

# Globalisation: How Will The Malaysian Motor Industry Compete?

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## ***Preface:***

After the past three years of dismal growth, the outlook for the local motor industry has improved in tandem with the recovery in the economy. As a whole, Malaysian vehicle sales this year are expected to reach 350,000 units, up 21% from last year, and closing in on 1997's high of 404,869. The pick-up in auto sales was evident in the strong rebound seen in 1999, as volumes grew an impressive 76% to 288,000 units.

Proton, which remains the biggest player in the market with a 42% market share has the most to gain from this. The recent launch of the Proton Waja has also been hailed as another step in the development of the local car industry, and is sure to provide a much needed boost to the market. Although not yet 'pure' Malaysian, it has definitely moved up the value chain and collected valuable intellectual property. Of course, Proton's recent acquisition by Petronas has provided it with the necessary financial clout to be competitive.

Meanwhile, the other players in the industry have been equally active. Foreign players have been positioning themselves for the Asean Free Trade Area (AFTA). For instance, UMW has sold a bug chunk of stock back to Toyota, while Ford has raised its stake in AMIM. Most recently, Honda has set up a new vehicle plant jointly with DRB-Hicom and Oriental. This plant is slated to begin operations in 2004 and will incorporate Honda's world-class manufacturing systems.

AFTA continues to be the major issue. At a meeting of ASEAN economic ministers in May, Malaysia won postponement of the sector's inclusion until 2005. As a result, duties on automobiles and parts imported from neighboring countries will continue to be taxed with a 70%, as opposed to the 5% cap that will be imposed once AFTA comes into place. Nevertheless, the moves we are seeing by the major players point to the inevitability of trade reductions. How and when this will happen is another key issue.

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## **THE PANEL:**



**Mr Koo Sian Chu [KSC]** is a Director with APM Automotive Holdings Bhd. He joined the Autoparts Division in 1985 as an executive director of one the companies. Prior to this, Koo was with MIDA for a total period of 15 years. He has served in a number of overseas missions for MIDA, promoting Malaysia's investment opportunities and development potential to foreign investors. His last posting with the MIDA was in Tokyo, where he held the position of Overseas Director. Koo graduated from the University of Malaya with a Bachelor's degree (Hons) in Economics in 1971. He was appointed a Director of APM on October 25, 1999.



**Abdul Razak Harun [ARH]** is the Managing Director and one of the founders of Autoindustries Ventures Bhd. He was appointed to the Board on August 8, 1990. He obtained his Bachelor of Science (Hons) degree in Production Engineering and Production Management from the University of Nottingham, United Kingdom in 1979. Prior to his appointment to the Board, he was an Industrial Engineer with Motorola (M) Sdn Bhd. Subsequently, Razak joined Hicom Bhd where he was seconded to Proton Sdn Bhd in 1983. He was also the Independent Director of AIC from 1994 to 1995 and was later appointed Managing Director of AIC before he resigned in April 1996.



**Loke Chee Kien [LCK]** is the Head of Research at Sarawak Securities Sdn Bhd. Prior to joining Sarawak Securities, he has worked with a range of top notch financial institutions, which include Deutsche Morgan Grenfell, Jupiter Securities, Chase Manhattan Bank and Arab-Malaysian Corporation Bhd. In addition, Loke has garnered numerous qualifications. He has an MBA (Finance), CPA (Australia) and Degree in Accountancy & second major in Economics & Finance.



**Reza Mutalib [RM]** is the Assistant Vice-President of Research at Merrill Lynch & Co (Malaysia) where he covers Automobiles/Autoparts and Building Materials. Prior to joining Merrill Lynch, Reza was an analyst at Peregrine Research (M) Sdn Bhd. He subsequently joined Proton where he worked in the International Business Division as a regional executive in charge of all export related activities in the Middle East Region. Reza has a Master of Arts in Economics, September 1997 from the Northeastern University in Boston, Massachusetts with a concentration in international economics.



**MODERATORS:**

**Rajen Devadason [RD]**, (RD Book Projects) Rajen Devadason is an award-winning journalist. As staff writer, of Malaysian Business magazine, he won the Malaysian Press Institute's award for best economic journalism in 1992 and the Citibank Pan-Asia business journalism award, which included a stint at New York's Columbia University and visits to the White House, World Bank and the US Federal Reserve. His first book "Your A-Z Guide to the Stock Market" was published in 1997 and since then he has seen a new book out each year. Devadason holds a Bachelor of Science (Hons) degree in Physics and Computing from King's College, University of London, and is a member of MENSA UK. He currently writes two distinct financial planning columns - a print column for Malaysian

Business magazine and an online one for ZoomFinance - and is overworked as a financial planning trainer-cum-consultant.



**Steven K C Poh [SP], (i2Media Sdn Bhd)**

Ex-journalist Steven Poh is the CEO of i2Media Sdn Bhd, an integrated marketing communications specialist. He was formerly business correspondent for *Asiaweek* magazine and General Manager/Senior Consultant of a KLSE-listed software development house. He won the 1992 Malaysian Press Institute prize for best magazine writing while still at *Malaysian Business*. Also a former Press Fellow of Wolfson College at the University of Cambridge, Poh graduated with a degree in Communications (Journalism) from Southeast Missouri State University. He completed his Master of Science degree in Speech Communication from Southern Illinois University at Carbondale.

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**RD: A friend of mine just bought a new Proton, with a fully Malaysian engine and he couldn't get rid of the rattling, which came from the engine, not the body itself. The EON personnel said that it was completely "Malaysian" and that there was nothing to be done about it!**

**RM:** The current Proton line of cars does not have a completely Malaysian engine. Some parts are indeed manufactured here but not the entire engine. In the pipeline, there is the PETRONAS-Sauber engine, and there is another engine which is currently in the works, which I believe is two to three years away from mass production.

**RD: Before we go into the heart of the matter, I would like each of you to touch upon a couple of issues: the competitiveness of the local motor industry and the impact of ASEAN Free Trade Area (AFTA).**



**RM:** You mean national versus non-national cars. At this point of time, you can see that in terms of product life cycles the national makes are definitely at a disadvantage. Some of the foreign car manufacturers have cut down their car cycles to a very competitive 3 ½ years. But if you see the Proton Wira, the basic model has been around since 1990. Of course that is looking at it right now. Whether Proton can achieve a quantum leap by 2005 is another question.

**KSC:** I think for a car to be competitive, a manufacturer needs to make at least a quarter million vehicles a year within a narrow range of products. In other words, you can have a few models, but sharing the same platform or common parts. However, any vehicle production less than fifty thousand units, unless sold in a niche market will not be globally competitive. Nevertheless, I would think that Malaysia would be a very attractive place for autoparts manufacturing, because they are quite different from cars. For example, to make a clutch or car air-con is no different from making a lot of electrical goods. You go through the same process of metal cutting, stamping, welding, assembling. It's almost the same processes. So I have always believed that Malaysia can be very competitive globally in the production of autoparts.

**RD: You said that in your estimates, a manufacturer can be viable if there is a minimum production of 250,000 units. To my knowledge, only Proton qualifies in that aspect.**

**KSC:** Yes, Proton will be a likely candidate.

**ARH:** Looking at the buyer's profile in Malaysia, I would say that the new car buyers are the younger generation. That means we have to fit the product to their needs. Looking at the success of Perodua, despite an initial lack of confidence before it started, shows that people need cheap cars. Coming in a price of above RM60,000 may not be the right strategy for selling volume cars in Malaysia. So I would say that the right product at the right price will help Proton survive despite the advent of AFTA. In a nutshell, understanding the issues market need and competitiveness is critical.

**SP: But Proton set out in 1985 to provide Malaysians with cheaper cars. This has not happened at all. Over the years, Proton has been raising prices.**



**ARH:** This is the problem that is affecting the competitiveness of Proton. At the beginning, where I was in fact of the people who started Proton, the strategy at that time was to build the mass car, which was supposed to capture majority share of the local market. The competitor at that time was the Nissan 1300, which was priced at RM 20,000. Proton, in order to enter the market had to lower the price. So the strategy at that time was to come in at RM17,000 for the 1.3 litre, and RM18,500 for the 1.5 litre. That gave us a very good advantage against the Nissan Sunny. It even attracted the secondhand market. At that time, what Proton had to do was to build confidence in the product. There were all sorts of programs. The strategy then was the price, to get the masses to feel comfortable and convinced that this was the product for them. Over and above that was the financing arrangement. Before Proton came in, there was never more than 3 years, in terms of HP repayment period. After the entrance of Proton, this period was then extended to 4 and then 5 years. This shows that Malaysian buyers are very sensitive to pricing and the financial package. So this is perhaps the area that in developing new cars, there is still a need to fulfill this requirement.

**RD:** If you consider it, dollar for dollar, the price of cars is extremely expensive in Malaysia. Do you think that Proton has lost their way? The Malaysian taxpayer and consumers certainly have paid a great deal more money for cars that cost significantly less in other countries. Have Malaysians been shortchanged?

**ARH:** What happened subsequently after the initial sale of the Proton cars at RM17,000, is that it created opportunities for salesmen, distributors; basically for everyone in the chain to make money at the expense of car buyers. We have created a monopolistic situation where you want a car, it is only Proton that's affordable. With all the tariff advantages that Proton enjoys, obviously trying to buy other cars are just not a good option. With this situation in hand, EON was the one that gained the most. They threw in anti-rust which cost hardly RM80, but charged it at RM300. They also put in the audio set which cost about RM500 but charged RM2000. The air-conditioning unit costs about RM1000 but car buyers were charged RM3000. If you had complained, you would not have gotten a car. The attitude at the time was: "If you don't like my financing scheme, you can go somewhere else and get it. You can have cash, but I won't deliver the car. You get people buying a car up front with no intention of really buying it. You would make money from the margin." So yes, Malaysians were shortchanged.



**RM:** I think that the answer is really yes and no. The existence of Proton has created over 6000 jobs directly from production. Indirectly, by which I mean distribution, service and auto parts another 100,000 jobs have been created. Without Proton, these jobs could have gone somewhere else. And these are actually value-added jobs. If we had to import all these cars from abroad, can you imagine the foreign exchange outflows? Proton is not just about providing the masses with cars; Proton was conceptualized with a social and economic agenda.

**LCK:** I agree that Proton has indeed created a lot of economic benefits. It is just that along the way, due to globalisation, Proton realized that they could not be forever

protected. So cost was not part of the considerations. Everyone was concerned about whether Proton could sell. People overlooked cost considerations. What is more important is whether Proton can compete based on the cost of production of a car. We have to focus more on costing rather than on the tax issue. These are the issues that have to be addressed. But we often forget the issue of whether we are able to be cost effective.

**KSC:** Going back to your earlier question about whether Malaysians were shortchanged, I would like to make a comparison with the construction industry. Local companies learnt their skills from local projects, then they went global, undertaking jobs in the Middle East and China. This is the price that Malaysians pay to bring up their companies. So if Proton in the past 15 years has supported the local component industry and some of them have emerged as global players, then that is the contribution that Proton has given to the country.

**RM:** I would like to clarify the issue as to why Proton tied up with Renault for the supply of Waja's 1.8 liter. I believe the main reason is that the French Franc and the Malaysian Ringgit exchange rate is far more stable than the Ringgit to Yen exchange rates. Hence, by going with Renault, volatility in a major cost component is minimized. In addition, it met the requirements in terms of emissions and other specifications necessary if Proton were to break into the European market.

**ARH:** Going back again to the short-change issue, I have a different perspective. From a consumer's point of view, indeed they have been shortchanged because the price of cars should be cheaper. But there is also the gap between the cost of the car and the price that a consumer is willing to pay for. This gap is partly caused by putting in the accessories. Since there wasn't much choice, the consumer still had to buy the Proton car. The fact is that the Proton car should not have cost that much. If you take away all those things [accessories], it would be much cheaper. They call it compulsory options! No matter what you say, it means compulsory. It would be interesting if to see if this [compulsory options] can actually withstand the AFTA "test".

**RD:** **The general consensus is that consumers have definitely paid more than they should have. But as Mr Koo has pointed out, the advantage is that some companies have been able to grow as a result of the indirect subsidy. The question is, has this been done efficiently? When all this talk about AFTA started, there was a lot of hope that prices of cars will come down. It was subsequently pushed to 2005. As a consumer who is looking to change my car, now it seems that I have to wait for 5 more years before I can afford a car! The only thing I think about is my pocket and how much a car is going to cost me. As an individual, I don't think about the bigger picture. 2005 is the way things are standing now. With the recent moves by major players, these may come earlier rather than later. Will prices actually start to fall earlier than that?**

**KSC:** If you look at Thailand, you'll see that their car prices are significantly cheaper than in Malaysia. Of course they do not have such a strict equity rule. So for many companies, Thailand is a base to manufacture cars and to distribute to the world. However, we must examine further. How many percent of the CKD were actually Thai? I just cannot believe that a Mercedes or BMW that is assembled in Thailand is actually a Thai vehicle. Because you must have the critical mass. It just cannot be cheap. So I think that our Prime Minister is right. AFTA should not be a means for

international companies to get into other countries - using it as a cheap way to enter our market. After all, what is a certificate of origin? How true is local content? So I am not so optimistic about car prices coming down prior to 2005.



**RD: You all know car prices and the makes. Pick any popular model and try to predict the price of a car pre and post AFTA.**

**RM:** If you look at a BMW, I don't think the local market has a critical mass to generate economies of scale. Of course BMW does have a plant in Thailand, but as one of our panelists said, he doesn't believe that any of the cars are of Thai origin anyway. The same goes for Mercedes. I am not sure whether the Thai producers have reached the level of sophistication and quality to produce critical car components like dashboards, engine parts for some of the premium makes. For this segment the quality of parts is paramount to maintaining the strength of its brand, so they cannot compromise. AFTA preferential duties apply to those car makes that has achieved at least 40% local content. I'm not sure whether some of the premium makes can achieve that in the near term. So I don't think that there will be very much price difference if they don't manage to make a significant number of the parts locally.

**ARH:** I think that with the advent of the WTO, tariffs will be reduced regardless of AFTA.

**KSC:** Actually, the more appropriate time frame is 2008, or when WTO comes in. I have been dealing with ASEAN matters all these year. I don't think that up till today, we have seen a lot of progress in promoting ASEAN trade. Look at the figures. Besides Singapore, our trade with the rest of our ASEAN neighbours is not significant. Compare this with our trade with non-ASEAN countries.

**RD: Recently, we have seen Completely-Knocked-Down (CKD) assemblers increasingly taking a bigger role in the distribution of their cars. This may have a real impact on companies like Cycle and Carriage Bintang Bhd (CCB) and Tractors Malaysia Bhd who stand to lose their lucrative distributorships, following the example of Cycle and Carriage Ltd (Singapore) which lost its Mercedes franchise last year. We have already seen how Oriental Holdings Berhad has been affected following the DRB-Hicom-Honda-Oriental tie-up. Will these distributors continue to do well?**



**LCK:** I think that in the longer run, everybody, not just motor companies, manufacturers will have to prepare for the effect of globalisation. Because if you are talking about Malaysia, our market is limited. In order to continue to grow after AFTA, we will face a stagnation point. As to the question of whether they will continue to do well, probably over the next 3 years, the answer is yes. Beyond that it is a hard question. Most importantly, it will boil down to what Proton's principle *marquee* will be. Now it is very simple, everybody is saying that with AFTA coming in, just close the plant and start importing. But we are forgetting that we have to make use of current resources. For example, the relationship between Tan Chong and Nissan stretches back many years, and it won't just evaporate like that.

**SP: But in the case of Tan Chong and Nissan, I think that Tan Chong is**

**facing the heat in that a similar DRB-Hicom-Oriental-Honda situation will happen to them. Do you see this happening?**

**LCK:** It is hard to say, but consider that there aren't that many big local players around. Petronas probably has its hands full with Proton. DRB-Hicom needs to clean up its balance sheet first. Going back to whether they will continue to do well, it still boils down to what the principal will do. In this, you have to consider the relative strengths of the country in question; for example, Malaysia should probably concentrate on the niche passenger cars. Our labour and production costs are significantly lower than what it is in Europe, for example. So I am sure that the international players will be interested in tapping on the strengths of Malaysia. It is a matter of where they should concentrate on.

**RD: I would like to raise the point that our labour costs are not that cheap anymore. It seems that even though our labour costs have been going up, our value-add has not increased proportionately. Comments?**

**ARH:** Going back to the distribution issue, looking into the e-world, I would say that the role of distributors will have to change. Distributors today, I would say, are people who pocket money without much work done. You can see that at one time, salesmen did not have to go out to do sales. Customers would just go to them. So I would say that with the coming of e-commerce, we don't need that kind of participation anymore. If I were a manufacturer, how would I look at the role of a distributor? I would need someone to look after service and maintenance, and to do repairs. I do need someone to provide a financial package. So these are the kind of factors we have to consider. So distributors need to consider all these value-add services. A company like EON would be good in this, but not for marketing. Let the computers do the marketing. Distributors might have to change skills to web-designing. The scope for distributors will have to change. If they do change in the direction, I would say that the manufacturers will still need them.

**RD: I think that the key word here is disintermediation. The little man is going to be sliced up if he doesn't evolve.**

**KSC:** I think that the motor industry is like any other industry. Once you reach a critical mass, even for distribution, ie. Canon or Matsushita, they will come in to do their own marketing. So it is not surprising that Mercedes wants to do its own marketing. It can apply to all other makes. Especially when it comes to WTO. However, if the business is small, ie. selling 20 units, then it won't be worth their while. This happened when Malaysia was a small country. Once the market grew, I think it is not surprising. All the franchise holders do have something to worry. It will depend entirely on the policy of the parent company, be it from Detroit, Nagoya or Stuttgart.



**SP:** You mentioned that the car prices in Thailand are significantly cheaper than prices here. This question has been asked many times over the years. Is the national car industry very important in Malaysia or could we exist in the region as just another Thailand - producing parts and distributing them to the region. Which option is more viable in the long run for Malaysia?

**KSC:** I think it is more an idea of the political leaders. Like Korea, they went for it.

Taiwan did not. So it is hard to say which is the better way. In a close market, the government may be right to set up a car industry to induce industrial development. For example, in many developed countries, the motor industry is instrumental to the economy. So I won't say it's not important, but it's really more a matter of national strategy.

**RM:** I would agree with Mr Khoo. Would Malaysia be better off without Proton or is it better to be another Thailand? With regards to Thailand, its main automotive operations are assembly. In the long run, assembly operations will not be the vehicle in which technology is transferred to the local people. Malaysia took a different route and decided that to industrialize it needed to gather intellectual property and Proton was the 'vehicle'. With Proton, we have the engineering expertise to create our own car and this homegrown feat is made possible by the accumulation of intellectual property. The accumulation of intellectual property is the reason why people go to college. With intellectual property you have a better control to determine your own future.

**RD: How would you rate Proton's ability to compete in the global market today after 15 years of national subsidies? Total vehicle sales in Malaysia are 350,000 units. I have been told that GM sells 400,000 units per month. Can Proton compete given it's current economies of scale?**

**ARH:** The choice of product has a lot to do with it. If we were to be competitive, the car may not look like what it is today. It may be something else. Look at the demand for three wheelers. I would say that it has a huge demand - next to motorcycles. I am not saying that Proton should go into this, but it is imperative that we study demand. Currently, we are competing head-on with global companies that is putting us at risk. We will never lead in something that other people have had a 80-year history in. So that is the reason why the issue of re-engineering and being smart enough to produce the right product for the right market is so important.

**RD: Are you then saying that we should be looking at very different markets? Maybe China or perhaps India ?**

**ARH:** No I'm not saying that. If you look at Malaysia itself, look at the Korean KIA.



We were in competition with them in Australia for example. They are by far, much cheaper. They are also offering the same range of cars like Proton. We have chosen to compete in products where we are not ahead of the rest. We should find niche products. The disadvantage we have is the lack of engineering skills to develop a car which can give us a niche. So we end up using someone else's platform - getting someone else to design a car along parameters that other people are doing. Maybe we don't need airbags? We have to look closely at the design and see whether it is suited to market needs. There will always be a market for these kind of cars; countries like Myanmar will not be looking for features like airbags. So I would say that being in this position, while taking care of our own markets, we should be getting into other Third World markets that are still developing. This will give us a breather for us to develop strength in our industry. If we open ourselves to competition from day one, we will die before we can walk!



**SP: Actually, I think that is what Proton is consciously doing. It has gone into countries like Iraq and Turkey. Earlier you talked about finding a niche. We have right now from 600cc to 2.2 litre cars. In which particular segment do you think that Proton should be looking at?**

**RM:** I believe the CEO of Proton is embarking on turning the Proton brand into somewhat of a Lotus for the masses, by utilizing ride and handling as the signatures that define its products. The niche I believe Proton is vying for is to develop vehicles with class leading ride and handling characteristics. For people who place priority on ride and handling, that would be the car to buy. Hence, in my opinion Proton will be targeting those people and channeling the volumes to satisfy that demand.

**LCK:** My view on focusing on Third World countries is that it is a very dangerous venture. These countries do not have the critical mass which we have been looking for. So if we continue selling to these countries, there are several issues to consider. First of all, we would not have the volume, and this goes back to the issue of economies of scale. The second issue is that by cutting out these features, we won't have the skill to develop these features which will increasingly become a requirement. And when the big boys decide to go into those countries and are equipped with all these features, we will face a lot of problems. Nobody wants to depend on third world countries where critical mass is a very big requirement for survival.

**RD: Will the local automotive parts industry be affected in the same way as the general car industry after the advent of AFTA. Will the automotive parts industry be able to protect itself by supplying parts to a wider range of car makers?**

**KSC:** In my view, the local auto parts players will be affected if Proton and Perodua experience slower sales as a result of the AFTA. It is very difficult to supply to other countries. So long as Proton and Perodua are there, we have the logistical advantage. So the carmakers do need a plant that is nearby. That said, we are not worried about competition. We are not worried about quality. We are, however, concerned about how international carmakers view us. For example, to supply parts to the Big Three, you need the QS9000. How many of our companies have this standard? To supply to the Japanese, it's even tougher. So that leaves European car makers, who will, of course say that they have very high standards. They won't even look at you! So the survivability of the local parts industry will depend a lot on the health of Proton and Perodua.



**ARH:** In the Original Equipment Manufacturing (OEM) business, the alliance between parts suppliers and car makers has been very strong. Trying to break this is not easy. From my personal experience, I was trying to obtain a contract from a global sourcing office in Hong Kong for a European company. The product met the specifications and price expectations, but the reply from Germany said that they would not change suppliers! My company recently bought over a company in Australia, for the reason that it had a QS9000 and a record of supplying to General Motors and Toyota. But at the end of the day, we still could not break the

manufacturer-supplier relationship. However, it doesn't mean that there are no prospects for local auto-parts manufacturers. For example, Mr Koo's company is doing very well. For people like us, we are not only concentrating on OEM products. In order to survive, we have to be smart in our strategy, and relying on OEM shouldn't be our only game-plan.

**RD: You have two alternatives: OEM and brand building. But a company like Acer does both, and it does it very well. Is this the model we should be looking at?**

**ARH:** No. This is because Acer is making products which go directly to the end user. We produce components which go into the car, and the seller of the car will sell it with our products inside there. We have another product which goes directly to the end-user. That we can call Acer-style product, but not the original parts. Like anyone else in this business, we need a combination of both these products.

**KSC:** Right now, we supply 60 percent of our output to the car manufacturers and 40 percent for the replacement market. Our basic management strategy is to gradually shift a greater proportion to the latter. We have no difficulty in selling to the replacement market. This year, our exports can easily touch RM80 million and we will still improve on this. So I think that the Malaysian national car project does make sense, because it has given many companies the chance to grow.

**RD: In that regard, I don't think that there is any dispute over it. What would be interesting is if someone did a full-blown national economic analysis on the economic cost to the consumer and the gain to corporate Malaysia. Only then can we see whether we come out net ahead. Going on to the next question, Toyota has just announced an internet initiative. There has also been a lot of talk about B2B business within the car industry. Is there anything that your companies would be involved in or anything that our analysts have come across? How do you see the B2B initiative affecting the Malaysian motor industry?**

**KSC:** A few months ago, the big three announced an internet initiative to source parts. Personally I think that it is impractical. Because if the managers at Ford, Chrysler and GM is not aware of any parts companies in the world, and needs the internet to find out, then that person ought to be fired! I think the internet is very good for certain products, but it's not for parts that cost hundreds of millions. It's all about generating publicity.

**RD: So the general consensus seems to be that it's really not a big deal at the moment. Coming down to the more valuable part, how do you see the Malaysian Motor Industry faring in the next few months? What are your recommendations? Which are the buys and the sells?**

**LCK:** Looking at the figures for passenger car sales, it is really nothing to shout about. Moving on to commercial vehicles, that is where the excitement is for non-national car makers. So sales should continue to perform in line with expectations - the target of 350,000 units should not be a problem to achieve. We should witness a 20-25% growth for the vehicle industry, inclusive of passenger and commercial sales. The total sales volume would be between 380,000 to 400,000 units.



**RM:** Our house view is that growth will be around 23%. Total sales volume is expected to be about 350,000 units. But looking at our second quarter numbers, there was a month-to-month decline in sales. The reasons: 1) the price increases implemented by the non-national makes like Tan Chong and UMW; 2) the current weak stock market is driving sentiment down; 3) the hire purchase debacle in the second quarter.

However, more recent figures indicate that growth is coming back up. We have a neutral weighting on the sector.

**LCK:** My top pick, if you are looking at vehicles, is [MBM Resources](#). They are the distributor for Perodua vehicles and they may be looking at a 15 to 20 percent EPS (earnings per share) growth this year. Next year's growth will probably be around 10 percent. My second pick would be [APM Automotive](#) because its earnings are excellent and valuations aren't demanding. The others would be [Hirota](#), a supplier of seatbelts and panels, because they are practically controlling the entire market for seatbelts.

**RD: You do sound very optimistic about APM Automotive's earnings. Am I correct in saying this?**

**KSC:** I am very optimistic about our performance this year. This is evident in our half year results. We expect our third quarter to be equal to our second quarter, which was very good. We also expect our profits to be significantly higher than last year. Next year we are still looking for further growth.

**RM:** I have only one top pick, which is APM. I was talking to a friend of mine before the whole demerger process of Tan Chong Motors, and I remember saying that APM is basically the jewel of the crown. EPS for this year is 20 sen, last year was 17 sen, but it was a tax-free year. Next year, we are projecting a 25 sen EPS. The earnings quality of assemblers/distributors like Tan Chong are at risk because due to the nature of the business, sixty to seventy percent of its cost of production is exposed to the volatility the Yen, hence margins could fluctuate over time.

**ARH:** What we have done with our company is that we have diversified. 50% of our market is now Australia and the rest in Malaysia. The issue we are currently facing is more of re-aligning our activities because since the economic situation, we have diversified our activities into making specialized vehicles. We have invested a big sum of capital there, almost RM30 million over the past three years which includes the acquisition of our Australian operations. So I would say that the company ([Autoindustries Ventures Bhd](#)) may not be a short term buy, but more of a long term investment. We will need time to restructure, say about 18 months.

**KSC:** In our case, our strategy is to ensure that our company will be globally competitive in the our products. So for the past three years, we have actually stopped diversifying. We go into depth for our products, some of which I would say have reached a global scale. For example, we are currently manufacturing 1000 tons of leaf springs and over 120,000 shock absorbers per month. So we already have some kind of economies of scale. Including all our products, like gas springs, we are producing over 200,000 units per month. We also have an associated plant in China which handles our export market. In Malaysia, APM sells to every car assembler. Our sales breakdown is 20 percent to Proton, 20 percent Perodua, 20 percent non-national models and the rest are for exports and replacement markets. As you can

see, we actually cover a wide range of products for the motor industry. Hence if the motor industry does well, APM will do well.



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