



PPG Industries (PPG)

Updated October 21st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$160	5 Year CAGR Estimate:	4.8%	Market Cap:	\$37 billion
Fair Value Price:	\$127	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/9/2021
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.5%	Dividend Payment Date:	12/10/2021
Dividend Yield:	1.5%	5 Year Price Target	\$187	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 about \$17 billion.

PPG Industries announced third quarter results on 10/20/2021. Revenue grew 18.8% to \$4.37 billion, beating expectations by \$120 million. Adjusted net income of \$406 million, or \$1.69 per share, compared to adjusted net income of \$481 million, or \$1.93 per share, in the prior year. Adjusted earnings-per-share topped consensus estimates by \$0.10.

Supply chain constraints kept the company from fulfilling many of its orders, putting a cap on revenue growth and negatively impacting the bottom-line. Still, organic sales grew 6% for the quarter. Inflation was a headwind, with raw material costs spiking 25% year-over-year. PPG Industries was able to raise prices 6% companywide. Performance Coatings revenue was up by 23% to \$2.76 billion. Higher selling prices (+5%), acquisitions (+17%) and foreign currency translation (+2%) more than offset a slight decline in volumes (-1%). Higher raw material costs and supply chain headwinds reduced results in the quarter, but most businesses grew compared to the prior year. Industrial Coatings grew 13% to \$1.6 billion. Volumes fell (-4%), but selling prices (+7%), acquisitions (+8%) and currency translation (+2%) offset this decline. Automotive OEM volumes fell by a high-teen percentage, but remain above market average. All other businesses grew versus the prior year. Aerospace is still well below pre-pandemic levels.

PPG Industries expects volumes to be down 8% to 10% in 2021. The company is expected to earn \$6.67 to \$6.73 per share this year, below analysts' prior estimate of \$7.97.

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	\$6.70	\$9.84
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.

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.

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	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	23.9	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%	1.9%

Shares of PPG Industries have increased \$2, or 1.3%, since our 7/20/2021 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 23.9 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 a 4.5% 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%	35%	35%

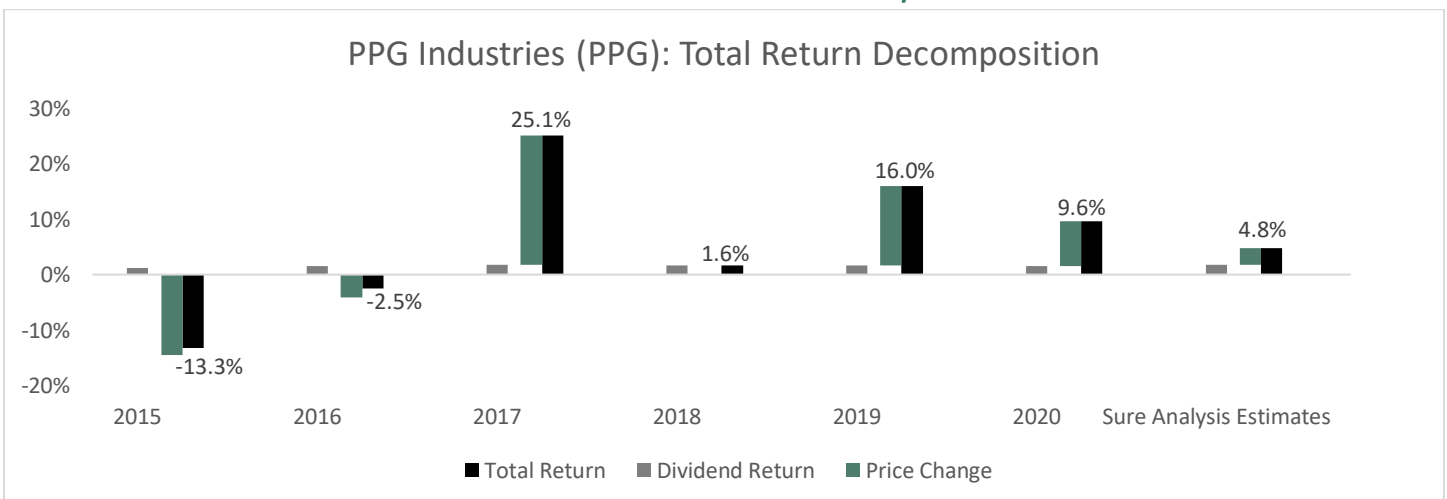
Even after 50 years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the last decade was 2009. The average payout ratio since then is just 35%, which is below our projected levels for the current year.

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 third quarter results, PPG Industries is expected to offer a total annual return of 4.8% through 2026, down from our previous estimate of 8.5%. Earnings growth of 8% and a 1.5% yield are expected to be offset by a mid-single-digit headwind from valuation reversion over the next half-decade. PPG Industries is experiencing a significant increase in raw material costs and supply chain issues are also impacting results. While some of inflationary costs have been passed along to the consumer, PPG Industries is expecting to see volumes decline by a meaningful amount this year. We have lowered our 2026 price target \$22 to \$187 due to revised guidance. We maintain our hold rating on the stock.

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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