



Tower industry primed for growth with carrier buildouts

Near-term prospects good for public, private tower firms

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The tower industry should see increased revenues from U.S. carriers over the next few years as they fortify their networks for the promise of increased traffic that should come from advanced generation technologies. Overall, 2009 should end strong for the nation's three public tower companies. Free cash flow estimates at the tower firms increased in the second half of the year, while the cost of getting funding decreased.

The fact that tower firms were able to access the credit markets in early 2009, when the banking industry was in upheaval and the economy in a recession, is testament to the increasing stability of the tower business – a far cry from the early part of the decade, when bankruptcies were common and tower companies consolidated at breakneck speed. "The concern early this year, especially for Crown and SBA, was they had looming debt due, but the capital markets opened up for this industry," said Don Bechter, managing director with RBC Capital markets. Investors are increasingly comfortable with the tower industry's long-term contracts, healthy wireless customers, lower churn and potential for wireless industry growth. American Tower Corp. was upgraded to an investment grade credit rating, which will help the company get access to capital at lower prices than it was previously able to do. The tower industry overall was able to access \$5 billion in capital in 2009, which Bechter called incredible given market conditions. Private companies may only state certain metrics, but in general they're fortunes are similar to their public counterparts, Bechter noted. "It's a rosy outlook despite the general economy."

Going forward, the sector should continue to benefit from Clearwire Corp.'s 4G buildout, as well as Verizon Wireless' LTE buildout. "We expect LTE spending to ramp in importance over time, with beneficiaries to include traditional wireless infrastructure vendors (Ericsson, Nokia Siemens, Motorola, Alcatel, Huawei, ZTE) as well as IP core and backhaul companies (Cisco, Juniper, Ciena, Dragonwave, etc.)," said Macquarie Securities in a research note. "Wireless tower operators should also benefit as most carriers will pay for lease modifications for LTE, though not for full additional site leases."

Indeed, American Tower Corp. CFO Tom Bartlett said the increased traffic from data applications

will be a growth driver going forward, more so than modifications that have to be made to sites to accommodate new technology. "Where the great growth is going to be coming from LTE, there is going to be some revenue growth no doubt coming from the additional weight and configurations that are going on on the tower space, but where LTE is going to be driving revenue for the tower companies is going to be as a result of the incredible demand supported by LTE 700 MHz spectrum and the resulting splitting and additional coverage and capacity that the carriers are going to have to put in place to meet that demand," Bartlett said in early December, speaking at the UBS 37th Annual Media and Communications Conference. American Tower said Clearwire was its biggest customer in the third quarter.

"We're just really on the front end of data driving this growth," said RBC's Bechter. "The infrastructure has got to be there to accommodate the increasing demand."

"Customer demand for our leasing space and services was solid in the quarter, and is increasing as we move to year-end. Demand associated with 4G networks now represents a significant part of our new business, and is expected to increase as we move into and through 2010," said SBA Communications Corp. President and CEO Jeffrey Stoops in his firm's third-quarter earnings announcement.

In its third-quarter results, CCI also said it expects a stronger 2010, which forced Macquarie Securities to increase its outlook for the tower firm. "The third-quarter results were strong, but most interesting was the look into FY10," said Macquarie Securities in a research note following Crown's Q3 results. "We have been forced as a result to lift our FY10 estimates for site leasing revenue, but also importantly, tower cashflow margin. CCI is making real strides in improving this metric – and is doing so at the fastest rate in the listed sector. This quarter, tower cashflow margin reached 73.0%."

Going forward into 2010, the sector seems primed for growth. Privately held Global Tower Partners said it expects to see a 10% increase in gross leasing revenues and collocations in 2010, said CEO Marc Ganzi.

Acquisitions still name of the game

Organic growth and acquisitions are still strong as the nation's largest tower companies continue to buy up smaller companies.

American Tower integrated 2,650 sites into its portfolio in the third quarter, and is diversifying into foreign markets, strengthening its tower base in India and Brazil. "The second half of the year was stronger than the first half," Bartlett said at the UBS conference. The company expects to have 27,000 towers in its portfolio by the end of the year, Bartlett said. Of that amount, about 20,000 are in the United States, 5,000 are in Latin America and 2,000 are in India. Further, the company expects to announce outdoor DAS solutions going forward into 2010.

American Tower bought nearly 200 sites from Cincinnati Bell in November. Meanwhile, Global Tower Partners picked up more than 200 sites from DukeNet Communications in early December. And SBA said it is planning to grow its portfolio. "With our balance sheet now close to what we believe is an optimum position for the creation of additional shareholder value, we are once again actively pursuing portfolio growth that meets our investment criteria. Acquisition activity is higher, and for 2009 we expect to increase our number of towers owned by approximately 5%. We are well-positioned to achieve in 2010 our historical goal of 5% to 10% portfolio growth," Stoops noted in the company's third-quarter financials.

Crown also hinted at the prospect of continued acquisitions in 2010. "As we look forward to 2010, I anticipate we will be in a position to resume investing the majority of our cash flow in activities, such as share purchases, tower acquisitions and land purchases that we believe will increase long-term recurring cash flow per share," said Crown CFO Jay Brown.

Concerns

Despite the general positive outlook RBC's Bechter said the investment community is always a little concerned about how wireless carriers will handle the mature penetration level of the market. While voice becomes more of a commodity, carriers need to make sure they price data services correctly since that likely will be the growth driver for years to come, and not get into price wars over voice services.

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