

## Crown Castle (CCI)

**\$161.03** (As of 02/11/20)

Price Target (6-12 Months): **\$171.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: A

## Summary

Shares of Crown Castle have outperformed the industry, over the past year. Amid the increase in data volume and deployment of 5G network, wireless carriers are expanding and enhancing their networks. These positive trends are spurring demand for the company's communications infrastructure assets. Further, Crown Castle has been making diligent efforts to diversify its business from a tower operator to a fiber provider on the back of acquisitions and small cell deployments. In fact, it anticipates to continue its small cell deployment in the ongoing year. This augurs well for its long-term growth. However, customer concentration is a concern for Crown Castle. Also, consolidation in the wireless industry might reduce cell-tower demand, affecting its top line. Evolution of new technologies may impact the company's site leasing activity.

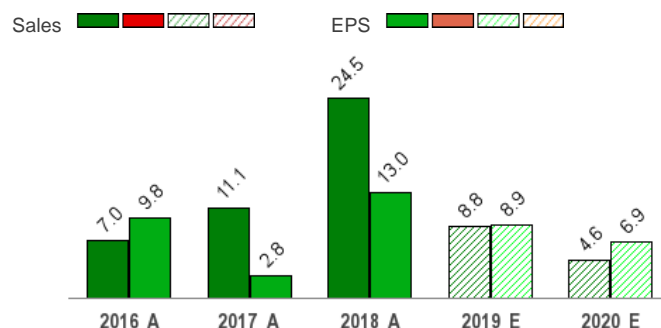
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$163.51 - \$117.03
20 Day Average Volume (sh)	1,416,064
Market Cap	\$67.0 B
YTD Price Change	13.3%
Beta	0.30
Dividend / Div Yld	\$4.80 / 3.0%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Bottom 33% (171 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.7%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	27.3
P/E F1	25.2
PEG F1	1.6
P/S TTM	11.5

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,508 E	1,521 E	1,545 E	1,564 E	6,174 E
2019	1,426 A	1,478 A	1,514 A	1,484 E	5,900 E
2018	1,299 A	1,330 A	1,375 A	1,419 A	5,423 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.57 E	\$1.57 E	\$1.59 E	\$1.64 E	\$6.38 E
2019	\$1.45 A	\$1.48 A	\$1.55 A	\$1.49 E	\$5.97 E
2018	\$1.36 A	\$1.31 A	\$1.39 A	\$1.42 A	\$5.48 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 02/11/2020. The reports text is as of 02/12/2020.

## Overview

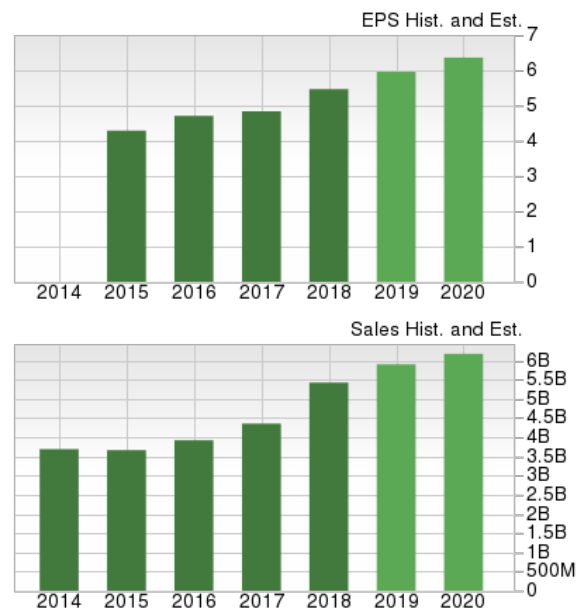
Houston-based Crown Castle International Corp. is a leading independent operator of wireless communication towers in the United States. In addition to leasing antenna space to wireless carriers, Crown Castle provides network design, radio frequency engineering and site development services. The company is engaged in ownership, management and leasing of more than 40,000 cell towers and more than 75,000 route miles of fiber supporting small cells, and fiber solutions which are 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.

Crown Castle reports in two business segments:

- **Site Rental (87% of net revenues in 2018)** : This segment leases and licenses antenna spaces on Crown Castle controlled towers predominantly to wireless carriers under long-term contracts. Wireless carriers place their antennas and other equipment in the tower and also acquire lease access to Crown Castle's distributed antenna systems for the transmission of a variety of wireless signals related to voice, data, and video transmission.
- **Services and Other (13%)** : This segment provides various services related to antenna installations & subsequent augmentation, network design & site selection, site acquisition, and site development.

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.



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## Reasons To Buy:

▲ Crown Castle has been making diligent efforts to strengthen its position as a fiber provider (focused on the small cell opportunity), through the purchase of several fiber operators and small-cell deployments. The company witnessed highest small cell deployment in 2018 and expects installation of around 10,000 additional nodes in 2019. The company anticipates to continue with this momentum in 2020, by deploying 10,000 nodes. In 2018 the company invested \$25 million in its fiber segment. 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.

Crown Castle has an unmatched portfolio of towers, small cells and fiber assets. Robust demand from wireless carriers as well as efforts to reposition itself to a fiber provider are positives.

▲ 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.

▲ 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. Accordingly, Crown Castle's customers are leasing its tower and fiber assets, along with adding new cell sites and spectrum. This is expected to boost leasing activity for the company's tower business. In fact, management noted that the company is witnessing significant acceleration in tower leasing in the ongoing year. This momentum is expected to continue in 2020 as well. Also, Crown Castle has long-term (typically 5-15 year) tower lease agreements with the top four U.S. carriers, which contribute nearly 74% of its revenues.

▲ Backed by robust demand for its tower and fiber assets, Crown Castle expects 2019 site-rental revenues of \$4,950-\$4,980 million. Further, adjusted EBITDA is projected at \$3,393-\$3,423 million. The company's FFO is anticipated in the \$2,363-\$2,393 million range. Also, AFFO is projected at \$2,464-\$2,494 million.

▲ 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 going forward.

▲ Over the past year, shares of Crown Castle have jumped 35.5% compared with industry's growth of 14.3%. Hence, given the progress on fundamentals, the stock is likely to perform well in the upcoming period.

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## Reasons To Sell:

- ▼ Customer concentration is very high for Crown Castle. Historically, the top four among its customers, namely, Verizon Wireless, AT&T, Sprint, 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.
- ▼ Consolidation in the wireless industry may reduce demand for cell tower deployments and therefore is expected to have an adverse effect on Crown Castle's top line. In fact, the anticipated merger of T-Mobile and Sprint may result in reduction of revenues and cash flows related to duplicate or overlapping parts of the networks of both companies. In the past, the merger between AT&T and Leap Wireless had a bearing on the company as Crown Castle had 1,300 towers with both carriers. Likewise, the merger between T-Mobile US and MetroPCS negatively impacted the company as Crown Castle had 1,400 towers which are jointly shared by these companies. Also, the merger between Sprint and Clearwire served as a hurdle for the company as both share 2,700 Crown Castle towers.
- ▼ 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.
- ▼ Carriers like Sprint are looking for an alternative microwave technology, dubbed as the 'Next Generation Network', to replace the more traditional backhaul system. At present, carriers incur high costs to provide high-speed linkages via their fiber-optic cables to cell towers. This intermediate portion of the network is commonly known as 'backhaul' in the telecommunications industry. This may prove to be a major headwind for Crown Castle.

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 Surpasses Q3 FFO Estimates, Issues '20 View

Crown Castle reported third-quarter 2019 AFFO per share of \$1.55, up 12% year over year. Further, the reported figure surpassed the Zacks Consensus Estimate of \$1.48.

Results reflected benefits from the company's extensive tower portfolio, high demand for infrastructure and healthy leasing activity. The year-over-year increase in the bottom line reflects growth in site-rental revenues.

Net revenues for the reported quarter amounted to \$1.51 billion, suggesting 10.1% year-over-year growth. Moreover, the reported figure outpaced the Zacks Consensus Estimate of \$1.47 billion.

Site-rental revenues came in at \$1.3 billion, up 6.4% year over year, which included organic growth, as well as contributions from straight-lined revenues. Particularly, site-rental revenues during the September-end quarter recorded 6% organic growth, driven by new leasing activity, as well as contracted tenant escalations.

### Operating Metrics

Quarterly operating income increased 26.2% from the prior-year quarter to \$453 million. However, operating expenses flared up 4.4% year over year to \$1.1 billion. Quarterly adjusted EBITDA was approximately \$882 million, representing year-over-year jump of 11%.

### Cash Flow and Liquidity

Crown Castle exited third-quarter 2019 with cash and cash equivalents of \$182 million, down from the \$277 million reported at the end of 2018.

Furthermore, as of Sep 30, 2019, the company generated \$1.9 billion of net cash from operating activities compared with the \$1.8 billion reported in the year-ago period.

Also, debt and other long-term obligations aggregated \$17.7 billion, up from the \$16.6 billion witnessed at the end of 2018.

### Dividend Payout

During the September-end quarter, Crown Castle paid common stock dividend of \$1.125 per common share, up approximately 7% from the year-earlier quarter.

### 2019 Outlook

Crown Castle has reiterated its outlook for full-year 2019. The company expects site-rental revenues of \$4,950 million to \$4,980 million. Adjusted EBITDA is projected at \$3,393-\$3,423 million.

The company's FFO is anticipated in the \$2,363-\$2,393 million range. Also, AFFO is projected at \$2,464-\$2,494 million.

### 2020 Outlook

The company has also provided its outlook for full-year 2020. It expects site-rental revenues of \$5,196 million to \$5,241 million. Adjusted EBITDA is projected at \$3,569 million-\$3,614 million.

Additionally, FFO is anticipated in the \$2,539-\$2,584 million range. Also, AFFO is projected at \$2,662-\$2,707 million.

This guidance assumes that the proposed merger between T-Mobile and Sprint closes prior to the end of first-quarter 2020. It also reflects the impact of the mandatory conversion of preferred stock to common shares that is expected to occur in August 2020. This will increase the diluted weighted average common shares outstanding for 2020 by nearly 6 million shares.

Quarter Ending 09/2019

Report Date	Oct 16, 2019
Sales Surprise	2.98%
EPS Surprise	4.73%
Quarterly EPS	1.55
Annual EPS (TTM)	5.90

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## Recent News

### Dividend Update

On Oct 17, Crown Castle announced a quarterly cash dividend of \$1.20 per common share. This indicates a sequential hike of around 7%. The dividend was paid on Dec 31, to common stockholders of record as of the close of business on Dec 13, 2019.

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## Valuation

Crown Castle's shares have jumped 35.5% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 14.3% and 9.4% over the past year.

The S&P 500 Index is up 20.9% over the past year.

The stock is currently trading at 25.00X forward 12-month FFO, which compares to 18.58X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.27X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 64.77X 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 \$171 price target reflects 26.55X FFO.

The table below shows summary valuation data for CCI.

Valuation Multiples - CCI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25	18.58	14.92	19.27
	5-Year High	64.77	18.92	16.21	19.34
	5-Year Low	16.63	14.32	12.01	15.18
	5-Year Median	20.24	16.11	14.15	17.47
P/S F12M	Current	10.8	8.42	6.55	3.55
	5-Year High	10.8	8.42	6.65	3.55
	5-Year Low	6.83	5.91	5.39	2.54
	5-Year Median	8.15	6.88	6.04	3
P/B TTM	Current	5.91	2.91	2.84	4.32
	5-Year High	5.91	2.91	2.89	4.42
	5-Year Low	3.2	2.07	1.83	2.85
	5-Year Median	4.19	2.52	2.51	3.62

As of 02/11/2020

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## Industry Analysis Zacks Industry Rank: Bottom 33% (171 out of 254)



## Top Peers

American Tower Corporation (REIT) (AMT)	Neutral
Digital Realty Trust, Inc. (DLR)	Neutral
Equinix, Inc. (EQIX)	Neutral
Iron Mountain Incorporated (IRM)	Neutral
QTS Realty Trust, Inc. (QTS)	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		
	CCI Neutral	X Industry	S&P 500	AMT Neutral	SBAC Neutral	UNIT Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>A</b>
Market Cap	66.95 B	3.00 B	24.31 B	112.63 B	31.98 B	1.49 B
# of Analysts	5	4	13	6	4	1
Dividend Yield	2.98%	3.94%	1.78%	1.59%	0.52%	11.43%
<b>Value Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>A</b>
Cash/Price	0.01	0.02	0.04	0.01	0.01	0.14
EV/EBITDA	31.34	18.18	13.97	33.23	36.24	1.67
PEG Ratio	1.63	3.53	2.06	1.58	3.07	1.22
Price/Book (P/B)	5.91	1.75	3.24	19.43	NA	NA
Price/Cash Flow (P/CF)	30.28	14.90	13.65	33.28	41.68	2.85
P/E (F1)	25.29	15.69	19.12	29.26	30.73	3.65
Price/Sales (P/S)	11.47	7.25	2.67	14.46	16.11	1.40
Earnings Yield	3.96%	6.37%	5.23%	3.42%	3.25%	27.40%
Debt/Equity	2.05	0.89	0.70	4.40	-2.76	-0.04
Cash Flow (\$/share)	5.32	2.28	6.94	7.64	6.81	2.71
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	8.13%	2.91%	10.85%	14.55%	NA	-0.89%
Proj. EPS Growth (F1/F0)	6.80%	3.77%	7.30%	10.19%	9.22%	0.96%
Curr. Cash Flow Growth	30.11%	12.76%	8.92%	13.26%	-6.22%	11.14%
Hist. Cash Flow Growth (3-5 yrs)	16.21%	16.89%	8.36%	19.91%	6.38%	NA
Current Ratio	0.72	1.24	1.22	0.53	0.65	0.05
Debt/Capital	67.23%	46.90%	42.90%	81.47%	NA	NA
Net Margin	16.12%	13.74%	11.81%	20.58%	6.89%	3.06%
Return on Equity	8.07%	4.48%	16.98%	27.12%	-4.16%	-2.17%
Sales/Assets	0.16	0.13	0.54	0.21	0.23	0.22
Proj. Sales Growth (F1/F0)	4.64%	4.82%	3.90%	6.76%	5.30%	-2.59%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>D</b>	<b>D</b>	<b>C</b>
Daily Price Chg	5.30%	0.27%	0.65%	4.34%	7.28%	5.48%
1 Week Price Chg	0.43%	1.85%	2.47%	3.02%	3.71%	11.69%
4 Week Price Chg	13.44%	2.88%	1.35%	8.69%	14.21%	-6.33%
12 Week Price Chg	19.89%	3.94%	5.63%	17.95%	18.34%	13.23%
52 Week Price Chg	37.19%	10.63%	16.19%	47.33%	55.01%	-61.23%
20 Day Average Volume	1,416,064	456,175	1,995,746	1,457,187	538,964	2,584,850
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.03%	-0.12%	-0.19%	0.26%	0.04%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

## 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	A
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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