Sony Group Corporation (SONY)

Updated February 18th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	-2.5%	**Market Cap:**	$112 B
Fair Value Price:	$68	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	03/29/24
% Fair Value:	130%	**5 Year Valuation Multiple Estimate:**	-5.1%	**Dividend Payment Date:**	06/10/24[1]
Dividend Yield:	0.6%	**5 Year Price Target**	$75	**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 113,000 people.

On February 14th, 2024, Sony reported Q3 FY 2023 results for the period ending December 31st, 2023. All figures listed in U.S. dollars. For the quarter, revenue increased 16.6% to $25.3 billion while earnings-per-share of $1.99 compared unfavorably to $1.83 in the prior year.

Operating income grew 10%. Games & Network Services, the largest component within Sony, grew 16% as demand for non-first-party titles and add-on content remained high. Music improved 16% due to higher sales for recorded music and an increase in subscriptions for streaming services. Pictures grew 10% as higher TV and digital streaming licensing revenue was offset by theatrical revenue. Entertainment, Technology & Services decreased 2% due once again to lower unit sales for televisions. Imaging & Sensing Solutions improved 21% as due to strength in image sensors for mobile products. Sales for Financial Services surged nearly 1,200% due to net gains on investments. Sony announced that it had received approval to spin off the Financial Services segment, which is expected to take place in October 2025.

At expected currency rates of 142 yen per U.S. dollar for fiscal year 2023, Sony projects to earn $5.26 for the year, compared to $4.92, $5.15, and $6.46 previously. We have updated 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	***$5.26***	***$5.81***
DPS	$0.24	$0.12	$0.08	$0.18	$0.20	$0.31	$0.37	$0.47	$0.54	$0.53	***$0.56***	***$0.62***
Shares[2]	1,044	1,169	1,261	1,263	1,265	1,270	1,270	1,270	1,270	1,234	***1,234***	***1,234***

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. Earnings were up significantly in recent years, but we feel a 2% growth rate is appropriate given that Sony has not yet demonstrated longer-term consistency.

[1] Estimated dividend payment date

[2] 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	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	***16.9***	***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%***	***0.8%***

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 $4, or 4.7%, since our November 15th, 2023 report. Using estimates for the fiscal year, the stock trades with a P/E 16.9. If the stock reaches our target P/E over the next five years, then annual returns would be reduced by 5.1% due to multiple compression.

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%	***11%***	***11%***

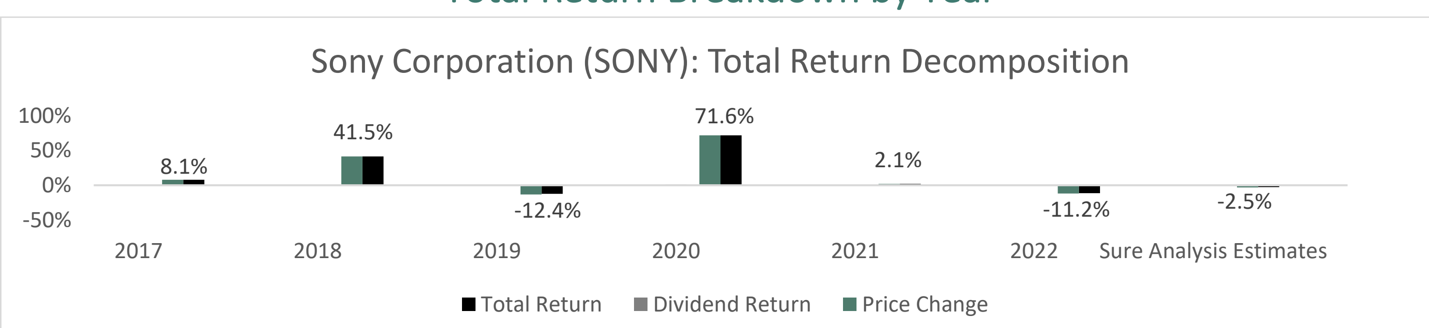
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends 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 annualized loss of 2.5% through fiscal year 2028, compared to our prior estimate of an annual loss of 3.2%. Business results were mostly higher during the quarter, but currency exchange remains a factor. We have raised our five-year price target $5 to $75 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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	77550	75130	67548	70308	77113	78166	75998	84886	88377	85459
Gross Profit	18082	18817	16926	17940	20881	21671	21482	22933	24065	23260
Gross Margin	23.3%	25.0%	25.1%	25.5%	27.1%	27.7%	28.3%	27.0%	27.2%	27.2%
SG&A Exp.	17258	16565	14100	13926	14289	14223	13825	13897	14150	14583
D&A Exp.	6613	5739	5806	5775	6505	6517	6868	6484	7440	7440
Operating Profit	824	2252	2826	4015	6592	7448	7657	9037	9916	8731
Op. Margin	1.1%	3.0%	4.2%	5.7%	8.5%	9.5%	10.1%	10.6%	11.2%	10.2%
Net Profit	(1282)	(1152)	1232	678	4430	8265	5357	9713	7858	6940
Net Margin	-1.7%	-1.5%	1.8%	1.0%	5.7%	10.6%	7.0%	11.4%	8.9%	8.1%
Free Cash Flow	3801	4926	3114	4383	8944	8534	8373	6247	7060	(2214)
Income Tax	944	811	790	1147	1370	407	1630	(433)	2041	1753

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	148998	131916	148343	157956	179407	189233	231020	249359	249731	240469
Cash & Equivalents	10169	7910	8751	8588	14927	13259	13995	16199	16793	11114
Acc. Receivable							11051	12378	13342	13343
Inventories	7132	5544	6078	5732	6521	5892	5180	5771	7161	11018
Goodwill & Int.	13288	10027	10873	9899	9953	15211	19071	19759	22490	25523
Total Liab.	121914	107475	120479	129805	145000	149139	175553	188402	190764	185771
Accounts Payable	6927	5184	4902	4829	4409	4438	12126	14473	15102	14004
Long-Term Debt	12578	7778	7950	10729	12657	12261	17229	22307	27460	29049
Total Equity	21942	19304	21916	22335	27923	33789	45103	60557	58535	54259
LTD/E Ratio	0.57	0.40	0.36	0.48	0.45	0.36	0.38	0.37	0.47	0.54

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.9%	-0.8%	0.9%	0.4%	2.6%	4.5%	2.5%	4.0%	3.1%	2.8%
Return on Equity	-5.7%	-5.6%	6.0%	3.1%	17.6%	26.8%	13.6%	18.4%	13.2%	12.3%
ROIC	-3.2%	-3.2%	3.6%	1.8%	10.3%	16.6%	8.6%	12.5%	9.3%	8.2%
Shares Out.	1,044	1,169	1,261	1,263	1,265	1,270	1,270	1,270	1,270	1,234
Revenue/Share	75.51	67.42	53.70	54.57	59.67	60.38	60.21	67.89	70.63	68.84
FCF/Share	3.70	4.42	2.48	3.40	6.92	6.59	6.63	5.00	5.64	(1.78)

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