Sony Corporation (SNE)

Updated October 31st, 2020 by Nathan Parsh

Key Metrics

Current Price:	$84	**5 Year CAGR Estimate:**	-2.4%	**Market Cap:**	$102 billion
Fair Value Price:	$67	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	3/28/2021[1]
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date:**	6/5/2021[2]
Dividend Yield:	0.4%	**5 Year Price Target**	$73	**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 reported earnings results for the second quarter of fiscal 2021 on 8/4/2020. All figures listed in U.S. dollars. Revenue improved 0.7% to $19.9 billion. Earnings-per-share of $3.46 was a 151% increase from the prior year. A lower effective tax rate was the primary contributor to earnings growth. Games & Network Services, the largest component within Sony, continues to perform well, with sales growing more than 52% due to higher demand for software and PlayStationPlus. Electronic Products & Solutions reversed recent trends and was higher by 11.2% as sales for TVs more than offset a decrease in professional-use products and digital cameras. Music improved 11.6% due to increased demand for streaming services as well as strong physical media sales. Sales for Financial Services declined 3.2% as net gains on investments were offset by lower premiums from single premium insurance. Pictures were down 68% due to lower advertising revenues, decreases in theatrical revenues due to COVID-19 and a decline in TV show deliveries. Imaging & Sensing Solutions decreased 3.6% due to lower demand for digital camera image sensors. Consensus estimates for Sony for fiscal 2021 have been raised to $5.13 from $4.3.

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	***$5.13***	***$5.58***
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.

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	***16.4***	***13.0***
Avg. Yld.	0.9%	1.4%	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	0.6%	0.6%	***0.4%***	***0.5%***

[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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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 increased $1, or 1.2%, since our 8/4/2020 update. Using estimates for fiscal 2021, the stock trades with a P/E of 16.4. If the stock reverts back to our target P/E over the next five years, then valuation would be a 4.5% 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. We note Sony has not declared its second 2020 dividend.

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%	***7%***	***7%***

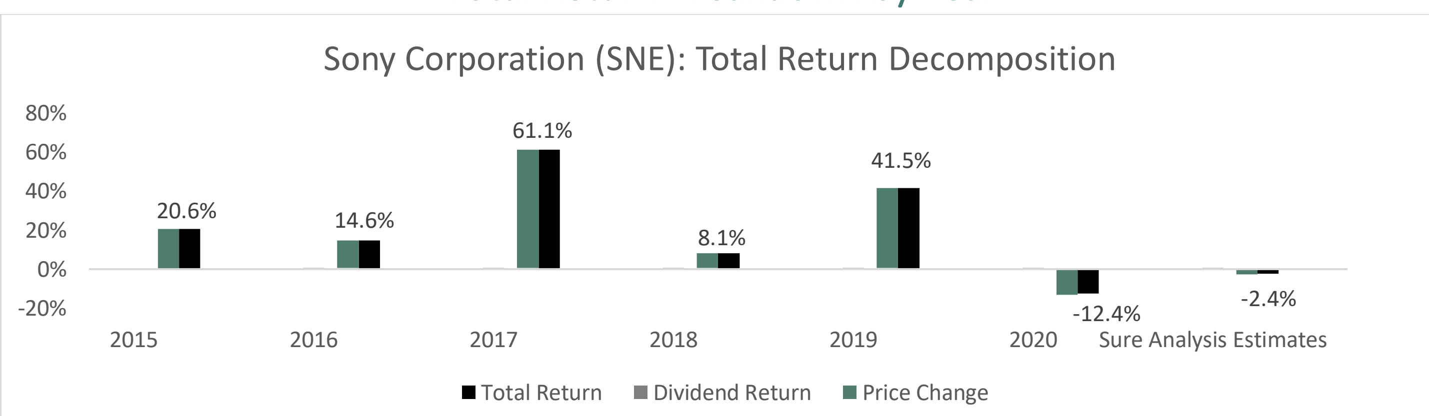
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends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

Sony Corporation is now expected to have a negative annual return of 2.4% over the next five years, an improvement from our prior forecast of a negative return of 5.4%. The company continues to see strength in its Games & Network Services division as well as other businesses that had previously suffered declines. However, the COVID-19 pandemic continues to impact other areas, specifically Pictures. We have raised our five-year price target $12 to $73, but note that shares trade in excess of our fair value price. As a result, Sony Corporation continues to receive a sell recommendation from Sure Dividend at this time.

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.