United Rentals, Inc. (URI)

$160.80 (As of 07/15/20)

Price Target (6-12 Months): **$185.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/14/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: C | Momentum: B	**1-Strong Buy** VGM:B

Summary

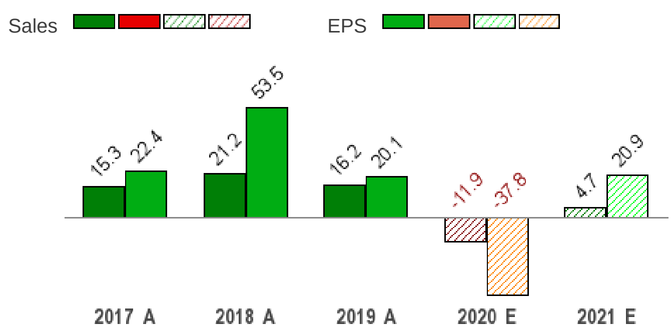
Shares of United Rentals have outperformed the industry in the past three months. The performance was backed by an impressive earnings surprise trend, having surpassed expectations in each of the last nine quarters. The company is poised to benefit from diversified product offerings, end-market mix, project XL initiatives, prudent investments in fleet, accretive acquisitions and robust end-market demand. Its systematic inorganic strategy will expand its core equipment rental business; trench, power and pump footprint; as well as tool offerings. Although coronavirus-led disruptions somewhat impacted its performance in the first quarter, the Trump administration's proposed $1-trillion infrastructure package to kickstart the country and spur economic growth seems encouraging. Its disciplined capital allocation and cost management bode well.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$170.04 - $58.85**
20 Day Average Volume (sh)	**1,155,376**
Market Cap	**$11.6 B**
YTD Price Change	**-3.6%**
Beta	**2.28**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Building Products - Miscellaneous**
Zacks Industry Rank	**Top 16% (40 out of 251)**
Last EPS Surprise	**43.2%**
Last Sales Surprise	**3.6%**
EPS F1 Est- 4 week change	**1.9%**
Expected Report Date	**07/29/2020**
Earnings ESP	**24.1%**
P/E TTM	**8.2**
P/E F1	**13.2**
PEG F1	**0.8**
P/S TTM	**1.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,054 E	2,080 E	2,279 E	2,290 E	8,623 E
2020	2,125 A	1,823 E	2,081 E	2,146 E	8,236 E
2019	2,117 A	2,290 A	2,488 A	2,456 A	9,351 A

EPS Estimates

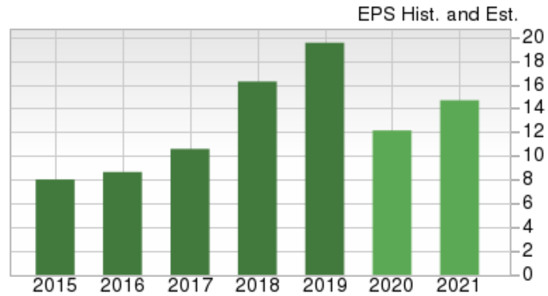
	Q1	Q2	Q3	Q4	Annual*
2021	$2.75 E	$3.30 E	$4.80 E	$4.54 E	$14.69 E
2020	$3.35 A	$1.88 E	$3.88 E	$3.95 E	$12.15 E
2019	$3.31 A	$4.74 A	$5.96 A	$5.60 A	$19.52 A

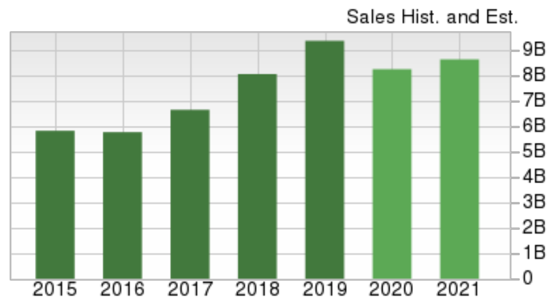
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/15/2020. The reports text is as of 07/16/2020.

Overview

Headquartered in Stamford, CT, United Rentals, Inc. is the largest equipment rental company in the world, with an integrated network of 1,181 rental locations in North America and Europe. Moreover, it operates in 49 states and every Canadian province. The company offers 4,000 classes of equipment for rent at a total original equipment cost ("OEC") of $14.3 billion. 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 (accounted for 79.5% of total revenues in 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 (20.5%) 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:

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

▲ **Impressive Earnings Surprise Trend & Solid ROE**: The company has an impressive earnings and revenue surprise trend. Its earnings surpassed expectations in each of the last nine quarters. The company topped revenue estimates in the trailing 12 quarters. The company ended first-quarter 2020 on a solid note. For most part of the quarter, overall business conditions were healthy, given broad-based growth across its geographies and verticals. However, coronavirus-led economic slowdown — which impacted the company's performance in the latter half of March — offset the positives.

United Rentals' trailing 12-month return on equity (ROE) is indicative of growth potential. The company's ROE of 41.2% compares favorably with the industry's 11.8%, which signals efficiency in using its shareholders' funds compared with its peers.

▲ **Solid End-Market Demand & Trump's $1-Trillion Infrastructure Bill:** 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 the first quarter, equipment rentals represented 83.9% of the company's total revenues. Overall construction market scenario remained positive in the initial part of the quarter, given improved demand condition in construction end-markets served.

As the FAST Act is set to expire on September 2020, the Trump administration proposed a $1-trillion infrastructure package in June 2020 to kickstart the country and spur economic growth. Under the plan, which was made by the Department of Transportation, bulk of the money will be reserved for roads and bridges, along with 5G buildout and rural broadband infrastructure. The proposed bill will be beneficial for construction materials industry players like United Rentals.

▲ **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 in 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. Other noteworthy acquisitions in 2018 have been BakerCorp and assets of Industrial Rental Services.

▲ **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 Mar 31, 2020, the company's fleet of equipment rental had total OEC of $14.3 billion.

Meanwhile, via increasing the mix of Specialty (which includes higher-margin trench, power and fluid solutions) in the portfolio, the company will be able to hold onto much of the margin improvement. Over the past five years, Specialty's contribution has increased from less than 7% to nearly 27% to its pro-forma revenues. United Rentals now offers a wide range of products to a diverse group of customers and geographies that dampen cyclicality of the construction market.

▲ **Stable Balance Sheet**: In response to the unpredictable COVID-19 impacts, the company has been focusing on protecting liquidity and closely managing cash flows. It currently has ample liquidity to meet its future business needs. On Mar 31, it had total liquidity of $3.083 billion, including $513 in cash and cash equivalents, compared with $2.143 billion at 2019-end. First-quarter free cash flow (FCF) increased 5.4% year over year to $606 million from $575 million a year ago. The company expects FCF to be "substantially positive" in 2020 even under worst-case scenarios.

Credit ratings agencies — namely Moody's and Standard & Poor's — assigned United Rentals Ba2 and BB rating, respectively, as of Apr 27, which is reflective of the company's "Stable" position.

Risks

- **Economic Uncertainty & Slowdown in Upstream Business**: In the quarters ahead, United Rentals' business might be affected by the prevailing economic uncertainty that is hurting construction and industrial activities.

  During the first quarter, the company witnessed lower rental revenue sales (precisely in March) due to these headwinds. Rental volume also declined due to shelter-in-place orders and other end-market restrictions. Also, adjusted EBITDA margin contracted 40 basis points owing to higher operating costs, largely associated with COVID-19 impacts. Notably, the company suspended its previously provided 2020 guidance in response to the virus impact.

  Notably, the company is experiencing a slowdown in upstream oil and gas operations. Management expects the situation to persist in 2020 as well.

- **Higher Cost & Competitive Pressure**: Ongoing higher fuel costs and steel prices mar the company's prospects. Also, labor shortages are a problem. In 2019, costs of equipment rentals (excluding depreciation) increased 19.6% year over year. Again, in first-quarter 2020, the metric increased 0.7% from the prior-year quarter.

  United Rentals incurred higher operating costs in 2019, primarily related to repairs and maintenance of the fleet, including higher delivery costs for transfer of equipment from one facility to another.

  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.

- **Energy Sector Volatility**: Demand for United Rentals' services and products are 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.

Last Earnings Report

United Rentals Q1 Earnings & Revenues Top

Quarter Ending	03/2020
Report Date	Apr 29, 2020
Sales Surprise	3.60%
EPS Surprise	43.16%
Quarterly EPS	3.35
Annual EPS (TTM)	19.65

United Rentals, Inc. reported impressive results in first-quarter 2020. Earnings and revenues topped the respective Zacks Consensus Estimate, and grew on a year-over-year basis. The company suspended its previously provided 2020 guidance and announced certain initiatives in response to the coronavirus outbreak.

Matthew Flannery, chief executive officer of United Rentals, said, “We’re in the strongest position in our history to respond to this crisis and to prepare for the recovery to come. This includes the strength of our balance sheet and cash flow, as we remain focused on disciplined capital allocation and cost management. We expect our free cash flow to remain substantially positive in 2020, even in our worst-case scenarios.”

Inside the Headlines

Adjusted earnings of $3.35 per share topped the consensus estimate of $2.34 by 43.2%. Also, the reported figure increased 1.2% from the prior-year figure. Total revenues of $2.125 billion surpassed the consensus mark of $2.051 billion by 3.6% and grew 0.4% year over year.

Rental revenues (including revenues from owned equipment rental, re-rent and ancillary) fell 0.7% from the year-ago quarter. In February, the company’s revenues were slightly higher on a year-over-year basis. However, March sales declined primarily due to the impact of COVID-19.

Fleet productivity was also down 1.2% year over year in the quarter. Rental volume declined due to shelter-in-place orders and other end-market restrictions in March.

Used equipment sales generated $208 million of proceeds in the quarter compared with $192 million a year ago. Adjusted gross margin of 45.7% contracted 330 basis points (bps) due to changes in the mix of equipment sold, channel mix and pricing.

Segment Discussion

General Rentals: Segment equipment rentals’ revenues fell 2% year over year to $1.39 billion. Rental gross margin contracted 310 bps year over year to 32.1%, owing to increased depreciation expenses due to a $24 million non-cash asset impairment charge, and higher operating costs.

Trench, Power and Pump/Specialty: Segmental rental revenues increased 4.6% year over year to $389 million, driven by 2.8% organic growth. The upside was mainly driven by 9.8% increase in average original equipment cost, partially offset by the impact of COVID-19. However, rentals gross margin declined 60 bps on a year-over-year basis to 41.6% due to higher operating costs, largely associated with COVID-19.

Margins

The company’s total equipment rentals gross margin dropped 250 bps year over year to 34.2%. Adjusted EBITDA also dropped 0.7% from the prior-year quarter to $915 million. Adjusted EBITDA margin contracted 40 bps to 43.1% in the quarter.

Balance Sheet

United Rentals had cash and cash equivalents of $513 million as of Mar 31, 2020 compared with $52 million at 2019-end. Total liquidity was $3.083 billion at the quarter-end, up $940 million from the prior-year comparable period.

Net leverage ratio was 2.5 as of Mar 31, 2020 compared with 2.6 at 2019-end. Notably, it has reduced total net debt by $292 million year to date. The company has no long-term debt maturities until 2025.

Cash from operating activities decreased 3.4% to $644 million and free cash flow rose 5.4% from the prior-year quarter to $606 million.

On Jan 28, 2020, the board of directors authorized a new $500-million share repurchase program. Until Mar 18, it had repurchased $257 million common stock under the repurchase program. The company announced that it has paused further buyback for an indefinite period as of the same date.

2020 Guidance Revoked

Owing to uncertainty of the economic disruption caused by COVID-19, the company has withdrawn its full-year 2020 financial guidance.

Nonetheless, the company has undertaken various initiatives to mitigate the impact of COVID-19 on end-markets served. It currently focuses on five key work streams that include ensuring employee safety and well-being; leveraging competitive advantages to support the needs of customers; managing capital expenditures and fleet capacity; controlling core operating expenses; and maintaining ample liquidity to meet the business needs.

Valuation

United Rentals' shares are down 3.6% in the year-to-date perod but up 22.3% in the trailing 12-month period. Stocks in the Zacks sub-industry are up 4.3% but down 4.5% for the Zacks Construction sector in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 21.8% and 9%, respectively.

The S&P 500 index is down 0.5% in the year-to-date period but up 7.8% in the past year.

The stock is currently trading at 12.1X forward 12-month earnings, which compares to 19.14X for the Zacks sub-industry, 18.97X for the Zacks sector and 22.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.57X and as low as 3.38X, with a 5-year median of 8.79X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $185 price target reflects 13.9X 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	12.1	19.14	18.97	22.72
	5-Year High	16.57	19.28	18.99	22.72
	5-Year Low	3.38	7.15	10.74	15.25
	5-Year Median	8.79	13.83	15.86	17.52
P/S F12M	Current	1.39	1.35	1.95	3.55
	5-Year High	2.25	3.59	2.12	3.55
	5-Year Low	0.54	0.69	1.17	2.53
	5-Year Median	1.19	0.91	1.63	3.02
EV/EBITDA TTM	Current	4.98	20.2	17.54	11.88
	5-Year High	10.2	30.62	21.52	12.86
	5-Year Low	3.64	13.63	12.5	8.25
	5-Year Median	5.34	22.96	17.82	10.87

As of 07/15/2020

Industry Analysis **Zacks Industry Rank:** Top 16% (40 out of 251)

Top Peers

Company (Ticker)	Rec	Rank
Avis Budget Group, Inc. **(CAR)**	Neutral	2
Dover Corporation **(DOV)**	Neutral	2
W.W. Grainger, Inc. **(GWW)**	Neutral	3
HD Supply Holdings, Inc. **(HDS)**	Neutral	3
Herc Holdings Inc. **(HRI)**	Neutral	3
Ingersoll Rand Inc. **(IR)**	Neutral	3
WillScot Corporation **(WSC)**	Neutral	2
C.H. Robinson Worldwide, Inc. **(CHRW)**	Underperform	3

Industry Comparison Industry: Building Products - Miscellaneous

	URI	X Industry	S&P 500	CAR	HRI	WSC
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	2	3	2
VGM Score	B	-	-	B	B	B
Market Cap	11.59 B	1.26 B	22.66 B	2.13 B	997.93 M	1.53 B
# of Analysts	8	3	14	5	3	2
Dividend Yield	0.00%	0.00%	1.83%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	C
Cash/Price	0.05	0.11	0.07	0.35	0.06	0.00
EV/EBITDA	5.18	7.83	12.99	4.78	4.62	10.19
PEG Ratio	0.75	4.24	2.97	NA	61.98	4.21
Price/Book (P/B)	3.19	1.59	3.12	7.31	1.61	2.25
Price/Cash Flow (P/CF)	3.35	9.72	12.14	0.66	1.74	6.69
P/E (F1)	13.23	24.71	22.04	NA	84.29	63.12
Price/Sales (P/S)	1.24	1.21	2.38	0.24	0.51	1.43
Earnings Yield	7.56%	4.01%	4.32%	-19.04%	1.20%	1.55%
Debt/Equity	2.96	0.34	0.76	60.25	3.79	2.39
Cash Flow ($/share)	47.99	2.31	6.94	46.65	19.67	1.94
Growth Score	C	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	25.81%	20.32%	10.85%	5.79%	-27.07%	NA
Proj. EPS Growth (F1/F0)	-37.78%	-15.28%	-9.64%	-258.80%	-87.09%	305.00%
Curr. Cash Flow Growth	17.38%	-4.68%	5.51%	35.37%	13.52%	38.63%
Hist. Cash Flow Growth (3-5 yrs)	13.02%	13.97%	8.55%	7.65%	-3.44%	NA
Current Ratio	1.11	2.14	1.30	0.85	1.32	0.93
Debt/Capital	74.72%	38.98%	44.46%	98.37%	79.14%	70.48%
Net Margin	12.52%	2.76%	10.59%	2.61%	2.58%	-0.41%
Return on Equity	41.15%	11.84%	15.75%	51.68%	15.22%	4.36%
Sales/Assets	0.49	1.07	0.54	0.38	0.51	0.38
Proj. Sales Growth (F1/F0)	-11.92%	0.00%	-2.52%	-37.20%	-14.90%	-1.27%
Momentum Score	B	-	-	D	F	F
Daily Price Chg	2.32%	2.68%	1.91%	7.95%	4.26%	5.03%
1 Week Price Chg	-0.05%	0.00%	-0.41%	8.18%	-1.62%	-6.46%
4 Week Price Chg	3.37%	0.00%	1.88%	19.47%	19.11%	-13.47%
12 Week Price Chg	59.81%	23.50%	16.37%	155.67%	60.41%	33.95%
52 Week Price Chg	22.29%	-1.96%	-4.22%	-15.08%	-20.24%	-13.10%
20 Day Average Volume	1,155,376	191,212	2,266,132	4,697,838	295,318	3,165,282
(F1) EPS Est 1 week change	1.21%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.86%	0.00%	0.00%	5.25%	-10.95%	1.04%
(F1) EPS Est 12 week change	-2.07%	-4.30%	-5.76%	-428.39%	-81.72%	-35.76%
(Q1) EPS Est Mthly Chg	1.33%	0.00%	0.00%	50.60%	-28.99%	-7.50%

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	C
Momentum Score	B
VGM Score	B

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.

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