

Crown Castle (CCI)

\$164.10 (As of 08/03/20)

Price Target (6-12 Months): **\$174.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Crown Castle's second-quarter results were disappointing, with adjusted FFO (AFFO) per share missing the Zacks Consensus Estimate. A decline in service and other revenues also hindered net revenue growth. Nonetheless, amid the increase in data volume and deployment of 5G network, wireless carriers are expanding and enhancing their networks. This is spurring demand for the company's communications infrastructure assets. Further, Crown Castle has been making diligent efforts to augment its tower business with fiber and small cells on the back of acquisitions and small cell deployments. Its shares have outperformed the industry in the past year. However, elevated leverage and high customer concentration are worrisome for Crown Castle. Also, consolidation in the wireless industry might reduce cell-tower demand, hurting its top-line growth.

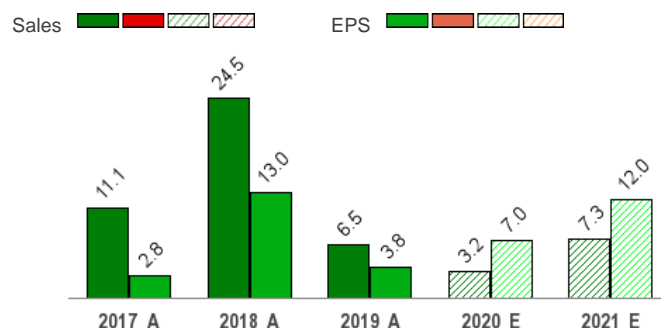
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$179.69 - \$114.18
20 Day Average Volume (sh)	2,147,849
Market Cap	\$68.9 B
YTD Price Change	15.4%
Beta	0.34
Dividend / Div Yld	\$4.80 / 2.9%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 19% (207 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.0%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	10/21/2020
Earnings ESP	-7.6%
P/E TTM	28.3
P/E F1	27.0
PEG F1	1.7
P/S TTM	11.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,551 E	1,570 E	1,613 E	1,634 E	6,390 E
2020	1,421 A	1,440 A	1,528 E	1,569 E	5,956 E
2019	1,426 A	1,478 A	1,514 A	1,429 A	5,773 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.64 E	\$1.67 E	\$1.75 E	\$1.78 E	\$6.82 E
2020	\$1.42 A	\$1.45 A	\$1.37 E	\$1.63 E	\$6.09 E
2019	\$1.45 A	\$1.48 A	\$1.55 A	\$1.38 A	\$5.69 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 08/03/2020. The reports text is as of 08/04/2020.

Overview

Houston-based Crown Castle International Corp. is a leading independent operator of wireless communication towers in the United States. The company is engaged in ownership, management and leasing of more than 40,000 cell towers and around 80,000 route miles of fiber supporting small cells, and fiber solutions spread across key markets in the nation.

On Sep 9, 2013, the board of directors of Crown Castle approved the steps needed to reorganize the company to qualify as a Real Estate Investment Trust (REIT) for tax purposes. Crown Castle became a REIT on Jan 1, 2014.

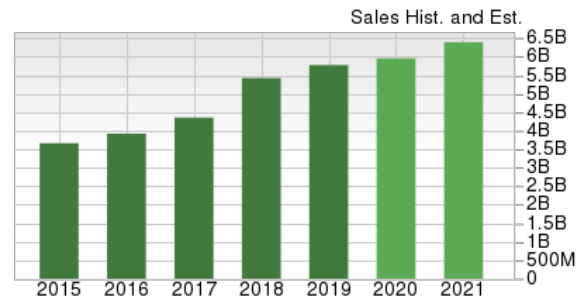
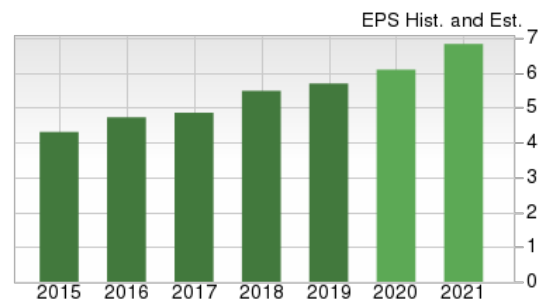
The company's operating segment consists of towers (66% of site-rental revenues in second-quarter 2020) and fiber (34%).

Crown Castle reports revenues under:

- **Site Rental (92% of net revenues in second-quarter 2020):** The company generates site-rental revenues from its core business by entering long-term tenant contracts in various forms, including lease, licensing, sublease and service agreements with its tenants, for space or capacity at its shared communications infrastructures.
- **Services and Other (8%):** Revenues are generated by offering certain services primarily relating to its towers segment, consisting of site-development and installation services.

Importantly, as of Jun 30, 2020, three major U.S. wireless carriers — Verizon, AT&T and T-Mobile — contributed 79% of the REIT's site-rental revenues.

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:

- ▲ Crown Castle's unmatched portfolio of towers has significant presence in the top 100 basic trading areas ("BTAs"). Moreover, the company has been making efforts to extend its communication infrastructure footprint and is investing significantly in its fiber segment on the back of acquisitions, and construction of small cells and fiber. The company witnessed highest small-cell deployment in 2019, deploying roughly 10,000 small-cell nodes. It anticipates continuing the momentum in the current year by deploying another 10,000 small-cell nodes. Particularly, in second-quarter 2020, the company reported capital expenditure of \$88 million and \$295 million in its tower and fiber segments, respectively. Apart from the acquisition of a number of fiber operators over the past few years, Crown Castle purchased LTS Group Holdings LLC (Lighttower) in 2017. With this buyout, the company gained around 32,000 route miles of fiber in top metro markets in the Northeast markets of the nation. Such expansion efforts have helped the company gain significant scale.
- ▲ Crown Castle's strong internally-generated cash flow, supported by its tower and fiber segments, is impressive. The company has long-term (typically 5-15 year) tower lease agreements with top U.S. carriers, which contribute to recurring site rental cash flows over the long term. In fact, such long-term leases enable it to enjoy recurring revenues that provides top-line stability, while contracted rent escalators on the majority of its revenues offer embedded growth. In fact, as of the second-quarter end, the company had \$24 million remaining in contracted customer receivables. Moreover, a strong and creditworthy tenant base adds resiliency to its business.
- ▲ As data volume for wireless and wired network is growing rapidly, the company's customers continue to invest more on their networks in a bid to improve and densify their networks. In fact, management expects significant ramp up in the services business in wireless industry activity during the second half of 2020. Specifically, T-Mobile and Sprint have completed merger on Apr 1, 2020, and the new T-Mobile integrating its network with Sprint's network is likely to accelerate activity levels across the industry. Dish Network is also set to enter the wireless market and intends to build a 5G network in the upcoming years. Moreover, Crown Castle's carrier customers are ramping up 5G investments, and this will likely boost demand and leasing for its tower space. Amid this, the company expects growth in site-rental revenues in 2020, supported by higher tenant additions.
- ▲ Wireless services are advancing rapidly in terms of additional features and capabilities. Much of the infrastructure and upgrades require effective site management of cell towers and equipment. Crown Castle effectively addresses this opportunity as majority of its revenues come from wireless service providers. Moreover, wireless data consumption is expected to increase considerably over the next several years, driven by increased innovation and adoption of data-driven mobile devices and applications such as machine-to-machine (M2M) connections, social networking and streaming of video. The company believes its extensive portfolio of towers and small cells has the network density required to meet such demands. This is expected to bolster the company's top-line growth going forward.
- ▲ The deployment of 5G will drive growth on both the company's tower and small-cell assets, as the wireless carriers look to expand and enhance their networks to provide the coverage, capacity and speed needed to support mobile video, the Internet of Things (IoT), fixed wireless broadband. Notably, IoT space is touted as the next big thing in the evolution of technology and higher investment by the wireless carriers will, in turn, bring increased revenues.
- ▲ The company has sufficient liquidity to meet its near-term capital commitments. Crown Castle exited second-quarter 2020 with cash and cash equivalents of \$2.5 billion. It has no meaningful debt maturities until 2022. Moreover, it has \$5 billion in undrawn capacity under its revolving credit facility. In June, it accessed the bond market to procure long-term debt amounting to \$2.5 billion in aggregate principal amount, with a public offering of three series of senior notes. The funds were used to address \$2.4 billion in near-term debt maturities. Finally, as of the second-quarter end, it enjoyed investment-grade credit rating of BBB-, BBB+ and Baa3 from Standard & Poor's, Fitch, and Moody's, respectively.
- ▲ Finally, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Crown Castle is committed to that. In fact, its dividends are supported by high quality, long-term contracted lease payments and the company is a provider of mission critical shared communication infrastructure assets. The company maintains a strong investment grade balance sheet to ensure consistent access to capital and expects its dividend to be up 7-8% annually, over the long term.

Crown Castle's efforts to augment its towers business with fiber and small cells bode well for growth. Strong demand from wireless carriers and recurring site rental cash flows are positives.

Reasons To Sell:

- ▼ Crown Castle has a substantially leveraged balance sheet and significant amount of debt. Post the refinancing of the outstanding senior unsecured notes in July, the company had \$18.9 billion of total debt outstanding. Moreover, its debt-to-equity ratio is significantly higher than its industry's ratio. This limits Crown Castle's strength to withstand any credit crisis and unexpected negative externalities in the future.
- ▼ Customer concentration is very high for Crown Castle. Historically, the top four among its customers, namely, Verizon, AT&T and T-Mobile, accounted for majority of its total revenue, of which AT&T contributes a handful amount of site rental revenues. Loss of any of these customers or consolidation among them will significantly affect the company's top line.
- ▼ Evolution of new technologies may reduce the demand for site leases. Further, the recent developments of satellite-delivered radio and video services will weigh on the need for tower-based broadcast transmission. In addition, frequent changes in demand for network services and infrastructure support will tend to increase volatility in Crown Castle's revenues. Moreover, popularity of the Voice over WiFi network is increasing in metro cities. With both mobile handset manufacturers and wireless carriers rapidly adopting the technology, Crown Castle's revenues may come under pressure.
- ▼ Before filing of the Annual Report on Form 10-K for 2019, the company identified certain errors and concluded that its previously issued consolidated financial statements for fiscal years ended Dec 31, 2017 and 2018, and each of its unaudited condensed consolidated financial statements and associated disclosures for the quarterly and year-to-date periods during such years as well as for the first three quarters of fiscal year 2019, should be restated. This restatement of Crown Castle's previously-issued financial statements and the material weakness that was identified in its internal control over financial reporting might cause loss of investor confidence, shareholder litigation or governmental proceedings or investigations. This might impact the company's market value of its common stock as well as curb its ability to access the capital markets.
- ▼ Shares of Crown Castle have gained 23.6% against its industry's decline of 3.5% over the past year. However, the trend in estimate revisions of the current-year FFO per share does not indicate a favorable outlook for the company. The Zacks Consensus Estimate for 2020 FFO per share has been revised marginally downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Evolution of new technologies may reduce the demand for site leases, while consolidation in the wireless industry may impact cell-tower deployments, thereby unfavorably impacting top-line growth.

Last Earnings Report

Crown Castle's Q2 FFO Misses Estimates, Revenues Down

Crown Castle's second-quarter 2020 AFFO per share of \$1.45 missed the Zacks Consensus Estimate of \$1.48. Nonetheless, the figure comes in 3% higher than the prior-year quarter tally.

Net revenues of \$1.44 billion edged down 0.5% year on year in the reported quarter. The revenue figure was almost in line with the Zacks Consensus Estimate.

Services and other revenues declined during the quarter. This hindered top-line growth. The company also maintained the current-year outlook despite the prevailing uncertainties related to the coronavirus pandemic.

Quarter in Detail

Site-rental revenues came in at \$1.3 billion, up 4.4% year over year. The \$69 million in organic contribution to site rental revenues reflects 5.6% growth. However, services and other revenues plunged 34.2% year over year to \$121 million.

Quarterly operating income decreased 1.5% year over year to \$383 million. Yet, operating expenses remained flat year over year at \$1.1 billion. Quarterly adjusted EBITDA of \$831 million marked marginal year-over-year growth.

The company reported capital expenditures of \$414 million during the second quarter. This included \$390 million of discretionary capital expenditures and \$24 million of sustaining capital expenditures.

Balance Sheet

Crown Castle exited second-quarter 2020 with cash and cash equivalents of \$2.5 billion, up from the \$196 million reported at the end of 2019.

Furthermore, as of Jun 30, 2020, the company generated \$1.4 billion of net cash from operating activities compared with the \$1.2 billion reported in the year-ago period.

Also, debt and other long-term obligations aggregated \$21 billion, up from the \$18 billion witnessed at the end of 2019.

2020 Outlook

Crown Castle has maintained its outlook for 2020. The company expects site-rental revenues of \$5,337-\$5,382 million. Adjusted EBITDA is projected at \$3,479-\$3,524 million. AFFO is projected at \$2,572-\$2,617 million.

Quarter Ending	06/2020
Report Date	Jul 29, 2020
Sales Surprise	0.02%
EPS Surprise	-2.03%
Quarterly EPS	1.45
Annual EPS (TTM)	5.80

Recent News

Crown Castle Prices Senior Notes Offering, To Raise \$2.4B – Jun 4, 2020

Crown Castle has priced a public offering of three series of senior notes. The net proceeds from the offering are expected to aggregate around \$2.473 billion, after deducting the underwriting discount and other estimated offering expenses.

The senior notes, due 2025 with an aggregate principal amount of \$500 million, have been priced at 99.736% of the face value. It carries a yearly interest rate of 1.350% and will yield 1.404% to investors.

The \$1.1-billion senior notes have been issued at 99.830% of face value. The senior notes will mature in 2031 and carry a coupon rate of 2.250% per annum. It will yield 2.268% to investors.

Lastly, the senior notes due 2051 have been priced at 99.786% of the face value to yield 3.261% to investors. The \$900-million notes have an interest rate of 3.250% per year.

The company intends to use these proceeds along with the available cash balance to redeem or repurchase all of its outstanding 2.250% senior notes due 2021, 3.400% senior notes due 2021 and 4.875% senior notes due 2022.

Dividend Update

On May 14, Crown Castle announced a quarterly cash dividend of \$1.20 per common share. The dividend was paid out on Jun 30 to common stockholders of record as of the close of business on Jun 12, 2020.

Valuation

Crown Castle's shares have been up 23.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 3.5% and 8.8% over the past year.

The S&P 500 Index has been up 16.21% over the trailing 12-month period.

The stock is currently trading at 26.39X forward 12-month FFO, which compares to 19.04X for the Zacks sub-industry, 16.29X for the Zacks sector and 22.59X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 62.32X and as low as 16.63X, with a 5-year median of 20.24X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$174 price target reflects 27.98X FFO.

The table below shows summary valuation data for CCI.

Valuation Multiples - CCI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.39	19.04	16.29	22.59
	5-Year High	62.32	19.04	16.29	22.59
	5-Year Low	16.63	14.32	11.59	15.25
	5-Year Median	20.24	16.09	14.21	17.55
P/S F12M	Current	11.00	8.27	6.05	3.60
	5-Year High	11.81	8.27	6.66	3.60
	5-Year Low	6.83	5.97	4.97	2.53
	5-Year Median	8.34	6.99	6.06	3.04
P/B TTM	Current	6.96	2.42	2.39	4.50
	5-Year High	7.39	3.03	2.91	4.56
	5-Year Low	3.20	1.81	1.72	2.83
	5-Year Median	4.31	2.51	2.53	3.72

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (207 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
American Tower Corporation REIT (AMT)	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
QTS Realty Trust, Inc. (QTS)	Neutral	3
SBA Communications Corporation (SBAC)	Neutral	3
Uniti Group Inc. (UNIT)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	CCI	X Industry	S&P 500	AMT	SBAC	UNIT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	D	C	A
Market Cap	68.87 B	1.91 B	22.67 B	113.74 B	34.09 B	1.92 B
# of Analysts	5	4	13.5	6	4	1
Dividend Yield	2.92%	4.09%	1.77%	1.71%	0.61%	6.05%
Value Score	C	-	-	D	F	A
Cash/Price	0.04	0.06	0.07	0.02	0.01	0.06
EV/EBITDA	29.59	14.08	13.08	30.78	33.02	2.18
PEG Ratio	1.75	3.78	2.94	2.15	NA	NA
Price/Book (P/B)	7.01	1.25	3.10	28.01	NA	NA
Price/Cash Flow (P/CF)	28.01	10.78	12.34	30.78	38.07	4.17
P/E (F1)	27.09	15.21	21.71	30.99	33.01	5.76
Price/Sales (P/S)	11.87	4.75	2.46	14.61	16.67	1.81
Earnings Yield	3.71%	5.83%	4.38%	3.23%	3.03%	17.36%
Debt/Equity	2.71	0.91	0.75	6.88	-2.33	-0.03
Cash Flow (\$/share)	5.86	2.05	6.94	8.34	8.02	2.38
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	7.76%	1.74%	10.46%	12.16%	NA	-4.11%
Proj. EPS Growth (F1/F0)	6.99%	-2.70%	-7.08%	7.09%	8.95%	-17.31%
Curr. Cash Flow Growth	10.48%	3.36%	5.47%	9.58%	17.05%	-5.21%
Hist. Cash Flow Growth (3-5 yrs)	10.82%	12.74%	8.55%	15.15%	6.55%	NA
Current Ratio	1.75	1.72	1.32	0.61	0.39	0.04
Debt/Capital	73.05%	47.99%	44.21%	87.31%	NA	NA
Net Margin	14.90%	12.85%	10.25%	24.70%	-0.74%	-6.69%
Return on Equity	8.29%	3.80%	14.72%	39.62%	-4.24%	-0.60%
Sales/Assets	0.15	0.13	0.52	0.19	0.22	0.21
Proj. Sales Growth (F1/F0)	1.86%	0.00%	-1.79%	4.10%	2.89%	0.34%
Momentum Score	B	-	-	D	C	B
Daily Price Chg	-1.56%	-1.03%	0.27%	-1.84%	-1.97%	0.10%
1 Week Price Chg	0.00%	3.20%	0.14%	1.97%	4.31%	1.33%
4 Week Price Chg	-5.85%	-1.24%	2.96%	-3.53%	0.99%	7.25%
12 Week Price Chg	2.70%	7.85%	10.90%	7.70%	2.98%	38.99%
52 Week Price Chg	23.26%	-19.09%	2.35%	19.95%	24.66%	21.00%
20 Day Average Volume	2,147,849	641,117	2,043,624	1,439,901	552,676	1,585,942
(F1) EPS Est 1 week change	0.52%	0.00%	0.00%	-0.44%	0.00%	0.00%
(F1) EPS Est 4 week change	0.35%	0.00%	0.82%	-1.11%	0.96%	0.00%
(F1) EPS Est 12 week change	0.35%	-1.54%	0.59%	-0.62%	1.20%	-4.05%
(Q1) EPS Est Mthly Chg	-1.09%	0.00%	0.25%	0.49%	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	C
Growth Score	C
Momentum Score	B
VGM Score	C

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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