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HONDA-MALAYSIA

M'SIAN PARTIES WILL HOLD MAJORITY STAKE IN NEW HONDA JV

By: Yong Soo Heong

KUALA LUMPUR, July 18 (Bernama) -- Malaysian parties would hold the majority stake of 51 percent in the proposed tie up between Honda Motor Co Ltd of Japan, DRB-HICOM Bhd and Oriental Holdings Bhd, industry sources said today.

Of the Malaysian stake, DRB-HICOM would hold a bigger shareholding than Oriental Holdings in the joint venture manufacturing base which would not only cater for the domestic market but also the export market, they added.

In other words, the new joint venture would lay the groundwork for Malaysia to be Honda's regional production base besides Thailand.

Honda will hold 49 percent of the joint venture which will also assemble and distribute Honda vehicles locally.

Prime Minister Datuk Seri Dr Mahathir Mohamad will witness the signing ceremony between the three parties at his office in Putrajaya tomorrow.

Meanwhile, analysts said Honda's decision to set up a regional production base in Malaysia on a joint venture with DRB-HICOM and Oriental Holdings was seen as a reaffirmation of its support for the country's investment climate and economic policies.

They said it also demonstrated Honda's confidence in Malaysia despite the prevalence of selective capital controls.

"This means that the controls are not a hindrance to genuine investments," one of them said.

The analysts also said the decision by Honda was also an endorsement of the country's availability of skilled human resource and infrastructure facilities.

One of them when contacted also said the move was testimony of Japan's support for Malaysia's manufacturing sector and another feather in the cap for Dr Mahathir's "Look East" policy.

The analysts also said the choice of DRB-HICOM was also not surprising because the group had worked with leading Japanese automobile companies like Isuzu and Mitsubishi.

Besides DRB-HICOM's tie up with Kawasaki for the Modenas motorcycle plant, it has also worked directly with Honda in the production of 110 cc and 600 cc motorcycle engines.

Industry sources said the joint venture would have an initial paid-up capital of US\$100 million or RM380 million.

At present, no decision has been taken on the location of the manufacturing base. But sources said the DRB-HICOM's manufacturing facility in Pekan, Pahang may be the site of the Honda manufacturing base.

If Pekan were to be chosen, it is likely that assembly operations could start in six to nine months.

But if the new joint venture company were to choose a new location and build everything from scratch, it could take as long as two years.

When established, the manufacturing base is expected to concentrate on producing the CRV four-wheel drive and Odyssey multi-purpose vehicle.

However, the facility is expected to also assemble the Accord, Civic and City models now currently undertaken by Oriental Assemblers Sdn bhd, a subsidiary of Oriental Holdings.

All in all, the joint venture company would for a start produce between 15,000 and 20,000 vehicles annually.

DRB-HICOM's tie-up with Honda and Oriental Holdings is also part of its strategy to have the automotive sector as one of the core sectors of the

group.

When DRB-HICOM divested its strategic stake in Perusahaan Otomobil Nasional Bhd (Proton) to Petronas about three months ago, DRB-HICOM chairman Tan Sri Saleh Sulong stressed that the group would still be very much in the automotive business.

"I am sure there are places as well as well as opportunities and availability of business for those who are not involved in the national car project," he said in an interview.

Honda's Malaysian manufacturing base would be its second in South East Asia after Rayong in Thailand. It is expected that the Thai manufacturing plant, which has a production capacity of 60,000 units annually, would concentrate on producing the Accord and City models.

Analysts also see Honda's entry into Malaysia as a move to strengthen its position under the Asean Free Trade Area (AFTA) regime. Malaysia will remove its trade barriers in the automotive sector under the auspices of AFTA in 2005.

Once the barriers are removed, automotive producers will have to compete on equal terms.

Industry observers said Honda's latest initiative is a departure from what had taken place in the local automotive industry. Many others like Ford, Toyota and Volvo had only taken steps to increase control over local entities involved in vehicle distribution.

But they said Honda's move adds more value to Malaysia as the joint venture would be export-oriented as well, thus enhancing the country's export earnings.

Analysts also said Honda would use its cost-competitive manufacturing facilities in Malaysia and Thailand to compete as effective manufacturing bases under the AFTA environment as well as export to other parts of world. Globally, Honda has about 120 manufacturing plants.

At the close of the generally easier Kuala Lumpur Stock Exchange today, DRB shares fell 24 sen to RM3.54, HICOM was unchanged at RM1.67 and Oriental Holdings eased five sen to RM8.85. -- BERNAMA

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