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North America Telecommunications Infrastructure

SpaceX: A Fourth National Carrier?



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CITI'S TAKE

The probability of SpaceX building a terrestrial wireless network in the US market is rising. One recent data point is that Bloomberg is reporting that SpaceX is in discussions with major tower owners. The initiative would combine Starlink's satellite network, newly acquired low-band spectrum, and a large terrestrial tower footprint to provide nationwide mobile coverage. We view a mobile build scenario, including a potentially larger infrastructure investment, as a net-positive for the Tower stocks, and net-negative for Telco stocks. We remain Buyers of CCI, SBAC, and AMT on the positive optionality from a possible SpaceX build. The opportunity for SpaceX to build and invest in additional spectrum could create another buyer for EchoStar's remaining spectrum.

American Tower Corp

(AMT.N; US$185.88; 1; 29 Oct 26; 16:00)

Valuation

Our 12-month target price of $220 for American Tower is based on the average of the following methodologies:

Our DCF incorporates revenue scaling to $14 billion by 2030, and an OIBDA margin expansion to ~68%.

We derive a WACC of 8.1% using a target debt-to-total capital ratio of 30%, cost of equity of 9.2%, and beta of 0.85x to arrive at an operating enterprise value of $149 billion, which is adjusted to get a total firm value of $138 billion. We then subtract year-end 2027E net debt of $35 billion to derive an equity value of roughly $103 billion, or $221 per fully diluted share.

We adjust American Tower's 2027E normalized cash tower gross profit of $8.3 billion to remove deferred revenue amortization of $0.1 billion. We then apply a 18.0x EV/TGP multiple on our estimate of $8.2 billion. We then adjust AMT's total firm value to remove net-debt and sale-leasebacks and minority options to get a revised equity value of $103 billion. We expect a cash TGP CAGR of ~7.5% between 2027-2030, yielding a value of around $222 per share.

We adjust our 2027E AFFOPS of $11.72 to remove deferred revenue amortization of $0.23 for an expected 2027E AFFOPS of $11.49. We then apply a 19x multiple on our 2027 AFFOPS estimate, which yields a valuation of around $218 per share.

Risks

Risk to our thesis and target price on American Tower include: high leverage, significant exposure to spending by wireless operators, rising interest rates, emerging market currency fluctuations, and above-average share price volatility. However, we believe the company's recurring revenue model with significant operating leverage and high incremental margins create a less volatile business model with relatively high predictability.

Tower industry risks include: revenue and profitability is subject to the capital and maintenance budgets of wireless telecom carriers and broadcast providers. Investment risks include: Wireless consolidation within the US remains a key risk for all tower companies over the long term, as American Tower relies on a small number of customers for a significant portion of its revenues and high financial leverage creates sensitivity to any rapid rise in interest rates. Risks to valuation include unexpected shifts in investor sentiment and/or substantially higher treasury rates.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty reaching our target price. Conversely, the stock could outperform our target price to the extent AMT further accelerates site leasing growth and/or its AFFOPS growth for the broader portfolio. The impacts from COVID-like events are difficult to estimate and could have a dilutive impact on site leasing growth and valuation from a range of factors, including cost of capital, labor constraints, capital availability, and market liquidity that could negatively impact the stock price as well as our target price.

Crown Castle Inc

(CCI.N; US$88.83; 1; 29 Oct 26; 16:00)

Valuation

We derive our $98 target price based on a simple average of the following methodologies:

Our DCF assumes revenues scale to $4.4 billion by 2030 and OIBDA margins expand to 71%. We arrive at an operating EV of $63 billion, adjusted to get a total firm value of $59 billion. From here, we deduct year-end 2026E net debt of $18 billion to derive an equity value of $42 billion. Terminal FCF multiples are based on our WACC calculation of 7.3% (which uses a target debt/total capital ratio of 40%) and an estimated terminal unlevered FCF growth rate of 2.5%. These assumptions imply a terminal FCF multiple of 20.8x. This method yields a value of $98 per share.

We apply a 21x EV/TGP multiple on our 2027 cash tower gross profit estimate of $3.0 billion. We expect a TGP 3-year CAGR of around 3.8% through 2030 and our valuation framework yields a fair value of roughly $99 per share.

We apply a 20x multiple on our 2027 cash AFFO estimate of $5.08 per share, excluding $0.12 of prepaid rent (aka deferred revenue). This method yields a valuation of roughly $99 per share.

Risks

Investment risks that could cause the shares to fail to achieve our target price include: 1) execution risk on planned divestitures not delivering the announced value of $8.5 billion; 2) a more meaningful jump in 10-year Treasury rates; and 3) a slowdown in domestic organic tower growth prospects. Upside risks include 1) an acceleration in domestic tower leasing organic growth; 2) an accelerated timeline to close the fiber segment divestiture transactions; and 3) a more meaningful decrease in 10-year Treasury rates.

EchoStar Corporation

(ECHO.O; US$97.66; 1H; 29 Oct 26; 16:00)

Valuation

Our $117 target price for EchoStar shares is based on the average of 1) the company's equity value calculation from its announced asset sales and possible future divestitures and 2) our discounted cash flow calculation.

We estimate total spectrum monetization proceeds (pre-tax) of $43.1 billion, that includes the already-announced sale of the 600 MHz and 3.45 GHz spectrum bands for $23 billion, the sale of AWS-4 and PCS H-Block for $7.9 billion and the sale of the AWS-3 spectrum (uplink) for $2.6 billion. To that we add $7.9 billion for the AWS-3 estimated monetization value (paired), $0.8 billion for the 700 MHz and $0.9 billion for a CBRS sale. From the $43.1 billion spectrum value we subtract cost basis of $13.5 billion and Tax NOLs of $4.2 billion and arrive at a taxable gain of $25.3 billion.

We apply a 25% tax rate netting an after-tax spectrum gain of $19.0 billion, to which we add back the Tax NOLs and cost basis, arriving at an after-tax spectrum value of $36.7 billion. We then include DBS of ($2.9 billion), Satellite Broadband of ($214 million) and Boost for +$500 million.

We then add the possible value of SpaceX shares and arrive at an enterprise value. From that we subtract $9.4 billion of net debt and $3.1 billion of remaining operating leases, which gets us to an Equity value of approximately $160/share. We apply a conglomeration discount of 25% on the Equity Value and arrive at a net equity value of approximately $120/share.

Our DCF analysis assumes that revenues scale to $3.1 billion by 2030, with EBITDA of $351 million and an EBITDA margin of 11.3%. Based on these assumptions and a weighted average cost of capital (WACC) of 7.7%, we arrive at a total operating enterprise value of $1.4 billion. We also assume 2030E free cash flow of $659 million and a terminal growth rate of -1.0%, implying a terminal free cash flow multiple of 11.6x. Adding adjustments of $46.8 billion results in a total firm value of $48.2 billion. After deducting net debt (PF for proposed exchange) of $5.9 billion, we derive an equity value of $54.1 billion, or approximately $153 per fully diluted share.

Taking the average of both methodologies we arrive at a TP of $117/share.

Risks

We apply a High-Risk rating to ECHO shares given the uncertainty around ECHO' reorganization. Additional downside risks to our target price include the following: 1) Hughes broadband does not generate substantial levered FCF in its current form and may face slower growth and greater competition from competing broadband alternatives (satellite and terrestrial); 2) EchoStar could be subject to new, unexpected M&A transactions that may yield uncertain economic value for ECHO shareholders; 3) remaining spectrum may not be able to be monetized, realized spectrum asset values could be lower than expected, and increased scrutiny of recent spectrum sales could raise regulatory risk; 4) the pending spectrum sale between EchoStar and SpaceX may not close or its terms could change unfavorably for EchoStar; 5) future portfolio strategy remains a point of uncertainty, as ECHO may choose to retain proceeds and reinvest in new ways, which could extend the investor payback period, result in a significant discount to underlying NAV, or otherwise not align with the interests of public shareholders; 6) lower values of SPCX shares and operating assets, higher taxes, and greater liabilities related to pending litigation with vendors and/or other parties could negatively impact shareholder value.

SBA Communications Corp

(SBAC.O; US$184.88; 1; 29 Oct 26; 16:00)

Valuation

Our target price of $235 represents a simple average of the following methodologies:

Our DCF analysis incorporates revenue scaling to $3.3 billion by 2030E, and OIBDA margins expand to 70% in 2030E. Based on these estimates and a WACC of 8.0%, we arrive at an operating enterprise value of $38 billion. We then subtract year-end 2027E net debt of around $12.9 billion to derive an equity value of $24.7 billion, or $244 per fully diluted share.

We apply a 17.0x EV/Tower Gross Profit multiple on our 2027E cash tower gross profit estimate of around $2.2 billion, excluding prepaid rent amortization (aka deferred revenue), yielding a value of $236 per share. We expect a TGP CAGR of 4.5% between 27-30E.

We apply a 18.0x multiple on our 2027E AFFOPS estimate of $12.57 (excluding $0.21 from deferred revenue amortization). We expect SBAC to grow AFFO at a 3-year CAGR of 8.8% from 27-30E. This method yields an equity valuation of around $223 per share.

Risks

We believe risks to our thesis on SBA Communications and achieving our target price include: 1) the possibility for a larger wireless carrier consolidation scenario that could meaningfully dilute site colocation revenue from site decommissioning over a multi-year period from merger-related network integration activities; 2) higher interest rates that could dilute the trading multiple and raise the cost of interest relative to our forecasts; 3) foreign currency fluctuations, which pose upside and downside risk; and 4) operating risks from its international markets, including possible operating distress of any key customers. Also, longer-term technology shifts within the category could dilute growth or reduce revenues from our projections.

Additionally, we generally believe the company is experiencing above-average risk owing to its high financial leverage. However, we see this as partly offset by the company's recurring revenue model with significant operating leverage and high incremental margins, which creates above-average stability in operating results. The company should generate substantial AFFO going forward, in our view, which should help reduce leverage if the level of investment in its share repurchase program and assets were to decline.

Build strategy may dilute free cash flow; wireless carrier M&A remains a significant threat to colocation growth; high financial leverage creates sensitivity to any rapid rise in interest rates; and fewer towers in the top markets could limit colocation opportunities.

