Managing the Dragon Blog Post

The Changing Landscape Of Global Autos

By: Jack Perkowski | October 10, 2013

What a difference twenty years makes. In 1993, China's auto industry was producing less than one million vehicles per year and there were no Chinese passenger car makers. In 2013 China will produce over twenty million vehicles, and Chinese companies account for 35 percent of the total passenger car market. In 1993 the likes of General Motors, Ford, and Toyota were the behemoths in the global auto industry. Today, the center of gravity in the industry is rapidly shifting to China.

For weeks now, rumors have been circulating that Dongfeng Motor Corp, which was founded in 1969 in Hubei Province and is now China's second largest automaker, was considering taking a stake in France's PSA Peugeot Citroen. On Tuesday, China Business News reported that insiders from Dongfeng had confirmed that the company was in talks with the struggling French automaker to acquire a 30 percent stake for RMB 10 billion ($1.63 billion), valuing Europe's second largest auto maker at $5.4 billion. That would make Dongfeng PSA's largest shareholder if the acquisition is completed. The report quoted an anonymous insider as saying that the discussion was still in an initial stage, with many uncertainties in the future.

PSA was greatly impacted by the Eurozone debt crisis, reporting a net loss of 5 billion euros ($6.78 billion) in 2012 and a drop in global sales of 17.5 percent over the past three years. After an operating loss of 1.5 billion euros in its car-making division in 2012, PSA has announced plans to close a plant in France in 2014, laying off 11,200 employees in the process.

Meanwhile, Chinese car makers are experiencing strong growth in overall market demand. For the first eight months of 2013, 10.2 million passenger cars were produced in China, a 16 percent increase over the same period last year. Through joint ventures with Nissan and Honda, as well as PSA, Dongfeng has become China's second largest producer of passenger cars. Through August, Dongfeng's various passenger car units sold 1.3 million units and accounted for about 13 percent of China's passenger car market. Hurt by the generally poor performance of Japanese car brands in China, Dongfeng's 4 percent growth rate so far this year is below industry norms.

If consummated, Dongfeng's purchase of a 30 percent stake in PSA will follow the 2008 acquisition of the Jaguar and Land Rover luxury car brands by Tata Motors of India for $2.5 billion, and the 2010 acquisition of Volvo by Chinese car maker Zhejiang Geely Holding Group ("Geely") for $1.5 billion. Jaguar, Land Rover and Volvo formerly comprised the Premium Auto Group of Ford Motor which was broken up when Ford decided to divest the three brands. Both Tata and Geely appear to be doing well with their respective acquisitions.

The trend by Chinese auto companies to purchase overseas assets, brands, and companies began in 2002 when Shanghai Auto Industry Corp. ("SAIC") paid $59.7 million to buy a 10 percent stake in General Motor's venture in South Korea, GM Daewoo Automotive & Technologies. It was the first overseas acquisition by a Chinese automaker.

SAIC then followed in 2004 with the acquisition of Ssangyong Motors, South Korea's fourth largest automaker at the time, for $500 million. SAIC beat out a slew of other bidders for Ssangyong, including GM, chemical firm China National Blue Star Corp., and a US pension fund, to clinch the much heralded deal. The Ssanyong transaction was the first time that a Chinese automaker took control of a foreign carmaker. Unfortunately, the acquisition turned out badly for SAIC when Ssanyong went into receivership in 2009.

Determined to obtain foreign technology to build its own brand, SAIC acquired MG Rover Group Limited, the famous British auto maker, in 2005. For much the same reason, Beijing Automotive Industry Holding Co. paid $200 million for certain assets of General Motors' Saab unit in 2009 as part of a push to develop its own-branded cars.

So far there have been six acquisitions by Chinese vehicle assemblers of overseas carmakers. A Dongfeng transaction with PSA, however, may very well be a precursor of many more deals to come. Global carmakers have technology and brands, but many lack cash. Meanwhile, their Chinese counterparts have cash, but are short of technology and are struggling to build their own brands. Sounds like an investment banker's dream!

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