Sumitomo Mitsui Financial Group Inc. (SMFG)

Updated November 18th, 2023, by Josh Arnold

Key Metrics

Current Price:	$9.88	**5 Year CAGR Estimate:**	0.9%	**Market Cap:**	$66 B
Fair Value Price:	$8.17	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Dividend Payment Date:**	N/A
Dividend Yield:	1.7%	**5 Year Price Target**	$9.47	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 $66 billion, and the company should generate over $22 billion in revenue this year. Note that Sumitomo reports results in Japanese Yen, but all figures have been converted to USD.

Sumitomo posted second quarter earnings on November 14th, 2023, and results were generally in line with the prior year. Total assets were almost 9% higher from the first quarter of this year as the bank continues to grow its lending book, and collect deposits. Operating profit declined by just over 2% year-over-year, while earnings-per-share rose 2.9%, while profits on a currency basis were about flat.

We now see 86 cents in earnings-per-share for this year after largely in line Q2 results.

We note the company did not declare a dividend in September, as it has for many years. The bank had generally declared two dividends per year, and it did declare the first half dividend, but not the second half dividend.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.09	$0.86	$0.94	$0.65	$0.83	$0.63	$0.29	$0.58	$0.80	$0.87	***$0.86***	***$1.00***
DPS	$0.23	$0.23	$0.27	$0.27	$0.32	$0.32	$0.35	$0.34	$0.35	$0.32	***$0.17***	***$0.17***
Shares[1]	6835	6841	6841	6852	7058	6993	6880	6855	6855	6800	***6800***	***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 3% 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 as the base of earnings for 2024 is quite elevated. Rising expenses, we believe, will keep a lid on earnings growth despite rising interest rates, as it did in the first half.

[1] Share count in millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	7.6	9.4	6.9	11.9	9.9	11.2	20.5	11.9	8.4	9.2	***11.5***	***9.5***
Avg. Yld.	2.8%	2.9%	4.1%	3.5%	3.9%	4.6%	6.0%	4.9%	5.2%	4.0%	***1.7%***	***1.8%***

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 11.5 times earnings today. We therefore forecast a moderate negative impact on total returns from the valuation and note that the dividend yield is now quite low at 1.7We note Sumitomo pays variable dividends, and they're subject to currency risk since they are declared in Yen. Given little projected earnings growth, we don't see a lot of runway for the dividend. In addition, Sumitomo did not declare its second half dividend in 2023.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	27%	28%	41%	39%	51%	124%	59%	44%	37%	***20%***	***17%***

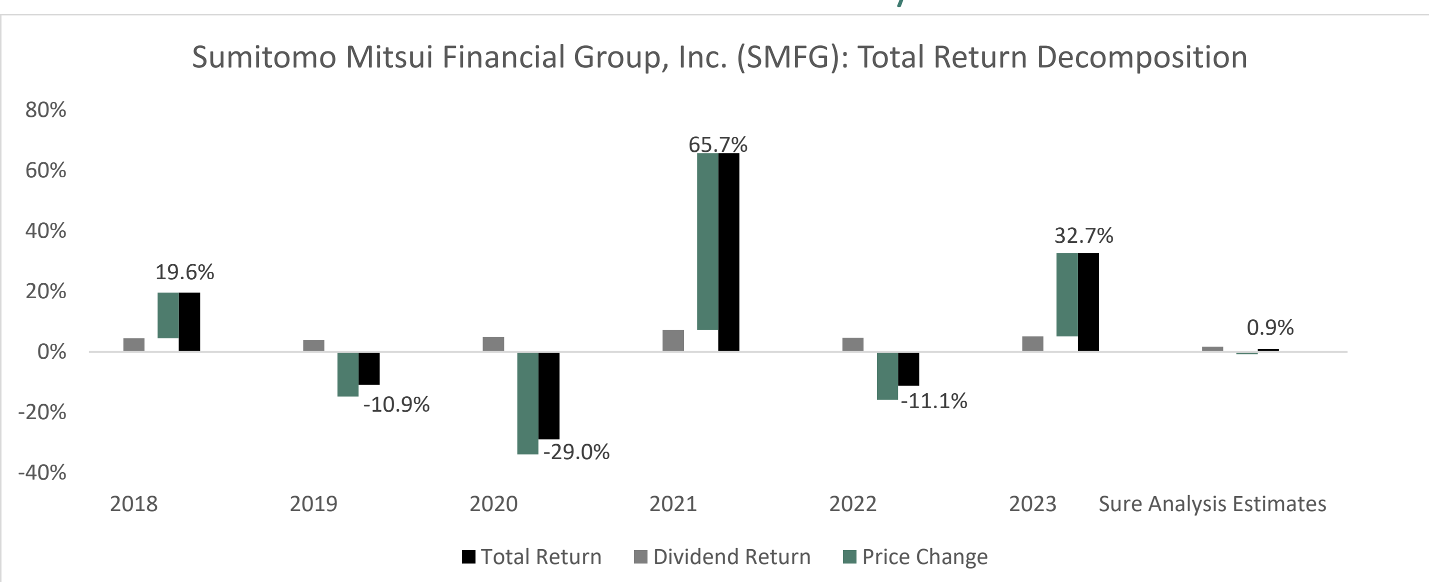
The payout ratio has moved up and down with earnings over the years, but we see the current dividend as sustainable. Sumitomo is unlikely to be a dividend growth story, however, given its unpredictable earnings, in addition to its variable dividend policy.

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 largely flat. The stock looks overvalued to us today, and the 1.7% dividend yield is weak based on Sumitomo's history. Given that the valuation has deteriorated with a negative impact forecasted, and the yield is low, we're moving the stock from hold to sell.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	30,544	28,346	29,108	28,690	31,323	27,847	24,971	28,778	30,492	27,545
SG&A Exp.	13,572	13,238	12,662	14,519	14,863	13,859	12,563	14,982	14,712	13,219
D&A Exp.	2,187	2,202	2,133	2,789	2,800	1,975	2,917	2,143	2,155	1,984
Net Profit	7,652	5,615	7,056	5,879	6,947	4,995	1,954	4,837	6,294	5,968
Net Margin	25.1%	19.8%	24.2%	20.5%	22.2%	17.9%	7.8%	16.2%	20.6%	21.7%
Free Cash Flow	63,837	64,787	-21,670	28,704	93,188	19,282	78,722	174,243	11,199	-45,873
Income Tax	4,134	3,749	3,107	1,292	2,070	1,662	476	1,475	1,911	2089

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	1,541	1,493	1,603	1,710	1,808	1,763	1,963	2,199	2,111	2,030
Cash & Equiv. ($B)	322.7	334.2	383.9	423.3	514.7	521.0	578.0	657.8	612.8	569.7
Goodwill & Int. Ass.	9,287	8,131	9,325	9,808	7,866	7,412	7,731	6,697	7,364	6,738
Total Liabilities ($B)	1,450	1,401	1,505	1,603	1,691	1,657	1,862	2,091	2,011	1,934
Accounts Payable	21,537	17,575	20,286	28,456	22,381	13,823	21,732	---	---	---
Long-Term Debt ($B)	224.6	251.7	213.9	245.3	229.7	238.6	308.8	275.2	263.2	220.5
Equity ($B)	74.7	77.8	84.6	92.9	106.0	101.7	100.6	107.2	99.1	95.2
D/E Ratio	3.01	3.24	2.53	2.64	2.17	2.35	3.07	2.57	2.66	2.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.5%	0.4%	0.5%	0.4%	0.4%	0.3%	0.1%	0.2%	0.3%	0.3%
Return on Equity	10.7%	7.4%	8.7%	6.6%	7.0%	4.8%	1.9%	4.7%	6.1%	6.1%
ROIC	2.5%	1.7%	2.2%	1.8%	2.0%	1.4%	0.5%	1.2%	1.7%	1.8%
Shares Out.	6835	6841	6841	6852	7058	6993	6880	6855	6856	6826
Revenue/Share	4.47	4.14	4.26	4.19	4.44	3.98	3.63	4.20	4.45	4.04
FCF/Share	9.34	9.47	(3.17)	4.19	13.20	2.76	11.44	25.42	1.63	-6.72

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