Sumitomo Mitsui Financial Group Inc. (SMFG)

Updated December 12th, 2022, by Josh Arnold

Key Metrics

Current Price:	$6.79	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$46 B
Fair Value Price:	$7.32	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	03/29/23[1]
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Dividend Payment Date:**	07/07/23[2]
Dividend Yield:	5.0%	**5 Year Price Target**	$8.08	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 100,000 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 $46 billion, and the company should generate about $12.6 billion in revenue this year. Note that Sumitomo reports results in Japanese Yen, but all figures have been converted to USD.

Sumitomo reported second quarter earnings on November 14th, 2022, and results showed some improvement from the beginning of the fiscal year. Total assets increased more than 5% from the start of the fiscal year, which began in March. Total deposits gained a similar amount of just over 5%.

Total interest income was up 72% for the first six months of the year, as interest rates around the world have risen sharply. However, expenses rose sharply, so the gain in profit was somewhat smaller than the increase in revenue. Net profit was up 16%, but given the fact that rates have already begun coming down, and the fact that expenses were up sharply, we see $0.77 in earnings-per-share for this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.86	$1.09	$0.86	$0.94	$0.65	$0.83	$0.63	$0.29	$0.58	$0.80	***$0.77***	***$0.85***
DPS	$0.23	$0.23	$0.23	$0.27	$0.27	$0.32	$0.32	$0.35	$0.34	$0.35	***$0.34***	***$0.34***
Shares[3]	6772	6835	6841	6841	6852	7058	6993	6880	6855	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 improving, we still think Sumitomo will struggle to produce meaningful earnings growth from current levels, particularly

[1] Estimated date
[2] Estimated date
[3] 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.

as the base of earnings for 2022 is quite elevated. Rising expenses, we believe, will keep a lid on earnings growth despite rising interest rates.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.6	7.6	9.4	6.9	11.9	9.9	11.2	20.5	11.9	8.4	***8.8***	***9.5***
Avg. Yld.	2.6%	2.8%	2.9%	4.1%	3.5%	3.9%	4.6%	6.0%	4.9%	5.2%	***5.0%***	***4.2%***

Sumitomo's valuation has moved erratically over the years, as one would expect given the movement in earnings. We assess fair value at 9.5 times earnings, and shares go for 8.8 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 5%. The yield may come down some in the coming years if the valuation moves towards our estimate of fair value. We note Sumitomo pays variable dividends, and they're subject to currency risk since they are declared in Yen.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	21%	27%	28%	41%	39%	51%	124%	59%	44%	***44%***	***40%***

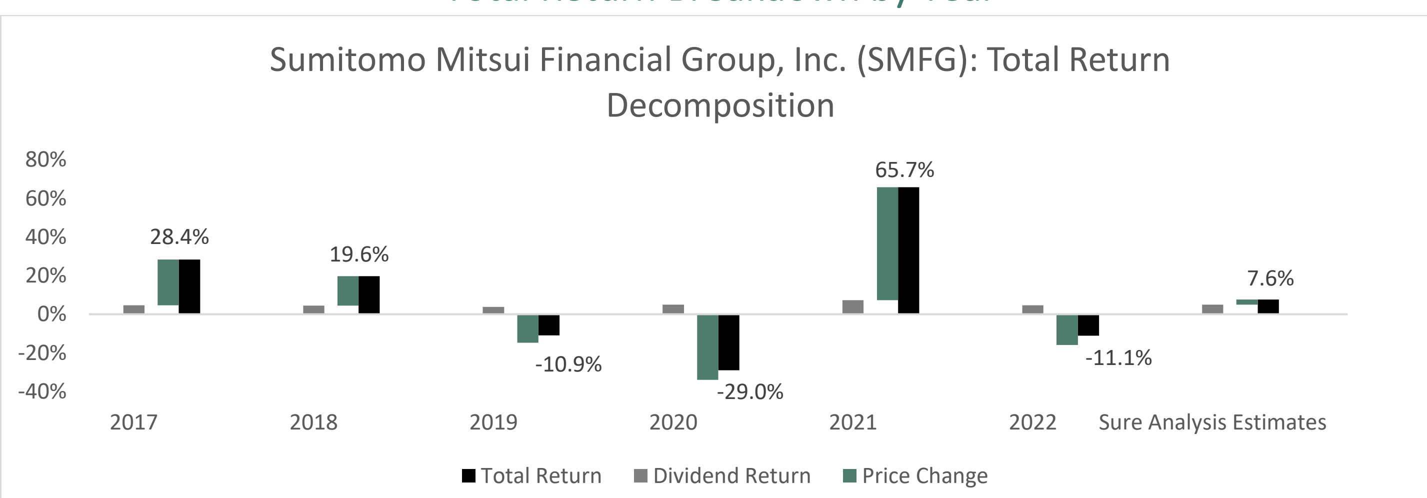
The payout ratio has moved up and down with earnings over the years, but we see the current dividend as sustainable. Sumitomo is unlikely to be a dividend growth story, however, given its unpredictable earnings, in addition to its variable dividend policy.

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. We note credit quality has improved much since the initial spike lower from COVID, and Sumitomo's earnings have recovered quickly as a result.

Final Thoughts & Recommendation

Sumitomo has traded higher since our last update, while earnings estimates have remained constant, as has 2% estimated growth. The stock looks 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 is still attractive with a 1.5% tailwind expected, and that the yield of 5%, we're moving the stock from buy to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	32,222	30,544	28,346	29,108	28,690	31,323	27,847	24,971	28,778	30,492
SG&A Exp.	15,491	13,572	13,238	12,662	14,519	14,863	13,859	12,563	14,982	14,712
D&A Exp.	2,406	2,187	2,202	2,133	2,789	2,800	1,975	2,917	2,143	2,155
Net Profit	6,486	7,652	5,615	7,056	5,879	6,947	4,995	1,954	4,837	6,294
Net Margin	20.1%	25.1%	19.8%	24.2%	20.5%	22.2%	17.9%	7.8%	16.2%	20.6%
Free Cash Flow	23,949	63,837	64,787	-21,670	28,704	93,188	19,282	78,722	174,243	11,199
Income Tax	3,089	4,134	3,749	3,107	1,292	2,070	1,662	476	1,475	1,911

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	1,569	1,541	1,493	1,603	1,710	1,808	1,763	1,963	2,199	2,111
Cash & Equiv. ($B)	125.4	322.7	334.2	383.9	423.3	514.7	521.0	578.0	657.8	612.8
Goodwill & Int. Ass.	9,593	9,287	8,131	9,325	9,808	7,866	7,412	7,731	6,697	7,364
Total Liabilities ($B)	1,478	1,450	1,401	1,505	1,603	1,691	1,657	1,862	2,091	2,011
Accounts Payable	21,786	21,537	17,575	20,286	28,456	22,381	13,823	21,732	---	---
Long-Term Debt ($B)	203.8	224.6	251.7	213.9	245.3	229.7	238.6	308.8	275.2	263.2
Equity ($B)	68.6	74.7	77.8	84.6	92.9	106.0	101.7	100.6	107.2	99.1
D/E Ratio	2.97	3.01	3.24	2.53	2.64	2.17	2.35	3.07	2.57	2.66

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.4%	0.5%	0.4%	0.5%	0.4%	0.4%	0.3%	0.1%	0.2%	0.3%
Return on Equity	9.7%	10.7%	7.4%	8.7%	6.6%	7.0%	4.8%	1.9%	4.7%	6.1%
ROIC	2.1%	2.5%	1.7%	2.2%	1.8%	2.0%	1.4%	0.5%	1.2%	1.7%
Shares Out.	6772	6835	6841	6841	6852	7058	6993	6880	6855	6856
Revenue/Share	4.76	4.47	4.14	4.26	4.19	4.44	3.98	3.63	4.20	4.45
FCF/Share	3.54	9.34	9.47	(3.17)	4.19	13.20	2.76	11.44	25.42	1.63

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