Milan, 19 July 2023

Italian Equity Research – 2Q23 Preview

TIM

BUY

Sector: Telecoms

Price: Eu0.26 - **Target: Eu0.41**

Domestic Growth Resumes, Benefitting from Wireline Recovery

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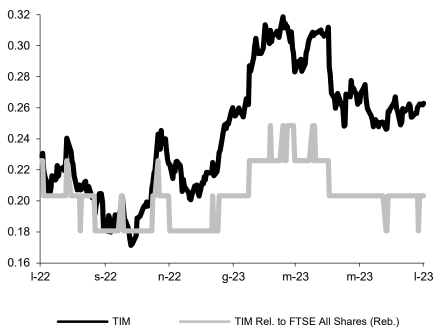
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	n.m.	n.m.	n.m.

Next Event 2Q Results Out 2 August

TIM - 12M Performance



Stock Data			
Reuters code:			TLIT.MI
Bloomberg code:			TIT IM
Performance	**1M**	**3M**	**12M**
Absolute	1.5%	-15.7%	16.3%
Relative	-0.9%	-17.8%	-16.1%
12M (H/L)			0.32/0.17
3M Average Volume (th):			137,742.47

Shareholder Data	
No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	4,029
Total Mkt Cap (Eu mn):	5,561
Mkt Float - Ord (Eu mn):	2,622
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data	
Book Value (Eu mn):	13,398
BVPS (Eu):	0.63
P/BV:	0.4
Net Financial Position (Eu mn):	-26,337
Enterprise Value (Eu mn):	31,899

- **2Q23 preview.** The CEO already indicated that domestic sales and adj. EBITDA returned to growth in 2Q after several years on a downward trajectory (the last positive trend was seen in 3Q17) enhancing visibility on current FY guidance (Italian EBITDA seen growing flat to low/mid-single-digit growth; our exp. +0.5% YoY). In particular, we expect domestic sales to have risen +0.5% (1Q: -0.2%) boosted by stronger fixed (2Q: +3.3%,1Q: 1.6%) offsetting weaker mobile (2Q: -6.5%, 1Q: -5.1%). The fixed segment should have seen flattish service revenues, with a sequential improvement (2Q: -0.3%, 1Q: -1.8%) across all the lines (price hikes on retail and domestic wholesale, international wholesale improving) while we assume higher equipment sales (last quarter benefitting from wholesale deal with OF, worth €50mn/quarter) and KPIs similar to those of 1Q looking at line losses (2Q: -75k, 1Q: -74k) ad BB net adds (2Q: -60k, 1Q: -64k) in a market showing some signs of physiological attrition from pandemic levels. Mobile services should have seen similar declines as in 1Q (2Q: -3.8%, 1Q: -3.8%) still affected by volatility and a sharp MTR reduction (2.5pp drag in 1Q), but improving KPIs, with the MNP balance back to positive for the first time in 5 years and much lower declines in human net adds (2Q: -80k, 1Q: -141k). Assuming a flattish margin YoY at c.38%, we see domestic adj. EBITDA up 0.3% YoY (1Q: -2.8%) while at reported level, we do not expect any meaningful one-offs in 2Q, after the €420mn provision (mostly related to 2k voluntary exits). In Brazil, with just one month of YoY upside from the Oi consolidation, we see 9% top line growth in local currency and 15% growth in adj. EBITDA. Assuming a 7% CapEx decline and WKC outflows (voluntary exits), we assume EFCF-AL will remain negative (2Q: -€146mn, 1Q: -€397mn) leading to higher net debt AL (2Q: €20.79bn, 1Q: €20.46bn).
- **2023-25 guidance to be confirmed, some upside risks on FCF.** Domestic trends should improve sequentially in the coming quarters on the back of selective repricing (~€35mn upside in FY23, mostly in 4Q), CB stabilisation, wholesale tariff increase (mostly in 2Q), and an easier comparison on energy/labour costs (mostly in 4Q), more than offsetting activation fee drags (still some in 2Q-3Q). The EFCF-aL trajectory is expected to improve through the year. TIM is still guiding for "slightly positive" cumulative 2023-25 EFCF-aL, but sees room for €0.2-0.3bn of additional upside from NRRP cash grants for UBB development after the recent simplification measures passed by the government, especially the 20% cash-in grant payment obtained on some initiatives (€0.5bn upfront cash-in grant available from 2023).
- **Change in estimates.** Headline estimates for the next 3 years are unchanged, still broadly in line with guidance; FY domestic adj. EBITDA growth (our exp. +0.5% YoY) implies 3% growth in 2H which seems sustainable given the much easier comparison base. At bottom line, we capture c.€30mn of interest charges (annualised impact as of FY24) following the recent 5-Year Eu750mn bond issue at 7.875%, which should entirely be used to refinance the bond maturing in Jan 2024 (3.625% coupon).
- **BUY; target still €0.41 (ords) and €0.44 (savs).** On top of the speculative appeal from the NetCo deal (binding offer from KKR by end of September, potential involvement of F2i/CDP), improving operating trends in Italy and the latest sector developments (price hikes, potential in-market consolidation, NRRP) bode well for the near future, supporting a more pro-investment environment, better returns on capital and more sustainable competition. We think the market is significantly undervaluing TIM's break-up value and the material upside from CEO Labriola's transformational plan, based on improving operating models across the entities (NetCo separation, EnterpriseCo expansion, ConsumerCo turnaround, TIM Brasil integration with Oi), and more sustainable cost structures. Our €0.41 TP reflects a base case NetCo valuation (EV €20bn, 10x EV/EBITDAaL) as a floor to bring debt back to a sustainable level and does not include the upside of €0.23/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	16,008	16,234	16,585
EBITDA Adj (Eu mn)	6,228	6,029	6,282	6,428	6,651
Net Profit Adj (Eu mn)	256	-217	-117	2	189
EPS New Adj (Eu)	0.012	-0.010	-0.005	0.000	0.009
EPS Old Adj (Eu)	0.012	-0.010	-0.005	0.001	0.010
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.0	5.2	5.1	5.0	4.9
EV/EBIT Adj	nm	nm	nm	28.1	20.9
P/E Adj	21.9	nm	nm	nm	29.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.2	4.2	4.2	4.1