



May 1999



Toyota Finance New Zealand Limited (AAA(watch Neg)/Aa1)

Credit Aspects

- Guaranteed New Zealand subsidiary of a leading car manufacturer with an exceptionally strong credit profile.
- New production facilities in the US, Southeast Asia and Europe have given Toyota a truly global operating profile and its reliance on the Japanese market has been diminished.
- Toyota's international bond securities are trading at very attractive spreads given their split AAA/Aa1 rating and investors are more than adequately compensated for the risk.
- The NZ dollar borrowings funds Toyota Finance New Zealand's retail and wholesale financing business.
- TSNZ borrowing programme is supported by guarantee from TMS which in turn is further supported by a "keep-well" agreement with TMC.
- Given that Toyota is a major borrower in the international capital markets, cross currency arbitrage of credit spreads will tend to correct inefficiencies in local pricing.

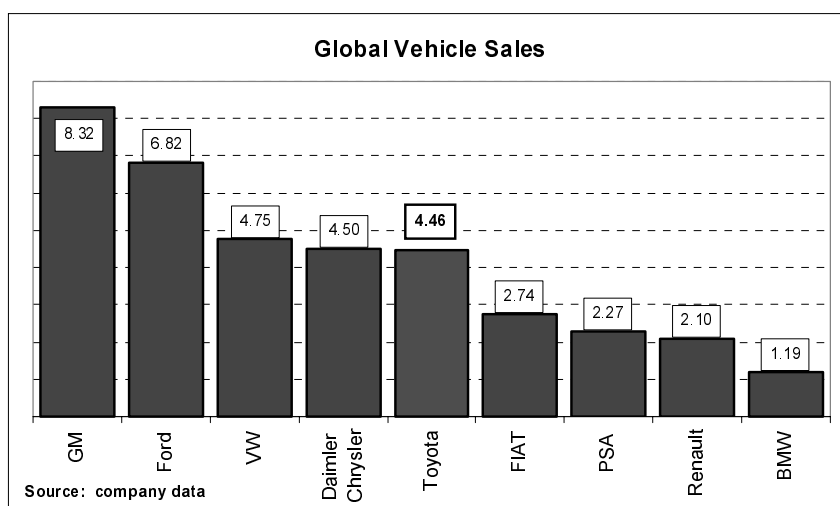
Toyota Motor Corp (TMC) has a leading position in the automotive industry, and is a strong household name. TMC is the ultimate parent company of Toyota Finance New Zealand Limited (TFNZ). The purpose of this research note is to highlight some of the aspects that make Toyota one of the safest industrial credits in the market place. The top AAA/Aa1 credit ratings are justified not only by Toyota's truly global revenue base and manufacturing footprint but also by its exceptionally strong credit profile which stands out when compared to other industrial credits and especially those in the automotive industry.

TMC's New Zealand Finance company TFNZ offers wholesale and retail finance products to both its dealers and the public. Proceeds of TFNZ's NZ dollar funding are applied to the domestic lending activities. TFNZ borrowings are further supported by a guarantee of Dutch based Toyota Motor Finance (Netherlands) B.V., the global finance company of TMC. The NZ dollar programme is one of many sources of funding for Toyota. Such international presence will likely prevent the occurrence of pricing anomalies in one particular market as cross currency arbitrage will tend to correct these inefficiencies.

Toyota is one of the leaders in the industry

TMC unit sales in year end March 1998 approached 4.5 million vehicles making Toyota one of the "big five" players in the global automotive scene. This group also includes the two US based companies, GM and Ford, with vehicle unit sales of 8.3 and 6.8 million respectively, as well as VW and DaimlerChrysler again with approx. 4.5 million units per year (see chart below). For perspective, each of these annual sales figures would suffice to supply the NZ market with up to 50 times its new car requirements for a particular year¹. Moreover, total revenues of these companies exceed the GDP of many sovereign countries. Toyota's sales revenue, for example, is almost twice the 1998 GDP of NZ (NZ\$ 98 billion).

Global vehicle sales total 4.5 million units.



Transforming into a global credit.

It is the stated goal of TMC's "New Global Business Plan" to broaden its manufacturing footprint. This entails capacity expansion at existing plants and bringing new ones online. In North America Toyota has increased its production capacity to 1.2 million units/year. The capacity in Europe is still considerably lower at only 220,000 units/year (one assembly plant in the UK). Work on a new plant in France is underway and is scheduled to be operational in 2001. TMC has also set up smaller plants in Southeast Asia and South Africa. While in 1988 almost 95% of vehicles were manufactured in Japan, this percentage had dropped steadily to around 70% in 1997. Toyota's manufacturing footprint is thus rapidly approaching the geography of its vehicle sales, bringing the company closer to becoming a truly global car manufacturer.

Automotive business cycles mitigated by geographical diversification.

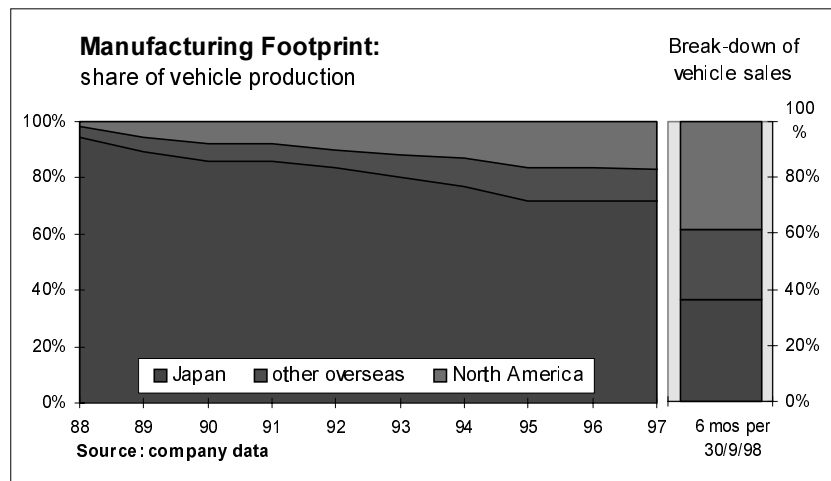
The automotive sector is seen as a good example of a cyclical industry. Car sales exhibit a strong correlation to GDP growth and occasionally "overshoot" economic cycles. With a high percentage of fixed elements in their cost structure, carmakers suffer in a cyclical downturn. Like Toyota, its competitors are becoming increasingly dependent on one particular market. The weaker Asian economy is expected to constrain TMC's performance in the near-term, but the level of Non-Asian revenues is growing and will provide a buffer for earnings.

Toyota has the strongest credit profile of all automotive credits.

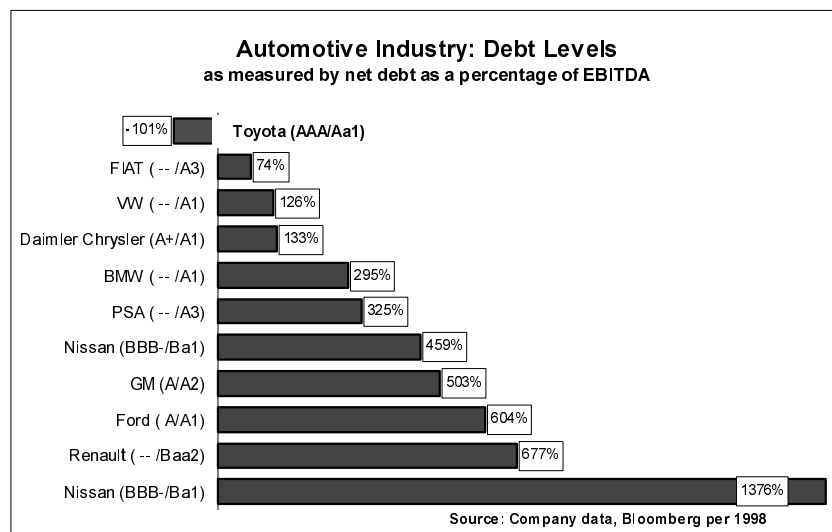
Moody's downgraded TMC from Aaa to Aa1 in the aftermath of Japan's economic crisis (the sovereign ceiling was lowered to Aa1) and SMP recently changed Toyota's (AAA) rating status to outlook negative. When compared to credit ratings within the car industry, no other firm has achieved a AAA classification by one of the agencies. As illustrated in the following chart, the ratings, are explained by Toyota's exceptionally strong credit fundamentals. It's consistently high operating margins has allowed TMC to

¹ Source: New Zealand Motor Vehicle Statistics 1998

Toyota's reliance on Japanese market decreasing.



maintain an unleveraged capital structure and a high degree of balance sheet liquidity. Toyota is the only firm in the industry to be free of debt on a net basis and Toyota's net debt / EBITDA ratio (see chart) is negative. Further credit statistics may be found in the appendix to this research note.



Market has fully priced event risk into Toyota's securities.

Relative Value

Given Toyota's strong credit profile, its bonds in the international markets have been trading at spreads well above a split AAA/Aa1 rating level. The current prices fully price the risk of a downgrade by SMP. The vagaries of the Japanese economy do have their impact on Toyota's business performance, nonetheless, these risks should be seen in the light of potential volume losses and margin pressures in the Japanese market. Unlike the weakened financial sector, Toyota financials are sound and its resources would allow it to weather an extended crisis in Japan.

Moodys have recently stated that "weakness in Asia is likely to constrain the companies near-term earnings outlook, however, this is not anticipated to impact its ratings given its high liquidity and strength of its non-Asian business".

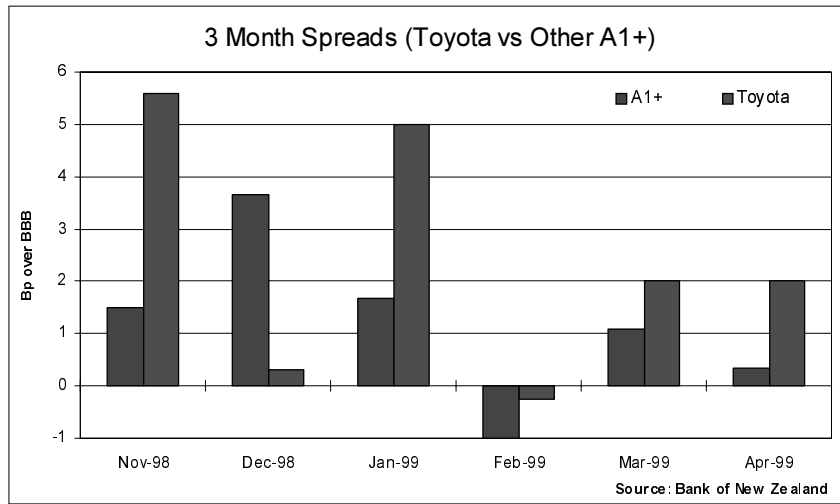
Standard and Poors on changing Toyota's rating outlook from stable to negative state that, "weak economic conditions in Japan will continue to constrain auto demand and pressure Toyota's earnings. Concerns also remain that other corporate and financial institutions may turn to Toyota for financial support. The rating could be lowered if the domestic economy deteriorates further than expected, and the company's business and financial performance is materially affected".

As investors rediscover Japan's strong fundamentals, further contraction can be expected.

Spreads relative to other borrowers in the NZ CP market are not justified given the strength of the credit. The differentials are not justified given that Toyota is unlikely to lose its A+ rating.

Fundamentally Japan remains one of the strongest industrial nations. Its companies retain a leading edge position in many industries (most notably automotive) and its per capita income is one of the

Current CP margins in the NZ market are generous when compared with other A1+ borrowers.



highest globally. This basic strength is reflected in a substantial trade surplus and foreign exchange reserves as well as enormous amounts of direct investments of Japanese corporates abroad.

The NZD Borrowings

Borrowings backed by NZ assets.

TMC's New Zealand Finance company TFNZ offers wholesale and retail finance products to both its dealers and the public in New Zealand. As a consequence, proceeds of TFNZ's NZ dollar funding is applied to domestic lending activities.

Guaranteed by TMF and supported by TMC.

In addition to funding NZD receivables, TFMZ's borrowings are supported by a guarantee issued by Dutch based Toyota Motor Finance (Netherlands) B.V., the global finance company of TMC. This entity, in turn, benefits from a keep-well agreement with TMC which requires Toyota to keep 100% ownership in TMF and maintain the net worth in TMF above a certain minimum level, and make sufficient funds available to TMS to allow it to meet its payment obligations.

Hence an investor in NZD borrowings of TFNZ are exposed to credit risk on TMF and this in turn is determined by the parent company's rating. Given TMC's strong balance sheet and diversified global manufacturing footprint, Toyota is expected to achieve stronger profit and cashflow levels, but is exposed to continued weakness in the Japanese economy. As and when the Japanese economy begins to recover Toyota's credit spread can be expected to contract to reflect the strong fundamentals of the company.

Company	Toyota	General Motors	Ford	Daimler Chrysler	Volkswagen	FIAT	BMW	PSA	Renault	Nissan
Country	JP	US	US	GY/US	GY	I	GY	F	F	JP
other brands, major subsidiaries	Daihatsu	Opel, Vauxhall, Holden	Volvo, Jaguar, Mazda		Audi, SEAT, Skoda	Alfa Romeo, Lancia	Rover	Peugeot, Citroen	coop. with Nissan	coop. with Renault
Senior debt rating	AAA/Aa1	A/A2	A/A1	A+/A1	--/A1	--/A3	--/A1	--/A3	--/Baa2	BBB-/Ba1
Data for year ending:	31/03/98	31/12/98	31/12/98	31/12/98	31/12/98	31/12/97	31/12/98	31/12/97	31/12/97	31/03/98
# of employees	69753 ¹⁾	594000	345175	441502	297916	242748	119913	140200	141315	39969 ¹⁾
Sales (US\$ bn)	96.5	154.0	144.4	125.5	65.4	43.8	30.7	27.1	30.2	54.3
Vehicles unit sales (mn)	4.46	8.32	6.82	4.504	4.75	2.74	1.187	2.27	2.1	n/a
Key credit data										
Net debt (US\$ bn)	-11.9	94.2 ²⁾	106.1 ²⁾	18.6	7.2	3.0	8.5	7.1	12.9	27.8
Gross interest exp. (US\$ bn)	0.30	6.89 ²⁾	8.87 ²⁾	0.67	1.55	0.89	0.87	0.62	0.38	0.78
EBITDA (US\$ bn)	11.78	18.72	17.57	14.07	5.74	3.97	2.88	2.19	1.90	2.02
Net debt/EBITDA (%)	-101%	503%	604%	133%	126%	74%	295%	325%	677%	1376%
EBITDA int. coverage (x)	39.3x	2.7x	2.0x	21.0x	3.7x	4.5x	3.3x	3.5x	4.9x	2.6x

Notes:

Exchange rate LC/US\$	121	1	1	1.05	1.05	1.05	1.05	1.05	1.05	121
Local currency (LC)	JPY	USD	USD	EUR	EUR	EUR	EUR	EUR	EUR	JPY

1) employees domestic subsidiaries only

2) Ford and GM data include substantial borrowings of financial services subsidiaries

Source: company data, Bloomberg



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