

Crown Castle Inc

CCI receives new 3rd party input regarding business strategy and company direction

Reiterate Rating: NEUTRAL | PO: 120.00 USD | Price: 108.56 USD

CCI founder Ted Miller weighs in

The CCI story has been tumultuous since late November, 2023 when activist investor Elliot Investment Management revealed a \$2bn stake and made a number of demands for business and leadership change. Subsequently, 1) then-CEO, Jay Brown, retired, 2) multiple Board members were replaced, and 3) a strategic review of the fiber business was begun, among other actions. Today (2/20), CCI's founder, Ted B. Miller, released a letter to CCI's Board of Directors nominating four directors to the Board and outlining multiple strategic paths to enhance shareholder value titled 'Project Boots'. Mr. Miller's chief premise aligns with Elliott — that fiber business misadventure has degraded shareholder value relative to other tower peers. Project Boots notes Elliott has trimmed its \$2bn stake down to \$141mn and that its preferred role in the ongoing strategic review should be reconsidered and put up for a shareholder vote. Ultimately, Project Boots believes CCI shares could increase to \$150-160 by 2026. We remain positive on CCI's Tower profile and our Neutral rating reflects 1) CCI's fiber business profile, and 2) the lowest 2024/25E AFFO/sh growth among peers. We dissect some of the main points of the argument below.

Be done with fiber, shift focus to improving tower ops

1. Get the Fiber business sold. Project Boots has identified 25 prospective buyers and financing sources for CCI's fiber/small cell business after completing its own due diligence. It believes the fiber business could be sold for \$12-15bn and the transaction could be completed in 2024. We believe investors would view a fiber/small cell business sale positively, clarifying and simplifying the remaining CCI macro tower story. The fiber business is more capital intensive, lower margin, higher churn and, outside the small cell sleeve, not Tower-like. The small cell business is starting to accelerate but we believe a real small cell growth inflection is a longer-dated event.

2. Focus on being a pure-play US TowerCO. Project Boots believes CCI should trade at a higher multiple as only a standalone tower company. We agree and believe that the stock would rerate upward. Our current SOTP analysis values CCI's tower business (60% of revenue) at 19.5x AFFO/sh, the fiber business (30%) at 12.5x, and small cells (10%) at 18x.

3. Buy back shares. Subsequent to a fiber business sale, Project Boots would implement a \$1.9bn share buyback program to enhance near-term shareholder value.

4. Improve operations. Through interest expense and SG&A reductions alongside the fiber business disposition, Project Boots believes it can 1) increase AFFO*/sh to over \$5 by 2025 (vs. \$3 today), 2) bring the AFFO* after dividends from a \$1.3bn deficit to a \$200mn surplus, and 3) reset the dividend to \$4.62/share (26% reduction) as it believes the current dividend is unsustainable. We recreate the Project Boots analysis inside this report (see [Exhibit 1](#)). Given the substantial income-centric ownership of the name, this is the most controversial aspect of the plan. Finally, the Project Boots deck references a redacted \$2.8bn financial 'use', which appears to have an offsetting ~\$100mn EBITDA contribution to the 2025 bridge. The math could suggest a meaningful new tower portfolio acquisition is part of the proposal, such as those owned by US Cellular or Vertical Bridge at present.

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Equity

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Stock Data

Price	108.56 USD
Price Objective	120.00 USD
Date Established	20-Dec-2023
Investment Opinion	B-2-7
52-Week Range	84.72 USD - 140.37 USD
Mrkt Val (mn) / Shares Out (mn)	47,006 USD / 433.0
Free Float	85.0%
Average Daily Value (mn)	312.80 USD
BofA Ticker / Exchange	CCI / NYS
Bloomberg / Reuters	CCI US / CCI.N
ROE (2024E)	19.9%
Net Dbt to Eqty (Dec-2023A)	354.9%
ESGMeter™	High

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*AFFO: Represents AFFO after discretionary capex

Exhibit 1: We recreate the 'Project Boots' analysis based on select assumptions and our current BofA estimates

CCI Project Boots analysis

	2023	2024E	2025E	2026E
AFFO net of operational enhancements	3,276	3,016	2,165	2,409
Discretionary capex adjusting for fiber spend	1,310	1,565	116	132
AFFO (ex capex)	1,966	1,451	2,049	2,277
Redacted financial impact (unknown origin)			100	100
Shares net of buyback	434	434	417	417
AFFO/sh (ex capex)	4.53	3.34	5.16	5.70
y/y growth		-26.2%	54.2%	10.6%
Dividend payout per Project Boots			1,925	2,050
Surplus/(deficit)			124	227

BofA Assumptions (\$m)

Interest savings	337
SG&A	70
Fiber operating income	1,200
Fiber capex	1,300
Equity issued (shares, \$1.9bn/110 stk price)	17.27
Dividend per share in 2025	4.62
Dividend per share in 2026	4.92

Source: BofA Global Research, Project Boots

BofA GLOBAL RESEARCH

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

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Crown Castle Inc (CCI) Price Chart



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

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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%

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