



PPG Industries (PPG)

Updated January 18th, 2018 by Nathan Parsh

Key Metrics

Current Price:	\$107	5 Year CAGR Estimate:	11.4%	Volatility Percentile:	24.7%
Fair Value Price:	\$122	5 Year Growth Estimate:	7.0%	Momentum Percentile:	39.4%
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Growth Percentile:	64.6%
Dividend Yield:	1.8%	5 Year Price Target	\$171	Valuation Percentile:	72.2%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	66.5%

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 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 \$26 billion.

PPG Industries released fourth quarter and full year 2018 financial results on January 17th. The company earned \$1.15 in the quarter, which was \$0.05 ahead of estimates, but a 3.4% decline from the previous year. Revenue declined 0.8% to \$3.65 billion, but this was in-line with analysts' expectations. For the year, earnings-per-share totaled \$5.89, \$0.04 ahead of our estimates. This was, however, a 6.7% decline from 2017. Shares of PPG Industries initially declined upon the release of results, but ended the trading day almost 5% higher.

PPG Industries Performance Coating's net sales grew 1% to \$2.1 billion due to higher selling prices. Raw costs have increased, but the company has been able to pass off higher costs to its customers. Acquisitions added \$15 million in sales, led by SEM. Segment volumes were flat year-over-year due to weaker demand from DIY customers. Revenues for aerospace coatings improved 10% on strong industry demand. Architectural coatings suffered a decline in volumes as demand dropped. PPG Industries also announced that it expects to finish a strategic review of its portfolio and may decide to spin off its aerospace and architectural coatings businesses.

Revenues for the Industrial Coatings division declined 3% as higher selling prices weren't able to offset lower volumes. Unfavorable currency translation also impacted net sales. Volumes for automotive original equipment manufacturers dropped 5% during the quarter, led by decreases in China and Europe. Industrial coatings were down slightly, as strength in the U.S. and Canada was more than offset by the Asia-Pacific region.

For full year 2019, PPG Industries expects a range for earnings-per-share, excluding negative currency translation, of \$6.33-\$6.51. This is below what analysts had been expecting.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.02	\$2.32	\$3.44	\$3.03	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.42	\$9.00
DPS	\$1.07	\$1.09	\$1.13	\$1.17	\$1.21	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$1.92	\$3.08
Shares	331	329	319	310	290	280	274	267	258	245	234	200

We project PPG Industries to earn \$6.42 per share in 2019 and we maintain our projected annual EPS growth rate of 7% through 2024. We have updated our 2024 EPS projections accordingly. PPG Industries generated \$1.5 billion in cash from operations during 2018. The company returned \$2.2 billion to shareholders; \$450 million in dividends and the remainder in share repurchases.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	23.9	14.8	12.3	17.5	19.0	24.7	20.9	31.1	16.9	16.9	16.7	19.0
Avg. Yld.	4.4%	3.2%	2.7%	2.2%	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.8%	1.9%

Shares of PPG Industries have declined \$8, or 8.1%, since our October 18th update. The stock as traded at an average price-to-earnings ratio of 19 over the last decades while shares are currently priced at 16.9 time earnings (using expected 2019 EPS). 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 2.6% during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

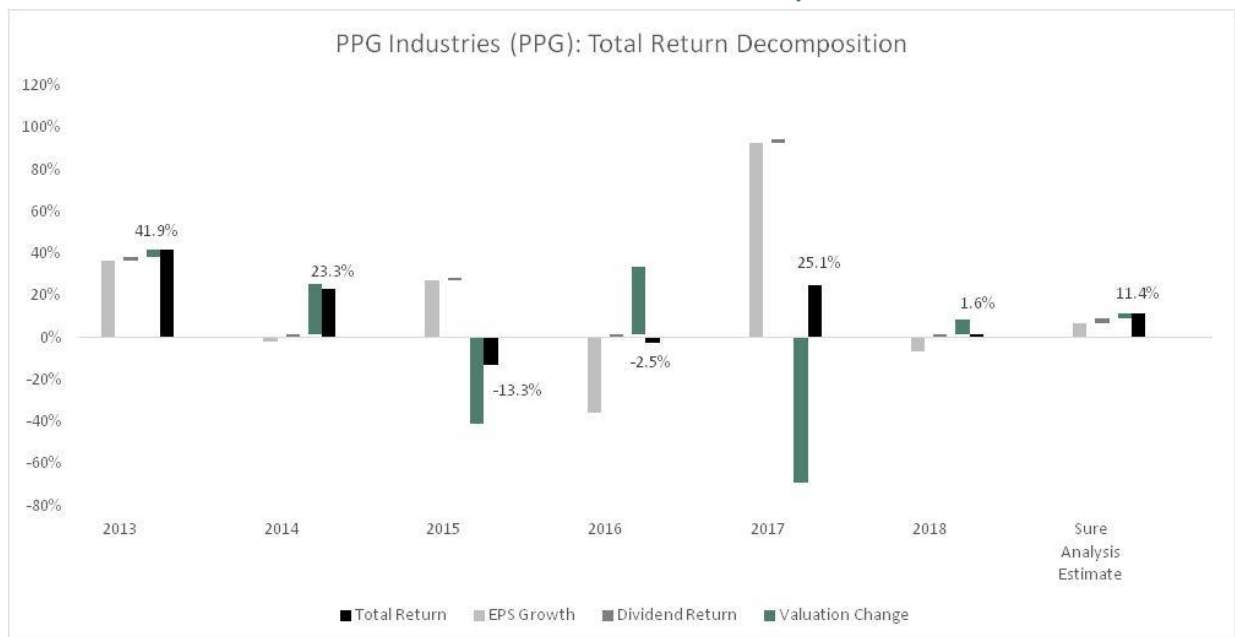
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	105%	47.0%	32.8%	38.6%	29.2%	32.3%	27.6%	47.6%	26.9%	31.7%	29.9%	34.2%

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 an A rating for Dividend Safety, although a lower-than-average dividend yield gives it a B rating for Retirement Suitability.

Final Thoughts & Recommendation

We expect PPG Industries to offer a total annual return of 11.4% through 2024, up from 11.2% previously. The company's divisions showed some signs of growth (aerospace coatings) and pockets of weakness (industrial coatings, regions outside of North America). On the positive side, PPG Industries has been able to pass along higher raw costs to its customers. We currently rate PPG as a buy. It has double-digit expected total returns and is very likely to continue paying rising dividends far into the future.

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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