Toyota Motor Corporation (TM)

Updated February 13th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$141	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$196B
Fair Value Price:	$140	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/28/20[1]
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	06/04/20[2]
Dividend Yield:	2.9%	**5 Year Price Target**	$171	**Years Of Dividend Growth:**	2
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.8%

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 $196 billion. All numbers in this report are in US$ unless noted otherwise.

Toyota Motor Corporation reported its fiscal third quarter earnings results on February 7. The company generated revenues of 22.8 trillion Yen during the first three quarters of the current fiscal year, which equates to revenues of $207 billion. This was 2% more than the revenues that Toyota was able to generate during the previous year's first nine months. Toyota's revenue growth was driven by higher sales volumes primarily. The company sold 6.8 million cars year to date, up 130,000 year over year.

Toyota generated operating profits of 2.06 trillion Yen, which is equal to $18.7 billion, during the first three quarters. This was 6% more than the operating profits that Toyota generated during the previous year's first nine months. This earnings growth was primarily possible due to Toyota's sales growth and its cost reduction programs, which have lifted Toyota's margins further. Toyota generated earnings-per-share of $13.07 during the first nine months of 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.44	$1.89	$2.20	$7.24	$11.77	$12.31	$12.40	$10.72	$13.87	$15.28	***$16.50***	***$20.07***
DPS	$1.18	$1.22	$1.27	$1.99	$3.23	$3.28	$3.79	$3.77	$3.95	$4.02	***$4.02***	***$5.13***
Shares[3]	1570	1570	1580	1580	1580	1570	1520	1490	1450	1425	***1400***	***1350***

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. Since fiscal 2014, when Toyota's earnings stabilized, the company has grown its earnings-per-share at 4.2% per year. Currency rates can impact Toyota's results to a significant degree when its results are converted to US$, as Toyota generates a large amount of its earnings in Japan and other overseas markets.

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 range of fully electric vehicles 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

[1] Estimated date
[2] Estimated date
[3] In Millions

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. Buybacks will continue to be a tailwind as well.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	34.0	11.7	10.3	9.8	10.0	10.5	8.6	7.9	***8.5***	***8.5***
Avg. Yld.	1.5%	1.6%	1.7%	2.3%	2.7%	2.7%	2.9%	3.4%	3.5%	3.7%	***2.9%***	***3.0%***

Toyota has been valued at 9 to 12 times earnings since 2013, when its profits hit pre-crisis levels again. Right now, shares trade for 8.5 times this year's expected net profits. This represents a discount relative to how shares were valued in the past, but we believe that Toyota's shares are relatively fairly valued at current prices, at a price-to-earnings multiple between 8 and 9, due to the cyclicality of the industry. Toyota offers an above-average dividend yield of 2.9% at the current price. Dividends by Japanese companies are subject to a 15% withholding tax.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	81.9%	64.6%	57.7%	27.5%	27.4%	26.6%	29.4%	35.1%	29.9%	28.8%	***24.4%***	***25.6%***

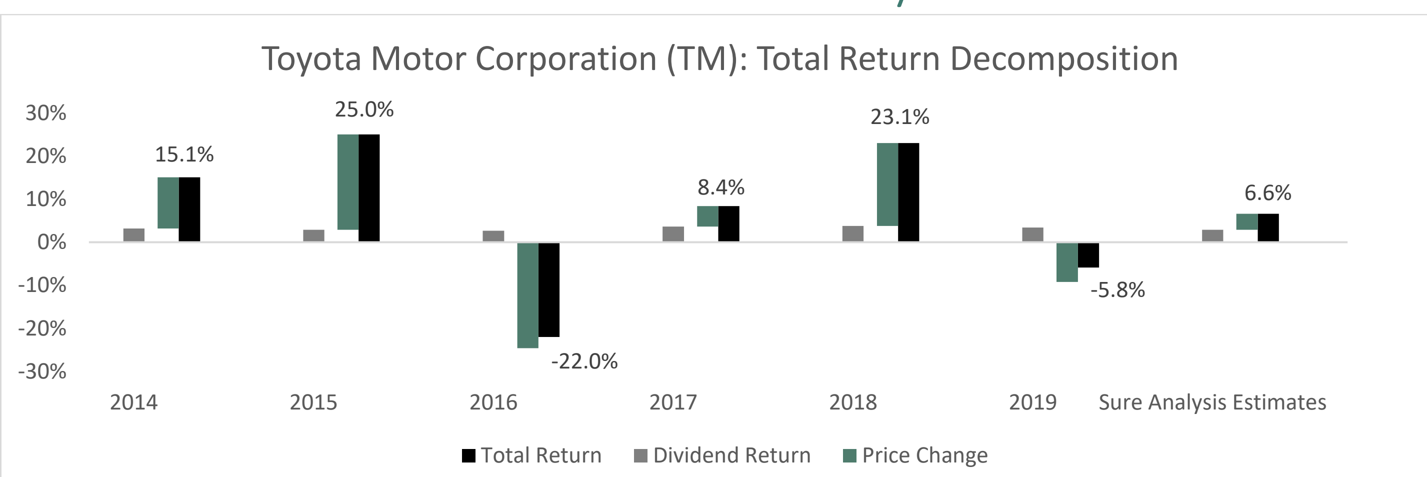
Toyota's dividend payout ratio declined substantially following the last financial crisis, when earnings started to normalize again. Right now the company pays out roughly one-third of its net profits each year. The dividend was cut during the last financial crisis, and something similar could happen 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 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, by vehicle sales, profits, and market capitalization, a leading automobile producer. Its results in fiscal 2019 were strong, and the first nine months of 2020 looked even more promising. Toyota is famous for its operating efficiency, and has produced relatively solid earnings growth during the last couple of years. Toyota's total return outlook is solid, but shares look relatively fairly valued, which is why we rate Toyota a hold at current prices.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue ($B)	204.2	220.6	235.5	267.0	256.5	249.0	236.7	255.2	265.2	272.6
Gross Profit	24435	27622	27811	41422	48831	49315	48314	44967	49553	49105
Gross Margin	12.0%	12.5%	11.8%	15.5%	19.0%	19.8%	20.4%	17.6%	18.7%	18.0%
SG&A Exp.	22845	22184	23306	25439	25946	24162	24531	26525	27893	26847
D&A Exp.	15246	13653	13529	13372	12489	12885	13549	14897	15650	16167
Operating Profit	1590	5439	4506	15983	22885	25153	23783	18442	21660	22258
Op. Margin	0.8%	2.5%	1.9%	6.0%	8.9%	10.1%	10.0%	7.2%	8.2%	8.2%
Net Profit	2257	4741	3593	11643	18202	19874	19273	16932	22509	16984
Net Margin	1.1%	2.1%	1.5%	4.4%	7.1%	8.0%	8.1%	6.6%	8.5%	6.2%
Free Cash Flow	12081	3865	-1009	5774	9658	3001	3347	-1176	5517	250
Income Tax	999	3633	3323	6676	7666	8170	7319	5816	4552	5953

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	324.4	358.4	372.4	376.8	402.6	397.6	422.0	436.0	473.4	468.4
Cash & Equivalents	24143	25010	20402	18248	19834	19033	26152	26788	28722	32240
Acc. Receivable	20164	67143	74294	75289	74482	69801	70400	74348	80624	81356
Inventories	15205	15677	19711	18222	18411	17808	18341	21364	23899	23958
Total Liab. ($B)	207.6	227.2	238.0	241.2	254.8	250.6	265.3	273.4	290.6	287.4
Accounts Payable	20915	18067	27247	22448	21506	20083	21260	22954	24340	23864
LT Debt ($B)	133.8	149.1	145.9	150.1	158.7	158.1	162.8	171.3	182.1	181.7
Total Equity ($B)	110.7	124.2	128.2	129.0	140.6	139.9	149.0	156.7	176.3	174.5
D/E Ratio	1.21	1.20	1.14	1.16	1.13	1.13	1.09	1.09	1.03	1.04

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.7%	1.4%	1.0%	3.1%	4.7%	5.0%	4.7%	3.9%	5.0%	3.6%
Return on Equity	2.1%	4.0%	2.8%	9.1%	13.5%	14.2%	13.3%	11.1%	13.5%	9.7%
ROIC	0.9%	1.8%	1.3%	4.1%	6.1%	6.5%	6.2%	5.2%	6.4%	4.7%
Shares Out.	1570	1570	1580	1580	1580	1570	1520	1490	1450	1425
Revenue/Share	130.26	140.69	149.80	168.60	161.79	157.60	150.52	167.02	177.08	186.82
FCF/Share	7.70	2.47	-0.64	3.65	6.09	1.90	2.13	-0.77	3.68	0.17

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