

## Toyota Motor (7203)

## Daihatsu mis-certification update: Initially revoked on only three models

Maintain Rating: BUY | PO: 3,300 JPY | Price: 2,855 JPY

## MLIT's probe results, rectification order

In response to the results of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) on-site inspection into [certification misconduct \(please refer to our 20 December report\)](#), Daihatsu announced in the afternoon of 16 January (1) the start of procedures to revoke type certification on three models (Grand Max, Toyota TownAce, Mazda Bongo), (2) confirmation of fresh misconduct cases, and (3) an MLIT order for swift notification if recalls are required for two models (Cast, Toyota Pixis Joy) potentially in violation of standards.

## Revocation of only 3 models could limit impact

The situation remains unclear, but we think the negative impact on Toyota's earnings could be limited if type certification is revoked on only three models, though depending on when shipments of other models resume (reported 3-model aggregate annual production of around 100k units, which is around 7% of global production). We previously estimated the adverse impact of Daihatsu's production shutdown at around –¥140bn/month for global production and –¥100bn/month for domestic production.

## Could Daihatsu become a mini-vehicle specialist?

Furthermore, following the on-site inspection results announcement, Toyota's president Koji Sato commented to the media that the company aimed to announce measures to prevent recurrence and a new management structure at Daihatsu in about a month's time. According to media sources, Sato suggested a rethink of the models manufactured by Daihatsu, looking at shifting Daihatsu towards specialization in mini-vehicles, with Toyota considering deploying its own personnel to Daihatsu development sites as well. In terms of the overhaul to Daihatsu's core models, we will also keep a close eye on changes in Suzuki Motor's role in ASEAN (mainly Indonesia) within the Toyota group.

Estimates (¥)	3/22A	3/23A	3/24E	3/25E	3/26E
	US GAAP	US GAAP	US GAAP	US GAAP	Other GAAP
EPS	205.23	179.47	310.25	334.37	346.95
EPS Change (YoY)	27.7%	-12.6%	72.9%	7.8%	3.8%
Dividend / Share	52	60	93	100	104
BPS	1,889.9	2,074.8	2,282.6	2,500.0	2,727.1
<b>Valuation</b>					
P/E	13.9x	15.9x	9.2x	8.5x	8.2x
Dividend Yield*	1.8%	2.1%	3.3%	3.5%	3.6%
P/B	1.5x	1.4x	1.3x	1.1x	1.0x
EV/ EBITDA*	13.2x	13.3x	9.4x	8.7x	8.4x
Free Cash Flow Yield*	0.6%	-1.0%	2.8%	3.0%	2.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

17 January 2024

## Equity

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## Stock Data

Price (Common / ADR)	2,855 JPY / 195.60 USD
Price Objective	3,300 JPY / 213.16 USD
Date Established	1-Nov-2023/ 1-Nov-2023
Investment Opinion	B-1-7 / A-1-7
52-Week Range	1,764-2,934 JPY
Market Value (mn)	40,990,620 JPY
Market Value (\$mn)	278,962 USD
Shares Outstanding (mn)	14,360.0
Average Daily Value (\$mn)	605.6 USD
Free Float	49.9%
BofA Ticker / Exchange	TOYOF / TYO
BofA Ticker / Exchange	TM / NYS
Bloomberg / Reuters	7203 JP / 7203.T
ROE (2024E)	14.2%
Net Dbt to Eqty (Mar-2023A)	74.7%

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**Refer to important disclosures on page 7 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 16 January 2024 06:42PM EST

# iQprofile<sup>SM</sup> Toyota Motor (7203)

Key Income Statement Data	3/22A	3/23A	3/24E	3/25E	3/26E
(¥ Billions)	US GAAP	US GAAP	US GAAP	US GAAP	Other GAAP
<b>Sales</b>	<b>31,379.5</b>	<b>37,154.3</b>	<b>43,282.0</b>	<b>43,545.0</b>	<b>43,968.0</b>
% Change	15.3%	18.4%	16.5%	0.6%	1.0%
Gross Profit	5,971.7	6,313.0	8,624.5	9,287.5	9,583.1
EBITDA	4,817.6	4,764.9	6,795.0	7,319.0	7,541.0
<b>Operating Profit</b>	<b>2,995.7</b>	<b>2,725.0</b>	<b>4,670.0</b>	<b>5,143.0</b>	<b>5,313.0</b>
% Change	36.3%	-9.0%	71.4%	10.1%	3.3%
Net Interest & Other Income	507.0	378.8	383.0	386.3	386.3
<b>Pretax Income</b>	<b>3,990.5</b>	<b>3,668.7</b>	<b>5,691.1</b>	<b>6,269.5</b>	<b>6,469.2</b>
% Change	36.1%	-8.1%	55.1%	10.2%	3.2%
<b>Net Income</b>	<b>2,850.1</b>	<b>2,451.3</b>	<b>4,196.9</b>	<b>4,498.1</b>	<b>4,641.3</b>

Key Cash Flow Statement Data					
Net Income from Cont Operations (GAAP)	2,850.1	2,451.3	4,196.9	4,498.1	4,641.3
Depreciation & Amortization	1,821.9	2,039.9	2,125.0	2,176.0	2,228.0
Change in Working Capital	22.1	236.6	40.6	79.3	(356.0)
Capital Expenditure	(3,484.2)	(3,357.6)	(3,775.0)	(3,851.0)	(3,928.0)
<b>Free Cash Flow*</b>	<b>238.5</b>	<b>(402.5)</b>	<b>1,164.7</b>	<b>1,209.6</b>	<b>838.6</b>
Share Issue / (Repurchase)	(404.7)	(431.1)	(200.0)	(200.0)	(200.0)
Cost of Dividends Paid	(761.6)	(813.0)	(1,258.1)	(1,345.2)	(1,391.2)

Key Balance Sheet Data					
Cash & Equivalents	6,113.7	7,517.0	6,487.6	8,662.5	10,480.8
Trade Receivables	10,324.2	11,865.9	11,704.7	11,472.4	11,586.2
Other Current Assets	7,284.5	7,076.9	7,252.5	7,097.1	7,166.1
Property, Plant & Equipment	12,326.6	12,634.0	13,237.0	13,852.0	14,480.0
Other Non-Current Assets	31,639.8	35,209.4	35,374.3	35,540.9	35,709.1
<b>Total Assets</b>	<b>67,688.8</b>	<b>74,303.2</b>	<b>74,056.2</b>	<b>76,624.8</b>	<b>79,422.1</b>
Short-Term Debt	11,187.8	12,305.6	9,721.3	9,721.3	9,721.3
Other Current Liabilities	10,654.3	11,654.1	11,381.2	11,118.4	10,984.4
Long-Term Debt	15,308.5	17,074.6	17,074.6	17,074.6	17,074.6
Other Non-Current Liabilities	3,383.3	4,004.6	4,004.6	4,004.6	4,004.6
<b>Total Liabilities</b>	<b>40,534.0</b>	<b>45,039.0</b>	<b>42,181.7</b>	<b>41,918.9</b>	<b>41,784.9</b>
<b>Total Equity</b>	<b>27,154.8</b>	<b>29,264.2</b>	<b>31,874.4</b>	<b>34,705.9</b>	<b>37,637.2</b>
<b>Total Equity &amp; Liabilities</b>	<b>67,688.8</b>	<b>74,303.2</b>	<b>74,056.2</b>	<b>76,624.8</b>	<b>79,422.1</b>

## Key Metrics

### iQ<sub>method</sub><sup>SM</sup> – Business Performance\*

Return On Capital Employed	4.4%	3.5%	6.1%	6.4%	6.3%
Return On Equity	11.5%	9.0%	14.2%	13.9%	13.2%
Operating Margin	9.5%	7.3%	10.8%	11.8%	12.1%

### iQ<sub>method</sub><sup>SM</sup> – Quality of Earnings\*

Cash Realization Ratio	1.3x	1.2x	1.2x	1.1x	1.0x
Asset Replacement Ratio	1.9x	1.6x	1.8x	1.8x	1.8x
Tax Rate (Reported)	28.0%	32.0%	25.0%	27.0%	27.0%
Net Debt-to-Equity Ratio	75.1%	74.7%	63.7%	52.2%	43.3%
Interest Cover	68.1x	21.8x	65.7x	75.9x	78.4x

\* For full definitions of iQ<sub>method</sub><sup>SM</sup> measures, see page 6.  
Other GAAP denotes Japanese Accounting Standards.

## Company Sector

Autos/Car Manufacturers

## Company Description

One of the world's largest automakers. Contends with global leaders VW Group and GM in sales volume. Following 2008 financial crisis, has struggled with quality issues in the US and production cutbacks due to Japan's earthquake, but regained top global market share in 2012. US market is its traditional earnings driver, but recently starting to tap into emerging markets such as ASEAN and India. Highest domestic production rates of Japan's big three (Toyota, Nissan, Honda). Established in 1937.

## Investment Rationale

We rate Toyota Buy. We have high confidence in near-term earnings as the company has been able to minimize the impact of semiconductor shortages. We expect it to continue to post record-high profits from FY3/22 onwards. In the long term, amid calls for initiatives to promote decarbonization, we see Toyota as one of the rare companies that can contribute to decarbonization without relying solely on BEVs by utilizing its abundant technological capabilities.



## Price objective basis & risk

### Toyota Motor (7203 / TOYOF / TM)

Our 12-month PO for Toyota is ¥3,300 (ADR: \$213.16). We apply a fair-value EV/EBITDA of 4.3x derived from the average EV/EBITDA (ex financing) of 3.9x for FY3/17-19, a decarbonization premium of 15%, 5% for potential action to address share price weakness, and a topline visibility discount of 10% (net +10%), to our 12-month forward EBITDA (ex financing) estimate of ¥6.7tn to calculate fair-value market cap (ex financing). Then we add back financial services shareholders' equity of ¥5.0tn to obtain companywide market cap. Risks are forex swings, a prolonged semiconductor shortage, and an increase in material costs.

## Analyst Certification

I, Kei Nihonyanagi, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as financial advisor to Daimler Truck Holding AG in connection with the proposed business combination between its subsidiary Mitsubishi Fuso Truck and Bus Corporation and Hino Motors, Ltd., a subsidiary of Toyota Motor Corporation, which was announced on May 30, 2023. The proposed transaction is subject to approval by shareholders of Hino Motors, Ltd. This research report is not intended to (1) provide voting advice, (2) serve as an endorsement of the proposed transaction, or (3) result in the procurement, withholding or revocation of a proxy.

### APR - Autos Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aima Technology	XIHB	603529 CH	Joey Yang, CFA
	Ashok Leyland	XDBV	AL IN	Gunjan Prithyani
	Bajaj Auto	XBJB	BJAUT IN	Gunjan Prithyani
	BYD	BYDD	1211 HK	Ming Hsun Lee, CFA
	BYD	XYMP	002594 CH	Ming Hsun Lee, CFA
	BYD	BYDD	BYDDY US	Ming Hsun Lee, CFA
	CATL	XMOQ	300750 CH	Ming Hsun Lee, CFA
	DENSO	DNZO	6902 JP	Kei Nihonyanagi
	Desay SV	XGDF	002920 CH	Jessie Lo
	EVE	XEVF	300014 CH	Ming Hsun Lee, CFA
	Fuyao Glass	XFGI	600660 CH	Edward Leung, CFA
	Fuyao Glass	FIGI	3606 HK	Edward Leung, CFA
	Great Wall Motor	GWLL	2333 HK	Ming Hsun Lee, CFA
	GS Yuasa	GYUA	6674 JP	Kentaro Hosoda
	Guangzhou Automobile Group	GNZU	2238 HK	Ming Hsun Lee, CFA
	Hankook Tire	XHTR	161390 KS	KJ Hwang
	Hero Motocorp	HRHD	HMCL IN	Gunjan Prithyani
	Hesai	HSAI	HSAI US	Jessie Lo
	HL Mando	XMAD	204320 KS	KJ Hwang
	Honda Motor	HMC	HMC US	Kei Nihonyanagi
	Honda Motor	HNDA	7267 JP	Kei Nihonyanagi
	Huayu	XHAS	600741 CH	Jessie Lo
	Hyundai Motor	HYML	005380 KS	KJ Hwang
	Isuzu Motors	ISUZ	7202 JP	Kei Nihonyanagi
	Leapmotor	XZSF	9863 HK	Ming Hsun Lee, CFA
	Li Auto	LI	LI US	Ming Hsun Lee, CFA
	Li Auto	LAAO	2015 HK	Ming Hsun Lee, CFA
	Maruti	MUDG	MSIL IN	Gunjan Prithyani

## APR - Autos Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Mazda Motor	MZDAF	7261 JP	Kei Nihonyanagi
	Minth	MNTHF	425 HK	Jessie Lo
	Ningbo Tuopu	XNCGF	601689 CH	Joey Yang, CFA
	Nissan Motor	NSANF	7201 JP	Kei Nihonyanagi
	Nissan Motor	NSANY	NSANY US	Kei Nihonyanagi
	PARK24	PKCOF	4666 JP	Kei Nihonyanagi
	SAMIL (Motherson International)	XMSUF	MOTHERSO IN	Gunjan Prithyani
	Shenzhen Kedali	XWCSF	002850 CH	Jessie Lo
	Shuanghuan Driveline	XZSHF	002472 CH	Jessie Lo
	Sumitomo Rubber Industries	SMTUF	5110 JP	Kentaro Hosoda
	Suzuki Motor	SZKMF	7269 JP	Kei Nihonyanagi
	Tata Motors	XTTSF	TTMT IN	Gunjan Prithyani
	Toyo Tire	TOTTF	5105 JP	Kentaro Hosoda
	Toyota Motor	TOYOF	7203 JP	Kei Nihonyanagi
	Toyota Motor	TM	TM US	Kei Nihonyanagi
	Wuxi Lead	XZSRF	300450 CH	Ming Hsun Lee, CFA
	XPeng Inc	XPEV	XPEV US	Ming Hsun Lee, CFA
	XPeng Inc.	XPNGF	9868 HK	Ming Hsun Lee, CFA
	Yadea	YADGF	1585 HK	Joey Yang, CFA
	Yongda	CYYHF	3669 HK	Joey Yang, CFA
	Yunnan Energy	XLGFF	002812 CH	Jessie Lo
	Zhejiang Sanhua	XZSIF	002050 CH	Jessie Lo
	Zhongsheng Auto	ZHSHF	881 HK	Joey Yang, CFA
<b>NEUTRAL</b>				
	Aisin	ASEKF	7259 JP	Kei Nihonyanagi
	Bridgestone	BRDCF	5108 JP	Kei Nihonyanagi
	Bridgestone	BRDCY	BRDCY US	Kei Nihonyanagi
	CALB	XCLSF	3931 HK	Ming Hsun Lee, CFA
	Dong Feng	DNFGF	489 HK	Ming Hsun Lee, CFA
	Eicher Motors	XEIMF	EIM IN	Gunjan Prithyani
	Hino Motors	HINOF	7205 JP	Kei Nihonyanagi
	Hyundai Mobis	HYPLF	012330 KS	KJ Hwang
	Kia Corp	KIMTF	000270 KS	KJ Hwang
	Mahindra & Mahindra (M&M)	XKQRF	MM IN	Gunjan Prithyani
	MeiDong Auto	CMEIF	1268 HK	Joey Yang, CFA
	Motherson Sumi Wiring	XMWDF	MSUMI IN	Gunjan Prithyani
	NIO	NIO	NIO US	Ming Hsun Lee, CFA
	NIO	NIOIF	9866 HK	Ming Hsun Lee, CFA
	NIO	XLTWf	NIO SP	Ming Hsun Lee, CFA
	Shenzhen Senior	XHYRF	300568 CH	Jessie Lo
	Subaru Corp	FUJHF	7270 JP	Kei Nihonyanagi
	Subaru Corp	FUJHY	FUJHY US	Kei Nihonyanagi
	Toyota Industries Corporation	TYIDF	6201 JP	Kentaro Hosoda
	Toyota Industries Corporation	TYIDY	TYIDY US	Kentaro Hosoda
	TVS Motors	XFKMF	TVSL IN	Gunjan Prithyani
	Wencan	XSCDF	603348 CH	Joey Yang, CFA
	Yokohama Rubber	YORUF	5101 JP	Kentaro Hosoda
<b>UNDERPERFORM</b>				
	Astra International	PTAIF	ASII IJ	Paul Dewberry
	BAIC Motor	BMCLF	1958 HK	Ming Hsun Lee, CFA
	Bharat Forge	XUUVF	BHFC IN	Gunjan Prithyani
	China Grand Auto	XMURF	600297 CH	Joey Yang, CFA
	Escorts Kubota	XSCOF	ESCORTS IN	Gunjan Prithyani
	GAC	XGNHF	601238 CH	Ming Hsun Lee, CFA
	Great Wall Motor	XGWMF	601633 CH	Ming Hsun Lee, CFA
	Hyundai Wia	XWHYF	011210 KS	KJ Hwang
	Joyson	XQMWF	600699 CH	Jessie Lo
	Mitsubishi Motors	MMTOF	7211 JP	Kei Nihonyanagi
	Nextage	NXAGF	3186 JP	Kentaro Hosoda
	Nexteer	NTXVF	1316 HK	Jessie Lo
	Putailai	XVHGF	603659 CH	Jessie Lo
	SAIC Motor	XZNFJ	600104 CH	Ming Hsun Lee, CFA
	Sona Comstar	XBNXF	SONACOMS IN	Gunjan Prithyani
	Tinci Materials	XCVHF	002709 CH	Miriam Chan, CFA



## APR - Autos Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Yamaha Motor	YAMHF	7272 JP	Kei Nihonyanagi
<b>RVW</b>	Geely	GELYF	175 HK	Ming Hsun Lee, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

**iQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

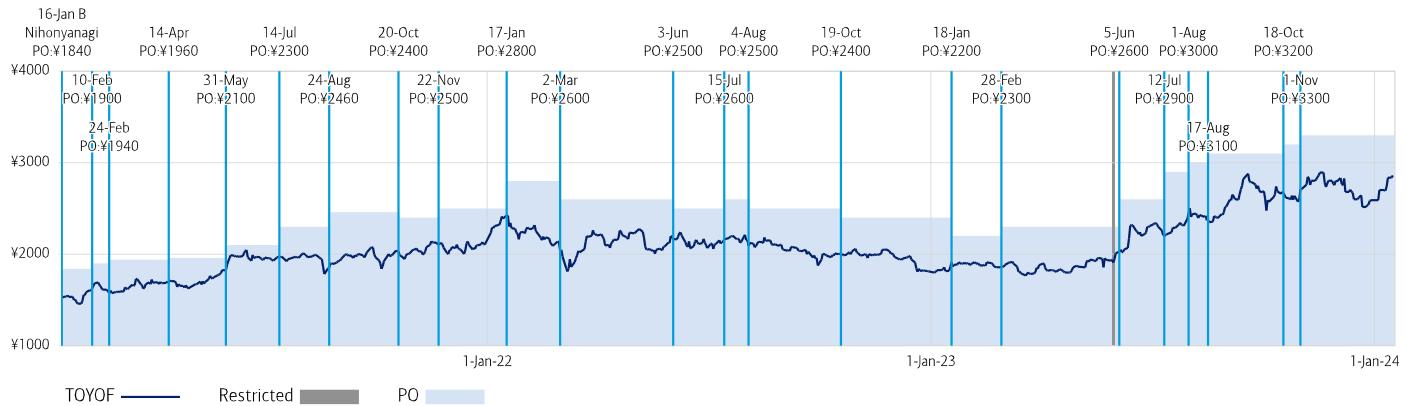
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# Disclosures

## Important Disclosures

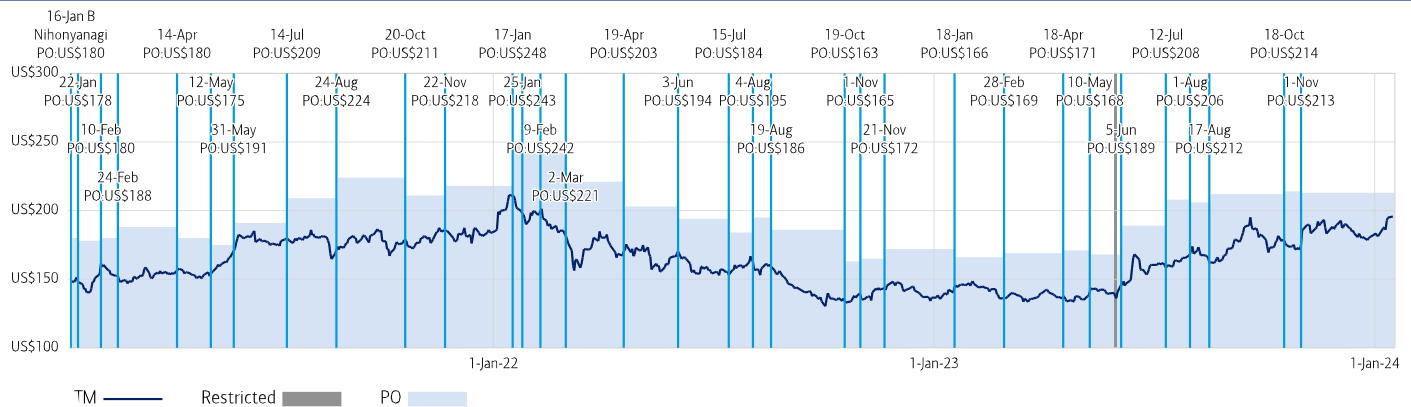
### Toyota Motor (TOYOF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Toyota Motor (TM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Autos Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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