American Tower Corp. (AMT)

January 13, 2021
DJIA: **31,060** | RMZ: **1,114** | 10-Year T-Note: **1.09%**

Green Street

Hallo and Hola from American Tower

American Tower (AMT), the world's largest cell tower owner and REIT which boasts an enterprise value of $120 billion, announced a ~$10 billion acquisition of tower sites largely concentrated in Germany and Spain. The ~8% expansion in assets will increase the company's revenue contribution from Europe by 800 bps to 10%, reflecting the company's prior thin or non-existent investment in these two European nations. The deal, which is the largest acquisition in the company's history, positions American Tower as the second largest European tower company outside the wireless carriers.

The sites are anchored by Spanish telecom provider Telefonica, who was also the seller of the assets (via its subsidiary Telxius). Though details surrounding the bidding process were not disclosed, it is likely this was a hotly contested portfolio, as investor interest in tower assets globally is elevated. Similar to AMT's $3.5 billion Insite acquisition (largely U.S. towers) announced in late-'20, the company appears to have paid a "full" price to acquire these sites by utilizing its favorable cost of capital.

Background on Portfolio

Telefonica, one of the world's largest telecommunications companies, announced the formation of an infrastructure subsidiary called Telxius in '16 as a way to carve out certain assets (e.g., towers and fiber) from the core-telecom business and help improve its balance sheet. The move was similar to actions taken by many of the U.S. wireless carriers around the same time period (i.e., AT&T, T-Mobile, and Verizon) who sold the majority of their tower sites to the three tower REITs in order to free up capital and focus on building their wireless networks. Telefonica owns 50.01% of Telxius, while private equity firms KKR (40%) and Pontegadea (9.99%) own the remainder. The assets American Tower will be acquiring comprise the majority of the Telxius portfolio. This isn't American Tower's first business dealing with Telefonica, as the REIT has gobbled up numerous sites across Brazil, Chile, Colombia, and Mexico over the past decade.

Strategic Rationale

Strategically, the deal makes sense for American Tower, who has been looking to grow its footprint in Europe for some time but hasn't been able to justify paying the lofty valuations certain portfolios have garnered. As part of the transaction, American Tower will add 31,000 tower sites (in addition to >3,000 to be developed) to its existing portfolio of 181,000 sites. Roughly 40% of the acquired towers are in Germany (an existing but small market for American Tower), another 35% in Spain (a new market), with the remaining ~25% located in Argentina, Brazil, Chile, and Peru (all existing markets). See Exhibit 1 for more details.

Pro-forma for the transaction, American Tower will see its international portfolio (~45% of revenue) become more diversified to developed countries, as Europe will represent 20% of international revenues (10% of total portfolio revenue), up from 4% prior to the transaction. In light of several headwinds in developing economies over the past few years (e.g., wireless carrier consolidation in India and FX softness abroad), having a higher concentration of tower sites in developed economies helps reduce overall portfolio risk and provides for more stable earnings.

Telefonica will remain the anchor tenant and is committed to non-cancellable lease agreements averaging ~7 years. The Spanish wireless carrier will now be the fourth-largest tenant for American Tower, doubling its revenue contribution to 9%, but still far lower than the Big 3 U.S. carriers, which total roughly 50% of AMT's revenue (a modest reduction from prior concentration). Tenant diversification is one aspect of the tower space that is underappreciated but will likely become a topic of interest over the next few years as the industry is negatively impacted by legacy-Sprint site decommissioning in the U.S.

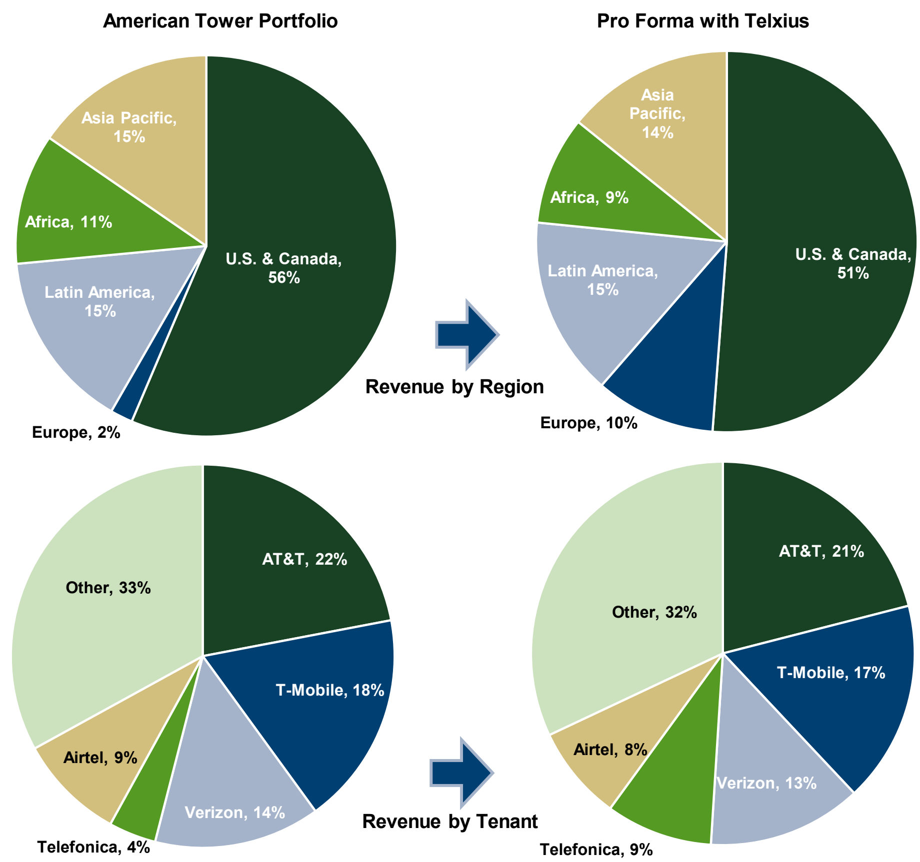
Exhibit 1: Portfolio Statistics

Euro Growth: American Tower's ~$10 billion acquisition of Telxius will expand its global footprint into Europe and Latin America. The pro-forma portfolio will have a higher revenue contribution from developed international markets in addition to a more diversified tenant mix.

Deal Valuation	
Total Consideration	~$10B
EBITDA Multiple*	~26x
Initial Yield*	3.9%

*At stabilization

Portfolio Metrics	
Germany Towers	14,900
Spain Towers	11,300
Brazil Towers	4,900
Other LatAm Towers	3,000
Total Towers	**34,100**
Avg. Tenants per Tower	1.3



Europe/Latin America Market Overviews

American Tower's expansion into Europe will in many ways resemble the favorable growth outlook in its U.S. tower business; mature stable markets, dominated by 3-4 well-capitalized wireless carriers, established 4G networks, and growing 5G networks. The one major difference will be the number of rooftop sites included in the Telxius portfolio. 80% of the German sites and ~50% of the Spanish sites are on rooftops, as opposed to the large macro towers which are constructed from the ground up. In densely populated areas, rooftops are typically the only way to transmit wireless signals and will play an important role in 5G network buildouts. This is a different tower type from American Tower's suburban macro tower focused portfolio but does share similar leasing characteristics. Annual rental rate escalators in Europe are typically tied to CPI, which is lower than the industry standard 3% fixed annual growth rate in the U.S.

Latin American wireless markets are several years behind Europe and the U.S., but the growth in mobile data usage is forcing wireless carriers to continually invest in building networks, all of which has proven beneficial for tower owners. 3G and 4G equipment is still heavily utilized, with 5G unlikely to make an appearance for several years.

Valuation and Growth

After including development costs and modest start-up capital expenditures, the total consideration being paid by American Tower is just shy of $10 billion. At stabilization, once the ~$500 million of tower development projects are completed, the deal valuation is pegged at ~26X EBITDA or a high-3% initial yield. Backing out the build costs, the in-place tower portfolio was acquired ~1X higher or ~10 bps lower, respectively.

At first glance pricing appears lofty, but American Tower believes same-store growth will be ~6% through '25, which is above its portfolio average growth rate. Growing at this clip would also be well above the low-single digit same-store growth from its existing European portfolio but seems reasonable for a couple reasons. First, average tenants per tower is just 1.3, as Telefonica has understandably not wanted competing carriers utilizing their infrastructure, though American Tower will gladly lease up all available space to any wireless carrier looking to expand its network. This is modestly below the 1.6 in American Tower's existing global portfolio. Related to this, gross profit per tower in the Telxius portfolio is ~50% below American Tower's European and Latin American portfolios, suggesting some operational upside exists.

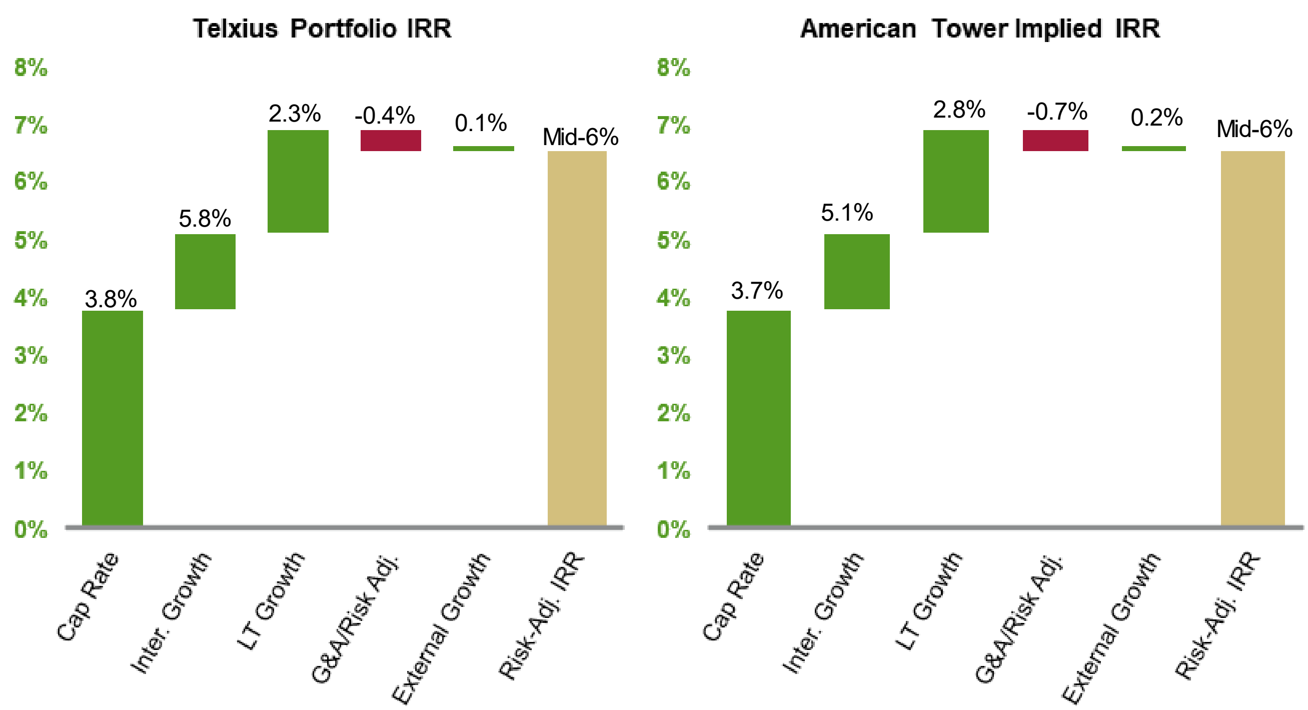
Given the different growth profiles of the Telxius portfolio and American Tower's current portfolio, coupled with the challenge/subjectivity of determining implied valuations for each of American Tower's regions, comparing the financial merits of the deal can be a bit challenging. For that reason, we prefer using an unleveraged risk-adjusted implied IRR to evaluate the deal. Assuming American Tower is able to achieve its targeted 6% same-store growth, the lower-risk Telxius portfolio should deliver a mid-6% IRR (see Exhibit 2). This is roughly in-line with American Tower's implied IRR, suggesting the company paid a full, but fair price for the Telxius portfolio. American Tower's stock price suggested investors had the same "shoulder shrugging" reaction, as the company underperformed its tower REIT peers modestly in Wednesday's trading.

Financing and Closing

Though not disclosed, American Tower plans to finance the acquisition "in a manner consistent with maintaining its investment grade credit rating". Equity, debt (likely attractively priced Euro debt), or convertible financing options are all on the table. Net-debt-to-EBITDA will push outside the company's stated range (3X-5X) due to the transaction, but American Tower plans to return to its stated leverage targets over the next couple years. The deal is expected to be immediately accretive to AFFO/sh and will close in several tranches throughout '21 as regulatory hurdles are cleared.

Exhibit 2: Portfolio Return Comparison

Fair(ish) Price: The Telxius portfolio has a similar yield as American Tower's portfolio but should deliver higher intermediate term growth and lower risk. However, this will be offset by lower long-term growth and external growth, resulting in a similar risk-adjusted return.



Recommendation

Although today's acquisition announcement is noteworthy, the full price paid does little to change our view of American Tower's valuation relative to its peers. If anything, we may be modestly more optimistic given the increased tenant diversification and decreased emerging market presence.

Our views on the three tower REIT portfolios remain unchanged from our November Tower Sector Update and we continue to favor more macro tower-focused REITs (e.g., AMT/SBAC) over the fiber/small cell strategy (CCI). Additionally, American Tower's implied IRR, earnings yield, and return on capital all screen favorably relative to peers. Since we initiated coverage of Crown

Castle (CCI) and SBA Communications (SBAC) in October, American Tower has underperformed CCI by ~300 bps and outperformed SBAC by ~500 bps. Our investment recommendations are unchanged.

Buy: American Tower (AMT)
Hold: SBA Communications (SBAC)
Sell: Crown Castle (CCI)

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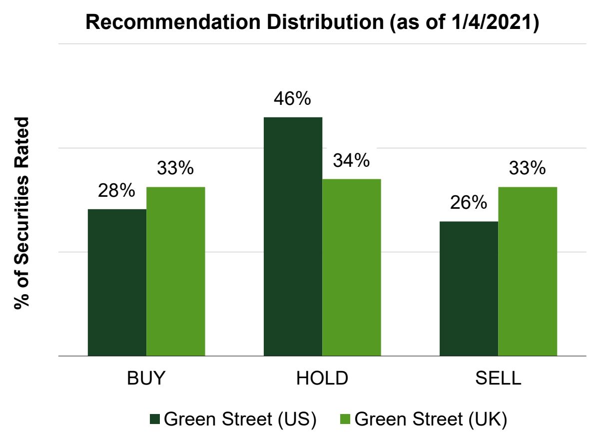
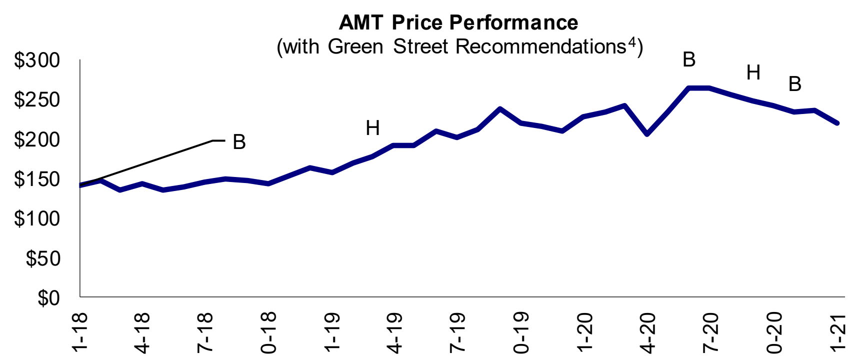


Green Street's "BUYs" have historically achieved far higher total returns than its "HOLDs", which, in turn, have outperformed its "SELLs".

Total Return of Green Street's Recommendations[1,2]

Year[3]	Buy	Hold	Sell	Universe
2020	3.3%	-13.0%	-22.5%	-10.7%
2019	31.6%	22.4%	17.8%	24.0%
2018	-5.1%	-6.6%	-9.2%	-7.0%
2017	6.4%	0.2%	2.1%	2.6%
2016	14.9%	14.7%	13.1%	14.4%
2015	8.3%	0.9%	-1.7%	2.4%
2014	41.6%	31.5%	27.3%	33.3%
2013	4.1%	0.6%	1.7%	2.2%
2012	24.5%	24.7%	18.9%	23.0%
2011	18.9%	7.6%	-4.7%	7.6%
2010	43.3%	32.8%	26.6%	33.8%
2009	59.0%	47.7%	6.0%	37.9%
2008	-28.1%	-30.9%	-52.6%	-37.3%
2007	-6.9%	-22.4%	-27.8%	-19.7%
2006	45.8%	29.6%	19.5%	31.6%
2005	26.3%	18.5%	-1.8%	15.9%
2004	42.8%	28.7%	16.4%	29.4%
2003	43.3%	37.4%	21.8%	34.8%
2002	17.3%	2.8%	2.6%	5.4%
2001	34.9%	19.1%	13.0%	21.1%
2000	53.4%	28.9%	5.9%	29.6%
1999	12.3%	-9.0%	-20.5%	-6.9%
1998	-1.6%	-15.1%	-15.5%	-12.1%
1997	36.7%	14.8%	7.2%	18.3%
1996	47.6%	30.7%	18.9%	32.1%
1995	22.9%	13.9%	0.5%	13.5%
1994	20.8%	-0.8%	-8.7%	3.1%
1993	27.3%	4.7%	8.1%	12.1%
Cumulative Total Return	**21827.3%**	**1164.7%**	**10.0%**	**1432.9%**
Annualized	**21.3%**	**9.5%**	**0.3%**	**10.3%**

The chart below shows AMT's price performance over the last three years, along with Green Street's recommendations during that time.



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(3) From 1993 until July 3, 2017, the returns for each year cover the period following the first RESM issued in the respective year through the first RESM issued in the following year and are not based on a calendar year. Subsequent to July 5, 2017, returns are based on calendar months.

(4) All securities covered by Green Street with a published rating that were included in the calculation of total return. Excludes "not rated" securities.

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