

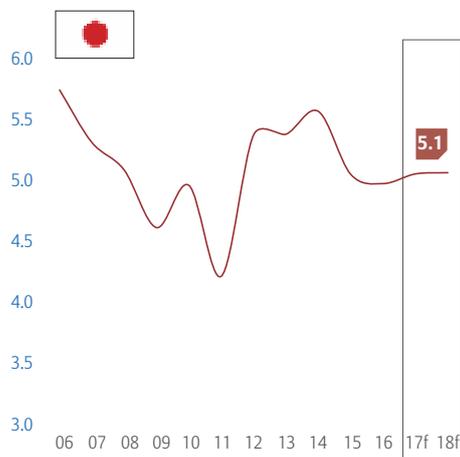
Automotive in Japan

Safe and Sound

- Japan's 5 million vehicle market is set to grow +2.0% in 2017 and slow to +0.2 in 2018
- Japanese manufacturers are the most profitable car makers worldwide
- Generous subsidies for competing technologies mean EV sales remain subdued

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 Following two consecutive years of contracting sales growth, vehicle sales in Japan are estimated to grow +2.0% in 2017 and +0.2% in 2018. Despite the lingering effects of the 50% increase in the ownership tax for minicars in 2015, sales growth was fueled by the extension of "eco-car" tax benefits in 2016. While the use of derivatives and increased localized production has reduced the exchange and interest rate risk, Japanese producers are still vulnerable to movements in the Yen. Globally, Japanese producers are faring well. The combination of a weaker yen and a sustained recovery in global demand should support sales through 2017. Toyota Motor Corp. sold 10.2 million units worldwide in 2016, second only to Volkswagen while the Nissan Renault Group sold the most cars in H1 2017 (5.27 million units) up +7.0% y/y.

Chart 1 New Vehicle Registrations (in million)

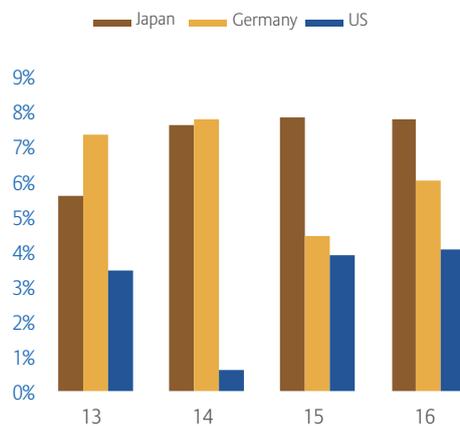


Sources: OICA, IHS, Euler Hermes forecasts

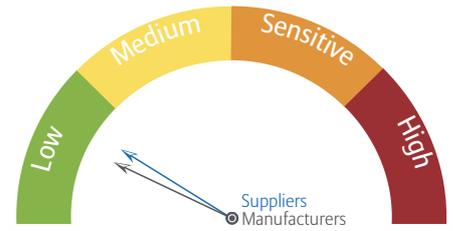
Healthy balance sheets, but declining profit margins

Japanese manufacturers enjoyed the highest EBIT margin in our sample, while their suppliers nudged ahead in terms of revenue growth. However, we expect profits to decline because of the struggling US market, which will lead to intensified price competition and declining profits. Manufacturers were largely unscathed by the 2016 emissions scandal and have still some of the healthiest balance sheets among the players in the industry (e.g. solvency has improved relative to 2007 levels). In 2016, both manufacturers and suppliers were ranked first worldwide in terms of capital spending, before Germany, spending USD35.6bn.

Chart 2 Manufacturer EBIT Margins



Sources: Bloomberg, Euler Hermes



Automotive Non-Payment Risk (Q2 2017)

Big but nimble

Manufacturers and suppliers spent a total of EUR29.4bn on R&D in 2015. 1854 patents were filed in the Japanese automotive industry in 2016, second to Germany and more than twice as many as US companies. At the same time, Japanese manufacturers and suppliers have been less aggressive than their peers in their ICT M&A. Since 2012, they initiated USD1.7bn worth of deals, behind China, Germany and the US. In 2017, Japanese companies led the creation of the Automotive Edge Computing Consortium. Its goal is to set up a digital ecosystem for connected cars to support emerging technologies (smart driving with enhanced cloud computing technologies). Members include the Toyota Motor Corp., DENSO, NTT DOCOMO, Ericsson, as well as Intel.

Hybrid strategy

Since Japan introduced its eco-friendly vehicle tax incentive scheme in 2009, the share of (so-called in Japan) next-generation vehicles (hybrid, plug-in hybrid, electric, fuel cell, and clean diesel), has risen sharply. In 2016, they accounted for almost 35% of new passenger car registrations. The picture for electric car sales is less impressive. In 2016, sales surged by +20% y/y to an annual total of 24,000 cars or 0.5% of total new registrations. Plans to deploy 5,000 fast chargers by 2020 along with an ongoing scrappage program should support further electric vehicle adoption. We forecast moderate growth in 2017. The Japanese government also provides generous subsidies for competing technologies such as hydrogen fuel cell vehicles (PHEVs), which could undermine more expanded adoption of electric cars. ■