



# PPG Industries (PPG)

Updated January 21<sup>st</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$141	<b>5 Year CAGR Estimate:</b>	12.4%	<b>Market Cap:</b>	\$33 B
<b>Fair Value Price:</b>	\$161	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	02/15/24
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.7%	<b>Dividend Payment Date:</b>	03/12/24
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$236	<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 more than \$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 January 18<sup>th</sup>, 2024, PPG Industries reported fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2023. For the quarter, revenue grew 3.8% to a new quarterly record \$4.35 billion, which topped estimates by \$80 million. Adjusted net income of \$363 million, or \$1.53 per share, compared to adjusted net income of \$286 million, or \$1.22 per share, in the prior year. Adjusted earnings-per-share was \$0.03 more than expected. For the year, revenue grew 2.8% to a record \$18.2 billion while adjusted earnings-per-share of \$7.67 compared to \$6.05 in 2022.

Fourth quarter revenue results were driven by 1% organic growth, as higher prices more than offset a decline in volume. Performance Coatings revenue grew 5% to \$2.62 billion. This segment benefited from higher selling prices (+3%) and favorable currency exchange (+3%) that were only partially offset by a small decline in volume (-1%). Aerospace demand was once again strong, with organic sales up a mid-teens percentage. Demand for automotive and protective and marine coatings was solid, but the DIY channel in the U.S. and Canada was once again weak. Revenue for Industrial Coatings grew 2% to \$1.74 billion. Volume and prices were stable, but currency exchange rates were favorable (+2%). Demand for Automotive OEMs continues to be strong, particularly in the Asia-Pacific and Mexico regions. As with prior quarters, this gain was offset by weaker global industrial activity, negatively impacting all other businesses in this segment.

For the first quarter of 2024, PPG Industries expects adjusted earnings-per-share in a range of \$1.80 to \$1.87. The company expects adjusted earnings-per-share in a range of \$8.34 to \$8.59 for the year. At the midpoint, this would represent a 10.4% increase from the prior year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.05	\$5.14	\$3.28	\$6.31	\$5.89	\$6.22	\$5.70	\$6.77	\$6.05	\$7.67	<b>\$8.47</b>	<b>\$12.45</b>
<b>DPS</b>	\$1.31	\$1.42	\$1.56	\$1.70	\$1.87	\$2.04	\$2.10	\$2.26	\$2.42	\$2.54	<b>\$2.60</b>	<b>\$3.82</b>
<b>Shares<sup>1</sup></b>	280	274	267	258	245	237	237	237	237	237	<b>237</b>	<b>230</b>

PPG Industries' earnings-per-share have a growth rate of 7.4% over the last decade. We expect earnings-per-share to grow at a rate of 8% through 2029. PPG Industries' demand dropped significantly due to the impact of COVID-19 in 2020,

<sup>1</sup> Share count in millions

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but has largely recovered from the worst of the pandemic. The company produced record results in 2023 and is projected to establish a new high for earnings-per-share once again in 2029. We expect dividends to grow at a rate similar to earnings-per-share going forward.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.7	20.9	31.1	17.1	19.8	22.2	25.3	21.3	20.8	19.5	16.6	19.0
Avg. Yld.	1.3%	1.3%	1.5%	1.6%	1.9%	1.5%	1.5%	1.6%	1.9%	1.7%	1.8%	1.6%

Shares of PPG Industries have increased \$14, or 11%, since our October 19<sup>th</sup>, 2023 update. The stock has traded with an average price-to-earnings ratio of 22.3 over the last decade. We reaffirm our target price-to-earnings ratio of 19 for 2029. Shares are currently priced at 16.6 times expected 2024 earnings-per-share. If the stock's multiple were to revert to our target over the next five years, then valuation would be a 2.7% tailwind to annual returns during this period.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	28%	48%	27%	32%	33%	37%	33%	40%	33%	31%	31%

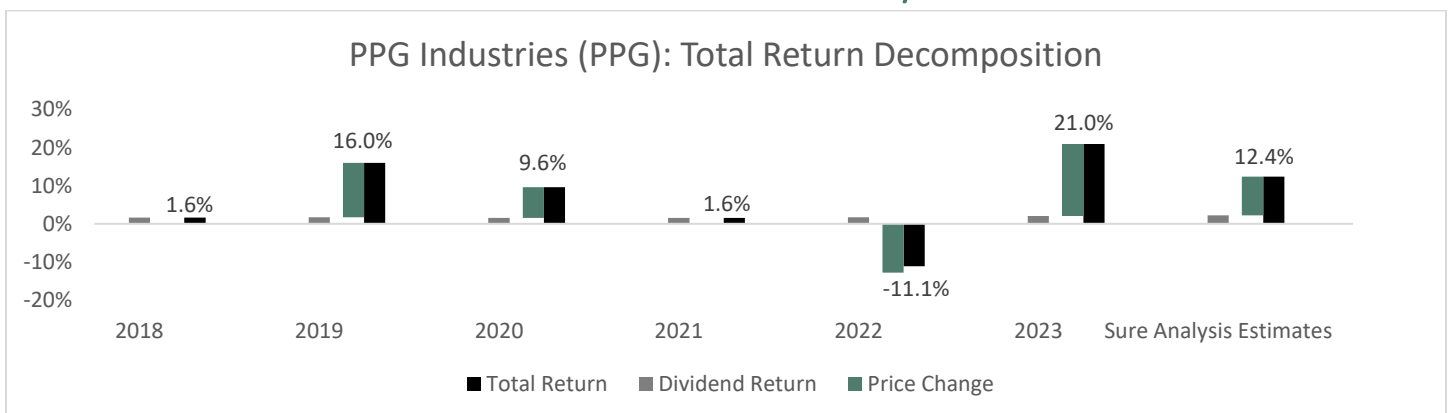
Even after more than five decades of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the relatively recent past was 2009. The average payout ratio since then is just 34%, demonstrating how conservative the company 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 fourth quarter results, PPG Industries is expected to offer a total annual return 12.4% through 2029, down slightly from our prior estimate of 12.5%. Our forecast stems from an expected earnings growth rate of 8%, a starting yield of 1.8%, and a small contribution from multiple expansion. PPG Industries ended 2023 with excellent results and established a new record for both revenue and earnings-per-share. The company also issued strong guidance for 2024. This speaks to the strength of the company's business model. We have raised our 2029 price target \$24 to \$236 to reflect earnings-per-share guidance for the year. Shares continue to 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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