Swisscom

Telecommunication

Rating	Price Target	Ticker	SCMN SE
Hold (unchg.)	CHF 540 (unchg.)	Share price 07-05-24	496
		Market cap (mns)	25,682
		Free float	49.0%
		Daily volume (mns)	44.5

Expanding footprint in Europe's most challenging telco market. Dividend set to increase, but so will the risk profile. Hold and PT of CHF 540 unchanged

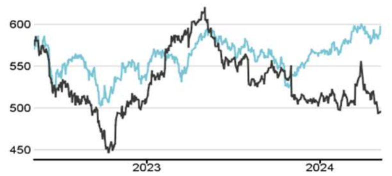
M&A likely a result of Fastweb's low FCF contribution since acquisition
Fastweb has been Swisscom's earnings driver in the past years. However, we believe that Fastweb's FCF and economic value contribution has been underwhelming. Since the acquisition in 2007, Fastweb has contributed on average less than EUR 0.1 bn p.a. in FCF and, according to our analysis, has not earned its cost of capital. We therefore believe that the move to acquire Vodafone Italy was driven by the need to create the synergies to bring the Italian activities to a level where they can earn their cost of capital. Moreover, the threat of a single Italian national network and pressure on fiber pricing could have further deteriorated Fastweb's mid/long-term outlook. As such, the decision to strengthen the Italian operations is a defensive move but should be welcomed.

Italy is the most challenging European telecommunications market
The Italian market is considered the most challenging telco market, with the sector's FCF shrinking by more than 90% over the past decade. Too many players and a regulator pushing for competition have resulted in the lowest mobile and broadband prices in Europe. This is well reflected in Vodafone's Italian financials, with Vodafone Italy unable to cover its cost of capital. The combination of a mobile and a fixed network operator would not fix the (mobile) market, but it would create the second largest player in the Italian telco market, able to offer converged bundles with a focus on quality, supporting an increase in customer loyalty, while economies of scale, in addition to cost synergies, should improve profitability and cash generation. Further consolidation in Italy, particularly in the mobile sector, would create pricing upside.

Synergy realization also hinges on market stabilization
The targeted synergies of EUR 600 mn are at the upper end of similar transactions in the sector. Given the tough Italian telecom market, the realization of these synergies hinges on a stabilization of Vodafone Italy and competition in the Italian telecom market. If price competition continues to intensify, part of the targeted cost synergies could be offset. Assuming 80% of the targeted synergies, we estimate an FCF accretion of more than 35% by 2029 compared to the status today. After the consumption of the Italian tax assets, the FCF uplift after interest payments will be reduced to about 20%, which would cover the higher dividend payments but slow down the deleveraging.

Higher dividend in 2026 also reflects increased risk profile
Following the acquisition of Vodafone Italy, the Italian share of the group's EBITDAaL would increase from 17% today to an estimated 42% in 2029E. The Italian expansion therefore significantly alters Swisscom's risk profile, given the highly competitive Italian market and the higher leverage. The dividend hike in 2025 will reward investors due to the lower defensive profile and with a higher risk-adjusted "fair dividend yield" of 4.5% to 5%, the increased dividend would imply a new a trading range of CHF 520 to CHF 580 per share, in line with our unchanged price target of CHF 540. We reiterate our Hold rating.

Performance



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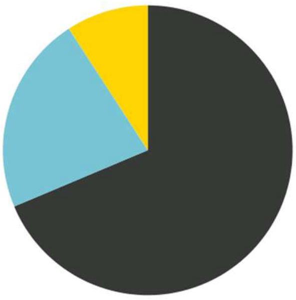
Key financials

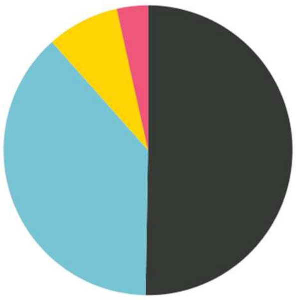
Top shareholders	Capital	Voting
Swiss Confederation	51.0	51.0

Upcoming events	Date
1H24 results	31-07-24
3Q24 results	31-10-24

Revenues by division 2024E



Revenues by segment 2024E



General	
Market capitalization (CHF mns)	25,682
Enterprise value (CHF mns)	32,276
Daily traded volume (CHF '000)	44,494
Reporting currency	CHF

Income statement (mns)	2023	2024E	2025E	2026E
Revenues	11,072	11,055	11,105	11,180
Gross profit	8,347	8,295	8,308	8,282
EBITDA	4,622	4,548	4,555	4,581
Depreciation & amortization	-2,417	-2,350	-2,337	-2,330
EBIT	2,205	2,197	2,217	2,251
Adjusted EBIT	2,205	2,197	2,217	2,251
Taxes	-364	-387	-403	-422
Shareholders' net profit	1,711	1,703	1,720	1,742
Adjusted net profit	1,711	1,703	1,720	1,742

Growth & margins (%)	2023	2024E	2025E	2026E
Revenue growth	0.20	-0.10	0.40	0.70
Organic growth	0.20	-0.10	0.40	0.70
Gross margin	75.4	75.0	74.8	74.1
EBITDA margin	41.7	41.1	41.0	41.0
EBIT margin	19.9	19.9	20.0	20.1
Adjusted EBIT margin	19.9	19.9	20.0	20.1
Tax rate	17.5	18.5	19.0	19.5

Cash flow statement (mns)	2023	2024E	2025E	2026E
Op. CF (before chng in NWC)	4,034	4,015	4,017	4,030
Inc. (-)/decr. (+) in NWC	-5.00	-25.6	-15.6	30.6
CF from operating activities	4,029	3,990	4,002	4,061
Capex	-2,272	-2,280	-2,250	-2,240
Operating free cash flow (FCF)	1,757	1,710	1,752	1,821
CF from investing activities	-2,322	-2,280	-2,250	-2,240
CF from financing activities	-1,671	-1,631	-1,536	-1,441
Incr.(+)/decr. (-) in cash	27.0	79.0	216	380

Cash flow analysis (%)	2023	2024E	2025E	2026E
Operating cash flow margin	36.4	36.1	36.0	36.3
Capex/revenues	20.5	20.6	20.3	20.0
Capex/depreciation	94.0	97.0	96.3	96.1

Balance sheet (mns)	2023	2024E	2025E	2026E
Cash and cash equivalents	148	227	443	823
Total current assets	3,718	3,844	4,046	4,419
Tangible assets	13,031	12,958	12,895	12,826
Other intangible assets	1,737	1,740	1,715	1,695
Goodwill	5,172	5,172	5,172	5,172
Total non-current assets	21,032	20,962	20,874	20,785
Total assets	24,750	24,806	24,920	25,204
Total current liabilities	4,345	4,167	4,037	4,060
Total non-current liabilities	8,783	8,433	8,078	7,718
Total liabilities	13,128	12,600	12,115	11,778
Total interest-bearing debt	5,665	5,175	4,780	4,480
Shareholders' equity	11,619	12,203	12,802	13,423
Total liabilities and equity	24,750	24,806	24,920	25,204

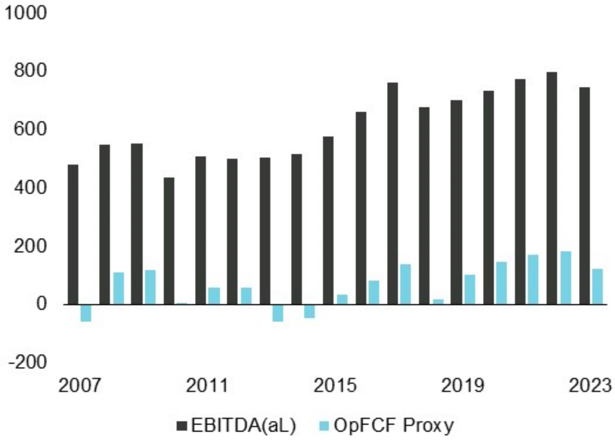
Balance sheet analysis (%)	2023	2024E	2025E	2026E
Net working capital (NWC, mns)	384	410	425	395
NWC/revenues	3.40	3.60	3.80	3.70
Net debt (+) / net cash (-) (mns)	5,517	4,948	4,337	3,657
Equity/total assets	47.0	49.2	51.4	53.3
Net debt/equity (gearing)	47.5	40.5	33.9	27.2
Net debt/EBITDA	119	109	95.2	79.8

Per-share data (CHF)	2023	2024E	2025E	2026E
EPS (reported)	33.0	32.9	33.2	33.6
EPS (adjusted)	33.0	32.9	33.2	33.6
Net cash (+) / net debt (-)	-107	-95.5	-83.7	-70.6
BVPS (reported)	224	236	247	259
Dividend	22.0	22.0	22.0	22.0
Payout ratio (%)	66.6	66.9	66.3	65.4

Valuation & profit. ratios (x)	2023	2024E	2025E	2026E
P/E (reported)	15.3	15.1	14.9	14.7
P/E (adjusted)	15.3	15.1	14.9	14.7
P/Book (reported)	2.26	2.10	2.01	1.91
EV/EBITDA	7.23	7.10	6.95	6.76
FCF yield (%)	6.70	6.66	6.82	7.09
Dividend yield (%)	4.35	4.44	4.44	4.44
ROIC (%)	8.50	8.40	8.50	8.70
ROE (%)	15.0	14.3	13.8	13.3

Our investment case in six charts

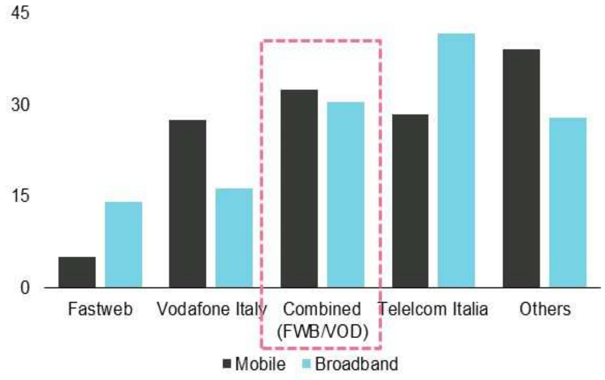
Fastweb EBITDA and FCF 2007-2023 (in EUR mns)*



*as of 2019, EBITDA after leasing (EBITDAaL) according to IFRS 16

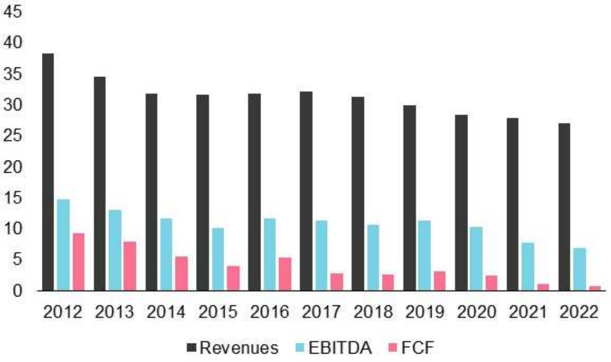
Source: Swisscom, Vontobel Equity Research

Italy market shares post Vodafone Italy merger



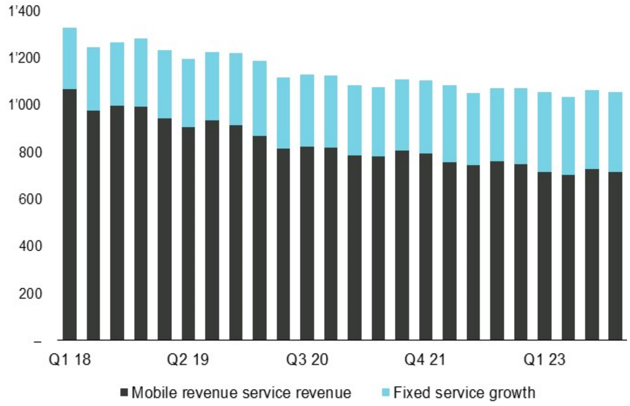
Source: Agcom, Swisscom, Vontobel Equity Research

FCF in the Italian telco market declined by 90% in the past decade (in EUR bns)



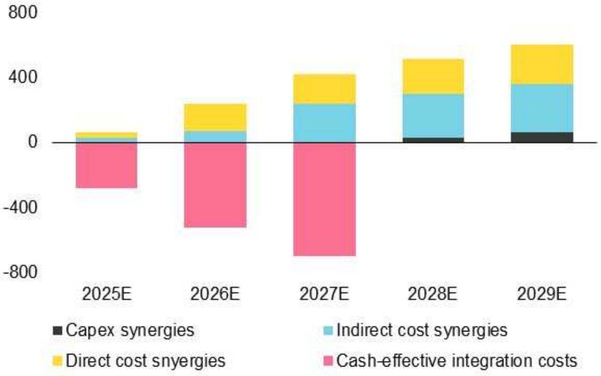
Source: ASSTEL, AGCOM, Vontobel Equity Research

Vodafone Italy quarterly mobile & fixed service revenues (in EUR mns)



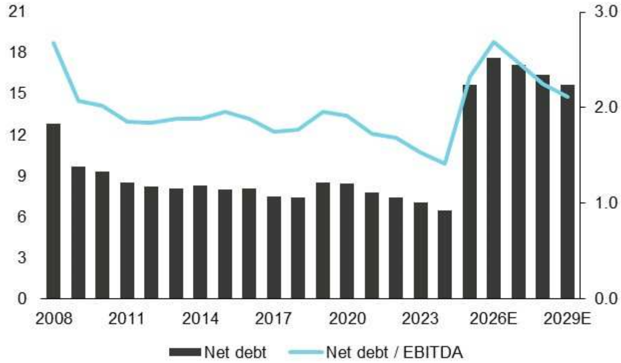
Source: Vodafone, Vontobel Equity Research

Timeframe for realization of cost synergies (in EUR mns)



Source: Swisscom, Vontobel Equity Research

Credible debt reduction but elevated leverage by 2029E in historical context

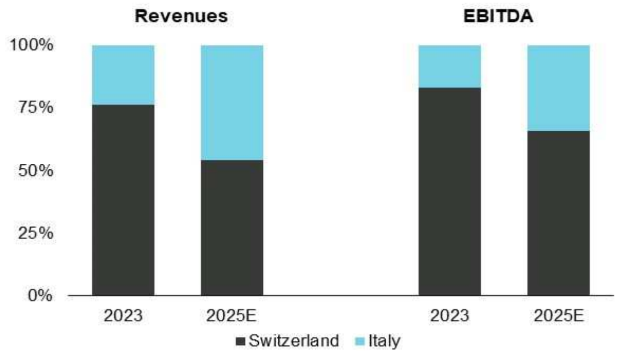


Source: Swisscom, Vontobel Equity Research

Our perspective

Italian expansion changes Swisscom's risk profile
In mid-March 2024, Swisscom confirmed that it had entered into a binding agreement to acquire Vodafone Italy for EUR 8 bn in cash on a debt-free basis. This is the reverse transaction exactly ten years after Vodafone, according to news reports, was eyeing an acquisition of Fastweb itself for about EUR 5 bn. Swisscom's proposed acquisition of Vodafone Italy is subject only to the approval of the Italian competition authority and does not require clearance by the European Commission due to Swisscom's small footprint in the European market. The acquisition is expected to close in early 2025 and, in our view, would profoundly change Swisscom's financial and risk profile. Assuming the acquisition closes in 2025, Swisscom's pro-forma group revenue share in Switzerland would shrink from 76% today to just over 50% in 2025E. As the profitability of the Italian telecommunications market is significantly lower than the Swiss market's, the share of Swiss EBITDA at group level would likely decline disproportionately less, 83% today to about 67% in 2025.

Pro-forma 2023 revenue and EBITDA vs 2025E*

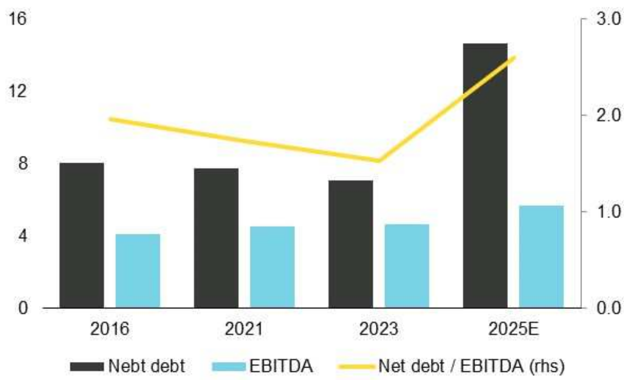


*assuming closing of Vodafone Italy by early 2025 (pro-forma)

Source: Swisscom, Vodafone, FactSet, Vontobel Equity Research

Swisscom's balance sheet structure will also change significantly as a result of the planned transaction. Since 2016, Swisscom has steadily improved its balance sheet, with the net debt/EBITDA ratio reaching a low of 1.5x in 2023, a level only reached before the acquisition of Fastweb in 2007.

Prof-forma net debt and leverage 2016 vs 2025E*



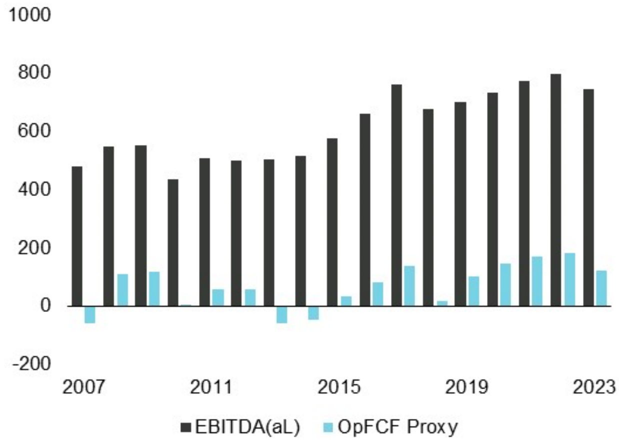
*assuming the acquisition of Vodafone Italy is approved and closed in early 2025

Source: Swisscom, Vontobel Equity Research

However, the EUR 8 bn acquisition will significantly expand the leverage ratio to a level of around 2.6x by 2025 and given leasing commitments by Vodafone in 2026 for its mobile tower infrastructure, the leverage ratio including lease obligations will remain at this elevated level also in 2026. While this is above the Swiss government's debt ceiling limit, the rules allow for a temporary excess of this quota when there is a clear deleveraging path. Swisscom will have to accept a downgrade by credit rating agencies by one notch when the transaction is approved but a robust A-credit rating can be maintained.

Italian M&A likely a result of Fastweb's underwhelming FCF and economic value contribution so far
Fastweb has been the top-line and EBITDA growth driver of the Swisscom group, particularly since 2016, with Fastweb's EBITDA up by 22% in the past seven years while Swisscom's operational results were flat. Nonetheless, we believe the cash flow returns by Fastweb as well as its economic value contribution to the Swisscom group have been underwhelming. Since the acquisition in 2007, we calculate that Fastweb contributed a cumulative free cash flow proxy (EBITDA minus Capex) of less than EUR 1.2 bn to the Swisscom group, which translates to an average of less than EUR 0.1 bn per year (Swisscom Switzerland: EUR 1.8 bn). The sum of these FCFs is still well below the total cash purchase price of Fastweb of EUR 3.4 bn (excluding the acquired EUR 1.7 bn in debt).

Fastweb EBITDA and FCF 2007-2023 (in EUR mns)*



* since 2019 reflecting IFRS 16 with EBITDA after leasing (EBITDAaL)

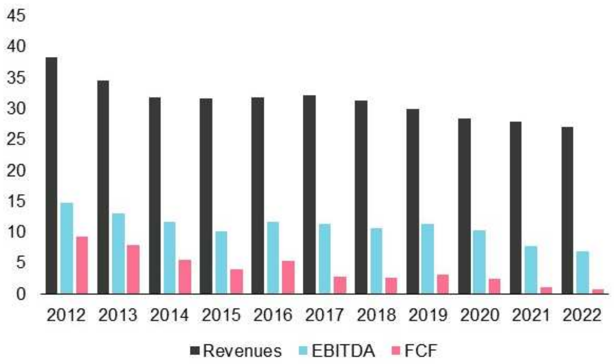
Source: Swisscom, Vontobel Equity Research

From an economic value perspective, we also believe that Fastweb is still not earning its weighted average cost of capital (WACC). Taking into account only the investments since the acquisition in 2007, we calculate that gross invested capital is about EUR 10.8 bn for the Italian subsidiary. This compares to an EBITDA after leasing (EBITDAaL) of EUR 743 mn achieved in 2023. Excluding extraordinary items of EUR 74 mn, the adjusted EBITDAaL in FY23 amounted to EUR 817 mn, which would result in a pre-tax ROIC of about 7.6% before goodwill. With Swisscom itself using a WACC of 7.9% for the Italian business (4.95% for Switzerland), Fastweb in 2023 has therefore not earned its cost of capital even when excluding one-off items (which are regularly impacting the operational results). Making matters worse, it is likely that without intercompany loans provided by Swisscom, the WACC for Fastweb would likely be around 9% (Vodafone Italy uses 8.9% for its Italian subsidiary) given higher financing costs due to the higher Italian risk-free rate (3.65% 10-year Italian government yield vs 0.65% for the Switzerland) and a clearly more intense competition than in Switzerland. We therefore believe that the move to acquire Vodafone Italy was born out of necessity to create the cost and Capex synergies to bring the Italian activities to a level where the business can earn its cost of capital in the medium-term. As such, the decision to strengthen the Italian operation with a 100% takeover of Vodafone Italy is a defensive move, but be should be welcomed.

Italy is the most challenging European telco market

The Italian telecommunication market has been in steady decline over the past decade. Sector revenues fell by 30% since 2012 and stood at EUR 27 bn by 2022. At the same time, the sector's free cash flows declined by more than 90%, not accounting for the substantial mobile frequency payments (i.e. EUR 4.6 bn in 2022 for 5G spectrum), making it the worst financially performing telco market in Western Europe.

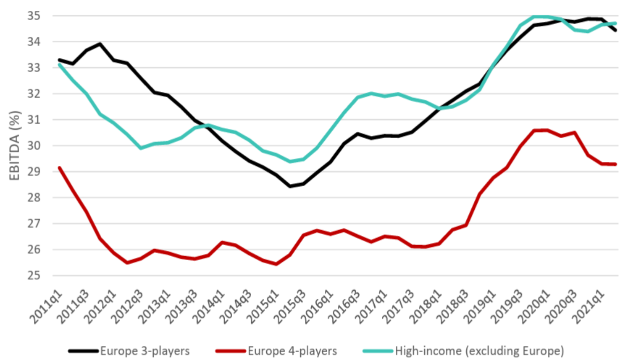
No improvement in sight for deteriorating Italian telco-market (in EUR bns)



Source: ASSTEL, AGCOM, Vontobel Equity Research

The main source of the revenue decline is mobile service revenues. The latter declined by 40% between 2012 and 2022 to around EUR 12 bn (2012: EUR 20 bn) despite an increase in mobile subscriptions from 100 mn to 107 mn during that period. The mobile telco market has always been very competitive with at least four competing mobile network operators as the national telecom agency welcomed competition.

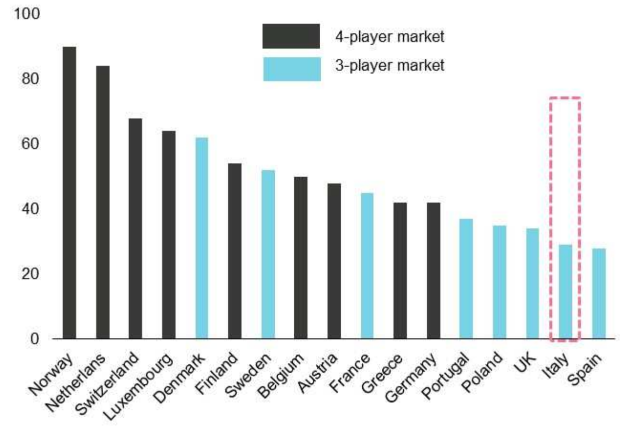
EBITDA-margins differences in countries with three- versus four-mobile telco operators (2011-2021)



Source: GSMA (2022), Vontobel Equity Research

Due to the lower market concentration in Italy, the country's telco EBITDA margin is significantly lower than in countries with three or fewer mobile operators. The profitability gap is around six percentage points. Not only is the average operator profitability lower in countries with lower market concentration, but mobile network quality and user experience also appear to be lower than in more concentrated markets, in part due to more fragmented mobile spectrum and lower mobile capital expenditure, and thus lower network quality, than in countries with less competition.

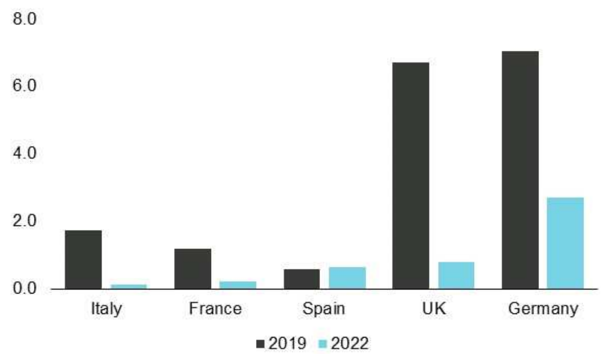
Mobile network download speeds in Europe (2021)



Source: GSMA (2022), Vontobel Equity Research

Between 2011 and 2016, the overall market shares of the four mobile network players (Telecom Italia, Vodafone Italy, Wind Italia, and Hutchinson's H3G) remained fairly stable, while the average revenue per user shrank by around 23% in the period, with total investment in mobile networks rising due to the arrival of 5G. As a result of the deteriorating financial conditions in the Italian mobile network market, Wind and H3G announced their intention to merge to form WindTre. The European Commission cleared the merger but demanded remedies as it hardened its stance on consolidation at the time, giving France-based Iliad the opportunity to enter the Italian mobile market in 2018. As a result, the Italian mobile market remained a four-player market, with competition becoming even more intense as Iliad entered the market with a very price-aggressive strategy.

European mobile data prices (2022 vs 2019)*



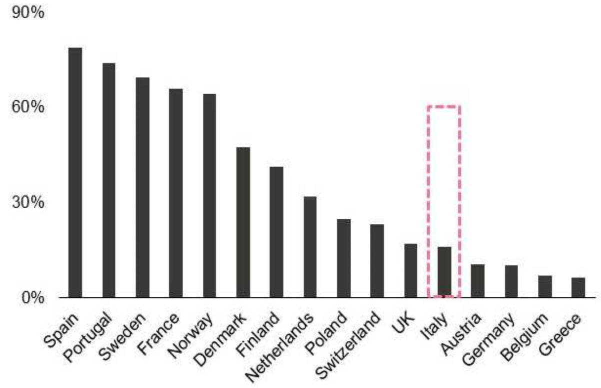
*in USD per GB traffic

Source: ASSTEL, Vontobel Equity Research

Following Iliad's entry into the Italian mobile market, between 2019 and 2022 mobile data prices in Italy saw the sharpest price decline in Europe (-93%), followed by the UK (-88%) and France (-81%), all of which are countries with four mobile operators, while Germany, as a three-player market, recorded much more benign price trends and prices. In Switzerland, mobile prices actually increased by 4%.

Italy also lags behind other European markets in terms of fixed networks (broadband). The existing infrastructure in Italy is not yet up to the challenge of securing broadband Internet access to every household. Italy still has one of the lowest fiber penetration rates in Europe. According to the FTTH Council Europe, Italy's FTTH/FTTB (fiber to the home/fiber to the building) coverage of 59% is average in Europe, but the fiber take-up rate of 27% is among the lowest, resulting in an overall fiber penetration rate of only 16% (fiber subscribers versus fiber coverage). We believe the lower penetration is due to the Italian government's decision to prioritize the expansion of fiber directly to the home (FTTH) rather than accepting mixed technologies such as fiber-to-the-cabinet (FTTC), which makes fiber relatively expensive compared to mobile broadband.

Fiber penetration in selected European countries



Source: FTTH Council Europe, Vontobel Equity Research

The price trend for broadband (fixed line network) declined the most between 2019 and 2022 in Italy, at -17%, but much less than in mobile communication. This is likely due to less competition in fixed network as only a handful of operators own fixed network assets. However, Iliad only launched an aggressively priced retail broadband offering in 2022, so broadband operators started to lower prices before the launch, making Italy one of the cheapest markets in Europe for broadband as well.

Consumer broadband price comparison in Europe

(in EUR per month)	Italy	France	Germany	Spain
1 Gbit/S	27	30-44	56-80	28-42

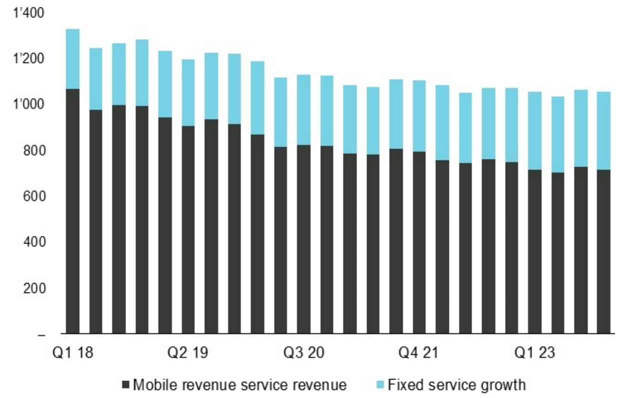
Source: ASSTEL 2023, Vontobel Equity Research

With fiber deployment and the government's ambition to push digitalization in Italy, the idea of a single fiber network has recently resurfaced almost 20 years after it was first proposed. The current project, dubbed the "Netco Project", involves the integration of all the fixed-line assets of incumbent operator Telecom Italia, including its nationwide copper and fiber network FiberCop, and those of state-supported operator Open Fiber (owned by the government-backed Cassa Depositi e Prestiti Group and Macquarie) into a single national network. While this is supported by the current Italian government, the issue is rather complex from an EU legal perspective (i.e., state aid) and the single network project is still on an uncertain path. Nevertheless, a single fiber network in Italy, operated by an infrastructure entity offering wholesale fiber access, could push fiber penetration in Italy by encouraging non-telco companies to invest in the infrastructure. At the same time, it could substantially increase competition in the fiber broadband market by significantly increasing competition for broadband services. The latter is likely to have been a factor in Swisscom's decision to combine Fastweb with Vodafone Italy.

Vodafone Italy has been a value destroyer

The challenging state of the Italian mobile market is well reflected in Vodafone Italy's service revenue performance over the past 5 years. Between 2018 and 2023, mobile service revenues shrank 28%, while the company lost 18% of its mobile subscribers in the same period. The fall in mobile subscriptions is likely due to Iliad's entry, but also to Vodafone Italy's declining net promoter score (NPS), which gauges overall customer satisfaction (price, quality, service). Only thanks to a growing fixed line (broadband) business, the total revenue decline between 2018 and 2023 amounted to 18%.

Vodafone Italy quarterly mobile & fixed service revenues calendar 1Q18 to 4Q23 (in EUR mns)



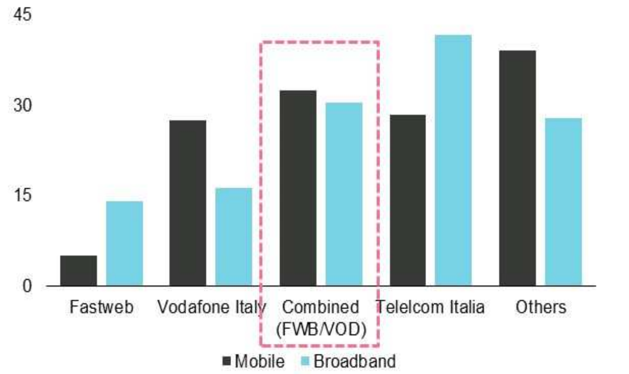
Source: Vodafone, Vontobel Equity Research

As a result of the revenue decline and general margin pressure, the EBITDAaL margin contracted 700bp over the past four years, while Vodafone Italy's OpFCF (FCF before interest, taxes, and NWC changes) more than halved over the same period to around EUR 0.3 bn (Fastweb EUR 0.2 bn). Similar to Fastweb, Vodafone Italy has not only covered its cost of capital in recent years, as confirmed by its parent company Vodafone Group. It was therefore value-destroying.

Fastweb/Vodafone combination will not fix the market but focus on FMC and quality should reduce churn

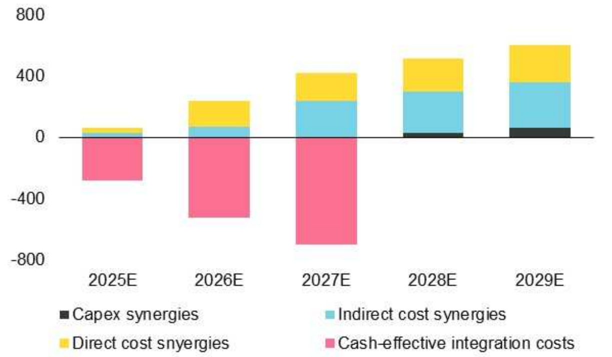
As outlined above, markets with fewer operators tend to have higher profitability and often better network quality and coverage. The combination of mobile operator Vodafone with broadband provider Fastweb will not change the competitive landscape in Italy, especially in mobile, although the combined entity will have much larger market shares in both segments on a pro-forma basis.

Market shares in Italy post Vodafone Italy merger



Source: Agcom, Swisscom, Vontobel Equity Research

Timeframe of realization of cost synergies (in EUR mns)*



*Incremental costs and synergies per year

Source: Swisscom, Vontobel Equity Research

We believe that the combined Fastweb and Vodafone will strongly drive the adoption of fixed-mobile convergence (FMC) products (customer subscribes to a mix of broadband, telephony, TV, and mobile products). The adoption of FMC bundles – usually with at least one discounted product – is growing in Italy but remains lower than that in other European countries, with Italy at around 30% compared to other European markets at around 50%. Greater FMC adoption will help "lock-in" Fastweb's large fixed-line and Vodafone Italy's mobile customers, at least in the near-term. This should help lower subscriber churn and thus reduce retention costs. Mid- to long-term, as FMC penetration reaches saturation levels and FMC competition intensifies, churn is likely to catch up again. The key lever for Fastweb/Vodafone at this point to fend off increasing churn and more intense price competition will therefore be a high level of customer satisfaction through low network outages and quick resolution of customer queries to drive better value perception for its customers, which will require higher levels of Capex.

How the two smaller mobile competitors, WindTre and Iliad, react to the combination of Fastweb/Vodafone Italy will be a key factor in determining how the pricing environment and FMC adoption will develop. A closer tie-up or an outright merger between Iliad and WindTre would be a market (and profitability) repair event as it would reduce competition from a four to a three-player mobile market with relatively equal market shares. While there is uncertainty as to whether the European Commission would allow such a consolidation, the European Commission's recent white paper on digital infrastructure in Europe seems to signal that scale is needed to improve mobile and broadband penetration and network quality, signaling a greater openness to market consolidation. A status quo in the mobile market, while TIM's fixed-line network and OpenFiber assets are potentially merged, could lead to greater competition in the fixed network as more alternative operators, including Iliad, have even better access to fiber networks.

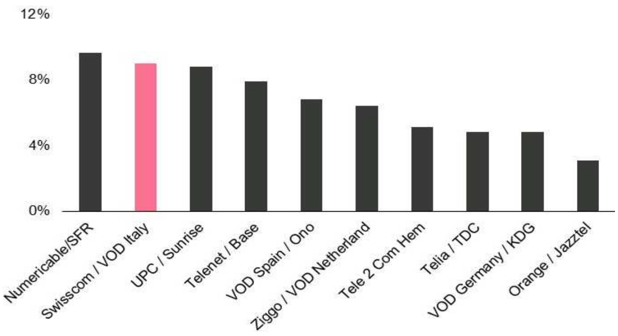
Synergies at upper end of comparable transactions

Swisscom is targeting total cost synergies from the combination of Fastweb and Vodafone of EUR 600 mn by 2029, assuming a closing of the acquisition in early 2025. No cross-selling revenue synergies are included, which we believe is a rather conservative approach by Swisscom management, but understandable given the challenging Italian market.

The cost synergies of EUR 600 mn by 2029 are expected to be achieved in part through direct cost savings of EUR 240 mn from the migration of Fastweb mobile customers from WindTre's to Vodafone Italy's own mobile infrastructure. Swisscom is targeting a further EUR 300 mn in cost synergies from indirect savings. Half of this is expected to come from rationalization of sales, IT, and administrative functions. The other half of the indirect cost savings is expected from the internalization of services provided by the Vodafone Group to the combined entity. Initially, these services will cost around EUR 350 mn annually, but Swisscom intends to partially internalize and optimize these services to reduce spending on costly third-party services. We expect the reduction of these costs to be complex and lengthy and would likely also require investments in additional operational resources. The remaining EUR 60 mn of cost synergies are expected to result from lower annual Capex due to the combined IT systems and networks. Swisscom expects to incur cash integration costs of around EUR 700 mn over the 2025 to 2027 period and non-cash integration costs of some EUR 150 mn in 2025.

The cost synergies of EUR 600 mn represent about 9% of the combined cost and Capex base. Compared to historical fixed-line and mobile M&A transactions in Europe in recent years, the expected synergies are at the upper end of the precedent range for fixed-mobile mergers of 3% to 10%. Given the tough Italian telecom market, the realization of the synergies is not without risk, and if price competition remains as intense or even intensifies, which could be the case in broadband, these cost synergies could be partially offset by lower prices.

Comparison of fixed-mobile telco merger synergy targets as % of combined OPEX and Capex



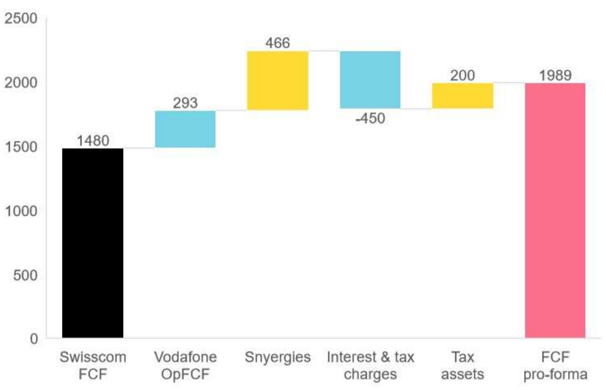
Source: Swisscom, Sunrise, company data, Vontobel Equity Research

FCF uplift partially diluted by higher interest payments

In addition to the Opex and Capex synergies, which amount to EUR 5.5 bn net of integration costs on a net present value basis, Swisscom also expects tax synergies with a net present value of around EUR 0.5 bn due to Vodafone Italia's tax assets. The latter should result in almost no cash tax charges in the 2025 to 2029 integration period and should also reduce the tax burden in 2030. Given the higher debt level, Swisscom expects additional interest charges of around EUR 250 mn, which would still represent a favorable interest rate of 3% on the additional EUR 8 bn debt. Moreover, as some of Vodafone Italy's cash outflows are only reported on a holding level, the separation will increase Vodafone Italy's third-party service payments, as it has sold and leased-back its mobile antenna towers to tower operator INWIT – just like Sunrise and Salt have done in Switzerland. This will increase Swisscom's lease related cash outflows by an additional EUR 100 mn in 2025E.

Taking into account the above and all direct cost savings, but only 60% of the indirect cost savings due to the complex service integration with Vodafone Italy's parent, we calculate that the acquisition will result in an FCF uplift for Swisscom of about 35% by 2029 vs 2023. Following the consumption of the Italian tax assets, the FCF uplift after 2030 is likely to decline to about a 20% higher FCF vs 2023, which corresponds to an amount of CHF 300 mn (17% of total FCF).

Pro-forma FCF uplift of around 35% by 2029 (in CHF mns)



Source: Swisscom, Vontobel Equity Research

Synergy realization hinges on a stabilization of Vodafone Italy, further market consolidation a positive

We believe that the realization of the targeted cost synergies hinges on a stabilization of Vodafone Italy's mobile service business, which has not been visible so far. Near-term market expectations signal a further deterioration in service revenues due to ongoing weak economic conditions and still low consumer confidence. However, the focus on FMC bundles from 2025 should increase customer retention and, by applying Swisscom's quality approach, improve Vodafone Italy's net promoter score. The latter should increase customer loyalty and reduce churn and retention costs, supporting an improvement in the company's profitability.

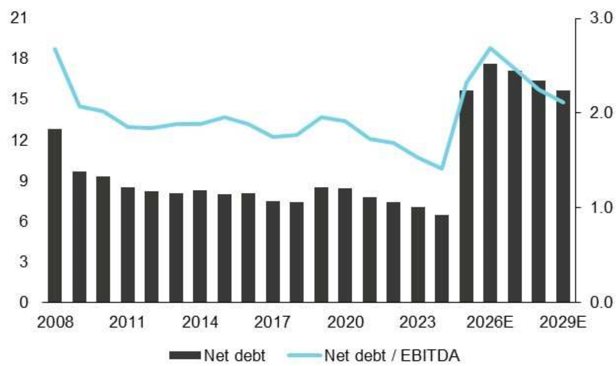
In our view, further market consolidation in Italy, with a potential tie-up of WindTre with Iliad, would likely support pricing as it would result in a three-player mobile market with relatively similar sized customer bases. This would support market repair, with pricing becoming less of a driver of market share and more of a driver of service quality and addressable market expansion (i.e., fiber build-out).

Significant dividend hike by 2026, but increases thereafter not a certainty

The acquisition of Vodafone Italy, planned for early 2025, will be fully debt-financed and will increase Swisscom's leverage (net debt/EBITDA) from 1.5x at the end of 2023 to 2.6x by the end of 2025. Swisscom intends to maintain a strong balance sheet and an "A" credit rating, which would still be among the highest debt ratings among European telecom peers. Despite the higher leverage, Swisscom intends to increase the annual dividend to CHF 26 per share already in the 2025 financial year, payable in 2026. The company stated that it has the ambition to grow the dividend further thereafter, supported by the realization of synergies, but this will be subject to the development of FCF. Swisscom's ambition is to increase the dividend payout by about CHF 1 per year after the transaction to around CHF 29 per share by 2029. Given that Swisscom has kept its dividend payout unchanged since 2011, this represents a major shift in shareholder "remuneration".

If the acquisition is approved in early 2025, Swisscom's net debt including lease liability is expected to rise to around CHF 15.7 bn by the end of 2025. By 2026, net debt is set to increase further to an estimated CHF 17.7 bn due to additional lease obligations arising from the renewal of Vodafone Italy's the tower lease and the higher dividend payment, which will increase dividend-related cash outflows by over CHF 0.2 bn.

Credible debt reduction but elevated leverage in historical context



Source: Swisscom, Vontobel Equity Research

The company's debt will be at its highest level in a historical context and also considerably higher than after the acquisition of Fastweb. Based on the expected cost synergies (VTe: 80% vs target 100%) the operating result will also increase significantly, so that the leverage ratio is expected to peak at 2.7x (in line with Swisscom's guidance of 2.7x) and to decline to below 2.2x by 2029E (vs Swisscom's guidance of a leverage of around 2.0x) and compared to our leverage estimate for Swisscom by 2029E of below 0.8x with the current setup.

As noted above, the realization of synergies hinges on a stabilization of Vodafone Italy's operating performance in mobile services as well as on these synergies not being partially or fully offset by stronger broadband competition, particularly from Iliad. Beyond 2029, we expect the ability to reduce debt to slow significantly as the Italian tax assets will be largely consumed and result in an additional cash outflow, reducing the ability to increase dividends as the FCF uplift beyond 2029 from 2023 levels will only slightly exceed the increased dividend payment and will not allow for greater debt reduction. In addition, upcoming costs for the renewal of mobile spectrum license in both Switzerland and Italy by the end of the decade will also weigh on the debt position.

Conclusion: Acquisition of Vodafone Italy a defensive deal to improve returns, but not without risks and with a profound change in Swisscom's risk profile

While Swisscom has benefited from Fastweb's technological know-how for its fiber rollout in Switzerland, the Italian subsidiary has so far failed to cover its cost of capital and, even after more than 15 years, its cumulative FCF has still not generated the initial purchase price. The potential creation of a single broadband network could further increase competition for Fastweb. Vodafone Italy, on the other hand, has seen its mobile service revenue and operating profits decline significantly. In addition, its reputation based on the net promoter score is declining, which we attribute to lower service and network quality.

From this perspective, the acquisition of Vodafone Italy is a strategic but defensive move. The ability to offer fixed-mobile convergence products and bundles largely on its own network will create a strong quality player in the Italian market, which should help increase customer loyalty. The targeted cost synergies, even if some may be offset by aggressive competitive behavior, should still allow for attractively priced FMC products while supporting an improvement in returns and FCF through better capitalization of its network investments. Nevertheless, Swisscom's risk profile will become riskier as a larger share of its revenues and operating profits will be generated in a more competitive Italian market, as discussed below.

Pro-forma estimates post Vodafone Italy acquisition

In CHF mns	2024E	2025E	2026E	2027E	2028E	2029E
Revenues	**11,055**	**15,216**	**15,373**	**15,541**	**15,729**	**15,919**
- Switzerland	8,445	8,425	8,431	8,441	8,461	8,481
- Italy	2,610	6,791	6,942	7,100	7,268	7,438
EBITDA	**4,548**	**6,247**	**6,636**	**6,926**	**7,265**	**7,382**
EBITDAaL	**4,297**	**5,032**	**5,273**	**5,512**	**5,829**	**5,923**
- Switzerland	3,509	3,490	3,462	3,427	3,425	3,428
- Italy	788	1,542	1,811	2,084	2,404	2,496
Capex	2,280	2,860	2,860	2,849	2,858	2,868
FCF pro-forma	**1,420**	**1,341**	**1,592**	**1,809**	**2,066**	**2,106**
Dividend	22	22	26	27	28	29
FCF payout ratio	**80%**	**85%**	**85%**	**77%**	**70%**	**71%**

Source: Swisscom, Vontobel Equity Research

In addition, the incremental FCF generated will be significantly lower after the consumption of the tax asset, which we believe will limit the potential dividend improvements beyond 2030.

As the acquisition will not close before early 2025 and regulatory approval is still pending, we do not yet include Vodafone Italy in our estimates. We therefore leave our estimates unchanged and reiterate our Hold rating with an unchanged price target of CHF 540.

Valuation premium to European sector – will it be sustainable?

Swisscom has always traded at a significant premium to the European telecommunications sector. There are several reasons for this: 1) Switzerland has been a rational market for years with three mobile and only two major fixed line operators, 2) mobile license costs, such as for 3G, 4G and 5G, have been dramatically lower than in European countries, 3) regulations are less strict (i.e., roaming fees still exist, unlike in the EU), 4) pricing is generally higher, 5) lower interest rates, 6) lower tax rates, and 6) a generally benign regulatory environment. As a result, Swisscom's EV/EBITDA premium to the sector has historically been well above 15% and only since the announced acquisition of Vodafone Italy this premium has been slightly reduced.

Swisscom EV/EBITDA vs European peers*

	2024E	2025E	2026E
Peer group (median)	6.4x	6.1x	5.9x
Swisscom	7.1x	6.9x	6.7x
Premium	11%	13%	14%

* BT Group, Deutsche Telecom, Telia, KPN, Telefonica, Telefonica Deutschland, Tele2, Telenor, Telia

Source: FactSet, Vontobel Equity Research (update as of 7 May 2024)

With Italy becoming a larger part of Swisscom from 2025 and around 45% of group EBITDA being generated outside Switzerland by 2029, the premium to the sector could be gradually reduced. The domestic market will continue to be a key profit contributor and also offers lower financing costs, but we believe that Swisscom's higher risk profile will likely lead to lower multiples over time.

New dividend level supports our DCF-derived price target given higher risk profile

While we use a discounted cash flow (DCF) valuation method to derive our price target for Swisscom, we have also long argued that Swisscom's dividend, which has been unchanged since 2011, provides a good trading range for the stock with a "fair yield". In the low interest rate environment of the past 10 years, and with Swisscom operating in a largely stable market environment in Switzerland, a dividend yield of around 4% was considered a fair risk/return for investors, which implied a share price of around CHF 550 based on a dividend of CHF 22. This compares to our unchanged price target of CHF 540 per share based on our DCF valuation approach.

With Swisscom's guidance for an 18% dividend hike to CHF 26 by 2025 (paid in 2026), this would imply a share price of around CHF 650 based on a fair yield of 4%. However, given that Swisscom's risk profile will be considerably different, we believe investors will want to be rewarded with a higher risk-adjusted yield, which we estimate to be between 4.5% and 5%. This would imply a trading range of CHF 520 to CHF 580 per share, with a midpoint of CHF 550, which is in line with our price target. We therefore confirm our Hold rating.

DCF model

		Explicit forecast period					Transition period				Terminal
DCF/EVA valuation		**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
Invested capital (average)	CHF mns	21,169	21,110	21,014	20,906	20,815	20,730	20,647	20,567	20,489	20,415
ROIC	%	8.4	8.5	8.7	8.8	8.9	9.0	9.1	9.2	9.3	9.4
ROIC-WACC	%	3.2	3.3	3.5	3.6	3.6	3.6	3.7	3.7	3.7	3.6
Economic profit (EVA)	CHF mns	681	696	730	756	757	756	761	759	755	742
Discounted EVA	CHF mns	659	640	638	628	596	562	534	502	470	433
NWC intensity	%	3.7	3.8	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Implied P&L and FCF		**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
Revenues	CHF mns	11,055	11,105	11,180	11,236	11,291	11,345	11,398	11,451	11,502	11,553
Revenue growth	%	-0.1	0.4	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.4
EBIT	CHF mns	2,197	2,217	2,251	2,274	2,292	2,308	2,330	2,345	2,358	2,360
EBIT margin	%	19.9	20.0	20.1	20.2	20.3	20.3	20.4	20.5	20.5	20.4
Cash tax rate	%	18.7	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
NOPLAT (Invested capital * ROIC)	CHF mns	1,786	1,796	1,824	1,842	1,857	1,869	1,887	1,900	1,910	1,911
Depreciation	CHF mns	2,350	2,337	2,330	2,310	2,275	2,207	2,141	2,077	1,994	1,914
Other non-cash items	CHF mns	-121	-116	-123	-117	-105	-99.8	-95.8	-92.0	-88.3	-84.8
Change in NWC	CHF mns	-25.6	-15.6	30.6	12.6	-1.87	-1.84	-1.81	-1.78	-1.75	-1.72
Capex	CHF mns	-2,280	-2,250	-2,240	-2,218	-2,184	-2,119	-2,055	-1,994	-1,914	-1,837
FCF to the firm	CHF mns	1,710	1,752	1,821	1,830	1,841	1,856	1,875	1,889	1,900	1,901
Discounted FCF	CHF mns	1,097	1,610	1,591	1,520	1,448	1,380	1,316	1,249	1,181	1,110
Weighted cost of capital		**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
Cost of equity	%	6.6	6.5	6.4	6.3	6.3	6.3	6.3	6.3	6.3	6.4
After-tax cost of debt	%	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.1	1.1
Market cap/EV	%	76.0	76.7	77.3	78.0	79.7	81.3	83.0	84.7	86.3	88.0
WACC	%	5.2	5.2	5.2	5.2	5.3	5.4	5.5	5.5	5.6	5.7

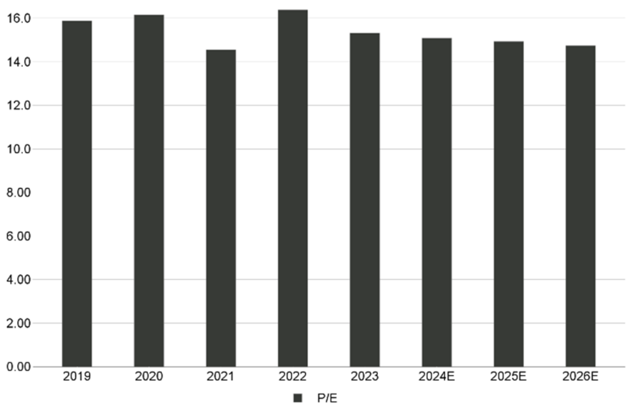
Net present value (NPV)		**2024E**
Explicit and transition period FCF	CHF mns	12,393
Discounted cont. value of FCF	CHF mns	21,348
Terminal value as % of EV	%	63.3
Terminal rev. growth assumption	%	0.4
Enterprise value (EV)	CHF mns	33,740
Net debt	CHF mns	5,326
Minorities	CHF mns	0.00
Associates	CHF mns	42.0
Other adjustments to EV	CHF mns	1,688
Implied market cap	CHF mns	26,768
Equivalent total # of listed shares	mns	51.8
Reporting currency to CHF rate	x	1.00
Net present value (NPV) per share	**CHF**	**517**
NPV per share 12 months forward	**CHF**	**544**

Sensitivity analysis for NPV per share (avg. WACC vs. term. EBIT margin)

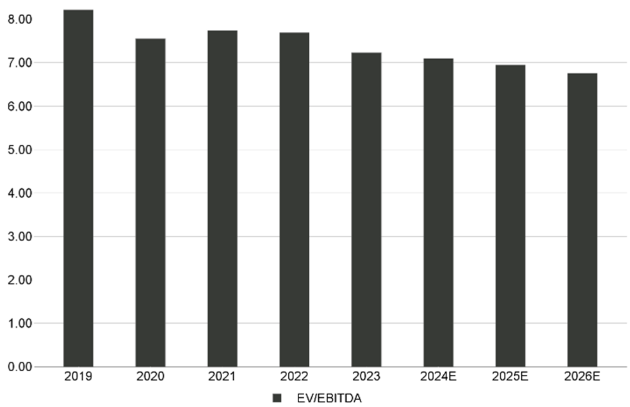
EBIT\WACC	**4.2%**	**4.7%**	**5.2%**	**5.7%**	**6.2%**	**6.7%**	**7.2%**
17.4%	680	590	519	461	413	373	338
18.4%	711	617	542	481	431	389	352
19.4%	743	644	565	501	449	404	366
20.4%	775	671	588	521	466	420	380
21.4%	806	698	611	542	484	435	394
22.4%	838	724	634	562	501	451	408
23.4%	870	751	657	582	519	466	421

Financials

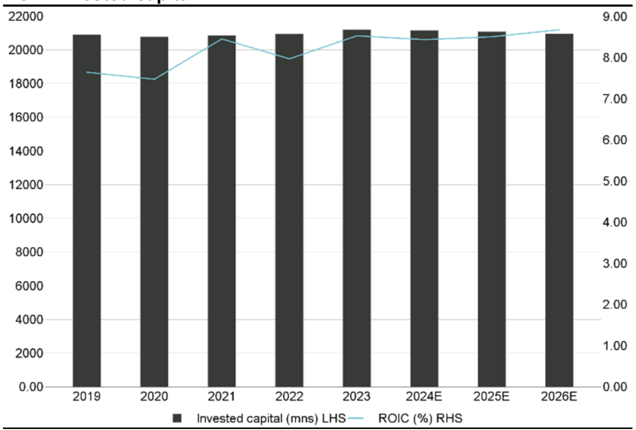
P/E



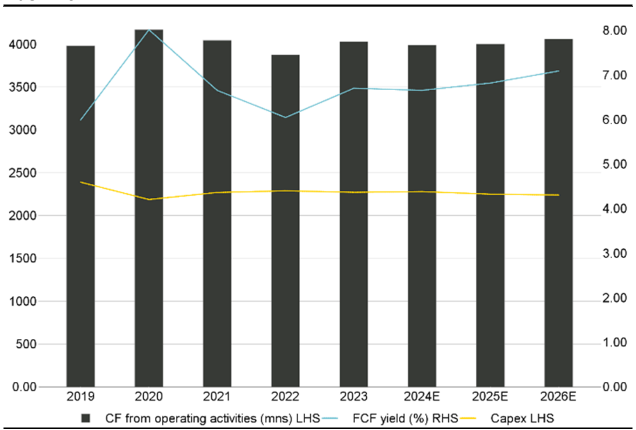
EV/EBITDA



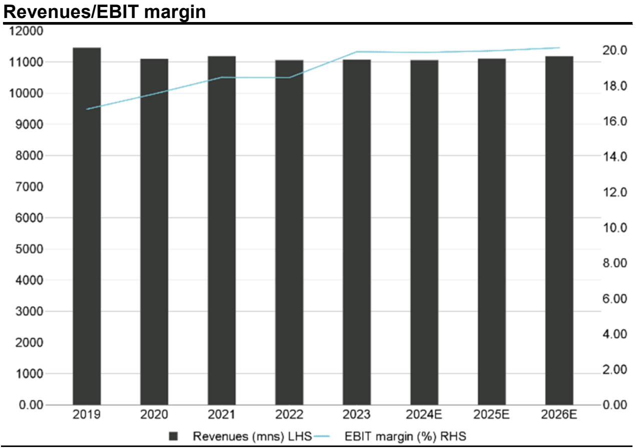
ROIC/Invested capital



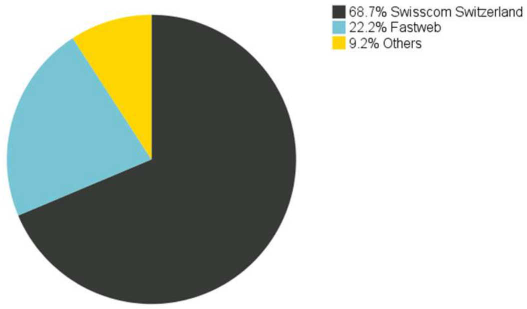
Cash flow/CAPEX



Revenues/EBIT margin



Revenue breakdown for 2024



Segment information by division

Revenues		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Swisscom Switzerland	CHF mns	8,573	8,250	8,233	8,270	8,147	8,082	8,067	8,080
Fastweb	CHF mns	2,468	2,470	2,583	2,493	2,561	2,610	2,680	2,748
Others	CHF mns	1,079	1,014	1,033	1,038	1,063	1,079	1,083	1,087
Growth		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Swisscom Switzerland	%	-2.6	-3.8	-0.2	0.4	-1.5	-0.8	-0.2	0.2
Fastweb	%	1.7	0.1	4.6	-3.5	2.7	1.9	2.7	2.6
Others	%	18.7	-6.0	1.9	0.5	2.4	1.5	0.4	0.3
EBITDA		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Swisscom Switzerland	CHF mns	3,484	3,466	3,453	3,483	3,709	3,593	3,574	3,546
Fastweb	CHF mns	834	840	892	857	776	843	871	923
Others	CHF mns	189	184	166	160	145	150	155	159
EBITDA margin		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Swisscom Switzerland	%	40.6	42.0	41.9	42.1	45.5	44.5	44.3	43.9
Fastweb	%	33.8	34.0	34.5	34.4	30.3	32.3	32.5	33.6
Others	%	17.5	18.1	16.1	15.4	13.6	13.9	14.3	14.6

Income Statement		2019	2020	2021	2022	2023	2024E	2025E	2026E
Revenues	CHF mns	11,453	11,100	11,183	11,054	11,072	11,055	11,105	11,180
Gross profit	CHF mns	8,638	8,431	8,404	8,425	8,347	8,295	8,308	8,282
Total operating expenses	CHF mns	-4,280	-4,049	-3,926	-4,019	-3,725	-3,748	-3,754	-3,701
EBITDA	CHF mns	4,358	4,382	4,478	4,406	4,622	4,548	4,555	4,581
Depreciation of tangible assets	CHF mns	-1,811	-1,813	-1,818	-1,733	-1,737	-1,723	-1,722	-1,720
EBITA	CHF mns	2,547	2,569	2,660	2,673	2,885	2,824	2,832	2,861
Amortization of intangibles	CHF mns	-636	-622	-594	-633	-680	-627	-615	-610
Impairment and amortization of goodwill	CHF mns	-1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	CHF mns	1,910	1,947	2,066	2,040	2,205	2,197	2,217	2,251
Total operating one-off items	CHF mns	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted EBIT	CHF mns	1,911	1,947	2,066	2,040	2,205	2,197	2,217	2,251
Net financial result	CHF mns	-158	-152	96.0	-72.0	-130	-111	-99.0	-92.0
Extraordinary result	CHF mns	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pretax profit	CHF mns	1,724	1,799	2,152	1,963	2,075	2,089	2,123	2,164
Taxes	CHF mns	-55.0	-271	-319	-360	-364	-387	-403	-422
Group net profit	CHF mns	1,669	1,528	1,833	1,603	1,711	1,703	1,720	1,742
Minority interests	CHF mns	3.00	2.00	-1.00	-1.00	0.00	0.00	0.00	0.00
Shareholders' net profit	CHF mns	1,672	1,530	1,832	1,602	1,711	1,703	1,720	1,742
Total one-off items	CHF mns	-219	0.00	-239	151	0.00	0.00	0.00	0.00
Adjusted net profit	CHF mns	1,453	1,530	1,593	1,753	1,711	1,703	1,720	1,742
Growth		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Revenues	%	-2.2	-3.1	0.7	-1.2	0.2	-0.1	0.4	0.7
Organic revenues	%	-2.2	-3.1	0.7	-1.2	0.2	-0.1	0.4	0.7
Gross profit	%	-1.4	-2.4	-0.3	0.2	-0.9	-0.6	0.2	-0.3
EBITDA	%	3.4	0.6	2.2	-1.6	4.9	-1.6	0.2	0.6
EBIT	%	-7.7	1.9	6.1	-1.3	8.1	-0.3	0.9	1.5
Net profit	%	9.5	-8.5	19.7	-12.6	6.8	-0.5	1.0	1.3
Net profit adjusted	%	-5.1	5.3	4.1	10.1	-2.4	-0.5	1.0	1.3
Margin analysis		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Gross margin	%	75.4	76.0	75.1	76.2	75.4	75.0	74.8	74.1
EBITDA margin	%	38.1	39.5	40.0	39.9	41.7	41.1	41.0	41.0
EBITA margin	%	22.2	23.1	23.8	24.2	26.1	25.5	25.5	25.6
EBIT margin	%	16.7	17.5	18.5	18.5	19.9	19.9	20.0	20.1
Adjusted EBIT margin	%	16.7	17.5	18.5	18.5	19.9	19.9	20.0	20.1
Tax rate	%	3.2	15.1	14.8	18.3	17.5	18.5	19.0	19.5
Net profit margin	%	14.6	13.8	16.4	14.5	15.5	15.4	15.5	15.6
Adjusted net profit margin	%	12.7	13.8	14.2	15.9	15.5	15.4	15.5	15.6

Balance Sheet		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Cash and cash equivalents	CHF mns	328	340	401	121	148	227	443	823
Marketable securities	CHF mns	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	CHF mns	125	120	114	162	161	151	152	153
Accounts receivable	CHF mns	2,183	2,132	2,315	2,255	2,143	2,181	2,191	2,205
Prepayment and accrued income	CHF mns	1,031	909	1,065	1,191	1,162	1,181	1,156	1,133
Other current assets	CHF mns	77.0	174	128	119	104	104	104	104
Total current assets	CHF mns	3,744	3,675	4,023	3,848	3,718	3,844	4,046	4,419
Tangible assets	CHF mns	12,706	12,863	12,905	12,803	13,031	12,958	12,895	12,826
Other intangible assets	CHF mns	1,842	1,745	1,714	1,741	1,737	1,740	1,715	1,695
Goodwill	CHF mns	5,163	5,162	5,157	5,172	5,172	5,172	5,172	5,172
Financial assets	CHF mns	484	479	768	836	840	840	840	840
Other non-current assets	CHF mns	152	183	204	194	225	225	225	225
Total non-current assets	CHF mns	20,503	20,587	20,778	20,772	21,032	20,962	20,874	20,785
Total assets	CHF mns	24,247	24,262	24,801	24,620	24,750	24,806	24,920	25,204
Accounts payable	CHF mns	1,614	1,525	1,600	1,674	1,611	1,636	1,628	1,669
Short-term interest-bearing debt	CHF mns	1,411	792	559	547	718	518	418	418
Accrued expenses and deferred income	CHF mns	1,182	1,269	1,617	1,571	1,471	1,468	1,446	1,428
Other current liabilities/provisions	CHF mns	569	556	565	514	545	545	545	545
Total current liabilities	CHF mns	4,776	4,142	4,341	4,306	4,345	4,167	4,037	4,060
Long-term interest-bearing debt	CHF mns	6,049	6,250	5,886	5,455	4,947	4,657	4,362	4,062
Pension liabilities (long-term portion)	CHF mns	1,058	795	24.0	22.0	21.0	21.0	21.0	21.0
Other non-current liabilities	CHF mns	2,384	2,406	2,611	2,510	2,586	2,566	2,546	2,526
Provisions	CHF mns	1,105	1,178	1,126	1,156	1,229	1,189	1,149	1,109
Total non-current liabilities	CHF mns	10,596	10,629	9,647	9,143	8,783	8,433	8,078	7,718
Total liabilities	CHF mns	15,372	14,771	13,988	13,449	13,128	12,600	12,115	11,778
Total interest-bearing debt	CHF mns	7,460	7,042	6,445	6,002	5,665	5,175	4,780	4,480
Ordinary share capital	CHF mns	51.8	51.8	51.8	51.8	51.8	51.8	51.8	51.8
Share premium & retained earnings	CHF mns	8,820	9,438	10,759	11,116	11,567	12,152	12,751	13,371
Shareholders' equity	CHF mns	8,872	9,490	10,811	11,168	11,619	12,203	12,802	13,423
Minority interests	CHF mns	3.00	1.00	2.00	3.00	3.00	3.00	3.00	3.00
Group equity	CHF mns	8,875	9,491	10,813	11,171	11,622	12,206	12,805	13,426
Total liabilities and equity	CHF mns	24,247	24,262	24,801	24,620	24,750	24,806	24,920	25,204

Balance sheet analysis		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Net working capital (NWC)	CHF mns	543	367	277	363	384	410	425	395
NWC/revenues	%	5.2	4.1	2.9	2.9	3.4	3.6	3.8	3.7
NWC/total assets	%	2.2	1.5	1.1	1.5	1.6	1.7	1.7	1.6
Inventory days	days	18	17	15	19	22	21	20	19
Receivables days	days	70	71	73	75	72	71	72	72
Payables days	days	212	215	205	227	220	215	213	208
Net debt (+) / net cash (-)	CHF mns	7,132	6,702	6,044	5,881	5,517	4,948	4,337	3,657
Equity/total assets	%	36.6	39.1	43.6	45.4	47.0	49.2	51.4	53.3
Net debt/equity (gearing)	%	80.4	70.6	55.9	52.6	47.5	40.5	33.9	27.2
Net debt/EBITDA	x	1.6	1.5	1.3	1.3	1.2	1.1	1.0	0.8

Cash flow statement		2019	2020	2021	2022	2023	2024E	2025E	2026E
Group profit	CHF mns	1,669	1,528	1,833	1,603	1,711	1,703	1,720	1,742
Depreciation + Amortization	CHF mns	2,447	2,435	2,412	2,366	2,417	2,350	2,337	2,330
Goodwill impairment	CHF mns	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-cash financial income (-)/expenses (+)	CHF mns	-26.0	23.0	-224	-70.0	10.0	22.2	19.8	18.4
Inc. (+)/decr.(-) in deferred taxes	CHF mns	-316	-38.0	40.0	-18.0	51.0	-20.0	-20.0	-20.0
Inc. (+)/decr.(-) in pension provisions	CHF mns	48.0	65.0	-9.00	49.0	-31.0	0.00	0.00	0.00
Inc. (+)/decr.(-) in other provisions	CHF mns	46.0	-22.0	-73.0	31.0	-124	-40.0	-40.0	-40.0
Other non-cash changes/adjustments	CHF mns	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operation cash flow (before chng in NWC)	CHF mns	3,869	3,991	3,979	3,961	4,034	4,015	4,017	4,030
Inc. (-)/decr. (+) in NWC	CHF mns	112	178	65.0	-85.0	-5.00	-25.6	-15.6	30.6
CF from operating activities	CHF mns	3,981	4,169	4,044	3,876	4,029	3,990	4,002	4,061
Capex	CHF mns	-2,390	-2,188	-2,270	-2,289	-2,272	-2,280	-2,250	-2,240
Operating free cash flow (FCF)	CHF mns	1,591	1,981	1,774	1,587	1,757	1,710	1,752	1,821
Invest.(-)/disp.(+) of tang./intang.	CHF mns	31.0	16.0	17.0	15.0	10.0	0.00	0.00	0.00
Invest.(-)/disp.(+) of associates	CHF mns	-15.0	-15.0	-2.00	-2.00	-1.00	0.00	0.00	0.00
Invest.(-)/disp.(+) of non-core assets	CHF mns	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	CHF mns	-394	-39.0	-42.0	-67.0	-62.0	0.00	0.00	0.00
Other adjustments	CHF mns	35.0	-105	177	-87.0	3.00	0.00	0.00	0.00
CF from investing activities	CHF mns	-2,733	-2,331	-2,120	-2,430	-2,322	-2,280	-2,250	-2,240
Proceeds from issue of share capitals	CHF mns	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disposal (+)/ purchase (-) of shares	CHF mns	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inc. (+)/decr. (-) in equity	CHF mns	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend paid	CHF mns	-1,141	-1,141	-1,141	-1,141	-1,141	-1,141	-1,141	-1,141
Inc. (+)/decr.(-) in interest bearing debt	CHF mns	-233	-665	-701	-566	-518	-490	-395	-300
Other adjustments	CHF mns	-16.0	-18.0	-14.0	-14.0	-12.0	0.00	0.00	0.00
CF from financing activities	CHF mns	-1,390	-1,824	-1,856	-1,721	-1,671	-1,631	-1,536	-1,441
Translation impact	CHF mns	-4.00	-2.00	-7.00	-5.00	-9.00	0.00	0.00	0.00
Inc. (+)/decr. (-) in cash	CHF mns	-146	12.0	61.0	-280	27.0	79.0	216	380

Cash flow analysis		2019	2020	2021	2022	2023	2024E	2025E	2026E
Operating cash flow margin	%	34.8	37.6	36.2	35.1	36.4	36.1	36.0	36.3
Capex/revenues	%	20.9	19.7	20.3	20.7	20.5	20.6	20.3	20.0
Capex/depreciation	%	97.7	89.9	94.1	96.7	94.0	97.0	96.3	96.1

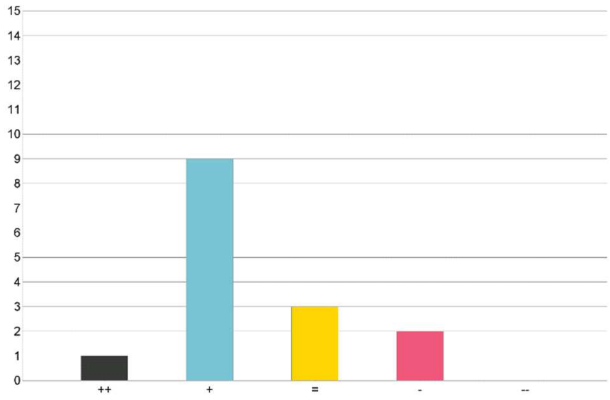
Price		2019	2020	2021	2022	2023	2024E	2025E	2026E
Price (year-end or current)	CHF	512.60	477.10	514.60	506.60	506.00	495.80	495.80	495.80
High	CHF	522.20	575.80	555.20	586.60	619.40	555.20	NA	NA
Low	CHF	444.00	462.90	456.50	447.30	502.60	493.80	NA	NA
Average basic shares outstanding	('000)	51,799	51,800	51,800	51,800	51,800	51,800	51,800	51,800
Year-end basic shares outstanding	('000)	51,799	51,800	51,800	51,800	51,800	51,800	51,800	51,800
Average fully diluted shares	('000)	51,800	51,800	51,800	51,800	51,800	51,800	51,800	51,800
Market capitalization	CHF mns	26,552	24,714	26,656	26,242	26,211	25,682	25,682	25,682
Enterprise value	CHF mns	35,804	33,094	34,665	33,892	33,416	32,276	31,638	30,957
Per-share data		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
EPS (reported)	CHF	32.3	29.5	35.4	30.9	33.0	32.9	33.2	33.6
EPS (adjusted)	CHF	28.1	29.5	30.8	33.8	33.0	32.9	33.2	33.6
FCF	CHF	30.7	38.2	34.2	30.6	33.9	33.0	33.8	35.2
Net cash (+) / net debt (-)	CHF	-138	-129	-117	-114	-107	-95.5	-83.7	-70.6
BVPS (reported)	CHF	171	183	209	216	224	236	247	259
Dividend	CHF	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Payout ratio	%	68.2	74.5	62.2	71.1	66.6	66.9	66.3	65.4
Valuation		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
P/E (reported)	x	15.9	16.2	14.6	16.4	15.3	15.1	14.9	14.7
P/E (adjusted)	x	18.3	16.2	16.7	15.0	15.3	15.1	14.9	14.7
P/Op. free cash flow	x	16.7	12.5	15.0	16.5	14.9	15.0	14.7	14.1
P/Book (reported)	x	2.99	2.60	2.47	2.35	2.26	2.10	2.01	1.91
EV/Sales	x	3.1	3.0	3.1	3.1	3.0	2.9	2.8	2.8
EV/EBITDA	x	8.22	7.55	7.74	7.69	7.23	7.10	6.95	6.76
EV/EBIT	x	18.7	17.0	16.8	16.6	15.2	14.7	14.3	13.7
EV/Op. free cash flow	x	22.5	16.7	19.5	21.4	19.0	18.9	18.1	17.0
EV/Equity free cash flow	x	28.7	18.0	18.0	23.4	19.6	18.9	18.1	17.0
EV/Invested Capital	x	1.7	1.6	1.7	1.6	1.6	1.5	1.5	1.5
FCF yield	%	5.99	8.02	6.66	6.05	6.70	6.66	6.82	7.09
Dividend yield	%	4.29	4.61	4.28	4.34	4.35	4.44	4.44	4.44
Profitability ratios & ROIC		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Average invested capital	CHF mns	19,985	20,833	20,811	20,896	21,066	21,169	21,110	21,014
NOPLAT	CHF mns	1,528	1,558	1,760	1,666	1,797	1,786	1,796	1,824
Economic profit (EVA)	CHF mns	383	364	568	469	590	574	587	620
ROIC	%	7.6	7.5	8.5	8.0	8.5	8.4	8.5	8.7
ROE	%	19.6	16.7	18.0	14.6	15.0	14.3	13.8	13.3
ROA	%	7.1	6.3	7.5	6.5	6.9	6.9	6.9	7.0
Enterprise value		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Market capitalization	CHF mns	26,552	24,714	26,656	26,242	26,211	25,682	25,682	25,682
Net Debt (+) / net cash (-)	CHF mns	7,132	6,702	6,044	5,881	5,517	4,948	4,337	3,657
Value of minorities	CHF mns	-39.0	-28.0	15.0	15.0	0.00	0.00	0.00	0.00
Value of associates	CHF mns	364	-56.0	150	75.0	0.00	-42.0	-70.0	-70.0
Other adjustments for EV calculation	CHF mns	1,795	1,762	1,800	1,679	1,688	1,688	1,688	1,688
Enterprise value	CHF mns	35,804	33,094	34,665	33,892	33,416	32,276	31,638	30,957

Environmental, social, and governance (ESG) Vontobel criteria

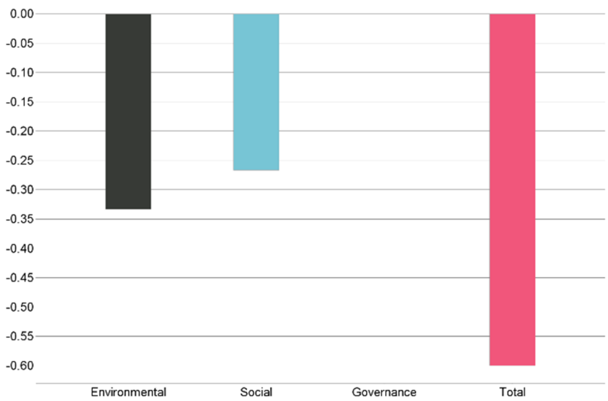
ESG assessment

ESG assessment		Score
Environment	Climate change	++
	Natural resources	+
	Pollution and waste	=
	Environmental opportunities	+
	GHG emission / renewable energy consumption	+
Social	Human capital	+
	Diversity	+
	Products	=
	Social opportunities	+
	Engagement with stakeholders	+
Governance	Corporate governance internal	=
	Corporate governance external	-
	Corporate behavior internal	+
	Corporate behavior external	+
	ESG litigation	-

Distribution of scores



Impact on CoE (percentage points)*



*Note: A negative value lowers the cost of equity and results in a valuation uplift, *ceteris paribus*

ESG impact and data

CoE without ESG impact (%)	7.20
CoE including ESG impact (%)	6.60
PT excluding ESG impact (CHF)	482
PT including ESG impact (CHF)	540
ESG value uplift/decrease (CHF/%)	58.5 / 12.1

Summary

Swisscom has an extensive ESG policy and environmental goals based on the Science Based Targets initiative. The company's sustainability strategy is to become net zero (CO2) by 2025, increase energy efficiency by 20% between 2021 and 2025 and enable customers to save 1 Mio ton CO2 p.a. until 2025. Swisscom supports nine SDGs and it is actively supporting digitization of the population. ESG criteria are fully integrated into processes (i.e. recycling) with compensation dependent on achieving positive ratings from the Swiss population and linked to ESG target achievements (employee satisfaction/CO2 reduction). Our assessment is impacted by the Swiss government holding a majority and ensuing strategic constraints as well as Swisscom's behavior related to market abuse (i.e. VDSL).

Scores: --/-/=/+/++

Disclaimer & Disclosures – Equity Research

1. Analyst declaration
This Vontobel Report has been produced by the organizational unit responsible for investment research (Swiss Equity Research, buy-side analysis) of Bank Vontobel AG, Gotthardstrasse 43, CH-8022 Zurich, tel. +41 (0)58 283 71 11 www.vontobel.com. Bank Vontobel AG is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA).
The financial analysts listed on page 1 of the research report confirm that the report gives a complete and precise reflection of their opinion of the analyzed company and that they have neither directly nor indirectly received compensation for their assessment or opinion. The compensation received by them is not directly related to the investment banking volume generated between Vontobel and the analyzed company.
The financial analysts own securities in the analyzed companies: None
The financial analysts hold no executive functions and have no significant influence in the analyzed companies.
The document was not submitted to the analyzed companies before publication or distribution

2. Disclosure of conflicts of interest
The producer (Bank Vontobel AG) and distributors of this financial analysis point out the following potential conflicts of interests: The producer and its associated companies
- will or are attempting to generate investment banking business with the analyzed companies within the next three months,
- conduct transactions with securities of the analyzed companies from time to time
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- have been active as Market Maker in equities of the following analyzed companies in the last 12 months: None
- have provided other publicly known investment banking services for the following companies mentioned in this report in the last 12 months: None
- have received compensation for products and services outside Investment Banking from the following analyzed companies: None
- hold mandatory disclosable (%) of the voting rights of the following analyzed companies: None
- have executives who are members of the executive board and/or board of directors of: None and
- have executives who are members of the board of Bank Vontobel AG or affiliated companies: None
- have no significant financial interest in the analyzed companies and
- have reached no agreement with the analyzed companies regarding this financial analysis.

3. Research rating history
The Ratings and/or Rating Outlook of the analyzed companies were last changed as follows:
Swisscom[SCMN.S] was last changed from Reduce to Hold on 20-01-06

4. Global rating breakdown

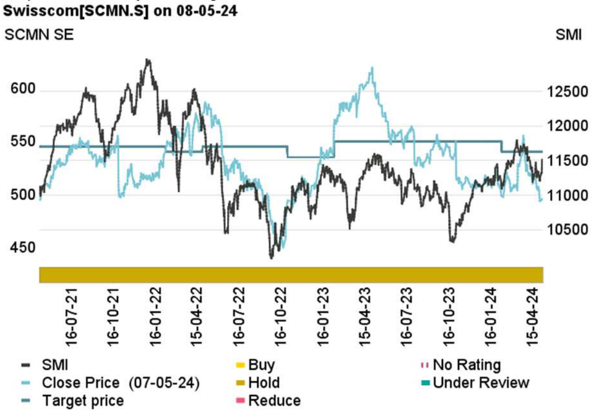
	VT Research universe No.	VT Research universe As %	Share of Bank VT clients in rating category As %
Buy	41	42	41
Hold	57	58	35
Reduce	0	0	0

The table above is revised at the beginning of each quarter, i.e. it currently reflects the status as of 30 December 2023.

5. Rating plotter charts
The data used for the share price and/or price target chart may have to be adjusted to reflect corporate actions undertaken by the company.

Not Rated: Currently Restricted, Suspended Coverage, or no rating assigned to company due to e.g., advising of analyzed company in a capital market transaction, temporary suspension of analyst coverage or a similar reason.

Swisscom[SCMN.S] on 08-05-24



For company specific disclosures, such as Research rating history or Rating plotter charts, please refer to the most recent company specific information provided by Bank Vontobel under “https://research.vontobel.com/en/disclaimers/companies” and/or contact Bank Vontobel for further information.

6. Methodology/Rating system
Bank Vontobel’s financial analysts apply a variety of valuation methodologies (e.g., DCF and EVA modelling, “sum-of-the-parts”, break-up and event-related analysis, peer group and market multiple comparisons) to their own financial projections for the companies they cover. Overall, our investment recommendations take into consideration an assessment of the company in its entirety and of the sector to which it belongs (“bottom-up approach”). Price target calculation is based on a number of factors, observations, and assumptions, including but not limited to: key business performance indicators and ratios, public and private valuation multiples, comparison with one or more peer groups of comparable companies, overall equity market valuations, and with the company’s own history and track record.

The stock recommendations published by Vontobel's research team are defined as follows:

Rating	Definition
SMI/SLI (ex SMI)	Swiss Market Index/Swiss Leader Index stocks
Buy	Price target (when set) implies 10% or more upside on a 12-month horizon
Hold	Price target (when set) implies 0-10% up/downside on a 12-month horizon
Reduce	Price target (when set) implies 10% downside on a 12-month horizon
SMIM	Swiss Market Index Mid stocks
Buy	Price target (when set) implies 15% or more upside on a 12-month horizon
Hold	Price target (when set) implies 0-15% up/downside on a 12-month horizon
Reduce	Price target (when set) implies 10% downside on a 12-month horizon
Other	All other Swiss stocks
Buy	Price target (when set) implies 20% or more upside on a 12-month horizon
Hold	Price target (when set) implies 0-20% up/downside on a 12-month horizon
Reduce	Price target (when set) implies 15% downside on a 12-month horizon
Restricted	Coverage is temporarily restricted (no price target)
Suspended Coverage	Coverage is temporarily suspended (no price target)

Analysts are required to review their recommendations under the following conditions:
Buy: When upside to price target falls below: 5% for SMI/SLI stocks for 30 calendar days; 10% for SMIM stocks for 30 calendar days; 15% for all other stocks for 45 calendar days.
Hold: When upside to price target reaches or exceeds: 10% for SMI/SLI stocks for 30 calendar days; 15% for SMIM stocks for 30 calendar days; 20% for all other stocks for 45 calendar days; or
when downside to price target reaches or exceeds: 10% for SMI/SLI stocks for 30 calendar days; 15% for SMIM stocks for 30 calendar days; 20% for all other stocks for 45 calendar days.
Reduce: When downside to price target reaches or falls below: 5% for SMI stocks for 30 calendar days; 10% for all other stocks for 45 calendar days.

We reserve the right to waive repeated changes of recommendation during periods of unusually high equity market or specific stock price volatility

Share prices used in this financial report are closing prices on the date given. Deviations from this rule are disclosed. The underlying figures of a company valuation, i.e. the profit and loss statement, capital flow and balance sheet are estimates based on date and thus bear certain risks. These may change at any time and without prior notice if other, different models, assumptions, interpretations, and/or estimates are applied.

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