

Brazil TMT

Anatel Data - November: Positive dynamics for the large telcos

Industry Overview

Broadband: Large telcos continue to lead

Broadband net adds remained solid for the large Telcos. Vivo's fiber net adds decreased to 59k from 69k in October. Vivo's consolidated net adds (all technologies) reached 30k, from 40k in October. Claro (AMX) net adds increased to 44k on fiber vs 42k in October. For all technologies, Claro posted 27k net adds vs 16k in October. TIM's net adds decelerated to 3k from 7k in October. Oi posted 8k net adds.

Postpaid: Strong all around performance

On postpaid, Claro was the best performer with 436k net adds, up from 293k in October. Vivo posted a still solid 213k net adds but decelerated from 672k in October. TIM posted an acceleration, with 178k net adds up from 81k in the previous month.

Prepaid: Net disconnections across the board

Soft performance for Large Telcos across the board in November. TIM had -232k net disconnections, from -174k in October. Claro reported -96k net disconnections, from +49k in October. Vivo also posted net disconnections at -20k, down from +39k in October. We highlight that numbers may have been impacted by user base adjustments.

Our take: Upselling should help real ARPU growth in 2024

Net adds on mobile had another solid month on postpaid, but net disconnections on prepaid. This trend suggests that despite the price gap between prepaid and hybrid plans (considered as postpaid for Anatel's database), the large telcos are still being successful in their upselling strategy. This dynamic should help ARPU (Average revenue per user) and MSR expansion, that we believe should report real growth in 2024.

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MSR = Mobile Service Revenue

Anatel = Brazil Telecom's regulator

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 4.

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Exhibit 1: Claro had the best performance on postpaid on November

Evolution of Mobile postpaid subscribers (000's subs)

| Post-paid Subscribers | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | 43,829 | 43,947 | 44,044 | 44,054 | 43,782 | 43,919 | 44,053 | 44,248 | 44,397 | 44,671 | 44,804 | 45,476 | 45,689 |
| Claro | 35,346 | 33,376 | 33,592 | 33,808 | 34,021 | 34,189 | 34,401 | 34,496 | 34,728 | 34,927 | 35,422 | 35,715 | 36,151 |
| Tim | 23,358 | 22,921 | 22,804 | 22,619 | 21,563 | 21,650 | 21,769 | 21,842 | 21,963 | 22,096 | 22,198 | 22,279 | 22,456 |
| Oi | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Others | 758 | 762 | 768 | 774 | 772 | 778 | 780 | 788 | 796 | 801 | 805 | 810 | 811 |

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 2: In November Claro reported 436k net adds, Vivo 213k net adds and TIM 178k net adds

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

| Post-paid Net Adds (MoM) | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 |
|--------------------------|---------|---------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | 265 | 119 | 97 | 10 | (272) | 137 | 134 | 194 | 150 | 274 | 133 | 672 | 213 |
| Claro | 308 | (1,970) | 216 | 216 | 214 | 168 | 212 | 94 | 232 | 200 | 495 | 293 | 436 |
| Tim | (1,524) | (437) | (117) | (185) | (1,056) | 87 | 119 | 73 | 121 | 134 | 102 | 81 | 178 |
| Oi | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Others | (5) | 4 | 6 | 7 | (2) | 6 | 2 | 8 | 8 | 5 | 5 | 5 | 1 |

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 3: As of November 2023, Vivo had 43% market share, Claro 34% and TIM 21%

Mobile postpaid market share per month

| Market Share Post-Paid (%) | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | 42.4% | 43.5% | 43.5% | 43.5% | 43.7% | 43.7% | 43.6% | 43.6% | 43.6% | 43.6% | 43.4% | 43.6% | 43.5% |
| Claro | 34.2% | 33.0% | 33.2% | 33.4% | 34.0% | 34.0% | 34.1% | 34.0% | 34.1% | 34.1% | 34.3% | 34.2% | 34.4% |
| Tim | 22.6% | 22.7% | 22.5% | 22.3% | 21.5% | 21.5% | 21.6% | 21.5% | 21.6% | 21.6% | 21.5% | 21.4% | 21.4% |
| Oi | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Others | 0.7% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% |

Source: BofA Global Research

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Exhibit 4: The large Telcos had a soft performance in 2023 so far

Evolution of Mobile prepaid subscribers (000's subs)

| Pre-paid Subscribers | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | 39,449 | 39,306 | 39,424 | 39,232 | 39,296 | 38,910 | 38,542 | 38,071 | 37,765 | 37,315 | 37,163 | 37,203 | 37,182 |
| Claro | 36,441 | 36,307 | 35,838 | 34,969 | 34,946 | 34,999 | 35,053 | 35,141 | 35,226 | 35,318 | 35,334 | 35,384 | 35,288 |
| Tim | 35,233 | 35,420 | 35,053 | 34,820 | 35,653 | 35,115 | 34,903 | 34,639 | 34,533 | 34,309 | 34,078 | 33,904 | 33,672 |
| Oi | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Others | 1,109 | 887 | 1,068 | 1,064 | 1,073 | 1,070 | 1,080 | 1,084 | 1,086 | 1,089 | 1,088 | 1,102 | 1,117 |

Source: BofA Global Research

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Exhibit 5: In November Vivo reported 20k net disconnections, Claro 96k net disconnections and TIM 232k net disconnections

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

| Pre-paid Net Adds (MoM) | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 |
|-------------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | (302) | (143) | 118 | (193) | 64 | (386) | (367) | (472) | (305) | (451) | (151) | 39 | (20) |
| Claro | (1,267) | (134) | (469) | (869) | (23) | 53 | 54 | 88 | 85 | 92 | 17 | 49 | (96) |
| Tim | (3,888) | 187 | (367) | (233) | 833 | (539) | (212) | (264) | (106) | (224) | (232) | (174) | (232) |
| Oi | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Others | (200) | (222) | 181 | (3) | 9 | (4) | 10 | 5 | 2 | 3 | (1) | 14 | 15 |

Source: BofA Global Research

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Exhibit 6: As of November 2023, Vivo had 35% market share, Claro 33% and TIM 31%

Mobile prepaid market share per month

| Market Share Pre-Paid (%) | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | 35.1% | 35.1% | 35.4% | 35.6% | 35.4% | 35.3% | 35.2% | 34.9% | 34.8% | 34.5% | 34.5% | 34.6% | 34.7% |
| Claro | 32.5% | 32.4% | 32.2% | 31.8% | 31.5% | 31.8% | 32.0% | 32.3% | 32.4% | 32.7% | 32.8% | 32.9% | 32.9% |
| Tim | 31.4% | 31.6% | 31.5% | 31.6% | 32.1% | 31.9% | 31.9% | 31.8% | 31.8% | 31.8% | 31.7% | 31.5% | 31.4% |
| Oi | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Others | 1.0% | 0.8% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |

Source: BofA Global Research

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Exhibit 7: Overall in November, soft performance across the board, with the main highlight being Claro

Evolution of broadband subscribers (000's subs)

| Broadband Subscribers | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | 6,463 | 6,474 | 6,486 | 6,495 | 6,511 | 6,520 | 6,533 | 6,559 | 6,587 | 6,612 | 6,632 | 6,672 | 6,702 |
| Claro | 9,720 | 9,751 | 9,776 | 9,777 | 9,799 | 9,809 | 9,825 | 9,843 | 9,862 | 9,886 | 9,908 | 9,923 | 9,951 |
| Tim | 720 | 723 | 729 | 735 | 739 | 746 | 758 | 767 | 779 | 790 | 797 | 807 | 810 |
| Desktop | 766 | 809 | 818 | 826 | 955 | 962 | 968 | 976 | 985 | 993 | 999 | 1,006 | 1,012 |
| Unifiquê | 603 | 606 | 644 | 645 | 654 | 662 | 662 | 690 | 712 | 715 | 716 | 716 | 717 |
| Brisanet | 1,080 | 1,100 | 1,121 | 1,136 | 1,159 | 1,178 | 1,191 | 1,210 | 1,226 | 1,243 | 1,257 | 1,267 | 1,280 |
| Oi | 5,080 | 5,052 | 5,052 | 5,008 | 5,006 | 5,008 | 5,008 | 4,973 | 4,920 | 4,895 | 4,872 | 4,820 | 4,828 |

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 8: In November, soft performance across the board, with the main highlight being Claro

Broadband net adds per month (000's subs)

| Broadband 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 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Vivo | 12 | 11 | 9 | 16 | 9 | 13 | 26 | 28 | 25 | 20 | 40 | 30 |
| Claro | 31 | 25 | 1 | 23 | 10 | 16 | 17 | 19 | 24 | 22 | 16 | 27 |
| Tim | 3 | 6 | 6 | 4 | 7 | 12 | 9 | 12 | 10 | 7 | 10 | 3 |
| Desktop | 43 | 9 | 7 | 129 | 7 | 7 | 8 | 9 | 9 | 6 | 7 | 7 |
| Unifiquê | 2 | 38 | 2 | 8 | 8 | 1 | 28 | 22 | 3 | 1 | 1 | 1 |
| Brisanet | 21 | 20 | 16 | 23 | 19 | 13 | 18 | 16 | 17 | 14 | 10 | 12 |
| Oi | (28) | (1) | (44) | (2) | 2 | 0 | (36) | (53) | (25) | (23) | (52) | 8 |

Source: BofA Global Research

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Stocks mentioned

| BofA Ticker | Bloomberg ticker | Company name | Price | Rating |
|-------------|------------------|-------------------|------------|--------|
| AMX | AMX US | America Movil | US\$ 18.52 | B-1-7 |
| AMXVF | AMXB MM | America Movil | MXN 15.74 | A-1-7 |
| VIV | VIV US | Telefonica Brasil | US\$ 10.94 | B-1-7 |
| XCPTF | VIVT3 BZ | Telefonica Brasil | BRL 53.44 | B-1-7 |
| TIMB | TIMB US | TIM Brasil | US\$ 18.47 | B-1-7 |
| XZUAF | TIMS3 BZ | TIM Brasil | BRL 17.93 | B-1-7 |

Source: BofA Global Research



Price objective basis & risk

America Movil (AMXVF / AMX)

Our price objective of MXN22/US\$25 per share is based on a 10-year DCF-to-Firm, discounted at a weighted average cost of capital (WACC) of 9.5%, assuming a capital structure of 75% equity / 25% debt in the long term. Our cost of equity (Ke) is composed of a Beta of 0.95, a risk-free rate of 3%, a market risk premium of 6% and a country risk in Mexico of 150bps. We use cost of debt of 4.2% and terminal growth rate of 3%.

Downside risks: (i) macro scenario in its key markets, (ii) regulation in MX, (iii) stronger-than-expected competition for Telcel.

Upside risks: (i) faster-than-expected growth for Telcel due to low competition, (ii) higher synergies from the acquisition of Oi's assets in Brazil and (iii) higher demand in Brazil for both fixed and mobile due to the ICMS reduction

Telefonica Brasil (XCPTF / VIV)

Our price objective of R\$58/US\$12 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\$21/US\$21 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.

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Latin America - Telecom Services and Information Technology Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|------------------------|-------------|------------------|------------------|
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| | America Movil | AMXVF | AMXB MM | Fred Mendes, CFA |
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| | Eletromidia | XSUHF | ELMD3 BZ | Fred Mendes, CFA |
| | Locaweb | XZVMF | LWSA3 BZ | Fred Mendes, CFA |
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| | 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 |
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| | Unifique S.A | XYDF | FIQE3 BZ | Fred Mendes, CFA |

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|-------------------|-------|---------|--|-------|---------|
| 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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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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