

## United Rentals Inc

# Hosting URI in NYC – look for more clues on structural drivers

Reiterate Rating: BUY | PO: 740.00 USD | Price: 676.48 USD

## Hosting URI in NYC March 12<sup>th</sup> – look for clues

We are hosting United Rentals (URI) in New York on March 12<sup>th</sup> for 1x1 and group meetings. The meetings will include Ted Grace, CFO. We look for more clues on structural factors underpinning the business – rising rental penetration given higher cost of equipment, beneficiary of mix shift of construction dollars to mega projects, scale & diversified fleet underappreciated barrier to entry, white space to penetrate other verticals outside of non-res (power, etc).

## Dynamic emerges post earnings: rental capex bifurcates...

As the dust settles post earnings season, there is an interesting dynamic emerging in the rental space, particularly on capex plans. 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). Last week, 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).

## ...sign of local softness or URI leadership expanding?

The overall rental growth in 2024 is driven by mega projects as the local markets are starting to slow (i.e., low single digit growth rates vs high single digit). As a result, rental operators are pulling back capex following years of expanding and replacing fleet. In our view, URI's higher level of capital spending (relative to peers) is potentially a function of higher exposure to national accounts and mega projects - areas that are still investing.

## Catches our eye: recent M&A, lead indicators perking up

Earlier this year, specialty rental operator WillScot, announced an acquisition of modular and storage rental firm McGrath RentCorp for 9.5x 2024e. Additionally, BofA industrial lead indicators are [starting to perk up](#), providing some visibility for 2025. We raise our PO to \$740 (from \$650) based on 8.5x 2024E EV/EBITDA (vs 7.5x), as we believe higher peer comparative and improving lead indicators warrant a higher multiple. We reiterate our Buy rating given URI's rising leadership in the rental equipment space.

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)			43.09	46.99	53.75
DPS	0	5.92	6.52	7.18	7.89
Valuation (Dec)					
P/E	20.8x	16.6x	16.4x	15.7x	15.3x
GAAP P/E	22.8x	19.2x	18.2x	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*	3.8%	5.0%	5.0%	6.0%	6.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

28 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	650.00	740.00

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### Stock Data

Price	676.48 USD
Price Objective	740.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-1-7
52-Week Range	325.15 USD - 683.84 USD
Mkt Val (mn) / Shares Out (mn)	45,865 USD / 67.8
Free Float	99.4%
Average Daily Value (mn)	440.73 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

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Timestamp: 28 February 2024 05:30AM EST

# iQprofile<sup>SM</sup> United Rentals Inc

## iQmethod<sup>SM</sup> – 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

## iQmethod<sup>SM</sup> – 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)
<b>Net Income (Adjusted)</b>	<b>2,308</b>	<b>2,800</b>	<b>2,738</b>	<b>2,745</b>	<b>2,677</b>
<b>% Change</b>	<b>43.7%</b>	<b>21.3%</b>	<b>-2.2%</b>	<b>0.3%</b>	<b>-2.5%</b>

## 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)
<b>Free Cash Flow</b>	<b>1,764</b>	<b>2,306</b>	<b>2,299</b>	<b>2,774</b>	<b>2,764</b>
<b>% Change</b>	<b>16.5%</b>	<b>30.7%</b>	<b>-0.3%</b>	<b>20.7%</b>	<b>-0.4%</b>
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
<b>Total Assets</b>	<b>24,183</b>	<b>25,589</b>	<b>26,664</b>	<b>27,622</b>	<b>28,382</b>
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
<b>Total Liabilities</b>	<b>17,121</b>	<b>17,459</b>	<b>17,494</b>	<b>17,416</b>	<b>17,220</b>
<b>Total Equity</b>	<b>7,062</b>	<b>8,130</b>	<b>9,170</b>	<b>10,206</b>	<b>11,162</b>
<b>Total Equity &amp; Liabilities</b>	<b>24,183</b>	<b>25,589</b>	<b>26,664</b>	<b>27,622</b>	<b>28,382</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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 651,507

## 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



## 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. 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

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.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

**iQ<sup>method</sup> SM Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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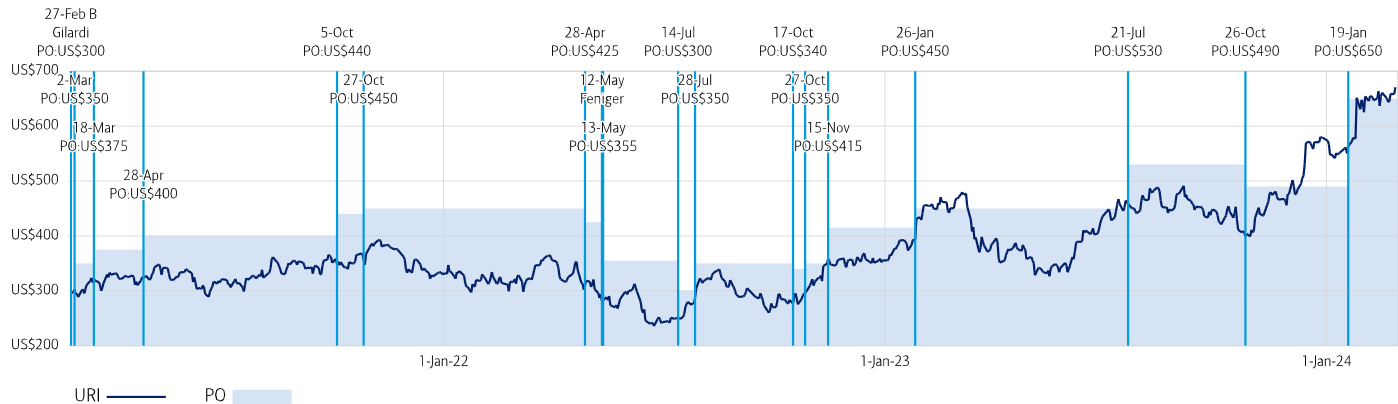
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### United Rentals (URI) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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