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Telecom Italia: plus ça change

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French investors leave market pondering a possible sale

Foreign tourists love Italy, partly because life there seems to stand still. Traditional ways linger on. Its phone company, Telecom Italia, has been similarly slow moving. Debt stays high, investment stays low, profits fall. No great excitement.

Until this year. Suddenly, things are happening at Telecom Italia. The company has started to invest to win more broadband customers. And two big French investors have appeared on the shareholder register. Is this now a growth business? Is a takeover on the cards? Someone seems to think that things are moving — the shares are up by two-fifths this year.

But hold on a moment. That the incumbent has decided to invest is overdue, rather than shocking. High-speed broadband penetration is low (4 per cent) in Italy compared to the European average of 25 per cent. And competitors Vodafone Italy and Fastweb have decided to give TI a run for its money. The company had to react at some point. Pushing that investment much further — either domestically or in Brazil (where it owns mobile operator TIM Brasil) — will be a challenge. TI is heavily leveraged. Its net debt is 4 times its earnings before interest, depreciation and amortisation. It cannot afford to be a growth company.

Takeover chatter looks wide of the mark as well. Yes, there has been interest in the shares. French media group Vivendi acquired a stake in March, and now owns 20 per cent. And Xavier Niel, the French billionaire owner of telecoms group Iliad, bought 15 per cent of TI using options.

But what do these visitors really want? Buying a heavily indebted Italian telecoms incumbent facing stronger competition seems risky. Paying a premium over its current seven times ebitda multiple, for low growth, makes a deal even less attractive.

Perhaps the share price jump reflects hope that TI will sell its controlling stake in Brazil's TIM, and use the proceeds to cut debt. That too looks like fantasy. The Italians are unlikely to sell at depressed prices. TIM Brasil's shares have collapsed by 40 per cent (in euro terms) in the year to date. Even if TI did sell, the impact on the credit position would be neutral, according to Moody's.

So ignore the buzz. TI has been a sleepy business over the past few years. It still is. And it does not look like it is about to change.

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