



Bullish Positioning in PPG Despite Headwinds

Ticker/Price: PPG (\$97)

Analysis:

PPG Industries (PPG) on 4/9 with 750 May \$100/\$115 call spreads opening which followed a 3/31 trade that opened 2800 August \$95/\$70 bull risk reversals at small debts. PPG also has 2500 April \$105 short puts sitting in open interest while 2700 bearish May \$110 puts bought in October continue to hold in OI. The \$22B coating company trades 17.9X trailing earnings, 13.7X FY19 EV/EBITDA, and 18.45X FCF with a 2.2% dividend yield and 6.9% FCF yield. PPG does carry debt with DEBT/EBITDA at 1.95X, but healthy with a 1.4X current ratio and EBITDA/Interest ratio at 23.3X. It has less than \$2B obligations through 2024. PPG is a leader across its main markets of consumer products, construction, industrial, and transportation. PPG has been active over the years with acquisitions and could still have interest in Axalta (AXTA) as the industry continues to consolidate. PPG will likely face headwinds from the slowdown in production for Auto/Aero but does have strong after-market businesses. Analysts have an average target of \$113 and short interest down 32% Q/Q to just 1.7% of the float. JP Morgan cautious lowering its target to \$80 from \$121 on sharply contracting demand in the recessionary environment but does see positives for cash flow due to lower inventory and raw material costs as Oil has moved lower. SunTrust on 3/31 lowering its target to \$92 from \$127 and sees longer term upside from economic stimulus efforts and higher margins. Hedge Fund ownership fell 1.1% in Q4 filings, Aristotle adding to its concentrated large position. PPG shares tested and held a major volume node on the March lows and since have recovered with resistance likely near the \$105 level.

Hawk Vision:



Hawk's Perspective: PPG does not look great from a fundamental perspective though could easily move back to \$115 over the next few weeks. SHW is the preferred coatings play.

Confidence Ranking: \$\$