Toyota Motor Corporation (TM)

Updated August 20th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$134	**5 Year CAGR Estimate:**	-1.5%	**Market Cap:**	$189B
Fair Value Price:	$102	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	-
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	-
Dividend Yield:	0.0%	**5 Year Price Target**	$124	**Years Of Dividend Growth:**	-
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	-

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. Toyota is headquartered in Toyota, Japan. All numbers in this report are in US$ unless noted otherwise.

Toyota Motor Corporation reported its fiscal 2021 first quarter earnings results on August 6. The company generated revenues of 4.6 trillion Yen during the quarter, which equates to revenues of $43 billion. This was 40% less than the revenues that Toyota was able to generate during the previous year's quarter, the decline was primarily caused by the impact of the coronavirus crisis on Toyota's production and sales. Toyota generated operating profits of 14 billion Yen, which is equal to $130 million, during the quarter. This was a whopping 98% less than during the previous year's quarter. The big decline in Toyota's operating profits was due to lower revenues and headwinds from operating leverage.

Toyota's net profits were down as well, and earnings-per-share totaled $1.14. For the current year, fiscal 2021, Toyota forecasts a large headwind from the coronavirus pandemic, as vehicle sales are seen dropping by double digits, while operating income is forecasted to drop by 80%. We believe that Toyota will recover eventually, though, which is why we calculate fair value using a mid-cycle *earnings power* figure of $12 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.89	$2.20	$7.24	$11.77	$12.31	$12.40	$10.72	$13.87	$15.28	$16.83	***$5.20***	***$14.60***
DPS	$1.22	$1.27	$1.99	$3.23	$3.28	$3.79	$3.77	$3.95	$4.04	$4.02	***$0.00***	***$0.00***
Shares[1]	1570	1580	1580	1580	1570	1520	1490	1450	1425	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 when its results are converted to US$, as Toyota generates a large amount of its earnings in Japan and other overseas markets.

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 range of 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. Toyota's strong operating efficiency, which is centered around a focus on lean operations and fast throughput, 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 growth. As a cyclical automobile company, Toyota will suffer substantially from the coronavirus-induced recession in the near term, though, although we see a meaningful recovery in the 2020s.

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[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	34.0	11.7	10.3	9.8	10.0	10.5	8.6	7.9	6.8	***11.2***	***8.5***
Avg. Yld.	1.6%	1.7%	2.3%	2.7%	2.7%	2.9%	3.4%	3.5%	3.7%	3.5%	***0.0%***	***0.0%***

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 around 11 times this year's earnings power estimate, which tries to adjust for the near-term coronavirus impact. This does not represent a low valuation compared to how Toyota's shares were valued in the past, and due to the issues in the industry, such as need for heavy electrification investments, we believe that fair value is at a lower level of 8-9 times annual net profits, which means that we see Toyota's shares as overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	64.6%	57.7%	27.5%	27.4%	26.6%	29.4%	35.1%	29.9%	28.8%	23.9%	---	---

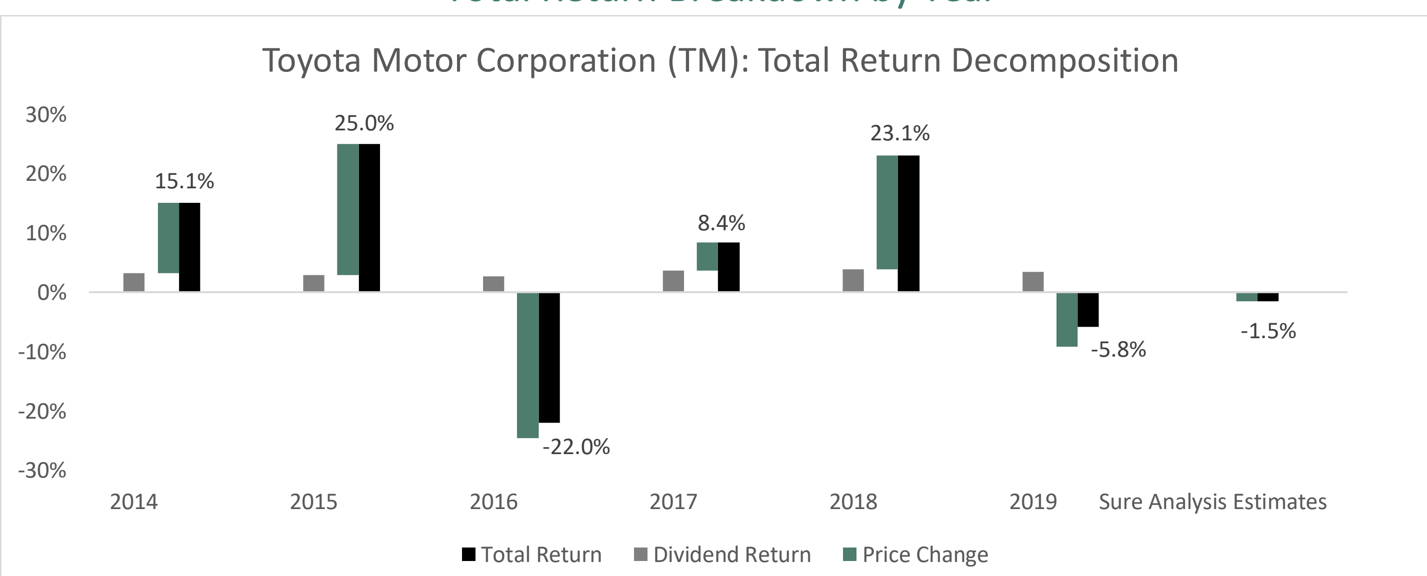
Toyota's dividend payout ratio declined substantially following the last financial crisis, when earnings started to normalize again. The company currently plans to make no dividend payments during fiscal 2021, which is not a big surprise, as its profits and cash flows will take a very large hit due to the pandemic.

Toyota was hit hard during the last financial crisis, like all of its peers. During other global downturns, such as the current pandemic crisis, the company will suffer from substantial sales declines as well. 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 2020 were quite strong. Toyota is famous for its operating efficiency, and has produced relatively solid earnings growth during the last couple of years. Fiscal 2021 will be a big down year for the company, however, and shares currently look overvalued. Since forecasted total returns are not attractive from the current price, we rate Toyota a sell.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue ($B)	220593	235451	266985	256514	249047	236695	255194	265163	272639	275380
Gross Profit	27622	27811	41422	48831	49315	48314	44967	49553	49105	49755
Gross Margin	12.5%	11.8%	15.5%	19.0%	19.8%	20.4%	17.6%	18.7%	18.0%	18.1%
SG&A Exp.	22184	23306	25439	25946	24162	24531	26525	27893	26847	27278
D&A Exp.	13653	13529	13372	12489	12885	13549	14897	15650	16167	14771
Operating Profit	5439	4506	15983	22885	25153	23783	18442	21660	22258	22476
Op. Margin	2.5%	1.9%	6.0%	8.9%	10.1%	10.0%	7.2%	8.2%	8.2%	8.2%
Net Profit	4741	3593	11643	18202	19874	19273	16932	22509	16984	19103
Net Margin	2.1%	1.5%	4.4%	7.1%	8.0%	8.1%	6.6%	8.5%	6.2%	6.9%
Free Cash Flow	3865	(1009)	5774	9658	3001	3347	250	5636	250	(41)
Income Tax	3633	3323	6676	7666	8170	7319	5816	4552	5953	6288

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	358414	372409	376833	402648	397637	421963	436022	473401	468419	487452
Cash & Equivalents	25010	20402	18248	19834	19033	26152	26788	28722	32240	38775
Acc. Receivable	67143	74294	75289	74482	69801	70400	74348	80624	81356	80585
Inventories	15677	19711	18222	18411	17808	18341	21364	23899	23958	22530
Total Liab. ($B)	227156	237952	241185	254765	250617	265301	273392	290563	287434	295566
Accounts Payable	18067	27247	22448	21506	20083	21260	22954	24340	23864	22523
LT Debt ($B)	149061	145867	150080	158653	158105	162754	171329	182061	181734	190177
Total Equity ($B)	124195	128186	129012	140597	139862	148997	156652	176306	174501	185621
D/E Ratio	1.20	1.14	1.16	1.13	1.13	1.09	1.09	1.03	1.04	1.02

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.4%	1.0%	3.1%	4.7%	5.0%	4.7%	3.9%	5.0%	3.6%	4.0%
Return on Equity	4.0%	2.8%	9.1%	13.5%	14.2%	13.3%	11.1%	13.5%	9.7%	10.6%
ROIC	1.8%	1.3%	4.1%	6.1%	6.5%	6.2%	5.2%	6.4%	4.7%	5.1%
Shares Out.	1570	1580	1580	1580	1570	1520	1490	1450	1425	1425
Revenue/Share	140.69	149.80	168.60	161.79	157.60	150.52	167.02	177.08	186.82	193.52
FCF/Share	2.47	(0.64)	3.65	6.09	1.90	2.13	0.16	3.76	0.17	(0.03)

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