



American Tower Corp. (AMT)

Updated April 28th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$253	5 Year CAGR Estimate:	6.3%	Market Cap:	\$118 B
Fair Value Price:	\$231	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	4/12/22
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date¹:	4/29/22
Dividend Yield:	2.2%	5 Year Price Target	\$309	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

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 220,000 communications sites, in the United States and Internationally. Last year the \$118 billion company generated \$4.3 billion in Adjusted Funds from Operations (AFFO) attributable to stockholders.

In late April, American Tower reported (4/27/22) financial results for the first quarter of fiscal 2022. It grew its revenue 23% and its property revenue 22% over the prior year's quarter thanks to the construction of new sites and some acquisitions. Consolidated AFFO per share grew 4%, from \$2.46 to \$2.55, and beat the analysts' consensus by \$0.07. The trust benefits from the ramp-up of 5G in the U.S. and Europe and the expansion of 4G in earlier-stage markets. The company's net-debt-to-EBITDA ratio decreased from 6.8 to 6.4, but remains too high for our safety standards.

American Tower slightly improved its guidance for 2022. It expects to grow total property revenue and consolidated AFFO by 14.0% (vs. 13.2% previously) and 8.8% (vs. 8.7% previously), respectively. Given the strong business momentum of the company, we have raised our forecast for its earnings-per-share in 2022 from \$10.10 to \$10.50.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	\$3.24	\$3.42	\$4.57	\$4.45	\$5.81	\$6.72	\$7.59	\$7.90	\$8.49	\$9.43	\$10.50	\$14.05
DPS	\$0.90	\$1.10	\$1.40	\$1.81	\$2.17	\$2.62	\$3.15	\$3.78	\$4.53	\$5.21	\$5.60	\$7.49
Shares²	395	395	397	424	427	429	441	446	446	457	460	500

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 has also been significantly expanding abroad. 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 some risks that could formulate in the future. 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, although the company has been actively completing acquisitions. Overall, we expect the REIT to grow its AFFO per share by 6% per year on average over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/AFFO	23.8	23.3	21.6	21.7	18.2	21.2	20.8	30.4	26.3	24.7	24.1	22.0
Avg. Yld.	1.3%	1.4%	1.5%	1.8%	2.2%	2.0%	2.1%	1.6%	2.0%	2.2%	2.2%	2.4%

¹ Estimated date.

² In millions.

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During the last decade, American Tower exchanged hands at an average price-to-AFFO ratio of 23.2. 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. We assume a fair price-to-AFFO ratio of 22.0 for the stock. If the stock trades at our assumed fair valuation level in five years, it will incur a -1.8% annualized drag in its returns.

The dividend of American Tower warrants special mention. Despite the yield not being particularly impressive, especially for a REIT, American Tower has raised its dividend (often substantially) every single quarter since 2012.

Safety, Quality, Competitive Advantage, & Recession Resiliency

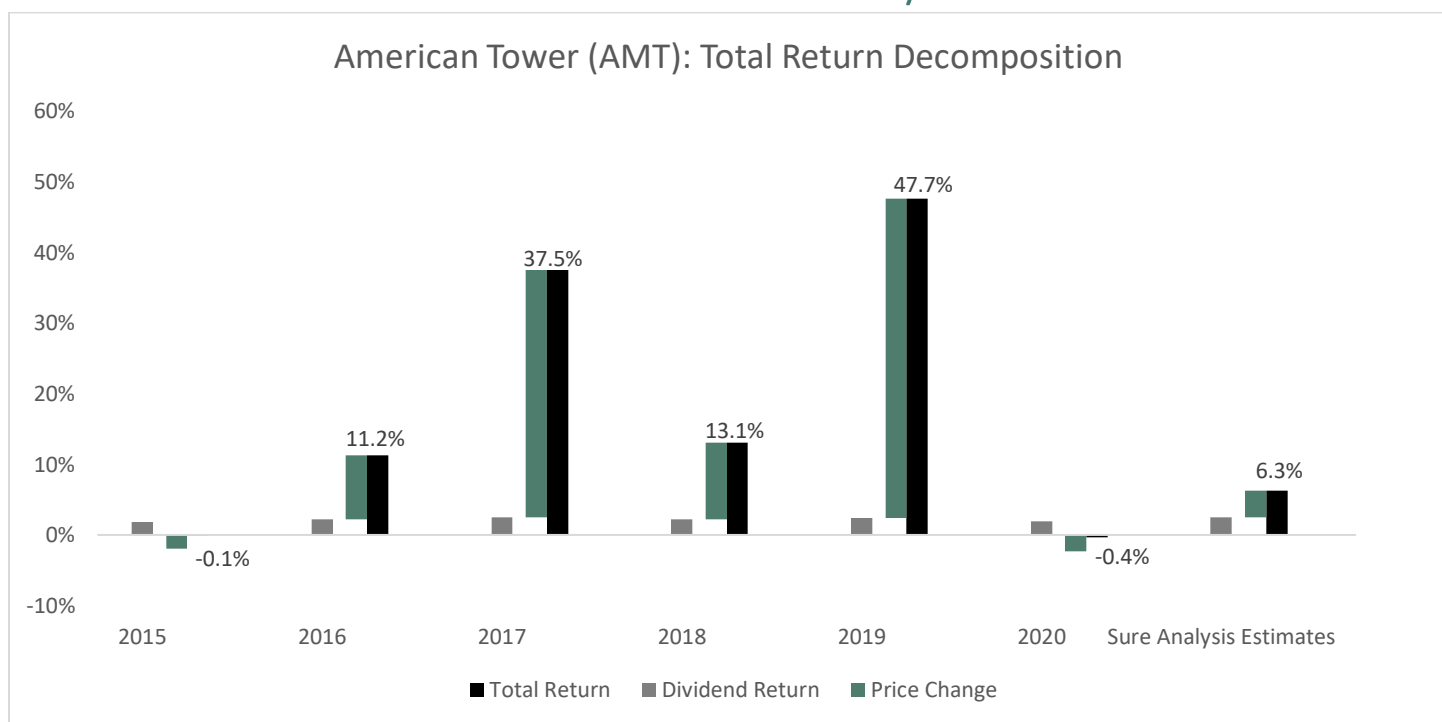
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	28%	32%	31%	41%	37%	39%	42%	48%	53%	55%	53%	53%

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 somewhat increase risk – 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.

Final Thoughts & Recommendation

American Tower has performed exceptionally well in the last decade and many of those trends that helped the company in the past remain in place. Moreover, the stock has corrected -17% off its peak about eight months ago, partly due to the correction of the broad market. As a result, it could now offer a 6.3% average annual rate over the next five years, stemming from 6.0% growth and a 2.2% dividend yield, partly offset by a -1.8% valuation drag. It thus receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2876	3361	4100	4772	5786	6664	7440	7580	8042	9,357
Gross Profit	2153	2502	3006	3463	3995	4607	5262	5364	5814	6,675
Gross Margin	74.9%	74.4%	73.3%	72.6%	69.1%	69.1%	70.7%	70.8%	64.5%	71.3%
SG&A Exp.	327	416	447	498	543	637	733	730	779	812
D&A Exp.	644	800	1004	1285	1526	1716	2111	1778	1882	2,333
Operating Profit	1120	1214	1487	1613	1853	1998	1905	2688	3128	3,328
Operating Margin	38.9%	36.1%	36.3%	33.8%	32.0%	30.0%	25.6%	35.5%	38.9%	35.6%
Net Profit	637	551	825	685	956	1239	1236	1888	1691	2,568
Net Margin	22.2%	16.4%	20.1%	14.4%	16.5%	18.6%	16.6%	24.9%	21.0%	27.4%
Free Cash Flow	846	875	1160	1438	2019	2122	2835	2761	2850	3,443
Income Tax	107	60	63	158	156	31	-110	-0.2	130	262

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	14089	20284	21264	26904	30879	33214	33010	42802	47230	69,888
Cash & Equivalents	369	294	313	321	787	802	1209	1501	1746	1,950
Accounts Receivable	144	151	199	227	308	514	459	462	512	729
Goodwill & Int. Ass.	6049	10425	10856	13930	16345	17422	16676	18497	21120	34,077
Total Liabilities	10405	16694	17210	20191	23903	26386	27111	37311	42670	60,818
Accounts Payable	90	173	90	97	119	143	131	148	139	272
Long-Term Debt	8753	14478	14540	17119	18534	20205	21160	24055	29290	43,254
Shareholder's Equity	3573	3534	3954	6652	6764	6242	5336	5055	4094	5,081
LTD/E Ratio	2.45	4.10	3.68	2.57	2.74	3.24	3.97	4.76	7.16	8.51

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.8%	3.2%	4.0%	2.8%	3.3%	3.9%	3.7%	5.0%	3.8%	4.4%
Return on Equity	18.6%	15.5%	22.0%	12.9%	14.3%	19.1%	21.4%	36.3%	37.0%	56.0%
ROIC	5.5%	3.6%	4.5%	3.2%	3.9%	4.7%	4.6%	6.7%	5.3%	5.9%
Shares Out.	395	395	397	424	427	429	441	446	446	457
Revenue/Share	7.20	8.42	10.25	11.28	13.48	15.44	16.80	17.01	38.92	20.64
FCF/Share	2.12	2.19	2.90	3.40	4.70	4.92	6.40	6.20	6.01	7.60

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

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