

PPG Industries (PPG)

\$111.68 (As of 07/22/20)

Price Target (6-12 Months): **\$117.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

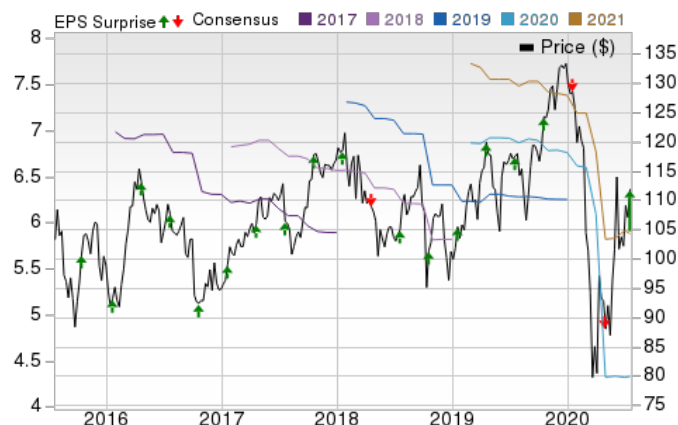
Growth: D

Momentum: A

Summary

PPG Industries' adjusted earnings and sales for the second quarter topped the respective Zacks Consensus Estimate. PPG Industries has diversified products offering and geographical presence. Cost savings from restructuring actions will also 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 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 in the third quarter. The company's high debt level is another concern.

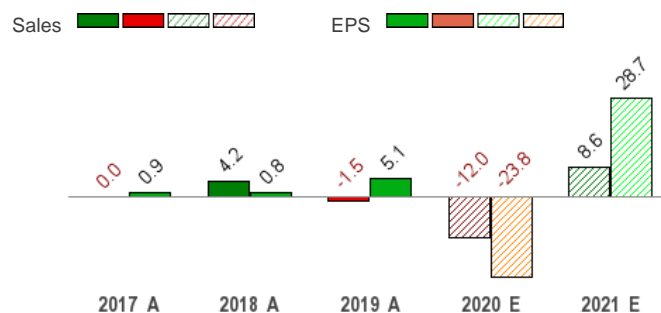
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.36 - \$69.77
20 Day Average Volume (sh)	1,724,016
Market Cap	\$26.4 B
YTD Price Change	-16.3%
Beta	1.27
Dividend / Div Yld	\$2.16 / 1.8%
Industry	<u>Chemical - Diversified</u>
Zacks Industry Rank	Bottom 40% (150 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	52.3%
Last Sales Surprise	6.4%
EPS F1 Est- 4 week change	9.1%
Expected Report Date	10/15/2020
Earnings ESP	0.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,420 E	3,928 E	3,855 E	3,730 E	14,475 E
2020	3,377 A	3,015 A	3,435 E	3,497 E	13,329 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	\$1.28 E	\$1.75 E	\$1.72 E	\$1.50 E	\$6.10 E
2020	\$1.19 A	\$0.99 A	\$1.29 E	\$1.27 E	\$4.74 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.

P/E TTM	21.6
P/E F1	23.6
PEG F1	2.6
P/S TTM	1.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/22/2020. The reports text is as of 07/23/2020.

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.

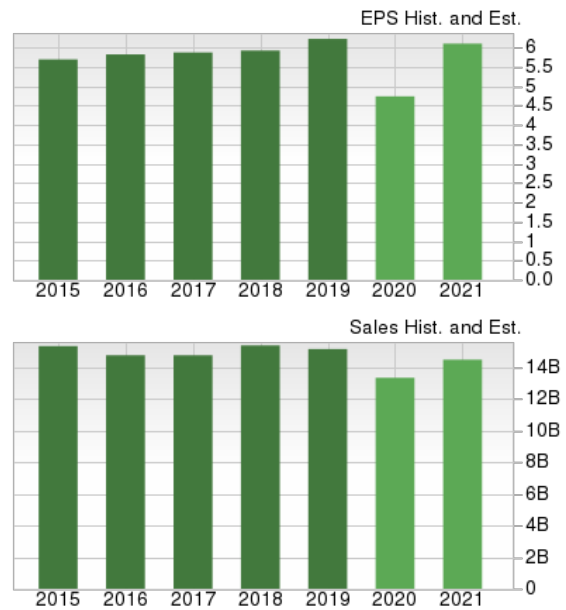
Industrial Coatings: The segment consists of the automotive OEM coatings, industrial coatings, packaging coatings, and the specialty coatings and materials operating segments. The segment primarily supplies a variety of protective and decorative coatings and finishes along with adhesives, sealants, metal 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 5.4% compared with the industry's decline of 9.7%. 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 more than \$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 \$60-\$70 million in restructuring savings in second-half 2020. PPG Industries also expects incremental restructuring savings of \$30-\$35 million in the third quarter. The company, in June, also approved substantial restructuring actions to lower its global cost structure. The plan includes a voluntary separation program that was offered in the United States and Canada. Upon completion, PPG Industries anticipates the planned actions to offer \$160-\$170 million in annual pre-tax cost savings, with roughly \$25-\$35 million of savings predicted 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 contribute 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, the company recently raised its quarterly dividend by 6% to 54 cents per share. Notably, PPG Industries has raised its annual dividend payout for 49th 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 third quarter of 2020. The company is seeing weak customer demand in automotive original equipment manufacturer, automotive refinish and aerospace coatings businesses. PPG Industries is seeing a reduction in automotive OEM industry production rates, mostly in the United States and Europe, which is affecting sales volumes in this market. Moreover, weaker demand due to lower miles driven is hurting volumes in automotive refinish. Sales volumes in aerospace also remain under pressure due to reduced customer builds and lower miles flown globally. Reduced customer activities in certain major regions are also hurting industrial volumes. PPG Industries expects total sales volume for the third quarter to decline 8-15%. It has also withdrawn its sales and earnings guidance for 2020 due to increased level of uncertainties over global demand.
- ▼ PPG Industries faces headwinds from unfavorable currency impact. Unfavorable currency swings reduced its sales by more than 3% or around \$135 million in the last reported quarter. Unfavorable foreign currency translation dented net sales of the Performance Coatings unit by roughly 4% and also impacted sales in the Industrial Coatings unit by 3%. The company expects foreign currency translation headwinds to dent net sales by \$50-\$60 million in the third quarter of 2020. Currency impact on sales in the Performance Coatings unit is projected to be \$30-\$40 million while the same for the Industrial Coatings unit is \$20-\$25 million. 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 second quarter of 2020, the company's total debt was \$6,310 million, up from \$6,207 million in the sequentially prior quarter and \$5,499 million in the year-ago quarter. Further, its time-interest-earned ratio of 10.5 at the end of second-quarter 2020 fell from 12.7 in the prior quarter. 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 14.32 compared with the industry average of 7.91.

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

Last Earnings Report

PPG Industries' Earnings & Sales Beat Estimates in Q2

PPG Industries reported net income from continuing operations of \$99 million or 42 per share in second-quarter 2020, down from the year-ago quarter's profit of \$270 million or \$1.13 per share.

Barring one-time items, adjusted earnings were 99 cents per share in the reported quarter, down 46.5% from \$1.85 logged in the year-ago quarter. Nevertheless, the figure topped the Zacks Consensus Estimate of 65 cents.

Net sales declined 25.1% year over year to \$3,015 million. However, the figure surpassed the Zacks Consensus Estimate of \$2,833 million. Unfavorable currency swings affected net sales by more than 3%. Sales volume fell 24% year over year.

Segment Highlights

Performance Coatings: Net sales in the segment amounted to around \$2.1 billion in the second quarter, down 15% year over year. Sales volume in the segment declined around 15%. Unfavorable foreign currency translation impacted net sales by 4%.

Segment income declined 15% year over year to \$362 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 \$950 million, down roughly 40% from the prior-year quarter's figure. The benefits of slightly higher selling prices were offset by 38% decline in sales volume. Also, unfavorable foreign currency translation lowered sales by around 3% on a year-over-year basis.

Net income in the segment totaled \$34 million, down around 85% 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.

Financial Position

As of Jun 30, 2020, PPG Industries had cash and cash equivalents of \$2,252 million, up 133.9% year over year. Long-term debt fell 4.8% year over year to \$4,613 million.

Outlook

Going forward, the company expects to achieve restructuring savings of \$60-\$70 million in the second half of 2020.

PPG Industries also expects total sales volume for the third quarter to decline 8-15%. The company stated that the wide range is due to the uncertainty associated with the impact of the coronavirus pandemic.

Moreover, it anticipates corporate expenses of \$50-\$55 million and net interest expenses of \$32-\$36 million for the third quarter.

Quarter Ending 06/2020

Report Date	Jul 16, 2020
Sales Surprise	6.43%
EPS Surprise	52.31%
Quarterly EPS	0.99
Annual EPS (TTM)	5.16

Recent News

PPG Industries Launches Ultralast Interior Paint and Primer

PPG Industries, on **Jun 22, 2020**, announced the launch of Ultralast interior paint and primer. Notably, it is the first product to showcase the clean surface technology of the company.

The new product delivers washability performance that was previously not possible in a paint product. Notably, the overall wall-cleaning process is transformed and streamlined through the product.

Ultralast paint and primer's scratch and fade-defying formula maintains the vivid and gross color, while other competing products lose color over time on scrubbing or rubbing. Notably, the formula offers property managers, professional contractors and homeowners with a long-lasting freshly painted look.

Ultralast paint and primer lower the need for sponges and abrasive cleaners. The product is suitable for high-traffic areas, such as kitchens, playrooms, bathrooms, retail spaces, restaurants, educational facilities and more. Moreover, the product extends repaint cycles, eventually saving money and time.

PPG Industries' Novaguard 810ER Coating Qualified by Navsea

PPG Industries, on **Jun 12, 2020**, announced that its Novaguard 810ER coating was qualified by the U.S. Naval Sea Systems Command (Navsea) for use on potable water tanks.

Notably, the qualification makes it the only coating that passes Navsea tests for six classes of tanks. The company noted that the coating has become the first to be qualified by Navsea for all major tank lining applications.

Per management, having one coating certified for all the tanks on a U.S. Navy ship has significant benefits for Navsea and its coating contractors such as simplified ordering, fulfillment and materials management. Moreover, maintenance and fabrication of tank may be simplified and strengthened as contractors use just one product.

Novaguard 810ER coating is a single coat, direct-to-metal novolac epoxy coating that quickly installs up to 20-30 mils, without sagging. Moreover, the coating offers one-coat coverage, with outstanding edge retention, saves time and labor as well as speeds up return to service.

Also, the Novaguard 810ER coating's high film build properties, broad application temperature range and ultra-high solids render it ideal for applicator use.

Notably, Novaguard 810ER coating can quickly be touched up with one-quart cartridges or 12-ounce burst packs, enabling tanks to undergo rigorous inspections.

PPG Industries Announces Restructuring Actions to Lower Costs

PPG Industries, on **Jun 8, 2020**, approved substantial restructuring actions to lower its global cost structure. The plan includes a voluntary separation program that was offered in the United States and Canada.

The company cited weakened global economic conditions due to the coronavirus pandemic and related recovery pace in a few end-use markets coupled with other opportunities to optimize supply-chain and functional costs.

Upon completion, PPG Industries anticipates the planned actions to offer \$160-\$170 million in annual pre-tax cost savings, with roughly \$25-\$35 million of savings forecasted in 2020. Moreover, the remainder of the annual cost savings is expected to be realized by the end of 2021.

The company stated that it is taking prudent steps to adjust its cost base, given the broad economic impact associated with the coronavirus pandemic and the recovery timeline in a few end-use markets. Notably, the measures will allow it to come out of the crisis with reduced structural costs. On account of the actions along with sustained discretionary cost controls, the company anticipates strong operating margin leverage as economic activity continues to improve.

PPG Industries will also record pre-tax restructuring charges of \$160-\$180 million (before tax) in the second quarter of 2020. The company is also expected to incur an additional \$10 million in restructuring costs over future quarters. The overall cash outlay is around \$180 million to complete these actions.

PPG Industries also noted that its sales volume in April was down roughly 35% year over year. Moreover, its sales volume in May was down less than 30% year over year. The company's sales volume results in both months were slightly better than expected. The results include a year-over-year rise in sales volume in China, and sequential monthly improvement of net sales in the United States and Europe.

PPG Industries Launches Program for SilverSan Powder Coating

PPG Industries, on **May 13, 2020**, announced the launch of its quick-ship program for SilverSan antibacterial-protected powder coating.

Notably, the quick-ship program is possible on account of the company's buyout of Alpha Coating Technologies. Reportedly, the powder coating producer is a fully-owned subsidiary of PPG Industries.

Per PPG Industries' management, the acquisition of Alpha Coating strengthens its capabilities in the powder market and enables it to be strategic and creative to bring results to customers.

PPG Industries' SilverSan powder technology gradually releases silver ions, known to prevent bacterial growth on powder-coated surfaces. Notably, the coating displays exceptional exterior durability, and provides excellent color retention and high temperature stability.

Valuation

PPG Industries' shares are down 16.3% in the year-to-date period and down 5.4% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 10.4% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 9.7% and up 0.8%, respectively.

The S&P 500 index is up 1.4% in the year-to-date period and up 8.7% in the past year.

The stock is currently trading at 14.32X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.91X for the Zacks sub-industry, 9.97X 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 14.86X and as low as 8.04X, with a 5-year median of 11.65X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$117 price target reflects 22.54X 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	14.32	7.91	9.97	12.12
	5-Year High	14.86	13.21	18.37	12.86
	5-Year Low	8.04	5.27	6.5	8.25
	5-Year Median	11.65	7.47	10.39	10.88
P/E F12M	Current	21.51	19.16	16.09	23
	5-Year High	22.9	19.16	21.05	23
	5-Year Low	10.95	8.95	9.86	15.25
	5-Year Median	16.53	13.04	13.53	17.52
P/B TTM	Current	5.45	1.76	2.73	4.46
	5-Year High	5.94	2.84	3.07	4.56
	5-Year Low	3.17	0.88	1.23	2.83
	5-Year Median	5.17	1.75	2.2	3.71

As of 07/22/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (150 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
RPM International Inc. (RPM)	Outperform	2
Akzo Nobel NV (AKZOY)	Neutral	3
Axalta Coating Systems Ltd. (AXTA)	Neutral	3
Dow Inc. (DOW)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
Ferro Corporation (FOE)	Neutral	3
Nippon Paint Holdings Co., Ltd. (NPCPF)	Neutral	3
The SherwinWilliams Company (SHW)	Neutral	3

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	PPG	X Industry	S&P 500	AKZOY	RPM	SHW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	C	B	C
Market Cap	26.35 B	2.48 B	22.74 B	19.40 B	10.19 B	56.83 B
# of Analysts	8	3	14	3	6	10
Dividend Yield	1.83%	1.83%	1.81%	2.70%	1.83%	0.86%
Value Score	D	-	-	B	B	D
Cash/Price	0.09	0.11	0.06	0.08	0.02	0.00
EV/EBITDA	12.73	7.83	13.19	14.70	21.61	21.81
PEG Ratio	2.60	3.27	3.05	1.03	1.48	3.52
Price/Book (P/B)	5.34	1.80	3.14	2.63	7.53	17.28
Price/Cash Flow (P/CF)	13.26	6.65	12.31	16.95	20.31	21.56
P/E (F1)	23.41	19.82	22.34	25.24	23.81	30.55
Price/Sales (P/S)	1.90	0.84	2.40	2.02	1.80	3.16
Earnings Yield	4.24%	4.72%	4.27%	3.96%	4.20%	3.27%
Debt/Equity	1.07	0.65	0.75	0.31	2.02	2.94
Cash Flow (\$/share)	8.42	3.41	6.94	1.91	3.86	29.03
Growth Score	D	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	0.14%	9.93%	10.82%	NA	3.28%	18.00%
Proj. EPS Growth (F1/F0)	-23.83%	-28.28%	-9.08%	10.34%	12.39%	-2.99%
Curr. Cash Flow Growth	2.31%	-9.39%	5.51%	-19.52%	-3.31%	13.15%
Hist. Cash Flow Growth (3-5 yrs)	1.88%	6.32%	8.55%	-6.50%	5.82%	20.20%
Current Ratio	1.35	1.87	1.30	1.58	2.41	0.94
Debt/Capital	51.68%	39.59%	44.41%	23.72%	66.91%	74.61%
Net Margin	7.23%	4.87%	10.46%	5.60%	5.81%	8.98%
Return on Equity	23.88%	12.37%	15.29%	9.28%	30.07%	53.04%
Sales/Assets	0.77	0.78	0.54	0.64	1.02	0.87
Proj. Sales Growth (F1/F0)	-12.00%	-7.52%	-2.27%	-10.68%	-0.43%	-2.77%
Momentum Score	A	-	-	D	D	B
Daily Price Chg	1.38%	0.44%	0.60%	-0.03%	1.45%	2.04%
1 Week Price Chg	4.52%	4.79%	3.82%	5.43%	3.02%	4.50%
4 Week Price Chg	9.62%	9.79%	7.55%	9.47%	7.37%	10.46%
12 Week Price Chg	16.48%	13.00%	7.51%	26.91%	15.99%	16.15%
52 Week Price Chg	-5.44%	-15.64%	-3.37%	1.19%	17.94%	24.90%
20 Day Average Volume	1,724,016	93,991	2,037,153	26,311	583,415	410,616
(F1) EPS Est 1 week change	9.24%	0.00%	0.00%	-0.26%	0.00%	0.00%
(F1) EPS Est 4 week change	9.13%	0.00%	0.14%	8.78%	-2.47%	1.76%
(F1) EPS Est 12 week change	-11.86%	-9.81%	-3.51%	9.40%	-2.26%	-4.29%
(Q1) EPS Est Mthly Chg	6.31%	0.00%	0.00%	-5.26%	0.00%	1.78%

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	D
Growth Score	D
Momentum Score	A
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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