Success factors of Hyundai and future direction in China

2007. 6.

KARI 한국자동차산업연구소
Korea Automotive Research Institute

Table of Contents

Ⅰ. Current Status of Chinese Automotive Market

1. Demand
   (1) Low penetration rate
   (2) Growth pattern of car market
   (3) Sales by type and segment
2. Supply
   (1) Expansion of capacity
   (2) Sales by makers
   (3) Sales portion of top-ten models
3. Significant movements in market

1. Demand_ (1) Low penetration rate

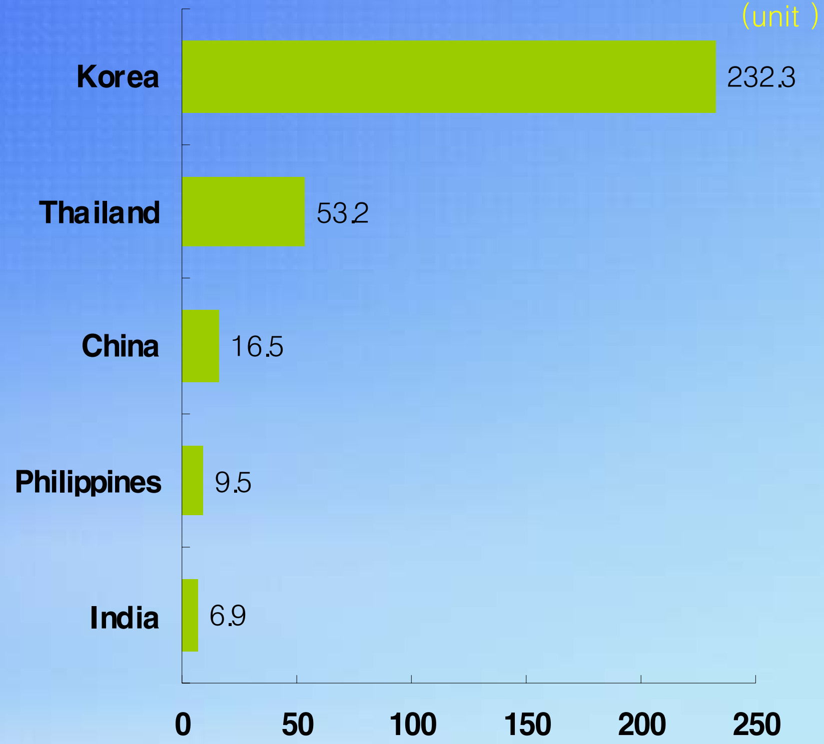
- The number of registered cars greatly increased, but the penetration rate is still very low
  → Very high growth potential
  - Total registration increased more than twice compared to 2000, especially in passenger cars.
  - Number of cars per 1,000 persons is 16.5, very low compared to 33.5 in Thailand

Vehicle registration

(unit : 10,000 units, %)

	Total	Passenger Vehicle	Commercial Vehicle
2000	1,369.3	490.4	878.9
2001	1,524.3	554.8	969.5
2002	1,754.8	677.5	1,077.3
2003	2,076.7	864.5	1,212.2
2004	2,628.9	1,735.9	893.0
2005	3,159.7	2,132.5	1,027.2
Average Annual Growth Rate	18.2	34.2	3.2

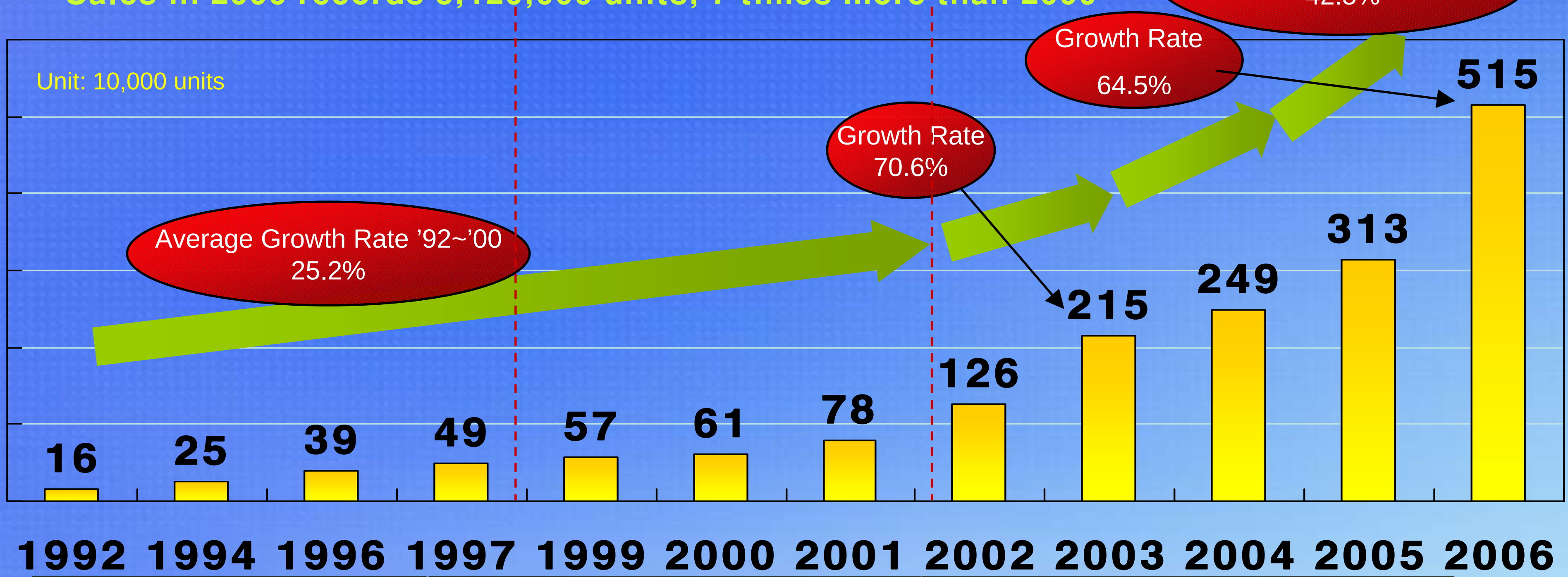
Number of cars per 1,000 persons (2005)



* Source : Korea Automobile Manufacturers Association

1. Demand_(2) growth pattern of car market

- **Passenger car sales growing rapidly since 2000: Growth accelerates as portion of Individual Sales increases**
  - **Sales in 2006 records 5,120,000 units, 7 times more than 2000**



▣ VW as Market Leader (M/S above 80%)

▣ Entrance of Foreign Makers into China
→ GM('97), Honda('98), Kia('99), Fiat('99), Toyota('00)

▣ Rapid Growth after WTO Accession
▣ More Foreign Makers into China
→Ford('01), Nissan('02), Hyundai ('02)

▣ Public purchase occupies above 80% of the market

▣ Growing Purchase for Private Use
→ Above 60% in 2002

1. Demand_(3) Sales by type and segment

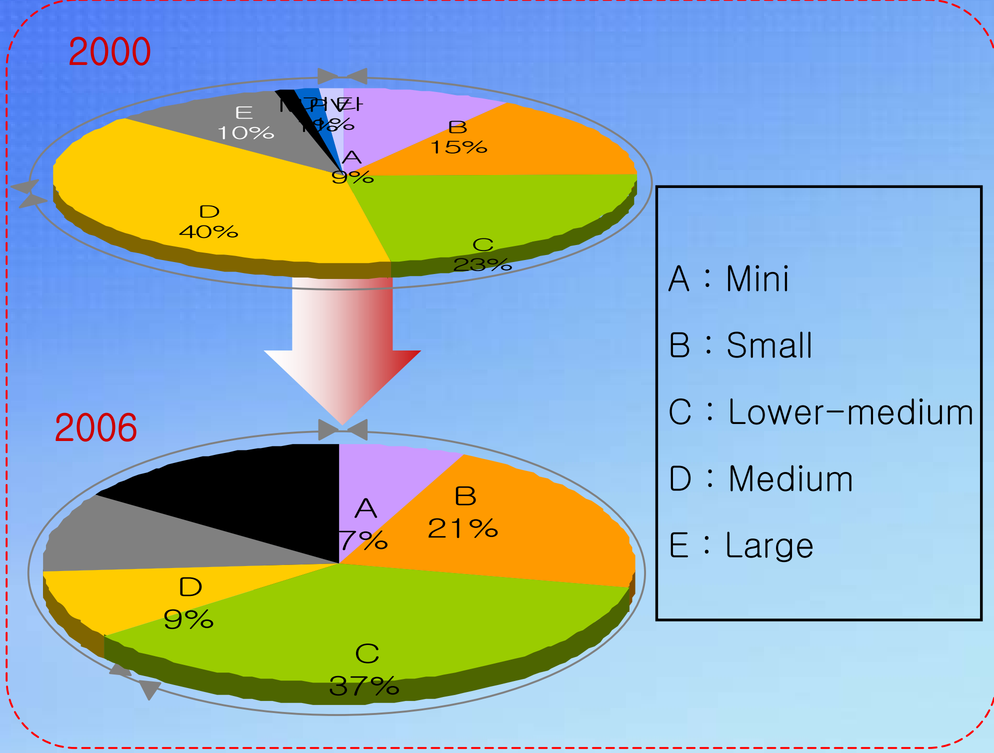
- By segment in passenger cars, the portion of C segment has grown from 23% in 2000 to 37% in 2006; The portion of D segment has decreased from 40% to 9%, due to increasing individual sales

Sales by Vehicle Types

(unit : 10,000 units, %)

	Total	PV	CV
2000	209.3	61.1	148.2
2001	237.7	78.1	159.6
2002	324.8	126.5	198.3
2003	439.1	215.4	223.7
2004	507.2	248.8	258.4
2005	575.8	313.2	262.6
2006	722.0	512.0	210.0
Average Annual Growth Rate	22.9	42.5	6.0

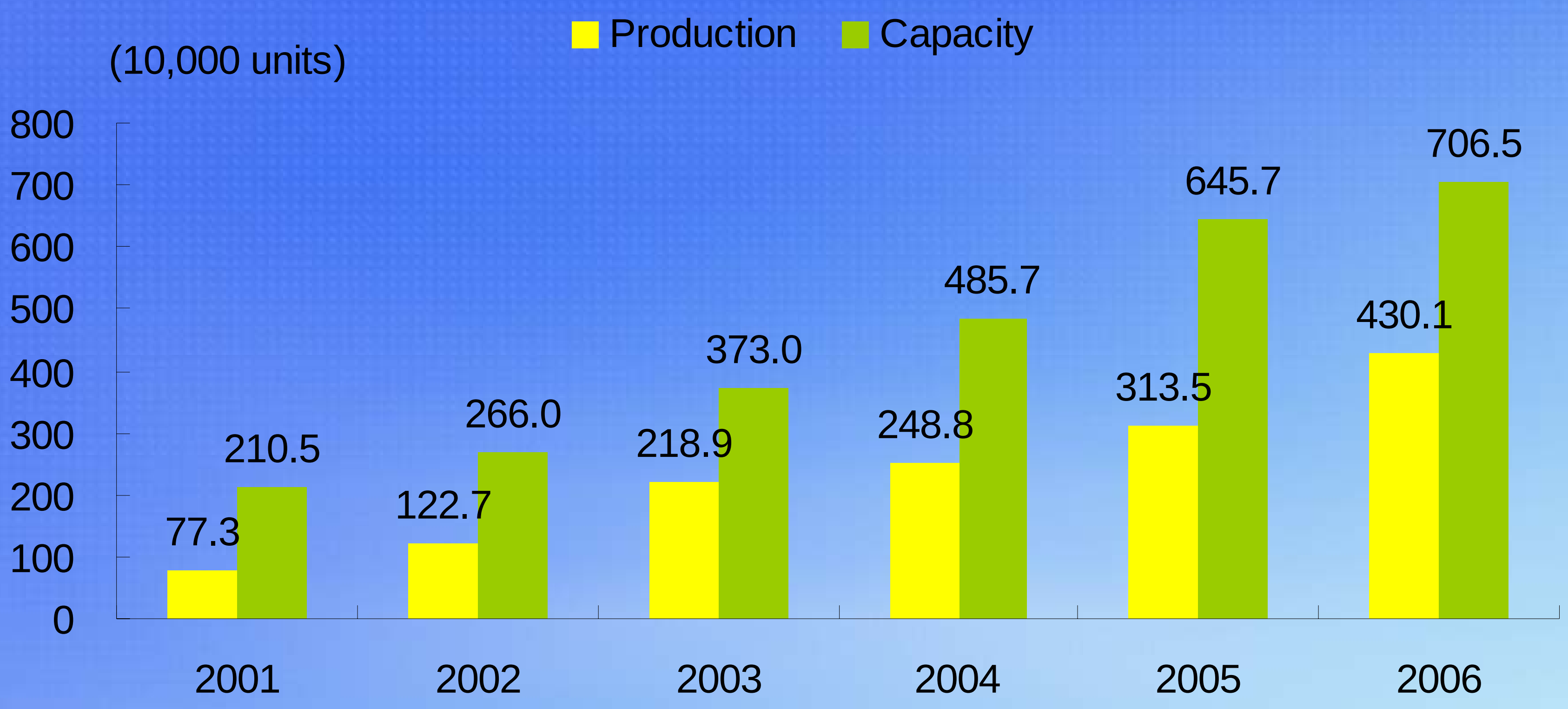
PV Sales by Segment



* Source : Fourin's Chinese Automotive Industry

2. Supply_ (1) Expansion of capacity

- Capacity increased 5mil from that of 2001, as foreign makers entered and expanded capacity
- The problem of overcapacity emerged: extra capacity beyond demand



* Source : Fourin's Chinese Automotive Industry

2. Supply_ (2) Sales by makers

- **As major players enter, competition gets severe and ranks change dramatically**
  - **Noticeable growth of the Chinese makers**

	2001		2002		2003		2004		2005		2006	
	Makers	sales	Makers	sales	Makers	sales	makers	sales	makers	sales	makers	sales
1	Shanghai VW	23.0	Shanghai VW	30.1	Shanghai VW	40.5	Shanghai VW	35.4	Shanghai GM	32.5	Shanghai GM	40.6
2	Yiqi-VW	13.1	Yiqi-VW	20.8	Yiqi-VW	30.2	Yiqi-VW	30.0	Shanghai VW	25.0	Shanghai VW	34.9
3	Xiali	7.0	Shanghai GM	11.1	Shanghai GM	20.7	Shanghai GM	25.2	Yiqi- VW	24.0	Yiqi-VW	34.5
4	Shanghai GM	5.8	Xiali	9.5	Guangzhou-Honda	11.7	Guangzhou-Honda	20.2	Beijing Hyundai	23.4	Chery	30.2
5	Dongfeng PSA	5.3	Dongfeng PSA	8.5	Dongfeng PSA	10.5	Changan Ford	15.9	Guangzhou-Honda	23.1	Beijing Hyundai	29.0
6	Guangzhou-Honda	5.1	Changan Suzuki	6.5	Xiali	10.5	Xiai	13.0	Xiali	19.0	Guangzhou-Honda	26.0
7	Changan Suzuki	4.3	Guangzhou-Honda	5.9	Changan Suzuki	10.2	Changan Suzuki	11.0	Chery	18.9	FAW Toyota	20.8
8	Chery	2.9	Chery	5.0	Chery	9.1	Beijing Hyundai	10.3	Dongfeng Nissan	15.8	Geely	20.4
9	Geely	2.2	Geely	4.4	Geely	7.2	Geely	9.7	Geely	15.0	Dongfeng Nissan	20.4
10	Fengshen	1.7	Fengshen	4.1	Fengshen	6.6	Dongfeng PSA	8.9	Dongfeng PSA	14.0	Dongfeng PSA	20.1

•Source : Fourin's Monthly Report on the Chinese Automotive Industry

2. Supply_ (3) Sales portion of top-ten models

- **The sales portion of top-ten out of total sales decreased**
  - **Market faces intense competition**

	2001		2002		2003		2004		2005		2006	
	Makers	sales	Makers	sales	Makers	sales	Makers	sales	Makers	sales	Makers	sales
1	JETTA	9.7	JETTA	12.1	JETTA	14.3	JETTA	15.4	CHARADE	18.0	JETTA	17.7
2	SANTANA	9.5	SANTANA	9.9	SANTANA	12.3	SANTANA	13.3	ELANTRA	17.7	EXCELLE	17.7
3	SANTANA2000	7.0	SANTANA2000	9.5	PASSAT	12.2	CHARADE	11.3	JETTA	14.2	ELANTRA	17.0
4	PASSAT	6.4	CHARADE	8.4	CHARADE	9.6	ACCORD	10.5	QQ	11.6	CHARADE	16.2
5	CHARADE	6.0	PASSAT	7.9	SANTANA 2000	9.3	ELANTRA	10.3	EXCELLE	11.5	QQ	13.2
6	CITROEN ZX	5.3	SAIL	5.6	BUICK REGAL	9.0	EXCELLE	9.2	ACCORD	11.4	ACCORD	12.3
7	ACCORD	5.1	CITROEN ZX	5.3	ACCORD	8.0	SANTANA 3000	9.0	SANTANA	9.4	PASSAT	11.4
8	ALTO	3.3	BORA	5.2	BORA	7.8	PASSAT	7.5	MERRIE	7.6	QIYUN	10.1
9	AUDI A6	3.1	QIRUI	5.0	CHANG'AN ALTO	6.1	BUICK REGAL	7.3	COROLLA	6.7	SANTANA 3000	8.3
10	SAIL	2.8	ALTO	4.9	AUDI A6	5.3	BORA	6.3	PASSAT	6.7	COROLLA	8.0
Sum(A)		58.4		73.7		94.0		100.1		114.8		131.8
Total market(B)		78.1		126.8		215.4		248.8		315.4		426.1
Share(A/B)		74.8%		58.1%		43.6%		40.2%		36.4%		30.9%

•Source : Fourin's Monthly Report on the Chinese Automotive Industry

3. Significant movements in the Chinese auto market

Customer	● Decreasing portion of public purchase ● Private demands drive market demand ● Increasing demand for Large and luxury cars by individuals and foreign companies
Customer Choice	● entrance of large number of foreign makers, variety of product range, and price cut → wider customer options
Energy/Environment	● Auto policies focused on highly efficient cars and alternative energy ● Sales of small car is expected to increase with the fuel efficiency regulation
Used-cars	● Used car market influences new car demand ● A used car market is still premature due to Chinese's preference for new cars
Regional model Strategy	● expensive and high technology cars for coastline city markets ● low-priced models for inland small and medium city demands
Increasing demand for SUV/MPV	● Increasing interest and demand for RVs ● Currently less competitive, but Joint ventures and Chinese makers have adopted an aggressive strategy for RV market.

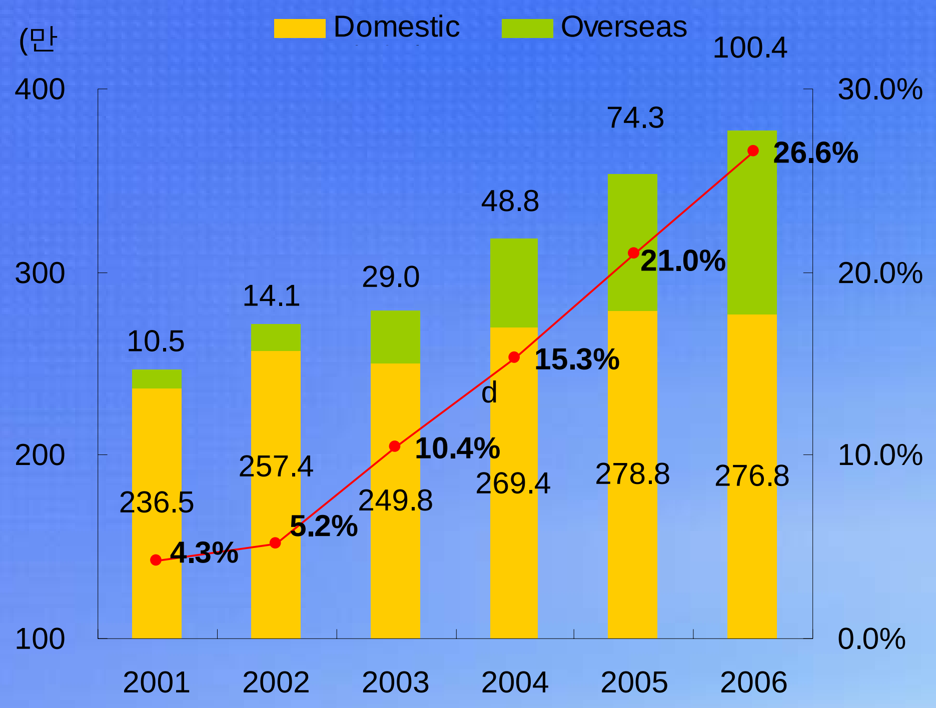
Ⅱ. The Importance of China in Hyundai Global Strategy

1. Global status
   - (1) Production Trend
   - (2) Regional production
   - (3) Regional sales
2. Importance of Chinese market

1. Global status _ (1) Production trend

- Since 2000, High growth rate following Toyota
  - Production rank: 9th in 2001 → 6th 2006
- The portion of overseas production of Hyundai-Kia increased with new overseas production bases

Domestic/overseas production



* Source : HYUNDAI/KIA MOTORS

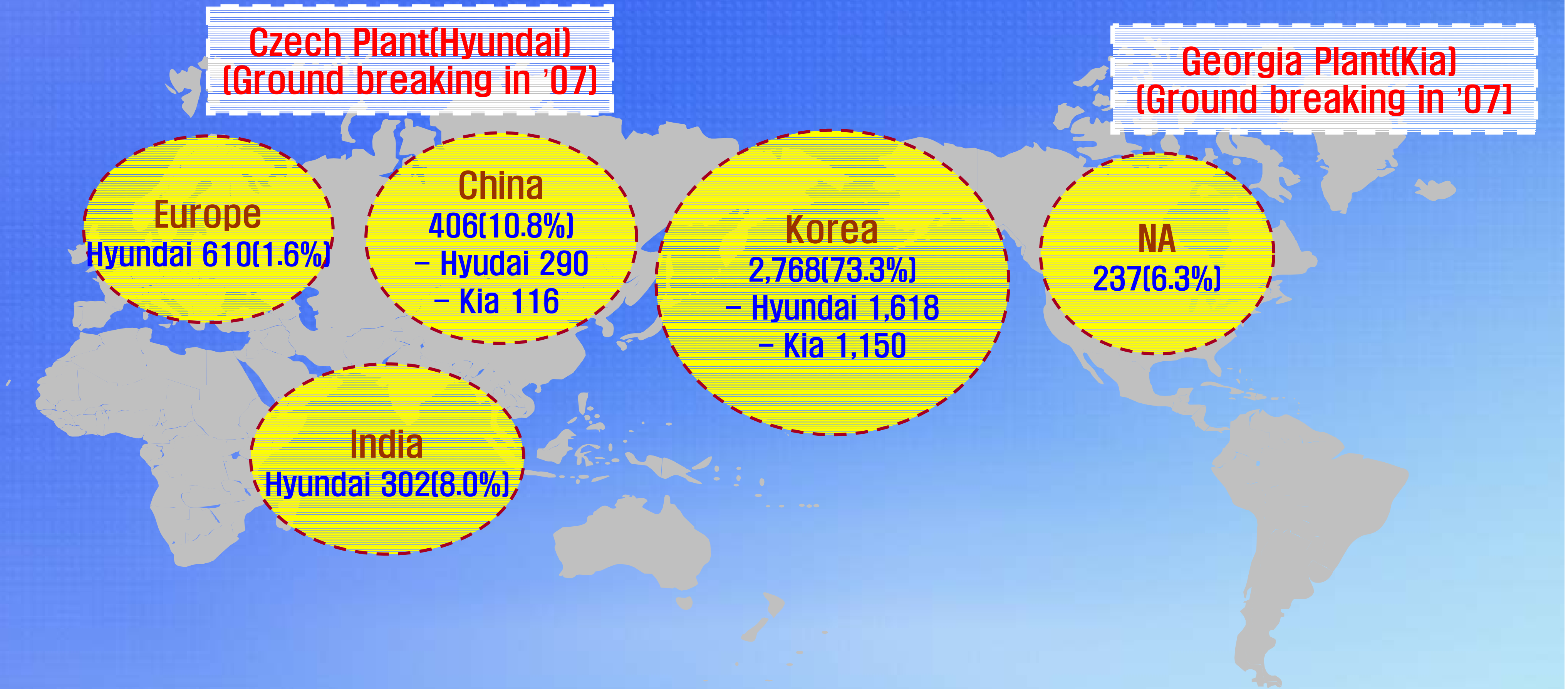
Top global vehicle manufactures

	2001	2002	2003	2004	2005	2006
1	GM	GM	GM	GM	GM	TOYOTA
2	FORD	FORD	TOYOTA	TOYOTA	TOYOTA	GM
3	TOYOTA	TOYOTA	FORD	FORD	FORD	FORD
4	VW	Renault-Nissan	Renault-Nissan	Renault-Nissan	Renault-Nissan	Renault-Nissan
5	Renault-Nissan	VW	VW	VW	VW	VW
6	DCX	DCX	DCX	DCX	DCX	Hyundai-Kia
7	PSA	PSA	PSA	Hyundai-Kia	Hyundai-Kia	DCX
8	HONDA	HONDA	Hyundai-Kia	PSA	PSA	HONDA
9	Hyundai-Kia	Hyundai-Kia	HONDA	HONDA	HONDA	PSA
10	FIAT	FIAT	FIAT	FIAT	SUZUKI	FIAT

* Source : Global Insight. 2007. 3.

1. Global status _ (2) Regional production (in 2006)

- New era of global production: Hyundai's US plant in Alabama (May, 2005) and Kia's Slovakian plant (Dec, 2006) now in operation



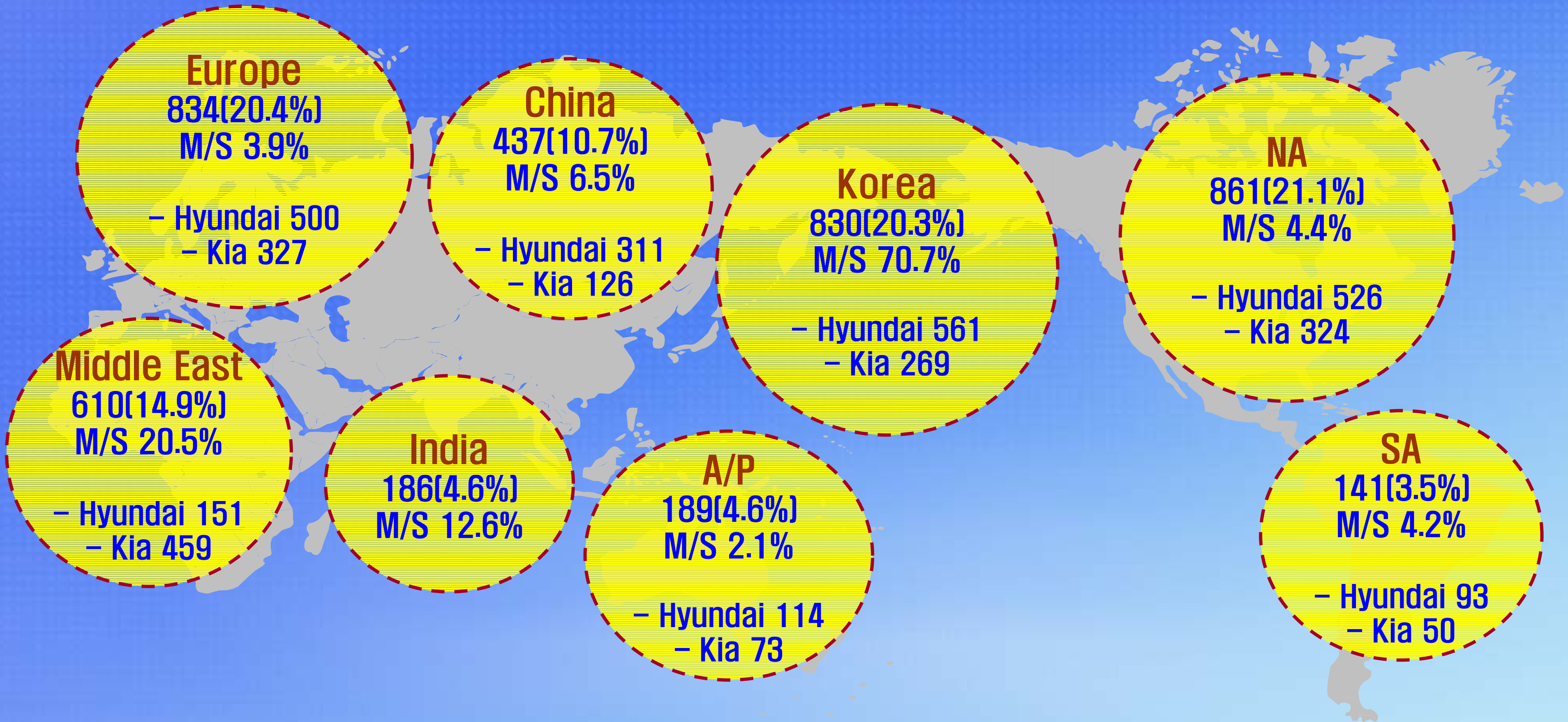
** Source : HYUNDAI/KIA MOTORS*

** Based on CBU(excludes CKD)*
( ) : portion

Units: 1,000

1. Global status (2) Regional sales (in 2006)

● Recorded most high growth rate following Toyota since 2000



( ) : portion

Units: 1,000

* Source : Global Insight. 2007.3

2. Importance of Chinese market

- Carry out growth strategy through globalization
- China is one of the most potential growth markets, easy to catch an opportunity of growth as global competition just begin
- Success in China is the main key to successful globalization

Necessity of global strategy

Limited marginal growth rate
– Weak Korean market

Meet exchange rate risk
– Decreasing profit from export

Cope with increasing trend of FTA & economic blocks

Importance of China

Giving new opportunity
– A second domestic market

Test field of building up brand value & price competitiveness

Main key for global success

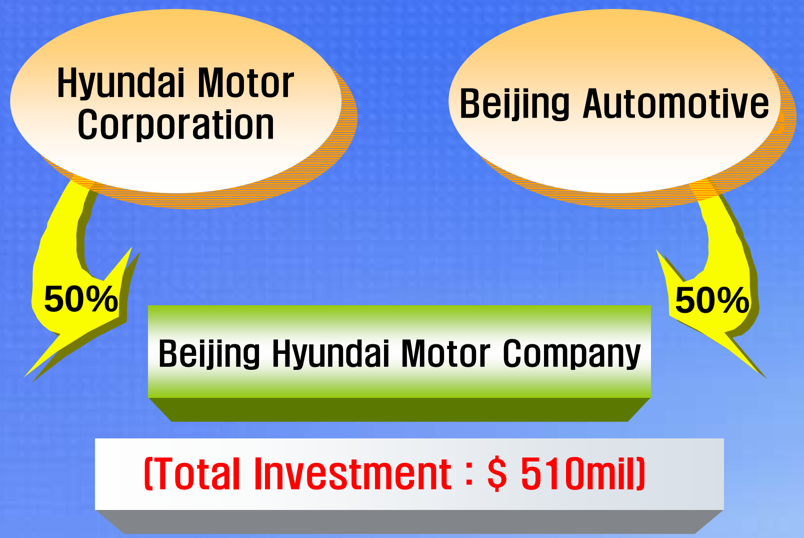
Ⅲ. Success factors of Hyundai in china

1. Business status in China
2. Sales performance
3. Success factors in China

1. Business status in China

- BHMC is a joint venture between HMC(50%) and Beijing Automotive(50%)
- Began production with a single model(50,000 unit production capa), BHMC has been increasing line-up & production capa as demand goes up.
- BHMC will have 600,000 capacity when the 2nd plant is completed in 2008

BHMC



Production plan

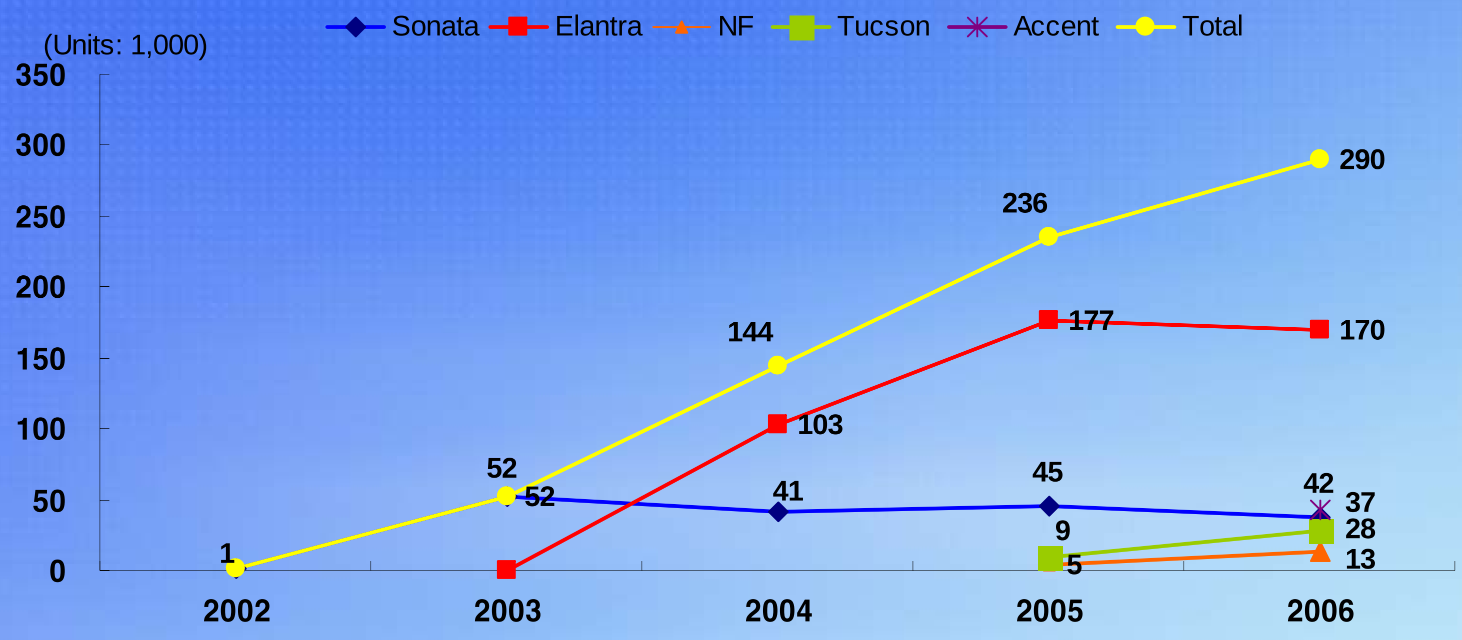
	1st plant			2nd plant
	Phase#1	Phase #2	Phase #3	
Time	Dec. 2002	April. 2004	May. 2005	2008
Capacity (units)	50,000	150,000	300,000	300,000
Production /hour (units)	12	36	68	–
Models	Sonata	Sonata, Elantra	Sonata, Elantra, NF, Tucson, Accent	4models

** Source : BHMC*

2. Sales Performance

- Sales CAGR 77% since 2003
- Annually at least 1 model has been released to meet high demand increasing
- Expanding dealer network as sales goes up
- Aiming 600,000 unit sales in 2010

BHMC's Sales by Model



* Source : BHMC

3. Success factors in China

Fast decision making & drive	• Quick decision making & powerful driving force that is called 'Hyundai speed' – 2002 Feb: MOU contract → May: main contract→ Dec: production begin • Even though Hyundai made inroad into China late, comparing other key players, still made successful debut with 'Hyundai speed'
Cooperation with Chinese government	• The first JV project with foreign company certificated by government after China joined WTO • Cooperation with government became an important base to drive business – Hyundai products selected as Beijing taxi & official cars of government
Precise & excellent survey of local markets	• Increased line up: Middle seg→Small seg(EF Sonata→AvanteXD) • Selected Sonata for the first model considering motorization trend(large→medium→small) in emerging markets • Understood the essence of Chinese culture, then launched models that have equipments economically • Made an appeal to Chinese with products that had streamed line designs & volume looks

3. Success factors in China

Launching the latest model

- From the beginning, introduced new models not like other foreign makers did
  - Foreign makers usually introduced old models, ceased production in advanced countries
- Reforming new models for local needs
  - The specification, interior & exterior

Pushing into with long-term friendly suppliers

- Stabilization of quality & production by doing cooperation with suppliers
  - Early stage: 32, Current: 89 suppliers
- Creating more jobs that contribute the local economy → corporate image up

High productivity

- Raised productivity using the improved automation & module production system
  - productivity remarks as plants of Korea
- Made a flexible system

3. Success factors in China

Building up corporate image	• Selected 'Happiness of Chinese people' as the best value of the company • Donated 10 sonatas to the SARS relief center, when SARS broke out in 2003 • Derived social welfare service such as holding 'the night of Beijing China', supporting a scholarship, donating computers • Supported tournament such as Football games
Etc	• Geographical advantages (neighboring districts)– Close cooperation with the headquarter in Seoul Korea • Hiring local people – minimize the gap of cultures & languages

Ⅳ. Future Direction

Future Direction

Building precise brand image	• Giving 'The significant value of Hyundai' – Developing a model having the factors of Hyundai, also the model should be differentiated from global & local makers • Pumping up the brand image during Beijing Olympic & World Trade Fair
Enhancement of localized strategy	• Developing localized model – Injecting Chinese preference into the product from product development • Aiming to grow with Chinese enterprises – Searching & promoting local suppliers
Lifting up price competitiveness	• improving production system for cost innovation
Raising up corporate image	• Mutual cooperation to contribute Chinese auto industry • Making friendly image with social welfare service – Building corporate image that contributes the great Chinese