



# PPG Industries (PPG)

Updated April 22<sup>nd</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$142	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Market Cap:</b>	\$33 B
<b>Fair Value Price:</b>	\$134	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	05/09/23
<b>% Fair Value:</b>	106%	<b>5 Year Valuation Multiple Estimate:</b>	-1.1%	<b>Dividend Payment Date:</b>	06/12/23
<b>Dividend Yield:</b>	1.7%	<b>5 Year Price Target</b>	\$197	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 nearly \$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 April 20<sup>th</sup>, 2023, PPG Industries reported first quarter results for the period ending March 31<sup>st</sup>, 2023. For the quarter, revenue of \$4.38 billion was higher by 1.6%, but was \$10 million less than expected. Adjusted net income of \$432 million, or \$1.82 per share, compared to adjusted net income of \$327 million, or \$1.37 per share, in the prior year. Adjusted earnings-per-share was \$0.27 above estimates.

Revenue results were driven by 5% organic growth, resulting from higher prices. Overall volumes fell by 3%, an improvement from a 5% decline in the fourth quarter of 2022. Performance Coatings revenue grew 2% to \$2.628 billion during the quarter. Higher selling prices (+9%) were more than offset by currency exchange (-2%), lower volumes (-3%), and divestitures and the winding down of Russian operations (-2%). This segment had strength in U.S. architectural coatings while construction markets were weaker. Aerospace also performed well. Industrial Coatings increased 1% to \$1.752 billion. Higher selling prices (+7%) and acquisitions (+1%) were offset by currency exchange (-3%), weaker volumes (-3%), and divestitures and the winding down of Russian operations (-1%). Demand for Automotive OEMs was higher than the company had anticipated, with pronounced gains in Europe. Management noted that supply chain disruptions continue to improve.

For the second quarter, PPG Industries expects flat volumes and adjusted earnings-per-share in a range of \$2.05 to \$2.15. The company is expected to earn \$7.06 per share in 2023, up from \$6.99 previously. This would be a 16.7% improvement from the prior year. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.22	\$5.70	\$6.77	\$6.05	<b>\$7.06</b>	<b>\$10.37</b>
<b>DPS</b>	\$1.21	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$2.04	\$2.10	\$2.26	\$2.42	<b>\$2.48</b>	<b>\$3.64</b>
<b>Shares<sup>1</sup></b>	290	280	274	267	258	245	237	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 2028, 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> Share count in millions

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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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.0	24.7	20.9	31.1	17.1	19.8	22.2	25.3	21.3	20.8	20.1	19.0
Avg. Yld.	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.5%	1.5%	1.6%	1.9%	1.7%	1.8%

Shares of PPG Industries have increased \$11, or 8.4%, since our January 21<sup>st</sup>, 2023 update. The stock has traded with an average price-to-earnings ratio of 21 over the last decade. We reaffirm our target price-to-earnings ratio of 19 for 2028. Shares are currently priced at 20.1 times expected 2023 earnings-per-share. If the stock's multiple were to revert to our target over the next five years, then valuation would be a 1.1% headwind to annual returns during this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	32%	28%	48%	27%	32%	33%	37%	33%	40%	35%	35%

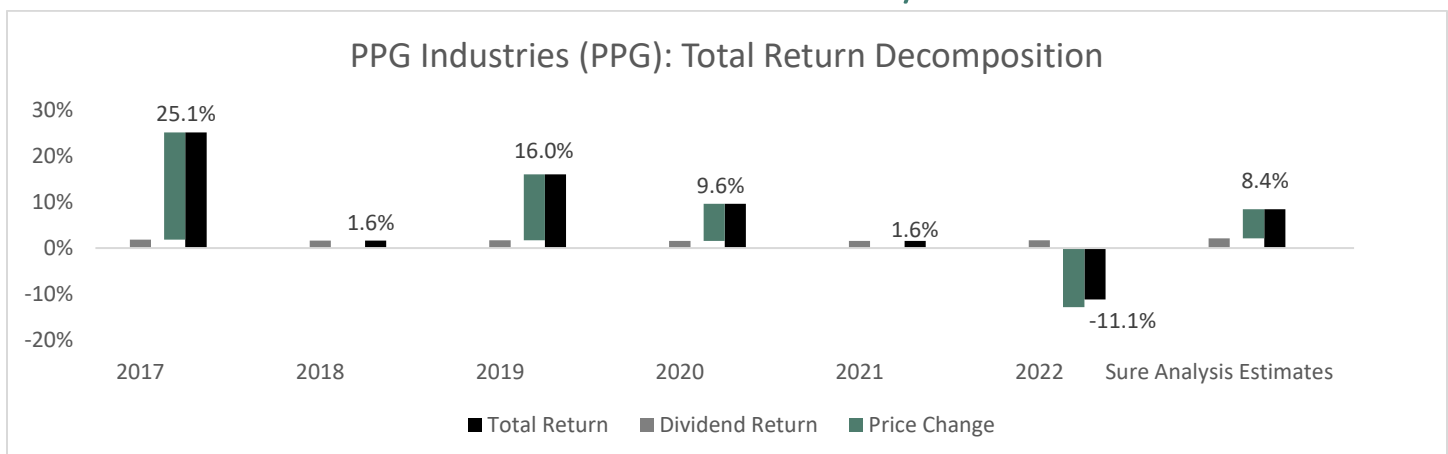
Even after 51 years of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the relatively recent past was 2009. The average payout ratio since then is just 35%, demonstrating how conservative the company has been 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

Following first quarter results, PPG Industries is expected to offer a total annual return 8.4% through 2028, down from our previous estimate of 10.0%. Our forecast stems from an expected earnings growth rate of 8% and a starting yield of 1.7%, offset by a small headwind 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 raised our 2028 price target \$2 to \$197 to reflect earnings-per-share expectations for 2023. Shares now earn a hold rating due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	14,265	14,791	14,241	14,270	14,748	15,374	15,146	13,834	16,802	17,652
<b>Gross Profit</b>	5,951	6,443	6,455	6,605	6,539	6,373	6,493	6,057	6,516	6,556
<b>Gross Margin</b>	41.7%	43.6%	45.3%	46.3%	44.3%	41.5%	42.9%	43.8%	38.8%	37.1%
<b>SG&amp;A Exp.</b>	3,486	3,696	3,584	4,523	3,614	3,573	3,604	3,389	3,830	3,842
<b>D&amp;A Exp.</b>	452	450	446	440	460	497	511	509	561	554
<b>Operating Profit</b>	1,598	1,843	1,974	1,201	2,025	1,872	1,954	1,787	1,694	1,720
<b>Op. Margin</b>	11.2%	12.5%	13.9%	8.4%	13.7%	12.2%	12.9%	12.9%	10.1%	9.7%
<b>Net Profit</b>	3,231	2,102	1,406	873	1,594	1,341	1,243	1,059	1,439	1,026
<b>Net Margin</b>	22.6%	14.2%	9.9%	6.1%	10.8%	8.7%	8.2%	7.7%	8.6%	5.8%
<b>Free Cash Flow</b>	1,297	964	1,465	971	1,208	1,056	1,667	1,826	1,191	445
<b>Income Tax</b>	253	237	413	214	615	353	392	291	374	325

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	15,863	17,535	17,076	15,771	16,538	16,015	17,708	19,556	21,351	20,744
<b>Cash &amp; Equivalents</b>	1,116	686	1,311	1,820	1,436	902	1,216	1,826	1,005	1,099
<b>Acc. Receivable</b>	2,449	2,366	2,343	2,288	2,559	2,505	2,479	2,412	2,687	2,824
<b>Inventories</b>	1,824	1,825	1,659	1,514	1,730	1,783	1,710	1,735	2,171	2,272
<b>Goodwill &amp; Int.</b>	4,347	6,212	5,847	5,555	5,987	6,042	6,601	7,453	9,031	8,492
<b>Total Liabilities</b>	10,665	12,270	12,007	10,856	10,866	11,283	12,305	13,741	14,940	14,035
<b>Accounts Payable</b>	2,015	2,183	2,118	2,142	2,582	2,460	2,378	2,579	3,102	2,915
<b>Long-Term Debt</b>	3,406	4,014	4,307	4,416	4,146	5,016	5,052	5,749	6,581	6,816
<b>Total Equity</b>	4,932	5,180	4,983	4,828	5,557	4,630	5,284	5,689	6,286	6,592
<b>LTD/E Ratio</b>	0.69	0.77	0.86	0.91	0.75	1.08	0.96	1.01	1.05	1.03

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	20.4%	12.6%	8.1%	5.3%	9.9%	8.2%	7.4%	5.7%	7.0%	4.9%
<b>Return on Equity</b>	71.8%	41.6%	27.7%	17.8%	30.7%	26.3%	25.1%	19.3%	24.0%	15.9%
<b>ROIC</b>	38.2%	23.5%	15.1%	9.3%	16.6%	13.7%	12.3%	9.6%	11.7%	7.7%
<b>Shares Out.</b>	290	280	274	267	258	245	237	237	237	237
<b>Revenue/Share</b>	49.16	52.90	52.05	53.37	57.21	62.65	63.59	58.15	70.18	74.39
<b>FCF/Share</b>	4.47	3.45	5.35	3.63	4.69	4.30	7.00	7.68	4.97	1.88

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

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