

Global and China Automotive Tire Industry Report, 2009-2010



In 2008, the tire industry was in depression, companies suffered big drop or even loss of profit due to the natural rubber price inflation, and both the OE market and the RT replacement market plummeted due to the worldwide economy downturn in the second half of 2008. The situation was improved in 2009. The natural rubber prices continued to drop while there was just a slight, or even no fall in tire prices. As a result, companies doubled their profits, but still witnessed decline in revenue since the demand had not been recovered to the peak level in 2008.

In the second half of 2009, the price of natural rubber, as well as carbon black, kept rising. By April 2010, it had more than doubled the level of early 2009. Tire companies had raised prices to address the price hike in raw materials. In 2010, the natural rubber supply and demand were nearly in balance, and the price was relatively stabilized at a high level. Although there is still no clear sign of economic recovery, the prices of bulk commodities will not suffer sharp decline as in 2008.

Tire companies will see revenue growth, but profit fall in 2010.

In 2009, Bridgestone still held the first place in the world, and widened the gap with Michelin, the runner-up. In addition, Bridgestone's joint ventures in North Europe, Russia, India and Turkey had delivered excellent performance in 2009. Although Michelin didn't invest enough in these emerging markets, its operating profit margin was two times higher than Bridgestone's. Although Michelin didn't perform well in the OE market, it delivered an increasingly better performance in China's after-sale replacement market, and got high profit for its outstanding reputation.

Stranded in the North American market, Goodyear suffered decline in both revenue and operating profit margin since the operating expense increased. Furthermore, it achieved little growth in China's market, but still stayed far ahead of the fourth place.

Continental, dominating the high-end market all along, delivered roughly the same performance as in 2008. Its OE ratio was 25%, a little higher than in 2008. Being a key tire supplier for Benz, Audi and BMW, Continental was among the few manufacturers with revenue growth benefiting from the huge demand for luxurious cars in China's market. Moreover, it has put its Hefei base into production, and is expected to grab a larger market share in the future.

Pirelli, an Italian company, is a key tire supplier for well-known luxurious cars including Bentley, Ferrari, Porsche, Lamborghini, Bugatti, Land Rover, Volvo, Jaguar, and Maybach, all of which have robust demand from China's market, with small quantities but high prices. In the meantime, being the most important tire supplier in South America market, Pirelli has dominated the market there for years with stable sales.

Sumitomo, i.e. the Dunlop acquired by Sumitomo Rubber Industries, is a key tire supplier for SUVs, especially luxury SUVs, as well as Japan's high-end vehicles like Crown, Lexus, Teana and Acura. Benefiting from strong demand in China's market, Sumitomo had achieved the rapidest growth in revenue and high growth in after-sales market. Meanwhile, it also has increased investment in China's market.

Also profiting from China's market, Yokohama achieved growth in revenue. It even got a Chinese name to show its recognition of China's market and carried out a series of advertising and promotional campaigns. In the meantime, it is the main tire supplier for high-end vehicles such as Mitsubishi, Honda, Toyota, Nissan, Mazda, Subaru, Porsche, Mercedes-Benz C-class and G-class, Acura, Aston Martin in OE market.

Japanese manufacturers, being known as conservative, have increased their efforts in China's market, and substantially expanded the output capacity of their Chinese bases in late 2009 and the first half of 2010. Even Toyo Tires, the smallest one of them, established a plant in China. Apart from the OE market, Japanese manufacturers have also expanded the replacement market. For example, Dunlop planned to surpass Michelin by expanding its lineup of retail stores to 4,000. It can be said that Japanese manufacturers have benefited the most from China's tire market, and they all have accelerated the expansion, even after the Toyota brake issue.

Supported by Beijing Hyundai, FAW Volkswagen and Shanghai Volkswagen, the main force in China's auto market, Hankook witnessed great growth in profit despite a decline in revenue. Kumho, relying on the strategy of low price, suffered sales drop in 2009. Although it ranks the first place in China's OE market, it fails to succeed in the replacement market. Low price, low profit and high debt have made its operation difficult, and it has begun division reorganization and debt restructuring in 2010.

Totally immune from the Special Protectionist Tariff on Tire case, the majority of Chinese manufacturers had achieved revenue growth, and maintained significant export, only with a slight drop in the export to the United States. Now, Chinese tire manufacturers' dependence on foreign trade is still above 40%, which certainly will lead to trade disputes. Although they have been trying to develop the OE market, they can only enter the microbus market, and little progress has been made in the car market, since even Chery and BYD prefer tires of Kumho, Giti and Cheng Shin. However, Chinese tire manufacturers have monopolized heavy-duty truck, bus, commercial vehicle, and off-the-road (OTR) tire markets. In 2009, the massive infrastructure investment and the campaign of "bringing autos to the countryside" had boosted up van sales. Cheng Shin ranked among the world's top ten in terms of revenue, and Hangzhou Zhongce Rubber announced that its sales were up to RMB16.8 billion, ranking the 11th place in the world.

Revenue and Operating Profit Margin of Global Top 24 Tire Manufacturers, 2008-2009

Manufacturer	Revenue, 2009 (USD mln)	Operating Profit Margin, 2009	Revenue, 2008 (USD mln)	Operating Profit Margin, 2008
Bridgestone	23132	2.9%	23435	4.1%
Michelin	20653	5.8%	22820	5.6%
Goodyear	16301	2.2%	18525	4.1%
Continental	11524	13.8%	10692	11.2%
Pirelli	5569	8.7%	6027	6.1%
Sumitomo	5640	5.5%	4844	4.3%
Yokohama	5054	3.7%	4811	2.5%
Hankook	3770	11.4%	4044	4.7%
Cooper	2779	5.6%	2882	-7.5%
Cheng Shin	2573	19.4%	2542	6.8%
Zhongce	2435	9.1%	2126	3.1%
Toyo	2341	2.9%	2410	-0.3%
Kumho	2320	1.1%	2593	-4.2%
Triangle	1847	3.8%	1767	1.4%
Giti	1730	5.4%	1931	0.48%
Linglong	1723	3.6%	1467	1.6%
MRF	1173	12.6%	1376	3.7%
Nokian	1114	12.8%	1424	12.9%
Xingyuan	968	5.0%	615	1.0%
Double Coin	933	0.2%	1156	-1.8%
DoubleStar	868	5.9%	933	2.9%
Apollo Tires	842	8.3%	1015	10.2%
Aeolus	809	5.8%	865	1.2%
NEXEN	757	16.8%	684	7.1%

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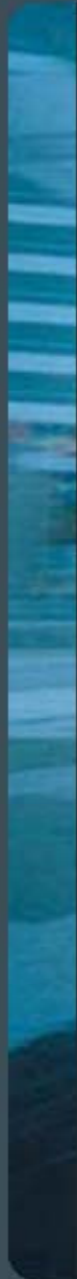
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