



# PPG Industries (PPG)

Updated October 19<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$127	<b>5 Year CAGR Estimate:</b>	12.5%	<b>Market Cap:</b>	\$30 B
<b>Fair Value Price:</b>	\$145	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	11/09/23 <sup>1</sup>
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.6%	<b>Dividend Payment Date:</b>	12/12/23 <sup>2</sup>
<b>Dividend Yield:</b>	2.0%	<b>5 Year Price Target</b>	\$212	<b>Years Of Dividend Growth:</b>	52
<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 20<sup>th</sup>, 2023, PPG Industries raised its quarterly dividend 4.8% to \$0.65, extending the company's dividend growth streak to 52 consecutive years.

On October 18<sup>th</sup>, 2023, PPG Industries announced third quarter results for the period ending September 30<sup>th</sup>, 2023. Revenue improved 3.8% to a quarterly record \$4.64 billion, which was in-line with estimates. Adjusted net income of \$493 million, or \$2.07 per share, compared to adjusted net income of \$393 million, or \$1.66 per share, in the prior year. Adjusted earnings-per-share was \$0.13 more than expected.

Revenue results were driven by 1% organic growth, as higher prices more than offset a 2% decline in volume. Performance Coatings revenue grew 6% to \$2.88 billion during the quarter. This segment benefited from higher selling prices (+3%) as favorable currency exchange (+3%) while volume was unchanged. Aerospace demand continues to be strong very high as volume was up by a low double-digit percentage. Strength in non-residential product lines helped drive gains in U.S. architectural coatings, but this was once again offset by lower sales in the do-it-yourself channel. Industrial Coatings was essentially flat at \$1.76 billion. Higher selling prices (+2%), favorable currency exchange (+1%), and acquisitions (+1%) were offset by a decline in volume (-4%). Demand for Automotive OEMs continues to be strong, with organic sales higher by a low single-digit percentage. As with prior quarters, this gain was offset by weaker global industrial activity, negatively impacting all other businesses in this segment.

For the fourth quarter, PPG Industries expects adjusted earnings-per-share in a range of \$1.44 to \$1.50. The company expects adjusted earnings-per-share in a range of \$7.58 to \$7.64 for the year, up from \$7.28 to \$7.48 and \$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
<b>EPS</b>	\$4.14	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.22	\$5.70	\$6.77	\$6.05	<b>\$7.61</b>	<b>\$11.18</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>\$2.60</b>	<b>\$3.82</b>
<b>Shares<sup>3</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

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> 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	16.7	19.0
Avg. Yld.	1.5%	1.3%	1.3%	1.5%	1.6%	1.9%	1.5%	1.5%	1.6%	1.9%	2.0%	1.8%

Shares of PPG Industries have decreased \$22, or 14.8%, since our July 22<sup>nd</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 16.7 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 2.6% tailwind 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%	34%	34%

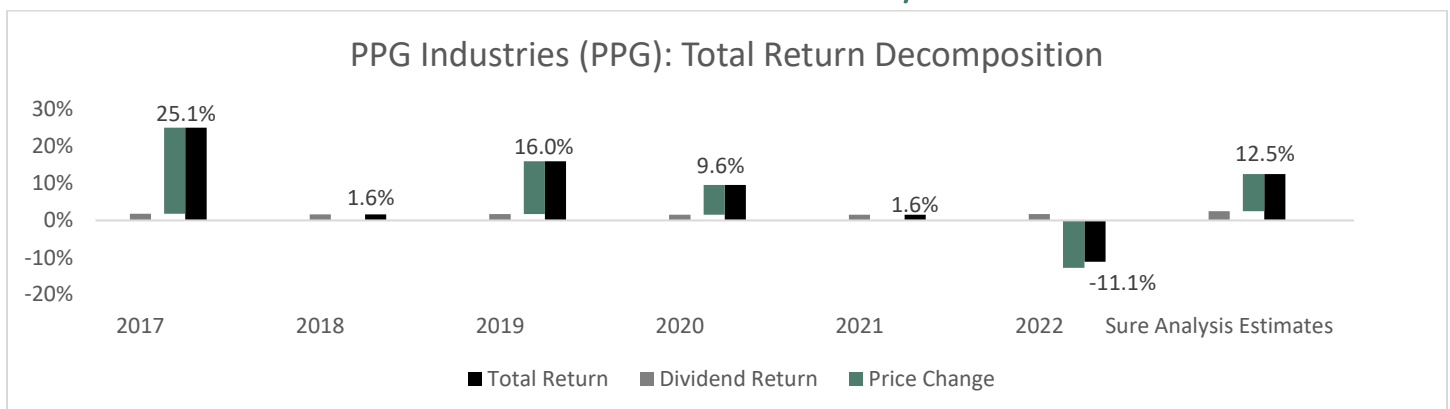
Even after more than five decades of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the relatively recent past was 2009. The average payout ratio since then is just 35%, demonstrating how conservative the company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

Following third quarter results, PPG Industries is expected to offer a total annual return 12.5% through 2028, up from our prior estimate of 8.4%. Our forecast stems from an expected earnings growth rate of 8%, a starting yield of 2.0%, and a small contribution from multiple expansion. 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 \$6 to \$212 to reflect updated earnings-per-share expectations for 2023. Shares now earn a buy 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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