Sony Corporation (SNE)

Updated October 30th, 2018 by Bob Ciura

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	11.4%	**Volatility Percentile:**	74.2%
Fair Value Price:	$71	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	92.9%
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	6.0%	**Growth Percentile:**	30.3%
Dividend Yield:	0.4%	**5 Year Price Target**	$90	**Valuation Percentile:**	85.5%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	60.9%

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 both 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 10/30/18 Sony reported second-quarter financial results. Revenue of $19.6 billion increased 5.8% from the same quarter a year ago. The Game & Network Services segment was the leading performer, with 27% sales growth for the quarter, due to continued strong sales of the PlayStation gaming console and gaming software. Earnings-per-share increased 32% for the quarter, driven by revenue growth, as well as a major boost from a lower tax rate. Sony also significantly increased its earnings outlook for the fiscal year, due to accelerating growth of its gaming devices.

Growth on a Per-Share Basis

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	***$4.16***	***$5.31***
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, particularly in gaming. However, it also has certain business segments that are not generating high growth, such as Pictures and Mobile Communications. 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	***12.7***	***17***
Avg. Yld.	1.4%	0.9%	0.9%	1.4%	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	***0.4%***	***0.3%***

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 12.7. 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 17. Still, Sony appears to be undervalued.

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% after-tax dividend yield. We expect 5% annual growth in earnings and dividends over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

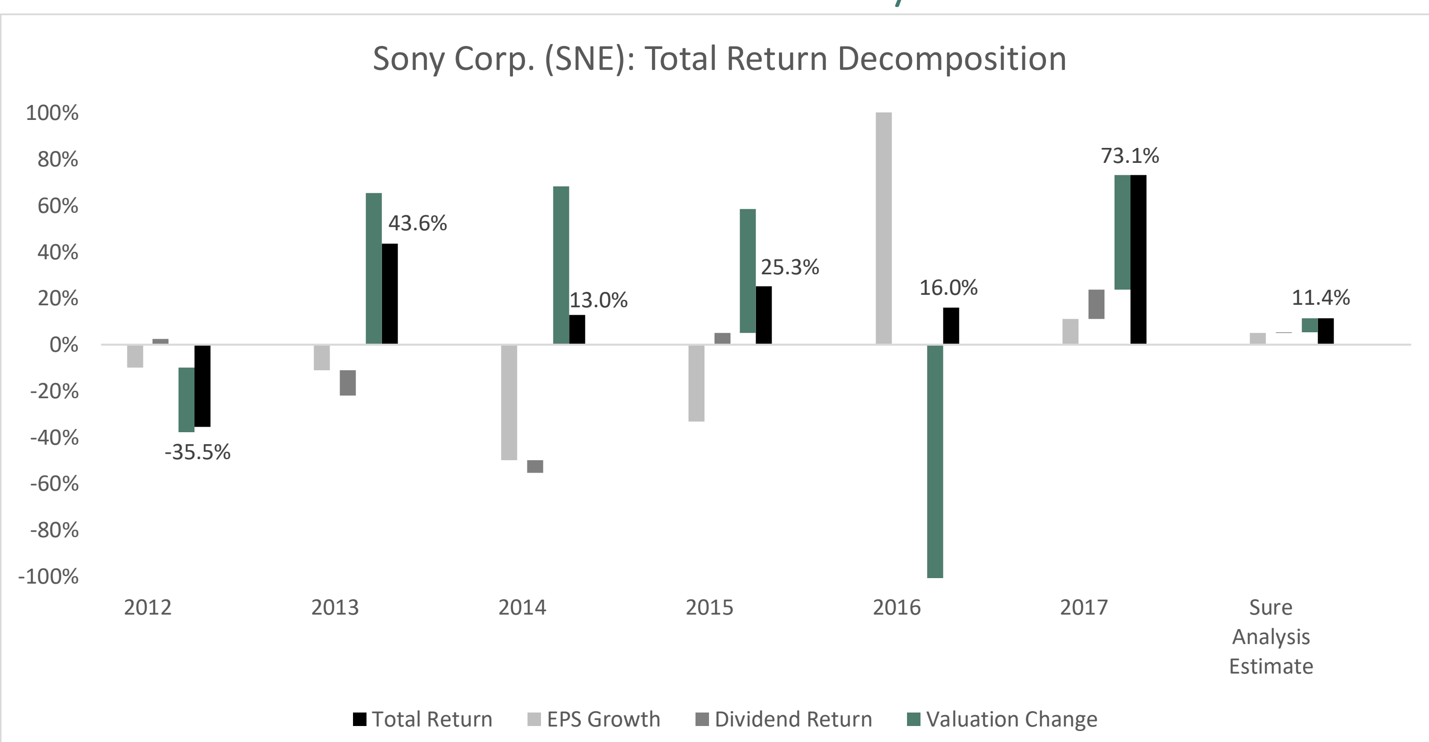
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	18.0%	12.6%	12.9%	12.5%	10.8%	11.7%	12.1%	14.3%	11.4%	11.4%	***11.5%***	***11.5%***
Debt/A	70.2%	73.2%	74.5%	77.1%	81.3%	81.2%	81.8%	81.5%	81.3%	82.2%	***82.0%***	***82.0%***
Int. Cov.	2.2	-73.1	5.3	18.9	-7.6	57.5	7.2	5.9	25.7	86.3	***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 in the consumer electronics industry. 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 undervalued, which leads to 11.4% expected annual returns. The stock is a buy for growth investors, but is not an attractive stock for income investors.

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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	77741	77749	83403	82266	82228	77550	75130	67548	70308	77113
Gross Profit	15304	17782	19443	17379	17616	18082	18817	16926	17940	20881
Gross Margin	19.7%	22.9%	23.3%	21.1%	21.4%	23.3%	25.0%	25.1%	25.5%	27.1%
SG&A Exp.	16957	16650	17442	17424	17638	17258	16565	14100	13926	14289
D&A Exp.	4078	3999	3779	4641	4559	3761	3243	3309	3024	3262
Operating Profit	-1653	1132	2001	-45	-21	824	2252	2826	4015	6592
Op. Margin	-2.1%	1.5%	2.4%	-0.1%	0.0%	1.1%	3.0%	4.2%	5.7%	8.5%
Net Profit	-995	-440	-3015	-5765	503	-1282	-1152	1232	678	4430
Net Margin	-1.3%	-0.6%	-3.6%	-7.0%	0.6%	-1.7%	-1.5%	1.8%	1.0%	5.7%
Free Cash Flow	-895	6196	4211	1695	1811	3801	4926	3114	4399	8953
Income Tax	-732	150	4940	4013	1699	944	811	790	1147	1370

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	121.34	137.54	155.19	161.54	150.92	149.00	131.92	148.34	157.96	179.41
Cash & Equivalents	6674	12738	12193	10869	8776	10169	7910	8751	8588	14927
Acc. Receivable	9735	10648	12614	9354	8246	8464	7497	7594	8531	9530
Inventories	8212	6900	8463	8591	7541	7132	5544	6078	5732	6521
Goodwill & Int.	8487	8742	10339	13128	14208	13288	10027	10873	9899	9953
Total Liab. ($B)	88.85	102.42	119.66	131.29	122.54	121.95	107.52	120.55	129.91	145.09
Accounts Payable	16136	10724	21712	9218	6076	6927	5184	4902	4829	4409
Long-Term Debt	11224	12922	11727	14247	12559	12578	7778	7950	10729	12657
Total Equity	29943	31706	30627	24651	23282	21942	19304	21916	22335	27923
D/E Ratio	0.37	0.41	0.38	0.58	0.54	0.57	0.40	0.36	0.48	0.45

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-0.8%	-0.3%	-2.1%	-3.6%	0.3%	-0.9%	-0.8%	0.9%	0.4%	2.6%
Return on Equity	-3.1%	-1.4%	-9.7%	-20.9%	2.1%	-5.7%	-5.6%	6.0%	3.1%	17.6%
ROIC	-2.2%	-1.0%	-6.3%	-12.6%	1.2%	-3.2%	-3.2%	3.6%	1.8%	10.3%
Shares Out.	1,004	1,004	1,004	1,004	1,011	1,044	1,169	1,261	1,263	1,265
Revenue/Share	77.47	77.48	83.11	81.97	76.79	75.51	67.42	53.70	54.57	59.67
FCF/Share	-0.89	6.17	4.20	1.69	1.69	3.70	4.42	2.48	3.41	6.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.