

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

ASIAN AUTOMOTIVE NEWSLETTER

ISSUE 16, December 1999

A bimonthly newsletter of developments in the auto and auto components markets

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INTRODUCTION

This issue's focus examines the Fast Fit market in Asia, a sector we believe holds greatly opportunity both in terms of growth and acquisition potential. The Fast Fit market fills a critical gap in vehicle servicing and the needs of the Asian motorist for this service can only grow.

We hope that you find *Asian Automotive Newsletter* informative. BDA is a corporate finance advisory firm that helps clients identify and execute acquisitions and JVs in Asia. If you think that BDA's services may be useful to you, please contact us in New York at (212) 265-5300, or in Singapore at (65) 533-8500.

Charles Maynard
Managing Director

CHINA/HK

Ami Doduco, a unit of **Technitrol Company** of the US and a global leader in electrical contacts, has agreed to acquire **Tianjin Electrical Metal Works (TEM)**, an electrical contacts business based in Tianjin, from **Tianjin XinHao Investment Development Company**. Ami Doduco has established a wholly-owned enterprise in Tianjin City and obtained all approvals necessary to manufacture and sell silver-based electrical contact products used in the appliance, automotive and construction industries. (November 10, 1999)

Daewoo Motor Co has opened three car component JV plants in China with annual production capacity of 300,000 units. Daewoo hopes to use these plants in Qingdao, Weihai and Yantai to supply its first car plant in China. Daewoo and its Chinese venture partners, **First Automotive Works** and **Shandong Automotive Corp**, have invested US\$730m in these plants since April 1997. (October 18, 1999)

Delphi Automotive Systems has acquired a 100% interest in two JVs with **Baicheng Automobile Wire Factory** and **Delphi Packard Electric Baicheng Co Ltd (DPEB)**. Consisting of two manufacturing facilities in Northern China, DPEB was formed in 1994, with Delphi as the majority partner with a 53% stake. Delphi stated that the acquisition will give it more flexibility in the operation and will strengthen its manufacturing footprint in the Asia Pacific region. DPEB manufactures automotive cable for Delphi's China facilities in Shanghai, Changchun and

Guangzhou, as well as for Delphi's Indonesia plant and for HaFie, a leading minivan producer in China. (October 29, 1999)

SKF, the leading Swedish bearing manufacturer, has announced that it will expand its business in China through building more JVs in Chinese cities over the next few years. To date, SKF has formed the **SKF (China) Investment Co Ltd**, **SKF Automotive Bearing Co Ltd**, **Beijing Nankou SKF Railway Bearing Co** and **Anhui Zhong Ding CR Seal Co Ltd**. The company's investment in China to date totals Rmb600m (US\$72m). (November 12, 1999)

Guangzhou Automobile Group, **Isuzu Japan** and **Isuzu Investment (China)** have agreed to form a bus manufacturing JV by January 2000 to produce Isuzu luxury tour buses and city buses. The management stated that the scale of the project will depend on domestic and international demand and will grow gradually. (November 10, 1999)

Worldtek (Canada) Ltd has announced a restructuring. The parent company will acquire all the shares of its two subsidiaries, Worldtek (Bahamas) and Worldtek International. These two companies' interests include three JVs in China, two of which manufacture automobile parts and one of which is engaged in the distribution of auto parts and the auto service industry. (November 15, 1999)

Chennai plant to mobilize funds within India to enter into the multi-utility vehicle (MUV) segment. The scale and timing of the offering will be decided in year 2000. The company intends to expand the capacity of the Chennai plant after the partial divestment. The current capacity of the plant is 10,000 units per month. (October 30, 1999)

Mahindra & Mahindra Ltd (M&M) has applied to the government for permission to acquire a 51% stake in **Gujarat Tractors** at Rs15.5crore (US\$3.6m) with an option to pick up additional 9% at Rs4.5crore (US\$1.1m). M&M hopes to use Gujarat's component and supply base and to sell Gujarat's tractors through its nationwide network. (October 30, 1999)

Skoda, part of the **Volkswagen Group**, plans to divest 8%-10% of its equity in its recently approved Indian 100% subsidiary after two years of operations. The company has talked with various Indian corporate and financial companies with regard to the sale of equity. Skoda still plans to build a plant with a 10,000 car per year capacity. (November 1, 1999)

Tata Steel's bearings division in Kharagpur has entered into technical collaboration with **Nachi Fujikoshi of Japan**, one of the biggest bearing companies in Japan, for the production of automotive bearings. (October 29, 1999)

INDIA

General Motors Corp announced that it is willing to take a stake in **Maruti Udyog Ltd** if the government dilutes its 50% stake in the company. **Suzuki Motors Corp**, the other 50% partner in Maruti Udyog, mentioned that it would prefer General Motors as an equity partner in the Indian company. General Motors holds 10% of Suzuki. (November 14, 1999)

Hyundai Motor India Ltd (HMIL) of South Korea has proposed to offload part of its stake in its

INDONESIA

PT Astra International's founding family and former owner, the Soeryadjayas, has expressed a strong interest in buying back a stake in the heavily indebted automotive conglomerate, although it remains uncertain if they had access to funds to realize the plan. Earlier reports mentioned the family was teaming up with **Newbridge Capital** and **Gilbert Global Equity Capital** of the US to buy a 19.9% stake in Astra. The Soeryadjayas were forced to sell their entire Astra stake in 1993 to help pay off obligations in the dissolved Bank Summa. (November 4, 1999)

The Indonesian Bank Restructuring Agency (IBRA) announced that it would sell 30% of its stake in auto giant **PT Astra International** in January 2000 in a bid to raise Rp3 trillion (US\$428.5m). This will be done through a private placement. IBRA currently controls a 40% stake in Astra. IBRA has been criticized for not being fully transparent in handling the bad debtors, which are mostly companies belonging to influential businessman. (November 30, 1999)

Delphi Automotive Systems acquired a 40% stake in **PT Packard Kabelindo Murni Indonesia (PKMI)**, a wiring harness producer, from **PT Kabelindo Murni**. Delphi has changed PKMI's name to **PT Delphi Automotive Systems Indonesia (DASI)** and increased investment from US\$7.8m to US\$12.2m. DASI has stated that it is committed to running the business entirely in Indonesia. 95% of DASI's products are exported. (November 30, 1999)

The Indonesian government has agreed to import eight brands of fully-assembled cars, bringing the total brands of complete vehicles permitted as imports to ten. However, the quantity of the imports is likely to be fairly small. Proposals have been received by the industry and trade ministry for the further import of twenty brands of fully-assembled cars. (November 1, 1999)

JAPAN

Delphi Automotive Systems Corp announced it is considering buying into several Japanese suppliers, including Nissan affiliate **Calsonic Corp** and independent bearing maker **NSK Ltd**, both of which have JV plants with Delphi in Japan. Delphi may boost its stake further in **Akebono Brake Industry Co** to increase its control. It has also stated that it will be announcing more deals over the next few months. (November 2, 1999)

Valeo SA is actively looking for stakes in Japanese suppliers made available through the restructurings at assemblers such as **Nissan Motor Co**. Among the

potential targets are lighting-equipment maker **Ichikoh Industries Ltd**, a Nissan group supplier in which the Japanese car maker has a 21% stake, and **Stanley Electric Co**, a large independent supplier of lamps and other electronic components to **Honda** and other manufacturers. Valeo and Ichikoh have been in talks since July 1999 but the two companies are not ready to announce a deal at this point. Valeo is most interested to boost its presence in Japan in transmissions, air-conditioning systems, engine cooling and electric components. It has bought into the clutch division of Nissan affiliate, **Unisia Jecs**, and has formed an air-conditioning and engine-cooling businesses JV with **Zexel Corp**. (November 2, 1999)

Visteon Automotive Systems has partnered with **Fujitsu Ltd**, a leading information technology corporation in Kawasaki, to develop and deploy leading-edge automotive CAE applications. The agreement pairs Visteon's technical expertise in the design, simulation and manufacturing of automotive climate control systems with Fujitsu's computational analysis capabilities. It will help Visteon improve its product development cycle time by increasing the use and accuracy of advanced CAE modelling in the design process. (October 22, 1999)

Visteon Automotive Systems has entered into a five year partnership with **Mitsubishi Belting Ltd**, a prominent automotive belt and composite manufacturer in Kobe, to jointly develop, manufacture and market molded components for cockpit modules. The alliance will strengthen Visteon's product development and production capabilities in the region and offer Visteon a regional manufacturing base from which to ship highly integrated modules to Japanese and other Asian-Pacific vehicle manufacturers. (October 21, 1999)

KOREA

DaimlerChrysler Corp is expected to take over **Ssangyong Motors**, which was itself taken over by **Daewoo Group** in early 1999. DaimlerChrysler has

repeatedly expressed its interest to acquire Ssangyong Motors but was rejected previously because of the MOU between Daewoo Motors and **General Motors**, which calls for a combined deal covering both Daewoo Motors and Ssangyong Motors. DaimlerChrysler is Ssangyong's second largest shareholder, and it has been marketing the minivan *Istana*, built at Ssangyong's Pyongtaek plant, in South East Asian markets under the Mercedes brand. (October 28, 1999)

Daewoo and **Samsung** have been cooperating closely together on a number of issues. Samsung announced that Daewoo Auto Sales had requested a supply of one-ton light trucks on an OEM basis, as domestic sales of light trucks have soared in 1999 to more than 13,000 units a month and Daewoo is eager to add a one-ton truck to its product line. The domestic market for one-ton trucks has to date been dominated by Hyundai Motor and by its subsidiary Kia Motors, which sold 76,000 units and 61,000 units respectively during the first ten months of 1999. (December 1, 1999)

Daewoo Group's affiliates are being offered for sale to Korean firms. Korea's top five conglomerates and companies with sub-200% debt-to-equity ratios will be invited to take over the troubled business group's affiliates. (October 18, 1999)

General Motors has until the end of 1999 to decide whether to take over the heavily indebted **Daewoo Motors**, which is engaged in in-depth negotiations with its creditors after defaulting on some of its debts in May 1999. (November 8, 1999)

Inchon Iron & Steel Co Ltd has sold 4.85 million **Hyundai Motor Co** shares for Won118bn (US\$98m). The sale of its holding in Hyundai Motor comes as part of its move to disaffiliate itself from Hyundai Group as Inchon Iron merges with **Kangwon Industry**. Inchon Iron plans to dispose of its other

Hyundai Group holdings with combined book value of Won389 (US\$324m) in the near future. (November 3, 1999)

Seojin Industrial Ltd, a large domestic body frame supplier for all Kia models and selective Hyundai cars, has accepted a US\$40m investment from **Tower Automotive**, a US auto parts supplier. Under the deal, Tower acquired a 49% stake in Seojin through a subscription of newly issued shares. Tower is likely to transfer substantial technology to Seojin including hydraulic forming and tailored blanking techniques, welding technology, body design and collision test techniques. (November 1, 1999)

MALAYSIA

Autoworld, Malaysia's first and largest one-stop auto-shopping website, is targeting to sign on 250 used cars dealers and all auto franchises by the end of 2000. Autoworld was developed by **Autoweb Sdn Bhd**, a strategic partnership between **Interbase Holdings** and **Heritage Vest**, a wholly-owned subsidiary of **Hong Leong Credit Bhd**. (November 10, 1999)

Cycle & Carriage (M) Sdn Bhd hopes to increase its share of the local automotive additive market with the launch of a new patented formulation of the *Bardahl No Oil Run*. At present, the sale of Bardahl additives is US\$2.4m. (October 21, 1999)

DMIB Bhd has aborted its merger with **Sime International Tyres (M) Sdn Bhd** stating the disadvantages of the merger for minority shareholders. DMIB and Sime International Tyres are both tyre units of conglomerate Sime Darby Bhd. (November 1, 1999)

Proton Bhd expects to earn RM350m (US\$92m) in the next 12 months from the sale of its *Satria* GTi 1.8 litre cars. The company expects 60% of the sales revenue from the *Lotus* powered GTi model to come from the export market, while the local market is expected to absorb the remainder. Proton to date has spent RM2m (US\$530,000) upgrading its manufac-

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turing facilities for the model. The export and local markets contribute equally to the sales revenue of the GTi model which was launched in Malaysia in November 1998. (November 25, 1999)

Tan Chong Motor Holdings Bhd is in the final phase of its demerger exercise, which involves selling its autoparts and non-motor units. This would allow Tan Chong to focus more on its **Nissan** assembly, distribution and retail business. Existing Tan Chong shareholders will have exposure to the two spun off units, which will be listed on the Main Board of the KLSE by the end of 1999. (October 25, 1999)

The Malaysian Ministry of Entrepreneur Development and Spain's Ministry of Economics and Finance signed a Letter of Understanding for cooperation in the automotive component manufacturing industry. Spanish technical expertise will be provided by **CONTES Technical Services**, a commercial body of the **Spanish Machine Tools Manufacturers Association**, and the training institute will be placed under **MARA (Majlis Amanah Rakyat)**. (November 11, 1999)

SINGAPORE

Singapore Congress' decision to pass a Clean Air Act has resulted in a reduction of permissible sulphur content in automotive diesels from 0.3% to 0.05%. This move has reduced the allowed emission of particulate matter from diesel vehicles and also paved the way for the introduction of yet more stringent emission standards for diesel vehicles. (November 3, 1999)

THAILAND

Delphi Automotive Systems Corp is holding preliminary discussions with the **Thai Board of Invest-**

ment on establishing a plant in Thailand near the facilities of **General Motors Corp** and **Ford Motor Co.** (November 1, 1999)

Sammitr Motors Group, a major local producer of auto parts announced that Sammitr has shifted its focus to the agricultural machinery business and aims to source 50% of its total revenues from that sector within the next five years. The agricultural machinery market for Thailand is estimated to be worth Bt20bn (US\$500m). Sammitr has been an autoparts producer for the past 40 years. The group's total turnover plunged to Bt1bn (US\$25m) in 1999, as compared with Bt4bn (US\$100m) at its peak in 1996. (November 5, 1999)

Thai Auto-Parts Manufacturers Association (TAPMA) announced that local auto parts makers will seek foreign partners or buy technical know-how to survive expected competition in 2000 when the 54% local content requirement is abolished in line with a WTO agreement. **Somboon Group**, an auto parts producer, plans to sell some of its stakes in four subsidiaries to foreign investors. (October 18, 1999)

TRW Inc, a major US automotive parts manufacturer, plans to invest US\$2.6m to establish a plant in Thailand to assemble chassis modules and actuators for **General Motors'** vehicles. The facility will produce four different chassis modules, including front-corner brake modules and rear-axle modules, as well as actuation duplexing. TRW plans to begin production at the facility in May 2000. The company also operates electronics, steering, suspension and engine valve plants in Thailand. (November 4, 1999)

VIETNAM

Dong Saigon Toyota Company in Vietnam introduced six new car models including *Zace* (DX and GL types), *Camry*, *Corolla* and the 15-seat *Hi-ace* and *Super Wagon*. (November 4, 1999)

FOCUS

Growth of the Fast Fit Market in Asia

Fast Fit is a concept that is well-established in western markets and is now beginning to make significant inroads in Asian markets. Fast Fit positions its service between the franchised car dealers, which typically service cars at least during their initial warranty periods and non-branded sidestreet shops which are highly variable in quality. Fast Fit establishes a branded, quality alternative for the relatively quick and simple services that make up a large part of a vehicle's total service needs. These typically include the servicing of batteries, brakes, air and oil filters, oil changes, tyres and wheel alignment.

Asia's Fast Fit market is in its growth stage. The more developed nations are not surprisingly leading the way. The international industry has recently seen manufacturers acquiring Fast Fit players, such as Ford's acquisition of Kwik Fit in the UK. This has allowed the manufacturers to get closer to the consumer while avoiding direct competition with their franchised dealers.

We believe this market will see substantial growth in Asia over the next ten years. The key drivers here will be the growing vehicle parc, rising living standards and an increased demand for branded and reliable fast service. We have picked a few prominent Fast Fit players in the market for analysis below:

The largest player in Thailand is **B-Quik Service Co**, the Thai auto servicing chain wholly owned by **Ford Motor Co**. Ford recently increased its holdings in B-Quik to 100% from 51% in April 1999, acquiring the remaining stake from the Thai Boonpong Group. B-Quik manufactures undercarriages, brake, clutch and suspension components in addition to running its Fast Fit service. It recently announced plans to invest Bt1.8bn (US\$50m) over three years to expand the number of its service centers from the present 14 to about 100. By year-end 1999, it has forecast that it will increase its outlets to a total of 26. Each of the branches will need a Bt12m-Bt14m (US\$0.3m) investment, and the firm aims to site half of its outlets

in Bangkok and the other half in provincial cities. The chain is projected to become profitable after three years when the number of outlets has reached 100. It currently services 70% of Japanese brands and 30% of European and other brands. Most of the vehicles are between four and ten years old. B-Quik is studying the feasibility of expanding to Vietnam, Malaysia and India.

Following closely behind B-Kwik is **Max Auto Express Centre**, a wholly owned subsidiary of the Dutch Makro chain. Max provides automotive repair, maintenance and car wash services. Established in 1995, Max opened 20 centres by the end of 1996, 40 in 1997 and now has a chain of approximately 150 stores. Max Centres have located their sites either on the forecourts of Makro supermarkets or on the forecourts of Shell petrol stations. Both site types are ideal for this business profile and Max attribute much of their rapid growth to their location choices.

In Singapore, the market is much smaller than Thailand and the groups are also consequently smaller. **Just Vincent Super Workshop**, a privately held company set up in the 1980s by Tan Sri Vincent Tan of Malaysia (who is connected to the Tan Chong group) has three branches in Singapore. Just Vincent has recently been acquired by Tony Tan, a former employee of Cycle & Carriage and no relation of Vincent Tan. Just Vincent focuses mainly on higher range cars such as Volvo and Mercedes. **Stamford Tyres**, a company listed on SES has also recently entered the Fast Fit market in Singapore and Malaysia and is planning to expand its Fast Fit business to the rest of Asia.

In Malaysia, **Goodyear Star Service** leads the country as one of the top Fast Fit providers. With its main business in tyres and batteries, Goodyear also provides a full range of Fast Fit including servicing and changing of tyres, batteries, oil, and other accessories.

Besides the developments in each of the local markets there are new international entrants into the Fast Fit market. **Autobag**, one of the strongest players in the Japanese market, has established Fast Fit services in Taiwan, Singapore and is planning to develop rapidly into other countries in Asia.

Petrol companies represent another set of entrants into the market. Shell has in the recent years introduced **Pro-Serve**, a Fast Fit service based at their petrol stations. This is still in its nascent stages but we are likely to see Shell developing this model rapidly in many Asian markets. **Caltex** has also been rumored to be pushing aggressively into the Fast Fit market in Asia. The company has recently introduced the **3Q Maintenance service**, its brand name for its Fast Fit franchise.

BDA believes that this sector holds great opportunity for acquisitions and we have therefore been extensively researching this area. We would welcome the chance to discuss this market in greater detail with any interested party.

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists US companies to expand their businesses in Asia. BDA specializes in the health industry and helps clients to find local business partners and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul and Shanghai. For further information on BDA's services or on any of the articles in this newsletter, please contact Euan Rellie or Charles Maynard through our New York office, or Andrew Huntley in Singapore.

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