

TIM

Sector: Telecoms

BUY

Price: Eu0.25 - Target: Eu0.42

Domestic Growth Accelerating in 3Q, Upside on FY Targets

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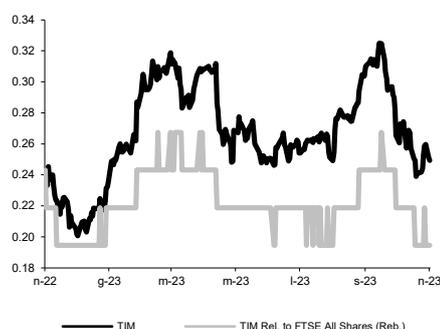
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 0.41 to 0.42		
	2023E	2024E	2025E
Chg in Adj EPS	n.m.	n.m.	n.m.

Next Event Conf. call today at 11am CET

TIM - 12M Performance



Stock Data

Reuters code:	TLIT.MI		
Bloomberg code:	TIT IM		
Performance	1M	3M	12M
Absolute	-6.1%	0.1%	2.6%
Relative	-8.1%	1.0%	-16.4%
12M (H/L)	0.33/0.20		
3M Average Volume (th):	188,640.94		

Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	3,822
Total Mkt Cap (Eu mn):	5,365
Mkt Float - Ord (Eu mn):	2,488
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data

Book Value (Eu mn):	12,981
BVPS (Eu):	0.61
P/BV:	0.4
Net Financial Position (Eu mn):	-25,615
Enterprise Value (Eu mn):	30,980

■ **3Q23 results.** After the strong numbers already reported by TIM Brasil, the Group posted impressive figures in Italy, with revenues/adj. EBITDA beating our est./consensus by c.3%. Growth trajectory confirmed, for the 2nd consecutive quarter, on revenues (+2.2%) and adj. EBITDA (+3.6%). A cursory view might suggest that, with service revenues in line with expectations, the 3% surprise on revenue/EBITDA is primarily driven by the extended IRU agreement with OF for coverage of grey zones, which in 3Q boosted fixed equipment revenues by €58mn (above our €50mn forecast). It is important to note, however, that this contract, with minimal associated costs, also boosted 1Q and 2Q (c.€50-60mn), yet the revenue and EBITDA growth in those quarters were significantly less pronounced. Net debt (€21.2bn after lease) came slightly above our est./cons. (€21.0bn) mainly due to higher WC absorption in 9M (€-449mn vs. our €-360mn) because of non-recurring items (c.€-570m in 9M, €-137mn in 3Q). FY23-25 guidance was confirmed, with a very positive 4Q23 outlook (selective repricing, easy comp on labour and energy costs). Moreover, the Group now expects a c.€0.7bn partial advance of NRRP funds to be cashed-in by YE (€0.5bn previously), leading to neutral Equity FCF for this year. Management is expected to provide more details on the NetCo deal this morning (please see [our note](#)).

■ **Domestic highlights.** Services revenues on track for stabilisation (3Q: -0.6%, 2Q: -0.9%, 1Q: -2.4%) thanks entirely to fixed. Fixed: FSR growing for second consecutive quarter (3Q: +0.6%, 2Q: +0.2%, 1Q: -1.8%) supported by selective price hikes (€70mn upside in FY23 o/w €40mn on fixed) with retail line losses under control (-75k, in line with 2Q, our exp. -80k) and KPIs improving. Mobile: MSR trend (3Q: -2.7%, 2Q: -4.2%, 1Q: -1.8%) still affected by MTR reduction and lower CB YoY, but better KPIs on the back of increasing market rationality. OpEx: Slight YoY increase (+1.3% in 3Q) mostly due to revenue-driven costs (COGS +24%), tailwinds from labour (-5%) and energy (-9%). CapEx in line with the plan and our/consensus exp. Parent Company (TIM SpA): net loss of €-1.1bn in 9M (€-0.3bn in 3Q) hampered by one-offs related to voluntary exits (c.€-0.6bn). Transformation Plan execution on track to hit FY target: c.€0.2bn additional savings achieved, >3/4 of FY target.

■ **Change in estimates.** We are slightly raising FY23 domestic sales to capture stronger fixed and softer mobile trends, and now assume adj. EBITDA growth of +0.9% (+0.5% previously) as we see some upside to the top end of the current FY target range (*flat-to-low single-digit growth*). This implies 2.5% growth in 4Q after +3.6% in 3Q. On the P&L, we are factoring in higher D&A and financial charges, while on FCF we are capturing the entire €0.7bn upside from NRRP subsidies, reducing our YE net debt estimate to c.€20.5bn (from €21.1bn).

■ **BUY; new target €0.42 on Ords (from €0.41) / €0.45 on Savs (from €0.44).** We confirm our BUY rating on TIM Ords, lifting our TP to €0.42/share (from €0.41), as a result of reduced YE23 net debt and the recent TIM Brasil rally, partially offset by higher WACC. Our TP is built on a €20bn valuation for the NetCo (incl. Sparkle), a floor that can guarantee a structural reduction in the debt to a sustainable level, and does not include upside of €0.25/share from a re-rating of TIM Consumer to a “fair” multiple of 5x EV/EBITDA_A (in line with Zegona’s recent offer for Vodafone Spain). We retain a preference for savings shares (TP at €0.45), which on disposal of the NetCo could benefit from greater speculative appeal related to conversion into ordinary shares and payment of two dividends in arrears for c.€0.33bn (we assume in FY25), thanks to the capital gain from the disposal of the asset.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	15,316	15,788	16,075	16,303	16,654
EBITDA Adj (Eu mn)	6,228	6,029	6,300	6,453	6,676
Net Profit Adj (Eu mn)	256	-217	-751	-373	99
EPS New Adj (Eu)	0.012	-0.010	-0.035	-0.017	0.005
EPS Old Adj (Eu)	0.012	-0.010	-0.005	0.000	0.009
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.0	5.2	4.9	4.8	4.8
EV/EBIT Adj	nm	nm	37.9	29.6	21.8
P/E Adj	20.8	nm	nm	nm	53.9
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.2	4.1	4.0	4.0