



PPG Industries (PPG)

Updated July 22nd, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$149	5 Year CAGR Estimate:	8.4%	Market Cap:	\$35 B
Fair Value Price:	\$140	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/09/23
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	09/12/23
Dividend Yield:	1.7%	5 Year Price Target	\$206	Years Of Dividend Growth:	52
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 about \$18 billion.

On July 20th, 2023, PPG Industries raised its quarterly dividend 4.8% to \$0.65, extending the company's dividend growth streak to 52 consecutive years.

That same day, PPG Industries reported second quarter results for the period ending June 30th, 2023. For the quarter, revenue grew 3.8% to \$4.87 billion, which was \$30 million above estimates. Adjusted net income of \$534 million, or \$2.25 per share, compared to adjusted net income of \$430 million, or \$1.81 per share, in the prior year. Adjusted earnings-per-share was \$0.11 above estimates.

Revenue results were driven by 4% organic growth, once again due to higher prices. Overall volumes fell by 3%, matching the decline seen in the preceding period. Performance Coatings revenue improved 4% to \$3.041 billion during the quarter. Higher selling prices (+6%) and favorable currency exchange (+1%) were partially offset by lower volumes (-3%). Aerospace demand remains very high, with all product categories producing records sales. Volume improved by a low double-digit percentage. Strength in non-residential product lines helped drive gains in U.S. architectural coatings, but this was offset by weaker do-it-yourself sales. Industrial Coatings grew 4% to \$1.831 billion. Higher selling prices (+5%) and acquisitions (+1%) were offset by currency exchange (-1%), lower volumes (-1%). Demand for Automotive OEMs continues to be strong, with organic sales higher by a mid-teen percentage. Global industry experienced growth during the period, but remain below pre-pandemic levels.

For the third quarter, PPG Industries expects adjusted earnings-per-share in a range of \$1.85 to \$1.95 and low single-digit organic growth. The company expects adjusted earnings-per-share in a range of \$7.28 to \$7.48 for the year, up from \$7.06 and \$6.99 previously. This would be a 22% 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
EPS	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.22	\$5.70	\$6.77	\$6.05	\$7.38	\$10.84
DPS	\$1.21	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$2.04	\$2.10	\$2.26	\$2.42	\$2.60	\$3.82
Shares¹	290	280	274	267	258	245	237	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 2028, up from our prior estimate of 7%. PPG Industries' demand dropped significantly due

¹ Share count in millions

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to the impact of COVID-19 in 2020. However, we expect that the ongoing recovery from the pandemic will offset a higher rate of growth 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	20.2	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%	1.9%

Shares of PPG Industries have increased \$7, or 4.9%, since our April 22nd, 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 20.2 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 1.2% 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%

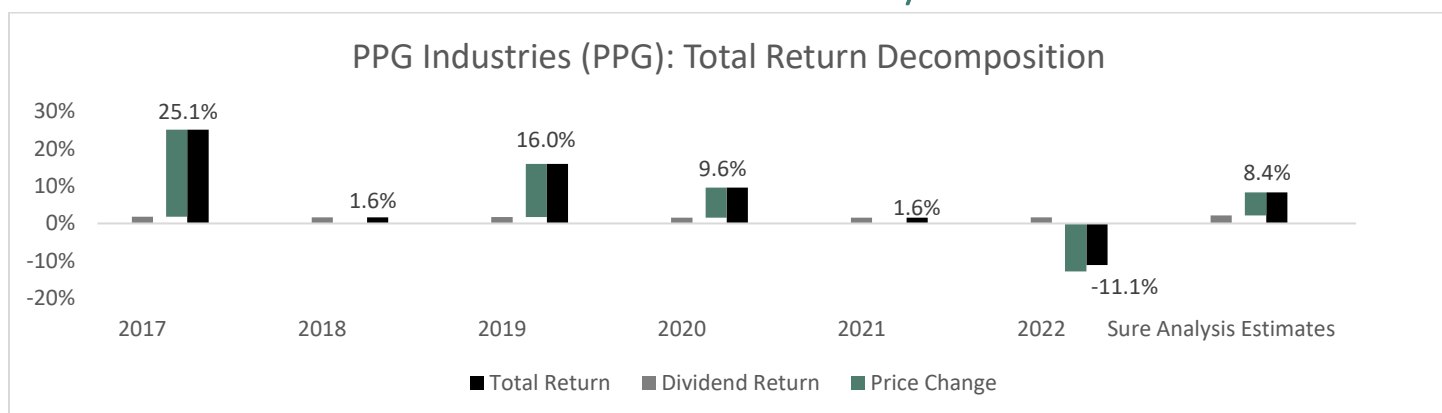
Even after more than five decades of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the relatively recent past was 2009. The average payout ratio since then is just 35%, demonstrating how conservative the company 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 second quarter results, PPG Industries is expected to offer a total annual return 8.4% through 2028, matching our previous estimate. 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 contraction. As with prior quarters, 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 \$9 to \$206 to reflect earnings-per-share expectations for 2023. Shares 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
Revenue	14,265	14,791	14,241	14,270	14,748	15,374	15,146	13,834	16,802	17,652
Gross Profit	5,951	6,443	6,455	6,605	6,539	6,373	6,493	6,057	6,516	6,556
Gross Margin	41.7%	43.6%	45.3%	46.3%	44.3%	41.5%	42.9%	43.8%	38.8%	37.1%
SG&A Exp.	3,486	3,696	3,584	4,523	3,614	3,573	3,604	3,389	3,830	3,842
D&A Exp.	452	450	446	440	460	497	511	509	561	554
Operating Profit	1,598	1,843	1,974	1,201	2,025	1,872	1,954	1,787	1,694	1,720
Op. Margin	11.2%	12.5%	13.9%	8.4%	13.7%	12.2%	12.9%	12.9%	10.1%	9.7%
Net Profit	3,231	2,102	1,406	873	1,594	1,341	1,243	1,059	1,439	1,026
Net Margin	22.6%	14.2%	9.9%	6.1%	10.8%	8.7%	8.2%	7.7%	8.6%	5.8%
Free Cash Flow	1,297	964	1,465	971	1,208	1,056	1,667	1,826	1,191	445
Income Tax	253	237	413	214	615	353	392	291	374	325

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	15,863	17,535	17,076	15,771	16,538	16,015	17,708	19,556	21,351	20,744
Cash & Equivalents	1,116	686	1,311	1,820	1,436	902	1,216	1,826	1,005	1,099
Acc. Receivable	2,449	2,366	2,343	2,288	2,559	2,505	2,479	2,412	2,687	2,824
Inventories	1,824	1,825	1,659	1,514	1,730	1,783	1,710	1,735	2,171	2,272
Goodwill & Int.	4,347	6,212	5,847	5,555	5,987	6,042	6,601	7,453	9,031	8,492
Total Liabilities	10,665	12,270	12,007	10,856	10,866	11,283	12,305	13,741	14,940	14,035
Accounts Payable	2,015	2,183	2,118	2,142	2,582	2,460	2,378	2,579	3,102	2,915
Long-Term Debt	3,406	4,014	4,307	4,416	4,146	5,016	5,052	5,749	6,581	6,816
Total Equity	4,932	5,180	4,983	4,828	5,557	4,630	5,284	5,689	6,286	6,592
LTD/E Ratio	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
Return on Assets	20.4%	12.6%	8.1%	5.3%	9.9%	8.2%	7.4%	5.7%	7.0%	4.9%
Return on Equity	71.8%	41.6%	27.7%	17.8%	30.7%	26.3%	25.1%	19.3%	24.0%	15.9%
ROIC	38.2%	23.5%	15.1%	9.3%	16.6%	13.7%	12.3%	9.6%	11.7%	7.7%
Shares Out.	290	280	274	267	258	245	237	237	237	237
Revenue/Share	49.16	52.90	52.05	53.37	57.21	62.65	63.59	58.15	70.18	74.39
FCF/Share	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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