

# AUTOMOBILE INDUSTRY

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## Krungsri Research's View:

- Growth of automobile industry and related businesses is held back by weak domestic demand. Sales are projected to shrink in 2016 and mild recovery could be seen in 2017-2018. In other words, earnings prospect of automakers would still be rather uninspiring.
- In any case, they are expected to increase export sales to partly compensate the weak domestic market, especially the exports of eco-cars which are anticipated to increase further – thanks to export target agreed as part of the BOI privilege – and the pick-up passenger vehicle (PPV) segment which has gained significant popularity recently.

## Overview

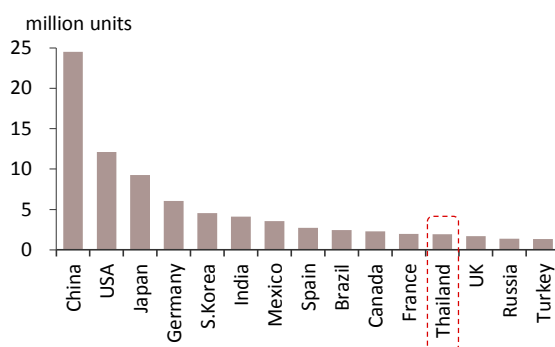
Thailand holds several advantages over its competitors, for instance, located at the center of the ASEAN region, having large domestic market, retaining strong supply chain, and reinforced by various investment promotion policy from the government. These factors have consistently attracted world's leading automobile manufacturers to set up production capacity in Thailand. Japanese automakers, whose productions and sales dominate over 75% of the market, have positioned Thailand as the production base of 1-tonne pick-ups and eco-cars for exports. In addition, Chinese and European manufacturers have shown increasing interests in producing the large cars, as well as, the luxury vehicles in Thailand.

In 2015, Thailand's automobile production capacity is approximated to be 3.66 million units (inclusive of planned capacity expansions announced by automakers), while actual production amounted to 1.92 million units which was the world's 12<sup>th</sup> rank and ASEAN's no. 1 (source: OICA).

- **1-tonne pick-ups** – representing 50-55% of total automobile production – are regarded as Thailand's top product champion by major manufacturers like Toyota, Mitsubishi, Isuzu, GM, Ford, and Nissan who have invested in Thailand to set up their manufacturing hub for exports.
- **Passenger cars** accounts for 45-50% share. The prominent product segment is the eco-car which has benefited from the government's investment promotion.
- **Other commercial vehicles** include trucks, buses, and vans. In total, they contribute 1-2% of total production.

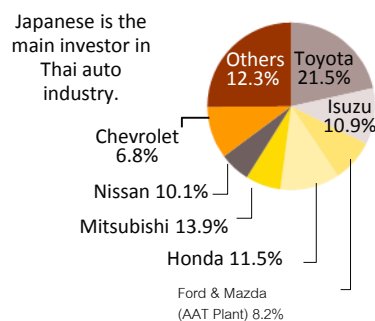
Thai automobile industry has increasingly relied on the export market, which has outpaced the domestic market since 2008. Main markets are those in nearby regions such as ASEAN, Australia, and the Middle East. However, market structures of each automobile segment produced in Thailand are different from each other. About 60-70% of passenger car production are exported, while the proportions for 1-tonne pick-ups and other commercial cars are 55-65% and 35-40%, respectively.

Figure 1: World Auto Production Base



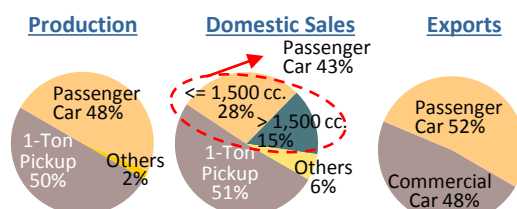
Source : OICA, 2015

Figure 2: Thai Automobile Production Capacity (Year 2015 = 3.66 million units)



Source: FTI, Thailand Auto Book, compiled by Krungsri Research  
Note: Inclusive of planned capacity expansions announced by automakers

Figure 3: Proportion of Thai Auto Production, Sales and Exports in 2015



Source : FTI, TOYOTA

## ▲ Situation

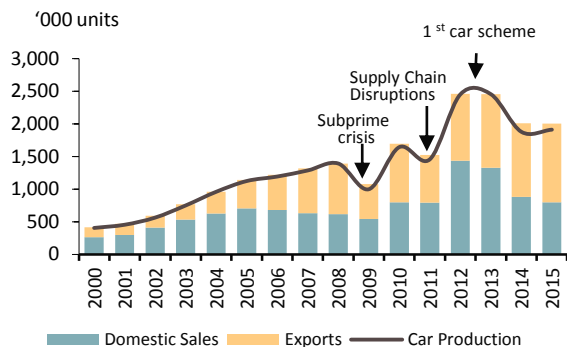
**Thai automobile industry has documented an extended period of growth, in line with the economy and automobile sales. Production during 2000-2010 grew 12% per year, on average.** This was mainly a result of expanding export market, as per major manufacturers' policy (average growth of 22% per year). However, during the last several years, performance of automobile businesses has been rather volatile, owing to various industry-specific factors:

- **In 2011, two major natural disasters**, i.e., tsunami in Japan (March 2011) and the Great Flood in Thailand (October 2011), led to serious supply chain disruption. Automobile production in Thailand shrank substantially due to severe shortage of auto parts; outputs dropped to the level recorded in 2008.
- **The period of 2012-2013 was the golden years of Thai automobile**, thanks to the pent-up demand caused by the **Great Flood towards the end of 2011 and the government's first-car scheme**, leading to an unusual rise in demands. Total annual sales in 2012 and 2013 were 1.43 and 1.33 million units, respectively. At the same time, major manufacturers were focusing on expanding the export market. Consequently, the number of car exported has gone above 1 million units since 2012. Production also increased substantially to 2.45 and 2.46 million units in 2012 and 2013, respectively.
- **During 2014-2015, the domestic automobile market tumbled badly.** The demand brought forward by government's first-car initiative resulted in a rapid rise in household debt and a significant drop in domestic sales after the end of the policy. The sales were only 0.8-0.9 million units per year, as compared to 1.3-1.4 million units per year under the scheme, while the total production reduced to just 2 million units, as compared to 2.4 million units previously.

**More specifically, the situation of Thai automobile industry in 2015 is as followed. Total production amounted to 1.91 million units (+1.76% YoY), supported by the export market whose volume ascended to the record high of 1.2 million units with value of USD17,585m (+6.81% YoY and +5.31% YoY, respectively).** Of this, export of passenger cars broke record USD9,180m (+52.96% YoY), mainly because of an expansion of eco-car export to many countries, including Europe, and USA. Particularly in the Australian market, demand has surged after the gradual closure of domestic production bases. Exports of other commercial automobiles amounted to USD8,406m (-21.42% YoY), in line with economic slowdown in trading partners. Besides, exports of pick-ups had slowed, as Toyota – a main exporter – reduced production of the existing line, prior to the launch of a new model.

**The domestic automobile market in 2015 still suffered from front-loading of demand led by first-car scheme for the second year.** Together with a slower growth of the Thai economy due to depressed commodity prices and shrinking export income, **sales of automobiles hit the lowest point in 3 years at 0.8 million units (-9.32% YoY).** Meanwhile, **imported automobiles totaled USD1,489m (-20.54% YoY).** Nonetheless, the excise tax hike (effective on Jan 1, 2016), which increases retail car price, has created some demands towards the end of the year.

Figure 4: Thai Automobile Production and Sales



Source: FTI, TOYOTA

Figure 5: Thai Automobile Exports

	Export Value (Million USD)			% YoY
	Passenger	Commercial	Total	
2008	5,038.0	5,469.9	10,507.9	21.83
2009	3,897.4	3,522.7	7,420.1	-29.39
2010	6,757.5	5,812.3	12,569.8	69.40
2011	6,049.4	5,343.5	11,392.9	-9.36
2012	4,961.5	11,045.4	16,006.9	40.50
2013	6,028.7	11,014.1	17,042.8	6.47
2014	6,001.7	10,697.2	16,698.9	-2.02
2015	9,180.1	8,405.8	17,585.8	5.31

Export Market Share (%)	2015	2014	2013
Asean	28.8%	18.3%	18.6%
Middle East	18.6%	19.8%	19.2%
Australia	20.2%	20.2%	25.1%
EU	7.8%	7.5%	7.7%
Others	24.6%	34.2%	24.2%

Source : MOC

Figure 6: Thai Automobile Imports

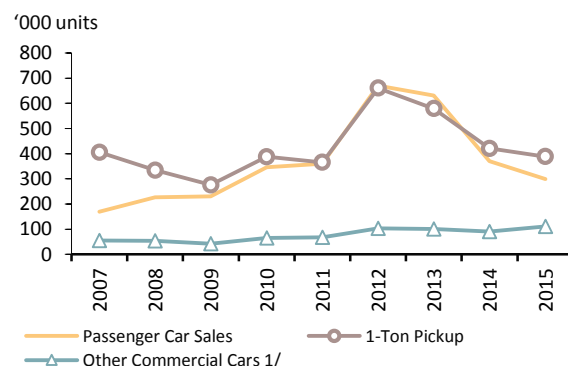
	Import Value	
	USD,m	% YoY
2008	1,032.2	45.85
2009	867.2	-15.99
2010	1,526.0	75.97
2011	1,813.7	18.85
2012	2,507.1	38.23
2013	2,085.5	-16.82
2014	1,873.8	-10.15
2015	1,489.0	-20.54

Import Market Share (%) 2015	2015
Asean	26.4%
Japan	28.4%
USA	2.3%
EU	26.3%
Others	24.2%

Source: MOC

Figure 7: Thailand Domestic Car Sales



Source : Toyota

Note: <sup>1/</sup>Other commercial car sales include buses, trucks and vans

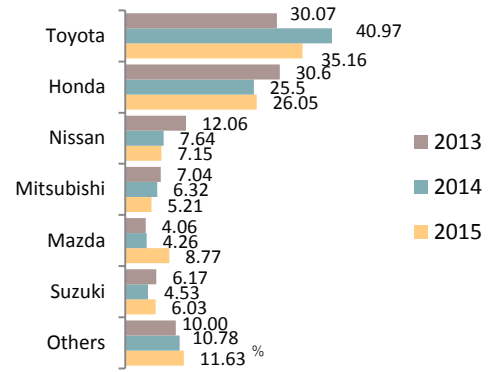
- **Passenger cars** recorded sales of 0.299 million units (- 19.07% YoY), out of which the sales of small-sized cars (including eco-cars) and passenger cars with engine size of 1801-2000cc grew by 12.8% YoY. This is mainly a result of the change of car features and introduction of new models to stimulate the market, especially in the cases of Mazda and Suzuki. Passenger cars with engine size over 3000cc grew by 10.4% YoY which is in line with a continuing growth of European luxury car market.
- **1-tonne pick-ups** registered total sales of 0.369 million units (- 7.63% YoY) because of the depressed farm prices that adversely affected purchasing power of the main target customer. In addition, sales dropped dramatically in the first half of 2015, as some customers were waiting for the introduction of Toyota's new models (in May 2015).
- **Other commercial automobiles** grew 22.39% YoY or a sales volume of 0.112 million units. Particularly, the demand for trucks expanded well, thanks to 1) progresses of government's investment projects and the construction of other public utility systems, and 2) demand for passenger buses increased, due to the robust growth in the tourism sector.

### ▲ Outlook

The automobile industry in Thailand is expected to grow only slightly in 2016 before accelerating to a higher rate in 2017-2018. More specifically, production in 2016 is forecasted to be around 1.95-2.01 million units or a growth of 2-5% YoY and it could speed up to the growth of 6-8% YoY and 8-10% YoY in 2017 and 2018, or around 2.1-2.4million and 2.3-2.33 million units of production volumes, respectively.

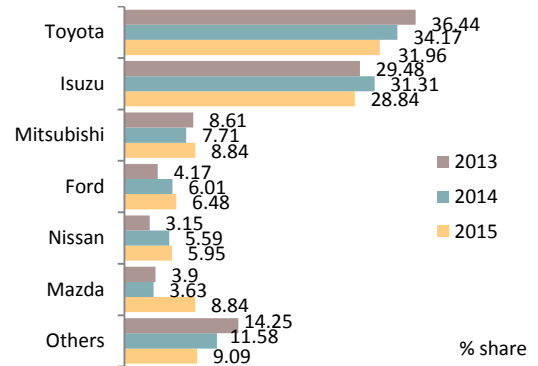
- **In 2016, the domestic automobile market is anticipated to continue to shrink by 3-5% YoY with domestic sales estimated to be approximately 0.76-0.78 million units.** This is essentially due to 1) the effects of the first-car scheme and excise tax hike that had already attracted part of the demand that were to be realized this year; 2) high level of household debts; 3) depressed prices of agricultural products and a severe drought; and 4) stricter loans approval by financial intermediaries. However, **export of automobiles in 2016 would help offset the drag; its growth is forecasted to be 7-9% YoY or a volume of 1.29-1.31 million units.** This is mainly led by increases in export of new models of pick-ups and large vehicles – particularly the PPVs.
- **During 2017-2018, the domestic automobile market could register positive growth of 3-5% YoY and 5-8% YoY, respectively.** This is partly due to the fact that the cars purchased under the government's first-car scheme are banned from selling the in the first five years. Therefore, car owners who wish to change to a new one could then sell their existing vehicles. At the same time, the economic conditions are projected to begin to recover. In addition, export market could also benefit from the AEC and the eco-car export plan which was agreed as part of the conditions for the BOI tax privileges. Therefore, **growth of automobile exports in 2017 and 2018 are forecasted to be 8-10% and 10-12% YoY, respectively.**

Figure 8: Market Share of Passenger Cars in Thailand



Source: Toyota

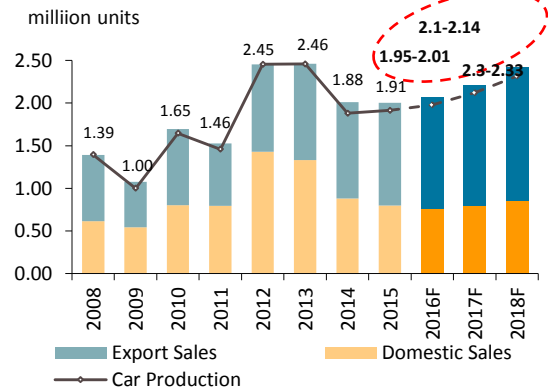
Figure 9: Market Share of Commercial Cars<sup>2/</sup> in Thailand



Source : Toyota

Note: <sup>2/</sup>Commercial car sales include pick-ups, buses ,trucks, and vans.

Figure 10: Thai Production and Sales Forecast



		2015	2016F	2017F	2018F
Production	units, m	1.91	1.95-2.01	2.1-2.14	2.3-2.33
	% YoY	1.8%	2-5%	6-8%	8-10%
Domestic Sales	units, m	0.80	0.76-0.78	0.79-0.81	0.84-0.86
	% YoY	-9.3%	-5% to -3%	3-5%	5-8%
Exports	units, m	1.21	1.29-1.31	1.4-1.43	1.56-1.58
	% YoY	6.8%	7-9%	8-10%	10-12%

Source: Toyota, FTI, Forecasted by Krungsri Research

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