

United Rentals Inc

Underwhelming in some areas? Sure, but bigger picture story continues to unfold

Reiterate Rating: BUY | PO: 650.00 USD | Price: 576.90 USD

Q4, 2024 guide a bit light...

URI delivered a slight beat (EBITDA \$1.8bn, +1.5% ahead of cons) & guided '24 EBITDA essentially in line with cons at the midpoint (\$6.9-7.15bn). Similar to the last 2 quarters, there are elements that underwhelmed: Q4 EBITA margin -150bps YoY (ex pro forma, used sales -20bps), '24 flow through of ~38% is soft (partly on higher used sales, but ex-used still below target), implied EBITDA growth of +2.5% YoY. Bright spots: fleet productivity inflected (+0.3% vs -2.2%), generating another year of \$2bn of FCF (while refreshing the fleet), & sending a clear, disciplined signal on capital returns. Reiterate Buy.

...yet rising evidence URI's valuation warrants a new lens

Investor pushback centers on valuation: URI trading at peak multiple on peak earnings, based on history. We think the relative historical range dismisses progress in the model. 2023 was 2nd highest FCF year (\$2.3bn) behind 2020 (\$2.5bn) – i.e, robust FCF in best of times ('23)/recession ('20). URI expects to generate another \$2.1bn in a 'transition year' ('24). Over a 12 month period, URI's announced its first dividend, raised its dividend (+10%), announced \$1.5bn share buybacks in '24 (\$1bn repurchased in '23), reduced its leverage target (1.5x-2.5x vs 2-3x vs currently 1.6x). In our view, 'less M&A, more capital returns' could potentially be a helpful route to close its valuation discount over time.

Demand: steady, yet higher rates (finally) cool growth...

In our [Year Ahead report](#), we discuss how the headwinds of '23 (ABI, ISM, rates) are likely to finally 'catch up' to the sector. This is starting to be apparent: Q4 rental revenue +7.6% YoY likely slows to +4-5% in '24. A 'transition' is unfolding with some markets slowing (double digit to low single digit) vs large stimulus projects activity underway.

... begs the question: what happens when rates are cut?

Upside risk: URI reported record EBITDA & near record FCF with most indicators as a headwind (ABI, ISM, rates). URI's fleet productivity inflected in Q4 and expects a positive rate environment in a 'transition year' – what happens when the headwinds turn? In our view, to truly unlock the next 'leg' of the URI story requires green shoots emerge that '25 is up, more than a 'non-res' play, and [2028 targets](#) (see report) start to look more credible. We update estimates post Q4, leave PO of \$650 unchanged and reiterate Buy.

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)			42.97	45.63	51.86
DPS	0	5.92	6.52	7.18	7.89
Valuation (Dec)					
P/E	17.8x	14.2x	14.0x	13.3x	13.1x
GAAP P/E	19.5x	16.4x	15.5x	14.7x	14.4x
Dividend Yield	0%	1.0%	1.1%	1.2%	1.4%
EV / EBITDA*	9.0x	7.4x	7.2x	7.0x	6.8x
Free Cash Flow Yield*	4.5%	5.9%	5.9%	7.1%	7.1%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 25 January 2024 05:00AM EST

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	14,892.0	14,929.4
2025E Rev (m)	15,376.6	15,415.9
2026E Rev (m)	NA	15,648.4
2024E EPS	49.88	41.25
2025E EPS	54.41	43.22
2026E EPS	NA	44.14
2024E DPS	6.81	6.52

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Stock Data

Price	576.90 USD
Price Objective	650.00 USD
Date Established	19-Jan-2024
Investment Opinion	C-1-7
52-Week Range	325.15 USD - 591.67 USD
Mkt Val (mn) / Shares Out (mn)	39,114 USD / 67.8
Free Float	99.4%
Average Daily Value (mn)	375.76 USD
BofA Ticker / Exchange	URI / NYS
Bloomberg / Reuters	URI US / URIN
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".

ISM = institute supply management

ABI = architecture billings index

Cons = consensus

iQprofileSM United Rentals Inc

iQmethodSM – 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

iQmethodSM – 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 iQmethodSM measures, see page 4.

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 651,351

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 \$650 is based on 7.5x 2024E EV/EBITDA multiple, at the high end of the historical range (4-8x). 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.

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



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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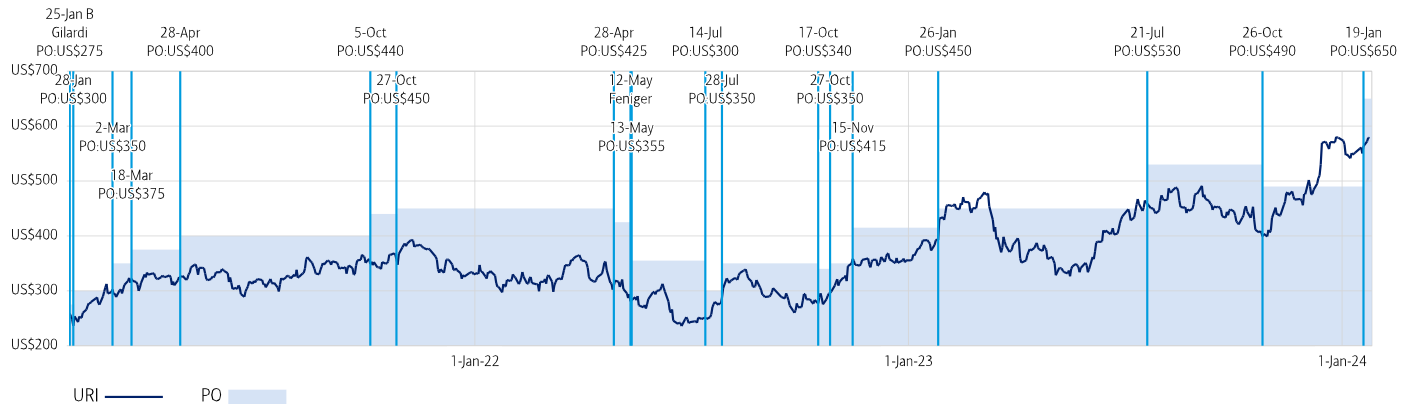
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United Rentals (URI) Price Chart



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 ^{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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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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