Toyota Motor Corporation (TM)

Updated November 29th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$180	**5 Year CAGR Estimate:**	1.7%	**Market Cap:**	$245 B
Fair Value Price:	$150	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/29/22[1]
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	06/09/22
Dividend Yield:	2.4%	**5 Year Price Target**	$174	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**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 2022 second quarter and full year earnings results on November 4. The company generated revenues of 15.4 trillion Yen during the first half of the year, which equates to revenues of $135 billion. This was 36% more than the revenues that Toyota was able to generate during the previous year's period. Toyota generated operating profits that were up by a pretty huge 236% year over year, compared to the previous year's H1, which was possible thanks to the global recovery in automotive markets seen in the recent past, following the initial stages of the pandemic. Toyota was able to grow its revenue and profit at an attractive pace despite chip shortages.

Toyota's net profits rose versus the previous year, and earnings-per-share totaled $9.62 during the first half of the current year, on the back of strong sales. For this year, fiscal 2022, Toyota forecasts sales growth of around 10%, to 30 trillion Yen, which equates to $263 billion. Toyota believes that it will generate net profits of around 2.5 trillion Yen this year, which pencils out to earnings-per-share of $15.80, as Toyota expects some margin compression in H2.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.20	$7.24	$11.77	$12.31	$12.40	$10.72	$13.87	$15.28	$16.83	$17.25	***$15.80***	***$18.32***
DPS	$1.27	$1.99	$3.23	$3.28	$3.79	$3.77	$3.95	$4.04	$4.02	$4.40	***$4.40***	***$4.40***
Shares[2]	1580	1580	1580	1570	1520	1490	1450	1425	1425	1400	***1390***	***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% 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

[1] Estimated date
[2] In Millions

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another positive for Toyota's earnings growth. As a cyclical company, Toyota saw its sales decline during the pandemic, but due to strong cost controls, the company was able to offset sales headwinds, and profits remained strong.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	34.0	11.7	10.3	9.8	10.0	10.5	8.6	7.9	6.8	9.0	***11.4***	***9.5***
Avg. Yld.	1.7%	2.3%	2.7%	2.7%	2.9%	3.4%	3.5%	3.7%	3.5%	2.6%	***2.4%***	***2.5%***

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-per-share estimate. This represents a relatively high valuation compared to how Toyota's shares were valued in the past. Due to the issues in the industry, such as need for heavy electrification investments and growing competitive pressures, we believe that future fair value is at a lower level of 9-10 times annual net profits. We see some minor downside potential for Toyota's shares from the current level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	57.7%	27.5%	27.4%	26.6%	29.4%	35.1%	29.9%	28.8%	23.9%	23.3%	***27.8%***	***24.0%***

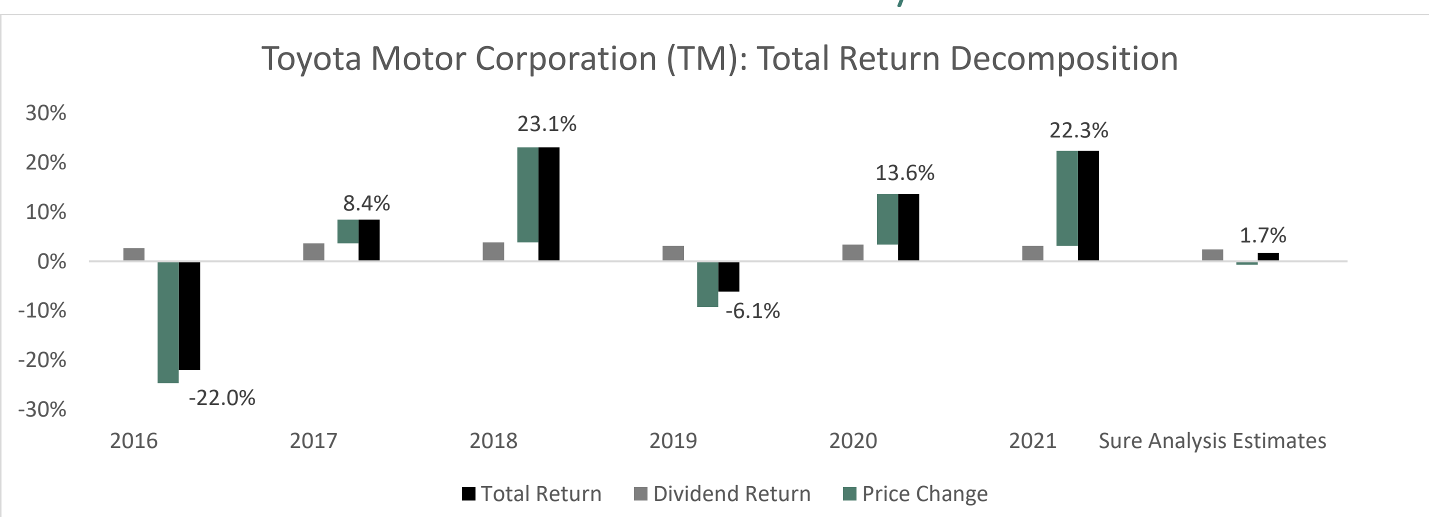
Toyota's dividend payout ratio declined substantially following the last financial crisis, when earnings started to rise again. We believe that dividends will remain flat for the foreseeable future, but there are no guarantees for that.

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 recent quarters were solid, considering the impact of the pandemic. Toyota is famous for its operating efficiency and has produced relatively solid earnings growth during the last couple of years. Toyota forecasts business growth, but no earnings-per-share growth for the current fiscal year. Due to weak expected returns, we rate Toyota a sell right here.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue ($B)	235.5	267.0	256.5	249.0	236.7	255.2	265.2	272.6	275.4	256.7
Gross Profit	27,811	41,422	48,831	49,315	48,314	44,967	49,553	49,105	49,755	45,585
Gross Margin	11.8%	15.5%	19.0%	19.8%	20.4%	17.6%	18.7%	18.0%	18.1%	17.8%
SG&A Exp.	23,306	25,439	25,946	24,162	24,531	26,525	27,893	26,847	27,278	24,853
D&A Exp.	13,529	13,372	12,489	12,885	13,549	14,897	15,650	16,167	14,771	15,511
Operating Profit	4,506	15,983	22,885	25,153	23,783	18,442	21,660	22,258	22,476	20,732
Op. Margin	1.9%	6.0%	8.9%	10.1%	10.0%	7.2%	8.2%	8.2%	8.2%	8.1%
Net Profit	3,593	11,643	18,202	19,874	19,273	16,932	22,509	16,984	19,103	21,180
Net Margin	1.5%	4.4%	7.1%	8.0%	8.1%	6.6%	8.5%	6.2%	6.9%	8.3%
Free Cash Flow	(1,009)	5,774	9,658	3,001	3,347	250	5,636	250	(41)	(9,818)
Income Tax	3,323	6,676	7,666	8,170	7,319	5,816	4,552	5,953	6,288	6,131

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	372.4	376.8	402.6	397.6	422.0	436.0	473.4	468.4	487.5	564.5
Cash & Equivalents	20,402	18,248	19,834	19,033	26,152	26,788	28,722	32,240	38,775	46,239
Acc. Receivable	74,294	75,289	74,482	69,801	70,400	74,348	80,624	81,356	80,585	88,066
Inventories	19,711	18,222	18,411	17,808	18,341	21,364	23,899	23,958	22,530	26,180
Total Liab. ($B)	238.0	241.2	254.8	250.6	265.3	273.4	290.6	287.4	295.6	344.3
Accounts Payable	27,247	22,448	21,506	20,083	21,260	22,954	24,340	23,864	22,523	36,676
LT Debt ($B)	145.9	150.1	158.7	158.1	162.8	171.3	182.1	181.7	190.2	232.6
Total Equity ($B)	128.2	129.0	140.6	139.9	149.0	156.7	176.3	174.5	185.6	212.2
D/E Ratio	1.14	1.16	1.13	1.13	1.09	1.09	1.03	1.04	1.02	1.10

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.0%	3.1%	4.7%	5.0%	4.7%	3.9%	5.0%	3.6%	4.0%	4.0%
Return on Equity	2.8%	9.1%	13.5%	14.2%	13.3%	11.1%	13.5%	9.7%	10.6%	10.6%
ROIC	1.3%	4.1%	6.1%	6.5%	6.2%	5.2%	6.4%	4.7%	5.1%	5.1%
Shares Out.	1580	1580	1580	1570	1520	1490	1450	1425	1425	1400
Revenue/Share	149.80	168.60	161.79	157.60	150.52	167.02	177.08	186.82	193.52	180.71
FCF/Share	(0.64)	3.65	6.09	1.90	2.13	0.16	3.76	0.17	(0.03)	(6.91)

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