



PPG Industries (PPG)

Updated April 24th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$133	5 Year CAGR Estimate:	10.3%	Market Cap:	\$32 B
Fair Value Price:	\$138	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/09/22
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	06/10/22
Dividend Yield:	1.8%	5 Year Price Target	\$202	Years Of Dividend Growth:	50
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

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 \$18 billion.

On April 21st, 2021, PPG Industries reported first quarter earnings results for the period ending March 31st, 2022. Revenue grew 11.1% to a first quarter record \$4.31 billion, beating estimates by \$70 million. Adjusted net income of \$327 million, or \$1.37 per share, compared to adjusted net income of \$450 million, or \$1.88 per share, in the prior year. Adjusted earnings-per-share did beat estimates by \$0.26.

The company had 7% organic growth for the quarter, as a 10% contribution from higher selling prices was partially offset by a 3% decline in volume. Performance Coatings revenue increased 11% to \$2.57 billion. Higher selling prices (+8%) and benefits from acquisitions (+7%) more than offset foreign currency translation (-2%) and a slight decline in volumes (-2%). Automotive refinish grew high single-digit demand as both pricing and volume improved. Aerospace was up double-digits year-over-year, but remains 20% below pre-pandemic figures. Industrial Coatings grew 11% to \$1.74 billion. Volumes (-5%) and currency translation was a headwind (-3%), but selling prices (+12%) and acquisition related sales (+7%) more than offset these weak areas. Pricing more than offset lower volume for Automotive OEM, which continues to be limited due to the limited availability of semiconductor chips.

PPG Industries is expected to earn \$7.24 in 2022, down from \$8.12 previously. This would be a 6.9% improvement from 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.03	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.22	\$5.70	\$6.77	\$7.24	\$10.64
DPS	\$1.17	\$1.21	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$2.04	\$2.10	\$2.26	\$2.36	\$3.47
Shares¹	310	290	280	274	267	258	245	237	237	237	237	230

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 2027, 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 as evident by projected earnings-per-share for the current year.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.5	19.0	24.7	20.9	31.1	17.1	19.8	22.2	25.3	21.3	18.4	19.0
Avg. Yld.	2.2%	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.5%	1.5%	1.6%	1.8%	1.7%

Shares of PPG Industries have decreased \$22, or 14.2%, since our January 23rd, 2022 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 18.4 times expected 2022 earnings-per-share. If the stock's multiple were to revert to our target over the next five years, then valuation would add 0.7% to annual returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	39%	29%	32%	28%	48%	27%	32%	33%	37%	33%	33%	33%

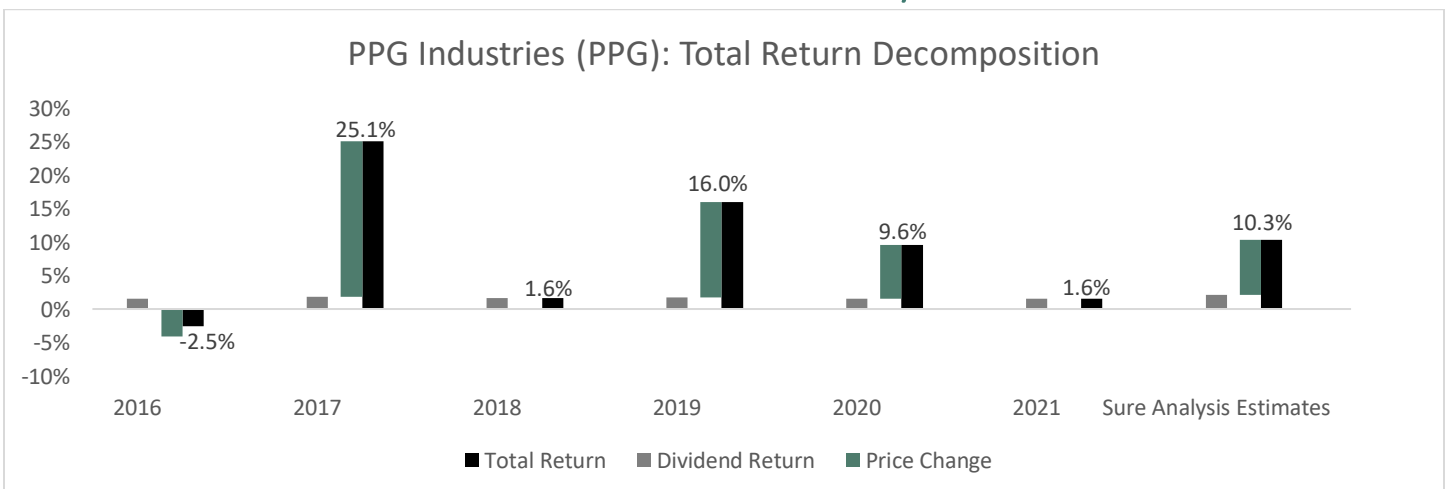
Even after 50 years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the relatively recent past was 2009. The average payout ratio since then is just 35%, demonstrating how conservative the company has been with regards to its dividend.

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 first quarter results, PPG Industries is expected to offer a total annual return 10.3% through 2027, up from our previous estimate of 9.3%. Our forecast stems from an expected earnings growth rate of 8%, a starting yield of 1.8%, and a small contribution from multiple expansion. Raw material costs continue to be elevated, but PPG Industries has successfully increased prices without causing significant declines in demand. The company expects to raise prices going forward to offset inflation in the quarters ahead. We have lowered our 2027 price target \$25 to \$202 due to revised estimates for the year, but now view shares of PPG Industries as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	12,686	14,265	14,791	14,241	14,270	14,748	15,374	15,146	13,834	16,802
Gross Profit	5,087	5,951	6,443	6,455	6,605	6,539	6,373	6,493	6,057	6,516
Gross Margin	40.1%	41.7%	43.6%	45.3%	46.3%	44.3%	41.5%	42.9%	43.8%	38.8%
SG&A Exp.	2,987	3,486	3,696	3,584	3,555	3,554	3,573	3,604	3,389	3,830
D&A Exp.	399	452	450	446	440	460	497	511	509	561
Operating Profit	1,322	1,598	1,843	1,974	2,169	2,085	1,872	1,954	1,787	1,694
Op. Margin	10.4%	11.2%	12.5%	13.9%	15.2%	14.1%	12.2%	12.9%	12.9%	10.1%
Net Profit	941	3,231	2,102	1,406	873	1,594	1,341	1,243	1,059	1,439
Net Margin	7.4%	22.6%	14.2%	9.9%	6.1%	10.8%	8.7%	8.2%	7.7%	8.6%
Free Cash Flow	1,457	1,297	964	1,465	971	1,208	1,056	1,667	1,826	1,191
Income Tax	148	253	237	413	214	615	353	392	291	374

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	15,878	15,863	17,535	17,076	15,771	16,538	16,015	17,708	19,556	21,351
Cash & Equivalents	1,306	1,116	686	1,311	1,820	1,436	902	1,216	1,826	1,005
Acc. Receivable	2,568	2,449	2,366	2,343	2,288	2,559	2,505	2,479	2,412	2,687
Inventories	1,687	1,824	1,825	1,659	1,514	1,730	1,783	1,710	1,735	2,171
Goodwill & Int.	3,846	4,347	6,212	5,847	5,555	5,987	6,042	6,601	7,453	9,031
Total Liabilities	11,556	10,665	12,270	12,007	10,856	10,866	11,283	12,305	13,741	14,940
Accounts Payable	1,832	2,015	2,183	2,118	2,142	2,582	2,460	2,378	2,579	3,102
Long-Term Debt	4,010	3,406	4,014	4,307	4,416	4,146	5,016	5,052	5,749	6,581
Total Equity	4,063	4,932	5,180	4,983	4,828	5,557	4,630	5,284	5,689	6,286
LTD/E Ratio	0.99	0.69	0.77	0.86	0.91	0.75	1.08	0.96	1.01	1.05

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.2%	20.4%	12.6%	8.1%	5.3%	9.9%	8.2%	7.4%	5.7%	7.0%
Return on Equity	25.7%	71.8%	41.6%	27.7%	17.8%	30.7%	26.3%	25.1%	19.3%	24.0%
ROIC	12.2%	38.2%	23.5%	15.1%	9.3%	16.6%	13.7%	12.3%	9.6%	11.7%
Shares Out.	310	290	280	274	267	258	245	237	237	237
Revenue/Share	40.90	49.16	52.90	52.05	53.37	57.21	62.65	63.59	58.15	70.18
FCF/Share	4.70	4.47	3.45	5.35	3.63	4.69	4.30	7.00	7.68	4.97

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

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