new|street RESEARCH

Infrastructure Deal Bonanza: What It Means For Towers Globally

May 11, 2019 by Spencer Kurn

Nearly $20BN of telecom infrastructure changed hands this week through two large deals: Cellnex acquired all of Xavier Niel's towers in Europe, and a consortium of private equity funds acquired Zayo in the US. In this weekly review, we discuss the implications of these deals on the communications infrastructure landscape globally, and why they support our stance that SBAC is the most compelling opportunity within towers.

Cellnex is now *the* European tower company

The €4BN acquisition of 15K towers in France, Italy, and Switzerland is transformative for Cellnex. It increases their tower count by 55% to ~45K sites, clearly marking them the leading independent tower company in Europe (the next closest competitor is Inwit with only 11K towers, followed by AMT with only 5K towers). The transaction multiple of 16.5x EBITDA was higher than the historic average in Europe, but the deal was still 18% accretive to EFCF / share (see our detailed thoughts on the deal HERE).

Cellnex is still deal-hungry

Even after this "quantum leap", Cellnex is still looking to buy more assets in Europe. Their focus seems likely to be in the UK next, and equity investors are clearly willing to fund them at the moment, despite the ever increasing amounts of leverage being taken on. A deal with either CTIL or MBNL in the UK would be obvious assets to look at to integrate with their Shere portfolio in the UK, but the even bigger quantum would be if they could buy towers in Germany – the one big market in Europe where they are lacking presence.

The absence of AMT (and other large tower companies) is noteworthy

Cellnex is ultimately winning European tower deals because they are willing to pay the highest price. AMT has publicly said that they analyze virtually every tower asset that comes up for bid in Europe, but at the multiples being paid, the transactions don't meet their return hurdles. We believe there are two reasons why Cellnex is willing to pay more: 1) a lower cost of capital; and 2) a lower return hurdle. A lower cost of capital is a structural advantage that Cellnex should undoubtedly exploit; however, lower returns should ultimately drive a lower multiple for the overall business. With Cellnex trading at the same multiple as US tower companies, despite offering lower returns, we would rather own US towercos over the long-term.

Asset mix and industry structure keeps us Neutral on Cellnex

Cellnex will likely outperform if they can replicate this transaction across additional European tower assets, as the deals would likely be accretive and further diversify the company away from its broadcasting past. We remain Neutral, however, because we still have concerns about the underlying organic outlook: the broadcasting business has long-term risks, the Vodafone / Orange deal in Spain could drive a reduction to tenancies, and the Inwit / Vodafone combination could weaken Cellnex's position in Italy.

The Zayo deal in the US underscores the importance of asset mix

The $14BN acquisition of Zayo by Digital Colony and EQT speaks volumes about infrastructure multiples. The acquisition price equates to a multiple of 10.4x 2020 EBITDA for a collection of fiber, transport, enterprise, and data centers assets. We are mainly focused on the multiple paid for Zayo's fiber, as this is a direct comparison to the fiber assets that CCI owns (and comprises nearly 20% of its EBITDA). When we apply a sum of the parts analysis to the other businesses, we estimate that the PE funds valued Zayo's fiber at 12x EBITDA. This multiple pales in comparison to the 19x multiple that the market places on CCIs fiber today (see our detailed thoughts on the deal HERE).

If Zayo's fiber is only worth 12x, why is CCI's worth 19x?

This topic has been a source of debate for years. CCI has said that they were never interested in Zayo's fiber because it had inferior density and product quality than the fiber they have acquired over the past five years. While there may be some truth to this (though historic filings Lightower would beg to differ), we doubt that these differences should warrant a 60% premium to CCI's fiber. We think CCI's fiber warrants the same multiple as Zayo's, and when the poor characteristics of the fiber business (higher churn, low pricing power) eventually impact CCI's financials, we estimate that 8% of CCI's valuation will be at risk.

SBAC offers higher quality at a discount

SBAC remains our top pick amongst towers US and Europe. They have the greatest exposure to US towers (excluding small cells and fiber) and therefore the highest mix of asset quality, offer the fastest growth in AFFO per share, and yet their US towers trade at a 4x discount to peers. Put it another way: if we apply the market multiple for CCI's US towers to SBAC's, the stock would be worth $250. Even with tower multiples near all-time highs, we believe this discrepancy in relative valuation makes SBAC compelling.

For the full weekly review and updated comp sheets, see HERE

Full 12-month historical recommendation changes are available on request

Reports produced by New Street Research LLP. 52 Cornhill, London EC3V 3PD Tel: +44 20 7375 9111.

New Street Research LLP is authorised and regulated in the UK by the Financial Conduct Authority and is registered in the United States with the Securities and Exchange Commission as a foreign investment adviser.

Regulatory Disclosures: This research is directed only at persons classified as Professional Clients under the rules of the Financial Conduct Authority ('FCA'), and must not be re-distributed to Retail Clients as defined in the rules of the FCA.

This research is for our clients only. It is based on current public information which we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Most of our reports are published at irregular intervals as appropriate in the analyst's judgment. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

All our research reports are disseminated and available to all clients simultaneously through electronic publication to our website.

New Street Research LLC is neither a registered investment advisor nor a broker/dealer. Subscribers and/or readers are advised that the information contained in this report is not to be construed or relied upon as investment, tax planning, accounting and/or legal advice, nor is it to be construed in any way as a recommendation to buy or sell any security or any other form of investment. All opinions, analyses and information contained herein is based upon sources believed to be reliable and is written in good faith, but no representation or warranty of any kind, express or implied, is made herein concerning any investment, tax, accounting and/or legal matter or the accuracy, completeness, correctness, timeliness and/or appropriateness of any of the information contained herein. Subscribers and/or readers are further advised that the Company does not necessarily update the information and/or opinions set forth in this and/or any subsequent version of this report. Readers are urged to consult with their own independent professional advisors with respect to any matter herein. All information contained herein and/or this website should be independently verified.

All research is issued under the regulatory oversight of New Street Research LLP.

© Copyright 2021 New Street Research LLP

No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of New Street Research LLP.