Toyota Tsusho Corporation

Earnings Briefing for Second Quarter of Fiscal Year Ending March 31, 2024 (FY2023)
Condensed Transcript of Q&A Session

Date & time: Thursday, November 2, 2023, 10:00–11:00
Attendees: Ichiro Kashitani, President & CEO
Hiroshi Tominaga, CSO
Hideyuki Iwamoto, CFO

Q. What does 27.5% in the new shareholder returns policy imply? And can we expect a dividend increase if this fiscal year's performance improves?

A. We do not give much importance to the percentage of the dividend payout ratio, and we believe that it is most important to pay an actual amount of progressive dividends. First of all, we want to ensure we reach the forecast of 250 yen for this fiscal year, increase it every year for the next 3 years, and as a result, achieve 30%. For the fiscal year under review, we want to ensure we pay 250 yen even if profits fall, and we want to increase dividends if profits rise.

Q. You mentioned additional comprehensive measures for shareholder return. Are you considering share buybacks?

A. The current CF is better than expected. The Company's revenue structure and ability to generate cash have steadily evolved. If there is CF larger than the investment long list, we want to expand shareholder returns. Specifically, we consider which to choose, paying dividends or returning profits with treasury stock, according to the balance with progressive dividends. We believe that actual-amount dividends are the return of profits our shareholders desire the most.

Q. You forecast a decline in performance in the second half in Africa. Is there any visible risk?

A. There are no specific negative factors, but the performance in the second half is uncertain due to political upheavals in the Sahel region. We also believe that there is a devaluation risk of the local currency in Africa. Even if profits are generated on the basis of the local currency, we expect a weakness when they are converted into euro. We do not think there are other larger risks because the current sales volume is growing.

Q. Competition is being increasingly intensified in areas such as renewable energy and batteries. What do you think about the return on investment in these areas?

A. We believe that it is beneficial to the global environment and the future to engage in projects such as for carbon neutrality and a circular economy. We are also working on them as a countermeasure against the pessimistic scenario that the existing businesses will shrink. While we aim at the upside of profits in the projects we are investing in, we cannot promise returns from the projects in which we are considering investment due to rising costs caused by global inflation and other factors. It is necessary to consider them carefully, including revising the long list. Since renewable energy projects require a longer time until the start of investment and take about 3 years until the actual cash-out, the investment amount will not increase significantly during the period of the 2026 mid-term business plan except for large M&A projects. We will continue to make CN-related investment after confirming that they are supported by a mechanism to generate profits.

Q. The business performance is good overall, but there are currently some negative factors, such as the impact of the price of platinum-group metals (PGM). What are the negative impacts on your company's business over the medium to long term and what is the outlook?

A. We do not think anything will significantly affect our business performance except for things we cannot control, such as foreign exchange and market conditions. At the turning point of the industrial structure, we are always thinking about materials being substituted, such as the prohibition of using certain metals or chemicals, but this kind of environmental change will not occur soon. We do not do speculation, and while we may have market products as inventory, we are doing so within a controllable range. So, there are no concerns.

We believe it is necessary to change the Company's structure and revise its business portfolio in line with changes in the industrial structure. Toyota Motor has declared that it will promote multi-pathways such as conventional engines, HEVs and BEVs, and trading companies on the supply side of materials, components and parts should also use multi-pathways. The areas such as renewable energy and batteries are likely to become red oceans (industries in existence today), but we will be able to acquire contracts from our partners for their surrounding businesses by becoming a market leader. In the case of batteries, for example, there are positive electrode materials, negative electrode materials and electrolytes. In the case of renewable energy, the business will expand into storage batteries and maintenance. Building a competitive advantage by expanding surrounding areas and generating total returns will lead to the Company's future growth.

Q. The quick change in your shareholder return policy in the second quarter was a positive surprise. What situations in the future will result in additional shareholder returns or share buybacks?

A. How should we consider NetDER? The key would be that we are not going to lower it below 0.6.

Q. With regard to cross-shareholdings, some other automobile component companies are also moving to unwind them. Are there any moves to unwind cross-shareholdings including the Toyota Group shares you are holding?

A. Since we are a trading company, we take the accompanying businesses into account to determine whether it is advantageous for us to hold such shares compared to the cost of capital. While we will unwind our cross-shareholding of Toyota Group shares, we may also consider it for the group as a whole in some situations.

Q. Regarding business risks. There are no visible shrinking trends in automotive electronics and automobile sales margins in Africa. What is the outlook? Also, please tell us about the possibility and threat of a falling market share due to the spread of Chinese cars in Africa.

A. Currently, margins in automotive electronics have not declined. Since there is still strong demand, we have been able to secure margins at the moment. Automobile sales in Africa have also seen good margins in recent years. However, there is a difference in profit due to the model mix. Large and profitable cars such as Land Cruisers are not the only cars that sell well, and small cars generate lower margins.

We expect that Chinese cars will newly enter the global market. When I visited China, I got the impression that local OEMs are gaining strength. We think they will expand the market starting with Southeast Asia, just like Japan did several decades ago. We expect Africa will be the next market and they will be a threat from a long-term perspective.

We believe that it is customers who choose products and services. In Africa, for example, we sell brands other than Toyota, such as Mercedes, Volkswagen and Peugeot, and we have a policy to sell products that meet the needs of our customers through multi-franchise systems. Customers choose products, regardless of what country the cars came from.

Q. What is the profit outlook for Eurus Energy in the second half?

A. While it performed very well in the previous period thanks to high prices in Europe, the performance has declined in reaction in the period under review because prices settled in Europe. In addition, since there was a price adjustment against last year’s profits in some countries, the performance was sluggish in the first half. However, the price adjustment is expected to settle after the second half. Moreover, in the future, northern Hokkaido, where we have invested in the past, and replaced projects will contribute to profits. Winds blow steadily in winter, and the performance is expected to recover in the second half.

Q. Regarding the status of margins per automobile and concerns about falling margins, and the sales outside Africa.

A: In China, we have lost market share and margins have fallen due to the spread of EVs. On the other hand, countries other than China have maintained margins at the level seen during the COVID-19 pandemic and are not in a situation where products do not sell without incentives. However, in Cambodia, which saw a strong performance last year, inventory has currently been accumulated, and it is necessary to take into account the possibility of selling while providing incentives. Although such countries are expected to increase gradually in the future, the current margin has not decreased.

Q. In the mobility sales business, is there a risk that the OEM strategy will lead to a revision of commercial rights simply because it is performing very well?

A. I think that has happened in history. Toyota Motor is clearly implementing the home and away strategy, considering the division of roles from the perspective of who is most familiar with and passionate about the market and customers. We have strength in the regions where we operate, and those regions have been entrusted to us under the agreement that we can operate there most efficiently. If we lost our ability, we might leave them to other companies. So, we are always working hard on improving our ability to be the best partner we can be. Therefore, we do not consider such a risk now.

Q. Regarding share buybacks. Your company has large shareholders, and will need to adjust its investment ratio when it buys its treasury stock back. Are you able to achieve both that and agility at the same time?

A. There are some companies in the group that have bought their treasury stock back, so this is not something unpractical. I think this can be done by a method of maintaining the investment ratio while talking with the holders, but there is no specific plan.