



PPG Industries (PPG)

Updated April 21st, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$120	5 Year CAGR Estimate:	6.7%	Volatility Percentile:	17.5%
Fair Value Price:	\$109	5 Year Growth Estimate:	7.0%	Momentum Percentile:	51.5%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Growth Percentile:	66.4%
Dividend Yield:	1.6%	5 Year Price Target	\$153	Valuation Percentile:	37.5%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	36.4%

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 \$28 billion. The company generates annual revenues in excess of \$15 billion.

PPG Industries released first quarter financial results on 4/18/2019. The company earned \$1.38 per share, which was \$0.17 above estimates, but a 3% decline from the previous year. Revenue declined 4.3% to \$3.6 billion. Revenue results were \$74 million below expectations. In constant currency, revenue was flat year-over-year.

A 2.6% increase in product selling prices helped to offset a 3% decline in product volumes. Higher raw material, logistics and labor have also been a headwind for the PPG Industries. Despite this, the first quarter marked the eighth consecutive quarter of improvements in sequential pricing.

The Performance Coatings segment generated \$2.1 billion in sales, a decline of 2%. Sales were up 2% in constant currency. Acquisitions added \$15 million to sales, led by the addition of automotive refinish products manufacturer SEM. Volumes for PPG Industries' aerospace grew by 10% for the fourth consecutive quarter. Protective and marine coatings segments grew by almost 10% as well. These gains were offset by a decline in the DIY channel do to Lowe's Companies (LOW) exclusive deal to sell Sherwin-Williams (SHW) paint products. Architectural coatings declined by high single digits in the Americas and Asia-Pacific despite low single digit growth in the U.S. and Canada. The Industrial Coatings segment experienced a sales decline of 6% to \$1.5 billion. Unfavorably currency exchange rates lowered sales by 5%. Prices for products in this group increased 2% which helped to make up for a 5% volume decline. Volumes for automotive OEMs were the primary contributor to the decline in volumes as global auto product declined, led by China.

PPG Industries says it will conclude its strategic portfolio review and whether to separate its architectural and industrial coatings businesses by the end of the second quarter. PPG Industries reiterated its forecast of 3% to 5% revenue growth in 2019. Although earnings-per-share estimates for the second quarter are below the market's expectations (\$1.81 vs \$1.87), the company still expects earnings growth of 7% to 10% for the year. Our estimates for 2019 remain unchanged.

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	\$2.69
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 earnings-per-share growth rate of 7% through 2024 due to product price increases and revenue growth.

PPG Industries has nearly five decades of dividend growth and has grown dividends with a CAGR of 7.4% and 5.7% over the past five and 10-year periods, respectively. We expect dividends to grow at a rate similar to earnings-per-share.

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	18.7	17.0
Avg. Yld.	4.4%	3.2%	2.7%	2.2%	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.6%	1.8%

Shares of PPG Industries have increased \$13, or 12%, since our January 18th update. The stock has traded at an average price-to-earnings ratio of 19 over the last decade. Due to volume declines and loss of partnership with Lowe's, we have lowered our 2024 target valuation to 17x earnings. Shares are currently priced at 18.7 time earnings using expected 2019 earnings-per-share. If the company's valuation were to revert to our target over the next 5 years, this would lead to a 1.9% reduction in total returns 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%	33%	39%	29%	32%	28%	48%	27%	32%	30%	30%

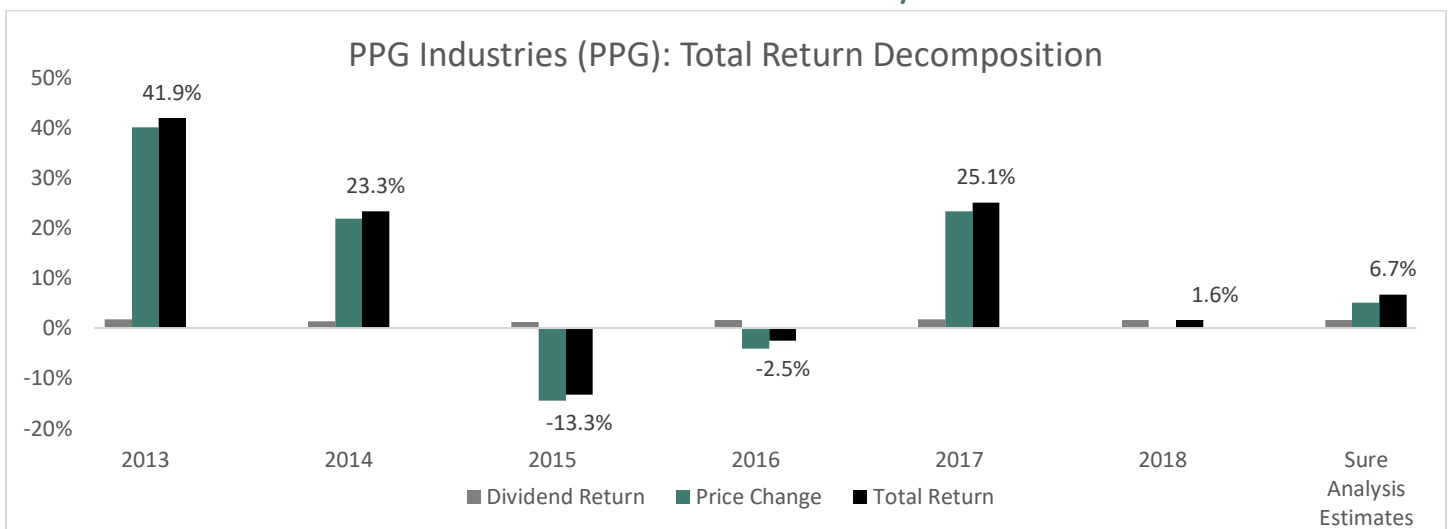
Even after 40+ years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the last decade was 2009. The average payout ratio since then is just 35%, which is above our projected levels for the current year.

PPG Industries' key advantage is that it is one of the most well-known and respected companies in the paints and coatings space. The company is also one of just three similar sized companies in this industry, which limits PPG Industries' competitors. This size gives PPG Industries size and scale and the ability to increase prices. This has been reflected in the company's ability to increase product prices in order to offset volume declines.

Final Thoughts & Recommendation

After reviewing first quarter results, we have lowered our expected total annual return to 6.7% from 11.2%. A combination of share price increase and a reduction in our valuation target for 2024 are the primary causes of this reduction. While we applaud PPG Industries' ability to pass along price increases, we are concerned with the company's declines in product volumes. Due to a revised expected return, PPG Industries receives a hold recommendation from Sure Dividend at this time. We have also lowered our 2024 price target \$18 to \$153.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	12239	13423	13153	12686	14265	14791	14241	14270	14748	15374
Gross Profit	4700	5209	5288	5087	5951	6443	6455	6605	6539	6373
Gross Margin	38.4%	38.8%	40.2%	40.1%	41.7%	43.6%	45.3%	46.3%	44.3%	41.5%
SG&A Exp.	2936	2979	3122	2987	3486	3696	3584	3555	3554	3573
D&A Exp.	480	470	425	399	452	450	446	440	460	497
Operating Profit	883	1424	1368	1322	1598	1843	1974	2169	2085	1872
Op. Margin	7.2%	10.6%	10.4%	10.4%	11.2%	12.5%	13.9%	15.2%	14.1%	12.2%
Net Profit	336	769	1095	941	3231	2102	1406	873	1594	1341
Net Margin	2.7%	5.7%	8.3%	7.4%	22.6%	14.2%	9.9%	6.1%	10.8%	8.7%
Free Cash Flow	1106	1003	1110	1457	1297	964	1465	971	1208	1056
Income Tax	191	415	260	148	253	237	413	214	615	353

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	14240	14975	14382	15878	15863	17535	17076	15771	16538	16015
Cash & Equivalents	1057	1341	1457	1306	1116	686	1311	1820	1436	902
Acc. Receivable	N/A	N/A	2512	2568	2449	2366	2343	2288	2559	2505
Inventories	1548	1573	1607	1687	1824	1825	1659	1514	1730	1783
Goodwill & Int.	4200	3987	3785	3846	4347	6212	5847	5555	5987	6042
Total Liabilities	10318	11142	10936	11556	10665	12270	12007	10856	10866	11283
Accounts Payable	1384	1626	1813	1832	2015	2183	2118	2142	2582	2460
Long-Term Debt	3346	4071	3682	4010	3406	4014	4307	4416	4146	5016
Total Equity	3753	3638	3249	4063	4932	5180	4983	4828	5557	4630
D/E Ratio	0.89	1.12	1.13	0.99	0.69	0.77	0.86	0.91	0.75	1.08

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.3%	5.3%	7.5%	6.2%	20.4%	12.6%	8.1%	5.3%	9.9%	8.2%
Return on Equity	9.5%	20.8%	31.8%	25.7%	71.8%	41.6%	27.7%	17.8%	30.7%	26.3%
ROIC	4.6%	10.1%	14.6%	12.2%	38.2%	23.5%	15.1%	9.3%	16.6%	13.7%
Shares Out.	331	329	319	310	290	280	274	267	258	245
Revenue/Share	36.98	40.80	41.28	40.90	49.16	52.90	52.05	53.37	57.21	62.65
FCF/Share	3.34	3.05	3.48	4.70	4.47	3.45	5.35	3.63	4.69	4.30

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

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