Sony Group Corporation (SONY)

Updated August 19th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$87	**5 Year CAGR Estimate:**	0.7%	**Market Cap:**	$110 B
Fair Value Price:	$80	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	09/28/22[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	12/08/22[2]
Dividend Yield:	0.6%	**5 Year Price Target**	$87	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Sony Group 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 109,000 people.

On July 29th, 2022, Sony reported first quarter of fiscal year 2022 results for the period ending June 30th, 2022. All figures listed in U.S. dollars. For the quarter, revenue fell 13.3% to $17.9 billion while earnings-per-share of $1.35 compared favorably to $1.55 in the prior year.

Games & Network Services, the largest component within Sony, declined 2% due to a decrease in add-on content and first-party titles. Entertainment, Technology & Services, formerly called Electronic Products & Solutions, fell 4% due to lower sales for televisions. Music increased 21% due to higher sales for recorded music and higher subscriptions for streaming services. Sales for Financial Services decreased 28% as a decline in net gains on investments more than offset higher insurance premium revenue. Pictures grew 41% as gains in motion pictures and higher television licensing and home entertainment revenues. Imaging & Sensing Solutions improved 9% due largely to the benefit of foreign currency exchange rates.

At expected currency rates of $1.30 yen per U.S. dollar for fiscal year 2022, Sony projects to earn $6.15 per share this year, down from $6.75 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.43	-$1.21	-$0.94	$1.04	$0.51	$3.57	$6.38	$4.24	$8.83	$6.28	***$6.15***	***$6.69***
DPS	$0.27	$0.24	$0.12	$0.08	$0.18	$0.20	$0.31	$0.37	$0.47	$0.54	***$0.55***	***$0.60***
Shares[3]	1,011	1,044	1,169	1,261	1,263	1,265	1,270	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.

[1] Estimated ex-dividend 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	30.7	---	---	25.6	58.9	11.7	8.0	13.8	11.4	16.4	***14.1***	***13.0***
Avg. Yld.	2.0%	1.3%	0.6%	0.3%	0.6%	0.5%	0.6%	0.6%	0.4%	0.5%	***0.6%***	***0.7%***

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 2027 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 unchanged since our May 14th, 2022 report. Using estimates for 2022, the stock trades with a P/E of 14.1. If the stock reaches our target P/E over the next five years, then valuation would be a 1.7% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	63%	---	---	8%	35%	6%	6%	9%	5%	9%	***9%***	***9%***

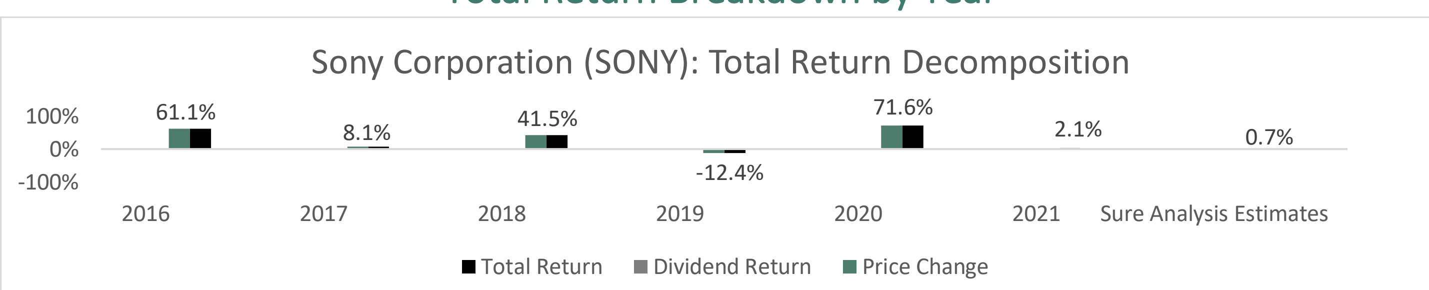
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends 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 an annual return of 0.7% through 2027, compared to our prior estimate of an annual return of 2.5%. Business results were mostly higher during the quarter, but the company is seeing some declines in its most important businesses. Currency exchange is also likely to be an issue for Sony this year as well. We have lowered our five-year price target $8 to $87 due to revised estimates for the year and maintain our sell rating on Sony due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	82,266	82,228	77,550	75,130	67,548	70,308	77,113	78,166	75,998	88,377
Gross Profit	17,379	17,616	18,082	18,817	16,926	17,940	20,881	21,671	21,482	24,065
Gross Margin	21.1%	21.4%	23.3%	25.0%	25.1%	25.5%	27.1%	27.7%	28.3%	27.2%
SG&A Exp.	17,424	17,638	17,258	16,565	14,100	13,926	14,289	14,223	13,825	14,150
D&A Exp.	7,033	7,076	6,613	5,739	5,806	5,775	6,505	6,517	6,868	7,440
Operating Profit	(45)	(21)	824	2,252	2,826	4,015	6,592	7,448	7,657	10,499
Op. Margin	-0.1%	0.0%	1.1%	3.0%	4.2%	5.7%	8.5%	9.5%	10.1%	11.9%
Net Profit	(5,765)	503	(1,282)	(1,152)	1,232	678	4,430	8,265	5,357	7,858
Net Margin	-7.0%	0.6%	-1.7%	-1.5%	1.8%	1.0%	5.7%	10.6%	7.0%	8.9%
Free Cash Flow	1,695	1,811	3,801	4,926	3,114	4,383	8,944	8,534	8,373	7,060
Income Tax	4,013	1,699	944	811	790	1,147	1,370	407	1,630	2,041

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	161542	150921	148998	131916	148343	157956	179407	189233	213183	249731
Cash & Equivalents	10869	8776	10169	7910	8751	8588	14927	13259	13994	16793
Acc. Receivable										13342
Inventories	8591	7541	7132	5544	6078	5732	6521	5892	5459	7161
Goodwill & Int.	13128	14208	13288	10027	10873	9899	9953	15211	15639	11495
Total Liab. ($B)	131288	122544	121954	107519	120545	129913	145087	149218	168865	190764
Accounts Payable	22258	17729	18348	16631	17065	17304	18660	19708	18608	15102
Long-Term Debt	14247	12559	12578	7778	7950	10729	12657	12261	13648	27460
Total Equity	24651	23282	21942	19304	21916	22335	27923	33789	38171	58535
LTD/E Ratio	0.58	0.54	0.57	0.40	0.36	0.48	0.45	0.36	0.36	0.47

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-3.6%	0.3%	-0.9%	-0.8%	0.9%	0.4%	2.6%	4.5%	2.7%	3.2%
Return on Equity	-20.9%	2.1%	-5.7%	-5.6%	6.0%	3.1%	17.6%	26.8%	14.9%	14.4%
ROIC	-12.6%	1.2%	-3.2%	-3.2%	3.6%	1.8%	10.3%	16.7%	9.7%	10.1%
Shares Out.	1,011	1,044	1,169	1,261	1,263	1,265	1,270	1,270	1,270	1,270
Revenue/Share	81.97	76.79	75.51	67.42	53.70	54.57	59.67	60.38	60.21	70.63
FCF/Share	1.69	1.69	3.70	4.42	2.48	3.40	6.92	6.59	6.63	5.64

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