

## **Toyotas's profits plunge as sales of SUVs fade**

*Jonathan Soble*

Toyota suffered a 28 per cent slump in net profits in its fiscal first quarter after a steep decline in US sales of trucks and sport utility vehicles.

Japan's biggest carmaker, which like other producers has seen demand for large vehicles plunge due to soaring fuel prices, said yesterday it earned Y354bn (\$3.2bn) in the quarter to June, down from a record Y492bn in the same period last year.

However, the results were slightly better than analysts had expected, in part because the company took a smaller charge than its rivals against a fall in the value of its leasing fleet.

Tumbling used-car prices have forced carmakers to set aside hundreds of millions of dollars against declining "residuals" - the price a leased car would fetch after the driver returns it to the dealership.

BMW last week more than doubled provisions for the lower resale value of leased vehicles and bad debts to €695m (\$1.1bn), while Nissan booked a Y42bn provisioning charge and Honda set aside Y25bn.

Toyota, by contrast, added just Y9bn in provisions in the period, a number it said reflected its vehicles' traditionally high resale value and a gradual build-up of provisions in past quarters.

Toyota also defied expectations that it would cut its full-year earnings forecast, saying a weakening yen would offset a faster-than-expected decline in sales.

Koji Endo, motor analyst at Credit Suisse, said: "If you look at the real numbers, profitability is worse than it seems."

In addition to the revised currency assumption, Toyota booked an accounting gain related to interest rate swaps in the US, without which Mr Endo said operating profits would have fallen by 48 per cent in the quarter, 9 percentage points more than the official result.

Toyota cut its forecast for wholesale vehicle deliveries to dealers for the year to March to 8.74m units from an initial projection of 9.06m. The downgrade, which does not cover its Chinese joint ventures, follows a reduction of its overall 2008 sales forecast last month.

Mitsuo Kinoshita, executive vice-president, said he expected "severe" conditions in the US, the world's biggest car market, to persist until the end of the year. However, he was hopeful that a recovery would begin in early 2009.

Toyota remains hugely profitable compared with its struggling US rivals, but its strategy of challenging Detroit's lead in high-margin pick-ups and SUVs has backfired as \$4-a-gallon petrol prompts many Americans to swap trucks for hatchbacks.

**Fonte: Financial Times, London, August 8 10 2008. Companies & Markets. p.17.**