United Rentals Inc

More than meets the eye – Investor meeting takeaways

Maintain Rating: BUY | PO: 740.00 USD | Price: 675.49 USD

Investor meetings strike a relatively positive tone

We hosted meetings with CFO (Ted Grace) yesterday. The question in the equipment rental space is around the diverging capex trends (peers down YoY vs URI). We did not sense a notable change in URI's views of the market or positioning for growth: i) mid single digit growth for '24 still intact in a 'transition year' (i.e., growth slowing as local markets digest higher rate environment) – projects are still there (long tail), financial easing can stimulate pipeline, ii) utilization flat '24 (with positive rate, fleet productivity), iii) no sense of change in mega project timeline vs 6 months ago. Maintain Buy rating.

Underappreciated aspects: market leadership expanding?

I) Mega projects: URI's market approach to large scale projects appears unique to us vs smaller players (see details inside), ii) fleet mix: scale & composition of fleet (ultra boom lifts to matting to mobile generator sets) is difficult to compete, iii) telematics: ~$200mn investment over the years likely bears fruit (long-term) with national accounts. iv) suppliers: we sense purchasing power likely continues to strengthen cycle over cycle.

Other topics: rent vs own, used values, evolving mix

I) rent vs own: As equipment availability improves, expect some tail (not meaningful) to pivot back to 'own vs rent', yet URI sees structural path of rental 'stickiness' (equipment pricing, labor/mechanics, etc), ii) used values: recovery rates still above normal (supported by inflation of new equipment) – bit different vs auctions (see inside), iii) Expanding verticals/mix vs prior cycle: Infrastructure low teens, Power/utilities +10% (see inside).

Free cash flow: $2bn is the new (higher) baseline

URI expects baseline FCF of ~$2bn. This higher FCF highlights structural changes to the model despite cyclicality of its end markets. FCF is likely higher than $2bn in a downturn (pares back capex). Note: fleet age to finish slightly below pre-Covid levels, resulting in maximum flexibility (in our view) as fleet reliability/execution is intact at this age range.

M&A: more runway with the 'one-stop-shop' model

URI expanding into matting is intriguing: $3-4bn market, bundle specialty services (matting) with gen-rent, diversifies mix (MRO, 2/3rd utilities), see inside.

Estimates (Dec) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	32.50	40.75	41.25	43.22	44.14
GAAP EPS	29.65	35.28	37.26	39.23	40.15
EPS Change (YoY)	47.3%	25.4%	1.2%	4.8%	2.1%
Consensus EPS (Bloomberg)			43.16	47.39	53.85
DPS	0	5.92	6.52	7.18	7.89
Valuation (Dec)					
P/E	20.8x	16.6x	16.4x	15.6x	15.3x
GAAP P/E	22.8x	19.1x	18.1x	17.2x	16.8x
Dividend Yield	0%	0.9%	1.0%	1.1%	1.2%
EV / EBITDA*	10.2x	8.3x	8.2x	7.9x	7.8x
Free Cash Flow Yield*	3.9%	5.0%	5.0%	6.1%	6.0%

* For full definitions of *iQmethod* SM measures, see page 7.

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6. 12669905

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Equity

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

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

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

Stock Data

Price	675.49 USD
Price Objective	740.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-7
52-Week Range	325.15 USD - 732.37 USD
Mrkt Val (mn) / Shares Out (mn)	45,798 USD / 67.8
Free Float	99.4%
Average Daily Value (mn)	352.90 USD
BofA Ticker / Exchange	URI / NYS
Bloomberg / Reuters	URI US / URI.N
ROE (2024E)	31.7%
Net Dbt to Eqty (Dec-2023A)	137.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CHIPS = Creating Helpful Incentives to Produce Semiconductors

IRA = Inflation Reduction Act

URI = United Rentals

MRO = maintenance, repair, and operations

AHT = Ashtead

H&E = H&E Equipment Services

HRI = Herc Rentals

LNG = liquefied natural gas

iQprofile[SM] United Rentals Inc

iQ**method* [SM] **– Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.0%	12.7%	12.2%	11.8%	11.1%
Return on Equity	35.4%	36.9%	31.7%	28.3%	25.1%
Operating Margin	27.8%	26.7%	26.1%	25.4%	24.6%
Free Cash Flow	1,764	2,306	2,299	2,774	2,764

iQ**method* [SM] **– Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.9x	1.7x	1.8x	1.8x	1.9x
Asset Replacement Ratio	1.2x	0.9x	0.9x	0.7x	0.7x
Tax Rate	24.9%	24.5%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	159.5%	137.2%	117.7%	97.7%	82.3%
Interest Cover	7.3x	6.0x	6.5x	6.5x	6.4x

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	11,642	14,332	14,929	15,416	15,648
% Change	19.8%	23.1%	4.2%	3.3%	1.5%
Gross Profit	4,996	5,813	5,922	6,078	6,074
% Change	29.7%	16.4%	1.9%	2.6%	-0.1%
EBITDA	5,618	6,857	7,000	7,250	7,375
% Change	27.3%	22.0%	2.1%	3.6%	1.7%
Net Interest & Other Income	(430)	(616)	(600)	(600)	(600)
Net Income (Adjusted)	**2,308**	**2,800**	**2,738**	**2,745**	**2,677**
% Change	**43.7%**	**21.3%**	**-2.2%**	**0.3%**	**-2.5%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,105	2,424	2,473	2,492	2,435
Depreciation & Amortization	2,217	2,781	2,900	3,125	3,325
Change in Working Capital	24	173	(574)	(643)	(596)
Deferred Taxation Charge	537	35	0	0	0
Other Adjustments, Net	(450)	(709)	0	0	0
Capital Expenditure	(2,669)	(2,398)	(2,500)	(2,200)	(2,400)
Free Cash Flow	**1,764**	**2,306**	**2,299**	**2,774**	**2,764**
% Change	**16.5%**	**30.7%**	**-0.3%**	**20.7%**	**-0.4%**
Share / Issue Repurchase	(1,068)	(1,070)	(1,000)	(1,000)	(1,000)
Cost of Dividends Paid	0	(406)	(433)	(456)	(479)
Change in Debt	1,620	2	0	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	106	363	729	1,547	2,332
Trade Receivables	2,004	2,230	2,822	3,379	3,773
Other Current Assets	613	340	357	365	371
Property, Plant & Equipment	14,116	14,904	15,004	14,579	14,154
Other Non-Current Assets	7,344	7,752	7,752	7,752	7,752
Total Assets	**24,183**	**25,589**	**26,664**	**27,622**	**28,382**
Short-Term Debt	161	1,465	1,465	1,465	1,465
Other Current Liabilities	2,284	2,172	2,207	2,129	1,933
Long-Term Debt	11,209	10,053	10,053	10,053	10,053
Other Non-Current Liabilities	3,467	3,769	3,769	3,769	3,769
Total Liabilities	**17,121**	**17,459**	**17,494**	**17,416**	**17,220**
Total Equity	**7,062**	**8,130**	**9,170**	**10,206**	**11,162**
Total Equity & Liabilities	**24,183**	**25,589**	**26,664**	**27,622**	**28,382**

* For full definitions of *iQmethod*[SM] measures, see page 7.

Company Sector

Industrial Machinery

Company Description

United Rentals is the largest equipment rental chain in the world with an integrated network of 897 rental locations in 49 States and 10 Canadian provinces. The company's approximately 12,700 employees serve construction and industrial customers, utilities, municipalities, homeowners, and other. The company offers for rent approximately 3,300 classes of equipment with a total original cost of $8.7bn.

Investment Rationale

URI is the leader in the equipment rental space, with well diversified and resilient end markets that provide stability. The Covid-19 downturn has served to prove this resiliency and we expect URI outperform as capital spending recovers, the macro economic backdrop rebounds, and rental rates accelerate into 2022.

Stock Data

Average Daily Volume	522,431

Quarterly Earnings Estimates

	2023	2024
Q1	7.95A	8.18E
Q2	9.88A	10.97E
Q3	11.73A	13.34E
Q4	11.26A	8.78E

URI NDR takeaways

Capex bifurcation points to capital efficient market

There remains investor debate around diverging capex trends across rental peers. URI 2024 capex guidance includes gross purchases of $3.4-3.7bn (vs 2023 $3.51bn) - remaining at an elevated level given replacement needs and growth (primarily mega projects). 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). 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). AHT (sunbelt) FY25 US capex guide for FY25 is $2-2.3bn vs guide for FY24 of $2.9-3.2bn, which implies down ~30% YoY. That said, all companies are pointing to healthy growth targets (MSD YoY growth). URI believes the market is being capital efficient and disciplined with fleets (positive for the industry): still delivering MSD growth while taking capacity out.

Less cyclical: $2bn FCF the new benchmark, de-levered (1.5-2.5x range)

URI has a strong and flexible balance sheet which should support its business in all operating environments. URI targeted a full-cycle leverage ratio between 1.5-2.5x (currently 1.6x). In 2012, URI's leverage ratio was 3.6x. They have amble liquidity of $4.7bn and are generating strong FCF (guide $2.1bn in 2024 vs $2.3bn in 2023) and plan to use the cash to continue to invest in growth. For example, they are targeting 50+ specialty cold starts in 2024 vs 49 in 2023. They also remain focused on sourcing M&A (across both GenRent and Specialty), paying dividends (current quarterly annualized dividend yield of 1.1%), and repurchasing shares. URI noted that $2bn in FCF is the new baseline in a normalized environment – but will be much higher in a downturn (given less capex).

Some resiliencies in URI's model

URI has changed the mix of the business to be able to perform in different operating environments. For example, they have doubled exposure to infrastructure, increased utilities from 4-5% of sales to 10%+ (a more stable business), increased specialty from 6% in 2012 to 30%+ (less cyclical and some verticals counter cyclical) and increased share with national accounts.

Industry beyond 2024 – potential for reacceleration growth?

URI expects to see growth beyond 2024. According to URI, 2024 is more of a "transitional year", as higher rates impact the broader market. As the financial conditions begin to ease (i.e. lower rates or monetary easing), URI expects this to stimulate market growth, refill the pipeline, and drive multiyear tailwinds in its five pillars (Infrastructure bill, EV investment, CHIPS, LNG, IRA).

Used market: values underpinned by new

In the last two years, URI has benefited from strong flow through from disposals of used equipment due to tight market supply of equipment. URI achieved 74 cents on the dollar for disposals in 2022 and 66 cents in 2023. They expect flow through from disposals to fall to 60 cents for 2024 (in 4Q23 was 62 cents). That said, this will not be straight line of 60 cents each quarter. Historically, URI achieved low to mid 50 cent return on used equipment. That said, given higher new equipment prices, URI expects disposals will be structurally higher and closer to the 60-cent range. Additionally, URI believes some of the auction data may not be an apples-to-apples comparison, given the difference in quality and mileage of the equipment. URI sells 2/3 of their equipment to retail customers, 20% to OEMs for trade-in packages, 10% to brokers and 5% to auction.

Non-res growth may be stable even in a high rate environment

When looking back at prior cycles, according to URI, higher interest rates do not always imply weaker non-res growth. For example, in 1994 the Fed increased rates 400bps and non-res grew for 7 years (+70% nominal and +40% real), in 2001 non res grew 70% and 40% in real, and between 2004 to 2008 non-res grew 70% nominal and 30-35% real. The difference now is that the fed increased rates ~550bps over a smaller period (1-2 years). While hard to forecast the impact rates will have on the non-res market, URI is confident in the outlook and expects the market to remain healthy. When looking at the last 8 non-res cycles, the average two years downturn was -12%. Therefore, if URI is faced with back to back declines of 6%, the company is confident it can grow in a construction recession given the tailwinds in the industry (Infrastructure bill, EV investment, CHIPS, LNG, IRA, and general reshoring).

Mega Projects: larger rental operators will benefit

Mega projects have been an important driver for growth in the rental market. URI has a competitive advantage in winning these projects given i) strong national account exposure, ii) better fleet architecture, iii) greater scale of fleet, iv) strong specialty business, and v) unique telematics capabilities. URI can provide equipment for the entire lifecycle of a project – fencing, porta potty, heavy dirt moving, AWP, etc. These projects can last multiple years, keeping utilization strong. According to URI, one mega project can consume thousands of pieces of equipment over the entire lifecycle.

Supplier Capacity increasing – what does that mean for pricing?

URI is confident they can continue to price above costs. OEMs continue to push pricing above normal (normally ~1-2% YoY increased). Capacity is increasing as some non-US companies bypass US tariffs by moving production to Mexico. Between 2020-2022, the rental market was thriving as customers were unable to get their hands on equipment. While there will be a portion of the market that goes back to owning vs renting, URI is confident pricing will not be an issue. In all equipment classes (except AWP) capacity is at normal levels. URI also has expanded its supplier base. Historically, until 2022 (peak capacity constraints), URI partnered with 2-3 suppliers. Now, they have 2-3 core suppliers and work with 4-6 that are supportive given the larger fleet.

Rental metrics for 2024 remain strong

URI expects time utilization to be flattish for 2024. URI guided fleet productivity will remain positive each quarter in 2024. As a result, rental rates are likely to be positive given the mix of the fleet productivity metric.

Why rent vs buy?

Benefits of renting include: i) lower initial investment, ii) access to a broader range of equipment, iii) latest equipment models typically offered, and iv) lower maintenance, insurance, etc. – handled by another party. Higher interest rates have also impacted buying vs renting because higher interest rates make it more expensive to buy vs rent. The rental penetration typically does not decrease and once customers shift to renting vs own, they typically do not go back since there are much higher costs associated with building out a fleet.

Fleet age is getting lower

URI's fleet age ended 4Q23 at 52 months, which was slightly below 2019 levels. URI wants to have 12 months or more of head room to age fleet. There is no difference in operational performance or reliability if the age is high 40s to mid- 50s.

Tech investment ahead of peers

URI has been investing in their tech capabilities following their acquisition of RSC in 2012. This acquisition helped pioneer URI's telematics capabilities - all URI machines have telematics which allow customers save money by tracking usage, productivity, and manage fleets. The benefit for URI is that customers must use URI equipment to track these KPIs. Therefore, this allows URI to gain a larger percent of each project as customers cannot track other competitor machines. URI cites that it would cost roughly $150-200mn to build out similar technology capabilities.

Price objective basis & risk

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.

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

I, Michael Feniger, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

*iQ*method℠ Measures Definitions

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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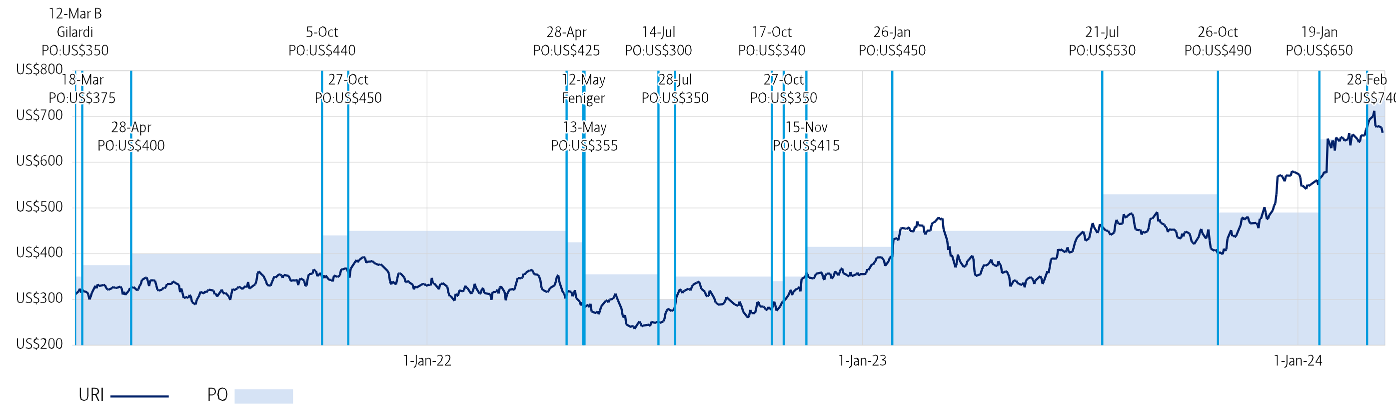
Disclosures

Important Disclosures

United Rentals (URI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
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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