



PPG Industries (PPG)

Updated July 20th, 2018 by Nick McCullum

Key Metrics

Current Price: \$106	5 Year CAGR Estimate: 12.5%	Volatility Percentile: 36.6%
Fair Value Price: \$128	5 Year Growth Estimate: 7.0%	Momentum Percentile: 23.2%
% Fair Value: 85%	5 Year Valuation Multiple Estimate: 3.8%	Valuation Percentile: 85.2%
Dividend Yield: 1.7%	5 Year Price Target: \$128	Total Return Percentile: 81.2%

Overview & Current Events

PPG Industries is the world's largest paints and coatings company. Its only competitors of similar size are Sherwin-Williams and Dutch paint company Akzo Nobel. PPG Industries was founded in 1883 as a manufacturer and distributor of glass (its name stands for Pittsburgh Plate Glass) and today has approximately 3,500 technical employees located in more than 70 countries at 100 unique locations. With 46 years of consecutive dividend increases, PPG Industries is a member of the Dividend Aristocrats Index.

On July 19th, PPG Industries reported financial results for the second quarter of fiscal 2018. In the quarter, net sales of \$4.1 billion increased by nearly 9% over the prior year's reporting period (composed of 3% volume increases and 6% expansion thanks to pricing changes) while adjusted diluted earnings-per-share increased by 6% over the prior year's period. This strong performance includes the benefit of a lower tax rate. The contrast between PPG Industries' 9% sales growth and its 6% earnings-per-share growth is explained by persistently higher costs related to raw materials as well as heightened logistics expenses. PPG also continues to allocate capital in a very shareholder-friendly manner. The company repurchased approximately \$460 million of company stock in the second quarter and \$1.1 billion of PPG shares through the first six months of the fiscal year. The markets were initially unimpressed with PPG's financial performance and shares fell following the announcement before retracing their losses later in the trading session.

In a separate press release on the same day, PPG announced that its board of directors approved a 7% increase to its quarterly dividend payment. This marked PPG's 46th consecutive year of raising its annual dividend payment and continues an impressive streak of dividends that extends back to 1899.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.63	\$1.02	\$2.32	\$3.44	\$3.03	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$6.75	\$9.45
DPS	\$1.05	\$1.07	\$1.09	\$1.13	\$1.17	\$1.21	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$3.00

PPG Industries has compounded its adjusted earnings-per-share at 16.2% per year since 2008, largely because 2008 earnings were depressed due to the housing market crash. We believe that PPG Industries is capable of delivering 7% annualized earnings-per-share growth over full economic cycles, which gives a 2018 earnings-per-share estimate of \$6.75 and a 2023 earnings-per-share estimate of \$9.45. Dividends will likely grow at a slightly faster rate but are unlikely to exceed low-double-digit growth rates over any meaningful time period.

PPG's growth will come from intelligent portfolio management. Last year, it divested its last remaining glass business – the North American fiberglass unit – for \$545 million. The company is also a disciplined acquirer. Last year, it made three bids for Dutch paints and coatings company Akzo Nobel before eventually walking away from the acquisition. PPG's CEO said in a statement that *"We believe it is in the best interests of PPG and its shareholders to withdraw our proposal to AkzoNobel at this time."* We were pleased with the company's willingness to leave negotiations once prices became unreasonable and continue to believe that acquisitions should be a positive contributor to returns for the foreseeable future.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	17.9	23.9	14.8	12.3	17.5	19.0	24.7	20.9	31.1	16.9	15.8	19.0
Avg. Yld.	3.6%	4.4%	3.2%	2.7%	2.2%	1.5%	1.3%	1.3%	1.5%	1.6%	1.7%	1.5%

We believe that PPG Industries is capable of delivering \$6.75 in adjusted earnings-per-share for fiscal 2018. Using this earnings estimate, the company is trading at a forward price-to-earnings ratio of 15.8. We believe that around 19 times earnings is a reasonable approximation for the fair value of PPG Industries. If the company's valuation can expand to 19 times earnings over a period of 5 years, this will add 3.8% to the company's annualized returns during that time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	38.7%	33.0%	34.8%	36.8%	32.0%	37.5%	36.7%	37.8%	41.7%	39.6%	40.0%	40.0%
Debt/A	77.3%	73.6%	75.7%	77.4%	74.4%	68.9%	70.5%	70.8%	69.4%	66.4%	65.0%	60.0%
Int. Cov.	5.1	4.9	9.6	8.5	6.1	9.3	11.2	21.7	9.2	24.9	10.0	10.0
Payout	64.4%	104.9%	47.0%	32.8%	38.6%	29.2%	32.3%	27.6%	47.6%	26.9%	27.7%	31.7%
Std. Dev.	48.9%	38.7%	24.8%	30.5%	24.1%	20.6%	18.7%	21.2%	23.0%	16.1%	20.0%	20.0%

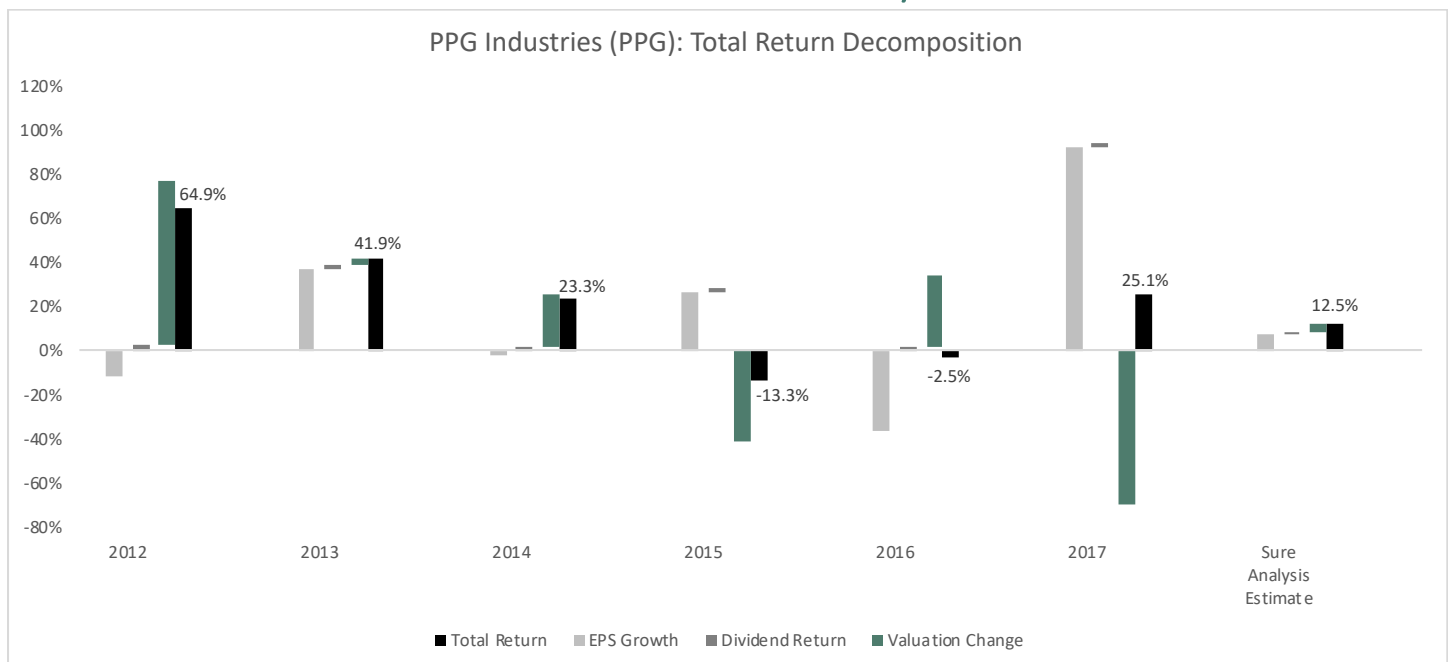
PPG Industries scores well on a number of quality metrics relative to our broad universe of public equities. The company's ratio of gross profits to total assets is much higher than average. PPG Industries' balance sheet has consistently deleveraged over the last decade. This is a trend that we expect to continue. Qualitatively, PPG Industries' competitive advantage is based on its industry-leading scale. The downside to this is its reliance on a healthy housing market.

Final Thoughts & Recommendation

PPG Industries' size and brand recognition give it a durable competitive advantage in the paints and coatings industry. Moreover, its dividend history shows that it is willing and able to prioritize its profit distributions to shareholders.

Best of all, the company is trading at a discount to our perception of its intrinsic value. Valuation expansion should provide a tailwind to PPG's future returns. We are recommending the company as a buy today, with the warning that better buying opportunities are likely to arise if weakness in the general economy appears in any meaningful form.

Total Return Breakdown by Year



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