

## PPG Industries (PPG)

**\$129.22** (As of 01/13/20)

Price Target (6-12 Months): **\$136.00**

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:B

Value: D

Growth: A

Momentum: B

## Summary

Earnings estimate for PPG Industries for the fourth quarter of 2019 have been declining over the past month. PPG Industries has a diversified products offering and geographical presence. Cost savings from restructuring initiatives will likely support the company's margins in 2019. PPG Industries is also committed to deploy cash on acquisitions and share repurchases. Acquisitions are also likely to contribute to its sales. Moreover, the company has outperformed the industry it belongs to over a year. However, PPG Industries faces headwinds from raw materials cost inflation and unfavorable currency translation. Soft industrial demand globally is also expected to affect sales volumes. Moreover, the company expects currency to continue to impact its sales due to the strengthening of the U.S. dollar. Its stretched valuation is another concern.

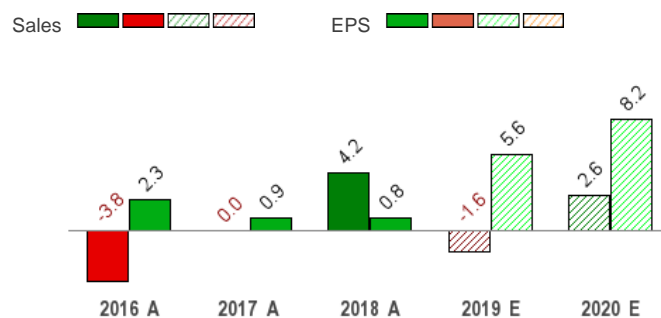
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$134.36 - \$99.41</b>
20 Day Average Volume (sh)	<b>1,130,982</b>
Market Cap	<b>\$30.6 B</b>
YTD Price Change	<b>-3.2%</b>
Beta	<b>1.24</b>
Dividend / Div Yld	<b>\$2.04 / 1.6%</b>
Industry	<b><u>Chemical - Diversified</u></b>
Zacks Industry Rank	<b>Bottom 13% (220 out of 254)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>3.7%</b>
Last Sales Surprise	<b>-1.8%</b>
EPS F1 Est- 4 week change	<b>-0.2%</b>
Expected Report Date	<b>01/16/2020</b>
Earnings ESP	<b>-3.5%</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,667 E	4,056 E	3,896 E	3,755 E	15,522 E
2019	3,624 A	4,024 A	3,826 A	3,662 E	15,133 E
2018	3,786 A	4,131 A	3,817 A	3,645 A	15,374 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.49 E	\$1.98 E	\$1.77 E	\$1.50 E	\$6.76 E
2019	\$1.38 A	\$1.85 A	\$1.67 A	\$1.35 E	\$6.25 E
2018	\$1.39 A	\$1.90 A	\$1.45 A	\$1.15 A	\$5.92 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>21.4</b>
P/E F1	<b>19.1</b>
PEG F1	<b>2.1</b>
P/S TTM	<b>2.0</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

## 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.

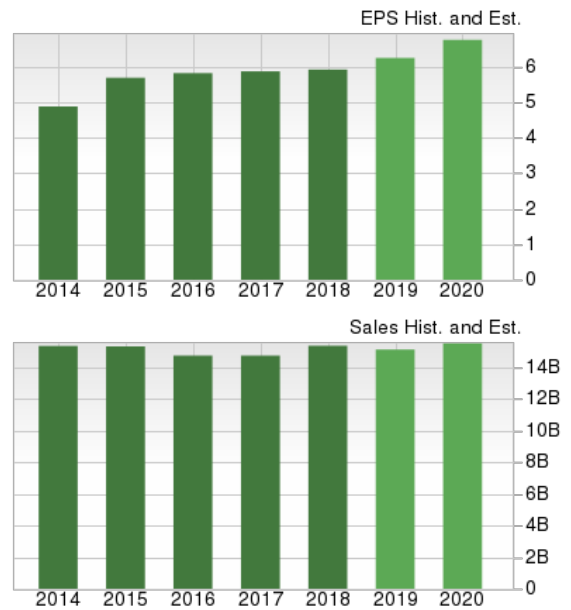
**Industrial Coatings:** The segment consists of the automotive OEM coatings, industrial coatings, packaging coatings, and the specialty coatings and materials operating segments. The segment primarily supplies a variety of protective and decorative coatings and finishes along with adhesives, sealants,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

PPG Industries recorded revenues of \$15.4 billion in 2018 with Performance Coatings and Industrial Coatings accounting for 59% and 41%, 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.



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## Reasons To Buy:

- ▲ PPG Industries has outperformed the industry it belongs to over a year. Its shares have gained 26.7% against the industry's decline of roughly 22.9%. 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 \$50 million of savings in 2017 and another \$80 million in 2018. These actions also delivered around \$20 million in cost savings in the last reported quarter of 2019. The company expects to achieve another \$20 million in cost savings in the fourth quarter. The company is also implementing a new cost-savings program that was announced in second-quarter 2019. It is expected to have full-year run-rate savings of around \$125 million post completion of the program.
- ▲ 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. Also, the acquisition of MetoKote has provided PPG Industries with a platform to meet different customers' critical coatings requirements. PPG Industries also purchased Netherlands-based ProCoatings and U.S.-based specialized automotive refinish products manufacturer, SEM Products in 2018. The company also recently 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.
- ▲ PPG Industries aims to boost shareholder returns with cash deployment. The company achieved its cash deployment target of \$2.4 billion in acquisitions and share repurchases in 2018. PPG Industries has an impressive record of returning cash to shareholders through dividends and share buybacks. Moreover, it bought back shares worth more than \$1.7 billion during 2018. It returned nearly \$2.2 billion in dividends and repurchases in 2018 leveraging strong cash generation (of about \$1.5 billion). PPG Industries has raised its annual dividend for 47th straight year. In July 2019, the company raised its quarterly dividend by 6% to 51 cents per share.

Cost savings from restructuring actions should aid to PPG Industries' margins in 2019. The company also remains committed to deploy cash on acquisitions and share repurchases. Acquisitions should also contribute to its sales.

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## Reasons To Sell:

- ▼ PPG Industries' significant presence in the U.S. construction, European architectural, global appliance and industrial coating markets exposes it to substantial headwinds. The implementation of trade tariffs has led to an uncertain demand environment for industrial coatings. Sales growth in China is expected to be uneven as trade tariffs are likely to affect economic activities in that country. The company saw weakening industrial production growth across all regions in the first half of 2019 and the softness continued in the third quarter. PPG Industries is also seeing a reduction in automotive OEM industry production rates, mostly in China and Europe, affecting sales volumes in this market. It expects global automotive OEM industry build rates to decline in the fourth quarter, which will continue to hurt volumes. Headwinds from soft industrial demand across most regions are likely to negatively impact its volumes. As such, the company's sales volumes in the Industrial Coatings unit are expected to remain under pressure. In the last reported quarter, weak global industrial production activity affected most of its general industrial coatings subsegments, including general finishes, wood and transportation end markets.
- ▼ PPG Industries faced significant headwinds from unfavorable currency impact in the first half of 2019 due to the strengthening of the U.S. dollar and expects currency to continue to impact its sales. Currency swings considerably reduced its sales by around 2% or around \$80 million in the last reported quarter. Moreover, earnings were negatively affected by roughly \$10 million or 4 cents per share due to unfavorable foreign currency translation. The company expects unfavorable currency translation impact on sales to persist at a similar rate in the fourth quarter.
- ▼ PPG Industries is exposed to input cost pressure. Prices of key raw materials are still higher on a year-over-year basis. The company is seeing higher raw materials costs and it is implementing pricing strategies to offset the impact of the inflation. PPG Industries witnessed inflationary impacts through the first half of 2019. Input cost pressure continued in the third quarter, albeit to a lesser extent than what was witnessed in the first half.
- ▼ PPG Industries' stretched valuation is a 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 13.75 compared with the industry average of 6.65.

PPG Industries faces headwinds from raw materials cost inflation and unfavorable currency translation. Soft industrial demand across most regions is also likely to impact its volumes.

## Last Earnings Report

### PPG Industries' Q3 Earnings Beat, Sales Trail Estimates

PPG Industries logged net income from continuing operations of \$366 million or \$1.54 per share in third-quarter 2019 compared with \$368 million or \$1.51 per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share (EPS) were \$1.67, up from \$1.45 in the prior-year quarter. The figure beat the Zacks Consensus Estimate of \$1.61.

Net sales edged up around 0.2% year over year to \$3,826 million in the reported quarter. However, the figure missed the Zacks Consensus Estimate of \$3,896.7 million. Unfavorable currency swings affected net sales by around 2% while acquisition-related sales, net of divestitures, contributed more than 2% to sales growth and higher selling prices contributed 2.6%.

Quarter Ending 09/2019

Report Date	Oct 17, 2019
Sales Surprise	-1.81%
EPS Surprise	3.73%
Quarterly EPS	1.67
Annual EPS (TTM)	6.05

### Segment Highlights

**Performance Coatings:** Net sales in the segment amounted to roughly \$2.3 billion in the third quarter, up around 1% year over year. Sales volume in the segment was relatively flat year over year. Unfavorable foreign currency translation reduced net sales by roughly 2%.

Segment income rose roughly 15% year over year to \$380 million. The figure benefitted from higher selling prices, cost management and restructuring initiatives of the company.

**Industrial Coatings:** Sales in the segment totaled \$1.5 billion, down nearly 1% from the prior-year quarter's figure. Increased selling prices of 2% and acquisition-related sales of around \$80 million were offset by lower sales volumes of 6%. Also, unfavorable foreign currency translation lowered sales by nearly 2% on a year-over-year basis.

Net income in the segment totaled \$205 million, up around 22% year over year. Improving selling prices, acquisition-related income and strong cost management actions were partly offset by reduced sales volumes. Unfavorable currency impact was around \$3 million.

### Financial Position

PPG Industries ended the quarter with cash and cash equivalents of \$1.4 billion, up around 29.8% year over year. Long-term debt fell around 2.7% year over year to \$4,885 million.

### Outlook

Going forward, PPG Industries expects global economic growth to remain soft in the fourth quarter and impact several end-use markets.

For 2019, the company expects adjusted EPS in the range of \$6.17-\$6.27. The projection includes fourth quarter year-over-year growth in constant currencies of around 15% at the mid-point. Moreover, the guidance represents adjusted EPS growth at the low-to-mid end of earlier announced 7-10% range, excluding currency translation impacts.

The company expects full-year sales growth of a low-single-digit percentage, which excludes currency-translation impacts.

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## Recent News

### **PPG Industries Completes \$15.5M Investment at Its R&T Center – Dec 16, 2019**

PPG Industries announced the completion of a \$15.5-million investment at its aerospace research and technology (R&T) center in Burbank, CA.

The new facility comprises improved laboratory and testing space with climate-control capabilities, an open floor plan with dedicated areas to foster collaboration as well as updated tools to improve the company's resources for the development of aerospace coatings and sealants.

Currently, the facility accommodates more than 90 staff in various R&T, customer support, manufacturing, associated service and administrative positions.

Per management, improvement in its R&T capabilities is expected to deliver new and creative products as well as services to customers across regional, military, commercial and general aviation. Moreover, PPG Industries' foothold as a reliable and creative partner to its aerospace customers globally will strengthen owing to upgrades to the 39,524-square-foot Burbank facility.

### **PPG Industries to Hike Prices of Industrial Coatings Products – Dec 4, 2019**

PPG Industries announced that it will implement a price increase of up to 10% on its industrial coatings products. The price hike will be globally effective Jan 1, 2020 or as contracts permit. It will be applicable to all end-use segments of industrial coatings products.

Per management, key drivers of price rise include the ongoing increase in certain cost pools and the need to regain substantial inflation from the past few years.

Despite the company being proactive in using cost-control measures across its global supply chain to increase efficiency and reduce costs, it needs to adjust its pricing so that it can provide customers with excellent technical support and innovative solutions.

The company's sales representatives will convey the price raise details of all concerned products to customers.

### **PPG Industries Starts Using TiO<sub>2</sub> from Lomon Billions' 2nd Line – Dec 2, 2019**

PPG Industries announced that it started using titanium dioxide (TiO<sub>2</sub>) pigment from the new chloride production line of Lomon Billions.

TiO<sub>2</sub> purchased from Lomon Billions' second chloride-process production line is expected to be used to manufacture coatings and paints at many global production facilities of PPG Industries. The terms of the purchase were not revealed.

Lomon Billions is a leading producer of TiO<sub>2</sub>, a key raw material used by PPG Industries. Its second chloride-process TiO<sub>2</sub> production line started production early this year.

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## Valuation

PPG Industries' shares are up 26.7% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 22.9% and up 1% over the past year, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 14.31X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 10.27X for the Zacks sub-industry, 9.54X for the Zacks sector and 12.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.82X and as low as 8.1X, with a 5-year median of 11.74X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$136 price target reflects 20.06X forward 12-month earnings per share.

Valuation Multiples - PPG					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	14.31	10.27	9.54	12.12
	5-Year High	14.82	16.68	18.35	12.86
	5-Year Low	8.1	8.1	7.33	8.48
	5-Year Median	11.74	11.5	10.55	10.67
P/E F12M	Current	19.06	14.25	13.44	18.87
	5-Year High	21.36	15.78	21.12	19.34
	5-Year Low	13.43	9.69	9.76	15.17
	5-Year Median	16.62	13.72	13.77	17.44
P/B TTM	Current	5.71	2.57	2.3	4.46
	5-Year High	6.26	6.07	3.54	4.47
	5-Year Low	4.35	1.53	1.34	2.85
	5-Year Median	5.24	4.48	2.18	3.61

As of 01/13/2020

## Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 254)



## Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	PPG Neutral	X Industry	S&P 500	AKZOY Neutral	RPM Neutral	SHW Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>C</b>
Market Cap	30.56 B	2.87 B	24.31 B	20.57 B	9.63 B	53.06 B
# of Analysts	9	3	13	3	7	10
Dividend Yield	1.58%	1.74%	1.76%	0.66%	1.94%	0.79%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Cash/Price	0.05	0.07	0.04	0.12	0.02	0.00
EV/EBITDA	14.96	6.59	14.12	19.98	20.55	26.67
PEG Ratio	2.15	1.56	2.05	1.19	1.21	1.99
Price/Book (P/B)	5.71	2.06	3.34	2.64	6.86	13.19
Price/Cash Flow (P/CF)	15.93	6.72	13.66	15.81	19.21	22.72
P/E (F1)	19.35	14.23	18.82	21.50	22.11	23.77
Price/Sales (P/S)	2.02	0.88	2.64	1.95	1.71	2.97
Earnings Yield	5.23%	6.85%	5.29%	4.66%	4.53%	4.21%
Debt/Equity	1.02	0.61	0.72	0.29	1.90	2.34
Cash Flow (\$/share)	8.11	3.41	6.94	2.08	3.86	25.30
<b>Growth Score</b>	<b>A</b>	-	-	<b>C</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	2.88%	10.15%	10.56%	NA	3.15%	18.61%
Proj. EPS Growth (F1/F0)	8.14%	9.04%	7.49%	27.22%	23.88%	13.95%
Curr. Cash Flow Growth	-1.37%	3.75%	14.83%	-26.65%	-3.31%	20.23%
Hist. Cash Flow Growth (3-5 yrs)	3.31%	6.70%	9.00%	-3.27%	5.82%	19.32%
Current Ratio	1.49	1.83	1.23	1.64	2.40	1.01
Debt/Capital	50.54%	39.72%	42.99%	22.50%	65.51%	70.02%
Net Margin	8.00%	5.57%	11.08%	70.34%	5.89%	7.81%
Return on Equity	28.36%	11.94%	17.16%	6.18%	28.74%	50.96%
Sales/Assets	0.87	0.85	0.55	0.58	1.03	0.87
Proj. Sales Growth (F1/F0)	2.57%	1.97%	4.23%	0.49%	2.46%	3.80%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>A</b>	<b>F</b>	<b>D</b>
Daily Price Chg	0.88%	0.88%	0.73%	-1.11%	1.62%	1.37%
1 Week Price Chg	-1.23%	-0.79%	0.39%	-1.28%	-2.81%	0.47%
4 Week Price Chg	-3.02%	-2.49%	1.84%	-2.85%	-1.38%	-0.80%
12 Week Price Chg	3.64%	3.65%	6.48%	6.86%	6.00%	4.44%
52 Week Price Chg	26.74%	0.99%	23.15%	8.04%	36.79%	44.51%
20 Day Average Volume	1,130,982	152,777	1,578,594	28,334	628,926	377,534
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.88%	-0.30%	0.00%
(F1) EPS Est 4 week change	-0.25%	0.00%	0.00%	0.88%	-0.30%	0.00%
(F1) EPS Est 12 week change	-1.27%	-2.84%	-0.48%	-1.93%	-0.30%	0.09%
(Q1) EPS Est Mthly Chg	1.82%	0.00%	0.00%	NA	-13.17%	0.00%



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## 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.

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### 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	D
Growth Score	A
Momentum Score	B
VGM Score	B

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.

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