



PPG Industries (PPG)

Updated July 17th, 2020 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------------|
| Current Price: | \$112 | 5 Year CAGR Estimate: | 2.2% | Market Cap: | \$26.6 billion |
| Fair Value Price: | \$75 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 8/7/2020 |
| % Fair Value: | 148% | 5 Year Valuation Multiple Estimate: | -7.6% | Dividend Payment Date: | 9/11/2020 |
| Dividend Yield: | 1.9% | 5 Year Price Target | \$111 | Years Of Dividend Growth: | 49 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 5.9% |

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 49 years of consecutive dividend increases, PPG Industries is a member of the Dividend Aristocrats Index and trades on the New York Stock Exchange. The company generates annual revenues in excess of \$15 billion.

PPG Industries released second quarter earnings results on 7/16/2020. The company earned \$0.99 per share, which was \$0.8 higher than expected, but almost 47% below results for the previous year. Revenue declined 25% to \$3 billion, which was \$216 million better than expected. Revenue was 22% lower when excluding currency exchange.

As with the prior quarter, top and bottom-line results were negatively impacted by the ongoing COVID-19 pandemic. Total sales volumes decreased 24% year-over-year. Performance Coatings' sales declined 15%. Net selling prices added 3% to results and acquisitions added 1%, but steep volume declines and unfavorable currency exchange more than offset this growth. Volumes for Aerospace Coatings decreased 30% due to lower demand from commercial OEM and after-market activity. DIY architectural coatings were higher in all major regions that the company has a presence, but professional channels were mixed and automotive refinish were down 35% in the second quarter. Industrial Coatings sales decreased 40% with volumes falling 38% due to demand decline related to COVID-19. Automotive OEMs were especially weak due to lower global automotive industry production. The company ended the quarter with \$2.3 billion in cash and equivalents and has an undrawn revolving credit facility of \$2.2 billion. PPG Industries expects volumes to be down 8% to 15% in the third quarter. Analysts have lowered earnings-per-share estimates to \$4.44 for the year, down from \$5.46 previously.

Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.32 | \$3.44 | \$3.03 | \$4.14 | \$4.05 | \$5.14 | \$3.28 | \$6.31 | \$5.89 | \$6.22 | \$4.44 | \$6.52 |
| DPS | \$1.09 | \$1.13 | \$1.17 | \$1.21 | \$1.31 | \$1.42 | \$1.56 | \$1.70 | \$1.87 | \$2.04 | \$2.16 | \$3.17 |
| Shares¹ | 329 | 319 | 310 | 290 | 280 | 274 | 267 | 258 | 245 | 237 | 237 | 200 |

PPG Industries has averaged a return on assets of 8.6% over the last decade. Erring on the side of caution, we expect earnings-per-share to grow at a rate of 8% through 2025, up from our prior estimate of 7%. PPG Industries' demand dropped significantly due to the impact of COVID-19. We expect the recovery from the pandemic to offer a higher rate of growth for the company.

PPG Industries increased its dividend by 5.9% for the 9/11/2020 payment. This gives the company 49 consecutive years of dividend growth. We expect dividends to grow at a rate similar to earnings-per-share going forward.

¹ Share count in millions

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 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 14.8 | 12.3 | 17.5 | 19.0 | 24.7 | 20.9 | 31.1 | 16.9 | 16.9 | 21.5 | 25.2 | 17.0 |
| Avg. Yld. | 3.2% | 2.7% | 2.2% | 1.5% | 1.3% | 1.3% | 1.5% | 1.6% | 1.9% | 1.5% | 1.9% | 2.9% |

Shares of PPG Industries have increased \$21, or 23%, since our 4/28/2020 update. The stock has traded with 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 reaffirmed our 2025 target valuation to 17x earnings. Shares are currently priced at 25.2 times earnings using expected 2020 earnings-per-share. If the company's valuation were to revert to our target over the next five years, this would be a 7.6% headwind to annual returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 47% | 33% | 39% | 29% | 32% | 28% | 48% | 27% | 32% | 33% | 49% | 49% |

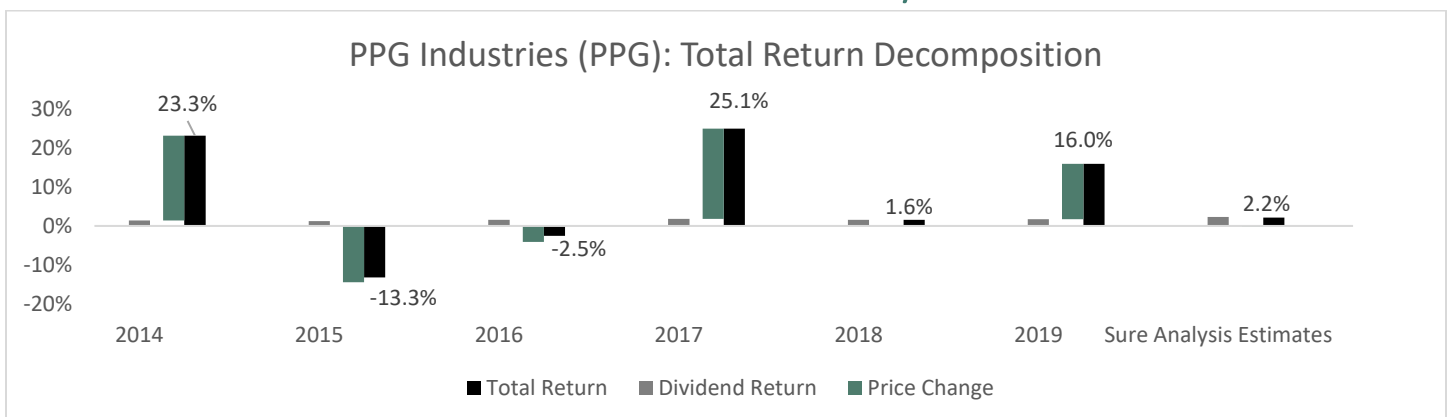
Even after 40+ years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the last decade was 2009. The average payout ratio since then is just 35%, which is below our projected levels for the current year.

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 similarly-sized companies in this industry, which limits PPG Industries' competitors. This 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 second quarter results and the increase in share price since our last update, PPG Industries is expected to offer a total annual return of 2.2% through 2025, down from our previous estimate of 10.4%. Once again, the company saw a significant impact from the COVID-19 pandemic. While the company did see some areas of strength, like DIY channels, and volume declines are expected to mitigate somewhat in Q3, the majority of businesses were down significantly. This will likely be the case if stay at home directives and store closures are reinforced due to another outbreak of the coronavirus. Investors still holding the stock are encouraged to consider taking profits on their positions. We rate the stock as a sell due to projected returns and have lowered our 2025 price target \$25 to \$111 due to revised EPS estimates.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 13,423 | 13,153 | 12,686 | 14,265 | 14,791 | 14,241 | 14,270 | 14,748 | 15,374 | 15,146 |
| Gross Profit | 5,209 | 5,288 | 5,087 | 5,951 | 6,443 | 6,455 | 6,605 | 6,539 | 6,373 | 6,493 |
| Gross Margin | 38.8% | 40.2% | 40.1% | 41.7% | 43.6% | 45.3% | 46.3% | 44.3% | 41.5% | 42.9% |
| SG&A Exp. | 2,979 | 3,122 | 2,987 | 3,486 | 3,696 | 3,584 | 3,555 | 3,554 | 3,573 | 3,604 |
| D&A Exp. | 470 | 425 | 399 | 452 | 450 | 446 | 440 | 460 | 497 | 511 |
| Operating Profit | 1,424 | 1,368 | 1,322 | 1,598 | 1,843 | 1,974 | 2,169 | 2,085 | 1,872 | 1,954 |
| Op. Margin | 10.6% | 10.4% | 10.4% | 11.2% | 12.5% | 13.9% | 15.2% | 14.1% | 12.2% | 12.9% |
| Net Profit | 769 | 1,095 | 941 | 3,231 | 2,102 | 1,406 | 873 | 1,594 | 1,341 | 1,243 |
| Net Margin | 5.7% | 8.3% | 7.4% | 22.6% | 14.2% | 9.9% | 6.1% | 10.8% | 8.7% | 8.2% |
| Free Cash Flow | 1,003 | 1,110 | 1,457 | 1,297 | 964 | 1,465 | 971 | 1,208 | 1,056 | 1,667 |
| Income Tax | 415 | 260 | 148 | 253 | 237 | 413 | 214 | 615 | 353 | 392 |

Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 14,975 | 14,382 | 15,878 | 15,863 | 17,535 | 17,076 | 15,771 | 16,538 | 16,015 | 17,708 |
| Cash & Equivalents | 1,341 | 1,457 | 1,306 | 1,116 | 686 | 1,311 | 1,820 | 1,436 | 902 | 1,216 |
| Acc. Receivable | | 2,512 | 2,568 | 2,449 | 2,366 | 2,343 | 2,288 | 2,559 | 2,505 | 2,479 |
| Inventories | 1,573 | 1,607 | 1,687 | 1,824 | 1,825 | 1,659 | 1,514 | 1,730 | 1,783 | 1,710 |
| Goodwill & Int. | 3,987 | 3,785 | 3,846 | 4,347 | 6,212 | 5,847 | 5,555 | 5,987 | 6,042 | 6,601 |
| Total Liabilities | 11,142 | 10,936 | 11,556 | 10,665 | 12,270 | 12,007 | 10,856 | 10,866 | 11,283 | 12,305 |
| Accounts Payable | 1,626 | 1,813 | 1,832 | 2,015 | 2,183 | 2,118 | 2,142 | 2,582 | 2,460 | 2,378 |
| Long-Term Debt | 4,071 | 3,682 | 4,010 | 3,406 | 4,014 | 4,307 | 4,416 | 4,146 | 5,016 | 5,052 |
| Total Equity | 3,638 | 3,249 | 4,063 | 4,932 | 5,180 | 4,983 | 4,828 | 5,557 | 4,630 | 5,284 |
| D/E Ratio | 1.12 | 1.13 | 0.99 | 0.69 | 0.77 | 0.86 | 0.91 | 0.75 | 1.08 | 0.96 |

Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 5.3% | 7.5% | 6.2% | 20.4% | 12.6% | 8.1% | 5.3% | 9.9% | 8.2% | 7.4% |
| Return on Equity | 20.8% | 31.8% | 25.7% | 71.8% | 41.6% | 27.7% | 17.8% | 30.7% | 26.3% | 25.1% |
| ROIC | 10.1% | 14.6% | 12.2% | 38.2% | 23.5% | 15.1% | 9.3% | 16.6% | 13.7% | 12.3% |
| Shares Out. | 329 | 319 | 310 | 290 | 280 | 274 | 267 | 258 | 245 | 237 |
| Revenue/Share | 40.80 | 41.28 | 40.90 | 49.16 | 52.90 | 52.05 | 53.37 | 57.21 | 62.65 | 63.59 |
| FCF/Share | 3.05 | 3.48 | 4.70 | 4.47 | 3.45 | 5.35 | 3.63 | 4.69 | 4.30 | 7.00 |

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

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