

American Tower Corp(AMT)

\$222.20 (As of 03/26/20)

Price Target (6-12 Months): **\$256.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 02/26/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

Summary

Shares of American Tower have outperformed its industry over the past year. The company is enhancing its macro-tower portfolio and focusing on innovation to capture the underlying opportunities. 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 its leasing activity and organic tenant billings growth in the upcoming period. American Tower came up with better-than-expected adjusted funds from operations (AFFO) per share in fourth-quarter 2019. The company witnessed decent organic tenant billing growth, though results were adversely impacted by Indian carrier consolidation-driven churn and non-recurrence of the Tata settlement. Also, the company has a substantially-leveraged balance sheet. Such high-debt levels might impede cash-flow growth.

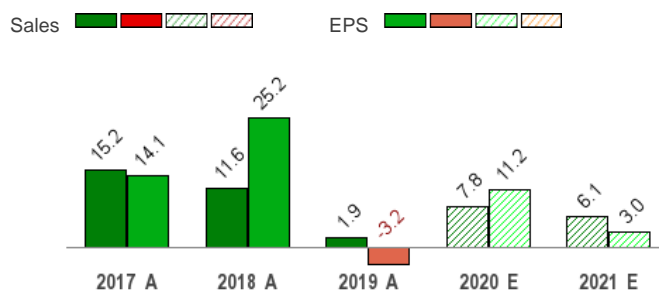
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$258.62 - \$174.32
20 Day Average Volume (sh)	3,597,676
Market Cap	\$98.4 B
YTD Price Change	-3.3%
Beta	0.41
Dividend / Div Yld	\$4.32 / 1.8%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 38% (96 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.6%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	05/01/2020
Earnings ESP	-1.0%
P/E TTM	28.5
P/E F1	25.8
PEG F1	1.6
P/S TTM	13.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,154 E	2,166 E	2,159 E	2,152 E	8,670 E
2020	2,004 E	2,032 E	2,076 E	2,073 E	8,168 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	\$2.31 E	\$2.34 E	\$2.34 E	\$2.31 E	\$8.86 E
2020	\$1.86 E	\$2.14 E	\$2.22 E	\$2.19 E	\$8.60 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 03/26/2020. The reports text is as of 03/27/2020.

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 Nextel, T-Mobile and Verizon Wireless.

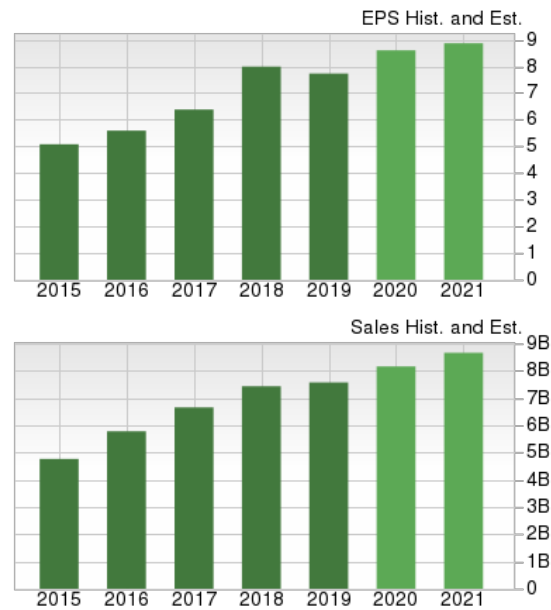
As of December 31, 2019, American Tower's communications real estate portfolio had 179,520 communications sites, which included 40,974 communications sites in the United States, 74,712 sites in Asia, 18,370 sites in Africa, 4,736 sites in Europe and 40,728 sites in Latin America. Moreover, the company had urban telecommunications assets in Argentina, Brazil, India, Mexico and South Africa.

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:

- ▲ Rapid growth in mobile data usage is a global phenomenon and amid this, demand for communications real estate will likely grow over the long term. In fact, amid ongoing 4G transitions, carriers across the company's footprint are increasing their 4G network deployments. Further, with the advent of technologies, especially 5G and Internet of Things (IoT), there are solid prospects for growth of American Tower. Moreover, T-Mobile and Sprint have announced plans to merge in 2020 and the combination 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.
- ▲ The company's core tower business continues to drive solid revenue growth globally. Moreover, organic new business, contributions from new assets and lower churn are likely to buoy International Property Revenue growth in the current year. In addition to organic growth, efficiencies throughout business will likely drive margin improvements.
- ▲ Moreover, American Tower is ramping-up its investments in international business. The company is strengthening its global footprint through acquisitions. It added nearly 14,000 communications sites to its portfolio through acquisitions in the U.S., Latin America, and Africa as well as build-to-suit construction program. Particularly, during the fourth quarter, the company spent around \$2.6 billion, including assumption of existing debt, to acquire 8,218 communications sites. This comprised roughly 5,800 sites in Africa through acquisition of Eaton Towers Holdings Limited, and 2,400 sites in Chile and Peru from Entel PCS Telecomunicaciones S.A. and Entel Peru S.A. Such efforts augur well for long-term growth.
- ▲ 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.
- ▲ The company is also focused on maintaining an investment grade balance sheet and ample liquidity. In fact, at the end of the December-end quarter, the company had \$4.4 billion of total liquidity. This comprised \$1.5 billion in cash and cash equivalents, and availability of \$2.9 billion under its revolving credit facilities (net of any outstanding letters of credit).
- ▲ 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 December 2019, 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 14% against its industry's decline of 22%. Given the improvement in fundamentals, the stock has decent upside potential.

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.

Risks

- American Tower has a substantially leveraged balance sheet. At the end of the fourth quarter, the company had total outstanding indebtedness of around \$24.1 billion. Further, for the quarter, its net leverage ratio was at 4.6x. 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.
 - 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 89% of the company's U.S. property segment revenues in 2019. Notably, T-Mobile and Sprint have announced plans to merge in 2020. The loss of any of these customers or consolidation among them leads to 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.
 - 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.
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Last Earnings Report

American Tower Q4 AFFO Beats, Revenues Miss Estimates

Quarter Ending **12/2019**

American Tower reported fourth-quarter 2019 adjusted funds from operations (AFFO) per share of \$1.95, beating the Zacks Consensus Estimate of \$1.90. However, the reported figure declined 1%, year on year.

The company generated total revenues of \$1.92 billion, which narrowly missed the Zacks Consensus Estimate of \$1.93 billion. The figure also fell 9.8% year over year.

Report Date	Feb 25, 2020
Sales Surprise	-0.59%
EPS Surprise	2.63%
Quarterly EPS	1.95
Annual EPS (TTM)	7.80

The company witnessed decent organic tenant billing growth. However, results were adversely impacted by Indian carrier consolidation-driven churn and non-recurrence of the Tata settlement, leading to an overall reduction in Indian contracted tenant revenues.

For full-year 2019, the company reported AFFO per share of \$7.73, indicating an increase of 7.4% from the prior year. Total revenues inched up 1.9% year on year to \$7.58 billion.

Quarter in Detail

Adjusted EBITDA in the reported quarter was \$1,217 million, down 14.6% from the prior-year quarter. Adjusted EBITDA margin was 63.3% in the final quarter of 2019. Operating income was \$661.3 million compared with the \$388.9 million reported in the year-ago quarter.

During the fourth quarter, the company spent around \$2.6 billion, including assumption of existing debt, to acquire 8,218 communications sites. This comprised roughly 5,800 sites in Africa through acquisition of Eaton Towers Holdings Limited, and 2,400 sites in Chile and Peru from Entel PCS Telecomunicaciones S.A. and Entel Peru S.A.

Cash Flow and Liquidity

In the fourth quarter of 2019, American Tower generated \$994 million of cash from operating activities, down 21.3% year over year. Free cash flow during this period was \$719 million, down 24.5% year over year.

At the end of the December-end quarter, the company had \$4.4 billion of total liquidity. This comprised \$1.5 billion in cash and cash equivalents, and availability of \$2.9 billion under its revolving credit facilities (net of any outstanding letters of credit).

Property Segment

Quarterly revenues grossed \$1,908 million, down 9.3% year over year. Operating profit was \$1,251 million and operating profit margin was 66% during fourth-quarter 2019.

In the Property segment, revenues from the United States totaled \$1,099 million, up 12.6% year over year. However, total international revenues amounted to \$809 million, down 28.2% year over year.

Within this, revenues from Asia totaled \$295 million, slumping 53.7% year over year. Africa revenues grossed \$150 million, up 5.5% year over year, while Europe revenues of \$34 million slipped 8.3% from the year-ago period. Latin America revenues totaled \$330 million, improving 6.1% year over year.

Services Segment

Quarterly revenues totaled \$15 million, down 46.5% year over year. Operating profit was \$6 million and operating profit margin was 36% during the October-December period.

Outlook

For 2020, American Tower anticipates property revenues of \$7,975-\$8,125 million, reflecting an improvement of 7.8% at the mid-point. Adjusted EBITDA is projected at \$5,085-\$5,185 million, indicating a mid-point increase of 8.2%. Consolidated AFFO is estimated in the \$3,740-\$3,840 million band, reflecting a mid-point expansion of 7.6%.

Recent News

American Tower Closes Eaton Towers Buyout, Agree to Acquire JV Stakes From MTN - Jan 2, 2020

American Tower announced closing the acquisition of Eaton Towers Holdings Limited for a total consideration, subject to certain post-closing adjustments, of around \$1.85 billion. This also included existing Eaton Towers' debt assumption. The move led to addition of approximately 5,700 communications sites to the company's African portfolio.

American Tower also disclosed agreement with MTN Group Limited for acquisition of MTN's minority stakes in each of the company's joint ventures in Ghana and Uganda. The transaction for which total consideration amounts to approximately \$523 million is expected to close in the first quarter of 2020, subject to regulatory approval. Notably, the move would result in a one-time impact for American Tower of around \$65 million in 2020. This would arise from the payment of previously deferred cash interest associated with the joint venture debt.

Dividend Update

On Mar 13, American Tower announced a quarterly cash distribution of \$1.08 per share on its common stock. The dividend will be paid on Apr 29, to the shareholders of record on Apr 14, 2020.

Valuation

American Tower's shares have jumped 14% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 21.9% and 24% over the past year.

The S&P 500 Index is down 12.8% over the past year.

The stock is currently trading at 26.07X forward 12-month FFO, which compares to 13.41X for the Zacks sub-industry, 10.66X for the Zacks sector and 14.92X 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 Outperform recommendation indicates that the stock will perform better than the market. Our \$256 price target reflects 30.04X FFO per share.

The table below shows summary valuation data for AMT.

Valuation Multiples - AMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.07	13.41	10.66	14.92
	5-Year High	48.79	18.7	16.21	19.34
	5-Year Low	14.72	13.41	10.66	14.92
	5-Year Median	19.48	16.08	13.97	17.42
P/S F12M	Current	11.88	5.96	5.99	2.68
	5-Year High	13.96	8.14	6.64	3.43
	5-Year Low	6.55	5.91	5.39	2.54
	5-Year Median	8.38	6.87	6.04	3
P/B TTM	Current	17.92	2.06	1.92	3.33
	5-Year High	20.72	3.01	2.89	4.56
	5-Year Low	5	1.8	1.68	2.85
	5-Year Median	8.48	2.52	2.52	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



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
CorEnergy Infrastructure Trust, Inc. (CORR)	Underperform
Uniti Group Inc. (UNIT)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	AMT Outperform	X Industry	S&P 500	CCI Neutral	SBAC Neutral	UNIT Underperform
VGM Score	D	-	-	C	C	F
Market Cap	98.41 B	1.88 B	18.50 B	59.37 B	29.60 B	1.26 B
# of Analysts	6	4	13	5	4	1
Dividend Yield	1.82%	5.80%	2.35%	3.37%	0.70%	13.54%
Value Score	F	-	-	F	F	D
Cash/Price	0.02	0.04	0.07	0.01	0.01	0.14
EV/EBITDA	27.45	12.85	11.16	26.32	29.54	1.37
PEG Ratio	1.61	3.07	1.74	1.50	NA	NA
Price/Book (P/B)	17.92	1.13	2.44	5.65	NA	NA
Price/Cash Flow (P/CF)	26.65	9.51	9.87	24.32	32.97	2.74
P/E (F1)	25.84	11.00	15.29	23.18	28.10	3.63
Price/Sales (P/S)	12.98	4.14	1.93	10.15	14.69	1.19
Earnings Yield	3.87%	9.09%	6.47%	4.32%	3.56%	27.54%
Debt/Equity	5.03	0.87	0.70	2.24	-2.68	-0.04
Cash Flow (\$/share)	8.34	2.02	7.01	5.86	8.02	2.38
Growth Score	C	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	13.50%	2.75%	10.85%	8.17%	NA	-2.48%
Proj. EPS Growth (F1/F0)	11.25%	2.19%	2.89%	8.01%	10.87%	-13.94%
Curr. Cash Flow Growth	9.58%	4.13%	5.93%	10.48%	17.05%	-5.21%
Hist. Cash Flow Growth (3-5 yrs)	15.15%	12.64%	8.55%	10.82%	6.55%	NA
Current Ratio	0.52	1.26	1.23	0.63	0.32	0.04
Debt/Capital	83.43%	46.57%	42.57%	69.17%	NA	NA
Net Margin	24.90%	13.67%	11.64%	16.01%	7.30%	0.84%
Return on Equity	32.51%	4.42%	16.74%	8.30%	-4.24%	-0.60%
Sales/Assets	0.19	0.13	0.54	0.15	0.21	0.22
Proj. Sales Growth (F1/F0)	7.75%	3.41%	2.37%	3.29%	5.42%	-0.15%
Momentum Score	B	-	-	A	A	B
Daily Price Chg	11.51%	6.00%	6.21%	11.34%	8.78%	-1.66%
1 Week Price Chg	-18.24%	-21.66%	-16.96%	-17.43%	-18.65%	-22.24%
4 Week Price Chg	-4.61%	-25.00%	-15.70%	-4.00%	-2.72%	-34.61%
12 Week Price Chg	-2.76%	-27.79%	-23.67%	0.56%	10.73%	-22.62%
52 Week Price Chg	13.99%	-28.29%	-13.99%	11.98%	35.69%	-40.86%
20 Day Average Volume	3,597,676	1,233,460	4,286,768	3,892,716	1,371,506	3,862,251
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.88%	-0.81%	-2.28%	0.77%	0.45%	-16.02%
(F1) EPS Est 12 week change	-0.50%	-1.30%	-3.22%	-3.64%	0.26%	-16.02%
(Q1) EPS Est Mthly Chg	-1.22%	0.00%	-1.60%	-4.39%	0.16%	-18.37%

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	F
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.

Disclosures

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