

## PPG Industries (PPG)

**\$128.49** (As of 01/20/20)

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: C

Growth: A

Momentum: D

### Summary

PPG Industries' profits increased year over year in fourth-quarter 2019. Adjusted earnings missed the Zacks Consensus Estimate while sales beat the same. PPG Industries has diversified products offering and geographical presence. Cost savings from restructuring initiatives will likely support the company's margins. It is also committed to deploy cash on acquisitions and share repurchases. Buyouts are also expected to contribute to sales. Moreover, the company has outperformed the industry in the past 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, unfavorable currency translation may continue to impact margins. Stretched valuation is another concern.

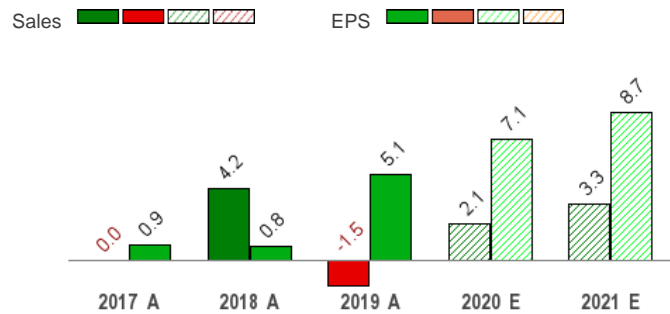
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$134.36 - \$100.90</b>
20 Day Average Volume (sh)	<b>1,309,056</b>
Market Cap	<b>\$30.4 B</b>
YTD Price Change	<b>-3.8%</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 7% (236 out of 254)</b>

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



Last EPS Surprise	<b>-3.0%</b>
Last Sales Surprise	<b>0.3%</b>
EPS F1 Est- 4 week change	<b>-1.2%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>-2.7%</b>
P/E TTM	<b>20.7</b>
P/E F1	<b>19.3</b>
PEG F1	<b>2.1</b>
P/S TTM	<b>2.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					15,970 E
2020	3,636 E	4,070 E	3,930 E	3,787 E	15,458 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					\$7.24 E
2020	\$1.43 E	\$1.96 E	\$1.76 E	\$1.53 E	\$6.66 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 01/20/2020. The reports text is as of 01/21/2020.

## 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.

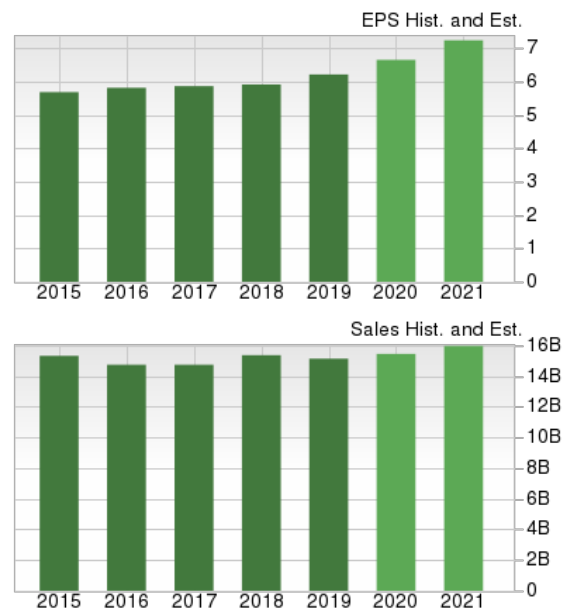
**Industrial Coatings:** The segment consists of the automotive OEM coatings, industrial coatings, packaging coatings, and the specialty coatings and materials operating segments. The segment primarily supplies a variety of protective and decorative coatings and finishes along with adhesives, sealants,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



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## Reasons To Buy:

- ▲ PPG Industries has outperformed the industry it belongs to over a year. Its shares have gained 23.2% against the industry's decline of 21.9%. 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 \$80 million of savings in 2018 and another \$85 million in 2019. These actions also delivered more than \$20 million in cost savings in the last reported quarter. The company expects to deliver an incremental \$75 million in 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. 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 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 is commercializing several key SEM products in certain international markets, which is likely to provide further growth opportunities.
- ▲ 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, PPG Industries has raised its annual dividend payout for 48th 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. 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. The company does not expect a rebound in volume growth before the second half of 2020. Moreover, sales growth in China is expected to be uneven as trade tariffs are likely to affect economic activities in that country. 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. In China, automotive sales declined in December 2019, marking 18th straight monthly declines. Also, in Europe manufacturing activity contracted for the 11th consecutive month. As such, the company's sales volumes in the Industrial Coatings unit may continue to remain under pressure.
  - ▼ 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.
  - ▼ 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 around 1% or around \$30 million in the last reported quarter. Unfavorable foreign currency translation dented net sales of the Performance Coatings unit by roughly 1% and impacted net income in the Industrial Coatings unit by \$2 million. For 2020, the company expects unfavorable foreign currency translation to lower its net sales by \$20-\$40 million and reduce net income by \$3-\$5 million. Moreover, the company expects foreign currency translation headwinds to dent net sales by \$15-\$40 million in the first quarter of 2020. As such, headwinds from unfavorable currency may continue to exert pressure on sales and margins.
  - ▼ 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. Despite the sluggish economic backdrop, the company's raw material costs have remained considerably high compared with overall demand and supply, which indicates recent crude oil volatility. As such, elevated raw material costs amid a higher oil price environment may put pressure on the company's margins over the near term.
  - ▼ 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 7.39.
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## Last Earnings Report

### PPG Industries' Q4 Earnings Miss, Sales Beat Estimates

PPG Industries has delivered net income from continuing operations of \$295 million or \$1.23 per share in fourth-quarter 2019, up from the year-ago quarter's profit of \$256 million or \$1.07.

Barring one-time items, adjusted earnings were \$1.31 per share in the reported quarter, up 13.9% from \$1.15 logged in the year-ago quarter. However, the figure trailed the Zacks Consensus Estimate of \$1.35.

Net sales inched up 0.7% year over year to \$3,672 million. The figure beat the Zacks Consensus Estimate of \$3,662.2 million. Unfavorable currency swings affected net sales by around 1%. The company recorded net sales growth in constant currencies of about 2% on a year-over-year basis, supported by a rise in selling prices of nearly 2%. Sales volumes fell nearly 3% year over year.

Quarter Ending **12/2019**

Report Date	Jan 16, 2020
Sales Surprise	0.27%
EPS Surprise	-2.96%
Quarterly EPS	1.31
Annual EPS (TTM)	6.21

### 2019 Results

In 2019, the company posted profits from continuing operations of \$1,243 million or \$5.22 per share, down from \$1,323 or \$5.40 in 2018. Adjusted earnings per share (EPS) for the year came in at \$6.22, up around 5% from \$5.92 a year ago.

PPG Industries generated revenues of \$15,146 million in 2019, down 1.5% from \$15,374 million in 2018. Unfavorable foreign currency translation negatively impacted sales by around 3%. Organic sales fell nearly 1%.

### Segment Highlights

**Performance Coatings:** Net sales in the segment amounted to nearly \$2.2 billion in the fourth quarter, up 2% year over year. Sales volume in the segment was relatively flat on a year-over-year basis. Unfavorable foreign currency translation lowered net sales by less than 1%.

Segment income rose 17.6% year over year to \$307 million. The benefits of cost management and higher selling prices were partly offset by general cost inflation.

**Industrial Coatings:** Sales in the segment totaled nearly \$1.5 billion, down 1% from the prior-year quarter's tally. The benefits of higher selling prices were offset by 6% decline in sales volume. Also, unfavorable foreign currency translation lowered sales by around 1% on a year-over-year basis.

Net income in the segment totaled \$203 million, up around 9% year over year. Better selling prices, acquisition-related income and strong cost management actions were partly offset by reduced sales volumes as well as general cost inflation. Unfavorable currency impact was \$2 million.

### Financial Position

PPG Industries ended 2019 with cash and cash equivalents of \$1.2 billion, up around 34.8% year over year. Long-term debt rose around 4% year over year to \$4,539 million.

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.

### Outlook

Going forward, PPG Industries expects organic growth to continue in the Performance Coatings unit in 2020. For the Industrial Coatings unit, the company expects a rebound in volume growth in second-half 2020.

While the company is beginning to witness a modest recovery in industrial demand in China, it expects soft general industrial demand to continue in the United States and Europe.

For 2020, the company projects adjusted EPS growth between 4% and 9%, which excludes the impact of currency translation. First-quarter 2020 earnings per share from continuing operations are projected in the range \$1.32-\$1.42.

The company expects sales growth in the range of 1%-3% (on constant currencies basis), including acquisitions.

## Recent News

### PPG Industries Declares Quarterly Dividend – Jan 16, 2020

PPG Industries' board of directors announced a regular quarterly dividend of 51 cents per share, which is payable on Mar 12, 2020 to shareholders of record Feb 21. Notably, this marks the 486th consecutive dividend payout by the company. The company has raised its annual dividend for 48 consecutive years and paid out uninterrupted annual dividends since 1899.

### 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.

## Valuation

PPG Industries' shares are up 23.2% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 21.9% and up 2.8% over the past year, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 13.75X trailing 12-month enterprise value-to-EBITDA (EV/EBITDA) ratio, which compares to 7.39X for the Zacks sub-industry, 9.67X for the Zacks sector and 12.38X 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 20.32X forward 12-month earnings per share.

Valuation Multiples - PPG					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	13.75	7.39	9.67	12.38
	5-Year High	14.82	12.41	18.17	12.86
	5-Year Low	8.1	5.08	7.34	8.48
	5-Year Median	11.74	7.24	10.55	10.67
P/E F12M	Current	19.2	12.9	13.76	19.2
	5-Year High	21.36	15.05	21.12	19.34
	5-Year Low	13.43	8.18	9.77	15.17
	5-Year Median	16.62	12.38	13.77	17.44
P/B TTM	Current	5.67	1.74	2.36	4.55
	5-Year High	6.26	3.51	3.54	4.55
	5-Year Low	4.35	0.88	1.33	2.85
	5-Year Median	5.24	2.52	2.18	3.61

As of 01/17/2020

## Industry Analysis Zacks Industry Rank: Bottom 7% (236 out of 254)



## Top Peers

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

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>D</b>	<b>B</b>	<b>B</b>
Market Cap	30.38 B	2.97 B	24.65 B	20.39 B	9.66 B	54.87 B
# of Analysts	9	3	13	3	7	10
Dividend Yield	1.59%	1.76%	1.73%	0.67%	1.93%	0.76%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Cash/Price	0.05	0.07	0.04	0.12	0.02	0.00
EV/EBITDA	14.49	6.54	14.11	19.81	20.60	27.45
PEG Ratio	2.11	1.63	2.08	1.19	1.21	2.06
Price/Book (P/B)	5.67	2.13	3.39	2.61	6.88	13.64
Price/Cash Flow (P/CF)	15.26	6.61	13.81	15.68	19.26	23.50
P/E (F1)	19.03	14.54	19.19	21.99	22.15	24.58
Price/Sales (P/S)	2.01	0.90	2.69	1.94	1.72	3.07
Earnings Yield	5.18%	6.73%	5.21%	4.55%	4.51%	4.07%
Debt/Equity	0.85	0.61	0.72	0.29	1.90	2.34
Cash Flow (\$/share)	8.42	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)	7.06%	8.11%	7.57%	29.82%	24.04%	13.95%
Curr. Cash Flow Growth	2.31%	3.75%	14.73%	-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	1.41	1.83	1.24	1.64	2.40	1.01
Debt/Capital	50.54%	39.72%	42.99%	22.50%	65.51%	70.02%
Net Margin	8.21%	5.57%	11.14%	70.34%	5.89%	7.81%
Return on Equity	28.55%	11.94%	17.16%	6.18%	28.74%	50.96%
Sales/Assets	1.02	0.85	0.55	0.58	1.03	0.87
Proj. Sales Growth (F1/F0)	2.48%	1.97%	4.16%	0.49%	2.46%	3.80%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>F</b>	<b>F</b>	<b>B</b>
Daily Price Chg	0.85%	0.00%	0.27%	-0.28%	-0.33%	1.62%
1 Week Price Chg	-1.23%	-0.79%	0.39%	-1.28%	-2.81%	0.47%
4 Week Price Chg	-2.97%	-2.45%	2.95%	-2.37%	-0.32%	2.88%
12 Week Price Chg	3.97%	2.59%	7.76%	5.21%	5.56%	3.56%
52 Week Price Chg	19.68%	0.54%	22.29%	5.32%	37.55%	50.68%
20 Day Average Volume	1,309,056	127,015	1,536,375	32,224	635,012	402,274
(F1) EPS Est 1 week change	-1.21%	0.00%	0.00%	-3.06%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.21%	-0.31%	0.00%	-2.20%	-0.30%	0.00%
(F1) EPS Est 12 week change	-1.70%	-3.58%	-0.40%	-4.93%	-0.30%	0.09%
(Q1) EPS Est Mthly Chg	-6.04%	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	C
Growth Score	A
Momentum Score	D
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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