20-D-0218
June 11, 2020

Highlights of Major Japanese Automakers' Financial Results for Fiscal Year Ended March 2020

The following is 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 2020 (FY2019) and earnings forecasts for FY2020 of major Japanese 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).

1. Industry Trend and Impact of COVID-19 Pandemic

Global new car sales decreased year on year for two years in a row in FY2019 as vehicle production and sales were significantly affected by the coronavirus disease (COVID-19) pandemic that started in late-February, on top of global economic slowdown due to the U.S.-China trade conflict. According to the FY2019 financial reports of NISSAN MOTOR CO., LTD. ("NISSAN"), the growth rate of total demand for new cars was -6.9% worldwide for FY2019. By market, it was -4.2% for Japan, -3.6% for the U.S., -4.6% for Europe and -8.6% for China (on a calendar year basis for China). As regards the pandemic, the problem initially was procuring components from China, and then the suspension of operations at factories, mainly in Japan, the U.S. and Europe, started to increase in mid-March. China took the lead in resuming economic activities and is now seeing signs of recovery, including growth in new car sales in April from a year before. Production restarted slowly in May in Japan, the U.S. and Europe, but many companies have yet to return to full capacity due to production adjustment on the back of a slowdown in demand. TOYOTA MOTOR CORPORATION ("TOYOTA") in its financial reports for FY2019 announced in mid-May estimates a 21.9% drop in consolidated vehicle sales in FY2020 to 7,000,000 units from 8,958,000 units for FY2019. It assumes sales volume to be 60% of the same period a year ago for the first quarter (April–June), 80% for the second quarter (July–September) and 90% for the third quarter (October–December), going back to normal capacity from January 2021 on. Many of the surveys also predict a year-on-year drop of around 20% in global new car sales. While many assume recovery in the latter half of FY2020, the risk of second wave of the pandemic is also of concern. Given that changes in lifestyles after the pandemic should also be noted, JCR is paying attention to automotive demand, ways in which vehicles are used and competitive relationship among automakers to see if there any changes.

2. Financial Results

Combined global new car sales of eight listed automakers (collectively, the "Companies"; excluding HINO MOTORS, LTD. ("HINO") from nine listed companies; HINO's results are included in the consolidated results of TOYOTA) fell 6.8% over the year to 25,835,000 units in FY2019. Combined operating income was 3,658.3 billion yen, down 16.7% from the previous year. Combined operating margin, which has been stagnant since peaking out at 7.9% in FY2015, dropped to as low as 5.3% in FY2019. Analysis of the factors contributing to changes in operating income of the top three companies shows that a major positive factor was "Cost reductions" (cost improvement, changes in raw material prices and fixed costs, etc.), which amounted to 377.5 billion yen, and negative factors were primarily "Volume and model mix" and "Currency fluctuations," respectively amounting to 772.3 billion yen and 461.9 billion yen. TOYOTA has announced that the pandemic affecting the fourth quarter caused a decrease in operating income by 160.0 billion yen for the full year (100.0 billion yen due to a fall in sales volume and 60.0 billion yen due to an increase in provisions for loan and residual losses in the financial services segment), which is equivalent to 6.5% of FY2018's operating income. NISSAN reported an operating loss of 40.5 billion yen and net loss of 671.2 billion yen for FY2019. It started reducing excessive production capacity on a global scale in 2019 and, with a decline in sales volume, posted 603.0 billion yen as costs associated with restructuring and impairments.

As of the end of FY2019, the top three companies' total net cash amount (a difference between ready liquidity and interest-bearing debt; based on liquid assets for TOYOTA) for the automotive segment excluding sales finance came to around 10.2 trillion yen, which is less than around 11.4 trillion yen a year before but much greater than around 1.7 trillion yen of FY2008, i.e. immediately after the collapse of Lehman Brothers. Capital expenditures were increasing constantly in recent years due to intensifying competition in technological development for vehicle electrification, autonomous driving, etc. Total spending of the Companies for FY2019 was expected to increase 6.6% over the year at the beginning, but actual spending was 5.1% below the FY2018 level due to the deterioration of the earnings environment.

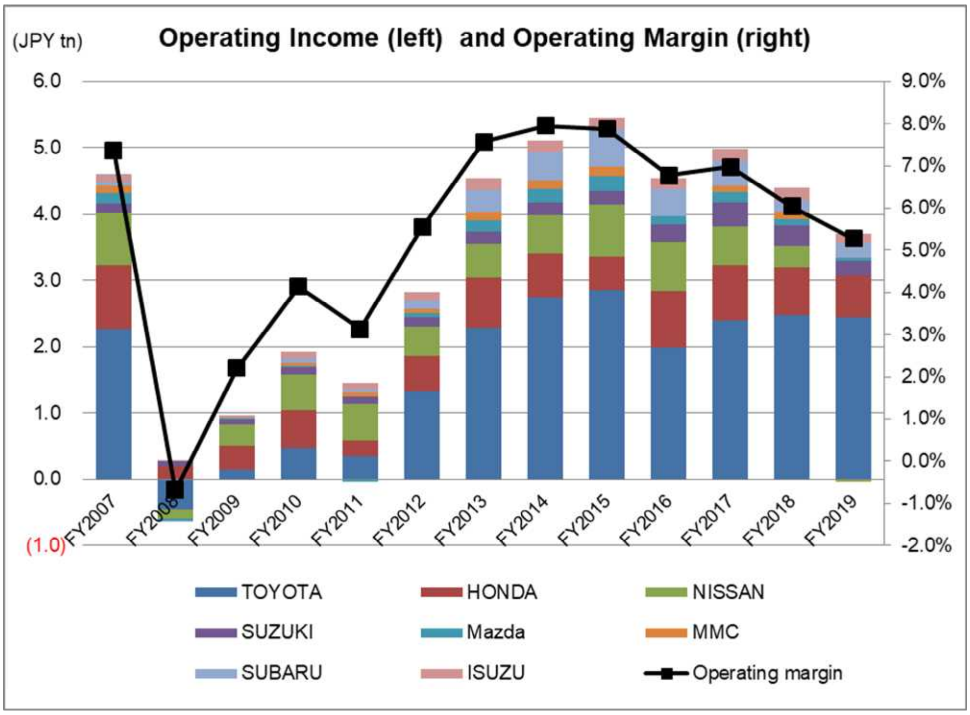
3. Highlights for Rating

Downward pressure on business performance is increasing as the pandemic is affecting production and sales. Those that reflect overseas subsidiaries' results for the January–December period will recognize the impact of decreases in overseas production and sales in January through March in FY2020. TOYOTA and ISUZU have released their forecasts for FY2020. TOYOTA expects sales revenues to fall 19.8% from the previous year and operating income to plunge 79.5% to 500 billion yen, and ISUZU projects an 18.3% drop in net sales and a 64.4% fall in operating income to 50 billion yen. As mentioned above, many expect a year-on-year drop of around 20% in global new car sales for FY2020. As with total demand, if sales volume decreases by 20%, this may push some companies into a net loss for the full year. Extent of business downturn will probably be affected by such factors as brand power, product profitability, progress in the efforts to reduce costs and to improve development efficiency and profit contribution from maintenance and other services businesses. Moreover, in cases where sales were already weak in major markets like the U.S. even before the pandemic, downward pressure on overall performance will probably increase. For the companies that have been assuming full profit contribution from the launch of new factories, introduction of new models and downsizing over the medium term, such efforts may be less effective, depending on how far demand will pick up going forward. JCR is therefore paying attention to outlook for the recovery of earnings power, backed by global competitiveness, not only in FY2020 but also in the medium run.

On the financial front, some of the Companies are increasing ready liquidity through additional financing, establishment of commitment lines, etc. to prepare for possible business downturn. JCR predicts that the Companies, being affected by the pandemic, will conduct a drastic revision from the viewpoint of ensuring efficient investment and continue efforts to alleviate cash flow burden. As regards the measures taken in relation to CASE (Connected, Autonomous, Shared, and Electric) technologies, many of the Companies intend to further enhance such measures while at the same time analyzing changes in the social structure after the pandemic tails off. Attention is also required for the credit risk of sales finance as business confidence is expected to weaken in the U.S. and other parts of the world.

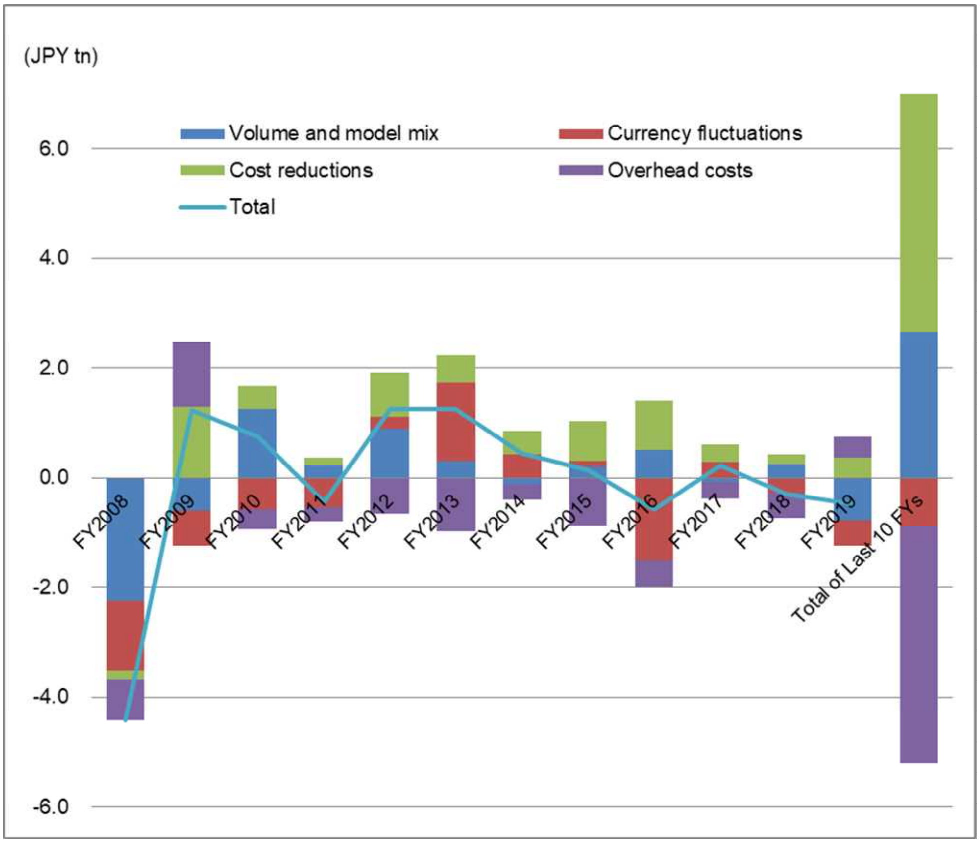
Mikiya Kubota, Akio Kamimura

(Chart 1) Operating Income and Operating Margin of Eight Listed Automakers



(Source: Prepared by JCR based on financial materials of above companies)

(Chart 2) Factors Contributing to Changes in Operating Income of Top Three Companies



(Source: Prepared by JCR based on financial materials of above companies)
Note: Top three companies are: TOYOTA, HONDA and NISSAN.

<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

CP: J-1+

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