Toyota Motor Corporation (TM)

Updated August 19th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$184	**5 Year CAGR Estimate:**	8.2%	**Market Cap:**	$250B
Fair Value Price:	$212	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	09/27/24[1]
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date:**	10/06/24[2]
Dividend Yield:	2.6%	**5 Year Price Target**	$245	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 2025 first quarter earnings results in August. The company generated revenues of 11.8 trillion Yen during the period, which equates to revenues of ~$80 billion. This was 12% more than the revenues that Toyota was able to generate during the previous year's period when denominated in Yen. Toyota generated operating profits of 1.31 trillion Yen, which was up by 17% versus the previous year's period, which was the result of higher margins thanks to lower input costs and higher revenues.

Toyota's net profits grew as well versus the previous year's period, and earnings-per-ADR (which are equal to 10 shares) totaled $6.70 during the quarter. Since the Yen has moved versus the USD over the last year, the growth rate in US Dollars was a bit different compared to the growth rate in Yen. While 2024 was an excellent year for the company, profits are forecasted to decline slightly this year, to around $21.15 per share. This would still be the second-best year in Toyota's history and would also be well above pre-pandemic levels.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$12.3	$12.4	$10.7	$13.9	$15.3	$16.8	$17.25	$15.90	$12.80	$23.40	***$21.15***	***$24.52***
DPS	$3.28	$3.79	$3.77	$3.95	$4.04	$4.02	$4.40	$4.55	$4.26	$4.50	***$4.86***	***$5.91***
Shares[3]	1570	1520	1490	1450	1425	1425	1400	1390	1380	1350	***1320***	***1300***

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 is an advantage in the BEV and hybrids market. 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. Toyota saw

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

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its sales decline during the pandemic, but profitability remained healthy. As inflationary pressures waned, Toyota saw its profits improve massively in fiscal 2024, and the profit outlook remains solid for 2025 and beyond.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	9.8	10.0	10.5	8.6	7.9	6.8	9.0	11.4	11.1	10.3	***8.7***	***10.0***
Avg. Yld.	2.7%	2.9%	3.4%	3.5%	3.7%	3.5%	2.6%	2.5%	3.0%	1.9%	***2.6%***	***2.4%***

Toyota has been valued at 8 to 12 times earnings since 2013, when its profits hit pre-recession levels again. Right now, shares trade for a little less than 9 times this year's earnings-per-share estimate. This represents a more than reasonable valuation compared to how Toyota's shares were valued in the past, we believe. Due to the issues in the industry, such as the need for heavy electrification investments, we believe valuations will not rise above 10x earnings, but that would still leave upside potential for Toyota's shares from the current level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	26.6%	29.4%	35.1%	29.9%	28.8%	23.9%	23.3%	28.6%	33.3%	19.2%	***23.0%***	***24.1%***

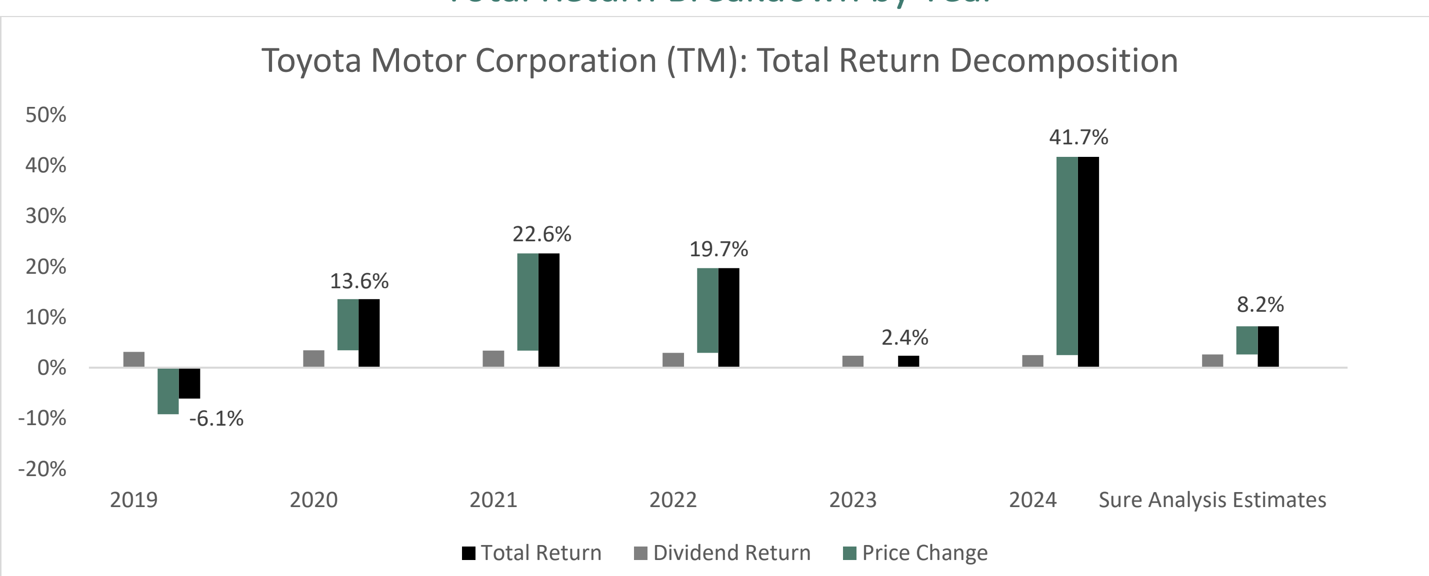
Toyota's dividend payout ratio declined substantially following the last financial crisis, when earnings started to rise again. We believe that dividends will remain flat for the foreseeable future, but there are no guarantees for that.

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. While the company battled some cost headwinds in the recent past, fiscal 2024 was a very strong year again. Toyota is famous for its operating efficiency, but due to massive industry changes, the future is still somewhat uncertain. Based on current estimates, Toyota trades below fair value. Due to solid but not great expected returns, we rate Toyota a hold right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue ($B)	249	237	255	265	273	275	257	280	275	313
Gross Profit	49,315	48,314	44,967	49,553	49,105	49,511	45,585	53,193	46,752	64,921
Gross Margin	19.8%	20.4%	17.6%	18.7%	18.0%	18.0%	17.8%	19.0%	17.0%	20.8%
SG&A Exp.	24,162	24,531	26,525	27,893	26,847	27,436	24,853	26,509	26,571	27,826
D&A Exp.	12,885	13,549	14,897	15,650	16,167	14,678	15,511	16,229	15,107	14,463
Operating Profit	25,153	23,783	18,442	21,660	22,258	22,075	20,732	26,685	20,180	37,095
Op. Margin	10.1%	10.0%	7.2%	8.2%	8.2%	8.0%	8.1%	9.5%	7.3%	11.9%
Net Profit	19,874	19,273	16,932	22,509	16,984	18,734	21,180	25,388	18,153	34,268
Net Margin	8.0%	8.1%	6.6%	8.5%	6.2%	6.8%	8.3%	9.1%	6.6%	11.0%
Free Cash Flow	3,001	3,347	250	5,636	250	(12,403)	(9,818)	(959)	(5,560)	(5,835)
Income Tax	8,170	7,319	5,816	4,552	5,953	6,273	6,131	9,940	8,707	13,123

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets ($B)	397.64	421.96	436.02	473.40	481.76	499.41	564.45	554.57	557.65	595.39
Cash & Equivalents	19,033	26,152	26,788	28,722	32,494	37,923	46,239	50,089	56,415	62,185
Acc. Receivable	69,801	70,400	74,348	80,624	81,701	80,813	82,112	79,044	82,834	98,092
Inventories	17,808	18,341	21,364	23,899	24,631	23,446	26,180	31,308	31,938	30,428
Total Liab. ($B)	250.62	265.30	273.39	290.56	295.47	301.96	344.28	332.09	338.02	362.56
Accounts Payable	20,083	21,260	22,954	24,340	24,121	21,785	26,775	25,956	28,664	34,696
LT Debt ($B)	158.10	162.75	171.33	182.06	186.25	194.61	229.33	213.64	217.08	241.56
Total Equity ($B)	139.86	149.00	156.65	176.31	179.54	190.79	212.16	215.03	212.68	226.10
LTD/E Ratio	1.13	1.09	1.09	1.03	1.04	1.02	1.08	0.99	1.02	1.07

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.0%	4.7%	3.9%	5.0%	3.6%	3.8%	4.0%	4.5%	3.3%	5.9%
Return on Equity	13.5%	12.7%	10.6%	13.0%	9.2%	9.8%	10.1%	11.5%	8.2%	15.1%
ROIC	6.5%	6.2%	5.2%	6.4%	4.6%	4.9%	5.0%	5.7%	4.2%	7.5%
Shares Out.	1570	1520	1490	1450	1425	1425	1400	1390	1380	1350
Revenue/Share	157.60	150.52	167.02	177.08	186.82	193.11	180.71	201.27	201.45	231.27
FCF/Share	1.90	2.13	0.16	3.76	0.17	(8.72)	(6.91)	(0.69)	(4.07)	(4.32)

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