Toyota Motor Corporation (TM)

Updated February 14th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	13.1%	**Volatility Percentile:**	13.0%
Fair Value Price:	$145	**5 Year Growth Estimate:**	5.5%	**Momentum Percentile:**	26.2%
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	4.0%	**Growth Percentile:**	48.4%
Dividend Yield:	3.6%	**5 Year Price Target**	$191	**Valuation Percentile:**	82.1%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	75.1%

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 $170 billion. All numbers in this report are in US$ unless noted otherwise.

Toyota Motor Corporation reported its fiscal third quarter earnings results on February 6. The company has generated revenues of 7.8 trillion Yen during the third quarter, which equates to revenues of $70.2 billion. This was 2.6% more than the revenues that Toyota was able to generate during the previous year's third quarter. Toyota's revenue growth was driven by higher average prices per vehicle that Toyota Motor Corporation has sold, as the absolute number of vehicle sales has declined marginally compared to the previous year's third quarter, from 2.29 million to 2.28 million.

Toyota generated operating profits of 680 billion Yen, which is equal to $6.1 billion, during the third quarter of 2019, which was 2.4% more than the operating profits than Toyota generated during Q3 of fiscal 2018. This was primarily possible due to Toyota's marketing efforts and its cost reduction efforts. Toyota's earnings-per-share totaled 315 Yen during the third quarter, of 2019, which equates to earnings-per-share of $2.84.

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$, as Toyota generates a large amount of its revenues and earnings outside of the US, primarily in its home market Japan. 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, which is based on its focus on lean operations, fast throughput, and other manufacturing priorities, allows for above-average margins relative to most of the company's peers. This, coupled with new cost-saving initiatives that aim to reduce the automobile company's fixed costs, will be another positive for Toyota's earnings-per-share growth going forward. Toyota seeks to reduce its share count through stock buybacks on top of that, which will drive earnings-per-share upwards, all else equal.

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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	***8.4***	***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 roughly 9 to 12 times earnings during the last six years, when its profits had hit pre-crisis levels again. Right now shares trade for 8.4 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 in the low double digits, 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 subject to a withholding tax of 15%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
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%***

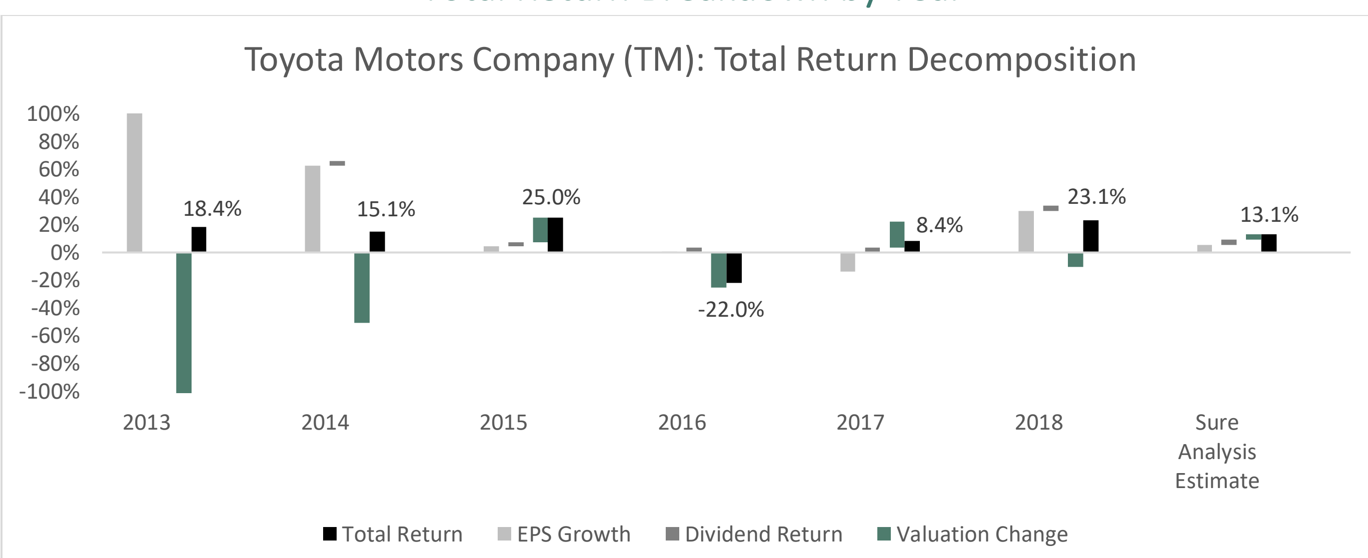
Toyota's dividend payout ratio has declined substantially following the last financial crisis, when earnings started to normalize again. Right now the company pays out roughly one third of its net profits each year. The dividend was cut during the last financial crisis, and something similar could happen during another major economic crisis.

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. Toyota's major scale, and its operating efficiency provide competitive advantages over some of its peers. Its leadership role regarding hybrid vehicles has resulted in a positive reputation, on which Toyota could capitalize with electric vehicles in the future.

Final Thoughts & Recommendation

Toyota is one of the largest automobile companies in the world. It is famous for its operating efficiency, and has produced relatively solid earnings growth during the last couple of years. The total return outlook is not bad at all, but Toyota is only a buy for those investors that are not afraid of the cyclicality of the automobile 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.