

Analysts Weigh In On Cost Of Toyota's Recall Fiasco

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TOKYO (AP) — A massive global recall, mounting legal bills and a battered reputation add up to a very expensive problem for Toyota.

How expensive? Depends who you ask.

With new developments emerging almost daily, predicting a final pricetag for the Japanese automaker is a daunting calculation that only some analysts have attempted.

The sole figure from Toyota itself came on Feb. 4 along with the company's October-December earnings results. It estimated that the worldwide recall, now involving some 8.5 million cars, could cost up to 180 billion yen (\$2 billion), with 100 billion yen for repairs and 80 billion yen in lost sales. It said the recalls may dent global demand for Toyota models by 100,000 vehicles.

Analysts with their own estimates say the total is bound to climb higher.

JP Morgan's Kohei Takahashi expects Toyota to take a one-time 500 billion yen (\$5.5 billion) hit, including recall-related costs and litigation settlements. He has lowered his estimate for operating profit next fiscal year starting April to 540 billion yen (\$5.9 billion) from 760 billion yen, as higher profit margins in emerging markets soften the blow of recall expenses.

Deutsche Securities estimates a 290 billion yen (\$3.2 billion) impact to earnings in the coming fiscal year, though analyst Kurt Sanger acknowledges that any attempt to quantify the impact involves an almost certain degree of error.

"We expect Toyota to respond aggressively to win back much of its lost market share, but it will come at a cost," he said in a recent report.

Usually stingy with incentives, Toyota announced new deals recently to bring shoppers back into its showrooms in the U.S., a key market and the eye of the current storm. Existing Toyota owners who buy another vehicle from the company will receive two years of free maintenance. The automaker also is offering zero-percent financing and low-priced leases to customers who buy or lease several of the recalled vehicles, including Corollas, Camrys and Avalons.

Since the fall, Toyota has recalled more than 6 million vehicles in the United States because of acceleration problems and braking flaws. Regulators have linked 52 deaths to crashes allegedly caused by accelerator problems, and the recalls were the subject of three recent congressional hearings.

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At least 89 class-action lawsuits have been filed against the Japanese automaker, which could cost the company \$3 billion or more.

The bad publicity will likely send Toyota's market share in the U.S. to about 13 percent in the January-March quarter from 17 percent before the recalls began, according to Macquarie Securities. Analyst Clive Wiggins estimates that market share next year will drop 1.2 percentage points from its previous forecast of 17.9 percent, translating to an implied 144,900 fewer cars sold and \$3.3 billion in lost sales.

But often forgotten amid the recent bad news is what's going right for Toyota, analysts say.

It has done a good job cutting costs over the past year, and it is still a leader in environmental technologies. Most analysts predict robust profit growth next year as demand grows in emerging markets like China. Toyota's balance sheet remains strong, with cash assets of \$23.6 billion as of Dec. 31.

Noriyuki Matsushima, an auto analyst at Citigroup Global Markets Japan, gives Toyota stock a "buy/medium risk" rating, describing the issue as "attractive for long-term investors."

"Toyota has announced plans to deal with the recalls, and is working to address the problems promptly," he said in a report this week. "We think the recall story is likely to die down by April if its quality dealerships can quickly repair the problems while providing reassurance to customers."

For now, the incentives appear to be working, with dealers reporting surging sales in the first week of the month after Toyota's sales fell 9 percent in February.

Toyota still expects to post a net profit of 80 billion yen (\$885 million) in the fiscal year ending March 31, a massive turnaround from a net loss last year of 437 billion yen.

In trading on the Tokyo Stock Exchange, Toyota shares were up 1.7 percent at 3,565 yen, beating a slight decline of the benchmark Nikkei 225 stock index. The issue has lost about 14 percent of its value over the last eight weeks.

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