# Sony Group Corporation (SONY)

*Updated May 20th, 2024 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $84 | **5 Year CAGR Estimate:** | 3.1% | **Market Cap:** | $105 B |
| **Fair Value Price:** | $86 | **5 Year Growth Estimate:** | 2.0% | **Ex-Dividend Date:** | 03/28/24 |
| **% Fair Value:** | 98% | **5 Year Valuation Multiple Estimate:** | 0.5% | **Dividend Payment Date:** | 06/04/24 |
| **Dividend Yield:** | 0.8% | **5 Year Price Target** | $95 | **Years Of Dividend Growth:** | 6[1] |
| **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 May 14th, 2024, Sony announced that it would be conducting a 5-for-1 stock split that will be effective October 1st, 2024.

On May 14th, 2024, Sony reported Q4 FY 2023 results for the period ending March 31st, 2024. All figures listed in U.S. dollars. For the quarter, revenue decreased 1.1% to $22.3 billion while earnings-per-share of $0.99 compared favorably to $0.78 in the prior fiscal year. For the fiscal year, revenue grew 5.9% to $90.2 billion while earnings-per-share of $5.44 compared to $5.98 in the prior fiscal year.

Games & Network Services, the largest component within Sony, improved 17% as demand for non-first-party titles and add-on content remained high for the year. Music grew 17% due to higher sales from streaming services, with paid subscriptions especially strong. Pictures was up 2% in USD due to an increase in theatrical releases and higher subscriptions for Crunchyroll. Entertainment, Technology & Services was flat year-over-year as the positive impact from currency exchange was offset by weaker television volume. Imaging & Sensing Solutions increased 14% as unit sales grew and product mix improved. Sales for Financial Services doubled 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 145 yen per U.S. dollar for fiscal year 2024, Sony projects to earn $6.61 for the year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | -$0.94 | $1.04 | $0.51 | $3.57 | $6.38 | $4.24 | $8.83 | $6.28 | $5.98 | $5.45 | ***$6.61*** | ***$7.30*** |
| **DPS** | $0.12 | $0.08 | $0.18 | $0.20 | $0.31 | $0.37 | $0.47 | $0.54 | $0.53 | $0.56 | ***$0.69*** | ***$0.76*** |
| **Shares[2]** | 1,169 | 1,261 | 1,263 | 1,265 | 1,270 | 1,270 | 1,270 | 1,270 | 1,235 | 1,241 | ***1,241*** | ***1,241*** |

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 project 2% growth given that Sony has not yet demonstrated longer-term consistency. Sony expects to distribute $0.69 of dividends per share this fiscal year at currency exchange rates.

[1] In local currency

[2] 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.*

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## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | --- | 25.6 | 58.9 | 11.7 | 8.0 | 13.8 | 11.4 | 16.4 | 16.2 | 15.7 | ***12.7*** | ***13.0*** |
| **Avg. Yld.** | 0.6% | 0.3% | 0.6% | 0.5% | 0.6% | 0.6% | 0.4% | 0.5% | 0.6% | 0.7% | ***0.8%*** | ***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 2029 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 decreased $5, or 5.6%, since our February 18th, 2024 report. Using estimates for the fiscal year, the stock trades with a P/E of 12.7. If the stock reaches our target P/E over the next five years, then valuation would add 0.5% to annual returns through fiscal year 2029.

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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | --- | 8% | 35% | 6% | 6% | 9% | 5% | 9% | 9% | 10% | ***10%*** | ***10%*** |

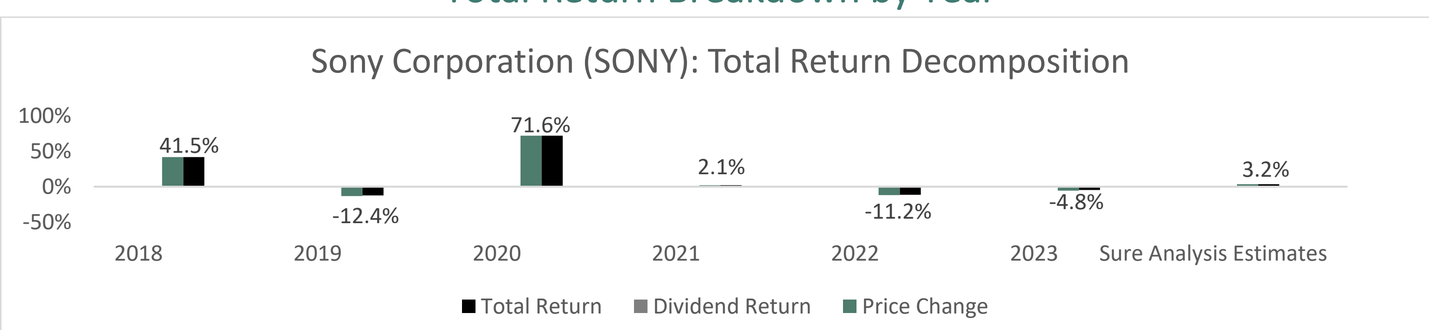
Sony struggled to post a profit not just during the last recession, but throughout the last decade. Significant improvements have been made as of late, with much higher earnings to show for it, but the company's businesses are finicky and require substantial R&D investment to stay ahead of changing trends 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 return 3.2% through fiscal year 2029, compared to our prior estimate of an annual loss of 2.5%. Business results were mostly higher during the quarter, though headline results were mixed due to currency exchange. We have raised our five-year price target $20 to $95 due to EPS 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 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 75130 | 67548 | 70308 | 77113 | 78166 | 75998 | 84886 | 88377 | 85459 | 90232 |
| **Gross Profit** | 18817 | 16926 | 17940 | 20881 | 21671 | 21482 | 22933 | 24065 | 23260 | 23042 |
| **Gross Margin** | 25.0% | 25.1% | 25.5% | 27.1% | 27.7% | 28.3% | 27.0% | 27.2% | 27.2% | 25.5% |
| **SG&A Exp.** | 16565 | 14100 | 13926 | 14289 | 14223 | 13825 | 13897 | 14150 | 14583 | 14942 |
| **D&A Exp.** | 5739 | 5806 | 5775 | 6505 | 6517 | 6868 | 6484 | 7440 | 7440 | 7935 |
| **Operating Profit** | 2252 | 2826 | 4015 | 6592 | 7448 | 7671 | 9027 | 10533 | 8731 | 8304 |
| **Op. Margin** | 3.0% | 4.2% | 5.7% | 8.5% | 9.5% | 10.1% | 10.6% | 11.9% | 10.2% | 9.2% |
| **Net Profit** | (1152) | 1232 | 678 | 4430 | 8265 | 5357 | 9713 | 7858 | 6940 | 6726 |
| **Net Margin** | -1.5% | 1.8% | 1.0% | 5.7% | 10.6% | 7.0% | 11.4% | 8.9% | 8.1% | 7.5% |
| **Free Cash Flow** | 4926 | 3114 | 4383 | 8944 | 8534 | 8373 | 6247 | 7060 | (2214) | 5192 |
| **Income Tax** | 811 | 790 | 1147 | 1370 | 407 | 1630 | (433) | 2041 | 1753 | 1997 |

## Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 131916 | 148343 | 157956 | 179407 | 189233 | 231020 | 249359 | 249731 | 240469 | 225348 |
| **Cash & Equivalents** | 7910 | 8751 | 8588 | 14927 | 13259 | 13995 | 16199 | 16793 | 11114 | 12600 |
| **Acc. Receivable** | | | | | | 11051 | 12378 | 13342 | 13343 | 14259 |
| **Inventories** | 5544 | 6078 | 5732 | 6521 | 5892 | 5180 | 5771 | 7161 | 11018 | 10034 |
| **Goodwill & Int.** | 10027 | 10873 | 9899 | 9953 | 15211 | 19071 | 19759 | 22490 | 25523 | 13893 |
| **Total Liab.** | 107475 | 120479 | 129805 | 145000 | 149139 | 175553 | 188402 | 190764 | 185771 | 174104 |
| **Accounts Payable** | 5184 | 4902 | 4829 | 4409 | 4438 | 12126 | 14473 | 15102 | 14004 | 13643 |
| **Long-Term Debt** | 7778 | 7950 | 10729 | 12657 | 12261 | 17229 | 22307 | 27460 | 29049 | 27012 |
| **Total Equity** | 19304 | 21916 | 22335 | 27923 | 33789 | 45103 | 60557 | 58535 | 54259 | 50128 |
| **LTD/E Ratio** | 0.40 | 0.36 | 0.48 | 0.45 | 0.36 | 0.38 | 0.37 | 0.47 | 0.54 | 0.54 |

## Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | -0.8% | 0.9% | 0.4% | 2.6% | 4.5% | 2.5% | 4.0% | 3.1% | 2.8% | 2.9% |
| **Return on Equity** | -4.5% | 4.7% | 2.4% | 14.2% | 22.2% | 11.2% | 16.7% | 13.1% | 12.2% | 12.7% |
| **ROIC** | -3.2% | 3.6% | 1.8% | 10.3% | 16.6% | 8.6% | 12.5% | 9.3% | 8.2% | 8.3% |
| **Shares Out.** | 1,169 | 1,261 | 1,263 | 1,265 | 1,270 | 1,270 | 1,270 | 1,270 | 1,235 | 1,241 |
| **Revenue/Share** | 67.42 | 53.70 | 54.57 | 59.67 | 60.38 | 60.21 | 67.89 | 70.63 | 68.84 | 73.04 |
| **FCF/Share** | 4.42 | 2.48 | 3.40 | 6.92 | 6.59 | 6.63 | 5.00 | 5.64 | (1.78) | 4.20 |

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