BARCLAYS

Equity Research
23 January 2019

Telecom Italia

Uncertainties increasing further

Uncertainties are rising further at TI. Last week TI issued lower than expected preliminary results for FY18 and highlighted that the competitive environment would remain challenging in H1 19. This week the press reported that the regulator was opposing TI's plans of a legal separation of its network as TI would keep control of the network, suggesting the more radical approach of a structural separation would require a loss of control, something its main shareholder Vivendi opposes. As highlighted in '*Telecom Italia: NetCo spin-off: Small value creation and high risk?* 4 Dec. 2018 ' whilst this operation may create value if it comes with a merger with competitor Open Fiber, we see numerous hurdles and risks involved in this process suggesting the risk/reward is not necessarily attractive. With leverage stable (3.2x) and a high cost of debt (€1.25 billion 5Y bond issued at 4.125% recently), options are narrowing and new CEO Luigi Gubitoso will need in our view to present important new initiatives to restore confidence. We remain Underweight.

TI guides below expectations. TI indicated on 17 January that: 1) 2018 group organic EBITDA excluding IFRS would reach around €8.1bn for 2018; 2) H1 2019 trends would still be impacted by a high level of competition; and 3) Net debt would reach €25.2bn at YE 2018. This was below Bloomberg consensus estimates (and also ours despite being below consensus). The new CEO will present a 2019-2021 Plan for approval to the Board on 21 February, together with the final FY 2018 Financial Statements.

Network future unclear. The Italian government made public its desire to spin off Telecom Italia's fixed network and subsequently merge it with new entrant Open Fiber. Based on a number of elements disclosed by the press, we made proforma estimates on the value of NetCo and the remaining ServiceCo. Our initial conclusion is that a network spin-off could create value but not materially. Also, we see numerous hurdles and risks involved in this process. Meanwhile the regulator reportedly opposed to a less radical plan for a legal separation of TI's network as TI would keep significant control of the asset and have significant market power (Reuters 20 January). As such a structural separation would likely require a loss of control of the network; something Vivendi who owns 24% is opposed to but that is supported by Elliott Management who controls the BOD. As such shareholder infighting is likely to continue.

Cutting estimates and PT. Back at the Q4 17 results; TI guided for domestic organic EBITDA growth of low single-digits between 2017-20, which seems clearly out of reach in our view. We cut our estimates (-2% in 2018 and -1% beyond) and now expect a 2017-2020 domestic organic decline of -3%. As a result we cut our PT to €0.42/€0.37 for ords/savings (circa -11%) on lower estimates and higher Net Debt. TI trades on 2019e EV/prop. EBITDA of 5.4x and unlevered FCF of 6.3% (vs. 6x and 5.6% for peers), but that comes with many uncertainties in our view. We remain UW.

EARNING FORECAST CHANGE

European Telecom Services
POSITIVE
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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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 22.

Completed: 23-Jan-19, 06:02 GMT Released: 23-Jan-19, 06:06 GMT

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

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	22-Jan-19	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
European Telecom Services	Pos	Pos										
Telecom Italia SpA (TIT IM / TLIT.MI)	UW	UW	0.45	0.47	**0.42**	-11	-0.03	**-0.04**	-33	0.06	0.06	-
Telecom Italia-RSP (TITR IM / TLITn.MI)	UW	UW	0.39	0.42	**0.37**	-12	-0.03	**-0.04**	-33	0.06	0.06	-

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.

Source: Barclays Research.

European Telecom Services — **Industry View: POSITIVE**

Telecom Italia (TLIT.MI)

Stock Rating: UNDERWEIGHT

Income statement (€mn)	2017A	2018E	2019E	2020E	CAGR
Revenue	19,830	19,053	19,100	19,312	-0.9%
EBITDA	7,790	7,656	7,684	7,826	0.2%
EBIT	3,291	1,406	3,463	3,707	4.0%
Finance costs - net	-1,495	-1,434	-1,398	-1,321	N/A
Pre-tax income	1,777	-28	2,065	2,386	10.3%
Tax rate (%)	18	30	30	30	17.6%
Net income	1,121	-823	1,308	1,496	10.1%
EPS (adj) (€)	0.05	-0.04	0.06	0.07	10.1%
Diluted shares (mn)	21,230.6	21,230.6	21,230.6	21,230.6	0.0%
DPS (€)	0.00	0.00	0.01	0.01	N/A

Margin and return data					Average
EBITDA margin (%)	39.3	40.2	40.2	40.5	40.1
EBIT margin (%)	16.6	7.4	18.1	19.2	15.3
Pre-tax margin (%)	9.0	-0.1	10.8	12.4	8.0
Net margin (%)	5.7	-4.3	6.8	7.7	4.0
Operating CF margin (%)	15.8	15.0	18.4	20.6	17.5
ROCE (%)	5.9	2.0	5.3	5.6	4.7
RONTA (%)	24.6	7.9	22.2	25.6	20.1
ROA (%)	4.9	1.6	4.8	5.1	4.1
ROE (%)	9.5	-2.9	7.1	7.6	5.3

Cash flow and balance sheet (€mn)					CAGR
Cash flow from operations	3,126	2,861	3,523	3,979	8.4%
Capex and acquisitions	-5,071	-3,795	-3,762	-3,647	N/A
Free cash flow	994	836	N/A	N/A	N/A
NOPAT	3,426	1,124	2,529	2,700	-7.6%
Tangible fixed assets	14,209	11,375	10,539	9,702	-11.9%
Intangible fixed assets	36,654	37,388	38,083	38,734	1.9%
Cash and equivalents	3,575	N/A	N/A	N/A	N/A
Total assets	68,776	52,784	52,669	52,509	-8.6%
Short and long-term debt	32,864	29,161	27,930	26,311	-7.1%
Other long-term liabilities	2,503	2,867	2,921	3,172	8.2%
Total liabilities	44,993	32,293	31,116	29,748	-12.9%
Net debt/(funds)	26,091	26,063	24,932	23,413	-3.5%
Shareholders' equity	21,557	20,491	21,553	22,761	1.8%

Valuation and leverage metrics					Average
P/E (adj) (x)	8.5	N/A	7.3	6.4	7.4
Prop. EV/EBITDA	5.6	5.6	5.5	5.2	5.5
Prop. EV/OpFCF	14.5	10.3	9.9	9.2	11.0
Prop. EFCF yield (%)	7.6	10.9	11.3	11.5	10.3
P/BV (x)	0.4	0.5	0.4	0.4	0.4
Dividend yield (%)	0.0	0.0	1.8	2.4	1.1
Total debt/capital (%)	60.4	58.7	56.4	53.6	57.3
Net debt/EBITDA (x)	3.3	3.4	3.2	2.9	3.2

Selected operating metrics (k)					Average
Analogue lines - Italy	11,044	10,250	9,650	9,450	10,099
Broadband lines retail - Italy	6,169.3	6,184.0	6,274.0	6,394.0	6,255.3
Underlying mobile service rev growth (%) - Italy	1.7	-1.7	-4.8	-3.0	-2.0

Price (22-Jan-2019)	EUR 0.45
Price Target	EUR 0.42

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 outlok as challenging.

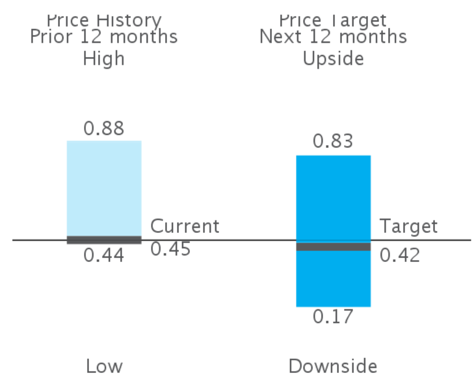
Upside case — **EUR 0.83**

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.

Downside case — **EUR 0.17**

In our downside case, we model a larger impact from Iliad and Open Fiber and no consolidation in Brazil.

Upside/Downside scenarios



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Note: FY End Dec

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Net income	1,121	-823	1,308	1,496	10.1%
EPS (adj) (€)	0.05	-0.04	0.06	0.07	10.1%
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	40.2	40.2	40.5	40.1
EBIT margin (%)	16.6	7.4	18.1	19.2	15.3
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Valuation and leverage metrics					Average
P/E (adj) (x)	7.4	N/A	6.3	5.6	6.4
Prop. EV/EBITDA	5.3	5.3	5.1	4.8	5.1
Prop. EV/OpFCF	13.8	9.7	9.3	8.5	10.3
Prop. EFCF yield (%)	9.0	13.2	14.1	14.7	12.8
P/BV (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield (%)	7.1	7.1	7.1	7.1	7.1
Total debt/capital (%)	60.4	58.7	56.4	53.6	57.3
Net debt/EBITDA (x)	3.3	3.4	3.2	2.9	3.2

Selected operating metrics (k)					Average
Analogue lines - Italy	11,044	10,250	9,650	9,450	10,099
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Price (22-Jan-2019)	EUR 0.39
Price Target	EUR 0.37

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.

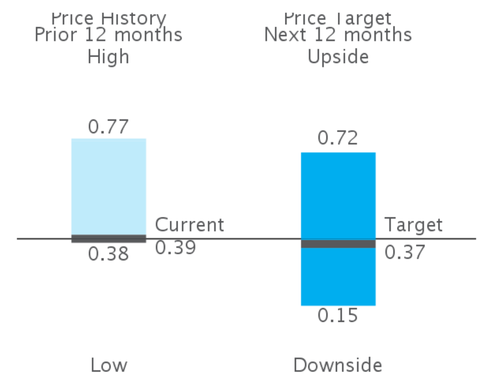
Upside case — **EUR 0.72**

Slower than expected rollout of Enel fixed infrastructure and limited impact of Iliad entry.

Downside case — **EUR 0.15**

In our downside case we model a larger impact from Iliad and Enel.

Upside/Downside scenarios



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

Changes to estimates

We cut our estimates notably at the domestic level where we take into consideration the 2018 preliminary results. We are now materially below the 2017-2020 guidance for the domestic business that will be updated at the Q4 results on 21 February 2019.

We now expect organic group EBITDA for 2018 at EUR7,856m including the negative impact of the change to IFRS 15 and at EUR8,150 excluding IFRS, in line with TI's preliminary results of c. EUR8.1bn. Bloomberg consensus is for EU8.1bn but it is unclear if that includes IFRS and one off.

FIGURE 1

Barclays vs. guidance

2018-2020 plan	TI guidance	Barclays estimates
Service revenues		
Domestic - 17/20e CAGR	Stable	-1.0%
Brazil - 17/20e CAGR	Mid to high single digit	4.6%
Brazil - 2018 yoy	+5%/+7% growth	4.4%
EBITDA (adjusted for IFRS)		
Domestic - 17/20e CAGR	Low single digit growth	-2.9%
Brazil - 2020e margin	> 40 % in 2020	40.3%
Brazil - 2018 yoy	Double digit growth	11.2%
Capex		
Domestic -2018e/20e	3Y cumulative of EUR9bn	9,056
Domestic capex/sales 2020e	< 20%	19.0%
Brazil- 2018e/20e	3Y cumulative of BRL12bn	11,875
EBITDA - Capex		
Brazil- 2018e	> or = 13%	15.0%
Brazil- 2020e	> or = 20%	20.3%
Group EFCF - 2018e/20 - EURm	3Y cumulative of c. EUR4.5bn	4,284
Group Leverage (adjusted for IFRS)	c. 2.7x in 2018, declining in 2019 and 2020	3.2

Source: Company, Barclays estimates

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FIGURE 2

TI: Changes to estimates (€m)

	New			Old			Diff (%)		
EURm	**2018e**	**2019e**	**2020e**	**2018e**	**2019e**	**2020e**	**2018e**	**2019e**	**2020e**
Domestic	15,143	14,912	14,840	15,164	14,900	14,852	-0.1%	0.1%	-0.1%
% growth yoy	-1.4%	-1.5%	-0.5%	-1.3%	-1.7%	-0.3%			
TIM Brasil	3,939	4,216	4,500	3,948	4,218	4,502	-0.2%	0.0%	0.0%
% growth yoy	-13%	7%	7%	-12%	7%	7%			
Others	-28	-28	-28	-28	-28	-28			
Group Revenues	19,053	19,100	19,312	19,084	19,091	19,326	-0.2%	0.0%	-0.1%
% growth yoy	-3.9%	0.2%	1.1%	-3.8%	0.0%	1.2%			
Domestic	6,198	6,084	6,086	6,334	6,128	6,149	-2.1%	-0.7%	-1.0%
% growth yoy	0.4%	-1.8%	0.0%	2.6%	-3.2%	0.3%			
% margin	40.9%	40.8%	41.0%	41.8%	41.1%	41.4%			
TIM Brasil	1,473	1,601	1,741	1,477	1,602	1,742	-0.3%	0.0%	0.0%
% margin	37.4%	38.0%	38.7%	37.4%	38.0%	38.7%			
Others	-15	-1	-1	-2	12	12	nm	nm	nm
Group Reported EBITDA	7,656	7,684	7,826	7,809	7,742	7,903	-2.0%	-0.7%	-1.0%
% growth yoy	-1.7%	0.4%	1.8%	0.2%	-0.9%	2.1%			
% margin	40.2%	40.2%	40.5%	40.9%	40.6%	40.9%			
Domestic Organic	6,398	6,234	6,236	6,484	6,278	6,299	-1.3%	-0.7%	-1.0%
% margin	42.2%	41.8%	42.0%	42.8%	42.1%	42.4%			
Group Organic EBITDA	7,856	7,834	7,976	7,959	7,892	8,053	-1.3%	-0.7%	-1.0%
% growth yoy	-9%	0%	2%	-8%	-1%	2%			
% margin	41.2%	41.0%	41.3%	41.7%	41.3%	41.7%			
D&A	6,250	4,221	4,119	6,265	4,235	4,133	-0.2%	-0.3%	-0.3%
EBIT	1,406	3,463	3,707	1,544	3,507	3,770	-8.9%	-1.3%	-1.7%
% growth yoy	-57.3%	146.3%	7.0%	-53.1%	127.2%	7.5%	0	0	0
% margin	7.4%	18.1%	19.2%	8.1%	18.4%	19.5%	0.0%	0.0%	0.0%
Other	0	0	0	0	0	0	nm	nm	nm
Financial charges	-1,434	-1,398	-1,321	-1,408	-1,355	-1,294	1.8%	3.2%	2.0%
Taxes	-592	-620	-716	-641	-646	-743	-7.7%	-4.0%	-3.6%
Share of profit from associates	0	0	0	0	0	0	nm	nm	nm
Net profit - reported	-823	1,308	1,496	-709	1,369	1,559	16.1%	-4.5%	-4.0%
Net profit - adjusted	-623	1,458	1,646	-559	1,519	1,709	11.5%	-4.0%	-3.7%
DPS (ordinaries)	0.00	121.62	167.23	0.00	121.62	167.23	nm	nm	nm
Capex (excl. spectrum)	3,795	3,762	3,647	3,802	3,760	3,649	-0.2%	0.0%	-0.1%
OpFCF (EBITDA - Capex)	3,861	3,923	4,179	4,007	3,982	4,255	-3.6%	-1.5%	-1.8%
FCF	836	1,505	1,943	1,208	1,481	1,918	-30.8%	1.6%	1.3%
Net Debt - reported	26,063	24,932	23,413	25,691	24,584	23,089	1.5%	1.4%	1.4%
Net Debt - adjusted (TI)	25,163	24,032	22,513	24,791	23,684	22,189	1.5%	1.5%	1.5%

Source: Company data, Barclays Research estimates

Forecasts

We do not expect TI to be able to deleverage in 2018 and 2019.

FIGURE 3

TI: Cash flow and Net debt (€m)

Cash Flow and Net Debt	2016	2017	2018e	2019e	2020e	2021e
EBITDA	8,005	7,790	7,656	7,684	7,826	7,980
Capex	-4,876	-5,071	-3,795	-3,762	-3,647	-3,599
Change in WC, provisions	-270	407	-1,000	-400	-200	-98
Cash Flow from operations	2,859	3,126	2,861	3,523	3,979	4,283
Financial charges	-1,659	-1,572	-1,434	-1,398	-1,321	-1,120
Taxes paid	-218	-1,113	-592	-620	-716	-853
Others	-374	553	0	0	0	0
Net Cash Flow from discontinued operations	0	0	0	0	0	0
Free Cash Flow	608	994	836	1,505	1,943	2,310
Divestments/Acquisitions	745	33	0	0	0	0
Free Cash Flow after Disposals/Acquisitions	1,353	1,027	836	1,505	1,943	2,310
Capital increase / (share buyback)	1,304	16	0	0	0	0
Distribution of income/reserves	-227	-235	-243	-247	-287	-333
Others (minority dividend, spectrum, fx)	90	-944	-565	-127	-136	-287
Change in Net Debt	2,520	-136	28	1,131	1,519	1,690
Net Debt (reported)	-25,955	-26,091	-26,063	-24,932	-23,413	-21,722
Net Debt to EBITDA	3.2x	3.3x	3.4x	3.2x	2.9x	2.7x
Net Debt (adjusted TI)	-25,119	-25,308	-25,163	-24,032	-22,513	-20,822
Net Debt to EBITDA	3.1x	3.2x	3.2x	3.1x	2.9x	2.6x
Net Debt (incl. leases)	-33,094	-32,830	-32,802	-31,671	-30,152	-28,461
Net Debt to EBITDA	3.5x	3.6x	3.6x	3.5x	3.3x	3.0x

Source: Company data, Barclays Research estimates

Valuation

We cut our PT by c. EUR0.42 for ordinaries and EUR0.39 for savings shares.

FIGURE 4

TI: SoP valuation (€m, x)

Business unit	Valuation methodology	EURm	% stake	EURm	% weight	EV/EBITDA 2018e	EV/EBITDA 2019e
Domestic Business	DCF with 8% WACC, 1.0% LT growth	30,700	100.0%	30,700	78%	5.1x	5.2x
Domestic Assets				**30,700**	**78%**		
TIM Brazil	DCF with 11% WACC, 3.5% LT growth	8,877	67.0%	5,948	15%	5.9x	0.0x
Inwit	Price Target	4,126	60.0%	2,475	6%		
Corporate center	EV/OpFCF 18e: 10x	-10	100.0%	-10	0%		
Entreprise Value				**39,113**	**100%**	**5.5x**	**5.5x**
Prop. Adjusted Net debt - YE 19e				-24,729	-63%		
Other				-2,640	-7%		
Spectrum NPV post 19e				-2,852			
Equity Value				**8,892**			
Nb of shares (m)				21,230			
Value per share - ordinary				**0.42**			
Value per share - savings (Risp)				**0.39**			

Source: Barclays Research estimates

We estimate TI trades on 5.4x 2019E EV/EBITDA, EV/OpFCF of 8.9x and an unlevered FCF of 6.3% vs. European incumbents on 6x and 5.6%.

FIGURE 5

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

	2017	2018e	2019e	2020e	2021e
P/E (x)	7.9x	-11.1x	7.0x	6.1x	5.1x
EFCF yield (%)	7.9%	11.3%	11.7%	11.9%	14.9%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
TSR yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	5.5x	5.5x	5.4x	5.2x	4.9x
EV/OpFCF	14.3x	10.2x	9.8x	9.1x	8.4x
Unlevered FCF yield (%)	5.3%	6.0%	6.3%	6.5%	7.4%

Source: Barclays. Priced 22 January 2019, rolling multiples adjusted for dividends paid.

These Appendixes are extracts from our report *Telecom Italia: NetCo spin-off: Small value creation and high risk?* published on 4 December 2018.

Appendix 1 - NetCo Spin-off: Small value creation and high risk?

The Italian Senate just voted to pass a law that enables the Telecom regulator to impose the creation of a single network fixed operator in Italy. This law was pushed by the new government that expressed publicly its desire to create a single network company that would be controlled by the Italian State. Based on the information reported by the press around the project (RAB of €15bn, EBITDA of €2bn) we have built proforma estimates for the NetCo and ServiceCo. We conclude that whilst there could be some valuation creation (we estimate €1bn) we also see many risks attached to this project (political, shareholder disagreement, execution, etc) and it will take time.

NetCo spin off: It is in motion

The following elements have been reported by different parties:

- The press has reported that the government wants to set up a single fixed network company in Italy that would combine the fixed network assets of Telecom Italia and Open Fiber. The press has mentioned a Regulated Asset Base (RAB) of EUR15bn, revenues of EUR5bn and an EBITDA of EUR2bn that would have 30,000 employees coming from Telecom Italia (see *Il Messagero – 22 Nov 2018*). There is also some indication that this RAB of EUR15bn includes the value of the assets from Open Fiber and not just the ones of Telecom Italia (see *Il Messagero – 19 Nov 2018*, *Reuters – 22 Nov 2018*).

- **The government** has confirmed it wants to create a single network company that would be controlled by the Italian State (see *New York Times – 29 Nov 2018*). Both Vice Prime Minister Luigi Di Maio (leader of the Five Star Movement) and Vice Prime Minister Matteo Salvini (leader of political party Lega) have publicly given their support for the project.

- **The Senate** voted on 27 Nov 2018 on a law that enables the government to create a single fixed network company under the following conditions: '….**The Communications Authority may, as an exceptional measure, impose on vertically integrated companies the obligation to place the activities related to the supply to the wholesale of certain access products into a commercial entity operating independently**…The Authority may exercise this right only if it concludes that the appropriate obligations imposed pursuant to Articles 46 to 50 (this is in the order of the obligations of: transparency, non-discrimination, accounting separation, in terms of access and use certain network resources and in terms of price control and cost accounting) have proved ineffective to achieve effective competition and that there are important and persistent competition problems or market failures identified in relation to markets for wholesale of certain access products….if it intends to impose a functional separation obligation, the Authority must submit a proposal to the European Commission providing, among other things, a motivated assessment stating that the prospects of infrastructure levels are scarce or absent within a reasonable time frame….the Authority may also indicate a scheme any voluntary aggregation of assets relating to access networks belonging to different operators in a non-vertically integrated legal entity…. **the Authority, in imposing, modifying or revoke the specific obligations referred to in paragraph 4, establishes adequate incentive mechanisms for the remuneration of invested capital, also taking into account the historical cost of the investments made in relation to the transferred access networks, the**

workforce of the legal entities involved and the best European regulatory practices and national measures adopted in other services and network industries.....'(Google translate for original text *see Senato Article 23 bis*).

Splitting the pie: NetCo and ServiceCo model and valuation

Based on these elements as well Telecom Italia financial reporting and our estimates, Open Fiber financial targets and other fixed network companies that exist in other markets (CETIN, Chorus, BT's Openreach division) we build an NetCo and ServiceCo model shown below. Our main assumptions are:

- We take the EUR5bn revenue base which we understand includes TI's fixed network revenues (with Sparkle) and Open Fiber. We expect revenues to increase as FTTH/FTTC gains more traction. By 2025 we arrive at EUR5.7bn, an increase vs. 2018 that is in line with the revenues we were expecting for Open Fiber (EUR0.7bn by 2025).

- The EBITDA margin is 40% at the start and we expect it to increase to c. 50% by 2025. This compares to 63% at Chorus and 53% at BT's Open Reach.

- We expect a capex of EUR1.7bn per year, i.e. 34% of revenues. We note CETIN has 31%, Open Reach 33% and Chorus 48%. This includes the capex needed to deploy an FTTH network along the plans of Open Fiber, which had indicated c. EUR1bn per year for 2018-2020. We believe that by using part of TI's infrastructure the capex can be lower for the FTTH project and that at the same time TI will invest less in FTTH. We expect TI's total domestic capex would be EUR2.9bn (in line with guidance) so the remaining EUR1.2bn would be in the ServiceCo and represent c. 12% of that division's revenues.

- We estimate ServiceCo would have EUR10bn of revenues of which c. EUR5bn for mobile and EUR5bn for retail fixed, so assuming a c. 17% capex/revenues for the mobile part (EUR900m in line with VOD Italy and WindTre Italy) would leave EUR0.3bn for the retail fixed, i.e. c. 6% of revenues which seems sensible.

- We assume a D&A in line with capex. This may be incorrect short term but would converge over time by definition. This implies a D&A for the ServiceCo of EUR1.6bn which compares to EUR1.3bn for Vodafone Italy.

FIGURE 6
NetCo estimates

NetCo - EURm	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Revenues	**5,000**	**5,075**	**5,177**	**5,280**	**5,386**	**5,493**	**5,603**	**5,715**
yoy change in %		1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Opex	3,000	3,000	2,970	2,940	2,911	2,882	2,853	2,824
yoy change in %		0.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
EBITDA reported	**2,000**	**2,075**	**2,207**	**2,340**	**2,475**	**2,612**	**2,750**	**2,891**
EBITDA margin	40.0%	40.9%	42.6%	44.3%	46.0%	47.5%	49.1%	50.6%
D&A	1,700	1,726	1,760	1,795	1,831	1,868	1,905	1,737
EBIT	**300**	**349**	**446**	**545**	**644**	**744**	**845**	**1,153**
Capex	**1,700**	**1,726**	**1,760**	**1,795**	**1,831**	**1,868**	**1,905**	**1,829**
% revenues	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	32.0%
Asset Base	**15,000**	**15,000**	**15,000**	**15,000**	**15,000**	**15,000**	**15,000**	**15,091**
ROCE	1.4%	1.6%	2.1%	2.5%	3.0%	3.5%	3.9%	5.3%

Source: Barclays Research estimates

We have done a DCF valuation based on a WACC of 5.7% (Unlevered Beta of 0.8x, risk free rate of 3.2%, leverage of c. 60%) and a terminal growth rate of 1.5%. We arrive at an EV of EUR14.8bn, i.e. 7.4x EV/EBITDA 2019. We note Chorus, a listed peer in New Zealand, trades on 6x 2018 EBITDA (Bloomberg estimates). We value Open Reach's BT at 6.3x EBITDA. The 60% leverage implies a Net Debt to EBITDA of 4.3x and Net Debt of c. EUR9bn (Elliott in its presentations assumed EUR7bn but that did not include Open Fiber).

We show also our estimates for ServiceCo which would include the fixed retail revenues and the mobile revenues and assets. We expect continued mobile revenue erosion in the short term due to the impact of Iliad's entry in the Italian market. Regarding the retail fixed revenues, we would expect the loss of the fixed infrastructure to create some disynergies. As such whilst there is prospect for growth of the Broadband market in Italy as FTTH/FTTC and more generally Broadband access picks up, we expect that to be offset by market share losses.

FIGURE 7

ServiceCo estimates

ServiceCo - EURm	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Mobile	5,319	5,099	4,994	4,940	4,958	4,998	5,044	5,103
Fixed retail		4,784	4,688	4,594	4,502	4,412	4,324	4,238
Total revenues	**10,164**	**9,883**	**9,682**	**9,535**	**9,460**	**9,411**	**9,368**	**9,341**
yoy change in %	-1.9%	-2.8%	-2.0%	-1.5%	-0.8%	-0.5%	-0.5%	-0.3%
Opex	5,830	5,772	5,714	5,714	5,772	5,829	5,888	5,947
yoy change in %	-5.7%	-1.0%	-1.0%	0.0%	1.0%	1.0%	1.0%	1.0%
EBITDA reported	**4,334**	**4,053**	**3,967**	**3,820**	**3,689**	**3,582**	**3,480**	**3,394**
EBITDA margin	42.6%	41.3%	41.0%	40.0%	38.9%	37.8%	36.8%	35.9%
D&A	1,650	1,106	988	946	949	947	946	898
EBIT	2,684	2,948	2,980	2,874	2,739	2,635	2,535	2,497
Capex	**1,181**	**1,106**	**988**	**946**	**949**	**947**	**946**	**945**
% revenues	11.6%	11.3%	10.2%	9.9%	10.0%	10.0%	10.0%	10.0%
Asset Base	15,305	14,549	13,368	12,957	12,987	12,959	12,951	12,944
ROCE	12.3%	14.2%	15.6%	15.5%	14.8%	14.2%	13.7%	13.5%

Source: Barclays Research estimates

Again we do a DCF valuation based on a WACC of 8.8% (unlevered Beta of 1.1x, risk free rate of 3.2%, leverage of 30%) and terminal growth rate of 0.5%. We arrive at a valuation of EUR21bn, i.e. an EV/EBITDA 2019e of c. 5x. Debt would be c. EUR6bn, i.e. 1.5x Net Debt to EBITDA.

Network separation: No holy grail and many question marks

Valuation creation: Some but given the complexity is it really worth it ?

We note that in its public presentation that explained how the network separation could create value, Elliott Management was contemplating an EV of EUR15bn for TI NetCo stand-alone (i.e. excluding Open Fiber). In addition Sparkle was not included in this asset (unlikely our assumptions and the government plans) and was valued at EUR2bn. So in total Elliott was expecting a value of EUR17bn. In addition Elliott Management was expecting a valuation of the ServiceCo of EUR24bn (6x an EBITDA of EUR4.7bn).

This differs quite materially from our valuation:

- For NetCo we do have c. EUR15bn (in line with the numbers that appeared in the press and are supposed to come from the government plans) but that includes Sparkle. Also we estimate TI would only be entitled to only c. 80% of the company's value as we estimate that by 2020 (possible time of a potential merger), Open Fiber could be worth around EUR3bn so it would represent 20% of the c. EUR15bn EV.

- For ServiceCo our DCF valuation gets us to EUR21bn (implied multiple of 5.1x on a EUR4.1bn EBITDA).

As such the 'value creation' would only be around EUR1.2bn. Clearly this is an estimate that is based on very limited information but even if the value creation were double that level, it would have to be put against the material execution and political risk to deliver it (see below).

FIGURE 8

Value accretion to TI of potential network spin-off

EURm	EV	Stake	Total	EV/EBITDA 19e
NetCo	14,807	79%	11,712	7.4
ServiceCo	20,871	100%	20,871	5.1
Total	35,678		32,583	
Ti Domestic	31,338	100%	31,338	5.3
Difference	4,340		1,246	

Source: Barclays Research estimates

The ROCE question: How can NetCo earn an attractive ROCE

One intriguing outcome of our analysis is that based on our assumptions, NetCo would only earn a sensible ROCE by 2025. Since Italian 10Y bond yields are at 3.2%, it means that this company would not earn its cost of capital (which we believe would have to be higher than the 10Y Italian bond yield).

As such one question is whether the creation of this company would come with favourable regulation that would allow it to increase quickly its fees to retail clients for ULL, wholesaling of FTTC and wholesaling of FTTH. This would enable NetCo to reach a decent rate of return earlier. The question would then be how it impacts the ServiceCo and other fixed retail operators: could they increase retail prices to offset that? That would create material value for the sector but would that be the desired outcome from the government which wants to bring quality broadband to all Italians? If retailers could not pass the price increase that would mean lower margins, and hence a lower valuation for ServiceCo.

ServiceCo leverage: Return to Investment Grade could take time

One argument put forward by Elliott Management to separate the network is that it would enable it to de-lever TI and go back to Investment Grade status with the possibility of then paying dividends. Actually our analysis suggests that ServiceCo leverage would still be high at c. 3.0x post a spin-off and assuming that TI gets EUR11.7bn from its stake in Netco. Also the company would have a higher operating risk profile (asset light). Deleveraging would take time and we doubt a dividend would be reasonable before a number of years.

Shareholder divergence and execution risk

Vivendi, which owns 24% of Telecom Italia, has indicated it is opposed to the loss of the control of the network (see *Le Figaro – 18 Nov 2018*). Vivendi can at any time ask for an AGM to vote for a new BOD. If it were to regain control of the BOD Vivendi could try to oppose the network separation. Clearly this would be politically risky since the government intends to pursue this route but it means the process could be delayed and get tangled in legal disputes. Besides that, it is important to consider the complexity of the endeavour: it took more than one year at Chorus and is likely to affect the operations of TI during the process.

Political risk

The amendment voted by the Senate gives the power to the telecom regulator to force a network separation under a number of circumstances and create an independent entity. It then gives the power to the regulator to force the aggregation of different fixed network entities into a single one.

We note that there is no indication as to how the companies affected would be compensated, or how the state would take control of these entities (remember that the government wants this entity to be controlled by the state).

Finally we note that the government view may change, and the EC may oppose or delay the whole process (the Senate amendment specifically indicates that it will submit its plans to the European Commission).

Appendix 2: 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 over 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.

Solid retail partners deliver good take-up rate

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

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.

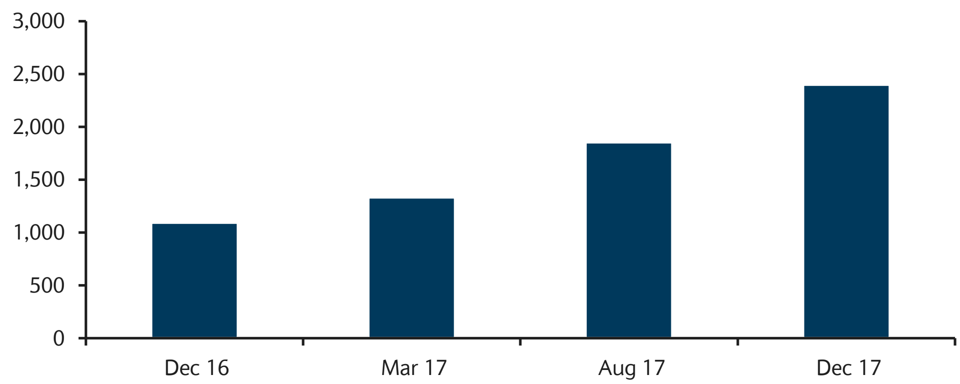
Financing and retail partners secured

- **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 9
Open Fiber coverage (k, households)



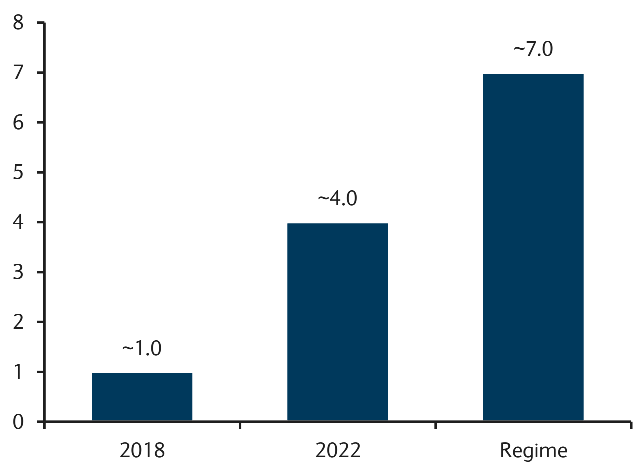
Source: Open Fiber

Financial targets

Open Fiber targets 7m customers longer term

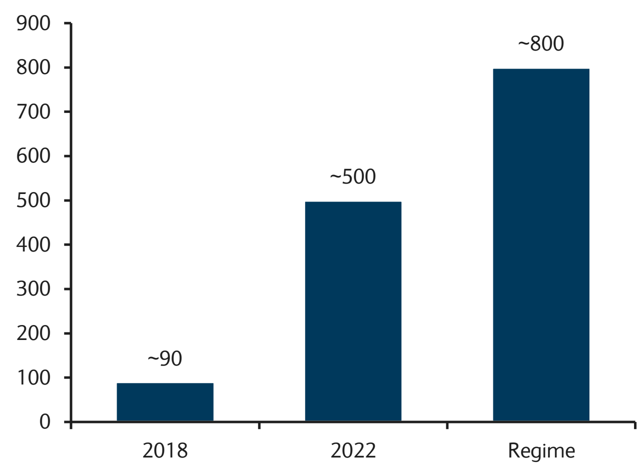
Back in September 2017 Open Fiber indicated that it expects 1m users by YE 2018, 4m subscribers by YE 2022 and 7m long term. Open Fiber assumes no loss of customers from TI to Open Fiber - hence it sees its plan as conservative. Open Fiber plans to charge a price of €12/mth for a passive service and as low as €9/mth with volume discounts. For active it will be €15/mth to €13/mth. 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 10
Open Fiber: Users expected (m)



Source: Company presentation, Barclays Research

FIGURE 11
Open Fiber: EBITDA projections (€m)



Source: Company presentation, Barclays Research

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

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

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 12
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 15.

FIGURE 13
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 Guilia, 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 three 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.

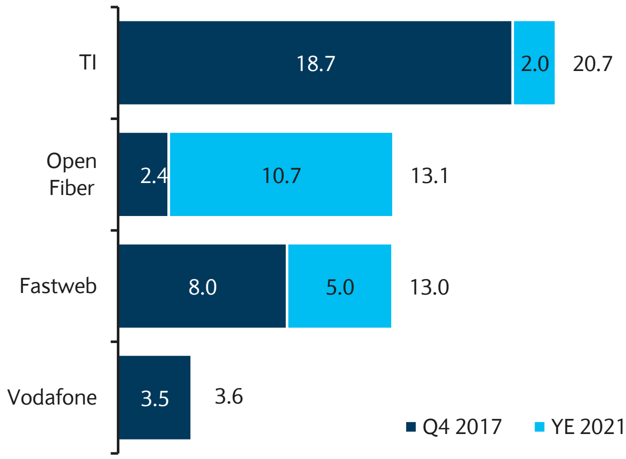
Italy's Fixed NGN landscape: A three-player market

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 14

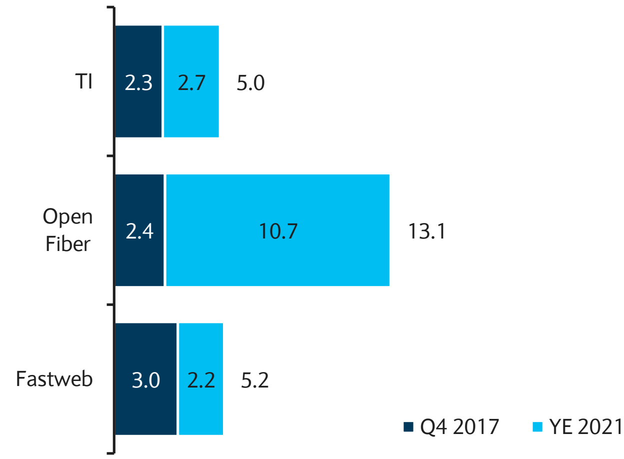
Number of households covered by FTTx, own build (m)



Source: Barclays Research estimates, company data

FIGURE 15

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



Source: Barclays Research estimates, company data

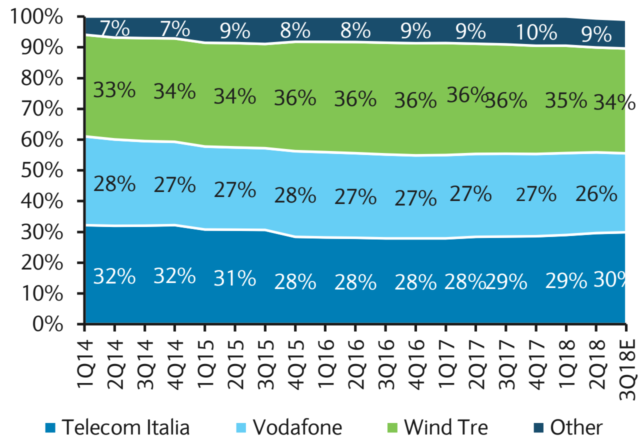
Open Fiber to become the largest FTTH player in Italy?

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 which 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.

Italy Wireless

FIGURE 16

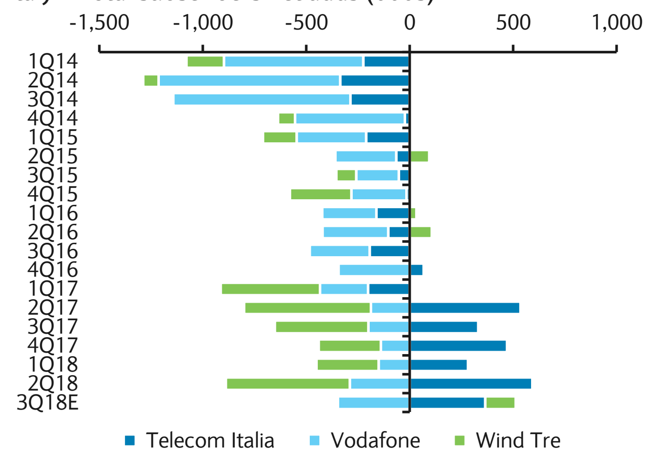
Italy – Retail Subscriber market share (%)



Source: Company data, Barclays Research estimates

FIGURE 17

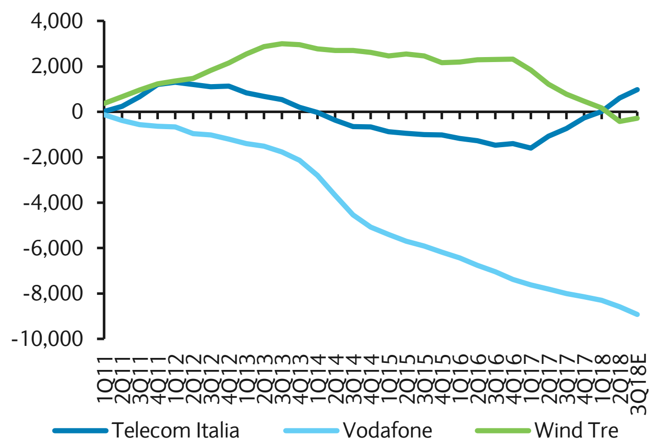
Italy – Total subscribers net adds (000s)



Source: Company data, Barclays Research estimates

FIGURE 18

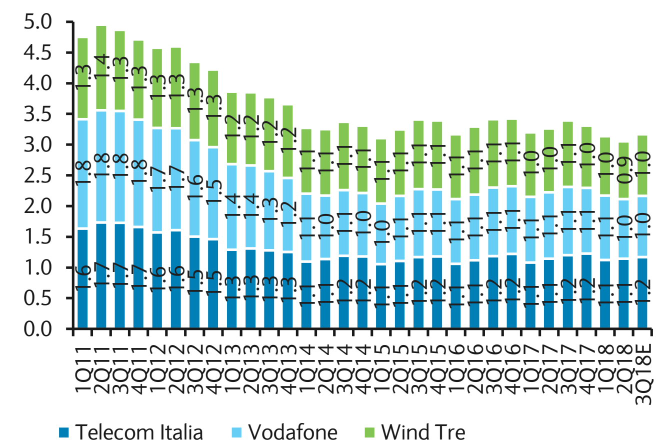
Italy – Cumulative net adds (000s)



Source: Company data, Barclays Research estimates

FIGURE 19

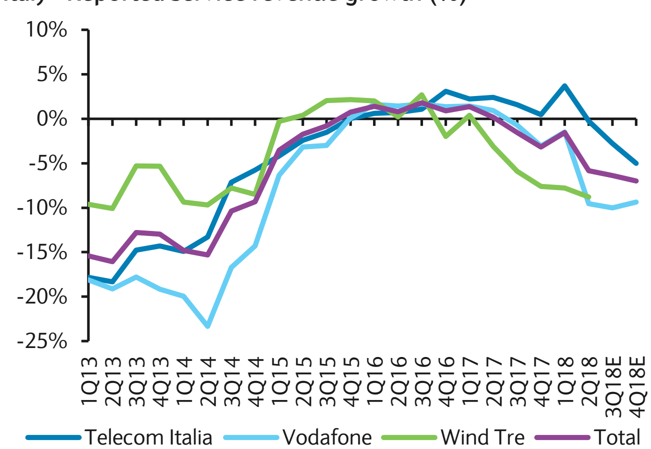
Italy – Service revenues (€bn)



Source: Company data, Barclays Research estimates

FIGURE 20

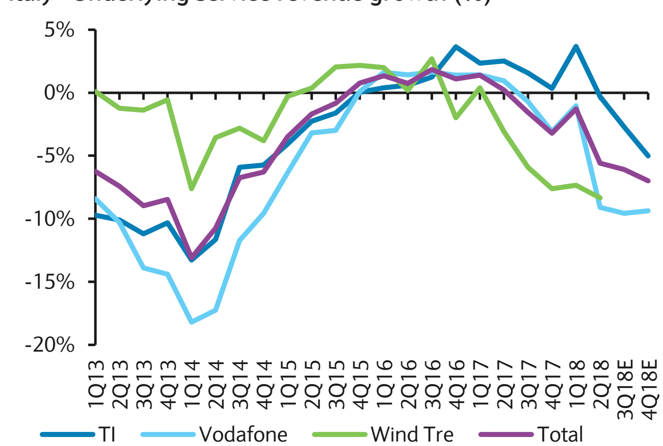
Italy– Reported service revenue growth (%)



Source: Company data, Barclays Research estimates

FIGURE 21

Italy– Underlying service revenue growth (%)

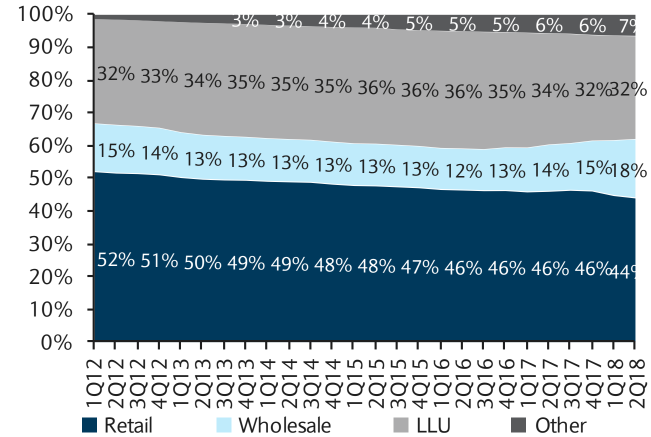


Source: Company data, Barclays Research estimates

Italy fixed in pictures

FIGURE 22

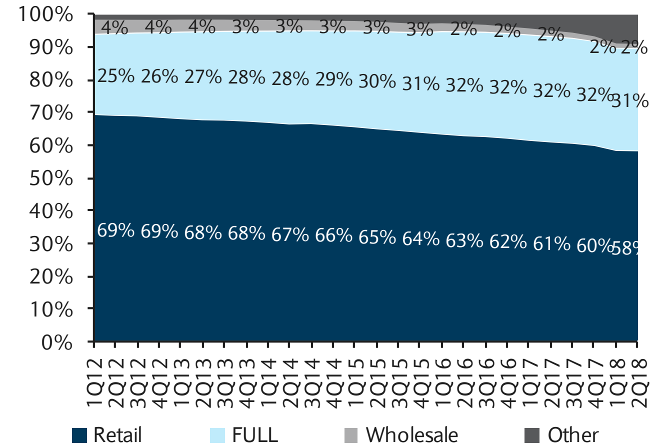
Italy: Broadband market share by technology (%)



Source: Company data, Barclays Research

FIGURE 23

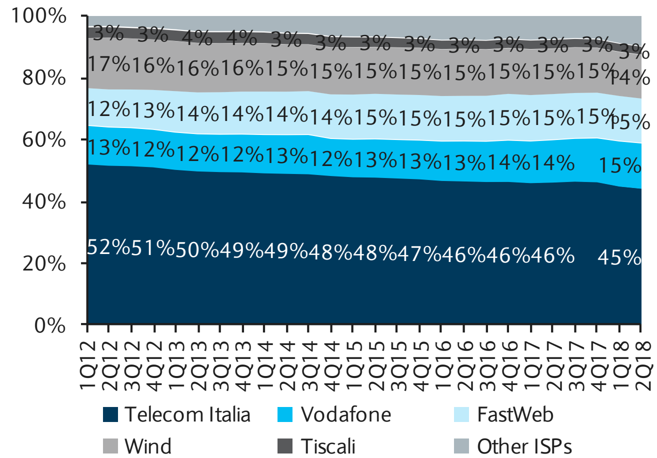
Italy: Voice lines market share by technology (%)



Source: Company data, Barclays Research

FIGURE 24

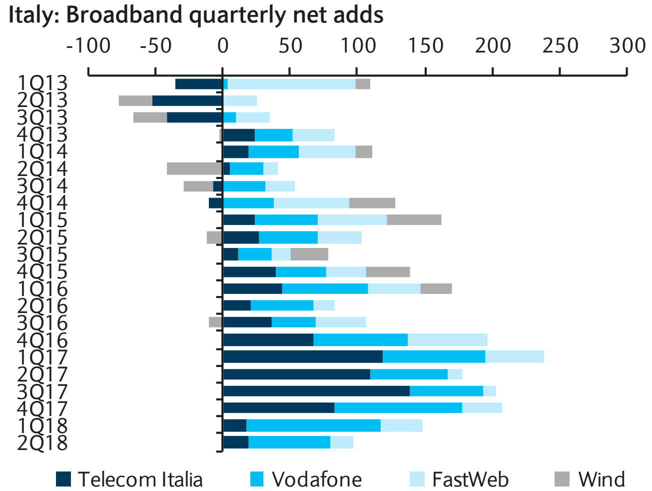
Italy: Broadband market share by operator (%)



Source: Company data, Barclays Research

FIGURE 25

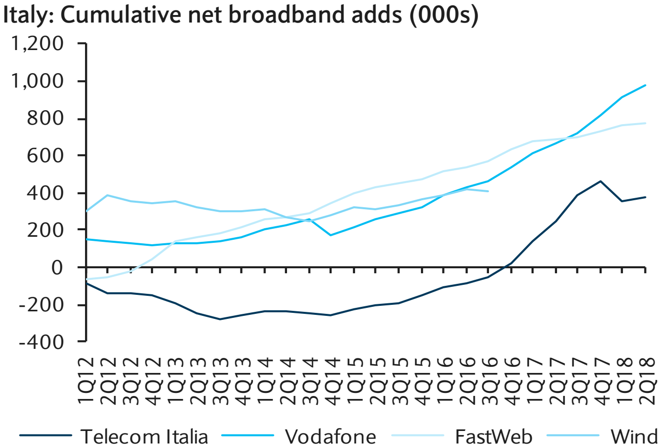
Italy: Broadband quarterly net adds



Source: Company data, Barclays Research

FIGURE 26

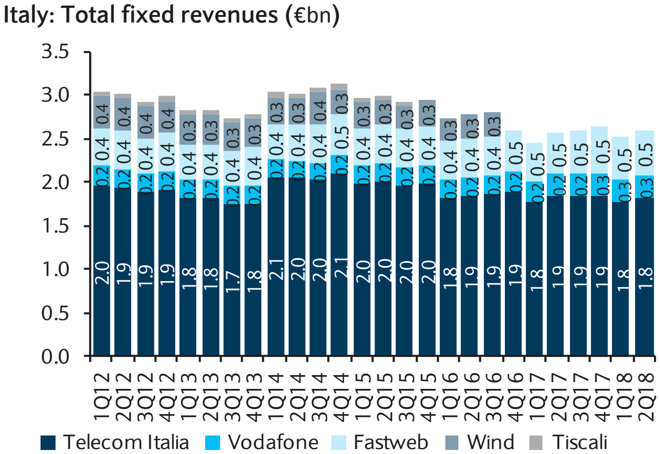
Italy: Cumulative net broadband adds (000s)



Source: Company data, Barclays Research

FIGURE 27

Italy: Total fixed revenues (€bn)



Source: Company data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

Telecom Italia SpA (TLIT.MI, 22-Jan-2019, EUR 0.45), Underweight/Positive, A/CD/CE/D/E/J/K/L/M/N

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Telecom Italia-RSP (TLITn.MI, 22-Jan-2019, EUR 0.39), Underweight/Positive, A/CD/CE/D/E/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.

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Altice NV (ATCA.AS)	Bezeq (BEZQ.TA)	Bouygues SA (BOUY.PA)
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Deutsche Telekom AG (DTEGn.DE)	DNA Oyj (DNAO.HE)	Drillisch (DRIG.DE)
Elisa Oyj (ELISA.HE)	Euskaltel SA (EKTL.MC)	Freenet (FNTGn.DE)

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Gamma Communications PLC (GAMA.L)	Iliad SA (ILD.PA)	Inmarsat plc (ISA.L)
INWIT (INWT.MI)	Iridium Communications Inc (IRDM)	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 (SRCG.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)	

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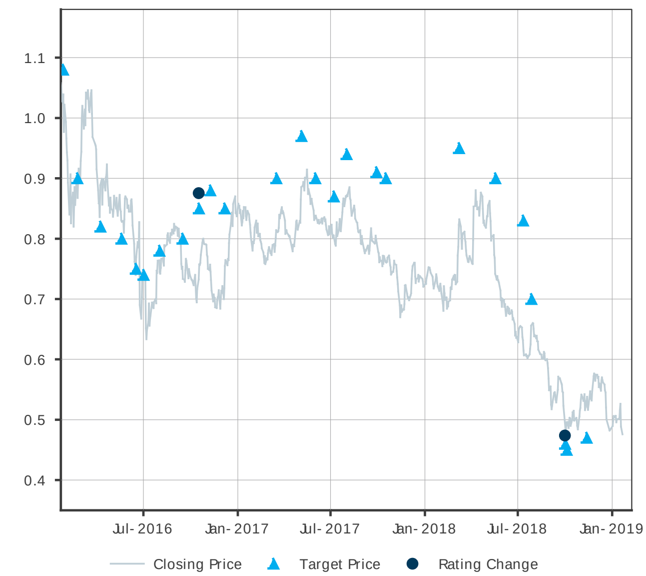
Telecom Italia SpA (TIT IM / TLIT.MI)

EUR 0.45 (22-Jan-2019)

Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

Rating and Price Target Chart - EUR (as of 22-Jan-2019)



Source: IDC, Barclays Research

Currency=EUR

Publication Date	Closing Price	Rating	Adjusted Price Target
12-Nov-2018	0.53		0.47
04-Oct-2018	0.50		0.45
01-Oct-2018	0.50	Underweight	0.46
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

On 22-Jan-2016, prior to any intra-day change that may have been published, the rating for this security was Underweight, and the adjusted price target was 1.09.

Source: Refinitiv, Barclays Research

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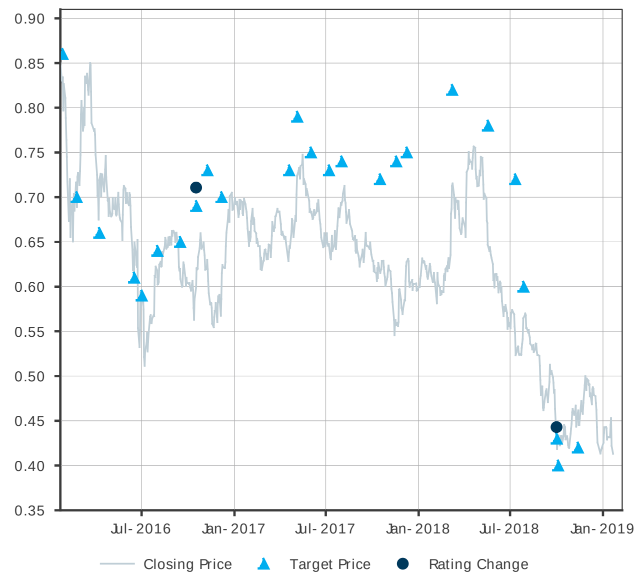
Telecom Italia-RSP (TITR IM / TLITn.MI)

EUR 0.39 (22-Jan-2019)

Stock Rating **UNDERWEIGHT**

Industry View **POSITIVE**

Rating and Price Target Chart - EUR (as of 22-Jan-2019)



Source: IDC, Barclays Research

Currency=EUR

Publication Date	Closing Price	Rating	Adjusted Price Target
12-Nov-2018	0.46		0.42
04-Oct-2018	0.43		0.40
01-Oct-2018	0.43	Underweight	0.43
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

On 22-Jan-2016, prior to any intra-day change that may have been published, the rating for this security was Underweight, and the adjusted price target was 0.90.

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