

# TIM

Sector: Telecoms

# BUY

Price: Eu0.28 - Target: Eu0.42

## Improving Business Trajectory in 1Q Amid Background Noise

**Giorgio Tavolini +39-02-77115.279**

giorgio.tavolini@intermonte.it

**Andrea Randone +39-02-77115.364**

andrea.randone@intermonte.it

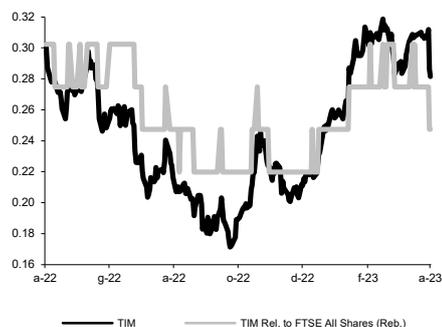
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	Unchanged		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	0.0%	0.0%	0.0%

### Next Event

1Q Results Out 10 May

### 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	-2.3%	10.3%	-6.9%
Relative	-8.5%	3.7%	-16.6%
12M (H/L)	0.32/0.17		
3M Average Volume (th):	185,713.27		

### Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	4,315
Total Mkt Cap (Eu mn):	5,981
Mkt Float - Ord (Eu mn):	2,809
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

### Balance Sheet Data

Book Value (Eu mn):	13,974
BVPS (Eu):	0.65
P/BV:	0.4
Net Financial Position (Eu mn):	-26,027
Enterprise Value (Eu mn):	32,009

■ **1Q23 results preview:** at group level, we see scope for 4% CER growth in both the top line and adj. EBITDA, underpinned by double-digit trends at TIM Brasil (last quarter of easy comparison following the consolidation of Oi in 2Q22) and stabilising domestic trends. In Italy, we expect a flattish top line driven by the fixed segment (1Q: +0.4%, 4Q: -0.3%) boosted, as in 4Q, by higher equipment sales related to the commercial agreement signed with OF in white zones a year ago (over €200mn IRU, we assume c.€50mn/quarter). This should more than offset a small drop in the service revenues trend (1Q: -2.0%, 4Q: -0.8%) due to regulatory headwinds following the introduction of a new law (DL 207/2021), which in 2022 led the company to modify commercial offers with a front-end phasing on activation fees and equipment revenues: net of this impact (worth c.€40-45mn/quarter) fixed service revenues would be virtually flat YoY (in line with FY guidance). On fixed KPIs we assume lower customer losses (1Q: -80k, 4Q: -93k) and positive momentum on UBB activations, with TIM gaining market share in FTTH. On mobile, 1Q should have seen softer service revenue trends (1Q: -2.5%, 4Q: -1.5%) but with no major deviation from the stabilizing trajectory, and similar KPIs as in 4Q (c.-150k human net adds), with a likely return to growth in ARPU. Domestic adj. EBITDA should show a smaller decline (1Q: -3%, 4Q: -5%), remaining on track for FY guidance (flat to low single-digit growth). Assuming €250mn in one-off items (voluntary redundancies), a different CapEx phasing (seasonal delay in Italy), c.€150mn in NWC outflows and higher taxes and financial charges, we expect negative EFCF of c.€0.2bn (€-0.38bn after lease) leading to net debt after lease of €20.37bn (vs. €20.0bn at YE22).

■ **We remain positive despite mixed recent newsflow.** We are coming to the end of what has been a very difficult week for TIM after the hefty sell-off on the stock (-8% on Wednesday) following bumps in NetCo bids (CDP/MAM: €19.3bn, KKR: €19bn+€2bn earnout) to just under the €20bn threshold repeatedly indicated as the minimum by the TIM BoD, and after yesterday's AGM which rejected the three-year employee incentive plan due to numerous abstentions (namely Vivendi 24%), with relatively low attendance (53.4% vs. 57.76% last year). We hope that, prior to the BoD meeting on 4 May to discuss the new bids, the BoD will attempt to persuade the suitors to work on a joint bid, removing the possibility of a cross-fire of vetoes (KKR approval for the sale of FiberCop, risk of the government using its "golden power" against KKR bid) and ensuring greater firepower for further raised bids. Currently, we don't see any alternatives to selling the NetCo, a liquidity event that might reduce the TIM debt by at least €17bn and ensure a sustainable level of leverage for the ServiceCo (other than a jumbo capital raise that has repeatedly been rejected by TIM).

■ **No change in estimates:** pending more indications from management's comments on 1Q results, we are leaving our estimates unchanged, in line with the FY23-25 outlook.

■ **BUY confirmed; target still €0.42 for ords. / €0.45 savs.** Although speculative appeal on the NetCo disposal may have cooled (risk posed by Vivendi's opposition), the improving operating performance in the domestic business and several positive angles bode well for the near future: more rational domestic competition (price increases) and ongoing discussions with regulators/policy makers for a more pro-investment environment, supporting returns on capital and ensuring a sustainable business. We think the market is significantly undervaluing TIM's break-up value and the material upside from CEO Labriola's transformational plan, based on more effective asset realisation through improved operating models (NetCo separation, EnterpriseCo expansion, ConsumerCo turnaround, TIM Brasil integration with Oi), and more sustainable cost structures. Our €0.42 TP reflects a base case NetCo valuation (EV €20bn, 10x EV/EBITDAaL) as a floor to bring the debt back to a sustainable level and does not include the potential upside of €0.21/share from a re-rating of the ConsumerCo to a "fair" multiple of 5x EV/EBITDAaL.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	15,316	15,788	15,967	16,191	16,539
EBITDA Adj (Eu mn)	6,228	6,029	6,303	6,425	6,628
Net Profit Adj (Eu mn)	256	-217	8	166	373
EPS New Adj (Eu)	0.012	-0.010	0.000	0.008	0.017
EPS Old Adj (Eu)	0.012	-0.037	0.000	0.008	0.017
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.0	5.2	5.1	5.0	4.8
EV/EBIT Adj	nm	nm	30.2	25.5	20.7
P/E Adj	23.5	nm	nm	36.3	16.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.2	4.1	4.1	3.9