



Milano, 28 ottobre 2019 – Tim rende noto che in data odierna l'agenzia di rating S&P Global Ratings ha confermato il giudizio di rating livello BB+/B con outlook stabile.

Allegato il giudizio dell'agenzia di rating

Telecom Italia S.p.A.

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S&P Global Ratings

(/en_US/web/guest/home) Telecom Italia 'BB+/B' Ratings Affirmed; Outlook Stable

28-Oct-2019 05:14 EDT

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Leverage at Telecom Italia SpA (TIM) will peak at 4.2x in 2019, driven by fierce competition in the domestic market after Iliad's entry last year, and the International Financial Reporting Standard (IFRS) 16 lease adjustment to debt.

We expect a cash flow-led decline in leverage of about 0.3x per year thereafter, thanks to reduced capital expenditure (capex), stabilizing domestic operations, positive Brazilian contributions, and efficiency-driven margins.

We are affirming our 'BB+/B' ratings on TIM.

The stable outlook reflects our expectation that TIM will deleverage materially and sustainably below 4x in 2020, driven by our assumption of a sharp and sustainable rebound in free operating cash flow (FOCF) to more than €2 billion from 2020, leaving about €1.7 billion for absolute debt reduction annually.

PARIS (S&P Global Ratings) Oct. 28, 2019-S&P Global Ratings today took the rating actions listed above.

We expect adjusted leverage will temporarily peak in 2019 at 4.2x, above our range for the rating. We have decided to expand our downside rating trigger for TIM to 4x to reflect the non-operating accounting impact of IFRS16 on adjusted leverage, which is in line with peers, and a proforma deconsolidation of Inwit.

The increase in leverage is driven by weaker domestic EBITDA on an organic basis (pre-IFRS16 adjustments) due to competitive pressures in the Italian mobile market after Iliad's entrance. It also reflects higher debt arising from IFRS16 lease capitalization, which we expect will add about €3.6 billion to our adjusted debt figures. Although slightly offset by an accompanying EBITDA add-back of about €700 million, the net impact still adds about another 0.1x leverage versus 2018.

We forecast top-line revenue stabilization in 2020 and sustained lower capex driving strong cash flow-led deleveraging to levels sustainably and materially below 4x. The Italian mobile market is stabilizing and all the main carriers have increased prices in 2019, repairing some of the market turbulence created by Iliad's entry last year. We expect recent trends of increasing mobile average revenue per user (ARPU) and declining mobile number portability will continue, allowing TIM to finish 2019 with stabilized operating trends in Italy. We expect contributions from the Brazilian operations, which have been consistently strong on an organic basis, will benefit from lower macroeconomic and currency headwinds in our forecast, driving a positive net contribution to consolidated revenue. Combined with sustainably lower capex of €3.6 billion-€3.7 billion, incremental profitability improvements, and reduced working capital needs after a spike in 2019, we expect recurring FOCF before spectrum of at least €2 billion will materially deleverage TIM below 4x adjusted.

We are expanding our leverage threshold to 4.0x from 3.8x. This is both because we do not think the 2019 IFRS16 adjustment is reflective of a change in credit quality, and because our prior, tighter threshold was partially to offset the favorable impact of consolidating Inwit despite minority ownership. Deconsolidation

removes this need. Upon deconsolidation we will apply our operating lease adjustment to TIM's master service agreements with Inwit, increasing pro-forma adjusted leverage a further 0.1x in 2020. This is consistent with our ratios and adjustments criteria guidance for tower master service agreements, despite their being expensed under IFRS16 accounting principles. However, our assumptions on dividends and proceeds from a further sell-down to 25% of Inwit ownership, as well as a deconsolidation of Inwit's IFRS16 debt, primarily arising from ground leases, is likely to fully offset our operating lease adjustment.

The stable outlook reflects our expectation of adjusted leverage falling materially and sustainably below 4x in 2020 and adjusted funds from operations (FFO) to debt rising to 20% from 18% in 2019-2020. Improvements in that range will come mainly from improvements in recurring FOCF which we expect to rise sustainably toward 10% of adjusted debt in 2020.

We could lower the rating if we no longer expected adjusted leverage to improve sustainably below 4x. This could stem from higher-than-anticipated capex or working capital requirements that constrain FOCF below €2 billion beyond 2019. It could also be the result of operational factors like an unexpected return to unsustainable mobile competition that depresses ARPU or causes churn levels to spike, or from longer-term fixed-line deterioration under pressure from Openfiber. If, contrary to our current expectations, TIM moved to relinquish control over its fixed-line network, we could also consider a downgrade based on a weaker business profile, unless offset by material deleveraging.

We could raise the rating if we expect sustainable adjusted leverage comfortably below 3.5x, and an increase in FFO to debt toward 25% and FOCF to debt sustainably above 10%. Further progress in strengthening governance at the board level, such that there is long-term clarity in the company's strategic priorities, asset plans, and financial and shareholder policies, will also be required for ratings upside.

Related Criteria

General Criteria: Group Rating Methodology (/en_US/web/guest/article/-/view/sourceld/10999747), July 1, 2019

Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments (/en_US/web/guest/article/-/view/sourceld/10906146), April 1, 2019

General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceld/10011703), April 7, 2017

Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers (/en_US/web/guest/article/-/view/sourceld/9831306), Dec. 7, 2016

Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments (/en_US/web/guest/article/-/view/sourceld/9478732), Jan. 20, 2016

Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers (/en_US/web/guest/article/-/view/sourceld/8956570), Dec. 16, 2014

Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry (/en_US/web/guest/article/-/view/sourceld/8667999), June 22, 2014

General Criteria: Country Risk Assessment Methodology And Assumptions (/en_US/web/guest/article/-/view/sourceld/8313032), Nov. 19, 2013

Criteria | Corporates | General: Corporate Methodology (/en_US/web/guest/article/-/view/sourceld/8314109), Nov. 19, 2013

General Criteria: Methodology: Industry Risk (/en_US/web/guest/article/-/view/sourceld/8304862), Nov. 19, 2013

General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities (/en_US/web/guest/article/-/view/sourceld/7629699), Nov. 13, 2012

General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourceld/5612636), Sept. 14, 2009

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