

Crown Castle (CCI)

\$146.87 (As of 03/17/20)

Price Target (6-12 Months): **\$156.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

Summary

Shares of Crown Castle have outperformed the industry, over the past year. The company's fourth-quarter 2019 results reflect year-on-year revenue increase on growth in site-rental revenues. Amid 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. However, customer concentration is a concern for Crown Castle. Also, consolidation in the wireless industry might reduce cell-tower demand, hurting its top line. Evolution of new technologies may impact the company's site leasing activity.

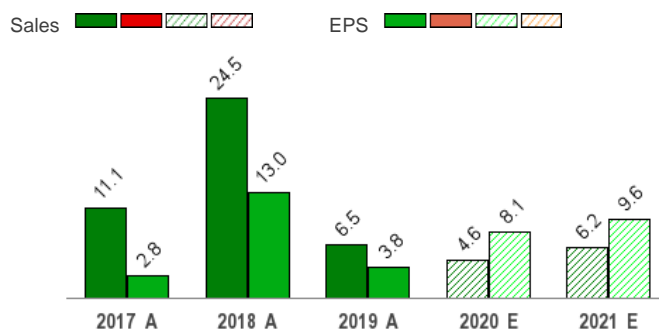
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$168.75 - \$119.81
20 Day Average Volume (sh)	3,330,378
Market Cap	\$61.2 B
YTD Price Change	3.3%
Beta	0.35
Dividend / Div Yld	\$4.80 / 3.3%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 42% (148 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.8%
Last Sales Surprise	-3.5%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	04/15/2020
Earnings ESP	0.0%
P/E TTM	25.1
P/E F1	23.9
PEG F1	1.5
P/S TTM	10.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,563 E	1,582 E	1,618 E	1,631 E	6,416 E
2020	1,451 E	1,472 E	1,538 E	1,553 E	6,039 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	\$1.65 E	\$1.71 E	\$1.74 E	\$6.74 E
2020	\$1.49 E	\$1.50 E	\$1.57 E	\$1.60 E	\$6.15 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 03/17/2020. The reports text is as of 03/18/2020.

Overview

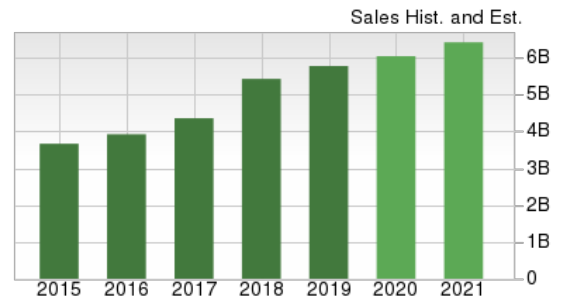
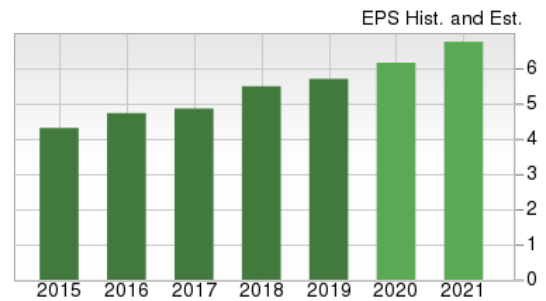
Houston-based Crown Castle International Corp. is a leading independent operator of wireless communication towers in the United States. In addition to leasing antenna space to wireless carriers, Crown Castle provides network design, radio frequency engineering and site development services. The company 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 (88.3% of net revenues in 2019)** : 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 (11.7%)** : 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.



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 2019, deploying roughly 10,000 small cell nodes. The company anticipates continuing with this momentum this year, by deploying another 10,000 small cell nodes. Particularly, in 2019, the company deployed \$2.1 billion in capital expenditures, including \$1.9 billion of revenue-generating capital expenditures comprising \$1.4 billion in fiber and approximately \$450 million in towers. 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 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.

▲ 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.

▲ 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, per management, in 2019, the company witnessed its highest level of tower leasing activity in more than a decade. This is driven by robust growth in mobile data demand, which is compelling the company's customers to make substantial investments in the current 4G networks as well as for positioning their business for the 5G. Also, Crown Castle has long-term (typically 5-15 year) tower lease agreements with the top four U.S. carriers, which contribute majority of its revenues. Moreover, T-Mobile and Sprint have announced plans to merge in 2020 and the combination is likely to accelerate activity levels across the industry. Further, the increased pace of nationwide 5G coverage requirements related to this move will likely boost demand for tower space.

▲ 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.

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.
- ▼ 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.
- ▼ Crown Castle has a substantially leveraged balance sheet. At the end of the fourth quarter, debt and other long-term obligations aggregated \$18 billion, up from the \$16.6 billion witnessed at the end of 2018. 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.
- ▼ Before filing of the Annual Report on Form 10-K, 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.
- ▼ Over the past year, shares of Crown Castle have gained 17.9%, while its industry has declined 16.8%. However, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable for the company. In fact, the Zacks Consensus Estimate for the current-year FFO per share has been revised roughly 3% 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 Q4 FFO and Revenues Miss Estimates

Crown Castle reported fourth-quarter 2019 adjusted FFO per share of \$1.38, down 0.7% year over year. Further, the reported figure missed the Zacks Consensus Estimate of \$1.48.

Net revenues for the reported quarter of \$1.43 billion missed the Zacks Consensus Estimate of \$1.48 billion. However, the figure inched up 1.6% year over year.

The year-on-year revenue increase reflects growth in site-rental revenues. However, services and other revenues were down during the quarter. Management also noted that there was a "noticeable slowdown in activity" in the fourth quarter.

For full-year 2019, Crown Castle reported adjusted FFO per share of \$5.69, reflecting an increase of 6% from the prior year's \$5.37. Revenues for the year came in at \$5.8 billion, up 7.4% year on year.

Quarter in Detail

Site-rental revenues came in at around \$1.3 billion, up 5.6% year over year. The \$71 million in organic contribution to site rental revenues represents 5.9% growth, driven by new leasing activity, as well as contracted tenant escalations. Services and other revenues were down 26.4% year over year to \$128 million.

Quarterly operating income increased 3.6% year over year to \$379 million. However, operating expenses flared up 1% year over year to \$1.05 billion. Quarterly adjusted EBITDA of \$818 million marked year-over-year growth of 1.9%.

Balance Sheet

Crown Castle exited fourth-quarter 2019 with cash and cash equivalents of \$196 million, down from the \$277 million reported at the end of 2018.

Furthermore, as of Dec 31, 2019, the company generated \$2.7 billion of net cash from operating activities compared with the \$2.5 billion reported in the year-ago period.

Also, debt and other long-term obligations aggregated \$18 billion, up from the \$16.6 billion witnessed at the end of 2018.

2020 Outlook

Crown Castle has updated its outlook for 2020 to reflect the impact of the restatement of the previously-issued financial statements. The company now expects site-rental revenues of \$5,337-\$5,382 million, reflecting a \$141-million increase at the mid-point. Adjusted EBITDA is projected at \$3,479-\$3,524 million, indicating a \$90-million decline at the mid-point. Adjusted FFO is projected at \$2,572-\$2,617 million, suggesting a \$90-million slump at the mid-point.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-3.51%
EPS Surprise	-6.76%
Quarterly EPS	1.38
Annual EPS (TTM)	5.86

Recent News

Dividend Update

On Feb 20, Crown Castle announced a quarterly cash dividend of \$1.20 per common share. The dividend will be paid on Mar 31, to common stockholders of record as of the close of business on Mar 13, 2020.

Valuation

Crown Castle's shares have been up 17.9% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 16.8% and 27.9% over the past year.

The S&P 500 Index is down 16.6% over the past year.

The stock is currently trading at 24.60X forward 12-month FFO, which compares to 13.82X for the Zacks sub-industry, 10.15X for the Zacks sector and 13.87X 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 20.25X. Our neutral recommendation indicates that the stock will perform in-line with the market. Our \$156 price target reflects 26.13X FFO.

The table below shows summary valuation data for CCI.

Valuation Multiples - CCI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.6	13.82	10.15	13.87
	5-Year High	62.32	18.7	16.21	19.34
	5-Year Low	16.63	13.82	10.15	13.87
	5-Year Median	20.25	16.08	13.97	17.42
P/S F12M	Current	10	6.17	5.99	2.55
	5-Year High	11.29	8.14	6.64	3.43
	5-Year Low	6.83	5.91	5.39	2.54
	5-Year Median	8.19	6.87	6.04	3
P/B TTM	Current	5.82	2.07	1.91	3.21
	5-Year High	6.66	2.92	2.89	4.55
	5-Year Low	3.2	1.94	1.83	2.85
	5-Year Median	4.22	2.52	2.52	3.63

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (148 out of 253)



Top Peers

American Tower Corporation (REIT) (AMT)	Outperform
SBA Communications Corporation (SBAC)	Outperform
Digital Realty Trust, Inc. (DLR)	Neutral
Equinix, Inc. (EQIX)	Neutral
Iron Mountain Incorporated (IRM)	Neutral
QTS Realty Trust, Inc. (QTS)	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 Outperform	SBAC Outperform	UNIT Neutral
VGM Score	D	-	-	D	C	B
Market Cap	61.21 B	1.66 B	17.72 B	100.78 B	30.72 B	1.29 B
# of Analysts	5	4	13	6	3	1
Dividend Yield	3.27%	6.04%	2.51%	1.78%	0.68%	13.13%
Value Score	F	-	-	F	F	A
Cash/Price	0.01	0.03	0.06	0.01	0.00	0.15
EV/EBITDA	26.91	12.62	10.97	27.97	30.38	1.43
PEG Ratio	1.49	2.67	1.54	1.48	NA	NA
Price/Book (P/B)	5.82	1.06	2.39	18.35	NA	NA
Price/Cash Flow (P/CF)	25.07	9.17	9.36	27.29	34.21	2.48
P/E (F1)	23.12	10.38	13.98	26.46	29.17	3.74
Price/Sales (P/S)	10.47	3.76	1.87	13.29	15.25	1.22
Earnings Yield	4.19%	9.64%	7.13%	3.78%	3.43%	26.72%
Debt/Equity	2.24	0.88	0.70	5.03	-2.68	-0.04
Cash Flow (\$/share)	5.86	2.01	7.01	8.34	8.02	2.71
Growth Score	B	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	8.17%	2.75%	10.85%	13.50%	NA	-2.48%
Proj. EPS Growth (F1/F0)	8.01%	2.62%	5.38%	11.25%	10.84%	-13.94%
Curr. Cash Flow Growth	10.48%	3.51%	6.15%	9.58%	17.05%	11.14%
Hist. Cash Flow Growth (3-5 yrs)	10.82%	12.80%	8.55%	15.15%	6.55%	NA
Current Ratio	0.63	1.28	1.24	0.52	0.32	0.05
Debt/Capital	69.17%	46.73%	42.57%	83.43%	NA	NA
Net Margin	16.01%	13.67%	11.57%	24.90%	7.30%	0.84%
Return on Equity	8.30%	4.47%	16.74%	32.51%	-4.24%	-0.60%
Sales/Assets	0.15	0.13	0.54	0.19	0.21	0.22
Proj. Sales Growth (F1/F0)	3.29%	3.69%	3.33%	7.75%	5.42%	-0.88%
Momentum Score	C	-	-	C	C	F
Daily Price Chg	8.14%	4.70%	5.62%	12.22%	6.91%	28.11%
1 Week Price Chg	-3.56%	-18.21%	-11.01%	-2.98%	-1.29%	-30.06%
4 Week Price Chg	-11.64%	-36.77%	-28.54%	-10.04%	-5.92%	-27.10%
12 Week Price Chg	4.88%	-31.37%	-25.74%	0.20%	14.29%	-20.05%
52 Week Price Chg	17.90%	-28.90%	-18.88%	19.81%	43.03%	-32.05%
20 Day Average Volume	3,330,378	965,042	3,651,283	3,117,952	1,210,955	4,071,986
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-16.02%
(F1) EPS Est 4 week change	0.77%	-0.41%	-0.58%	-0.98%	0.38%	-16.02%
(F1) EPS Est 12 week change	-3.64%	-0.81%	-1.18%	-0.50%	0.42%	-16.02%
(Q1) EPS Est Mthly Chg	-4.39%	0.00%	-0.77%	-3.80%	-2.36%	-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	B
Momentum Score	C
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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