



# PPG Industries (PPG)

Updated October 20<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$110	<b>5 Year CAGR Estimate:</b>	10.6%	<b>Market Cap:</b>	\$27 B
<b>Fair Value Price:</b>	\$113	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	11/09/22 <sup>1</sup>
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Dividend Payment Date:</b>	12/09/22 <sup>2</sup>
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$167	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 more than five decades 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 July 21<sup>st</sup>, PPG Industries raised its quarterly dividend 5.1% to \$0.62, extending the company's dividend growth streak to 51 consecutive years.

On October 19<sup>th</sup>, 2022, PPG Industries reported third quarter earnings results for the period ending September 30<sup>th</sup>, 2022. Revenue increased 2.2% to a third quarter record \$4.47 billion, beating estimates by \$10 million. Adjusted net income of \$393 million, or \$1.66 per share, compared to adjusted net income of \$406 million, or \$1.69 per share, in the prior year. Adjusted earnings-per-share did beat estimates by \$0.01.

Organic growth was 9% for the quarter, mostly driven by an increase in higher realized prices that was partially offset by a 3% decline in volume. Performance Coatings revenue fell 2% to \$2.71 billion. Higher selling prices (+11%) was more than offset by divestitures and the winding down of Russian operations (-1%), foreign currency translation (-6%) and a decline in volumes (-6%). DIY demand was weaker in both the U.S. and Europe. Aerospace volume improved 10% due to aftermarket demand while price increases offset weaker volumes in Automotive. Industrial Coatings increased 9% to \$1.76 billion. Higher selling prices (+14) and volume gains (+2% were partially offset by headwinds from currency translation (-6%) and divestitures and the winding down of Russian operations (-1%). Pricing and volume growth for Automotive OEM, which continues to be impacted by the limited availability of semiconductor chips.

PPG Industries expects adjusted earnings-per-share of \$1.05 to \$1.20 in the fourth quarter. Using the midpoint of this guidance, the company is forecasted to earn \$5.97 per share for 2022. This would be a 12% decline from the prior year.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.03	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.22	\$5.70	\$6.77	<b>\$5.97</b>	<b>\$8.77</b>
<b>DPS</b>	\$1.17	\$1.21	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$2.04	\$2.10	\$2.26	<b>\$2.48</b>	<b>\$3.64</b>
<b>Shares<sup>3</sup></b>	310	290	280	274	267	258	245	237	237	237	<b>237</b>	<b>230</b>

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

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> 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.



# PPG Industries (PPG)

Updated October 20<sup>th</sup>, 2022 by Nathan Parsh

for the company as evident by projected earnings-per-share for the current year. We expect dividends to grow at a rate similar to earnings-per-share going forward.

## 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%	2.3%	2.2%

Shares of PPG Industries have decreased \$18, or 14.1%, since our July 22<sup>nd</sup>, 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 0.6% 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%	42%	42%

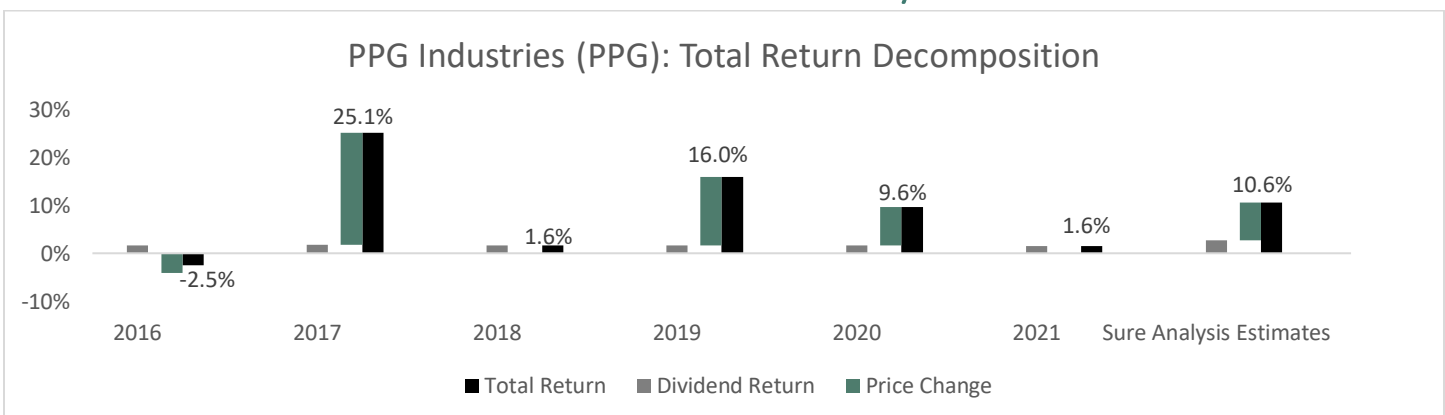
Even after 51 years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the relatively recent past was 2009. The average payout ratio since then is just 35%, demonstrating how conservative the company has been 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 third quarter results, PPG Industries is expected to offer a total annual return 10.6% through 2027, down from our previous estimate of 11.2%. Our forecast stems from an expected earnings growth rate of 8%, a starting yield of 2.3%, and a small contribution from multiple expansion. PPG Industries continues to use price increases to offset raw material costs with only a slight dampening of demand. This speaks to the strength of the company's business model. We have lowered our 2027 price target \$35 to \$167 to reflect lowered expected earnings-per-share for 2022, but continue to rate PPG Industries as a buy due to projected returns.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# PPG Industries (PPG)

Updated October 20<sup>th</sup>, 2022 by Nathan Parsh

## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	15,878	15,863	17,535	17,076	15,771	16,538	16,015	17,708	19,556	21,351
<b>Cash &amp; Equivalents</b>	1,306	1,116	686	1,311	1,820	1,436	902	1,216	1,826	1,005
<b>Acc. Receivable</b>	2,568	2,449	2,366	2,343	2,288	2,559	2,505	2,479	2,412	2,687
<b>Inventories</b>	1,687	1,824	1,825	1,659	1,514	1,730	1,783	1,710	1,735	2,171
<b>Goodwill &amp; Int.</b>	3,846	4,347	6,212	5,847	5,555	5,987	6,042	6,601	7,453	9,031
<b>Total Liabilities</b>	11,556	10,665	12,270	12,007	10,856	10,866	11,283	12,305	13,741	14,940
<b>Accounts Payable</b>	1,832	2,015	2,183	2,118	2,142	2,582	2,460	2,378	2,579	3,102
<b>Long-Term Debt</b>	4,010	3,406	4,014	4,307	4,416	4,146	5,016	5,052	5,749	6,581
<b>Total Equity</b>	4,063	4,932	5,180	4,983	4,828	5,557	4,630	5,284	5,689	6,286
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	6.2%	20.4%	12.6%	8.1%	5.3%	9.9%	8.2%	7.4%	5.7%	7.0%
<b>Return on Equity</b>	25.7%	71.8%	41.6%	27.7%	17.8%	30.7%	26.3%	25.1%	19.3%	24.0%
<b>ROIC</b>	12.2%	38.2%	23.5%	15.1%	9.3%	16.6%	13.7%	12.3%	9.6%	11.7%
<b>Shares Out.</b>	310	290	280	274	267	258	245	237	237	237
<b>Revenue/Share</b>	40.90	49.16	52.90	52.05	53.37	57.21	62.65	63.59	58.15	70.18
<b>FCF/Share</b>	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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.