

## Brazil TMT

# TMT Morning Radar: Deadline for Vivo's concession discussions; Vivo's tax gains

Industry Overview

## Deadline set for Vivo's concession migration negotiations

Anatel (Brazilian Telecom regulator) and Vivo have a deadline of May/June 2024 to reach a consensual solution in the Federal Court of Accounts (TCU) for the migration of its fixed concession. For Oi, the deadline is set for March. The approval of the agreement relies on unanimous approval from four areas: (i) TCU's SecexConsenso, (ii) TCU's technical area, (iii) Attorney General's Office (AGU), and (IV) Anatel.

## Our take: concessions' discussions approaching

We still have limited visibility on the potential financial impact the migration from concessions may have, with both sides (companies and regulator) claiming they need to be compensated (see: Year Ahead: Bullish on Brazilian large Telcos... selective on Tech, page 12). Despite that, we believe Oi's negotiations should set the tone for Vivo and Claro (AMX). As a reference to allow the migration, Anatel claims (1) R\$20bn from Oi; (2) R\$9bn from Vivo; (3) R\$4bn from AMX; (4) R\$600mn from Algar and (5) R\$200mn from Sercomtel.

## Anatel suspends decision reversing Vivo's tax gains.

Anatel temporarily suspended the decision that obligated Vivo to reinvest gains from taxes excluded from the PIS/Cofins calculation base into the construction of fiber infrastructure. The decision, signed on January 26 granted a suspensive effect until the judgment of the merits, that should only happen after the discussions regarding the migration of concessions takes place.

## Our take: More capex flexibility if decision is overturned

For now, we expect to see limited impact from the decision, but see further upside if the investments obligations are fully overturned in the future. Although we already expected a relevant portion of those tax credits to be converted to fiber investments, it gives the company more flexibility in capex management. In addition, Vivo's goal to reach 29mn HPs (homes passed) by the end of 2025 is approaching, so this decision also represents some upside potential for lower capex in the ST. We reiterate our Buy rating and PO of R\$63 for Vivo as we expect to see a solid FCF generation in the coming years due to (i) real MSR growth, (ii) expanding margins and (iii) declining capex.

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Equity

Brazil

Telecommunications, Media and Technology

**Fred Mendes, CFA >>**

Research Analyst  
Merrill Lynch (Brazil)  
+55 11 2188 4119  
[fred.mendes@bofa.com](mailto:fred.mendes@bofa.com)

**Lucca R Brendim >>**

Research Analyst  
Merrill Lynch (Brazil)  
[lucca.brendim@bofa.com](mailto:lucca.brendim@bofa.com)

**Mirela Oliveira >>**

Research Analyst  
Merrill Lynch (Brazil)  
[mirela.oliveira@bofa.com](mailto:mirela.oliveira@bofa.com)

**Gustavo Tiseo >>**

Research Analyst  
Merrill Lynch (Brazil)  
[gustavo.tiseo@bofa.com](mailto:gustavo.tiseo@bofa.com)

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**Refer to important disclosures on page 3 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 06 February 2024 06:52AM EST

**Stocks mentioned**

Prices and ratings for stocks mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
<b>AMX</b>	AMX US	America Movil	US\$ 17.6	B-1-7
<b>AMXVF</b>	AMXB MM	America Movil	MXN 15.51	A-1-7
<b>VIV</b>	VIV US	Telefonica Brasil	US\$ 10.57	B-1-7
<b>XCPTF</b>	VIVT3 BZ	Telefonica Brasil	BRL 52.88	B-1-7

Source: BofA Global Research

**Price objective basis & risk****America Movil (AMXVF / AMX)**

Our price objective of MXN21/US\$24 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\$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**

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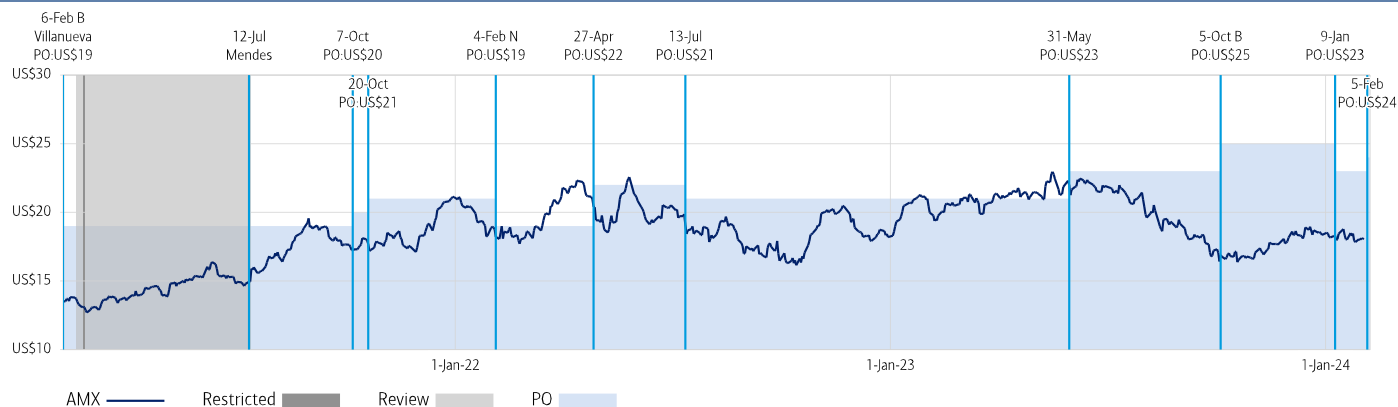
## Latin America - Telecom Services and Information Technology Coverage Cluster

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	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
<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
	Unifone S.A	XYDF	FIQ3 BZ	Fred Mendes, CFA

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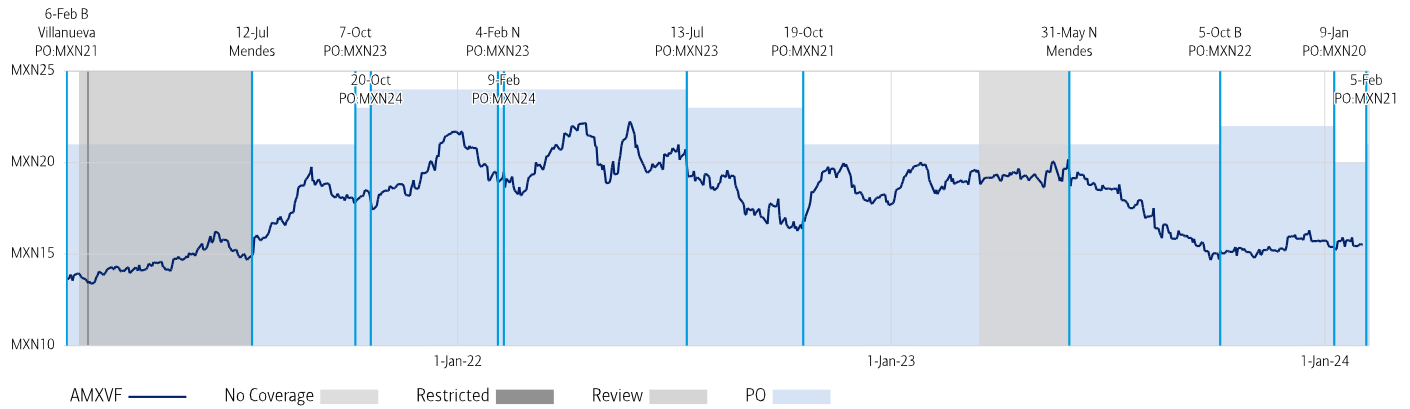
## America Movil (AMX) Price Chart



AMX — Restricted — Review — PO

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

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.

**America Movil (AMXVF) Price Chart**

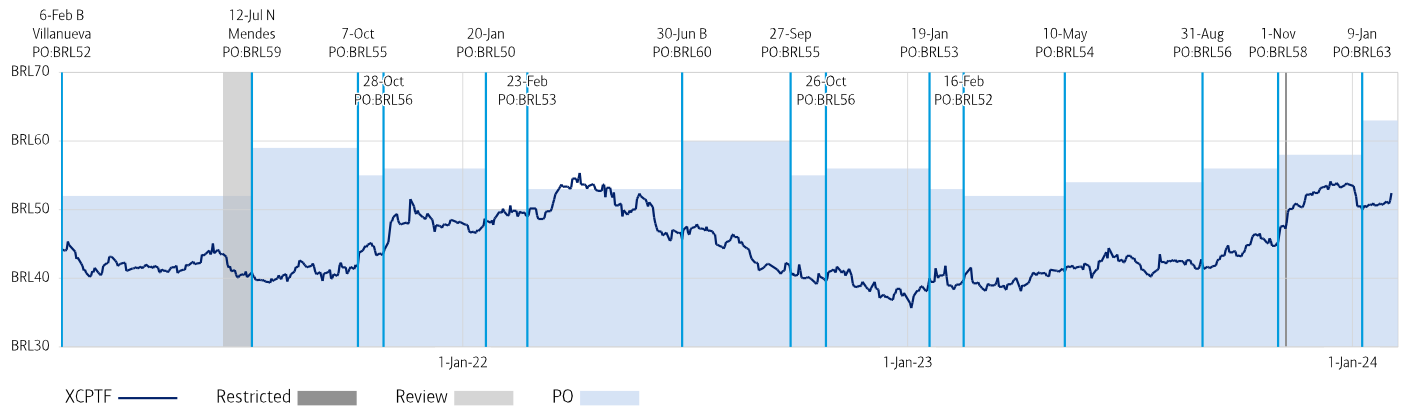
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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**

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

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**Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)**

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

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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