

Global Towers Update – The Predictability of Divergence

November 11, 2018 by James Ratzer

As telecoms asset classes go, towers should be more predictable than most, and the recent earnings season has laid bare the diverging trends seen between some of the developed market tower companies and the emerging market ones. We are seeing positive trends emerge for tower companies in developed markets like SBAC, Inwit, and to a lesser extent Cellnex. Meanwhile, the outlook in India Bharti Infratel remains difficult and AMT remains stuck in the middle with a foot in both camps.

In developed markets like Italy and the US, despite fears that 4-3 consolidation could lead to a shrinking demand for towers, we are actually seeing the opposite play out as ongoing demand for tenancies from existing wireless carriers and new providers is driving incremental demand. Inwit has seen macro site demand accelerate in Q3 to +2% YoY – the highest rate of growth since the IPO as the network operators try to differentiate their rural performance, and tenancy growth remains supported by new demand coming from Iliad (see [NOTE](#) for more details). Cellnex is seeing similar trends with underlying tenancy growth of 4% in Spain and acceleration in Italy to +9% YoY – its strongest on record. The recent 3.5GHz auctions across Europe should only further enhance demand, as Three UK presented on this week ([NOTE](#)).

The only blip in Inwit's results was slowing rollout of small cells, and although we have never believed management's longer-term guidance, even our more conservative approach might now look too bullish, especially as improving propagation of the 3.5GHz band using massive-MIMO is dampening the need for any near-term small cell build out. This may be a warning sign for CCI, whose small cell strategy we have been cautious on precisely because we don't think their fiber will generate enough small cell demand to justify their current multiple ([LINK](#)).

Similarly to Europe, we are also seeing positive tower trends in the US. Over the past two quarters, organic growth for US towers has accelerated by 100bps as all four US deploy network equipment simultaneously for the first time since 2014. Even though organic growth has taken a step function higher this year, we believe it will continue to grind higher. In the third quarter, SBAC executed the highest level of leases in their pipeline in the past four years, which means organic growth should continue to climb at least through the first half of 2019. SBAC remains our top pick within the US towers, because they stand to benefit the most from rising organic growth in the coming quarters, and have the greatest exposure to our favorite asset class – towers.

AMT has seen strong trends in the US well; however, the benefits have been dampened by their exposure to India ([LINK](#)). Dramatic consolidation is leading to weak trends in India, with Indus Towers and AMT both seeing revenue shrink over 10% annually. We expect further cut backs from Vodafone IDEA in the current quarter, but the big difference between us and most observers of the market is that we are concerned that Vodafone IDEA is not viable at current prices and with its current capital structure ([LINK](#)). We don't think the combined entity has sufficient shareholder support for the \$8-9bn equity raise required to put it on a sustainable footing. There is

therefore a real risk of a gradual wind down of Vodafone IDEA with a disorderly exit. Yet Vodafone IDEA currently accounts for 36% of market colocations. A Vodafone IDEA exit would make the recent disruption in India look minor, as we estimate it would reduce Infratel's revenue and EBITDA by 30% and 50% respectively and hence we retain our Reduce recommendation on Bharti Infratel.

Hence, for the carriers, collocating on existing towers remains a far cheaper way to roll out more capacity than building out new towers. Improving propagation is now making this possible and for the tower companies this remains a higher margin source of growth. Hence, a win-win situation for both, but for investors, the clearest way to play this is through the pure-play developed market tower companies and our favourite two would be Inwit and SBAC.

For the full weekly review and updated comp sheets, see [HERE](#).