

Crown Castle Inc

3Q Wrap: Rates, capex cycle, and costs weigh on AFFO growth outlook

Reiterate Rating: NEUTRAL | PO: 100.00 USD | Price: 85.89 USD

AFFO outlook for '24 disappoints

CCI shares fell ~5.5% today, underperforming peers AMT (-2%) and SBAC (-2.7%), following its 3Q results where '24 guidance came in below Street estimates (see [3Q First Look report](#)). Heading into earnings, all eyes were on expectations for next year's macro tower leasing and the potential read-through to AMT/SBAC. Tower leasing guidance of \$105-115mn was down as expected but in-line with the Street (\$109mn). We believe the sell-off therefore mostly pertains to idiosyncratic CCI items including 1) +12% y/y 2024 interest expense, 2) +3% y/y operating costs, resulting in 3) -8% AFFO/sh decline, and 4) rising leverage due to higher fiber capex spending. CCI has become a 'show me' story as Tower organic growth slows into 2024 and the fiber business has yet to show it can make up the deficit. CCI's small cell business should grow double-digits y/y, which we view positively, but it doesn't yet move numbers materially (~10% of revenues). We have no doubt that an eventual positive inflection in the capex cycle and normalizing rates will cause CCI's multiple to reflate, but we don't see either in the next 12 months. We reiterate our Neutral rating but lower our PO to \$100 (from \$115), which is based on a weighted 15x AFFO/sh multiple (from 16x), due to AFFO headwinds in 2024/25 and higher leverage.

Small cell acceleration is positive

We continue to remain cautious regarding CCI's fiber solutions business (see [3Q heads up report](#)). The 2024 new revenue guide for this segment (\$145-155mn) implies ~\$37mn/qr. of new leasing to hit the low end. CCI has not generated this much leasing on a consistent basis since 2021 and our estimate is therefore below the low end of guidance (\$140mn). 2024 will see CCI's small cell deployments accelerate as it deploys 14k small cells (vs. 10k gross in 2023). Small cell revenue should grow double digits y/y but fiber segment capex will increase 22% y/y. Leverage will rise to help fund this outlay, which will contribute to higher interest expense and impact '24/'25 AFFO/share growth.

Tower activity has 'stabilized', 4.5% growth seen in '24

CCI's tower business slowed in 3Q23 for new tower leasing (\$25mn) and management noted it saw activity 'stabilize' during the quarter. 2023 guidance implies a step up in 4Q23 leasing, which CCI attributes to 'timing'. Management expects the tower business will grow at 4.5%. CCI has previously discussed having 3.75% organic growth locked in through 2027 and sees tower churn at the low end of the normal 1-2% range.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
Total Revenues	6,340	6,986	6,984	6,665	6,447
Adj. EBITDA	3,815	4,340	4,404	4,171	4,059
FFO / Share	6.39	7.74	7.35	6.86	6.43
AFFO / Share	6.95	7.38	7.53	6.90	6.78
DPS	5.46	5.98	6.27	6.27	6.33
GAAP EPS	2.68	3.87	3.38	2.85	2.37
Valuation (Dec)					
P/AFFO	23.8x	23.7x	22.8x	23.2x	24.1x
EV / EBITDA	16.85	14.81	14.60	15.41	15.84
Dividend Yield	6.4%	7.0%	7.3%	7.3%	7.4%
GAAP P/E	32.0x	22.2x	25.4x	30.1x	36.2x

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 19 October 2023 04:33PM EDT

19 October 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	115.00	100.00
2023E Rev (m)	6,993.5	6,983.7
2024E Rev (m)	6,653.5	6,664.5
2025E Rev (m)	6,483.8	6,447.0
2023E EPS	3.65	3.38
2024E EPS	3.14	2.85
2025E EPS	2.53	2.37

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Stock Data

Price	85.89 USD
Price Objective	100.00 USD
Date Established	19-Oct-2023
Investment Opinion	B-2-7
52-Week Range	87.97 USD - 153.98 USD
Mkt Val (mn) / Shares Out (mn)	37,190 USD / 433.0
Average Daily Value (mn)	308.77 USD
BofA Ticker / Exchange	CCI / NYS
Bloomberg / Reuters	CCI US / CCI.N
ROE (2023E)	21.5%
Net Dbt to Eqty (Dec-2022A)	287.4%
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"](#).

AMAT: Applied Materials

SBAC: SBA Communication

iQprofileSM Crown Castle Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.8%	5.9%	5.7%	5.4%	5.1%
Return on Equity	13.1%	21.3%	21.5%	22.3%	25.0%
Operating Margin	31.4%	34.7%	33.4%	33.2%	32.2%
Free Cash Flow	1,560	1,568	1,637	1,610	1,548

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.4x	1.7x	2.1x	2.6x	2.9x
Asset Replacement Ratio	0.7x	0.8x	0.8x	0.9x	0.8x
Tax Rate	1.8%	0.9%	1.6%	2.0%	2.0%
Net Debt-to-Equity Ratio	244.2%	287.4%	366.3%	481.4%	NM
Interest Cover	3.0x	3.5x	2.7x	2.3x	2.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,340	6,986	6,984	6,665	6,447
% Change	8.6%	10.2%	0%	-4.6%	-3.3%
Gross Profit	4,347	4,917	4,982	4,737	4,593
% Change	12.4%	13.1%	1.3%	-4.9%	-3.0%
EBITDA	3,815	4,340	4,404	4,171	4,059
% Change	2.9%	13.8%	1.5%	-5.3%	-2.7%
Net Interest & Other Income	(814)	(733)	(844)	(945)	(1,022)
Net Income (Adjusted)	1,159	1,674	1,468	1,241	1,030
% Change	15.9%	44.4%	-12.3%	-15.4%	-17.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,158	1,674	1,468	1,241	1,030
Depreciation & Amortization	1,644	1,708	1,748	1,755	1,822
Change in Working Capital	(346)	(747)	(385)	17	17
Deferred Taxation Charge	4	3	1	4	4
Other Adjustments, Net	329	240	232	196	156
Capital Expenditure	(1,229)	(1,310)	(1,427)	(1,604)	(1,482)
Free Cash Flow	1,560	1,568	1,637	1,610	1,548
% Change	9.0%	0.5%	4.4%	-1.7%	-3.8%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	461	322	184	187	356
Trade Receivables	543	593	510	500	479
Other Current Assets	250	302	330	330	330
Property, Plant & Equipment	15,269	15,407	15,494	15,355	15,029
Other Non-Current Assets	22,517	22,297	22,000	22,000	22,000
Total Assets	39,040	38,921	38,517	38,372	38,194
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,954	1,912	1,720	1,726	1,724
Long-Term Debt	20,629	21,729	22,887	23,864	25,219
Other Non-Current Liabilities	8,199	7,831	7,713	7,863	7,935
Total Liabilities	30,782	31,472	32,320	33,454	34,877
Total Equity	8,258	7,449	6,197	4,918	3,318
Total Equity & Liabilities	39,040	38,921	38,517	38,372	38,194

* 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 AFFO/sh growth challenged in 2024/25 as domestic carriers slow down wireless deployments and we see headwinds to CCI's fiber business. Overall we are a believer in 5G deployments and the need for small cell technology, but believe the opportunity now appears longer dated in the United States. We also note in a 'no recession' 2024 scenario, we believe 'defensive' tower names will lack the incremental bid vs. growth stocks.

Stock Data

Average Daily Volume 3,594,967

Quarterly Earnings Estimates

	2022	2023
Q1	0.97A	0.96A
Q2	0.97A	1.05A
Q3	0.97A	0.61A
Q4	0.95A	0.76E

Estimate changes

We adjust our estimates for the 2024 guidance release and mgmt. commentary.

Exhibit 1: CCI old vs. new estimates

We have revised our estimates to account for 3Q23 results and mgmt. commentary

	2023E	2023E		2024E	2024E		2025E	2025E	
	New	Old	+/-%	New	Old	+/-%	New	Old	+/-%
Revenues									
Tower site rental revenues	4,317	4,321	-0.1%	4,283	4,299	-0.4%	4,072	4,088	-0.4%
Small Cell	793	788	0.6%	726	641	13.3%	719	665	8.0%
Fiber Solutions	1,410	1,391	1.4%	1,361	1,305	4.3%	1,359	1,318	3.1%
Fiber site rental revenues	2,203	2,179	1.1%	2,088	1,946	7.3%	2,078	1,983	4.8%
Site Rental Revenues	6,520	6,500	0.3%	6,370	6,245	2.0%	6,150	6,072	1.3%
Network services	463	493	-6.1%	294	408	-27.9%	297	412	-27.9%
Total revenues	6,984	6,993	-0.1%	6,665	6,653	0.2%	6,447	6,484	-0.6%
Segment info									
Tower new leasing	127	131	-2.6%	106	104	1.8%	110	110.1	0.0%
Tower churn	(30)	(24)	24.8%	(45)	(47)	-4.0%	(247)	(249)	-0.8%
Fiber & Small cell new leasing (ex Sprint)	150	145	3.6%	201	182	10.1%	209	187.2	11.4%
Fiber & Small cell churn (ex Sprint)	(128)	(112)	14.1%	(119)	(112)	5.9%	(122)	(125)	-2.1%
Other metrics									
Adj. EBITDA	4,404	4,404	0.0%	4,171	4,227	-1.3%	4,059	4,087	-0.7%
FFO	3,193	3,307	-3.5%	2,984	3,122	-4.4%	2,797	2,908	-3.8%
AFFO	3,267	3,276	-0.3%	3,003	3,123	-3.8%	2,951	3,029	-2.6%
AFFO/sh	7.53	7.55	-0.3%	6.90	7.20	-4.1%	6.78	6.98	-2.8%
Interest expense	852	844	1.0%	952	890	6.9%	1,022	967	5.6%
Sustaining CapEx	78	78	-0.7%	80	91	-12.6%	78	90	-13.4%
Discretionary CapEx	1,427	1,379	3.4%	1,604	1,372	16.9%	1,482	1,321	12.1%

Source: BofA Global Research and company reports

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Price objective basis & risk

Crown Castle Inc (CCI)

Our \$100 PO is based on a weighted approx. 15x 2024E AFFO multiple. We apply a 16x multiple to CCI's macro tower business (70% weighting given business exposure), a discount to peers, as we expect lower organic 2024 growth from its tower business. We apply a 15x multiple to CCI's small cell business (10% weighting) and a 9x multiple to CCI's fiber business (20% weighting), a discount to the macro tower business based on higher business risks and capital intensity. We view the CCI story as a 'show me story' as we see the recent 2023E reduction in Tower leasing, increased interest rates, absence of 1x 2023 Sprint payments, elevated Sprint churn, and fiber business headwinds challenging AFFO/sh growth during the next couple years. 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).

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
BUY				
	American Tower Corp.	AMT	AMT US	David W. Barden, CFA
	AT&T Inc.	T	T US	David W. Barden, CFA
	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
	Uniti Group Inc	UNIT	UNIT 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
	Dish Network Corporation	DISH	DISH US	David W. Barden, CFA
	Lumen Technologies Inc.	LUMN	LUMN 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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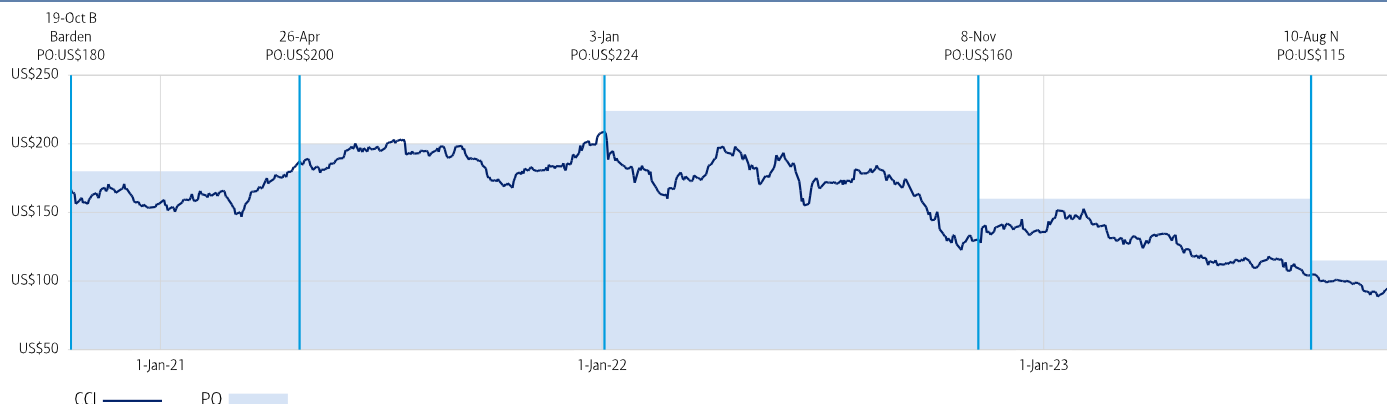
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Disclosures

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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	53	49.07%	Buy	38	71.70%
Hold	30	27.78%	Hold	20	66.67%
Sell	25	23.15%	Sell	13	52.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{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}
Buy	≥ 10%	≤ 70%
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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