Toyota Motor Corporation (TM)

Updated September 5th, 2018 by Nick McCullum

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	11.4%	**Volatility Percentile:**	18.2%
Fair Value Price:	$134	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	44.0%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Valuation Percentile:**	78.0%
Dividend Yield:	3.3%	**5 Year Price Target**	$179	**Total Return Percentile:**	77.8%

Overview & Current Events

Toyota Motor Corporation is a multinational automotive conglomerate and Japan's largest manufacturer of automobiles. The company was founded in 1933 and has grown to be a leader in the automotive industry, manufacturing well-known vehicles such as the *Camry, Corolla, Highlander, Sienna, Yaris, Prius,* and *RAV4*. United States investors can invest in Toyota through American Depository Receipts (ADRs) listed on the New York Stock Exchange, where they trade under the ticker TM with a market capitalization of US$176 billion.

In early August, Toyota reported (8/3/18) financial results for the first quarter of fiscal 2019 (which ends on June 30th, 2018). In the quarter, consolidated vehicle sales increased by 0.9% over the prior year's period while net revenues increased by 4.5% and operating income increased by 18.9%. The strong growth in operating income was driven by meaningful margin expansion. More specifically, Toyota reported an operating margin of 9.3% in the quarter, noticeably better than the 8.1% operating margin in the same period a year ago. On the bottom line, Toyota generated 7.2% growth in net income, which grew slower than its operating profit due to a significant 32.8% increase in the company's provision for income taxes. Toyota also updated its financial guidance for fiscal 2019. The company now expects to generate consolidated vehicle sales of 8.9 million (down from previous guidance of 8.95 million and 8.964 million of total vehicles sold in 2018), net revenue growth of - 1.3%, and net income growth of -15.0%. Importantly, this decline in profitability is entirely due to foreign exchange fluctuations. At constant exchange rates, Toyota's guidance implies 5.2% growth in operating income (and, presumably, a similar level of growth for net income and earnings-per-share).

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	-$2.84	$1.44	$1.89	$2.20	$7.24	$11.77	$12.31	$12.40	$10.72	$13.87	***$13.10***	***$17.53***
DPS	$2.74	$1.18	$1.22	$1.27	$1.99	$3.23	$3.28	$3.64	$3.76	$4.15	***$4.40***	***$5.90***
Shares	1566.0	1568.0	1568.0	1583.4	1583.7	1584.9	1573.4	1518.8	1487.4	1455.0	***1450***	***1400***

Toyota Motor Corporation's earnings-per-share history is slightly frightening due to its poor performance in the 2007-2009 financial crisis. Indeed, the financial catastrophe hurt all automobile manufacturers (even causing the bankruptcy of General Motors (GM)). Since 2013, when Toyota's earnings stabilized, the company has grown its earnings-per-share at 4.2% per year. Looking ahead, we believe that Toyota is capable of growing its earnings-per-share by 6% per year over full economic cycles. In the ongoing fiscal year, the company is guiding for earnings-per-ADR of approximately $13.10. Applying a 6% growth rate to this earnings-per-share estimate allows us to calculate a 2023 estimate of $17.53.

One way that Toyota will be able to drive growth moving forward is by exploring the electric vehicle market. While Toyota was an early mover in the hybrid vehicle market thanks to the introduction of the Toyota Prius in 1997, the company has yet to introduce a fully electric vehicle (outside of the all-electric Prius) that has gained widespread consumer popularity. We believe Toyota's reputation gives it the capability to capture meaningful market share once it introduces a fully electric vehicle to the masses.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	N/A	N/A	N/A	34.0	11.7	10.3	9.8	10.0	10.5	8.6	***9.2***	***10.2***
Avg. Yld.	3.4%	1.5%	1.6%	1.7%	2.3%	2.7%	2.7%	2.9%	3.4%	3.5%	***3.3%***	***3.3%***

Toyota Motor Corporation has traded at an average price-to-earnings ratio of 10.2 since 2012, the first year that the company's valuation normalized following the 2007-2009 financial crisis. Using the company's earnings-per-share guidance for the ongoing fiscal year, Toyota is trading at an average price-to-earnings ratio of 9.2. Toyota appears slightly undervalued at current prices. If Toyota's price-to-earnings ratio were to expand to its long-term average over a period of 5 years, this would add 2.1% to its annualized returns during this time period.

For income investors, we note that the country of Japan imposes a 15% withholding tax on dividend payments made to international investors, which reduces Toyota's net dividend yield to 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

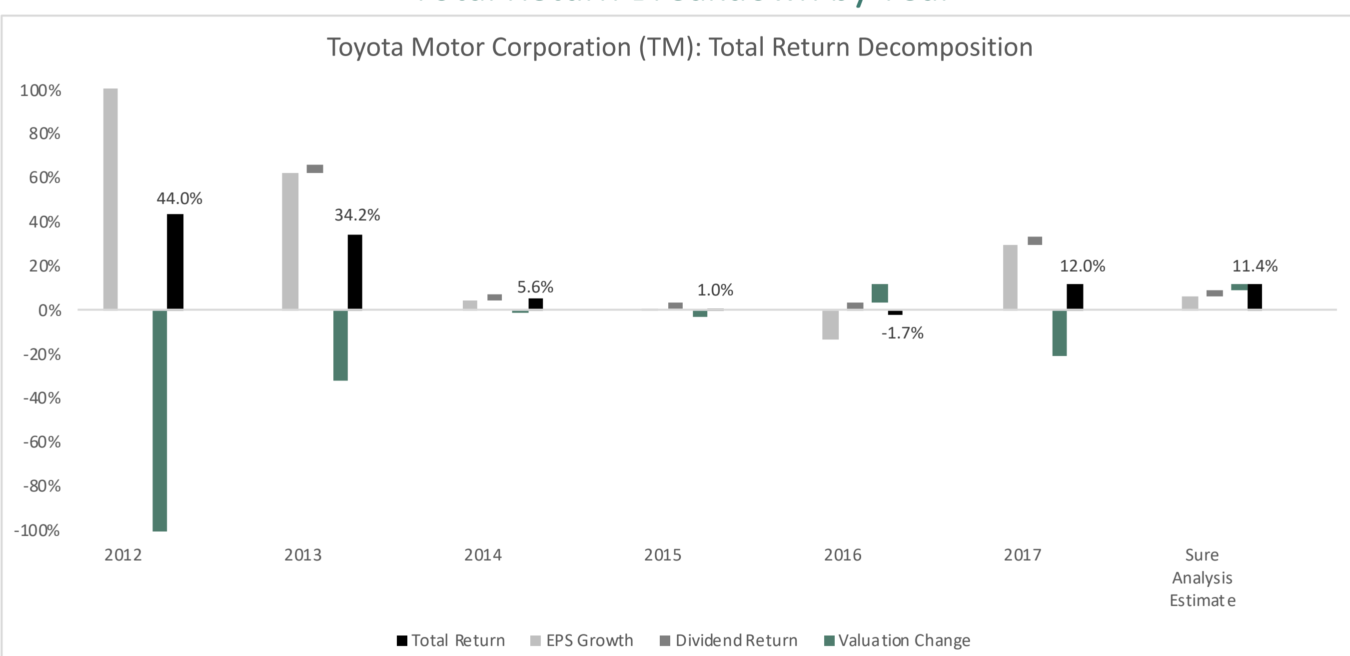
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	12.9%	7.1%	7.5%	7.7%	7.5%	11.0%	12.1%	12.4%	11.4%	10.3%	***11.0%***	***11.0%***
Debt/A	61.4%	63.5%	64.0%	63.4%	63.9%	64.0%	63.3%	63.0%	62.9%	62.7%	***63.0%***	***63.0%***
Payout	N/A	81.9%	64.6%	57.7%	27.5%	27.4%	26.6%	29.4%	35.1%	29.9%	***33.6%***	***33.7%***
Std. Dev.	29.6%	33.6%	22.8%	24.4%	23.7%	19.0%	13.8%	15.4%	19.8%	12.7%	***16.0%***	***16.0%***

Toyota Motor Corporation's quality metrics are in-line with those of other automakers. While the company generates a relatively low level of gross profits to total assets, this is due to the poor economics of its industry rather than company-specific factors. We note that Toyota's stock price volatility will likely become quite elevated during future recessions as consumers reduce their purchases of new automobiles and Toyota's financial performance deteriorates accordingly.

Final Thoughts & Recommendation

Toyota Motor Corporation is one of the world's most well-known automotive manufacturers. In addition, the company is priced to deliver double-digit total returns. The company earns a buy recommendation from Sure Dividend at current prices, with the caveat that better buying opportunities will certainly present themselves if the economy contracts.

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.