

Crown Castle Inc

4Q wrap: Steady as she goes while strategic review & CEO search are pending

Reiterate Rating: NEUTRAL | PO: 120.00 USD | Price: 105.56 USD

4Q ‘turmoil’ does not impede business performance

CCI shares (+5.0%) outperformed peers, AMT (+1.8%) and SBAC (+2.3%), after it announced an in-line 4Q23 and left full year 2024 guidance unchanged (see our [4Q23 First Look](#)). We believe the outperformance relates to 4Q23 being ‘straightforward’ despite the activist-induced turmoil that emerged as 2023 ended. CCI’s newly enlarged Board of Directors is steeped in 1) a strategic review of the fiber/small cell business, and 2) the search for a new CEO. Management did not share further color regarding either process on the 4Q conference call besides saying both are ‘ongoing’. It is unclear if the plan is to create a plan and optimize CEO process to and individual best-suited to execute the plan, or the plan is to find a CEO best-suited to forge and own a new plan.

CFO Schlanger to stay on for continuity

CCI’s CFO Dan Schlanger will remain in his role as CFO after it was previously announced he would depart the company on March 31, 2024. We believe at least some degree of overhang will persist in the near-term as CCI works through its fiber/small cell business strategic review and ongoing CEO search process. Based on our updated estimates ([Exhibit 1](#)), we reiterate our Neutral rating and \$120 PO, which is based on an SOTP weighted 17x 2024E AFFO/sh multiple. Longer-term we remain positive on CCI’s organic Tower growth profile and upcoming growth inflection in its small cell business. Our Neutral rating reflects 1) the higher churn, lower growth, and capital intensity profile of its fiber business, and 2) the lowest consolidated AFFO/sh growth among peers for 2024/25E.

Small cells still ramping into 2024, backlog is majority colo

CCI completed 8k small cell nodes in 2023 along with 2k nodes completed towards the end of the year, which will begin billing in 1Q24. The majority of CCI’s ~50k small cell backlog (vs. ~65k nodes on air) is comprised of orders from T-Mobile and Verizon and ~60% of the nodes are colocation. CCI continues to expect ‘double-digit’ small cell revenue growth in 2024, yet we note on the margin it does not move our numbers much since it comprises ~10% of CCI’s revenues. For its tower business, management has not seen an uptick from carrier activity.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
Total Revenues	6,986	6,982	6,639	6,425	6,788
Adj. EBITDA	4,340	4,415	4,181	4,068	4,334
FFO / Share	7.74	7.43	6.90	6.46	6.80
AFFO / Share	7.38	7.55	6.95	6.82	7.38
DPS	5.98	6.27	6.27	6.33	6.81
GAAP EPS	3.87	3.46	2.94	2.55	2.82
Valuation (Dec)					
P/AFFO	14.3	14.0	15.2	15.5	14.3
Dividend Yield	5.7%	5.9%	5.9%	6.0%	6.4%
GAAP P/E	27.3x	30.5x	35.9x	41.4x	37.4x

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	6,664.5	6,639.1
2025E Rev (m)	6,427.0	6,424.8
2026E Rev (m)	6,777.9	6,787.9
2024E EPS	2.93	2.94
2025E EPS	2.42	2.55
2026E EPS	2.62	2.82

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Stock Data

Price	105.56 USD
Price Objective	120.00 USD
Date Established	20-Dec-2023
Investment Opinion	B-2-7
52-Week Range	84.72 USD - 153.98 USD
Mkt Val (mn) / Shares Out (mn)	45,707 USD / 433.0
Free Float	85.0%
Average Daily Value (mn)	357.68 USD
BofA Ticker / Exchange	CCI / NYS
Bloomberg / Reuters	CCI US / CCLN
ROE (2024E)	19.9%
Net Dbt to Eqty (Dec-2023A)	354.9%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 25 January 2024 04:36PM EST

SOTP: Sum of the parts
AMT: American Tower
SBAC: SBA Comm

iQprofileSM Crown Castle Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.9%	5.8%	5.5%	5.3%	5.9%
Return on Equity	21.3%	21.7%	19.9%	19.4%	23.1%
Operating Margin	34.7%	33.9%	33.7%	33.4%	35.0%
Free Cash Flow	1,568	1,702	1,596	1,549	1,677

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	2.1x	2.5x	2.8x	2.6x
Asset Replacement Ratio	0.8x	0.8x	0.9x	0.9x	0.8x
Tax Rate	0.9%	1.7%	2.0%	2.0%	2.0%
Net Debt-to-Equity Ratio	287.4%	354.9%	347.7%	480.1%	410.9%
Interest Cover	3.5x	2.8x	2.4x	2.1x	2.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,986	6,982	6,639	6,425	6,788
% Change	10.2%	-0.1%	-4.9%	-3.2%	5.7%
Gross Profit	4,917	5,000	4,731	4,587	4,870
% Change	13.1%	1.7%	-5.4%	-3.0%	6.2%
EBITDA	4,340	4,415	4,181	4,068	4,334
% Change	13.8%	1.7%	-5.3%	-2.7%	6.5%
Net Interest & Other Income	(733)	(842)	(935)	(1,015)	(1,128)
Net Income (Adjusted)	1,674	1,500	1,274	1,106	1,222
% Change	44.4%	-10.4%	-15.0%	-13.2%	10.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,674	1,500	1,274	1,106	1,222
Depreciation & Amortization	1,708	1,754	1,741	1,761	1,794
Change in Working Capital	(747)	(371)	25	16	15
Deferred Taxation Charge	3	8	4	4	4
Other Adjustments, Net	240	235	200	160	160
Capital Expenditure	(1,310)	(1,424)	(1,648)	(1,498)	(1,518)
Free Cash Flow	1,568	1,702	1,596	1,549	1,677
% Change	0.5%	8.5%	-6.2%	-3.0%	8.3%
Share / Issue Repurchase	(65)	(30)	0	0	0
Cost of Dividends Paid	(2,602)	(2,723)	(2,727)	(2,799)	(3,009)
Change in Debt	1,016	1,138	1,131	1,250	1,332

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	322	276	276	276	276
Trade Receivables	593	481	468	450	442
Other Current Assets	302	275	275	275	275
Property, Plant & Equipment	15,407	15,666	15,568	15,314	15,429
Other Non-Current Assets	22,297	21,829	21,829	21,829	21,829
Total Assets	38,921	38,527	38,417	38,145	38,250
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,912	1,750	1,763	1,760	1,751
Long-Term Debt	21,729	22,921	22,724	23,974	23,398
Other Non-Current Liabilities	7,831	7,475	7,475	7,475	7,475
Total Liabilities	31,472	32,146	31,962	33,209	32,623
Total Equity	7,449	6,381	6,455	4,936	5,627
Total Equity & Liabilities	38,921	38,527	38,417	38,145	38,250

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Services-Wireless/Cellular

Company Description

Crown Castle is one of the largest U.S. wireless tower companies with over 40,000 towers and approximately 80,000 route miles of fiber supporting small cells and fiber solutions across every major U.S. market. The core business for CCI is leasing space on its wireless towers primarily to wireless carriers, government agencies, and broadband data providers.

Investment Rationale

We view CCI as a 'show me story' with 1) the ongoing fiber business strategic review, 2) CEO search, and 3) our expectation for AFFO/sh growth to be challenged in 2024/25 as domestic carriers slow down wireless deployments and CCI realizes idiosyncratic headwinds. Overall we are a believer in 5G deployments and the need for small cell technology, but believe the opportunity is longer dated. We believe Towers will see a positive impact if interest rates were to moderate in 2024.

Stock Data

Average Daily Volume 3,388,423

Quarterly Earnings Estimates

	2023	2024
Q1	0.96A	0.70E
Q2	1.05A	0.70E
Q3	0.61A	0.75E
Q4	0.83A	0.78E

Estimate changes

Exhibit 1: CCI old vs. new estimates

We have revised our estimates to account for 4Q23 results and mgmt. commentary

	2024E	2024E		2025E	2025E	
	New	Old	+/-%	New	Old	+/-%
Revenues						
Tower site rental revenues	4,285	4,283	0.0%	4,081	4,072	0.2%
Small Cell	726	731	-0.7%	701	699	0.3%
Fiber Solutions	1,369	1,356	0.9%	1,381	1,359	1.6%
Fiber site rental revenues	2,095	2,088	0.4%	2,082	2,058	1.2%
Site Rental Revenues	6,380	6,370	0.1%	6,163	6,130	0.5%
Network services	259	294	-11.8%	262	297	-11.9%
Total revenues	6,639	6,665	-0.4%	6,425	6,427	0.0%
Other metrics						
Adj. EBITDA	4,181	4,171	0.2%	4,068	4,049	0.5%
FFO	2,993	3,016	-0.7%	2,804	2,819	-0.5%
AFFO	3,016	3,035	-0.6%	2,958	2,972	-0.5%
AFFO/sh	6.95	6.98	-0.4%	6.82	6.83	-0.3%
Interest expense	943	919	2.6%	1,015	989	2.6%
Sustaining CapEx	83	80	4.6%	82	78	5.3%
Discretionary CapEx	1,565	1,524	2.7%	1,416	1,392	1.8%

Source: BofA Global Research and company reports

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Price objective basis & risk

Crown Castle Inc (CCI)

Our \$120 PO is based on a weighted approx. 17x 2024E AFFO multiple. We apply a 19.5x multiple to CCI's macro tower business (60% weighting given business exposure). We apply a 18x multiple to CCI's small cell business (10% weighting) and a 12.5x multiple to CCI's fiber business (30% weighting), a discount to the macro tower business based on higher business risks and capital intensity. We view CCI's small cell exposure and double digit revenue expectations positively, but note on the margin it will not drive revenue at scale (10% revenue exposure). We view CCI as a 'show me story' with 1) the ongoing fiber business strategic review, 2) CEO search, and 3) our expectation for AFFO/sh growth to be challenged in 2024/25 as domestic carriers slow down wireless deployments and CCI realizes idiosyncratic headwinds.

Upside risks to our PO are better line-of-sight to fiber new leasing and lower than historical churn, elevated domestic tower activity, increased small cell adoption leading to outsized growth, and faster than expected interest rate cuts.

Downside risks to our PO are further domestic tower activity pull back, lower than expected Services revenue, decline in small cell adoption and use, continued headwinds in fiber new leasing and increased churn, and further interest rate increases.

Analyst Certification

I, David W. Barden, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Telecom Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Cogent	CCOI	CCOI US	David W. Barden, CFA
	Digital Realty Trust Inc	DLR	DLR US	David W. Barden, CFA
	Dycom Industries, Inc.	DY	DY US	Alexander Waters
	Equinix, Inc.	EQIX	EQIX US	David W. Barden, CFA
	Quebecor Inc.	YQBRB	QBR/B CN	Matthew Griffiths, CFA
	Rogers Communications	RCI	RCI US	David W. Barden, CFA
	Rogers Communications	YRCIB	RCI/B CN	David W. Barden, CFA
	TELUS Corporation	YT	T CN	David W. Barden, CFA
	TELUS Corporation	TU	TU US	David W. Barden, CFA
	T-Mobile US	TMUS	TMUS US	David W. Barden, CFA
NEUTRAL				
	BCE Inc.	YBCE	BCE CN	David W. Barden, CFA
	BCE Inc.	BCE	BCE US	David W. Barden, CFA
	Crown Castle Inc	CCI	CCI US	David W. Barden, CFA
	SBA Communications Corporation	SBAC	SBAC US	David W. Barden, CFA
	Verizon Communications Inc.	VZ	VZ US	David W. Barden, CFA
UNDERPERFORM				
	Cogeco Communications Inc.	YCCA	CCA CN	Matthew Griffiths, CFA
	Lumen Technologies Inc.	LUMN	LUMN US	David W. Barden, CFA
	Uniti Group Inc	UNIT	UNIT US	David W. Barden, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Disclosures

Important Disclosures

Crown Castle Inc (CCI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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