TIM

BUY

Sector: Telecoms

Price: Eu0.25 - **Target: Eu0.38**

Strong Start for ServCo, All Eyes on Today's DGCOMP Ruling

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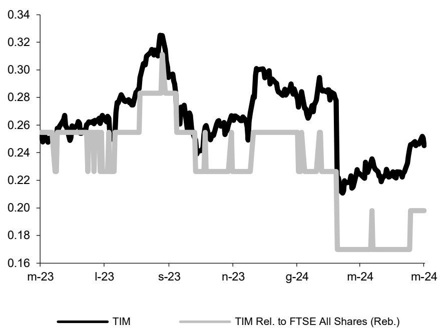
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	n.m.	n.m.	32.3%

Next Event Today: DGCOMP Phase1 deadline for NetCo review / 31 July: 2Q24 Results

TIM - 12M Performance



Stock Data			
Reuters code:			TLIT.MI
Bloomberg code:			TIT IM
Performance	**1M**	**3M**	**12M**
Absolute	8.4%	-11.8%	-3.7%
Relative	8.9%	-16.6%	-30.3%
12M (H/L)			0.33/0.21
3M Average Volume (th):			302,366.50

Shareholder Data	
No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	3,759
Total Mkt Cap (Eu mn):	5,360
Mkt Float - Ord (Eu mn):	2,447
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data	
Book Value (Eu mn):	13,327
BVPS (Eu):	0.62
P/BV:	0.4
Net Financial Position (Eu mn):	-7,533
Enterprise Value (Eu mn):	12,893

- **1Q24 results.** On the new scope, domestic adj. EBITDAaL beat estimates by 2-3%, growing 11% YoY, above the FY target range (9-10%), while revenues were resilient, up 0.5% YoY (in line with our/cons. exp., FY target: +2-3% YoY) reflecting a different mix across divisions (Enterprise +2.4%, Consumer +0.2%, Sparkle -5.4%). Unlike the top line, divisional breakdowns for adjusted EBITDA and CapEx will only be released on an annual basis. On the old scope, domestic numbers (revenues -1.3%, adj. EBITDAaL -4.6% YoY) were affected, as expected, by the unfavourable comparison with last year (when revenue and EBITDA had a ~€60mn boost from the contract with Open Fiber in white zones) and a QoQ deterioration of c.€1bn in net debt (to €21.37bn), partly due to €338mn of one-off elements (leading to a €0.4bn domestic WKC absorption), of which €250mn is expected to be re-absorbed in 2Q (release of the funds seized in relation to VAS fraud charges). Domestic KPIs mirrored 4Q trends, in line with our expectations: wireline in line QoQ, with -94k retail net adds (our exp. -100k, 4Q: -91k), -66k broadband net adds (our exp. -65k, 4Q: -64k) and 7% ARPU growth; while mobile showed a slightly higher loss of human SIMs (-163k, our exp. -150k, 4Q: -130k) but stabilising Consumer ARPU (€10.6/month, -0.6% YoY).
- **2024 guidance confirmed.** At group level, the company still expects 3-4% top line growth (domestic: 2-3%), 8-9% growth in adj. EBITDAaL (domestic: 9-10%), and 15-17% growth in adj. EBITDAaL-minus-CapEx (domestic: 11-12%). The company will not be hosting a conference call today.
- **Change in estimates:** 1Q saw stronger growth in domestic adj. EBITDAaL (+11%), running above FY guidance (range: 9-10%, our exp. +6.8%). However, the significantly reduced size of TIM's headline figures under the new accounting scope could lead to significant swings in growth rates in the coming quarters, resulting in high trend volatility. We therefore prefer to leave our domestic estimates unchanged, while marginally lifting TIM Brasil's FY25-26 profitability, in line with current local consensus. YE24E net debt still forecast at €7.5bn (2.0x leverage).
- **BUY confirmed; target still €0.38 for TIM Ords, lifted to €0.40 (from €0.38) for TIM Savs to reinstate a 5% "fair" premium (recently widened to 8%).** The company saw a solid start to the year, reinforcing visibility on FY targets set in March and on our/consensus estimates. With likely DGCOMP approval of the NetCo sale imminent, we would expect an immediate revival of interest on the stock and the closure of short positions. In our SOP, a higher valuation for TIM Consumer (now at €1.0bn EV, 0.9x EV/EBITDAaL) more than offsets the recent devaluation of TIM Brasil and INWIT stakes (both valued at market prices). Our TP does not incorporate upside of ~€0.27/share 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. At current prices and excluding Sparkle (€0.8bn EV) and the stake in INWIT (€0.3bn) the Group ServCo would trade at 3.9x EV/EBITDAaL'24E (sector at 5.5x). Deconsolidating TIM Brasil at market prices, the domestic ServCo would trade at 3.7x, showing an even more pronounced undervaluation.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	15,788	16,296	14,759	15,221	15,702
EBITDA Adj (Eu mn)	6,029	6,383	4,463	4,730	4,961
Net Profit Adj (Eu mn)	-217	-437	-129	41	290
EPS New Adj (Eu)	-0.010	-0.020	-0.006	0.002	0.014
EPS Old Adj (Eu)	-0.010	-0.020	-0.010	-0.003	0.010
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	4.3	4.1	4.1	3.8	3.5
EV/EBIT Adj	nm	30.9	20.5	9.8	8.0
P/E Adj	nm	nm	nm	nm	18.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.3	3.2	1.7	1.6	1.4

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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.
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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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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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