Toyota tips profit dive on strong yen, slower emerging markets

TOKYO: Toyota on Wednesday warned that its annual net profit will fall by about a third as a stronger yen, and a slowdown in Chinese growth and other emerging markets dent its bottom line.

Akio Toyoda, president of Toyota Motor Corporation

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The surprise new forecast - which would mark Toyota's first profit decline in five years - tipped a 1.5 trillion yen ($13.8 billion) net profit for the year to March 2017. That is down 35% from a record 2.31 trillion yen net profit that the world's biggest automaker also reported Wednesday for its recently ended business year. Sales this year will also be down nearly 7%, although the automaker expects to sell more cars globally.

The new outlook - which does not include the impact of plant shutdowns linked to Japan's deadly earthquakes last month - underscores the negative impact that a resurgent yen is having on Japanese firms doing a lot of business abroad.

"Our earnings over the past several years have been boosted by (favourable) exchange rates," said Toyota president Akio Toyoda.

"But we recognise that this trend has changed significantly."

Weakend yen

The yen has weakened sharply since late 2012 when Prime Minister Shinzo Abe swept to power on a pledge to kickstart Japan's lumbering economy. That was good for firms such as Toyota and rivals Honda and Nissan - both report results this week - because repatriated foreign profits were worth more when the yen was weak.

But the unit has rallied in recent months as volatile equity markets driven by fears about the global economy pushed investors into a currency seen as a safe bet. Toyota said its new forecast was based on the dollar buying around 105 yen, well down from an average rate of 120 yen in the previous year.

"Strong North American sales and foreign exchanges gains were dual profit drivers for Japan's auto industry this past year...but the tide has changed," said Shigeru Matsumura, an analyst at SMBC Friend Research Center.

Toyota also said Wednesday that it would buy back about 500 billion yen worth of its shares. Sales for the latest period rose in Toyota's key North American market, but they were down in Japan, Europe and Asia, it said. "China and other emerging countries are showing a risk of a slowdown," Toyota said.

Japanese automakers have benefited from healthy growth in the US where low interest rates boosted demand, although the possibility of rate hikes this year could dampen sales.

Emerging market slowdown

Meanwhile, weakening demand in emerging markets such as Thailand and Indonesia were also threatening the company's bottom line. The company and other automakers are also wrestling with costs linked to a huge scandal at supplier Takata. A defect in the firm's airbags have been linked to 13 deaths and scores of injuries globally, prompting a massive recall to replace the problem parts. On Wednesday, Takata - which is in talks with its automaker clients over sharing costs tied to the crisis - logged an annual net loss of $120 million.

Meanwhile, some of Japan's biggest firms temporarily shut down plants in the south of the country after huge earthquakes caused major damage and claimed dozens of lives in April. While analysts said the financial impact on Japanese automakers would be relatively small, the industry was still facing a rocky road.

"The recent appreciation of the yen is a top concern. Also, the demand for vehicles in North America - the cash cow of the industry - appears to be losing momentum," said Yasuo Imanaka, analyst at Rakuten Securities.

"The domestic market is stagnant, and the picture in emerging economies is cloudy...It's going to be a tough year."

Source: AFP