

THE Malaysian car industry is going through a new phase, a very competitive one. For some, it is an uphill battle, while for others it brings new opportunities.

One thing is for certain though, competition is on the rise – and climbing rapidly – with industry players scrambling for market share as car sales slow down amidst cautious consumer spending.

SJ Assets Management Sdn Bhd's Chief Investment Officer Meor Khairi Bazid attributes the slower growth in the car industry to rising interest rates and more stringent credit activities by the banks.

He says the hike in retail fuel prices recently has reduced consumer purchasing power to some extent and this has made car usage more expensive.

'The downward revision in new car prices has also resulted in lower prices in the secondary car market,' he adds.

'Therefore, trade-in values are lower and this has caused some difficulties for some people to change their cars. After the recent downward revision in car prices, some people are anticipating further reductions down the line.'

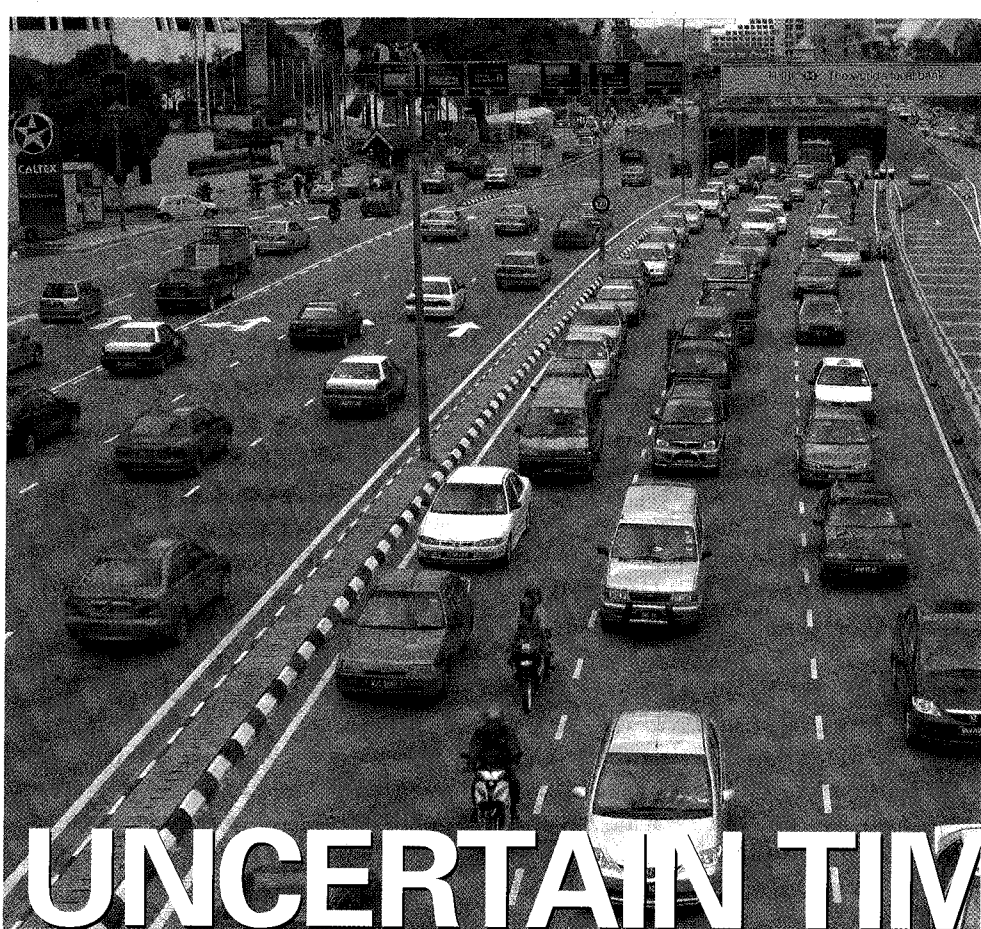
Analysts say consumers now are a more demanding lot as they are exposed to greater choices of marques as a result of rising competition.

They are now more difficult to please and are more sensitive to pricing brought by the flood of promotional campaigns and offers of carmakers, analysts add.

'The automotive industry is expected to remain lacklustre on consumer concerns of rising inflationary pressures and interest rates,' OSK Securities' Head of Research Kenny Yee says.

'People's tendency to change cars has dropped quite a bit compared to before. Consumers are now more cautious in the current economic environment as they are feeling the pinch of higher petrol prices and more expensive hire purchase financing,' he adds.

Yee, however, sees the industry players posting a slight growth this year except for Proton and Edaran Otomobil Nasional Bhd (EON) due to slumping car sales, with Perodua, being one of the better ones, benefiting from brisk sales of its popular MyVi model.



UNCERTAIN TIMES AUTO INDUSTRY

Carmakers gear up for difficult days ahead as credit squeeze and higher fuel prices hamper sales.

By Arman Ahmad

As for non-national cars like Honda, Yee says they are benefiting from the carmakers' move to introduce more models. As for UMW, its sales are partly hampered by the absence of new models.

OSK Securities has a sell position for Proton on unattractive returns.

Meanwhile, Meor says the competition in the medium to lower-end car models is very intense.

He adds that manufacturers who have price/cost competitiveness; quality and exciting product lines will excel in this environment.

'The Malaysian auto sector is a mixed bag, with one or two companies expected to do well, with the others facing increasing uncertainties,' Meor says.

Looking forward, Meor expects the government to pressure for more reduction

in car prices to make Malaysia's car industry more competitive.

This, Meor says, will create a lot of uncertainties in the domestic auto sector. For investors in the Asian region, Meor adds investments in the auto sector is not confined to car manufacturers alone but also auto parts manufacturing.

'There are a few good listed companies involved in the auto parts business listed in the region, which are also among the main beneficiaries of booming consumer spending and car sales within the region,' says Meor.

As prices between Honda and Toyota and Proton marques become narrower, he says the onus is on Proton to improve its quality, cost competitiveness and product lines.

'Not only in Malaysia will competition be very intense, but also worldwide. The



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Korean automakers are improving by the day. Then we have China, where by the year 2009, the auto capacity is expected to double the size of its domestic demand. Definitely, Chinese manufacturers will be very aggressive in exporting their cars to utilise their capacities. Therefore, price wars are almost inevitable in the future,' Meor adds.

Analysts and industry observers say all players, including non-national carmakers like Honda and Nissan, are feeling the pinch of slowing demand biting into their profits.

EON's first quarter results ended March 31, 2006 saw net profit plunge 79% to RM4.17 million from RM19.62 million recorded a year earlier.

This is reflected in a 9.1% drop in sales to RM617.55 million compared to RM679.03 million previously.

EON attributes the poorer results to lower earnings from its Proton business arising from reduced vehicle sales and lower margins. The company's Proton sales fell in tandem with the decline in total Proton sales. The softer market conditions also resulted in lower than expected sales of its Mitsubishi and Inokom/Hyundai marques.

While prices of locally assembled cars have come down generally with the reduction in duties under the National Automotive Policy (NAP), EON says the price differential between national and non-national cars have also narrowed, further intensifying competition faced by Proton marques.

It noted vehicle sales in the initial weeks following the announcement of the NAP were slow as customers waited for further price reductions.

It said higher interest rates, more stringent approval terms for hire purchase financing, declining used car prices and higher fuel prices are expected to further dampen vehicle sales.

EON expects trading conditions for all marques to be challenging in the coming months.

For the first quarter, EON's Proton vehicle sales fell by 44% to 11,787 units from 20,986 units in the preceding quarter.

Sales in the preceding quarter were supported by aggressive campaigns, which ended in December 2005, it said.

As for Proton Holdings, the company posted a 89% drop in net profits to RM47.03 million compared to RM442.44 million for the year ended March 31, 2006.

Proton blames the lower results mainly on lower sales, higher allowances for doubtful debts and promotion costs, higher component costs and allowance for stock obsolescence.

The national carmaker says intense competition in both the domestic and export markets is expected to continue to put pressures on group sales and profitability.

It says further hardening of interest rates, tighter credit control by financial institutions and the softening of the used car market will continue to dampen new car sales.

Higher fuel prices and the recent increase in electricity tariffs will correspondingly increase the cost of production, Proton adds.

Proton says the group will continue to intensify efforts to further improve quality, enhance cost competitiveness and introduce new models to mitigate the impact of higher costs and increasing competition.

In a nutshell, the investment fraternity is underweight on the sector and at best neutral on the industry, as prospects remain unattractive. **mb**