

德信管理諮詢



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Presentation

# Is China's Automotive Industry Stimulated?

For:



**Austrian Trade Commission  
in China**

September 19, 2009

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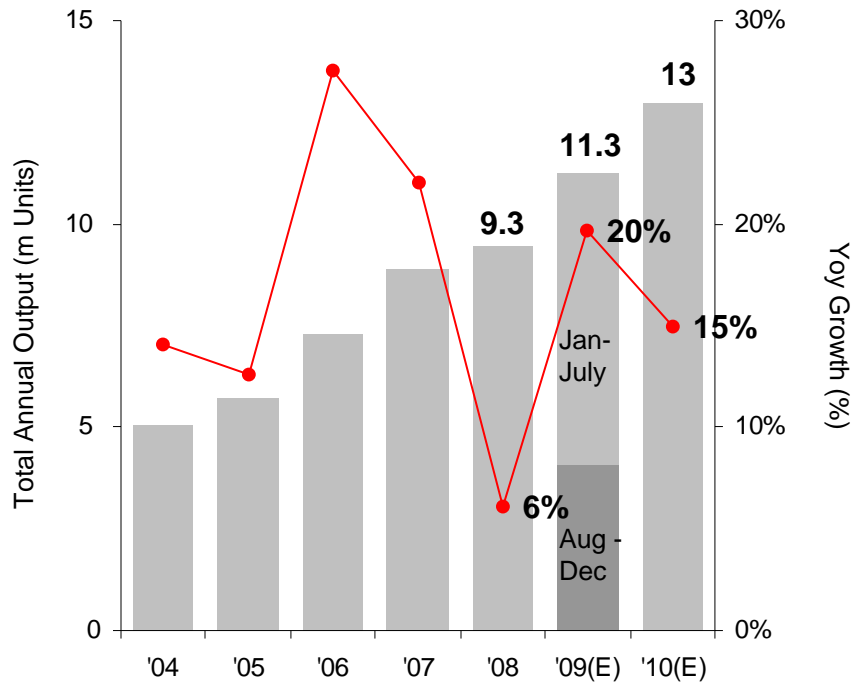
# Agenda

<b>Section</b>	<b>Time</b>
Market Review	5 mins
Government Policies & Impacts	5 mins
Future Prospects	5 mins
Q & A	5 mins

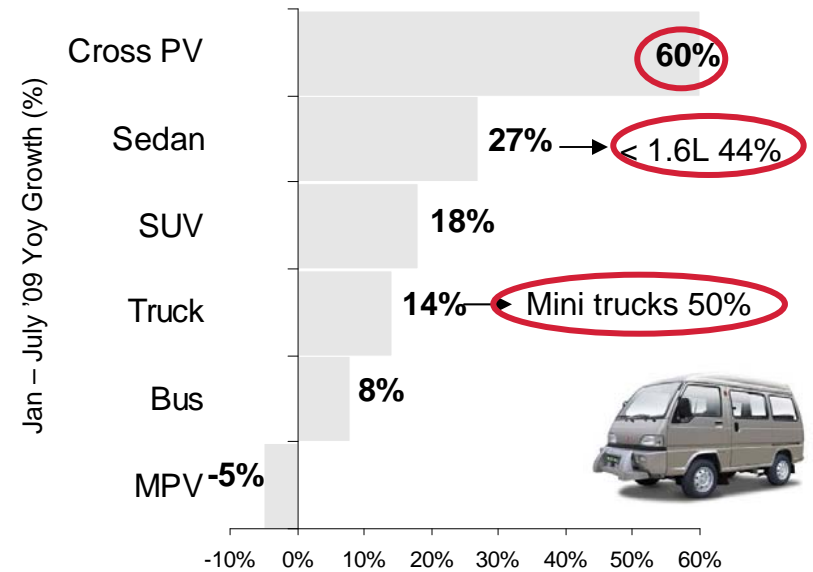
# Market Review

*China auto industry has seen a broad-based recovery on stimulus boost.*

## Industry Trends ('04- '10E)



## Segment Recovery



PV: Sedan, Cross PV, SUV, MPV  
CV: Truck, Bus

## Supportive Government Policies – Central Government

*Five subsidies and tax cut policies were introduced to awaken the demand for compact cars first of all...*

	Policy	Description	Segment Impact
Jan	<b>'Small Cars'</b>	<ul style="list-style-type: none"> <li>▪ Purchase tax cut from 10% to 5% for &lt; 1.6L displacement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sedan</li> </ul>
Feb	<b>'E- vehicles'</b>	<ul style="list-style-type: none"> <li>▪ Cash rebate to public service vehicles in 13 cities</li> <li>▪ Total budget ~RMB 0.6 - 1.3 m</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bus</li> <li>▪ Sedan</li> </ul>
Mar	<b>'Go-country-side'</b>	<ul style="list-style-type: none"> <li>▪ Reduce purchase tax 13% (&lt;RMB 650) for motorcycles; 10% (&lt;RMB 5,000) for car</li> <li>▪ 10% subsidy (RMB 5,000) to replace 3-wheelers by light trucks</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mini &amp; light trucks</li> <li>▪ Cross PV</li> <li>▪ Motorcycles</li> </ul>
May	<b>'Old for New'</b>	<ul style="list-style-type: none"> <li>▪ Subsidies RMB 3,000 – 6,000 for mid &amp; small CVs and mid PVs trade-in</li> </ul>	<ul style="list-style-type: none"> <li>▪ CV mainly</li> </ul>
June	<b>'GB III Emission'</b>	<ul style="list-style-type: none"> <li>▪ Requirement to upgrade &lt; 3.5L trucks</li> </ul>	<ul style="list-style-type: none"> <li>▪ Light trucks</li> </ul>



# Supportive Government Policies – Provincial Governments

... local governments supplements

## E-vehicles

- Shanghai:
  - Target: 10k units production by 2010
  - RMB 20,000/ unit (20%) subsidies for consumers
- Hubei:
  - E-alliance among 10 component mfrs.
  - RMB 89 m subsidy budget for mfrs. as well as consumers in Wuhan
- Chongqing:
  - RMB 40 m subsidy budget for consumers
- Shenzhen:
  - Target: 24k units renewable energy buses by 2012

## Road Maintenance Fee

- 13 provinces cancelled the grade II road maintenance fee & combine it into fuel tax
- Reduce the daily cost for consumers as total & increase mobility demand



## Investment

- Anhui:
  - Potential M&A between Chery & JAC
- Hubei:
  - Revenue tax deduction for Dongfeng & other fiscal support
  - Target: 1 m units car production by 2013



# Impact of Subsidies

*The results of stimulus have been better than expected.*

## Near-term Catalysts

- Small cars benefit most
- Technology upgrade brings new demand
  - Low emission: GB III for trucks in the whole country
  - Safety
- Strong spillover effects for upstream industries, e.g. steel, glass

## Mid-to-long Term Support

- Subsidy programs will be extended till 2010
- Auto Revitalisation Plan is set as the guideline
- Further policies for fundamental changes, such as:
  - Liberalisation of auto financing
  - 2<sup>nd</sup> hand market

## Sustainable Demand

- Secular growth over cyclical rebound
- Low car ownership rate implies huge growth potential
- Rising wealth effect
- Growing rural demand
  - Increasing mobility needs for trade
  - 3-wheelers replacement



*The strength of the Chinese market is providing a rare hope for western manufacturers already operating in China .*

## Component

- Quicker recovery than vehicle
- Less competition overseas after global consolidation
- Higher degree of innovation than local mfrs. paid off

## Vehicle (JVs)

- Benefits mainly on PV
- Maintain market share 74% for sedan
  - Low-end: design-to-cost approach & campaigns
  - High-end: expand premium sector through govt. purchase proj. (BMW)
- More efforts for CVs (MAN's M&A, GM & FAW JV for light trucks)

## Challenges

- Focus from export to domestic
- “Re-nationalisation”

## Vehicle (overseas)

- Limited effects from the stimulus
- Imported SUV remains competitive
- Further benefits expected from the new dealer regulation within the year

## Future Prospects

*The stimulus actions will be sustainable due to the strategic role of the industry.*

### Opportunities

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- OEMs and suppliers:
  - Cost efficiency: use the opportunity to restructure
  - Sourcing advantages: China is in pole position as No. 1 worldwide production base and the localisation along the whole value chain
  - Global optimisation: Chinese mfrs. is actively seeking opportunities overseas
  
- Dealers:
  - Improve liquidity
  - Expand service portfolio
  - Identify potential acquisition targets

### Challenges

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- Stagnating demand overseas: cannot be fully offset by the stimulus pack, e.g. CV
  
- Overcapacity: potentially in 2010 & 2011 after the strong cyclical rebound
  
- Structural problem: lack of technical competence for core components for local OEMs
  
- Consolidation: impeded by the conflict of interests among provincial governments



*Some suggestions...*

1. Continuous policies?
2. Export?
3. Component suppliers?
4. E-vehicle?
5. Profitability?
6. Other industries?



## Who Are We?

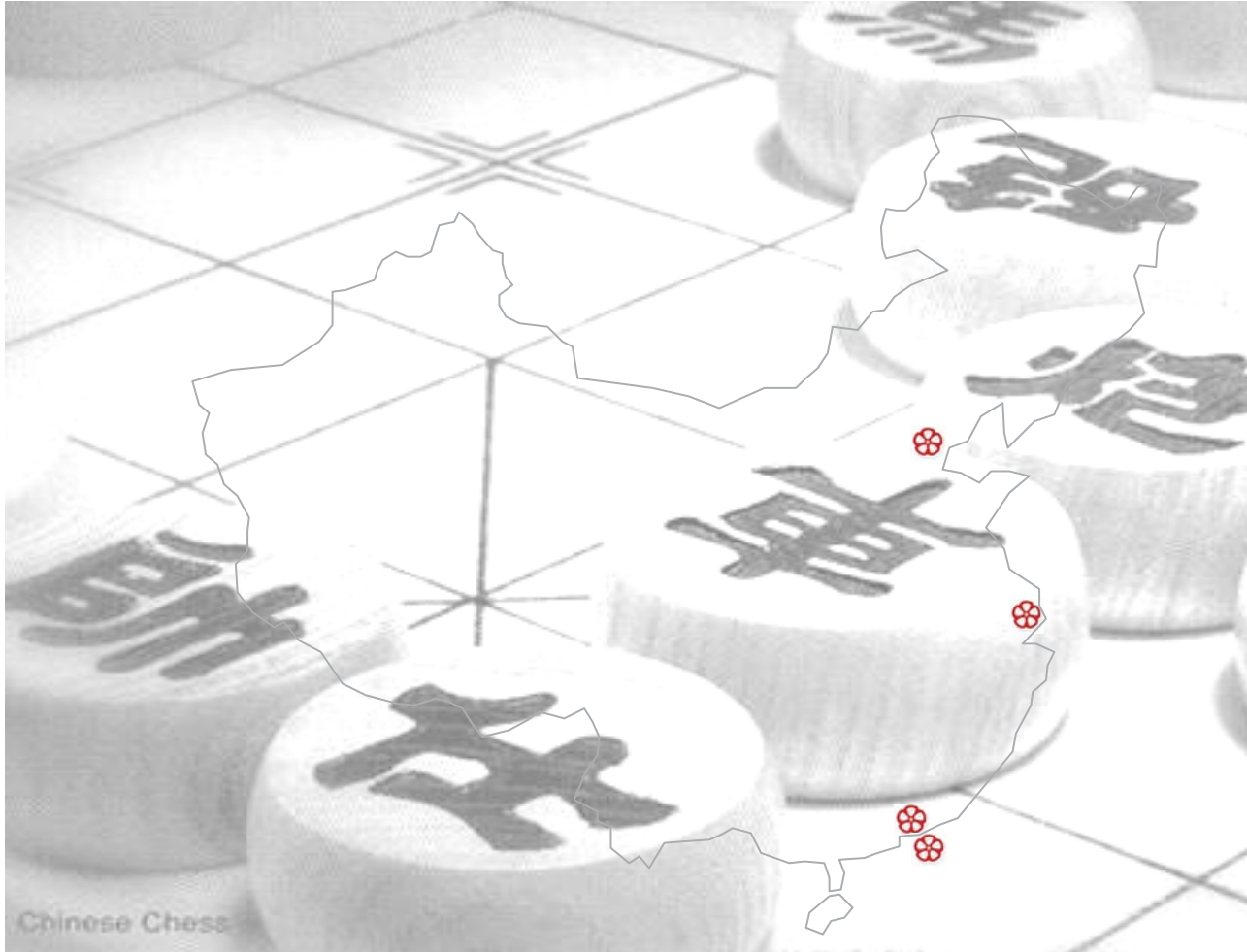
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# What Is Your Next Move?

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