



Company Overview:

American Tower Corporation, organized as real estate investment trust (REIT), is the largest independent U.S.-based owner of cellphone towers. The company’s rental and management operations include leasing antenna space on multi-tenant communications sites to wireless service providers, radio and television broadcast companies, and wireless data providers.

<u>Name</u>	<u>Ticker</u>	<u>Growth</u>	<u>Dividend</u>	<u>D + G</u>
American Tower Corporation	AMT	9.00%	2.63%	11.63%

Highlights:

American Tower is the largest of the Tower REITs and the largest REIT. Compared to its tower peers, AMT has differentiated itself by more aggressively expanding into international markets—particularly developing countries. For the most part, this has allowed the company to drive a modestly higher growth rate. However, the inherent risks of investing in the developing world have resulted in higher churn in some markets, particularly India. That said, the worst of the churn seems to be behind the company, and a return to strong organic growth is expected for the next few years.

Bull Case:

- **Competitive Moat → Economies of Scale** – Investors always ask why don’t Telecom carriers own cell phone towers themselves? AMT estimates that carriers that want to build and operate their own towers over 20 years would have to spend \$445K. Leasing a tower from a REIT, like AMT, will save them about \$200K, providing a competitive advantage for carriers to use cellphone tower REITs. Cellphone tower owners can offer lower prices to tenants as the business is highly scalable because there is very little marginal cost to adding new tenants to assets already in place.
- **Stability During a Downturn** – We believe cell phone towers are a great business thanks to the long-term leases with its tenants, which tends to average between 5- to 10-years in duration. Not to mention, these contracts usually come with a 3% annual rental increase built into the provisions. In our opinion, this creates a recession-resistant nature, meaning that the counterparty risk tends to be low, and that cash flow stability across economic cycles is very high.
- **Longer Runway for Future Growth Internationally** - The growth seen in the U.S. market is expected to bleed into international markets. Wireless markets have been following similar growth trajectories as the U.S., and 45% of AMT’s towers are outside the U.S. This global scope affords a compelling runway for reinvestment. Globally, data usage is similar to that in the US, but emerging markets like India, Brazil, and Mexico have longer growth runways due to being about 10 years behind in terms of mobile networks.

Bear Case:

- **Capital-Intensive Business** – Though a highly stable industry, cell phone towers tend to be a highly capital-intensive business. Each year, telecom giants invest about \$30 billion to improve and maintain 4G networks, and every decade-or-so, a new standard, i.e., 5G now and 6G coming in the late 2020s, means a never-ending capex hamster wheel.
- **International Risk Exposure** – AMT roughly generates 45% of its revenues from international sources, with a significant amount of that being in emerging markets. Overall, and relative to cellphone tower peers, the company has increased risks - geo-political, regulatory, corruption, and FX volatility.
- **Concerns in India** - Collections issues with Vodafone Idea Limited (VIL) in India resulted in \$48m of incremental revenue reserves and payment shortfalls this past quarter. Performance in India has long been an overhang on AMT. We think the worst is now in the past, as the market has shrunk to just four players from twelve (limiting future churn, all else equal), but tenant health remains a concern. We don’t believe that this will inhibit the company’s growth profile as it appears already discounted by the market.

Overall Thesis:

American Tower Corporation (AMT) has established a dominant business in the global cellphone tower space – no other peers even come close to the exposure that AMT has internationally, as measured by revenue. AMT’s management team has done an exceptional job of allocating capital to both reinvesting in future growth/technology, as well as distributing capital back to shareholders through dividends. As growth in connectivity and data consumption continues, we believe AMT is well positioned to reap the benefits in both its U.S. and global businesses. Globally, AMT has the global infrastructure in place to maximize the benefits of connectivity expansion, as the technology cycle catches up outside the U.S. Furthermore, domestically, the U.S. has seen a huge uptick in cellular data usage, which has an annualized 30% increase in data consumption over the last five years, which could prove ample opportunity to upgrade its equipment, all while garnering higher marginal business.



Disclosure

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