Goldman Sachs | Equity Research

17 March 2025 | 5:01AM GMT

Sell

Swisscom (SCMN.S)

Limited returns improvement and rerating potential as Swiss weakness outweighs benefits from potential Italian consolidation; maintain Sell

SCMN.S	12m Price Target: **SFr450.00**	Price: **SFr529.50**	Downside: **15.0%**

Swisscom operates within challenging Swiss and Italian market structures, which face greater competition than other European markets. It has lower than average ability to monetize its fibre in Switzerland as unique regulation grants competitors cheap access to its network. In this note, we show that the poor structural quality of Swisscom's telco markets suggests its returns likely do not rise over the next three years. This appears uncompelling vs the ramping returns of the broader European telco sector. **We show that while potential Italian mobile consolidation could improve group returns, Swisscom would still be in the bottom quartile vs the sector.** We maintain Sell with a 12m PT of SFr450.

Swiss telco market insufficient to support growth or returns improvement for Swisscom. The Swiss market is imbalanced in terms of market share and Swisscom's competitors can rent its fibre with network-owner economics. This means the smallest player is incentivised to price aggressively. We expect cost-cutting to be insufficient to offset declining revenues and model a Swiss EBITDA CAGR (2024-28E) at -0.8% vs +3% at peers.

VOD Italy deal does not support a meaningful returns improvement. We expect the acquisition to drag on the group's ROIC in 2025-26 and our analysis highlights no returns improvement even after full synergies come through. This means group EBITDA CAGR (2024-28E) is just +c1% (+c4% sector avg) and group returns are -0.5pp (+2.4pp sector avg), limiting rerating potential.

Potential Italian mobile consolidation does not materially change our outlook for the shares. Our analysis suggests Swisscom has relatively muted upside potential from this. We see greater upside in stocks with higher exposure to 4-player markets and/or higher gearing, namely: BT, TEF, Tele2, Telia, 1&1/UTDI.

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Key Data

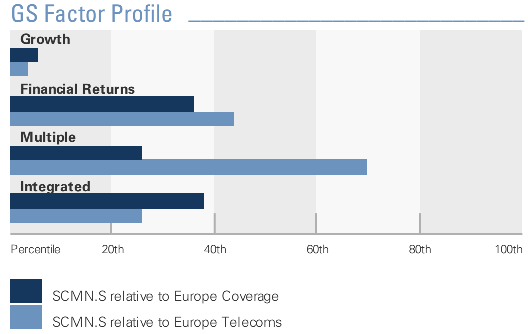
Market cap: SFr27.4bn / $31.0bn
Enterprise value: SFr43.1bn / $48.7bn
3m ADTV: SFr58.5mn / $65.0mn
Switzerland
Europe Telecoms
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/24	12/25E	12/26E	12/27E
Revenue (SFr mn) New	**11,036.0**	**15,218.1**	**15,155.4**	**15,123.1**
Revenue (SFr mn) Old	11,031.9	15,189.7	15,149.3	15,139.2
EBIT (SFr mn)	1,951.0	2,373.8	2,512.3	2,765.1
EPS (SFr) New	**29.77**	**32.85**	**34.79**	**38.39**
EPS (SFr) Old	28.15	34.34	36.90	39.86
P/E (X)	17.5	16.1	15.2	13.8
Dividend yield (%)	4.2	4.9	5.1	5.3
CROCI (%)	6.1	8.3	8.0	7.9
N debt/EBITDA (ex lease,X)	3.0	2.4	2.7	2.5

	12/24	3/25E	6/25E	9/25E
EPS (SFr)	5.00	8.13	8.07	8.80

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

Swisscom (SCMN.S)

Sell

Rating since Dec 9, 2015

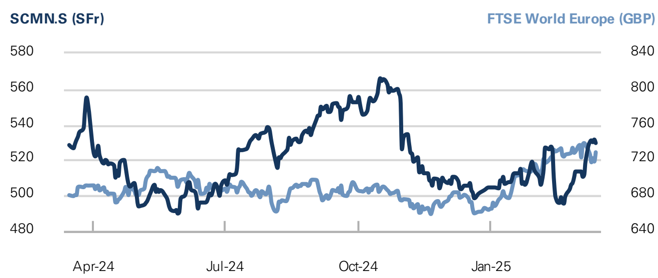
Ratios & Valuation

	12/24	12/25E	12/26E	12/27E
EV/sales (X)	3.9	2.8	3.0	3.0
EV/EBITDAR (X)	9.8	6.6	6.7	6.5
EV/EBITDA (excl. leases) (X)	9.7	6.8	7.0	6.7
EV/EBIT (X)	21.8	18.2	17.9	16.2
P/E (X)	17.5	16.1	15.2	13.8
Dividend yield (%)	4.2	4.9	5.1	5.3
EV/GCI (X)	0.6	0.6	0.6	0.5
CROCI (%)	6.1	8.3	8.0	7.9
ROIC (%)	7.3	7.4	7.6	8.1
ROA (%)	NM	NM	NM	NM
Days inventory outst, sales	–	–	–	–
Asset turnover (X)	0.9	1.1	1.1	1.0
Capex/D&A (%)	819.9	NM	NM	NM
Net debt/equity (excl. leases) (%)	98.4	118.7	129.1	121.6
EBIT interest cover (X)	9.0	8.8	9.4	10.3
FCF cover of dividends (X)	1.2	0.9	1.0	1.2

Growth & Margins (%)

	12/24	12/25E	12/26E	12/27E
Total revenue growth	(0.3)	37.9	(0.4)	(0.2)
EBITDA growth	(5.8)	50.7	1.8	3.5
EBIT growth	(11.5)	21.7	5.8	10.1
Net inc. growth	(9.9)	10.4	5.9	10.3
EPS growth	(9.9)	10.4	5.9	10.3
DPS growth	0.0	18.2	3.8	3.7

Price Performance



	3m	6m	12m
Absolute	4.7%	(4.0)%	5.1%
Rel. to the FTSE World Europe (GBP)	(2.2)%	(9.6)%	(1.6)%

Source: FactSet. Price as of 14 Mar 2025 close.

Income Statement (SFr mn)

	12/24	12/25E	12/26E	12/27E
Total revenue	11,036.0	15,218.1	15,155.4	15,123.1
Total operating expenses	(6,681.0)	(8,654.6)	(8,470.6)	(8,202.0)
R&D	–	–	–	–
Other operating inc./(exp.)	–	–	–	–
EBITDA	**4,355.0**	**6,563.5**	**6,684.8**	**6,921.1**
Depreciation & amortisation	(2,404.0)	(4,189.7)	(4,172.4)	(4,156.0)
EBIT	**1,951.0**	**2,373.8**	**2,512.3**	**2,765.1**
Net interest inc./(exp.)	(255.0)	(305.8)	(305.9)	(306.5)
Income/(loss) from associates	(2.0)	0.0	0.0	0.0
Profit/(loss) on disposals	–	–	–	–
Total other net	167.0	7.3	7.9	8.4
Pre-tax profit	**1,861.0**	**2,075.3**	**2,214.2**	**2,467.1**
Provision for taxes	(320.0)	(373.6)	(411.9)	(478.6)
Minority interest	1.0	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**--**	**--**	**--**	**--**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**1,542.0**	**1,701.7**	**1,802.4**	**1,988.5**
EPS (basic, pre-except) (SFr)	**--**	**--**	**--**	**--**
EPS (basic, post-except) (SFr)	**--**	**--**	**--**	**--**
Wtd avg shares out. (basic) (mn)	51.8	51.8	51.8	51.8
Tax rate (%)	17.2	18.0	18.6	19.4
Common dividends declared	–	–	–	–
DPS (SFr)	22.00	26.00	27.00	28.00

Balance Sheet (SFr mn)

	12/24	12/25E	12/26E	12/27E
Cash & cash equivalents	1,523.0	2,014.3	1,956.4	2,187.7
Accounts receivable	2,939.0	3,014.0	3,054.0	3,084.0
Inventory	–	–	–	–
Other current assets	–	–	–	–
Total current assets	**6,361.0**	**6,876.3**	**6,857.4**	**7,117.7**
Net PP&E	13,501.0	13,931.4	14,415.0	14,864.6
Net intangibles	12,422.0	12,422.0	12,422.0	12,422.0
Total investments	27.0	27.0	27.0	27.0
Other long-term assets	–	–	–	–
Total assets	**37,211.0**	**38,348.7**	**40,611.9**	**41,151.7**
Accounts payable	2,685.0	2,685.0	2,685.0	2,685.0
Short-term debt	2,261.0	2,261.0	2,261.0	2,261.0
Short-term lease liabilities	622.0	622.0	622.0	622.0
Other current liabilities	–	–	–	–
Total current liabilities	**7,449.0**	**7,415.0**	**7,366.1**	**7,366.1**
Long-term debt	15,274.0	15,884.0	17,740.5	17,690.5
Long-term lease liabilities	3,014.0	–	–	–
Other long-term liabilities	–	–	–	–
Total long-term liabilities	**17,607.0**	**18,217.0**	**20,073.5**	**20,023.5**
Total liabilities	**25,056.0**	**25,632.0**	**27,439.6**	**27,389.6**
Preferred shares	**--**	**--**	**--**	**--**
Total common equity	**12,155.0**	**12,716.7**	**13,172.3**	**13,762.1**
Minority interest	**0.0**	**0.0**	**0.0**	**0.0**
Total liabilities & equity	**37,211.0**	**38,348.7**	**40,611.9**	**41,151.7**
Capital employed	**29,690.0**	**30,861.7**	**33,173.8**	**33,713.6**
Adj for unfunded pensions & GW	–	–	–	–

Cash Flow (SFr mn)

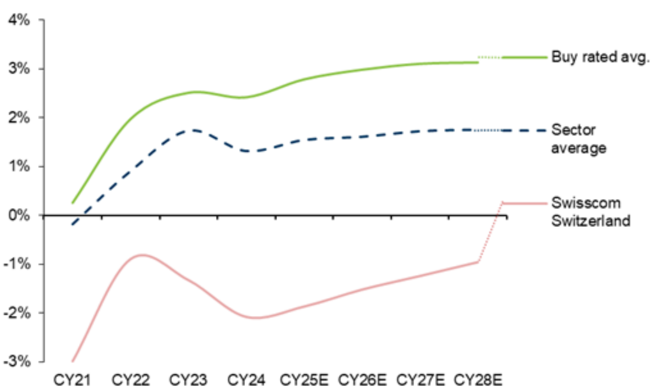
	12/24	12/25E	12/26E	12/27E
Net income	–	–	–	–
D&A add-back	–	–	–	–
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	–	–	–	–
Other operating cash flow	–	–	–	–
Cash flow from operations	**3,977.0**	**5,851.5**	**5,995.0**	**6,285.5**
Capital expenditures	(2,312.0)	(3,142.1)	(3,108.1)	(3,057.6)
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Others	–	–	–	–
Cash flow from investing	**(9,279.0)**	**(3,022.1)**	**(3,108.1)**	**(3,057.6)**
Repayment of lease liabilities	(267.0)	(1,548.0)	(1,548.0)	(1,548.0)
Dividends paid (common & pref)	(1,140.0)	(1,140.0)	(1,346.9)	(1,398.7)
Inc/(dec) in debt	–	–	–	–
Other financing cash flows	0.0	0.0	0.0	0.0
Cash flow from financing	**6,819.0**	**(2,338.0)**	**(2,944.9)**	**(2,996.7)**
Total cash flow	**1,375.0**	**491.3**	**(58.0)**	**231.3**
Reinvestment rate (%)	58.1	53.7	51.8	48.6

Source: Company data, Goldman Sachs Research estimates.

PM Summary

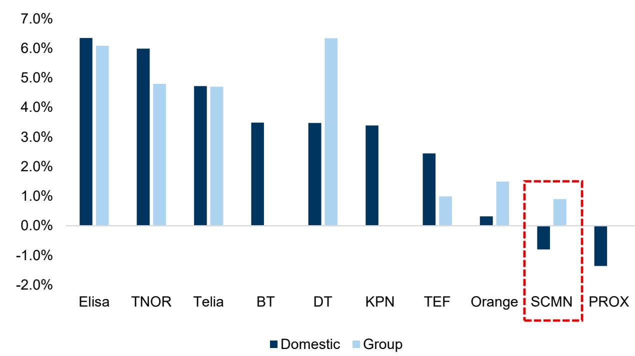
The Swiss telco market is a 3-player market with imbalanced market shares, driving price competition. Fixed broadband is the biggest issue - uniquely in Europe, Swisscom competitors can rent its fibre on contracts with network-owner economics. As a result, the smallest player is incentivised to price aggressively. This means Swisscom's service revenue is likely to decline at a 1.4% CAGR (2024-28E), and with cost-cutting opportunities lower than those available historically, domestic EBITDA will likely fall at a -0.8% CAGR (2024-28E). The synergies that management expect from the completed VOD Italy deal are likely not sufficient to offset declining Switzerland EBITDA and the weak outlook for underlying Italy EBITDA (even with potential consolidation benefits). Swisscom group's ROIC 2024-28 outlook is -0.5pp or broadly flat with consolidation boost, materially below the sector average of +2.4pp. This is particularly uncompelling in the context of the ramping returns of the broader European telecoms sector which is enjoying the burgeoning benefits of deregulation. This limits the re-rating potential for Swisscom in our view.

Exhibit 1: Swisscom is among the least well-positioned companies in our coverage in terms of service revenue growth
Annual service revenue growth



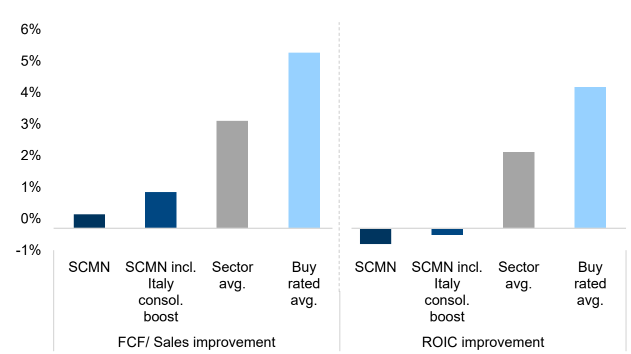
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Swisscom's domestic and group EBITDA growth significantly lags the rest of the sector
2024-28E EBITDA CAGR



Source: Goldman Sachs Global Investment Research

Exhibit 3: Even with the Italy consolidation boost, SCMN returns improvement remains materially below peers
FCF/ Sales and ROIC improvement 2024-2028E SCMN vs sector



Source: Company data, Goldman Sachs Global Investment Research

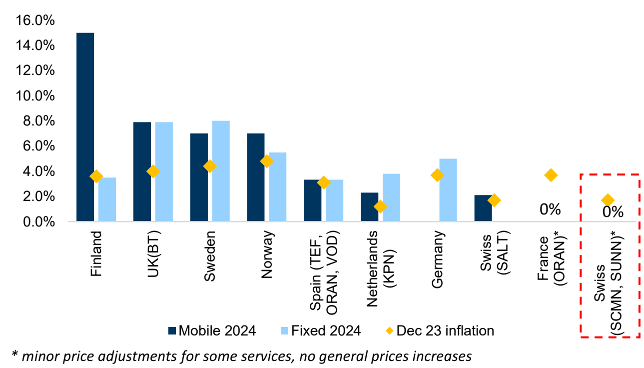
Exhibit 4: Swisscom is trading at a premium on EV/IC vs ROIC in 2026E
EV/IC 2026E vs ROIC 2026E

Source: FactSet, Goldman Sachs Global Investment Research

Swiss telco market insufficient to support growth or returns improvement for Swisscom

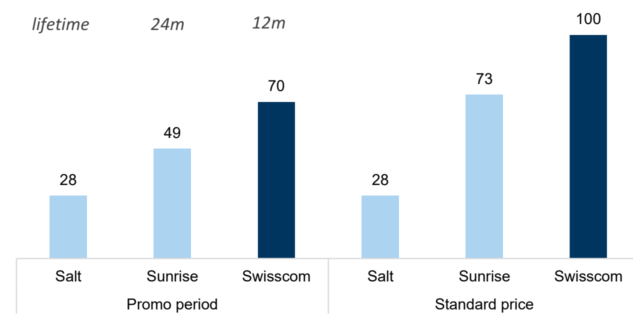
Both the mobile and fixed markets in Switzerland are 3-player markets, but are imbalanced in terms of market share, with the smallest competing for scale. Most importantly, Swisscom's competitors, Sunrise and Salt, can rent its fibre on contracts with network-owner economics. This means sub-scale operator Salt is incentivised to price aggressively. Despite recent commentary from Sunrise aiming to reduce promotional intensity, Swisscom still has a material pricing gap vs other players. The absence of price increases and continuing share losses place Swisscom among the least well-positioned companies in terms of service revenue growth trends. Despite Swisscom outperformimg its 2024 cost-cutting target, it still sees net SFr50mn pa in the mid-term, which we view as increasingly insufficient to offset cost headwinds and service revenue declines in Switzerland. Thus, we model domestic EBITDA to decline at a -0.8% 2024-28 CAGR vs +3.1% growth at peers.

Exhibit 5: There were no price adjustments in Switzerland in 2024 and Swisscom plans no price increases in 2025
Backbook price increases across different markets, 2024 (%, yoy)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 6: Swisscom still has significant pricing gap vs its competitors
Monthly mobile prices, CHF



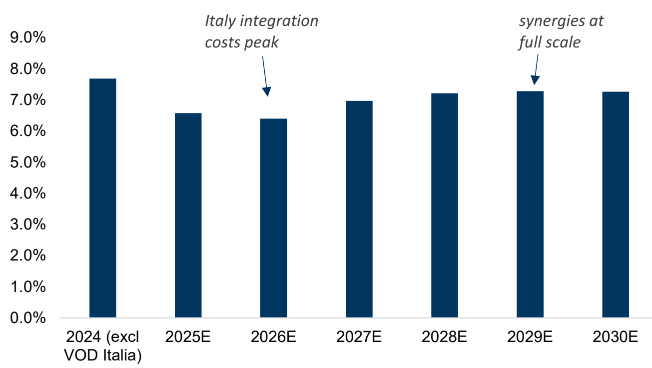
Tariffs used: blue L/Up Mobile L/Swiss XXL for Swisscom/Sunrise/Salt

Source: Company data, Goldman Sachs Global Investment Research

VOD Italy acquisition does not support a meaningful improvement in the group returns outlook

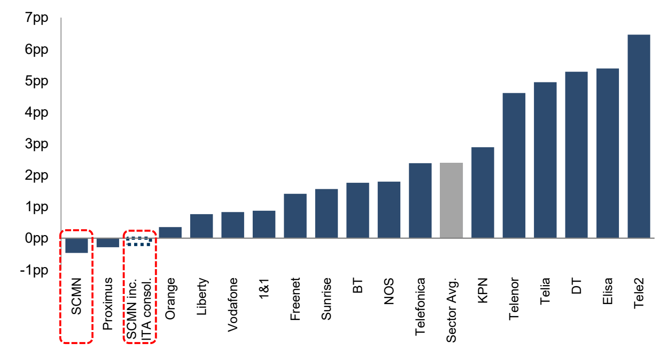
Swisscom has increased exposure to the Italian market following the completion of the Vodafone Italia acquisition. We note that consensus forecasts are yet to reflect estimates for the VOD Italy acquisition and the company have not yet released finalized proforma financials. We include the completed acquisition in our estimates and look in more detail at our forecasts and the potential Italian mobile market consolidation benefits. We expect the VOD Italia acquisition to drag on the group's ROIC in 2025-26 (primarily due to integration costs) with gradual improvement afterwards as integration costs fade and synergies ramp up. However, our analysis suggests that the synergies management expect do not offset the weak outlook for underlying Italian EBITDA and declining Switzerland. This means group EBITDA CAGR is just c.1% for 2024-28 vs the sector average of +4%. With persistently high Swiss capex, our outlook for the group's ROIC 2024-28 is -0.5pp, materially below the sector average of +2.4pp. Lastly, we show that while potential Italian mobile consolidation could improve group returns, Swisscom would still be in the bottom quartile vs the rest of the sector. We see materially higher upside for the best positioned stocks (see below).

Exhibit 7: We expect the VOD Italia acquistion to drag on the group's ROIC in 2025-26, with gradual improvement afterwards as integration costs fade and synergies ramp up
ROIC 2024-30E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: ...But even with near full-scale Italy synergies and potential Italian consolidation boost, Swisscom would be at the bottom quartile returns improvement vs the rest of the sector
ROIC improvement 2024-28E including consolidation boost

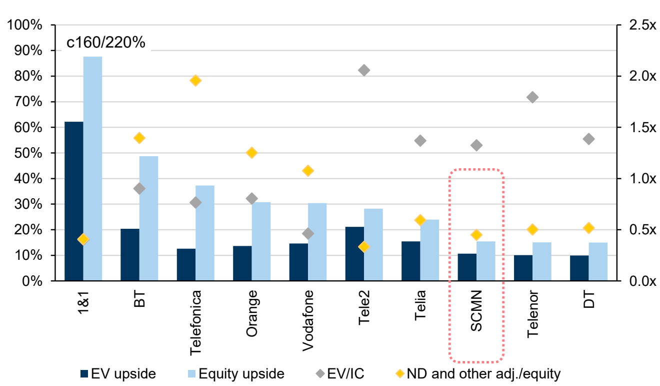


Source: Company data, Goldman Sachs Global Investment Research

Potential for Italian market consolidation is not material enough to change our outlook for the shares

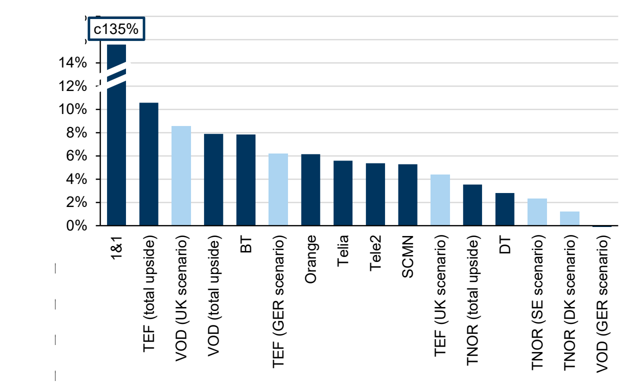
Recent reports of Italian mobile consolidation are supportive of our bullish Digital Infrastructure deregulation thesis. However, our analysis suggests that Swisscom has relatively muted upside potential from mobile market consolidation given the three-player Swiss market structure and relatively limited exposure to the four-player Italian market; if that were to happen, we would not expect it to materially change our outlook for the shares. We see higher upside in stocks with higher exposure to 4-player mobile markets and/or higher gearing, namely: BT, TEF, Tele2, Telia, ORAN, 1&1/UTDI.

Exhibit 9: Swisscom has relatively muted upside potential from Italy mobile market consolidation
Implied EV & equity upside in a consolidation scenario (LHS) and EV/IC & ND and other adj./equity (RHS), assuming 6-10% EV/IC re-rating



Source: Goldman Sachs Global Investment Research

Exhibit 10: Swisscom has lower FCF upside than companies with higher exposure to 4-player mobile markets
Potential consolidation upside to 2028E Group FCF for exposed names

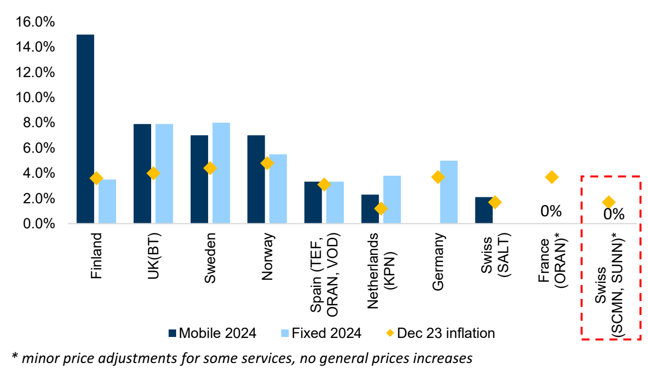


Source: Goldman Sachs Global Investment Research

Competition hinders pricing power, driving continuing share losses and limiting returns improvement

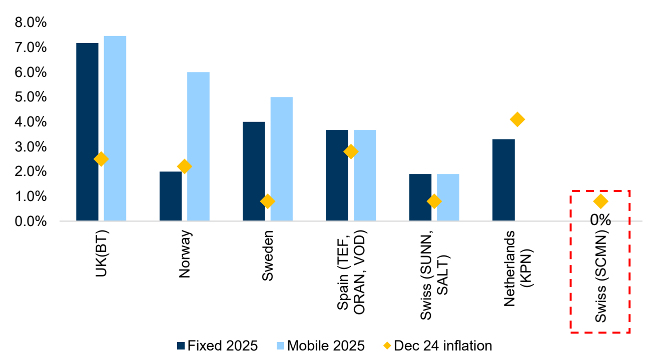
Our Sell thesis on Swisscom is predicated on our view that the Swiss telco market cannot support growth for Swisscom in the medium term. This reflects two key factors: 1) most importantly a challenging market structure in fibre - uniquely in Europe, Sunrise and Salt can rent Swisscom fibre on contracts with network-owner economics. However, Swisscom acknowledges that some players are incentivised to price aggressively which undermines the scope to develop pricing power with fibre; 2) the mobile market is 3-player but imbalanced in terms of market shares, driving price competition. This means Swisscom's service revenue declines at a -1.5% CAGR (2024-28E), on our estimates, and with cost-cutting opportunities lower than those available historically, domestic EBITDA falls at a -0.8% CAGR (2024-28E). In Italy, we model gradual EBITDA improvement afterwards as integration costs fade and synergies ramp up. However, declining Switzerland, even after achieving near full-scale synergies in Italy would lead to group EBITDAaL CAGR of c. 1% (2024-28E) vs the sector average of +4%. This, together with persistently high Swiss capex, weighs on our outlook for the group's returns, making them less attractive vs peers, particularly vs the ramping growth and returns of the best-positioned stocks. We model +0.4pp/-0.5pp FCF/sales and ROIC improvement in 2024-28E, materially below the sector average of +3.4pp/+2.4pp.

Exhibit 11: There were no price increases in Switzerland on the back of the intense competition
Backbook price increases across different markets, 2024 (%, yoy)



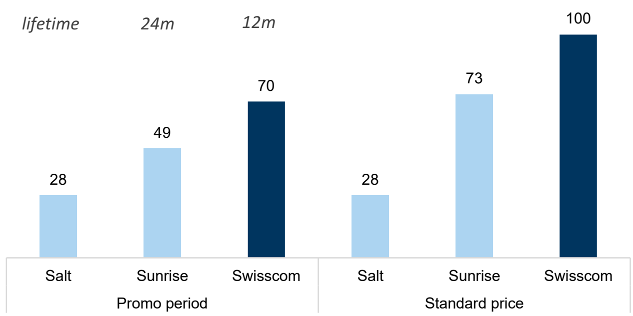
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 12: ...And Swisscom plans no price increases in 2025
Backbook price increases across different markets, 2025 - where announced (%, yoy)



Source: Company data, Goldman Sachs Global Investment Research

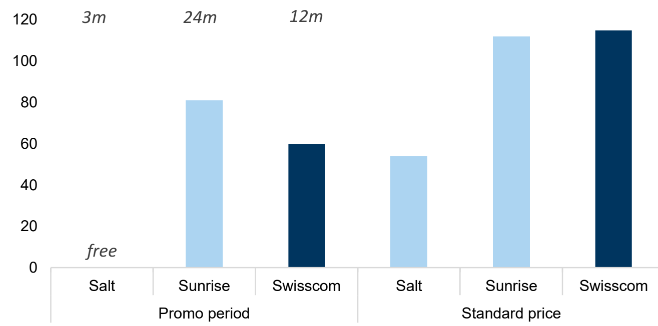
Exhibit 13: Swisscom still has significant pricing gap in mobile vs Sunrise and Salt...
Monthly mobile prices, CHF



Tariffs used: blue L/Up Mobile L/Swiss XXL for Swisscom/Sunrise/Salt

Source: Company data, Goldman Sachs Global Investment Research

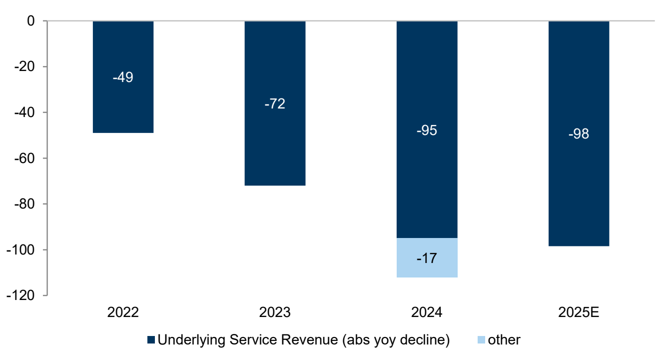
Exhibit 14: ...and significant premium to Salt's fixed prices
Monthly fixed prices, CHF



Tariffs used: blue L+TV M for Swisscom, Up Home XL incl. TV for Sunrise and Salt Home

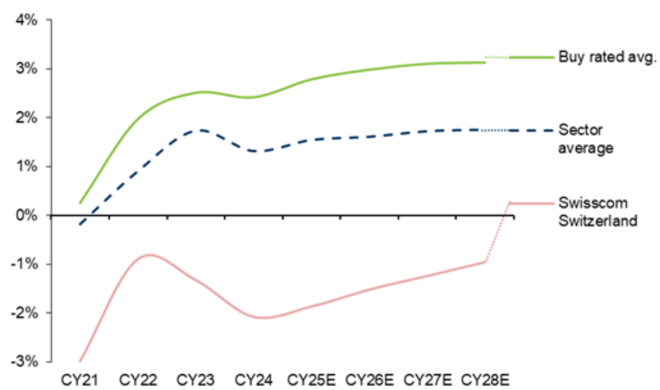
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 15: Next year service revenue loss to be higher than 2024, on an underlying basis
Absolute Service revenue decline YoY



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 16: This, coupled with continued share losses, places Swisscom among least well-positioned companies in terms of service revenue growth
Annual service revenue growth



Source: Company data, Goldman Sachs Global Investment Research

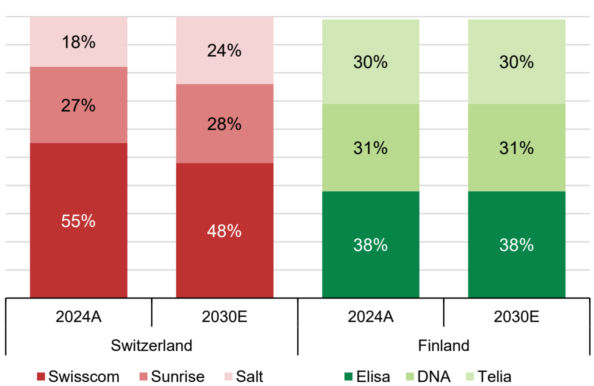
Taking a deeper look into the reasons the Swiss market does not grow

While the Swiss macro environment is consistently strong and the Swiss mobile market is a three-player one (vs. four in most of Europe), the Swiss telco market does not show growth. This is due to fixed broadband, where competitors Salt (Not Covered) and Sunrise have highly attractive fibre rental economics on Swisscom's fibre network owing to the regulatory backdrop. This is unique across Europe. Salt is using these network-owner-like economics to price aggressively and build its market share from the low c.5% it currently has. The exact details of the rental contracts (known as IRUs – Indefeasible Rights of Use) are not disclosed. However, we have attempted to model the impact of Sunrise migrating its customer base in scale to rent Swisscom's fibre network. For more details on IRU economics and potential FCF impact to Sunrise, see here. We believe we are a long way from the point at which Salt has sufficient scale to recalibrate pricing.

The mobile market: the Swiss mobile market is 3-player (vs. 4 in most of Europe). However, as our charts below highlight, the market is imbalanced, with Salt incentivised to compete on price to take scale. This price-aggressive growth strategy has driven consistent ARPU declines across the market. While such pressure on Swiss mobile pricing is likely to end in the next few years, once Salt has reached sufficient scale, it is hard to estimate exactly when this will be. Consistent with other market precedents, it could happen once Salt has reached 25-30% market share, in our view, which we assume happens in 2031-35.

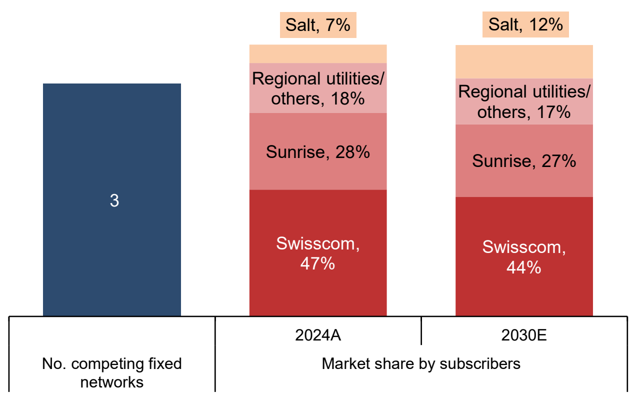
The fixed broadband market: this segment of the Swiss market has a growth problem that is likely to persist for longer than in the mobile market, in our view. The key reason is that competitors Salt and Sunrise have highly attractive fibre rental economics on Swisscom's fibre network. This economic hurdle, which is unique across Europe, is part of the regulatory framework and is unlikely to change in the medium to long term, in our view. Salt is using these network-owner-like economics to price aggressively and build its market share from the low c.5% it currently has. As in the mobile market, we would expect the pricing pressure from Salt to abate once it has reached sufficient scale. In fixed broadband, we believe that 'sufficient scale' for Salt is likely to be lower than in mobile – perhaps around 15-20%, based on other market precedents. However, our extrapolation of current trends suggests that Salt is unlikely to reach this scale until 2035-40.

Exhibit 17: The Swiss mobile market is 3-player, which typically indicates quality, but these benefits are somewhat undermined by asymmetric market shares
Mobile market share by no. subscribers example: Switzerland vs. Finland (2024A vs. 2030E)



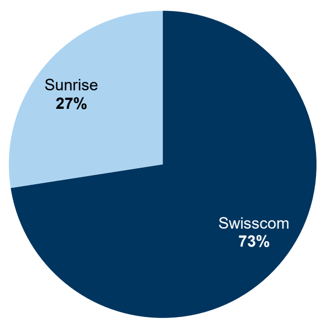
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 18: The low cost to rent fibre in Switzerland, supported by the regulator, means there is a high number of fixed competitors with owner-like economics. This, combined with a subscale player, limits the market growth potential
No. of network owners today and broadband market share by no. of subscribers, 2024A vs. 2030E



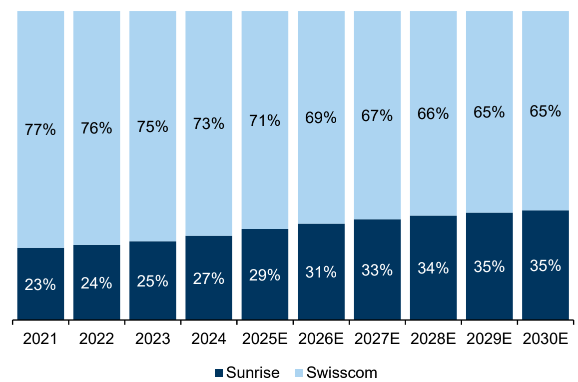
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 19: Swisscom has disproportionately high market share in B2B today
Swiss B2B Service Revenue market share, 2024A



Source: Company data, Goldman Sachs Global Investment Research

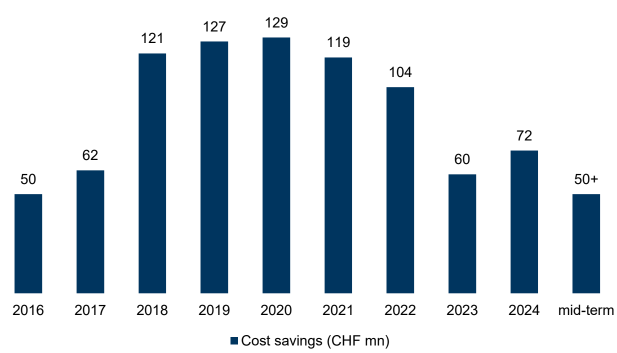
Exhibit 20: We see continued market share loss for Swisscom in B2B
B2B service revenue market share



Source: Company data, Goldman Sachs Global Investment Research

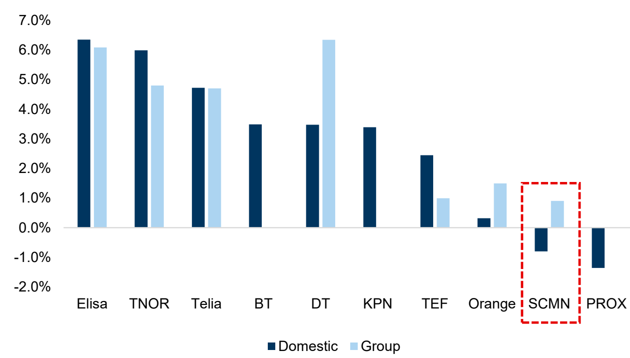
Despite Swisscom having outperformed its 2024 cost-cutting target, it continues to see net SFr50mn pa in the mid-term compared to the cSFr100mn average net savings over the last 5 years. This is due to the fading gross savings as well as cost headwinds it is facing. We view the cost-cutting as increasingly insufficient to offset cost headwinds and service revenue declines in Switzerland. We model a domestic 2024-28 EBITDAaL CAGR of -0.3% vs the telco incumbent average at +c.3%.

Exhibit 21: Management now sees CHF50+mn net cost saving pa, which we believe is not enough to offset service revenue declines...
Swiscom net cost savings, CHF mn



Source: Company data

Exhibit 22: Swisscom's domestic and group EBITDA growth significantly lags the rest of the sector
2024-28E EBITDA CAGR

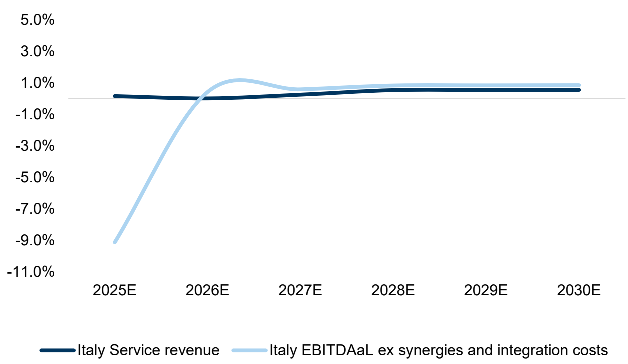


Source: Goldman Sachs Global Investment Research

Italy in more detail: Competition remains intense, synergies and potential consolidation benefits do not offset weak underlying growth and declining Switzerland

Following the Vodafone Italia acquisition, Swisscom has increased exposure to the Italian telco market. We expect the VOD Italia acquisition to drag on the group's ROIC in 2025-26 (primarily due to integration costs), with gradual improvement afterwards as integration costs fade and synergies ramp up. However, the Italian telco market is a highly competitive 4-player mobile and fixed market, and we do not expect underlying (ex-synergies and integration costs) VOD Italia service revenues and EBITDA to grow in the mid-term. Overall, our analysis suggests that the synergies that management expect are unlikely to offset our outlook for weak underlying Italian EBITDA and declining Switzerland. This means group EBITDAaL CAGR of just +c.1% 2024-28 vs the sector average of +4%. This, together with persistently high Swiss capex, will likely weigh on the group's returns outlook, making them less attractive vs peers, particularly vs the ramping growth and returns of the best-positioned stocks.

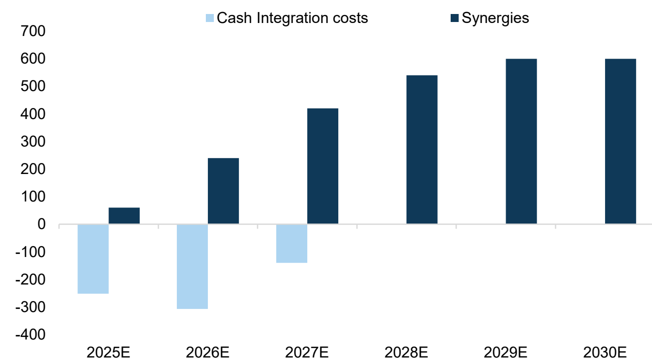
Exhibit 23: We expect marginal growth in total EBITDAaL of Italy segment
Italy segment (incl Fastweb and Vodafone Italia) service revenue and EBITDAaL growth (pre synergies and integration costs)



Total revenues for Fastweb

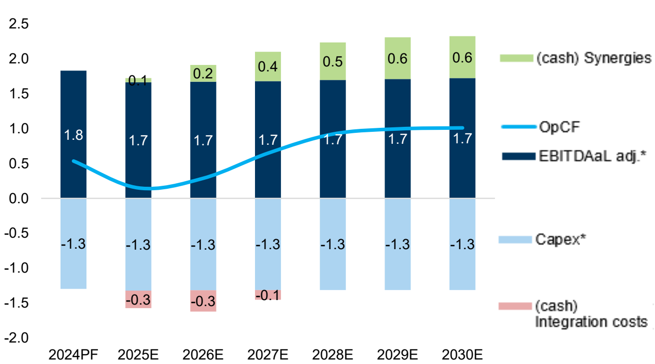
Source: Goldman Sachs Global Investment Research

Exhibit 24: We forecast synergies to start to offset integration costs only from 2027
Italy cash integration costs and synergies, SFr mn



Source: Goldman Sachs Global Investment Research

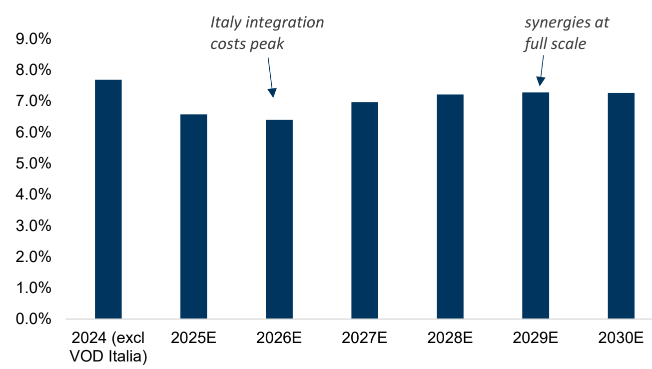
Exhibit 25: ...Which means OpFCF will be supressed in 2025-26 and will begin to recover more significantly from 2027
Italy segment OpFCF breakdown, SFr bn



*EBITDAaL ex synergies and untegration costs; Capex adjusted for 70/50mn costs in 2024/25 to be compensated by Vodafone

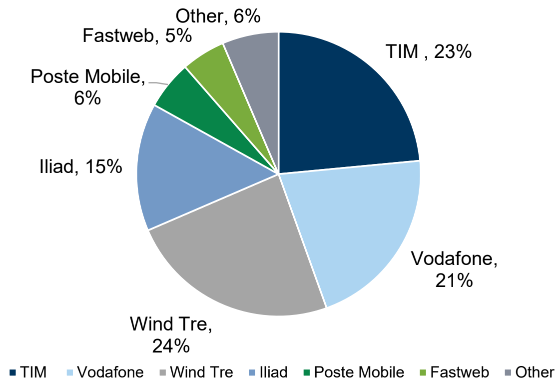
Source: Goldman Sachs Global Investment Research

Exhibit 26: Thus, we expect the VOD Italia acquistion to drag on the group's ROIC in 2025-26, with gradual improvement afterwards as integration costs fade and synergies ramp up
ROIC 2024-30E



Source: Company data, Goldman Sachs Global Investment Research

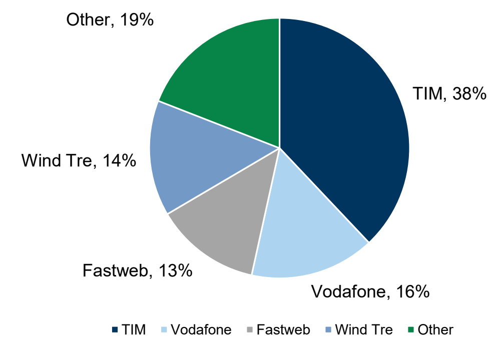
Exhibit 27: The Italian market is a highly competitive 4-player mobile market...
Italian implied mobile market share, % (3Q24)



Implied = based on blended prepaid and postpaid market shares for Human SIM only

Source: Agcom, Company data, Goldman Sachs Global Investment Research

Exhibit 28: ...and a highly competitive fixed market
Italian fixed market share, % (3Q24)



based on fixed access lines

Source: Company data, Goldman Sachs Global Investment Research, Agcom

Potential Italian consolidation is not material enough to change our outlook for the shares

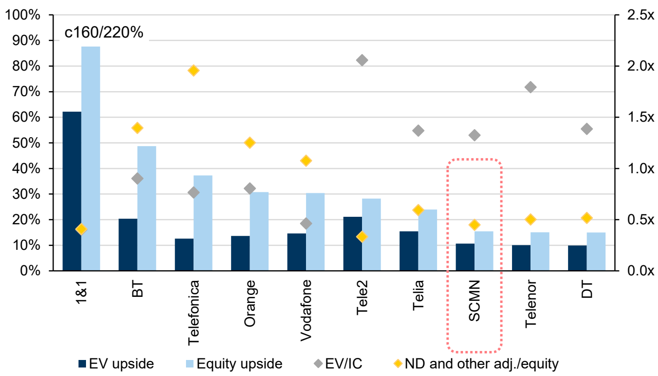
Recent reports of Italian mobile consolidation are supportive of our bullish Digital Infrastructure deregulation thesis. However, our analysis suggests that Swisscom has relatively muted upside potential from mobile market consolidation given the three-player Swiss market structure and relatively limited exposure to the four-player Italian market; if that were to happen, **we would not expect it to materially change our outlook for the shares**. We see higher upside at stocks with higher exposure to 4-player mobile markets and/or higher gearing, namely: BT, TEF, Tele2, Telia, ORAN, 1&1/UTDI. **We also show in the below charts that while potential Italian mobile consolidation could improve group returns, Swisscom would still be in the bottom quartile vs the rest of the sector (Exhibit 29, Exhibit 31).**

As set out in our Digital Infrastructure outlook note, our consolidation analysis assumes:

1. ROIC improvement, driven by c.1-2ppt pa boost to EBITDA growth from churn reduction (through margin improvement), based on historical precedents. We model the boost only for mobile EBITDA in consolidating markets. The uplift to EBITDA is then taxed and results in an FCF uplift and ROIC improvement. Overall, we see c.10% FCF uplift and 1pp higher ROIC on average for the exposed names;
2. A re-rating by 6%-10% on an EV basis for the stocks with limited to high exposure to 4-player mobile markets, accordingly (consistent with past performance when the backdrop has been supportive for consolidation).

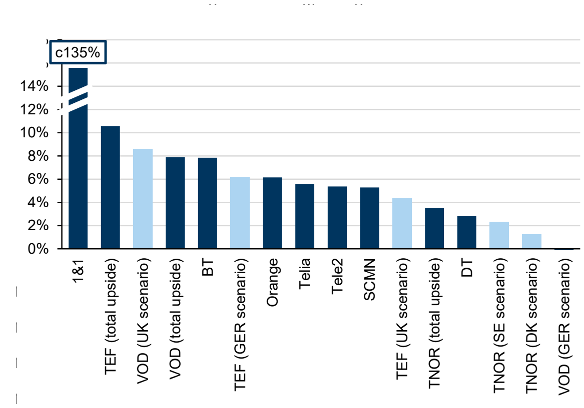
For Swisscom, we model a c.7% boost to Italy EBITDA from market repair, we model a boost to Group EBITDA of c.3%; this translates into c.5% higher FCF and 0.3pp boost to group ROIC improvement. Our analysis suggests that in a scenario of 0.3pp ROIC improvement and a re-rating by 6% on an EV basis for Swisscom, the equity value could increase by c.15% (rising returns +6%; EV re-rating +9%).

Exhibit 29: Swisscom has relatively muted upside potential from mobile market consolidation
Implied EV & equity upside in a consolidation scenario (LHS) and EV/IC & ND and other adj./equity (RHS), assuming 6-10% EV/IC re-rating



Source: Goldman Sachs Global Investment Research

Exhibit 30: Swisscom has lower FCF upside than companies with higher exposure to 4-player mobile markets
Potential consolidation upside to 2028E Group FCF for exposed names



Source: Goldman Sachs Global Investment Research

Exhibit 31: Stocks with the most upside from consolidation are those that have higher exposure to 4-player mobile markets and/or higher gearing & lower EV/IC
Implied EV & equity upside in a consolidation scenario (LHS) and EV/IC & ND and other adj./equity (RHS), assuming 6-10% EV/IC re-rating

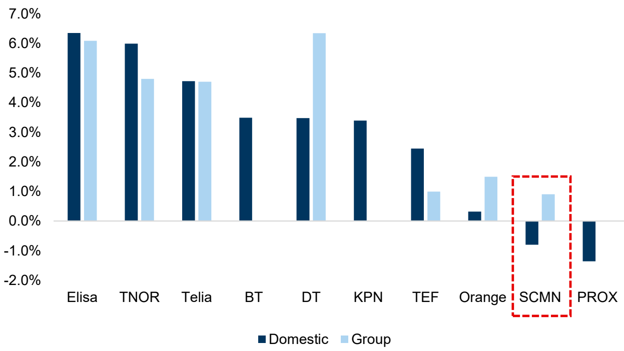
	Equity upside	EV upside	EV/IC	ND*/Equity	FCF upside	ROIC uplift
1&1	**218%**	155%	0.4x	0.4x	135%	3.7pp
BT	**49%**	20%	0.9x	1.4x	8%	0.6pp
Vodafone	**32%**	15%	0.4x	1.2x	8%	0.2pp
VOD Germany	**-4%**	-2%	-	-	-1%	0.0pp
VOD UK	**36%**	17%	-	-	9%	0.2pp
Telefonica	**37%**	13%	0.8x	2.0x	11%	0.4pp
TEF Germany	**21%**	7%	-	-	6%	0.2pp
TEF UK	**16%**	6%	-	-	4%	0.2pp
Orange	**31%**	14%	0.8x	1.3x	6%	0.3pp
Tele2	**28%**	21%	2.1x	0.3x	5%	0.8pp
Telia	**24%**	15%	1.4x	0.5x	6%	0.5pp
SCMN	**15%**	11%	1.3x	0.4x	5%	0.3pp
Telenor	**15%**	10%	1.8x	0.5x	4%	0.4pp
DT	**15%**	10%	1.4x	0.5x	3%	0.2pp

Source: Goldman Sachs Global Investment Research

Swisscom's growth and returns improvement lags the sector due to weak Swiss and Italian market quality

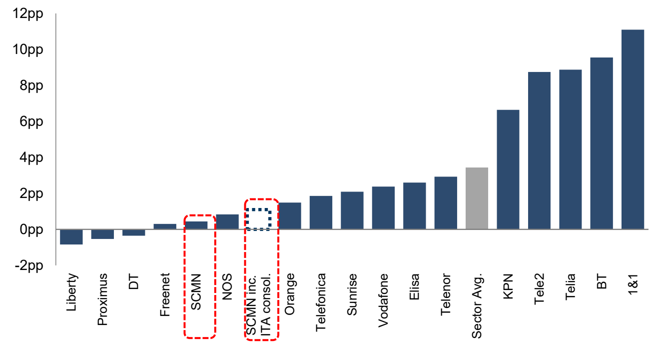
Overall, our negative view on the Swiss and Italian market means that on our forecasts, despite gradual Italian FCF ramp up as synergies reach the full scale, Swisscom's group growth and returns improvement lags the rest of the sector, where we see evidence of sustainable, mid-single-digit EBITDA growth driven by successful network monetisation and upselling. We model +0.4pp/-0.5pp FCF/sales and ROIC improvement in 2024-28E, materially below the sector average of +3.4pp/+2.4pp. Lastly, we show that while potential Italian mobile consolidation could improve returns, Swisscom would still be in the bottom quartile vs the rest of the sector.

Exhibit 32: Swisscom's domestic and group EBITDA growth significantly lags the rest of the sector
2024-28E EBITDA CAGR (domestic)



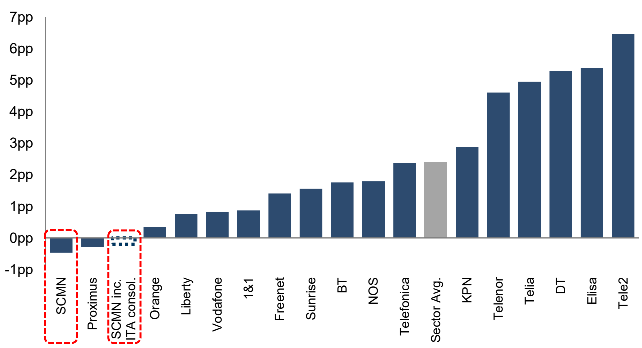
Source: Goldman Sachs Global Investment Research

Exhibit 33: Swisscom's FCF/sales improvement is significantly below sector average...
2024-28E FCF/sales improvement including consolidation boost



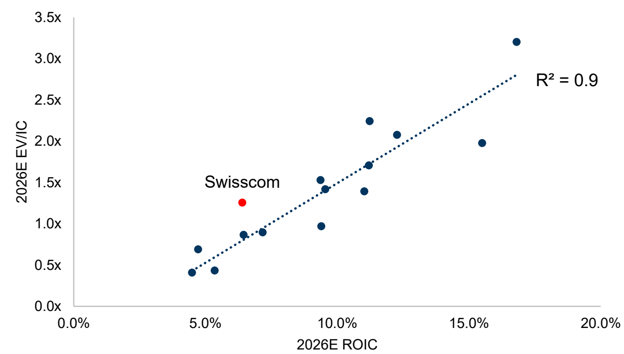
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 34: ...as is its ROIC improvement
ROIC improvement 2024-28E including consolidation boost



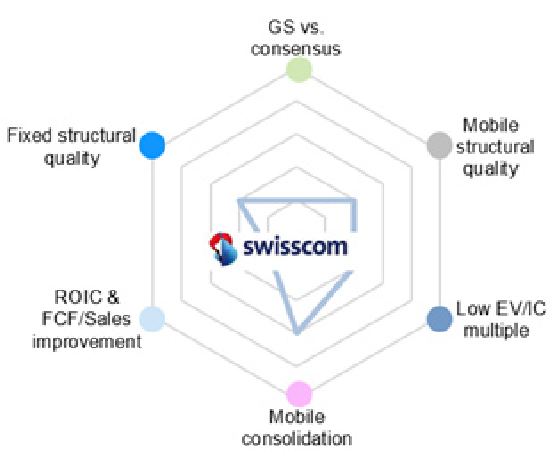
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 35: Swisscom is trading at a premium on EV/IC vs ROIC in 2026E
EV/IC 2026E vs ROIC 2026E



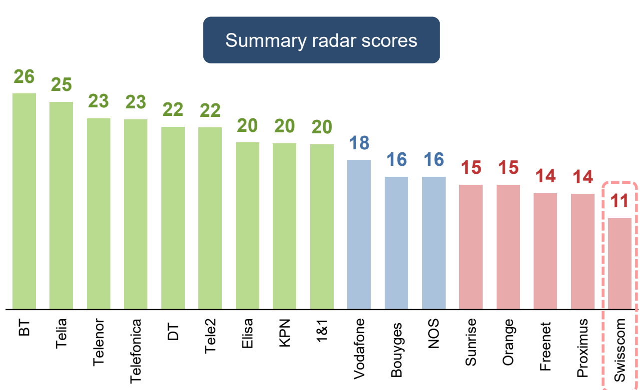
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 36: Swisscom screens less favourable on our key stock-picking screens...



Source: Goldman Sachs Global Investment Research

Exhibit 37: ...and ranks the least well-positioned on our Digital Infrastructure radar score
Digital Infrastructure radar score



Source: Goldman Sachs Global Investment Research

Summary Financials

Exhibit 38: Summary financials
SFr mn

P&L	2023	2024	2025E	2026E	2027E	2028E
Revenue	**11,072**	**11,036**	**15,218**	**15,155**	**15,123**	**15,125**
Growth (%)	*-0.4%*	*-0.3%*	*n.m.*	*-0.4%*	*-0.2%*	*0.0%*
Switzerland	8,089	7,943	7,870	7,807	7,759	7,726
growth	*-1.5%*	*-1.8%*	*-0.9%*	*-0.8%*	*-0.6%*	*-0.4%*
Italy	2,556	6,919	6,846	6,846	6,862	6,897
growth	*6.1%*	*n.m.*	*-1.1%*	*0.0%*	*0.2%*	*0.5%*
Total Swiss service revenue	**5,401**	**5,289**	**5,191**	**5,112**	**5,049**	**5,000**
Organic Swiss service revenue growth	*-1.3%*	*-2.1%*	*-1.9%*	*-1.5%*	*-1.2%*	*-1.0%*
EBITDAaL adjusted	**4,622**	**4,355**	**6,563**	**6,685**	**6,921**	**7,018**
Growth (%)	*3.2%*	*-7.2%*	*n.m.*	*1.8%*	*3.5%*	*1.4%*
Margin (%)	*41.7%*	*39.5%*	*43.1%*	*44.1%*	*45.8%*	*46.4%*
Switzerland	3,426	3,378	3,332	3,305	3,287	3,275
growth	*0.3%*	*-1.4%*	*-1.4%*	*-0.8%*	*-0.5%*	*-0.4%*
Italy*	795	1,743	1,574	1,717	1,966	2,071
growth	*-0.7%*	*n.m.*	*-8.6%*	*9.1%*	*14.5%*	*5.3%*
EPS	33.0	29.8	32.9	34.8	38.4	40.0
DPS	22	22	26	27	28	29

FCF and Net Debt	2023	2024	2025E	2026E	2027E	2028E
Capex	2,292	2,312	3,142	3,108	3,058	2,895
% of sales	*20.7%*	*20.9%*	*20.6%*	*20.5%*	*20.2%*	*19.1%*
Switzerland	1,690	1,725	1,710	1,710	1,700	1,690
% of sales	*20.9%*	*21.7%*	*21.7%*	*21.9%*	*21.9%*	*21.9%*
Italy*	606	1,301	1,432	1,398	1,358	1,205
% of sales	*23.7%*	*18.8%*	*20.9%*	*20.4%*	*19.8%*	*17.5%*
Swisscom OpFCF	2,042	1,752	1,847	1,996	2,278	2,534
Change in net working capital	-133	13	-75	-40	-30	-10
Change in defined benefit obligations	-31	-5	15	0	0	0
Net interest paid	-77	-10	-238	-237	-236	-233
Income taxes paid	-313	-297	-306	-304	-309	-311
Other operating cash flows	-8	-16	1	-49	0	0
FCF (co defined)	**1,480**	**1,437**	**1,244**	**1,367**	**1,704**	**1,979**
growth (%)	0%	-3%	*n.m.*	10%	25%	16%
FCF Gse	**1,454**	**1,384**	**1,211**	**1,339**	**1,680**	**1,959**
Smoothed spectrum	**-52**	**-51**	**-50**	**-49**	**-49**	**-48**
GS FCFe incl. smoothed spectrum	**1,432**	**1,347**	**1,162**	**1,290**	**1,631**	**1,910**
GS FCFF incl. smoothed spectrum	**1,547**	**1,393**	**1,416**	**1,533**	**1,877**	**2,156**
Net debt ex leases	5,156	11,961	11,821	11,830	11,549	11,042
Net debt/EBITDAaL (x)	*1.2x*	*2.9x*	*2.4x*	*2.3x*	*2.2x*	*2.0x*

**2024 PF*

Source: Company data, Goldman Sachs Global Investment Research

Estimate changes, valuation and key risks

Estimate changes

We make changes to our estimates post 4Q24 results, primarily reflecting lower service revenue growth and lower Italy EBITDAaL, including due to the change in phasing of integration costs. As a result, our 2025-27E EBITDAaL and EPS are down 2.6%/4.6% on average.

Exhibit 39: Swisscom: Changes to estimates
CHF mn except per share data

CHF (mn)	After			Before			Changes to estimates (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
B2C mobile service revenues	1,808	1,795	1,785	1,821	1,819	1,819	-0.7%	-1.3%	-1.8%
B2C fixed service revenues	1,939	1,916	1,897	1,945	1,925	1,910	-0.3%	-0.5%	-0.7%
B2B mobile service revenues	680	660	644	689	678	670	-1.4%	-2.6%	-3.8%
B2B fixed service revenues	763	740	722	772	754	742	-1.2%	-1.8%	-2.7%
Swiss service revenues	5,191	5,112	5,049	5,227	5,176	5,140	-0.7%	-1.2%	-1.8%
Swisscom Switzerland	7,870	7,807	7,759	7,935	7,900	7,879	-0.8%	-1.2%	-1.5%
Italy	6,921	6,921	6,937	6,829	6,828	6,842	1.4%	1.4%	1.4%
Other operating segments	427	427	427	426	422	418	0.1%	1.1%	2.2%
Group Revenue	**15,218**	**15,155**	**15,123**	**15,190**	**15,149**	**15,139**	**0.2%**	**0.0%**	**-0.1%**
Swisscom Switzerland	3,332	3,305	3,287	3,351	3,340	3,334	-0.6%	-1.1%	-1.4%
Italy	1,574	1,717	1,966	1,656	1,844	2,049	-4.9%	-6.9%	-4.1%
Other operating segments	83	83	83	93	88	83	-11.2%	-5.9%	-0.1%
Group EBITDAaL	**4,989**	**5,104**	**5,336**	5,100	5,272	5,466	-2.2%	-3.2%	-2.4%
Net income	1,702	1,802	1,988	1,779	1,911	2,065	-4.3%	-5.7%	-3.7%
EPS	**32.9**	**34.8**	**38.4**	**34.3**	**36.9**	**39.9**	**-4.3%**	**-5.7%**	**-3.7%**
DPS	26	27	28	26	26	26	0.0%	3.8%	7.7%
Capex (incl. spectrum)	-3,142	-3,108	-3,058	-3,119	-3,069	-3,018	0.8%	1.3%	1.3%
EBITDAaL - Capex	1,847	1,996	2,278	1,982	2,203	2,448	-6.8%	-9.4%	-6.9%
FCF	**1,211**	**1,339**	**1,680**	**1,269**	**1,511**	**1,778**	**-4.6%**	**-11.4%**	**-5.5%**

Source: Goldman Sachs Global Investment Research

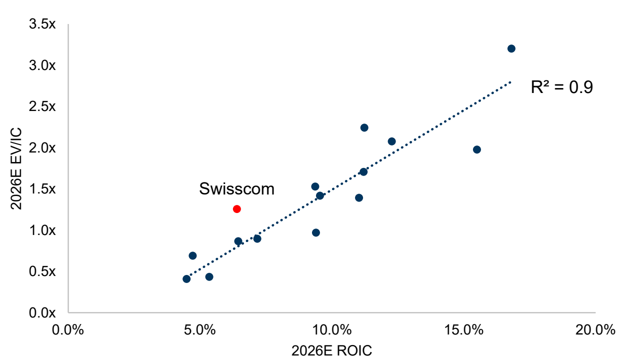
Valuation and key risks

We are Sell rated on Swisscom. Our 12-month EV/IC to ROIC/WACC-based price target remains unchanged at SFr450.

Key upside risks to our view and price target are:

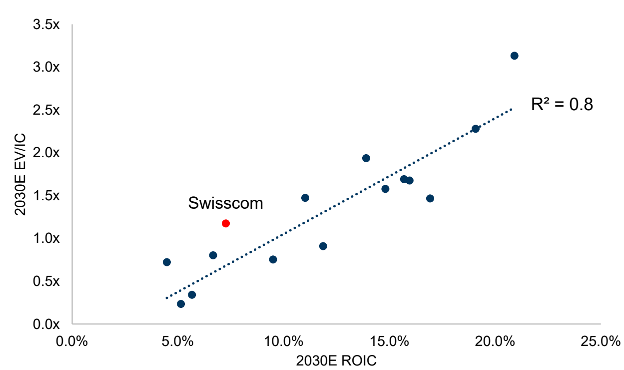
- **Lower competitive intensity:** A more rational Swiss market environment would pose upside risk to our estimates and therefore price target. This could be brought about by the smaller player reaching sufficient scale sooner than we expect and therefore having less incentive to price aggressively. A more rational Italian market and/or mobile consolidation in Italy could also represent upside to our current estimates.
- **Better-than-expected cost-cutting:** If the company's cost cutting efforts are more successful than anticipated, this could contribute more to offsetting service revenue pressure and lead to lower EBITDA decline/EBITDA growth in Switzerland.
- **Higher synergies/lower integration costs related to VOD Italy acquisition:** As we have laid out above, while we incorporate the material synergies that Swisscom management expects into our estimates, these are not enough to offset declining Switzerland, weak underlying Italian growth and our overall outlook on the shares. However, the company realising more significant synergies and/or spending less on integration post the acquisition could represent an upside risk to our Italy/group FCF estimates.
- **Bond yields falling:** If Swiss bond yields fall, Swisscom's dividend yield would look more attractive vs. bond yields to yield-seeking investors. A catalyst for this could be the Swiss National Bank lowering interest rates.
- **Value-accretive M&A:** There is upside risk if Swisscom were to sell an asset or acquire an asset domestically/abroad at accretive terms.

Exhibit 40: Swisscom is trading at a premium on EV/IC vs ROIC in 2026E...
EV/IC 2026E vs ROIC 2026E



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 41: ...and in 2030E
EV/IC 2030E vs ROIC 2030E



Source: Factset, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Andrew Lee, Anna Osenchugova, Halima Elyas and Sofija Rakicevic, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our universe of rated stocks) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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Quantum

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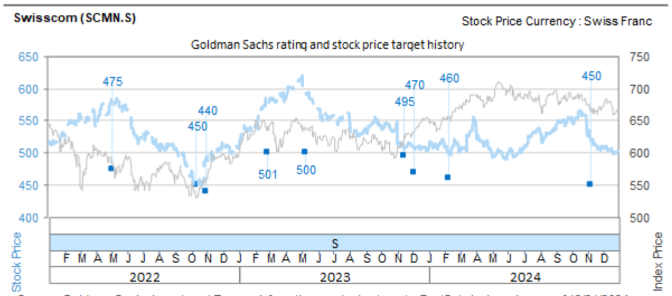
Price target and rating history chart(s)



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