

Machinery, E&C and Waste

Rental suppliers: North of the Border insights, rental capex trends an overhang

Industry Overview

Continue to prefer rental (URI) over suppliers (TEX, OSK)

As we discussed in our year-ahead report ([2024 Year Ahead](#)), we believe a nuanced view on the construction market (and construction-exposed names in our coverage) is required. We continue to prefer operators (Buy URI) relative to rental suppliers (Underperform-rated Terex, Oshkosh) that are a bit more vulnerable to rental operators exerting flexibility on capex plans, particularly as fleet age comes into balance. Recent data points include: i) URI: we see rising purchasing power with largest fleets – risk to expand supplier base (our view), ii) Linamar (not covered by BofA) continues to invest and target share gains: Skyjack likely to grow double digits in 2024, iii) Some rental operators are starting to pare back capex plans, even as Access markets remain tight.

North of Border peer: sees double digit growth in 2024

Linamar is a manufacturer of engines, transmissions, drivelines, and aeriels. Linamar is not covered by BofA. Linamar's Skyjack brand reports within its industrial segment and competes with TEX and OSK in Access Equipment. Key takeaways from results (March 6th): i) Strong order books for Skjack continue to support double digit YoY revenue growth for 2024 (vs Terex -1%--3%, OSK +4% – albeit, some of this is likely due to conservatism, supply constraints, mix), ii) Industry forecasts include modest growth in the access market in Europe and Asia in 2024, with flat growth globally. North America is expected to see modest growth in some products, such as booms. iii) Supply chains appear to be easing, which has allowed order backlogs to moderate, but remain at historically elevated levels (consistent with commentary by peers).

Rental: bifurcation among top names for capex

While order books remain strong for suppliers, rental operators are starting to pull back on capital spending: i) H&E provided initial 2024 gross capex outlook to \$450-\$500mn, down 35% YoY (in part on higher YE23 capex – 2023 capex was \$736.6mn vs a guided \$650-\$700mn), ii) HRI 2024 outlook included Net Capex of \$500-\$700mn (-40% YoY at midpoint) on \$750mn-\$1bn of gross capex (-34% YoY) (note: the lower capex is partly attributed to lead times with suppliers), iii) Ashtead provided new FY2025 capex guidance of \$2bn-2.3bn (vs FY2024 guide of \$2.9-\$3.2bn) – down 30% YoY.

Hosting rental call tomorrow with H&E – look for insights

This week, we are gaining key insights into the rental channel following investor meetings with United Rentals yesterday and we are hosting a call with H&E Equipment Services tomorrow. We look for key insights into the rental market – demand persisting despite slower growth in local markets, mega projects, fleet capex management post years of expansion, visibility to growth (particularly in the Gulf Coast), bolt-on acquisition strategy (i.e. One Source), and specifically to the H&E story.

13 March 2024

Equity
Americas
Machinery, E&C and Waste

Michael Feniger
Research Analyst
BofAS
+1 646 855 1923
michael.feniger@bofa.com

Sherif El-Sabbahy
Research Analyst
BofAS
sherif.el-sabbahy@bofa.com

Nandita Nayar >>
Research Analyst
Merrill Lynch (Canada)
nandita.nayar@bofa.com

Blake Greenhalgh
Research Analyst
BofAS
blake.greenhalgh@bofa.com

H&E = H&E Equipment Services

HRI = Herc Rentals

URI = United Rentals

TEX = Terex

OSK = Oshkosh

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Refer to important disclosures on page 4 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Timestamp: 13 March 2024 05:00AM EDT

Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
OSK	OSK US	Oshkosh	US\$ 114.61	B-3-7
TEX	TEX US	Terex Corp.	US\$ 58.02	C-3-7
URI	URI US	United Rentals	US\$ 675.49	C-1-7

Source: BofA Global Research

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Price objective basis & risk**Oshkosh Corp. (OSK)**

Our PO of \$108 is based on 10.5x 2024E EPS. The historical multiple ranges from 7x to 20x with the 10-year average near 15-16x. We believe the low to mid-range is appropriate given higher rates, loss of JLTV recompet contract, and profitability below prior cycles in certain business segments. We do not believe the very low end of the valuation range is appropriate given infrastructure spending, USPS deal, and vocational backlog re-pricing in recent quarters.

Upside risks are 1) stronger-than-expected Defense wins over the next 1-2 years including international sales, 2) stronger than expected resurgence in non-residential construction activity, 3) a material pick-up in capex spending by independent rental companies, 4) upside to our margin assumptions for the USPS next generation vehicle contract that OSK was awarded, 5) higher than expected synergy opportunities with AeroTech.

Downside risks to our PO are 1) challenging price-cost in an inflationary environment, 2) acute supply chain constraints, 3) slowdown in construction spending- 4) lower-than-expected margins for recent Defense contract wins, and 5) execution issues as USPS ramps in coming years.

Terex Corp. (TEX)

Our PO of \$56 is based on 8x 2024e EPS, near the low end of the historical range (6-18x), as we are likely nearing a peak on Access equipment. In prior cycles, we typically see a low multiple ascribed to Terex's peak earnings - which we believe could be playing out in 2024. While the company is executing well and possesses a strong balance sheet, we believe some cyclical tailwinds (tight supply/demand, fleet replacement needs, pricing) are starting to fade.

Upside risks are 1) stronger and longer than expected recovery in Aerial Work Platforms underpinned by secular and cyclical drivers in construction, 2) better than expected growth opportunities in Material Processing, 3) higher reset of margin targets in the future, 4) bigger than expected capital redeployment.

Downside risks are 1) supply chain disruptions and manufacturing inefficiencies with production transitions, 2) rates are higher for longer and weigh on construction activity, 3) inability to price for higher inputs, 4) higher capacity in certain markets overwhelm the pricing environment.

United Rentals Inc (URI)

Our PO of \$740 is based on 8.5x 2024E EV/EBITDA multiple, at the high end of the historical range (4-8.5x). We believe a higher multiple is warranted given impressive free cash flow characteristics. While higher rates and macro economic concerns are headwinds, URI has managed downturns extremely well and the balance sheet leverage

is the lowest in a decade (1.6x vs 2-3x range).

Upside risks to our price objective are better-than-expected rental pricing, stronger-than-expected FCF, a better-than-expected resurgence in non-residential construction, and overall cost cutting effort. Downside risks to our price objective are a more hawkish Federal Reserve Board trying to keep a lid on inflation, increased volatility in the high yield credit markets, renewed weakness in energy markets, or a slower than expected recovery in rental rates in the event that the rental sector accumulates too much fleet in the next 12-18 months.

Analyst Certification

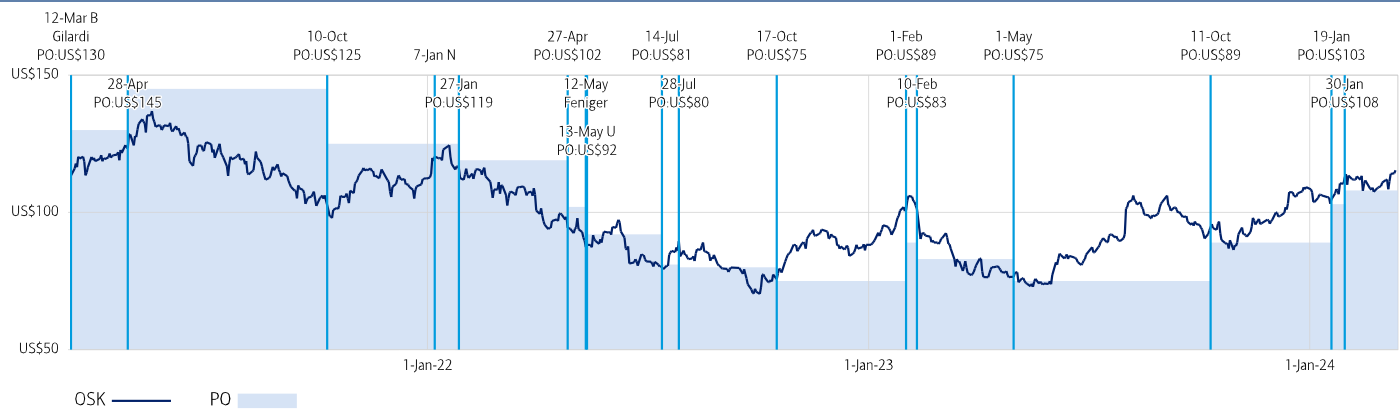
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US - Machinery Coverage Cluster

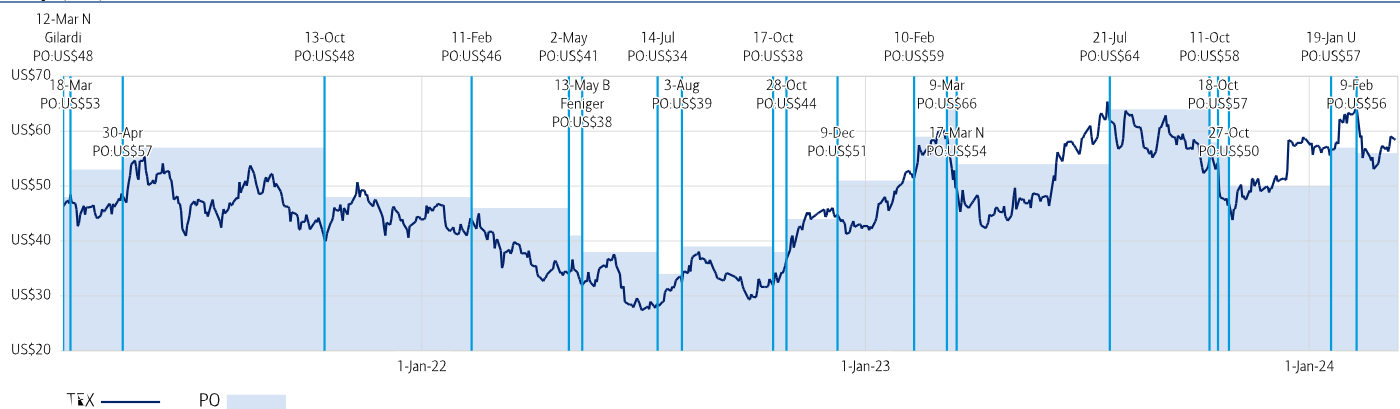
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BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Snap-on	SNA	SNA US	Sherif El-Sabbahy
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

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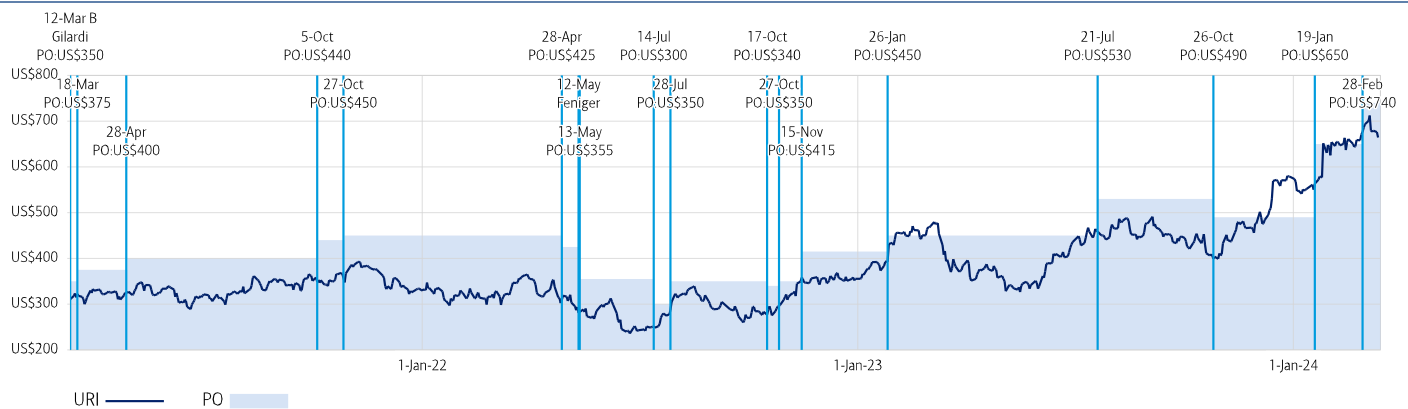
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Oshkosh (OSK) Price Chart

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Terex Corp. (TEX) Price Chart

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United Rentals (URI) Price Chart

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Equity Investment Rating Distribution: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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three years relative to peer group. There are three ESGMeter levels - Low, Medium, and High - which indicate whether a company has attributes most likely to translate into superior financial stability (in the case of a High level) or weaker financial stability (in the case of a Low level) over the next three years relative to its peer group. A Medium level suggests that a company exhibits ESG characteristics that are likely associated with financial stability results in line with its peer group over the next three years. Full details of our methodology, financial stability definition and disclaimers are available at [BofA ESGMeter methodology](#). ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of the BofA Global Research fundamental equity analyst's investment rating, volatility risk rating, income rating or price objective for that company.

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