

Toyota's profit slides but world's top automaker raises full year forecast on sales recovery

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TOKYO - Toyota reported a 39 per cent slide in quarterly profit but raised its full-year forecasts as business booms in Asia and other emerging markets while image problems linger in the U.S.

The results show a mixed picture for the world's biggest automaker, which is enjoying robust sales in Asia, Africa and South America while still trying to repair its reputation in the key U.S. market following quality lapses.

Toyota Motor Corp. reported Tuesday a net profit of 93.63 billion yen (\$1.1 billion) for its fiscal third quarter, down from 153 billion yen a year earlier. Quarterly sales at the Japanese automaker declined 11.7 per cent to 4.673 trillion yen (\$57 billion).

The drop was largely due to damage from the strong yen, which erodes the value of Japanese exports, and the end of government-backed incentives for green cars in Japan, according to Toyota — the world's No. 1 car maker for three years straight since dethroning Detroit-based General Motors Co. in 2008.

The maker of the Lexus luxury model, Camry sedan and the Prius hybrid now expects to sell 7.48 million vehicles worldwide in the year ending March 31, up from the previous forecast for 7.1 million vehicles. The forecast would mark a 3 per cent increase from 7.24 million vehicles sold in the year ended March 2010.

Toyota raised its annual net profit forecast to 490 billion yen (\$6 billion) from 350 billion yen (\$4.3 billion).

The new projection is more than double Toyota's annual profit the previous year.

Toyota also raised its sales revenue forecast to 19.2 trillion yen (\$234 billion), up 1.3 per cent from the previous year. It had earlier expected 19 trillion yen sales (\$232 billion).

In outlining its latest forecasts, Toyota said an unfavourable exchange rate for the yen was expected to erase 310 billion yen (\$3.8 billion) from the company's operating profit. The dollar now trades at about 82 yen, down from about 90 yen a year earlier.

But Senior Managing Director Takehiko Ijichi shrugged off the threat from a strong yen, saying that demand from emerging markets was growing into "one of the pillars supporting our earnings."

The one area where Toyota has been stumbling is the U.S., where it has been losing market share because of worries about the quality of its cars after the massive series of recalls that began in 2009.

The recalls, which have ballooned to more than 12 million vehicles around the world, include sticky gas pedals, faulty floor mats, braking software glitches and other defects.

Ijichi acknowledged Toyota had not fully put the recall mess behind it, but was going in the right direction because of its efforts to be quicker and more responsive over the past year and a half.

"We think that the wound is now half-healed," he told reporters at Toyota's Tokyo office. "It is going to be a gradual effort, but we are starting to regain the trust of our customers. We are only halfway there."

Later in the day, an investigation into the runaway cars in the U.S. by the National Highway Traffic Safety Administration and NASA is set to be released. Toyota officials said they were also awaiting the report and declined comment.

Toyota said it will continue efforts to beef up quality controls and speed up responses in each region.

Analysts say regaining public trust is a struggle for any company in Toyota's situation. The automaker was criticized as dallying in its response to defects, and has been fined by the U.S. government.

Van Conway, chief executive at Conway MacKenzie, a Detroit-based financial management and turnaround company, said Toyota needs to reduce recalls, process them quickly and send a sincere message of regret for inconveniencing buyers.

"If Toyota can put an end to the recurring recalls and make steps to continually improve the quality of their vehicles, they should be able to repair the damage to their brand image in less than five years," he said.

Ijichi was relatively upbeat about how Toyota sales in North America had not collapsed despite the recall fiasco, holding at about 14 per cent market share, and rising in number of vehicles sold compared to the previous fiscal year.

In recent months, other automakers have seen sales jump as the U.S. auto market bounced back from the recession.

Toyota also has been offering generous incentives in the U.S. to woo customers to its cars. In the past, Toyota used to be cautious with incentives because it was confident of its reputation for quality production.

Ijichi declined comment on the incentives.

For the first nine months of the fiscal year, Toyota's profit quadrupled to 382.7 billion yen (\$4.7 billion) from 97.2 billion yen in the same three quarters the previous year. Sales improved 5 per cent to 14.35 trillion yen (\$175 billion).

Japanese rival Honda Motor Co. also raised its full-year earnings forecast despite reporting lower profit for the October-December quarter. Nissan Motor Co., Japan's No. 2 automaker, reports earnings Wednesday.

Toyota shares were unchanged at 3,490 yen (\$43). Results were announced shortly after trading ended on the Tokyo Stock Exchange.