

LatAm TMT

Strong 4Q for Telcos: Expect real top line growth in 2024

Earnings Preview

Strong Quarter for Telcos – Better for Vivo

We expect another strong Quarter for the Telcos with top line growth above inflation by 300/400bps. Also, 2024 should be another year of real growth as the Telcos already have in their budget/strategy price increases in April/May, sustaining our bullish view. The main topics are: i) MSR at 9% and 7.3% for Vivo and TIM, respectively; ii) Capex stays in line/below guidance; and iii) expansion of operating cash flow (EBITDA – Capex). We prefer Vivo due to its stronger operating momentum (postpaid net adds) and a higher MSR growth. (see note: “Bullish on Brazilian large Telcos, selective on Tech”)

Vivo: Strong operating momentum

We expect an MSR for Vivo at 9% in line with 3Q23 with a total top line growth of 6.5% still impacted by legacy products, which are phasing out, paving the way for fixed revenue acceleration in 2024. EBITDA margin at 41% (upside risk) in line with consensus. BofAe net income of R\$1.4bn, 17% above consensus and +17% YoY. Vivo already started to increase prices on fixed in Jan/24 and for mobile it should happen in April (~40% of its base) and in August (60% of base). Capex under control at R\$2.1bn, leading to operating cash flow margin expansion to 26% vs 22% in 4Q22.

TIM: Price increase driving growth

We expect an ARPU increase of ~15% (Price + Base cleanup) leading to an MSR of 7.3% YoY and top line growth of 7.2%. As Cash Opex remains under control (+3.6% YoY), EBITDA margin should expand to 51% (benchmark). Capex should reach R\$1.1bn in 4Q23 and R\$4.3bn in 2023 (18% of net revenue), with operating cash flow margin at 33% (vs 27% in 4Q22) on our estimate. TIM is planning to increase prices on Mobile in April/May, showing the competitive landscape remains rationale.

Bullish view for 2024

In 2023 VIVT3 and TIMS3 delivered +50% vs 22% for IBOV. Although we do not expect such a strong performance for 2024, we see similar positive drivers. 1) Low inflation environment for BofAe at 3.4%, helping Telcos to increase price above inflation (low pricing power); 2) rational competitive landscape after Oi's acquisition; 3) valuation remains below 5 year average at EV/EBITDA of 4.3x and P/FCFE at 10.5x (similar for both); 4) declining Capex globally (see note: [“Capex is declining globally - A new era of profitability for the Brazilian Telcos”](#)); 5) high dividend yield of 9% for Vivo and 7.5% for TIM, providing some support in a highly volatile macro scenario.

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Technology

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Vivo = Telefonica Brasil

TIM = TIM Brazil

MSR = Mobile Service Revenue

ARPU = Average revenue per user

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Exhibit 1: Vivo should report a strong MSR growth of 9% YoY

Vivo 4Q23 Preview

In BRLm, except stated otherwise	4Q23e	Consensus	Vs Consensus	4Q22	YoY	3Q23	QoQ
Revenue	13,485	13,535	(0.4%)	12,659	6.5%	13,112	2.8%
Mobile service revenue	8,629		NA	7,914	9.0%	8,465	1.9%
Fixed service revenue	3,923		NA	3,761	4.3%	3,833	2.3%
Equipment sales revenue	933		NA	985	(5.2%)	814	14.7%
Cash opex	(7,981)		NA	(7,727)	3.3%	(7,846)	1.7%
EBITDA Adjusted	5,567	5,562	0.1%	5,234	6.4%	5,539	0.5%
EBITDA margin	41.3%	41.1%	19bps	41.3%	-6bps	42.2%	-96bps
Net financial results	(671)		NA	(604)	11.0%	(570)	17.7%
Pre-tax profit	1,611	1,576	2.2%	1,349	19.4%	1,548	4.0%
Income tax expense	(208)		NA	(231)	(10.1%)	(72)	190.4%
Net profit (reported)	1,403	1,201	16.8%	1,118	25.5%	1,471	(4.7%)
EPS (stated)	0.83	0.71	17%	0.67	23.7%	0.88	(5.8%)
Capex	2,090		NA	2,489	(16.0%)	2,626	(20.4%)
Operating Cash Flow margin	26%		NA	22%	409bps	22%	357bps
In BRLm, except stated otherwise	4Q23e	Consensus	Vs Consensus	4Q22	YoY	3Q23	QoQ
Mobile							
Prepaid mobile subs, EOP	37,246		NA	39,306	(5.2%)	37,163	0.2%
Postpaid mobile subs, EOP	61,517		NA	58,673	4.8%	60,424	1.8%
Total mobile subs, EOP	98,763		NA	97,979	0.8%	97,587	1.2%
Mobile ARPU	29.3		NA	27.0	8.5%	28.9	1.4%
Mobile service revenue	8,629	8,357	3.3%	7,914	9.0%	8,465	1.9%
Fixed							
Fixed broadband subs, EOP	6,590		NA	6,372	3.4%	6,525	1.0%
FTTH ARPU	88.3		NA	86.6	2.0%	88.7	(0.5%)
FTTH revenue	1,611		NA	1,397	15.3%	1,570	2.6%
FTTC revenue	47		NA	101	(54.1%)	58	(19.4%)
Fixed service revenue	3,923	3,827	2.5%	3,761	4.3%	3,833	2.3%
Handset and Devices							
Equipment sales revenue	933	767	21.7%	985	(5.2%)	814	14.7%

Source: BofA Global Research estimates, Bloomberg

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Exhibit 2: TIM should post a solid MSR growth of 7% YoY

TIM 4Q23 Preview

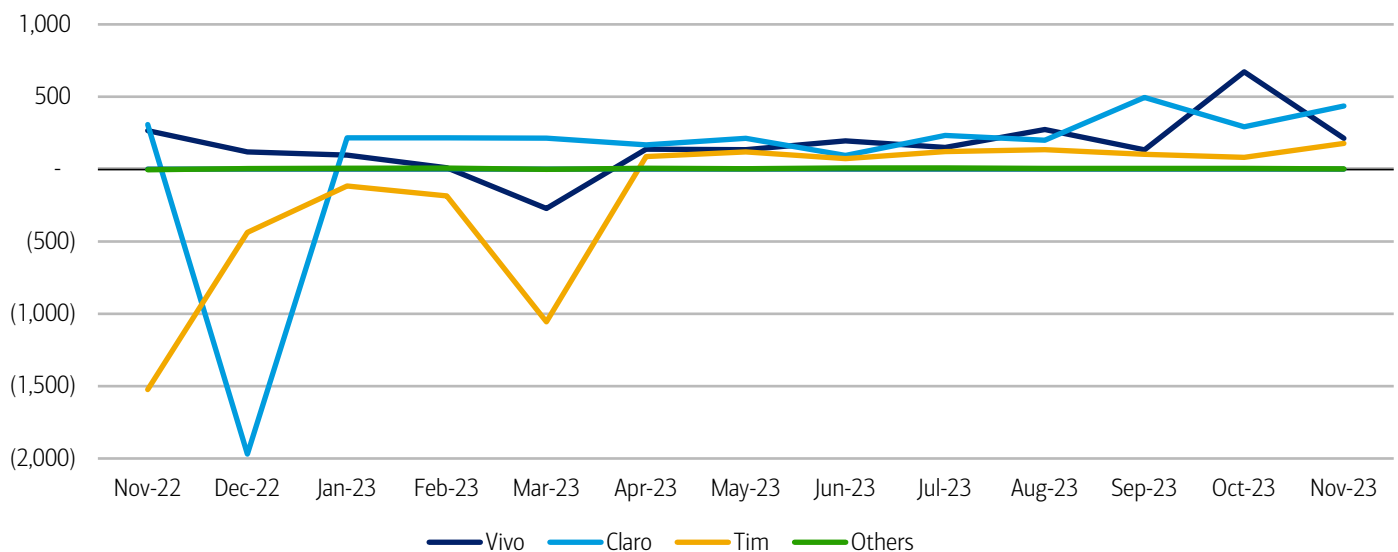
In BRLm, except stated otherwise	4Q23e	Consensus	Vs Consensus	4Q22	YoY	3Q23	QoQ
Revenue	6,297	6,293	0.1%	5,874	7.2%	6,055	4.0%
Cash opex	(3,002)			(2,895)	3.7%	(2,949)	1.8%
Other op. income/(expenses)	(84)			(49)	71.9%	(96)	(12.3%)
EBITDA (adjusted)	3,211	3,245	(1.1%)	2,930	9.6%	3,011	6.6%
EBITDA margin	51.0%	51.6%	-58bps	49.9%	110bps	49.7%	126bps
Depreciation and amortization	(1,751)			(1,858)	(5.8%)	(1,755)	(0.3%)
EBIT (adjusted)	1,460			1,072	36.2%	1,255	16.3%
EBIT margin	23.2%			18.3%	493bps	20.7%	245bps
Net financial results	(438)			(431)	1.8%	(501)	(12.5%)
Pre-tax profit	1,021			621	64.5%	813	25.7%
Income tax expense	(171)			(109)	56.7%	(100)	70.6%
Abnormal items	36			79	(54.1%)	12	210.1%
Net profit (reported)	886	779	13.7%	590	50.2%	724	22.4%
EPS (stated)	0.37	0.32	14%	0.24	50.2%	0.30	22.4%
CAPEX	(1,134)			(1,375)	(17.6%)	(998)	13.6%
Operating cash flow margin	33.0%			26.5%	651bps	33.2%	-25bps
In BRLm, except stated otherwise	4Q23e	Consensus	Vs Consensus	4Q22	YoY	3Q23	QoQ
Mobile							
Prepaid mobile subs, EOP	34,078			35,240	(3.3%)	34,078	-
Postpaid mobile subs, EOP	27,595			27,245	1.3%	27,176	1.5%
Total mobile subs, EOP	61,673			62,485	(1.3%)	61,254	0.7%
Client Generated ARPU	28.4			24.7	14.9%	28.0	1.5%
Mobile service revenue	5,692			5,305	7.3%	5,550	2.6%
Fixed							
TIM Live subs, EOP	802			716	12.0%	791	1.4%
TIM Live ARPU	96.0			97.0	(1.0%)	94.8	1.3%
TIM Live revenue	229			207	10.7%	221	4.0%
Other fixed service revenue	110			116	(5.3%)	104	5.6%
Fixed service revenue	339			323	4.9%	325	4.5%
Handset and Devices							
Equipment revenue	266			246	8.2%	181	47.0%

Source: BofA Global Research estimates, Bloomberg

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Exhibit 3: In Nov-23 Claro reported 436k net adds, Vivo 213k net adds and TIM 178k net adds

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



Source: BofA Global Research

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Exhibit 4: 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\$ 10.41	B-1-7
XCPTF	VVT3 BZ	Telefonica Brasil	BRL 50.77	B-1-7
TIMB	TIMB US	TIM Brasil	US\$ 17.84	B-1-7
XZUAF	TIMS3 BZ	TIM Brasil	BRL 17.22	B-1-7

Source: BofA Global Research

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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.

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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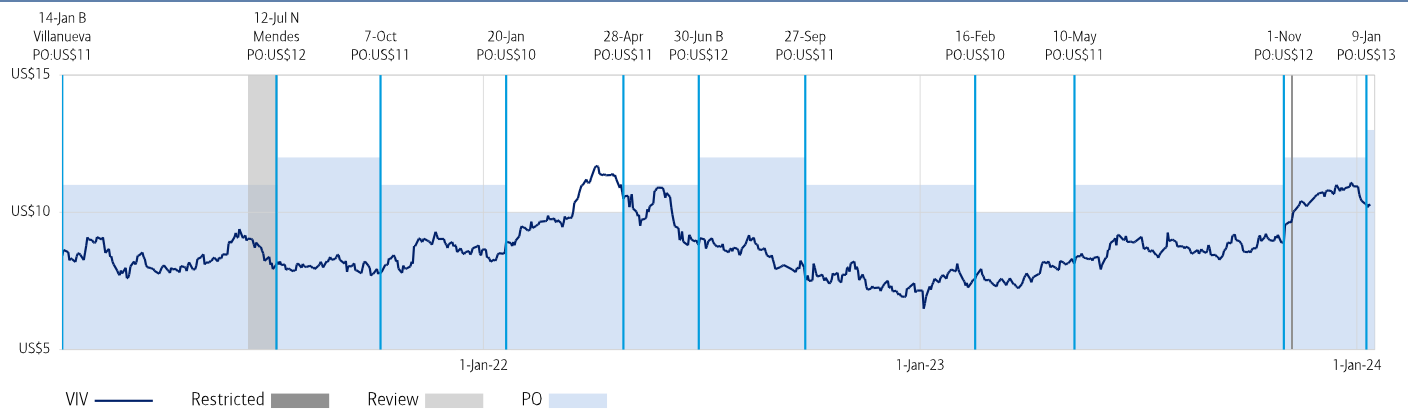
Latin America - Telecom Services and Information Technology Coverage Cluster

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
	Megacable Holdings SAB	MHSDF	MEGACPO MM	Fred Mendes, CFA
	Unifque S.A	XYDF	FIQE3 BZ	Fred Mendes, CFA

Disclosures

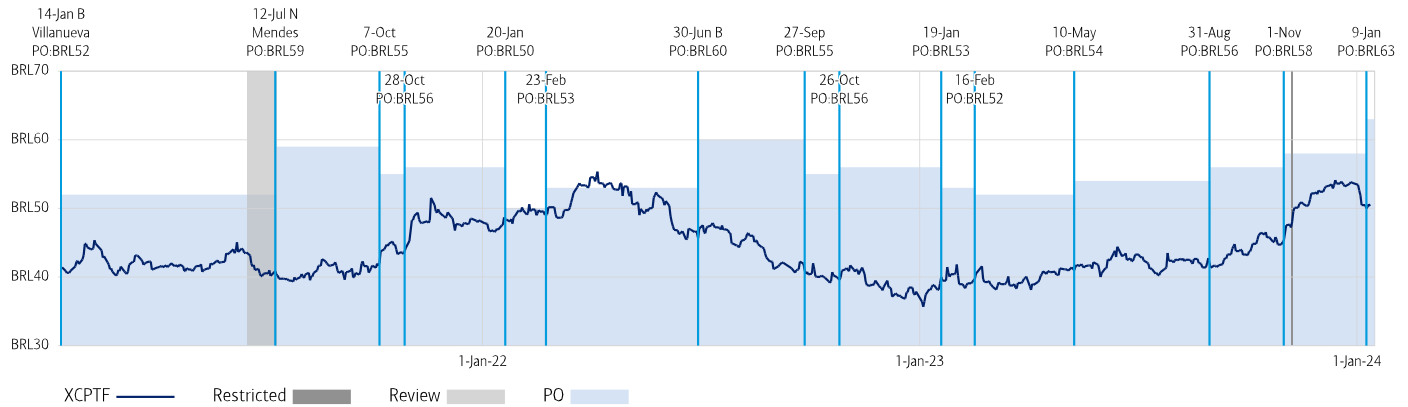
Important Disclosures

Telefonica Brasil (VIV) Price Chart



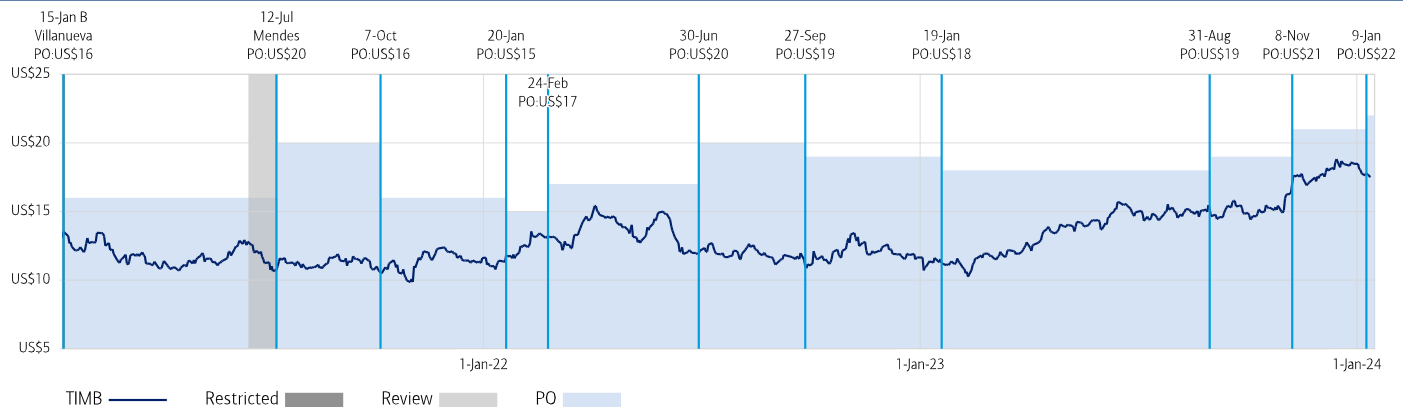
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Telefonica Brasil (XCPTF) Price Chart

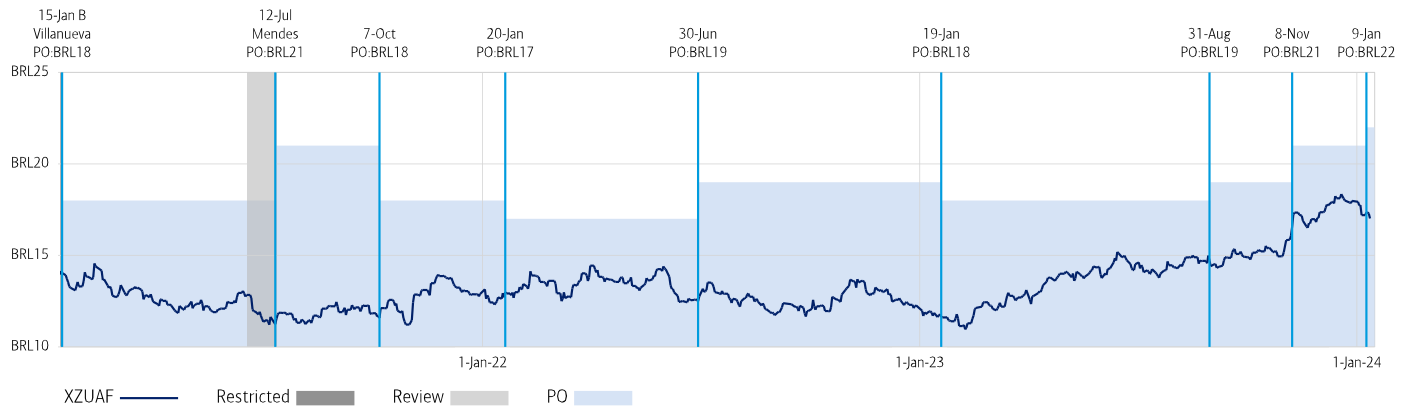
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TIM Brasil (TIMB) Price Chart

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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%

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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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