'23-26, €2.0bn in FY26) are more conservative by far than company targets (+9/10% CAGR, implied tgt. €2.5bn in FY26). This leads us to assume negligible organic deleverage, with net debt AL moving from €7.68bn in FY24 (2.1x adj. EBITDAaL, tgt: ≤2x) to €7.61bn in FY26 (1.9x, tgt: 1.6-1.7x), while assuming the cash-in of the NetCo earnout in FY25 (Eu2.9bn, weighted at 50% likelihood) and the monetisation of TIM Sparkle; we see FY26 Net Debt AL at €5.5bn with 1.3x leverage.

■ **BUY rating confirmed, TP trimmed to €0.36 for both classes of shares.** Despite the shocking setback on the stock and a disappointing BP, we confirm our BUY rating, mostly on valuation grounds (~€0.8bn normalized net cash flow target in FY26 implies an 18% yield, or ~15% discounted to today, compared to a sector average at 10-11%) but also on the very high chance of radically improving the leverage profile through massive monetisation of TIM Sparke (100% EV: €0.8bn) and the NetCo earnout (€2.9bn), not embedded in the current BP. Our €0.36 TP does not yet embody the potential upside of c. €0.33 from a re-rating of TIM Consumer to a 'fair' multiple of 5x EV/EBITDAaL (or 8x EV/EBITDAaL for the entire Domestic ServiceCo), which could be accelerated in the event of market repair/consolidation. Finally, we remove the premium on savings shares (TP down from €0.44 to €0.36) vs ordinary ones (TP cut from €0.42 to €0.36) as we believe the company will be loss-making in FY24-25, despite the gain on the NetCo sale. Post disposal of the NetCo and taking account of higher debt at the end of 2024, on our estimates and at current prices the Group ServiceCo would trade at circa 3.7x EV/EBITDAaL (sector at 5.5x). After the disposal of Sparkle and the INWIT stake, and post deconsolidation of TIM Brasil, the domestic STUB would trade at circa 2.3x EV/EBITDAaL, bringing out an even more pronounced under-valuation compared to the European sector.

* Estimates reflecting new perimeter following NetCo disposal