

PPG Industries (PPG)

\$89.76 (As of 03/26/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

Summary

Earnings estimates for PPG Industries for the first quarter have been going down over a month. 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 headwinds from raw materials cost inflation and unfavorable currency translation. Soft industrial demand globally is also expected to affect the company's sales volumes. Moreover, unfavorable currency translation may continue to impact its margins. The company's stretched valuation is another matter of concern.

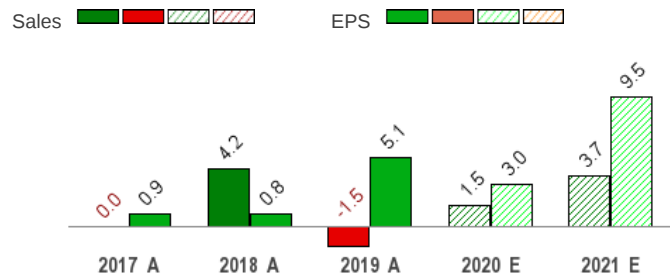
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.36 - \$69.77
20 Day Average Volume (sh)	3,116,842
Market Cap	\$21.2 B
YTD Price Change	-32.8%
Beta	1.27
Dividend / Div Yld	\$2.04 / 2.3%
Industry	<u>Chemical - Diversified</u>
Zacks Industry Rank	Bottom 7% (235 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.0%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-3.1%
Expected Report Date	04/16/2020
Earnings ESP	-4.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,803 E	4,150 E	4,034 E	3,901 E	15,943 E
2020	3,596 E	4,054 E	3,923 E	3,789 E	15,375 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	\$1.53 E	\$2.03 E	\$1.87 E	\$1.62 E	\$7.02 E
2020	\$1.33 E	\$1.91 E	\$1.72 E	\$1.51 E	\$6.41 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	14.5
P/E F1	14.0
PEG F1	1.6
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

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.

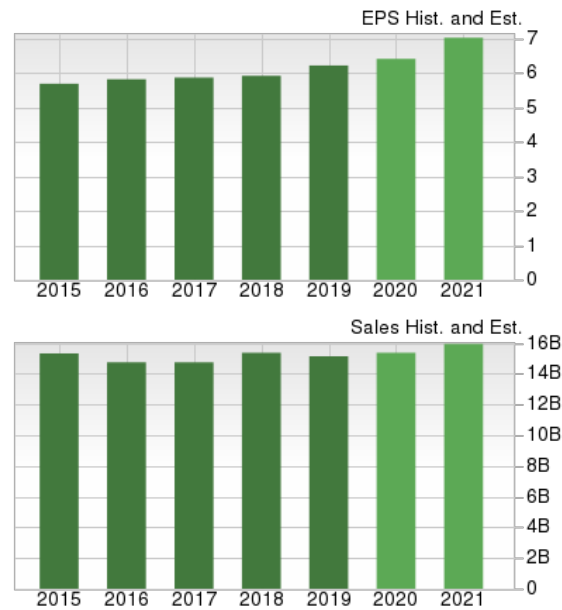
Industrial Coatings: The segment consists of the automotive OEM coatings, industrial coatings, packaging coatings, and the specialty coatings and materials operating segments. The segment primarily supplies a variety of protective and decorative coatings and finishes along with adhesives, sealants, metal 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 19.7% against the industry's decline of 50.3%. 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.

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 10.28 compared with the industry average of 6.06.
-

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.

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.

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

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 19.7% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and the Zacks Basic Materials sector are down 50.3% and 33% over the past year, respectively.

The S&P 500 index is down 12.8% in the past year.

The stock is currently trading at 10.28X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.06X for the Zacks sub-industry, 6.91X for the Zacks sector and 9.16X 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 11.74X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$95 price target reflects 14.26X 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	10.28	6.06	6.91	9.16
	5-Year High	14.86	13.36	18.21	12.88
	5-Year Low	8.04	5.43	6.07	8.27
	5-Year Median	11.74	7.58	10.55	10.79
P/E F12M	Current	13.48	9.6	9.93	14.92
	5-Year High	21.36	15.18	21.12	19.34
	5-Year Low	10.97	8.25	9.83	14.92
	5-Year Median	16.58	12.28	13.51	17.42
P/B TTM	Current	3.93	1.18	1.38	3.33
	5-Year High	6.26	3.55	3.55	4.56
	5-Year Low	3.17	0.89	1.18	2.85
	5-Year Median	5.22	2.37	2.18	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (235 out of 253)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	PPG Neutral	X Industry	S&P 500	AKZOY Neutral	RPM Neutral	SHW Neutral
VGM Score	B	-	-	C	B	B
Market Cap	21.18 B	1.96 B	18.50 B	13.73 B	7.98 B	42.79 B
# of Analysts	9	3.5	13	3	7	10
Dividend Yield	2.27%	2.36%	2.35%	0.99%	2.34%	1.15%
Value Score	C	-	-	C	C	F
Cash/Price	0.07	0.12	0.07	0.23	0.03	0.00
EV/EBITDA	10.88	6.38	11.16	13.29	17.74	17.14
PEG Ratio	1.47	1.49	1.74	0.63	1.11	2.00
Price/Book (P/B)	3.93	1.32	2.44	1.87	5.68	10.44
Price/Cash Flow (P/CF)	10.66	4.30	9.87	12.01	15.91	16.06
P/E (F1)	13.30	11.16	15.29	15.46	18.56	20.29
Price/Sales (P/S)	1.40	0.62	1.93	1.32	1.42	2.39
Earnings Yield	7.14%	8.52%	6.47%	6.48%	5.38%	4.93%
Debt/Equity	0.96	0.54	0.70	0.31	1.90	2.28
Cash Flow (\$/share)	8.42	3.41	7.01	1.82	3.86	29.03
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	2.24%	9.85%	10.85%	NA	3.15%	18.42%
Proj. EPS Growth (F1/F0)	3.09%	-4.85%	2.89%	22.13%	22.25%	8.77%
Curr. Cash Flow Growth	2.31%	-5.85%	5.93%	-19.52%	-3.31%	13.15%
Hist. Cash Flow Growth (3-5 yrs)	1.88%	5.70%	8.55%	-3.27%	5.82%	20.20%
Current Ratio	1.41	1.85	1.23	1.58	2.40	1.02
Debt/Capital	48.85%	37.36%	42.57%	23.72%	65.51%	69.56%
Net Margin	8.21%	5.29%	11.64%	5.81%	5.89%	8.61%
Return on Equity	28.25%	12.26%	16.74%	8.82%	28.74%	51.35%
Sales/Assets	0.85	0.84	0.54	0.64	1.03	0.86
Proj. Sales Growth (F1/F0)	1.51%	0.00%	2.37%	-3.25%	2.54%	2.80%
Momentum Score	F	-	-	D	C	B
Daily Price Chg	4.73%	1.92%	6.21%	7.99%	7.11%	3.21%
1 Week Price Chg	-15.36%	-10.85%	-16.96%	-26.80%	-21.91%	-17.35%
4 Week Price Chg	-13.35%	-16.74%	-15.70%	-19.25%	-6.96%	-11.27%
12 Week Price Chg	-31.79%	-34.90%	-23.67%	-35.80%	-19.08%	-18.49%
52 Week Price Chg	-19.66%	-33.35%	-13.99%	-26.49%	6.07%	8.10%
20 Day Average Volume	3,116,842	192,624	4,286,768	134,810	1,179,787	1,106,435
(F1) EPS Est 1 week change	-1.03%	0.00%	-0.15%	0.00%	-0.64%	-0.22%
(F1) EPS Est 4 week change	-3.06%	-2.49%	-2.28%	-3.63%	-1.45%	-1.11%
(F1) EPS Est 12 week change	-5.11%	-10.95%	-3.22%	-6.39%	-1.61%	-5.01%
(Q1) EPS Est Mthly Chg	-4.33%	-4.09%	-1.60%	NA	-0.14%	0.03%

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	F
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.