TIM

BUY

Sector: Telecoms

Price: Eu0.25 - **Target: Eu0.38**

Two Companies, Two Directions: Dual Snapshot on 1Q

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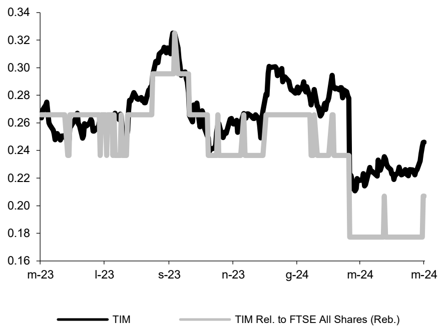
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 0.36 to 0.38
	2024E	**2025E**	**2026E**
Chg in Adj EPS	n.m.	n.m.	8.2%

Next Event
2Q24 Results Out 29 May (no conf. call)

TIM - 12M Performance



Stock Data			
Reuters code:			TLIT.MI
Bloomberg code:			TIT IM
Performance	**1M**	**3M**	**12M**
Absolute	10.3%	-11.5%	-7.5%
Relative	5.1%	-22.6%	-35.8%
12M (H/L)			0.33/0.21
3M Average Volume (th):			295,366.86

Shareholder Data	
No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	3,771
Total Mkt Cap (Eu mn):	5,338
Mkt Float - Ord (Eu mn):	2,455
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data	
Book Value (Eu mn):	13,268
BVPS (Eu):	0.62
P/BV:	0.4
Net Financial Position (Eu mn):	-7,515
Enterprise Value (Eu mn):	12,853

The company will release quarterly results on 29 May exclusively through a press release, providing accounting views both with and without NetCo in the consolidation scope. With TIM Brasil having already reported robust results, slightly exceeding our expectations (by 1-2%), attention now turns to the Domestic business. On the current integrated scope, we expect an unfavourable comparison with last year (when revenue and EBITDA benefited to the tune of approximately €60mn from the contract with Open Fiber in white zones) and a deterioration of c.€1bn in debt, partly due to some one-off elements (€0.5bn), half of which should be re-absorbed during 2Q. On the new scope, we expect Domestic ServCo to show resilient trends that are well on track with guidance.

- **Current scope: tough comparison on key financials, net debt +€1bn QoQ.** The contract with Open Fiber brought €60mn/quarter of financial upside on wireline equipment sales (going straight down to domestic EBITDA) in 4Q22-1Q23 (white zones) and 2Q23 (grey zones). As a result, despite flattish service revenues (wireline +0.6%, wireless -2.7%), we expect a low single-digit decline in both Domestic sales (1Q: -1.5%, 4Q: -0.1%) and adj. EBITDAaL (1Q: -4.3%, 4Q: +5.3%), while KPIs are forecast in line with 4Q for both fixed and mobile. We see net debt at €21.3bn up €1bn vs. YE23 because of: a) cash burnt during the quarter (€450mn, in line with 1Q23); b) higher interest (+€150mn YoY); c) recent fine on VAS services (€100mn) although the payment will be made in multiple instalments; d) Seizure of funds related to the VAS fraud for €250mn. However, the latter funds were subsequently released in 2Q, resulting in a reversal of the same amount.
- **New scope: ServCo EBITDA growth on track with company guidance.** Given that the contract with OF in white zones pertains to NetCo, it doesn't impact ServCo trends under the new scope. Assuming seasonal volatility between quarters, Domestic ServCo should demonstrate a relatively stable top line (FY target: +2-3%), with a balanced mix (Enterprise +2.3%, Consumer +0.2%, Sparkle -4.9%). Meanwhile, adjusted EBITDAaL is expected to grow by 8.5%, in line with company guidance (FY target: +9-10%). With limited investments, Domestic Adjusted EBITDAaL excluding CapEx should reach €137mn (FY target: around €0.6bn). Unlike the top line, divisional breakdowns for adjusted EBITDA and CapEx will only be released on an annual basis.
- **Change in estimates:** on the new scope, we are adjusting our FY24-26 estimates to updated comparison bases for FY23. On the other hand, we are raising adj. EBITDAaL trends to capture greater visibility on the TIM Consumer turnaround and stronger forecasts for TIM Enterprise.
- **BUY confirmed; target lifted to €0.38 (from €0.36) for both classes of shares.** In our new TP, we now embody a 50% chance for TIM to cash in the €1bn of funds related to "Canone 1998" and revise the divisional mix in our SOP (TIM Consumer now positive for €0.6bn EV, 0.5x EBITDAaL). Our €0.38 TP does not yet embody the potential upside of c.€0.30 from a rerating of TIM Consumer to a 'fair' multiple of 6x EV/EBITDAaL (or 7.6x for the entire Domestic ServiceCo, the same multiple offered by FWB for Vodafone Italy), which could be accelerated in the event of market repair/consolidation. With the upcoming DGCOMP green light on "Phase 1" (by end-May/mid-June), closing of the NetCo sale is likely this summer, enabling TIM to materially reduce its leverage (to <2x) and avoid further costs (payroll, financial charges, and CapEx) related to the group's vertical integration, with management to focus on relaunching the ServCo, which will hopefully benefit from fewer regulatory constraints.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	15,788	16,296	14,759	15,221	15,702
EBITDA Adj (Eu mn)	6,029	6,383	4,463	4,725	4,940
Net Profit Adj (Eu mn)	-217	-437	-205	-69	219
EPS New Adj (Eu)	-0.010	-0.020	-0.010	-0.003	0.010
EPS Old Adj (Eu)	-0.010	-0.020	-0.011	-0.006	0.009
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	4.3	4.1	2.9	2.7	2.5
EV/EBIT Adj	nm	30.9	23.6	10.8	8.8
P/E Adj	nm	nm	nm	nm	24.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.3	3.2	1.7	1.6	1.5

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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)

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Frequency of research: quarterly.
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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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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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