ECONOMY

FINANCIALOUNGE

Has TIM finally bottomed out?

by Giancarlo Salemi

TIM has reached €0.50 a share and seems poised to start climbing. But several challenges remain, starting with debt and governance

Despite a clear governance problem, **TIM seems to be enjoying a positive moment on the stock markets**. After reaching €0.50 a share, the stock seems poised to climb to €0.60, and various analysts from Banca Akros to Equita Sim **are now suggesting we buy**. Positive data from parent company Vivendi is also driving up the stock. But can it be trusted after the loss of nearly 50% of its value last year?

TLC SECTOR AMONGST THE WORST. TIM IMPROVES, BUT IT'S TOO SOON TO CELEBRATE - "The sector at European level is one of the worst. At one, three and five years, it is negatively outranked only by banks", explains Angelo Meda, Head of Equities at Banor Sim. "There are various reasons, but the headwinds seem to be dwindling, so **TIM is enjoying being one of the most leveraged companies in the European context**. At corporate level, some developments indicate an improvement (the agreement with Vodafone, the truce with shareholders albeit armed, Ed.), but structural elements to bring the company out of the doldrums are still lacking". Directed by Chief Executive Officer Luigi Gubitosi since November, the company's troubles nevertheless began some time ago, specifically, with a badly executed privatisation.

Discussion:

Value of Italian brands, Gucci on the podium with TIM and Enel

BOTCHED PRIVATISATION, MONSTER DEBT OF €25 BILLION - **The story of Telecom Italia is one of a large company strained by privatisation**. In July 1997, under the leadership of Guido Rossi, the company approached ₤10,902 per share on the Borsa (around €5, today worth €0.50). At the time, the company was fourth in Italy for turnover and first for added value. It had a high profit margin (profits exceeded the turnover by 11%) and practically no net liabilities. In 2000, the Olivetti group appeared on the scene, which, with Tecnost obtained 51% of the shares, indebting itself to the banks. The following year, the share was acquired by Pirelli and Benetton. But the situation did not improve. The debit grew, and the group's every action aimed exclusively to restore the company. Marco Tronchetti Provera failed to find a solution and gave up the reins in 2007. Control passed to Telefonica and a group of Italian shareholders (Intesa, Generali, Mediobanca and Benetton), who together created a company named Telco, which controlled 23%. In July 2014, Telefonica fell below 10%, and the year after, the French group Vivendi increased its own share to 20%, becoming the main shareholder in March 2016. During those years, **the only thing that never decreased was the company's monster debt**: at the end of 2018, it amounted to over €25 billion.

LAST YEAR, THE STOCK LOST 50% AND IS NOW RECOVERING AMIDST GREAT CONFUSION - Since April last year, **TIM's stock price has had a strong downward trend**. It was particularly affected by its inability to exceed the threshold of €0.90, which triggered a non-stop vertical slump, breaking all possible static and psychological support levels encountered until reaching the low of 0.4771 on 26 October. It was closing in on the historical lows of the summer of 2013 (transfer to Telefonica), and had lost 50% of its value in one year. "Debt is undoubtedly one of the dead weights suffocating the company", explains Angelo Meda. "Even if the parameters are not irreversibly compromised compared to other sector companies, considering it has a debt/EBITDA at 3.2, compared to Telefonica at 3.7 and T-Mobile at 2.6".

THE GOVERNANCE PROBLEM AND COMPETITION FROM ILIAD AND OPEN FIBER - What impacts today, however, is the contrast between the two main shareholders, the French group Vivendi and the activist fund Elliott, with Cassa Depositi e Prestiti tipping the scales, having increased its share from 4.6% to 9.8% in the past six months. This lack of a certain lead in Telecom could, according to UBS analysts, cause the company to suffer in the long term, especially due to the "**competitive threat of Iliad and Open Fiber**, as well as other structural changes, such as the erosion of the favourable position inherited from the past". What does it all mean? "A downward risk in revenue between 0.7 and 2.1 billion in a period of less than five years" to the benefit of the two competitors.

NETWORK SPIN-OFF, THE SOONER THE BETTER, BUT ALSO SURROUNDED BY UNCERTAINTY - In light of all this, the network is surely its most valuable asset, but in relation to the spin-off, CEO Gubitosi allegedly sent a letter to Agcom, Italy's competition regulator for the communications industry, to request that the project to separate the network be postponed due to the ongoing market analysis. "No spin-off allows more and more room for Open Fiber to grow and to render part of the Telecom network obsolete", says the Head of Equities at Banor Sim. "**Any spin-off should take place as soon as possible, otherwise the value—and the shareholders' profits, as a result—is likely to decrease over time**. Nevertheless, many uncertainties remain, especially regarding the fate of the service company (the company without the network, Ed.), which would find itself competing on equal footing with other subjects with leaner structures and greater financial resources".

3 BIG OPERATORS IN AMERICA, EACH COUNTRY IN EUROPE HAS AT LEAST 4 PLAYERS - Another factor worth considering is the **excessive dispersion of the TLC segment**, if we consider, for instance, that in the United States there are only three big national operators, whilst in Europe, each country has at least 4 drivers. "In recent years, the European antitrust has blocked all consolidation operations", reminds Angelo Meda, "or imposed remedies that actually removed the benefits. This behaviour has created a **favourable environment for consumers, who benefit from rates that are much lower than American ones**, but it is creating problems for companies and, consequently, for the investments necessary to develop new 5G networks. The hope is that the new European Commission will adopt a less extreme stance, allowing for a lower number of operators and greater efficiency".

HOW WILL IT END FOR TIM? TOO MANY CHALLENGES REMAIN - "Rome was not built in a day. Large projects take time", said Arnaud de Puyfontaine, Chief Executive Officer of the Vivendi group, when asked about the company's future. "TIM has a lot of potential and is a firm we seek to assist over time. It is a key player in the TLC sector, and Vivendi will be a long-term industry partner of TIM". But is this really the case? For Angelo Meda, "Compared to other competitors, **TIM has a series of critical issues to resolve**: an governance yet to be resolved, debt to be structurally reduced, competition for infrastructure with Open Fiber to be defined, operating performance to be improved". Essentially, numerous challenges remain and, when combined, could even characterise the stock's performance on the Borsa Italiana.

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