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Porsche Cayenne in China Surges on 30% SUV Delivery Rise: Cars
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By Bloomberg News

June 23 (Bloomberg) -- China surpassed the U.S. as the world's largest car market on sales of sedans. Future growth lies with sport-utility vehicles.

SUV deliveries rose 30 percent this year through May, compared with a 6 percent gain for total passenger-car sales, according to the China Association of Automobile Manufacturers.

Sales of SUVs in the world's second-largest economy will increase 33 percent in the two years through 2012, almost twice the pace in the U.S. and four times that of Western Europe, according to Lexington, Massachusetts-based IHS Automotive, an industry consultant. Porsche SE already sells more Cayennes in China than anywhere else in the world.

"It's the next great wave of consumer demand in China," said Bill Russo, Beijing-based senior adviser at consulting company Booz & Co. "First-time buyers buy sedans, second-time buyers look for more variety."

Chinese consumers will buy 4.3 million SUVs by 2018, or 86 percent of projected U.S. sales, up from 47 percent last year, according to Westlake Village, California-based J.D. Power & Associates. SUVs accounted for 9.7 percent of China's total passenger-car sales last year, from 4.4 percent in 2006, data from the nation's automakers group show.

Practical Choice

"Historically China is a sedan market because it is socially accepted and practical," said Klaus Paur, Shanghai-based managing director for Greater China at Synovate Motoresearch, an industry consultant. SUVs are "extremely attractive to those who are affluent and want to demonstrate they are successful, modern and dynamic."

China's economy will expand 9.6 percent in 2011 and 9.5 percent next year, the fastest rate among major emerging markets, according to International Monetary Fund projections. Private wealth has grown with the economy, with the number of Chinese millionaire households jumping 31 percent to 1.11 million in 2010, according to the Boston Consulting Group.

Profit margins for SUVs are typically wider than sedans as automakers can charge higher prices for additional features, according to Russo.

'Bit of Fun'

For Jane Zhao, 38, trading her Volkswagen Jetta for a Jeep Compass has made all the difference in Beijing, the city voted by motorists in an International Business Machines Corp. survey last year as having the most "onerous" commute.

"It adds a bit of fun," said Zhao, works for a consulting firm in the Chinese capital and spends three hours a day on the road. "Driving

it gives me a better view, which is very important when stuck in endless traffic jams or trapped by vehicles, cyclists and pedestrians on smaller roads."

Sales of SUVs fell 4.1 percent in May, the first monthly decline this year, after Japan's record earthquake in March caused automakers to halt production.

Honda Motor Co.'s CR-V sales fell by more than half last month from a year earlier to 5,003 units, as the Tokyo-based automaker suspended production for two weeks at its venture with Dongfeng Motor Group Co. that month, said Zhu Linjie, Honda's Beijing-based spokesman.

"The May sales declines for SUVs was a short-term fluctuation" due to the quake, said Zhang Guo, an analyst with KGI Securities Co. in Shanghai. "It shouldn't be taken as a turning point that indicates a change in the market trend."

Super-Luxury Sales

China's super-luxury SUV market, defined by J.D. Power as those costing more than 1 million yuan (\$154,700), will expand at a 17 percent annual rate over the next four years, according to a report this month.

Stuttgart, Germany-based Porsche delivered 8,612 Cayennes in 2010, 14 percent more than the previous year, according to data from the company. Prices start at 893,000 yuan in China.

Daimler AG's Mercedes-Benz SUV sales more than doubled in the first five months to 21,275 vehicles, the company said June 9. Mercedes may start assembling the GLK SUV in China as early as this year, Daimler Chief Executive Officer Dieter Zetsche said in Shanghai in April.

Great Wall Motor Co.'s Hover, whose basic 1.3-liter model starts at 43,900 yuan, was the best-selling SUV model in the first five months, according to the automakers group. The Baoding, China-based carmaker plans to add larger SUVs cater to demand for more spacious models, said Shang Yugui, deputy general manager of sales.

New Models

SAIC Motor Corp., China's biggest automaker, aims to add their first self-developed SUV model, the W5, this year. Geely Automobile Holdings Ltd. plans to introduce the EX7, its debut SUV, in the third quarter. General Motors Co. said in April it will introduce an updated version of its Chevrolet Captiva compact SUV on the mainland this year.

"Surging SUV demand is a result of consumption upgrading," said Zhang at KGI Securities, who expects sales to rise more than 20 percent annually over the next five years.

"In a big market like China, there's still huge room for demand."

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