

TIM

Sector: Telecoms

BUY

Price: Eu0.28 - Target: Eu0.42

A More Sustainable Capital Structure in a Recovering Market

Giorgio Tavolini +39-02-77115.279

giorgio.tavolini@intermonte.it

Andrea Randone +39-02-77115.364

andrea.randone@intermonte.it

Stock Rating

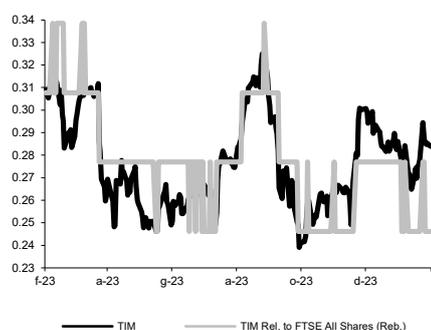
Rating: Unchanged

Target Price (Eu): Unchanged

	2023E	2024E	2025E
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Events Capital Markets Day in Rome on 7th March ([link](#))

TIM - 12M Performance



Stock Data

Reuters code: TLIT.MI

Bloomberg code: TIT IM

Performance	1M	3M	12M
Absolute	-0.8%	9.2%	-7.4%
Relative	-7.4%	-1.4%	-26.2%
12M (H/L)	0.33/0.24		
3M Average Volume (th):	153,323.84		

Shareholder Data

No. of Ord shares (mn): 15,329

Total no. of shares (mn): 21,357

Mkt Cap Ord (Eu mn): 4,352

Total Mkt Cap (Eu mn): 6,124

Mkt Float - Ord (Eu mn): 2,833

Mkt Float (in %): 65.1%

Main Shareholder:

Vivendi SA 23.9%

Balance Sheet Data

Book Value (Eu mn): 12,018

BVPS (Eu): 0.56

P/BV: 0.5

Net Financial Position (Eu mn): -25,823

Enterprise Value (Eu mn): 31,947

■ **Focus of next CMD: TIM ServiceCo financials and long-term sustainability.** The next stock catalyst is the CMD on 7 March, which should shed light on the sustainability of the ServiceCo following the NetCo disposal. We do not expect any major update on TIM's macro numbers, as the company provided targets for the Group ServiceCo last November. Considering that TIM Brasil also provided 2024-26 targets in February (3Y CAGR +5/6% on sales, +6/8% on EBITDA, EBITDA-less-Capex up double digit), company expectations for the domestic ServiceCo are easily recalculable. The focus moves to the domestic breakdown between TIM Consumer and TIM Enterprise, addressing the key market concern on the sustainability of the rump business post NetCo. Potential debt relief is crucial, removing a long-term drag on share price performance: historically, high debt and rising interest rates threatened investments. With leverage potentially halving from 3.8x in FY23 to 1.9x EBITDA in FY24 (our exp. €6.4bn net debt) and 1.2x by FY26, a new TIM with a healthier financial structure could emerge. This, alongside a recovering (and hopefully consolidating) Italian market, sets the scene for growth.

■ **Current targets imply high confidence in TIM Consumer turnaround.** Current FY23-26 Group ServiceCo targets look quite ambitious, but not necessarily impossible, and implicitly reflect strong management confidence in the prospects of a turnaround for TIM Consumer, perhaps also assuming market repair (consolidation?) at some point. In particular, profitability growth for the next 3 years (2023-26 CAGR) looks quite back-end loaded. Specifically, the Group expects 2023-26 CAGRs of 3% for turnover (implying €14.8bn in FY26, in line with our exp), 10% for EBITDAaL (FY26: €4.3bn vs. our exp. €3.9bn), flat CapEx (FY26: €2.0bn vs. our exp. €2.2bn), and EBITDAaL-less-CapEx >25% (FY26: €2.1bn vs. our exp. €1.7bn). Excluding TIM Brasil (+6/8% CAGR), Group targets (>10% CAGR) imply domestic EBITDAaL rising by a c.12-14% CAGR to c. €2.3-2.4bn in FY26 (our exp. €1.9bn). We believe the re-rating on EBITDAaL will mostly come from TIM Consumer (old FY25 target: ≥€1.3bn; our exp. €0.74bn) compared to TIM Enterprise (old FY25 target c. €1bn, in line with our exp).

■ **ServiceCo implied valuation is appealing.** At current prices and on our pro forma estimates for the ServiceCo, the implied TIM valuation for FY25-26 looks appealing (<4x EV/EBITDAaL, c.10x EV/EBITDAaL-less-Capex, EFCF yield 6-9%) compared to the EU telco sector. At this stage, we would expect the return to TIM Ords DPS from FY26 at €1.66 cent/share, a level that minimizes the gap to the minimum DPS paid to TIM Savs holders (€2.76 cent/share). We assume the one-off payment of accrued TIM Savs dividends (€0.5bn total cashout in FY25) in FY25, mainly thanks to the capital gain from the NetCo transaction (we would assume a c. €1.3bn gain before taxes).

■ **BUY confirmed; target still €0.42 on Ords / €0.44 on Savs.** We believe the market is significantly undervaluing TIM's break-up value and the material upside from CEO Labriola's transformational ServiceCo plan, based on improving operating models across the entities (TIM Enterprise expansion, TIM Consumer turnaround, TIM Brasil value strategy) and leaner cost structures, as well as the higher speculative appeal from potential in-market consolidation in Italy. Our TPs (€0.42 Ords / €0.44 Savs) remain unchanged, and do not yet incorporate potential upside of approximately €0.25 from a re-rating of TIM Consumer to a 'fair' multiple of 5.5x EV/EBITDAaL (or 7.8x EV/EBITDAaL for the entire Domestic ServiceCo). This re-rating would be accelerated in the event of consolidation in Italy driving market repair. We retain a preference for savings shares (TP at €0.44), which could benefit from greater speculative appeal related to their potential conversion into ordinary shares and the payment of three dividends in arrears for c.€0.5bn (we assume in FY25), thanks to the capital gain from the NetCo disposal.

Key Figures & Ratios	2022A	2023E	2024E	2025E	2026E
Sales (Eu mn)	15,788	16,296	16,581	16,950	17,328
EBITDA Adj (Eu mn)	6,029	6,383	6,616	6,849	7,024
Net Profit Adj (Eu mn)	-217	-642	-257	143	521
EPS New Adj (Eu)	-0.010	-0.030	-0.012	0.007	0.024
EPS Old Adj (Eu)	-0.010	-0.030	-0.012	0.007	0.024
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.2	4.9	4.8	4.8	4.7
EV/EBIT Adj	nm	35.3	27.2	21.0	18.2
P/E Adj	nm	nm	nm	42.4	11.6
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.2	4.0	3.9	3.9	3.8

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein, and any of its parts, is strictly prohibited. None of the contents of this document may be shared with third parties without Company authorization. Please see important disclaimer on the last page of this report

DISCLAIMER (for more details go to [DISCLAIMER](#))

IMPORTANT DISCLOSURES

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein and of any its parts is strictly prohibited. None of the contents of this document may be shared with third parties without authorisation from Intermonte.

This report is directed exclusively at market professional and other institutional investors (Institutions) and is not for distribution to person other than "Institution" ("Non-institution"), who should not rely on this material. Moreover, any investment or service to which this report may relate will not be made available to Non-Institution.

The information and data in this report have been obtained from sources which we believe to be reliable, although the accuracy of these cannot be guaranteed by Intermonte. In the event that there be any doubt as to their reliability, this will be clearly indicated. The main purpose of the report is to offer up-to-date and accurate information in accordance with regulations in force covering "recommendations" and is not intended nor should it be construed as a solicitation to buy or sell securities.

This disclaimer is constantly updated on Intermonte's website www.intermonte.it under LEGAL INFORMATION. Valuations and recommendations can be found in the text of the most recent research and/or reports on the companies in question. For a list of all recommendations made by Intermonte on any financial instrument or issuer in the last twelve months consult the [PERFORMANCE](#) web page.

Intermonte distributes research and engages in other approved activities with respect to Major U.S. Institutional Investors ("Majors") and other Qualified Institutional Buyers ("QIBs"), in the United States, via Brasil Plural Securities LLC under SEC 15a-6 guidelines. Intermonte is not registered as a broker dealer in the United States under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC.

ANALYST CERTIFICATION

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certifies that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

The analyst responsible for the report is not a) a resident of US; b) an associated person of a U.S. broker-dealer; c) supervised by a supervisory principal of a U.S. broker-dealer. This Research Report is distributed in the U.S. through Brasil Plural Securities LLC, 545 Madison Avenue, New York 10022.

GUIDE TO FUNDAMENTAL RESEARCH

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&P500 Index, most of those on the MIBEX 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.

Explanation of our ratings system:

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

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 September 2023 Intermonte's Research Department covered 114 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (48 in total) is as follows:

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

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

Intermonte is acting as financial advisor to SAES Getters in relation to the partial voluntary tender offer on ordinary treasury shares.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Cy4Gate, Esprinet, GPI, Greenthesis (formerly Ambientthesis), Growens, Illimity Bank, Maire Tecnimont, SAES Getters, Tinexta, Unidata and WIIT.

Intermonte SIM is acting as counterparty to WIIT Fin S.r.l. in connection with call and put options having WIIT S.p.A. shares and dividends as reference underlying.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Anima Holding, Antares Vision, Aquafil, Avio, Banca Ifis, Banca Sistema, Civitanavi Systems, Cyberoo, Cy4gate, DeA Capital, ElEn, Elica, Emak, Esprinet, Expert AI, Fimit - Fondo Alpha, Fine Foods, Franchi Umberto Marmi, Go Internet, GPI, Greenthesis (formerly Ambientthesis), IEG, Iervolino & Lady Bacardi Entertainment, IndelB, Intred, Luvè, Matica Fintec, Mondadori, Notorious Pictures, Omer, Pharmanutra, Reevo, Relatech, Reply, Revo Insurance, Sababa Security, Saes Getters, Salcef, Sciuker Frames, Servizi Italia, Sesa, Seri Industrial, Somec, Talea, Tamburi, Tinexta, Tesmec, The Italian Sea Group, TXT, Unidata, Webuild and WIIT.

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following company: Banca Sistema.

Intermonte SIM performs as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco, FCA, FTMIB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STI, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM, Intermonte SIM, through Websim, which constitute the digital division of Intermonte, acts as a Financial Content Provider on the following companies: Abitare In, Alkemy, Banca Sistema, Bifire S.P.A., B&C Speakers, Cleanbnb, Crowdfundme, Cy4gate, Cyberoo, Digital Bros, Digital Magics, Doxee, Ediliziacrobatica Spa, Eles, Elica, Emak, Esi, Esprinet, Eviso, Fae Technology, Fiera Milano, Fope, FOS, Franchi Umberto Marmi, Giglio Group, GPI, Intercos, Intred, Lventure Group, Maps, Masi Agricola, Matica Fintec, Neodecortech, Notorious Pictures, Osai Automation System, Racing Force Group, Relatech, Reti, Sciuker Frames, Solid World Group, Spindox Digital Soul, Tamburi, Tesmec, Tinexta, Tps Group, Trendevice, Ulisse Biomed, Wiit.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short

© Copyright 2024 by Intermonte SIM - All rights reserved

It is a violation of national and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright laws impose heavy liability for such infringement. The Reports of Intermonte SIM are provided to its clients only. If you are not a client of Intermonte SIM and receive emailed, faxed or copied versions of the reports from a source other than Intermonte SIM you are violating the Copyright Laws. This document is not for attribution in any publication, and you should not disseminate, distribute or copy this e-mail without the explicit written consent of Intermonte SIM.

INTERMONTE will take legal action against anybody transmitting/publishing its Research products without its express authorization.

INTERMONTE Sim strongly believes its research product on Italian equities is a value added product and deserves to be adequately paid.

Intermonte Sim sales representatives can be contacted to discuss terms and conditions to be supplied the INTERMONTE research product.

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website [MIFID](#)

Further information is available