

Brazil TMT

TMT Morning Radar: ISPs bid Oi NetCo; TIM enters in energy segment

Industry Overview

Oi received several non-binding offers for its NetCo

According to the company, Oi has already received seven non-binding offers for the acquisition of its fiber optic business, Oi Fibra. The offers mainly came from regional broadband providers, including Alares, Eb Fibra, Ligga, and Vero. There is also a proposal from a new entrant. Meanwhile, TIM, Vivo, Claro, and Algar have not yet submitted proposals but are actively evaluating the asset and are expected to present something soon.

Our take: Large Telcos still the most likely candidates

Although there have already been other offers, given the size of the business (4.3mn subscribers with fiber), we still see the large Telcos as being the most likely candidates to acquire Oi's assets. According to Oi's judicial recovery plan, the company expects to get R\$7.3bn from the sale. This should be another important move in the consolidation of the Brazilian broadband business, which has accelerated in 2023. We still have limited information on the value of the bids made for the asset.

TIM is entering the energy segment via partnership

TIM is preparing to enter the free energy market, expanding its range of operations. In an interview with CNN Brasil, TIM's CEO, Alberto Griselli, stated TIM is in advanced conversations to enter the segment via partnership. Remuneration could be in the form of equity or commissions for each client migrated to the partner.

Our take: Finding ways to leverage its vast user base

For the past few years, we have seen the large Telcos leveraging more and more its user base of recurring payers to offer different solutions and find new growth avenues. TIM for example, started a partnership with C6 bank that granted it a stake in the company. Vivo on the other hand has even already started a partnership in the energy segment with Auren, which looks promising. We expect the large Telcos to continue finding new ways to leverage its large user base to boost growth. We reiterate our bullish view for the BZ large Telcos, with a Buy rating for Vivo (PO of R\$64) and TIM (PO of R\$22), with a preference for Vivo (see: Year Ahead: Bullish on Brazilian large Telcos... selective on Tech).

26 February 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: 26 February 2024 06:28AM EST

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
VIV	VIV US	Telefonica Brasil	US\$ 11.05	B-1-7
XCPTF	VIVT3 BZ	Telefonica Brasil	BRL 55.31	B-1-7
TIMB	TIMB US	TIM Brasil	US\$ 18.4	B-1-7
XZUAF	TIMS3 BZ	TIM Brasil	BRL 18.38	B-1-7

Source: BofA Global Research

Price objective basis & risk**Telefonica Brasil (XCPTF / VIV)**

Our price objective of R\$64/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

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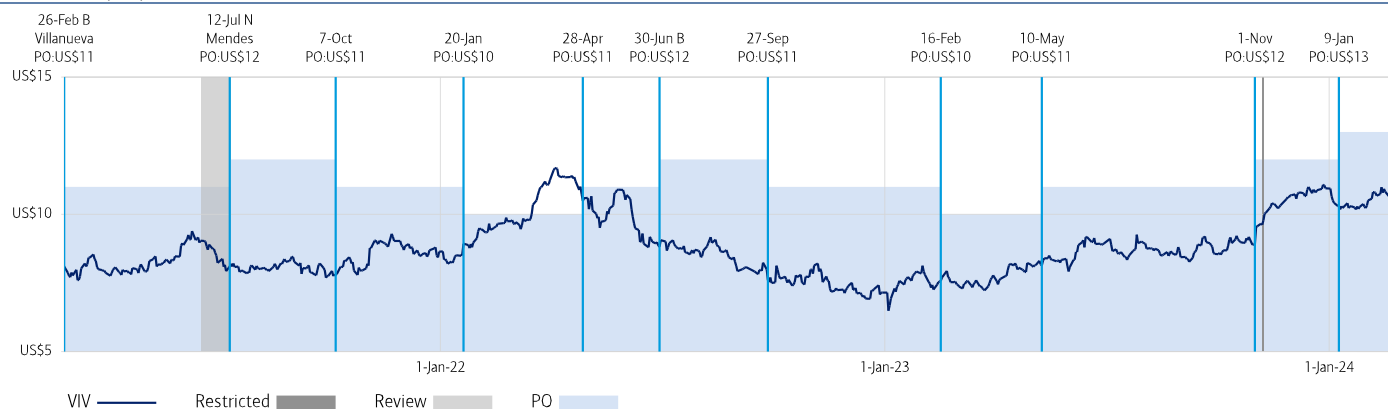
Latin America - Telecom Services and Information Technology Coverage Cluster

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
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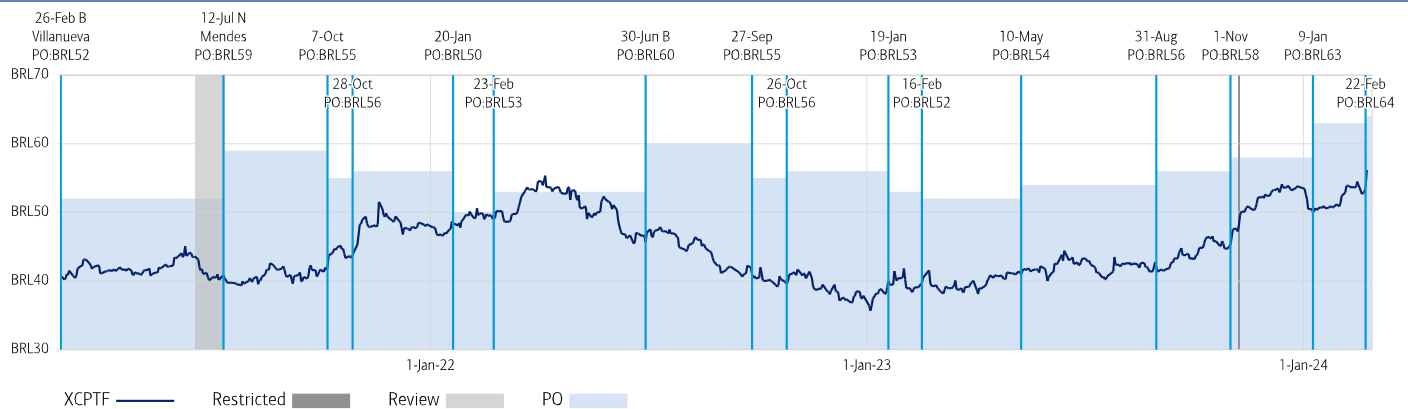
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Telefonica Brasil (VIV) Price Chart



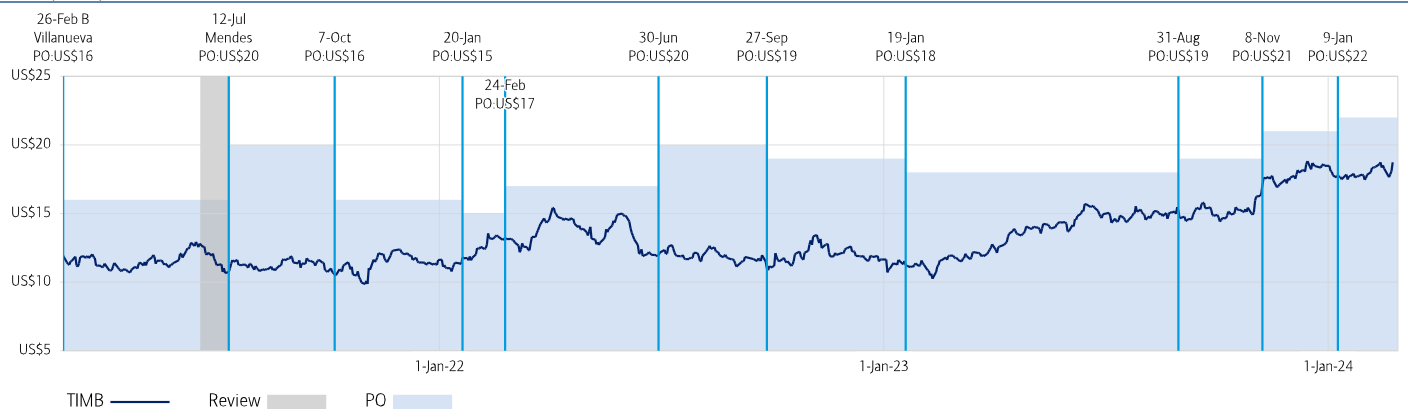
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Telefonica Brasil (XCPTF) Price Chart

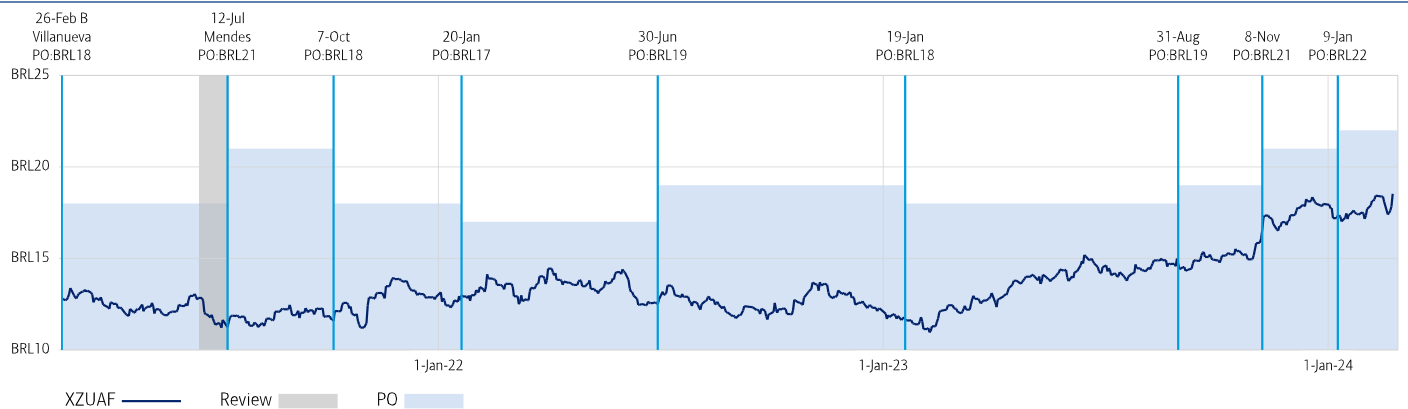
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TIM Brasil (TIMB) Price Chart

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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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