SBA Communications Corporation (SBAC)

Updated April 26th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$360	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$38.8 B
Fair Value Price:	$274	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	05/18/2022
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	06/14/2022
Dividend Yield:	0.8%	**5 Year Price Target**	$441	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating**	Hold

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 36,017 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 April 25th, 2022, SBA Communications reported its Q1 results for the period ending March 31st, 2022. The company posted record revenues of $619.77 million, 12.9% higher year-over-year, driven by a larger portfolio of towers and higher leasing activity. Specifically, during the quarter SBA acquired 1,807 communication sites for total cash consideration of $215.4 million and also constructed 86 towers on its own. Amid stable operating and interest expenses, AFFO also grew by 13.3% to $324.3 million. AFFO grew 14.7% year-over-year on a per-share basis to $2.96, boosted by continuous buybacks. SBA repurchased $431.6 million worth of stock during Q1.

Subsequent to the quarter-end, SBAC purchased or is under contract to purchase approximately 358 communication sites for an aggregate consideration of approximately $177.1 million, suggesting its growth pipeline is being well sustained. Following strong operating momentum, management boosted its FY2022 outlook, expecting site leasing revenues between $2.27 and $2.29 billion and AFFO/share between $11.72 and $12.09 (previously $11.48 and $11.85). We have used the midpoint of $11.90 in our calculations, which implies a growth of 10.8%. Still, we continue to find management's outlook rather conservative. Outlook is likely to be boosted once again through the coming quarters.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/shr[1]	$3.09	$4.10	$5.23	$5.69	$5.95	$6.95	$7.60	$8.48	$9.43	$10.74	***$11.90***	***$19.17***
DPS	---	---	---	---	---	---	---	$0.74	$1.86	$2.32	***$2.84***	***$7.07***
Shares[2]	120.3	127.8	128.9	127.8	124.4	119.9	114.9	112.8	111.5	109.3	***108.0***	***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 in 2019 and are growing

[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.

rapidly amid starting out from humble levels. The previous two quarterly hikes were 25% and 22.4%, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	22.0	19.5	17.2	20.7	16.6	20.1	20.4	26.5	31.8	29.3	***30.3***	***23.0***
Avg. Yld.	---	---	---	---	---	---	---	0.3%	0.6%	0.7%	***0.8%***	***1.6%***

SBA Communications has historically traded at around 22.5 times its underlying AFFO. Due to improving growth prospects, the 5G rollout, and economies of scale expanding its profitability potential, investors have historically attached a premium price tag to the stock. We believe that a multiple around 23x AFFO makes for a fair medium-term valuation. Also, due to the company's humble dividend payments and premium valuation, the stock's yield is -and should be expected to remain- only a token to total shareholder returns despite its rapid growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

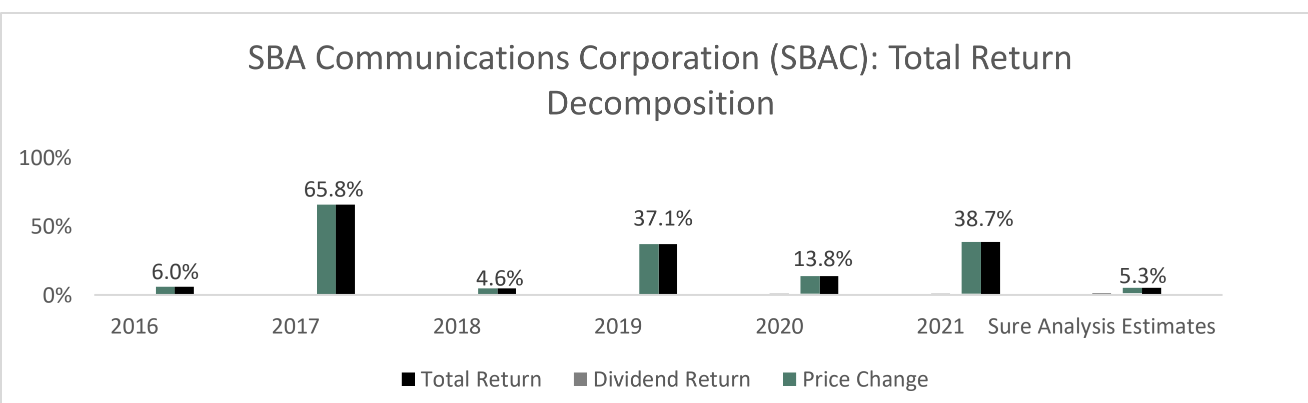
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	9%	20%	22%	***24%***	***37%***

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 current dividend, while tiny, should gradually increasingly contribute to total returns. Our growth forecasts remain strong, and the company enjoys unique qualities. However, possible valuation headwinds could pressure future total returns. We forecast annualized returns of around 5.3% in the medium-term. Thus, we rate SBA Communications a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	954	1,305	1,527	1,638	1,633	1,728	1,866	2,015	2,083	2,309
Gross Profit	675	897	1,099	1,194	1,212	1,281	1,397	1,522	1,607	1,763
Gross Margin	70.7%	68.7%	71.9%	72.9%	74.2%	74.2%	74.9%	75.5%	77.1%	76.4%
SG&A Exp.	72	85	103	115	143	131	143	193	194	220
D&A Exp.	408	533	627	660	638	643	672	697	722	700
Operating Profit	194	278	368	419	431	508	580	629	689	841
Operating Margin	20.3%	21.3%	24.1%	25.6%	26.4%	29.4%	31.1%	31.2%	33.1%	36.4%
Net Profit	(181)	(56)	(24)	(176)	76	104	47	147	24	238
Net Margin	-19.0%	-4.3%	-1.6%	-10.7%	4.7%	6.0%	2.5%	7.3%	1.2%	10.3%
Free Cash Flow	230	329	463	514	603	671	701	816	997	1,056
Income Tax	7	(1)	9	9	11	13	4	40	(42)	15

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,616	6,783	7,841	7,313	7,361	7,320	7,214	9,760	9,158	9,802
Cash & Equivalents	233	122	39	118	146	69	143	108	309	367
Accounts Receivable	39	71	104	83	78	91	111	132	74	102
Goodwill & Int. Ass.	3,134	3,387	4,190	3,735	3,657	3,598	3,331	3,627	3,156	2,803
Total Liabilities	5,963	6,426	8,502	9,019	9,357	9,919	10,591	13,427	13,982	15,090
Accounts Payable	28	24	43	27	28	33	34	32	110	34
Long-Term Debt	5,356	5,877	7,861	8,452	8,776	9,311	9,939	10,334	11,096	12,300
Shareholder's Equity	653	357	(661)	(1,706)	(1,996)	(2,599)	(3,377)	(3,667)	(4,824)	(5,283)
LTD/E Ratio	8.20	16.46	(11.90)	(4.95)	(4.40)	(3.58)	(2.94)	(2.82)	(2.30)	(2.33)

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-3.5%	-0.8%	-0.3%	-2.3%	1.0%	1.4%	0.7%	1.7%	0.3%	2.5%
Return on Equity	-56.4%	-11.1%	---	---	---	---	---	---	---	---
ROIC	-3.9%	-0.9%	-0.4%	-2.5%	1.1%	1.5%	0.7%	2.2%	0.4%	3.6%
Shares Out.	120.3	127.8	128.9	127.8	124.4	119.9	114.9	112.8	111.5	111
Revenue/Share	7.93	10.21	11.84	12.82	13.05	14.28	16.01	17.57	18.36	20.77
FCF/Share	1.91	2.57	3.59	4.02	4.81	5.55	6.01	7.11	8.79	9.50

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