

TIM

Sector: Telecoms

BUY

Price: Eu0.23 - Target: Eu0.38

Temporary Peak in Leverage Should Not Endanger FY guidance

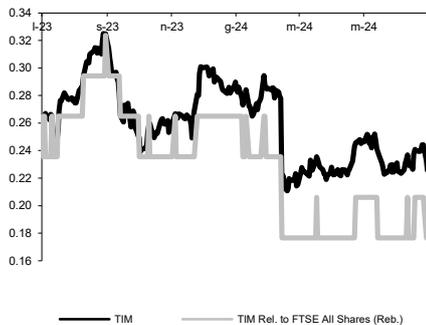
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	-18.7%	-243.7%	-25.0%

Next Events: 31 July: 2Q Prelim. Results, 26 Sep: 2Q24 Final Results

TIM - 12M Performance



Stock Data

Reuters code: TLIT.MI
 Bloomberg code: TIT IM

Performance	1M	3M	12M
Absolute	0.7%	-1.0%	-14.0%
Relative	-3.2%	-2.0%	-33.5%
12M (H/L)	0.33/0.21		
3M Average Volume (th):	202,554.24		

Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	3,461
Total Mkt Cap (Eu mn):	4,953
Mkt Float - Ord (Eu mn):	2,253
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data

Book Value (Eu mn):	13,356
BVPS (Eu):	0.63
P/BV:	0.4
Net Financial Position (Eu mn):	-7,602
Enterprise Value (Eu mn):	12,555

■ **2Q24 preview.** As the NetCo transaction closed on 1 July, 2Q preliminary results will still be based on the integrated Group perimeter. We expect a performance roughly in line with that seen in 1Q, still penalized by the challenging comparison base with last year (2Q23 saw a boost in wireline revenues and EBITDA of c. €60mn from the contract with Open Fiber for white/grey area coverage) and a sequential worsening of the debt to c.€21.5bn (compared to €21.37bn reported in 1Q). On a pro forma basis, considering the deleveraging of €13.8bn from the NetCo sale and the simultaneous deconsolidation of the portion related to the advances on NRRP subsidies of about €0.4bn, this translates into net debt for the ServCo of ca. €8.1bn, ~2.2x adj. EBITDAaL'24E. We believe that this temporary and physiological increase in leverage is mainly due to one-off costs for the network separation, which should be offset in 2H due to a reversal of working capital and a stronger operational performance by TIM Brasil. As a consequence, this should not prevent the company achieving the stated leverage target of <2x EBITDAaL by the end of the year, which implies net debt after lease around €7.5-7.6bn (our current estimate €7.6bn). On the new perimeter, we expect a sequential acceleration of the top line and 1H trends broadly in line with FY targets, assuming 3% top-line growth for the Group (target: 3-4%) and 1% for Domestic (target: 2-3%), while adj. EBITDAaL should grow at 12.5% at Group level (target: 8-9%) and 8.6% in Italy (target: 9-10%)

■ **Change in estimates.** We are leaving our domestic estimates unchanged, while our estimates for TIM Brasil (unchanged in local currency) are adjusted to reflect a weaker BRL against the Euro. We assume an EUR/BRL exchange rate of 5.54 for FY24 (the year-to-date average) compared to the previous estimate of 5.40. For FY25-26, we adopt an EUR/BRL rate of 6.00, which is very close to the current spot rate. This leads to a mid-single-digit revision of Group EBITDAaL for FY25-26. For FY24, we estimate net debt at €7.6bn (2.0x leverage), close to company guidance.

■ **BUY confirmed; target still €0.38 for TIM Ords /€0.40 for TIM Savs.** After the sale of the NetCo (not yet reflected in the current stock prices), the focus for the Group shifts to the sustainability of the ServCo business model and management's ability to execute a turnaround strategy for TIM Consumer and to strengthen TIM Business, while also seizing M&A opportunities. We remain positive on the stock because we think the financial profile could materially improve in the short term: the Free-To-Run plan does not include additional benefits, which could be worth up 100% of the current market cap, related to the cash-in of the earnout on the disposal of the NetCo (up to €2.9bn), to the sale of Sparkle (€0.8bn) and of the non-core stake in INWIT (€0.3bn) and to the likely return of the 1998 licence fee (€1bn). We confirm our target of €0.38 for TIM Ords and maintain a preference for TIM Savs (€0.40). Our TP does not incorporate upside of ~€0.26 from a potential re-rating of TIM Consumer to a "fair" multiple of 6x EV/EBITDAaL (or 7.6x for the entire domestic ServCo, the same multiple offered by Fastweb for Vodafone Italia), which could be immediately crystallised through market repair/consolidation or disposal of the asset.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	15,788	16,296	14,642	14,732	15,189
EBITDA Adj (Eu mn)	6,029	6,383	4,406	4,485	4,702
Net Profit Adj (Eu mn)	-217	-437	-104	-59	217
EPS New Adj (Eu)	-0.010	-0.020	-0.005	-0.003	0.010
EPS Old Adj (Eu)	-0.010	-0.020	-0.006	0.002	0.014
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	4.3	4.1	2.8	2.8	2.6
EV/EBIT Adj	nm	30.9	20.9	10.5	8.7
P/E Adj	nm	nm	nm	nm	22.2
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.3	3.2	1.7	1.7	1.6

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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.

Reports on all companies listed on the S&PMB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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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:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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