Sony Corporation (SNE)

Updated May 17th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	0.0%	**Market Cap:**	$77.9 billion
Fair Value Price:	$57	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	5/27/2020[1]
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	6/5/2020[2]
Dividend Yield:	0.6%	**5 Year Price Target**	$62	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	0.8%

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 company employs approximately 117,000 people.

Sony released results for the fourth quarter of fiscal 2020 on 5/13/2020. All figures listed in U.S. dollars. Earnings-per-share for the year was $4.24 was $1.68, which was a 34% decrease from the previous year. Revenue declined 3% to $76 billion. Much of the decline on the top and bottom-lines was due to significant weakness in Games & Network Services and Electronics Products & Solutions, a trend that has continued for several quarters now. PlayStation4 hardware sales and game software sales were both lower year-over-year, leading to a 13% decline in sales for the Game & Network Services segment. The release of PlayStationPlus aided results. Sony did say that COVID-19 pandemic actually helped improve hardware sales. PlayStation5 remains on track for launch during the holiday season. Sales for the Electronic Products & Solutions segment were down 25% on lower smartphone and television sales. On a more positive note, Imaging & Sensing Solutions sales grew 22% due to higher demand for image sensors for mobile products. Pictures sales were up 35% due to an increase in worldwide theatrical revenues and higher licensing revenues for television productions. This segment is likely to suffer a decline in the next few quarters due to the closure of movie theaters and production delays related to COVID-19. Consensus estimates for Sony call for $4.38 of earnings-per-share for fiscal 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-$3.12	-$5.55	$0.43	-$1.21	-$0.94	$1.04	$0.51	$3.57	$6.38	$4.24	***$4.38***	***$4.77***
DPS	$0.30	$0.30	$0.27	$0.24	$0.12	$0.08	$0.18	$0.20	$0.31	$0.37	***$0.37***	***$0.40***
Shares[3]	1,004	1,004	1,011	1,044	1,169	1,261	1,263	1,265	1,270	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.

[1] Estimated date
[2] Estimated dividend payment date
[3] 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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	30.7	---	---	25.6	58.9	11.7	13.0	14.0	***14.6***	***13.0***
Avg. Yld.	0.9%	1.4%	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	0.6%	0.6%	***0.6%***	***0.6%***

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 2026 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 decreased $9, or 12.3%, since our 2/5/2020 update. Using estimates for fiscal 2020, the stock trades with a P/E of 14.6 If the stock reverts back to our target P/E over the next five years, then valuation would be a 2.3% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	63%	---	---	8%	35%	6%	6%	9%	***8%***	***8%***

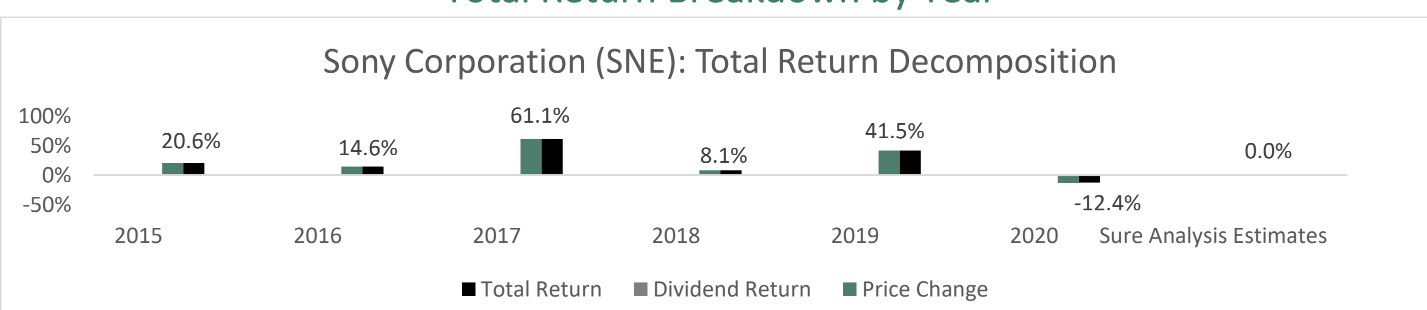
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends 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 (APPL), 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 fourth quarter and fiscal 2020 results, Sony Corporation is now expected to have no return over the next five years, up from our prior estimate of a loss of 3.4%. The company had a mixed quarter among its segments, but even the ones performing well will see a negative impact from the ongoing COVID-19 pandemic. As such, we reiterate our sell rating on shares of Sony.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	83403	82266	82228	77550	75130	67548	70308	77113	78166	75998
Gross Profit	19443	17379	17616	18082	18817	16926	17940	20881	21671	21482
Gross Margin	23.3%	21.1%	21.4%	23.3%	25.0%	25.1%	25.5%	27.1%	27.7%	28.3%
SG&A Exp.	17442	17424	17638	17258	16565	14100	13926	14289	14223	13825
D&A Exp.	3779	4641	4559	3761	3243	3309	3024	3262	3374	3833
Operating Profit	2001	(45)	(21)	824	2252	2826	4015	6592	7448	7690
Op. Margin	2.4%	-0.1%	0.0%	1.1%	3.0%	4.2%	5.7%	8.5%	9.5%	10.1%
Net Profit	(3015)	(5765)	503	(1282)	(1152)	1232	678	4430	8265	5357
Net Margin	-3.6%	-7.0%	0.6%	-1.7%	-1.5%	1.8%	1.0%	5.7%	10.6%	7.0%
Free Cash Flow	4211	1695	1811	3801	4926	3114	4383	8944	8534	8373
Income Tax	4940	4013	1699	944	811	790	1147	1370	407	1630

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	155192	161542	150921	148998	131916	148343	157956	179407	189233	213183
Cash & Equivalents	12193	10869	8776	10169	7910	8751	8588	14927	13259	13994
Acc. Receivable	12614	9354	8246	8464	7497	7594	8531	9530	9612	9280
Inventories	8463	8591	7541	7132	5544	6078	5732	6521	5892	5459
Goodwill & Int.	10339	13128	14208	13288	10027	10873	9899	9953	15211	15639
Total Liab. ($B)	119662	131288	122544	121954	107519	120545	129913	145087	149218	168865
Accounts Payable	21712	22258	17729	18348	16631	17065	17304	18660	19708	18608
Long-Term Debt	11727	14247	12559	12578	7778	7950	10729	12657	12261	13648
Total Equity	30627	24651	23282	21942	19304	21916	22335	27923	33789	38171
D/E Ratio	0.38	0.58	0.54	0.57	0.40	0.36	0.48	0.45	0.36	0.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-2.1%	-3.6%	0.3%	-0.9%	-0.8%	0.9%	0.4%	2.6%	4.5%	2.7%
Return on Equity	-9.7%	-20.9%	2.1%	-5.7%	-5.6%	6.0%	3.1%	17.6%	26.8%	14.9%
ROIC	-6.3%	-12.6%	1.2%	-3.2%	-3.2%	3.6%	1.8%	10.3%	16.7%	9.7%
Shares Out.	1,004	1,004	1,011	1,044	1,169	1,261	1,263	1,265	1,270	1,270
Revenue/Share	83.11	81.97	76.79	75.51	67.42	53.70	54.57	59.67	60.38	60.21
FCF/Share	4.20	1.69	1.69	3.70	4.42	2.48	3.40	6.92	6.59	6.63

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