SBA Communications Corporation (SBAC)

Updated August 2nd, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$342	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$37.4B
Fair Value Price:	$242	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/25/2021
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Dividend Payment Date:**	09/23/2021
Dividend Yield:	0.7%	**5 Year Price Target**	$390	**Years Of Dividend Growth:**	2
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	25%

Overview & Current Events

SBA Communications Corporation a leading independent owner and operator of wireless communications infrastructure, primarily including tower structures that support antennas used for wireless communications. The company owns 33,854 towers which it leases to multiple wireless telecom providers. SBA also owns a site development business, through which it assists telecom providers in developing and maintaining their own wireless service networks. The company generates over $2 billion in annual revenues and is headquartered in Boca Raton, Florida.

On August 2nd, 2021, SBA Communications reported its Q2 results for the quarter ended June 30th, 2021. The company achieved record revenues of $575.5 million, 13.5% higher year-over-year, powered by a larger portfolio of towers and higher leasing activity. Specifically, during the quarter SBA acquired 57 communication sites for total cash consideration of $67.0 million and also built 98 towers on its own. Consequently, AFFO came in at $293.5 million, 12.9% higher YoY amid the company achieving operating efficiencies, while AFFO grew by 15.2% YoY on a per-share basis to $2.64 due to the company repurchasing around 2% of its shares outstanding during the period.

Management remains confident in the company's prospects. All of its U.S. carrier customers are actively engaged in building out their 5G networks, and SBA is committed to helping them achieve their goals. Hence, the company raised its FY2021 outlook, expecting total revenues of $2.26-$2.30 billion (previously $2.22- $2.26 billion) and AFFO/share of $10.32-$10.72 (previously $10.15-$10.57). Accordingly, we have used the midpoint of $10.52 in our calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/shr[1]	$2.36	$3.09	$4.10	$5.23	$5.69	$5.95	$6.95	$7.60	$8.48	$9.43	***$10.52***	***$16.94***
DPS	---	---	---	---	---	---	---	---	$0.74	$1.86	***$2.32***	***$5.77***
Shares[2]	111.6	120.3	127.8	128.9	127.8	124.4	119.9	114.9	112.8	111.5	***111.3***	***100.0***

SBA Communications displays an excellent record of AFFO/share growth powered by continuous development and acquisitions of new towers, increased leasing activity, and rate hikes (typically in the range of 3-4% per year). Additionally, the company maximizes its tower capacity by accommodating multiple tenants per tower structure without incurring additional costs just by placing additional antennas. SBA currently accommodates around 2 tenants per tower, with the capacity for more to be added going forward. As a result, we forecast AAFO/share of 10% in the medium-term, powered by the aforementioned drivers, as well as stock buybacks, which are rare for REITs, and showcase the company's ability to self-fund its future growth without diluting shareholders.

Despite its REIT status, due to SBA reporting losses amid reinvesting the majority of its gross profits over the past decade, the company was not required to pay dividends. Dividend payments were initiated only recently and are growing rapidly amid starting out from humble levels. The previous two quarterly hikes were 25.6% and 25%,

[1] The metric is used due to real estate-related depreciation, amortization, and accretion as well as other meaningful adjustments.
[2] Share count is in millions.
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.

respectively, with ample room for further growth. We forecast DPS growth of around 20% in the medium-term, as the company gradually pays out a larger chunk of its bottom line to shareholders.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.1	22.0	19.5	17.2	20.7	16.6	20.1	20.4	26.5	31.8	***32.5***	***23.0***
Avg. Yld.	---	---	---	---	---	---	---	---	0.3%	0.6%	***0.7%***	***1.5%***

SBA Communications has historically traded at around 20 times its underlying AFFO. Amid increasing growth prospects, the 5G rollout, and economies of scale expanding its profitability potential, the multiple has materially increased to around 32.5X. While we share the market's excitement to SBA's growth potential, we believe shares are overvalued and forecast a fair multiple of around 23X AFFO. Also, due to the company's humble dividend payments and expanded valuation, the stock's yield is and should be expected to remain only a token despite its rapid growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

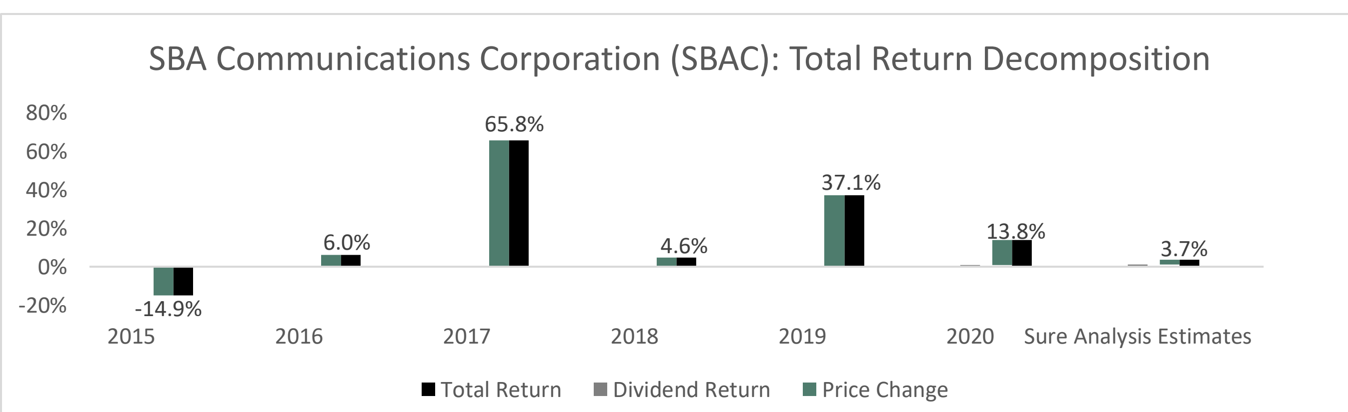
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	---	9%	20%	***22%***	***34%***

We consider SBA's dividend quite safe, widely covered by the underlying AFFO. The company enjoys several qualities, including a highly scalable business model, credit-worthy tenant base of telecom majors, contractually secured and predictable revenues, and a clear runaway for gradual growth ahead. The company also enjoys a distinct competitive advantage along with the handful of other tower REITs which have formed an oligopoly in the space, which has become quite expensive to penetrate into. Unlike traditional real estate properties, whose tenants may struggle to pay rent upon a potential recession, telecom companies enjoy extremely resilient revenues, while the essential and mission-critical nature of telecommunication ensures no adverse impact on SBA's performance. This was proven both during the Great Financial Crisis and the COVID-19 pandemic when revenues kept on growing during both periods.

Final Thoughts & Recommendation

SBA has produced great returns to its shareholders over the past decade, powered by consistent growth in financials. The recent dividend initiation, while tiny, should gradually increasingly contribute to total returns. Our growth forecasts remain strong, and the company enjoys unique qualities. Still, we consider shares significantly overvalued, which could materially pressure future total returns. We forecast annualized returns of around 3.7% in the medium term. Hence, SBA Communications earns a sell rating at the moment despite its undoubtedly high qualities.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	698	954	1,305	1,527	1,638	1,633	1,728	1,866	2,015	2,083
Gross Profit	495	675	897	1,099	1,194	1,212	1,281	1,397	1,522	1,607
Gross Margin	70.9%	70.7%	68.7%	71.9%	72.9%	74.2%	74.2%	74.9%	75.5%	77.1%
SG&A Exp.	63	72	85	103	115	143	131	143	193	194
D&A Exp.	309	408	533	627	660	638	643	672	697	722
Operating Profit	123	194	278	368	419	431	508	580	629	689
Operating Margin	17.7%	20.3%	21.3%	24.1%	25.6%	26.4%	29.4%	31.1%	31.2%	33.1%
Net Profit	(126)	(181)	(56)	(24)	(176)	76	104	47	147	24
Net Margin	-18.1%	-19.0%	-4.3%	-1.6%	-10.7%	4.7%	6.0%	2.5%	7.3%	1.2%
Free Cash Flow	122	230	329	463	514	603	671	701	816	997
Income Tax	2	7	(1)	9	9	11	13	4	40	(42)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,606	6,616	6,783	7,841	7,313	7,361	7,320	7,214	9,760	9,158
Cash & Equivalents	47	233	122	39	118	146	69	143	108	309
Accounts Receivable	22	39	71	104	83	78	91	111	132	74
Goodwill & Int. Ass.	1,640	3,134	3,387	4,190	3,735	3,657	3,598	3,331	3,627	3,156
Total Liabilities	3,618	5,963	6,426	8,502	9,019	9,357	9,919	10,591	13,427	13,982
Accounts Payable	13	28	24	43	27	28	33	34	32	110
Long-Term Debt	3,354	5,356	5,877	7,861	8,452	8,776	9,311	9,939	10,334	11,096
Shareholder's Equity	(11)	653	357	(661)	(1,706)	(1,996)	(2,599)	(3,377)	(3,667)	(4,824)
D/E Ratio	(296.5)	8.20	16.46	(11.90)	(4.95)	(4.40)	(3.58)	(2.94)	(2.82)	(2.30)

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-3.6%	-3.5%	-0.8%	-0.3%	-2.3%	1.0%	1.4%	0.7%	1.7%	0.3%
Return on Equity	-82.7%	-56.4%	-11.1%							
ROIC	-3.9%	-3.9%	-0.9%	-0.4%	-2.5%	1.1%	1.5%	0.7%	2.2%	0.4%
Shares Out.	111.6	120.3	127.8	128.9	127.8	124.4	119.9	114.9	112.8	111.5
Revenue/Share	6.26	7.93	10.21	11.84	12.82	13.05	14.28	16.01	17.57	18.36
FCF/Share	1.09	1.91	2.57	3.59	4.02	4.81	5.55	6.01	7.11	8.79

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