

Record oil prices will have little impact on car sales

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Oil prices at current levels are unlikely to dampen the demand for cars in Malaysia although if prices continue to rise, some consumers may become more prudent in their petrol consumption.

Analysts say the demand for cars will be unaffected by the recent increase in oil prices to more than US\$70 per barrel. The need for mobility is an important factor, they say.

CIMB Securities senior analyst Steven Tan says Malaysians may complain about rising petrol prices, but without a reliable public transportation system, owning a car is important.

Hwang-DBS Vickers auto analyst Eltricia Foong concurs, saying it does not mean people will switch to public transportation as a cheaper alternative. "Eventually, [public transportation] fares should increase as well," she notes. Tan adds that the increase in petrol prices will not dampen the demand for cars because the cost of petrol relative to the cost of a car in Malaysia is almost immaterial, unlike in other countries where petrol is more expensive.

An analyst with a local research outfit says that petrol remains affordable because it is subsidised by the government. While high petrol prices may deter some from buying a car with a higher cc engine, the impact would be minimal because the higher income group who would buy these vehicles is less price elastic, she adds.

The Malaysian Automotive Association (MAA) announced last month that motor vehicle sales contracted 3% in July after growing 8.6% in the second quarter of this year [2Q2005], while motor vehicle production grew a meagre 1.6% in July compared to 23.6% in 2Q2005.

However, analysts attributed the slowdown to consumers waiting for the National Automotive Policy to be announced, and more cautious consumer sentiments as the economy slows down.

MAA president Datuk Aishah Ahmad tells *The Edge* in an e-mail: "For the short term, there will be no change in the sales of vehicles. However, in the longer term all auto companies need to raise productivity to reduce costs."

Fuel-efficient models

Hwang-DBS Vickers' Foong says that if fuel prices continue to rise

in the long term, fuel-efficient cars may see increased interest. "The new Toyota models and Perodua's MyVi might stand to benefit," she says.

The local analyst agrees, citing fuel-efficient makes like the Toyota Vios, the Honda City and most other Japanese brands.

A Perodua spokesman says the recent hikes in petrol prices have not resulted in more car sales for Perodua despite its Kancil and the MyVi being two of its most economical models. "Sales have been the same. People don't seem to be too concerned about petrol prices, but maybe the next petrol price hike will result in more sales for us," he says.

Since its launch in May this year, Perodua MyVi bookings have reached 55,000 units and sales 14,000 units as at end-August, up from bookings of 47,232 units and sales of 6,532 units as at end-July.

The analyst with a local research house reckons that models that might be badly affected by rising petrol prices would be pick-up trucks such as the Mitsubishi Storm and Ford Ranger which are competitively priced but equipped with an engine capacity of more than two litres.

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Demand for bio-diesel likely to rise

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But Daihatsu (Malaysia) Sdn Bhd general manager of sales and marketing Belinda Lim says petrol prices would not have an impact on the sale of commercial trucks. "The demand will still be there because these trucks are bought to fulfil a business need," she tells *The Edge*. Daihatsu distributes the Daihatsu Delta and Daihatsu Hijet Maxx commercial trucks.

Analysts add that while hybrid cars which run on petrol (or some other fuel) and electricity are the trend going forward, they are still more expensive than normal makes and have little support in Malaysia.

Honda Malaysia president and chief operating officer Nik Hamdan Nik Hassan says in an e-mail the interest in hybrid automobiles is very strong globally, especially in the US, but in Malaysia, market acceptance is still very low.

In May this year, Honda Motor Co Ltd announced that its cumulative worldwide sales of hybrid vehicles reached 100,000 units in April, including sales of about 89,000 units in the US, 5,900 units in Japan, 3,800 units in Europe and 1,500 units in Canada.

Honda introduced a limited number of 1.3-litre Civic Hybrid to the Malaysian market two years ago. The model was selling for RM118,888 on-the-road compared to a normal Honda Civic 1.7-litre that was priced at RM109,900.

Nik Hamdan says market acceptance and knowledge of hybrid technology are still very low among Malaysians. "Once the Malaysian duty structure is clearer and incentives are introduced by government for environmentally friendly cars, Honda Malaysia will consider re-introducing the hybrid models," he says.

Hwang-DBS Vickers' Foong notes that the

technology for hybrid models is neither easy nor cheap to develop. "If petrol prices come down, any new urgency to develop a hybrid model will likely dissipate as well," she says.

It will be the big car makers like Toyota and Honda which will successfully develop hybrid models that are cost-effective.

In July, national carmaker Proton Holdings Bhd announced it would roll out its own hybrid car in less than five years.

Biofuel to benefit

Meanwhile, Credit Suisse First Boston (CSFB) research analyst Tan Ting Min says demand for biodiesel — produced from rapeseed, soya or oil palm — is likely to increase if petrol prices continue to rise.

"The largest consumers of diesel, the European Union and the US, have both enacted their national biofuel policies [that aims to expand the use of biofuel]," she notes in a report.

She says palm oil is the most economical vegetable oil for biodiesel and that the technology to make biodiesel from palm oil is already available though not yet commercialised.

Last month, Malaysia announced its National Biofuel Policy that, among other things, plans to establish a 5% palm-based biodiesel blend to fuel local cars and industries, as well as for exports.

CSFB's Tan says total domestic consumption of mineral diesel last year was 9.3 billion litres, with an estimated growth of about 4% per annum. "Assuming a 5% blend, by 2010, an estimated 510 million tonnes of palm oil may be used as biodiesel in Malaysia, or an estimated 41% of Malaysia's current CPO [crude palm oil] inventories. This will be positive for CPO prices in the long run," she says. //

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