

Brazil TMT

Morning Radar: Vivo capital reduction and 5G offer; Winity spectrum auction

Industry Overview

Vivo Approves R\$1.5bn capital reduction

Yesterday (24), Vivo approved a R\$1.5bn capital reduction at its shareholders meeting. This reduction will be made through a distribution in the amount of R\$0.91/sh.

Our take: High dividends for 2024

A first round of capital reductions were expected, as last year Vivo got regulatory approval for a total capital reduction of R\$5bn from Anatel (Regulator). We expect to see further reductions being made by the company through the year. In our Base case we have Vivo's dividend yield at 9% for 2024, but this number could rise closer to 12% if all the capital reduction approved by Anatel is distributed. We reiterate our Buy rating and PO of R\$63 for Vivo, as we see a solid momentum in mobile and stable/declining capex that should lead to high FCF generation and dividends.

Vivo announces new FWA offer with Intelbras' product

Vivo announced the launch of its new Fixed wireless access (FWA) offer, using Intelbras' equipment. FWA refers to a type of broadband connection that uses radio frequencies like 5G and 4G instead of cables. Vivo's offer consists of a 150GB package for R\$150/month, but the client must also pay R\$1.5k for the customer premise equipment (CPE) used for the service.

Our take: "Lower risk" offer may also limit ST adoption

We expected to see the launch of Vivo's FWA in 2024, following Claro's (AMX) launch in 2023. TIM is also expected to do the same in 2024. By charging its customers for the CPE, we expect to see a more limited ST adoption of the product, but it should also reduce operational risks related to churn. As a reference, most entry level 100MB speed fiber broadband packages in Brazil are ~R\$100/month, with no extra equipment fee.

Anatel to auction Winity's spectrum in 2025/26

Anatel indicated it should auction Winity's returned 700MHz spectrum in 2025/26, with a first round of offers not including the large Telcos (TIM, Vivo and Claro). In late 2023, after failing to get regulatory approval for an infrastructure sharing agreement with Vivo, Winity decided to return its 700MHz spectrum acquired in the Brazilian 5G auction.

25 January 2024

Equity

Brazil

Telecommunications, Media and Technology

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Vivo=Telefonica Brasil

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Timestamp: 25 January 2024 06:47AM EST

Price objective basis & risk

Telefonica Brasil (XCPTF / VIV)

Our price objective of R\$63/US\$13 per share is based on a 10-year DCF-to-Firm, discounted at a weighted average cost of capital (WACC) of 12.5%, assuming a capital structure of 95% equity / 5% debt in the long term. Our cost of equity (Ke) is composed of a Beta of 0.80, a risk-free rate of 3%, a market risk premium of 5.7% and a country risk in Brazil of 280bps. We use cost of debt of 5% and terminal growth rate of 3%.

Risks: (i) limited benefit from the macroeconomic recovery given its premium customer base, (ii) legacy business continues to pressure top-line growth, (iii) price pressure in the mobile segment given the highest ARPU in the space, (iv) creation of dividend tax would strongly impact Vivo.

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 S.A	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
	TOTVS	XBEGF	TOTS3 BZ	Fred Mendes, CFA
NEUTRAL	VTEX	VTEX	VTEX US	Fred Mendes, CFA
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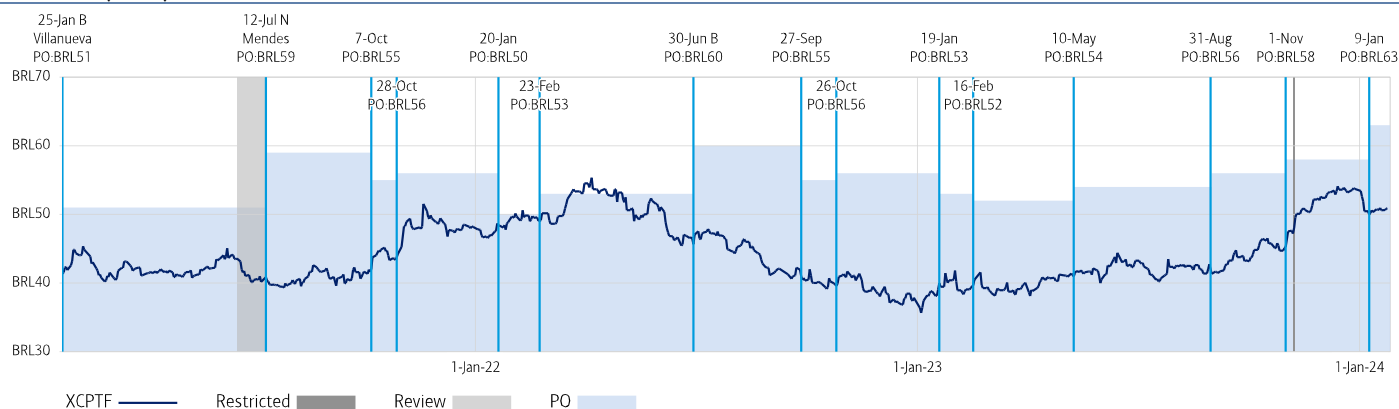
Telefonica Brasil (VIV) Price Chart



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.

Telefonica Brasil (XCPTF) 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: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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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