

PPG Industries (PPG)

\$88.00 (As of 05/01/20)

Price Target (6-12 Months): **\$92.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: C

Summary

PPG Industries' adjusted earnings and sales for the first quarter missed the respective Zacks Consensus Estimate. PPG Industries has diversified products offering and geographical presence. Cost savings from restructuring initiatives will likely support the company's margins. PPG Industries is also committed to deploy cash on acquisitions and share repurchases. Buyouts are also expected to contribute to the company's sales. Moreover, the company has outperformed the industry it belongs to in the past year. However, PPG Industries faces headwind from unfavorable currency translation. Unfavorable currency swings may continue to impact its sales and margins. Soft industrial demand due to the coronavirus pandemic is also expected to affect the company's sales volumes. The company's high debt level is another concern.

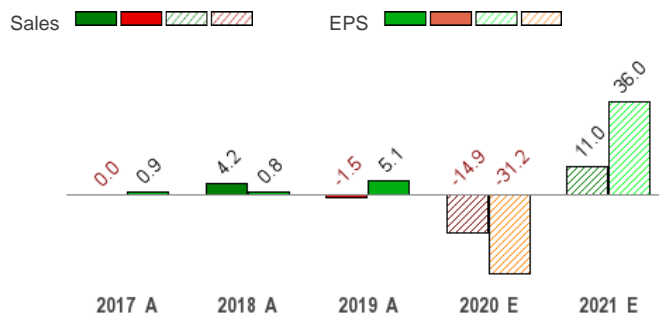
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.36 - \$69.77
20 Day Average Volume (sh)	1,786,220
Market Cap	\$20.8 B
YTD Price Change	-34.1%
Beta	1.24
Dividend / Div Yld	\$2.04 / 2.2%
Industry	<u>Chemical - Diversified</u>
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.8%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	-26.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	14.6
P/E F1	20.6
PEG F1	2.3
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,440 E	3,927 E	3,856 E	3,700 E	14,293 E
2020	3,377 A	2,771 E	3,281 E	3,423 E	12,882 E
2019	3,624 A	4,024 A	3,826 A	3,672 A	15,146 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.34 E	\$1.85 E	\$1.79 E	\$1.53 E	\$5.82 E
2020	\$1.19 A	\$0.64 E	\$1.19 E	\$1.27 E	\$4.28 E
2019	\$1.38 A	\$1.85 A	\$1.67 A	\$1.31 A	\$6.22 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

PPG Industries Inc., based in Pennsylvania, is a global supplier of paints, coatings, chemicals, specialty materials, glass, and fiber glass. The company has manufacturing facilities and equity affiliates in about 70 countries.

PPG Industries currently has two reportable segments: Performance Coatings and Industrial Coatings.

Performance Coatings: The division comprises refinish, aerospace, architectural coatings – Americas and Asia Pacific, architectural coatings – EMEA, and protective and marine coatings operating segments. The segment primarily supplies a variety of protective and decorative coatings, sealants and finishes along with paint strippers, stains and related chemicals, as well as transparencies and transparent armor.

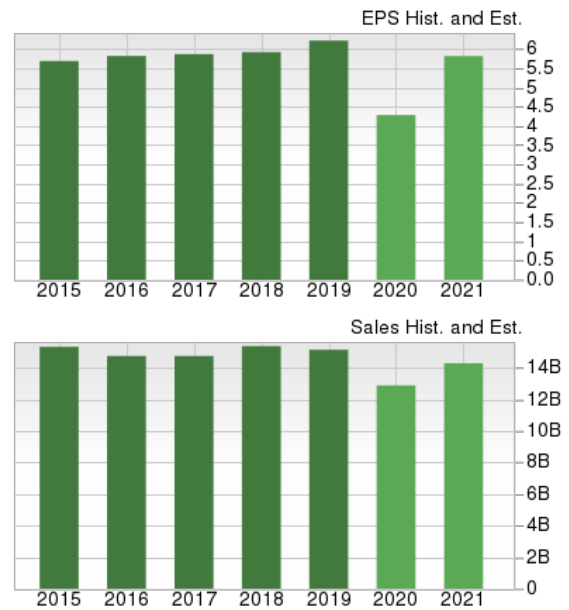
Industrial Coatings: The segment consists of the automotive OEM coatings, industrial coatings, packaging coatings, and the specialty coatings and materials operating segments. The segment primarily supplies a variety of protective and decorative coatings and finishes along with adhesives, sealants, metal pretreatment products, optical monomers and coatings, precipitated silicas and other specialty materials.

PPG Industries recorded revenues of around \$15.1 billion in 2019 with Performance Coatings and Industrial Coatings accounting for 60% and 40%, respectively.

PPG Industries is expanding inorganically through acquisitions. The company, in November 2014, completed its purchase of leading Mexican paint company – Consorcio Comex S.A. de C.V. – for \$2.3 billion. Comex makes architectural and industrial coatings and related products in Mexico.

In January 2018, the company acquired Netherlands-based leading architectural paint and coatings wholesaler, ProCoatings. The buyout strengthens its architectural coatings Americas and Asia Pacific business within the Performance Coatings division. In January 2017, the company acquired certain assets of automotive refinish coatings company — Futian Xinshi — in the Guangdong province, China. The move enables the company to expand footprint in China.

In 2017, the company completed a multi-year strategic shift by divesting the Glass segment.



Reasons To Buy:

- ▲ PPG Industries has outperformed the industry it belongs to over a year. Its shares have lost 24.3% against the industry's decline of 31.7%. PPG Industries has a diversified business, both in terms of products offered and geographical presence. It has a leading position in several paints and coatings end markets. The company derives nearly a third of its revenues from emerging regions. This enables it to deliver growth to shareholders by tapping opportunities in fast growing regions.
- ▲ PPG Industries is executing an aggressive cost cutting and restructuring strategy. Cost savings from these restructuring efforts will act as a positive catalyst for the company. To improve its cost structure, PPG Industries has announced significant restructuring actions mainly focused on regions and end-use markets with the weakest business conditions. The restructuring actions delivered \$80 million of savings in 2018 and another \$85 million in 2019. These actions also delivered roughly \$20 million in cost savings in the last reported quarter. The company is accelerating cost-saving initiatives amid a challenging environment and expects to deliver of \$80-\$90 million in restructuring savings combined savings in 2020.
- ▲ PPG Industries is taking steps to grow its business inorganically. The acquisition of the North American architectural coatings business of AkzoNobel expanded its scale in the North American architectural paint market. Moreover, the buyout of Mexico's leading paint company Comex has reinforced the company's architectural coatings business in Mexico and Central America. PPG Industries also purchased Netherlands-based ProCoatings and U.S.-based specialized automotive refinish products manufacturer, SEM Products in 2018. The company also completed the buyouts of Hemmelrath and Whitford Worldwide. The company expects these three acquisitions to add around \$400 million in annualized revenues. The buyouts will also provide the company with a broader range of technology and products to grow business. Notably, the SEM buyout has delivered strong financial performance in 2019. The company, earlier this year, also closed the acquisitions of Industria Chimica Reggiana and Alpha Coating Technologies. These buyouts are expected to contributed to the company's sales in 2020.
- ▲ PPG Industries aims to boost shareholder returns with cash deployment. PPG Industries has an impressive record of returning cash to shareholders through dividends and share buybacks. For 2019, the company has returned around \$800 million to shareholders, which includes roughly \$325 million of share repurchases and nearly \$470 million in dividends. Moreover, in July 2019, the company raised its quarterly dividend by 6% to 51 cents per share. Notably, PPG Industries has raised its annual dividend payout for 48th straight year. The company paid dividend worth \$120 million in the last reported quarter.

Cost savings from restructuring actions should aid to PPG Industries' margins. The company also remains committed to deploy cash on acquisitions and share repurchases. Acquisitions should also contribute to its sales.

Reasons To Sell:

- ▼ Headwinds from weak demand amid the outbreak of coronavirus are expected to hurt the company's sales volumes in the second quarter of 2020. The company expects customer demand to remain significantly impacted in the quarter, with declines continuing in the automotive original equipment manufacturer, automotive refinish and aerospace coatings businesses. PPG Industries is also seeing a reduction in automotive OEM industry production rates, mostly in China and Europe, which is affecting sales volumes in this market. The virus crisis has also significantly affected demand across the company's businesses such as packaging coatings, do-it-yourself architectural coatings, long-cycle protective coatings and military products. PPG Industries has also withdrawn its sales and earnings guidance for 2020 due to increased level of uncertainties over global demand.
- ▼ PPG Industries faced significant headwinds from unfavorable currency impact in 2019 due to the strengthening of the U.S. dollar. In 2019, unfavorable foreign currency translation affected sales by around 3%. Moreover, unfavorable currency swings reduced its sales by more than 2% or around \$75 million in the last reported quarter. Unfavorable foreign currency translation dented net sales of the Performance Coatings unit by roughly 2% and impacted net income in the Industrial Coatings unit by \$5 million. The company expects foreign currency translation headwinds to dent net sales by \$140-\$150 million in the second quarter of 2020. As such, headwinds from unfavorable currency may continue to exert pressure on sales and margins.
- ▼ The company's high debt level is a concern. At the end of the first quarter of 2020, the company's total long-term debt was \$5,378 million, up from \$5,161 million in the sequentially prior quarter and \$5,192 million from the year-ago quarter. Its debt-to-total capital stood at 58.6% as of Mar 31, 2020, higher than its industry's 42.5%. As such, the company appears to have a higher default risk.
- ▼ PPG Industries' stretched valuation is another concern. Going by the EV/EBITDA (Enterprise Value/ Earnings before Interest, Tax, Depreciation and Amortization) multiple, which is often used to value chemical stocks, the company is currently trading at a trailing 12-month EV/EBITDA multiple of 10.65 compared with the industry average of 6.63.

PPG Industries faces headwinds from unfavorable currency translation and soft industrial demand due to coronavirus. The company's high debt level is another concern.

Last Earnings Report

PPG Industries' Earnings & Sales Lag Estimates in Q1

PPG Industries recorded net income of \$243 million or \$1.02 per share in first-quarter 2020, down from the year-ago quarter's profit of \$312 million or \$1.31 per share.

Barring one-time items, adjusted earnings were \$1.19 per share in the reported quarter, down 13.8% from \$1.38 logged in the year-ago quarter. Moreover, the figure lagged the Zacks Consensus Estimate of \$1.20.

Net sales were down 6.8% year over year to \$3,377 million. The figure lagged the Zacks Consensus Estimate of \$3,453 million. Unfavorable currency swings affected net sales by more than 2%. Sales volumes fell 8% year over year.

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	-2.20%
EPS Surprise	-0.83%
Quarterly EPS	1.19
Annual EPS (TTM)	6.02

Segment Highlights

Performance Coatings: Net sales in the segment amounted to roughly \$2 billion in the first quarter, down 4.7% year over year. Sales volume in the segment declined around 6%. Unfavorable foreign currency translation lowered net sales by 2%.

Segment income declined 8.4% year over year to \$272 million. Reduced sales volume associated with the coronavirus pandemic and unfavorable foreign currency translation were partly offset by higher selling prices, cost mitigation measures and restructuring initiatives.

Industrial Coatings: Sales in the segment totaled around \$1.4 billion, down 9.7% from the prior-year quarter's figure. The benefits of slightly higher selling prices were offset by an 11% decline in sales volume. Also, unfavorable foreign currency translation lowered sales by around 2% on a year-over-year basis.

Net income in the segment totaled \$181 million, down 16.9% year over year. Reduced sales volume due to customer shutdowns associated with the coronavirus pandemic were partly offset by modestly higher selling prices, cost mitigation measures and restructuring cost savings. Unfavorable currency impact was roughly \$5 million.

Financial Position

As of Mar 31, 2020, PPG Industries had cash and cash equivalents of \$1,886 million, up 140.5% year over year. Long-term debt (excluding current portion) rose 2.7% year over year to \$4,751 million.

Outlook

Going forward, the company expects to achieve higher restructuring savings of \$80-\$90 million for 2020.

PPG Industries expects total sales volume for the second quarter to be down 30-35%. Moreover, it anticipates corporate expenses of \$45-\$50 million and net interest expenses of \$35-\$40 million for the second quarter.

Recent News

PPG Industries Completes Alpha Coating Acquisition - Mar 3, 2020

PPG Industries has closed the acquisition of Alpha Coating Technologies, LLC (Alpha). Notably, the deal was announced on Feb 5, 2020. The financial terms of the deal have been kept under wraps.

Alpha Coating focuses on the development, manufacturing and sale of powder coatings for light industrial applications; heat-sensitive substrates and medium-density fiberboard; and toll manufactures powder coatings. Notably, the West Chicago, IL-based company, founded in 2000, has an employee strength of about 35 people.

PPG Industries expects Alpha Coating's best-in-class service, technology and rapid turnaround color-matching capabilities to strategically complement it.

PPG Industries Closes Industria Chimica Reggiana Buyout - Feb 3, 2020

PPG Industries has completed the earlier announced acquisition of Industria Chimica Reggiana (ICR) S.p.A. The financial terms of the transaction have not been disclosed by the company.

ICR is an Italy-based paint and coating manufacturer for automotive refinish and light industrial coatings industries. The company sells products in more than 70 countries across the United States, Latin America, Europe, Africa and the Middle East.

The automotive refinish products manufactured by the company include putties, primers, clear coats and basecoats under the Sprint brand. Additionally, it produces a full range of enamels, coatings and primers for light commercial vehicles applications.

PPG Industries expect the buyout to complement its current product offerings for the automotive refinish and light industrial coatings industries.

Valuation

PPG Industries' shares are down 34.1% in the year-to-date period and down 24.3% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 27.6% and 21% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 31.7% and 18.3%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 3.8% in the past year.

The stock is currently trading at 10.65X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.63X for the Zacks sub-industry, 8.38X for the Zacks sector and 10.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.86X and as low as 8.04X, with a 5-year median of 11.68X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$92 price target reflects 19.13X forward 12-month earnings per share.

The table below shows summary valuation data for PPG:

Valuation Multiples - PPG					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.65	6.63	8.38	10.36
	5-Year High	14.86	13.36	18.31	12.87
	5-Year Low	8.04	5.43	6.5	8.27
	5-Year Median	11.68	7.58	10.54	10.78
P/E F12M	Current	18.31	13.65	14.07	20.18
	5-Year High	21.36	15.18	21.06	20.18
	5-Year Low	10.95	8.25	9.79	15.19
	5-Year Median	16.53	12.27	13.46	17.44
P/B TTM	Current	4.29	1.35	1.65	3.75
	5-Year High	6.26	3.55	3.57	4.55
	5-Year Low	3.17	0.89	1.22	2.84
	5-Year Median	5.2	1.8	2.17	3.64

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Akzo Nobel NV (AKZOY)	Neutral	3
Nippon Paint Holdings Co., Ltd. (NPCPF)	Neutral	3
PolyOne Corporation (POL)	Neutral	3
RPM International Inc. (RPM)	Neutral	3
The Sherwin-Williams Company (SHW)	Neutral	4
Axalta Coating Systems Ltd. (AXTA)	Underperform	5
Dow Inc. (DOW)	Underperform	5
Ferro Corporation (FOE)	Underperform	5

Industry Comparison Industry: Chemical - Diversified

	PPG	X Industry	S&P 500	AKZOY	RPM	SHW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	C	-	-	C	A	B
Market Cap	20.76 B	2.25 B	20.61 B	14.91 B	8.32 B	47.80 B
# of Analysts	8	3	14	3	7	10
Dividend Yield	2.32%	2.42%	2.11%	3.54%	2.25%	1.02%
Value Score	F	-	-	C	C	D
Cash/Price	0.06	0.10	0.06	0.11	0.03	0.00
EV/EBITDA	10.99	7.49	11.87	11.60	18.94	19.08
PEG Ratio	2.24	2.75	2.47	0.91	1.33	2.58
Price/Book (P/B)	3.85	1.52	2.67	2.03	6.14	11.79
Price/Cash Flow (P/CF)	10.79	5.38	10.66	13.26	17.18	18.47
P/E (F1)	20.16	15.42	19.01	21.26	21.46	25.61
Price/Sales (P/S)	1.39	0.69	2.10	1.47	1.47	2.65
Earnings Yield	4.86%	6.24%	5.05%	4.70%	4.67%	3.90%
Debt/Equity	0.96	0.52	0.72	0.31	2.02	2.28
Cash Flow (\$/share)	8.42	3.41	7.01	1.91	3.86	29.03
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	2.24%	9.94%	10.88%	NA	3.28%	18.42%
Proj. EPS Growth (F1/F0)	-31.13%	-18.80%	-7.32%	0.86%	10.17%	-2.69%
Curr. Cash Flow Growth	2.31%	-7.54%	5.92%	-19.52%	-3.31%	13.15%
Hist. Cash Flow Growth (3-5 yrs)	1.88%	6.20%	8.55%	-6.50%	5.82%	20.20%
Current Ratio	1.41	1.87	1.23	1.58	2.41	1.02
Debt/Capital	48.85%	35.68%	43.84%	23.72%	66.91%	69.56%
Net Margin	7.88%	4.61%	11.08%	6.44%	5.81%	8.98%
Return on Equity	26.94%	12.32%	16.44%	9.84%	30.07%	50.78%
Sales/Assets	0.83	0.80	0.54	0.66	1.02	0.86
Proj. Sales Growth (F1/F0)	-13.87%	-6.01%	-1.42%	-15.17%	-1.41%	-2.64%
Momentum Score	C	-	-	D	A	C
Daily Price Chg	-5.27%	-2.55%	-2.39%	-0.71%	-1.86%	-0.46%
1 Week Price Chg	-0.61%	0.65%	-1.74%	6.62%	-1.23%	-2.07%
4 Week Price Chg	12.51%	16.61%	17.07%	21.04%	14.76%	22.76%
12 Week Price Chg	-26.96%	-19.67%	-18.53%	-21.69%	-11.71%	-7.82%
52 Week Price Chg	-22.21%	-30.79%	-9.82%	-9.00%	10.72%	18.49%
20 Day Average Volume	1,786,220	112,820	2,641,413	96,137	793,098	598,075
(F1) EPS Est 1 week change	-16.66%	0.00%	0.00%	0.00%	0.00%	-4.38%
(F1) EPS Est 4 week change	-26.62%	-5.79%	-6.62%	-15.22%	-9.87%	-10.37%
(F1) EPS Est 12 week change	-32.44%	-24.06%	-13.28%	-20.95%	-11.18%	-12.27%
(Q1) EPS Est Mthly Chg	-55.73%	-13.83%	-11.97%	NA	-26.71%	-15.73%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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