

## H&amp;E Equipment Services Inc

## Solid finish – lower capex catches attention

Reiterate Rating: BUY | PO: 60.00 USD | Price: 53.38 USD

## Strong Q4, 2024 more centered on managing the cycle

H&E's Q4 results beat expectations and commentary on end market demand remained constructive. However, while lower 2024 capex was expected, the magnitude of the decline (partially on a “pull forward” pickup in 4Q23 capex) caught some investors by surprise. Utilization began the year impacted by harsh January weather, although H&E has seen incremental gains each week for the last few weeks. Tough comps will pressure ute in 1H24 with YoY gains expected in 2H24. Despite ongoing concerns on a slowdown in demand, we see lower capex as a function of a young fleet (39.7 months), higher than expected 2023 spend, and a focus on driving utilization. H&E expects to add an additional 12-15 locations in 2024 (vs 14 2023) and will generate positive FCF.

## Tough comps will limit ute in 1H24

Rental rate was up 3.8% YoY, and 0.8% sequentially. H&E expects to see continued rate expansion in 2024, although the level of rate gain will slow vs significant growth in 2022/23 (more mega project revenues also driving lower price gain/large volumes). H&E finished Q4 with time ute of 68.4%, down 360bp YoY on normalizing seasonal factors and higher equipment intake. H&E provided initial 2024 gross capex outlook to \$450-\$500mn, down 35% YoY (in part on higher YE23 capex. Overall 2023 capex was \$736.6mn vs a guided \$650-\$700mn).

## Q4 results ahead of consensus

H&E's revenue of \$385.8mn was 1% ahead of cons., with rental revenue up 15% YoY. Rental GM increased 30bp YoY to 48.2%. Adj. EBITDA of \$185.2mn was 5% ahead of consensus estimates. Incremental margin of 35% (82% ex-\$15.4mn gain on sale in 4Q22) remained favorable despite elevated fleet intake.

## Raising estimates. PO to \$60

We raise our 2024/25E revenue forecasts by 2-3% as we model in higher rental revenue and a recovery in Parts, Service & Other revenue, and lower new and used equipment sales. Our 2024/25E EBITDA forecasts increase 4-5% to \$730/\$775mn. Embedded in our 2024 forecast is flattish time ute (68.8%) and rate of 2%. We raise our PO to \$60 (from \$59) on 5x 2024E EBITDA (4.5x prior) on our higher EBITDA and Net Debt estimates. We raise our target multiple to be in line with the long-term historical average given stable normalizing earnings. Reiterate Buy as we see limited near-term risk to earnings given mega-project contribution.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.70	4.78	5.32	6.11	7.13
EPS Change (YoY)	122.9%	29.2%	11.3%	14.8%	16.7%
Consensus EPS (Bloomberg)			4.96	4.94	NA
DPS	1.10	1.10	1.10	1.10	1.10
Valuation (Dec)					
P/E	14.4x	11.2x	10.0x	8.7x	7.5x
Dividend Yield	2.1%	2.1%	2.1%	2.1%	2.1%
EV / EBITDA*	5.2x	4.1x	3.9x	3.6x	3.4x
Free Cash Flow Yield*	-4.9%	-8.9%	4.5%	11.9%	13.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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23 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	59.00	60.00
2024E Rev (m)	1,519.7	1,565.0
2025E Rev (m)	1,615.0	1,648.5
2026E Rev (m)	NA	1,747.0
2024E EBITDA (m)	700.0	730.0
2025E EBITDA (m)	735.0	775.0
2026E EBITDA (m)	NA	825.0

## Sherif El-Sabbahy

Research Analyst  
BofAS  
+1 646 855 0294  
[sherif.el-sabbahy@bofa.com](mailto:sherif.el-sabbahy@bofa.com)

## Michael Feniger

Research Analyst  
BofAS  
[michael.feniger@bofa.com](mailto:michael.feniger@bofa.com)

## Nandita Nayar

Research Analyst  
BofAS  
[nandita.nayar@bofa.com](mailto:nandita.nayar@bofa.com)

## Blake Greenhalgh

Research Analyst  
BofAS  
[blake.greenhalgh@bofa.com](mailto:blake.greenhalgh@bofa.com)

## Stock Data

Price	53.38 USD
Price Objective	60.00 USD
Date Established	23-Feb-2024
Investment Opinion	C-1-7
52-Week Range	32.33 USD - 57.09 USD
Mrkt Val (mn) / Shares Out (mn)	1,940 USD / 36.3
Free Float	87.4%
Average Daily Value (mn)	10.94 USD
BofA Ticker / Exchange	HEES / NAS
Bloomberg / Reuters	HEES US / HEES.OQ
ROE (2024E)	31.3%
Net Dbt to Eqty (Dec-2023A)	265.0%
ESGMeter™	Low

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# iQprofile<sup>SM</sup> H&E Equipment Services Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.2%	10.2%	10.2%	10.9%	12.3%
Return on Equity	38.0%	37.1%	31.3%	27.9%	25.6%
Operating Margin	18.3%	19.2%	20.8%	21.8%	23.5%
Free Cash Flow	(95)	(172)	88	230	265

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.3x	2.3x	2.6x	2.4x	2.2x
Asset Replacement Ratio	1.4x	1.5x	1.1x	0.7x	0.8x
Tax Rate	26.0%	24.1%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	289.3%	265.0%	196.0%	131.5%	84.3%
Interest Cover	4.2x	4.6x	5.0x	6.0x	6.8x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,245	1,469	1,565	1,649	1,747
% Change	17.1%	18.1%	6.5%	5.3%	6.0%
Gross Profit	555	684	758	813	887
% Change	33.7%	23.3%	10.8%	7.3%	9.1%
EBITDA	543	688	730	775	825
% Change	38.0%	26.7%	6.1%	6.2%	6.5%
Net Interest & Other Income	(47)	(54)	(65)	(60)	(60)
<b>Net Income (Adjusted)</b>	<b>134</b>	<b>174</b>	<b>193</b>	<b>222</b>	<b>259</b>
<b>% Change</b>	<b>120.7%</b>	<b>29.9%</b>	<b>11.2%</b>	<b>14.9%</b>	<b>16.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	134	174	193	222	259
Depreciation & Amortization	296	382	394	400	400
Change in Working Capital	(115)	(113)	(17)	(27)	(19)
Deferred Taxation Charge	42	47	0	0	0
Other Adjustments, Net	(44)	(83)	(68)	(67)	(72)
Capital Expenditure	(409)	(577)	(413)	(297)	(302)
<b>Free Cash Flow</b>	<b>-95</b>	<b>-172</b>	<b>88</b>	<b>230</b>	<b>265</b>
<b>% Change</b>	<b>-101.3%</b>	<b>-80.4%</b>	<b>NM</b>	<b>161.2%</b>	<b>15.2%</b>
Share / Issue Repurchase	(2)	(6)	0	0	0
Cost of Dividends Paid	(40)	(40)	(40)	(40)	(40)
Change in Debt	(1)	177	0	(200)	(200)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	81	9	57	47	73
Trade Receivables	225	247	264	278	294
Other Current Assets	129	119	127	144	152
Property, Plant & Equipment	135	184	204	226	253
Other Non-Current Assets	1,555	1,902	1,980	1,938	1,900
<b>Total Assets</b>	<b>2,126</b>	<b>2,460</b>	<b>2,631</b>	<b>2,633</b>	<b>2,672</b>
Short-Term Debt	0	182	182	182	182
Other Current Liabilities	207	176	183	188	194
Long-Term Debt	1,241	1,243	1,243	1,043	843
Other Non-Current Liabilities	271	318	318	318	318
<b>Total Liabilities</b>	<b>1,720</b>	<b>1,919</b>	<b>1,926</b>	<b>1,730</b>	<b>1,536</b>
<b>Total Equity</b>	<b>401</b>	<b>534</b>	<b>698</b>	<b>895</b>	<b>1,129</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,121</b>	<b>2,453</b>	<b>2,623</b>	<b>2,625</b>	<b>2,665</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Industrial Services/Equipment Rental

## Company Description

Formed in 2002 through the merger of H&E and ICM, H&E Equipment Services is one of the largest equipment service companies in the US. H&E rents, sells, and provides parts and support service for four core categories of specialized equipment 1) hi-lift or aerial work platforms (64% of fleet), 2) cranes (8% of fleet), 3) earthmoving equipment (21% of fleet), and 4) industrial lift trucks (2%), as well as general rental (5%). Nearly 100% of sales are derived from the US.

## Investment Rationale

H&E is a well run regional equipment rental company with an asset base concentrated on the US Gulf Coast and southern US. We expect H&E to see continued earnings recovery into 2022 and for the valuation multiple to rebound as the non-residential construction markets start to improve on the back of a COVID-19 vaccine, while the company has also exited the crane distribution business, which we view as a lower multiple business.

## Stock Data

Average Daily Volume 204,856

## Quarterly Earnings Estimates

	2023	2024
Q1	0.71A	0.85E
Q2	1.14A	1.33E
Q3	1.46A	1.64E
Q4	1.47A	1.49E

## Price objective basis & risk

### H&E Equipment Services Inc (HEES)

Our price objective of \$60 per share is based on 5.0x 2024E EV/EBITDA, in line with the long-term average. On a replacement cost basis, our PO values H&E at 1.1x replacement cost, slightly below the historical average of 1.2x dating back to 2014. Upside risks - oil prices continue to rise, the US economy rebounds faster than anticipated, non-residential construction remains firm, or the company is ultimately taken over. Downside risks - US recession, slowdown in projects driven by higher interest rates, renewed weakness in energy markets, turmoil in the debt markets, or a dilutive specialty rental acquisition.

## Analyst Certification

I, Sherif El-Sabbahy, 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
<b>BUY</b>				
	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



## US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethod<sup>SM</sup> 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 & 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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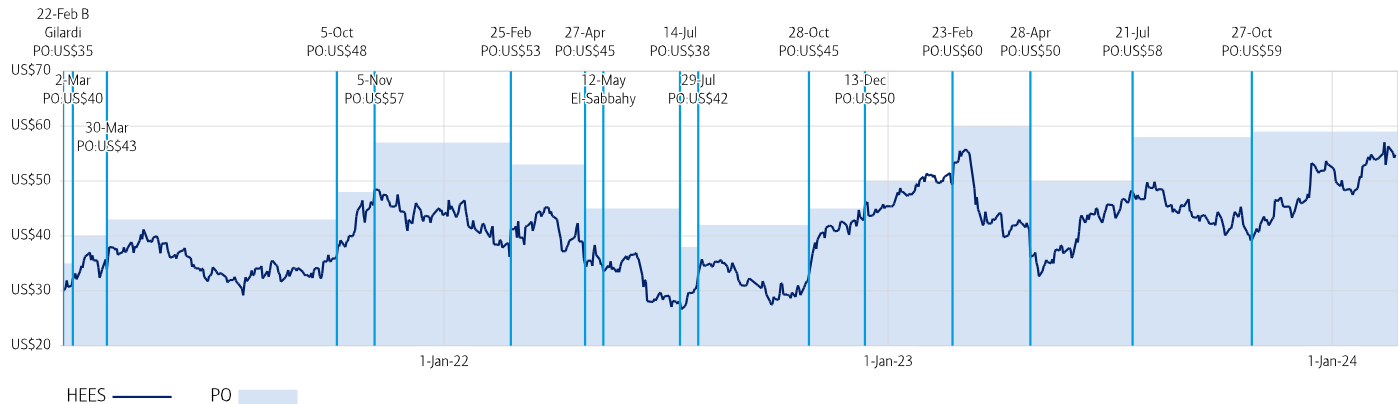
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### H&E (HEES) Price Chart



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: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

### 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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