Sony Corporation (SNE)

Updated October 31st, 2019 by Nathan Parsh

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	-1.9%	**Volatility Percentile:**	65.5%
Fair Value Price:	$60	**5 Year Growth Estimate:**	1.7%	**Momentum Percentile:**	46.7%
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Growth Percentile:**	8.7%
Dividend Yield:	0.5%	**5 Year Price Target**	$54	**Valuation Percentile:**	62.8%
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Total Return Percentile:**	15.2%

Overview & Current Events

Sony Corp. is an electronics and technology company that was founded in 1946, and is headquartered in Japan. 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 $74 billion market capitalization company employs about 117,000 people.

Sony released earnings results for the second quarter of fiscal 2019. All figures listed in U.S. dollars. Earnings-per-share for the quarter was $1.38, which was a 15% increase from the previous year. Revenue grew 0.9% to second quarter record of $19.5 billion.

Imaging & Sensing Solutions had 22% growth due to increased demand for smart phone sensors. The Picture Segment was higher by 12% due to higher worldwide theatrical revenues from films such as *Spider-Man: Far from Home*. It was announced in July that Sony Pictures and Marvel Studios had reached an agreement to keep the *Spider-Man* character in the Marvel Comics Universe. The next *Spider-Man* film is set to be released on 7/16/2021. Music sales were up 8% due to increased streaming revenues and music publishing. Gaming declined 17% as an increase in sales for the PlayStation Plus was more than offset by declines for PlayStation 4 hardware and game software. The Electronics Products & Solutions Segment was down 11% due to lower smartphone and television unit sales. Consensus estimates for Sony have been lowered to $3.81 per ADR share, down from $4.60 previously. The reduction is due to expected declines in the company's two largest segments, Gaming and Electronics Products & Solutions.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-$0.44	-$3.12	-$5.55	$0.43	-$1.21	-$0.94	$1.04	$0.51	$3.57	$6.38	***$3.81***	***$4.15***
DPS	$0.27	$0.30	$0.30	$0.27	$0.24	$0.12	$0.08	$0.18	$0.20	$0.31	***$0.31***	***$0.34***
Shares[1]	1,004	1,004	1,004	1,011	1,044	1,169	1,261	1,263	1,265	1,270	***1,270***	***1,270***

As one 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, as well as advertising in order to stay ahead of the competition. While earnings were up significantly in 2017 and 2018, we maintain our growth expectations of 1.7% as Sony has not yet demonstrated longer-term consistency.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	30.7	---	---	25.6	58.9	11.7	13.0	***16.0***	***13.0***
Avg. Yld.	0.9%	0.9%	1.4%	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	0.6%	***0.5%***	***0.6%***

[1] In millions of shares

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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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. We assign a 2024 price-to-earnings ratio of 13 to the stock as 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. Shares of Sony have increased $5, or 9%, since our 8/2/2019 update. Using estimates for fiscal 2019, the stock trades with a P/E of 16. If the stock reverts back to our target P/E by 2024, then valuation would be a 4.1% headwind to annual returns over this time frame.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	63%	---	---	8%	35%	6%	6%	***8%***	***8%***

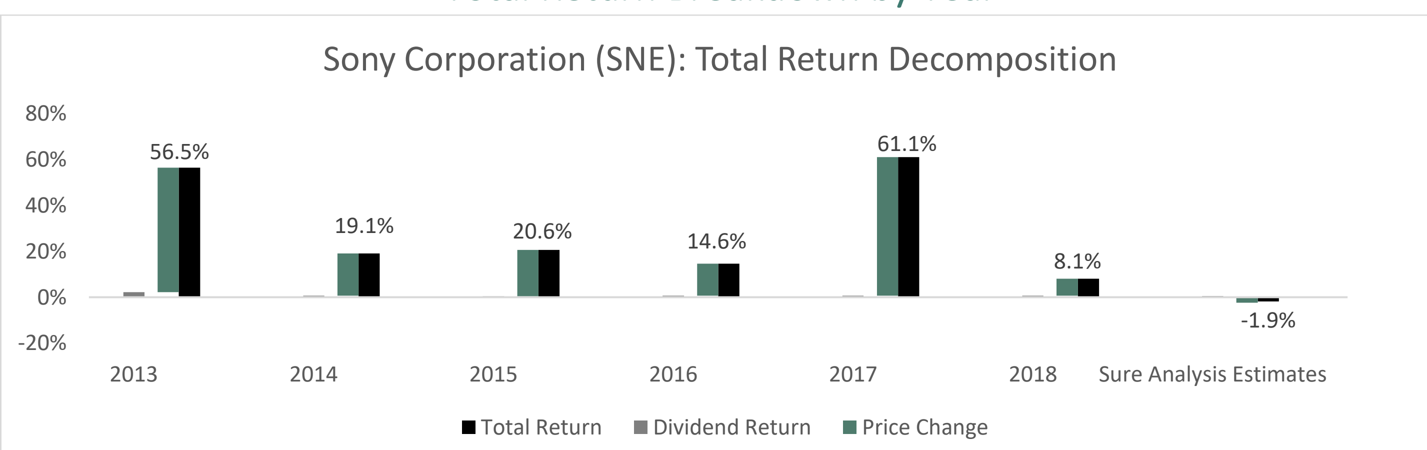
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends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

Sony is one of the top companies in the entertainment space and produces top of the line products. For example, Sony's image sensor is considered to be ideal for creating high quality pictures. The company's image sensor has been used by leading smart phone manufacturers, including Apple (AAPL), which has used Sony's image sensor since the iPhone 4. Sony has also worked to create an ecosystem for its products, including its PlayStation segment, which offers a monthly subscription for consumers.

Final Thoughts & Recommendation

Following second quarter results, Sony Corporation is expected to offer a total annual loss of 1.9% through 2024, down from our previous estimate of 3.5% growth. The company had record revenue for the second quarter and earnings-per-share showed strong growth from the previous year. Still, Sony's largest two segments continue to show declines and this isn't expected to reverse this year. Sony continues to receive a sell recommendation from Sure Dividend and we have lowered our 2024 price target $11 to $54.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	77749	83403	82266	82228	77550	75130	67548	70308	77113	78166
Gross Profit	17782	19443	17379	17616	18082	18817	16926	17940	20881	21671
Gross Margin	22.9%	23.3%	21.1%	21.4%	23.3%	25.0%	25.1%	25.5%	27.1%	27.7%
SG&A Exp.	16650	17442	17424	17638	17258	16565	14100	13926	14289	14223
D&A Exp.	3999	3779	4641	4559	3761	3243	3309	3024	3262	3374
Operating Profit	1132	2001	-45	-21	824	2252	2826	4015	6592	7448
Op. Margin	1.5%	2.4%	-0.1%	0.0%	1.1%	3.0%	4.2%	5.7%	8.5%	9.5%
Net Profit	-440	-3015	-5765	503	-1282	-1152	1232	678	4430	8265
Net Margin	-0.6%	-3.6%	-7.0%	0.6%	-1.7%	-1.5%	1.8%	1.0%	5.7%	10.6%
Free Cash Flow	6196	4211	1695	1811	3801	4926	3114	4399	8953	8534
Income Tax	150	4940	4013	1699	944	811	790	1147	1370	407

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	137.5	155.2	161.5	150.9	149.0	131.9	148.3	158.0	179.4	189.2
Cash & Equivalents	12738	12193	10869	8776	10169	7910	8751	8588	14927	13259
Acc. Receivable	10648	12614	9354	8246	8464	7497	7594	8531	9530	9612
Inventories	6900	8463	8591	7541	7132	5544	6078	5732	6521	5892
Goodwill & Int.	8742	10339	13128	14208	13288	10027	10873	9899	9953	15211
Total Liab. ($B)	102.4	119.7	131.3	122.5	122.0	107.5	120.5	129.9	145.1	149.2
Accounts Payable	10724	21712	22258	17729	18348	16631	17065	17304	18660	19708
Long-Term Debt	12922	11727	14247	12559	12578	7778	7950	10729	12657	12261
Total Equity	31706	30627	24651	23282	21942	19304	21916	22335	27923	33789
D/E Ratio	0.41	0.38	0.58	0.54	0.57	0.40	0.36	0.48	0.45	0.36

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-0.3%	-2.1%	-3.6%	0.3%	-0.9%	-0.8%	0.9%	0.4%	2.6%	4.5%
Return on Equity	-1.4%	-9.7%	-20.9%	2.1%	-5.7%	-5.6%	6.0%	3.1%	17.6%	26.8%
ROIC	-1.0%	-6.3%	-12.6%	1.2%	-3.2%	-3.2%	3.6%	1.8%	10.3%	16.7%
Shares Out.	1,004	1,004	1,004	1,011	1,044	1,169	1,261	1,263	1,265	1,270
Revenue/Share	77.48	83.11	81.97	76.79	75.51	67.42	53.70	54.57	59.67	60.38
FCF/Share	6.17	4.20	1.69	1.69	3.70	4.42	2.48	3.41	6.93	6.59

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