Cellnex Telecom SA

‘M&A machine’ Cellnex reviews next move after tower dealmaking bonanza

Spanish group has amassed a vast mast empire but faces growing debt and competition

Cellnex’s market value has overtaken that of Telefónica following a frenzy of dealmaking © Sergio Perez/Reuters

Nic Fildes, **Arash Massoudi** and **Robert Smith** 17 HOURS AGO

Five years ago a telecoms infrastructure business that was an unloved part of Spanish toll road group Abertis was cast aside and floated at a modest €3bn valuation.

From that unassuming beginning, the company — renamed Cellnex — has emerged as one of Europe’s hottest, powered by a near fourfold increase in its shares to reach a market capitalisation of €24bn making it larger than Spain’s dominant telecoms operator Telefónica.

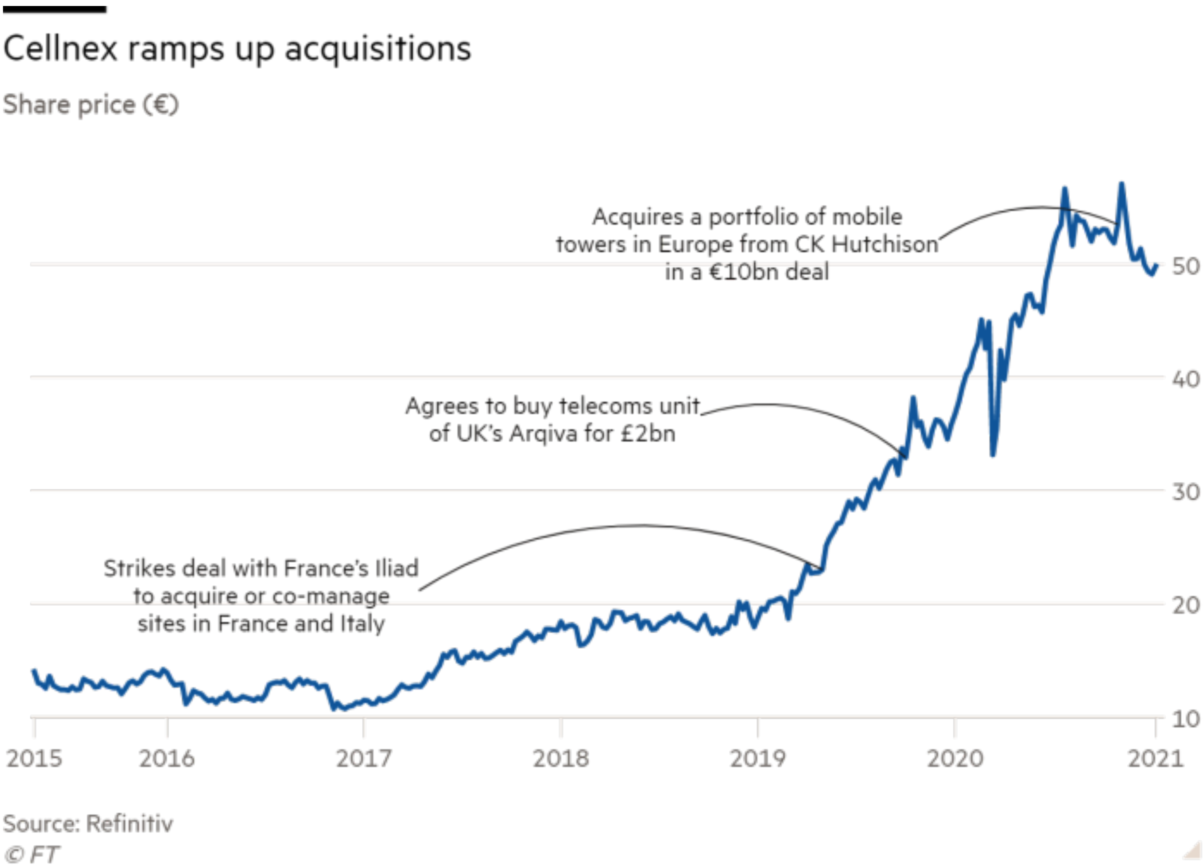
Cellnex’s rise since 2015 has been predicated on unrelenting dealmaking. Fuelled by the availability of cheap debt, the Barcelona-based group has consolidated tens of thousands of telecom towers sold off by cash-strapped mobile operators including the UK’s Arqiva, Portugal’s NOS, Switzerland’s Sunrise and France’s Iliad.

Those towers are used by telecoms groups for the equipment needed to carry mobile phone signals, from which Cellnex collects rent for their use. It capped its acquisition spree in November with the €10bn purchase of almost 25,000 towers from CK Hutchison, the Hong Kong-based owner of the Three networks.

"They are very well oiled," said one senior banker who has worked with Cellnex on a number of deals.

That acquisition — its seventh in 2020 — took its base of sites to almost 100,000, meaning the Catalan company now controls about a fifth of the continent's wireless real estate.

Berenberg analysts described it as a "one-shot deal" that transformed Cellnex into Europe's leading towers company, boosting its revenue and earnings by 50 per cent.



The question now is whether Cellnex can prove it merits the 23 times earnings multiple on which it trades and dispel suggestions that the empire it has assembled at hefty prices relies on constant dealmaking to support growth.

"They are an M&A machine and they can move very quickly. But they are also a big marketing machine that likes to talk about how good an M&A machine they are," said one banker who has negotiated opposite the company.

Tobias Martinez, chief executive, admitted that even Cellnex has been surprised by its rapid growth.

“We were able, if you want, to anticipate the opportunity and capture the momentum in Europe. I cannot say that we did anticipate the size of the scale of this momentum, but we were there and ready to act,” he told the Financial Times.

One European telecoms chief executive said Cellnex’s “super aggressive” acquisition strategy has forced the likes of Vodafone, Deutsche Telekom and Orange to come up with plans to tap the growing value of towers that had been hidden on their balance sheets, in some instances carving out them out into separate companies they still control.

Cellnex’s transition from a division of a toll road group to Europe’s largest independent tower company is the result of a “domino effect” strategy, where it has patiently built a commanding position in target markets by outbidding rivals to gain a foothold before rapidly buying out adjacent players.

Cellnex, with a market capitalisation of €24bn, is now Europe’s biggest independent tower company © Angel Garcia/Bloomberg

Alex Mestre, deputy chief executive at Cellnex, cited a hard-fought deal with Italian operator Wind to buy its 7,000 masts in 2015 as emblematic of its strategy. With Wind on board, it then struck a deal with France’s Iliad when it launched in Italy. The relationship blossomed and it has subsequently acquired the French company’s towers in France and Poland, alongside those of Salt in Switzerland which is also owned by Xavier Niel, Iliad's owner. Meanwhile, Wind merged with Three in Italy in 2016 which put Cellnex on to CK Hutchison’s radar.

The company's largest backers include Singapore sovereign wealth fund GIC, Norway's oil fund and Edizione, a Benetton family holding group which has supported Cellnex's aggressive acquisition strategy.

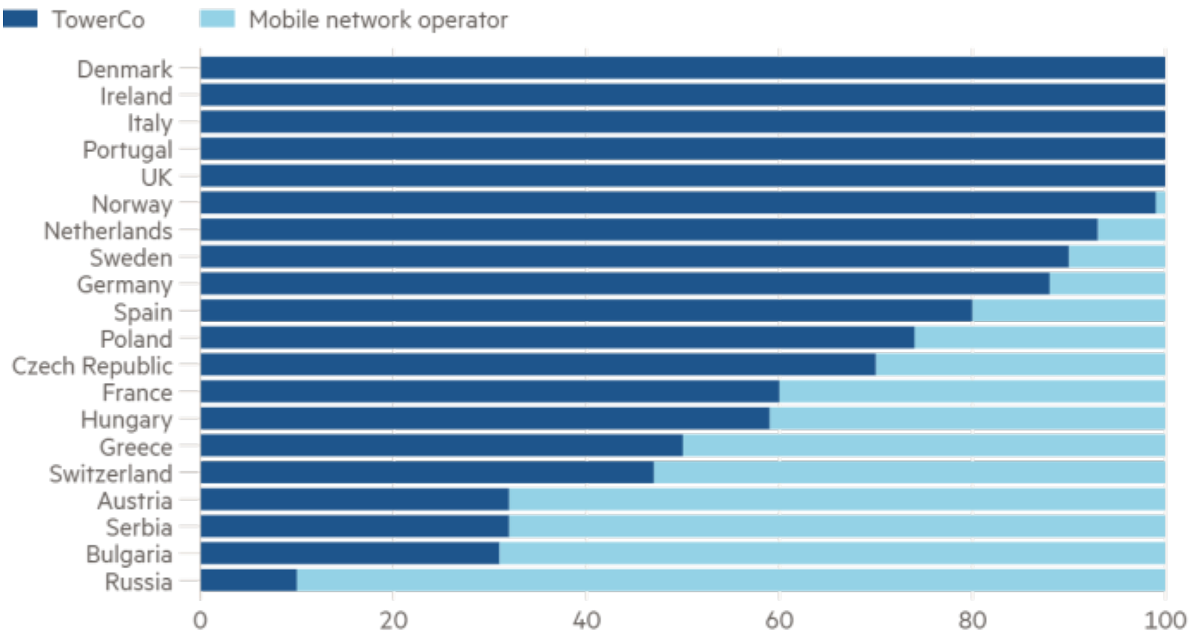
They point to a management team, comprised largely of a tight group of former Abertis executives, that moves swiftly and decisively on acquisition targets. Supporters also note Cellnex's ability to regularly tap equity markets alongside debt to fund its deals, something they say differentiates it from other roll-ups in European telecoms, such as Altice Europe, which is being taken private at a fraction of its previous valuation and drowning under huge debts.

Cellnex raised €4bn in equity in July, the largest such transaction in Europe last year, proving that the company could conjure up investor support even as the share prices of European telecoms groups came under severe pressure.

It will also partly fund the CK Hutchison tower takeover by issuing €1.4bn of new shares to the Asian company that will own about 5 per cent of its equity when the deal completes.

Mobile tower ownership in Europe

% share



Source: TowerXchange
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Cellnex's pitch is that it can make more profitable use of an individual tower it has acquired by adding radios from a larger number of carriers, while building new sites funded by contracts that lock in future cash flow.

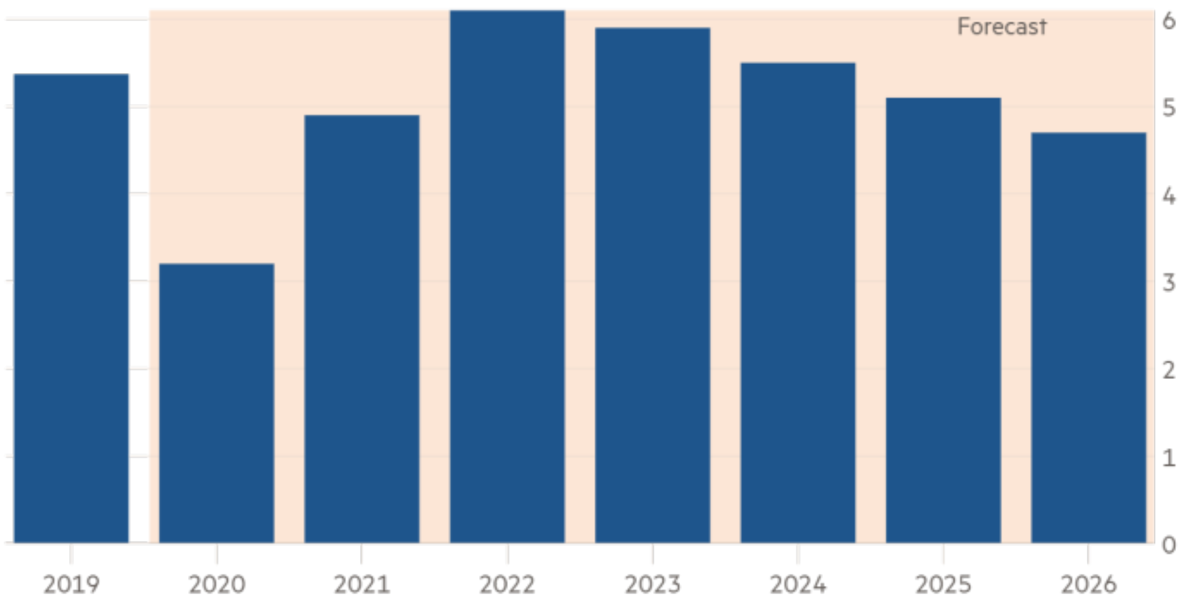
That contracted revenue — money derived from sale and leaseback agreements with telecoms companies — was worth €53bn at the end of September, rising to €80bn when new Hutchison contracts are factored in.

The M&A frenzy is evident in its financial results. In the first nine months of 2020, its revenue hit €1.1bn and its adjusted earnings before interest, taxation, depreciation and amortisation was €838m. That compares with €436m of revenue for the whole of 2014, the year before its initial public offering, with adjusted ebitda of €178m.

But there is some scepticism among rival tower players over Cellnex’s ability to justify the price it has paid for its masts. “How many additional tenancies can they generate?” asked one. “You might get a cheap location but is it the best one?”

Cellnex's leverage

Net debt to ebitda (x)



Source: Barclays
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An investment-grade rating from Fitch has allowed Cellnex access to cheap debt financing despite its high leverage, with the European Central Bank having purchased the company’s bonds under its quantitative easing programme.

The rating agency said in early 2020 that it had “relaxed” its leverage threshold for downgrading the company, allowing it to take on more debt relative to its earnings without losing its investment-grade status. However, Fitch said in November that the Hutchison acquisition would put Cellnex outside even this looser leverage restriction.

Analysts at CreditSights, who peg the company’s net leverage at 6.6 times its earnings, said the rating agency’s thresholds were “certainly being tested”, while estimating that its recent run of acquisitions would take Cellnex’s net debt from €3.8bn to more than €13bn.

The group is also facing more competition for Europe’s remaining tower assets. Vantage Towers, Vodafone’s tower company, has a €1bn war chest for acquisitions, while US private equity firm Blackstone has thrown its weight behind Phoenix Tower International, which bought tower assets in Ireland in 2020.

Stéphane Richard, chief executive of Orange, recently raised the possibility that the French group could team up with rivals to forge a pan-European mobile towers champion, saying that “there is something smarter to do than just selling your towers to Cellnex”.

With no desire to expand outside Europe and a finite number of deals to be done in the region, Cellnex is expected to start investing more in fibre cables that run into its towers and in data centres to provide “edge computing” services.

One of the bankers said Cellnex’s success ultimately makes it a target for a larger global mast company such as American Tower, which has a $100bn market cap.

The Boston-headquartered group bulked up in Africa last year when it acquired UK-based Eaton Towers and recently told UBS analysts at an industry conference that it “would like to be bigger in Europe”, despite being put off by the price of some assets that have been sold in the region.

“I have a very strong feeling Cellnex will make an interesting target for someone like American Tower,” the banker said.