Capitalising on mobile data growth: Investing in communication towers

The growth of communications infrastructure is becoming increasingly essential for our online society, fuelled by trends like the expansion of 5G networks and the surge in data consumption. Investment Analyst Roy Harrison explores these structural trends and provides insights for investors on gaining exposure through investments in communication towers. He highlights how these businesses are highly defensive and offer predictable income streams, making them attractive investment opportunities.

The growth of the communications infrastructure is crucial for our online society. What's driving the asset class growth and keeping it relevant?

The communications infrastructure sector is crucial, as its failure can disrupt essential services and frustrate users. Key trends include cybersecurity and the demand for data centres driven by cloud computing and AI. An often-overlooked trend is the growth in mobile data traffic, which has increased by around 50% globally per year since 2017, driven by video content consumption. This growth is expected to continue at about 20% annually through the decade. Several factors will drive this growth:

- **5G Convergence:** 5G devices enhance data consumption due to better user experiences.
- **Fixed Wireless Access:** High-speed broadband via telecommunication towers adds strain to mobile networks.
- **Internet of Things (IoT):** Connected devices, such as wearables and sensors, increase data usage.
- **Emerging Technologies:** New applications, like augmented reality and AI-driven devices, will further boost data traffic.

In summary, mobile data traffic is growing due to new technologies that rely on wireless networks.

Given how connected we are, these trends seem fairly structural. How can investors get exposure to it?

At Magellan, Telecommunication towers are a preferred investment in the global infrastructure strategy for their defensive nature and predictable income streams. Companies like Telstra and Verizon need to invest in their networks to support mobile data traffic, which they can do through new spectrum, technology improvements (like 4G and 5G), or building new towers and adding equipment. Since spectrum is limited and technology cycles are long, adding more equipment and towers is the immediate solution.

Telecommunication towers provide passive infrastructure, renting space to carriers for their antenna equipment. Rental income grows at a fixed rate, with long-term contracts and low operating expenses. Adding new tenants significantly increases revenue with minimal additional costs, making these investments stable and predictable as telcos expand their networks to meet growing mobile data traffic demands.

Every investment comes with risks, the Magellan Infrastructure team spend a lot of time evaluating them. What are the specific risks associated with these companies?

The greatest risk to the share prices of telecommunication tower companies in the short to medium term is interest rates. Towers are highly sensitive to interest rates for several reasons:

1. Fixed Pricing: Tower pricing grows at a fixed rate (around 3% p.a. in the US) and can't adjust for high inflation.
2. Debt Refinancing: Their defensive nature means high leverage; refinancing debt at higher rates (e.g., from 3% to 5%) increases costs.
3. Investor Perception: Viewed as bond-like with growth, rising interest rates can reduce demand from investors seeking yield.

Rising interest rates have led to underperformance, but with a more stable interest rate outlook, these companies are better positioned in our view to deliver stable and reliable returns.

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