

CARMAKERS

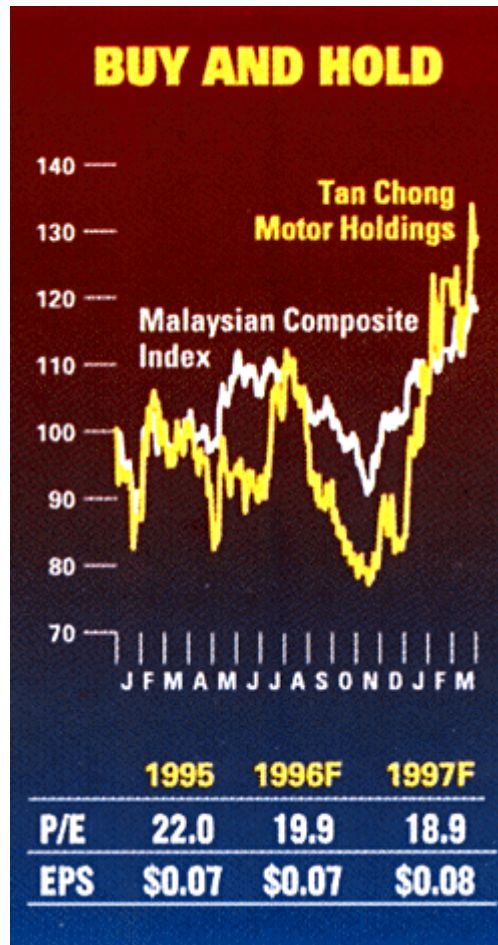
Taking the Long View An assembler -- and its stock -- thrive in Malaysia

By Steven K.C. Poh / Kuala Lumpur

IN A COUNTRY WHERE government-protected carmakers Proton and Perodua are kings of the road, can a private-sector assembler hope to compete? The answer is complicated. Says Malaysia's Tan Hoe Pin, deputy managing director of family-owned auto distributor Tan Chong & Sons Motor: "Our Nissan Sentra and AD Resort models are doing very well. But we've decided to vacate the lower end of the car market as we have been unable to compete on price with the national marques." Listed Tan Chong Motor Holdings (TCMH), which is headed by his father, Tan Kim Hor, assembles upmarket Nissan and some Audi and Peugeot cars. Malaysians bought nearly 8,000 TCMH units last year, many of them AD Resorts, which have been dubbed the "ASEAN car" because they enjoy preferential tariffs on components made in ASEAN countries. TCMH also sold 9,000 Nissan vans. But Perodua has just entered that market with a cheaper Rusa light van.

TCMH knows it can keep on driving only so far. Since Proton started making cars in 1985 and Perodua in 1994, Tan Chong's share of the passenger car market has fallen from a high of 30% in the 1980s to about 8% today. For TCMH, the solution was obvious: diversify. "In 1984, our motor division contributed 75% of profits," Tan told Asiaweek. "In 1995, our dependence was reduced to 45%." Earnings last year reached \$53.7 million. Among the new businesses: overseas car ventures, property, steel and finance. One ambitious project is a majority-owned \$53-million assembly plant in Vietnam in partnership with the country's Danang Auto Mechanical Engineering Factory, Nissan and Marubeni Corp. The facility will assemble 2,000 cars and commercial vehicles by 1998.

So should you be loading up on the counter? TCMH has long been regarded as a stodgy carmaker that is kilometers behind Proton and Perodua -- and one with few political connections. But the underperforming stock has lately become something of a favorite.



"Tan Chong shares have longer term attraction, especially from 1997, when a more even playing field for the Malaysian motor sector is expected," says Salomon Brothers in Singapore. As a member of the World Trade Organization, Kuala Lumpur has pledged to lift the tariffs on imported cars that now protect Proton and Perodua. Adds Matthew Geiger of Kuala Lumpur brokerage Phileo-Allied Securities: "Already, 35% of Tan Chong's pre-tax profit is derived from overseas operations," among them car dealerships in Singapore and Australia.

As Tan tells it, TCMH has always been a good buy. "We believe in organic growth and in keeping our integrity as a business entity," he says. "And we don't play politics." The ethnic Chinese-controlled TCMH has missed out on a number of state-related car projects. But Tan says the company is not in Kuala Lumpur's bad books: "The notion of TCMH being ostracized by the government is unfounded." In any case, he adds, "we have to look within and outside Malaysia for new opportunities." But don't wait to hear a lot of noise about its moves. TCMH chairman Tan Kim Hor and his family as a rule decline press interviews, though his son Tan Hoe Pin made an exception for Asiaweek.

Still, the good news about Tan Chong is going the rounds. Recently, the Singapore government re-zoned for residential development part of TCMH's 1.3 million sq feet of freehold land in the republic. So Tan Chong's property arm is building a 181-unit condominium on a former motor center along ritzy Wilby Road for completion in 1997. But TCMH will wait for the project to finish before deciding whether to redevelop other properties. "We're not cowboys," says Tan Hoe Pin. About 20% of the Wilby condo units will be sold. The rest will be held for rental, which he estimates will bring in \$6.8 million a year.

Some industry watchers are happy about TCMH's 40%-owned Sarwaja Timur steel fabrication and galvanizing plant, a venture with Mahmud Taib, son of Taib Mahmud, chief minister of the East Malaysian state of Sarawak. Part of production will be sold to the Sarawak Electricity Supply Corp., a shareholder. Sarwaja is also well placed to supply the massive needs of the state's \$6-billion Bakun hydroelectric project. Another well-received move: Tan Chong's acquisition of 48% of Jakarta's PT Tifa Mutual Finance, giving it a foothold in Indonesia's fast-growing economy.

In Malaysia, Tan Chong has long wanted to diversify into finance, but the government has not been giving out new banking licenses. Industry watchers say a partnership with Phileo-Allied, one of the country's fastest growing financial supermarkets, is possible. The reason: Phileo-Allied CEO Tong Kooi Ong is a close friend of Tan and his brother Tan Boon Pun, who runs TCMH's trading division. But cars are likely to remain a core business. A family source says TCMH is negotiating to buy the rights to make the Nissan Sunny 130Y, a model the Japanese company is discontinuing this June. Tan Hoe Pin sees TCMH possibly making Sunnys "10 years down the road -- if the ASEAN Free Trade Area is in place and there is a revival in old-generation cars for cost reasons." By then, Tan Chong will have quietly built up its auto and other businesses in Malaysia and beyond.