

## First Read

# Telecom Italia Ord

## KKR potential PTO - Our Rating under review

### KKR's non-binding indication of interest in TI

Telecom Italia's (TI) board met on Sunday to assess the indication of interest from KKR ([link](#)). KKR communicated a "non-binding and indicative" intention to launch a public tender offer (PTO) at €0.505 in cash for the 100% of TI capital (ordinaries and savings), with the objective to delist TI. KKR is seeking the approval of TI's board and its offer is conditional to the following: i) a minimum acceptance of 51% for both share classes; ii) a 4-week due-diligence, iii) government approval. We note the offer would imply a 2021 EV/EBITDA at ~5.2x, with a ~45% premium vs. Friday.

### What could be the obstacles to KKR bid?

We acknowledge some conditions have to be met and some obstacles overcome, however KKR's bid appears to have solid ground: 1) Minimum acceptance. The premium is above most of the recent delistings registered in the EU telecom sector and although the valuation may appear undemanding this could be explained by TI difficult fundamental outlook; 2) Government approval. TI is subject to Government special powers (Golden Power) and historically the company has been a politically sensitive topic. We would not rule out some political parties may oppose the transaction, however we note the Draghi government has a strong market culture and we see room for the Government and KKR to find common ground on the fixed access network; 3) Potential counter bids. According to press ([link](#)) Vivendi (24% stake of TI ords) is working on a potential counterbid. At present visibility is limited, we note KKR's can leverage its strong credentials and its 37.5% stake in FiberCop (KKR might have the flexibility to redefine the TI-FiberCop lease-back agreement while the latter would be binding for any other potential bidder).

### Can KKR execute a successful turnaround?

We have previously argued ([link](#)) a successful turnaround at TI would require an "out of the box" approach, a long term investment horizon and a capital allocation strategy aimed at funding strategic initiatives (FTTH, datacenters, restructuring plan) and at reducing leverage. At present, there is no visibility on KKR's plan, however we note an experienced private capital provider such as KKR might prove a better fit to support TI's turnaround compared to the reference shareholders that have controlled TI over the last 20 years, thanks to its long investment horizon, its ample financial resources and the extra flexibility allowed by the delisting.

### Valuation: Our Rating, PT and estimates are Under Review

Following the disclosure of KKR potential offer we put our rating, price target and estimates under review.

Equities	
Italy	
Fixed-Line Communications	
<b>12-month rating (UR)</b>	<b>Sell *</b>
<b>12m price target (UR)</b>	<b>€0.23</b>
<b>Price (19 Nov 2021)</b>	<b>€0.35</b>
<b>RIC:</b> TLIT.MI <b>BBG:</b> TIT IM	
<b>Trading data and key metrics</b>	
<b>52-wk range</b>	€0.46-0.31
<b>Market cap.</b>	€7.32b/US\$8.27b
<b>Shares o/s</b>	15,041m (ORD)
<b>Free float</b>	77%
<b>Avg. daily volume ('000)</b>	133,542
<b>Avg. daily value (m)</b>	€45.5
<b>Common s/h equity (12/21E)</b>	€26.6b
<b>P/BV (12/21E)</b>	0.3x
<b>Net debt to EBITDA (12/21E)</b>	3.9x
<b>EPS (UBS, diluted) (€)</b>	
	<b>UBS</b> <b>Cons.</b>
<b>12/21E</b>	0.02 0.03
<b>12/22E</b>	0.02 0.04
<b>12/23E</b>	0.03 0.04

**Giovanni Montalti, CFA**  
Analyst  
giovanni.montalti@ubs.com  
+44-20-7568 6005

Highlights (€m)	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
<b>Revenues</b>	18,940	17,977	15,804	15,347	15,127	14,989	14,912	14,913
<b>EBIT (UBS)</b>	3,148	3,223	2,123	2,123	2,143	2,273	2,377	2,535
<b>Net earnings (UBS)</b>	1,033	922	6,816	497	482	567	646	768
<b>EPS (UBS, diluted) (€)</b>	0.05	0.04	0.32	0.02	0.02	0.03	0.03	0.04
<b>DPS (net) (€)</b>	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net (debt) / cash</b>	(25,995)	(28,246)	(23,714)	(23,781)	(25,215)	(24,834)	(24,184)	(23,446)
Profitability/valuation	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
<b>EBIT (UBS) margin %</b>	16.6	17.9	13.4	13.8	14.2	15.2	15.9	17.0
<b>ROIC (EBIT) %</b>	6.5	6.9	4.4	4.2	4.2	4.4	4.6	4.9
<b>EV/EBITDA (UBS core) x</b>	5.8	5.9	5.7	5.1	5.2	5.3	5.2	5.0
<b>P/E (UBS, diluted) x</b>	13.4	11.6	1.2	14.7	15.1	12.9	11.3	9.5
<b>Equity FCF (UBS) yield %</b>	4.1	0.4	94.8	(10.4)	0.1	1.6	3.0	4.1
<b>Dividend yield (net) %</b>	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €0.35 on 19-Nov-2021

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## Forecast returns

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Forecast price appreciation	-33.6%
Forecast dividend yield	0.0%
Forecast stock return	-33.6%
Market return assumption	4.4%
Forecast excess return	-38.1%

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## Company Description

Telecom Italia (TI) is the former Italian telecom incumbent. The group is an integrated telecom provider, enjoying a dominant presence in the Italian market and controlling 66.7% of TIM Brasil (number three mobile operator in Brazil). At the end of 2019, some 90% of TI's proportionate OpCF came from Italy, and proportionate net debt/adj. EBITDA was c3.9x, including the severance indemnity fund. TI's main shareholder is Vivendi, with a c24% stake of the ordinary share capital.

## Valuation Method and Risk Statement

Main risks to our Sell rating: 1) Stronger than expected evolution of the Italian and Brazilian macro framework; 2) Weaker than expected impact from the entry of new wholesale and retail players in Italy; 3) Potential fight for control; 4) Potential disposal of TIM Brasil. 5) Value accretive deal on the fixed access network. Our price target is based on a sum of the parts valuation.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	54%	32%
Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	10%	23%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 September 2021.

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**UBS AG London Branch:** Giovanni Montalti, CFA.

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Company Name	Reuters	12-month rating	Price	Price date
<b>Telecom Italia Ord</b> <sup>13,7,18</sup>	TLIT.MI	Sell (UR)	€0.35	19 Nov 2021
<b>Telecom Italia Saving shares</b> <sup>13,7,18</sup>	TLITn.MI	Sell (UR)	€0.35	19 Nov 2021

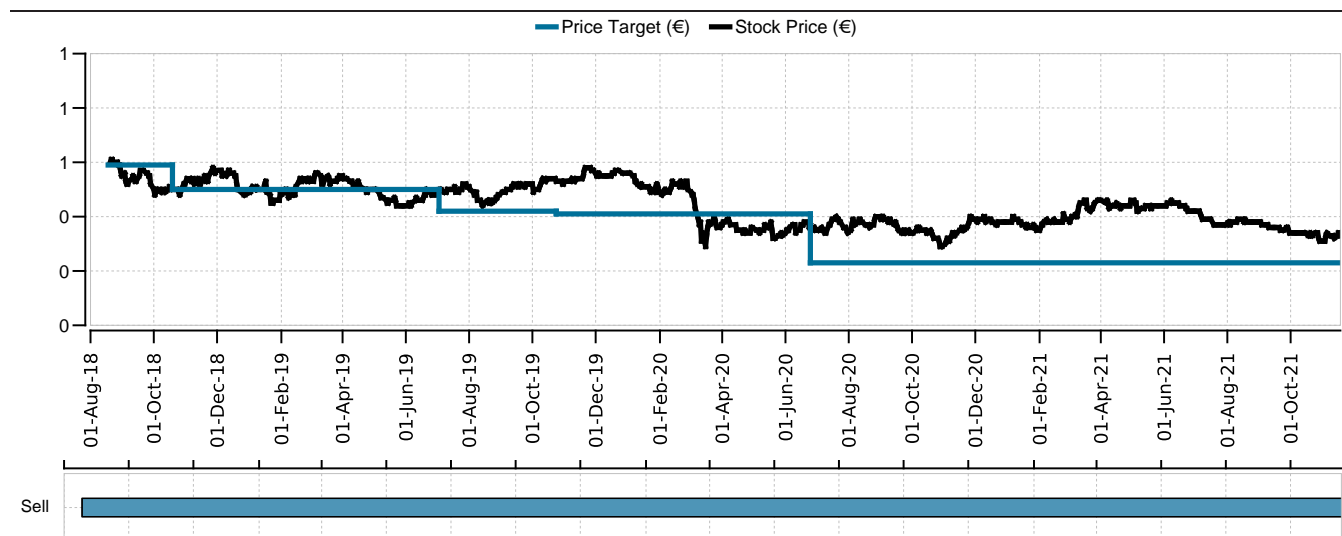
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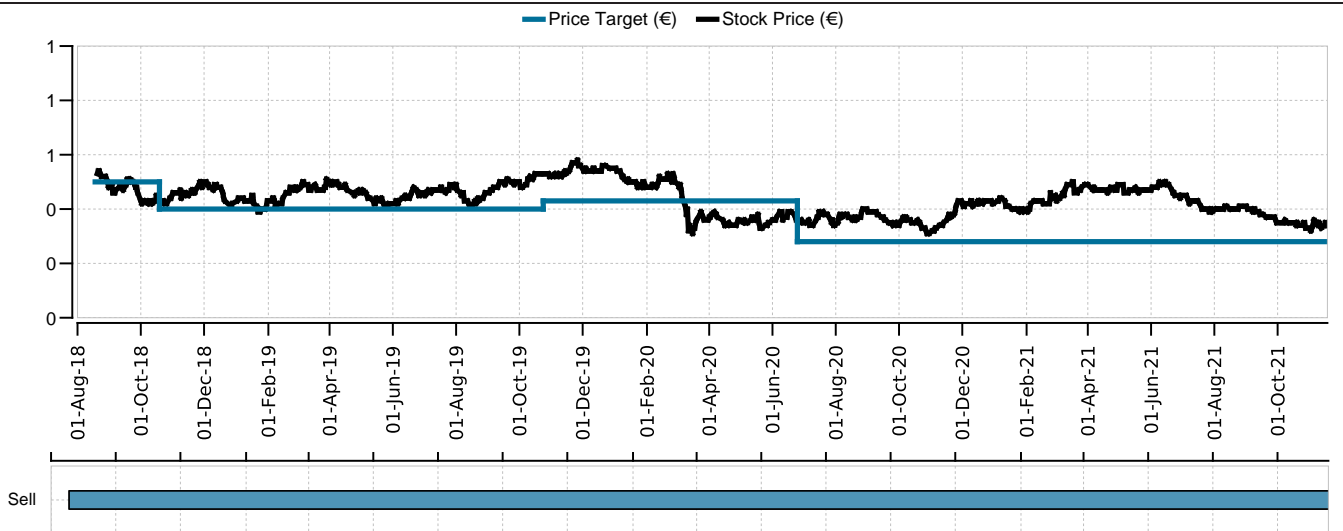
### Telecom Italia Ord (€)



Date	Stock Price (€)	Price Target (€)	Rating
2018-08-17	0.60	0.59	Sell
2018-10-18	0.51	0.50	Sell
2019-07-02	0.48	0.42	Sell
2019-10-23	0.54	0.41	Sell
2020-06-24	0.36	0.23	Sell

Source: UBS; as of 19-Nov-2021

## Telecom Italia Saving shares (€)



Date	Stock Price (€)	Price Target (€)	Rating
2018-08-17	0.53	0.50	Sell
2018-10-18	0.44	0.40	Sell
2019-10-23	0.53	0.43	Sell
2020-06-24	0.36	0.28	Sell

Source: UBS; as of 19-Nov-2021

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