

AMERICAN TOWER CORPORATION

Equity Research



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for REAL ESTATE**



American Tower Corp.

Executive Summary

Business Summary

American Tower Corporation is a REIT that owns, operates and develops wireless communications and transmission towers in the United States. The company provides multi-tenant tower antenna site concessions for various wireless communications industries, including personal communications, paging and cellular services.

Sector/Industry

Sector	Real Estate
Industry	Equity REIT
Sub-Industry	Telecommunication REIT

Stock data

Price \$	213.90
Bloomberg code	AMT:US
Market cap. \$	95,054 M
Free float	99.14%
Shares outstanding	444.38 M
52-week range \$	197.50 – 272.20
Daily volume	2,293,723

Performance

	1M	3M	12M
Absolute	- 6.9%	- 10.1%	- 20.4%

Main Metrics (\$M)

	2019	2020E	2021E
Revenues	7,580	8,042	8,575
EBITDA	4,745	5,156	5,640
Net Income	1,888	1,691	1,930
EPS	4.2	3.8	4.3
DPS	3.8	4.5	4.9

Multiples

	2019	2020E	2021E
EV/EBITDA	22.0x	21.0x	n.a.
P/FFO	27.4x	n.a.	n.a.

Remuneration

	2019	2020E	2021E
Dividend yield	2.0%	1.9%	2.1%

WEAK BUY

Target: \$228.09

Twelve-month Main Events

Deals overview

The company has the objective to enhance its portfolio global footprint to accomplish its expansion strategy. In line with this aim, M&A and partnerships are key to quickly access and penetrate additional market.

▪ Eaton Towers Holdings Limited

In early 2020, AMT completed the acquisition of London-based, Eaton Towers Holdings Limited adding approximately 5,700 communications sites to its African portfolio;

▪ InSite Wireless Group

In December 2020, AMT completed the acquisition of InSite Wireless Group adding approximately 3,000 communication sites, primarily in the U.S. and Canada. Through this acquisition, AMT launches operations in Canada and Australia;

▪ Nextlink Internet

In January 2021, AMT and Nextlink Internet signed a multiyear agreement to bring wireless broadband services to underserved areas in rural America;

▪ PrecisionHawk Inc.

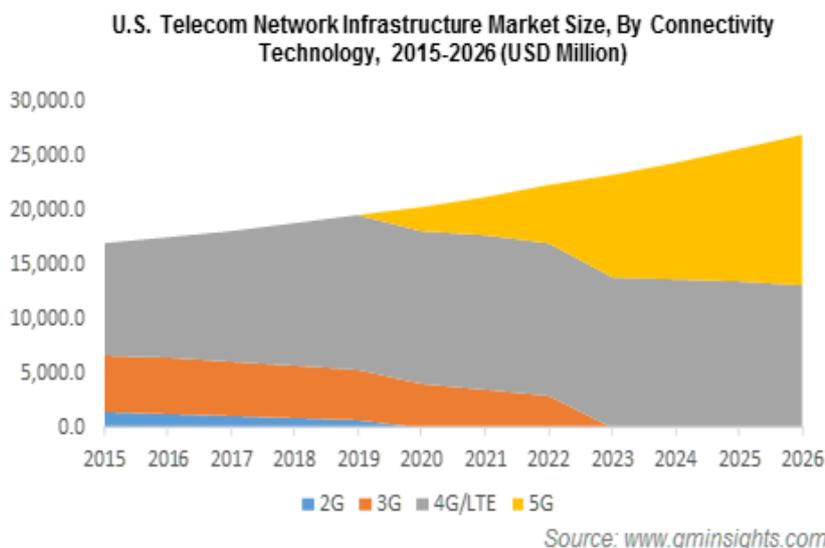
Lastly, in February 2021, AMT and PrecisionHawk, Inc. announced a multiyear alliance to revolutionize wireless infrastructure inspections by integrating drone technology and AI-powered analytics.

Message to Shareholders

“We generated strong performance in 2020, driven by the combination of solid organic growth, accretive acquisitions and a record year of new site construction, along with improving margins. Moreover, we grew our common stock dividend and maintained our strong balance sheet, while helping to provide critical connectivity to billions of people across our served markets during the ongoing pandemic. In 2021, we expect to extend our long track record of driving sustainable growth as mobile technology advances globally. We look forward to closing our transformational Telxius acquisition, which will establish us as a leader in Germany and Spain, and are rapidly integrating the more than 2,000 new towers we acquired in the U.S. and Canada in the fourth quarter of 2020. We believe that our comprehensive asset base, commitment to our Stand and Deliver strategy and our exceptional employees around the world position American Tower for continued success as we look to 5G and beyond.”

Industry Overview

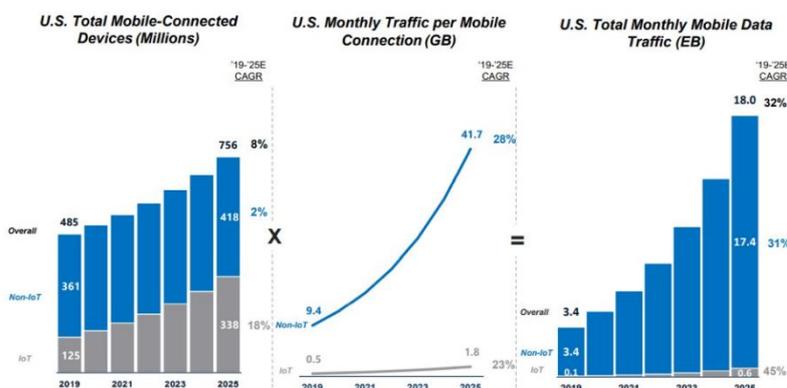
Telecommunication infrastructure REITs play an integral role in shaping our communities by providing the backbone for new technology to take hold and connect us in ways barely imagined just a few years ago. They encompass a range of specialties, but the primary purpose of those supporting the digital economy lie in cell towers, small cell technology, fiber connectivity, and data center platforms.



With the advent of fifth generation (5G) wireless network systems, the benefits that accrue to communities from infrastructure REITs are likely to increase proportionally. 5G deployment will immediately improve the performance of current wireless services by providing higher access speeds, lower latency (less delay in processing data messages), and more system capacity.

Telecommunications REITs market, the industry our analysed firm works in, has been experiencing a steady growth. As it is possible to see from the graph here on the right, showing growth in U.S. Monthly Traffic, Mobile-connected devices and last but not least Monthly Mobile Data, this growth trend is not likely to stop in the forthcoming years as well.

U.S. Total Mobile Data Traffic Growth⁽¹⁾ Expected to grow at 32% CAGR through at least 2025



Company Overview

American Tower Corporation is a real estate investment trust that owns, operates, and develops wireless communications and transmission towers in the United States. The company provides multi-tenant tower antenna site concessions for various wireless communications industries, including personal communications, paging, and cellular services.

- The company rents space on towers and rooftop antenna systems to wireless carriers and radio and TV broadcasters who use the infrastructure to enable their services;
- Its portfolio additionally includes approximately 1,775 Distributed Antenna System networks;
- It also offers tower-related services such as site acquisition, structural analysis to determine support for additional equipment, and zoning and permitting management services.

Business Strategy and History

The company's primary operational focus is to increase the occupancy of their existing communications real estate portfolio to support global connectivity, invest in and selectively grow their communications real estate portfolio, further improve their operational performance and efficiency, including through innovation initiatives and maintain a strong balance sheet. American Tower believe these efforts to meet their tenants' needs will support and enhance their ability to capitalize on the growth in demand for wireless infrastructure.

The company also offers tower-related services such as site acquisition, structural analysis to determine support for additional equipment, and zoning and permitting management services.



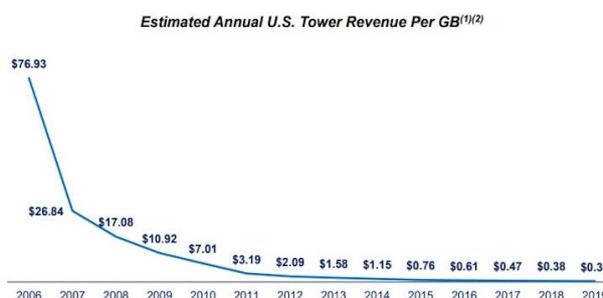
Key success drivers

The main success drivers of AMT are to be found in the following:

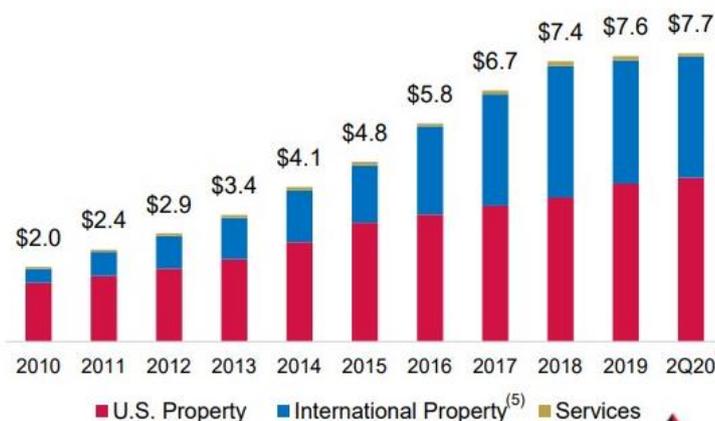
- A financially strong tenant base;
- The ability to enjoy economies of scale;
- High barriers to entry;
- Revenue stream lock-in effect;
- Strong and consistent US and international demand.

Network Spending and Capital Intensity

Historical tower leasing costs per GB of U.S. Mobile Data Traffic have declined at a 35% CAGR



AMT Segment Revenue (\$ in Billions)



Revenue Streams

- Contracts are usually non-cancellable and include terms of 5 to 10 years with renewal options;
- Low historical annual churn of approximately 1-2%

Financial Results

Metrics (USD m)	2016	2017	2018	2019	2020*	2021E
Revenues	5,785.7	6,663.9	7,440.1	7,580.3	8,042.0	8,669.9
<i>Growth</i>	21.3%	15.2%	11.6%	1.9%	6.1%	7.8%
Adj. EBITDA	3,552.7	4,089.6	4,666.5	4,744.5	5,156.0	5,640.0
<i>Margin</i>	61.4%	61.4%	62.7%	62.6%	64.1%	65.1%
EBIT	1,853.0	1,998.4	1,905.0	2,688.4	2,887.5	
<i>Margin</i>	32.0%	30.0%	25.6%	35.5%	35.9%	
Net Income	970.4	1,225.4	1,264.7	1,916.6	1,691.5	
FFO	2,188.5	2,697.0	3,209.0	3,491.7	3,511.0	
<i>Margin</i>	37.8%	40.5%	43.1%	46.1%	43.7%	
AFFO	2,400.2	2,754.8	3,190.5	3,441.7	3,764.0	
<i>Margin</i>	41.5%	41.3%	42.9%	45.4%	46.8%	

American Tower key financial results show consistent performance with solid margins, which display an upward trend in the last years. In addition, no-GAAP financial measure related to core operations, such as FFO and AFFO, also highlight the high cash generation capabilities of the company.

We provided guidance figures for 2021 as far as it concerns revenues and EBITDA following the company strategy and operation plan.

Discounted Cash Flow

Model specifications

We utilized an asset-side DCF model given the higher stability and forecastability of Free Cash Flow to Operations, that ensure a more normalized picture of the company economics.

The model comprises an explicit forecasting period of 10 years, which we considered more suitable to comprehend the period of transition occurring in the industry, due to the advent of the 5G technology. Indeed, the 10 years' time horizon is split in two segments: the first phase (up to Y5) which takes into account the 5G launch; the second phase which represents a return to normal organic growth with the 5G revenue boost effect fading away.

Assumptions on FCFO growth

American Tower revenue stream is characterized by long-term, non-cancellable lease agreements with solid customers. More than 75% of the contract's duration goes beyond the 10 years forecasting horizon. These attributes increase the predictability of future cash flows. Therefore, organic growth has been estimated at 5.5% whilst the 5G launch momentum, likely to last up to year 5, has been recognized an additional 3%.

- **First stage (year 1-5):** 8.5% FCFO estimated growth rate;
- **Second stage (year 6-10):** 5.5% FCFO estimated growth rate.

WACC

The WACC has been calculated following the procedure and data displayed in the following table. To the final outcome of the WACC formula an additional premium of half percentage point has been added to include analysts estimate on potential higher inflation in the next years.

Cost of Equity	6.54%
CAPM	6.54%
Risk Free Rate (Rf)	1.50%
10 Year US Bond Rate	1.50%
Market Risk Premium (Rm-Rf)	6.00%
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html	
Adjusted Beta (3 years/weekly)	0.840
Regression R ²	0.617
Cost of Debt	3.06%
Risk-free rate	1.50%
Credit spread BBB (Damodaran model)	1.56%
Target Leverage	
D/E ratio	32%
Market Capitalization (09/03/2021)	\$ 90,157,000,000
Net Financial Position	\$ 28,850,240,000
Additional risk premium	0.50%
WACC	6.20%

Sensitivity Analysis

Finally, a sensitivity analysis on the organic growth variable has been performed. We outlined two additional scenarios defined by an increase/decrease of one percentage point to the organic growth rate. The results of the DCF and the relative scenario analysis are presented in the following summary table.

Scenario Summary			
	+ 1%	Expected	- 1%
Changing Cells:			
Organic growth	1.065	1.055	1.045
Result Cells:			
Enterprise Value	\$ 147,121,376,179	\$ 135,657,840,479	\$ 125,064,259,440
NFP	\$ 28,850,240,000	\$ 28,850,240,000	\$ 28,850,240,000
Equity Value	\$ 118,271,136,179	\$ 106,807,600,479	\$ 96,214,019,440
NOSH	444,330,000	444,330,000	444,330,000
Share Price	\$ 266.18	\$ 240.38	\$ 216.54

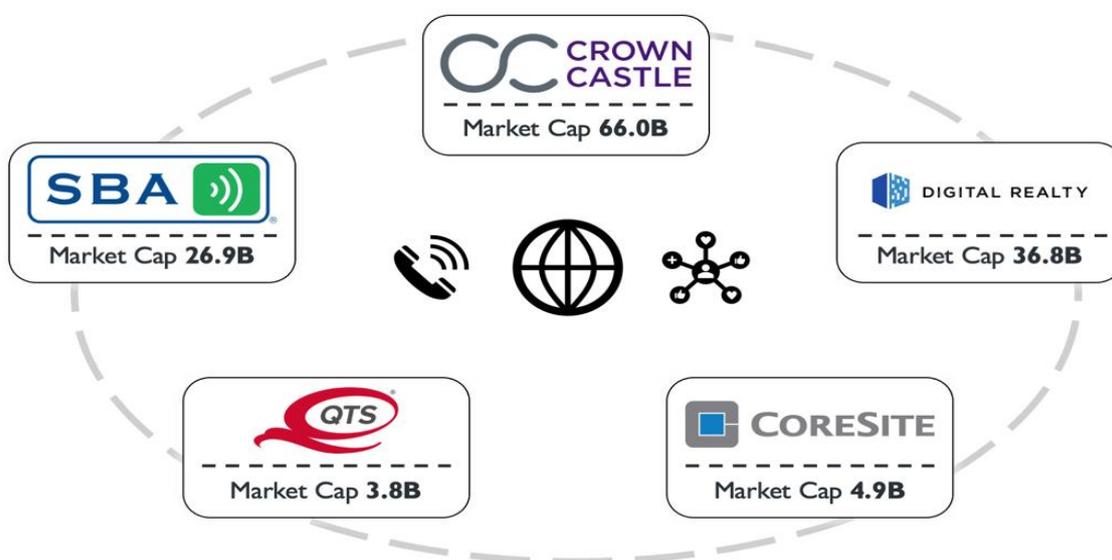
Market Valuation

Competitors

The standard multiple valuation starts from the selection of the competitors. We selected the following:

- **Crown Castle**, that owns, operates and develops wireless transmission and communications towers in the United States. The company provides site concessions for tower antennas for multiple tenants for various wireless communication industries;

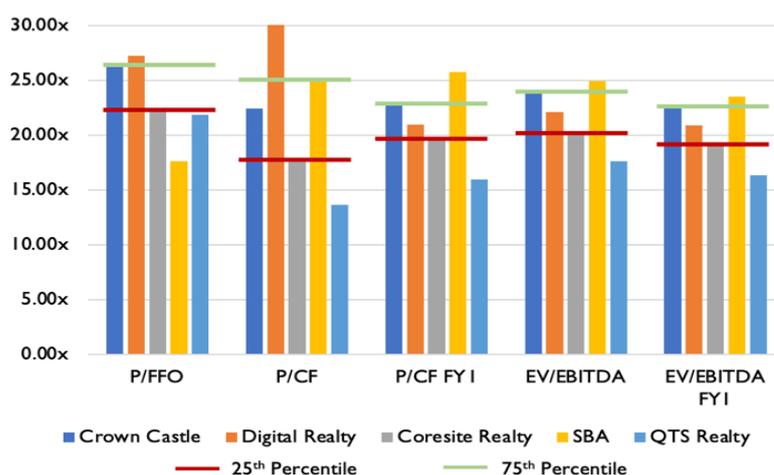
- **SBA Communications Corporation.** It owns and operates wireless communications infrastructures in the United States. Provides site leasing and development, construction and consulting services. Rent antenna space on multi-tenant towers to a variety of wireless service providers under long-term lease agreements;
- **QTS,** that owns, develops and operates multi-tenant data centers. Its data centers are facilities that house the network and IT equipment of multiple customers and provide access to a variety of telecommunications carriers;
- **CyrusOne.** It owns, manages and develops data centers for large companies compatible with any provider. It provides data centers with critical functions to ensure security and continuous operation of IT infrastructures;
- **Digital Realty,** that owns, acquires, repositions and manages properties associated with technology. Company properties contain critical applications and operations for the day-to-day administration of technology industry tenants and data centers for companies. The property portfolio is located in the US and UK.



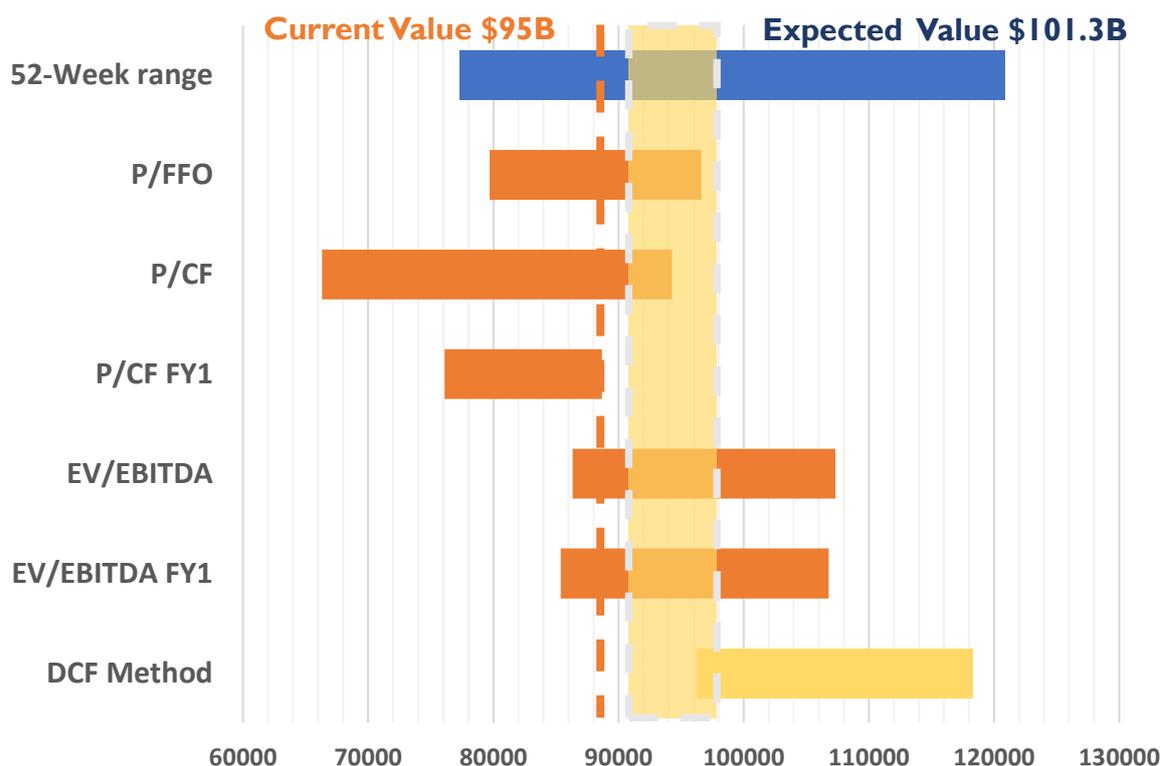
Multiples

Selected multiples comprehend both asset-side and equity-side measures. Among the equity-side figures the most relevant is the FFO multiple. Indeed, Funds From Operation is a special non- GAAP measure to express REITs cash generating ability from pure operations, thus highly meaningful for the industry. In addition, we also selected the P/Cash Flow as an equity-side figure and Enterprise Value/EBITDA as an asset-side multiple. The valuation also includes forward FY1 multiples based on forecasted data to incorporate expectations about future performance.

In order to obtain reasonable value intervals for the valuation, we computed the 25th and 75th quantiles to derive the interquartile range for each single multiple. Then we applied those figures to AMT corresponding metrics to obtain several price intervals on which we based the equity valuation.



Football Field



The football field provides an overview of the results obtained by both the DCF and the multiples valuation. The equity value is estimated to be worth \$ 101.3billion, that given the outstanding number of shares (NOSH: 444.333k) leads to an equity value per share of \$ 228.1. The target price is the result of a weighted average between the prices suggested by the two valuation approaches. A weight of 70% has been allocated to the DCF due to high reliability of the forecasts; only the remaining 30% relates to the multiples since they also fail to address AMT superior positioning in the industry, thus underestimating the target.

In conclusion, the outcome of the valuation defines a *Market/Target price ratio* of 0.93, thus the position is a WEAK BUY.

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