

TIM Brasil

4Q23 Conf Call: Market rationality and focus on profitability

Reiterate Rating: BUY | PO: 22.00 BRL | Price: 18.14 BRL

More price hikes coming in 1H for postpaid and hybrid

Regarding pricing on mobile, TIM announced it expects to hike prices above inflation for hybrid and postpaid in 2Q24, in line with what happened in 2023. This is broadly in line with the guidance released yesterday (6th February), which supports our view of a more rational market on mobile that should lead to real MSR growth in the coming years (see: 4Q23 Review: Positive trends continue in mobile market, but higher capex). We also take this opportunity to update our numbers with 4Q results and new guidance (higher capex). We reiterate our Buy rating and R\$22 PO as we see positive dynamics on mobile and a solid FCF yield of 9% for 2024.

TIM also plans to reduce its “Zero rating” policy

TIM stated it has plans to reduce its “zero rating” policy in 2024. “Zero rating” refers to unlimited access to specific apps that do not consume the customer’s data packages. We highlight that earlier this week, Claro (AMX) stated it had reduced its “zero rating” policy for postpaid and hybrid plans (see: [TMT Morning radar: Claro reduces “zero rating” in postpaid plans in Brazil](#)). In our view, this trend should be positive for cost reduction leading to even further margin expansion, or even leading customers to upgrade plans to get more data.

Still room for upsell, especially for former Oi customers

For the last few years, TIM increased its average ARPU not only due to price hikes, but also due to its upsell strategy (prepaid customers going to hybrid plans). According to the company there is still much room for this trend to continue, especially considering the user base acquired from Oi in 2022, which has even more room for upgrades.

Profitability will likely be the focus for broadband

On broadband TIM shared a more cautious view for the market, as competition remains fierce. Moreover, a potential acceleration in the segment’s growth should be somewhat limited, as TIM will likely focus on higher profitability. TIM also stated it is open for inorganic growth opportunities in the segment.

Estimates(Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	0.91	0.74	1.11	1.44	1.79
EPS Change (YoY)	18.2%	-18.7%	50.0%	29.7%	24.3%
Consensus EPS (Bloomberg)			1.11	1.39	1.69
DPS	0.43	0.53	0.91	0.77	0.78
ADR EPS (US\$)	0.84	0.72	1.12	1.45	1.81
ADR DPS (US\$)	0.40	0.51	0.92	0.78	0.79
Valuation (Dec)					
P/E	19.9x	24.5x	16.3x	12.6x	10.1x
Dividend Yield	2.4%	2.9%	5.0%	4.3%	4.3%
EV / EBITDA*	6.7x	5.7x	5.0x	4.6x	4.4x
Free Cash Flow Yield*	14.9%	-5.1%	16.2%	15.7%	17.4%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 07 February 2024 10:31AM EST

07 February 2024

Equity

Key Changes

(BRL)	Previous	Current
2023E Rev (m)	23,863.8	23,874.8
2024E Rev (m)	25,337.8	25,415.0
2025E Rev (m)	26,630.0	26,723.1
2023E EPS	1.09	1.11
2024E EPS	1.42	1.44
2025E EPS	1.81	1.79

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Stock Data

Price (Common / ADR)	18.14 BRL / 18.33 USD
Price Objective	22.00 BRL / 22.00 USD
Date Established	9-Jan-2024 / 9-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	10.75 BRL - 18.58 BRL
Market Value (mn)	43,913 BRL
Free Float	33.4%
Average Daily Value	18.41 USD
Shares Outstanding (mn)	2,420.8 / 484.2
BofA Ticker / Exchange	XZUAF / SAO
BofA Ticker / Exchange	TIMB / NYS
Bloomberg / Reuters	TIMS3 BZ / TIMS3.SA
ROE (2023E)	10.5%
Net Dbt to Eqty (Dec-2022A)	53.0%

MSR = mobile service revenue

ARPU = average revenue per user

iQprofileSM TIM Brasil

iQmethodSM – Bus Performance*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.7%	8.6%	10.0%	11.2%	12.4%
Return on Equity	9.1%	7.1%	10.5%	13.3%	16.2%
Operating Margin	16.9%	15.8%	19.1%	22.6%	24.1%
Free Cash Flow	6,543	(2,224)	7,096	6,893	7,639

iQmethodSM – Quality of Earnings*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	5.0x	1.4x	4.3x	3.3x	2.8x
Asset Replacement Ratio	0.8x	0.7x	0.6x	0.6x	0.6x
Tax Rate	5.9%	6.6%	8.6%	19.3%	18.5%
Net Debt-to-Equity Ratio	13.2%	53.0%	43.2%	32.2%	21.6%
Interest Cover	2.3x	1.3x	2.1x	2.8x	3.7x

Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	18,059	21,580	23,875	25,415	26,723
% Change	4.6%	19.5%	10.6%	6.5%	5.1%
Gross Profit	17,327	20,709	22,841	24,208	25,405
% Change	4.9%	19.5%	10.3%	6.0%	4.9%
EBITDA	8,737	10,236	11,686	12,600	13,375
% Change	4.4%	17.2%	14.2%	7.8%	6.1%
Net Interest & Other Income	(653)	(1,790)	(1,621)	(1,432)	(1,130)
Net Income (Adjusted)	2,200	1,795	2,699	3,476	4,334
% Change	17.8%	-18.4%	50.4%	28.8%	24.7%

Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,921	1,607	2,936	3,476	4,334
Depreciation & Amortization	5,692	6,827	7,117	6,864	6,927
Change in Working Capital	3,123	599	(355)	143	74
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(812)	(6,527)	1,902	858	770
Capital Expenditure	(4,381)	(4,730)	(4,504)	(4,448)	(4,465)
Free Cash Flow	6,543	-2,224	7,096	6,893	7,639
% Change	55.7%	NM	NM	-2.9%	10.8%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(1,052)	(1,273)	(2,214)	(1,875)	(1,898)
Change in Debt	1,673	1,309	(1,353)	0	0

Balance Sheet Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	9,797	4,739	5,036	7,173	10,083
Trade Receivables	3,067	3,421	3,710	3,893	4,153
Other Current Assets	2,534	2,204	2,658	2,875	2,976
Property, Plant & Equipment	11,813	13,276	13,753	13,947	13,636
Other Non-Current Assets	22,608	32,768	30,103	29,395	29,595
Total Assets	49,819	56,408	55,260	57,283	60,443
Short-Term Debt	733	1,608	1,507	1,507	1,507
Other Current Liabilities	8,608	9,253	9,567	11,361	13,364
Long-Term Debt	12,385	16,587	14,760	14,160	14,451
Other Non-Current Liabilities	2,986	3,563	3,410	3,410	3,410
Total Liabilities	24,712	31,011	29,244	30,438	32,731
Total Equity	25,107	25,397	26,016	26,367	27,234
Total Equity & Liabilities	49,819	56,408	55,260	56,805	59,965

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Services-Wireless/Cellular

Company Description

TIM Brasil is the second-largest wireless company in Brazil with 63 million subscribers (of which 21% are contract or post-paid) and a 27% market share. The company is controlled by Telecom Italia (TI), which owns 67% of the total shares.

Investment Rationale

Our positive view reflects that TIM does not have the heavy burden of legacy products, which has enabled it to report above avg. top-line growth over the last three years, leading to EBITDA expansion. TIM should be leaner than its competitors in terms of systems due its focus in the mobile business, which should be an advantage as the company improves its service through customer services. We also believe the company has the most to gain from the acquisition of Oi's mobile assets

Stock Data

Average Daily Volume	5,030,767
Shares / ADR	5.00

Quarterly Earnings Estimates

	2022	2023
Q1	NA	NA
Q2	NA	NA
Q3	NA	NA
Q4	NA	NA

Key Changes

(US\$)	Previous	Current
2023E EPS	1.10	1.12
2024E EPS	1.43	1.45
2025E EPS	1.83	1.81

Exhibit 1: We update our numbers with 4Q results and new guidance for 24-26

TIM's old Vs new estimates

	New			Old			% chg.			Consensus			New vs. Consensus		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	25,415	26,723	27,969	25,338	26,630	27,854	0.3%	0.3%	0.4%	25,301	26,501	27,619	0.5%	0.8%	1.3%
EBITDA (adjusted)	12,600	13,375	14,082	12,666	13,369	14,048	-0.5%	0.0%	0.2%	12,588	13,250	13,846	0.1%	0.9%	1.7%
EBITDA margin	49.6%	50.1%	50.3%	50.0%	50.2%	50.4%	-41bps	-15bps	-8bps	49.8%	50.0%	50.1%	-17bps	5bps	22bps
Net profit (reported)	3,476	4,334	4,901	3,446	4,390	4,928	0.9%	-1.3%	-0.5%	3,384	4,068	4,816	2.7%	6.5%	1.8%
EPS (stated)	1.44	1.79	2.02	1.42	1.81	2.04	0.9%	-1.3%	-0.5%	1.40	1.68	1.99	2.7%	6.5%	1.8%

Source: Company data; Bloomberg; BofA Global Research

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Price objective basis & risk

TIM Brasil (XZUAF / TIMB)

Our price objective of R\$22/US\$22 per share is based on a ten-year DCF-to-Firm, discounted at a weighted average cost of capital (WACC) of 12.3%, assuming a capital structure of 90% equity / 10% debt in the long term. Our cost of equity (Ke) is composed of a Beta of 0,90, a risk-free rate of 3%, a market risk premium of 5.7% and country risk in Brazil of 280bps. We use cost of debt of 5% and terminal growth rate of 3%.

Upside risks: (i) leaner than its peers in terms of systems since Pay TV and fixed telephony are irrelevant, (ii) major beneficiary from potential synergies with Oi, (iii) establishment of new fronts of revenue growth, such as the partnership with C6 Bank or advertising, (iv) potential to benefit the most in a scenario of macro recovery, (v) run sharing agreement with Vivo, which should lead to opex and capex savings.

Downside risks: (i) limited growth for the sector puts pressure on prices, (ii) net adds, which have been weak over the last two years, leading to market share losses, (iii) inefficient capital structure, as its controlling shareholder is highly leveraged, (iv) reduced focus on FTTH, which is a high-growth business but still too small for the company.

Analyst Certification

We, Fred Mendes, CFA, Gustavo Tiseo, Lucca R Brendim and Mirela Oliveira, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Latin America - Telecom Services and Information Technology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	America Movil	AMX	AMX US	Fred Mendes, CFA
	America Movil	AMXVF	AMXB MM	Fred Mendes, CFA
	Desktop SA	XNUKF	DESK3 BZ	Fred Mendes, CFA
	Eletromidia	XSUHF	ELMD3 BZ	Fred Mendes, CFA
	Locaweb	XZVMF	LWSA3 BZ	Fred Mendes, CFA
	Telefonica Brasil	XCPTF	VVT3 BZ	Fred Mendes, CFA
	Telefonica Brasil	VIV	VIV US	Fred Mendes, CFA
	Televisa	TV	TV US	Fred Mendes, CFA
	Televisa	GRPFF	TLEVICPO MM	Fred Mendes, CFA
	TIM Brasil	TIMB	TIMB US	Fred Mendes, CFA
	TIM Brasil	XZUAF	TIMS3 BZ	Fred Mendes, CFA

Latin America - Telecom Services and Information Technology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TOTVS	XBEGF	TOTS3 BZ	Fred Mendes, CFA
	VTEX	VTEX	VTEX US	Fred Mendes, CFA
NEUTRAL				
	Intelbras S.A.	XLTXF	INTB3 BZ	Fred Mendes, CFA
UNDERPERFORM				
	Brisanet	XNHKF	BRIT3 BZ	Fred Mendes, CFA
	Megacable Holdings SAB	MHSDF	MEGACPO MM	Fred Mendes, CFA
	Unifiquê S.A.	XFYDF	FIQE3 BZ	Fred Mendes, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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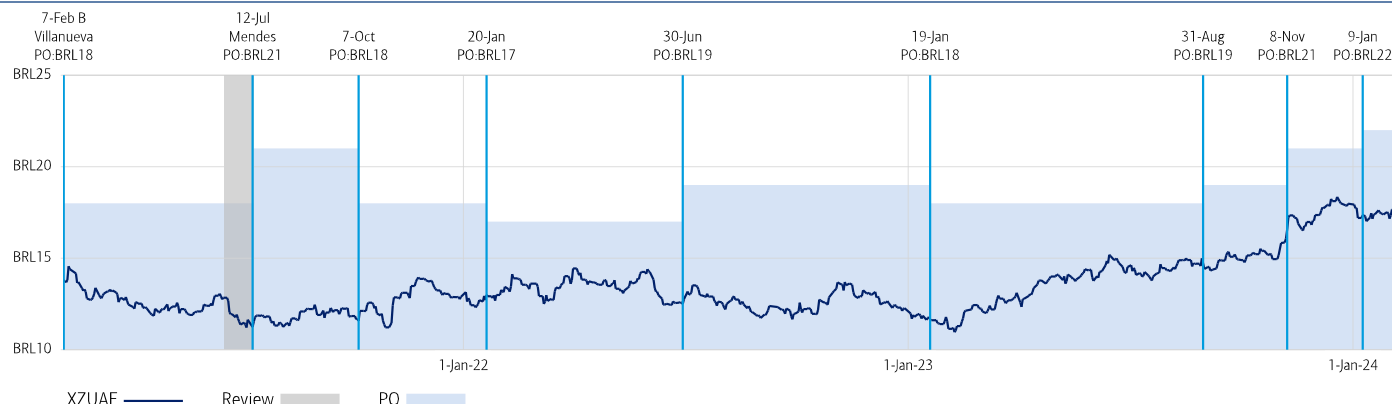
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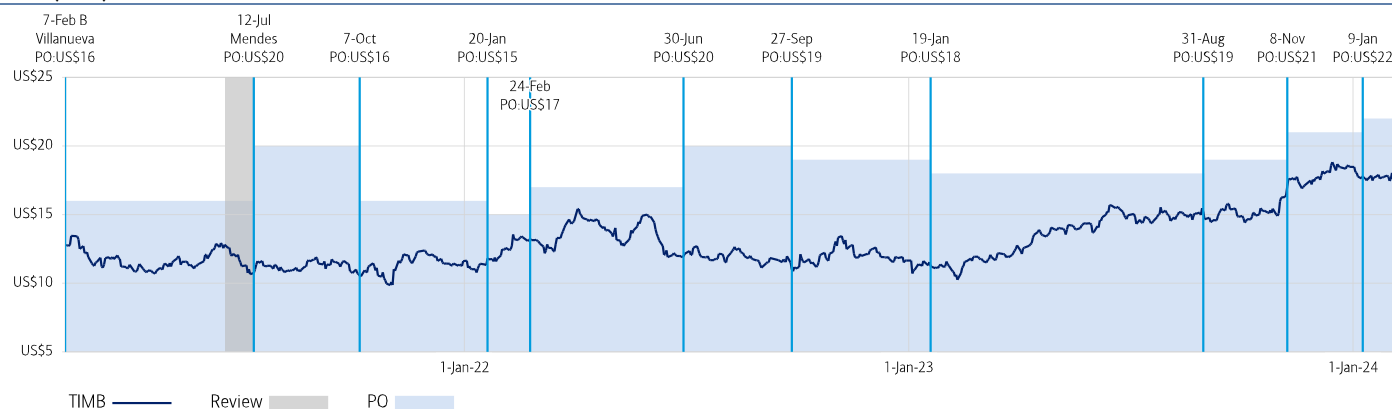
TIM Brasil (XZUAF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

TIM Brasil (TIMB) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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