



American Tower Corp. (AMT)

Updated October 27th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$175	5 Year CAGR Estimate:	13.3%	Market Cap:	\$75.5 B
Fair Value Price:	\$216	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	12/26/23
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.3%	Dividend Payment Date¹:	12/31/23
Dividend Yield:	3.7%	5 Year Price Target	\$289	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

American Tower was founded in 1995 and 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 \$75.5 billion company generated \$4.5 billion in Adjusted Funds from Operations (AFFO) attributable to stockholders.

In late October, American Tower reported (10/26/23) financial results for the third quarter of fiscal 2023. It grew its revenue 5.5% over last year's quarter, as its customers keep investing in their 5G networks and data consumption keeps growing. Consolidated AFFO per share dipped -5%, from \$3.46 to \$3.29, mostly due to higher interest expense, but exceeded the analysts' consensus by \$0.78. The REIT benefits from the ramp-up of 5G in the U.S. and Europe. However, it has decelerated in the last five quarters. Its net-debt-to-EBITDA ratio improved from 5.3 to 5.0 but remains somewhat high for our safety standards. American Tower slightly improved its guidance for 2023. It expects 4.5% growth of property revenue (vs. 3.9% growth in previous guidance) and raised its guidance for consolidated AFFO per share from \$9.61-\$9.79 to \$9.72-\$9.85, implying 0.3% growth at the mid-point. We have raised our forecast from \$9.70 to \$9.80.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	\$3.42	\$4.57	\$4.45	\$5.81	\$6.72	\$7.59	\$7.90	\$8.49	\$9.43	\$9.76	\$9.80	\$13.11
DPS	\$1.10	\$1.40	\$1.81	\$2.17	\$2.62	\$3.15	\$3.78	\$4.53	\$5.21	\$5.86	\$6.48	\$8.67
Shares²	395	397	424	427	429	441	446	446	457	467	467	540

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/AFFO	23.3	21.6	21.7	18.2	21.2	20.8	30.4	26.3	24.7	24.6	17.9	22.0
Avg. Yld.	1.4%	1.5%	1.8%	2.2%	2.0%	2.1%	1.6%	2.0%	2.2%	2.4%	3.7%	3.0%

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 23.3. We believe this premium valuation was warranted thanks 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 enjoy a 4.3% annualized gain in its returns.

The dividend of American Tower warrants special mention. Despite the yield not being particularly impressive, especially for a REIT, American Tower raised its dividend (often substantially) every single quarter during 2012-2022. This streak ended in the first quarter of 2023, as the company paid the same dividend as the one in the previous quarter.

Safety, Quality, Competitive Advantage, & Recession Resiliency

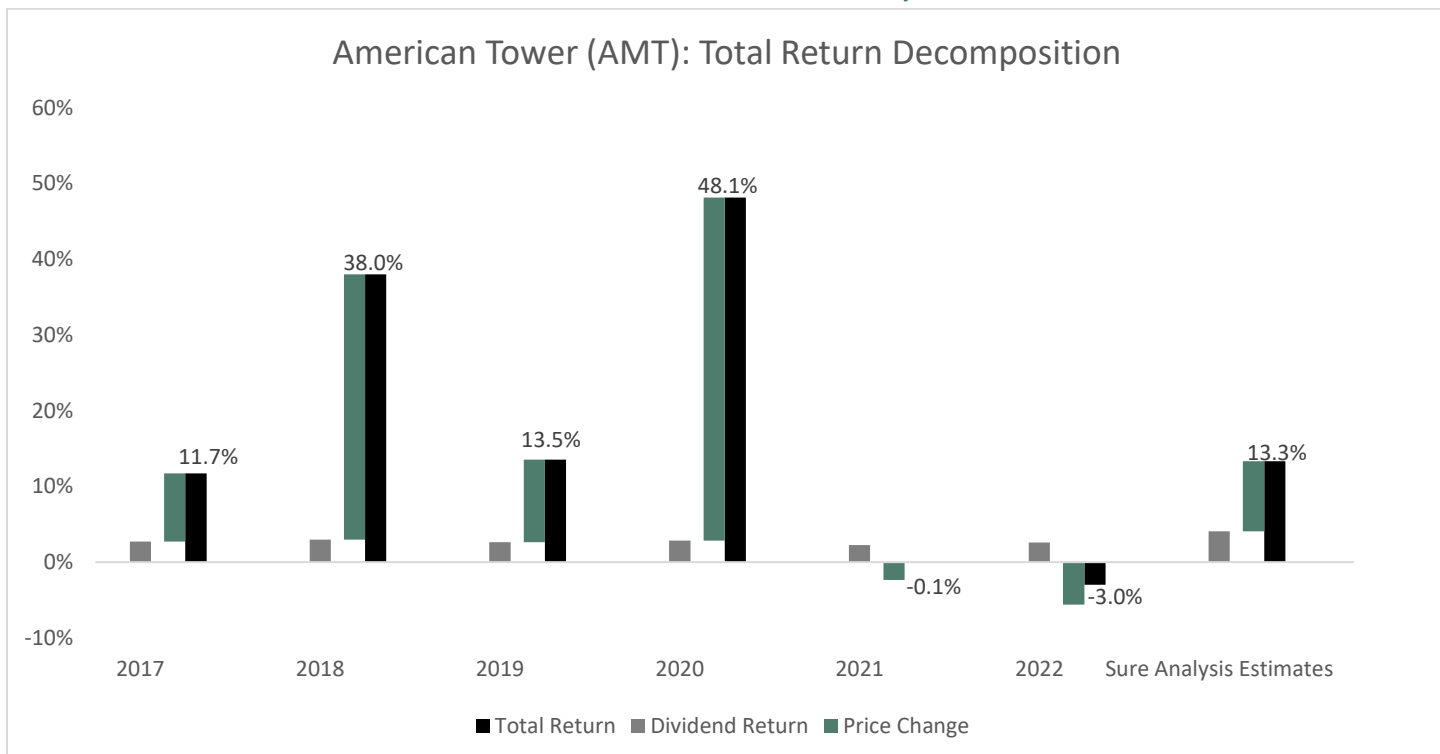
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	31%	41%	37%	39%	42%	48%	53%	55%	60%	66%	66%

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 essentially 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. The stock could offer a 13.3% average annual rate over the next five years, stemming from 6.0% growth, a 3.7% dividend yield and a 4.3% valuation tailwind. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3361	4100	4772	5786	6664	7440	7580	8042	9,357	10,711
Gross Profit	2502	3006	3463	3995	4607	5262	5364	5814	6,675	7,447
Gross Margin	74.4%	73.3%	72.6%	69.1%	69.1%	70.7%	70.8%	64.5%	71.3%	69.5%
SG&A Exp.	416	447	498	543	637	733	730	779	812	972
D&A Exp.	800	1004	1285	1526	1716	2111	1778	1882	2,333	3,355
Operating Profit	1214	1487	1613	1853	1998	1905	2688	3128	3,328	3,037
Operating Margin	36.1%	36.3%	33.8%	32.0%	30.0%	25.6%	35.5%	38.9%	35.6%	28.4%
Net Profit	551	825	685	956	1239	1236	1888	1691	2,568	1,766
Net Margin	16.4%	20.1%	14.4%	16.5%	18.6%	16.6%	24.9%	21.0%	27.4%	16.5%
Free Cash Flow	875	1160	1438	2019	2122	2835	2761	2850	3,443	1,823
Income Tax	60	63	158	156	31	-110	-0.2	130	262	24

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20284	21264	26904	30879	33214	33010	42802	47230	69,888	67,195
Cash & Equivalents	294	313	321	787	802	1209	1501	1746	1,950	2,028
Accounts Receivable	151	199	227	308	514	459	462	512	729	758
Goodwill & Int. Ass.	10425	10856	13930	16345	17422	16676	18497	21120	34,077	30,940
Total Liabilities	16694	17210	20191	23903	26386	27111	37311	42670	60,818	54,786
Accounts Payable	173	90	97	119	143	131	148	139	272	219
Long-Term Debt	14478	14540	17119	18534	20205	21160	24055	29290	43,254	38,670
Shareholder's Equity	3534	3954	6652	6764	6242	5336	5055	4094	5,081	5,572
LTD/E Ratio	4.10	3.68	2.57	2.74	3.24	3.97	4.76	7.16	8.51	6.94

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.2%	4.0%	2.8%	3.3%	3.9%	3.7%	5.0%	3.8%	4.4%	2.6%
Return on Equity	15.5%	22.0%	12.9%	14.3%	19.1%	21.4%	36.3%	37.0%	56.0%	33.1%
ROIC	3.6%	4.5%	3.2%	3.9%	4.7%	4.6%	6.7%	5.3%	5.9%	3.4%
Shares Out.	395	397	424	427	429	441	446	446	457	463
Revenue/Share	8.42	10.25	11.28	13.48	15.44	16.80	17.01	38.92	20.64	23.15
FCF/Share	2.19	2.90	3.40	4.70	4.92	6.40	6.20	6.01	7.60	3.94

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

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