Sumitomo Mitsui Financial Group Inc. (SMFG)

Updated February 17th, 2022, by Josh Arnold

Key Metrics

Current Price:	$7.44	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$52 B
Fair Value Price:	$9.90	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	03/27/22[1]
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	5.9%	**Dividend Payment Date:**	07/07/22
Dividend Yield:	4.8%	**5 Year Price Target**	$10.90	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**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 about 87,000 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 $52 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 third quarter earnings on February 2nd, 2022, and results were better than expected. Net interest income rose 11% year-over-year, driven by strength in its overseas banking units, as well as its core SMBC segment. The bank reported gross profit of $19 billion in the first three quarters of the year, which was a 5.5% increase year-over-year. G&A expenses were up less than 4% year-over-year, which helped drive some margin efficiency. Equity gains roughly tripled year-over-year as well. This all combined to produce a consolidated operating profit that rose 12% year-over-year to nearly $8 billion.

Credit costs also declined sharply, and the company produced double the gains on stock positions it did in the same period a year ago. Total profits were up 44% on a net basis.

As a result of Q3 results, we've boosted our estimate of earnings-per-share for this year to 90 cents, which is up from the prior estimate of 85 cents.

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	***$0.90***	***$0.99***
DPS	$0.24	$0.23	$0.23	$0.23	$0.27	$0.27	$0.32	$0.32	$0.35	$0.34	***$0.36***	***$0.38***
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 forecast the company's growth at 2% 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. While credit quality is clearly

[1] Estimated date

[2] Share count in millions

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.

improving, we still think Sumitomo will struggle to produce meaningful earnings growth from current levels, particularly as the base of earnings for 2022 is quite elevated.

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	***8.3***	***11.0***
Avg. Yld.	3.8%	2.6%	2.8%	2.9%	4.1%	3.5%	3.9%	4.6%	6.0%	4.9%	***4.8%***	***3.5%***

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 just 8.3 times earnings today. We therefore forecast a sizable tailwind to total returns from the valuation and note that the dividend yield is quite attractive at 4.8%. 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%	***40%***	***38%***

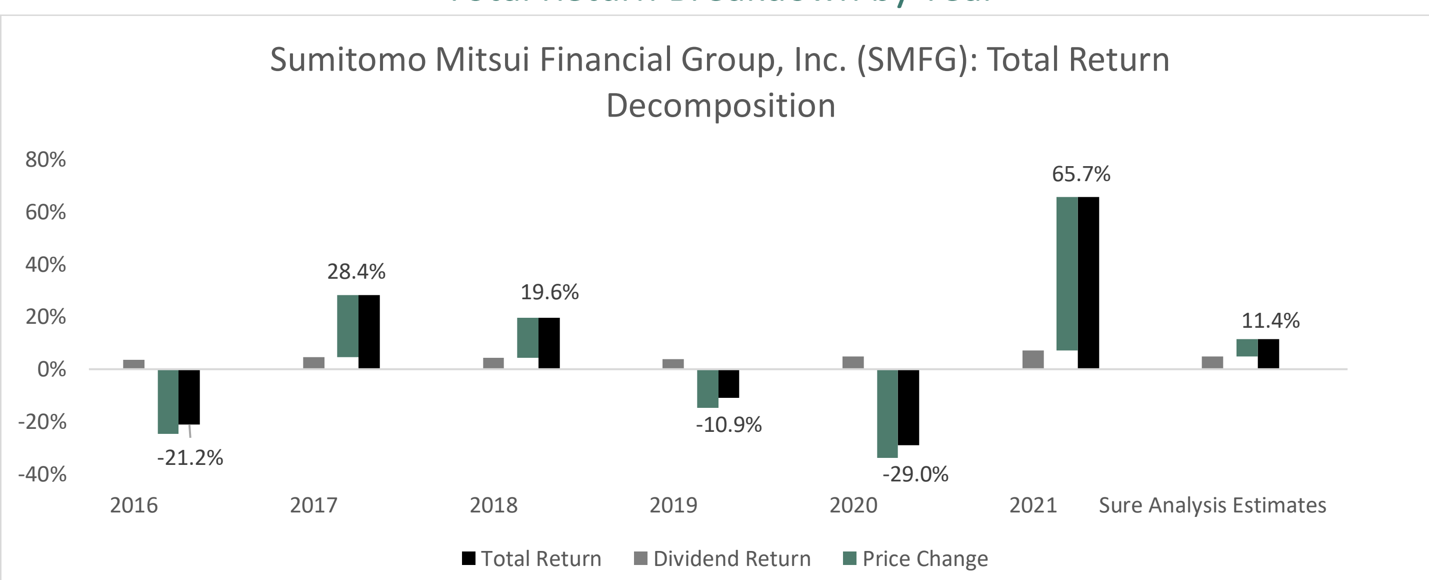
The payout ratio has moved up and down with earnings over the years, but we see the current dividend as sustainable. Sumitomo is unlikely to be a dividend growth story, however, given its unpredictable earnings.

Sumitomo has 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 traded higher since our last update, while earnings estimates have risen slightly. The stock looks inexpensive to us today, and the 4.8% dividend yield is strong not only on an absolute basis, but within the company's own historical range as well. Given that the valuation is still attractive, and that the yield is nearly 5%, we're reiterating Sumitomo at a buy rating on the 11.4% total return expectation for the next five years.

Total Return Breakdown by Year



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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.