



Why United Rentals, Inc. Is a Buy Though it Is up 11% Since Wednesday Close

Description

Investors in **United Rentals, Inc.** ([NYSE:URI](#)) have cheered a recent acquisition announcement; the company has agreed to acquire competitor **NES Rental Holdings Inc.** for \$965 million. The long-term prospects of United Rentals appear to be very bright, and investors are piling into this stock that many view as “not sexy enough” due to the industry the company operates in as well as the fact that it doesn’t currently issue a dividend.

I’ll look at why this purchase makes a lot of sense and why the market has agreed with United Rentals that this is a deal that will boost profitability in the long run through synergies, tax savings, and long-term EPS growth from the target business.

Acquisition details

NES Rentals fits United Rentals’s growth strategy well. This acquisition will provide United Rentals with increased scale in key geographic markets as well as additional cross-selling opportunities that United Rentals expects will provide hefty synergies.

The kicker is, this deal is expected to close in Q2 2017 (a very quick turnaround), and the company expects to begin integrating the acquisition immediately, meaning United Rentals will be able to begin extracting value from this deal much quicker than typical of bolt-on acquisitions of this size. Earnings per share are expected to increase right away — a huge positive for investors jumping in now.

The deal is expected to be funded through a combination of cash, existing ABL capacity, and newly issued debt. Perhaps the key to the deal is the fact that the company will be able to achieve profitability very quickly; within 18 months, the company’s return on invested capital is expected to exceed its cost of capital due to synergies with NES as well as tax benefits due to NES’s capital structure, providing United Rentals with an additional \$125 million of tax benefits (net present value).

Company fundamentals are strong

United Rentals operates in a business environment that is “not sexy.” This company is anything but sexy; it is not **Facebook** or **Twitter** or **Google**, but rather it’s a large-cap company in the equipment-

leasing business with fantastic exposure to infrastructure in the United States and around the world.

Given the continued talk of increased government infrastructure spending in the U.S., investors are banking on higher than normal cyclical cash flows from this traditionally stable business moving forward. This increase in the growth rate that's been factored in by analysts has been part of the reason United Rental's stock is up over 20% since the beginning of the year.

The company's stock is now trading around 14 times expected earnings for 2017, which is not bad for a growth play in the infrastructure space over the next few years. While United Rentals doesn't currently issue a dividend, investors can expect that should cash flows exceed expectations in the coming year, the company will begin to redistribute some of these earnings to investors either through dividends or stock repurchases.

Stay Foolish, my friends.

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