

Foreign stake still seen for Proton
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Malaysia's loss-making national carmaker Proton is still likely to gain a foreign partner despite the collapse of talks with French car giant PSA Peugeot Citroen, industry analysts said today.

The French firm said Monday it would not continue discussions that began in September with Proton over a possible tie-up.

Malaysia's government has been under intense pressure to announce details of a partnership for Proton in a bid to provide the company with expertise to arrest a sharp decline in market share.

The company last year lost its status as Malaysia's biggest-selling automaker to rival Perodua, another homegrown manufacturer.

In addition to PSA Peugeot Citroen, Proton has been in talks with US auto giant General Motors and Germany's Volkswagen AG. Three Malaysian automotive firms have also expressed interest in taking a stake in the company.

"We have always thought that Peugeot is the last choice," Rosnani Rasul, an auto analyst with local brokerage TA Securities, told AFP.

Rosnani said Peugeot prefers collaboration without equity participation but the Malaysian government is hoping someone will acquire a stake that will "ensure long-term commitment and technology transfer, which is the main thing they want."

The French carmaker said that after thorough study of a possible partnership with Proton it appeared the conditions of success for such a project were not met.

The shining knight

Rosnani said PSA Peugeot Citroen's decision "is still not a very negative thing for Proton. VW is still the shining (knight) as Proton's potential foreign partner."

Wong Chee Seng, group head of research with the research arm of Alliance Investment Bank Berhad, said PSA's pullout from the negotiations with Proton is unlikely to have any strong impact on the stock.

In a note to clients, Wong said PSA's tie-up offer was less comprehensive than those potentially offered by Volkswagen or General Motors because it only involved a joint venture to assemble and develop new models, with little foreseeable technology transfer.

The Edge business newspaper reported recently that the talks between Proton and Volkswagen have "not been going well" and the mood of the German automaker appeared "less keen" of late.

"Nonetheless, given the dire current financial predicament and the potential realisable value

of Proton's assets, we believe a strong tie-up or even a divestment of a controlling stake at or above our target price by government-owned majority shareholder Khazanah Holdings Bhd to a foreign carmaker is very likely," Wong said.

Prime Minister Abdullah Ahmad Badawi confirmed Tuesday that Proton was still in discussions with Volkswagen.

Lilian Chong, an auto analyst with brokerage Hwang DBS-Vickers, said a collapse of negotiations with Volkswagen would be detrimental.

"Then the market will react negatively to Proton's shares," she said.

The Malaysian government owns 59 percent of Proton, including a 43 percent stake held by its investment arm Khazanah Nasional.

Sluggish sales

Last week Proton announced its third consecutive quarter of losses, blaming sluggish sales and increased competition.

The loss of RM281.45 million in the third quarter to December compared with a net profit of RM86.51 million a year earlier.

Proton cited intense competition as well as a year-end slowdown which "have further dampened the domestic sales volume."

Proton's market share has fallen sharply in recent years due to the whittling away of duties that have made imports more affordable combined with a persistent reputation for poor quality and unimaginative models.

Second Finance Minister Nor Mohamed Yakcop has said the government will select a strategic partner for Proton by the end of March.

Alliance research is maintaining its hold on Proton at a target price of 7.05 ringgit.

The carmaker's shares were down 0.250 to 6.200 ringgit at the close of trading. The broader market ended 1.82 percent higher at 1,130.96 points.

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