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INCLUDES BMI'S FORECASTS

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VIETNAM AUTOS REPORT Q3 2011

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Executive Summary

After a decline of 6% in 2010, Vietnam's new vehicle sales returned to growth in Q111, as even the multi-purpose vehicle (MPV) segment, impeded by increased taxes, showed a marked increase. This is in line with **BMI**'s forecast for a return to positive growth in total sales in 2011, although we expect the rate of growth to slow later in the year. The total Q111 sales of 27,896 units include both domestically produced and imported vehicles of the companies represented by the Vietnam Automobile Manufacturers Association (VAMA). Imports accounted for 14,750 units, up 54.8% y-o-y. The value of imported vehicles was also up 62.2% y-o-y at US$262mn. This is despite efforts by the government to curb imports in favour of developing the domestic industry.

VAMA, which produces the data, attributes the sales growth to an uptick in consumer confidence after a serious of price increases, which had initially caused buyers to hold off on new car purchases. This contribution by the private sector was reflected in a 47% year-on-year (y-o-y) increase in passenger car sales. The SUV/MPV segment, which has been contracting rapidly as it is now subject to the highest Special Consumption Tax (SCT) of all vehicle segments, also recovered dramatically in Q1 with sales up 34% y-o-y. Commercial vehicle sales rose 16% y-o-y for the quarter and according to VAMA, the 6% growth in March alone is usual for the segment at this time of year.

BMI believes one particular indicator points to the main obstacle faced in promoting the domestic industry in Vietnam. When the value of parts is added to vehicles, the value of auto imports rises to US$734mn for the quarter. The parts segment needs to be better developed to attract vehicle producers to invest in the country. There are signs that the situation is improving with Germany's Bosch Group opening a new plant to serve as a regional base for push-belt production. The EUR30mn (US$43.3mn) plant is the first push-belt facility for Bosch in South East Asia and as such is a show of confidence in a relatively underdeveloped supplier segment. It is only the second Bosch push-belt plant in the world after its facility in Tilburg in the Netherlands. However, **BMI** has long held the view that such investments are needed in Vietnam to create the kind of supplier base needed to encourage more investment in vehicle production.

There was one positive development for the local industry, however, as a Vietnamese producer overtook Japan's Toyota Motor in volume sales for the first time in March. Truong Hai, which produces vehicles for South Korea's Kia Motors among others, registered growth of 29.9% y-o-y in March to 3,085 units. This compares with 2,357 units sold by Toyota in the month. The Japanese brand held on the lead for Q1, although its lead was cut to just 412 units as Truong Hai achieved growth of 83% y-o-y for the quarter, compared with 7% for Toyota. This may have something to do with Toyota's prominence in the MPV segment, which saw sales fall again in March (-20%), despite strong growth in the first two months.

SWOT Analysis

Vietnam Autos Industry SWOT	
Strengths	▪ Low rate of vehicle ownership provides more opportunity for sales growth. ▪ Low labour costs.
Weaknesses	▪ Fluctuations in import tariffs on completely built units (CBUs) bring instability to the market. ▪ Increased SCT on locally produced vehicles puts pressure on domestic manufacturers.
Opportunities	▪ Ford's largest contract ever in the country will boost the local production and parts industry. ▪ The market shows diversity, with growth in both the premium and small car segments.
Threats	▪ A return to higher import tariffs has started to reduce sales growth after an initial surge prior to the new rates. ▪ Despite government efforts to develop the component sector, growth may still be hindered by a lack of domestic CBU production to absorb output.

Political SWOT Analysis	
Strengths	▪ The Communist Party government appears committed to market-oriented reforms, although specific economic policies will undoubtedly be discussed at the 2011 National Congress. The one-party system is generally conducive to short-term political stability. ▪ Relations with the US are generally improving, and Washington sees Hanoi as a potential geopolitical ally in South East Asia.
Weaknesses	▪ Corruption among government officials poses a major threat to the legitimacy of the ruling Communist Party. ▪ There is increasing (albeit still limited) public dissatisfaction with the leadership's tight control over political dissent.
Opportunities	▪ The government recognises the threat that corruption poses to its legitimacy, and has acted to clamp down on graft among party officials. ▪ Vietnam has allowed legislators to become more vocal in criticising government policies. This is opening up opportunities for more checks and balances within the one-party system.
Threats	▪ The slowdown in growth in 2009 and 2010 is likely to weigh on public acceptance of the one-party system, and street demonstrations to protest economic conditions could develop into a full-on challenge of undemocractic rule. ▪ Although strong domestic control will ensure little change to Vietnam's political scene in the next few years, over the longer term, the one-party-state will probably be unsustainable. ▪ Relations with China have deteriorated over the past year due to Beijing's more assertive stance over disputed islands in the South China Sea and domestic criticism of a large Chinese investment into a bauxite mining project in the central highlands, which could potentially cause widescale environmental damage.

Economic View SWOT Analysis	
Strengths	▪ Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.6% annually between 2000 and 2009. ▪ The economic boom has lifted many Vietnamese out of poverty, with the official poverty rate in the country falling from 58% in 1993 to 20% in 2004. ▪
Weaknesses	▪ Vietnam still suffers from substantial trade, current account and fiscal deficits, leaving the economy vulnerable as the global economy continues to suffer in 2010. The fiscal picture is clouded by considerable 'off-the-books' spending. ▪ The heavily-managed and weak dong currency reduces incentives to improve quality of exports, and also serves to keep import costs high, thus contributing to inflationary pressures. ▪
Opportunities	▪ WTO membership has given Vietnam access to both foreign markets and capital, while making Vietnamese enterprises stronger through increased competition. ▪ The government will in spite of the current macroeconomic woes, continue to move forward with market reforms, including privatisation of state-owned enterprises, and liberalising the banking sector. ▪ Urbanisation will continue to be a long-term growth driver. The UN forecasts the urban population to rise from 29% of the population to more than 50% by the early 2040s. ▪
Threats	▪ Inflation and deficit concerns have caused some investors to re-assess their hitherto upbeat view of Vietnam. If the government focuses too much on stimulating growth and fails to root out inflationary pressure, it risks prolonging macroeconomic instability, which could lead to a potential crisis. ▪ Prolonged macroeconomic instability could prompt the authorities to put reforms on hold, as they struggle to stabilise the economy.

Business Environment View SWOT Analysis	
Strengths	▪ Vietnam has a large, skilled and low-cost workforce, which has made the country attractive to foreign investors. ▪ Vietnam's location - its proximity to China and South East Asia, and its good sea links - makes it a good base for foreign companies to export to the rest of Asia, and beyond.
Weaknesses	▪ Vietnam's infrastructure is still weak. Roads, railways and ports are inadequate to cope with the country's economic growth and links with the outside world. ▪ Vietnam remains one of the world's most corrupt countries. Its score in Transparency International's 2009 Corruption Perceptions Index was 2.7, placing it in 22nd place in the Asia-Pacific region.
Opportunities	▪ Vietnam is increasingly attracting investment from key Asian economies, such as Japan, South Korea and Taiwan. This offers the possibility of the transfer of high-tech skills and knowhow. ▪ Vietnam is pressing ahead with the privatisation of state-owned enterprises and the liberalisation of the banking sector. This should offer foreign investors new entry points.
Threats	▪ Ongoing trade disputes with the US, and the general threat of American protectionism, which will remain a concern. ▪ Labour unrest remains a lingering threat. A failure by the authorities to boost skills levels could leave Vietnam a second-rate economy for an indefinite period.

BMI Global Core Views

BMI's core views for the autos sector are now based on a period of recovery for the industry, which means more forward-looking strategies as we move into 2011. Certain themes remain, such as cooperation between companies to cut costs and the development of alternative-fuelled vehicles and their supporting infrastructure. However, there are now signs of new technology entering the industry, which are related to new regulations or government policy, supporting our view on future product development

BMI's Core Views For The Automotives Industry
Short Term
Continued investment in production capacity
New product launches to kick-start consumer interest
Growing interest in alternative fuels - both in terms of government support and OEM investment
Small cars will dominate product strategies
Rising raw material prices will not only lead to increased vehicle prices, but also increase the focus on material technology
Carmakers will continue to team up to reduce development and sourcing costs
Premiumisation in EMs will be a barometer for rising incomes
More partnerships in the development of EVs and plug-in hybrids
Partnerships to facilitate EM expansion will become a priority
Long Term
Increased cooperation between autos and tech firms
EMs will be better prepared for mass usage of EVs and other alternative fuels through early moves in policy and infrastructure development
Continued consolidation through M&A activity
Emerging markets will increasingly become global production bases
Suppliers with an emerging markets presence will benefit from a focus on increased local content
Government policy will have more influence on product development (emissions standards, fuel consumption, safety regulations etc)
After-sales services will grow in significance as 'value added' offerings
Domestic brands from emerging markets will expand their global presence
Increased sector investment from non-Autos companies such as private equity
More OEM-operated financing services to overcome future credit restrictions

Source: BMI

Operational trends - Rising raw material prices will lead to focus on material technology

Germany's **Volkswagen** (VW) has acquired an 8.18% stake in **SGL Carbon**, one of the world's leading manufacturers of carbon-based products. Although VW has so far not revealed any of its future plans with SGL Carbon, **BMI** believes that the move marks a significant step towards increased interest from carmakers in lightweight materials as a way of improving the efficiency and performance of their vehicles.

In many ways, VW's EUR140mn (US$193.4mn) investment testifies **BMI**'s view that premium market leader **BMW**'s actions serve as a guiding light for rest of the premium segment. BMW has been working with SGL Carbon for almost two years in the hope of using lightweight parts in its new BMW i electric sub-brand, due to be launched in 2013. In that respect, **BMI** believes that VW is likely to use its investment in SGL Carbon to increase the content of lightweight carbon parts in its luxury brands **Audi** and **Porsche**.

The use of carbon parts in Audi vehicles has so far been restricted to concept vehicles such as the e-tron show car, the special lightweight A5 and some parts of the R8 and RS 3. In line with its strategy to use these parts to mass produce lightweight vehicles, in February 2011 Audi entered into a partnership with Voith. The latter also owns a 5% stake in SGL.

Such is the race for use of carbon-fibre reinforced plastics (CFRP) on a mass-scale in the premium segment that Daimler, in January 2011, formed a joint venture (JV) with Japan's Toray Industries for mass-scale production of these parts to be used in the German firm's passenger cars launched in 2012.

Daimler showed first signs of its strategy towards CFRP parts in April last year when it entered into a partnership with Toray in which the Japanese firm supplied parts from its French plant for use in the SL class Mercedes. The current JV, however, takes this partnership a step further. Initial reports from the company indicate the partners are planning to set up a manufacturing plant near Stuttgart. Both companies claim to have an efficient manufacturing process in place which will help them shorten the molding time and hence reduce costs.

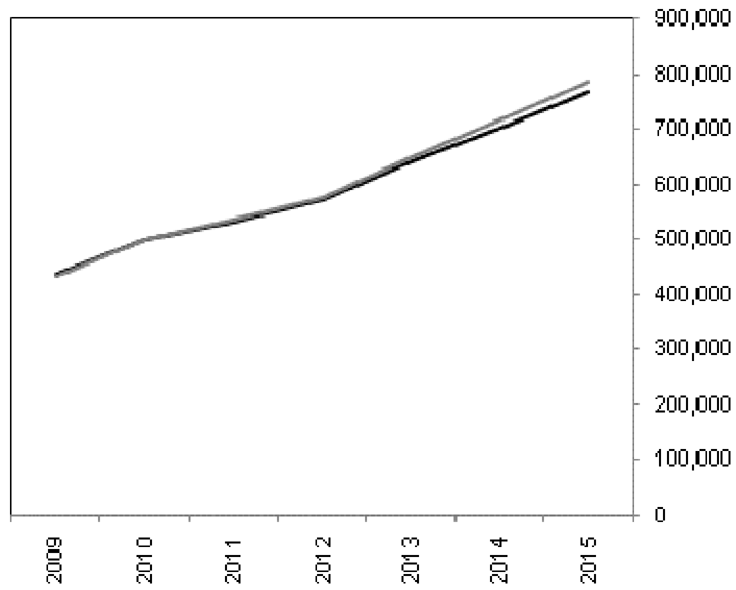
The JV, worth EUR825,000 (US$1.12mn), is therefore likely to see Daimler design parts and develop technologies for connecting the parts together, while Toray is likely to focus on developing high quality material for CFRP. Toray will own 50.1% of the JV, while the remainder will be owned by Daimler.

However, the manufacturing of carbon fibre is highly labour intensive and therefore much more expensive to produce compared with steel and aluminium. Parts built from carbon fibre are known to be 30% and 50% lighter than aluminium and steel respectively. As such, **BMI** expects much of the usage of

CFRP parts within the auto industry to be confined to luxury vehicle manufacturers or use in electric vehicles.

Glimmer Of Opportunity

Malaysian Motorcycle Production And Sales, CBUs
(dark line = production, light line = sales)



f = BMI forecast; Source: ASEAN Automotive Federation

In the past, mass vehicle producers such as **Nissan Motor** and **General Motors Company** have used the material in some of their supercars, while **Honda Motor** and Nissan are reportedly working closely with carbon specialists to develop a new, low-cost carbon fibre material for use in mass-produced cars. Daimler has so far revealed that it will be looking to reduce the weight of its Mercedes vehicles by at least 10%, without naming the models which would qualify for these parts.

For Toray, the deal is important as it will help the Japanese firm make inroads into CFRP production and help it bring similar business from other original equipment manufacturers.

EM expansion - ***Domestic brands from emerging markets will expand their global presence***

Although **BMI** has held this view for some time, the first quarter of 2011 has also seen the trend carry over to the motorcycle segment. An economic agreement between India and Malaysia should prove beneficial for the motorcycle industries of both countries. The Comprehensive Economic Cooperation Agreement (CECA) will open up Malaysia's motorcycle market to imports from India at a reduced tariff. **BMI** believes this will both serve the expansion plans of Indian two-wheeler producers and accommodate the growing demand forecast for Malaysia's motorcycle market.

Although India's bike market still offers potential based on **BMI**'s forecast for average annual growth of 8.5% from FY12-15, domestic brands are capitalising more on overseas opportunities. This was marked by **Bajaj Auto** achieving exports of more than 1mn units in 2010 and revealing its export target of 1.2mn units in 2011.

In Malaysia, however, we expect the average sales growth for the motorcycle segment - 9.5% between 2011 and 2015 - to lead to demand outstripping supply by a larger margin as the forecast period goes on. This will increase the need for imports, which is where we see potential for Indian brands. By 2015, we expect Malaysia's motorcycle market to reach sales of 785,200 units, compared with just over 498,000 in 2010.

The threat to the expansion of Indian brands, however, is the presence of existing major names in the Malaysian market. Both leading Japanese brands, **Honda Motor** and **Yamaha** are present in Malaysia and stepping up operations to meet increasing demand would be an option. Honda also has production facilities in nearby Thailand and could increase its exports from here.

Moreover, the bigger brands have been preparing for the emergence of the cheaper Chinese and Indian brands with their product strategies. In October 2010, Honda revealed it is planning to launch its cheapest model yet in an attempt to boost sales in emerging markets (EMs), where it sees future sales growth outstripping that of developed states.

The company said it sees low-cost Indian and Chinese brands as the major competition in these areas, which is supportive not only of **BMI**'s view on EM growth over developed markets, but also of our view that EM brands will expand globally. The CECA will create an environment for this view to play out further and shake up the competitive landscape.

EM partnerships - ***Partnerships to facilitate EM expansion will become a priority***

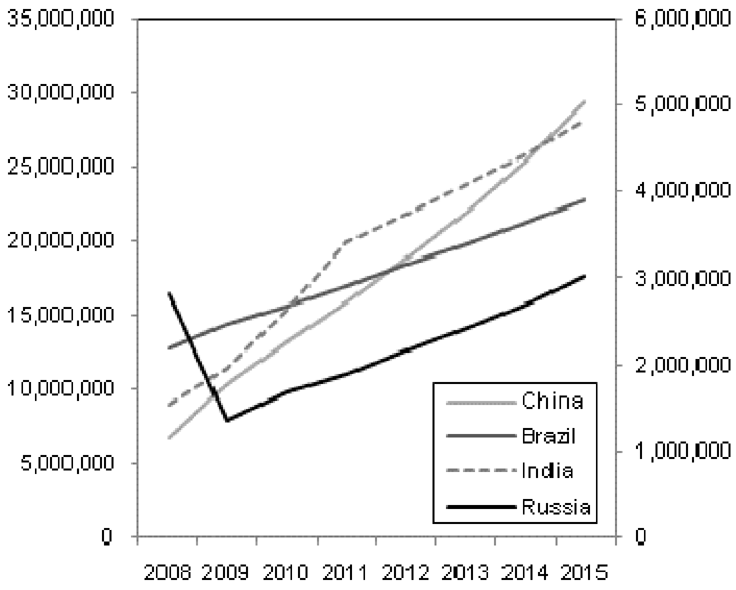
PSA Peugeot Citroën CEO Philippe Varin has hinted on an increased focus on emerging markets (EMs) and cooperation with other industry players as two of its strategies for 2011. **BMI** points out that success of both of these strategies is crucial for PSA this year. At present the French carmaker relies on European markets for nearly two-third of its total sales, and it expects sales to remain roughly flat in 2011.

The potential gains that PSA can bag from EMs are evident from the fact that despite a 5% decline in the European market, the company was able to post record sales of 3.19mn units in 2010 - up an impressive 13% compared with 2009. **BMI** expects much of these gains to have come from the key Latin American and Asian markets where PSA has been successful in maintaining a strong presence. It currently stands as the fifth most popular carmaker with a 5.8% market share in Brazil, while occupying close to a 3.5% market share in China. Such are PSA's ambitions it expects to increase its market share nearly 20% and in China 10% and Latin America in the medium to long term as it chases a target of making EMs account for nearly 50% of its total sales.

PSA's focus on these markets is not unfounded. **BMI** expects average passenger car growth in excess of 17% y-o-y and 13% y-o-y respectively in China and India between 2011 and 2015, while we expect Brazil to grow nearly 8% on average during the same period.

Eyeing BRIC Growth

Passenger Car Sales By Markets: Historical Data and Forecast



2010 estimates. 2011-2015 forecast. Source: Anfavea, AEB, SIAM, CAMAI

However, the company still has a long way to go, given that it is currently working on laying the foundations in EMs before it can corner any significant gains. In October 2010, it established a regional production base in Malaysia with a view to expanding in the ASEAN region. Its partnership with China's **Changan Automotive**, meanwhile, in which it is calling for equal part joint venture (JV) - is yet to be sealed. It already has a joint production venture called **Dongfeng Motor Corporation** in China and Varin says the company will be looking to complete its second JV in the country by Q111. In India, PSA is still reviewing plans for carrying out local production after initial proposals to construct a plant in Hyderabad were scrapped in 2009.

PSA's strategy for Brazil has so far focussed on 'deploying a solid product plan', which Varin says has laid 'the groundwork for its future development in the region'. Continuing with this, it is looking to invest EUR530mn to develop new engines and new vehicles under the Peugeot and the Citroën brands.

It has made little progress in Russia, meanwhile. It is reportedly looking to begin exporting cars made by the Dongfeng Motor Group to the country this year. It has started producing the Citroën C-Crosser and Peugeot 4007 models at its Russian plant in Kaluga in collaboration with **Mitsubishi Motors**. However, the plant will not produce at full capacity until 2012.

For growth in the other EM markets PSA is pinning its hopes on the roll out a new core range, designed to cater to demand in EMs in Africa and the Middle East, where it is hoping to tap into growing income levels and blossoming middle classes.

Regional Overview

One Supplier's Crisis Is Another's Opportunity

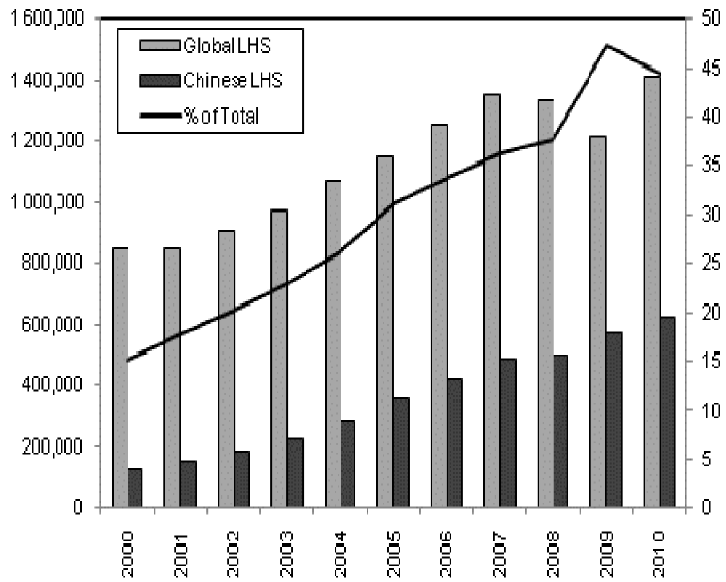
As the supply chain for many carmakers has been disrupted by the Japanese earthquake and tsunami, which hit the northern regions where several major suppliers are based, other Asian companies are spotting opportunities, especially to supply carmakers outside of Japan.

Although this may seem distasteful, **BMI** believes the precedent for such a shift was set when the strong yen began forcing up the cost of parts imported from Japan. The disaster, however, has given carmakers further reason to consider using cheaper Asian brands from somewhere other than Japan.

The closure or reduced operations of leading Japanese steel suppliers such as **Nippon Steel Corp**, **JFE Holdings** and **Sumitomo Metal Industries** has threatened the production of joint ventures (JVs) owned by Japanese carmakers in China. However, China's leading producer of automotive steel sheet, **Baosteel Group**, has announced it has offered to supply the Guangzhou-based JVs of **Honda Motor, Toyota Motor** and **Nissan Motor**.

New Source For Consideration?

Global & Chinese Steel Production (000 Tonnes) & China As Percentage of Total



Source: BMI/World Steel Association

Baosteel's competitiveness could still be eroded, however, as the company has announced price increases from April 2011. The company believes that iron ore prices will be impacted by the Japanese disaster although not all prices will be raised. Most of the company's carbon steel prices will be frozen.

Some of the best opportunities for suppliers could be found in South Korea. **Renault Samsung** and **GM Korea** have announced reductions in output due to parts shortages. Renault Samsung has ended overtime during the week and all shifts on weekends, while GM Korea is 'anticipating adjustments in our plants as needed', according to a spokesperson.

Hyundai Motor, however, has had few problems as it relies mostly on **Hyundai Mobis** for components, and the supplier says this will lead to more opportunities from other carmakers. There is evidence to support this, as South Korean suppliers were the major beneficiaries when the strong yen priced out imported Japanese parts in late 2010. In September, **BMW** announced it had signed deals with 12 South Korean firms, including a US$170mn contract for brake supplies from **Mando Corp**, while Toyota and Nissan moved over to South Korean steel supplier **POSCO**.

Given the uncertainty surrounding the duration of production stoppages or slowdowns for many Japanese suppliers, it is likely that some carmakers, particularly overseas, will look for other sources even if only in the short term, to avoid falling too far behind with deliveries. This is where the importance of a domestic supplier network to a vehicle hub is highlighted. Baosteel, for example, is perfectly positioned to serve a number of carmakers at once as it is based in the automotive centre of Guangzhou.

The trend is also evident outside of Asia. One of Russia's largest steel producers, **Severstal** opened two new plants in Moscow in 2010 with a view to supplying processed steel to carmakers such as **PSA Peugeot Citroën** and **Volkswagen**. As carmakers continue to ramp up their local content levels in vehicles, it is a trend which is likely to continue and forms the basis for **BMI**'s core view that suppliers with a strong presence in emerging markets, where localisation strategies are most common, will make some of the greatest gains.

Business Environment Ratings

The aim of **BMI**'s Business Environment Rating system for the automotive industry is to show the rewards and the risks that carmakers operating in a particular region -- in this case Asia Pacific -- may face. The unique system assesses crucial factors, such as sales and output growth, international trade, market size and location, and the level of market competition, in addition to taking into account a country's economic and political backdrop. The ratings system allows analysts to fully expound the potential advantages and disadvantages of investing in Asian car markets, and offers an overall comparison of the key markets in the region.

The rankings have changed slightly against the backdrop of the global economic slowdown, as some markets have proven better equipped to cope than others. Australia now leads the regional rankings, with a much higher score of 70.1 out of a possible 100, compared with 65.3 in the last ratings. The developed nature of the country means that Australia is at a disadvantage due the near-saturation status of its autos market, which reduces growth potential. On the other hand, a high GDP increases purchasing power, while market risks are reduced by low levels of corruption and a strong legal framework. This is reflected in the market's high score for its low risk. Its Country Rewards score has also risen from 66.7 to 87.2.

China has now fallen to second, although its overall score has risen from 66.5 to 67.7. The market's highest scores are still for its production and sales growth potential, based on **BMI**'s forecasts up to 2013, although signs of a slowdown in the market have been evident. However, even though a low level of vehicle ownership can look tempting in terms of possible growth, the low score for country structure (caused by the large gap that exists between wealthy towns and poorer rural areas) acts as a clear restriction on potential penetration. In terms of China's macroeconomic environment, a healthy long-term political and economic outlook ensures strong scores for Country Risk.

A country held back by an auto market on the brink of saturation is South Korea, which has stayed in third with 66.8 out of 100, up from 64.2. Historically poor labour relations weigh on the country's overall rating, although long-term political and economic stability reduce the risks. The score for Rewards has risen this year, as the market's country score rating has gone from 52.2 to 65.8. Free trade agreements add to South Korea's sound regulatory environment, although there is room for improvement if a deal with the US can be ratified.

Japan stays in fourth with an overall rating of 61.1, up from 60.6 in the previous ratings. The risks associated with a developed market still exist, however. Just as Australia and South Korea suffer disadvantages due to their developed statuses, a saturated market also weighs on Japan's ratings. While the country scores well in terms of its Country Risk, with low levels of corruption and a sound legal framework that have bumped up the market's overall score, the auto industry is nearing full capacity, and this consequently reduces production growth potential, while the high level of vehicle ownership restricts possible sales growth. Labour costs are also high, which adds to the cost of expanding production.

Moving up to fifth is Thailand, which has benefited from an improved country risk score, taking its overall rating to 57.4. A number of new export-oriented investment projects have raised the country's production growth potential for the next five years, despite the current downturn, while several existing free trade agreements increase the reach of investors. Government incentives for manufacturers producing low-emission vehicles have boosted Thailand's regulatory environment score, along with good labour relations and trade relationships.

India is now down to sixth with a slightly lower score of 55.4, as a reduction in its Country Rewards rating drags on the Rewards category. India shares the same pros and cons as China, ranking highly in terms of high production and sales growth potential, but with a low score for country structure (again caused by a large gap between wealthy urban and poorer rural areas), which acts as a restriction on future penetration rates. However, the country's regulatory environment rating is bolstered by the government's efforts to encourage 'green' motoring, as well as a number of free trade agreements which are supporting the country's bid to become a regional export hub.

The Philippines has now moved up to seventh, although its overall score is down marginally from 54.6 to 54.0. The market offers only average sales and production growth potential based on **BMI**'s five-year forecast. Although the market is dominated by Japanese brands, the competitive landscape is still far from saturated by carmakers and could still provide opportunities for new entrants, while the country also scores well for its regulatory environment. In terms of Country Risk, solid scores for long-term economic and political risk should assure investors.

Indonesia, which has fallen to eighth on 53.9 compared with 56.2 previously, is the region's largest passenger car market and as such, will always have an appeal for investors. Low labour costs, and a competitive environment with room for new players, increase Indonesia's attractiveness, as do its recently upgraded regulations on intellectual property rights (IPRs), which boost its regulatory environment rating. The country's risks act as a hindrance however, with low scores for corruption, bureaucracy and the legal framework. The Country Rewards score has fallen from 47.5 to 36.3 taking its score for limits to potential returns down from 53.5 to 49.5.

Malaysia follows in ninth position with a rating of 52.6, up slightly from 50.2, although there is room for improvement in terms of the country's regulatory environment. While the country is a leading light of the ASEAN trade bloc, which has made it a popular choice for regional production activities in the auto sector, there is the potential for greater things if a proposed free trade agreement with the US is finalised. In terms of the market itself, production growth potential receives an average rating, while potential sales growth is low in comparison with its peers.

Taiwan, which has climbed to 10th on 49.4 paints a similar picture to Japan, in that its macroeconomic environment is sound, with high scores for long-term economic risk and low corruption. However, auto production is set to fall over **BMI**'s five-year forecast period, while projected sales growth is also minimal. The country receives an above-average rating for its regulatory environment, although links with the Chinese mainland may arouse concerns over IPRs.

Singapore has climbed one place to rank 11th with a rating of 48.5, compared with 45.2 in the previous ratings, with an increase in its Country Rewards score from 76.5 to 90.0. Singapore, along with Thailand, has the highest number of free trade agreements completed for any Asian market. However, in industry terms, the lack of domestic production facilities and the imposition of vehicle quotas, which restrict potential sales growth, weigh on the market's overall rating. Nevertheless, Singapore has climbed three places since our first ratings were produced.

Vietnam, meanwhile, stays in 12th. A newly liberated auto market has witnessed stellar growth, and according to the above-average rating for its potential over the next five years, sales growth should be maintained. The highest score is for Industry Risk, which stands at 85.0. Its Country Risk score has also risen from 49.8 to 51.5, taking its total score for risks up to 68.2. Vietnam is still a country we would expect to see climb the ratings in the future, particularly if its vehicle tariff policy becomes more consistent.

This leaves Hong Kong, which suffers from a lack of local automotive production, in 13th place on 46.6, although this is an improvement from its previous score of 42.9. The country scores highly for its long-term economic and political risk and regulatory environment and indeed its Country Reward score has risen from 72.0 to 87.4. However, with these scores near to the maximum achievable, and with little prospect of vehicle production on the horizon to raise Hong Kong's score for that criterion, the market is unlikely to climb much further in the ratings in the foreseeable future.

Rounding out the rankings now on 38.9, down from 42.4, is Pakistan, which is held back by low production growth potential and an average rating for sales growth. However, as a signatory to the Trade Related Intellectual Property Rights Agreement (TRIPS) under the auspices of the WTO, the country's regulatory environment scores well. A number of free trade agreements also contribute to this criterion, although forming FTA's with non-Asian countries would improve this rating further. Despite low marks for bureaucracy and corruption, the market does score well for its long-term economic risk and policy continuity.

Table: Business Environment Ratings -- Auto Industry Asia Pacific

	Rewards			Risks				
	Industry Rewards	Country Rewards	Rewards	Industry Risks	Country Risks	Risks	Autos Risk/ Reward Rating	Regional Ranking
Australia	58.3	87.2	68.4	80.0	68.2	74.1	70.1	1
China	81.7	44.9	68.8	65.0	65.2	65.1	67.7	2
South Korea	63.3	65.8	64.2	75.0	70.4	72.7	66.8	3
Japan	51.7	76.6	60.4	50.0	75.4	62.7	61.1	4
Thailand	53.3	48.3	51.6	60.0	56.4	58.2	58.3	5
India	68.3	28.2	54.3	60.0	55.8	57.9	55.4	6
Philippines	50.0	46.1	48.6	75.0	58.0	66.5	54.0	7
Indonesia	56.7	36.3	49.5	75.0	52.9	63.9	53.9	8
Malaysia	40.0	61.2	47.4	60.0	69.7	64.8	52.6	9
Taiwan	35.0	50.0	40.3	70.0	71.5	70.8	49.4	10
Singapore	11.7	90.1	35.3	55.0	86.0	70.5	48.5	11
Vietnam	**45.0**	**26.8**	**38.6**	**85.0**	**51.5**	**68.2**	**47.5**	**12**
Hong Kong	10.0	87.4	37.1	55.0	82.9	68.9	46.6	13
Pakistan	31.7	25.2	29.4	75.0	47.0	61.0	38.9	14

Scores out of 100, with 100 highest. Source: BMI.

The Autos Business Environment Rating is our principal rating. It is comprised of two sub-ratings, 'Rewards' and 'Risks', which have a 70% and 30% weighting respectively. In turn, the 'Rewards' Rating comprises an Industry and a Country element, which have a 65% and 35% weighting respectively. These are based upon specific Industry growth and size dynamics within the market, and the broader economic and socio-demographic environment of the country. The 'Risks' rating is comprised of Industry Risks and Country Risks, which each have a 50% weighting. These are based on a subjective evaluation of industry regulatory and competitive issues particular to that market, and the industry's broader Country Risk exposure, which is based on **BMI**'s proprietary Country Risk Ratings. The ratings structure is aligned across all 14 industries for which **BMI** provides Business Environment Ratings methodology, and is designed to enable clients to consider each rating individually or as a composite, with the choice dependant on level of exposure to the industry in each particular state. For a list of the data and indicators used, please consult the appendix located at the back of the report.

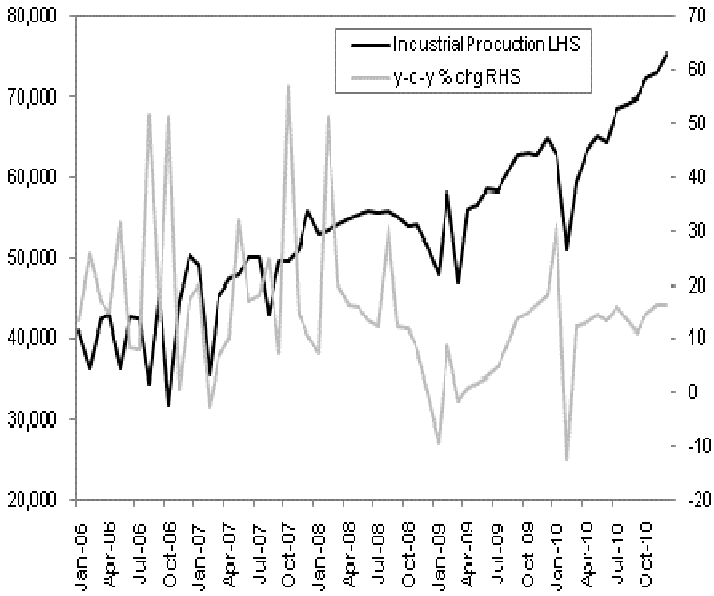
Macroeconomic Forecast Scenario

Real GDP Growth Revised Upward But To Remain Subdued In 2011

BMI View: *Our view that infrastructure investment would provide support for Vietnam's economic growth in 2010 has played out well. Vietnam's real GDP growth came in at a better-than-expected 6.8% in 2010, led by a strong performance in the construction sector. Going into 2011, we expect domestic demand to remain robust on the back of rising wages and improving consumer sentiment. However, we expect import growth to continue to outpace that of exports in 2011. In light of a better-than-expected Q410 result and our global team's recent upgrade on the US economy, we are revising our real GDP growth forecast upwards from 5.5% to 6.3% in 2011.*

Keeping Steady

Vietnam - Industrial Production, VND bn (LHS) & % chg y-o-y (RHS)



Source: General Statistics Office, BMI

In line with our view that investment in infrastructure would continue to provide support for Vietnam's economic growth, real GDP growth came in at a better-than-expected 7.2% y-o-y in Q410, led by robust growth in the construction sector. The latest Q410 figure effectively translates into real GDP growth of 6.8% for 2010, surpassing the Vietnamese government's target of 6.7%. According to data published by the General Statistics Office (GSO), the construction sector grew by 10.1% in 2010 while the electricity, gas and water sector also saw double-digit growth of 11.3%. On the other hand, floods across the region in recent months led to a disappointing 2.5% growth in the agricultural sector. Going into 2011, we expect the construction sector to continue to outperform the manufacturing and agricultural sectors.

From our perspective, the latest figures highlight the fact that expansionary economic policies dictated by the National Assembly continue to have a significant influence on the structure of Vietnam's economic growth in 2010. We believe this will continue to be the case in 2011 as the government remains focused on upgrading Vietnam's infrastructure and raising electricity production to support the country's economic growth. Despite our positive outlook for infrastructure investment though, we continue to see overheating pressures that should prevent growth from reaching the government's 7.5% target in 2011.

Slow Recovery In Manufacturing Sector

Looking at industrial production growth, we have seen a slow and steady rise from 14.5% y-o-y in October to 16.3% in December. Given that industrial production data has traditionally served as a reliable indicator of the performance of the manufacturing sector, we remain optimistic that the recovery in the manufacturing sector remains on track. That said, we believe that the performance of the sector will increasingly rely on demand from Asia rather than the US and Eurozone in 2011. The manufacturing sector grew by 8.4% in 2010, far from the sector's pre-crisis growth of 12.4% in 2007. Indeed, we see economic uncertainties in the US and EU as a reason behind the slow recovery in the manufacturing sector. We believe 2011 will be a challenging year for the manufacturing sector due to below trend economic growth in the US, and tightening efforts in China in light of inflationary pressures. However, an improved outlook for the US economy will nonetheless have a positive impact on exports. As such, we are revising our real GDP growth forecast upwards from 5.5% to 6.3% in 2011.

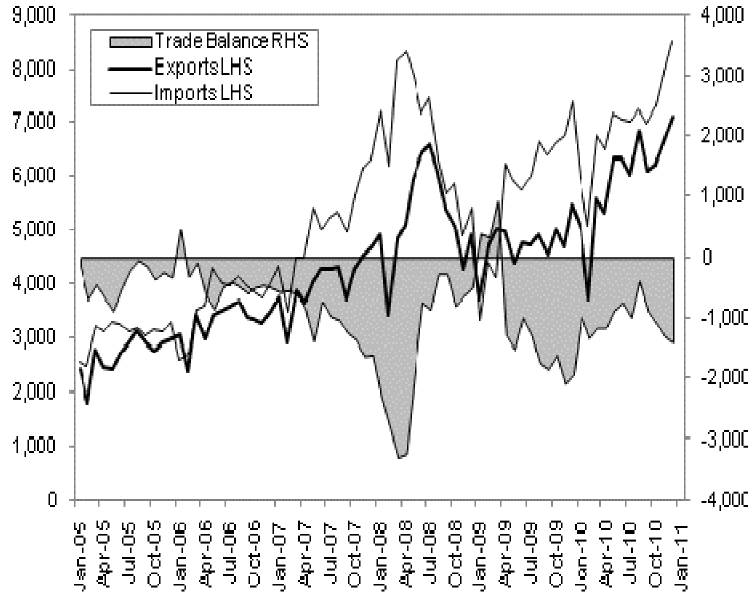
High Lending Rates Threatens Investment Growth

Aggressive economic policies by the Vietnamese government have led to mounting inflationary pressures in recent months. Consumer price inflation (CPI) accelerated from 7.6% y-o-y in January to 11.8% in December, averaging 9.2% for 2010. This contributed to a rise in production costs and higher lending rates for businesses. We expect lending rates, which are currently in the range of 14.0-17% to remain elevated and to put a damper on gross fixed capital formation (GFCF) growth in 2011. Furthermore, rising production costs are likely to lead to lower profit margins for businesses, lowering the incentive for businesses to invest in expanding operations. Accordingly, we are forecasting a subdued 7.0% growth in private investments in 2011.

Strong Performance In Spite Of Growing Trade Deficit

A Drag On Economic Growth

Vietnam - Goods Exports & Imports, US$mn (LHS) & Trade Balance, US$mn (RHS)



Source: General Statistics Office, BMI

Despite a widening trade deficit of US$3.8bn in Q410, compared to US$2.2bn in Q310, Vietnam's economy managed to grow by 20.4% q-o-q in Q410. Although we acknowledge that seasonal factors were largely responsible for the spike in domestic demand - historical data shows the final quarter in previous years seeing a significant spike in domestic demand - we believe private consumption will remain robust in the coming months. Judging from the better-than-expected performance in domestic demand in Q410, we believe consumer sentiment will continue to improve and this in turn supports our view that private consumption will remain strong in 2011. Rising wages in Vietnam is also likely to support consumer spending in the coming months.

We believe that robust private consumption will result in import growth outpacing export growth and a deteriorating trade deficit in 2011. The recent rise in crude oil prices represents a threat to the trade deficit as Vietnam remains a significant net importer of refined crude. Should crude prices continue to rise in the coming months, we expect this to have a negative impact on the trade deficit and real GDP growth. We are maintaining our forecast for the trade deficit to widen from an estimated 7.0% of GDP in 2010 to 8.0% of GDP in 2011. Accordingly, we see this as a reason for our subdued real GDP growth forecast of 6.3% in 2011.

Table: Vietnam - Economic Activity

	2007	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Nominal GDP, VNDbn [2]	1143715.1	1485038.0	1658389.0	1953223.3	2326853.6	2641667.1	2985462.7	3358614.4	3761091.7
Nominal GDP, US$bn [2]	71.1	89.8	92.8	101.9	117.8	133.8	155.1	179.1	206.1
Real GDP growth, % change y-o-y [2]	8.5	6.3	5.3	6.8	6.3	7.2	7.2	7.2	7.2
GDP per capita, US$ [2]	835	1041	1063	1153	1320	1483	1703	1948	2220
Popu-lation, mn [3]	85.2	86.2	87.3	88.4	89.3	90.2	91.1	92.0	92.8
Industrial productio n index, % y-o-y, ave [1,2]	16.8	13.6	6.7	14.0	10.0	15.0	16.0	17.0	16.0
Unemploy ment, % of labour force, eop [2]	4.6	4.7	6.0	5.0	6.0	5.0	5.0	5.0	5.0

Notes: [e] BMI estimates. [f] BMI forecasts. [1] at 1994 prices; Sources: [2] General Statistics Office. [3] World Bank/BMI calculation/BMI.

Industry Forecast Scenario

Table: Vietnam Autos Sector - Historical Data And Forecasts

	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Total Production (CBUs)	33,018	33,689	37,765	41,119	44,933	49,555	54,535	59,892
Total Sales (CBUs)	111,946	119,460	112,224	118,824	126,562	138,656	159,496	181,478
Total Imports (CBUs)	50,400	76,300	53,100	47,790	49,998	52,338	54,798	57,428
Imports (value, US$bn)*	0.665	1.237	0.960	0.716	0.805	0.927	1.062	1.214

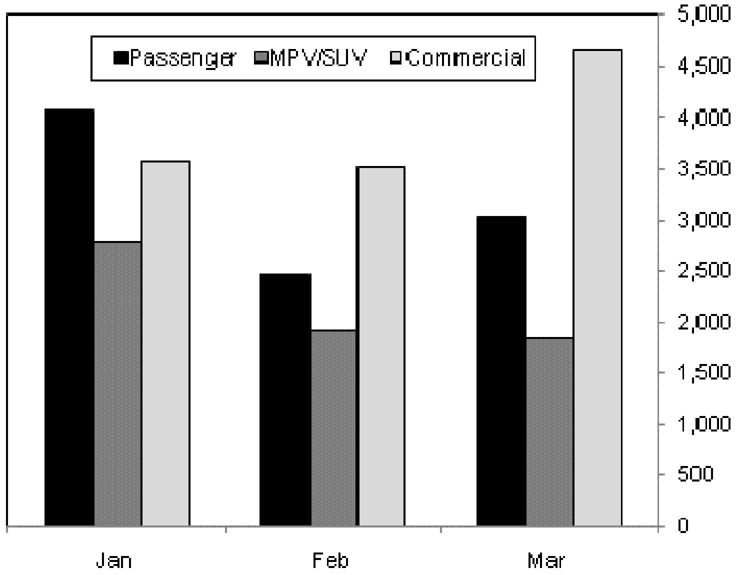
*Figures are for complete knock down kit/completely built unit assembly, f = forecast, * estimate. Sources: VAMA*

Vietnam's new vehicle market is characterised by fluctuating tariffs, which often make it hard to identify sustainable sales patterns. Sales of domestically produced vehicles were impacted by an increase in vehicle ownership tax in 2008. After the tax doubled to 10%, the Vietnam Automobile Manufacturers Association (VAMA) reported that average sales for the last four months of that year dropped by around half, compared with the first eight months of 2008. The registration tax was raised again on January 1 2009 to 12% in Hanoi and 15% in Ho Chi Minh City. Furthermore, the Special Consumption Tax (SCT) was increased on April 1, bringing a return to the days of prohibitively high vehicle prices in the country.

New vehicle sales fell by 6% year-on-year (y-o-y) in 2010 with VAMA attributing the decline to the ongoing effects of the economic crisis. However, BMI believes the continual culture of fluctuating tariffs in the industry does little to help continuity and the situation will not improve in 2011.

Happy New Year For CVs

Vietnam New Vehicle Sales By Segment And Month 2011 (CBUs)



Source: VAMA

Proving this, Vietnam's new vehicle sales returned to growth in Q111, as even the multi-purpose vehicle (MPV) segment, impeded by increased taxes, showed a marked increase. This is in line with **BMI**'s forecast for a return to positive growth in total sales in 2011, although we expect the rate of growth to slow later in the year.

The total Q111 sales of 27,896 units include both domestically produced and imported vehicles of the companies represented by VAMA. Imports accounted for 14,750 units, up 54.8% y-o-y. The value of imported vehicles was also up 62.2% y-o-y at US$262mn. This is despite efforts by the government to curb imports in favour of developing the domestic industry.

However, **BMI** believes one particular indicator points to the main obstacle faced in promoting the domestic industry in Vietnam. When the value of parts is added to vehicles, the value of auto imports rises to US$734mn for the quarter. The parts segment needs to be better developed to attract vehicle producers to invest in the country. There are signs that the situation is improving with Germany's **Bosch Group** opening a new plant to serve as a regional base for push-belt production, but to create a vehicle production hub there needs to be a reliable good range of suppliers.

Market Overview

The country's autos industry is still in its infancy as producers typically import complete knock down kits (CKDs), which are assembled and sold domestically. The domestic parts sector is small at present, although the government is making it a priority. Given rapid economic growth in the region, there is significant development potential for the industry, especially as car ownership levels stand below 1% of the population. In recent years, however, significant hurdles have appeared, not least a drastic change to the tax regime.

The increase in consumption tax stems from concerns that manufacturers are not investing heavily enough in the domestic parts industry. By 2005, the government wanted to achieve a minimum 25% localisation of parts, increasing to 30% by 2007. Yet, in 2004, the Ministry of Finance estimated that the proportion of locally made parts in domestically sold vehicles ranged from 2-10%. This is a significant gap, and could largely be attributed to the continued import of CKDs.

Table: New Vehicle Sales By Top 10 VAMA Members (CBUs)

	2009	2010	% chg, y-o-y	Market Share (%)
Toyota Motor	30,109	31,135	3.0	27.7
Truong Hai Auto	21,167	26,047	20.0	23.2
Vinamotor	15,284	12,274	-20.0	10.9
GM Daewoo	14,200	9,685	-32.0	8.6
Vinaxuki	8,680	9,002	4.0	8.0
Ford Motor	8,286	6,475	-22.0	5.8
Visuco (Suzuki)	2,669	3,242	21.0	2.9
Honda Motor	4,215	3,140	-26.0	2.8
Mercedes-Benz Vietnam	3,399	2,827	-17.0	2.5
VinaStar (Mitsubishi)	3,666	2,492	-32.0	2.2

Source: Vietnam Automobile Manufacturers Association

Only four of the top 10 locally producing carmakers posted positive growth in 2010, although the competitive landscape remained largely the same. **Toyota Motor** retained its lead with growth of 3%, down on the 34% growth of Q110 and 29% of H110. Visuco again achieved the best growth of the top 10 manufacturers with a 21% rise in sales, though this was down from 72% in H110. **Hino Motor** registered the worst sales of all 16 local manufacturers with a 44% decline.

Table: New Vehicle Sales By Top 10 VAMA Members (CBUs)

	Q110	Q111	% chg, y-o-y	Market Share (%)
Toyota Motor	7,128	7,637	7.0	27.4
Truong Hai Auto	3,946	7,225	83.0	25.9
GM Daewoo	1,881	2,628	40.0	9.4
Ford Motor	1,214	1,986	64.0	7.1
Vinamotor	2,597	1,941	-25.0	7.0
Vinaxuki	1,987	1,831	-8.0	6.6
Honda Motor	467	1,098	135.0	3.9
Visuco (Suzuki)	560	1,041	86.0	3.7
VinaStar (Mitsubishi)	339	604	78.0	2.2
Mercedes-Benz Vietnam	474	592	25.0	2.1

Source: Vietnam Automobile Manufacturers Association

There was a positive development for the local industry in Q111, as a Vietnamese producer overtook Toyota in volume sales for the first time in March. **Truong Hai**, which produces vehicles for South Korea's **Kia Motors** among others, registered growth of 29.9% y-o-y in March to 3,085 units. This compares with 2,357 units sold by Toyota in the month. The Japanese brand held on the lead for Q1, although its lead was cut to just 412 units as Truong Hai achieved growth of 83% y-o-y for the quarter, compared with 7% for Toyota. This may have something to do with Toyota's prominence in the MPV segment, which saw sales fall again in March (-20%), despite strong growth in the first two months.

Industry Developments

With vehicle imports set to surge when tariffs are removed under the ASEAN Free Trade Agreement (AFTA) in 2018, Vietnam's Ministry of Industry and Trade (MOIT) is looking to make the domestic industry competitive in the meantime. **BMI** sees an underdeveloped supplier segment as a major area for concern, which will be addressed through higher import tariffs on parts that can be made domestically. Higher rates are also applied to vehicles imported as completely built units.

In order to facilitate the sector's development, MOIT proposed in June 2010 that investment projects for the auto industry should be given preference. However, **BMI** believes that the Vietnamese industry is trapped in a vicious cycle where carmakers are reluctant to invest in production without a well developed supplier base and suppliers will want to see growth potential in vehicle assembly before investing.

To help break the cycle and encourage domestic parts production, MOIT is proposing a zero tariff on imported products and materials used in manufacturing components. The ministry is also requesting that the National Assembly consider a special 50% cut in the VAT on trucks, buses and products that will improve the fuel efficiency and environmental credentials of vehicles.

The government had already made moves earlier in 2010 to limit imports. Measures considered include reducing the number of ports that imported vehicles can pass through and restricting access to foreign currency loans for imports. The VAT rate has already been returned to 10% after it was cut by half in 2009 to kick-start sales.

When the floodgates open in 2018, **BMI** expects Asian brands to have the best opportunities. Tariffs on vehicles with less than nine seats from other AFTA signatories will be scrapped while parts will be subject to a lower 5% tax, while tariffs on parts from China and South Korea will also be reduced to 5% under respective FTAs. However, non-Asian brands based in these countries could also benefit, although in a downside risk for Vietnam, this could lead to increased investment in existing production facilities in other Asian countries.

Industry Forecast - Passenger Car

Table: Vietnam Autos Sector - Historical Data And Forecasts

	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Production- Cars	31,684	32,805	36,315	39,438	42,988	47,286	51,921	56,905
Sales - Cars (inc SUV/MPV)	50,874	62,723	56,451	57,580	65,526	73,913	82,783	91,889

*Figures are for complete knock down kit/completely built unit assembly, f = forecast, * estimate. Sources: VAMA*

BMI expected the MPV/SUV segment to drag on overall passenger segment sales in 2010, owing to the higher special consumption tax (SCT) on thee vehicles, and this played out. Segment sales were down 13% compared with a contraction of just 3% for passenger cars. While the higher tax on MPVs and SUVs is still in place we expect the overall passenger segment to continue to underperform in terms of growth, compared with the commercial vehicle segment.

While we still expect this to be the case in 2011, sales in Q111 were helped by an uptick in consumer confidence, reflected in a 47% year-on-year (y-o-y) increase in passenger car sales. The SUV/MPV segment, also recovered dramatically in Q1 with sales up 34% y-o-y. However, this was mostly due to a surge in January after which the segment contracted again during the quarter.

Segment Developments

Malaysian **Tan Chong Motor** is the latest company from an emerging market to expand globally, a trend that **BMI** expects will be a feature of the auto sector over our forecast period to 2015. The company's wholly owned subsidiary, ETCM, is planning to acquire a 74% stake in **Nissan Vietnam** from Danish **Kjaer Group**, and is negotiating a joint venture (JV) with Nissan regarding the business. Tan Chong says this completes its Indochina strategy in coverage terms.

In addition to being Nissan's exclusive passenger car and light commercial vehicle distributor in Malaysia, the group has recently been given responsibility for Cambodia and Laos. However, Tan Chong says a JV with Nissan with respect to expanding its Vietnam business would target 'a key ASEAN emerging market'. Nissan has already started local assembly of its Grand Livina MPV through **Vietnam Motors**, as it looks to increase its market share, while avoiding rising import tariffs.

The Livina is an important part of Nissan's product strategy for South East Asia, as MPVs are popular. However, it is risky in Vietnam, where MPVs carry a higher SCT.

Nissan has previously blamed high import tariffs on imported vehicles for its relatively low market share of less than 1% in Vietnam, which led to the decision in 2009 to go ahead with investment in the plant, despite the global downturn. Nissan COO Toshiyuki Shiga referred to Vietnam as 'one of the key automobile markets', and this was marked with the opening of two new dealerships in April 2010 to accommodate its new models.

Industry Forecast - Commercial Vehicles

Table: Vietnam Autos Sector - Historical Data And Forecasts

	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Production - Commercial Vehicles	1,334	884	1,450	1,681	1,946	2,269	2,615	2,987
Sales - Commercial Vehicles	61,072	56,737	57,872	63,659	76,072	91,135	107,357	124,749

*Figures are for complete knock down kit/completely built unit assembly, f = forecast, * estimate. Sources: VAMA*

The commercial vehicle (CV) segment contracted by 4% in 2010, which in relative terms outperformed the overall market decline of 6%. There may be hope for the CV segment going forward with the reduction in import tariffs on trucks. We do expect the CV segment to be the better performer over the coming years as the market looks to correct itself.

The Ministry of Finance has introduced a new tax regulation to reduce the rate on imported trucks under WTO commitments. On trucks under five tonnes, the rate will be cut to 30%. For the 5-10 tonne segment the rate will be lowered from 55% to 25% and for 10-20 tonnes the rate will fall from 30% to 25%. All reductions are effective from January 1 2011.

Data for Q111 suggests the tariff reductions are taking effect. Commercial vehicle sales rose 16% y-o-y for the quarter and according to VAMA, the 6% growth in March alone is usual for the segment at this time of year. Companies traditionally return to buying new vehicles following the Tet holiday period (Vietnamese New Year). This was better reflected in the month-on-month growth in commercial vehicle sales of 32% for March. It also aligns with BMI's view that the commercial vehicle segment will outperform in the full year.

Segment Developments

Chinese commercial vehicle manufacturer **Anui Jianghuai Automobile** (JAC) began its international expansion in April 2010 by starting construction on a JV plant in Vietnam, China Daily has reported. China's second largest truck maker, based in Hefei in the eastern province of Anhui, will mostly produce medium and light-duty trucks with its unnamed Vietnamese partners at the plant, the newspaper quoted the company's chairman, Zuo Yan'an, as saying. It will be JAC's first facility outside mainland China.

JAC's Vietnamese plans come after it signed a US$293mn agreement with US truck maker **NC2** to jointly manufacture and sell trucks and parts in China with an eye on particular markets for export. NC2 is itself a JV between carmaker **Navistar International** and manufacturing conglomerate **Caterpillar**.

The overseas plans will help JAC more than double its exports to 15% of total output by the end of China's 12th Five-Year Plan in 2015 and is part of an expansion programme that may also see a production plant built in Brazil. JAC exported 6-7% of the 322,000 units it produced in 2009 to South East Asia, the Middle East and Latin America. The truck maker expects to produce 400,000 units in 2010 and plans to ramp up output to 1mn units by the end of 2015. Traditionally one of China's leading vehicle exporters, JAC's revenue reached US$3bn in 2009.

Company Monitor

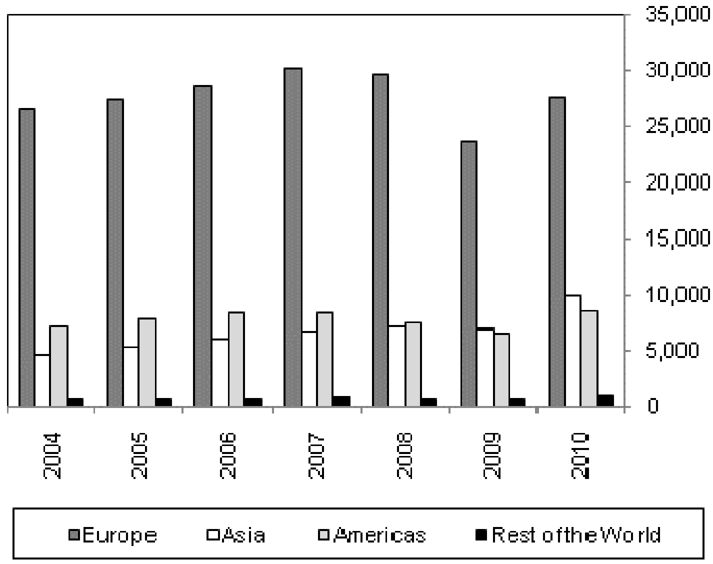
Asian Expansion Brings Bosch Closer To Customer Base

German automotive supplier Bosch Group has opened a new plant in Vietnam for the production of push-belts, which are used for continuous variable transmissions. According to the president of the group's Gasoline Systems division, Dr Rolf Bulander, most of the group's customers are in Asia, and the new plant will enable the company to accommodate industry growth in the region. This aligns with BMI's view that suppliers with an emerging market (EM) presence will benefit from the increasing use of local content.

The EUR30mn (US$43.3mn) plant is the first push-belt facility for Bosch in South East Asia and as such is a show of confidence in a relatively underdeveloped supplier segment. It is only the second Bosch push-belt plant in the world after its facility in Tilburg in the Netherlands. However, BMI has long held the view that such investments are needed in Vietnam to create the kind of supplier base needed to encourage more investment in vehicle production.

Growth In EM Exposure

Bosch Sales By Region (EURmn) 2004-2010



2010 BMI estimate. Source: Company Investor Relations

In its first operational year the plant is scheduled to produce 1.6mn push-belts for use in vehicles powered by petrol, diesel or hybrid engines. Further investment, to reach a total of EUR55mn (US$78.8mn), will take annual output to 2.3mn units by 2015. According to Bulander, this will serve the Chinese and Japanese markets, as well as Vietnam.

The Asia region as a whole is key to Bosch's growth strategy, particularly as it continues to battle Japan's Denso for leadership of the global component market. In 2010, Bosch's Asian sales rose 43%, to EUR11bn, which increased the region's contribution total sales to 23%. The German company plans to invest about EUR2bn between 2011 and 2013, with the aim of increasing Asia's contribution to total sales to 30%. This includes the opening of a new headquarters in Shanghai, which will again bring the company closer to one of its biggest client bases.

BMI sees Bosch's expansion in EMs, and Asia in particular, as a positive move, which will reduce its exposure to more mature European markets. The company posted a 24% year-on-year (y-o-y) increase in sales, to EUR47.3bn (US$64.1bn), in 2010, marking a complete recovery to the pre-crisis level of 2007, but was reliant on the European market for nearly 60% of its total revenue. In contrast, when Denso overtook Bosch for global leadership in terms of sales to original equipment manufacturers in 2009 - a position it retained in 2010 - it cited its exposure to new markets such as China as a contributing factor.

Vietnam is certainly a work in progress as far as its vehicle production industry goes, with annual output of fewer than 40,000 units. This will give Bosch the chance to be an early mover in the country and serve larger high-growth markets elsewhere in the region. We still believe Denso and its own EM strategy will pose a threat on a global scale. However, Bosch has recognised the significance of a strategic regional spread, as it is banking on growth in EMs more than doubling sales in its automotive division, to EUR45bn (US$61bn), in 10 years.

Company Profiles

GM Daewoo (Vidamco)

Market Position

In 2008, **GM Daewoo** (then called Vidamco) was in fourth place in the market with sales of 11,036 units and a share of 10%, almost double the share claimed in 2006. This was the result of a 45.6% increase in sales from 2007. In March 2009, sales rose 106.8%, to 519 units, while Q1 sales were up by 63%, to 1,176 units, to claim the firm a market share of 17%. This performance was turned around by June, as results for H109 showed a 28% decline in sales to 4,926 units. This took the company's H109 market share down to 10.28%. By the end of the year, the company's sales for 2009 were up by 29% and its market share had also risen to 11.8%.

In H110, the company's sales were down 11% to 4,401 units, taking its market share down to 8.75%. By the end of September, its share had slipped again slightly to 8.2% despite a 30% drop in sales for the nine-month period. For the whole of 2010, sales were down 32%, to 9,685 units.

In Q111, GM Daewoo's sales rose 40%, to 2,628 units. This increased the company's market share to 9.4% from the 8.6% recorded in 2010 and took it up to third place from fourth in terms of sales.

New Products

The company has already reached a localisation level of 23% in its domestically produced models, rising to 50% for ASEAN sourced parts, and was on track to achieve localisation of 40% by 2010, in line with the government's plan for the industry.

In April 2010, Vidamco launched the Chevrolet Cruze sedan, a global model based on the Lacetti Premiere. Speaking at its launch, GM Daewoo's president and CEO, Mike Arcamone, outlined the company's strategy to continue offering new products, which he said he believed would contribute to winning over the country's motorcycle riders to four-wheeled alternatives.

Company Data

- No. of employees: 272
- Year established: 1993

Mercedes-Benz Vietnam

Market Position

Mercedes-Benz Vietnam (MBV)'s sales for 2008 fell almost 7% y-o-y to 2,119 units, taking the firm's share of the market down to 1.9%. In Q109, MBV sold 712 cars, 432 of which were sold in March alone. The Q1 total was a 48.45% improvement y-o-y, with sales up 200% compared with February. In H109, MBV was the only one of the top 10 manufacturers to post positive growth, with sales up 28% to 1,451 units, for a market share of 3.03%. MBV posted the highest growth of the top 10 manufacturers in 2009 as sales ended the year up 60% to 3,399 units.

In H110, however, MBV's sales fell 16% y-o-y, to 1,224 units. Sales improved slightly to show a drop of 11% by the end of September to 1,881 units, for a market share of 2.4%. For 2010, sales were down 17% y-o-y to 2,827 units.

MBV's sales rose 25% in Q111, to 592 units. Despite the growth, this resulted in a minor decline in market share to 2.1% from the 2.2% in 2010 and the company fell from ninth to 10th.

New Products

In April 2010, MBV expanded its alternative fuel range with the launch of the Mercedes S400 hybrid sedan. The company claims the addition of the lithium-ion battery pack, the first in an MBV model, reduces fuel consumption by 20% and increases power by 10%. However, Vietnam's tax system will again influence sales, as the import tariffs, luxury car tax and VAT take the price of the S400 over VND4.41bn (US$231,000).

The new SLS AMG 'super sports car' was also unveiled in April, but with worldwide production already sold out, numbers in Vietnam will be limited.

Company Data

- Annual production capacity: 4,000 units

BMI Methodology

How We Generate Our Industry Forecasts

BMI's industry forecasts are generated using the best-practice techniques of time-series modelling. The precise form of time-series model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined. For example, data for some industries may be particularly prone to seasonality, i.e. seasonal trends. In other industries, there may be pronounced non-linearity, whereby large recessions, for example, may occur more frequently than cyclical booms.

Our approach varies from industry to industry. Common to our analysis of every industry, is the use of vector autoregressions. Vector autoregressions allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

It must be remembered that human intervention plays a necessary and desirable part of all our industry forecasting techniques. Intimate knowledge of the data and industry ensures we spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Automobile Industry

There are a number of principal criteria, which drive our extrapolations and forecasts for each auto variable:

Production And sales

At a general level, we approach our forecasting from both a micro angle and a macro perspective, assessing the expansion plans of relevant multinationals/ indigenous firms, while also taking account of the prevailing economic outlook. In this latter respect, **BMI** projections for macro variables such as industrial output, private consumption, government investment, monetary policy and GDP growth play a key role.

Figures for production are derived from a generic source (thereby ensuring maximum comparability between country data-sets), and include all vehicles with four wheels or more. For sales, we rely on data from government agencies and national automobile associations. Unless otherwise stated, sales numbers include domestically produced and imported vehicles, but not exports.

The sector's contribution to GDP is projected by taking the US dollar production value as a proportion of nominal GDP, using **BMI**'s own macroeconomic and demographic forecasts.

Auto Imports And Exports

These variables are predominately calculated at the micro level, using individual company reports. Changes in government policy – particularly with regard to tariffs and quotas – also have a significant bearing.

Sources

Aside from government departments and official company reports, we rely on the International Organization of Motor Vehicle Manufacturers (OICA), other established think tanks, institutes, and international and national news agencies.