

Toyota Motor Corporation (NYSE: TM)

Recommend Buy at 2.5% | PT: \$227.72

March 24th, 2025



CIMG Investment Research

Toyota: A Japanese Multinational Auto Manufacturer

Founded in 1937, Toyota Motor Corporation (NYSE: TM), based in Toyota City, Japan, has grown to be one of the largest and most influential automakers in the world. It was in 1938 that they launched their first passenger car, the Model AA, which was heavily influenced by American design. By the 1980s and 1990s, TM had expanded globally, with established plants in North America, Europe, and Asia. Under both lines: Toyota and Lexus, the companies sell all kinds of vehicles catering to different customer needs: sedans, SUVs and crossovers, trucks, minivans, and sports cars. Within their automobile segment, they pride themselves on being a pioneer in hybrid technology since the introduction of the Prius to America in 2000. TM continues to develop electric and fuel-cell vehicles as part of its long-term sustainability goals. Additionally, TM provides a range of financial services to customers and dealers, including vehicle financing, leasing, insurance, and credit services. Future mobility is an area Toyota is prioritizing by investing in emerging technologies like autonomous driving, connected cars, and the development of smart cities like 'The Woven City.' Toyota's decades of commitment to quality and cost efficiency have helped them grow to be the leading global auto manufacturer.

Investment Thesis

TM is Well Positioned As EV Euphoria and Hype is Dwindling. Due to the industry's overly bullish views on EVs, there is an opportunity to buy a leading automaker at a discount. We believe the hype surrounding such vehicles is overblow supported by the economics surrounding such vehicles being illogical. EVs produce 60% more toxic emissions than an equivalent HEV. When comparing such emissions during the manufacturing process, EVs generally have a higher initial carbon footprint than HEVs due to the energy-intensive battery production. While these emissions are lower during the lifetime of the vehicles, there are significantly more headwinds in dealing with the batteries of EVs subsequent to their useful life. This is just one illustration of the lack of feasibility of widespread economic usage of EVs. This additionally is proliferated through running costs and the initial pricing of such vehicles. Due to these factors, widespread EV adoption is not feasible during our holding period, thus posing an opportunity to exploit the dislocation between expectations and reality.

TM is Ahead of Constantly Changing Consumer Preferences with Strong Positioning in Turbulent Times. Toyota has continually been a first mover in terms of delivering consumer preferences at the right time. This started with the emergence of a Hybrid Prius model in 2000 and has continued with its regional-focused strategy. Despite this, TM was thought to be left behind when it took a slower mode of entry into the EV space. Their contrarian decision and delayed entry have begun to pay off, as we have seen slowed BEV growth as we are passing the baton back to HEVs. Toyota's strategy across countries is specific and adapted to consumer preferences, allowing it to continually be ahead of competitors. Outside of this, their approach is holistic in the sense of being realistic about current infrastructure and the feasibility of EVs, which is differentiated as competing automakers have heavily invested in EVs and are struggling to shift to a more hybrid-focused consumer. So, how is Toyota able to make this shift? Toyota has maintained stable production with the lowest inventory days in the industry despite various industry headwinds, such as the chip and supply shortages during COVID-19. This, paired with the growing age of US passenger cars, poses a supply and demand arbitrage that bodes well for Toyota despite looming fears of tariffs. TM has been ahead of the industry with differentiated beliefs and infrastructure regarding such tariffs. Dealerships continue to maintain confidence in supply and TM's ability to scale and weather such headwinds, for example in April 2025, Toyota will open a production center in North Carolina, which will allow for a lower tariff impact in the US. Altogether, TM is well-positioned and continually vigilant of consumer preferences while making strategic decisions.

Consumer Staples Committee

Isabella Martin – Committee Head
ikmartin@crimson.ua.edu

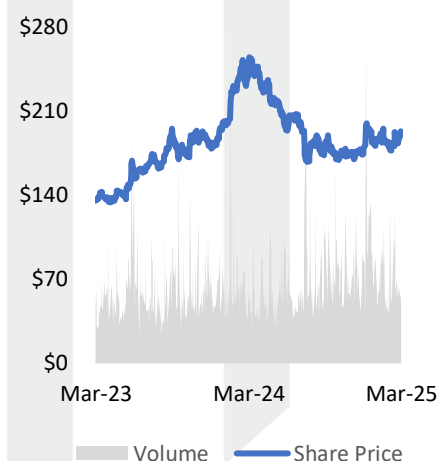
Caroline Egger – Senior Analyst
coegger@crimson.ua.edu

Ethan Sneckenberger – Senior Analyst
ebsneckenberger@crimson.ua.edu

Stinson McKinnon – Analyst
wsmckinnon@crimson.ua.edu

Heidi Almskog – Analyst
hdalmskog@crimson.ua.edu

Figure 1: TM 2 Year Stock Chart



Price	\$190.70
PT	\$227.72
Dividend Yield	2.87%
Upside	19.41%
52-Week Range	\$159.04 – \$255.23
Mkt Cap	\$252.15B
LTM P/E	7.20x
LTM EV/EBITDA	8.50x

TM Has a Strong Management Team with Investors Getting Paid to Wait. TM's management team has over 160 years of combined experience with the company. From the Board to the C-suite, TM continues to focus on long-term growth and process excellence. This has recently been demonstrated with management's disciplined approach to the EV trend. Despite the ridicule and punishment it has imposed on their stock, TM maintains their gradual and strategic shift into including EVs in their marketing mix. The stock has a respectable ~3.8% dividend yield and has consistently increased shareholder value through this. TM also returns capital to shareholders through repurchases, which increased to \$8.3B in 2024. This dramatic increase not only demonstrates management's focus on returning value to shareholders but also a strategic demonstration of shares being discounted due to various industry and company headwinds. Both of these methods of capital allocation, as well as TM's varied ventures and strategic interests in a variety of companies, allow them to be well positioned as the increased hybrid demand and the age of cars continue to increase.

Valuation

To value this company, we projected revenue by region by utilizing a price-to-volume build, projecting average revenue per car by region and the number of cars sold. We are optimistic about management's ability to increase total sales volume in the current industry landscape and navigate recent geopolitical risks. Through this and with strong confidence in our thesis, we utilized a 10-year DCF with a 10% discount rate and a 2% LTGR to reach a price target of \$227.72, implying ~19.41% upside.

Company Overview

Toyota Motor Corporation (NYSE: TM) is engaged in the design, manufacturing, and sale of sedans, minivans, compact cars, SUVs, trucks, and related parts and accessories across ~200 countries and regions, with its primary markets including Japan, North America, Europe, and Asia. TM also provides associated financing, vehicle leasing, and certain other financial services primarily to its dealers and their customers to support the sales of vehicles and other products manufactured by Toyota and its associates. The company operates through the following segments: Automotive Operations, Financial Services Operations, and Other Operations. The Automotive Operations segment includes the design, manufacture, assembly, and sale of passenger vehicles, minivans, and commercial vehicles such as trucks and related parts and accessories. The Financial Services segment primarily consists of providing financing to dealers and their customers for the purchase or lease of Toyota vehicles. They also provide retail installment credit and lead through the purchase of installment and lease contracts originated by Toyota dealers. Toyota's Other Operations segment includes information technology-related businesses including a web portal for automobile information called GAZOO.com.

Toyota Motor Corp's subsidiary, Daihatsu, also produces and sells mini-vans and compact cars, mini-vehicles, mid-size luxury, sports, and specialty cars, recreational and sport-utility vehicles, pickup trucks, minivans, trucks, and buses. Toyota's luxury cars are sold in North America, Europe, Japan, and other regions, primarily under the Lexus brand name.

Toyota and its affiliated companies produce automobiles and related components through more than 50 overseas manufacturing organizations in 26 countries and regions aside from Japan. Facilities are located principally in Japan, the United States, the United Kingdom, France, Turkey, the Czech Republic, Poland, Thailand, China, Taiwan, Indonesia, South Africa, Argentina, and Brazil. Toyota is focused on establishing a system capable of providing an optimal supply of products in the global market with a basic policy of manufacturing in countries where there is demand and where Toyota is truly competitive. This is possible through its network consisting of 236 dealers operating ~4.5k sales and services outlets.

Industry Overview

Toyota is amid many industry and economic trends that continually shift the industry landscape, including tariffs, EV trends, energy demand, and more. The global automotive industry is a multi-trillion-dollar sector with a projected CAGR of 3-4%, driven by emerging markets and technological advancement. APAC, particularly China and India, remains the largest and fastest-growing region, while North America and Europe continue to be strong markets with stable demand. The industry has recently been disrupted by the electrification trend and EV adoption. This has been driven by governments pushing for stricter emissions regulations, boosting demand for HEVs and EVs, with Toyota being a pioneer in hybrid technology. Technological shifts are subsequently impacting the industry with consumers pushing for AI integration, self-driving technologies, and connected car ecosystems, in which Toyota is investing heavily (Woven Planet). Despite these shifts, there have been various headwinds facing the industry including supply and semi shortages as well as tariff impacts in the United States. With various shifts, the outlook of the auto industry is continually shifting and changing to meet consumer preferences.