Jan 23, 2020

American Tower Corp(AMT)

$235.16 (As of 01/22/20)

Price Target (6-12 Months): **$249.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/05/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C | Momentum: B	

Summary

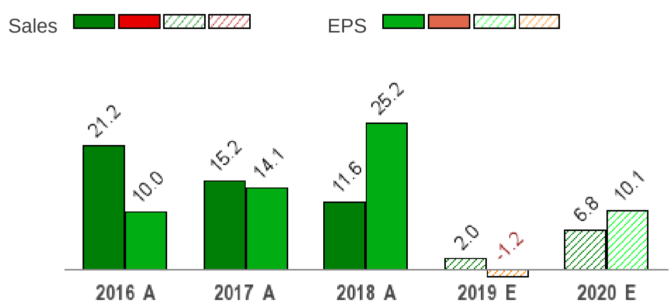
Shares of American Tower have outperformed the industry, over the past year. Notably, the company is enhancing its macro-tower portfolio and focusing on innovation to capture the underlying opportunities. Further, rise in mobile-data usage and higher investments in 4G, as well as 5G technology is spurring demand for its telecom towers. This will likely drive the company's leasing activity and organic tenant billings growth in the upcoming period. In addition, its attempt to increase shareholder value through dividend hikes boost investors' confidence in the stock. Yet, the company has a substantially-leveraged balance sheet. Such high-debt levels might impede cash-flow growth. In addition, accelerated Indian carrier consolidation driven churn is anticipated to affect the company's consolidated property revenues and gross margin.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$242.00 - $164.11
20 Day Average Volume (sh)	1,305,861
Market Cap	$104.2 B
YTD Price Change	2.3%
Beta	0.41
Dividend / Div Yld	$4.04 / 1.7%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 32% (173 out of 255)
Last EPS Surprise	2.0%
Last Sales Surprise	5.0%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	28.5
P/E F1	27.1
PEG F1	1.7
P/S TTM	13.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	2,002 E	2,015 E	2,051 E	2,042 E	8,103 E
2019	1,813 A	1,890 A	1,954 A	1,933 E	7,589 E
2018	1,742 A	1,781 A	1,786 A	2,132 A	7,440 A

EPS Estimates

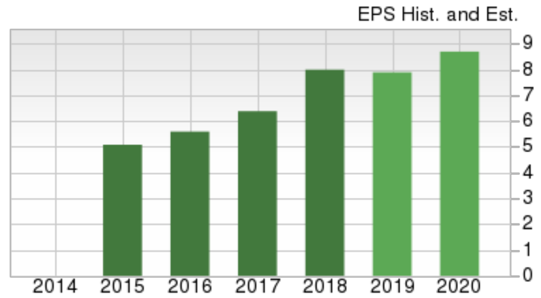
	Q1	Q2	Q3	Q4	Annual*
2020	$2.12 E	$2.17 E	$2.18 E	$2.20 E	$8.69 E
2019	$1.84 A	$2.01 A	$2.00 A	$1.90 E	$7.89 E
2018	$1.73 A	$1.90 A	$1.85 A	$2.40 A	$7.99 A

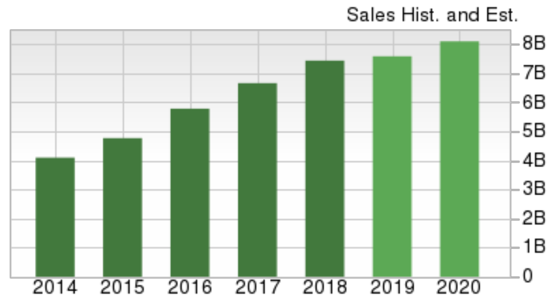
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

Overview

Boston, MA-based American Tower Corporation is a leading independent operator of wireless communications towers in the Unites 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 Nextel, T-Mobile and Verizon Wireless. At the end of third-quarter 2019, American Tower's portfolio included approximately 41,000 properties in the United States and 130,000 properties 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 2018): 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:

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

- American Tower is ramping-up its investments in international business. Notably, rapid growth in mobile data usage is a global phenomenon and amid this, demand for communications real estate in international markets will likely grow over the long term. In fact, amid ongoing 4G transitions, carriers across the company's international footprint are increasing their 4G network deployments. Further, with the advent of technologies, especially 5G and Internet of Things (IoT), Europe, being a matured market has high margins and hence, is an important focus for American Tower. Hence, the company's international business complements its core U.S. tower portfolio, thereby driving bottom-line growth. In fact, total international property revenues for third-quarter 2019 amounted to $826 million, up 4% year over year. Also, the company is strengthening its global footprint through acquisitions. In fact, in the first nine months of 2019, the company acquired 582 communications sites in the United States, Colombia, Mexico, Paraguay and Peru for an aggregate price of $183.8 million. Moreover, in August, it acquired nearly 400 U.S towers and other related property interests for $483.9 million. Also, it anticipates record level of international macro tower construction in the ongoing year.

- American Tower 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.

- 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. This December, the company announced a 6.3% sequential hike to $1.01 in fourth quarter dividends. Such strategic moves boost investors' confidence in the stock.

- In the past year, shares of American Tower have outperformed the industry it belongs to. During this period, shares of the company have jumped 42% compared with the industry's 19.9% growth. In addition, the trend in estimate revisions of 2020 FFO per share indicates a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share has been revised marginally upward over the past month. Therefore, given the improvement in fundamentals and positive estimate revisions, the stock has decent upside potential.

Reasons To Sell:

- American Tower has a substantially leveraged balance sheet. At the end of the third quarter, the company had total outstanding indebtedness of around $21.6 billion. Further, at the end of the quarter, its net leverage ratio was at 4.1x. Such high-debt levels may impede cash-flow growth, which is needed to meet future debt obligations. Moreover, this may keep the company from accessing the debt market and refinancing at suitable rates.

American Tower has a substantially leveraged balance sheet. High tenant concentration, ongoing consolidations in the industry and stiff competition from other tower companies are growth hurdles.

- Customer concentration is high for American Tower, and AT&T, Verizon Wireless, Sprint and T-Mobile US are its top four customers, accounting a total of 88% of the company's U.S. property segment revenues in 2018. The loss of any of these customers or consolidation among them will have a significant material impact on the company's top line.

- The ongoing consolidation trend among telecom and cable TV operators is likely to affect American Tower's profitability. In fact, the accelerated Indian carrier consolidation-driven churn due to the bankruptcy of Aircel has emerged as a headwind for the company and is likely to affect its property revenues in the near term. Management anticipates this to compress the company's gross margin and operating profit in 2019, thereby, impacting the Asia property segment's performance. Particularly, management expects carrier consolidation in India to affect the company's consolidated property revenues by nearly $178 million in 2019.

- 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. The increased competition is likely to increase pricing pressure for American Tower.

- 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. Tower operations in the emerging markets are not as profitable as that in the mature U.S. market.

Last Earnings Report

American Tower Surpasses Q3 AFFO & Revenue Estimates

Quarter Ending	09/2019
Report Date	Oct 31, 2019
Sales Surprise	5.04%
EPS Surprise	2.04%
Quarterly EPS	2.00
Annual EPS (TTM)	8.25

American Tower reported third-quarter 2019 consolidated adjusted FFO per share of $2, beating the Zacks Consensus Estimate of $1.96. Further, the reported figure improved 8.1%, year over year.

Results indicated growth in revenues from property segment as well as improvement in adjusted EBITDA. Further, cash from operations for the September-end quarter improved on a year-over-year basis.

The company generated total revenues of $1.95 billion, beating the Zacks Consensus Estimate of $1.86 billion. The figure climbed 9.4% year over year.

Operating Metrics

Adjusted EBITDA in the reported quarter was $1,229 million, up 12.2% from the prior-year quarter.

Adjusted EBITDA margin was 62.9% in the third quarter. Selling, general, administrative and development expenses totaled $187.9 million compared with the $177.9 million incurred in the year-earlier quarter. Operating income was $728.3 million compared with the $567.2 million reported in the year-ago quarter.

Cash Flow and Liquidity

In the third quarter of 2019, American Tower generated $937 million of cash from operating activities, up 24.4% year over year. Free cash flow in the quarter was $660 million, up 17.6% year over year.

At the end of the reported quarter, the company had around $1.4 billion in cash and cash equivalents compared with the $1.2 billion posted at the end of December 2018. Further, it had around $3.8 billion under its revolving credit facilities (net of any outstanding letters of credit).

Property Segment

Quarterly revenues grossed $1,922 million, up 9.7% year over year. Operating profit was $1,253 million and operating profit margin was 65% during third-quarter 2019.

Within the Property segment, revenues from the United States totaled $1,096 million, up 14.4% year over year. Total international revenues amounted to $826 million, up 4% year over year. Within this, revenues from Asia totaled $313 million, declining 3.3% year over year. EMEA revenues grossed $182 million, up 8.9% year over year. Latin America revenues totaled $332 million, improving 9% year over year.

Services Segment

Quarterly revenues totaled $32 million, down 5.6% year over year. Operating profit was $17 million and operating profit margin was 53% in the July-September quarter.

Outlook for 2019

For 2019, American Tower has revised its guidance and anticipates property revenues of $7,420-$7,480 million, reflecting an improvement of 1.8% at the mid-point. Adjusted EBITDA is projected at $4,690-$4,730 million, indicating a mid-point increase of 0.9%. Consolidated AFFO is estimated in the $3,480-$3,520 million band, reflecting a mid-point contraction of 1.1%.

Recent News

American Tower Hikes Quarterly Dividend by 6.3% - Dec 12, 2019

American Tower announced that its board of directors has approved a quarterly dividend payment of $1.01. This represents a sequential hike of 6.3% from the prior dividend of 95 cents.

Based on the hiked rate of $1.01 for the quarter, the annual dividend comes to $4.04 per share. This new dividend was paid on Jan 14, 2020, to shareholders of record on Dec 27, 2019.

American Tower Prices Senior Notes to Raise Capital – Sep 30, 2019

American Tower announced the pricing of a public offering of senior unsecured notes due in 2027 and 2049. Through the offering, the company anticipates to raise nearly $1,334.2 million in net proceeds. This is the amount after the deduction of underwriting discounts and projected offering expenses.

Specifically, the 2027 notes, with aggregate principal amount of $750 million, have been priced at 99.838% of the face value. Interest rate of 2.750% will be paid on these securities on Jan 15 and Jul 15 of each year, beginning Jan 15, 2020. The notes will mature on Jan 15, 2027.

Additionally, notes maturing on Oct 15, 2049, have an aggregate principal amount of $600 million and have been priced at 99.711% of face value. Interest rate of 3.7% will be paid semiannually on these borrowings on Apr 15 and Oct 15, beginning April 15, 2020.

American Tower plans to channelize net proceeds to repay outstanding indebtedness. This includes a multi-currency senior-unsecured revolving credit facility that the company entered into in June 2013 and its unsecured term loan borrowed in February 2019.

American Tower Rating & Outlook Reiterated by Moody's - Sep 26, 2019

American Tower's senior unsecured debt rating was reiterated at Baa3 by Moody's Investors Service, the rating division of Moody's Corporation. The company's stable outlook has been retained as well.

Moreover, its senior unsecured shelf rating was affirmed at (P)Baa3. These rating affirmations impact approximately $15.3 billion in American Tower's rated securities.

Reasons for Affirmation

American Tower's Baa3 senior unsecured rating affirmation was primarily driven by the company's robust cash flows, decent liquidity, wide geographic footprint and predictable future earnings backed by long-term non-cancellable lease agreements that carry embedded contractual rent escalators.

Specifically, Moody's believes that 168,855 wireless towers in its portfolio in 17 countries spanning across five continents at second-quarter end well position American Tower to benefit from the favorable growth trends in global tower industry. Notably, amid growing demand for data volume, and higher investments in 4G and 5G technology deployments, wireless carriers are expanding and enhancing their networks. These positive trends are likely to aid American Tower to witness higher leasing activity and organic tenant billings growth in the future.

The rating agency expects American Tower's operating performance to remain solid in the next 12-18 months with net debt/EBITDA in the 5x-6x range as the company undertakes growth initiatives. Its strong liquidity position is also supported by access to two unsecured revolvers totaling $4.95 billion, limited near-term debt maturities and easy access to capital markets financing.

Nonetheless, these credit strengths are marred by concerns over this tower REIT's high tenant concentration in its domestic market and high effective leverage (which was 69.4% as of Jun 30, 2019).

Moreover, the stable outlook indicates Moody's expectation that American Tower will be able to keep leverage under 6x even as it pursues external growth opportunities and preserve liquidity strength.

Valuation

American Tower's shares have jumped 42% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 19.7% and 11.8% in the past year.

The S&P 500 Index has been up 24.9% both in the trailing 12-month period.

The stock is currently trading at 27.74X forward 12-month FFO, which compares to 18.46X for the Zacks sub-industry, 14.63X for the Zacks sector and 19.13X 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 $249 price target reflects 29.37X FFO per share.

The table below shows summary valuation data for AMT.

Valuation Multiples - AMT					
		Stock	Sub-Industry	Sector	S&P 500
	Current	27.74	18.46	14.63	19.13
P/E F12M	5-Year High	48.79	18.94	16.21	19.34

	5-Year Low	14.72	14.29	12.01	15.17
	5-Year Median	19.48	16.11	13.98	17.44
P/S F12M	Current	12.81	8.34	6.53	3.56
	5-Year High	13.68	8.34	6.61	3.56
	5-Year Low	6.55	5.9	5.2	2.54
	5-Year Median	8.36	6.88	6.04	3
P/B TTM	Current	17.94	2.88	2.84	4.54
	5-Year High	18.09	2.92	2.89	4.55
	5-Year Low	5	2.06	1.83	2.85
	5-Year Median	8.47	2.52	2.51	3.61

As of 01/22/2020

Industry Analysis **Zacks Industry Rank:** Bottom 32% (173 out of 255)

Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Other

Industry Peers

	AMT Neutral	X Industry	S&P 500	CCI Neutral	SBAC Neutral	UNIT Neutral
VGM Score	D	-	-	D	D	A
Market Cap	104.16 B	2.98 B	24.65 B	61.82 B	28.44 B	1.37 B
# of Analysts	6	4	13	5	4	1
Dividend Yield	1.72%	4.05%	1.77%	3.23%	0.59%	12.40%
Value Score	D	-	-	F	F	A
Cash/Price	0.01	0.02	0.04	0.01	0.01	0.14
EV/EBITDA	31.17	17.78	13.98	29.55	33.16	1.52
PEG Ratio	1.70	3.57	2.05	1.50	2.73	1.12
Price/Book (P/B)	17.97	1.70	3.38	5.46	NA	NA
Price/Cash Flow (P/CF)	30.78	14.80	13.60	27.96	37.08	2.62
P/E (F1)	27.39	15.72	19.07	23.31	27.33	3.36
Price/Sales (P/S)	13.37	7.12	2.69	10.59	14.33	1.29
Earnings Yield	3.70%	6.34%	5.24%	4.29%	3.66%	29.76%
Debt/Equity	4.40	0.88	0.72	2.05	-2.76	-0.04
Cash Flow ($/share)	7.64	2.27	6.94	5.32	6.81	2.71
Growth Score	C	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	14.55%	3.10%	10.60%	8.13%	NA	-0.89%
Proj. EPS Growth (F1/F0)	10.19%	4.04%	7.53%	6.80%	9.22%	0.96%
Curr. Cash Flow Growth	13.26%	13.18%	13.90%	30.11%	-6.22%	11.14%
Hist. Cash Flow Growth (3-5 yrs)	19.91%	18.05%	9.00%	16.21%	6.38%	NA
Current Ratio	0.53	1.27	1.22	0.72	0.65	0.05
Debt/Capital	81.47%	46.68%	42.99%	67.23%	NA	NA
Net Margin	20.58%	13.72%	11.21%	16.12%	6.89%	3.06%
Return on Equity	27.12%	4.54%	17.16%	8.07%	-4.16%	-2.17%
Sales/Assets	0.21	0.13	0.55	0.16	0.23	0.22
Proj. Sales Growth (F1/F0)	6.76%	4.84%	4.08%	4.64%	5.30%	-2.71%
Momentum Score	B	-	-	C	C	B
Daily Price Chg	-0.66%	-0.33%	-0.04%	0.32%	-0.72%	-1.18%
1 Week Price Chg	1.14%	2.73%	2.29%	2.00%	2.94%	-5.98%
4 Week Price Chg	3.56%	2.74%	2.05%	6.18%	5.19%	-15.33%
12 Week Price Chg	8.25%	0.21%	6.92%	6.78%	4.43%	-2.81%
52 Week Price Chg	41.84%	14.24%	21.50%	34.84%	43.94%	-62.24%
20 Day Average Volume	1,305,861	453,375	1,518,423	1,477,530	508,208	2,163,201
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.48%	0.00%	0.00%	-0.03%	0.04%	0.00%
(F1) EPS Est 12 week change	-1.63%	-0.34%	-0.23%	-0.03%	-2.40%	-0.48%
(Q1) EPS Est Mthly Chg	-0.24%	0.00%	0.00%	-0.55%	1.44%	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	B
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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