

# Toyota's Stock Price Drops; Yearly Earnings Forecast Unchanged

*Toyota's results for 2Q 2021 showed record-high profit for this period. The full-year forecast remains unchanged and stock faces a JPY 10,000 "wall."*

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News] On August 4, Toyota Motor Corporation (7203) announced its consolidated financial results (International Financial Reporting Standards) for the April-June period of 2021. Operating income had increased to JPY997.4 bn, exceeding the QUICK consensus, which aggregates analyst forecasts (8 companies; JPY732.7 bn as of July 19). The company achieved a record-high profit for the April-June period, although it kept its full-year FY3/22 forecast unchanged due to uncertainty about the future. It will take some time for the share price to establish itself at the JPY10,000 mark, as the company must address production risks and deal with structural changes.



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## □ Considering uncertainty

Sales increased to JPY7.9355 tn (+72% YoY) and net profit increased to JPY897.8 bn. The group's global sales volume increased to 2.75 million units (+49% YoY). Sales of sport-utility vehicles (SUVs) and other vehicles were strong worldwide.

Although many people believed that "the semiconductor shortage plaguing the automotive industry would have a limited impact on Toyota" (automobile analyst in domestic securities firm), the company acknowledged that it would be difficult to know when the situation would be resolved. In the April-June period, the spread of COVID-19 and the semiconductor shortage had an impact on production amounting to about 100,000 units.

On August 4, the belief that an upward correction would occur was shown to have been erroneous, and Toyota's stock price fell on the Tokyo Stock Exchange in the afternoon. At one point, it dropped to JPY9,825, down by JPY230 (-2.3%) from the previous day.

□ “Structural changes” – the key evaluation parameter

Since reaching a listed high (JPY10,330) in June, no position above JPY10,000 has been firmly established, and this figure has been recognized as a “wall.”

It is said that the automotive industry has entered a once-in-a-century period of transformation. Takaki Nakanishi, CEO of Nakanishi Research Institute, points out that efforts to deal with structural change are more important in determining market valuation than the immediate profit figures. The first phase of the battle is currently underway over the shift to EVs (electric vehicles).

Toyota has indicated that it plans to sell 8 million EVs and other electric vehicles in 2030. However, says Mr. Nakanishi, "it is difficult to say that Japanese automobile manufacturers have dealt with this change in earnest." The PER (price earnings ratio) is approximately 12x, which is below the TSE First Section average (15x). Surviving structural changes such as decarbonization and digitalization will also be essential for improving the market valuation

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