



ANALYST QUICK NOTES

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American Tower Corp. (NYSE: AMT: BUY)

Target Price: \$140

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Overview

- Modest but confident growth story as first quarter impresses and increased data usage drives demand for wireless towers.

News Highlights

- Last week, American Tower reported strong growth in 1Q17 AFFO of \$681 million or \$1.58 per share, up 15% from the prior year. Revenue rose 25% to \$1.62 billion, above the consensus estimate of \$1.58 billion.
- The company also resumed its share repurchase program during the quarter and repurchased 3.6 million shares so far this year for \$438 million.
- Management raised its 2017 AFFO guidance to \$2.76-\$2.85 billion from \$2.7-\$2.8 billion, which at the midpoint represents growth of 13% from 2016.
- In March, AMT signed a \$100 million lease with an unnamed major tenant (likely AT&T according to reports). CEO Jim Taiclet said the 1Q 6.5% organic tenant billings growth in the U.S., AMT's largest market, was particularly strong, largely due to the signing of that tenant.

Thesis

- We expect mobile data usage to grow 50% annually over the next five years, which should increase the demand for tower leases. AMT has a solid record of growth and profitability, and stands out among the publicly traded tower operators based on its size, margins, FFO growth rate, and high-quality assets.
- Biggest catalyst
 - First: AMT expects organic international growth of 11% to help double AFFO and the number of towers it operates by 2020 from 2015. The company now operates in 15 countries, which provides diversification.
 - Second: Margin growth as the company slowly raises leases and places second and third tenants at the same towers.

- Third: Acquisitions as the company steadily purchases cell phone towers, including 2,500 communications sites during 1Q (mostly in international markets, for \$512 million). Subsequent to the quarter end, AMT agreed to purchase 1,400 sites in Paraguay. The deal is expected to close in 2H17.

Now what?

- On April 27, AMT management boosted its 2017 goals, which gives us confidence.
 - Due to a better FX outlook and depreciation effects, management raised its forecast on adjusted EBITDA to \$4.0-\$4.1 billion from \$3.9-\$4.0 billion and its property segment revenue to \$6.4-\$6.6 billion from \$6.3-\$6.5 billion.
 - A five-year plan to double AFFO and the number of wireless towers by 2020.
 - Despite a 20%+ rise in the AMT stock price since the November election, we still see room to run, as we are confident in the company's record of steady growth and the long-term demand story.

Earnings and Growth

- Our AFFO estimates are for \$6.44 in 2017 and \$7.08 in 2018, which we recently raised from \$6.06 and \$6.63, respectively, due to a better-than-expected first quarter, the raise in guidance, and share buybacks.

Valuation

- The shares trade at a premium price/AFFO to peers. We like the company's growth prospects and believe that a higher price/AFFO multiple is appropriate.
 - Price/AFFO: 19.6x our 2017 estimate vs. 19.4x for peers.
 - Price/AFFO is below the five-year average of 23.8, but...
 - Yield: 1.9%, in line with peers.
 - AMT targets annual dividend growth of 20%.
 - Target price of \$140 implies a multiple of 21.7-times our 2017 AFFO per share estimate, 21.7x multiple, still below the five-year average.
 - Risks: wireless carrier mergers, reduced spending on towers, regulation, strong USD.
 - We see a 9% upside + 1.9% yield = 11% total return.
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