



PPG Industries (PPG)

Updated October 19th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	2.9%	Market Cap:	\$31.7 billion
Fair Value Price:	\$96	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/9/2020
% Fair Value:	140%	5 Year Valuation Multiple Estimate:	-6.4%	Dividend Payment Date:	12/11/2020
Dividend Yield:	1.6%	5 Year Price Target	\$141	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	C	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 of more than \$13 billion.

PPG Industries released third quarter earnings results on 10/19/2020. The company earned \$1.93 per share, which was \$0.01 above estimates and a 16% improvement from the prior year. Revenue declined 4% to \$3.7 billion, though this was \$80 million higher than expected.

Results were still negatively impacted by the COVID-19 pandemic, but revenue declines decelerated from 25% in the previous quarter. Sales volumes fell 5% year-over-year, but selling prices were up 1.3% and acquisitions added less than 1% to results. Performance Coatings fell 3% to \$2.3 billion. A 2% increase in selling prices and 1% benefit from acquisitions was more than offset by a 5% decrease in volumes. Architectural coatings performed well in Europe/Middle East/Africa, with organic sales growing 10%. The Americas and Asia Pacific were both up low single-digits. Protective and marine coatings fell mid-single-digits due to weaker demand in nearly every region. Aerospace coating dropped 35% due to lower commercial OEMs and aftermarket demand. Military remained strong. Industrial Coatings revenues declined 5% to \$1.4 billion. Volumes were lower by 5%, but much improved compared to the 40% decline in the second quarter. Automotive OEMs were essentially flat overall, which is a solid performance compared to the prior quarter. Volumes in China were higher by a low-teens figure. PPG Industries expects adjusted EPS of \$1.50 to \$1.57 for the fourth quarter. Using the midpoint of the company's guidance for fourth quarter, we expect adjusted EPS of \$5.65, up from \$4.44 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	\$5.65	\$8.30
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	23.7	17.0
Avg. Yld.	3.2%	2.7%	2.2%	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.5%	1.6%	2.2%

Shares of PPG Industries have increased \$22, or 20%, since our 7/17/2020 update. The stock has traded with an average price-to-earnings ratio of 19 over the last decade. Due to volume declines, 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 6.4% 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%	38%	38%

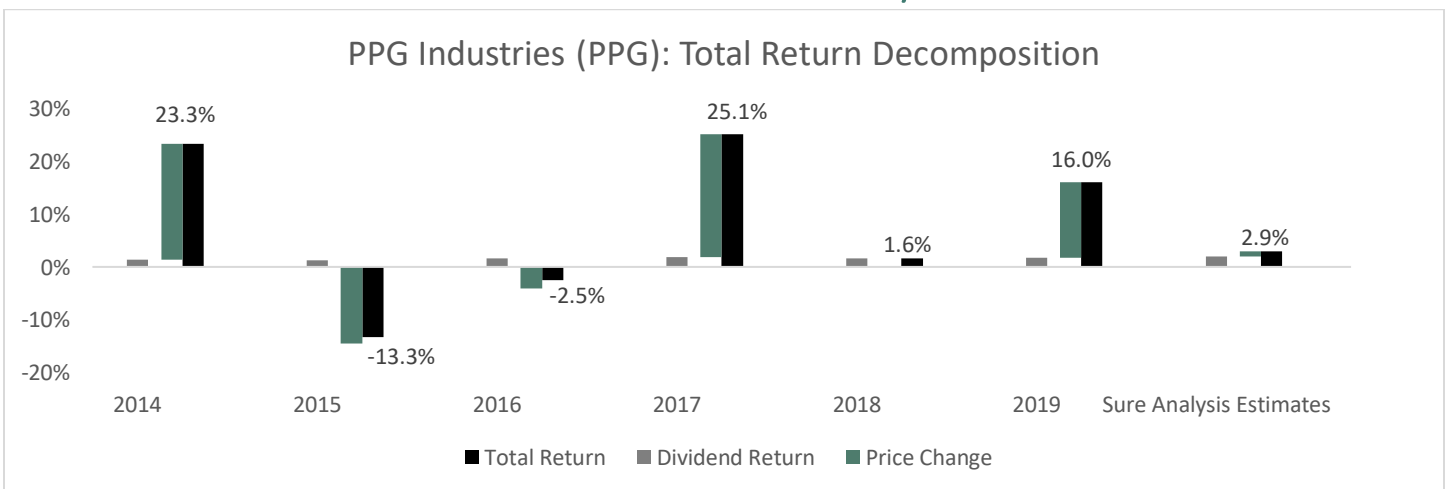
Even after 40+ years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the last decade was 2009. The average payout ratio since then is just 35%, which is below our projected levels for the current year.

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 reviewing third quarter results, PPG Industries is expected to offer a total annual return of 2.9% through 2025, up from our previous estimate of 2.2%. The company did see weaker demand in certain businesses, especially aerospace, but the overall performance was significantly better than the previous quarter. PPG Industries' ability to increase prices in the face of weaker demand is a positive for the company. While the business will need a recovery from COVID-19 to see increased demand, PPG Industries appears to be on much more solid ground after this quarter. We have raised our 2025 price target \$30 to \$141, but maintain our sell rating on the stock due to projected returns.

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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