

Toyota Motor Credit (7203 JP)

FUNDAMENTAL VIEW ¹

As of 29 Feb 2024

- Toyota's slower ramp of battery electric vehicle (BEV) production and sales relative to its peers was a common investor concern a year ago. However, with the recent slowdown in consumer adoption of BEVs in North America and Europe and Toyota's dominance in the hybrid electric vehicle (HEV) market, those concerns have abated, at least for the time being. Importantly, Toyota management has indicated its profitability of its HEV portfolio is on par with its ICE portfolio profitability. We continue to believe that Toyota's market leading position in HEVs provides consumers with a more eco-friendly option than traditional ICE vehicles that can serve as a bridge to EVs while the charging infrastructure is built out and the cost of producing EVs is reduced.

RISKS & CATALYSTS

As of 29 Feb 2024

- Toyota Motor Credit Corporation (TMCC) credit metrics stable. TMCC F3Q24 earnings before taxes increased 50% YoY and 3x sequentially. At F3Q24 the delinquency rate expanded 10 bp YoY to 0.9%, nearly double pre-pandemic levels, while the retail charge-off rate expanded 10bp YoY to 0.7%. The company notes that changes in interest rates or unemployment could increase credit losses and additional provisioning. Additionally, elevated prices and high borrowing costs have impacted some consumers' ability to make scheduled payments resulting in an increase in consumer delinquencies and charge-offs.

KEY METRICS

As of 29 Feb 2024

¥ BN	FY20	FY21	FY22	FY23	F3Q24
Total Company Earning Assets	110,621	116,546	117,659	120,018	129,320
Cash and Investments	6,790	8,195	7,670	6,398	6,458
Total Liquidity	31,390	35,895	36,070	33,498	35,058
Unsecured Debt	83,172	85,513	82,288	78,949	85,744
Secured Debt	14,568	24,212	26,864	32,736	33,262
Total Debt	97,740	109,725	109,152	111,685	119,006
Allowance % Retail Rece.	0.86%	1.64%	1.66%	1.83%	1.81%
Allowance / Net Charge-offs	1.58x	4.50x	6.68x	3.03x	2.56x
Net Charge-offs % Avg. Receivable	0.56%	0.39%	0.26%	0.63%	0.72%
30+ Day Delinquency Rate	1.8%	1.2%	1.8%	2.3%	3.1%

BUSINESS DESCRIPTION

As of 29 Feb 2024

- Toyota Motor Corp. (TMC) engages in the manufacture and sale of motor vehicles and parts. The Financial Services segment offers purchase or lease financing to Toyota vehicle dealers and customers. It also provides retail leasing through lease contracts purchased by dealers. The company was founded by Kiichiro Toyoda on August 28, 1937, and is headquartered in Toyota, Japan. In July 2000, the company established Toyota Financial Services Corporation (TFSC), a wholly owned subsidiary, to oversee the management of its finance companies worldwide.
- Toyota Financial Services Corporation (TFSC), a wholly owned subsidiary of TMC, oversees the management of Toyota's finance companies worldwide. Toyota Motor Credit Corporation (TMCC) is the company's principal financial services subsidiary in the United States and is an indirect wholly owned subsidiary. Under terms of the credit support agreement between TFSC and TMCC, TFSC agrees to: (1) maintain 100% ownership of TMCC; (2) cause TMCC and its subsidiaries to have a tangible net worth of at least \$100,000; (3) make sufficient funds available to TMCC so that it will be able to service the obligations arising out of its own bonds, debentures, notes and other investment securities and commercial paper. The terms of the credit support agreement between TMC and TFSC are very similar to the terms of the TFSC and TMCC credit support agreement.

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