

Peugeot board approves capital tie-up with France, Dongfeng

PSA Peugeot Citroen agreed to a capital tie-up with China's Dongfeng and the French state on Tuesday (18 February), a source said, ending the reign of one of France's oldest industrial dynasties.



Peugeot has sold stakes in the company to the French government and Dongfeng. Image: Peugeot

Peugeot's board approved an agreement for Chinese company Dongfeng and the French government to inject €800m each. In return the government and Dongfeng would get a 14% stake in the company.

The total fundraising effort could bring in at least €3bn for Peugeot through the sales of additional shares.

The Peugeot family, which has controlled the firm since its founding in 1810 as a manufacturer of coffee mills and bicycles, will see its 25% stake and 38% voting rights diluted to the same amount as the stakes for the government and Chinese state-controlled Dongfeng.

The deal will come to Peugeot's rescue after the group, Europe's second-largest car manufacturer, suffered the indignity of needing €7bn in state-guarantees to rescue its credit arm.

Peugeot hard hit by downturn

Peugeot has been among the hardest hit by a slump in European car sales, suffering a €5bn loss in 2012 and cutting thousands of jobs. For China, where Dongfeng is the second-biggest car manufacturer, the agreement marks the latest high-profile acquisition of a Western company by cash-rich Chinese firms.

Last month, Lenovo bought Motorola from Google in US\$2.9bn deal.

In terms of the Peugeot deal, the family will see its number of board seats reduced from four to two, with Thierry Peugeot expected to lose his post as chairman.

None of the three main shareholders would be allowed to increase its stake for 10 years, seen as an effort to limit Dongfeng's influence at Peugeot, which employs nearly 90,000 people in France.

The final deal is expected to be signed at the end of next month during a visit by Chinese President Xi Jinping to Paris.



Dongfeng's A60 model. Dongfeng has more than 13% of China's growing car market. Image: Wikipedia

The source said the Peugeot board also agreed to a tie-up between its financing arm and Spanish bank Santander that will be operation from the end of 2016 when state-guaranteed funding expires.

Strategic mistakes

Peugeot also approved the appointment of former Renault executive Carlos Tavares as the new chief executive to replace Philippe Varin, the man often blamed for guiding the company into its current turmoil.

Last year, a government-ordered enquiry found that Peugeot had made strategic mistakes for years by not seizing fully the opportunities of globalisation.



The Citroën C3, another of the iconic brands in Peugeot's stable. Image: Wikipedia

Last year, Peugeot set about trying to cut costs that were intended to save the company about €1.5bn by closing its iconic Aulnay-sous-Bois factory near Paris and introducing other stringent changes.

The company is hoping its link with Dongfeng will give the Peugeot and Citroën brands a boost in China, which is now the group's number two market behind France.

State-owned Dongfeng Motor Corp., founded in 1969 and whose name means "East Wind", sold 3.53m vehicles in China in 2013, giving it a 16% market share.

Economic future

France's Industrial Renewal Minister Arnaud Montebourg said the state's decision to buy a stake in Peugeot was important to France's economic future.

"We have taken a decision of economic and industrial patriotism, with commitments given to us by management," Montebourg said.

He said Peugeot had committed to producing a million vehicles a year in France by 2016 and investing €1.5bn euros in French factories.

At Peugeot's historic Sochaux plant in the eastern Franche-Comte region, workers welcomed the reorganisation but expressed fears the deal would eventually see their jobs relocated to China.

"In the workshops people are saying we are going to be gobbled up by the Chinese," said Christian, 57, one of the factory's 11,500 workers. "But we don't have any choice, all of the car manufacturers are relying on foreign groups. If it saves our jobs, that's a good thing."

The Peugeot family jumped into car manufacturing in 1889 and, though no longer directly managing Peugeot, continued to play a key role on its board even after the 1976 takeover of Citroën.

Source: AFP via I-Net Bridge

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