Toyota Motor Company (TM)

Updated November 19th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$117	**5 Year CAGR Estimate:**	13.9%	**Volatility Percentile:**	20.7%
Fair Value Price:	$147	**5 Year Growth Estimate:**	5.5%	**Momentum Percentile:**	34.4%
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.7%	**Growth Percentile:**	45.9%
Dividend Yield:	3.7%	**5 Year Price Target**	$191	**Valuation Percentile:**	82.7%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	78.8%

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. Toyota is headquartered in Toyota, Japan, and is currently valued at $168 billion. All numbers in this report are in US$.

Toyota reported its second quarter earnings results (fiscal 2019) on November 6. This earnings report covers Toyota's results during the six months between April and September of 2018. The company generated revenues of $130.5 billion during these six months, which represents an increase of 3.4% year over year. This growth was driven by an increase in the number of vehicles that Toyota has sold (up 0.7%) as well as by an increase in the average selling price. Toyota managed to grow its operating income by 15% to $11.2 billion for the first two quarters of fiscal 2019. Toyota's management pointed out that the company is making progress towards reaching its goals for (fixed) cost reduction, which explains how Toyota was able to grow its profits by 15% despite delivering revenue growth of only 3.4%. Toyota now expects revenues of $263 billion for fiscal 2019. On top of that, its guidance for net earnings has been increased to $20.5 billion, which equates to earnings-per-share of ~$14.35.

Toyota has announced an interim dividend payment of $1.78 per ADR during the Q2 earnings call. Toyota also announced a new share repurchase program that allows the company to buy back $22 billion worth of shares, or a maximum of 42 million shares. There is no time limit on the share repurchase program.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-$2.84	$1.44	$1.89	$2.20	$7.24	$11.77	$12.31	$12.40	$10.72	$13.87	***$14.35***	***$18.77***
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	1570	1570	1570	1580	1580	1580	1570	1520	1490	1450	***1425***	***1400***

Toyota Motor Corporation's earnings-per-share history is not very smooth due to its poor performance during the financial crisis. The global economic downturn between 2007 and 2009 hurt all automobile manufacturers, even causing the bankruptcy of General Motors (GM). Since fiscal 2014, when Toyota's earnings stabilized, the company has grown its earnings-per-share at 4.2% per year. Toyota is currently forecasting an earnings-per-share growth rate of 3.5% for fiscal 2019, but currency rates can impact Toyota's results to a significant degree when these results are converted to US$.

Toyota should be able to drive future revenue growth 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. Toyota's strong operating efficiency allows for above-average margins relative to its peers. This, coupled with new cost-saving initiatives, will be another positive for Toyota's earnings-per-share growth.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	N/A	N/A	N/A	34.0	11.7	10.3	9.8	10.0	10.5	8.6	***8.1***	***10.2***
Avg. Yld.	3.4%	1.5%	1.6%	1.7%	2.3%	2.7%	2.7%	2.9%	3.4%	3.5%	***3.7%***	***3.2%***

Toyota has been valued at 8.6 to 11.7 times earnings during the last six years, when its profits had hit pre-crisis levels again. Right now shares trade for 8.1 times this year's expected net profits, which represents a substantial discount relative to how shares were valued in the past. We see considerable upside potential towards a price to earnings multiple of 10.2, which is the median earnings multiple over the last couple of years. Toyota offers a dividend yield that is well above that of the broad market, but lower than the yield some of its peers offer (such as Ford and Daimler). Dividend payments by Japanese companies are hit with a withholding tax of 15%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

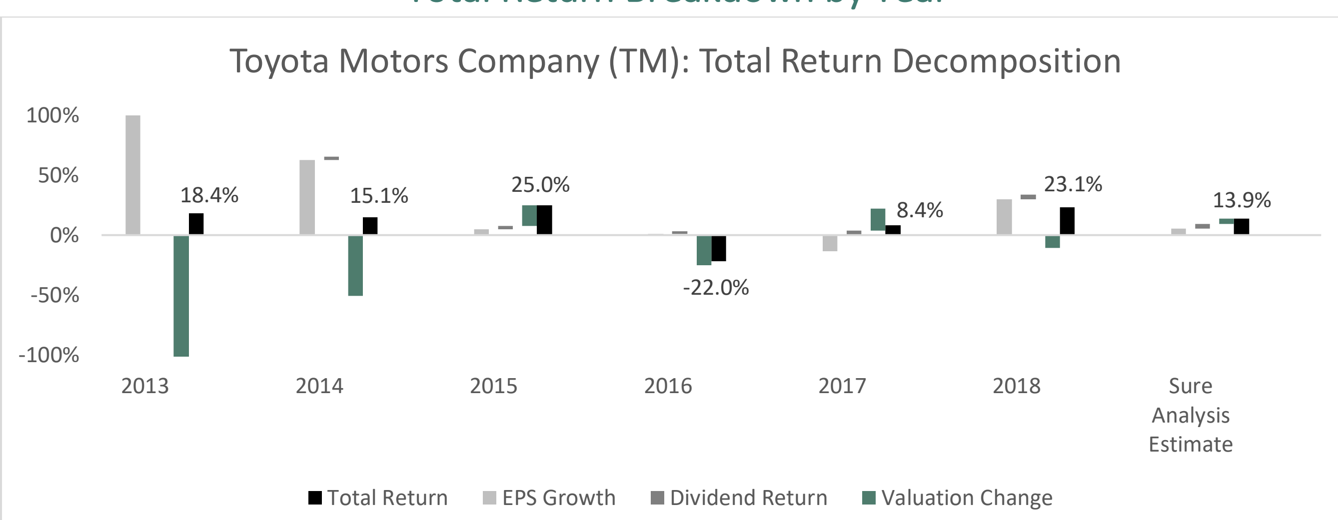
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	12.9%	7.1%	7.5%	7.7%	7.5%	11.0%	12.1%	12.4%	11.4%	10.3%	***11.0%***	***11.0%***
Debt/A	61.4%	63.5%	64.0%	63.4%	63.9%	64.0%	63.3%	63.0%	62.9%	62.7%	***63.0%***	***63.0%***
Payout	N/A	81.9%	64.6%	57.7%	27.5%	27.4%	26.6%	29.4%	35.1%	29.9%	***30.6%***	***31.4%***
Std. Dev.	29.6%	33.6%	22.8%	24.4%	23.7%	19.0%	13.8%	15.4%	19.8%	12.7%	***16.0%***	***18.0%***

Toyota Motor Corporation's quality metrics are relatively on par with those of other automakers. While the company generates a rather low level of gross profits relative to its assets, this is due to the poor economics (high capital intensity) of its industry. Toyota was hit hard during the last financial crisis, like all of its peers. During future global downturns the company is likely to perform poorly again, which is why Toyota is not a low-risk or recession-proof stock.

Final Thoughts & Recommendation

Toyota is one of the largest automobile companies in the world. The economics in this industry are not very favorable, and the business is usually quite cyclical. Toyota is cost-efficient and produces above-average margins, and it holds a strong brand. Its success with the Toyota Prius will likely allow Toyota to expand increasingly into electric vehicles over the coming years. We rate shares a buy for those that seek exposure to this higher-risk industry.

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue ($B)	206.47	204.25	220.59	235.45	266.98	256.51	249.05	236.69	255.19	265.16
Gross Profit	20856	24435	27622	27811	41422	48831	49315	48314	44967	49553
Gross Margin	10.1%	12.0%	12.5%	11.8%	15.5%	19.0%	19.8%	20.4%	17.6%	18.7%
SG&A Exp.	25493	22845	22184	23306	25439	25946	24162	24531	26525	27893
D&A Exp.	15037	15246	13653	13529	13372	12489	12885	13549	14897	15650
Operating Profit	-4636	1590	5439	4506	15983	22885	25153	23783	18442	21660
Op. Margin	-2.2%	0.8%	2.5%	1.9%	6.0%	8.9%	10.1%	10.0%	7.2%	8.2%
Net Profit	-4394	2257	4741	3593	11643	18202	19874	19273	16932	22509
Net Margin	-2.1%	1.1%	2.1%	1.5%	4.4%	7.1%	8.0%	8.1%	6.6%	8.5%
Free Cash Flow	-8528	12081	3865	-1009	5774	9658	3001	3347	-1176	5517
Income Tax	568	999	3633	3323	6676	7666	8170	7319	5816	4552

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	293.53	324.43	358.41	372.41	376.83	402.65	397.64	421.96	436.02	473.40
Cash & Equivalents	25144	24143	25010	20402	18248	19834	19033	26152	26788	28722
Acc. Receivable	14067	20164	67143	74294	75289	74482	69801	70400	74348	80624
Inventories	14740	15205	15677	19711	18222	18411	17808	18341	21364	23899
Total Liab. ($B)	186.46	207.59	227.16	237.95	241.19	254.77	250.62	265.30	273.39	290.56
Accounts Payable	13124	20915	18067	27247	22448	21506	20083	21260	22954	24340
LT Debt ($B)	127.45	133.77	149.06	145.87	150.08	158.65	158.10	162.75	171.33	182.06
Total Equity	101.62	110.75	119.42	123.36	124.80	136.74	136.55	145.46	153.10	172.57
D/E Ratio	1.25	1.21	1.20	1.14	1.16	1.13	1.13	1.09	1.09	1.03

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-1.4%	0.7%	1.4%	1.0%	3.1%	4.7%	5.0%	4.7%	3.9%	5.0%
Return on Equity	-4.0%	2.1%	4.1%	3.0%	9.4%	13.9%	14.5%	13.7%	11.3%	13.8%
ROIC	-1.8%	0.9%	1.8%	1.3%	4.1%	6.1%	6.5%	6.2%	5.2%	6.4%
Shares Out.	1570	1570	1570	1580	1580	1580	1570	1520	1490	1450
Revenue/Share	131.50	130.26	140.69	149.80	168.60	161.79	157.60	150.52	167.02	177.08
FCF/Share	-5.43	7.70	2.47	-0.64	3.65	6.09	1.90	2.13	-0.77	3.68

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