22-D-0169
May 24, 2022

Highlights of Major Automakers' Financial Results for Fiscal Year Ended March 2022

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 2022 (FY2021) and earnings forecasts for FY2022 of Japan's major automakers*.

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

According to the FY2021 financial reports of NISSAN MOTOR CO., LTD. ("NISSAN"), the global industry volume (new car sales) for FY2021 was 78.36 million units, growing merely by 1.8% from the previous year. As FY2020 saw a 10.2% year-on-year drop due to the COVID-19 pandemic, over 10% growth in total global sales of Japanese automakers was projected for FY2021 at the beginning of the year, on the assumption that the impact of the pandemic would cease. However, the production level did not pick up as much as expected in the second half because of semiconductor supply shortage and supply chain chaos. The aforementioned reports indicate that growth rate in major markets for FY2021 was as follows: negative 9.5% for Japan, negative 3.4% for the U.S., negative 3.3% for Europe and positive 5.0% for China (on a calendar basis for China). Japan's high negative rate is probably attributable also to earthquakes and system failures. Looking ahead, even though demand is robust in the U.S. and other major markets and order backlog is at a high level, recovery in production is expected to be slow due to delays in the elimination of semiconductor supply shortage, supply chain chaos caused by the COVID-19 pandemic, the Ukraine crisis, etc.

Automakers are accelerating the shift to EVs. Some even target to limit new car sales entirely to EVs and FCVs by around 2035 or 2040. TOYOTA MOTOR CORPORATION ("TOYOTA"), for instance, announced in May 2021 a guideline for annual global sales of electrified vehicles in 2030 of approximately 8.0 million units, including a combined total of approximately 2.0 million EVs and FCVs, but revised its target EV sales to 3.5 million units in December. As such, it is accelerating electrification. There is even a latest estimate made on the back of these moves that projects the ratio of EVs in total car sales as of 2030 to be over 30%. Meanwhile, SONY GROUP CORPORATION and HONDA MOTOR CO., LTD. ("HONDA") have recently announced that they will set up a joint venture to develop and sell high value-added EVs. Increase in the added value of EVs through cross-sectoral tie-ups is thus drawing attention.

2. Financial Results

Global new car sales of eight listed automakers combined (excluding HINO MOTORS, LTD. ("HINO") from nine listed companies; HINO's results are included in the consolidated results of TOYOTA; collectively, the "Companies") grew 1.0% over the year to 22,468,000 units for FY2021. Operating income of the Companies combined climbed 58.5% on year to 4,774.9 billion yen. Operating margin, which had dropped to as low as 5.0% in FY2020 from its peak at 7.9% in FY2015, improved to 7.0% in FY2021. The analysis of factors contributing to these changes indicate that, while sluggish growth in production due to semiconductor supply shortage, as well as the surge in raw material prices, had negative impact, factors like the improved model mix, reduction in incentives, constant efforts to enhance the earnings structure, positive effects of the yen's depreciation and improved earnings from the sales finance business helped push up the income. Incentives have been reduced as the Companies strictly control them while the delay in new car supply in the market has eased competition. Moreover, while leading automakers have generated greater profits from the sales finance business thanks to low financing costs, low bad debt ratio, etc., operating income is estimated to have increased 50% or so from the previous year, even without considering profit growth in said business.

On the financial front, net cash amount (a difference between ready liquidity and interest-bearing debt; based on liquid assets for TOYOTA) as of March 31, 2022 for the automotive segment excluding sales finance came to around 11.6 trillion yen (total of TOYOTA, HONDA and NISSAN), increasing from roughly 10.7 trillion yen a year before. This is high compared to approximately 1.7 trillion yen at the end of FY2008 following the collapse of Lehman Brothers. In terms of the automotive segment's free cash flow, it varies among the Companies partly because of a sudden reduction in production due to semiconductor supply shortage. The Companies' total capital expenditures, which decreased in FY2019 by 5.7% from the previous year as the earnings environment deteriorated due to the US-China trade friction and dropped further in FY2020 by 14.3% as non-essential investments were deferred amid the COVID-19 pandemic, remained almost flat in FY2021. They are expected to grow 22.6% in FY2022, indicating active investment stance, including CASE-related spending.

3. Highlights for Rating

Global new car sales of the Companies combined for FY2022 are projected to increase 6.9% over the year to 24,022,000 units, while operating income is expected to drop 10.7% to 4,265.0 billion yen, with operating margin being 5.6%. Despite growth in sales volume, the surge in raw material prices is likely to have major negative impact. Given unpredictable situations, such as delays in the elimination of semiconductor supply shortage, supply chain chaos caused by the COVID-19 pandemic and the Ukraine crisis, JCR is closely watching how these events will affect business performance. While car sales in Russia and Ukraine account for only a small percentage of consolidated net sales for Japanese automakers, the impact is probably significant in terms of the prices of raw materials, such as crude oil, natural gas and precious metals.

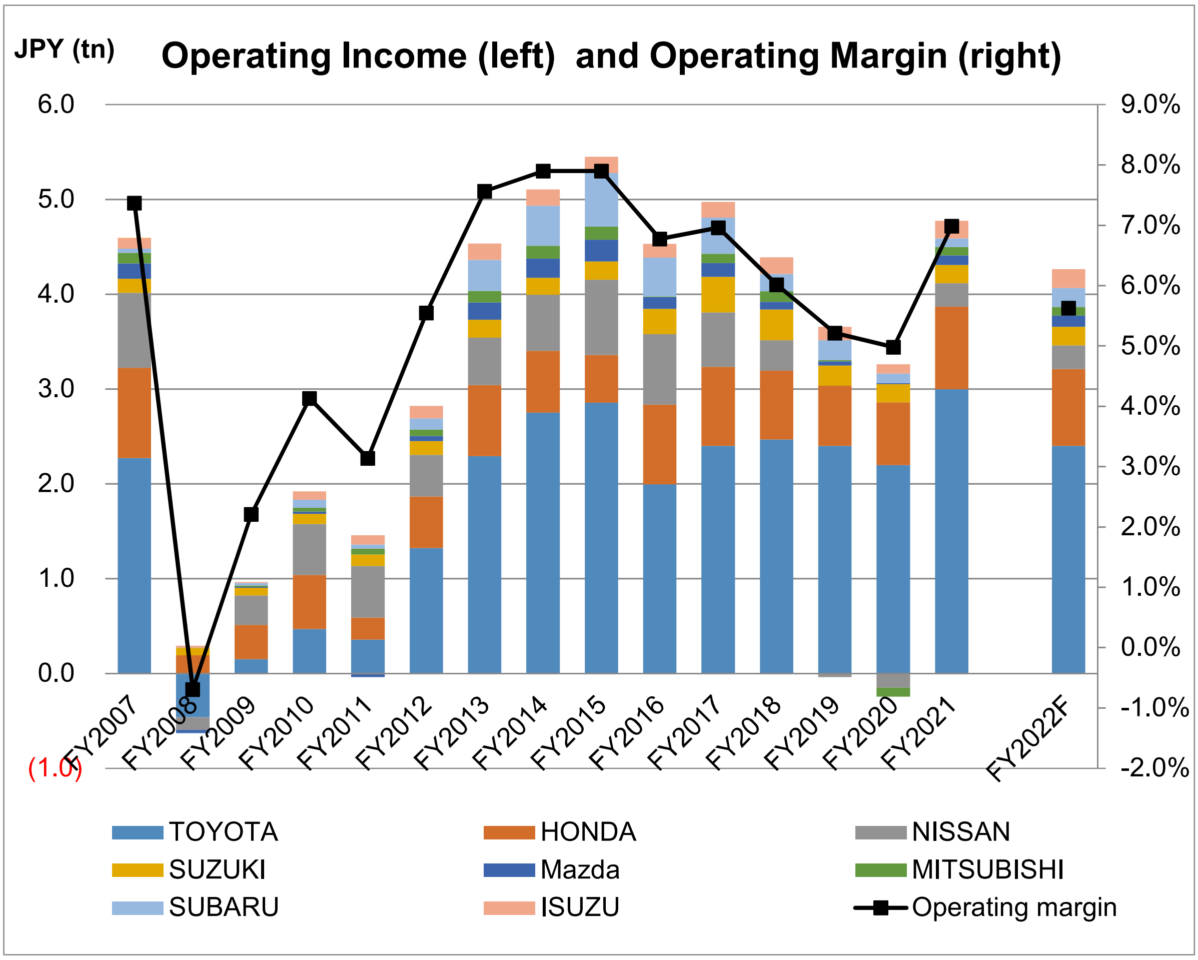
A decrease in incentive competition because of a delay in new cars supplied in the market had positive impact on operating income/loss for FY2021. Given that many Japanese automakers depend heavily on the U.S. operations in profit generation, it is feared that their cost burden will increase if new car supply is normalized in the U.S. and other markets going forward, resulting in tougher incentive competition.

If premised on current battery prices, the profitability of EVs still pales compared to that of vehicles with combustion engines, which suggests that growth in EV sales is most likely to result in lower profitability for automakers. Therefore, in order to maintain the current level of profitability, the Companies need to work to enhance competitiveness by lowering battery prices, improving development efficiency and reducing costs. At the same time, however, many view that sales of HVs and PHVs will keep expanding until around 2030, depending on regions, and JCR is thus watching whether the Companies can boost sales volume without compromising profitability by taking advantage of their wide arrays of electrified vehicles.

Expansion of equity capital and accumulation of net cash amount of the automotive segment are important as buffers against various risks and business deterioration. The key is whether the Companies can maintain and strengthen the financial structure by increasing cash flow generation capacity and making efficient investments while continuing CASE-related efforts. JCR will keep an eye on trends in the automotive segment's free cash flow and net cash amount.

Mikiya Kubota, Akio Kamimura

(Chart) Operating Income and Operating Margin of Listed Automakers



Note: For eight listed automakers excluding HINO. HINO's results are included in the consolidated results of TOYOTA.
(Source: Prepared by JCR based on financial materials of above companies)

<Reference>
Issuer: NISSAN MOTOR CO., LTD.
Long-term Issuer Rating: A Outlook: Negative

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

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026