

## Telefonica Brasil

## 4Q23 Review: Mobile market rationality with Vivo leading the pack

Maintain Rating: BUY | PO: 63.00 BRL | Price: 52.93 BRL

## Strong trends across the board

Once again Vivo reported strong results with in line revenue, but beating BofAe by 3.3% and consensus by 2.2% for EBITDA and 14% and 22% for Net income, respectively. Most importantly, strong trends remain, with: i) MSR at +8.7% YoY (~500bps above inflation); ii) fixed revenue acceleration to 3.5% YoY vs 3.1% in 3Q23 and 2.3% in 2Q23; iii) margin expansion of 120bps YoY (100bps ex-others- see exhibit 1); iv) capex declining 6% YoY in 2023 (~10% above BofAe in the 4Q23); and v) churn at historical low of 0.97% for postpaid. Maintain our Buy rating as we see VIVT3 trading at 11.5x P/FCFE 24YE and a div. yield of 9%. (See: [Year Ahead: Bullish on Brazilian large Telcos... selective on Tech](#)).

## Market rationality on Mobile – Real growth in 2024

Although MSR growth was 30bps below BofAe, Vivo led the sector in the 4Q, growing 8.7% vs 7.6% for TIM and 7.1% for AMX. All players showed real growth in the 4Q (at least 300bps), reinforcing the thesis of market rationality. We expect price increases in postpaid and prepaid and real growth of 100bps for Vivo in 2024.

## Looking closer at: Others and working capital

Other operational results reached +R\$350mn, positively impacting EBITDA margin, with R\$292mn from adjustments in lease contracts from Oi's towers acquisition (one-off). However, several items are included in "others", with a historically positive contribution. Looking at ex-others EBITDA margin, it expanded 100bps YoY. Working capital was mainly impacted by "suppliers" (~R\$900mn decline), as Vivo anticipated some contracts, to reach better financial conditions. This also happened in 4Q22 (-R\$400mn).

## Bullish View: Total return of ~16% for 2024

In 2023 VIVT3 was up +50% (with dividends) vs 22% for the IBOV. Although we do not expect such performance for 2024, we see similar trends, such as: i) real top line growth; ii) EBITDA margin expansion; and iii) flat/declining Capex. For 2024, we see dividend yield of 9% and 7% EBITDA growth. Assuming multiples remain at 4.5x EV/EBITDA 24YE (historical average), we see a total return of ~16% (Earnings growth of 20% YoY)

| Estimates(Dec) (BRL)      | 2021A | 2022A  | 2023E | 2024E | 2025E |
|---------------------------|-------|--------|-------|-------|-------|
| EPS                       | 3.70  | 2.46   | 2.84  | 3.42  | 4.35  |
| EPS Change (YoY)          | 31.2% | -33.5% | 15.4% | 20.4% | 27.2% |
| Consensus EPS (Bloomberg) |       |        | 2.94  | 3.54  | 4.23  |
| DPS                       | 3.71  | 1.85   | 3.15  | 4.69  | 2.84  |
| ADR EPS (US\$)            | 0.69  | 0.48   | 0.58  | 0.69  | 0.88  |
| ADR DPS (US\$)            | 0.69  | 0.36   | 0.64  | 0.95  | 0.58  |
| <b>Valuation (Dec)</b>    |       |        |       |       |       |
| P/E                       | 14.3x | 21.5x  | 18.6x | 15.5x | 12.2x |
| Dividend Yield            | 7.0%  | 3.5%   | 6.0%  | 8.9%  | 5.4%  |
| EV / EBITDA*              | 6.2x  | 6.1x   | 5.6x  | 5.2x  | 4.9x  |
| Free Cash Flow Yield*     | 8.4%  | 2.2%   | 15.8% | 14.2% | 15.0% |

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

20 February 2024

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## Stock Data

|                             |                         |
|-----------------------------|-------------------------|
| Price (Common / ADR)        | 52.93 BRL / 10.74 USD   |
| Price Objective             | 63.00 BRL / 13.00 USD   |
| Date Established            | 9-Jan-2024 / 9-Jan-2024 |
| Investment Opinion          | B-1-7 / B-1-7           |
| 52-Week Range               | 37.20 BRL - 54.90 BRL   |
| Market Value (mn)           | 87,472 BRL              |
| Free Float                  | 23.9%                   |
| Average Daily Value         | 20.56 USD               |
| Shares Outstanding (mn)     | 1,652.6 / 1,652.6       |
| BofA Ticker / Exchange      | XCPTF / SAO             |
| BofA Ticker / Exchange      | VIV / NYS               |
| Bloomberg / Reuters         | VIVT3 BZ / VIVT3.SA     |
| ROE (2023E)                 | 7.0%                    |
| Net Dbt to Eqty (Dec-2022A) | 7.3%                    |

MSR = Mobile Service Revenue

FCFE = Free Cash Flow to Equity

VIVT3= Telefonica Brasil

AMX= America Movil

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**Refer to important disclosures on page 9 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 20 February 2024 11:41PM EST



# iQprofile<sup>SM</sup> Telefonica Brasil

## iQmethod<sup>SM</sup> – Bus Performance\*

| (BRL Millions)             | 2021A | 2022A | 2023E  | 2024E  | 2025E  |
|----------------------------|-------|-------|--------|--------|--------|
| Return on Capital Employed | 8.6%  | 8.2%  | 8.9%   | 8.9%   | 10.1%  |
| Return on Equity           | 9.0%  | 5.9%  | 7.0%   | 8.7%   | 11.2%  |
| Operating Margin           | 15.8% | 13.8% | 15.2%  | 17.2%  | 19.0%  |
| Free Cash Flow             | 7,375 | 1,929 | 13,786 | 12,401 | 13,111 |

## iQmethod<sup>SM</sup> – Quality of Earnings\*

| (BRL Millions)           | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio   | 2.6x  | 2.8x  | 4.8x  | 3.7x  | 3.0x  |
| Asset Replacement Ratio  | 0.7x  | 0.8x  | 0.7x  | 0.7x  | 0.7x  |
| Tax Rate                 | NM    | 16.0% | 14.2% | 16.8% | 17.2% |
| Net Debt-to-Equity Ratio | -1.1% | 7.3%  | 20.2% | 20.6% | 14.9% |
| Interest Cover           | 2.9x  | 1.7x  | 1.8x  | 2.5x  | 3.3x  |

## Income Statement Data (Dec)

| (BRL Millions)               | 2021A        | 2022A         | 2023E        | 2024E        | 2025E        |
|------------------------------|--------------|---------------|--------------|--------------|--------------|
| Sales                        | 44,033       | 48,041        | 52,036       | 54,610       | 57,575       |
| % Change                     | 2.1%         | 9.1%          | 8.3%         | 4.9%         | 5.4%         |
| Gross Profit                 | 40,811       | 44,200        | 47,830       | 50,585       | 53,201       |
| % Change                     | 1.4%         | 8.3%          | 8.2%         | 5.8%         | 5.2%         |
| EBITDA                       | 19,007       | 19,282        | 21,091       | 22,486       | 23,810       |
| % Change                     | 6.7%         | 1.4%          | 9.4%         | 6.6%         | 5.9%         |
| Net Interest & Other Income  | (1,989)      | (1,790)       | (2,398)      | (2,517)      | (2,142)      |
| <b>Net Income (Adjusted)</b> | <b>6,244</b> | <b>4,085</b>  | <b>4,736</b> | <b>5,714</b> | <b>7,265</b> |
| <b>% Change</b>              | <b>30.9%</b> | <b>-34.6%</b> | <b>15.9%</b> | <b>20.7%</b> | <b>27.2%</b> |

## Free Cash Flow Data (Dec)

| (BRL Millions)                         | 2021A         | 2022A         | 2023E         | 2024E         | 2025E         |
|--|---------------|---------------|---------------|---------------|---------------|
| Net Income from Cont Operations (GAAP) | 6,239         | 4,085         | 4,736         | 5,714         | 7,265         |
| Depreciation & Amortization            | 12,038        | 12,660        | 13,171        | 13,102        | 12,896        |
| Change in Working Capital              | (323)         | 1,249         | 1,231         | 227           | (44)          |
| Deferred Taxation Charge               | NA            | NA            | NA            | NA            | NA            |
| Other Adjustments, Net                 | (1,896)       | (6,535)       | 3,401         | 2,095         | 1,774         |
| Capital Expenditure                    | (8,685)       | (9,530)       | (8,753)       | (8,738)       | (8,780)       |
| <b>Free Cash Flow</b>                  | <b>7,375</b>  | <b>1,929</b>  | <b>13,786</b> | <b>12,401</b> | <b>13,111</b> |
| <b>% Change</b>                        | <b>-21.1%</b> | <b>-73.8%</b> | <b>614.6%</b> | <b>-10.0%</b> | <b>5.7%</b>   |
| Share / Issue Repurchase               | NA            | NA            | NA            | NA            | NA            |
| Cost of Dividends Paid                 | (6,264)       | (3,075)       | (5,254)       | (7,830)       | (4,737)       |
| Change in Debt                         | 3,283         | 1,565         | (1,945)       | 0             | 0             |

## Balance Sheet Data (Dec)

| (BRL Millions)                        | 2021A          | 2022A          | 2023E          | 2024E          | 2025E          |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Equivalents                    | 6,479          | 2,275          | 4,190          | 4,048          | 8,128          |
| Trade Receivables                     | 8,100          | 8,691          | 8,785          | 9,252          | 9,728          |
| Other Current Assets                  | 6,481          | 6,318          | 6,109          | 5,999          | 6,120          |
| Property, Plant & Equipment           | 33,656         | 34,581         | 34,739         | 36,284         | 37,706         |
| Other Non-Current Assets              | 50,195         | 55,848         | 65,244         | 61,652         | 59,063         |
| <b>Total Assets</b>                   | <b>104,911</b> | <b>107,713</b> | <b>119,067</b> | <b>117,235</b> | <b>120,745</b> |
| Short-Term Debt                       | 3,999          | 2,517          | 4,356          | 4,271          | 4,393          |
| Other Current Liabilities             | 15,553         | 16,151         | 18,323         | 18,802         | 21,884         |
| Long-Term Debt                        | 1,704          | 4,752          | 13,323         | 13,109         | 13,415         |
| Other Non-Current Liabilities         | 13,171         | 15,213         | 16,245         | 16,245         | 16,245         |
| <b>Total Liabilities</b>              | <b>34,427</b>  | <b>38,633</b>  | <b>52,248</b>  | <b>52,426</b>  | <b>55,937</b>  |
| <b>Total Equity</b>                   | <b>70,006</b>  | <b>68,456</b>  | <b>66,820</b>  | <b>64,809</b>  | <b>64,809</b>  |
| <b>Total Equity &amp; Liabilities</b> | <b>104,433</b> | <b>107,089</b> | <b>119,067</b> | <b>117,235</b> | <b>120,745</b> |

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Telecom Equipment-Wireless/Cellular

## Company Description

Telefonica Brasil (Vivo) is a full-service telco carrier, using the Vivo brand. It is the leading wireless company in Brazil with 77mn subscribers (34% share), the fixed-line incumbent in the state of São Paulo, and it has been deploying fiber-to-the-home (FTTH) in 268 cities to expand its footprint and enhance its network infrastructure. Today, Vivo has 14.6mn homes passed with FTTH and is expected to end 2024 with more than 24mn. Vivo is controlled by Telefonica of Spain, with 74% stake.

## Investment Rationale

Vivo is going through an important transformation where Fiber (FTTH) is offsetting the legacy products and we expect to see a growth in the fixed business, after 5 years of decline. On mobile, it continues to rely on its premium base of clients which has proved to be more resilient in challenging macro periods. We also see the company well positioned to benefit from the acquisition of Oi's assets and the ICMS reduction. Finally, the high liquidity and low beta help in a difficult macro scenario

## Stock Data

|                      |           |
|----------------------|-----------|
| Average Daily Volume | 1,916,667 |
| Shares / ADR         | 1.00      |

## Quarterly Earnings Estimates

|    | 2022 | 2023 |
|----|------|------|
| Q1 | NA   | NA   |
| Q2 | NA   | NA   |
| Q3 | NA   | NA   |
| Q4 | NA   | NA   |

### Exhibit 1: Even excluding the positive impact from other revenues on Vivo's Results, we still saw a ~100bps YoY EBITDA margin expansion

Evolution of Vivo's EBITDA ex-other expenses (Revenues)

| (R\$m)           | 4Q23   | 4Q22   | YoY   | 3Q23   | QoQ   |
|------------------|--------|--------|-------|--------|-------|
| Revenue          | 13,535 | 12,659 | 6.9%  | 13,112 | 3.2%  |
| EBITDA Ex-Others | 5,403  | 4,931  | 9.6%  | 5,265  | 2.6%  |
| Margin (%)       | 40%    | 39%    | 1.0%  | 40%    | -0.2% |
| (R\$m)           | 3Q23   | 3Q22   | YoY   |        |       |
| Revenue          | 13,112 | 12,199 | 7.5%  |        |       |
| EBITDA Ex-Others | 5,265  | 4,772  | 10.3% |        |       |
| Margin (%)       | 40%    | 39%    | 1.0%  |        |       |
| (R\$m)           | 2Q23   | 2Q22   | YoY   |        |       |
| Revenue          | 12,733 | 11,831 | 7.6%  |        |       |
| EBITDA Ex-Others | 5,047  | 4,546  | 11.0% |        |       |
| Margin (%)       | 40%    | 38%    | 1.2%  |        |       |

Source: Company data; BofA Global Research

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## Churn is at historical low

Churn reached 0.97% in 4Q vs 1.09% in 3Q and 1.05% in 4Q22. Once again, we see it as a sign of operational improvement and most importantly market rationality. Looking only at the churn of Vivo Total (Combo package) it stands at 0.4%, but the base is still low at 1.3mn subs. Moreover, we expect churn ratios to remain low.

## Positive moves starting on prepaid

Prepaid prices saw limited expansion from 2021 to mid-2023, with the minimum price to stay connected for a month remaining flat during the period. In 2H23 however, we saw some moves of more rationality, led by Vivo that raised the prices for some of its weekly/bi-weekly offers (but still not raising monthly entry prices). In recent months, we saw the first entry price hike in years, with TIM increasing its 30-day offer from R\$30 to R\$34. Going forward we expect similar moves to continue happening in prepaid. (See: [BZ Telecom Price Tracker: First prepaid entry price hike in years](#)).

## B2B Digital – Another growth driver

The B2B digital is one of Vivo's segments that usually gets limited attention from the market but has been performing well in recent quarters. In 2023, it represented 6.5% of the company's revenues and had a top line expansion of 25% YoY. Overall, we expect a similar growth pace to continue going forward. We highlight that this segment has lower EBITDA margins (~20%), but also has almost no capex, so it has a similar Op.FCF margin to Vivo's other businesses.

The Company will host its 4Q23 Conference Call on Wednesday February 21st at 09am EST. To access please click on the link available in its website.

**Exhibit 2: Vivo reported solid 4Q results, with MSR up 9% YoY and EBITDA margin (ex-others) up 100bps YoY**

Vivo's 4Q23 Review table

| In BRLm, except stated otherwise | 4Q23a         | 4Q23e         | Consensus    | A/E           | A/C          | 4Q22          | YoY           | 3Q23          | QoQ            |
|----------------------------------|---------------|---------------|--------------|---------------|--------------|---------------|---------------|---------------|----------------|
| <b>Revenue</b>                   | 13,535        | 13,485        | 13,484       | 0.4%          | 0.4%         | 12,659        | 6.9%          | 13,112        | 3.2%           |
| Mobile service revenue           | 8,602         | 8,629         | 8,596        | (0.3%)        | -            | 7,914         | 8.7%          | 8,465         | 1.6%           |
| Fixed service revenue            | 3,891         | 3,923         | 996          | (0.8%)        | -            | 3,761         | 3.5%          | 3,833         | 1.5%           |
| Equipment sales revenue          | 1,042         | 933           | 3,892        | 11.7%         | -            | 985           | 5.8%          | 814           | 28.0%          |
| Cash opex                        | 7,783         | (7,918)       | (7,880)      | NM            | -            | (7,425)       | NM            | (7,573)       | NM             |
| <b>EBITDA (adjusted)</b>         | <b>5,752</b>  | <b>5,567</b>  | <b>5,604</b> | <b>3.3%</b>   | <b>2.6%</b>  | <b>5,234</b>  | <b>9.9%</b>   | <b>5,539</b>  | <b>3.8%</b>    |
| <b>EBITDA margin</b>             | <b>42.5%</b>  | <b>41.3%</b>  | <b>41.6%</b> | <b>121bps</b> | <b>94bps</b> | <b>41.3%</b>  | <b>115bps</b> | <b>42.2%</b>  | <b>25bps</b>   |
| Net financial results            | (631)         | (671)         |              | (5.9%)        | -            | (604)         | 4.5%          | (570)         | 10.7%          |
| <b>Pre-tax profit</b>            | <b>1,617</b>  | <b>1,611</b>  |              | <b>0.4%</b>   | -            | <b>1,349</b>  | <b>19.9%</b>  | <b>1,548</b>  | <b>4.5%</b>    |
| Income tax expense               | (13)          | (208)         |              | (93.7%)       | -            | (231)         | (94.4%)       | (72)          | (81.8%)        |
| <b>Net profit (reported)</b>     | <b>1,601</b>  | <b>1,403</b>  | 1,318        | <b>14.1%</b>  | <b>21.5%</b> | <b>1,118</b>  | <b>43.2%</b>  | <b>1,471</b>  | <b>8.8%</b>    |
| <b>EPS (stated)</b>              | <b>1.0</b>    | <b>0.8</b>    | 0.8          | <b>14.1%</b>  | <b>21.4%</b> | <b>0.7</b>    | <b>43.0%</b>  | <b>0.9</b>    | <b>8.8%</b>    |
| <b>Capex</b>                     | <b>2,295</b>  | <b>2,090</b>  | 2,268        | <b>9.8%</b>   | -            | <b>2,489</b>  | <b>(7.8%)</b> | <b>2,626</b>  | <b>(12.6%)</b> |
| In BRLm, except stated otherwise | 4Q23a         | 4Q23e         | Consensus    | A/E           | A/C          | 4Q22          | YoY           | 3Q23          | QoQ            |
| <b>Mobile</b>                    |               |               |              |               |              |               |               |               |                |
| Prepaid mobile subs, EOP         | 37,267        | 37,246        | -            | 0.1%          | -            | 39,306        | (5.2%)        | 37,163        | 0.3%           |
| Postpaid mobile subs, EOP        | 61,808        | 61,517        | -            | 0.5%          | -            | 58,673        | 5.3%          | 60,424        | 2.3%           |
| <b>Total mobile subs, EOP</b>    | <b>99,075</b> | <b>98,763</b> | -            | <b>0.3%</b>   | -            | <b>97,979</b> | <b>1.1%</b>   | <b>97,587</b> | <b>1.5%</b>    |
| Mobile ARPU                      | 29.2          | 29.3          | -            | (0.5%)        | -            | 27.0          | 8.0%          | 28.9          | 0.9%           |
| <b>Mobile service revenue</b>    | <b>8,602</b>  | <b>8,629</b>  | -            | <b>(0.3%)</b> | -            | <b>7,914</b>  | <b>8.7%</b>   | <b>8,465</b>  | <b>1.6%</b>    |
| <b>Fixed</b>                     |               |               |              |               |              |               |               |               |                |
| <b>FTTH subs, EOP</b>            | <b>6,175</b>  | <b>6,168</b>  | -            | <b>0.1%</b>   | -            | <b>5,482</b>  | <b>12.6%</b>  | <b>5,992</b>  | <b>3.1%</b>    |
| FTTH ARPU                        | 89            | 88            | -            | 0.9%          | -            | 87            | 2.9%          | 89            | 0.4%           |
| FTTH revenue                     | 1,627         | 1,611         | -            | 1.0%          | -            | 1,397         | 16.5%         | 1,570         | 3.6%           |
| FTTC revenue                     | 44            | 47            | -            | (5.5%)        | -            | 101           | (56.6%)       | 58            | (23.8%)        |
| <b>Fixed service revenue</b>     | <b>3,891</b>  | <b>3,923</b>  | -            | <b>(0.8%)</b> | -            | <b>3,761</b>  | <b>3.5%</b>   | <b>3,833</b>  | <b>1.5%</b>    |
| <b>Handset and Devices</b>       |               |               |              |               |              |               |               |               |                |
| <b>Equipment sales revenue</b>   | <b>1,042</b>  | <b>933</b>    | -            | <b>11.7%</b>  | -            | <b>985</b>    | <b>5.8%</b>   | <b>814</b>    | <b>28.0%</b>   |

Source: Company data; BofA Global Research, Bloomberg

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**Exhibit 3: In December Claro reported 352k net adds, Vivo 214k and TIM 123k**

Mobile postpaid net adds per month (000's subs)

| Post-paid Net Adds (MoM) | Dec-22  | Jan-23 | Feb-23 | Mar-23  | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
|--------------------------|---------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo                     | 119     | 97     | 10     | (272)   | 137    | 134    | 194    | 150    | 274    | 133    | 672    | 213    | 214    |
| Claro                    | (1,970) | 216    | 216    | 214     | 168    | 212    | 94     | 232    | 200    | 495    | 293    | 436    | 352    |
| Tim                      | (437)   | (117)  | (185)  | (1,056) | 87     | 119    | 73     | 121    | 134    | 102    | 81     | 178    | 123    |
| Oi                       | -       | -      | -      | -       | -      | -      | -      | -      | -      | -      | -      | -      | -      |
| Others                   | 4       | 6      | 7      | (2)     | 6      | 2      | 8      | 8      | 5      | 5      | 5      | 1      | 0      |

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 4: In December Claro reported 175k net adds, Vivo 85k and TIM -38k**

Mobile prepaid net adds per month (000's subs)

| Pre-paid Net Adds (MoM) | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo                    | (143)  | 118    | (193)  | 64     | (386)  | (367)  | (472)  | (305)  | (451)  | (151)  | 39     | (20)   | 85     |
| Claro                   | (134)  | (469)  | (869)  | (23)   | 53     | 54     | 88     | 85     | 92     | 17     | 49     | (96)   | 175    |
| Tim                     | 187    | (367)  | (233)  | 833    | (539)  | (212)  | (264)  | (106)  | (224)  | (232)  | (174)  | (232)  | (38)   |
| Oi                      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      |
| Others                  | (222)  | 181    | (3)    | 9      | (4)    | 10     | 5      | 2      | 3      | (1)    | 14     | 15     | (22)   |

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 5: Slight net adds deceleration in December**

Broadband net adds per month (000's subs)

| Broadband Net Adds (MoM) | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo                     | 11     | 9      | 16     | 9      | 13     | 26     | 28     | 25     | 20     | 40     | 30     | 29     |
| Claro                    | 25     | 1      | 23     | 10     | 16     | 17     | 19     | 24     | 22     | 16     | 27     | 21     |

**Exhibit 5: Slight net adds deceleration in December**

Broadband net adds per month (000's subs)

| Broadband Net Adds (MoM) | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Tim                      | 6      | 6      | 4      | 7      | 12     | 9      | 12     | 10     | 7      | 10     | 3      | (1)    |
| Desktop                  | 9      | 7      | 129    | 7      | 7      | 8      | 9      | 9      | 6      | 7      | 7      | 5      |
| Unifiquê                 | 38     | 2      | 8      | 8      | 1      | 28     | 22     | 3      | 1      | 1      | 1      | 2      |
| Brisanet                 | 20     | 16     | 23     | 19     | 13     | 18     | 16     | 17     | 14     | 10     | 12     | 13     |
| Oi                       | (1)    | (44)   | (2)    | 2      | 0      | (36)   | (53)   | (25)   | (23)   | (52)   | 8      | (37)   |

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 6: Overall soft performance across the board in December**

Evolution of fiber subscribers (000's subs)

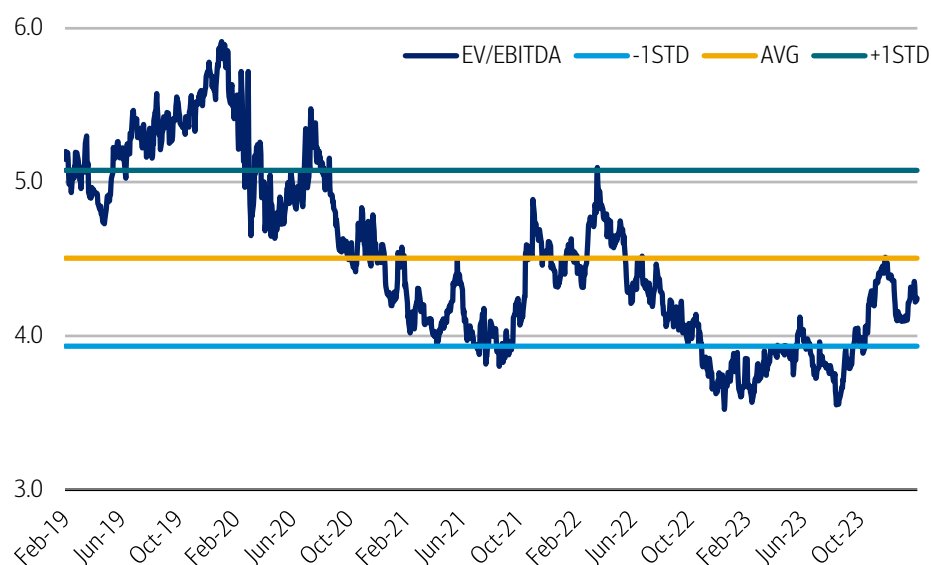
| Fiber Subscribers | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo              | 5,484  | 5,546  | 5,593  | 5,653  | 5,699  | 5,751  | 5,810  | 5,873  | 5,936  | 5,993  | 6,062  | 6,121  | 6,176  |
| Claro             | 885    | 919    | 940    | 968    | 993    | 1,024  | 1,058  | 1,093  | 1,132  | 1,171  | 1,213  | 1,257  | 1,299  |
| Tim               | 555    | 570    | 584    | 599    | 613    | 633    | 649    | 668    | 685    | 698    | 714    | 722    | 725    |
| Desktop           | 809    | 818    | 826    | 955    | 962    | 968    | 976    | 985    | 993    | 999    | 1,006  | 1,012  | 1,017  |
| Unifiquê          | 606    | 644    | 645    | 654    | 662    | 662    | 690    | 712    | 715    | 716    | 716    | 717    | 719    |
| Brisanet          | 1,100  | 1,121  | 1,136  | 1,159  | 1,178  | 1,191  | 1,210  | 1,226  | 1,243  | 1,257  | 1,267  | 1,280  | 1,292  |
| Oi                | 4,234  | 4,279  | 4,275  | 4,314  | 4,348  | 4,379  | 4,373  | 4,345  | 4,345  | 4,345  | 4,347  | 4,346  | 4,337  |

Source: BofA Global Research

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**Exhibit 7: Despite the recent positive stock performance we still see Vivo trading at a discount to its historical average**

Vivo's historical EV/EBITDA



Source: Bloomberg

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## 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          |
|---------------------|------------------------|-------------|------------------|------------------|
| <b>BUY</b>          |                        |             |                  |                  |
|                     | 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       | VIVT3 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 |
| <b>NEUTRAL</b>      |                        |             |                  |                  |
|                     | Intelbras S.A.         | XLTXF       | INTB3 BZ         | Fred Mendes, CFA |
| <b>UNDERPERFORM</b> |                        |             |                  |                  |
|                     | 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 |



## iQmethod<sup>SM</sup> 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 &amp; 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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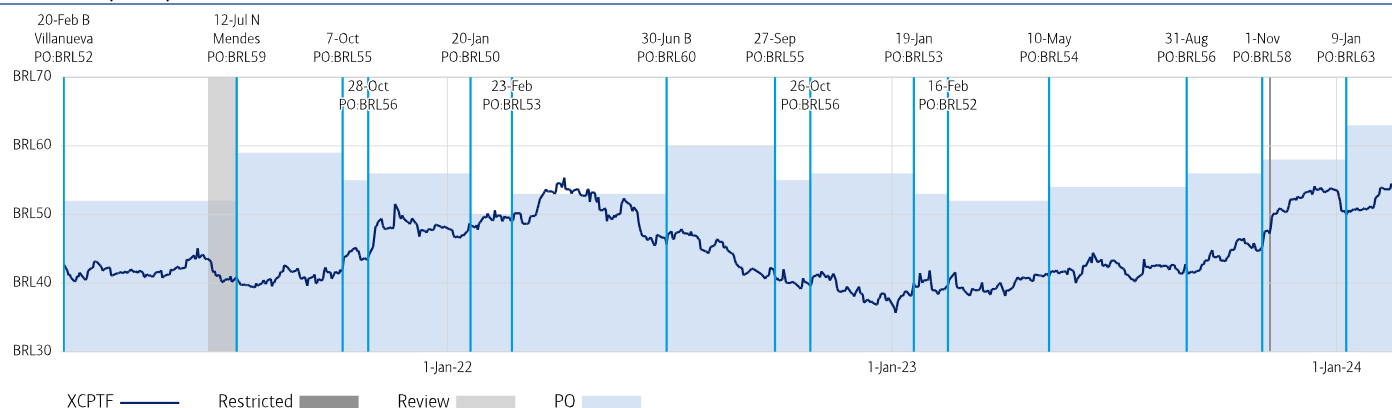
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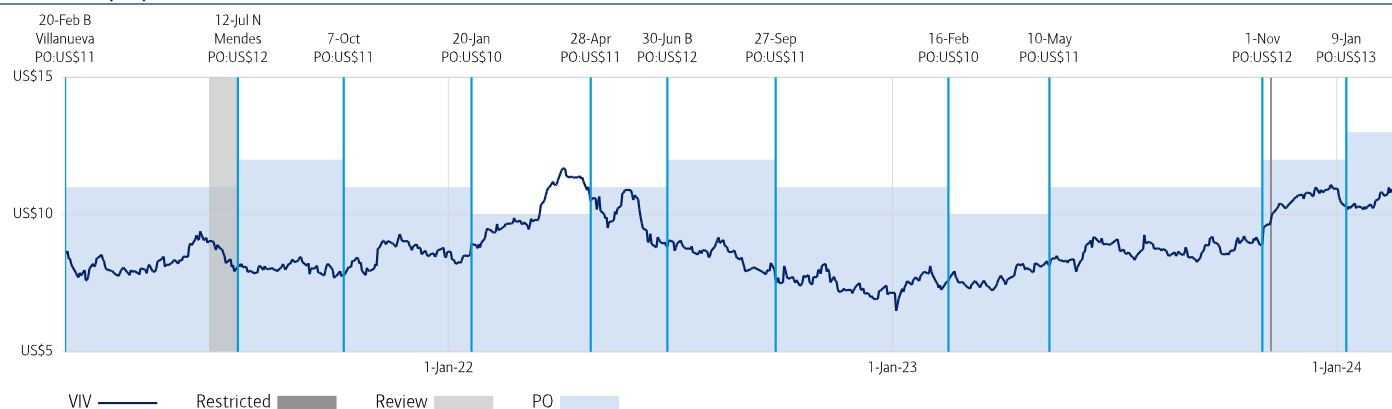
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### Telefonica Brasil (XCPTF) Price Chart



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 (VIV) Price Chart



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.

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

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | 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 <sup>R1</sup> | 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%  |

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

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