



Telecom Italia and TIMP

New headwinds, downgrade TI to UW

Telecom Italia faces rising headwinds. In addition to a successful commercial entry from Iliad in mobile and its competitor in fixed (Open Fiber) finalising its financing, TI is now in the midst of a spectrum auction that is running EUR1.4bn ahead of our estimate (14% of the market cap). Combining this with slowing Brazilian macro, a drifting BRL and high leverage (3.2x YE18e) makes for a challenging outlook. Clearly the stock price partly reflects the deterioration (-27% YTD vs -15% for telcos), yet on our below consensus estimates TI trades in line with peers despite lower growth and higher risks. We reduce our price target to EUR0.46/0.43, a downside of -11% vs peers offering 10%+ on average, and downgrade to UW. The main upside risk is a merger of TI's network with Open Fibre that would generate material synergies, but we see that as a distant prospect. We also cut our PT on TIMP to USD16 (down from USD18) and remain EW.

Spectrum, Brazil and Leverage. TI has so far bid EUR2.2bn during the 5G spectrum auctions in Italy (vs EUR0.8bn expected). Combined with the BRL depreciation (-5% vs the EUR since our last update), a slowing macro there and the commercial success of Iliad (2m subscribers in 2 months), we expect revenue and EBITDA to decline for 18E/19E, leading to leverage remaining at a high level (3.2x YE18E/19E), not including any potential disposals. We also note the disagreements between the two main shareholders (Vivendi and Elliott Management) that create some instability we believe.

Telecom Italia: Cutting estimates/PT. We cut group organic EBITDA by c. -2%, to -3% for 18E-20E. This brings us -7%/-9% below Bloomberg consensus (consensus may not yet reflect the negative IFRS impact of c.4%). Our new price target is EUR0.46/0.43. We estimate TI trades on 5.7x 2019E EV/EBITDA, EV/OpFCF of 10.2x and an unlevered FCF of 5.9% vs European incumbents on 5.8x, 11.8x and 6.1% respectively, i.e. broadly in line despite lower growth ahead and higher risk in our view.

TIMP: Slowing GDP and drifting BRL. Since Q2, the EUR has appreciated vs the Brazilian real by +5%. In Brazil, Q2 GDP growth came in below expectations (+1% yoy) and Barclays also sees downside risk to its current +1.7% expectation for 2018 (2Q GDP, 31/8/18). We trim our estimates, and using the methodology we followed with Oi include some of the contingent liabilities in our PT. We cut our PT from USD18 to USD16. We estimate TIMP trades on 4.7x 2019E EV/EBITDA, an EV/OpFCF 11.3x and a 5.6% UFCF yield vs. Latam peers on 5.1x, 9.8x and 5.6%, respectively.

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 31.

RATING CHANGE

European Telecom Services

POSITIVE

Unchanged

Latin America Telecom & Media

NEUTRAL

Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

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Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating			Price Target			EPS FY1 (E)			EPS FY2 (E)			
	Old	New	Date	Price	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
European Telecom Services	Pos	Pos											
Telecom Italia SpA (TIT IM / TLIT.MI)	EW	UW	28-Sep-2018	0.52	0.70	0.46	-34	0.06	0.06	-	0.07	0.06	-14
Telecom Italia-RSP (TITR IM / TLITn.MI)	EW	UW	28-Sep-2018	0.46	0.60	0.43	-28	0.06	0.06	-	0.07	0.06	-14
Latin America Telecom & Media	Neu	Neu											
TIM Participações (TSU)	EW	EW	28-Sep-2018	14.49	18.00	16.00	-11	0.97	0.94	-3	0.97	0.90	-7

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.

FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.

Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended

Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

Valuation Methodology and Risks

European Telecom Services**Telecom Italia SpA (TIT IM / TLIT.MI)**

Valuation Methodology: We value Telecom Italia using a DCF-, multiple- and market value-based SOTP. Our WACC and growth assumptions are 8% and 1% respectively for Italy.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Iliad and Open Fibre success or failure in the markets they respectively focus represent downside or upside risks to our central case.

Telecom Italia-RSP (TITR IM / TLITn.MI)

Valuation Methodology: We value Telecom Italia using a DCF-, multiple- and market value-based SOTP. Our WACC and growth assumptions are 8% and 1% respectively in Italy.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Iliad and Open Fibre success or failure in the markets they respectively focus represent downside or upside risks to our central case.

Latin America Telecom & Media**TIM Participações (TSU)**

Valuation Methodology: Our price target is based on a discounted cash flow model, using a WACC of 11.5%. We discount group FCF in Brazilian Reals. We assume a terminal growth rate of 3.5%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Downside risks include: 1) Increase in competition 2) Macro economic risk: economy does not recover as much as expected. 3) Oi gets out of its debt restructuring process with a much improved balance sheet. Upside risks include the macro situation improving and Oi failing to exit its debt restructuring process soon.

Source: Barclays Research.

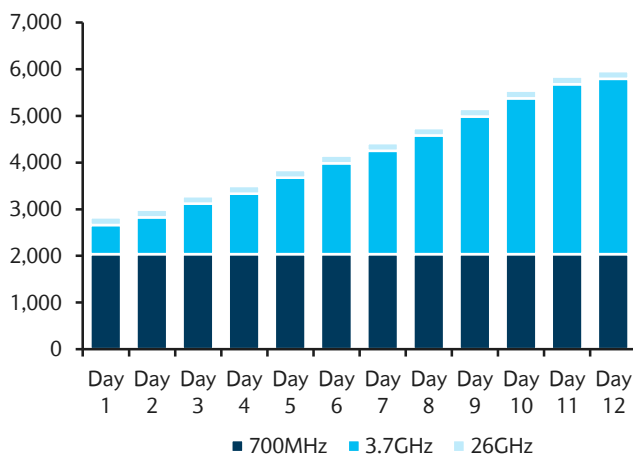
Italy Spectrum – TI bill running EUR1.4bn above expectations

Bids for the ongoing Italian 5G auction have reached levels well beyond our expectations. The total bidding reached €6bn by Day 12, well above our original €2.5bn market estimate. Italy makes up 80% for TI (excluding Inwit), each €500m of additional spectrum spend is €2.4c per TI share (5%) and increases Net Debt at a time when the market focus is increasingly on leverage: each €500m adds 0.1x to leverage.

Italy 5G spectrum auctions - What is going on?

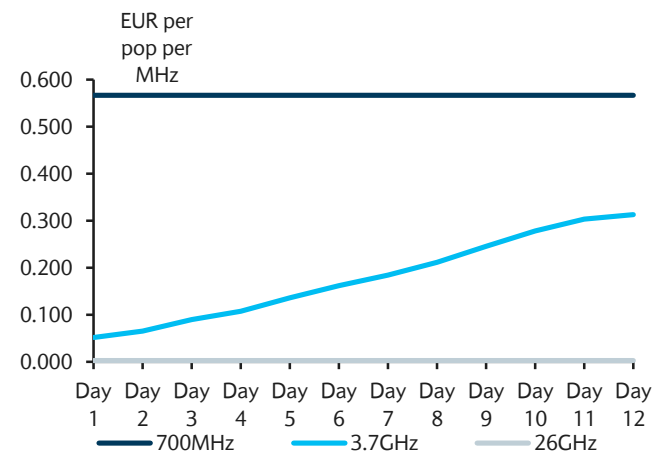
- **The problem isn't 700MHz.** Our fear going into the 5G auctions was that 700MHz bidding could become overheated. This was the case in 2011/2012 when 800MHz went for well above expectations, whereas 2.6GHz went well below. However, the 700MHz auction in Italy has already concluded and was in line with our expectations – c€680m for 2x10MHz per operator vs our €730m estimate. At €0.57/MHz/pop, this compares to €0.78 in France, and €0.21 in Germany. Note the unpaired 700MHz spectrum remains unsold.
- **The surprise is that bidding in the 3.4-3.8GHz band has become particularly elevated (the UK was also elevated at 3.4GHz).** As can be seen in the charts below, the 3.4-3.8GHz bidding has increased significantly, reaching €3.8bn by Day 12. On a €/MHz/pop basis, bidding reached €0.31, well ahead of Spain at €0.05, and even the UK at €0.14. Our base case had been €0.05-0.06 based upon historical auctions. For example, at 2.6GHz the average price paid was €0.04/MHz/pop.
- **We attribute much of this to the auction structure:** Essentially leading 3-4 competitors to bid for 2 oversize frequency bands. TI, Vodafone and Iliad each successfully bid for 3 blocks of 700MHz 2x10MHz spectrum, leaving Hutch/WIND empty handed. For the 3.6GHz, there are four lots of spectrum – two have 80MHz, two have 20MHz, and the chart below shows clearly that all of Vodafone, TI and Hutch/WIND are actively bidding.

FIGURE 1
Italy: Spectrum costs - Total Bidding (€m)



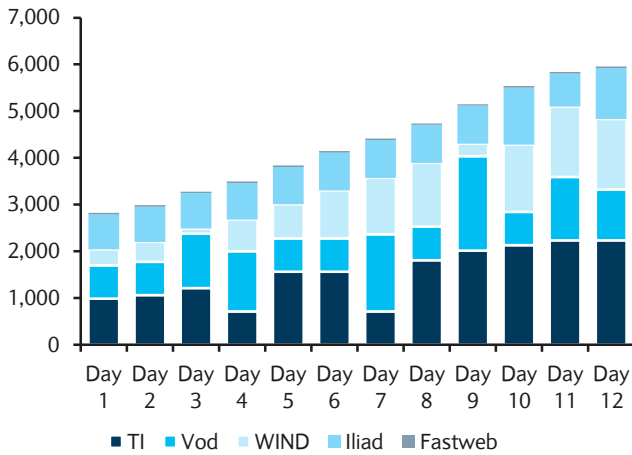
Source: Barclays Research, Regulator

FIGURE 2
Italy: Spectrum costs - €/MHz/Pop



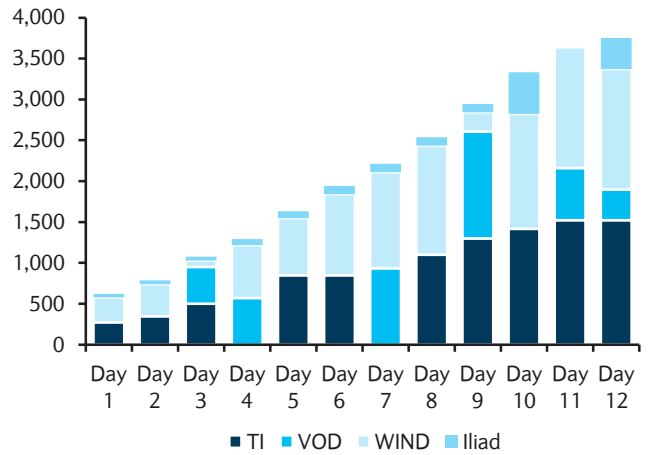
Source: Barclays Research, Regulator

FIGURE 3
Italy: Spectrum costs - Total Bidding by operator (€m)



Source: Barclays Research, Regulator

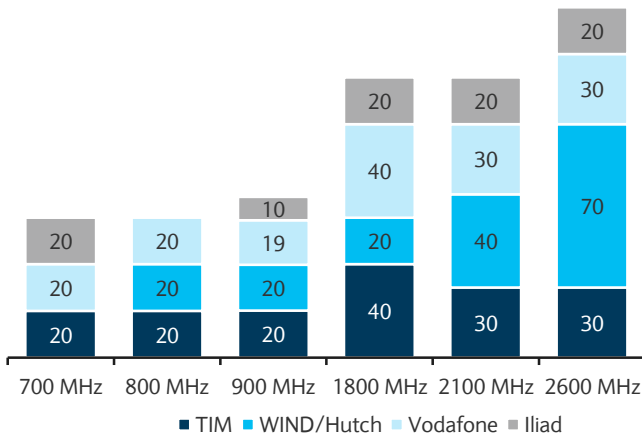
FIGURE 4
Italy: Spectrum costs - Total 3.7GHz Bidding by operator (€m)



Source: Barclays Research, Regulator

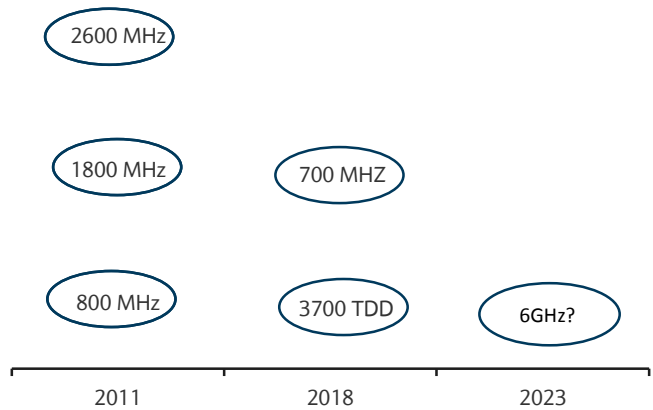
Who needs what? In the case of Hutch/WIND, the chart below shows that the company has less spectrum than TI/VOD in the <2GHz band, although that makes up somewhat at 2.6GHz. We do thus see some risk that Hutch/WIND become spectrum-light vs Vod/TI if they do not acquire 80MHz of 3.7GHz. In the case of Vod/TI, it can be seen that they both currently have very similar spectrum allocations to each other, which could of course change should one take 80MHz of 3.6GHz, and the other just 20MHz.

FIGURE 5
Italy: Spectrum allocations (MHz)



Source: Barclays Research, Regulator

FIGURE 6
Italy: Spectrum auctions



Source: Barclays Research, Regulator

Domestic fixed: Open Fiber in focus

Open Fiber is the highest profile Wholesale-Only infrastructure operator in Europe, with plans to build an extensive FTTH network in Italy. Open Fiber is a private company and is not under our coverage. It is 50%-owned by Enel, which is covered by Catherine Hubert-Dorel. Open Fiber will rely on established third party service providers (local broadband and mobile operators) to drive the business case. Recently the company indicated that it planned to cover 4m households by YE 2018, below the 4.8m we were expecting but still showing that momentum is building up. On 18 July 2018 Open Fiber indicated that it had secured financing for its investment plan and it expects to have fully closed its financing by mid October, lifting one uncertainty about the project. We expect OF to cover 8.5m homes by 2020e and 16.8m by YE 2023 (vs a target of 18.8m).

Open Fiber - A credible business model

The plan: c. 19m homes passed by 2022-2023

Open Fiber – Utility focus, leveraging existing assets

Open Fiber: rolling out a Fiber To The Home network. Open Fiber is the result of the combination of two assets. Enel Open Fiber was created by Enel, the incumbent Italian electricity and gas utility in Q4 15. The project was to roll out a FTTH network by leveraging the infrastructure of Enel, notably its ducts. Enel Open Fiber was then combined with Metroweb, a telecom network operator that had already rolled out FTTH in some Italian cities (notably Milan) and that belonged to Grupo Cassa Depositie Prestiti (CDP). CDP is a large state-owned financial institution with its mission being to support the Italian economy as a lender and investor. Today CDP and Enel are 50/50 co-owners of Open Fiber.

Open Fiber plans to cover 18.8m households (i.e. c. 66% of total Italian households) with FTTH (1Gbps speeds, <1.5ms latency) spread around 7,000 municipalities, deploying 150,000 km of fiber. The plan is expected to be achieved by 2022-2023. Open Fiber is deploying its network in two areas:

- 271 cities located in dense areas that represent around 10m households and 60% of the Italian population. These areas are called the A and B areas.
- Around 6,700 cities in non-dense areas that represent around 9.3m households in the so-called C and D areas. In these areas Open Fiber will benefit from c. €3bn of public subsidies and has a concession granted by Infratel until 2037.

Open Fiber has communicated on a regular basis when it started to roll out its network in a number of cities. This illustrates well its gradual ramp-up, and we note the large announcement for Rome that was made at the end of 2017.

Low capex per homes passed

Open Fiber is targeting a cost of €250 per home passed

Open Fiber has indicated that the cost per home passed is around €300 for the horizontal part and could come down to €250 over time. This is low in a European context where the cost of the horizontal part can be multiples of the cost of Open Fiber. Open Fiber leverages the existing electricity distribution network of Enel, which covers c.85% of Italy's population as some of this existing infrastructure can be re-utilised. Enel has 1m street cabinets vs 150k for TI. This is particularly relevant in C & D areas.

- **In large cities, Open Fiber uses municipalities' public lighting infrastructure, which are obliged to give access.** Municipalities can charge, or give access for free and typically do as they try to facilitate the roll-out of FTTH. Telecom Italia also provides access to ducts and pools, which are regulated. Finally, OF has also signed a deal with a Roman electricity company (ACEA) to access its ducts in exchange for providing fibre to the company.

- **In areas such as Milan where there are a number of buildings with multiple floors (more than 12), Open Fiber builds the verticals.** Where there are fewer than 12 floors, OF wait for the first customer order before building vertical.
- **Open Fiber highlights that Metroweb brings valuable know-how** developed over many years as it deployed fibre in Milan and some other cities. In 2017 Open Fiber had 6,000 active workers and it had 7,000 in April 2017. Open Fiber expects this to increase to 15k in 2018.
- **Open Fiber expects total capex to be €6.5bn**, of which €1.4bn is from Infratel, so net capex for Open Fiber is €5.1bn, of which €4.4bn by 2022. We note that there is €3.0bn of public funding (€0.35bn from the regions), which could be already included in the Infratel capex figure.

Open Fiber has a solid list of retail partners – Mobile operators and broadband providers

Solid retail partners deliver good take-up rate

Open Fiber's business model is to wholesale its infrastructure to retail partners. The main partners are Vodafone and Wind Tre. At YE 2017, Vodafone had a broadband customer base of 2.4m, Wind Tre of 2.4m.

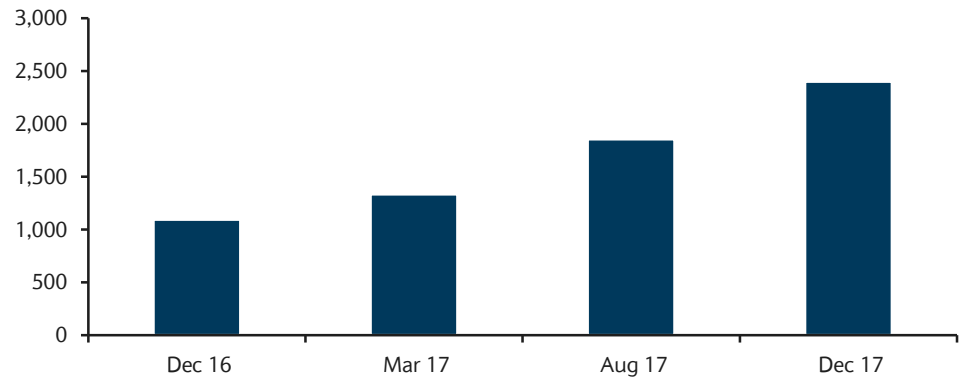
In Milan there are 800k homes passed and the take-up rate has been 50%, which Open Fiber believes is a reasonable target for the project. Roll-out in the new areas is going well, with some cities reaching a 10% take-up rate in one year. Specifically Perugia/Cagliari/Palermo are progressing very well according to Open Fiber. In Cagliari, Open Fiber notes that Tiscali has been very active with a street-by-street marketing approach. This has enabled Tiscali to migrate its own ADSL-based customers but also to gain market share. Open Fiber also notes that WIND is willing to start commercialising its product at lower levels of penetration than Vodafone, so take-up is progressing faster in the areas where it is stronger.

Uptake is accelerating. Back in September Open Fiber indicated it had reached 320k subs. In Q3 2017 there was an average of 6k orders/week, of which 50% were activated (rest is backlog - can do 50% inside a 20-day Service Level Agreement). The target is to reach 80% order activation - hence 12k/week connections. Open Fiber expects to more than double the current run rate of additions once there is a higher level of completion. It is only convenient for operators to push the product once there is c. 50-60% completion. The company claims provisioning is quicker than TI, with 80% done inside 18 days.

Financing and retail partners secured

- **On April 13, Open Fiber announced it had secured €3.5bn of project financing from Societe General, BNP Paribas and Unicredit for a 7-year duration.** This financing matches the peak funding need that the company had guided to at a presentation to investors in September. This lifts one uncertainty over the project and in our view validates the business plan. This financing will be made available once the EIB has given its authorisation.
- **Since the beginning of the year Open Fiber has extended its commercial agreement with Vodafone to 271 cities, in line with the deal it signed with Wind Tre in September 2017.** This basically covers 10m households in the dense areas (so called A and B areas) and c. 60% of the Italian population.
- **At YE 2017, Open Fiber had 2.4m homes passed, up from 1.9m at end of August 2017, suggesting a rollout rate of c. 30k per week.** Vodafone indicated that around 1.9m of these homes were marketable, i.e. they were in areas where the rollout rate was above 50%, making it attractive to start commercialising the service.

FIGURE 7
Open Fiber coverage (k, households)



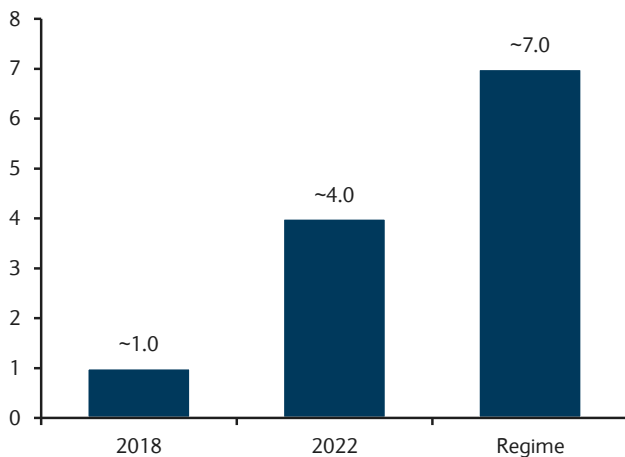
Source: Open Fiber

Financial targets

Open Fiber targets 7m customers longer term

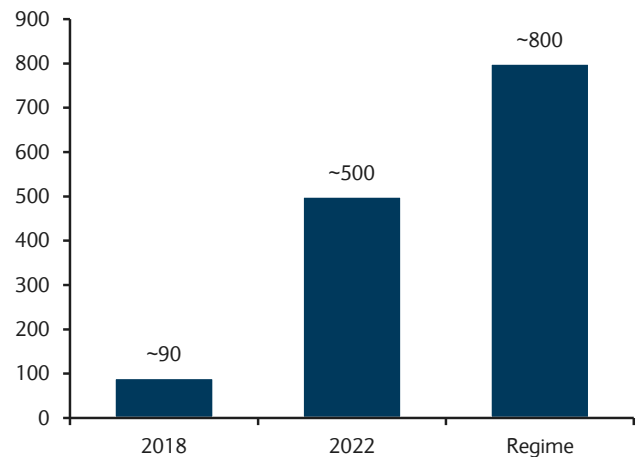
Back in September 2017 Open Fiber indicated that it expects 1m users by YE 2018, 4m subscribers by YE 2022 and 7m long term. Open Fiber assumes no loss of customers from TI to Open Fiber - hence it sees its plan as conservative. Combination of Passive and Active: End price of €12/mth for a passive service declines to €9/mth with volume discounts and €15/mth to €13/mth for active. There is also an activation fee. There is a revenue share model with the Italian government – the government spends €2.7bn and at the end of 20 years, the government will take ownership of the Infratel areas. Open Fiber expects €90m EBITDA by 2018, €500m by 2022 (75% EBITDA margin), and €800m eventually. Peak funding needs are estimated at €3.5bn and capex of €5.1bn for the whole project.

FIGURE 8
Open Fiber: Users expected (m)



Source: Company presentation, Barclays Research

FIGURE 9
Open Fiber: EBITDA projections (€m)



Source: Company presentation, Barclays Research

Open Fiber – Urban and Rural model: Infratel in focus in rural areas where Open Fiber is winning contracts

Infratel explained: Half of the households to be covered by Open Fiber

Infratel is the telecoms’ in-house division of the Ministry of Economic Development. Infratel is focussed on areas where other operators will not roll out fibre and will not do so for the next three years (the so-called market failure areas, or areas/clusters C and D). Currently, Italy has 22% coverage of over 30Mbps broadband internet whereas the EU average is 64% coverage. For speeds of over 100Mbps, Italy has 2% coverage vs. the EU

average of 6%. In the October 2015 *public consultation*, Infratel presented the regions in which there was a gap to reach the EU 2020 objective of 100% population internet coverage with a 30Mbps speed. The focus is on the so-called clusters/areas C and D that represent more than 10m households spread over c. 7,000 cities.

FIGURE 10
Italian regions

Cluster/Area	Cities	Households - 000s
A	15	4,048
B1	480	7,338
B2	638	3,542
C	2,666	6,326
D	4,289	4,048
Total	8,092	25,302

Source: Infratel, Istat, Barclays estimates

To ensure that these regions are covered, Infratel set up a concession model whereby it gives to private operators the right to operate and invest in these regions for 20 years, i.e. until 31/12/2037. State and regional subsidies are also granted as detailed below in Figure 11.

FIGURE 11
Infratel auctions

Auction	Close Date	Winner	Regions	Population (000s)	Households & SMEs (000s)	Cities	Subsidies (EURm)
1st	18/07/2016	Open Fiber	6 *	6,500	4,600	3,000	1,752
2nd	30/09/2016	Open Fiber	11 **	6,700	4,700	3,710	1,250
3rd	2018		3 ***	378	296	882	103
Total OF				13,578	9,596	7,552	

Notes: *Abruzzo, Molise, Emilia Romagna, Lombardia, Toscana, Veneto. **Piemonte, Valle D'Aosta, Liguria, Friuli Venezia Giulia, Trento, Marche, Umbria, Lazio, Campagna, Basilicata, Sicilia. ***Sardegna, Calabria, Puglia ****EUR1.4bn of State funds + €0.35bn of regional funds. Source: Infratel, Open Fiber, Telecom Paper, Barclays Research

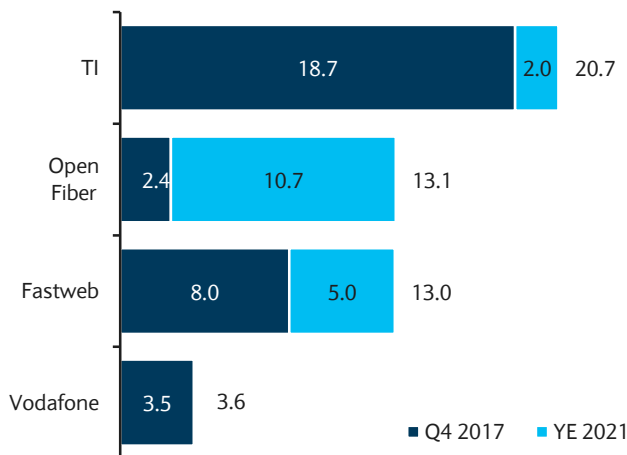
Open Fiber has won the first two auctions for an undisclosed amount. A third auction for 3 regions has been announced in April 2018 and Open Fiber will be looking at whether or not it considers the conditions to be attractive. Lastly a tender for the so called grey areas has yet to be issued.

Italy's Fixed NGN landscape: A three-player market

TI is the leader in terms of FTTx networks with c.75% coverage of households at end-2017. The second-largest player is Fastweb with 32% coverage, followed by Vodafone at 14%.

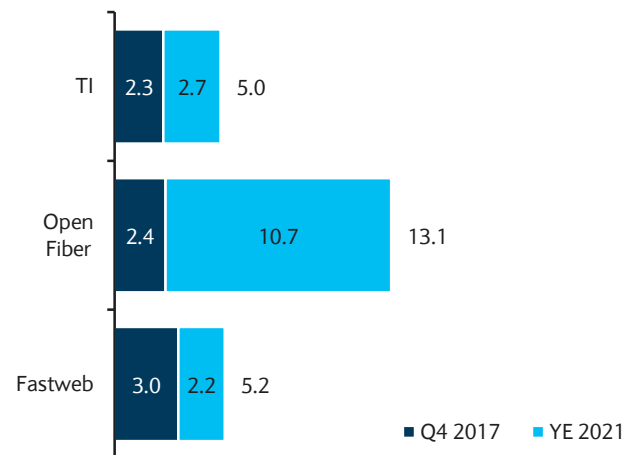
We expect TI to remain the largest FTTx operator with c. 80% coverage planned for 2020. Fastweb had indicated plans to reach c.50% by 2020 but is focused on upgrading its FTTC network to FTTH in the short term. Open Fiber has indicated plans for 18.8m, i.e. for 2022e including the Infratel concession areas in areas C and D.

FIGURE 12
Number of households covered by FTTx, own build (m)



Source: Barclays Research estimates, company data

FIGURE 13
Number of households covered by FTTH, own build (m)



Source: Barclays Research estimates, company data

Open Fiber to become the largest FTTH player in Italy?

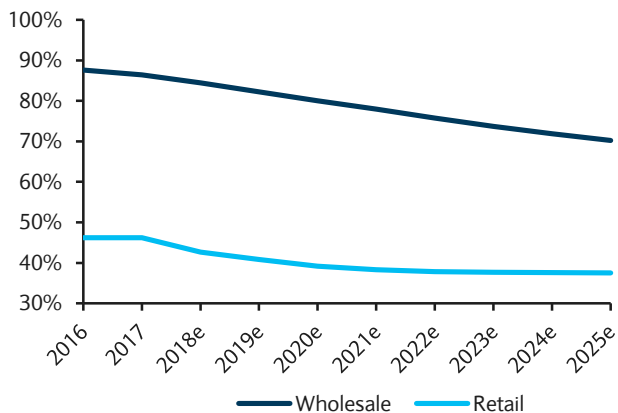
With regards to FTTH coverage, Open Fiber should be the largest player in Italy since all its deployment is planned to be on FTTH, unlike peers. TI would be a distant third – the company has guided for 4.0m households in 2019 (in the figures below, we assume it grows coverage to 5.0m households by 2021). Fastweb is targeting 5.0m households in 2020 (we assume 5.2m in 2021). TI and Fastweb have set up a joint venture named ‘Flash Fiber’ that is 80% owned by TI and 20% by Fastweb and that will invest in FTTH together in 3m households. The plan is to develop the secondary and vertical segments of the FTTH network in 29 cities (excludes Milan and areas already covered by the two parties before the deal). The target is 3m households for a capex of €1.2bn (i.e. €400 per home). As part of the deal, TI bought 650k FTTH connections from Fastweb, for €200 per unit.

TI to lose wholesale and retail market share in fixed line

We expect TI market share of retail broadband to decline from 46% to 37% from YE17 to YE25 and its market share of wholesale broadband to decline from 96% to 78%. In terms of revenue impact this should be offset by rising broadband penetration which is materially lower than EU peers at 66% vs 84% at YE17 and rising ARPU as TI up-sells customers to faster speed broadband both on retail and wholesale. We now expect Telecom Italia fixed lines to decline by -1.1% per year for the next 10 years and expect flat revenues in the fixed division during the same period despite rising broadband penetration and important investments in the past few years.

FIGURE 14

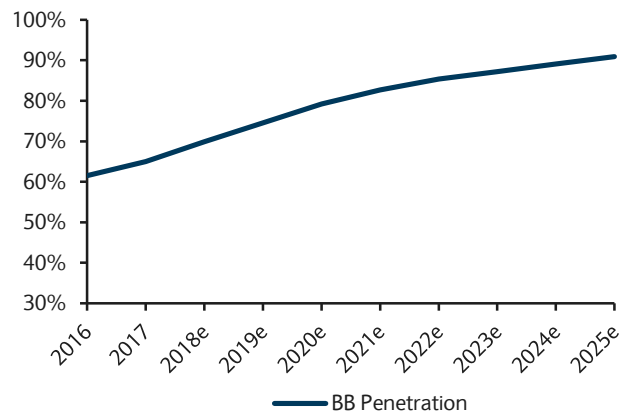
TI: Broadband market share to decline on wholesale and retail



Source: Company reports, Barclays Research estimates

FIGURE 15

TI: Broadband penetration in Italy set to rise



Source: Company reports, Barclays Research estimates

Merger with TI?

Discussions about the potential separation of TI's network have been around since the beginning of the decade. As Italy is one of few countries in Europe without a competing infrastructure, TI has held a de facto monopoly with its fixed network facing important regulation. After executing a functional separation, the company is now voluntarily pursuing a legal separation and has recently presented a project to the Italian regulator. A structural separation has also been discussed notably by Elliott Management, which now owns a c. 10% stake in TI and controls the BOD since May 2018. Before taking control of the BOD, Elliott Management made public statements and published a presentation highlighting the merits of a network structural separation and a subsequent partial listing and disposal. According to this presentation, the end game would be a merger with Open Fiber, the competing infrastructure. Since then Elliott has toned down its message.

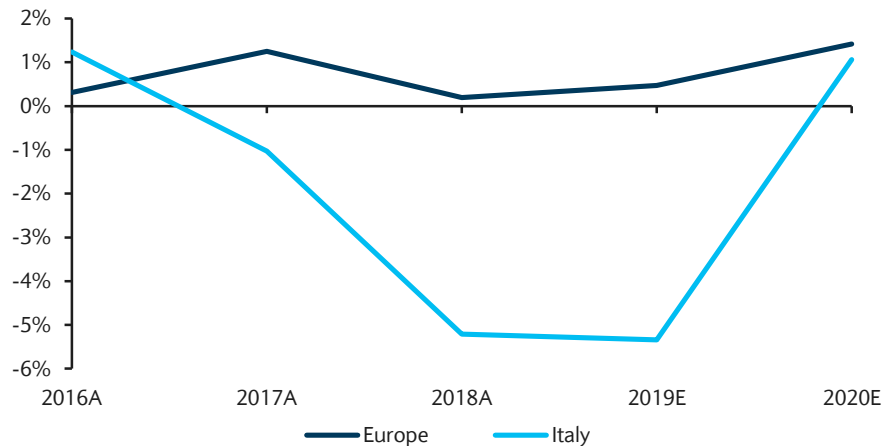
TI had 2.3m homes covered with FTTH at YE 2017 (and c. 19m with FTTC) and, in our view, will have to either invest in FTTH or resort to wholesaling the FTTH network of OF. We believe Telecom Italia is one of the few incumbents where a network structural separation could create value as it could open the possibility to merge with Open Fiber. This would eliminate overbuild of FTTH infrastructure and enable cost synergies that we estimate in total worth EUR6.5bn on our TI and Enel/Open Fiber estimates.

- TI's CEO has indicated that it would consider any solution that would create value with Open Fiber but that the focus for now was legal separation. We believe Telecom Italia is one of the few incumbents where a network structural separation could create value if it were merged with Open Fiber. This would eliminate overbuild of FTTH infrastructure.
- The CEO of Enel, that owns a 50% stake in Open Fiber, has indicated in a press interview that he saw no merits in merging Open Fiber with Telecom Italia (Bloomberg -7 September 2018).

Domestic mobile: Iliad's commercial success

Since its launch on 18 July this year Iliad has attracted 2m subscribers. We expect the company to reach a market share of mobile service revenues of nearly 4% at the end of 2018, and 12% in 2022e. Iliad's entry has been pre-empted by aggressive commercial offers by the existing players that have continued since then. This is leading to a general deflation in the Italian mobile market and we now expect MSR to decline by -5%/-5% and grow +1% in 18e/19e/20e with TI losing 2pp of market share.

FIGURE 16
Italy MSR vs Europe



Source: Companies, Barclays Research

Commercial success of Iliad exceeds expectations so far

Iliad announced on 6 September that they reached the impressive 2m customer milestone, and because of the way they run their offers we get a good general idea of the customer run-rate over time. ILD launched at €5.99/mth for 30GB on 29 May, but with the offer only available for 1m customers.

This initial offer was extended to a further 200k customers on 18 July 2018 hence we know they had reached c.1m subs at around that time. On 26 July 2018 a new €6.99/40GB offer was launched, available for the next 500k customer, extended on 30 August to a further 200k, and extended to a further 50k customers in September.

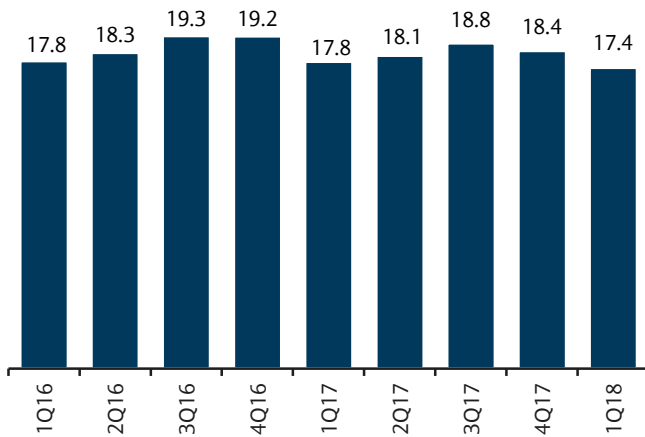
The latest offer is €7.99/50GB, launched on 6 September, and is available to 500k subs, so it will be a bit of a longer gap before we hear from ILD again on its KPI run-rate, but it is clear that despite a number of price increases, ILD is seeing similar levels of customer adds as it did during the early launch period, which is supportive of momentum, at least until the next price change.

Accelerating data bucket size to offset Iliad

Italy is a notoriously tricky market to analyse from a pricing perspective due to the abundance of below-the-line promotions (and to an extent the lack of postpaid penetration). Data buckets have been increasing in size dramatically in the past two years as operators prepare for Iliad's entry. These were accompanied by artificial price increases as operators moved to 28-day billing, but this is set to unwind as the regulator has forced operators to revert to monthly billing. Iliad's initial entry was somewhat more aggressive than first expected, although limited to the first 1m customers, which means mid-term uncertainty for the Italian market remains.

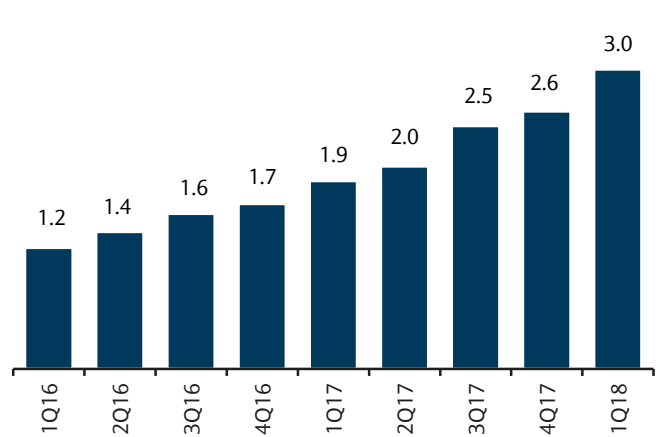
- **Premium Brand contagion risk – Low:** Despite expectations of intense competition following Iliad’s launch we see minimal amount of risk from spin-down to sub-brands. TI’s sub-brand Kena is also limited to just 3G.
- **Extent to which challengers are pushing aggressively – High:** Iliad has launched with an aggressive price point of 30GB for €5.99 for the first 1m customers that contract. All operators, including MNOs, have increased the data in bundles materially. Poste Mobile, the largest MVNO, offers 30GB for €10.
- **Success of more for more – Low:** Operators have been seeking to mitigate Iliad’s entry into the market by increasing the data available in tariffs.

FIGURE 17
MSR per pop showed signs of recovery but is declining...



Source: Company, Barclays Research

FIGURE 18
Data growth is picking up...

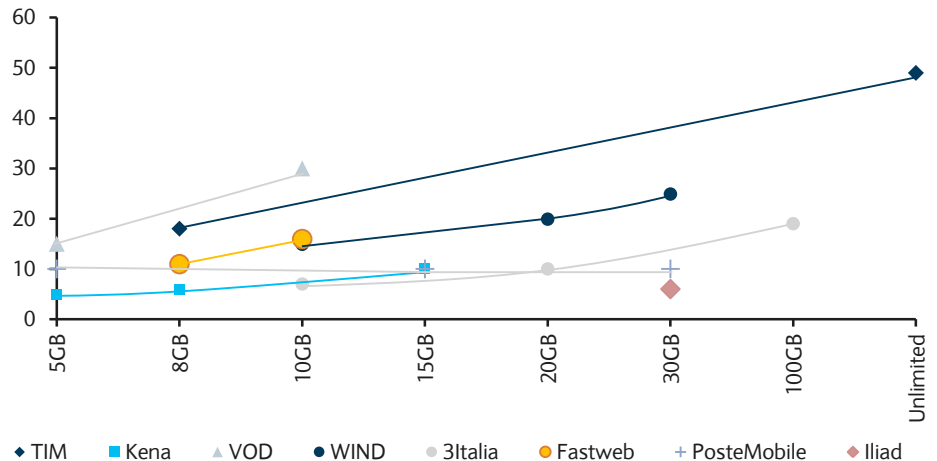


Source: Company, Barclays Research

Iliad has arrived...

TIM and Vodafone position themselves as the premium brands in the market due to their superior network quality and coverage. They are both also pushing convergence to protect their mobile and broadband bases. At the low end, pricing curves are getting lower and flatter in an attempt to ward off Iliad – see *Continuing irrelevance of yield* (27 November 2018). Iliad launched its initial product in May offering customers 30GB for €6 (see *Iliad Italy launEUR6/mth for 30GB - an attractive price point*, 29 May 2018).

FIGURE 19
Italy: Pricing in the Italian market (€/mth)

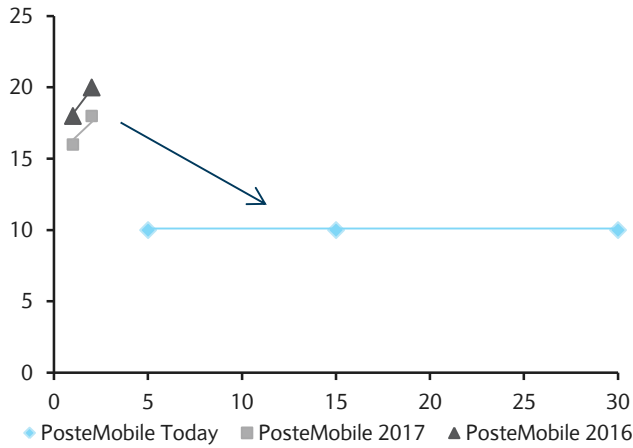


Source: Barclays Research, customer data.

More for less has dominated ahead of Iliad's arrival

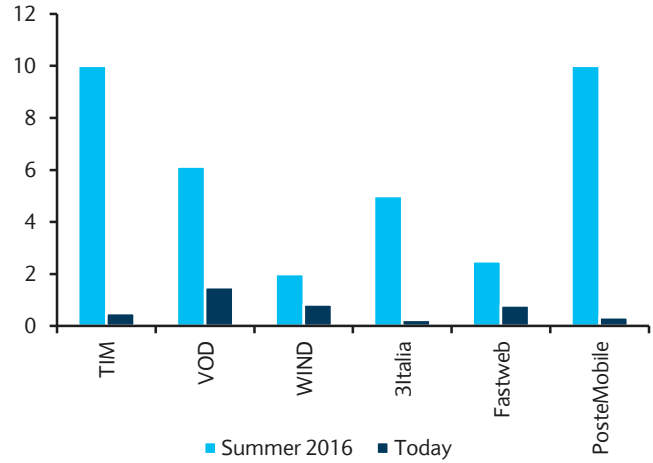
Whilst TI and Vodafone have put through more for less moves, it was the MVNOs that were being the most aggressive ahead of Iliad's launch. The MNOs have now followed their lead. For example, Poste Mobile, which has 47.5% of MVNO subs in Italy (YE17), has in the past year increased the data in its tariffs materially. Now for €10 a month customers can get 5/15/30GB of data depending on how many months the customer is willing to sign up for in advance. The tariffs include unlimited voice and SMS. This is a dramatic increase compared to the last two years when Poste Mobile tariffs included just 1 or 2GB of data for anywhere between ca€15-20 a month.

FIGURE 20
Poste Mobile has employed more for less...



Source: Barclays Research, company data

FIGURE 21
Data yields have compressed materially (€/GB)



Source: Barclays Research, company data

Shareholders in-fighting, asset sales and acquisitions

Elliott appointed 2/3 of BOD members.

At the 4th of May AGM, Elliott won the simple majority of the votes for the Board of Directors election. As per Telecom Italia's bylaws this meant that Elliott appointed two thirds of the BOD seats, i.e. 10, for an office of three financial years.

Vivendi, which came a close second, was entitled to appoint 5 members, and one of them was Amos Genish, who is also the current General Manager of TI. Amos Genish had been chosen by the BOD last year and was confirmed in his position at the AGM that took place on 24th April.

Shortly after Elliott win the BOD control, it confirmed Amos Genish in his position.

Vivendi is not giving up

On 7 September 2018, Vivendi issued a PR saying it was 'deeply concerned by the disastrous management of TI since Elliot took control'. A representative of Elliott at the BOD rejected the comments.

Since Elliot took control of TI's BOD, the press reported that some BOD members were unhappy about the CEO. The CEO hit back at the time criticizing unidentified members of the BOD for these comments, and the BOD questioned him which led the CEO saying he regretted his comments.

Vivendi could fight back

With 24% of the ordinary shares in Telecom Italia, Vivendi is entitled to call for an AGM to elect a new board. There is no guarantee of success and we note state owned CDP supported Elliot in the last vote. Structurally however the situation looks unstable with the largest shareholder not controlling the BOD. This in our view represents a potential share overhang.

FIGURE 22

Main shareholders

Ordinary shares - m	# shares	%
Vivendi	3,640	23.9%
Elliott Management	1,353	8.9%
Blackrock	727	4.8%
CDP	648	4.3%
Norges Bank	392	2.6%

Source: Bloomberg

Asset sales and acquisition

On September 24, the company held a board meeting and the press reported that the sale of Sparkle and Persidera was discussed (*Telecom Italia's Board Is Said to Discuss Bid for Nextel*; Source: Bloomberg, 9/24/18). The press also reported that the company is looking at buying NII Holdings (not covered), a small mobile operator in Brazil that had revenues of BRL2.8bn for FY17, mobile subscribers of 3.3m and a number of spectrum holdings (20MHz of 1.9/2.1GHz nationwide, 30MHz of 1.7/1.8GHz in Sao Paulo city and 20Mhz of 1.7/1.8GHz in Region 1). NII Holdings has a market EV of c.USD0.9bn (Source: Bloomberg).

Changes to estimates

Our group revenue estimates fall -0.8% in 18E and -1.5% in 19E driven by Italy (-0.5%) but essentially Brazil (-2% and -5%) due to the depreciation of the BRL vs the EUR.

We cut group organic EBITDA by c. -2%/-2% for 18E/19E reflecting reduced forecasts in Italy (c-1.5% in 18E) as well as -2% in Brazil.

This brings us -7%/-9% below Bloomberg consensus but consensus may have not yet adjusted for the negative IFRS impact (c.4%). Even adjusting for that factor we would be -3% below consensus in 2018 and -6% in 2019e.

FIGURE 23

Barclays vs guidance

2018-2020 plan	TI guidance	Barclays estimates
Service revenues		
Domestic - 20e/17 CAGR	Stable	-0.9%
Brazil - 20e/17 CAGR	Mid to high single digit	5.2%
Brazil - 2018 yoy	+5%/+7% growth	5.1%
EBITDA (adjusted for IFRS)		
Domestic - 20e/17 CAGR	Low single digit growth	-1.8%
Brazil - 2020e margin	> 40 % in 2020	39.6%
Brazil - 2018 yoy	Double digit growth	12.3%
Capex		
Domestic -2018e/20e	3Y cumulative of EUR9bn	9,031
Domestic capex/sales 2020e	< 20%	19.0%
Brazil- 2018e/20e	3Y cumulative of BRL12bn	11,863
EBITDA - Capex		
Brazil- 2018e	> or = 13%	15.7%
Brazil- 2020e	> or = 20%	19.6%
Group EFCF - 2018e/20 - EURm	3Y cumulative of c. EUR4.5bn	4,433
Group Leverage (adjusted for IFRS)	c. 2.7x in 2018, declining in 2019 and 2020	3.2

Source: Company, Barclays estimates

FIGURE 24

TI: Changes to estimates (€m)

EURm	New			Old			Diff (%)		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Domestic	15,111	14,833	14,819	15,186	14,914	14,923	-0.5%	-0.5%	-0.7%
% growth yoy	-1.6%	-1.8%	-0.1%	-1.1%	-1.8%	0.1%			
TIM Brasil	3,894	3,876	4,140	3,973	4,083	4,352	-2.0%	-5.1%	-4.9%
% growth yoy	-13%	0%	7%	-12%	3%	7%			
Others	-28	-28	-28	-28	-28	-28			
Group Revenues	18,977	18,680	18,931	19,131	18,970	19,247	-0.8%	-1.5%	-1.6%
% growth yoy	-4.3%	-1.6%	1.3%	-3.5%	-0.8%	1.5%			
Domestic	6,261	6,143	6,232	6,359	6,251	6,349	-1.5%	-1.7%	-1.8%
% growth yoy	1.5%	-1.9%	1.4%	3.0%	-1.7%	1.6%			
% margin	41.4%	41.4%	42.1%	41.9%	41.9%	42.5%			
TIM Brasil	1,462	1,460	1,579	1,501	1,540	1,663	-2.6%	-5.2%	-5.0%
% margin	37.5%	37.7%	38.1%	37.8%	37.7%	38.2%			
Others	-2	12	12	-2	12	12	nm	nm	nm
Group Reported EBITDA	7,722	7,615	7,824	7,858	7,803	8,023	-1.7%	-2.4%	-2.5%
% growth yoy	-0.9%	-1.4%	2.7%	0.9%	-0.7%	2.8%			
% margin	40.7%	40.8%	41.3%	41.1%	41.1%	41.7%			
Domestic Organic	6,436	6,318	6,407	6,559	6,451	6,549	-1.9%	-2.1%	-2.2%
% margin	42.6%	42.6%	43.2%	43.2%	43.3%	43.9%			
Group Organic EBITDA	7,897	7,790	7,999	8,058	8,003	8,223	-2.0%	-2.7%	-2.7%
% growth yoy	-9%	-1%	3%	-7%	-1%	3%			
% margin	41.6%	41.7%	42.3%	42.1%	42.2%	42.7%			
D&A	4,248	4,158	4,057	4,265	4,199	4,098	-0.4%	-1.0%	-1.0%
EBIT	3,473	3,457	3,767	3,592	3,603	3,925	-3.3%	-4.1%	-4.0%
% growth yoy	5.5%	-0.5%	9.0%	9.2%	0.3%	8.9%	0	0	0
% margin	18.3%	18.5%	19.9%	18.8%	19.0%	20.4%	0.0%	0.0%	0.0%
Other	0	0	0	0	0	0	nm	nm	nm
Financial charges	-1,444	-1,425	-1,351	-1,505	-1,416	-1,218	-4.1%	0.6%	11.0%
Taxes	-609	-610	-725	-626	-656	-812	-2.8%	-7.1%	-10.8%
Share of profit from associates	0	0	0	0	0	0	nm	nm	nm
Net profit - reported	1,294	1,298	1,535	1,330	1,398	1,730	-2.7%	-7.2%	-11.3%
Net profit - adjusted	1,469	1,473	1,710	1,530	1,598	1,930	-4.0%	-7.8%	-11.4%
DPS (ordinaries)	0.00	0.00	0.00	0.00	0.00	0.00	nm	nm	nm
Capex (excl. spectrum)	3,761	3,672	3,570	3,818	3,731	3,705	-1.5%	-1.6%	-3.6%
OpFCF (EBITDA - Capex)	3,961	3,943	4,253	4,040	4,071	4,318	-1.9%	-3.1%	-1.5%
FCF	1,158	1,409	1,878	1,108	1,349	1,788	4.5%	4.5%	5.0%
Net Debt - reported	26,412	25,390	23,728	26,049	25,040	23,418	1.4%	1.4%	1.3%
Net Debt - adjusted (TI)	25,512	24,490	22,828	25,149	24,140	22,518	1.4%	1.4%	1.4%

Source: Company data, Barclays Research estimates

We include higher spectrum costs for Italy 5G auction: we had factored around EUR800m and based on the last round of auctions (TI bid EUR2.2bn) we assign a 2/3 probability that the bid for the 3.7GHz will succeed at these levels (EUR1.5bn). The 700Mhz bid at EUR680m has already been accepted.

Clearly the auction can continue higher or TI can lose the 3.7GH spectrum. The latter could be a relief but would mean in the long term that TI would need more capex to utilise its spectrum portfolio, all else being equal.

We do not expect TI to be able to deleverage this year and next based on these estimates.

FIGURE 25

TI: Cash flow and Net debt (€m)

Cash Flow and Net Debt	2016	2017	2018e	2019e	2020e	2021e
EBITDA	8,005	7,790	7,722	7,615	7,824	7,944
Capex	-4,876	-5,071	-3,761	-3,672	-3,570	-3,455
Change in WC, provisions	-270	407	-750	-500	-300	-96
Cash Flow from operations	2,859	3,126	3,211	3,443	3,953	4,394
Financial charges	-1,659	-1,572	-1,445	-1,430	-1,361	-1,152
Taxes paid	-218	-1,113	-609	-608	-722	-851
Others	-374	553	0	0	0	0
Net Cash Flow from discontinued operations	0	0	0	0	0	0
Free Cash Flow	608	994	1,157	1,406	1,870	2,391
Divestments/Acquisitions	745	33	0	0	0	0
Free Cash Flow after Disposals/Acquisitions	1,353	1,027	1,157	1,406	1,870	2,391
Capital increase / (share buyback)	1,304	16	0	0	0	0
Distribution of income/reserves	-227	-235	-229	-232	-166	-166
Others (minority dividend, spectrum, fx)	90	-944	-1,250	-115	-10	-419
Change in Net Debt	2,520	-136	-321	1,058	1,695	1,806
Net Debt (reported)	-25,955	-26,091	-26,412	-25,354	-23,660	-21,854
Net Debt to EBITDA	3.2x	3.3x	3.4x	3.3x	3.0x	2.7x
Net Debt (adjusted TI)	-25,119	-25,308	-25,512	-24,454	-22,760	-20,954
Net Debt to EBITDA	3.1x	3.2x	3.2x	3.2x	2.9x	2.6x
Net Debt (incl. leases)	-33,094	-32,830	-33,151	-32,093	-30,399	-28,593
Net Debt to EBITDA	3.5x	3.6x	3.6x	3.6x	3.3x	3.1x

Source: Company data, Barclays Research estimates

Valuation

We reduce our PT to EUR0.46 for ordinaries, EUR0.70 prior (preferred cut from EUR0.60 to EUR0.43) based on our lower new estimates, higher spectrum costs and a slightly higher WACC (8%) which reflects higher yields on the Italian risk free rate (up 60bps since end of June 2018, up 120bps YTD).

FIGURE 26

TI: SoP valuation (€m, x)

Business unit	Valuation methodology	EURm	% stake	EURm	% weight	EV/EBITDA	
						2,017	2018e
Domestic Business	DCF with 8% WACC, 1.0% LT growth	31,796	100.0%	31,796	80%	5.3x	5.3x
Domestic Assets				31,796	80%		
TIM Brazil	DCF with 11% WACC, 3.5% LT growth	8,020	67.0%	5,374	14%	6.3x	5.8x
Inwit	Price Target	4,126	60.0%	2,475	6%		
Corporate center	EV/OpFCF 18e: 10x	120	100.0%	120	0%		
Enterprise Value				39,765	100%	5.5x	5.6x
Prop. Adjusted Net debt - YE 19e				-25,209	-63%		
Other				-3,013	-8%		
Spectrum NPV post 19e				-1,738			
Equity Value				9,806			
Nb of shares (m)				21,230			
Value per share - ordinary				0.46			
Value per share - savings (Risp)				0.43			

Source: Barclays Research estimates

We estimate TI trades on 5.7x 2019E EV/EBITDA, EV/OpFCF of 10.2x and an unlevered FCF of 5.9% vs European incumbents on 5.8x, 11.8x and 6.1% respectively, i.e. broadly in line despite lower growth ahead and higher risk in our view.

FIGURE 27

TI: Valuation multiples of ordinary shares (x, %)

	2015	2016	2017	2018e	2019e	2020e	2021e
P/E (x)	39.2x	6.0x	9.3x	8.3x	8.3x	7.0x	6.0x
EFCF yield (%)	-1.7%	2.1%	7.1%	8.5%	10.5%	10.9%	15.1%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TSR yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	6.7x	5.6x	5.8x	5.7x	5.7x	5.3x	5.0x
EV/OpFCF	21.8x	12.9x	15.2x	10.4x	10.2x	9.2x	8.3x
Unlevered FCF yield (%)	2.2%	3.5%	5.0%	5.1%	5.9%	6.1%	7.5%

Source: Barclays. Priced September 28 2018, rolling multiples adjusted for dividends paid.

TIM Part - Trimming forecasts

We update our estimates for a slightly deteriorated macro environment. We remain within guidance range but at the lower end.

FIGURE 28

Guidance vs BARC

	Guidance	BARC
2018 MSR growth (Excluding IFRS)	+5%/+7%	5.1%
2018 EBITDA growth (Excluding IFRS)	Double digit'	12.3%
2017-2020 MSR CAGR	Mid/High single digit'	5.2%
2020 EBITDA margin (Excluding IFRS)	>40%	39.6%
EBITDA-Capex 2018 (Excluding IFRS)	>= 13%	15.7%
EBITDA-Capex 2020 (Excluding IFRS)	>=20%	19.6%
2018 MSR growth (Excluding IFRS)	12,000	11,863

Source: Company data, Barclays Research estimates

FIGURE 29

TIMP: Changes to Estimates (BRLm)

Changes to estimates BRLm	New estimates			Change (%)		
	2018e	2019e	2020e	2018e	2019e	2020e
Net MSR	15,429	16,145	17,075	-0.5%	-0.4%	-0.2%
% change	5%	5%	6%			
Net FSR	1,479	1,672	1,841	-0.7%	-0.6%	-0.5%
% change	15%	13%	10%			
Net handset revenue	753	966	1,170	0.0%	0.0%	0.0%
% change	-1%	28%	21%			
Net Revenues	17,056	18,114	19,350	-0.5%	-0.4%	-0.2%
% change	5%	6%	7%			
EBITDA reported	6,486	6,880	7,443	-0.7%	-0.6%	-0.4%
margin	38%	38%	38%			
% change	9%	6%	8%			
EBITDA adjusted	6,488	6,880	7,443	-0.7%	-0.6%	-0.4%
margin	38%	38%	38%			
% change	9%	6%	8%			
D&A	-4,014	-4,014	-4,014	0.0%	0.0%	0.0%
EBIT	2,473	2,866	3,430	-1.9%	-1.5%	-0.9%
margin	14%	16%	18%			
Financial results	-145	-196	-77	1.0%	1.2%	5.0%
Income Tax and Social Contribution	-647	-908	-1,140	-2.4%	-1.7%	-1.0%
Group net income	1,680	1,762	2,212	-1.9%	-1.7%	-1.0%
% change	36%	5%	26%			
EPS - reported - BRL	0.69	0.73	0.91	-1.9%	-1.7%	-1.0%
% change	36%	5%	26%			
DPS - reported - BRL	0.37	0.39	0.39	0.0%	0.0%	0.0%
% growth	5%	5%	0%			
Number of shares (m)	2,420	2,420	2,420	0.0%	0.0%	0.0%
Capex excluding spectrum	4,008	3,985	3,870	-0.5%	-0.4%	-0.2%
EBITDA - Capex (excl. spectrum)	2,478	2,894	3,573	-1.1%	-0.9%	-0.6%
Net Debt / (Net Cash)	2,035	1,627	305	0.7%	1.6%	15.5%

Source: Barclays Research

Valuation

We now include in our SOP part of the contingent liabilities that TIMP has towards a number of third parties. This is in line with the methodology we applied in our recent Oi report (*Oi: A new beginning* 25 Sep 2018).

We cut our PT to USD16 (from USD18 prior) essentially as a result of the lower BRL vs the USD and the higher contingent liabilities. This is partly offset by the rolling of our DCF to 2019.

FIGURE 30
TIMP: SOTP

SOTP (BRLm)	EV	% Total	Valuation		EV/OIBDA		
			Method		2017	2018e	2019e
Fixed and Mobile asset	37,453	100%	DCF - WACC 11.5%	Term. g. rate 3.5%	6.3x	5.8x	5.4x
Total EV	37,453						
NPV of other liabilities, assets post YE	-4,989						
Net Debt / (Net Cash) adj. - YE 2019e	1,627						
Fair Equity Value	31,341						
Number of shares - m	2,420						
Fair Value per share - BRL	13.0						
% upside / (downside)	12%						
Fair Value per ADRs - USD	16.00						
% upside / (downside)	11%						
Number of ADRs - m	484						

Source: Barclays Research estimates, company data

We estimate TIMP trades on 4.7x 2019E EV/EBITDA, an EV/OpFCF 11.3x and a 5.6% UFCF yield vs. Latam peers on 5.1x, 9.8x and 5.6%, respectively.

FIGURE 31
TIMP: Valuation Multiples

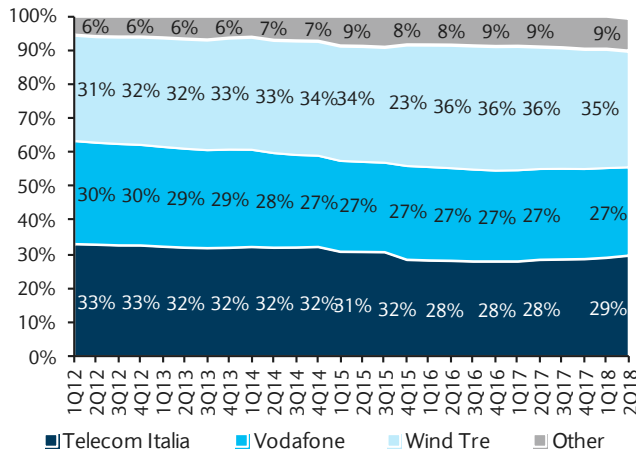
	2018E	2019E	2020E	2021E	2022E	2023E	2024E
P/E (x)	16.3x	15.0x	11.5x	9.2x	7.4x	6.1x	4.9x
EFCF yield (%)	5.2%	6.0%	8.1%	10.7%	12.6%	14.7%	17.1%
Dividend yield (%)	3.3%	3.5%	3.7%	3.8%	4.0%	4.2%	4.4%
TSR yield (%)	3.1%	3.4%	3.7%	4.0%	4.4%	4.8%	5.4%
EV/EBITDA	5.2x	4.7x	4.1x	3.2x	2.6x	2.0x	1.5x
EV/OpFCF	13.7x	11.3x	8.5x	5.9x	4.7x	3.6x	2.6x
Unlevered FCF yield (%)	4.8%	5.6%	7.6%	11.2%	13.9%	17.9%	24.5%

Source: Barclays Research estimates. Priced at September 28 2018

Italy Wireless in pictures

FIGURE 32

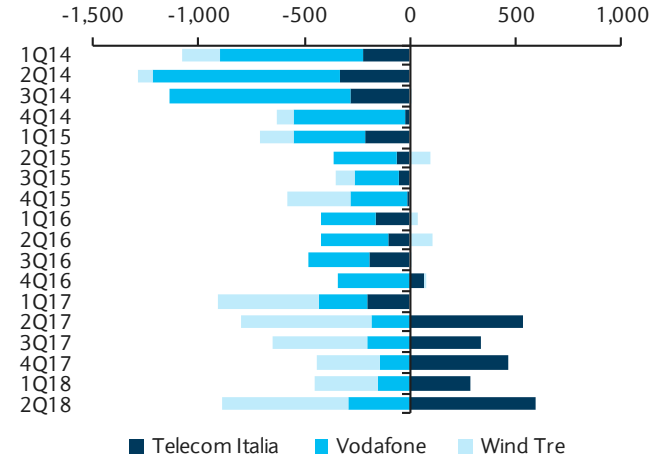
Italy – Retail Subscriber market share (%)



Source: Company data, Barclays Research estimates

FIGURE 33

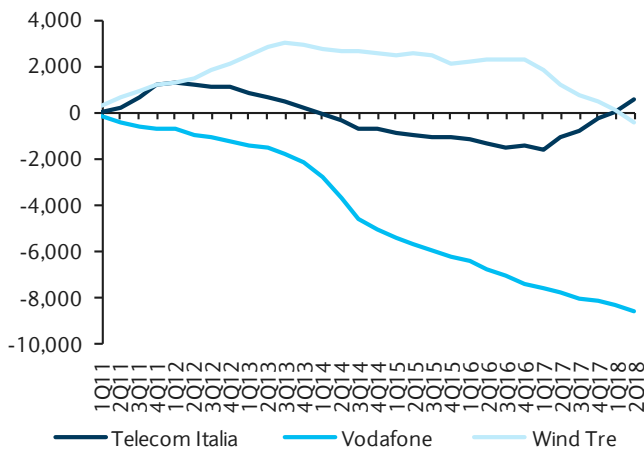
Italy – Total subscribers net adds (000s)



Source: Company data, Barclays Research estimates

FIGURE 34

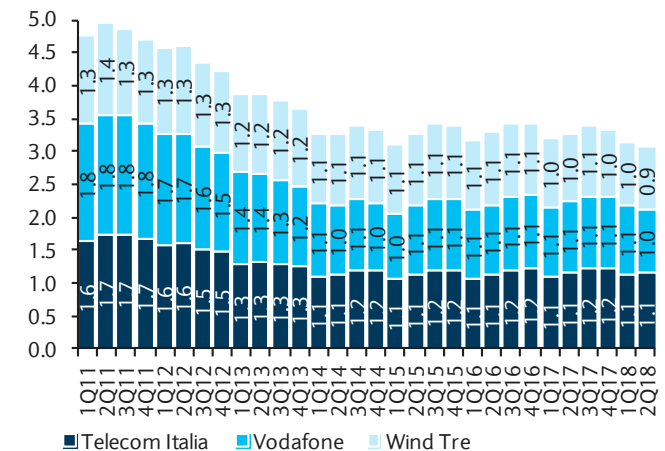
Italy – Cumulative net adds (000s)



Source: Company data, Barclays Research estimates

FIGURE 35

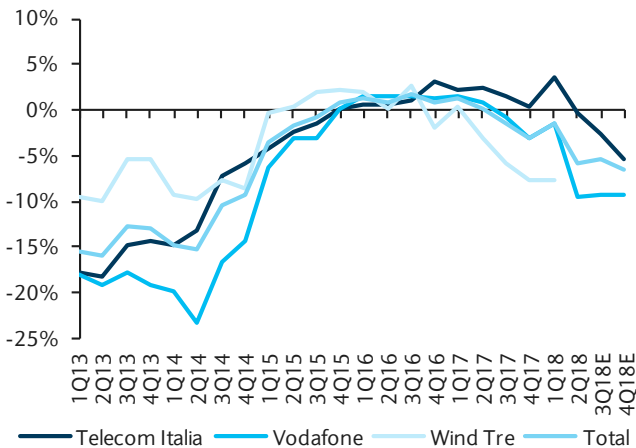
Italy – Service revenues (€bn)



Source: Company data, Barclays Research estimates

FIGURE 36

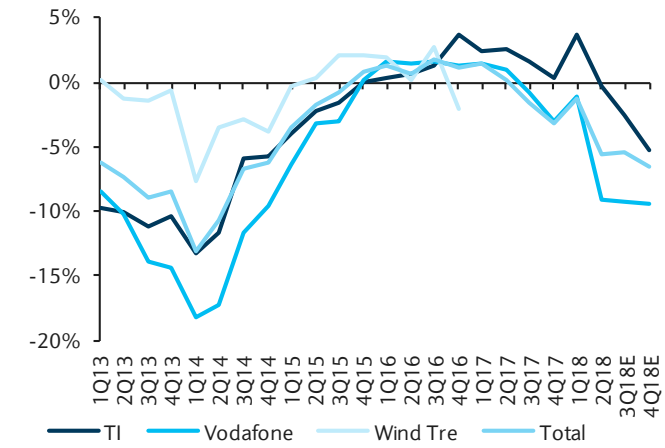
Italy – Reported service revenue growth (%)



Source: Company data, Barclays Research estimates

FIGURE 37

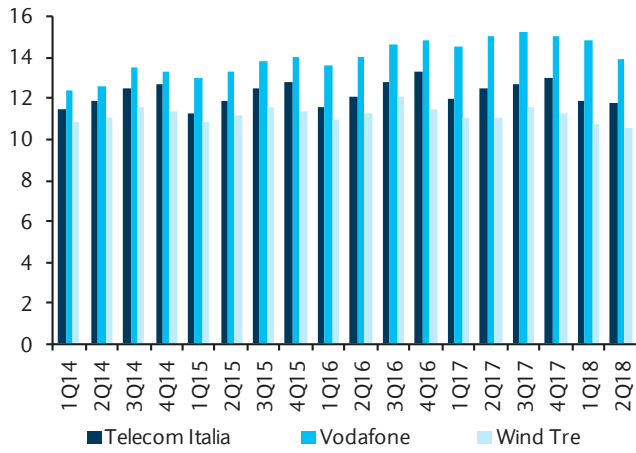
Italy – Underlying service revenue growth (%)



Source: Company data, Barclays Research estimates

FIGURE 38

Italy: Mobile blended ARPU

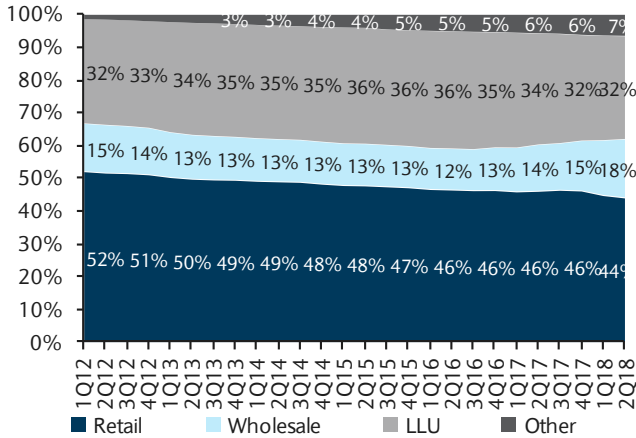


Source: Company data, Barclays Research.

Italy fixed in pictures

FIGURE 39

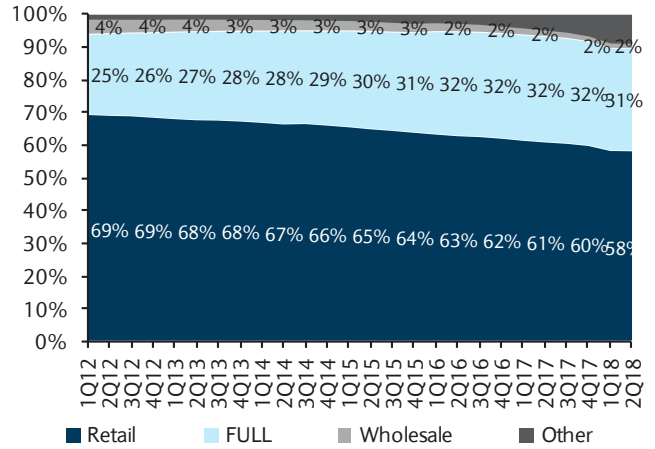
Italy: Broadband market share by technology (%)



Source: Company data, Barclays Research

FIGURE 40

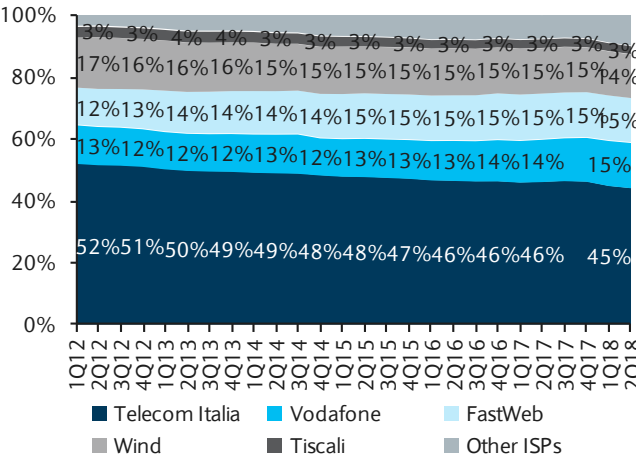
Italy: Voice lines market share by technology (%)



Source: Company data, Barclays Research

FIGURE 41

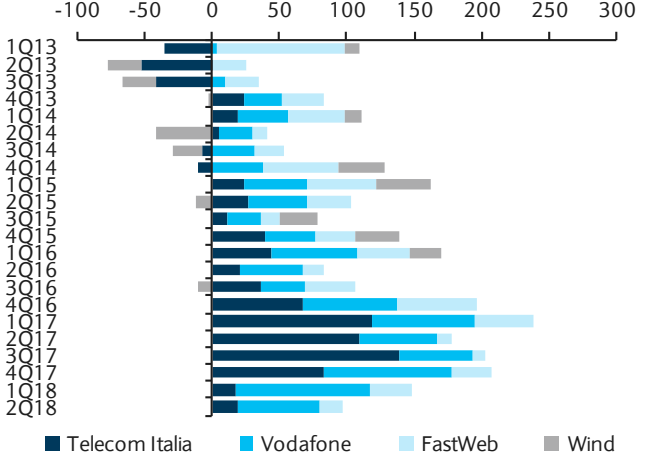
Italy: Broadband market share by operator (%)



Source: Company data, Barclays Research

FIGURE 42

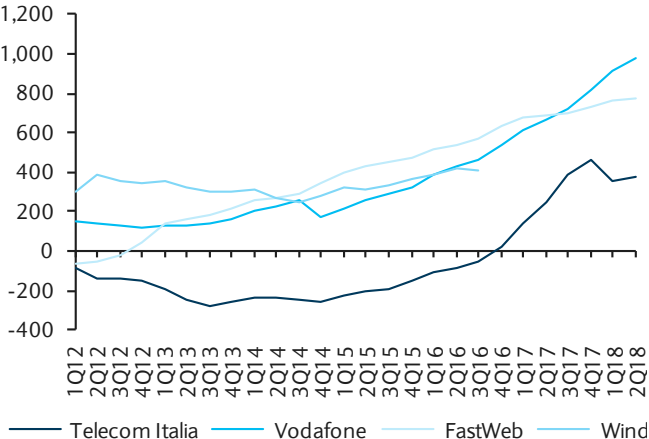
Italy: Broadband quarterly net adds



Source: Company data, Barclays Research

FIGURE 43

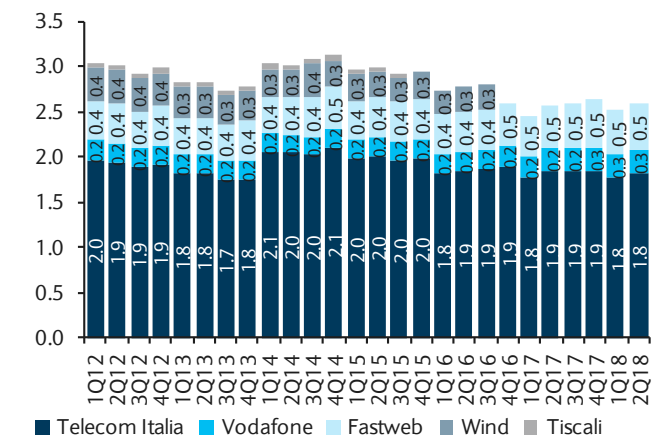
Italy: Cumulative net broadband adds (000s)



Source: Company data, Barclays Research

FIGURE 44

Italy: Total fixed revenues (€bn)

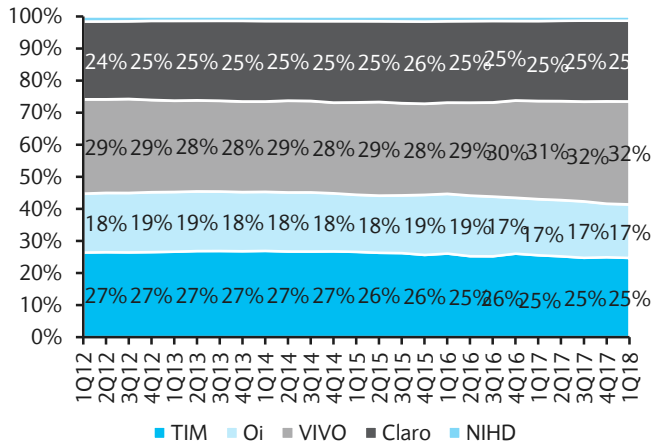


Source: Company data, Barclays Research

Brazilian wireless market

FIGURE 45

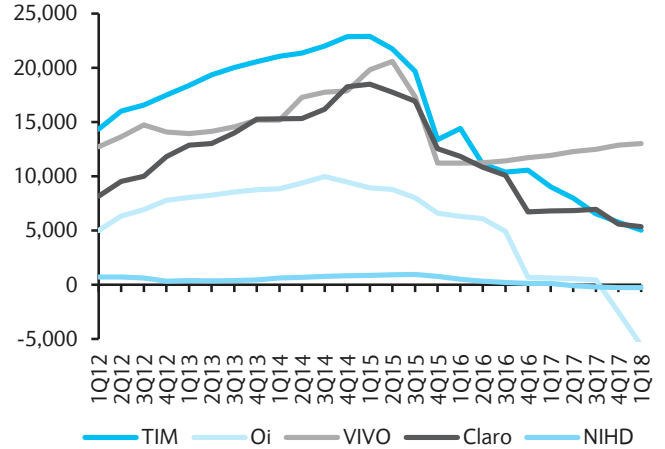
Brazil: Mobile subscriber market share (%)



Source: Company data, Barclays Research

FIGURE 46

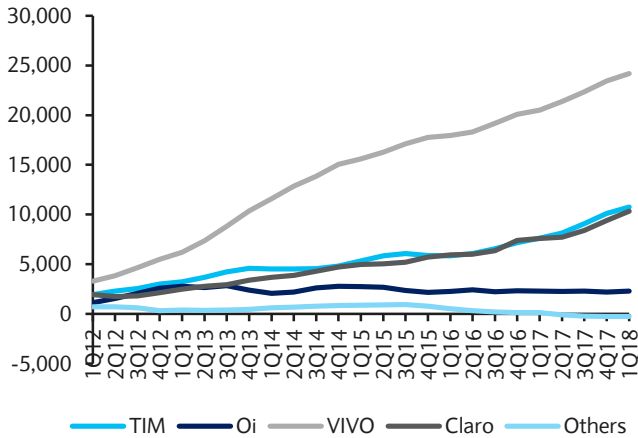
Brazil: Cumulative mobile net adds (000s)



Source: Company data, Barclays Research

FIGURE 47

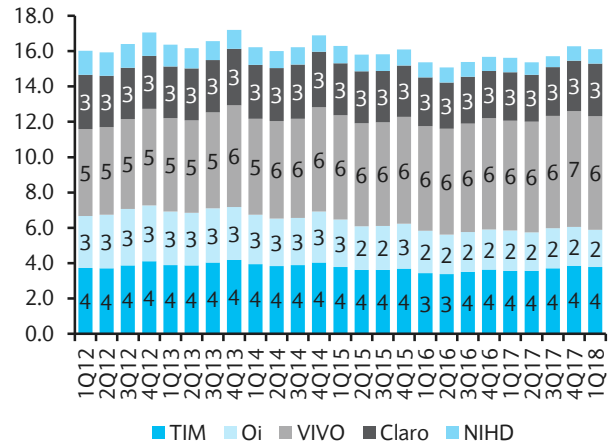
Brazil: Cumulative contract net adds (000s)



Source: Company data, Barclays Research

FIGURE 48

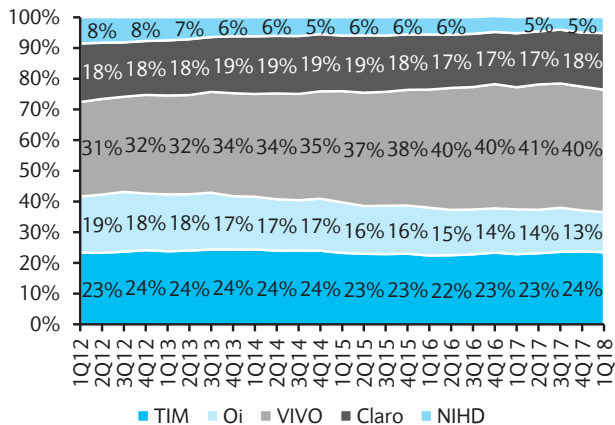
Brazil: Mobile service revenues (BRL bn)



Source: Company data, Barclays Research

FIGURE 49

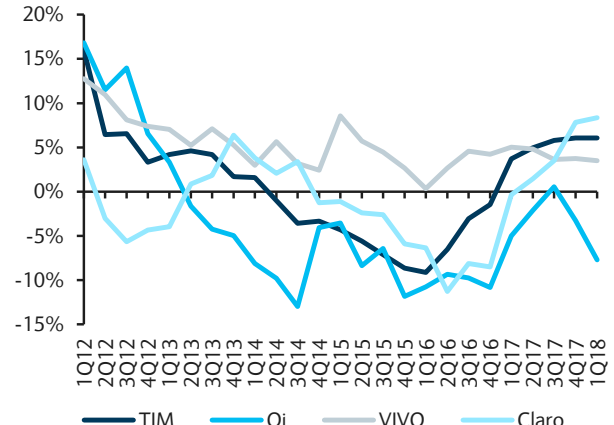
Brazil: Mobile service revenues market share (%)



Source: Company data, Barclays Research

FIGURE 50

Brazil: Mobile service revenue growth (%) =

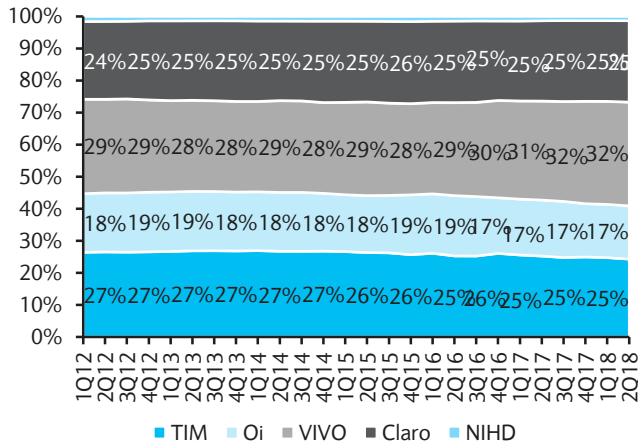


Source: Company data, Barclays Research estimates

Brazilian mobile market

FIGURE 51

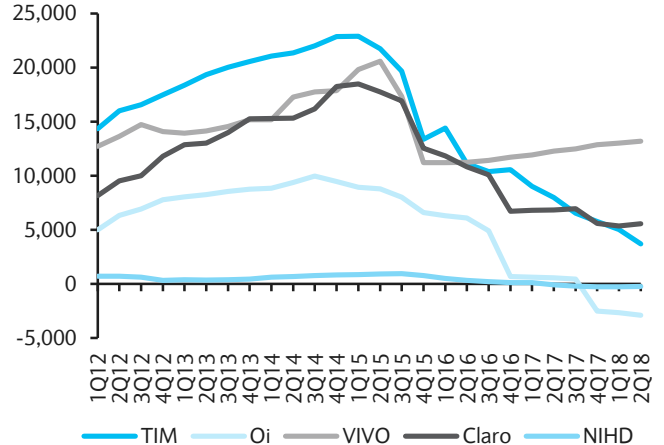
Brazil: Mobile subscriber market share (%)



Source: Company data, Barclays Research

FIGURE 52

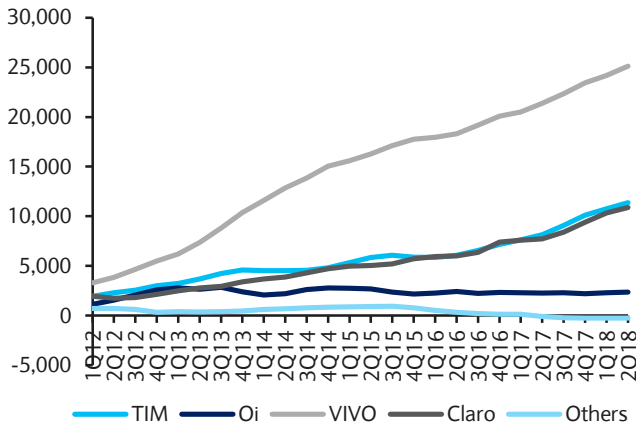
Brazil: Cumulative mobile net adds (000s)



Source: Company data, Barclays Research

FIGURE 53

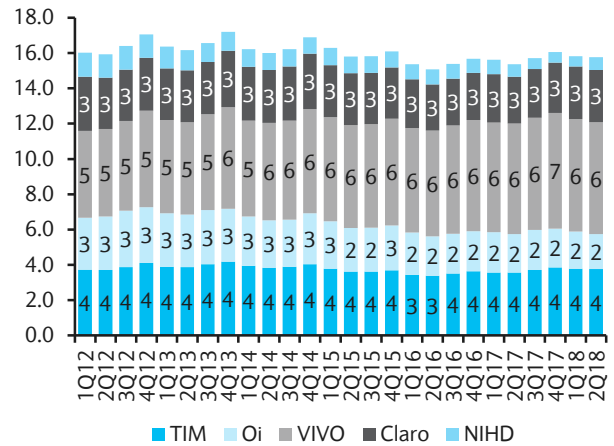
Brazil: Cumulative contract net adds (000s)



Source: Company data, Barclays Research

FIGURE 54

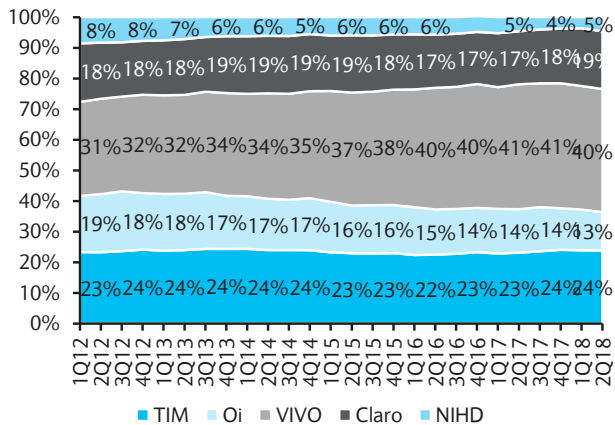
Brazil: Mobile service revenues (BRL bn)



Source: Company data, Barclays Research

FIGURE 55

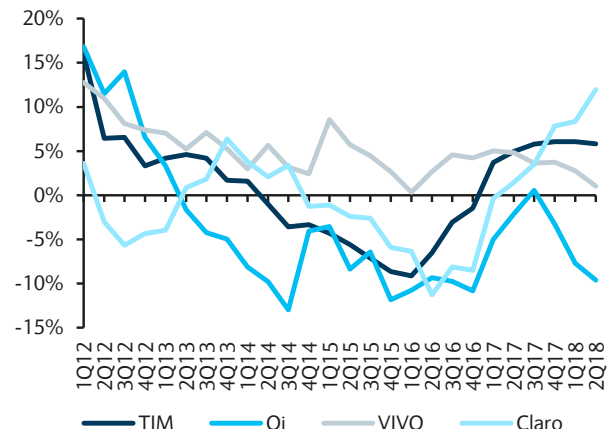
Brazil: Mobile service revenues market share (%)



Source: Company data, Barclays Research

FIGURE 56

Brazil: Mobile service revenue growth (%)

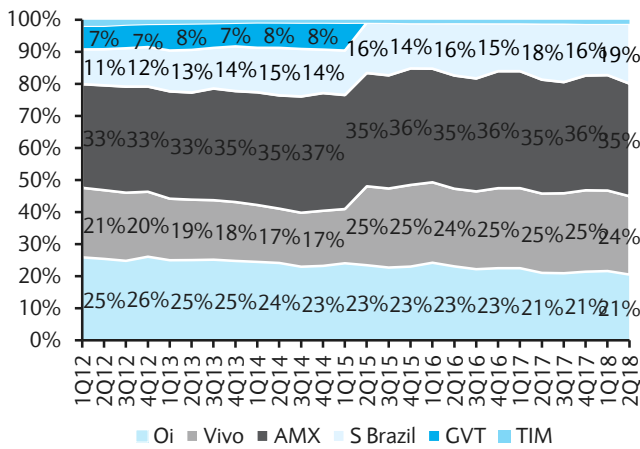


Source: Company data, Barclays Research

Brazilian Wireline, BB and Pay TV markets

FIGURE 57

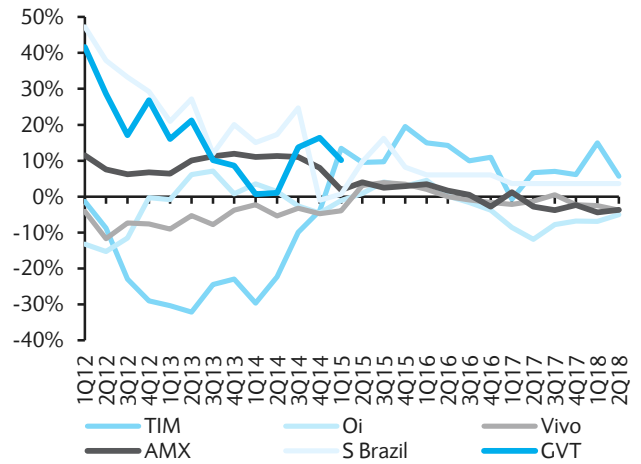
Brazil: Fixed revenue market share – %



Source: Company data, Barclays Research

FIGURE 58

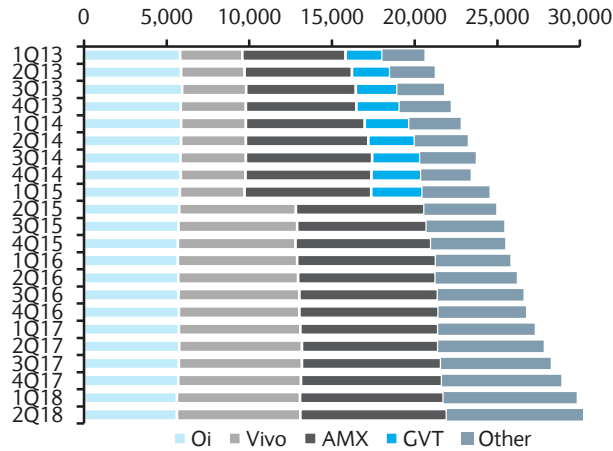
Brazil: Fixed revenue trends – yoy



Source: Company data, Barclays Research

FIGURE 59

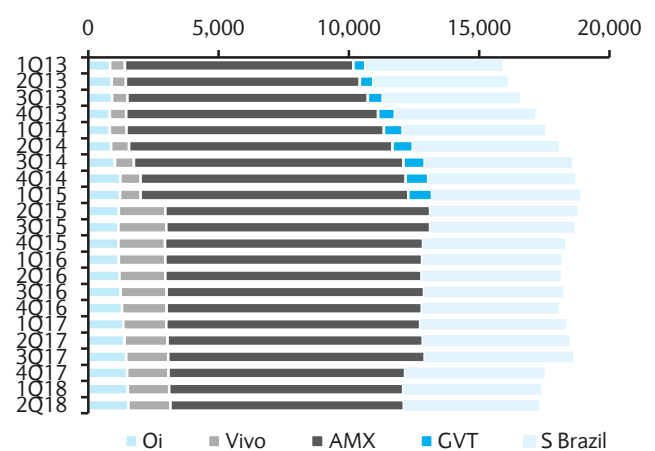
Brazil: Broadband subscribers – 000s



Source: Company data, Barclays Research

FIGURE 60

Brazil: Pay TV subscribers – 000s



Source: Company data, Barclays Research

European Telecom Services						Industry View: POSITIVE
Telecom Italia (TLIT.MI)						Stock Rating: UNDERWEIGHT
Income statement (€mn)	2017A	2018E	2019E	2020E	CAGR	Price (28-Sep-2018)
Revenue	19,830	18,977	18,680	18,931	-1.5%	EUR 0.52
EBITDA	7,790	7,722	7,615	7,824	0.1%	Price Target
EBIT	3,291	3,473	3,457	3,767	4.6%	EUR 0.46
Finance costs - net	-1,495	-1,444	-1,425	-1,351	N/A	Why Underweight? Telecom Italia faces rising headwinds. In addition to a successful commercial entry from Iliad in mobile and a new competitor in fixed (Open Fiber), TI is now in the midst of a spectrum auction that is running EUR1.4bn ahead of our estimates. Combined with slowing Brazilian macro, a drifting BRL and high leverage, we see the outlook as challenging.
Pre-tax income	1,777	2,030	2,032	2,416	10.8%	Upside case
Tax rate (%)	18	30	30	30	17.6%	EUR 0.83
Net income	1,121	1,294	1,298	1,535	11.0%	In our upside case, we assume a slower-than-expected roll out of Open Fiber's fixed infrastructure, a limited impact of Iliad's entry into mobile and consolidation in Brazil.
EPS (adj) (€)	0.05	0.06	0.06	0.07	11.0%	Downside case
Diluted shares (mn)	21,230.6	21,230.6	21,230.6	21,230.6	0.0%	EUR 0.22
DPS (€)	0.00	0.00	0.00	0.00	N/A	In our downside case, we model a larger impact from Iliad and Open Fiber and no consolidation in Brazil.
Margin and return data					Average	Upside/Downside scenarios
EBITDA margin (%)	39.3	40.7	40.8	41.3	40.5	Price History Prior 12 months High
EBIT margin (%)	16.6	18.3	18.5	19.9	18.3	Price Target Next 12 months Upside
Pre-tax margin (%)	9.0	10.7	10.9	12.8	10.8	0.88
Net margin (%)	5.7	6.8	6.9	8.1	6.9	0.52
Operating CF margin (%)	15.8	16.9	18.4	20.9	18.0	Current
ROCE (%)	5.9	4.5	5.1	5.5	5.3	0.52
RONTA (%)	24.6	18.0	19.1	22.1	20.9	Target
ROA (%)	4.9	3.7	4.6	5.1	4.6	0.83
ROE (%)	9.5	6.8	6.5	7.2	7.5	0.46
						0.22
						Low
						Downside
Cash flow and balance sheet (€mn)					CAGR	
Cash flow from operations	3,126	3,211	3,443	3,953	8.1%	
Capex and acquisitions	-5,071	-3,761	-3,672	-3,570	N/A	
Free cash flow	994	1,158	N/A	N/A	N/A	
NOPAT	3,426	2,554	2,542	2,759	-7.0%	
Tangible fixed assets	14,209	13,345	12,492	11,648	-6.4%	
Intangible fixed assets	36,654	37,384	38,070	38,714	1.8%	
Cash and equivalents	3,575	N/A	N/A	N/A	N/A	
Total assets	68,776	54,752	54,610	54,436	-7.5%	
Short and long-term debt	32,864	29,510	28,388	26,626	-6.8%	
Other long-term liabilities	2,503	2,355	2,268	2,487	-0.2%	
Total liabilities	44,993	32,129	30,921	29,378	-13.2%	
Net debt/(funds)	26,091	26,412	25,390	23,728	-3.1%	
Shareholders' equity	21,557	22,622	23,689	25,057	5.1%	
Valuation and leverage metrics					Average	
P/E (adj) (x)	9.8	8.5	8.5	7.2	8.5	
Prop. EV/EBITDA	5.9	5.8	5.7	5.4	5.7	
Prop. EV/OpFCF	15.3	10.5	10.3	9.3	11.3	
Prop. EFCF yield (%)	6.9	8.4	10.3	10.7	9.1	
P/BV (x)	0.5	0.5	0.5	0.4	0.5	
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	
Total debt/capital (%)	60.4	56.6	54.5	51.5	55.8	
Net debt/EBITDA (x)	3.3	3.4	3.3	3.0	3.2	
Selected operating metrics (k)					Average	
Analogue lines - Italy	11,044	10,444	10,044	9,844	10,344	
Broadband lines retail - Italy	6,169.3	6,173.6	6,293.6	6,413.6	6,262.5	
Underlying mobile service rev growth (%) - Italy	1.7	-1.3	-6.2	-2.6	-2.1	

Source: Company data, Barclays Research
Note: FY End Dec

European Telecom Services						Industry View: POSITIVE	
Telecom Italia (TLITn.MI)						Stock Rating: UNDERWEIGHT	
Income statement (€mn)	2017A	2018E	2019E	2020E	CAGR	Price (28-Sep-2018) EUR 0.46	
Revenue	19,830	18,977	18,680	18,931	-1.5%	Price Target EUR 0.43	
EBITDA	7,790	7,722	7,615	7,824	0.1%	Why Underweight? Telecom Italia faces rising headwinds. In addition to a successful commercial entry from Iliad in mobile and a new competitor in fixed (Open Fiber), TI is now in the midst of a spectrum auction that is running EUR1.4bn ahead of our estimates. Combined with slowing Brazilian macro, a drifting BRL and high leverage, we see the outlook as challenging.	
EBIT	3,291	3,473	3,457	3,767	4.6%		
Finance costs - net	-1,495	-1,444	-1,425	-1,351	N/A		
Pre-tax income	1,777	2,030	2,032	2,416	10.8%		
Tax rate (%)	18	30	30	30	17.6%		
Net income	1,121	1,294	1,298	1,535	11.0%		
EPS (adj) (€)	0.05	0.06	0.06	0.07	11.0%		
Diluted shares (mn)	21,230.6	21,230.6	21,230.6	21,230.6	0.0%		
DPS (€)	0.03	0.03	0.03	0.03	0.0%		
Margin and return data							Average
EBITDA margin (%)	39.3	40.7	40.8	41.3	40.5	Upside case EUR 0.73 Slower than expected roll out of Enel fixed infrastructure and limited impact of Iliad entry.	
EBIT margin (%)	16.6	18.3	18.5	19.9	18.3		
Pre-tax margin (%)	9.0	10.7	10.9	12.8	10.8		
Net margin (%)	5.7	6.8	6.9	8.1	6.9		
Operating CF margin (%)	15.8	16.9	18.4	20.9	18.0		
ROCE (%)	5.9	4.5	5.1	5.5	5.3		
RONTA (%)	24.6	18.0	19.1	22.1	20.9		
ROA (%)	4.9	3.7	4.6	5.1	4.6		
ROE (%)	9.5	6.8	6.5	7.2	7.5		
Cash flow and balance sheet (€mn)							CAGR
Cash flow from operations	3,126	3,211	3,443	3,953	8.1%	Upside/Downside scenarios 	
Capex and acquisitions	-5,071	-3,761	-3,672	-3,570	N/A		
Free cash flow	994	1,158	N/A	N/A	N/A		
NOPAT	3,426	2,554	2,542	2,759	-7.0%		
Tangible fixed assets	14,209	13,345	12,492	11,648	-6.4%		
Intangible fixed assets	36,654	37,384	38,070	38,714	1.8%		
Cash and equivalents	3,575	N/A	N/A	N/A	N/A		
Total assets	68,776	54,752	54,610	54,436	-7.5%		
Short and long-term debt	32,864	29,510	28,388	26,626	-6.8%		
Other long-term liabilities	2,503	2,355	2,268	2,487	-0.2%		
Total liabilities	44,993	32,129	30,921	29,378	-13.2%		
Net debt/(funds)	26,091	26,412	25,390	23,728	-3.1%		
Shareholders' equity	21,557	22,622	23,689	25,057	5.1%		
Valuation and leverage metrics							Average
P/E (adj) (x)	8.7	7.5	7.5	6.4	7.5		Downside case EUR 0.19 In our downside case we model a larger impact from Iliad and Enel.
Prop. EV/EBITDA	5.6	5.5	5.4	5.0	5.4		
Prop. EV/OpFCF	14.6	9.9	9.7	8.7	10.7		
Prop. EFCF yield (%)	8.0	10.0	12.6	13.3	11.0		
P/BV (x)	N/A	N/A	N/A	N/A	N/A		
Dividend yield (%)	6.0	6.0	6.0	6.0	6.0		
Total debt/capital (%)	60.4	56.6	54.5	51.5	55.8		
Net debt/EBITDA (x)	3.3	3.4	3.3	3.0	3.2		
Selected operating metrics (k)						Average	
Analogue lines - Italy	11,044	10,444	10,044	9,844	10,344		
Broadband lines retail - Italy	6,169.3	6,173.6	6,293.6	6,413.6	6,262.5		
Underlying mobile service rev growth (%) - Italy	1.7	-1.3	-6.2	-2.6	-2.1		

Source: Company data, Barclays Research
 Note: FY End Dec

Latin America Telecom & Media	Industry View: NEUTRAL
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TIM Participações (TSU)
Stock Rating: EQUAL WEIGHT

Income statement (BRLmn)	2017A	2018E	2019E	2020E	CAGR
Revenue	16,234	17,056	18,114	19,350	6.0%
EBITDA	5,947	6,486	6,880	7,443	7.8%
EBIT	1,933	2,473	2,866	3,430	21.1%
Finance costs - net	-1,010	-578	-578	-578	N/A
Pre-tax income	1,436	2,327	2,670	3,352	32.7%
Tax rate (%)	14	28	34	34	34.4%
Net income	1,234	1,680	1,762	2,212	21.5%
EPS (reported) (\$)	0.80	0.94	0.90	1.14	12.4%
Diluted shares (mn)	484.2	484.2	484.2	484.2	0.0%
DPS (\$)	0.55	0.50	0.48	0.48	-4.4%

Price (28-Sep-2018) USD 14.49
Price Target USD 16.00

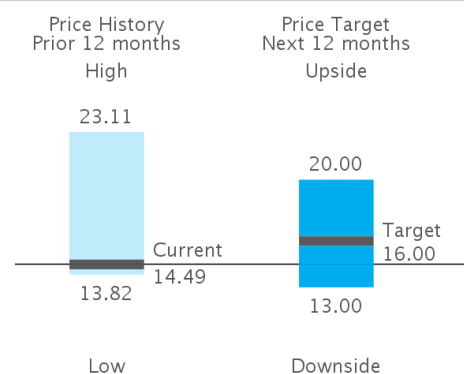
Why Equal Weight? TSU should continue to post revenue gains and margin expansion as it leverages its 4G investments and renewed brand. However in a deteriorated macro environment and rising competition we see a slowing growth and more downside risk vs the recent past.

Upside case USD 20.00

The macro environment improves more than expected, while competitive intensity continues to improve. In addition we factor in market consolidation.

Downside case USD 13.00

The macro environment weakens for longer than in our central case, while competitive intensity deteriorates further. We factor no consolidation.

Upside/Downside scenarios


Margin and return data	Average				
EBITDA margin (%)	36.6	38.0	38.0	38.5	37.8
EBIT margin (%)	11.9	14.5	15.8	17.7	15.0
Pre-tax margin (%)	8.8	13.6	14.7	17.3	13.6
Net margin (%)	7.6	9.9	9.7	11.4	9.7
Operating CF margin (%)	11.1	14.5	16.0	18.5	15.0
ROCE (%)	6.1	7.0	7.2	8.4	7.2
RONTA (%)	15.0	16.5	17.5	21.0	17.5
ROA (%)	4.8	5.5	5.7	6.6	5.6
ROE (%)	7.2	9.3	9.3	11.1	9.2

Balance sheet and cash flow (BRLmn)	CAGR				
Tangible fixed assets	10,838	10,833	10,804	10,661	-0.5%
Intangible fixed assets	11,313	11,433	11,833	11,833	1.5%
Cash and equivalents	2,961	3,623	4,031	5,353	21.8%
Total assets	32,600	33,378	34,156	35,335	2.7%
Short and long-term debt	4,691	4,691	4,691	4,691	0.0%
Other long-term liabilities	3,332	3,332	3,332	3,332	0.0%
Total liabilities	14,449	14,449	14,359	14,262	-0.4%
Net debt/(funds)	2,697	2,035	1,627	305	-51.6%
Shareholders' equity	18,151	18,981	19,851	21,126	5.2%
Cash flow from operations	6,528	6,486	6,789	7,347	4.0%
Capex and acquisitions	-4,148	-4,008	-3,985	-3,870	N/A
Free cash flow	372	1,513	1,300	2,259	82.5%
NOPAT	1,664	1,786	1,892	2,264	10.8%

Valuation and leverage metrics	Average				
P/E (reported) (x)	18.1	15.5	16.0	12.8	15.6
EV/sales (x)	1.9	1.8	1.6	1.5	1.7
EV/EBITDA (x)	5.2	4.6	4.3	3.8	4.5
Equity FCF yield (%)	6.0	6.0	6.1	8.1	6.5
P/BV (x)	7.7	7.4	7.1	6.6	7.2
Dividend yield (%)	3.8	3.4	3.3	3.3	3.5
Total debt/capital (%)	20.5	19.8	19.1	18.2	19.4
Net debt/EBITDA (x)	0.5	0.3	0.2	0.0	0.3

Source: Company data, Barclays Research
 Note: FY End Dec

ANALYST(S) CERTIFICATION(S):

We, Mathieu Robilliard and Maurice Patrick, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Telecom Italia SpA (TLIT.MI, 28-Sep-2018, EUR 0.52), Underweight/Positive, A/CD/CE/D/J/K/L/M/N

Other Material Conflicts: Barclays Bank PLC and/or its affiliates is providing investment banking services to Telecom Italia S.p.A. in relation to the process to sell Persidera. The ratings, price target and estimates of Telecom Italia SpA do not incorporate this potential transaction.

Telecom Italia-RSP (TLITn.MI, 28-Sep-2018, EUR 0.46), Underweight/Positive, A/CD/CE/D/J/K/L/M/N

Other Material Conflicts: Barclays Bank PLC and/or its affiliates is providing investment banking services to Telecom Italia S.p.A. in relation to the process to sell Persidera. The ratings, price target and estimates of Telecom Italia SpA do not incorporate this potential transaction.

TIM Participações (TSU, 27-Sep-2018, USD 14.84), Equal Weight/Neutral, CE/D/J/K/L/M/N

Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market, unless another time and source is indicated.

Disclosure Legend:

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E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

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GD: One of the analysts on the fundamental credit coverage team (or a member of his or her household) has a financial interest in the debt or equity securities of this issuer.

IMPORTANT DISCLOSURES CONTINUED

GE: One of the analysts on the fundamental equity coverage team (or a member of his or her household) has a financial interest in the debt or equity securities of this issuer.

H: This issuer beneficially owns more than 5% of any class of common equity securities of Barclays PLC.

I: Barclays Bank PLC and/or an affiliate is party to an agreement with this issuer for the provision of financial services to Barclays Bank PLC and/or an affiliate.

J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities of this issuer and/or in any related derivatives.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from this issuer within the past 12 months.

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Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Underweight - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

Negative - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

European Telecom Services

Altice NV (ATCA.AS)

Bezeq (BEZQ.TA)

Bouygues SA (BOUY.PA)

BT Group PLC (BT.L)

Cellcom Israel Ltd. (CEL.TA)

Cellnex Telecom (CLNX.MC)

IMPORTANT DISCLOSURES CONTINUED

Com Hem (COMH.ST)	Deutsche Telekom AG (DTEGn.DE)	DNA Oyj (DNAO.HE)
Drillisch (DRIG.DE)	Elisa Oyj (ELI1V.HE)	Euskaltel SA (EKTL.MC)
Freenet (FNTGn.DE)	Gamma Communications PLC (GAMA.L)	Iliad SA (ILD.PA)
Inmarsat plc (ISA.L)	INWIT (INWT.MI)	KCOM (KCOM.L)
KPN (KPN.AS)	Liberty Global (LBTYA)	Manx Telecom (MANX.L)
Masmovil (MASM.MC)	NOS (NOS.LS)	Orange (ORAN.PA)
Orange Belgium (OBEL.BR)	OTE (OTEr.AT)	Partner Communications Company Ltd. (PTNR.TA)
Proximus (PROX.BR)	Sunrise (SRCC.S)	Swisscom (SCMN.S)
TalkTalk Telecom Group (TALK.L)	Tele Columbus AG (TC1n.DE)	Tele2 AB (TEL2b.ST)
Telecom Italia SpA (TLIT.MI)	Telecom Italia-RSP (TLITn.MI)	Telefonica Deutschland (O2Dn.DE)
Telefonica SA (TEF.MC)	Telekom Austria (TELA.VI)	Telenet Group Holding NV (TNET.BR)
Telenor ASA (TEL.OL)	Telia Company AB (TELIA.ST)	United Internet (UTDI.DE)
ViaSat (VSAT)	Vodafone Group Plc (VOD.L)	
Latin America Telecom & Media		
America Movil (AMX)	Axtel, S.A.B. de C.V. (AXTELCPO.MX)	Grupo Televisa, S.A.B. (TV)
Liberty Latin America (9669VK)	Megacable Holdings, S.A.B. de C.V. (MEGACPO.MX)	Millicom (MICsdb.ST)
Oi (OIBRQ)	Telefonica Brasil (VIV)	TIM Participações (TSU)
TV Azteca, S.A.B. de C.V. (AZTECACPO.MX)		

Distribution of Ratings:

Barclays Equity Research has 1520 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 59% of companies with this rating are investment banking clients of the Firm; 76% of the issuers with this rating have received financial services from the Firm.

39% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 47% of companies with this rating are investment banking clients of the Firm; 68% of the issuers with this rating have received financial services from the Firm.

15% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 36% of companies with this rating are investment banking clients of the Firm; 68% of the issuers with this rating have received financial services from the Firm.

Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

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To see a list of companies that comprise a particular industry coverage universe, please go to <https://publicresearch.barclays.com>.

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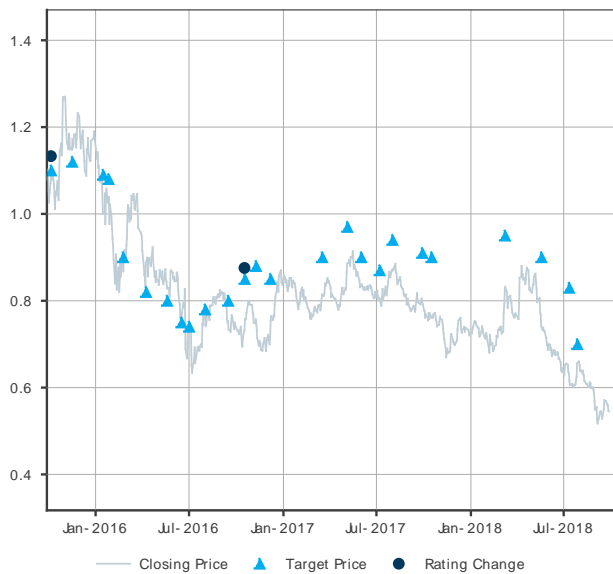
Telecom Italia SpA (TIT IM / TLIT.MI)
EUR 0.52 (28-Sep-2018)

Stock Rating
UNDERWEIGHT

Industry View
POSITIVE

Rating and Price Target Chart - EUR (as of 28-Sep-2018)

Currency=EUR



Publication Date	Closing Price	Rating	Adjusted Price Target
27-Jul-2018	0.66		0.70
11-Jul-2018	0.63		0.83
18-May-2018	0.74		0.90
08-Mar-2018	0.82		0.95
16-Oct-2017	0.76		0.90
28-Sep-2017	0.80		0.91
01-Aug-2017	0.87		0.94
07-Jul-2017	0.81		0.87
01-Jun-2017	0.83		0.90
05-May-2017	0.89		0.97
17-Mar-2017	0.81		0.90
06-Dec-2016	0.72		0.85
08-Nov-2016	0.76		0.88
17-Oct-2016	0.73	Equal Weight	0.85
15-Sep-2016	0.75		0.80
01-Aug-2016	0.76		0.78
01-Jul-2016	0.74		0.74
16-Jun-2016	0.74		0.75
19-May-2016	0.83		0.80
08-Apr-2016	0.89		0.82
23-Feb-2016	0.89		0.90
26-Jan-2016	1.03		1.08
15-Jan-2016	1.00		1.09
16-Nov-2015	1.15		1.12
06-Oct-2015	1.09	Underweight	1.10

On 28-Sep-2015, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 1.15.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

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D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Telecom Italia SpA in the past 12 months.

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K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from Telecom Italia SpA within the past 12 months.

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M: Telecom Italia SpA is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: Telecom Italia SpA is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We value Telecom Italia using a DCF-, multiple- and market value-based SOTP. Our WACC and growth assumptions are 8% and 1% respectively for Italy.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Iliad and Open Fibre success or failure in the markets they respectively focus represent downside or upside risks to our central case.

Other Material Conflicts: Barclays Bank PLC and/or its affiliates is providing investment banking services to Telecom Italia S.p.A. in relation to the process to sell Persidera. The ratings, price target and estimates of Telecom Italia SpA do not incorporate this potential transaction.

IMPORTANT DISCLOSURES CONTINUED

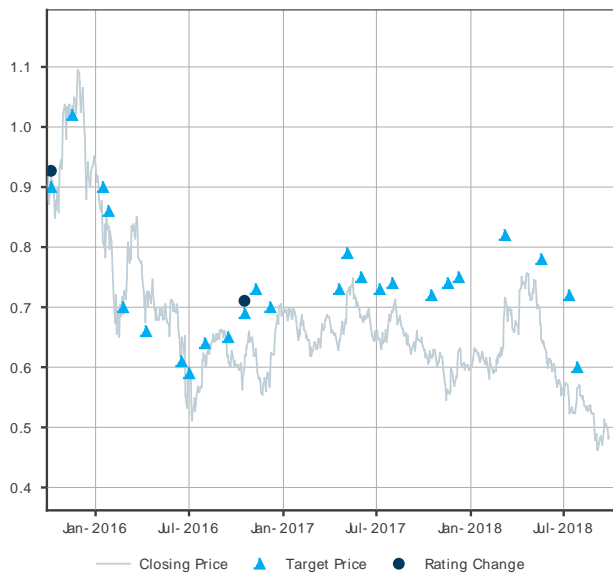
Telecom Italia-RSP (TITR IM / TLITn.MI)
EUR 0.46 (28-Sep-2018)

Stock Rating
UNDERWEIGHT

Industry View
POSITIVE

Rating and Price Target Chart - EUR (as of 28-Sep-2018)

Currency=EUR



Publication Date	Closing Price	Rating	Adjusted Price Target
27-Jul-2018	0.56		0.60
11-Jul-2018	0.55		0.72
18-May-2018	0.65		0.78
08-Mar-2018	0.71		0.82
08-Dec-2017	0.63		0.75
17-Nov-2017	0.56		0.74
16-Oct-2017	0.62		0.72
01-Aug-2017	0.69		0.74
07-Jul-2017	0.65		0.73
01-Jun-2017	0.68		0.75
05-May-2017	0.72		0.79
19-Apr-2017	0.64		0.73
06-Dec-2016	0.59		0.70
08-Nov-2016	0.63		0.73
17-Oct-2016	0.60	Equal Weight	0.69
15-Sep-2016	0.62		0.65
01-Aug-2016	0.62		0.64
01-Jul-2016	0.58		0.59
16-Jun-2016	0.61		0.61
08-Apr-2016	0.72		0.66
23-Feb-2016	0.72		0.70
26-Jan-2016	0.83		0.86
15-Jan-2016	0.81		0.90
16-Nov-2015	1.02		1.02
06-Oct-2015	0.91	Underweight	0.90

On 28-Sep-2015, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 0.95.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

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D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Telecom Italia-RSP in the past 12 months.

J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by Telecom Italia-RSP and/or in any related derivatives.

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N: Telecom Italia-RSP is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We value Telecom Italia using a DCF-, multiple- and market value-based SOTP. Our WACC and growth assumptions are 8% and 1% respectively in Italy.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Iliad and Open Fibre success or failure in the markets they respectively focus represent downside or upside risks to our central case.

Other Material Conflicts: Barclays Bank PLC and/or its affiliates is providing investment banking services to Telecom Italia S.p.A. in relation to the process to sell Persidera. The ratings, price target and estimates of Telecom Italia SpA do not incorporate this potential transaction.

IMPORTANT DISCLOSURES CONTINUED

TIM Participações (TSU / TSU)

USD 14.84 (27-Sep-2018)

Stock Rating

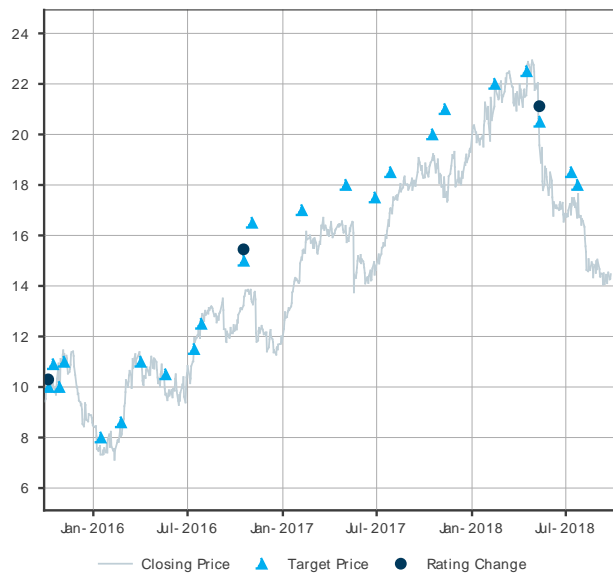
Industry View

EQUAL WEIGHT

NEUTRAL

Rating and Price Target Chart - USD (as of 27-Sep-2018)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
23-Jul-2018	16.71		18.00
11-Jul-2018	16.83		18.50
11-May-2018	19.57	Equal Weight	20.50
16-Apr-2018	21.55		22.50
13-Feb-2018	21.10		22.00
09-Nov-2017	17.97		21.00
16-Oct-2017	18.99		20.00
27-Jul-2017	17.05		18.50
27-Jun-2017	14.45		17.50
02-May-2017	16.38		18.00
06-Feb-2017	15.13		17.00
02-Nov-2016	13.38		16.50
17-Oct-2016	13.23	Overweight	15.00
27-Jul-2016	12.70		12.50
13-Jul-2016	11.52		11.50
19-May-2016	9.70		10.50
01-Apr-2016	11.20		11.00
23-Feb-2016	8.05		8.60
15-Jan-2016	7.33		8.00
05-Nov-2015	11.19		11.00
27-Oct-2015	10.03		10.00
15-Oct-2015	10.25		10.90
06-Oct-2015	10.11	Equal Weight	10.00

On 28-Sep-2015, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 17.50.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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N: TIM Participações is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our price target is based on a discounted cash flow model, using a WACC of 11.5%. We discount group FCF in Brazilian

Reals. We assume a terminal growth rate of 3.5%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Downside risks include: 1) Increase in competition 2) Macro economic risk: economy does not recover as much as expected. 3) Oi gets out of its debt restructuring process with a much improved balance sheet. Upside risks include the macro situation improving and Oi failing to exit its debt restructuring process soon.

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