

# United Rentals, Inc. (URI)

## Alert: Pure North America Play Provides Comfort; Reiterate Buy

**Citi's Take:** URI reported strong 3Q results with both revenue & EBITDA outpacing our expectations. Revenue of \$1.54bn (+17.8% y-o-y) exceeded our \$1.52bn estimate owing to a 15.6% y-o-y rental revenue expansion driven by volume (+9.5% y-o-y), pricing (+4.7% y-o-y), and time utilization (+70bp y-o-y to 71.5%) growth. EBITDA of \$761mm (+18.5% y-o-y) beat our \$750mm expectation while margin of 49.3% increased 30bp y-o-y (company record). Looking ahead, management affirmed its outlook for revenue, EBITDA, rental rates, utilization, and capex while raising its FCF target by \$25mm and accelerating its share repurchase program. We remain Overweight URI with Buy (1) ratings on the 5.75% & 6.125% senior notes.

**Balance Sheet:** Net leverage equated to 3.1x (vs. 3.2x during 2Q) owing to EBITDA & FCF generation following URI's acquisition of National Pump. FCF was \$72mm for the quarter (vs. FCF use of \$161mm during 3Q13) owing to reduced capex, improved y-o-y EBITDA, and efficient working capital management. The company also noted it now expects its \$500mm share repurchase authorization to be completed by December 2014 (\$120mm authorization remaining).

**Credit Implications:** We continue to believe URI is well-positioned to benefit from the recovery in non-residential construction markets in 2014/2015. Importantly, management highlighted it remains in the early innings of an up-cycle that is anticipated to be "multiple years." We reiterate our Buy (1) recommendations on URI 5.75% & 6.125% sr. notes as the bonds are trading ~5 points below August 2014 highs despite improving credit fundamentals and the anticipated benefit of a secular & cyclical rebound in NA focused end-markets.

**Conference Call:** Call @ 11AM ET (10/16); Dial-in: 877-888-4314; no PW

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Figure 1. URI Trading Levels

Coupon	Description	Citi Rating	Maturity	Ratings (Moody's/S&P)	Amount Outst.	Current Prices			Next Call Data		
						Bid	YTW (%)	Z-Spr (bp)	YTW Date	Date	Price
UNITED RENTALS (URI) - Overweight											
5.750%	URI Sr Sec Nts	Neutral (2)	7/15/2018	Ba1(S)/BB+(S)	\$750	104.000	4.07%	364	7/15/2015	7/15/2015	102.88
7.375%	URI Sr Nts	Neutral (2)	5/15/2020	B1(S)/BB-(S)	\$748	106.625	5.22%	461	5/15/2016	5/15/2016	103.69
8.250%	RRR Sr Nts	Neutral (2)	2/1/2021	B1(S)/BB-(S)	\$648	107.750	5.09%	451	2/1/2016	2/1/2016	104.13
7.625%	URI Sr Nts	Neutral (2)	4/15/2022	B1(S)/BB-(S)	\$1,325	108.500	5.39%	456	4/15/2017	4/15/2017	103.81
6.125%	URI Sr Nts	Buy (1)	6/15/2023	B1(S)/BB-(S)	\$925	102.250	5.69%	390	12/15/2020	12/15/2017	103.06
5.750%	URI Sr Nts	Buy (1)	11/15/2024	B1(S)/BB-(S)	\$850	100.250	5.71%	371	5/15/2022	5/15/2019	102.88
8.375%	URI Sr Sub Nts	Neutral (2)	9/15/2020	B2(S)/B(S)	\$750	107.000	4.96%	445	9/15/2015	9/15/2015	104.19
4.000%	URI Sr Converts		11/15/2015	B1(S)/BB-(S)	\$34	809.660	NA	NA	11/15/2015	NC	NC

Source: Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Citi Research US High Yield Issue Coverage	31%	58%	11%
<i>% of companies in each rating category that are investment banking clients</i>	71%	79%	65%

United Rentals Inc (URI) — Issuer Portfolio Weighting and Issue Rating History

High Yield Credit Research

Analyst: Manish A. Somaiya

Issuer		Issue			
Weighting	Date	Coupon	Description	Maturity	Rating
OW	05-Oct-12	5.750%	Sr Sec Nts	15-Jul-18	Neutral (2)
		10.875%	Sr Nts	15-Jun-16	Neutral (2)
					NC
		9.250%	Sr Nts	15-Dec-19	Neutral (2)
					NC
		10.250%	Sr Nts	15-Nov-19	Neutral (2)
					NC
		7.375%	Sr Nts	15-May-20	Neutral (2)
		8.250%	Sr Nts	01-Feb-21	Neutral (2)
		7.625%	Sr Nts	15-Apr-22	Neutral (2)
		8.375%	Sr Sub Nts	15-Sep-20	Buy (1)
					Neutral (2)
					Buy (1)
					Neutral (2)
		6.125%	Sr Nts	15-Jun-23	Buy (1)
		5.750%	Sr Nts	15-Nov-24	Buy (1)
					18-Apr-13
					17-Jun-13
					17-Oct-13

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