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Local car assemblers increasing capacity (HL)

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LOCAL carmakers and assembling plants are scrambling to increase capacity before 2005 when the local car market is liberalised under the Asean Free Trade Area (Afta).

It is the new kids on the block who are doing this. They include Naza Kia Sdn Bhd, which is building a RM350 million plant in Gurun, Kedah, to assemble Kia vehicles; and Honda Motor Co's subsidiary Honda Malaysia Sdn Bhd, a new local Honda franchise holder which took over from Kah Motor Sdn Bhd in July last year.

This development has raised concerns of overcapacity in a market that sold 396,381 cars, trucks, recreational and multi-purpose vehicles last year. About 430,000 units are expected to be sold this year.

Some analysts argued that with a more liberalised car market in the region in 2005, domestic and overseas demand will match the big Malaysian supply.

Overall production for national and non-national vehicles in the first half of 2002 increased 18 per cent to 237,005 units from 201,016 units in the same period last year, according to the Malaysian Automotive Association.

Production of national makes grew 18 per cent to 196,043 units, while non-national makes registered a 16 per cent growth to 40,962 units.

Don't bet on seasoned players such as UMW Holdings Bhd, Tan Chong Motor Holdings Bhd and Oriental Holdings Bhd to part with much cash in the near-term to build up capacity.

This is because the industry's installed capacity is still very much under-utilised, analysts said.

"With the exception of two national carmakers, Proton (Perusahaan Otomobil Nasional Bhd) and Perodua (Perusahaan Otomobil Kedua Sdn Bhd), the rest are still under-utilised," an analyst said.

"The total installed capacity of the local motor sector is 600,000 units. Only about 60 per cent of this is being utilised.

"In other words, the likes of UMW, Tan Chong or Oriental are not expected to spend much on capacity expansion in the next two to three years."

However, Toyota franchise holder UMW will invest in a new assembly line for a four-door model smaller than the 1.6-litre Altis next year.

The country's largest non-national assembler has an installed capacity of 25,000 units on one shift. This can double to 50,000 with an extra shift.

UMW has forecast sales volume of 27,000 units for the Camry, Altis, Unser, Hilux and Toyota commercial vehicles this year versus some 20,000 units sold in 2001.

Nissan assembler Tan Chong, Oriental and Tractors Malaysia Holdings Bhd (assembler and distributor of Ford, BMW and Land Rover vehicles) have capacities of 30,000, 32,000 and 27,000 units, respectively.

In the first 10 months of this year, Tan Chong sold about 13,000 Nissans and Tractors had sales of about 7,400 vehicles.

Cycle & Carriage Bintang Bhd, the top seller in the luxury car segment with the Mercedes-Benz marque, has an installed capacity of 12,000 units.

DRB-HICOM Bhd, another big assembler, can produce up to 30,000 units a year on a single shift at its facility in Pekan, Pahang.

Honda, Japan's third largest carmaker, announced last month a RM374

million plan to expand its new manufacturing operations in Pegoh, Malacca, by 2005. It has already invested RM180 million in the plant, which will be officially opened by Prime Minister Datuk Seri Dr Mahathir Mohamad on January 17.

Analysts estimate that the Honda and Kia plants will add at least 80,000 units to the installed capacity.

Naza group managing director Tan Sri SM Nasimuddin SM Amin said the Gurun plant, to be ready in less than 18 months, has a production capacity of 60,000 units of vehicles a year.

Honda Malaysia managing director and chief executive Seiji Kuraishi said the RM374 million plant will expand capacity to at least 40,000 units from 20,000.

The supply situation may get worse when the RM2.2 billion Proton City, currently being developed in Perak, comes on stream.

The development will boast a capacity of 500,000 units of vehicles, doubling the current capacity of the region's biggest carmaker in terms of sales.

Perodua and technical partner Daihatsu Motor Co also have plans to increase capacity.

Daihatsu, 51 per cent owned by Toyota Motor Corp, reportedly will nearly double annual production at its Malaysian joint venture by end-2007 to meet rising demand in South-East Asia.

Daihatsu will spend about 7 billion yen (100 yen = RM3.08) next year to expand production facilities at Perodua Auto Corp Sdn Bhd, its joint venture with local parties, and increase production to 250,000 cars in five years.

The company is planning to increase exports to exploit scheduled cuts in car tariffs by the Association of South-East Asian Nations, starting next year.

Senior Perodua officials had said that it would buy 81ha of land adjacent to its plant in Sungai Choh, Rawang, for future expansion.

The plant has an annual production capacity of 150,000 vehicles. At current production levels, it is fast reaching its maximum capacity.