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ASIAN AUTOMOTIVE NEWSLETTER

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

CONTENTS

INTRODUCTION

This issue's focus examines the auto leasing and auto financing sector in Asia, which we believe holds great opportunity for growth. These sectors were extremely badly hit during the financial crisis. Many firms went bankrupt, while others merged or were acquired. The crisis has stimulated a number of Asian governments to improve regulation of the sector and some improvements are now visible.

We hope that you find *Asian Automotive Newsletter* informative. BDA is a corporate finance advisory firm that helps clients to 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
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CHINA/HK

FAW-Volkswagen Co Ltd, a JV between Changchun-based **First Automotive Works** and **Volkswagen AG**, plans to produce more than 103,000 mid-size cars this year. Based on the rising demand for cars in China and its 15% domestic market share, FAW-Volkswagen will increase production of its flagship Audi *A6* cars to 15,000 from an output of 13,000 in 1999. The company also expects to produce 88,000 *Jetta* cars in 2000, 6,000 more than it produced in 1999. (January 7, 2000)

Gold Cup Bus Manufacturing Co Ltd, a division of **China First Automotive Works**, and the **Doray Company** of the Korea have invested a total of US$21m into a JV to produce aluminum alloy wheel hubs. Based in Shenyang, China, the JV will import equipment from Britain, Germany, Italy, Japan and Korea. The JV plans to produce 600,000 wheel hubs a year and its sales are anticipated to exceed US$24m. (December 29, 1999)

Hyundai and its subsidiary, **Kia Motors,** are establishing a manufacturing base in Yancheng, Jiangsu Province with **Jiangsu Yueda Group**. A Kia-owned plant in Jiangsu Province is being expanded to accommodate the 300,000 Hyundai and Kia cars to be manufactured there each year. Hyundai and the Jiangsu Yueda Group will each hold a 50% stake in the JV that will produce compact cars, a key growth market in China. (January 26, 2000)

Isuzu Motors of Japan and **Guangzhou Auto Corporation Group** have finalized plans to set up the **Guangzhou-Isuzu Bus Corporation**, a JV to produce Isuzu-brand luxury buses, in order to meet the demand posed by China's growing tourist industry. Total investment into the JV is US$30m, with 51% of the registered capital contributed by **Guangzhou Auto Corporation Group** and the rest from **Isuzu Motors**. Expected to be operational within a year, the JV will have an annual production capacity of 1,200 buses. (January 24, 2000)

Shanghai GM, a JV between **General Motors Corporation** and **Shanghai Automotive Industry Corporation**, is performing 25% better than expected. GM, which has invested US$1.5bn into the JV, is planning not only to extend its lineup in China this year but also to increase production to 50,000 vehicles from an initial target of 37,000. This is in light of the fact that **Shanghai GM** has already received orders for more than 20,000 *Buicks* that are priced at US$38,000 and up. (December 20, 1999)

Johnson Controls Inc (JCI) of the US and **Shenyang Seat Factory** of China have agreed to establish **Shenyang Gold Cup Johnson Automobile Ornaments Co Ltd**, a JV to produce car seats. The Shenyang Seat Factory, which is affiliated with **Gold Cup Automobile Co Ltd**, is a major car seat producer in China, while JCI ranks among the world's largest producers of car seats. Total capital to be invested into the project is estimated at US$8.9m, and each side will hold a 50% stake in the new business. It is anticipated that by 2003 Shenyang Gold Cup will have attained an annual production capacity of 100,000 sets of car seats and US$48m in sales. (January 14, 2000)

Toyota Motor Corp and **Tianjin Automotive Industrial (Group) Co** have had their joint application to produce approximately 30,000 small cars a year at Tianjin Automotive's existing plant approved by the National Development Planning Committee. The equally owned JV, which the two firms plan to set up this year under a 30 year contract, will be capitalized at US$90m. While the JV is already being referred to as a model for China-Japan industrial cooperation, it still awaits final approval from the Chinese government. (January 15, 2000)

INDIA

AB Volvo, the commercial vehicles manufacturer, has earmarked US$300m for expanding and upgrading its Indian operations. The company is planning to launch several new products in India this year, including trucks, construction equipment and marine engines. (January 17, 2000)

Peugeot, the French auto manufacturer, is in discussions to set up a JV to produce scooters for the Indian market with **Hero Puch** of India. The negotiations, which entails a technological alliance between the two firms, is likely to be finalized shortly. (January 17, 2000)

Piaggio of Italy has announced its decision to target India as one of its main manufacturing bases. Piaggio has already invested US$15m into the *Ape* line of three wheelers it produces in India in conjunction with **Greaves**, its JV partner in **Piaggio Greaves Vehicles Ltd**, and hopes to sell 10,000 – 12,000 units by the end of 2000. (January 17, 2000)

Scooter India Ltd (SIL), a state-owned venture, is discussing the possibility of technology and equity collaboration with **AVL** of Austria and **Piaggio** of Italy to produce scooters. While the Indian Government intends to divest 74% of its equity in SIL, it has yet to decide on the type of JV it wants for the enterprise. (January 17, 2000)

Tatra Udyog, the equally owned JV between **Tatra** of the Czech Republic and **Venus Udyog Ltd** of India, is launching three new heavy vehicles this year including a 20 ton mobile crane, a tractor trailer and a cement mixer. The vehicles will be marketed under the *Tata-Ind* brand name. (January 14, 2000)

Toyota-Kirloskar Motors Ltd, a JV between **Toyota Motor Corp** and **Kirloskar** of India, has started the production of a multipurpose vehicle at its plant in India. Based on the *Kijang* model produced and sold by Toyota in Indonesia, the vehicle will seat up to 10 passengers. (December 27, 1999)

INDONESIA

Astra International has had its chief executive ousted by the Indonesian Bank Restructuring Agency (IBRA). IBRA used its 45% stake in Astra to secure a majority vote against the chief executive, who opposed the agency's plan to sell its shares to the **Newbridge Capital / Gilbert Global Equity** consortium of the US. IBRA has also appointed three of its own staff to Astra's board of commissioners, which has decided to issue new shares of Astra by H2 2000. Astra's foreign debt currently stands as US$1bn. (February 9, 2000)

PT Kia Mobil Indonesia (KMI), a JV between **PT Artha Graha Group** of Indonesia and **Kia Motors** of Korea, is planning to sell 12,500 units of completely built-up (CBU) vehicles manufactured in Korea by Kia Motors. The JV will sell five types of cars in Indonesia, including three models of commercial cars and two models of sedans. KMI, which has focussed its business on importing Kia's CBU vehicles, is optimistic that it will secure 8% – 10% of the Indonesian car market in 2000. (December 29, 2000)

PT Timor Putra Nasional (TPN) of Indonesia is an acquisition target of **Kia Motors** of Korea. The Indonesian President and a delegation of key entrepreneurs and government officials will gauge Kia's capacity to acquire TPN's assets on a forthcoming trip to Korea. TPN is currently under the control of the Indonesian Bank Restructuring Agency (IBRA) for large non-performing loans from state banks. (February 8, 2000)

PT Tunas Mobilindo, a subsidiary of **PT Tunas Ridean**, has acquired 45% of **PT Surya Mobil Megahtama**, an authorized **Opel** dealership. PT Tunas Ridean already owns BMW, Daihatsu, Honda and Peugeot car and motorcycle dealerships. It now plans to open several new Opel outlets, based on high national demand for imported cars. (January 19, 2000)

JAPAN

Fuji Heavy Industries, the producer of *Subaru* cars, has indicated that it may end its traditional Japanese corporate relationship of 30 years with **Nissan Motor**. Nissan is expected to sell its 4.1% stake in Fuji Heavy as part of its restructuring plan. **General Motors** has already agreed to acquire a 20% stake in Fuji Heavy Industries and is a potential buyer of Nissan's shares. (January 14, 2000)

Mitsubishi Motors, the only Japanese carmaker without a foreign alliance, has announced its intention to form a partnership with a foreign carmaker. The announcement comes in the wake of a downturn of Mitsubishi's passenger car division. When the Asahi Shimbun, a leading Japanese newspaper, reported that Mitsubishi has been negotiating with **DaimlerChrysler** and **Ford Motors**, its shares jumped by 2.4%. (January 26, 2000)

Nissan Motor Co Ltd, which is owned 36.8% by **Renault** of France, is currently undergoing crucial corporate reforms at the order of Chief Operating Officer, Carlos Ghosn. The goal of what has been termed the "Revival Plan" is to remove the most unprofitable elements of Nissan's operations in order to invigorate the company. This entails transferring production from Tokyo to Kanagawa Prefecture and reducing the number of suppliers of parts and materials by 50%. By concentrating its resources, Nissan expects to reduce its expenditure by ¥5bn–¥10bn (US$47m-US$93m) annually. (January 28, 2000)

Peugeot SA of France has announced its intention to make **Inchcape Peugeot Japan Ltd** a wholly owned subsidiary by buying the 50% stake held by its JV partner **Inchcape PLC**. The move is aimed at strengthening Peugeot's sales in the Japanese market. The French automaker has set a sales target of 10,000 vehicles for this year and hopes to double this figure by 2004. (January 27, 2000)

KOREA

Britax Rear Vision Systems, the UK-based car components manufacturer, has purchased a 70% share in Korean vehicle mirror manufacturer, **Poong Jeong Co Ltd** and has formed the **Britax Poong Jeong** subsidiary. While Britax acquired Poong Jeong Co Ltd in a move to launch its products in Japan, it has also has given the new **Britax Poong Jeong** an 80% share in the Korean rear vision systems market. (January 21, 2000)

Daewoo Automotive Components (DAC), a JV between Korean autoparts producer **Daewoo** and multinational autoparts manufacturer **Delphi Automotive Systems**, has changed its name to **Korea Delphi Automotive Systems Corp**. According to Delphi, which currently has a 50% stake in the JV and is in talks to buy the remaining 50% from Daewoo, the name change is an attempt to expand business with domestic automakers such as Hyundai and Kia. (January 1, 2000)

Daewoo Motor, which has been insolvent since the collapse of its parent company, **Daewoo Group**, has become a target acquisition by major carmakers worldwide. In addition to **Hyundai**, Korea's largest carmaker, bidders for Daewoo include **DaimlerChrysler, Ford, Fiat** and **General Motors**. **Renault** of France is reportedly only interested in Daewoo's truck unit. With the exception of GM, considered the best positioned candidate, all of the foreign carmakers vying for Daewoo are willing to take on a Korean partner. As **Volkswagen** has only recently expressed an interest in purchasing Daewoo, whether or not it is willing to collaborate with a Korean firm is not yet known. (January 28, 2000)

DaimlerChrysler is keen to take over **Daewoo Motor** subsidiary**, Ssangyong Motor**, with which it already has a technical and marketing alliance. Daewoo Motor's creditors, the Korean government and Cho Hung Bank, would prefer to sell Daewoo and Ssangyong together. However, they might be flexible if DaimlerChrysler offers them better terms than **Ford** or **General Motors**. (January 25, 2000)

Kia Motors Corporation, a subsidiary of the **Hyundai** group, has filed for termination of court receivership. The takeover by the Hyundai group and four Kia affiliates has enabled the ailing carmaker to implement some reforms. Increasing domestic consumption and the introduction of new recreational vehicle models helped Kia earn US$163m in net profits last year. Upon gaining court approval, Kia Motors will recover managerial control. (January 24, 2000)

Renault of France is currently in talks to purchase insolvent **Samsung Motor**, which has been valued at US$890m by Banque Paribas. Renault plans to buy Samsung's assets and transfer them to a new corporation, in which it would like the Samsung Group to possess an equity of 20% – 30%. Samsung is seeking to preserve existing relations with auto parts and components suppliers. Renault reportedly also wants to keep service and distribution units intact to serve the local market. Samsung's creditor banks plan to settle negotiations with Renault soon after they receive an official letter of intent to buy Samsung Motor. (January 27, 2000)

To submit stories to future editions of the *Asian Auto Newsletter* please contact Wendy Lai in Singapore on (65) 533 8500 or via email at wlai@bdallc.com.

MALAYSIA

DaimlerChrysler of the US has initiated exploratory talks with **Cylce & Carriage Bintang**, Malaysia's authorized Mercedes-Benz distributer and assembler Cycle & Carriage Bintang accrues a significant percentage of its profits from the Mercedes-Benz distribution business, and DaimlerChrysler has expressed an interest in participating in this market. (January 20. 2000)

Nissan Motor Co Ltd of Japan will start producing **Renault**-branded vehicles in Malaysia, Thailand and the Philippines in 2000. In Malaysia, Nissan expects to produce 20,000 to 30,000 *Kangoo* sport utility vehicles annually. (January 5, 2000)

Sumitomo Brake Systems Inc (SEI) of Japan and **Sapura Motors Bhd** have signed a technical assistance agreement for the production of brake systems for **Perusahaan Otomobil Kedua (Perodua)**. **SEI** has agreed to lend their technical expertise, while Sapura Motors will pay a royalty of 3% of the net sales value of the brake systems. Sapura Motors has invested RM1.4m (US$0.4m) in the Perodua project and anticipates revenues for 2000 to equal RM6m (US$1.6m). (January 6, 2000)

SINGAPORE

Nissan Motor of Japan is expected to lead in vehicle sales in all categories this year. It is projected to be the highest seller of passenger and commercial vehicles as well as taxis. A great deal of Nissan's success in Singapore is owed to its upgraded and competitively priced *Sunny* and *Cefiro* models of passenger cars. (December 4, 1999)

THAILAND

Auto Alliance Thailand (AAT), the JV between **Ford** of the US and **Mazda** of Japan, aims to increase its total vehicle output by 50% this year, by producing 90,000 units. Export production started at AAT's Rayong plant one year ago, now accounts for close to one-third of Thailand's total vehicle exports. ATT's aggressive production target is largely based on the high demand in overseas markets for its Mazda *Fighters* and Ford *Rangers*, of which it respectively exported 22,099 and 20,686 units in 1999. (January 19, 2000)

General Motors Corporation has announced its plan to export its *Zefira* car to Europe, Latin America, Australia and New Zealand, from the new US$650m GM Thailand Assembly Center in Bangkok. GM's goal is to export at least 85% of the 7,000 – 8,000 units scheduled for production in 2000. The production target for next year is 40,000 *Zefiras* of which 90% will be exported. A cross between a minivan and a sedan, the *Zefira* will be sold under different brand names in different markets. In Thailand and Latin America, for example, it will be sold under the *Chevrolet* brand name. (January 26, 2000)

MMC Sittipol, a Thailand-based subsidiary of **Mitsubishi Motors Corp** of Japan, will start exporting large trucks to Indonesia on a knockdown basis. A strong yen has increased the price of Japanese exports, prompting Mitsubishi to export cars from its Thai subsidiary. **MMC Sittipol** will export 50 trucks to Indonesia every month. (December 27, 1999)

The **Solvay Group** of Belgium, which operates in the chemicals, pharmaceuticals, plastics and processing sectors, has announced the creation of **Solvay Automotive Thailand**. The wholly-owned subsidiary will manufacture fuel systems and blown plastic components for the automotive industry at a new production plant in Rayong. (December 13, 2000)

ThyssenKrupp AG, one of Germany's foremost engineering groups, has relocated its automotive division from Singapore to Bangkok, where it now has a regional office. Senior officials of ThyssenKrupp have expressed their optimism about the future of the Thai market and stated that they expect turnover to return to pre-crisis levels by 2002. (January 12, 2000)

VIETNAM

Toyota Motor Vietnam (TMV) is one of the few automotive firms making a profit in Vietnam's fledgling auto industry, according to the Ministry of Planning and Investment. While TMV can boast a 30% market share and the sale of 2,179 units in 1999, the firm remains cautious about its success and the overall rise in sales of locally assembled automobiles in Vietnam. Some car manufacturers attribute the rise in sales last year to the Government's ban on the import of used vehicles with less than 15 seats, and the launch of cheaper car models and lower prices. **Vietnam Daewoo Motor,** which launched *Matiz* sedans at approximately US$9,000, also reported high sales growth. (January 26, 2000)

FOCUS:

Auto leasing and financing in Asia

The auto leasing and financing sector in Asia has grown in the wake of the economic crisis. The suspension of most sources of financing in the region has had two distinct implications for the sector. The stigma associated with leasing and financing vehicle purchases has declined, and Government authorities in Asia have begun to regulate the sector more closely. Whether local governments have chosen to tighten or relax leasing and financing regulations has depended on numerous factors including the rate of economic recovery, which has varied from country to country.

In the aftermath of the economic crisis in Thailand, consumers have had limited access to capital, and the volume of car sales remains depressed. Consequently, the leasing subsector is one of the few growth areas in the country. The government has reacted to this knowledge by relaxing leasing regulations. They have removed minimum deposit requirements and extended payment schedules. While the rate of economic recovery has been relatively faster in Singapore, the government has sought to limit the number of cars on the road to regulate an already high volume of traffic. This has resulted in tight auto leasing and financing regulations. Car loans cannot exceed 70% of the price of a vehicle purchase and cannot be extended beyond 7 years. Moreover, new legislation has discontinued tax deductions on leased cars, making auto rental more attractive to Singaporean consumers.

Integral to western markets for several years, the auto leasing and financing sector is rapidly growing in importance in Asia. We believe that the increasing competitiveness of the sector and the number of foreign players eager to establish a presence illustrate the potential for auto leasing and financing to expand in the region. We have selected a few prominent companies in the sector for discussion below:

GE Capital has geared up to enter the auto leasing and financing sector in Japan through its recent purchase of **Japan Leasing Corporation**'s equipment and auto leasing business, **Japan Leasing Auto**. GE Capital has also bought a 10% stake in **Autobytel Japan KK,** an internet-based vehicle trading system operator. Not only does it intend to purchase more shares of Autobytel, but it also plans to launch an online auto leasing service through it. This strategy will increase GE Capital's competitiveness with the leader in Japan's auto leasing market, **Orix Auto Leasing Corp**. In conjunction with the car leasing operations of its parent company, **Orix Corporation**, which has global leasing and financing operations and is the largest public financial services firm in Japan, the Orix Group has a truly international presence in the auto leasing and financing sector.

In Thailand, automobiles account for a large share of leasing and hire-purchase services. Major players in the auto leasing and financing sector include: **Nava Leasing**, which is active in the auto financing sector; **Scandinavian Leasing**, one of Thailand's biggest auto lenders; and **Siam Panich Leasing**, which has increasingly focused on second-hand vehicle hire purchase financing. **GE Capital** has formed a strategic alliance with **Thai Central Rail Corporation** and car manufacturers **BMW, Mitsubishi** and **Nissan** to launch an online consumer goods service, Thailifestyle.com. The website provides visitors with online auto financing services.

In Singapore, **Citibank, DBS Finance** and **Hong Leong Finance** control 80% of the auto financing market. Citibank, which has been increasingly active in auto financing, has backed certain Hyundai, Renault and Toyota distributors in offering 'balloon' financing to consumers.

In Malaysia, where hire-purchase regulations remain strict, as the financing sector has not fully recovered from the economic crisis, finance companies are seeking to introduce auto leasing schemes. **Hong Leong Finance** is one such company. **Orix** again has a substantial role here, its JV, **United Orix Leasing Bhd** with two local firms, is now Malaysia's leading leasing player serving both corporate and individual clients.

In conclusion, given the growing acceptance of auto leasing and financing by the driving population in Asia, the restabilization of auto financing sources and in some cases, greater regulation by local governments, the sector has significant growth potential in the region. Accordingly, the demand for all-inclusive auto leasing and financing programs where vehicle maintenance, payment of insurance, taxes and all other related services are covered by one comprehensive package is expected to rise. Those firms able to assess credit and utilise technology effectively and offer multiple options are those that are most likely to benefit.

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ABOUT BDA

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