PPG Industries (PPG)

Updated July 20th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$128	**5 Year CAGR Estimate:**	14.0%	**Market Cap:**	$30 B
Fair Value Price:	$156	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/09/24
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.1%	**Dividend Payment Date:**	06/12/24
Dividend Yield:	2.1%	**5 Year Price Target**	$230	**Years Of Dividend Growth:**	53
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	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 18th, 2024, PPG Industries raised its quarterly dividend 4.6% to $0.68, extending the company's dividend growth streak to 53 consecutive years.

On July 18th, 2024, PPG Industries announced second quarter results for the period ending June 30th, 2024. For the quarter, revenue decreased 1.6% to $4.79 billion, which was $130 million less than expected. Adjusted net income of $590 million, or $2.50 per share, compared favorably to adjusted net income of $534 million, or $2.25 per share, in the prior year. Adjusted earnings-per-share was $0.02 above estimates.

Second quarter organic revenue growth was flat compared to the prior year. Performance Coatings revenue of $3.048 billion was essentially unchanged from last year. Higher selling prices (+2%) was offset by divestitures (-1%) and a headwind from foreign currency exchange (-1%). Volume was flat. As with prior quarters, Aerospace demand was robust, with organic sales up a double-digit percentage. Protective and Marine coatings was flat while Automotive refinish fell by a mid-single-digit percentage. Revenue for Industrial Coatings declined 5% to $1.746 billion. Net selling prices (-3%) and currency exchange (-1%) both acted as a headwind during the period. Volume was stable. Demand for Automotive OEMs was lower due to weaker results in the U.S. and Europe. PPG Industries repurchased $150 million worth of shares during the quarter, bringing the year-to-date total to $300 million.

For the third quarter of 2024, PPG Industries expects organic sales growth to be flat to up low single-digits and adjusted earnings-per-share in a range of $2.10 to $2.20. For 2024, the company expects organic sales to be unchanged to up low single-digits and adjusted earnings-per-share in a range of $8.15 to $8.30, down from a prior range of $8.34 to $8.59. At the midpoint, this would represent a 7.3% increase from the prior year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.05	$5.14	$3.28	$6.31	$5.89	$6.22	$5.70	$6.77	$6.05	$7.67	***$8.23***	***$12.09***
DPS	$1.31	$1.42	$1.56	$1.70	$1.87	$2.04	$2.10	$2.26	$2.42	$2.54	***$2.72***	***$4.00***
Shares[1]	280	274	267	258	245	237	237	237	237	237	***236***	***230***

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, but has largely recovered from the worst of the pandemic. The company produced record results in 2023 and is

[1] 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.

projected to establish a new high for earnings-per-share once again in 2024. We expect dividends to grow at a rate matching 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	***15.6***	***19.0***
Avg. Yld.	1.3%	1.3%	1.5%	1.6%	1.9%	1.5%	1.5%	1.6%	1.9%	1.7%	***2.1%***	***1.7%***

Shares of PPG Industries have declined $3, or 2.3%, since our April 19th, 2024 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 15.6 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 4.1% 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%	***33%***	***33%***

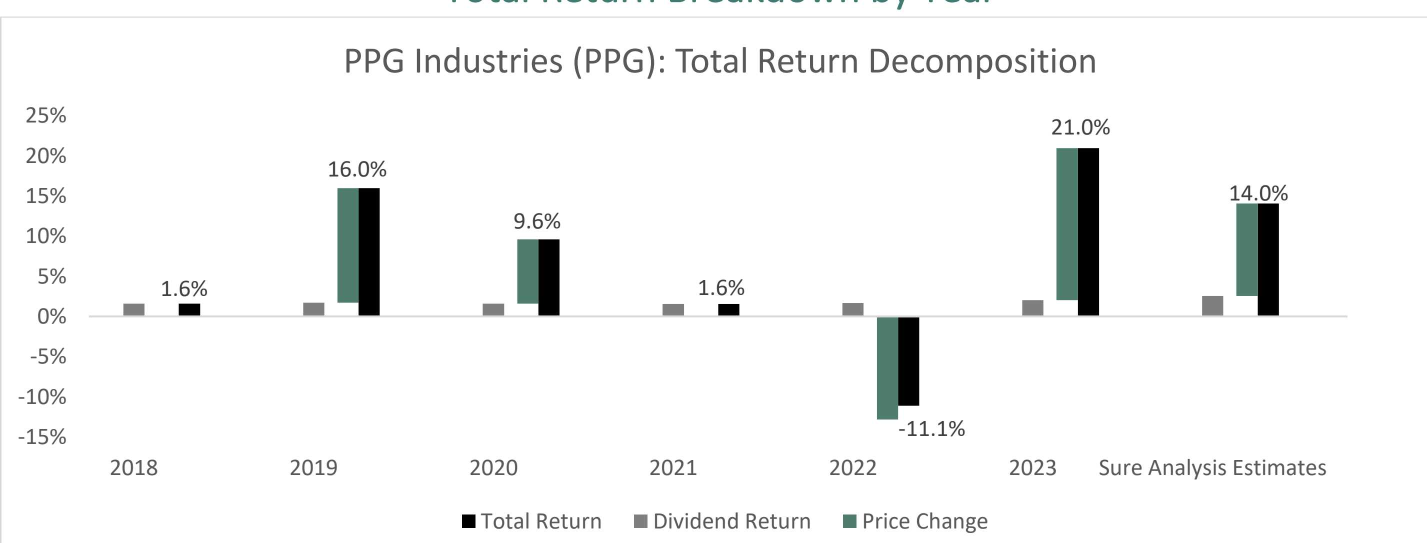
Even after more than five decades of dividend growth, PPG Industries has a very low payout ratio. The only time the company's dividend payout ratio was above 50% for the year in the relatively recent past was 2009. The average payout ratio since then is just 34%, demonstrating how conservative the company 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.

Final Thoughts & Recommendation

After second quarter results, PPG Industries is expected to offer a total annual return 14.0% through 2029, down slightly from our prior estimate of 14.1%. Our forecast stems from an expected earnings growth rate of 8%, a starting yield of 2.1%, and a mid-single-digit contribution from multiple expansion. PPG Industries once again had some weakness during the period. The company set several quarterly records last year so comparable periods will likely be challenging this year. We have lowered our 2029 price target $6 to $230 to reflect revised earnings estimates for the year, but continue to rate shares of PPG Industries as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	14,791	14,241	14,270	14,748	15,374	15,146	13,834	16,802	17,652	18,246
Gross Profit	6,443	6,455	6,605	6,539	6,373	6,493	6,057	6,516	6,556	7,501
Gross Margin	43.6%	45.3%	46.3%	44.3%	41.5%	42.9%	43.8%	38.8%	37.1%	41.1%
SG&A Exp.	3,696	3,584	4,523	3,614	3,573	3,604	3,389	3,815	3,832	4,451
D&A Exp.	450	446	440	460	497	511	509	561	554	558
Operating Profit	1,843	1,974	1,201	2,025	1,872	1,954	1,787	1,701	1,722	2,059
Op. Margin	12.5%	13.9%	8.4%	13.7%	12.2%	12.9%	12.9%	10.1%	9.8%	11.3%
Net Profit	2,102	1,406	873	1,594	1,341	1,243	1,059	1,439	1,026	1,270
Net Margin	14.2%	9.9%	6.1%	10.8%	8.7%	8.2%	7.7%	8.6%	5.8%	7.0%
Free Cash Flow	964	1,465	971	1,208	1,056	1,667	1,826	1,191	445	1,862
Income Tax	237	413	214	615	353	392	291	374	325	439

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17,535	17,076	15,771	16,538	16,015	17,708	19,556	21,351	20,744	21,647
Cash & Equivalents	686	1,311	1,820	1,436	902	1,216	1,826	1,005	1,099	1,514
Acc. Receivable	2,366	2,343	2,288	2,559	2,505	2,479	2,412	2,687	2,824	2,881
Inventories	1,825	1,659	1,514	1,730	1,783	1,710	1,735	2,171	2,272	2,127
Goodwill & Int.	6,212	5,847	5,555	5,987	6,042	6,601	7,453	9,031	8,492	8,624
Total Liabilities	12,270	12,007	10,856	10,866	11,283	12,305	13,741	14,940	14,035	13,624
Accounts Payable	2,895	2,716	2,799	3,162	3,007	2,910	3,156	3,735	3,472	3,569
Long-Term Debt	4,014	4,307	4,416	4,146	5,016	5,052	5,749	6,581	6,816	6,054
Total Equity	5,180	4,983	4,828	5,557	4,630	5,284	5,689	6,286	6,592	7,832
LTD/E Ratio	0.77	0.86	0.91	0.75	1.08	0.96	1.01	1.05	1.03	0.77

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.6%	8.1%	5.3%	9.9%	8.2%	7.4%	5.7%	7.0%	4.9%	6.0%
Return on Equity	40.2%	27.2%	17.5%	30.1%	25.8%	24.5%	18.9%	23.5%	15.6%	17.2%
ROIC	23.5%	15.1%	9.3%	16.6%	13.7%	12.3%	9.6%	11.7%	7.7%	9.2%
Shares Out.	280	274	267	258	245	237	237	237	237	237
Revenue/Share	52.90	52.05	53.37	57.21	62.65	63.59	58.15	70.18	74.39	76.92
FCF/Share	3.45	5.35	3.63	4.69	4.30	7.00	7.68	4.97	1.88	7.85

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