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Entry of Petronas will transform Proton

David Ong-Yeoh

WITH Petronas now formally holding talks to acquire HICOM Holdings Bhd's 27.70 per cent stake in Perusahaan Otomobil Nasional Bhd (Proton), the national car manufacturer is on the brink of a new chapter in its relatively short history.

With HICOM - the largest single shareholder - leaving the scene, Proton faces imminent changes in its corporate structure and analysts are expecting that to begin right from the top.

HICOM has been an integral part of Proton's existence, beginning in 1980 when the Cabinet approved the establishment of Heavy Industries Corp of Malaysia with the Ministry of Finance Inc as the shareholder.

The year before, then Trade and Industry Minister and Deputy Prime Minister Datuk Seri Dr Mahathir Mohamad requested a feasibility study for a Malaysian-manufactured car.

In 1982, a HICOM National Car Project team was assembled for preliminary negotiations with Japanese vehicle manufacturer Mitsubishi and submitted a feasibility study for Cabinet approval.

In 1983, Proton was incorporated with the formal conclusion of the joint venture and ancillary agreements between HICOM (70 per cent) and Mitsubishi (30 per cent).

In July 1985, Dr Mahathir launched commercial production of the national car, the Proton Saga.

"When the first Proton Sagas rolled off the production line into the recessionary gloom of the mid-1980s, not even die-hard optimists would have dared to hope that, within the decade, Malaysia's pioneering automotive venture would be the most talked about newcomer in an internationally competitive industry," Datuk Tharu T. Tharumagnanam says in his book "The Making of the National Car".

The book describes how by the late 1970s it was obvious that the industrial manufacturing sector in the Malaysian economy had reached an important crossroads.

This resulted in a need for a concerted state-led initiative to invest in a heavy industrialisation programme to broaden the evolution of locally-controlled modern and large-scale manufacturing through systematically developed industrial linkages. HICOM was created to spearhead this initiative.

After the first Saga rolled off the line in 1985, there was no stopping Proton's product development. The Proton Iswara was launched in 1992, followed by the Wira in 1993, Satria in 1994, Perdana in 1995, Tiara in 1996 and Putra in 1997.

But all these were based on existing Mitsubishi or Citroen models, something Proton now wants to move away from repeating for its future vehicles.

Proton chief executive officer Tengku Mahaleel Tengku Ariff has declared that said the post-2000 Proton needs to globalise, and has promised a range of products that will transform it into a brand of choice.

"For a long, long, time we had a very strong domestic brand, but because of globalisation, we need to build that outside very quickly," he said.

Now, 13 years after its first product, Proton is again in the news but this time the issue is how much it is worth.

Analysts say Petronas will be able to transform Proton into the global player that it wants to be in a shortened time, but HICOM is still keeping

the price tag shrouded as negotiations progress while its chairman Tan Sri Mohd Saleh Sulong has scoffed at reports saying Petronas should not pay more than RM5.50 a share.

Although some analysts are describing Petronas' bid for a stake in Proton as national duty, there are synergies resulting from the acquisition of Proton that are a logical extension of Petronas' business.

Petronas and Proton have already teamed up in a 50-50 joint venture - Advanced Engine Research Sdn Bhd (AER) - to develop engines, fuel and materials.

AER will undertake the research and development of designs and prototypes for manufacture in engines, transmissions, additives, fuels, lubricants, advance engineering materials; or to engage in such similar activity for third parties.

Petronas already has the prototype for a 2,000cc engine which it plans to have in commercial production by 2001, and Proton has said it is looking at the possibility of putting it into the cars it makes.

Thirteen years after its birth, Proton is taking the next few tentative steps into the real, competitive market where manufacturers compete on an international level without any pricing or tax advantages it has enjoyed throughout its existence.

Regardless of its success in Malaysia, Proton cannot rely on its dominance of the domestic market to drive it through the international market.

Except for the recent months when earnings dropped as a result of lower sales because of the economic crisis, Proton has been doing quite well for itself.

For the financial year ended March 31 1998, group turnover increased by 9.1 per cent, although pre-tax profit dropped by 29.6 per cent to RM724.6 million.

At company level, turnover rose 1.6 per cent to RM6 billion, while pre-tax profit dropped 28.9 per cent to RM677.6 per cent.

Proton has more than RM1 billion in cash reserves, which Mahaleel says should be sufficient to see it through the current downturn.

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