Sony Corporation (SNE)

Updated February 4th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	7.8%	**Volatility Percentile:**	69.9%
Fair Value Price:	$60	**5 Year Growth Estimate:**	1.7%	**Momentum Percentile:**	31.6%
% Fair Value:	77%	**5 Year Valuation Multiple Estimate:**	5.4%	**Growth Percentile:**	4.5%
Dividend Yield:	0.7%	**5 Year Price Target**	$65	**Valuation Percentile:**	87.1%
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Total Return Percentile:**	35.8%

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 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. The $59 billion market cap company employs about 117,000 people.

On February 1st, 2018 Sony released Q3 fiscal 2018 results for the period ending December 31st, 2018 (Note Sony's fiscal year ends March of the following year). Revenue came in at $21.3 billion, a 10% decrease compared to Q3 fiscal 2017, driven mainly by lower Financial Services revenue. Net income totaled $3.8 billion, up 45%, driven by a reversal of valuation allowances against deferred tax assets in the U.S., However, on an adjusted basis, net income equaled roughly $1.4 billion. For the first three quarters of Q3, Sony reported adjusted net income of $4.3 billion or about $3.35 per share. For fiscal year 2018 the company anticipated sales coming in below 2017's mark (down from previous guidance).

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	***$4.60***	***$5.00***
DPS	$0.43	$0.27	$0.30	$0.30	$0.27	$0.24	$0.12	$0.08	$0.18	$0.20	***$0.31***	***$0.45***
Shares	1,006	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. While earnings are up significantly as of late, our growth expectations are not robust as the company has not yet demonstrated longer-term consistency.

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	***10.0***	***13.0***
Avg. Yld.	1.4%	0.9%	0.9%	1.4%	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	***0.7%***	***0.7%***

Sony's stock valuation has been highly volatile over the past decade. Furthermore, in 6 of the 10 years Sony posted a net loss, which meant that a price-to-earnings ratio could not be computed. As such, history does not lend itself to a fair judgment of value and we are not willing to award the security a premium or even average multiple. It is true that this view could be understated if earnings were to start growing from this point. However, given the recent past we believe Sony needs to sustain growth over the intermediate-term to warrant a higher valuation.

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Sony pays a semi-annual dividend. The first dividend payment is paid in June, and the second installment is paid in December. It should be noted that buying shares of international stocks exposes investors to currency risk as well as dividend withholding taxes.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2023**
Payout	N/A	N/A	N/A	N/A	63%	N/A	N/A	8%	35%	6%	***7%***	***9%***

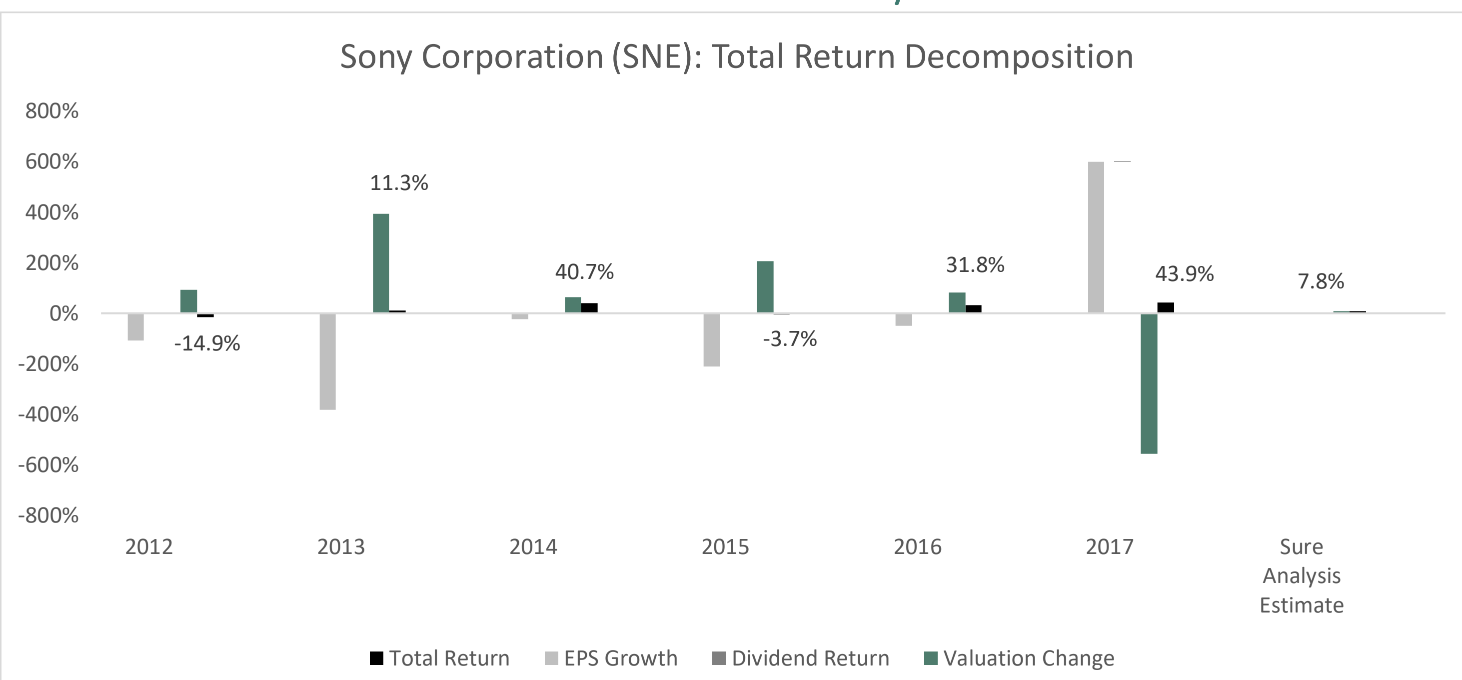
Sony has struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends in the tech industry.

As of the last report, Sony held $24.5 billion in cash and securities, $45.8 billion in current assets and $168.7 billion in total assets against $49.7 billion in current liabilities and $136.4 billion in total liabilities. While we appreciate the low dividend payout ratio as it relates to payout safety, this is somewhat arbitrary considering the significant jump in earnings in the last two years. Further, note that the payment was suspended in June of 2014 before being reinstated in 2015.

Final Thoughts & Recommendation

Sony is a well-known brand operating in a variety of difficult industries. This can be seen in its results of the last decade. Our return expectation could prove to be too conservative given our relatively low expected growth rate and the current valuation. However, at this juncture we are not willing to speculate on a significantly improved business model as we believe the competitive landscape will get more, not less, difficult in the years to come requiring even more investments to keep competitors at bay. We rate Sony as a hold today.

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.