Sumitomo Mitsui Financial Group Inc. (SMFG)

Updated August 21st, 2021, by Josh Arnold

Key Metrics

Current Price:	$6.84	**5 Year CAGR Estimate:**	6.3%	**Market Cap:**	$47 B
Fair Value Price:	$7.15	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	09/28/21[1]
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	12/10/21
Dividend Yield:	5.0%	**5 Year Price Target**	$7.50	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

Overview & Current Events

Sumitomo provides commercial banking, leasing, securities, consumer finance, and related activities, primarily in Japan. The company has four segments: Wholesale Business, Retail Business, International Business, and Global Markets. The Wholesale Business segment offers financing, investment management, risk hedging, M&A advisory, leasing services, and more to commercial clients. The Retail Business offers wealth management, settlement, consumer finance, housing loans, and related services to consumers. The International Business segment offers loans, deposits, trade finance, project finance, derivatives, cash management services, underwriting services, leases, and more to commercial customers. Finally, the Global Markets Business offers forex products, bonds, stocks, derivatives, and related products and services to commercial customers globally. Sumitomo was founded in 2002 and is headquartered in Tokyo. Sumitomo employs just over 86,000 people, and we note that the company's fiscal year ends in March. Sumitomo trades in Japan, but US-based investors can own ADRs via the SMFG ticker. The stock trades in the US with a market capitalization of $47 billion, and the company should generate about $13 billion in revenue this year. Note that Sumitomo reports results in Japanese Yen, but all figures have been converted to USD.

Sumitomo reported first quarter earnings on July 30th, 2021, and results were better than expected. Total revenue was fractionally lower year-over-year, attributable to lower interest on loans, which was due to lower prevailing lending rates. However, fees and commissions revenue was up more than 10%, while expenses declined by -22%. Lower rates meant that interest on deposits fell as well, and the company posted a massive decline in other expenses, which meant that profit margins rose year-over-year. Indeed, operating profit was up more than 140% year-over-year.

Following Q1 results, we've boosted our estimate of earnings-per-share for this year to 65 cents, given much lower expenses that are offsetting lower revenue.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.81	$0.86	$1.09	$0.86	$0.94	$0.65	$0.83	$0.63	$0.29	$0.58	***$0.65***	***$0.68***
DPS	$0.24	$0.23	$0.23	$0.23	$0.27	$0.27	$0.32	$0.32	$0.35	$0.34	***$0.34***	***$0.36***
Shares[2]	6929	6772	6835	6841	6841	6852	7058	6993	6880	6855	***6850***	***6800***

Sumitomo's earnings growth has been choppy to say the least over the years. The company produced a high of $1.09 in earnings-per-share in 2014 but hasn't come anywhere close to that in subsequent years. We see the company's growth at 1% annually over the next five years but note that we think it will continue to see large swings in both directions given the volatile nature of its diverse business lines. Sumitomo has massive scale in Japan, being the country's second-largest bank, and Sumitomo is a huge payments provider in that country. Still, management is somewhat pessimistic on credit quality at this point, and we think earnings will struggle to move meaningfully higher.

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[1] Estimated date

[2] Share count in millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	7.9	10.6	7.6	9.4	6.9	11.9	9.9	11.2	20.5	11.9	***10.5***	***11.0***
Avg. Yld.	3.8%	2.6%	2.8%	2.9%	4.1%	3.5%	3.9%	4.6%	6.0%	4.9%	***5.0%***	***4.8%***

Sumitomo's valuation has moved erratically over the years, as one would expect given the movement in earnings. We assess fair value at 11 times earnings, and shares go for 10.5 times earnings today. We therefore see a small tailwind to total returns from the valuation and note that the dividend yield is quite attractive at 5.0%. The yield may come down some in the coming years if the valuation moves towards our estimate of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	27%	21%	27%	28%	41%	39%	51%	124%	59%	***52%***	***52%***

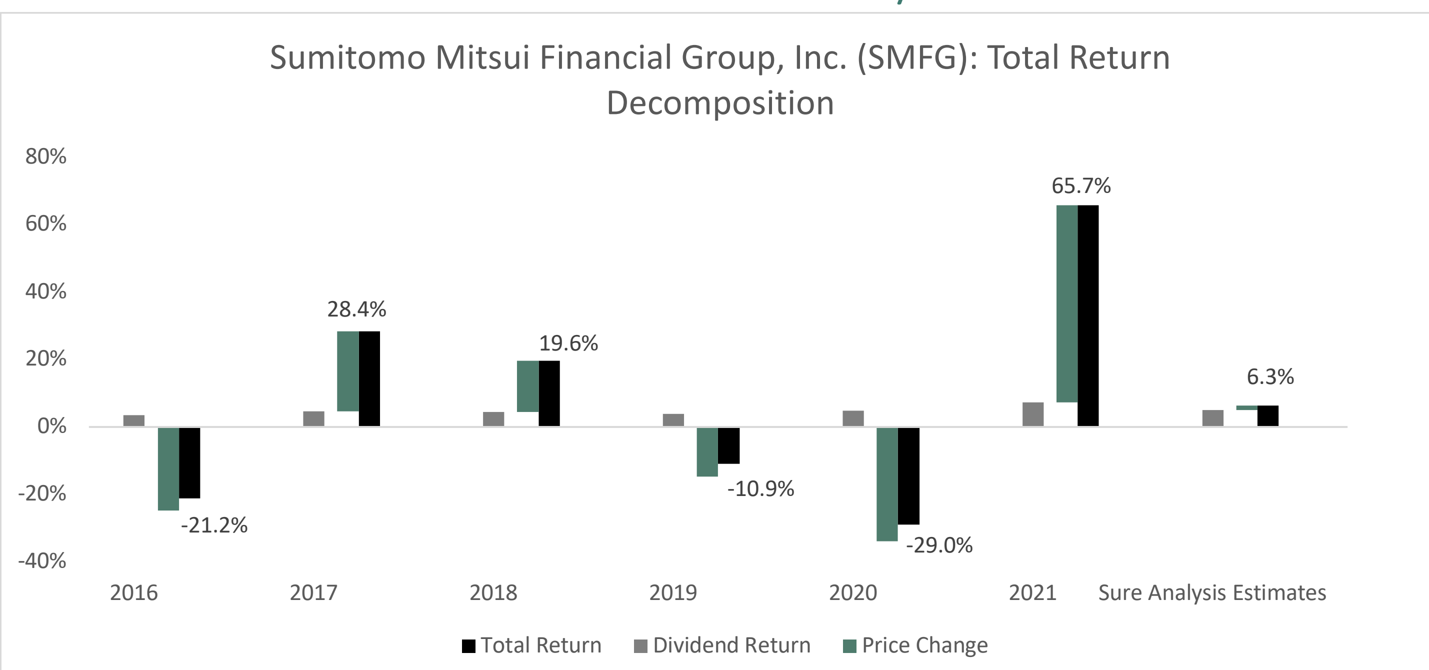
The payout ratio has moved up and down with earnings over the years, but we see the current dividend as sustainable. Sumitomo is unlikely to be a dividend growth story, however, given its unpredictable earnings.

Sumitomo sports advantages of scale in Japan with its $2+ trillion balance sheet, but otherwise, it provides substantially the same services as other financial companies. Recessions won't be kind to Sumitomo, either, as banks are beholden to economic strength for credit quality, which is something Sumitomo is still dealing with more than a year after the pandemic began.

Final Thoughts & Recommendation

Sumitomo has fallen in recent weeks, along with the rest of the financials. However, the stock looks somewhat inexpensive to us today, and the 5% dividend yield is strong not only on an absolute basis, but within the company's own historical range as well. Given that the valuation has improved with the selloff, and that the yield is now up to 5%, we're upgrading Sumitomo from sell to hold, expecting 6.3% total annual returns in the coming years.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	33,191	32,222	30,544	28,346	29,108	28,690	31,323	27,847	24,971	29,871
SG&A Exp.	15,331	15,491	13,572	13,238	12,662	14,519	14,863	13,859	12,563	16,702
D&A Exp.	2,191	2,406	2,187	2,202	2,133	2,789	2,800	1,975	2,917	2,143
Net Profit	4,286	6,486	7,652	5,615	7,056	5,879	6,947	4,995	1,954	4,837
Net Margin	12.9%	20.1%	25.1%	19.8%	24.2%	20.5%	22.2%	17.9%	7.8%	16.2%
Free Cash Flow	13,806	23,949	63,837	64,787	-21,670	28,704	93,188	19,282	78,722	174,243
Income Tax	5,834	3,089	4,134	3,749	3,107	1,292	2,070	1,662	476	1,475

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	1,723	1,569	1,541	1,493	1,603	1,710	1,808	1,763	1,963	2,199
Cash & Equiv. ($B)	97.8	125.4	322.7	334.2	383.9	423.3	514.7	521.0	578.0	657.8
Goodwill & Int. Ass.	10,925	9,593	9,287	8,131	9,325	9,808	7,866	7,412	7,731	6,697
Total Liabilities ($B)	1,633	1,478	1,450	1,401	1,505	1,603	1,691	1,657	1,862	2,091
Accounts Payable		21,786	21,537	17,575	20,286	28,456	22,381	13,823	21,732	---
Long-Term Debt ($B)	242.1	203.8	224.6	251.7	213.9	245.3	229.7	238.6	308.8	275.2
Equity ($B)	65.3	68.6	74.7	77.8	84.6	92.9	106.0	101.7	100.6	107.2
D/E Ratio	3.71	2.97	3.01	3.24	2.53	2.64	2.17	2.35	3.07	2.57

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.3%	0.4%	0.5%	0.4%	0.5%	0.4%	0.4%	0.3%	0.1%	0.2%
Return on Equity	6.5%	9.7%	10.7%	7.4%	8.7%	6.6%	7.0%	4.8%	1.9%	4.7%
ROIC	1.2%	2.1%	2.5%	1.7%	2.2%	1.8%	2.0%	1.4%	0.5%	1.2%
Shares Out.	6929	6772	6835	6841	6841	6852	7058	6993	6880	6855
Revenue/Share	4.78	4.76	4.47	4.14	4.26	4.19	4.44	3.98	3.63	4.36
FCF/Share	1.99	3.54	9.34	9.47	(3.17)	4.19	13.20	2.76	11.44	25.42

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