

TELECOM

5G Is Coming. Buy These Two Cell Tower REITs to Play the Trend.

By [Nicholas Jasinski](#) Updated May 24, 2020 9:43 am ET / Original May 24, 2020 9:00 am ET



Photograph by Dakota Roos

Resilience during the coronavirus pandemic, an accelerating 5G network build out, and rock-bottom interest rates mean a pair of [cell tower real-estate investment trusts still appear attractive](#), even after years of compounding gains.

[Oppenheimer's Timothy Horan](#) upgraded shares of [American Tower REIT](#) and [Crown Castle International](#) to

Outperform on Friday, citing long-term growth potential and attractive valuations.

American Tower stock (ticker: AMT) was up 5.4% on Friday, while Crown Castle shares (CCI) rose 3.3%. The S&P 500 index ticked up 0.2%.

[Verizon Communications \(VZ\)](#), [AT&T \(T\)](#), and [T-Mobile US \(TMUS\)](#) have all begun [rolling out next-generation 5G networks](#) in markets across the U.S., promising faster speeds, greater capacity, and lower latency. They can't do it without the tower REITs, however, who lease antenna space on cell towers and benefit from the greater spending and equipment requirements of the new networks.

Barron's pointed to American Tower and Crown Castle—along with fellow tower REIT [SBA Communications \(SBAC\)](#)—as [attractive ways for investors to play the 5G transition](#) in a recent special issue. Their stocks have been remarkable outperformers in recent years, but those gains have been matched by growth in their fundamentals.

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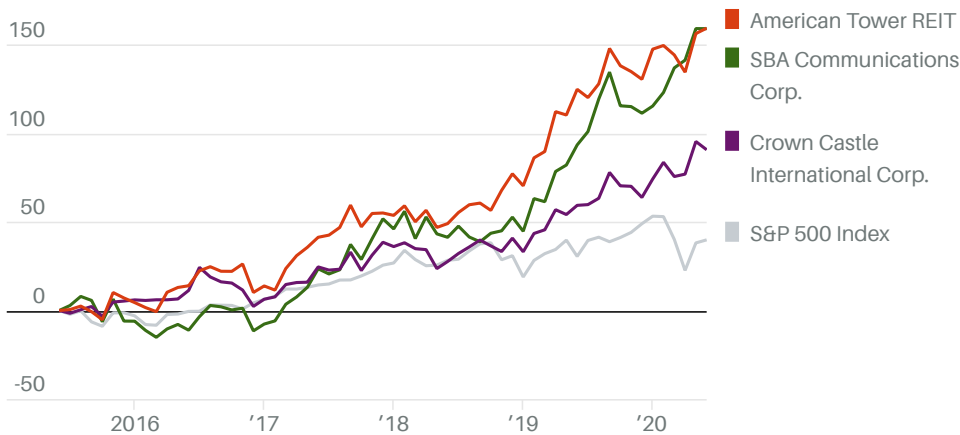
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Towering Above

Cell tower REITs have been strong outperformers over the past five years.



Source: FactSet

American Tower and Crown Castle stocks are pricey, at 27 and 24 times estimated adjusted funds from operations, or AFFO, per share over the next year. But bond yields have tumbled as the Federal Reserve has lowered interest rates to near zero in recent months. That has widened the difference, or spread, between the tower REITs' AFFO yields—their AFFO per share divided by the price—and the yield on the 10-year Treasury. By that metric, Horan sees the shares as more attractively valued.

Currently, American Tower stock trades for a 3 percentage point spread above the 10-year Treasury, while Crown Castle's goes for 3.3 points higher. That's well above the long-term average spreads of 2.2 points and 2.6 points, according to Horan. He sees the wider gap as a buying opportunity.

Plus, the outlook for tower REITs' AFFO growth is bright in the coming years. Horan expects both companies to increase their AFFO per share at about 10% annually over the long term.

Upgrading wireless networks to support 5G requires larger and heavier equipment, which generates more rent. 5G uses a wider range of wireless spectrum bands, also

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network spending. And [Dish Network](#) (DISH) is set to enter the wireless market, having bought regulator-required divestments from the Sprint/T-Mobile deal. It plans to build a 5G network in the coming years.

Horan expects overall U.S. wireless industry capital spending to rise to \$42 billion in 2021, from the low \$30 billion range in recent years.

American Tower and Crown Castle each have their own additional potential growth drivers. American Tower has a large presence in India, where the market has been challenging. But Horan expects improving conditions as a result of a wave of consolidation in the Indian telecom industry.

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For Crown Castle, Horan points to the company's focus on building small cells in the U.S. They are a key part of 5G networks, which rely on high-frequency spectrum bands that don't propagate as far from their antennas, but can carry more data.

"5G upgrades and 4G network densification will likely be a long cycle that provides solid tower activity visibility for the next few years," writes Horan. "We expect small cells will eventually cover half the U.S. population, or 160 million people. This would be more than 1 million small cells in the U.S., up from about 100,000 today and about 250,000 macro cell sites."

Horan has a \$270 price target on American Tower stock, about 13% above its recent \$240. He sees Crown Castle stock climbing to \$175, implying 12% upside from about \$156 on Friday. American Tower and Crown Castle also sport dividend yields of 1.7% and 3.2%, respectively.

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