Toyota Tsusho Corporation

Earnings Briefing for Second Quarter of Fiscal Year Ending March 31, 2025 (FY2024)
Condensed Transcript of Q&A Session

Date & time: Friday, November 1, 2024, 15:00–16:30
Attendees: Hideyuki Iwamoto, CFO
Yasushi Aida, Assistant to CFO
Shigeo Obata, Assistant to CSO

Q. Regarding the African market, what are the changes in the market environment from the first quarter and your outlook for the second half and the next fiscal year?

A. In the first half of the current fiscal year, there was no big change from the second half of the previous fiscal year, and if anything, the number of new car sales was stagnant. We recognize that profits could be recorded under such circumstances because we have managed to establish a robust system that enables us to secure profits even when new car sales are sluggish, as a result of the efforts made to put in place a mechanism by which we can earn through our after-sales services related to parts and used cars. We have the impression that the South African market has finally bottomed out and are expecting the market to recover in the second half. While it is unlikely that the whole continent will expand rapidly, Africa is constantly showing economic growth. Since the Company does business evenly across the continent, we can control volatility.

Q. What is Toyota Motor’s view on production in the second half of the fiscal year? What is the impact of the decline in the prices of supplied materials?

A. Production volumes in the first half, including those of non-Toyota OEMs, are down. Parts manufacturers have been affected, but the impact on the Company was limited. While the annual production volume will not recover to the initial plan, recovery in the second half is expected to push up production more than in the first half. The impact of the prices of supplied materials on the Metal+ (Plus) Division in the second half is also expected to be limited.

Q: Regarding mobility sales, will sales momentum return if production recovers?

A. Sales in the first half were not as good as expected, but we anticipate the second half to be a little better. In Africa, the model mix is changing namely in the West African region, and even though the number of vehicles sold is decreasing, profits are not falling. Demand in South Africa was not good, but we can increase sales if demand returns in the future. Sales in Papua New Guinea were not good in the first half of the fiscal year due to matters associated with the gas production status and the government’s budget. Since it is difficult to read the trend in that country, we are expecting our performance to be flat in the second half. In Cambodia, there was a period in the past when profits were strong, but the profit level was not so good in the first half of the current fiscal year, and profits were pre-empted (sales were pre-recorded). In Central and South America, there was an impact from newly consolidated companies, and sales volume and profits are growing in some countries.

Q. Are there any concerns for the next fiscal year?

A. We don’t have any particular concerns, but I would venture to say that electricity prices in Europe for wind power generation business are falling. A further drop in lithium prices won’t have much of an impact on earnings. Whatever the outcome, the U.S. presidential election is expected to have little impact. The impact of China risk will also be limited as the ratio of China business is not large. The first half of the year recorded more profits than expected, and we felt that the Company’s business is steadily gaining strength.

Q. Has the supply shortage of vehicles been resolved? This includes the outlook for the third quarter and beyond and the impact of sluggish production at Toyota.

A. The supply shortage of vehicles is still unresolved, and we could not secure products as expected in the second quarter. Therefore, performance fell mainly in profitable countries, but we have the impression that profits were secured in spite of this. Going forward, as OEM automobile production recovers and the availability of best-selling cars increases, our business performance will pick up in the second half of the fiscal year.

Q. Why did you record profits despite the shortage of vehicles?

A. In the Mobility Division, the operating structure has become such that profits can be earned from post-sales services and others even when new car sales are weak. In addition, the contribution by newly consolidated subsidiaries in Central and South America in the second quarter was larger than expected. The contribution was worth more than 1 billion yen in after-tax profit.

Q: Has the Company been approached by non-life insurance companies, megabanks or the Toyota group about cross-shareholdings? While concerns continue in the market, will you make a proactive proposal?

A. We are aware of the concerns that our company shares will be sold in bulk, but specific talks are limited. We understand that in the Toyota Group, Denso and Toyota Industries are considering cross-shareholdings, but we cannot initiate any action.

Q. It has been announced that Elematec will become a wholly-owned subsidiary, but are you considering dissolving the parent-subsidiary listing with Tomen Devices?

A. Elematec is in an environment where synergies are likely to emerge. The company handles a wide variety of products and has a wide range of customers and suppliers, making it easy to generate synergies. On the other hand, Tomen Devices is in the agency business, which is a different kind of business from that of Elematec, and synergies are limited. We will continue to consider ways to enhance corporate value mutually, but at this point we have no intention of making it a wholly-owned subsidiary.

Q. The forecast of net income for the fiscal year is unchanged, but I got the impression from today's explanation that the second half will be more profitable. Is the forecast unchanged because you expect a recovery from the fourth quarter to the next fiscal year? The yen continues to be weak, and I would like to know if there are any risk factors.

A. We are anticipating stronger performance in the second half, but there is a possibility that the third quarter may be soft. The assumed exchange rate is 145 yen against the dollar, and if the yen depreciates, after-tax profit per yen will increase by about 1.5 billion yen. So, there is a buffer at present. Because there are uncertainties looking ahead, such as the U.S. presidential election, we did not have the assurance to make an upward adjustment and kept the forecast unchanged.

Q. What are your views on governance issues other than synergies regarding listed subsidiaries and affiliates?

A. We are well aware that there are governance issues. Since the best approach to take, such as whether to make a company a wholly-owned subsidiary or to sell it, depends on the company, we will continue to examine our options.

Q. What is the sensitivity of European electricity prices in terms of the renewable energy business?

A. Looking at the pipeline, as the number of Japanese projects will increase in the future, the merchant ratio will decrease relatively, and volatility will decrease.

Q. What is the background to the deviation between Toyota's production volume and the Company's business performance status?

A. It is true that the Company's business results are no longer necessarily linked to the number of cars produced. Factor behind the increase in profit per unit are changes in the model mix, an increase in the volume of device parts, and gaining ground into the processing industry. Profit per unit also needs to be looked at in detail by breaking it down into production and sales. At present, it is difficult to present clear linkage indicators, but we recognize that it is the Company's task to present them in an easy-to-understand manner.