



PPG Industries (PPG)

Updated July 20th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$158	5 Year CAGR Estimate:	8.5%	Market Cap:	\$40 billion
Fair Value Price:	\$151	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	8/9/2021
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	9/10/2021
Dividend Yield:	1.5%	5 Year Price Target	\$223	Years Of Dividend Growth:	50
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	9.3%

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 50 years of consecutive dividend increases, PPG Industries is a member of the Dividend Kings and trades on the New York Stock Exchange. The company generates annual revenues of more than \$17 billion.

PPG Industries reported second quarter results on 7/19/2021. Revenue surged nearly 45% to \$4.36 billion, beating expectations by \$43 million. Adjusted net income of \$465 million, or \$1.94 per share, compared favorably to adjusted net income of \$258 million, or \$1.09 per share, in the prior year. Adjusted earnings-per-share missed consensus estimates by \$0.24.

Last year's second quarter was the most difficult of the year for PPG Industries as COVID-19 weighed heavily on results. As a result, comparable figures were very low. Nonetheless, the company had a 24% increase in volume growth for the quarter. Performance Coatings revenue was higher by 33% to \$2.75 billion. Volumes (+9%), higher selling prices (+3%), acquisitions (+14%) and foreign currency translation (+7%) all contributed to strong results. EMEA region was higher by a mid-teens percentage, driven by strength architectural trade products. Americas and the Asia Pacific regions were lower by a low-single-digit percentage due to a combination of raw material scarcity and a softening of elevated demand in DIY products. Demand in China remains robust due to higher demand for protective coatings. Aerospace improved slightly as the commercial aftermarket business has begun to recover. Automotive grew 45%. The Industrial Coatings grew 70% to \$1.6 billion. Growth was largely due to higher volumes (56%), but selling prices (+4%), acquisitions (+5%) and currency translation (+5%) were also a tailwind to results. Original equipment manufacturer volumes were up nearly 75%. That said, the company noted that growth in this area outpaced production as the shortage of computer chips for automobiles remains constrained. PPG Industries stated that supply chain disruptions kept demand lower, an issue that is expected to continue through the end of the current quarter. Analysts now expect that the company will earn \$7.97 in 2021, up from \$7.47 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.44	\$3.03	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.22	\$5.70	\$7.97	\$11.71
DPS	\$1.13	\$1.17	\$1.21	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$2.04	\$2.10	\$2.36	\$3.47
Shares¹	319	310	290	280	274	267	258	245	237	237	238	200

PPG Industries' earnings-per-share have a growth rate of 5.8% over the last decade. We expect earnings-per-share to grow at a rate of 8% through 2026, up from our prior estimate of 7%. PPG Industries' demand dropped significantly due to the impact of COVID-19 in 2020. However, we expect the recovery from the pandemic to offer a higher rate of growth for the company.

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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PPG Industries increased its dividend 9.3% for the 9/10/2021 payment date. This gives the company 50 consecutive years of dividend growth, qualifying it as a Dividend King. We expect dividends to grow at a rate similar to earnings-per-share going forward.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.3	17.5	19.0	24.7	20.9	31.1	17.1	19.8	22.2	25.3	19.8	19.0
Avg. Yld.	2.7%	2.2%	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.5%	1.5%	1.5%	1.6%

Shares of PPG Industries have decreased \$9, or 5.4%, since our 4/17/2021 update. The stock has traded with an average price-to-earnings ratio of 21 over the last decade. We have increased our target price-to-earnings ratio to 19 from 17 to better reflect the average valuation over the last decade. Shares are currently priced at 19.8 times expected 2021 earnings-per-share. If the company's valuation were to revert to our target over the next five years, this would be an 0.8% headwind to annual returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33%	39%	29%	32%	28%	48%	27%	32%	33%	37%	30%	30%

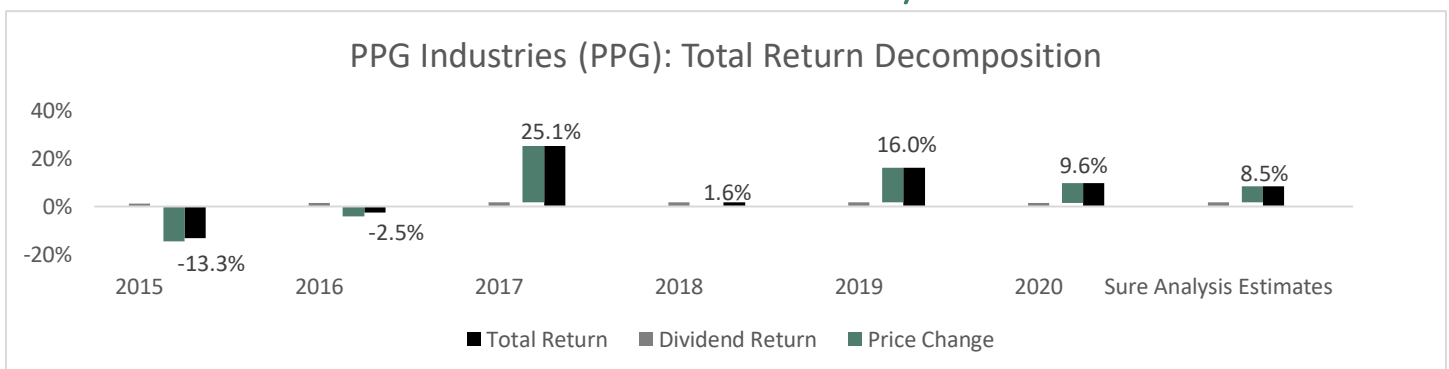
Even after 50 years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the last decade was 2009. The average payout ratio since then is just 35%, which is below our projected levels for the current year.

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

Following second quarter results, PPG Industries is expected to offer a total annual return of 8.5% through 2026, up from our previous estimate of 5.9%. Earnings growth of 8% and a 1.5% yield are expected to be offset by a slight headwind from valuation reversion over the next half-decade. PPG Industries had an excellent second quarter even off a low base. The company saw heightened demand in nearly every area of its business. On the other hand, PPG Industries did note that raw material and chip shortages remain a headwind to the company's business. We have increased our 2026 price target \$14 to \$209 due to guidance, but maintain our hold rating on PPG Industries due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	13,153	12,686	14,265	14,791	14,241	14,270	14,748	15,374	15,146	13,834
Gross Profit	5,288	5,087	5,951	6,443	6,455	6,605	6,539	6,373	6,493	6,057
Gross Margin	40.2%	40.1%	41.7%	43.6%	45.3%	46.3%	44.3%	41.5%	42.9%	43.8%
SG&A Exp.	3,122	2,987	3,486	3,696	3,584	3,555	3,554	3,573	3,604	3,389
D&A Exp.	425	399	452	450	446	440	460	497	511	509
Operating Profit	1,368	1,322	1,598	1,843	1,974	2,169	2,085	1,872	1,954	1,787
Op. Margin	10.4%	10.4%	11.2%	12.5%	13.9%	15.2%	14.1%	12.2%	12.9%	12.9%
Net Profit	1,095	941	3,231	2,102	1,406	873	1,594	1,341	1,243	1,059
Net Margin	8.3%	7.4%	22.6%	14.2%	9.9%	6.1%	10.8%	8.7%	8.2%	7.7%
Free Cash Flow	1,110	1,457	1,297	964	1,465	971	1,208	1,056	1,667	1,826
Income Tax	260	148	253	237	413	214	615	353	392	291

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	14,382	15,878	15,863	17,535	17,076	15,771	16,538	16,015	17,708	19,556
Cash & Equivalents	1,457	1,306	1,116	686	1,311	1,820	1,436	902	1,216	1,826
Acc. Receivable	2,512	2,568	2,449	2,366	2,343	2,288	2,559	2,505	2,479	2,412
Inventories	1,607	1,687	1,824	1,825	1,659	1,514	1,730	1,783	1,710	1,735
Goodwill & Int.	3,785	3,846	4,347	6,212	5,847	5,555	5,987	6,042	6,601	7,453
Total Liabilities	10,936	11,556	10,665	12,270	12,007	10,856	10,866	11,283	12,305	13,741
Accounts Payable	1,813	1,832	2,015	2,183	2,118	2,142	2,582	2,460	2,378	2,579
Long-Term Debt	3,682	4,010	3,406	4,014	4,307	4,416	4,146	5,016	5,052	5,749
Total Equity	3,249	4,063	4,932	5,180	4,983	4,828	5,557	4,630	5,284	5,689
D/E Ratio	1.13	0.99	0.69	0.77	0.86	0.91	0.75	1.08	0.96	1.01

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.5%	6.2%	20.4%	12.6%	8.1%	5.3%	9.9%	8.2%	7.4%	5.7%
Return on Equity	31.8%	25.7%	71.8%	41.6%	27.7%	17.8%	30.7%	26.3%	25.1%	19.3%
ROIC	14.6%	12.2%	38.2%	23.5%	15.1%	9.3%	16.6%	13.7%	12.3%	9.6%
Shares Out.	319	310	290	280	274	267	258	245	237	237
Revenue/Share	41.28	40.90	49.16	52.90	52.05	53.37	57.21	62.65	63.59	58.15
FCF/Share	3.48	4.70	4.47	3.45	5.35	3.63	4.69	4.30	7.00	7.68

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

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