

# Stock Story



## Europe's largest independent tower company

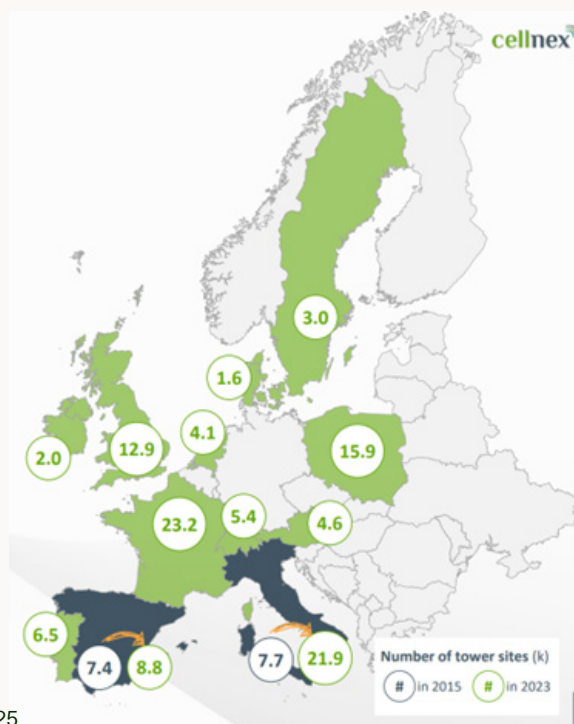
In mid-2021, following a debt-fuelled acquisition spree and with markets forecasting a lower-for-longer rate environment, the Cellnex share price hit an all-time high. Roll forward a year and the share price had halved as inflation and interest rates spiked.

It took another two years of the share price languishing before the board replaced the CEO, who came in with a mandate to refocus the business and rectify the balance sheet. We are now largely through that process with sustainable and growing shareholder remuneration backed by a substantial step up in free cash flow generation. We now believe the quality of Cellnex's business has greatly improved, representing an attractive investment opportunity at a compelling valuation.

### Figure 1: Cellnex Telecom asset overview

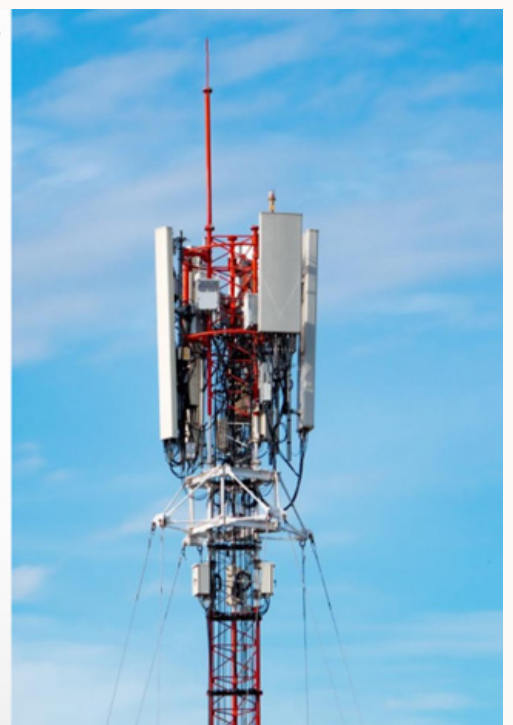
Cellnex has ~111k towers and ~178k tenants across 10 countries in Europe.

Source: Cellnex company disclosures. Data in image is as at Dec 2023. Note: Cellnex no longer has assets in Austria and Ireland.



## Cellnex is the largest tower company in Europe,

owning or managing ~111k towers, largely across five core markets: Spain, Italy, France, the United Kingdom and Poland. Cellnex's business model involves leasing space on their towers to mobile network operators ("telcos") to support antenna equipment. Access to power, fibre and the structural integrity of the tower is mission-critical to our community's everyday mobile connectivity needs. This infrastructure enables someone to watch a YouTube video to help fix a flat tyre, FaceTime an overseas family member or call an ambulance during a medical emergency. Mobile data growth, which is the fundamental driver for these assets, is structural in nature – with Ericsson forecasting mobile data traffic in Western Europe to grow by a 13% CAGR through to 2031.<sup>1</sup>



<sup>1</sup>Ericsson Mobility Report November 2025

## Cellnex's contracts with customers are reflective of quintessential infrastructure

Cellnex's existing revenues are mostly long-term, contracted and predictable in nature. Existing "anchor" tenants are generally locked into 15- to 20-year leases on a take-or-pay basis with rents escalating annually at CPI or a fixed rate of 1-2%. Cellnex has a lot of bargaining power with customers as it can be complex and capital-intensive to change tower providers without degrading network quality. Furthermore, Cellnex renegotiates anchor leases with customers on an "all-or-nothing" basis, meaning telcos must decide between renewing all antennas or moving every single antenna to another tower. Given Cellnex has a significant proportion of the towers in each of its markets, moving to another tower provider would be exceptionally difficult.

Cellnex can also benefit from other telcos wanting to improve their network coverage or densify their network, as they may lease space on existing towers to new tenants. This is highly profitable for Cellnex as the cost to maintain these simple structures does not increase significantly, thus the majority of new revenue falls to the bottom line.

## We believe the market is overestimating consolidation risk

While we believe the positive elements of the investment case are well understood, we think the market has become fixated on the risk of consolidation amongst telcos in Europe, pricing the stock at a substantial discount to our assessment of value because of it, and missing the bigger picture.



Source: istock

There have been many rumours and at least one proposal for consolidation amongst European telcos, particularly in France and Italy. Simplistically, this makes some sense: if four telcos in a market become three, this represents a ~25% drop in available customers, or Cellnex could lose an anchor tenant.

We believe this risk is overstated and that Cellnex can mitigate consolidation impacts for three key reasons:

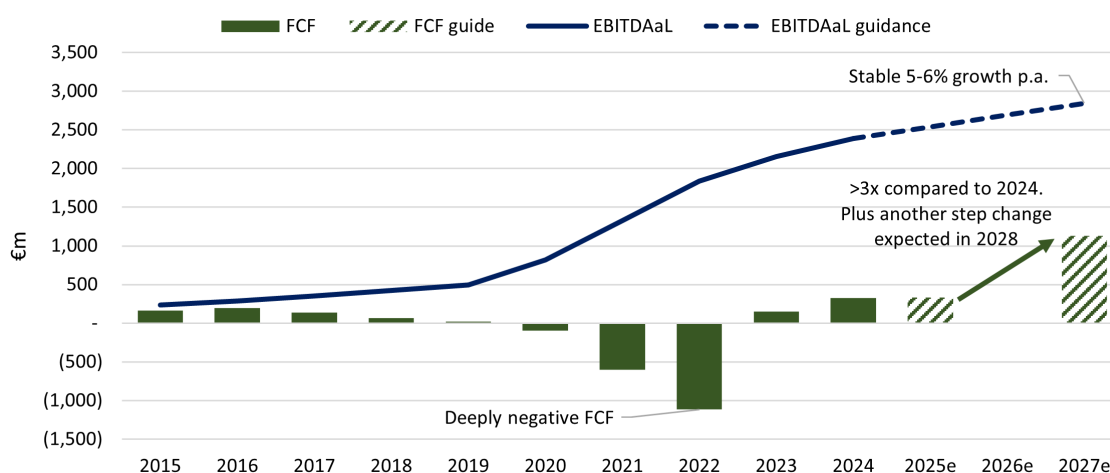
- 1. Scale & ability to negotiate:** Tower contracts generally have change of control clauses; any acquirer will also be acquiring a long-term lease. Cellnex's scale means they can offer the merged entity flexibility to move equipment and improve their network in exchange for a longer lease term and less revenue lost. There is precedent for this in Spain.
- 2. More rational market structure (and potentially government requirements) should support investment:** Europe's 5G networks are underinvested due to high competition among telcos, which keeps mobile plan prices too low for telcos to make an adequate return on investment. A more rational three-player market should drive long-term demand for Cellnex's tower assets following consolidation. Moreover, as we saw in the UK with the Vodafone/3 merger, where governments are concerned about Europe's technological competitiveness, antitrust bodies will likely attach investment commitments (download speeds, number of antennae, etc.) as a condition of any transaction approval.
- 3. Diversification:** Even if we were to ignore the contractual protections and likely medium-term investment benefits – if all contracts were somehow cancelled and no future investments were made, the diversified nature of Cellnex's client portfolio helps to mitigate this risk.

## Keep calm and focus on cash flows: We believe the next three years are transformative for Cellnex

We are long-term oriented investors at Magellan. We look at the merits of an infrastructure investment based on an asset's ability to generate reliable cash flows. By 2028, Cellnex will have mostly completed its 'build-to-suit' capex (an artefact of legacy deal-making that required them to invest large amounts building or acquiring new towers) therefore freeing up substantial amounts of operating cash flows for shareholder remuneration.

## Figure 2: Cellnex EBITDAaL (EBITDA after lease expenses) and free cash flow guidance

Management expect earnings to grow stably over the next three years due to the strength of its contracts. Free cash flow is expected to be >3x when compared to 2024, supporting shareholder remuneration.



Source: Cellnex company disclosures

We believe Cellnex has entered a new chapter; one characterised by free cash flow generation, management discipline and shareholder returns. Cellnex has already initiated a dividend policy for 2026 of €500m plus a share buyback plan of €500m. As Cellnex continues to de-lever and complete its inorganic capex obligations, we forecast these returns to grow sustainably over the medium term.

While we would expect some telco mergers to happen (and indeed it makes sense for some of them to occur), the market has appeared to price in a worse-than-worst-case scenario. As the reality plays out, and investors start to appreciate the quality of the business and the attractive and growing shareholder return profile, we would expect long-term investors to be well-rewarded.

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