Sony Corporation (SONY)

Updated April 28th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$105	**5 Year CAGR Estimate:**	2.4%	**Market Cap:**	$134 billion
Fair Value Price:	$106	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	5/28/2021[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	6/5/2021[2]
Dividend Yield:	0.4%	**5 Year Price Target**	$116	**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 112,000 people.

On 4/1/2021, Sony began trading with a new ticker symbol of SONY.

Sony reported earnings results for the fourth quarter of 2020 on 4/28/2021. All figures listed in U.S. dollars. Revenue increased 31% to $21 billion. Earnings-per-share of $0.81 was 770% increase from the prior year. For the year, revenue grew 9% to $84.8 billion while earnings-per-share increased almost 110% to $8.83.

Games & Network Services, the largest component within Sony, had another strong quarter as sales were up 52% due to ongoing strength in game software sales and network services. Electronic Products & Solutions grew 20% as demand for TVs offset lower sales for digital camera and broadcast and professional products. Music grew 26% due to streaming services for recorded music. Sales for Financial Services grew 127% as gains on investments more than offset lower premiums. Pictures fell 39% due to lower theatrical revenue. Imaging & Sensing Solutions grew 0.5% as higher unit sales offset weaker product mix. Consensus estimates for Sony for fiscal 2021 come in at $8.17, down from $8.38 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-$5.55	$0.43	-$1.21	-$0.94	$1.04	$0.51	$3.57	$6.38	$4.24	$8.83	***$8.17***	***$8.89***
DPS	$0.30	$0.27	$0.24	$0.12	$0.08	$0.18	$0.20	$0.31	$0.37	$0.47	***$0.47***	***$0.51***
Shares[3]	1,004	1,011	1,044	1,169	1,261	1,263	1,265	1,270	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 recent years, 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	8.0	13.8	11.4	***12.9***	***13.0***
Avg. Yld.	1.4%	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	0.6%	0.6%	0.4%	***0.4%***	***0.4%***

[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 several 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 are flat since our 3/26/2021 update. Using estimates for 2021, the stock trades with a P/E of 12.9. If the stock reverts back to our target P/E over the next five years, then valuation would be a 0.2% tailwind 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%	5%	***6%***	***6%***

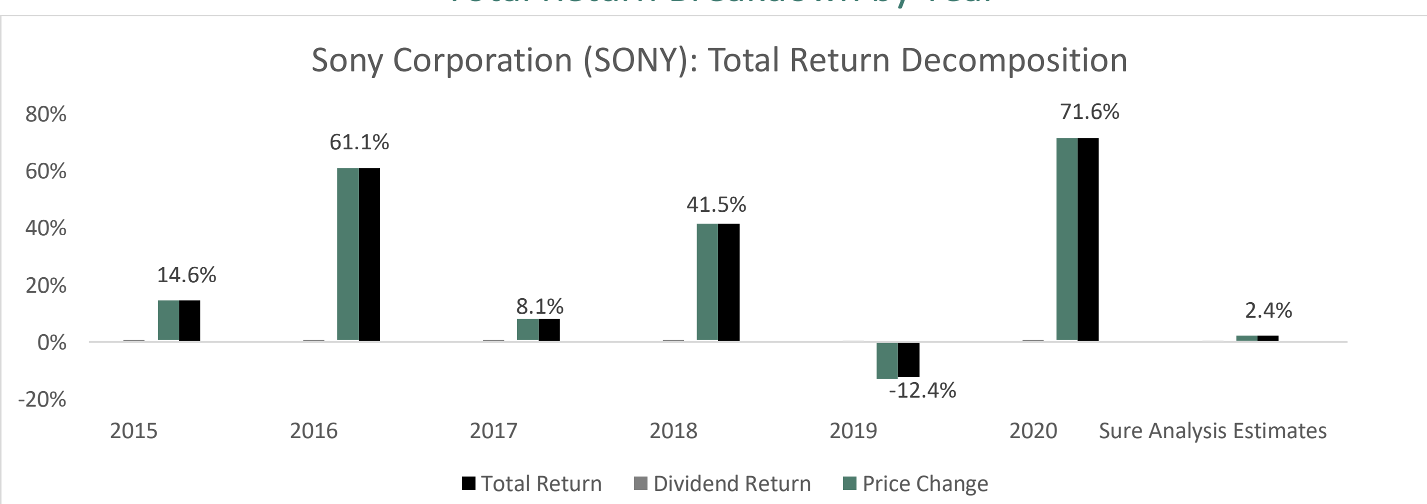
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends 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 total return of 2.4% through 2026, down from our prior estimate of an annual return of 2.9%. The turnaround continues through many of Sony's businesses continues even as the closing of theatrical revenues remain weak due to COVID-19. That said, shares don't offer much return at the current price. We have lowered our 2026 price target $3 to $119 and reiterate our sell rating on Sony due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	83,403	82,266	82,228	77,550	75,130	67,548	70,308	77,113	78,166	75,998
Gross Profit	19,443	17,379	17,616	18,082	18,817	16,926	17,940	20,881	21,671	21,482
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.	17,442	17,424	17,638	17,258	16,565	14,100	13,926	14,289	14,223	13,825
D&A Exp.	6,685	7,033	7,076	6,613	5,739	5,806	5,775	6,505	6,517	6,868
Operating Profit	2,001	(45)	(21)	824	2,252	2,826	4,015	6,592	7,448	7,657
Op. Margin	2.4%	-0.1%	0.0%	1.1%	3.0%	4.2%	5.7%	8.5%	9.5%	10.1%
Net Profit	(3,015)	(5,765)	503	(1,282)	(1,152)	1,232	678	4,430	8,265	5,357
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	4,211	1,695	1,811	3,801	4,926	3,114	4,383	8,944	8,534	8,373
Income Tax	4,940	4,013	1,699	944	811	790	1,147	1,370	407	1,630

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	155192	161542	150921	148998	131916	148343	157956	179407	189233	213183
Cash & Equivalents	12193	10869	8776	10169	7910	8751	8588	14927	13259	13994
Acc. Receivable	12614									
Inventories	8463	8591	7541	7132	5544	6078	5732	6521	5892	5459
Goodwill & Int.	10339	13128	14208	13288	10027	10873	9899	9953	15211	15639
Total Liab. ($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	1,011	1,044	1,169	1,261	1,263	1,265	1,270	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.