



PPG Industries (PPG)

Updated October 18th, 2018 by Nick McCullum

Key Metrics

Current Price:	\$99	5 Year CAGR Estimate:	11.3%	Volatility Percentile:	23.5%
Fair Value Price:	\$111	5 Year Growth Estimate:	7.0%	Momentum Percentile:	23.7%
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Growth Percentile:	62.6%
Dividend Yield:	1.9%	5 Year Price Target	\$156	Valuation Percentile:	67.1%
Dividend Risk Score:	A	Retirement Suitability Score:	D	Total Return Percentile:	63.1%

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 and trades on the New York Stock Exchange with a market capitalization of \$24 billion.

In mid-October, PPG Industries reported (10/18/18) financial results for the third quarter of fiscal 2018. In the quarter, net sales of \$3.8 billion increased by 1% (or 3% in constant currencies) while GAAP earnings-per-share of \$1.51 declined by a penny over the same period a year ago. The company's adjusted financial results were slightly worse, with adjusted earnings-per-share of \$1.45 declining from the \$1.52 reported in last year's comparable period. While PPG implemented aggressive price increases and cost cuts in the quarter, this was not enough to cover the significant impact of continued input cost inflation. Still, shares of PPG Industries traded essentially flat following the publication of its earnings release, likely because the company essentially met consensus expectations on both the top and bottom line.

In the same press release, PPG Industries provided an update on its capital allocation strategy for the remainder of the fiscal year. More specifically, the company's Chairman and Chief Executive Officer Michael McGarry said: *"Our acquisition pipeline remains active. We expect deployment on acquisitions and share repurchases in the fourth quarter to total approximately \$1 billion, which will increase our balance sheet leverage while still providing financial flexibility heading into 2019. We remain focused on executing our strategy, which we believe will drive further shareholder value creation."*

Lastly, PPG provided updated guidance for the fourth quarter of fiscal 2018. The company expects earnings-per-share of \$1.03-\$1.13 for the final quarter of the fiscal year. Given this guidance combined with the fact that PPG has reported \$4.74 in adjusted EPS so far this year, we are reducing our 2018 EPS estimate to \$5.85, from \$6.75 previously.

In a separate but concurrent press release, PPG Industries announced (10/18/18) that it plans to acquire SEM Products, Inc., a *"U.S.-based manufacturer of specialized automotive refinish products."* The transaction is expected to close in the fourth quarter of fiscal 2018 and financial terms of the transaction were not disclosed to the company's shareholders.

Gary Danowski, PPG's Vice President, Automotive Refinish, said the following about the transaction: *"PPG's acquisition of SEM will complement our current automotive refinish product offering and add specialized, value-added products that address the needs of distributors and body shops. SEM has a history of strong returns and will provide our valued refinish customers with an excellent product portfolio to get collision jobs done faster by increasing efficiency and throughput."*

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	\$5.85	\$8.20
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
Shares	331	331	329	319	310	290	280	274	267	258	245	200

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Although we reaffirm our 7% growth target, our lowered 2018 EPS estimate has resulted in a similar reduction in our 2023 EPS figure. The SEM Products acquisition is unlikely to change PPG's growth trajectory materially moving forward.

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	16.9	19.0
Avg. Yld.	3.6%	4.4%	3.2%	2.7%	2.2%	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.9%

PPG Industries has traded at an average price-to-earnings ratio of 19 over the last decades while shares are currently priced at 16.9 time earnings. If the company's valuation were to revert to its long-term average over the next 5 years, this would boost its annualized total returns by 2.4% during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

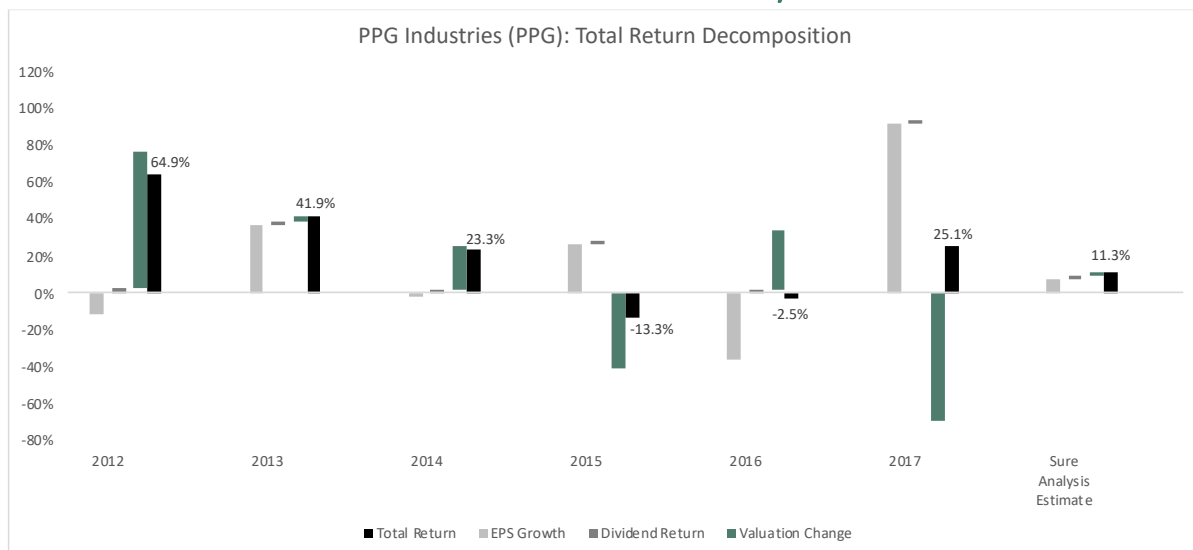
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	38.7%	33.0%	34.8%	36.8%	32.0%	37.5%	36.7%	37.8%	41.7%	39.6%	40.0%	40.0%
Debt/A	77.3%	73.6%	75.7%	77.4%	74.4%	68.9%	70.5%	70.8%	69.4%	66.4%	65.0%	60.0%
Int. Cov.	5.1	4.9	9.6	8.5	6.1	9.3	11.2	21.7	9.2	24.9	10.0	10.0
Payout	64.4%	104.9%	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%

We continue to view PPG Industries as one of the more high-quality businesses in our investment universe. The company's low payout ratio and long dividend history allow it to earn a B rating for Dividend Safety, although a low dividend yield gives it a D rating for Retirement Suitability.

Final Thoughts & Recommendation

Overall, little has changed with respect to PPG Industries since the time of our last quarterly research report. The company continues to earn a buy recommendation from Sure Dividend due to its cheap valuation and high expected returns. With that said, today's investors should be prepared to buy more in the event the housing market slows and this stock drops in price accordingly.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	15849	12239	13423	13153	12686	14265	14791	14241	14270	14748
Gross Profit	5694	4700	5209	5288	5087	5951	6443	6455	6577	6541
Gross Margin	35.9%	38.4%	38.8%	40.2%	40.1%	41.7%	43.6%	45.3%	46.1%	44.4%
SG&A Exp.	3432	2936	2979	3122	2987	3486	3696	3584	4556	3624
D&A Exp.	563	480	470	425	399	452	450	446	440	460
Operating Profit	1244	883	1424	1368	1322	1598	1843	1974	1134	2015
Op. Margin	7.8%	7.2%	10.6%	10.4%	10.4%	11.2%	12.5%	13.9%	7.9%	13.7%
Net Profit	538	336	769	1095	941	3231	2102	1406	873	1594
Net Margin	3.4%	2.7%	5.7%	8.3%	7.4%	22.6%	14.2%	9.9%	6.1%	10.8%
Free Cash Flow	1054	1106	1003	1110	1457	1297	964	1465	971	1208
Income Tax	284	191	415	260	148	253	237	413	214	615

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	14698	14240	14975	14382	15878	15863	17535	17076	15771	16538
Cash & Equivalents	1021	1057	1341	1457	1306	1116	686	1311	1820	1436
Acc. Receivable	N/A	N/A	N/A	2512	2568	2449	2366	2343	2288	2559
Inventories	1702	1548	1573	1607	1687	1824	1825	1659	1514	1730
Goodwill & Int.	4113	4200	3987	3785	3846	4347	6212	5847	5555	5987
Total Liabilities	11209	10318	11142	10936	11556	10665	12270	12007	10856	10866
Accounts Payable	1402	1384	1626	1813	1832	2015	2183	2118	2142	2582
Long-Term Debt	3912	3346	4071	3682	4010	3406	4014	4307	4416	4146
Total Equity	3333	3753	3638	3249	4063	4932	5180	4983	4828	5557
D/E Ratio	1.17	0.89	1.12	1.13	0.99	0.69	0.77	0.86	0.91	0.75

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.9%	2.3%	5.3%	7.5%	6.2%	20.4%	12.6%	8.1%	5.3%	9.9%
Return on Equity	14.4%	9.5%	20.8%	31.8%	25.7%	71.8%	41.6%	27.7%	17.8%	30.7%
ROIC	7.4%	4.6%	10.1%	14.6%	12.2%	38.2%	23.5%	15.1%	9.3%	16.6%
Shares Out.	331	331	329	319	310	290	280	274	267	258
Revenue/Share	47.87	36.98	40.80	41.28	40.90	49.16	52.90	52.05	53.37	57.21
FCF/Share	3.18	3.34	3.05	3.48	4.70	4.47	3.45	5.35	3.63	4.69

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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