May 24, 2024

Highlights of Major Automakers' Financial Results for Fiscal Year Ended March 2024

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2024 (FY2023) and earnings forecasts for FY2024 of Japan's major automakers*.

* Among major Japanese automakers, JCR assigns credit ratings to NISSAN MOTOR CO., LTD. ("NISSAN"; security code: 7201), ISUZU MOTORS LIMITED ("ISUZU"; 7202), TOYOTA MOTOR CORPORATION ("TOYOTA"; 7203) and Mazda Motor Corporation ("Mazda"; 7261).

Abbreviations:
HV: hybrid vehicle, PHV: plug-in hybrid vehicle, EV: electric vehicle, FCV: fuel cell vehicle, CASE: connected, autonomous, shared and electric

1. Industry Trend

In FY2023, global new car sales by eight Japanese listed automakers, excluding HINO MOTORS, LTD. ("HINO"), a consolidated subsidiary of TOYOTA, grew 6.8% over the year to 24,075,000 units, recovering to the level 13% lower than pre-COVID FY2018. As the semiconductor supply shortage is being resolved, sales have improved in North America, Japan and other regions. However, many Japanese manufacturers struggled with sales in China because, as the Chinese government promotes the expansion of new energy vehicles, local manufacturers are making all-out efforts, including enhancing their lineups with the speedy launch of low-priced products. For FY2024, global new car sales are projected to rise 1.9% to 24,542.000 units, and many manufacturers expect sales growth primarilty in North America. Given factors like trends in demand in each region, sales growth seems possible, but there are concerns about the impact of rising interest rates and prices worldwide.

The ratio of EVs in global new car sales has risen to around 11%, driven by the shift to EVs in China and Europe. Meanwhile, there are signs of a slowdown in such shift in Europe and the U.S., which probably is because of the impact of surging electricity prices worldwide, charging congestion due to the long charging time and delayed infrastructure development, reduced battery performance in cold regions, etc. Hybrid vehicles, which are hardly affected by these factors, are becoming increasingly popular in major countries because of their prices, user-friendliness and cruising range. Changes in regulations in individual countries can also be observed. EU previously intended to restrict new car sales in 2035 to zero-emission vehicles such as EVs and FCVs but decided in March 2023 to allow the sale of new internal-combustion-engine vehicles even after 2035, provided that they use synthetic fuels that are deemed to have zero greenhouse gas emissions. The U.K. has pushed back its ban on the sale of gasoline-powered vehicles from 2030 to 2035. While medium- to long-term moves toward EVs are not likely to change even in the future, the sales of HVs are also expected to grow in North America, Japan, ASEAN and other regions over the medium term.

2. Financial Results

Aggregated results of the aforementioned eight automakers (collectively, the "Companies") for FY2023 show that sales revenues achieved year-on-year growth of 20.3%, while operating income climbed 76.4% to approximately 8,971.9 billion yen (operating margin: 9.0%). The Companies worked on cutting costs and fixed expenses, optimizing their global production capacities and so forth in the midst of the COVID crisis. Just as their earnings structures improved, sales increased as production constraints were lifted, which, together with price increases and the yen's depreciation, helped boost the income. In terms of sales, they were strong in North America, Japan and other regions for relatively profitable HVs. Looking at the factors behind increases/decreases in operating income for the big three (TOYOTA, HONDA and NISSAN), changes in volume and model mix and price increases accounted for 66% of the increase, and the yen's depreciation 25%. Many of the Companies are actively allocating cash flow generated from strong performance to the development of EVs and software, and their outcome in the medium to long term will be closely watched.

On the financial front, many of the Companies secured positive free cash flow in the automotive business thanks to the robust performance. Consequently, net cash amount (difference between liquidity on hand and interest-bearing debt; based on total funds for TOYOTA) for the automotive business excluding the sales finance of the big three as of the end of FY2023 came to approximately 18.0 trillion yen, increasing roughly 5.0 trillion yen from a year before. It has grown substantially from around 1.7 trillion yen at the end of FY2008 just after the global financial crisis. Capital expenditures of the Companies combined for FY2023 grew 20.0% over the year to 3.7 trillion yen, reaching the record high, and are expected to grow further in FY2024 by 19.2%. R&D expenses, too, have been on the rise with year-on-year growth of 8.8% for FY2022, 7.4% for FY2023 and 14.0% (estimate) for FY2024 (excluding NISSAN, which has yet to disclose its forecast). As such, proactive investment stance, including CASE-related spending, can be observed.

3. Highlights for Rating

For FY2024, sales revenues are projected to increase 2.5% from the previous year, while operating income is projected to fall 11.7% over the year to 7,920.0 billion yen (operating margin: 7.8%). As a factor behind these changes, the effects of the yen's depreciation are expected to cease. Moreover, growth in production costs including personnel expenses and upfront investments aimed at continuous growth will likely push down the income, too. Given that the Companies are all making progress in transforming their earnings structure to one that is less affected by changes in demand, JCR does not assume their performance to deteriorate significantly in the near future; however, the impact of interest rate hikes and inflation worldwide need to be watched.

By region, JCR is looking at trends in operations in the U.S. and China. As regards the operations in the U.S., besides economic trends, whether the Companies can maintain the current level of profitability in the event that the incentive competition intensifies also requires close attention. For the operations in China, as the Companies too are planning or moving ahead with enhancing the lineups of new energy vehicles, localizing development, optimizing production capacities and so forth, the outcome of these measures will be watched

For the Companies, given the current battery prices, the profitability of EVs still pales compared to that of internal-combustion-engine vehicles, and thus the expansion of EV sales is most likely to result in a decline in profitability. Against this backdrop, some of them will focus on reducing the costs of batteries, etc. while rapidly making a shift to EVs. Some will aim to gradually develop and expand the sales of zero-emission vehicles while maintaining profitability by offering a diverse lineup of products including EVs, HVs and PHVs. It is vital for the Companies to maintain profitability by increasing cost competitiveness for batteries, etc., while complying with environmental regulations in their priority sales areas.

As a buffer against various risks and business downturn, it is important to expand equity capital and accumulate net cash in the automotive business. As CASE-related spending continues, upfront investments are most likely to grow larger. Yet, it is crucial for the Companies to ensure a certain level of free cash flow in the automotive business by, for instance, making effective investments and improving development efficiency.

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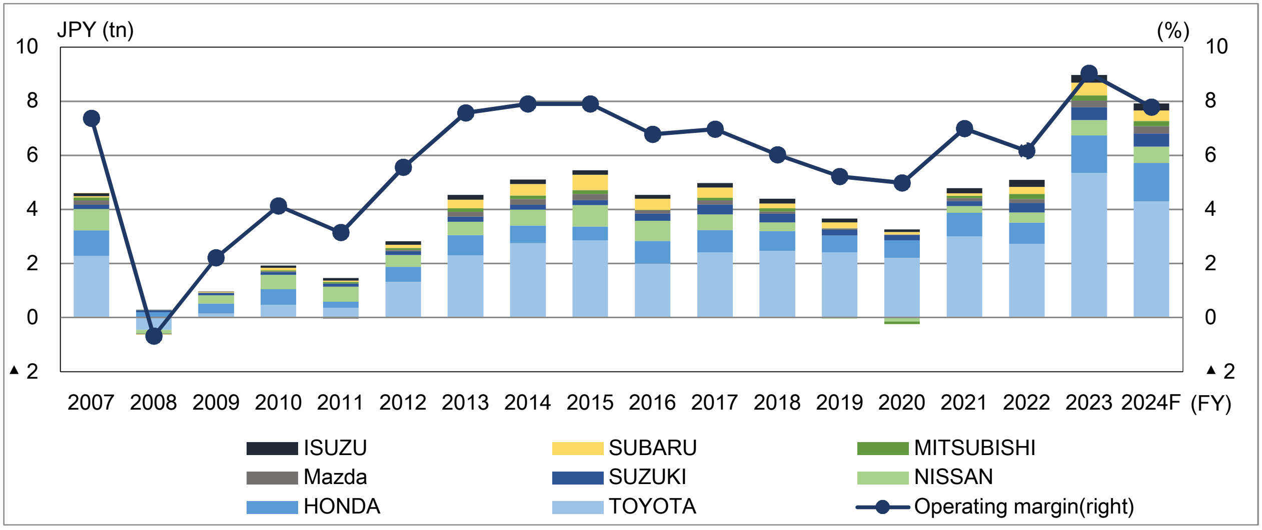
(Chart) Operating Income and Operating Margin of Listed Automakers



Note: For eight listed automakers excluding HINO, which is a consolidated subsidiary of TOYOTA.
(Source: Prepared by JCR based on financial materials of above automakers)

<Reference>

Issuer: NISSAN MOTOR CO., LTD.

Long-term Issuer Rating: A Outlook: Positive

Issuer: ISUZU MOTORS LIMITED

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: TOYOTA MOTOR CORPORATION

Long-term Issuer Rating: AAA Outlook: Stable

Issuer: Mazda Motor Corporation

Long-term Issuer Rating: A- Outlook: Stable

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