

TIM

Sector: Telecoms

BUY

Price: Eu0.30 – Target: Eu0.42

Back-To-Growth Plan with Fairly Safe Equity FCF Floor

Giorgio Tavolini +39-02-77115.279
 giorgio.tavolini@intermonte.it
Andrea Randone +39-02-77115.364
 andrea.randone@intermonte.it

Stock Rating

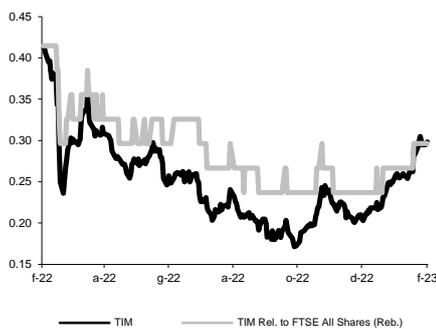
Rating: Unchanged
Target Price (Eu): Unchanged

	2023E	2024E	2025E
Chg in Adj EPS	nm	nm	

Next Event

15 March - FY22 Final Results
 10 May - 1Q23 Results

TIM - 12M Performance



Stock Data

Reuters code:	TLIT.MI		
Bloomberg code:	TIT IM		
Performance	1M	3M	12M
Absolute	19.6%	28.1%	-28.0%
Relative	12.8%	16.6%	-29.4%
12M (H/L)	0.41/0.17		
3M Average Volume (th):	171,351.46		

Shareholder Data

No. of Ord shares (mn):	15,329
Total no. of shares (mn):	21,357
Mkt Cap Ord (Eu mn):	4,574
Total Mkt Cap (Eu mn):	6,336
Mkt Float - Ord (Eu mn):	2,977
Mkt Float (in %):	65.1%
Main Shareholder:	
Vivendi SA	23.9%

Balance Sheet Data

Book Value (Eu mn):	13,902
BVPS (Eu):	0.65
P/BV:	0.5
Net Financial Position (Eu mn):	-26,027
Enterprise Value (Eu mn):	32,363

■ **EFCF target: limited short-term downside, more upside risks.** The CEO confirmed a commitment to regain investor confidence but declined to comment on rumours about NetCo offers before the BoD meeting on 24 Feb. The hot topic was EFCF guidance: among several moving parts, one key driver that may explain the gap to expectations could, in our view, be an acceleration in voluntary redundancies, which may result in additional restructuring costs over the plan horizon (short-term pain for longer-term gain). On the other hand, the 3-year cumulative EFCF target (“slightly positive”) does not account for upside risks from government incentives (such as VAT cuts, relief on energy costs). In addition, the EFCF target already includes additional CapEx related to NRRP tenders won in grey zones and related subsidies (c.70% of CapEx, working capital inflow booked with a 1-year delay) and factors in higher interest charges (at the current cost of debt of 3.9%). No decision yet on savings share dividends (to be made by BoD on 15 March on approval of full results) but FY22 net income is expected to be in the red, even after the reversal of the substitute tax related to DTA. On KPI trend volatility, management indicated vastly diverging trends in 4Q between the strong performance at TIM Enterprise (positive seasonality due to large corporations spending more on ICT than budgeted at the beginning of the year, best-in-class ARPU) and softer trends at TIM ConsumerCo (competitors’ inconsistent approach confirms acquisition model is not profitable).

■ **Updated estimates.** The company outlook was broadly in line with our 2023-25 estimates. We are therefore just tweaking Domestic and Brazil, capturing further disbursements for voluntary redundancies (c.€0.5bn/year vs. €0.25bn previously) and raising D&A on TIM Brasil. We now expect cumulative EFCF of €0.34bn over the next 3 years to be entirely drained by the potential payment of a €0.5bn cumulative 3-year dividend on savings shares on 2024 accounts (still in our numbers). For this reason, we still see net debt increasing from €20.0bn in FY22 to €20.6bn in FY23, peaking at €20.8bn in FY24 then stabilising at c.€20.7bn in FY25, with no headroom for significant deleverage. As a result, debt reduction remains critically linked to non-organic initiatives, and in particular the potential sale of the NetCo.

■ **BUY confirmed; target still €0.42 Ords. / €0.45 Savs.** We remain positive on the stock, supported by speculative appeal that is gaining momentum on several fronts (NetCo disposal to CDP/funds with strong support from new government, the National Strategic Hub for Cloud, potential in-market consolidation), on top of more rational domestic competition (Iliad price hikes for fixed) and a more favourable regulatory/institutional environment (government measures to support telco industry profitability, NRRP funds), boding well for the near future. We believe the market is significantly undervaluing TIM’s break-up value and the material upside from CEO Labriola’s new transformational plan, based on more effective asset realisation through improved operating models (NetCo separation, EnterpriseCo expansion, ConsumerCo turnaround, TIM Brasil integration with Oi), and more sustainable cost structures. Our €0.42 TP reflects a base case NetCo valuation (EV €20bn, 10x EV/EBITDAaL) as a floor to take debt back to sustainable levels and does not include the potential upside of €0.21/share from a re-rating of the ConsumerCo to a “fair” multiple of 5x EV/EBITDAaL assets.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	15,316	15,788	15,967	16,191	16,539
EBITDA Adj (Eu mn)	6,228	6,029	6,303	6,425	6,628
Net Profit Adj (Eu mn)	256	-794	8	166	373
EPS New Adj (Eu)	0.012	-0.037	0.000	0.008	0.017
EPS Old Adj (Eu)	0.012	-0.038	0.006	0.013	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.0	5.2	5.1	5.1	4.9
EV/EBIT Adj	nm	nm	30.5	25.8	20.9
P/E Adj	24.9	nm	nm	38.4	17.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.6	4.2	4.1	4.1	3.9