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Missteps force France's Peugeot to seek partners as shares sink

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ROME -- **PSA Peugeot Citroën**, once an icon of French industrial might, is in talks to raise funding from a Chinese auto maker and the French government as it tries to overcome plunging sales and the strategic error of focusing on the European market.

New investors could mark the end of an era for Peugeot, which is one of the few car makers still under family control. The Peugeot family owns 25.5 per cent of the equity and 38 per cent of the voting rights of the company, which is Europe's second-biggest auto maker, after Germany's Volkswagen. If the family chooses not to participate in the capital raising, its power would be diluted away.

"Sooner or later, the Peugeot family will lose control," said Georg Thilenius, owner of the Stuttgart investment firm Dr. Thilenius Management.

Peugeot confirmed Monday that it is "examining industrial and commercial developments with different partners, including the financial implications that would result from them. None of these projects has reached maturity yet."

While the auto maker would not provide details, it has been widely reported it is in talks to raise capital from both **Dongfeng Motor Co.** and the French government.

Dongfeng is one of China's largest car and truck makers and has formed joint ventures with several foreign car companies, among them Nissan and Honda. It also operates three assembly plants in China with Peugeot. Last week, China Business News reported that Dongfeng plans to buy a 30-per-cent stake in Peugeot for about $1.6-billion (U.S.). Reuters later reported that Dongfeng and the French government would, together, buy €3-billion ($4.2-billion Canadian) of new Peugeot shares.

The capital increase is to be discussed at a Peugeot board meeting on Oct. 22. The shares fell as much as 12 per cent on Monday, their biggest drop in almost five years, and finished at €11.25, down 9 per cent, giving the company a market value of €4.4-billion.

Analysts said the shares fell because investors fear a government stake would decrease the company's ability to shed jobs. The government already exerts some influence on Peugeot. It has one seat on the board and guaranteed €7-billion of Peugeot bonds.

Once a formidable rival to Volkswagen, Peugeot is now the symbol of France's waning industrial prowess. In 2007, the year before the financial crash, Peugeot shares traded at €50 or more.

The company's decision to focus largely on the European market, responsible for almost two-thirds of its sales, is cited as its biggest miscall. High unemployment, enduring recessions in some countries, notably Italy, and weak recoveries elsewhere have pushed car sales down to their lowest level since the European Auto Manufacturers' Association began collecting records in 1990.

In August, European sales were down 5 per cent, to 654,000 vehicles, compared with the same month a year earlier. Britain was the only big European market to see a rise in car sales.

Peugeot was founded by French industrialist Armand Peugeot, who was born in 1849 and steered the metal working company into the bicycle business in 1882. Its first powered vehicle was a steam-powered tricycle, which was put on display at the 1889 World Fair in Paris. The company's first mass-produced car, the 201, was launched in 1929 and was a great success. The company's small cars, such as the 205 and 206, sold in the millions in the 1980s and the 1990s.

The company, however, failed to make a splash in high-growth foreign markets in the past decade. Rivals that did have fared much better. Losing momentum in Italy, Italy's Fiat built up its Brazilian business and took control of Chrysler, whose profits are now offsetting losses in Fiat's home market. Volkswagen built an international portfolio of brands, ranging from Italian sports car maker Lamborghini to Spain's Seat, and uses platform sharing to keep development costs down.

The over-reliance on the sagging European market has destroyed Peugeot's meagre profitability. Last year, it lost €5-billion and burned through €3-billion in cash. Its automotive unit lost €510-million in the first half of this year. The company is closing a factory near Paris and is cutting 11,200 French jobs.

In 2012, when it was apparent Peugeot was in serious trouble even though there were signs of a European economic recovery, the French government issued a damning report on the company, insisting that a restructuring was "urgently" required.

The report estimated Peugeot spent almost €6-billion on dividends and share buybacks between 1999 and 2011 and that the €450-million dividend payment in 2011 deprived the company of "precious resources" at a time of crisis. The report concluded that Peugeot's salvation might lie "in a strategy of an alliance with a big world auto maker."

Mr. Thilenius said it would make sense for Dongfeng to buy a stake in Peugeot. "It's a wonderful opportunity to buy a premium brand on the cheap," he said.