Sony Corporation (SNE)

Updated September 20th, 2018 by Bob Ciura

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	2.1%	**Volatility Percentile:**	77.4%
Fair Value Price:	$50	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	95.8%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Valuation Percentile:**	34.6%
Dividend Yield:	0.4%	**5 Year Price Target**	$64	**Total Return Percentile:**	11.8%

Overview & Current Events

Sony Corp. was founded in 1946 and is headquartered in Japan. Sony is an electronics and technology company. It designs and manufactures a wide range of electronics, including electronic equipment, instruments, devices, game consoles, and software, for consumers and professionals. It has a wide variety of product segments, including video games, a movie studio, television programming, smartphones, televisions, cameras, and professional services. It also has a financial services arm which includes life and non-life insurance operations, through its Japanese insurance and banking subsidiaries.

On 7/31/08 Sony reported financial results for the fiscal 2018 first quarter. Sales and operating profit increased 5% and 24%, respectively, from the same quarter a year ago. Sony's Game & Network Services segment was the best performer, with 36% revenue growth, due to strong sales of the PlayStation video game console and related software. Tax reform was a major boost to profit growth, as Sony's effective tax rate declined from 37% to 24% in the most recent quarter.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	-$1.01	-$0.44	-$3.12	-$5.55	$0.43	-$1.21	-$0.94	$1.04	$0.51	$3.57	***$2.50***	***$3.19***
DPS	$0.43	$0.27	$0.30	$0.30	$0.27	$0.24	$0.12	$0.08	$0.18	$0.20	***$0.24***	***$0.31***
Shares	1,004	1,004	1,004	1,004	1,011	1,044	1,169	1,261	1,263	1,265	***1,270***	***1,270***

As you can see in the above table, Sony has had difficulty maintaining consistent profitability over the past 10 years. This is due to the intensely competitive forces inherent in the consumer electronics industry. Sony has to spend billions on research and development and advertising in order to stay ahead of the competition. Sony has a positive long-term growth outlook, but certain drivers of first-quarter growth (namely, favorable currency fluctuations and tax reform) are non-recurring factors. We expect earnings and dividend to grow at a 5% annual rate over the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	N/A	N/A	N/A	N/A	30.7	N/A	N/A	25.6	58.9	11.7	***23.6***	***20.0***
Avg. Yld.	1.4%	0.9%	0.9%	1.4%	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	***0.4%***	***0.5%***

Sony's stock valuation has been highly volatile over the past several years. Furthermore, there were multiple years in which the company reported a net loss, which meant a price-to-earnings ratio could not be computed in those years. The stock currently trades for a price-to-earnings ratio of 23.6. Sony is back on solid financial footing and the company has returned to profitability. However, due to its volatile financial results and the competitiveness of the electronics industry, our fair value estimate is a price-to-earnings ratio of 20. Sony appears to be somewhat overvalued. A contracting valuation multiple could reduce annual returns by 3.3% per year over the next five years.

Dividends will help offset a declining valuation multiple. Sony pays a semi-annual dividend. The first dividend payment is paid in March, and the second installment is paid in September. Investors should note that buying shares of international stocks exposes investors to currency risk as well as dividend withholding taxes. The dividend withholding tax for non-Japanese residents is currently 15% for dividends. Sony paid total dividends of $0.24 per share for 2018, which amounts to a 0.4% dividend yield. However, the after-tax yield is approximately 0.4%. Sony is not an appealing stock for income. We expect 5% annual growth in earnings and dividends over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

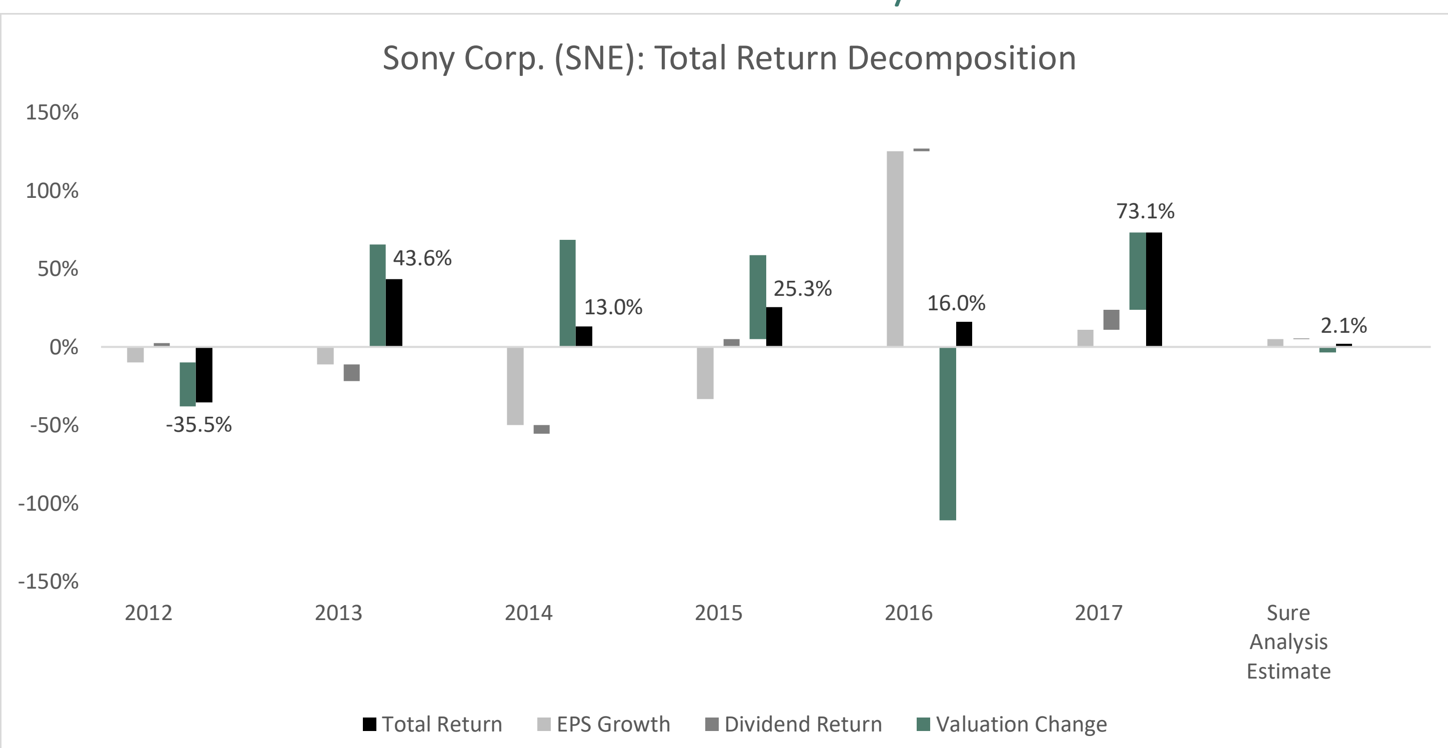
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	18.0%	12.6%	12.9%	12.5%	10.8%	11.7%	12.1%	14.3%	11.4%	11.4%	***11.5%***	***11.5%***
Debt/A	70.2%	73.2%	74.5%	77.1%	81.3%	81.2%	81.8%	81.5%	81.3%	82.2%	***82.0%***	***82.0%***
Int. Cov.	2.2	-73.1	5.3	18.9	-7.6	57.5	7.2	5.9	25.7	86.3	***86.5***	***86.5***
Payout	N/A	N/A	N/A	N/A	62.8%	N/A	N/A	7.7%	30.3%	5.6%	***9.6%***	***9.7%***
Std. Dev.	41.9%	47.3%	32.8%	28.2%	39.4%	46.4%	30.1%	36.9%	31.2%	27.5%	***27.5%***	***27.5%***

Sony is not a suitable stock pick for safety and quality. The company has a high level of debt, and low profit margins due to falling prices in a number of product categories, such as televisions and cameras, in recent years. And, Sony's smartphone and PlayStation video game console take a backseat to Apple and Microsoft in their respective categories. Sony operates in an intensely competitive industry. Its biggest advantage is therefore its product research and development. Sony allocates nearly $4 billion to R&D investment each year, to develop new products in order to stay ahead of changing trends in the tech industry.

Final Thoughts & Recommendation

Sony is a profitable company with a strong brand. However, from an investment perspective the stock does not have high appeal. Electronics manufacturing is a cost-intensive and highly competitive industry. Sony stock appears overvalued today, and the stock has a very low dividend yield. As a result, we rate Sony stock a sell due to low expected returns.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.