

Brazil TMT

TMT Morning Radar: Italian govt clears sale of TI's fixed network; Vtal layoffs

Industry Overview

Telecom Italia receives golden power approval

The Italian government has approved the planned sale of Telecom Italia's (TI) fixed network to KKR with its golden power rights. Golden power is the government's ability to veto transactions of assets that are of strategic interest to the state. In a separate statement, the government ensured it will have the power to oversee the newly created network company in areas concerning national security and defense.

Our Take: Another positive development

The approval was in line with expectations. We believe that the sale of TI's fixed business could be positive for TIM Brazil (67% owned by TI), as it could lead to deleveraging in the controlling company, allowing TIM Brazil to reach a more optimal financial structure. We remain bullish on the telcos for 2024 and maintain our Buy rating on TIM Brasil and our price objective of R\$22/US\$22 (see: [Year Ahead: Bullish on Brazilian large Telcos... selective on Tech](#)).

Vtal to layoff up to 20% of its staff

Vtal plans to carry out a collective layoff of workers of up to 20% of its staff. This is expected to take place from January 1, 2024, to December 31, 2024.

Our take: another sign of a deceleration in fiber

Vtal's planned dismissal of employees corroborates our view of a deceleration in the fiber market for 2024, especially for internet service providers (ISPs). Overall, most of the largest ISPs have already announced their plans to reduce the pace of its infrastructure expansion in the coming quarters. On the other hand, we remain bullish on Vivo for 2024 as it 1) should continue to benefit from its mobile+fixed combo offer that has lower churn and 2) the phase out of legacy technologies should lead to higher consolidated net adds for the year, even with similar gross fiber adds. We maintain our Buy rating on Vivo and our price objective of R\$63/US\$13

17 January 2024

Equity

Brazil

Telecommunications, Media and Technology

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Refer to important disclosures on page 4 to 8. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 17 January 2024 07:00AM EST

Stocks mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
VIV	VIV US	Telefonica Brasil	US\$ 10.23	B-1-7
XCPTF	VIVT3 BZ	Telefonica Brasil	BRL 50.67	B-1-7
TIMB	TIMB US	TIM Brasil	US\$ 17.48	B-1-7
XZUAF	TIMS3 BZ	TIM Brasil	BRL 17.15	B-1-7

Source: BofA Global Research

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.

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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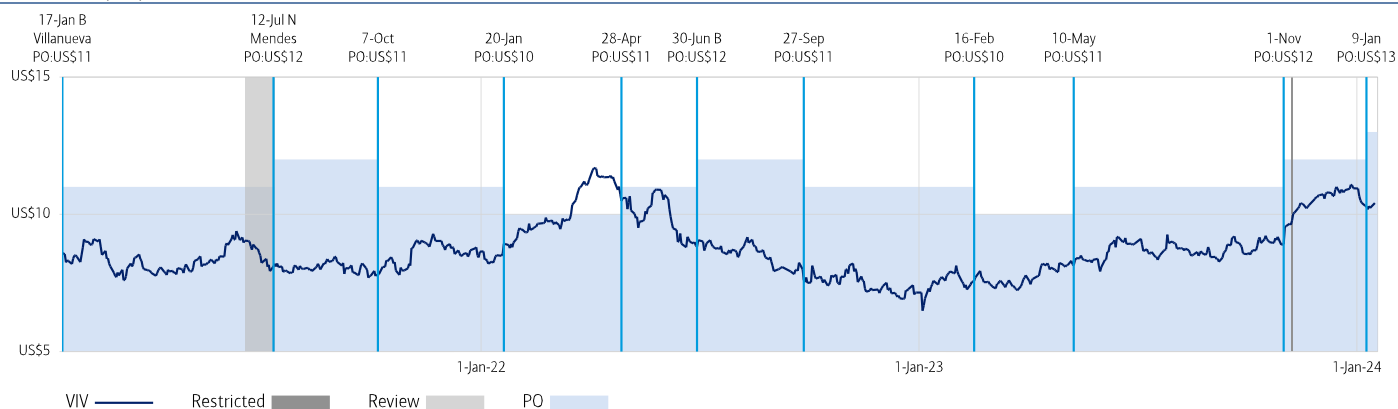
Latin America - Telecom Services and Information Technology Coverage Cluster

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 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
	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
	Unifque S.A	XFYDF	FIQE3 BZ	Fred Mendes, CFA

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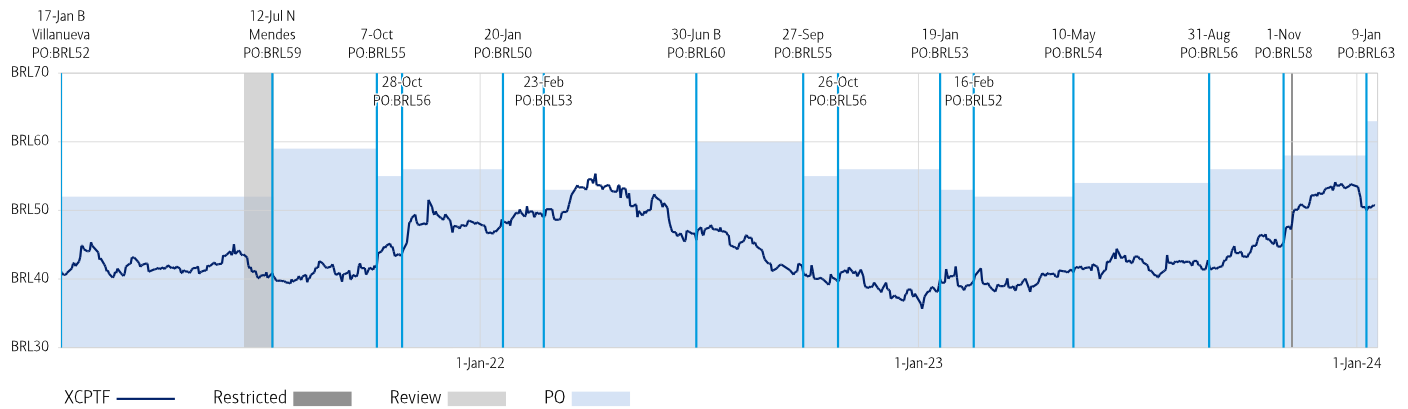
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Telefonica Brasil (VIV) Price Chart

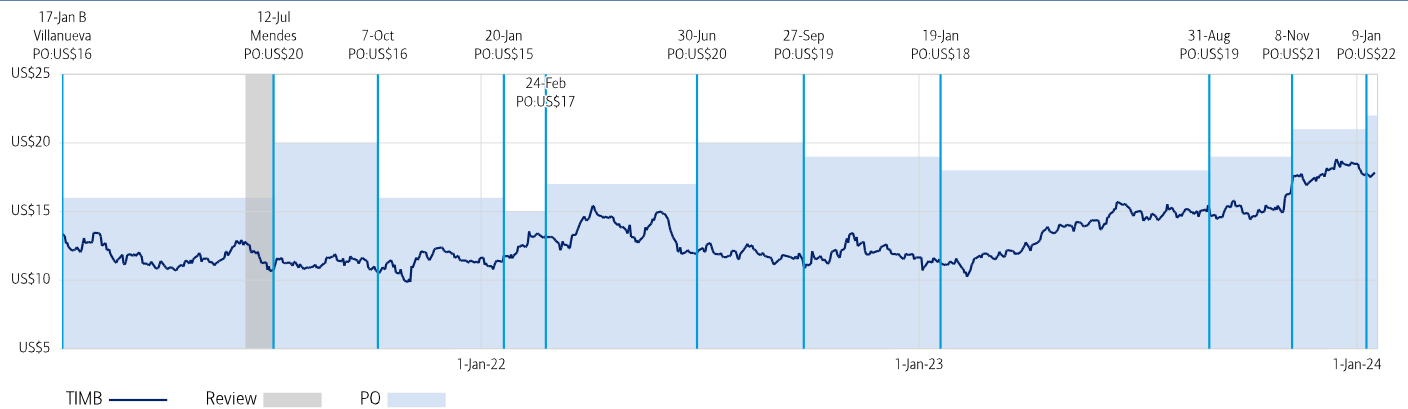


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

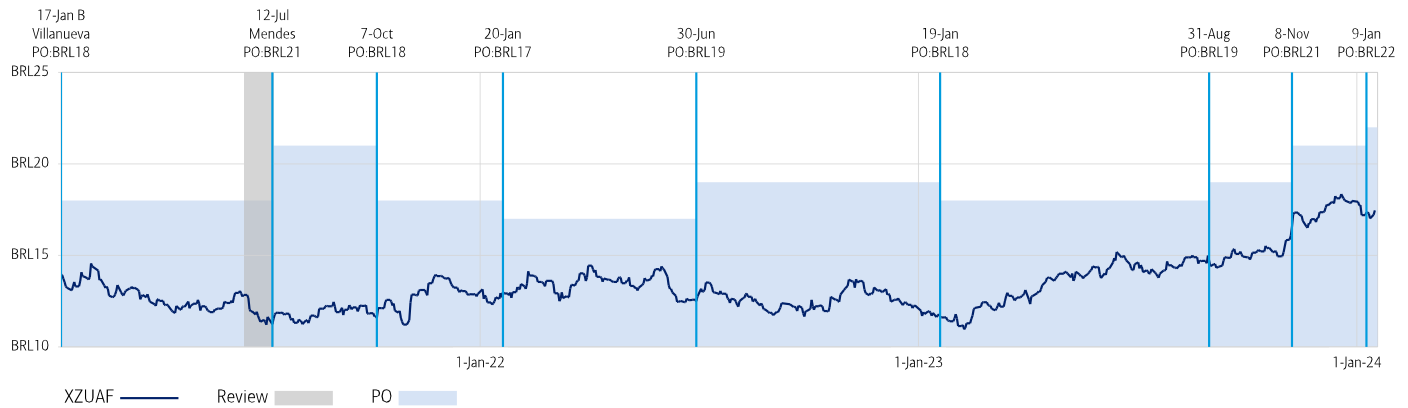
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Telefonica Brasil (XCPTF) Price Chart

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TIM Brasil (TIMB) Price Chart

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TIM Brasil (XZUAF) Price Chart

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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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