Sony Group Corporation (SONY)

Updated May 1st, 2023 by Nathan Parsh

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	0.5%	**Market Cap:**	$116 B
Fair Value Price:	$84	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	09/28/23
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	12/08/23[1]
Dividend Yield:	0.6%	**5 Year Price Target**	$91	**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 April 28th, 2023, Sony reported fiscal year 2022 results for the period ending March 31st, 2023. All figures listed in U.S. dollars. For the quarter, revenue grew 18.7% to $23.2 billion while earnings-per-share of $0.78 was up slightly from $0.77 in the prior year. For the year, revenue fell 3.5% to $85.2 billion while earnings-per-share of $5.58 compared to $6.28 for fiscal 2022. Results for the fiscal year were largely due to unfavorable currency exchange rates as the average yen per dollar for the year was $135.4 versus $112.3 in the prior year.

For the year, Games & Network Services, the largest component within Sony, grew 33% due to strength in hardware sales and first party titles. Music was higher by 24% due to higher sales for recorded music and an increase in subscriptions for streaming services. Pictures was down 8% due to lower theatrical revenues and a decline in licensing revenue for television productions. Entertainment, Technology & Services grew 6% as digital camera sales were only partially offset by weakness in televisions. Imaging & Sensing Solutions was up 30% due to strength in image sensors for mobile products. Sales for Financial Services fell 5% due to a decline in net gains on investments.

At expected currency rates of 130 yen per U.S. dollar for fiscal year 2023, Sony projects to earn $6.46 per share this fiscal year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	-$1.21	-$0.94	$1.04	$0.51	$3.57	$6.38	$4.24	$8.83	$6.28	$5.58	***$6.46***	***$7.03***
DPS	$0.24	$0.12	$0.08	$0.18	$0.20	$0.31	$0.37	$0.47	$0.54	$0.53	***$0.53***	***$0.58***
Shares[2]	1,044	1,169	1,261	1,263	1,265	1,270	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 dividend payment date
[2] In millions of shares

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	25.6	58.9	11.7	8.0	13.8	11.4	16.4	16.2	***14.2***	***13.0***
Avg. Yld.	1.3%	0.6%	0.3%	0.6%	0.5%	0.6%	0.6%	0.4%	0.5%	0.6%	***0.6%***	***0.6%***

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 2028 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 have increased $8, or 9.5%, since our February 21st, 2023 report. Using estimates for 2023, the stock trades with a P/E of 14.2. If the stock reaches our target P/E over the next five years, then valuation would be a 1.8% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	8%	35%	6%	6%	9%	5%	9%	9%	***8%***	***8%***

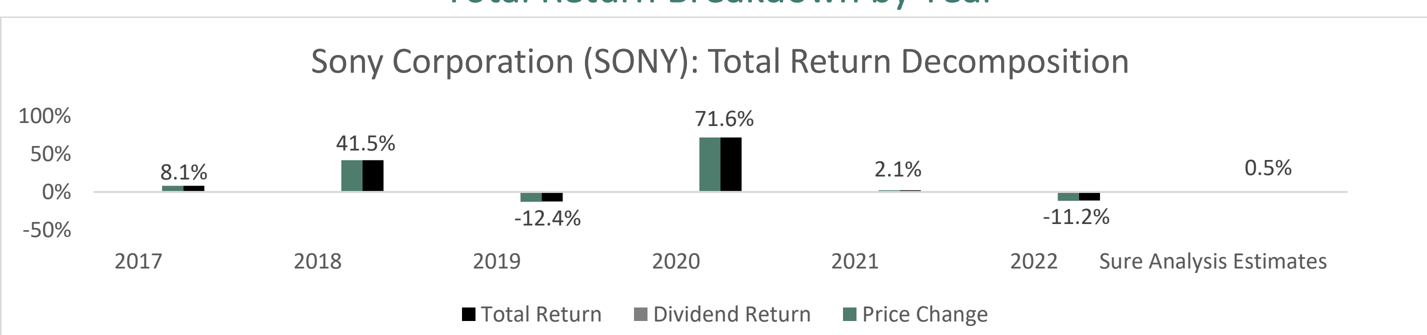
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends 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 0.5% through fiscal year 2028, compared to our prior estimate of an annual return of 2.4%. Business results were mostly higher during the quarter, but currency exchange rates remain an issue for Sony. We have lowered our five-year price target $1 to $91 due to estimates for the year, but maintain our sell rating on Sony due to projected returns.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	82228	77550	75130	67548	70308	77113	78166	75998	84886	88377
Gross Profit	17616	18082	18817	16926	17940	20881	21671	21482	22933	24065
Gross Margin	21.4%	23.3%	25.0%	25.1%	25.5%	27.1%	27.7%	28.3%	27.0%	27.2%
SG&A Exp.	17638	17258	16565	14100	13926	14289	14223	13825	13897	14150
D&A Exp.	7076	6613	5739	5806	5775	6505	6517	6868	6484	7440
Operating Profit	(21)	824	2252	2826	4015	6592	7448	7657	9037	9916
Op. Margin	0.0%	1.1%	3.0%	4.2%	5.7%	8.5%	9.5%	10.1%	10.6%	11.2%
Net Profit	503	(1282)	(1152)	1232	678	4430	8265	5357	9713	7858
Net Margin	0.6%	-1.7%	-1.5%	1.8%	1.0%	5.7%	10.6%	7.0%	11.4%	8.9%
Free Cash Flow	1811	3801	4926	3114	4383	8944	8534	8373	6247	7060
Income Tax	1699	944	811	790	1147	1370	407	1630	(433)	2041

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	150921	148998	131916	148343	157956	179407	189233	231020	249359	249731
Cash & Equivalents	8776	10169	7910	8751	8588	14927	13259	13995	16199	16793
Acc. Receivable								11051	12378	13342
Inventories	7541	7132	5544	6078	5732	6521	5892	5180	5771	7161
Goodwill & Int.	14208	13288	10027	10873	9899	9953	15211	19071	19759	22490
Total Liab. ($B)	122513	121914	107475	120479	129805	145000	149139	175553	188402	190764
Accounts Payable	6076	6927	5184	4902	4829	4409	4438	12126	14473	15102
Long-Term Debt	12559	12578	7778	7950	10729	12657	12261	17229	22307	27460
Total Equity	23282	21942	19304	21916	22335	27923	33789	45103	60557	58535
LTD/E Ratio	0.54	0.57	0.40	0.36	0.48	0.45	0.36	0.38	0.37	0.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.3%	-0.9%	-0.8%	0.9%	0.4%	2.6%	4.5%	2.5%	4.0%	3.1%
Return on Equity	2.1%	-5.7%	-5.6%	6.0%	3.1%	17.6%	26.8%	13.6%	18.4%	13.2%
ROIC	1.2%	-3.2%	-3.2%	3.6%	1.8%	10.3%	16.6%	8.6%	12.5%	9.3%
Shares Out.	1,011	1,044	1,169	1,261	1,263	1,265	1,270	1,270	1,270	1,270
Revenue/Share	76.79	75.51	67.42	53.70	54.57	59.67	60.38	60.21	67.89	70.63
FCF/Share	1.69	3.70	4.42	2.48	3.40	6.92	6.59	6.63	5.00	5.64

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