American Tower Corp. (AMT)

Updated February 26th, 2021 by Eli Inkrot

Key Metrics

Current Price:	$219	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$98 B
Fair Value Price:	$202	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	04/13/21
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Dividend Payment Date[1]:**	04/29/21
Dividend Yield:	2.2%	**5 Year Price Target**	$271	**Years Of Dividend Growth:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	19.8%

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 approximately 186,000 communications sites, in the United States and Internationally. Last year the $98 billion company generated $3.8 billion in Adjusted Funds from Operations (AFFO) attributable to stockholders.

On January 13th, 2021 American Tower announced it was acquiring Telxius Towers for approximately $9.4 billion.

On February 25th, 2021 American Tower reported Q4 and 2020 results for the period ending December 31st, 2020. For the quarter total revenue increased 10.3% to $2.123 billion, while property revenue increased 10.0% to $2.10 billion. Net income was down -36.5% to $362 million. Consolidated AFFO was up 8.9% to $936 million or $2.10 per share.

For the year, American Tower generated total revenue of $8.042 billion, up 6.1% compared to 2019 and above prior guidance. Property revenue was up 6.5% to $7.954 billion, while net income decreased -11.7% to $1.692 billion. Consolidated AFFO increased 7.6% to $3.788 billion, ahead of prior guidance, while AFFO per share equaled $8.49 versus $7.90 in 2019. The company ended the year with a net debt to EBITDA ratio of 5.0x.

American Tower also provided a 2021 outlook. For this year the company expects total property revenue of $8.5 billion to $8.65 billion, net income of $2.165 billion to $2.265 billion and consolidated AFFO of $4.06 billion to $4.16 billion. This implies ~$9.10 to ~$9.33 in AFFO per share for 2021. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	$2.42	$3.24	$3.42	$4.57	$4.45	$5.81	$6.72	$7.59	$7.90	$8.49	***$9.20***	***$12.31***
DPS	---	$0.90	$1.10	$1.40	$1.81	$2.17	$2.62	$3.15	$3.78	$4.53	***$4.84***	***$6.48***
Shares[2]	394	395	395	397	424	427	429	441	446	446	***448***	***460***

Note that we are using consolidated AFFO instead of earnings, as this more accurately captures the underlying profitability of the REIT. 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, carrier consolidation – such as the tie-up between Sprint and T-Mobile – reduces 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 with the company's size. Collectively, we are enthused about the business – and the continued trend toward more data usage – but we are somewhat cautious with our assumption of 5% annual intermediate term growth coming off a higher base for 2021.

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[1] Estimated date.

[2] In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/AFFO	24.8	23.8	23.3	21.6	21.7	18.2	21.2	20.8	30.4	26.3	***23.8***	***22.0***
Avg. Yld.	---	1.3%	1.4%	1.5%	1.8%	2.2%	2.0%	2.1%	1.6%	2.0%	***2.2%***	***2.4%***

During the last decade American Tower exchanged hands at an average price-to-AFFO ratio of 23. 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 22 times AFFO as a beginning baseline for our estimate of fair value. At the current quotation, this would imply a small potential negative drag from the valuation.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	28%	32%	31%	41%	37%	39%	42%	48%	53%	***53%***	***53%***

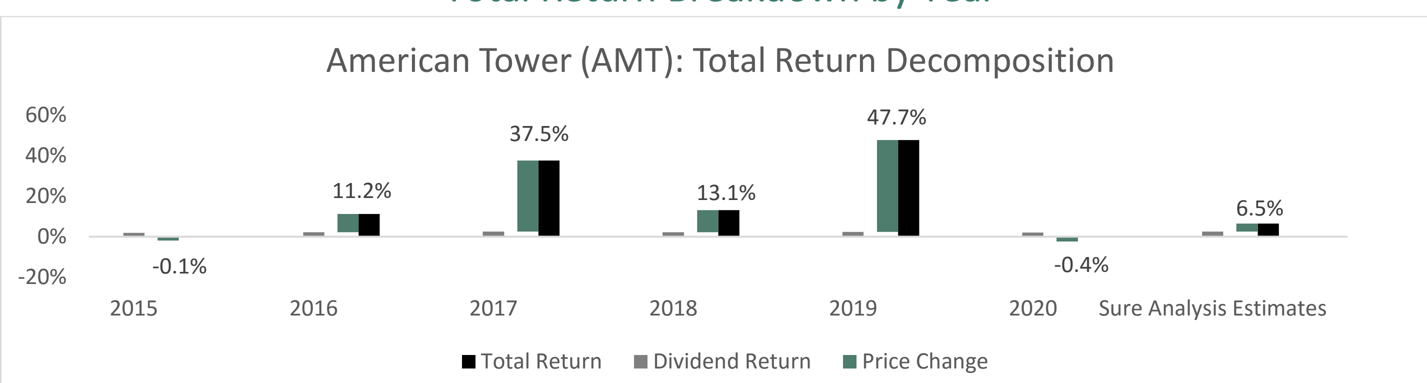
American Tower enjoys a competitive advantage in its leadership in the U.S market. Not only is the company entrenched in the space but switching costs for the company's customers (once equipment is installed) are quite high. Meanwhile, American Tower enjoys economies of scale as it grows larger, with 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 in 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 of $28.5 billion, with net debt to adjusted EBITDA of 5.0x. This leverage is moderately elevated but is offset by the company's long-term leases.

Final Thoughts & Recommendation

Shares are down slightly since our last report. 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 reflects this in our view. We are forecasting total return potential of 6.5% annually, stemming from 6% growth and a 2.2% dividend yield, offset by a small valuation drag. Our estimates could be too conservative should growth continue to develop at a faster rate 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. Shares earn a hold rating.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2444	2876	3361	4100	4772	5786	6664	7440	7580
Gross Profit	1823	2153	2502	3006	3463	3995	4607	5262	5364
Gross Margin	74.6%	74.9%	74.4%	73.3%	72.6%	69.1%	69.1%	70.7%	70.8%
SG&A Exp.	289	327	416	447	498	543	637	733	730
D&A Exp.	556	644	800	1004	1285	1526	1716	2111	1778
Operating Profit	920	1120	1214	1487	1613	1853	1998	1905	2688
Operating Margin	37.7%	38.9%	36.1%	36.3%	33.8%	32.0%	30.0%	25.6%	35.5%
Net Profit	396	637	551	825	685	956	1239	1236	1888
Net Margin	16.2%	22.2%	16.4%	20.1%	14.4%	16.5%	18.6%	16.6%	24.9%
Free Cash Flow	643	846	875	1160	1438	2019	2122	2835	2761
Income Tax	125	107	60	63	158	156	31	-110	-0.2

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	12242	14089	20284	21264	26904	30879	33214	33010	42802
Cash & Equivalents	330	369	294	313	321	787	802	1209	1501
Accounts Receivable	101	144	151	199	227	308	514	459	462
Goodwill & Int. Ass.	5171	6049	10425	10856	13930	16345	17422	16676	18497
Total Liabilities	8832	10405	16694	17210	20191	23903	26386	27111	37311
Accounts Payable	216	90	173	90	97	119	143	131	148
Long-Term Debt	7236	8753	14478	14540	17119	18534	20205	21160	24055
Shareholder's Equity	3287	3573	3534	3954	6652	6764	6242	5336	5055
D/E Ratio	2.20	2.45	4.10	3.68	2.57	2.74	3.24	3.97	4.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.5%	4.8%	3.2%	4.0%	2.8%	3.3%	3.9%	3.7%	5.0%
Return on Equity	11.7%	18.6%	15.5%	22.0%	12.9%	14.3%	19.1%	21.4%	36.3%
ROIC	4.0%	5.5%	3.6%	4.5%	3.2%	3.9%	4.7%	4.6%	6.7%
Shares Out.	394	395	395	397	424	427	429	441	446
Revenue/Share	6.11	7.20	8.42	10.25	11.28	13.48	15.44	16.80	17.01
FCF/Share	1.61	2.12	2.19	2.90	3.40	4.70	4.92	6.40	6.20

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