

TIM

Sector: Telecoms

BUY

Price: Eu0.27 - Target: Eu0.42

Well Placed to Hit Targets for Second Consecutive Year

Giorgio Tavolini +39-02-77115.279

giorgio.tavolini@intermonte.it

Andrea Randone +39-02-77115.364

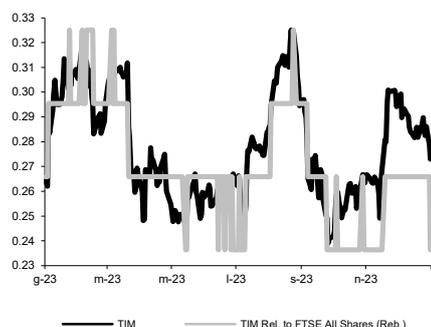
andrea.randone@intermonte.it

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	n.m.	-32.4%	45.7%

Next Event FY23 Prelim. Results 14 Feb. 2024

TIM - 12M Performance



Stock Data

Reuters code:	TLIT.MI		
Bloomberg code:	TIT IM		
Performance	1M	3M	12M
Absolute	-7.2%	12.9%	2.7%
Relative	-8.2%	0.3%	-12.3%
12M (H/L)	0.33/0.24		
3M Average Volume (th):	143,291.83		

Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	4,185
Total Mkt Cap (Eu mn):	5,894
Mkt Float - Ord (Eu mn):	2,724
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data

Book Value (Eu mn):	12,097
BVPS (Eu):	0.57
P/BV:	0.5
Net Financial Position (Eu mn):	-25,585
Enterprise Value (Eu mn):	31,480

- 4Q23 results preview.** FY23 results are likely to be very encouraging, with the company set to hit FY targets for the second consecutive year, demonstrating CEO Labriola's strategy is on the right track. We expect the group top line to have come to €4.34bn (up 1.8%) in 4Q, with adj. EBITDA of €1.59bn (up 6%) and Equity FCF after-lease at €0.83bn (benefitting from a €0.75bn cash-in related to NRRP subsidies) driving net debt-AL down to €20.31bn (from €21.18bn at the end of September). Within the mix, we assume positive domestic trends (service revenues +0.4%, adj. EBITDA +3.4%, broadly in line with 3Q) and continued strong momentum in Brazil (service revenues up mid-single-digit, adj. EBITDA growing at a low-teens rate). Bottom line figures will be released on 6 March: we currently expect a reported loss of €1.1bn in FY23 at group level (in line with 9M23) or a €0.7bn loss at adjusted level.
- Domestic assumptions.** Service revenues stabilizing (4Q: +0.4%, 3Q: -0.6%, 2Q: -0.9%, 1Q: -2.4%) thanks entirely to fixed. Fixed: FSR growing for third consecutive quarter (4Q: +1.6%, 3Q: +0.6%, 2Q: +0.2%, 1Q: -1.8%) supported by selective price hikes (€75mn upside in FY23 o/w €40mn on fixed) with retail line losses under control (4Q: -56k, 3Q: -75k) and KPIs improving. Mobile: MSR trend (4Q: -3.5%, 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. Adj. EBITDA: low single-digit growth (4Q: +3.4%, 3Q: +3.6%, 2Q: +0.5%, 1Q: -2.8%) also benefitting from labour and energy tailwinds. FY CapEx at €3.13bn (in line with guidance of c.€3.1bn).
- Very busy short-term schedule.** The next key dates are 5 February (Vodafone results, with potential update on Italian consolidation), 6 February (TIM Brasil FY23 results), 14 February (TIM FY23 prelim. results), 7 March (CMD in Rome to shed light on sustainability of ServiceCo and divisional targets) and finally 23 April (BoD renewal).
- Change in estimates.** Our domestic FY24-26 estimates remain virtually unchanged, but we are raising our estimates on TIM Brasil in local currency by 2-3% for sales and 4% for adj. EBITDA, while also including more favourable ForEx (5.40 from 5.56), leading to 2-3% increase in group EBITDA.
- BUY confirmed; new target €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 plan for the ServiceCo, 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. We are now incorporating the effects of NetCo deconsolidation in our SOP analysis. Additionally, we are factoring in 50% of the €2.9bn earnouts and the potential cash-in of €0.8bn EV from TIM Sparke's sale (previously €1bn). Our TPs (€0.42 Ords / €0.44 Savs) remain unchanged under this new representation and do not incorporate the potential upside of approximately €0.26 from a re-rating of TIM Consumer to a 'fair' multiple of 5x EV/EBITDAaL, in line with Zegona's recent offer for Vodafone Spain, a cash-burning asset. This re-rating would be accelerated in the event of a consolidation game 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 conversion into ordinary shares and 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	16,293	16,570	16,939	17,316
EBITDA Adj (Eu mn)	6,029	6,373	6,608	6,841	7,016
Net Profit Adj (Eu mn)	-217	-664	-252	144	525
EPS New Adj (Eu)	-0.010	-0.031	-0.012	0.007	0.025
EPS Old Adj (Eu)	-0.010	-0.035	-0.017	0.005	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.2	4.9	4.8	4.7	4.6
EV/EBIT Adj	nm	34.6	26.6	20.5	17.7
P/E Adj	nm	nm	nm	40.5	11.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.2	4.0	3.9	3.8	3.7

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