American Tower Corp. (AMT)

Updated May 25th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$203	**5 Year CAGR Estimate:**	2.4%	**Volatility Percentile:**	14.5%
Fair Value Price:	$154	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	98.5%
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.4%	**Growth Percentile:**	52.3%
Dividend Yield:	1.8%	**5 Year Price Target**	$206	**Valuation Percentile:**	13.9%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	10.1%

Overview & Current Events

American Tower, founded in 1995, is one of the world's largest global Real Estate Investment Trusts (REITs). The company specializes in owning, operating and developing multitenant communications real estate, with a portfolio of more than 170,000 communications sites, including approximately 41,000 properties in the United States and roughly 130,000 located Internationally. Last year the $90 billion company generated nearly $3.2 billion in Adjusted Funds From Operations (AFFO) attributable to stockholders.

On May 3rd, 2019 American Tower reported Q1 2019 results for the period ending March 31st, 2019. For the quarter the company generated $1.813 billion in total revenue, representing a 4.1% year-over-year increase. Adjusted EBITDA increased 4.9% to $1.114 billion, while net income came in at $408 million. AFFO attributable to stockholders rose 7.7% compared to Q1 2018 to $818 million or $1.84 per share. The quarterly dividend was increased to $0.90 (from $0.84 prior) and net debt to adjusted EBITDA equaled 4.5x.

In addition, American Tower provided a 2019 outlook. For the year the company expects total property revenue to be between $7.135 billion and $7.285 billion (a 1.4% decline at the mid-point), along with $1.56 billion to $1.66 billion in Net Income, $4.42 billion to $4.52 billion in adjusted EBITDA, and $3.375 billion to $3.475 billion in consolidated AFFO (roughly $7.60 to $7.80 in AFFO per share).

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
AFFO	$1.65	$2.10	$2.42	$3.24	$3.42	$4.57	$4.45	$5.81	$6.72	$7.59	***$7.70***	***$10.30***
DPS	---	---	---	$0.90	$1.10	$1.40	$1.81	$2.17	$2.62	$3.15	***$3.60***	***$5.67***
Shares	402	399	394	395	395	397	424	427	429	441	***445***	***450***

Note that we are using consolidated AFFO instead of earnings, as this more accurately captures the underlying profitability of the company. American Tower has put together an exceptional record in the last decade, and many of those tailwinds still exist today. The company is well entrenched as a leader in the U.S. market and also has been significantly expanding into International markets. The continued increase in data usage, especially as it relates to International countries "catching up," will be a trend for some time. Moreover, with long-term leases in place, American Tower has good visibility into the future.

On the other hand, there are a variety of risks that could formulate in the years to come. For instance, major carrier consolidation – such as the current proposed tie-up between Sprint and T-Mobile (both accounting for about 8% of American Tower's property revenues each) – could reduce redundant networks and thus American Tower's revenue. Moreover, the evolution of 5G – while promising for consumers – could disrupt the company's macro tower business model. Further, it is becoming harder to grow as the company approaches a market capitalization near $100 billion.

Collectively, we are enthused about the business – and the continued trend toward more data usage – but we are somewhat cautious with our assumption of 6% annual intermediate growth.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/AFFO	26.2	24.6	24.8	23.8	23.3	21.6	21.7	18.2	21.2	20.8	***26.4***	***20.0***
Avg. Yld.	---	---	---	1.3%	1.4%	1.5%	1.8%	2.2%	2.0%	2.1%	***1.8%***	***2.8%***

During the last decade American Tower exchanged hands at an average price-to-AFFO ratio of 22.6. We believe this premium valuation was warranted due to the fast growing nature of the business and its high visibility into future leases. Moving forward our growth rate assumption is a bit more cautious, but the same type of visibility still exists. As such, we are using 20 times AFFO as a beginning baseline for our estimate of fair value. At the current quotation, this would imply a fair amount of potential negative drag from the valuation. A view that is underscored by the idea that the share price has nearly doubled in the last two and a half years without commensurate business improvement.

The dividend also warrants special mention. Despite the yield not being particularly impressive, especially for a REIT, American Tower has raised its payout (often substantially) every quarter dating back to 2012.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	28%	32%	31%	41%	37%	39%	42%	***47%***	***55%***

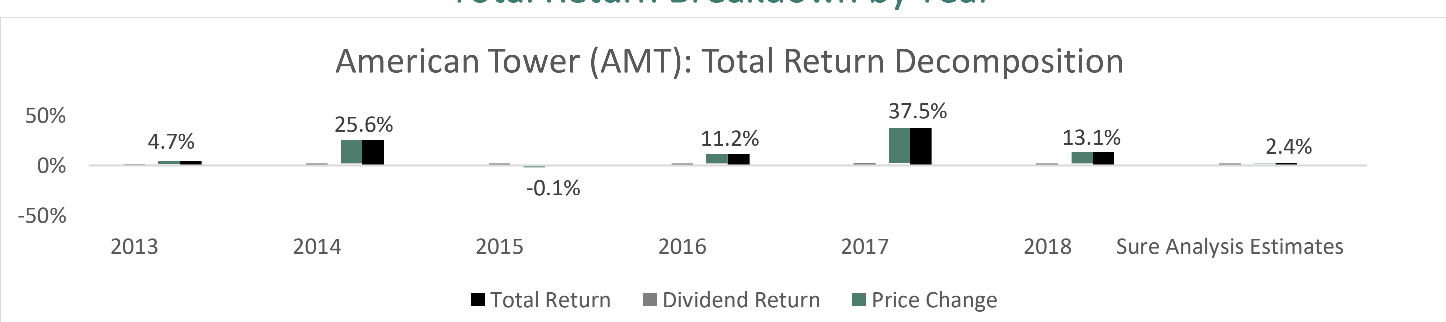
American Tower enjoys a competitive advantage in its leadership in the U.S market. Not only is the company entrenched in the space, but switching costs for the company's customers (once equipment is installed) are quite high. Meanwhile, American Tower enjoys economies of scale as it grows larger, with the cost to add additional tenants to a tower being effectively negligible. Further, unlike its U.S. counterparts, American Tower is geographically diversified around the globe. This can increase risk somewhat – for instance with currency translation and working different operating environments – but it insulates the firm from relying on a single country in lesser times.

As of the most recent report American Tower had long-term obligations stood at $19.1 billion, with net debt to adjusted EBITDA of 4.5x. This leverage is concerning, but is offset to a degree by the company's long-term leases and high switching costs.

Final Thoughts & Recommendation

American Tower has performed exceptionally well in the last decade and many of those trends that helped the company previously are still in the process of playing out today. However, the stock price more than reflects this in our view. We are forecasting total return potential of just 2.4% annually, stemming from 6% growth and a 1.8% dividend yield, offset by a 5.4% valuation drag. Our estimates could be too conservative should growth continue to develop or if shareholders are willing to pay a higher multiple for the security. However, at this juncture we are not willing to make either speculation and rate shares as a sell.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1724	1985	2444	2876	3361	4100	4772	5786	6664	7440
Gross Profit	1308	1511	1823	2153	2502	3006	3463	3995	4607	5262
Gross Margin	75.8%	76.1%	74.6%	74.9%	74.4%	73.3%	72.6%	69.1%	69.1%	70.7%
SG&A Exp.	202	230	289	327	416	447	498	543	637	733
D&A Exp.		461	556	644	800	1004	1285	1526	1716	2111
Operating Profit	672	784	920	1120	1214	1487	1613	1853	1998	1905
Operating Margin	39.0%	39.5%	37.7%	38.9%	36.1%	36.3%	33.8%	32.0%	30.0%	25.6%
Net Profit	247	373	396	637	551	825	685	956	1239	1236
Net Margin	14.3%	18.8%	16.2%	22.2%	16.4%	20.1%	14.4%	16.5%	18.6%	16.6%
Free Cash Flow	592	674	643	846	875	1160	1438	2019	2122	2835
Income Tax	183	182	125	107	60	63	158	156	31	-110

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	8520	10368	12242	14089	20284	21264	26904	30879	33214	33010
Cash & Equivalents	247	884	330	369	294	313	321	787	802	1209
Accounts Receivable	68	81	101	144	151	199	227	308	514	459
Goodwill & Int. Ass.	3845	4476	5171	6049	10425	10856	13930	16345	17422	16676
Total Liabilities	5202	6863	8832	10405	16694	17210	20191	23903	26386	27111
Accounts Payable	185	293	216	90	173	90	97	119	143	131
Long-Term Debt	4212	5587	7236	8753	14478	14540	17119	18534	20205	21160
Shareholder's Equity	3315	3501	3287	3573	3534	3954	6652	6764	6242	5336
D/E Ratio	1.27	1.60	2.20	2.45	4.10	3.68	2.57	2.74	3.24	3.97

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.9%	3.9%	3.5%	4.8%	3.2%	4.0%	2.8%	3.3%	3.9%	3.7%
Return on Equity	7.8%	10.9%	11.7%	18.6%	15.5%	22.0%	12.9%	14.3%	19.1%	21.4%
ROIC	3.3%	4.5%	4.0%	5.5%	3.6%	4.5%	3.2%	3.9%	4.7%	4.6%
Shares Out.	402	399	394	395	395	397	424	427	429	441
Revenue/Share	4.24	4.91	6.11	7.20	8.42	10.25	11.28	13.48	15.44	16.80
FCF/Share	1.45	1.67	1.61	2.12	2.19	2.90	3.40	4.70	4.92	6.40

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.