

American Tower Corp(AMT)

\$261.39 (As of 07/31/20)

Price Target (6-12 Months): **\$277.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/26/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

American Tower's better-than-expected results for the second quarter were supported by strong organic tenant billings. The company also raised the mid-point of its 2020 AFFO outlook. Notably, wireless carriers are increasingly investing in 5G upgrades and 4G network densification as mobile-data usage grows. This is leading to robust demand for tower space, and will support American Tower's leasing activity and organic tenant-billing growth. Also, a global footprint, substantial liquidity and prudent capital-allocation strategy positions the company well to drive long-term growth. Its shares have outperformed the industry in the past year. Yet, tenant concentration is a concern as consolidations or reduction in network spending impact the company's top line. Stiff competition and elevated churn in certain emerging markets are woes.

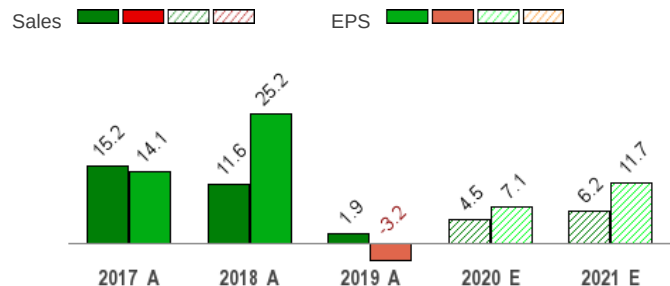
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$272.20 - \$174.32
20 Day Average Volume (sh)	1,350,829
Market Cap	\$115.9 B
YTD Price Change	13.7%
Beta	0.45
Dividend / Div Yld	\$4.40 / 1.7%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 18% (208 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	NA
Earnings ESP	0.1%
P/E TTM	32.1
P/E F1	31.6
PEG F1	2.0
P/S TTM	14.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,092 E	2,086 E	2,113 E	2,137 E	8,417 E
2020	1,993 A	1,913 A	1,984 E	1,996 E	7,922 E
2019	1,813 A	1,890 A	1,954 A	1,924 A	7,580 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.33 E	\$2.30 E	\$2.34 E	\$2.36 E	\$9.25 E
2020	\$2.12 A	\$2.07 A	\$2.11 E	\$2.11 E	\$8.28 E
2019	\$1.84 A	\$2.01 A	\$2.00 A	\$1.95 A	\$7.73 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/31/2020. The reports text is as of 08/03/2020.

Overview

Boston, MA-based American Tower Corporation is a leading independent operator of wireless communications towers in the United States, Brazil, Mexico, India and Chile. American Tower leases antenna space on its towers to wireless service providers as well as to radio and television broadcast companies. The company's major customers include AT&T, Sprint, T-Mobile and Verizon Wireless. T-Mobile and Sprint completed the merger on Apr 1, 2020, creating the New T-Mobile.

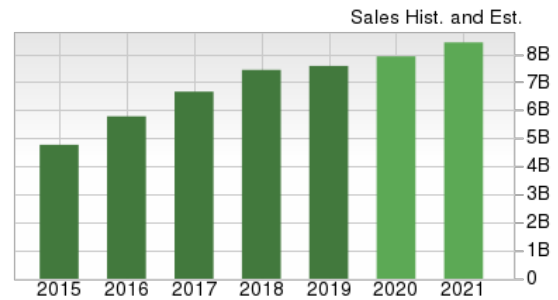
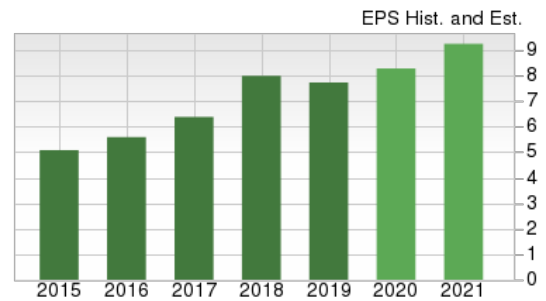
As of Mar 31, 2020, American Tower's communications real estate portfolio included approximately 41,000 properties in the United States and 140,000 internationally.

On May 19, 2011, the board of directors of American Tower approved the steps necessary to reorganize the company to qualify as a Real Estate Investment Trust (REIT) for tax purposes. American Tower became a REIT on Jan 1, 2012. A REIT has to pay at least 90% of its taxable income to shareholders in the form of dividend every year.

American Tower reports in two segments:

- **Property Segment** (98% of total revenues in 2019): The property segment includes the following regional segments: (i) Asia, (ii) Europe, Middle East and Africa ("EMEA") (iii) Latin America and (iv) The United States.
- **Services Segment** (2%): This segment offers tower-related services, including site acquisition, zoning and permitting, and structural analysis services, which primarily support the company's site-leasing business, including the addition of new tenants and equipment at sites.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Secular growth in mobile data usage is a global phenomenon and amid this, colocation levels and demand for communications real estate is expected to continue experience decent growth in the upcoming years. In fact, amid ongoing 5G transitions and 4G densifications, carriers across the company's footprint are increasing their network deployments to handle the growing data demand. Further, with the advent of technologies, especially 5G and Internet of Things (IoT), there are solid prospects for growth of American Tower. Moreover, the merger between T-Mobile and Sprint is likely to accelerate the deployment of multiple band spectrums, including a number of mid-band assets. Further, the increased pace of nationwide 5G coverage requirements related to this move will likely boost demand for tower space.
- ▲ There has been a spike in cellular network usage and network-intensive applications for video conferencing and cloud services as companies have embraced remote working lifestyles amid the pandemic. In fact, as an increasing number of people work remotely using high-speed Internet, there have been issues related to network capacity, reinforcing the need for additional network investments. Also, 5G network's low latency and high speed is the need of the hour, driving the need for faster build-out of 5G wireless networks. Further, network integrations at the combined T-Mobile, future supply of mid-band spectrum and the prospects of 5G network rollout by Dish Network are likely to propel demand. These are likely to result in greater utilization of the company's tower real estate, driving leasing activity in the near term.
- ▲ Moreover, American Tower continued its focus on macro-tower investment opportunities. In fact, the company is ramping up its investments in the international business and strengthening global footprint through acquisitions. During the second quarter, the company spent around \$128 million to acquire 350 communications sites primarily in international markets. In fact, organic new business activity and contributions from new assets are likely to buoy international property segment's organic tenant billings growth in the current year. In addition, it spent around \$55 million to acquire 102 towers per the sublease agreement with AT&T. Such a diversified asset base positions American Tower to leverage on secular trends in mobile data usage growth across the globe.
- ▲ American Tower has a resilient and stable business model and this provides a comparatively safer harbor amid the current global uncertainty. The company generates most of its revenues from long-term (typically 5-10 year) tower leases with major wireless carriers. In addition, the company provides on-site maintenance and servicing of antennas, amplifiers, and base station equipment. Since moving equipment from one tower to another is cumbersome, carriers normally renew these contracts upon expiration. This generates a strong long-term lease up-cycle. The revenues generated from leasing and management of such networks is substantial and around 95% is recurring in nature. Moreover, most of its towers are over 210 feet tall, thus allowing sufficient space for its customers to install transmission equipment, thereby enabling the company to accommodate more tenants.
- ▲ Although American Tower's total debt/total capital ratio has been weakening over the past few quarters, the company has a robust operating platform and ample liquidity to support its debt servicing. Its consistent adjusted EBITDA margins and revenue growth as well as favorable return on invested capital indicate the strength in its core underlying business and support its ability to manage its near-term obligations. As of second-quarter end, its net leverage ratio was at 4.8. Further, in July, the company liquidity position (on pro-forma basis) was \$5.1 billion after executing certain refinancing activities. Finally, as of second-quarter end, the company enjoyed investment-grade credit rating of BBB-, BBB+ and Baa3 as well as a stable outlook from Standard & Poor's, Fitch and Moody's, respectively.
- ▲ American Tower has a disciplined capital-allocation strategy and remains committed to increase shareholder value through dividend hikes. The company has consistently increased its quarterly dividends since 2012. In fact, its average annual dividend per share has witnessed growth of more than 20% since 2012. In May, the company announced a 1.9% sequential hike in quarterly dividends to \$1.01 per share. Given its lower dividend payout (as compared to its industry), the company's dividend distribution is expected to be sustainable. Further, during second-quarter 2020, it repurchased nearly 51,000 shares of common stock under its stock repurchase program for around \$11 million and had around \$2 billion remaining under its current stock repurchase programs. Such moves also boost investors' confidence in the stock.
- ▲ Over the past year, shares of American Tower have outperformed the industry it belongs to. During the period, shares of the company have gained 22.2% against its industry's decline of 2.1%. Moreover, estimates for third-quarter 2020 FFO per share for American Tower witnessed marginal upward revision over the past month. Therefore, given the strong fundamentals of the company and positive estimate revisions, the stock has decent upside potential.

American Tower will benefit from increased investment by wireless carriers in 4G LTE and 5G networks. Solid business model fundamentals and prudent capital-allocation strategy augur well for growth.

Reasons To Sell:

- ▼ Customer concentration is high for American Tower, with AT&T, Verizon Wireless and T-Mobile being its top three customers, accounting for 51% of the company's total property segment revenues as of second-quarter 2020. The loss of any of these customers, consolidation among them or reduction in network spending leads to material impact on the company's top line. Notably, the merger between T-Mobile and Sprint, which closed in April, resulted in tower site overlap for American Tower. This overlap accounted for 3-4% of total property revenues and now represents churn (lost tenant billings). Moreover, lower-than-expected contribution to American Tower's new business activity from T-Mobile over the last few quarters is likely to impact American Tower's US organic tenant billings growth.
- ▼ American Tower is rapidly expanding in the international markets, especially in the emerging Asian and Latin American markets. Although this geographic diversification will boost revenues, it may affect the bottom line. This is because tower operations in the emerging markets are not as profitable as that in the mature U.S. market. In fact, as of the second-quarter end, international property operating profit accounted for only 32% of the total property operating profit. Moreover, elevated churn is a concern in certain emerging markets where the company operates. Further, the ongoing coronavirus pandemic have led to significant volatility in foreign currency exchange rates. This resulted in a \$162-million and \$88-million impact on consolidated revenues and operating profit, respectively, in the first half of 2020.
- ▼ American Tower faces stiff competition in its industry for new business and asset acquisitions. In fact, the company competes with several tower companies, such as Crown Castle International Corp. and SBA Communications Corporation, as well as other wireless carrier tower companies, broadcasters and owners of non-communications sites. Given the solid growth potential, competition is expected to intensify in the upcoming period from existing players, as well as the entry of new players. This competitive landscape is likely to increase pricing pressure for American Tower. Moreover, stiff competition for assets may hinder the company's ability to achieve attractive return on investment.

American Tower faces stiff competition from other tower companies. Also, tenant concentration is concerning as consolidations or reduction in network spending impacts the company's top line.

Last Earnings Report

American Tower Q2 AFFO Tops Estimate, Revenues Miss

American Tower reported second-quarter 2020 adjusted funds from operations (AFFO) per share of \$2.07, beating the Zacks Consensus Estimate of \$2.05. Further, the reported figure improved 1.5%, year over year.

The company generated total revenues of \$1.91 billion, which missed the Zacks Consensus Estimate of \$1.95 billion. Nonetheless, the figure improved 1.2% year over year.

The company witnessed strong organic tenant billing growth. However, results were adversely impacted by a decline in revenues in the Asia and Latin America property segment.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-2.04%
EPS Surprise	0.98%
Quarterly EPS	2.07
Annual EPS (TTM)	8.14

Quarter in Detail

Adjusted EBITDA in the reported quarter was \$1.21 billion, up 2.4% from the prior-year quarter. Adjusted EBITDA margin was 63.3% in the second quarter of 2020. Operating income was \$691.3 million, up 1.1% from the year-ago quarter's figure.

During the second quarter, the company spent around \$128 million to acquire 350 communications sites primarily in international markets.

Cash Flow and Liquidity

In the second quarter of 2020, American Tower generated \$989 million of cash from operating activities, declining 4.6% year over year. Free cash flow during the period was \$768 million, down 2.7% year over year.

At the end of the second quarter, the company had \$6.5 billion of total liquidity. This comprised \$2 billion in cash and cash equivalents, and availability of \$4.5 billion under its revolving credit facilities (net of any outstanding letters of credit).

Property Segment

Quarterly revenues grossed \$1.89 billion, up 2.4% year over year. Operating profit was \$1.24 billion and operating profit margin was 66% during second-quarter 2020.

In the Property segment, revenues from the United States totaled \$1,088 million, up 8% year over year. However, total international revenues amounted to \$806 million, down 4.3% year over year.

Within this, revenues from Asia totaled \$271 million, declining 15.5% year over year, while Latin America revenues totaled \$294 million, down 15% year over year. Africa revenues grossed \$206 million, up 45.7% year over year, while Europe revenues of \$35 million improved 3.3% from the year-ago period.

Services Segment

Quarterly revenues totaled \$19.8 million, down 51.4% year over year primarily due to a decline in site application, zoning and permitting services. Operating profit was \$8 million and operating profit margin was 42% during the June-end quarter.

Outlook

The company reduced the mid-point of its 2020 guidance for property revenues and adjusted EBITDA by \$30 million and \$40 million, respectively. In fact, for 2020, American Tower anticipates property revenues of \$7,655-\$7,785 million, reflecting a year-over-year improvement of 3.4% at the mid-point. Adjusted EBITDA is projected at \$4,890-\$4,970 million, indicating a mid-point increase of 3.9% from the prior year's reported figure.

Nonetheless, the outlook for consolidated AFFO has been raised by \$20 million at midpoint. In fact, consolidated AFFO is estimated to be \$3,630-\$3,710 million, suggesting a year-over-year mid-point expansion of 4.2%.

Recent News

Dividend Update

On May 19, American Tower announced a quarterly cash distribution of \$1.10 per share on its common stock, indicating a 1.9% sequential hike. The dividend was paid out on Jul 10 to the shareholders of record as of Jun 19, 2020.

Valuation

American Tower's shares have been up 22.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 2.1% and 9%, over the past year, respectively.

The S&P 500 Index is up 15.5% over the past year.

The stock is currently trading at 30.63X forward 12-month FFO, which compares with the 19.29X for the Zacks sub-industry, 16.27X for the Zacks sector and 22.64X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 48.79X and as low as 14.72X, with a 5-year median of 19.48X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$277 price target reflects 32.46X FFO.

The table below shows summary valuation data for AMT.

Valuation Multiples - AMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.63	19.29	16.27	22.64
	5-Year High	48.79	19.29	16.27	22.64
	5-Year Low	14.72	14.32	11.59	15.25
	5-Year Median	19.48	16.09	14.21	17.55
P/S F12M	Current	14.12	8.37	6.04	3.59
	5-Year High	14.67	8.37	6.66	3.59
	5-Year Low	6.55	5.97	4.96	2.53
	5-Year Median	8.51	6.99	6.06	3.04
P/B TTM	Current	28.54	2.43	2.39	4.47
	5-Year High	29.62	3.03	2.91	4.56
	5-Year Low	5.00	1.81	1.72	2.83
	5-Year Median	8.79	2.51	2.53	3.72

As of 07/31/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Crown Castle International Corporation (CCI)	Neutral	3
CorEnergy Infrastructure Trust, Inc. (CORR)	Neutral	3
Digital Realty Trust, Inc. (DLR)	Neutral	3
Equinix, Inc. (EQIX)	Neutral	3
Iron Mountain Incorporated (IRM)	Neutral	3
SBA Communications Corporation (SBAC)	Neutral	3
Uniti Group Inc. (UNIT)	Neutral	3
CyrusOne Inc (CONE)	Underperform	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	AMT	X Industry	S&P 500	CCI	SBAC	UNIT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	C	C	B
Market Cap	115.88 B	1.93 B	22.59 B	69.47 B	34.78 B	1.92 B
# of Analysts	6	4	14	5	4	1
Dividend Yield	1.68%	4.15%	1.83%	2.88%	0.60%	6.06%
Value Score	D	-	-	C	F	A
Cash/Price	0.01	0.07	0.07	0.01	0.01	0.06
EV/EBITDA	31.40	14.17	12.94	30.49	33.54	2.18
PEG Ratio	1.96	3.77	3.04	1.30	NA	NA
Price/Book (P/B)	28.54	1.28	3.17	7.07	NA	NA
Price/Cash Flow (P/CF)	31.36	10.93	12.51	28.45	38.84	4.17
P/E (F1)	31.57	15.25	21.87	27.38	33.68	5.76
Price/Sales (P/S)	14.89	4.79	2.44	11.97	17.06	1.81
Earnings Yield	3.17%	5.80%	4.31%	3.65%	2.97%	17.37%
Debt/Equity	6.88	0.91	0.75	2.71	-2.33	-0.03
Cash Flow (\$/share)	8.34	2.05	6.94	5.86	8.02	2.38
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	12.81%	1.92%	10.85%	8.02%	NA	-4.11%
Proj. EPS Growth (F1/F0)	7.09%	-2.70%	-7.75%	6.99%	8.95%	-17.31%
Curr. Cash Flow Growth	9.58%	3.36%	5.39%	10.48%	17.05%	-5.21%
Hist. Cash Flow Growth (3-5 yrs)	15.15%	12.74%	8.55%	10.82%	6.55%	NA
Current Ratio	0.61	1.74	1.31	1.75	0.39	0.04
Debt/Capital	87.31%	47.99%	44.32%	73.05%	NA	NA
Net Margin	24.70%	12.77%	10.44%	14.90%	-0.30%	-6.69%
Return on Equity	39.62%	3.58%	14.73%	8.29%	-4.24%	-0.60%
Sales/Assets	0.19	0.13	0.52	0.15	0.22	0.21
Proj. Sales Growth (F1/F0)	4.50%	0.00%	-1.95%	2.01%	2.89%	0.34%
Momentum Score	D	-	-	A	C	D
Daily Price Chg	-3.24%	-0.60%	-0.92%	-2.11%	-1.94%	0.26%
1 Week Price Chg	-1.07%	-1.98%	0.37%	-1.34%	0.35%	7.07%
4 Week Price Chg	-1.07%	-0.28%	3.81%	-2.35%	3.65%	4.10%
12 Week Price Chg	11.11%	9.86%	11.93%	7.76%	8.88%	42.65%
52 Week Price Chg	23.64%	-20.02%	-1.92%	24.55%	26.24%	19.71%
20 Day Average Volume	1,350,829	612,531	1,887,986	2,005,608	540,490	1,530,961
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.52%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.67%	0.00%	0.38%	0.35%	0.96%	0.00%
(F1) EPS Est 12 week change	-0.17%	-1.68%	-0.07%	-0.31%	-0.68%	-4.05%
(Q1) EPS Est Mthly Chg	0.49%	0.00%	0.16%	-0.33%	1.37%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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