



Crown Castle International Corporation (CCI)

Updated April 27th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	9.7%	Market Cap:	\$41 B
Fair Value Price:	\$123	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	06/14/24 ¹
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Dividend Payment Date:	06/29/24
Dividend Yield:	6.7%	5 Year Price Target	\$117	Years Of Dividend Growth:	8
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Crown Castle International was founded in 1994 and has since become a powerhouse in the data infrastructure business. It is structured as a real estate investment trust, or REIT, and operates cell phone towers with small cells where larger towers are not feasible, and fiber connections for data transmission. The trust owns, operates and leases more than 40,000 cell towers and 80,000 route miles of fiber across every major US market, helping it to support data infrastructure across the country. Crown Castle is headquartered in Texas, produces annual revenue of about \$6.5 billion, and trades with a \$41 billion market capitalization.

Crown Castle posted first quarter earnings on April 17th, 2024, and results were better than expected on both the top and bottom lines, albeit on subdued estimates. Funds-from-operations came to \$1.72 per share, which was three cents ahead of estimates. Revenue was off more than 7% from the year-ago period, coming to \$1.64 billion. That did beat estimates by \$10 million, despite the big move down.

Site rental revenue was \$1.59 billion, down from \$1.62 billion a year ago, while services and other revenue plunged from \$149 million to \$53 million year-over-year.

Adjusted EBITDA was \$1.04 billion, down from \$1.08 billion in Q4, and down from \$1.10 billion a year ago.

Guidance was reiterated for the year after Q1 given largely in-line results, and we've left our estimate unchanged at \$6.85 per share as a result.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
CF/S	\$4.07	\$4.30	\$4.30	\$4.15	\$5.27	\$5.69	\$6.12	\$6.39	\$7.75	\$7.43	\$6.85	\$6.51
DPS	\$1.87	\$3.35	\$3.61	\$3.90	\$4.28	\$4.58	\$4.93	\$5.46	\$5.98	\$6.26	\$6.26	\$6.58
Shares²	334	334	361	406	417	418	433	432	433	434	435	440

Crown Castle's cash flow per share – defined as the sum of earnings plus depreciation, minus preferred dividends – has shown robust levels of growth over the past decade. The trust has managed to grow per-share cash flow at about 5% annually on average for the past decade. We don't see that sort of growth as feasible for the long-term, and we're reiterating our growth estimate at -1%.

We believe revenue growth is going to be tough to come by, and the company has proven incapable of sustainable margin growth. The trust's robust cash flow generation will afford it the opportunity to continue to pay the ample dividend. Crown Castle's penchant for buying growth will help expand the top line, in addition to small organic revenue gains. We think the future is still bright as consumers demand more and more access to data over time, and Crown Castle is poised to deliver, but short-term challenges remain. In addition, its portfolio is centered in metropolitan areas with favorable long-term demand outlooks, so the trust is well positioned in a variety of ways. We see this as being somewhat offset by stubbornly high tenant non-renewals, as well as debt servicing costs. However, the trust's leverage to the 5G rollout puts it in a very strong position for the years to come given high barriers to entry.

¹ Estimated date

² Share count in millions

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We see the dividend increasing to a payout of \$6.58 per share in five years' time. We note Crown Castle's payout ratio is currently elevated, and that could get worse if earnings don't grow, as forecasted.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/CF	19.3	20.1	20.2	26.7	20.6	22.9	26.0	28.3	17.5	15.5	13.7	18.0
Avg. Yld.	2.4%	4.0%	4.0%	3.9%	3.9%	3.5%	3.1%	3.0%	4.4%	5.4%	6.7%	5.6%

Crown Castle's cash flow multiple has varied quite widely in the past decade. Its long-term average is 21 and we see the stock as undervalued today given shares trade for 13.7 times this year's cash flow estimate. Crown Castle's very high-quality earnings and decent growth outlook mean that its yield is likely to be lower than other REITs, and we expect the yield to remain elevated for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	46%	78%	84%	94%	81%	80%	81%	85%	77%	84%	91%	101%

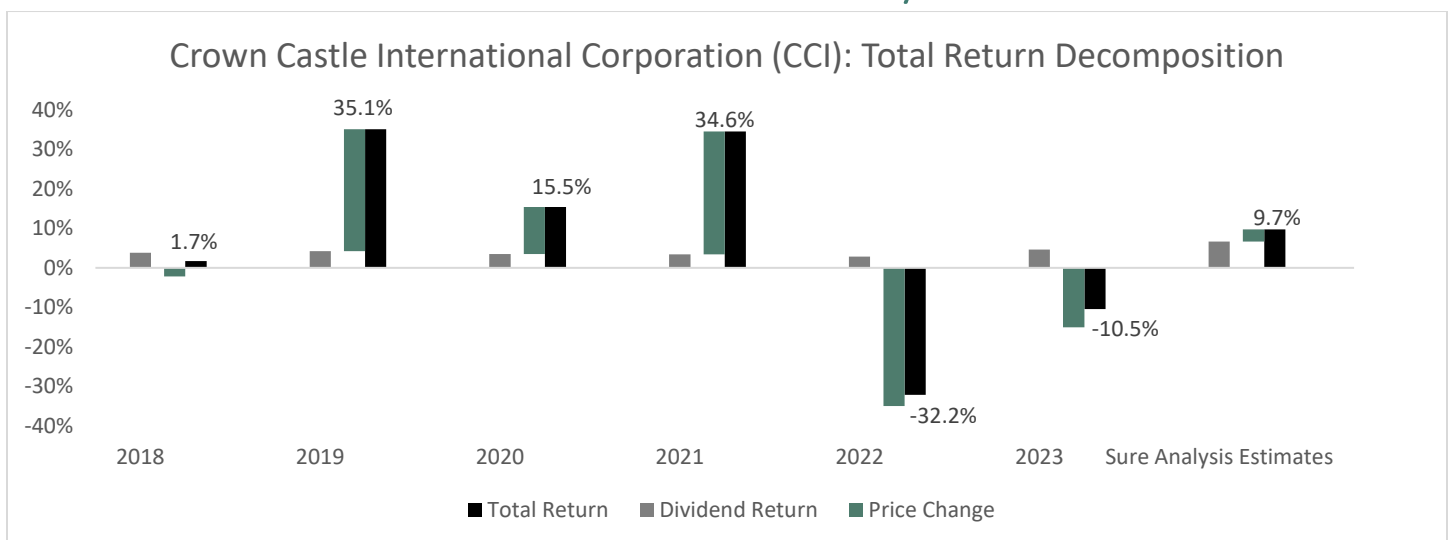
The trust continues to pay most of its earnings out as dividends, as it is required to do as a REIT. The current payout ratio is 91% of FFO. We forecast continued relatively modest increases in the payout, around that of FFO growth, and we believe the payout is safe for now, but fundamentals need to improve to keep increases coming. Crown Castle has stable and growing cash flows that allow it to invest in the business and return cash to shareholders.

Crown Castle should be quite resilient to recessions given its place in what amounts to a utility in the burgeoning telecommunications industry. The trust performed very well during the Great Recession, and we see no reason for investors to be alarmed should another recession strike. Its competitive advantage is somewhat weak given it provides a service with a relatively low barrier to entry, but Crown Castle's scale is an advantage.

Final Thoughts & Recommendation

We continue to rate Crown Castle a hold, given the recent move in the stock, and resulting improvement in the valuation. We see the stock as quite undervalued, and total return prospects are now more attractive at 9.7% following Q1 results, with 6.7% coming from the yield, -1% projected growth, and a 5.6% tailwind from the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3539	3664	3921	4356	5423	5,773	5,840	6,340	6,986	6,981
Gross Profit	2232	2342	2480	2792	3576	3,782	3,871	4,347	4,918	5,001
Gross Margin	63.1%	63.9%	63.2%	64.1%	65.9%	65.5%	66.3%	68.5%	70.4%	71.6%
SG&A Exp.	257	311	371	426	563	614	678	680	750	759
D&A Exp.	986	1036	1109	1242	1528	1,574	1,608	1,644	1,707	1,754
Operating Profit	989	995	1000	1124	1485	1,594	1,947	2,023	2,461	2,488
Operating Margin	27.9%	27.2%	25.5%	25.8%	27.4%	27.6%	33.3%	31.9%	35.2%	35.6%
Net Profit	391	1521	357	445	671	863	1,056	1,096	1,675	1,502
Net Margin	11.0%	41.5%	9.1%	10.2%	12.4%	14.9%	18.1%	17.3%	24.0%	21.5%
Free Cash Flow	908	885	913	815	761	641	1,431	1,498	1,568	1,702
Income Tax	-11	-51	17	26	19	21	20	21	16	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21,143	21,937	22,675	32,229	32,351	32,621	38,768	39,040	38,921	38,527
Cash & Equivalents	151	179	568	314	206	323	232	292	156	105
Acc. Receivable	313	313	374	398	455	471	431	543	720	597
Goodwill & Int.	8,878	9,293	9,408	15,983	15,804	15,694	14,511	14,124	13,681	13,264
Total Liabilities	14,406	14,848	15,118	19,890	20,222	20,775	29,307	30,782	31,472	32,146
Accounts Payable	162	160	189	249	272	302	230	246	236	252
Long-Term Debt	11,921	12,150	12,171	16,159	15,956	16,424	19,280	20,629	21,729	22,921
Total Equity	6,716	7,089	7,557	12,339	12,129	11,846	9,461	8,258	7,449	6,381
LTD/E Ratio	1.77	1.71	1.61	1.31	1.32	1.39	2.04	2.50	2.92	3.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.9%	7.1%	1.6%	1.3%	1.9%	2.6%	3.0%	2.8%	4.3%	3.9%
Return on Equity	5.7%	22.0%	4.9%	3.7%	5.1%	7.2%	9.9%	12.4%	21.3%	21.7%
ROIC	2.1%	8.0%	1.8%	1.5%	2.2%	3.1%	3.7%	3.8%	5.8%	5.1%
Shares Out.	334	334	361	406	417	418	433	434	434	434
Revenue/Share	10.62	10.97	11.50	11.11	12.94	13.79	13.74	14.61	16.10	16.09
FCF/Share	2.72	2.65	2.68	2.13	1.83	1.53	3.37	3.45	3.61	3.92

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

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