United Rentals, Inc. (URI)

$179.33 (As of 08/14/20)

Price Target (6-12 Months): **$206.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Outperform**
	(Since: 07/14/20)	
	Prior Recommendation: Neutral	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: C | Momentum: C	

Summary

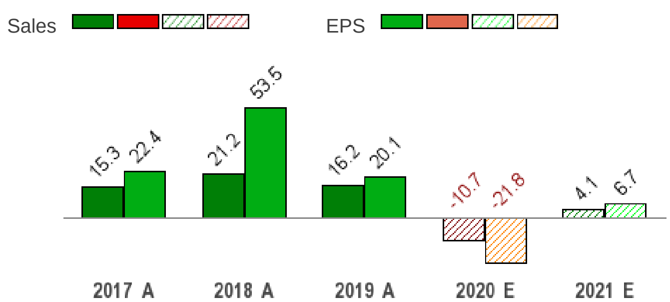
Shares of United Rentals have outperformed the industry in the past three months. The trend is likely to continue, given impressive earnings and revenues for second-quarter 2020. The company is poised to benefit from diversified product offerings, end-market mix, project XL initiatives, prudent investments in fleet, accretive acquisitions and robust end-market demand. Although coronavirus-led disruptions somewhat impacted its performance in the second quarter, the Trump administration's proposed $1-trillion infrastructure package to kick start the country and spur economic growth seems encouraging. Its disciplined capital allocation and cost management bode well. That said, low demand for gasoline and jet fuel owing to the COVID-19 pandemic is likely to weigh on the company's near-term results.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$186.78 - $58.85**
20 Day Average Volume (sh)	**912,559**
Market Cap	**$12.9 B**
YTD Price Change	**7.5%**
Beta	**2.27**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Building Products - Miscellaneous**
Zacks Industry Rank	**Top 10% (24 out of 252)**
Last EPS Surprise	**90.7%**
Last Sales Surprise	**7.0%**
EPS F1 Est- 4 week change	**25.0%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**9.7**
P/E F1	**11.8**
PEG F1	**1.0**
P/S TTM	**1.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,031 E	2,174 E	2,335 E	2,338 E	8,692 E
2020	2,125 A	1,939 A	2,133 E	2,148 E	8,352 E
2019	2,117 A	2,290 A	2,488 A	2,456 A	9,351 A

EPS Estimates

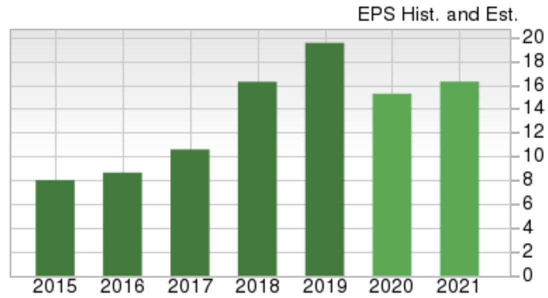
	Q1	Q2	Q3	Q4	Annual*
2021	$2.82 E	$4.05 E	$5.09 E	$4.83 E	$16.28 E
2020	$3.35 A	$3.68 A	$4.25 E	$4.11 E	$15.26 E
2019	$3.31 A	$4.74 A	$5.96 A	$5.60 A	$19.52 A

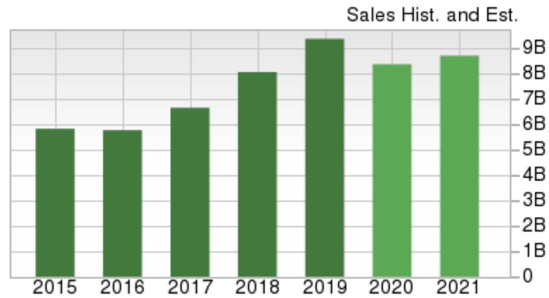
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

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 $14.1 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 26 of the last 28 quarters. The company topped revenue estimates in the trailing 13 quarters. It ended first-half 2020 on a solid note. Although the COVID-19 pandemic impacted the industrial business severely, fleet on rent improved steadily, rebounding almost 14% during the second quarter. This translates to more than $1 billion of incremental fleet on rent. Moreover, the company is currently focusing on cost-management techniques and reducing CapEx. It expects 2020 net rental capital expenditures after gross purchases in the range of $50-$150 million, implying a decline from $1.3 billion in 2019. Also, free cash flow (excluding the impact of merger and restructuring-related payments) is expected in the range of $2-$2.2 billion, which suggests an increase from $1.59 billion reported in 2019.

United Rentals' trailing 12-month return on equity (ROE) is indicative of growth potential. The company's ROE of 37.2% compares favorably with the industry's 10.8%, which signals more efficiency in using shareholders' funds than 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 half, equipment rentals represented almost 83% of the company's total revenues. After facing disruptions from the COVID-19 pandemic, overall construction market has been rebounding. Especially, non-residential construction, including power and data center builds, remained mostly unaffected as these were deemed essential.

United Rentals has been witnessing rising demand for specialty construction products, which are significantly contributing to the trench, power and fluid solutions segment's revenues. Also, the demand for used equipments remained solid post the easing of pandemic-led restrictions.

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 Jun 30, 2020, the company's fleet of equipment rental had total OEC of $14.1 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 Jun 30, it had total liquidity of $3.823 billion, (including $127 in cash and cash equivalents) compared with $3.083 billion at first quarter-end.

At the end of second quarter, long-term obligations were $9.6 billion compared with $10.4 billion at 2019-end and $10.7 billion at first quarter-end. Notably, it has no significant long-term debt maturities until 2025. Second-quarter free cash flow (FCF) increased almost four times to $817 million from $205 million a year ago. The company expects FCF to be "substantially positive" in 2020 even under worst-case scenarios.

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 second quarter, the company witnessed 16.2% lower rental revenue sales due to COVID-19-induced headwinds. Quarterly fleet productivity was also down 13.6% year over year due to lower rental volumes. Rental volume declined due to shelter-in-place orders and other end-market restrictions. Also, adjusted EBITDA margin contracted 50 basis points owing to higher operating costs, largely associated with COVID-19 impacts.

  Notably, the company is experiencing a slowdown in industrial and upstream oil and gas operations. Management expects the situation to persist in 2020, given uncertainty in the market.

  For 2020, it projects total revenues in the range of $8.05-$8.45 billion, indicating a decrease from $9.35 billion in 2019. Adjusted EBITDA is projected between $3.6 billion and $3.8 billion, suggesting a decline from $4.36 billion in 2019.

- **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 Q2 Earnings & Revenues Top, Down Y/Y

Quarter Ending	06/2020
Report Date	Jul 29, 2020
Sales Surprise	6.97%
EPS Surprise	90.67%
Quarterly EPS	3.68
Annual EPS (TTM)	18.59

United Rentals, Inc. reported second-quarter 2020 results. Although earnings and revenues topped the respective Zacks Consensus Estimate, the metrics declined on a year-over-year basis, thanks to the COVID-19 pandemic.

Inside the Headlines

Adjusted earnings of $3.68 per share topped the consensus estimate of $1.93 by 90.7%. However, the reported figure decreased 22.4% from the prior-year figure. Total revenues of $1.94 billion surpassed the consensus mark of $1.81 billion by 7% but declined 15.3% year over year.

Rental revenues (including revenues from owned equipment rental, re-rent and ancillary) fell 16.2% from the year-ago quarter, mainly due to the pandemic's impact. Quarterly fleet productivity was also down 13.6% year over year due to lower rental volumes.

Used equipment sales generated $176 million of proceeds compared with $197 million a year ago. Adjusted gross margin of 46% contracted 320 basis points (bps) due to changes in the mix of equipment sold and pricing.

Segment Discussion

General Rentals: Segment equipment rentals' revenues fell 17.8% year over year to $1.26 billion. Rental gross margin contracted 540 bps year over year to 33.4%, owing to increased depreciation expenses, as well as the COVID-19 pandemic's impact on revenues.

Trench, Power and Pump/Specialty: Segmental rental revenues decreased 10.6% year over year to $387 million due to an 11.7% organic sales decline. Rental gross margin contracted 80 bps on a year-over-year basis to 46.8% due to higher operating costs and increased depreciation expenses.

Margins

The company's total equipment rentals gross margin dropped 390 bps year over year to 36.5%. Adjusted EBITDA also dropped 16.2% from the prior-year quarter to $899 million. Adjusted EBITDA margin contracted 50 bps to 46.4%.

Balance Sheet

United Rentals had cash and cash equivalents of $127 million as of Jun 30, 2020 compared with $52 million at 2019-end. Total liquidity was $3.82 billion at quarter-end.

Net leverage ratio was 2.5 as of Jun 30, 2020 compared with 2.6 at 2019-end. Notably, it has reduced total net debt by $1.1 billion year to date. The company has no long-term debt maturities until 2025. It has repurchased $257 million of shares under the current $500-million repurchase program so far in 2020.

2020 Guidance Reissued

Total revenues are expected in the range of $8.05-$8.45 billion, indicating a decrease from $9.35 billion in 2019. Adjusted EBITDA is projected between $3.6 billion and $3.8 billion, suggesting a decline from $4.36 billion in 2019. Net rental capital expenditures after gross purchases are projected in the range of $50-$150 million, implying a decline from $1.3 billion in 2019. Net cash provided by operating activities is expected in the range of $2.25-$2.55 billion, pointing to a decline from $3.02 billion reported in 2019.

Free cash flow (excluding the impact of merger and restructuring-related payments) is expected in the range of $2-$2.2 billion, which suggests an increase from $1.59 billion reported in 2019. Matthew Flannery, chief executive officer of United Rentals, said, "We saw a steady recovery in volume beginning in mid-April, which gave us good momentum into the start of our busy season. While visibility is still limited, near-term indicators suggest that the second half of 2020 may track to seasonal patterns in the majority of our markets."

Valuation

United Rentals' shares are up 7.5% in the year-to-date perod and 62.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 14.1% and 6.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 34.9% and 21.5%, respectively.

The S&P 500 index is up 4.5% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 11.48X forward 12-month earnings, which compares to 18.48X for the Zacks sub-industry, 18.53X for the Zacks sector and 22.87X 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 8.88X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $206 price target reflects 12.96X forward 12-month earnings.

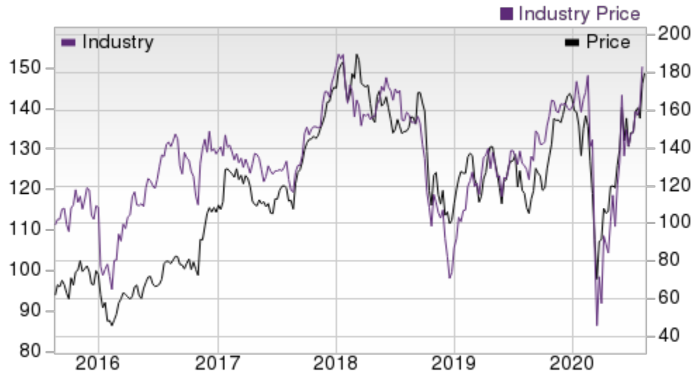
The table below shows summary valuation data for URI.

Valuation Multiples - URI

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.28	18.48	18.53	22.87
	5-Year High	16.57	19.28	19.08	22.87
	5-Year Low	3.38	7.15	10.74	15.25
	5-Year Median	8.88	13.83	15.86	17.58
P/S F12M	Current	1.51	1.44	2.13	3.7
	5-Year High	2.25	3.59	2.13	3.7
	5-Year Low	0.54	0.69	1.18	2.53
	5-Year Median	1.2	0.91	1.63	3.05
EV/EBITDA TTM	Current	5.35	21.28	19.22	12.74
	5-Year High	10.2	30.62	21.26	12.85
	5-Year Low	3.64	13.63	12.43	8.25
	5-Year Median	5.34	22.84	17.93	10.91

As of 08/14/2020

Industry Analysis **Zacks Industry Rank:** Top 10% (24 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
TopBuild Corp. **(BLD)**	Outperform	1
Masco Corporation **(MAS)**	Outperform	2
Owens Corning Inc **(OC)**	Outperform	1
Patrick Industries, Inc. **(PATK)**	Outperform	1
Gibraltar Industries, Inc. **(ROCK)**	Outperform	1
Foundation Building Materials, Inc. **(FBM)**	Neutral	2
James Hardie Industries PLC. **(JHX)**	Neutral	3
BELLWAY **(BLWYY)**	Underperform	5

Industry Comparison Industry: Building Products - Miscellaneous

Industry Peers

	URI	X Industry	S&P 500	BLWYY	MAS	OC
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	5	2	1
VGM Score	A	-	-	A	B	B
Market Cap	12.93 B	1.51 B	23.68 B	4.71 B	15.16 B	7.27 B
# of Analysts	7	3	14	2	8	7
Dividend Yield	0.00%	0.00%	1.68%	3.30%	0.93%	1.43%
Value Score	A	-	-	B	B	B
Cash/Price	0.01	0.09	0.07	0.01	0.07	0.08
EV/EBITDA	5.31	9.10	13.36	NA	13.34	8.59
PEG Ratio	0.98	1.96	2.99	11.25	1.44	4.13
Price/Book (P/B)	3.31	1.86	3.22	1.19	409.70	1.99
Price/Cash Flow (P/CF)	3.74	9.63	12.82	6.70	20.27	7.65
P/E (F1)	11.75	21.63	22.06	11.25	21.51	17.45
Price/Sales (P/S)	1.43	1.34	2.51	NA	2.19	1.07
Earnings Yield	8.51%	4.45%	4.30%	8.89%	4.64%	5.73%
Debt/Equity	2.46	0.47	0.77	NA	68.16	0.94
Cash Flow ($/share)	47.99	2.31	6.94	5.69	2.86	8.80
Growth Score	C	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	26.03%	20.08%	10.41%	NA	20.08%	12.75%
Proj. EPS Growth (F1/F0)	-21.81%	-3.28%	-6.32%	9.53%	19.78%	-15.01%
Curr. Cash Flow Growth	17.38%	-3.66%	5.20%	-0.35%	-13.53%	-2.64%
Hist. Cash Flow Growth (3-5 yrs)	13.02%	13.97%	8.55%	NA	8.58%	13.33%
Current Ratio	0.84	2.04	1.33	5.24	1.50	1.87
Debt/Capital	71.07%	38.09%	44.59%	NA	98.55%	48.32%
Net Margin	12.37%	2.67%	10.13%	NA	19.23%	-8.79%
Return on Equity	37.16%	10.82%	14.51%	NA	-1,729.19%	11.35%
Sales/Assets	0.48	1.04	0.51	NA	1.34	0.71
Proj. Sales Growth (F1/F0)	-11.20%	0.00%	-1.43%	12.80%	-11.61%	-6.43%
Momentum Score	C	-	-	A	C	B
Daily Price Chg	0.54%	0.00%	0.12%	0.00%	-0.45%	-0.47%
1 Week Price Chg	11.73%	4.11%	2.30%	0.00%	1.77%	9.89%
4 Week Price Chg	13.18%	6.80%	4.41%	0.00%	10.74%	13.24%
12 Week Price Chg	40.41%	23.09%	13.66%	-0.44%	28.97%	42.86%
52 Week Price Chg	71.49%	9.44%	5.80%	-0.44%	52.53%	25.22%
20 Day Average Volume	912,559	221,660	1,984,154	0	2,053,289	995,155
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	25.00%	14.55%	2.08%	0.00%	14.99%	29.32%
(F1) EPS Est 12 week change	31.16%	21.34%	2.66%	-8.01%	38.65%	56.30%
(Q1) EPS Est Mthly Chg	9.24%	22.47%	0.94%	NA	21.23%	18.19%

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	C
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.

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