

Marcial: Blowing the Horn for Toyota Motor

While the auto industry continues to suffer, some pros believe Toyota can emerge a winner

By [Gene Marcial](#)

As everybody knows, [automakers worldwide](#) are in trouble, dragged down by huge losses due to the global financial meltdown and [recession](#). Shares of the car manufacturers have broken down to their historic lows.

So it's not surprising that most analysts who follow the world's largest car manufacturer, Toyota Motor ([TM](#)), are steering clear of its stock, rating it either a sell or neutral. Toyota recently forecast that it will post a net loss of 550 billion yen, or \$5.7 billion, for its current fiscal year ended Mar. 31.

Many Toyota watchers see further sales erosion ahead. "With our outlook for double-digit volume declines in key global markets in calendar year 2009, we expect Toyota's sales volume in fiscal 2010 [ending Mar. 31] to see a meaningful drop," cautions Efraim Levy, analyst at Standard & Poor's. Other analysts tend to agree, and investors have bailed out of the auto group.

Independent research outfit Value Line says in a recent report that shares of Toyota are "ranked to trail the broader market averages over the coming six to 12 months."

Start of a beautiful upswing?

Nonetheless, several long-term investors looking for global opportunities in beaten-down companies with solid assets and sturdy growth potential dispute that view. They consider the plunge in Toyota's Big Board-listed American Depositary Shares to be one of the stock's basic attractions. The stock hit a 52-week low of 57.68 on Mar. 9, 2009, down from a high of 106.82 on June 5, 2008. But Toyota has since rebounded to 76 on May 22. The few bulls who still have faith in Toyota believe the stock's recent rise is just the beginning of a beautiful upswing.

Robert Levitt, chief investment officer at Levitt Capital Management, who recently bought Toyota shares, says most analysts are predictably frustrated by Toyota's poor performance because they don't see beyond its current problems. They refuse to recognize the huge sales-growth potential in the years ahead for Toyota in such fast-growing countries as China, where its share of the auto market is a mere 6%, India where it has a paltry 3%, and Brazil where it also has 3% of its vast market. The prospect of Toyota boosting its share in those markets is real, he says.

Several positive factors, such as the coming in June of Akio Toyoda as the new president of Toyota, should help propel the automaker back to its glory days, according to Levitt. Toyoda, who was elected by the board in February, promises major reforms and has already formed a committee to draft important changes in the way the company should be run. When the new plans are unveiled sometime this year, he says, analysts and investors alike will see the brighter side of Toyota's future.

No cutting back R&D

One of Toyota's distinctions is its avid enthusiasm for research and development, Levitt notes. While the carmaker has slashed costs by closing plants in several countries and laid off thousands of workers, it hasn't cut R&D spending. The goal is to produce "next best thing," he says, by creating new designs with new technology—advanced, highly competitive vehicles, such as its gasoline-electric [hybrid car](#), the Prius. A new-generation Prius was launched on May 18, and has attracted a record 80,000 orders

before the release. The previous record was for a Toyota subcompact, which drew 47,000 orders before the release in 2002. Sales of the new Prius are estimated to run at 300,000–400,000 between the launch and the end of 2009.

With demand for hybrids so high, Toyota plans to sell one million units a year by the early part of the next decade. It will beef up production of hybrid batteries to make sure it meets demand.

On May 20, Toyota announced significant good news: It said it had a "slight uptick" in its May sales in the U.S., where sales this year dropped 38%, the company's worst decline ever. So the modest rise is highly encouraging. And Toyota didn't wait to say so. "I think we've found the bottom," said Jim Lentz, president of Toyota's U.S. sales unit, in an interview with Bloomberg Television. He added that the new Prius will help Toyota's overall sales.

Levitt expects several catalysts should ensure a strong recovery: a new president with grand plans to revamp the automaker, prospects for greater market share in China, India, and Brazil, and increased R&D spending. He also thinks the stock is cheap. When analysts begin to believe that these factors will buoy sales, the stock will start moving up to its previous high, he figures.

Daniello Natoli, analyst at independent research firm EVA Dimensions, is one of the few other Toyota watchers who is upbeat about the Japanese carmaker. "Toyota's low debt relative to the other major global automobile manufacturers, combined with its overall firm valuation, position the company for future growth," he says. Natoli rates Toyota a strong buy.

Prius order backlog

Toyota remains very competitive in trying to expand its global reach and hasn't been discouraged by the fall in auto demand. Toyota still "has its sights on being the strongest automaker in the world," says Noriyuki Matsushima, auto analyst at Citigroup Global Markets (it has done banking for Toyota). Not only is Toyota "highly competitive," he notes, it also has a strong lead over competitors in commercializing new technologies, such as hybrid cars.

"If Toyota succeeds with its medium-term growth strategy, we believe it may well remain the leading global automaker," says Matsushima. Part of that strategy is to partner with other companies that offer real benefits, such as its teaming up with Fuji Heavy Industries to manufacture the Camry car in the U.S. and develop a new sports car, says the analyst.

Matsushima rates Toyota a buy and has a stock price target of 99. He notes that Toyota's "conservative" earnings forecast does not include the recent increase in the Prius order backlog. An "investment theme" for Toyota, says Matsushima, is the improvement in its domestic plant operating rates on the introduction of hybrid cars, and "a widening gap over its rivals."

Indeed, with the continuing problems in Detroit—with Chrysler filing for bankruptcy and General Motors ([GM](#)) still operating on the edge—Toyota appears to be in a commanding lead. And with the stock way below its previous high, Toyota looks like the best value in the car lot.

[Marcial](#) writes the Inside Wall Street column for *BusinessWeek*. In 2008, FT Press published the book *Gene Marcial's 7 Commandments of Stock Investing*.

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