

United Rentals, Inc. (URI)

\$157.44 (As of 01/13/20)

Price Target (6-12 Months): **\$165.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

Summary

Shares of United Rentals have outperformed its industry in the past six month period. The company is poised to benefit from diversified product offerings and end-market mix. The company is registering broad-based growth and higher rental revenues/rates across the regions served, given Project XL initiatives, prudent investments in fleet, accretive acquisitions and robust end-market demand. Its focus on expanding geographic borders and product portfolio through acquisitions and joint ventures is commendable. However, narrowed outlook for 2019 in response to lingering economic uncertainty is a concern. Lower EBITDA margin (down 150 basis points in the third quarter) due to higher operating costs also added to the woes. Also, higher costs and competitive nature of the equipment rental industry pose risks.

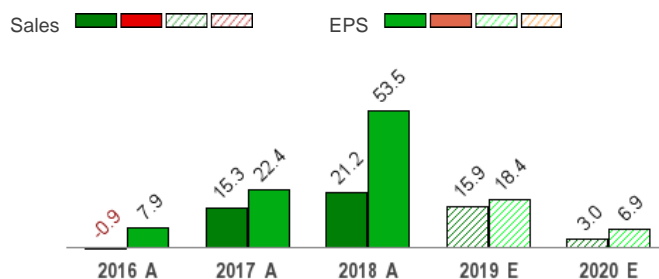
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$170.04 - \$101.90
20 Day Average Volume (sh)	731,395
Market Cap	\$11.8 B
YTD Price Change	-5.6%
Beta	2.71
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 29% (73 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.8%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	8.4
P/E F1	7.7
PEG F1	0.4
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,195 E	2,358 E	2,545 E	2,482 E	9,607 E
2019	2,117 A	2,290 A	2,488 A	2,411 E	9,330 E
2018	1,734 A	1,891 A	2,116 A	2,306 A	8,047 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.33 E	\$5.08 E	\$6.21 E	\$6.17 E	\$20.58 E
2019	\$3.31 A	\$4.74 A	\$5.96 A	\$5.49 E	\$19.25 E
2018	\$2.87 A	\$3.85 A	\$4.74 A	\$4.85 A	\$16.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

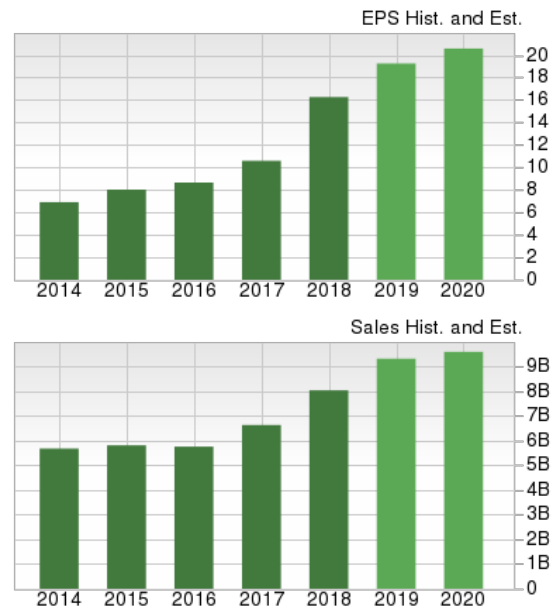
Overview

Headquartered in Stamford, CT, **United Rentals, Inc.** is the largest equipment rental company in the world, with an integrated network of 1,172 rental locations in North America and 11 in Europe. Moreover, it operates in 49 states and every Canadian province. The company offers approximately 4,000 classes of equipment for rent at a total original equipment cost ("OEC") of \$14.99 billion. Equipment rentals had represented 86% of its total revenues in 2018. The company's customer base includes construction and industrial companies, utilities, municipalities, government agencies, independent contractors and homeowners and other individuals that use equipment for projects that range from simple repairs to major renovations. The company's principal products and services are equipment rental, sale of rental equipment, new equipment, contractor supplies, services and other.

United Rentals serves its customers as a single-source solution, provided through two business segments: General Rentals and Trench, Power and Fluid Solutions.

General Rentals (which accounted for 76.5% of total equipment rental revenues in third-quarter 2019) includes the rental of construction, aerial and industrial equipment, general tools and light equipment, along with related services and activities. The segment includes the rental of the following: i) general construction and industrial equipment ii) aerial work platforms and iii) general tools and light equipment. The general rentals segment caters to 11 geographic regions — Carolinas, Gulf South, Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Mid Central, Midwest, Northeast, Pacific West, South, Southeast and Western Canada — and operates throughout the United States and Canada.

Trench, Power and Fluid Solutions (23.5%) includes the rental of specialty construction products and related services like trench safety equipment, power and HVAC equipment and fluid solutions equipment.



Reasons To Buy:

- ▲ **Impressive Earnings Surprise Trend & Solid ROE:** The company has an impressive earnings and revenue surprise trend. Its earnings surpassed expectations in 14 of the last 15 quarters. The company topped revenue estimates in 12 of the trailing 14 quarters. Positive construction market outlook and recent acquisitions are expected to boost its growth in the upcoming quarters.

Prudent investments in fleet, accretive acquisitions and robust market demand support United Rentals' growth

The company ended the first nine months of 2019 on a solid note. Overall business conditions were healthy during the said period, with broad-based growth across its geographies and verticals. Shares of the company have outperformed its industry in the past six month period.

United Rentals' trailing 12-month return on equity (ROE) is indicative of growth potential. The company's ROE of 42.9% compares favorably with the industry's 12.4%, which signals efficiency in using its shareholders' funds compared with its peers.

- ▲ **End-Market Demand Solid:** United Rentals serves the following three principal end markets for equipment rental in North America — industrial and other non-construction, commercial construction, and residential construction. In third-quarter 2019, equipment rentals represented 86.3% of the company's total revenues. Overall construction market scenario remained positive through the first nine months of 2019 and the company remains upbeat about the rest of 2019 as well, given improved demand condition in construction end-markets served. Infrastructure, especially transportation, and power are major tailwinds. End-market demand was broad based, with strength in both the United States and Canada. United Rentals have been registering volume and rental rate growth over the last six quarters.

In 2019, the company expects the majority of its end markets to continue experiencing solid demand for equipment rental services. Meanwhile, demand for United Rentals services and products are sensitive to the level of exploration, development and production activity of oil and natural gas companies. With a substantial part of the company's revenues coming in from the energy sector, United Rentals is well poised to benefit from any improvement in energy sector activity in the months ahead. Although weakness in the upstream business was observed during first-half 2019, downstream or midstream businesses are still quite strong.

- ▲ **Expansion Via Acquisitions Lends a Leading Market Position:** United Rentals is expanding geographic borders and product portfolio through acquisitions, and joint ventures. As the largest equipment rental company in the world, United Rentals enjoys strong brand recognition, which enables it to draw customers and build customer loyalty. The company offers approximately 4,000 classes of rental equipment for rent on an hourly, daily, weekly or monthly basis. On Nov 30, 2018, the company announced the acquisition of WesternOne Rentals & Sales LP, a leading regional equipment rental provider in Western Canada. The acquisition helped United Rentals to expand services to Alberta, British Columbia and Manitoba.

Meanwhile, the BlueLine acquisition on October 2018 continues to remain significant as it is boosting United Rentals' capacity across the largest metropolitan areas in North America, including both the U.S. coasts, the Gulf South and Ontario. The buyout is also likely to increase United Rentals' fleet by more than 46,000 rental assets across 114 branch locations. Additionally, the deal is expected to generate approximately \$45 million of cost synergies in corporate overhead, operations and third-party re-rent areas. It will likely realize approximately \$15 million of fleet and other procurement savings based on the combined spending.

Other noteworthy acquisitions in 2018 have been BakerCorp and assets of Industrial Rental Services. In 2017, the company acquired Neff Corporation and NES Rentals. For 2019, the company's strategy is to improve profitability by providing superior standard of service to customers, optimizing customer mix and fleet mix, and acquisitions to expand core equipment rental business along with continued expansion of trench, power and pump footprint and tool offerings.

- ▲ **Large & Diverse Rental Fleet, Focus on Specialty:** United Rentals' extensive and diverse fleet allows it to serve large customers that require a wide range of equipment. The company's rental fleet is the largest and most comprehensive in the industry. It manages its rental fleet through a life-cycle approach that focuses on satisfying customer demand and optimizing utilization levels. As part of this approach, the company closely monitors repairs and maintenance expenses and can anticipate the optimum time to dispose of an asset. As of Dec 31, 2018, the size of the rental fleet was \$14.2 billion of original equipment cost (OEC) compared with \$11.5 billion on Dec 31, 2017.

Meanwhile, via increasing the mix of Specialty (which includes fluid solutions, power & HVAC, trench safety, and tool solutions) in the portfolio, the company will be able to hold onto much of the margin improvement. Over the past five years, Specialty has grown from less than 7% to more than 20% of its pro-forma revenues. United Rentals now offers a wide range of products to a diverse group of customers and geographies that dampen cyclicity of the construction market.

- ▲ **Robust Technology and Digital Capabilities:** United Rentals offers an extended digital service — including telematics, digital fleet management, and online training services. Beside attracting new customers (31,000 new customers gained via digital in 2018), the digital services simplified user experience while increasing billing visibility. It also facilitates value for rental customers and lends a competitive edge to the company.

Reasons To Sell:

▼ **Economic Uncertainty:** In the quarters ahead, United Rentals expects that lingering economic uncertainty could impact construction and industrial activities. Notably, the company reduced the upper end of the revenue guidance for 2019. Slower industrial growth and higher-than-expected operating costs during the third quarter were reflected in the updated 2019 guidance.

▼ **Higher Cost & Competitive Pressure:** Ongoing higher freight and fuel costs mar the growth prospects of the company. Also, labor shortages are a problem. In 2018, costs of equipment rentals had increased 21.5% year over year. Also, cost of equipment rentals (excluding depreciation) rose 23.4% in the first nine months of 2019.

United Rentals incurred higher operating costs in third-quarter 2019, primarily related to repairs and maintenance of the fleet, including higher delivery costs for transfer of equipment from one facility to another. Its adjusted EBITDA margin (on a pro-forma basis) contracted 40 basis points (bps) year over year.

Meanwhile, the equipment rental industry is highly fragmented and competitive. United Rentals' competitors include small, independent businesses, regional competitors, public companies, and equipment vendors and dealers who sell and rent equipment directly to customers. Competitive pressure could affect revenues and operating results by decreasing rental volumes, impacting prices the company charges or increasing costs to retain employees.

▼ **Acquisitions Pressurize Near-Term Margins:** While relentless acquisition is slated to bring long-term growth for United Rentals, those have been a drag on the company's margins recently. Adjusted EBITDA margin was 48.5% in the third quarter, reflecting a decline of 150 bps year over year, largely due to the impact of BlueLine and Baker buyouts.

▼ **Energy Sector Volatility:** Demand for United Rentals' services and products is sensitive to the level of exploration, development and production activity of oil and natural gas companies. The level of exploration, development and production activity is directly affected by trends in oil and natural gas prices, which historically have been volatile and are likely to continue to be so.

Prices for oil and natural gas are subject to fluctuations in response to relatively minor changes in the supply and demand for oil and natural gas, market uncertainty, and a variety of other economic factors. Any prolonged reduction in oil and natural gas prices will depress the immediate levels of exploration, development and production activity, which could have an adverse effect on United Rentals' business, results of operations and financial condition.

Economic uncertainty, higher operating costs, and a highly fragmented and competitive equipment rental industry might mar its prospects

Last Earnings Report

United Rentals (URI) Beats on Q3 Earnings, Narrows View

United Rentals, Inc. (URI) reported third-quarter 2019 results, wherein earnings and revenues beat the respective Zacks Consensus Estimate. However, the company narrowed its full-year guidance. United Rentals remains concerned about the lingering economic uncertainty that could impact construction and industrial activity.

Nonetheless, the company has been witnessing improved demand in construction end-markets served, partly offset by slower industrial growth. It remains upbeat about 2020 and expects higher free cash flow generation, considering all these market dynamics.

Quarter Ending **09/2019**

Report Date	Oct 16, 2019
Sales Surprise	1.58%
EPS Surprise	7.78%
Quarterly EPS	5.96
Annual EPS (TTM)	18.86

Inside the Headlines

Adjusted earnings of \$5.96 per share beat the Zacks Consensus Estimate of \$5.53 by 7.8% and increased 25.7% from the prior-year figure of \$4.74.

Revenues

Total revenues of \$2.49 billion surpassed the consensus mark of \$2.45 billion by 1.6%. Moreover, revenues rose 17.6% year over year.

Rental revenues (including revenues from owned equipment rental, re-rent and ancillary) were also up 15.4% (increasing 4.2% on a pro-forma basis) from the year-ago quarter to a record \$2.15 billion, buoyed by solid impact of BakerCorp and BlueLine acquisitions. The pro-forma improvement reflects growth in construction end markets served by the company.

Fleet productivity was down 1.3% year over year in the quarter, mainly due to the impact of the above-mentioned buyouts. On a pro-forma basis, fleet productivity was up 1.7% from the prior-year quarter, attributable to improvement in rental rates and fleet mix, partially offset by a decline in time utilization owing to integration of the recent acquisitions. Notably, Fleet productivity aggregates the impact of changes in rates, utilization and mix on owned equipment rental revenues.

Segment Discussion

General Rentals: Segment equipment rentals' revenues increased 13.7% year over year to \$1.64 billion. However, rental gross margin contracted 270 basis points (bps) year over year to 40.9% due to higher operating costs and the impact of acquisitions.

Trench, Power and Pump/Specialty: Segmental rentals revenues increased 21.1% year over year to \$505 million. Organically, sales grew 10.3% from the prior-year quarter. Rentals gross margin declined 360 bps on a year-over-year basis to 48.7% owing to acquisitions, and higher operating costs due to repair and maintenance works.

Overall Margins

The company's total equipment rentals gross margin dropped 280 bps year over year to 42.7%.

Nevertheless, adjusted EBITDA increased 14% from the prior-year quarter to \$1.21 billion. However, adjusted EBITDA margin contracted 150 bps to 48.5% in the quarter, owing to the impact of the completed acquisitions. On a pro-forma basis, EBITDA margin declined 40 bps, reflecting higher operating costs.

Balance Sheet

United Rentals' cash and cash equivalents totaled \$60 million as of Sep 30 compared with \$43 million at 2018-end.

In the quarter, the company generated \$992 million as net cash from operating activities, reflecting an increase of 109.3% from the year-ago period. Free cash flow was \$302 million in the quarter.

In the first nine months of 2019, net cash from operating activities came in at \$2.58 billion (up 21.6%) and free cash flow was \$1.1 billion (up 101.9%).

Share Repurchase Program

In the first three quarters of 2019, United Rentals repurchased \$630 million worth of stocks and reduced its share count by 3.1% year over year. As of Sep 30, 2019, the company repurchased \$1.05 billion of stocks under the \$1.25-billion share repurchase program, which is expected to be completed by 2019-end.

2019 Guidance Updated

Total revenues are expected in the range of \$9.25-\$9.35 billion (versus \$9.15-\$9.45 billion expected earlier), indicating an increase from \$8.05 billion in 2018.

Adjusted EBITDA is projected between \$4.35 billion and \$4.4 billion (versus \$4.35-\$4.5 billion projected earlier), suggesting growth from \$3.86 billion in 2018.

Net rental capital expenditures after gross purchases are projected in the range of \$1.25-\$1.35 billion, implying a decline from \$1.442 billion in 2018. The company had earlier expected the same within \$1.3-\$1.4 billion.

Net cash provided by operating activities is expected in the range of \$2.9-\$3.05 billion (\$2.85-\$3.1 billion was projected earlier), pointing to an improvement from 2.85 billion reported in 2018.

Free cash flow (excluding the impact of merger and restructuring-related payments) is now expected in the range of \$1.45-\$1.55 billion compared with \$1.4-\$1.55 billion of prior expectation. The current guidance for the metric suggests an increase from \$1.33 billion reported in 2018.

Valuation

United Rentals' shares are up 16.8% in the past six month period and 35.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 15.2% and 13.7%, respectively, in the past six month period. Over the past year, the Zacks sub-industry and sector are up 35.6% and 34.4%, respectively.

The S&P 500 index is up 9.7% in the past six month period and 25.1% in the past year.

The stock is currently trading at 7.65X forward 12-month price to earnings, which compares to 14X for the Zacks sub-industry, 15.83X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.57X and as low as 4.88X, with a 5-year median of 9.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$165 price target reflects 8.02X forward 12-month earnings.

The table below shows summary valuation data for URI

Valuation Multiples - URI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.65	14	15.83	19
	5-Year High	16.57	17.91	18.83	19.34
	5-Year Low	4.88	7.19	10.63	15.17
	5-Year Median	9.12	14	15.97	17.44
P/S F12M	Current	1.23	1.21	1.92	3.52
	5-Year High	2.25	3.63	2.23	3.52
	5-Year Low	0.7	0.69	1.25	2.54
	5-Year Median	1.27	0.87	1.63	3
EV/EBITDA TTM	Current	5.28	22.02	19.09	12.12
	5-Year High	10.2	30.09	22.53	12.86
	5-Year Low	4.12	17.59	14.4	8.48
	5-Year Median	5.68	23.43	19.39	10.67

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 254)



Top Peers

Avis Budget Group, Inc. (CAR)	Neutral
C.H. Robinson Worldwide, Inc. (CHRW)	Neutral
Dover Corporation (DOV)	Neutral
W.W. Grainger, Inc. (GWW)	Neutral
HD Supply Holdings, Inc. (HDS)	Neutral
Herc Holdings Inc. (HRI)	Neutral
Ingersoll-Rand PLC (Ireland) (IR)	Neutral
WillScot Corporation (WSC)	Neutral

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	URI Neutral	X Industry	S&P 500	CAR Neutral	HRI Neutral	WSC Neutral
VGM Score	A	-	-	B	A	B
Market Cap	11.83 B	1.07 B	24.31 B	2.64 B	1.31 B	2.11 B
# of Analysts	7	3	13	5	2	4
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	D
Cash/Price	0.01	0.08	0.04	0.24	0.03	0.00
EV/EBITDA	6.17	9.40	14.12	6.27	5.63	25.41
PEG Ratio	0.42	1.47	2.05	NA	0.49	1.73
Price/Book (P/B)	3.24	1.86	3.34	5.33	2.20	3.09
Price/Cash Flow (P/CF)	4.12	10.03	13.66	1.08	2.59	12.94
P/E (F1)	7.53	17.40	18.82	9.52	10.33	25.95
Price/Sales (P/S)	1.29	1.29	2.64	0.29	0.65	2.01
Earnings Yield	13.07%	5.56%	5.29%	10.50%	9.68%	3.87%
Debt/Equity	2.93	0.65	0.72	34.23	4.10	2.50
Cash Flow (\$/share)	38.21	2.50	6.94	32.97	17.52	1.40
Growth Score	A	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	23.46%	22.67%	10.56%	4.81%	-33.96%	NA
Proj. EPS Growth (F1/F0)	6.91%	14.47%	7.49%	8.76%	26.15%	4,088.57%
Curr. Cash Flow Growth	32.33%	13.50%	14.83%	2.74%	16.71%	43.71%
Hist. Cash Flow Growth (3-5 yrs)	13.13%	13.23%	9.00%	3.69%	-32.67%	NA
Current Ratio	0.71	1.76	1.23	0.94	0.96	1.01
Debt/Capital	74.55%	40.61%	42.99%	97.16%	80.38%	71.43%
Net Margin	12.45%	5.51%	11.08%	1.91%	2.28%	-3.09%
Return on Equity	42.89%	12.44%	17.16%	66.13%	12.70%	2.93%
Sales/Assets	0.49	1.06	0.55	0.40	0.53	0.38
Proj. Sales Growth (F1/F0)	2.97%	3.80%	4.23%	2.61%	NA	6.89%
Momentum Score	B	-	-	D	C	B
Daily Price Chg	-1.27%	0.72%	0.73%	3.52%	-0.50%	0.39%
1 Week Price Chg	-3.77%	0.57%	0.39%	5.60%	-6.46%	-2.38%
4 Week Price Chg	-4.67%	0.16%	1.84%	11.33%	-7.94%	1.97%
12 Week Price Chg	21.42%	6.12%	6.48%	21.77%	-4.10%	13.90%
52 Week Price Chg	34.86%	34.86%	23.15%	37.15%	35.41%	80.74%
20 Day Average Volume	731,395	219,760	1,578,594	846,848	140,297	256,870
(F1) EPS Est 1 week change	-0.04%	0.00%	0.00%	0.00%	-1.57%	-0.29%
(F1) EPS Est 4 week change	-0.14%	0.00%	0.00%	0.00%	-1.57%	1.16%
(F1) EPS Est 12 week change	-1.07%	-2.80%	-0.48%	-12.79%	-6.73%	-3.06%
(Q1) EPS Est Mthly Chg	-1.33%	0.00%	0.00%	0.00%	0.00%	1.92%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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