

China Car Sales Prove Impossible to Know for Shareholders

Forget spreadsheets. Yankun Hou, an award-winning auto industry analyst at UBS AG (UBSN), counts Toyotas and BMWs in the parking lots of car factories in China using satellite images from Google Maps to gauge inventory buildups. Scott Laprise at CLSA Asia Pacific Markets said he pretends to be a customer and takes snapshots of showrooms with his BlackBerry to gauge retail demand. At Mizuho Financial Group Inc. (8411), Jeremy Yeo checks order flows at auto parts manufacturers and Erwin Sanft at BNP Paribas SA (BNP) oversees a monthly survey of 70 dealerships across China. The examples illustrate the lengths analysts will go to get an edge explaining what is happening in the world's largest auto market, where the public is kept in the dark as to how many vehicles are sold off dealerships nationwide. That leaves investors foraging through industry associations, data vendors and consumer websites to piece together whether to buy or sell General Motors Co. (GM) (GM) or Volkswagen AG (VOW) shares based on China demand. "When you see how lacking the data is in China, it's difficult not to wonder about the true state of the market," said Mitsushige Akino, who oversees about \$500 million in assets at Tokyo-based Ichiyoshi Investment Management Co. "When there's not enough information on the market, there's nothing we can do but to simply cut back on investing." More broadly, analysts and economists have complained that China's numbers are opaque and that the country's growth figures may be overstated. With cars, one complaint is that unlike the U.S., Germany and Japan, China doesn't release figures on private car registrations. These numbers are compiled by Chinese police and include the buyer's age, gender, zip code and vehicle model. Rising Stockpiles Recently, the absence of official retail vehicle sales and inventory data has led to a divergent picture of auto demand in China. Auto manufacturers are reporting better-than-estimated deliveries to dealerships, while distributor groups tell of rising stockpiles at showrooms. Releasing registration data would allow car manufacturers to better adjust production to match sales, avoiding oversupply when demand is softening, according to Geoff Broderick, vice president at Westlake Village, California-based J.D. Power & Associates. "Registration is the real barometer of what's happening in the retail space and shows the real health of the industry at any point of time," Shanghai-based Broderick said in an interview. Getting Data Carmakers have tried to get the data before. In 2008, Zhengzhou Yutong Bus Co. (600066) Chairman Tang Yuxiang submitted a petition on behalf of the auto industry to the nation's legislature asking for registration data to be made available each month. Anhui Jianghuai Automobile Co. Chairman Zuo Yanan lobbied unsuccessfully a year later for the data to be released. For now, investors and analysts need to rely on figures from the state-backed China Association of Automobile Manufacturers, which provides monthly wholesale data that measures vehicle deliveries to dealerships — not to consumers. CAAM also provides wholesale breakdowns by passenger vehicle categories, and the top 10 models by sales and exports. The lack of publicly available retail sales data leaves investors guessing whether unsold cars are piling up at dealerships. It's not just counting cars that's difficult. The National Development and Reform

Commission, the nation's top economic planner, monitors average retail vehicle price movements each month, without breaking down the numbers by city or model. Sporadic Release Other groups include the China Automobile Dealers Association, which releases sporadic data on used-car sales and dealership inventory levels. The organization represents 2,100 dealer groups, a fraction of the estimated 60,000 sales outlets in the country. Another industry body, the Passenger Car Association, releases sales data each month based on surveys of its members. To make up for the lack of pricing data, websites such as cheshi.com have sprouted to compile dealership discounts and incentives from their own surveys of distributors. "The data is not necessarily telling you everything," said CLSA's Laprise, who is based in Beijing and was voted best China analyst in a 2011 Wall Street Journal survey. "It's a bit like piecing a puzzle together. You go check everything yourself and assume you have to see it for yourself." BNP started conducting monthly dealer surveys at more than 70 dealers across the country two years ago to get "visibility into what was going on outside of the factories," said Sanft, the brokerage's chief strategist for Pan-Asia equities. "There is no official data on what goes on once vehicles are sent to the dealerships." 'Touchy Feely' Yeo at Mizuho uses dealership visits to verify the data that's put out by these various groups. "It's very touchy feely and very difficult to quantify these things," said Yeo, who's based in Hong Kong and visits car showrooms each time he's in mainland China. "You try and get as many anecdotes as you can from the industry." That compares with the U.S., where industry researcher Autodata Corp. provides monthly breakdowns of retail sales by individual automakers, incentive levels and the top 20 vehicle models. The European Automobile Manufacturers' Association compiles new vehicle registrations and production numbers from the 27 European Union countries plus Switzerland, Norway and Iceland. In Japan, the Japan Auto Dealers Association reports monthly new car sales by brand and vehicle type, while the Japan Automobile Manufacturers Association provides production and export data. The lack of exhaustive and reliable data means analysts covering China's auto market are rewarded for being creative, going beyond crunching circumspect numbers to provide insight into the outlook of the market. "The industry is becoming increasingly over-researched and analysts are forced into bean counters," Hou, who was voted best autos analyst in a 2011 Institutional Investor survey, said in a July 16 e-mail to clients accompanying his Google maps. "Let's bring some fun back to research!"