American Tower Corp. (AMT)

Updated February 28th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	$187	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$87.5 B
Fair Value Price:	$227	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	4/11/24
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.9%	**Dividend Payment Date[1]:**	4/26/24
Dividend Yield:	3.6%	**5 Year Price Target**	$289	**Years Of Dividend Growth:**	13
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 224,000 communications sites, in the United States and Internationally. Last year, the $87.5 billion company generated $4.6 billion in Adjusted Funds from Operations (AFFO) attributable to stockholders.

In late February, American Tower reported (2/27/24) financial results for the fourth quarter of fiscal 2023. It grew its revenue 3% over the prior year's quarter, as its customers keep investing in their 5G networks and data consumption keeps growing. Consolidated AFFO per share dipped -2%, from $2.34 to $2.29, mostly due to higher interest expense, and missed the analysts' consensus by $0.03. The REIT benefits from the ramp-up of 5G in the U.S. and Europe. However, it has decelerated in the last six quarters. Its net-debt-to-EBITDA ratio rose from 5.0 to 5.2 and remains somewhat high for our safety standards. American Tower provided decent guidance for 2024. It expects 1% growth of property revenue and consolidated AFFO per share of $10.21-$10.45, implying 5% growth at the mid-point. We expect AFFO per share of about $10.30.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	$4.57	$4.45	$5.81	$6.72	$7.59	$7.90	$8.49	$9.43	$9.76	$9.87	***$10.30***	***$13.15***
DPS	$1.40	$1.81	$2.17	$2.62	$3.15	$3.78	$4.53	$5.21	$5.86	$6.45	***$6.80***	***$8.65***
Shares[2]	397	424	427	429	441	446	446	457	467	467	***468***	***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 5% per year on average over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/AFFO	21.6	21.7	18.2	21.2	20.8	30.4	26.3	24.7	24.6	19.7	***18.2***	***22.0***
Avg. Yld.	1.5%	1.8%	2.2%	2.0%	2.1%	1.6%	2.0%	2.2%	2.4%	3.3%	***3.6%***	***3.0%***

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[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 22.9. 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 3.9% 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, but the REIT resumed raising its dividend quarter after quarter in the second quarter of 2023.

Safety, Quality, Competitive Advantage, & Recession Resiliency

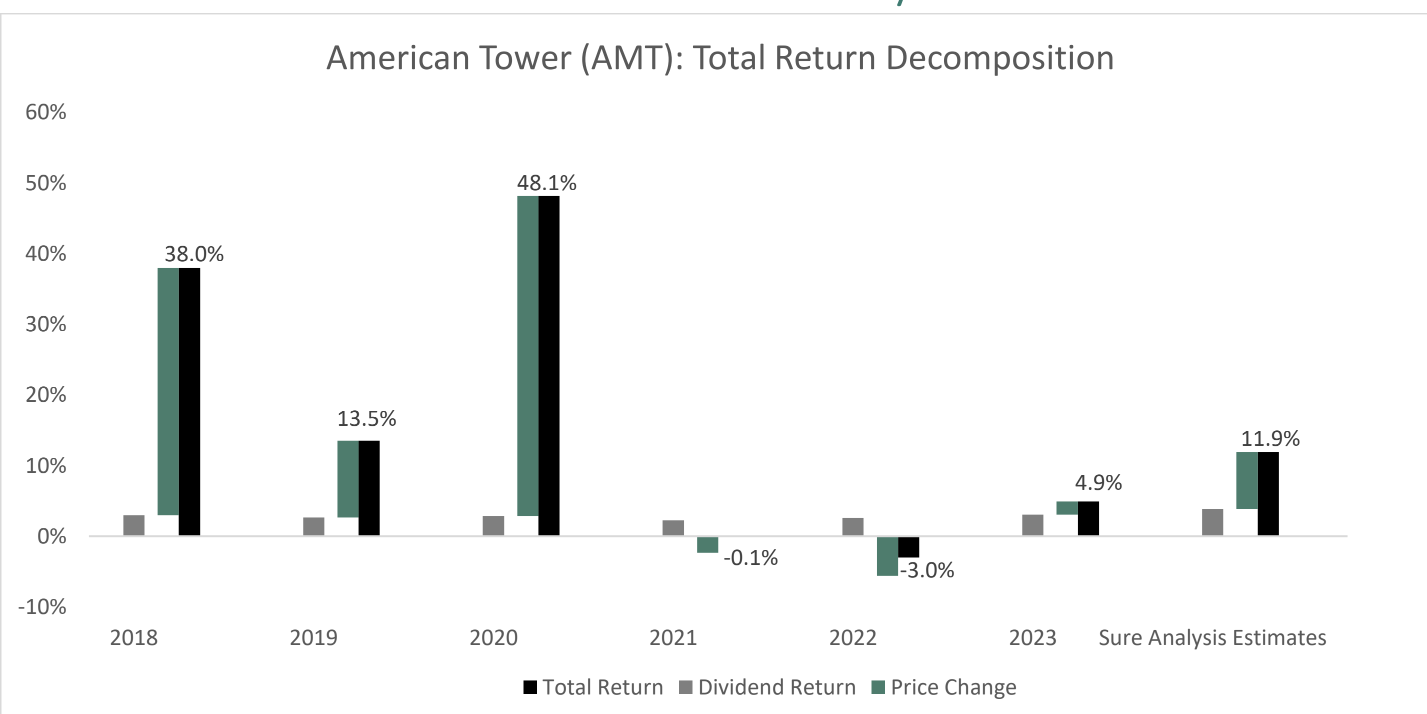
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	41%	37%	39%	42%	48%	53%	55%	60%	65%	***66%***	***66%***

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 an 11.9% average annual rate over the next five years, stemming from 5.0% growth, a 3.6% dividend yield and a 3.9% valuation tailwind. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4100	4772	5786	6664	7440	7580	8042	9,357	10,711	11,144
Gross Profit	3006	3463	3995	4607	5262	5364	5814	6,675	7,447	7,884
Gross Margin	73.3%	72.6%	69.1%	69.1%	70.7%	70.8%	64.5%	71.3%	69.5%	70.7%
SG&A Exp.	447	498	543	637	733	730	779	812	972	993
D&A Exp.	1004	1285	1526	1716	2111	1778	1882	2,333	3,355	3,087
Operating Profit	1487	1613	1853	1998	1905	2688	3128	3,328	3,037	3,777
Operating Margin	36.3%	33.8%	32.0%	30.0%	25.6%	35.5%	38.9%	35.6%	28.4%	33.9%
Net Profit	825	685	956	1239	1236	1888	1691	2,568	1,766	1,483
Net Margin	20.1%	14.4%	16.5%	18.6%	16.6%	24.9%	21.0%	27.4%	16.5%	13.3%
Free Cash Flow	1160	1438	2019	2122	2835	2761	2850	3,443	1,823	2,924
Income Tax	63	158	156	31	-110	-0.2	130	262	24	154

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21264	26904	30879	33214	33010	42802	47230	69,888	67,195	66,028
Cash & Equivalents	313	321	787	802	1209	1501	1746	1,950	2,028	1,973
Accounts Receivable	199	227	308	514	459	462	512	729	758	670
Goodwill & Int. Ass.	10856	13930	16345	17422	16676	18497	21120	34,077	30,940	29,160
Total Liabilities	17210	20191	23903	26386	27111	37311	42670	60,818	54,786	55,162
Accounts Payable	90	97	119	143	131	148	139	272	219	259
Long-Term Debt	14540	17119	18534	20205	21160	24055	29290	43,254	38,670	38,922
Shareholder's Equity	3954	6652	6764	6242	5336	5055	4094	5,081	5,572	4,198
LTD/E Ratio	3.68	2.57	2.74	3.24	3.97	4.76	7.16	8.51	6.94	9.27

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.0%	2.8%	3.3%	3.9%	3.7%	5.0%	3.8%	4.4%	2.6%	2.2%
Return on Equity	22.0%	12.9%	14.3%	19.1%	21.4%	36.3%	37.0%	56.0%	33.1%	12.7%
ROIC	4.5%	3.2%	3.9%	4.7%	4.6%	6.7%	5.3%	5.9%	3.4%	2.9%
Shares Out.	397	424	427	429	441	446	446	457	463	467
Revenue/Share	10.25	11.28	13.48	15.44	16.80	17.01	38.92	20.64	23.15	23.86
FCF/Share	2.90	3.40	4.70	4.92	6.40	6.20	6.01	7.60	3.94	6.26

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