

ASIAN AUTOMOTIVE NEWSLETTER

Issue 30, April 2002

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

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CHINA

Japanese tire manufacturers **Bridgestone Corp** and **Toyo Tire & Rubber Co** will increase output in China to meet local demand. Production at Bridgestone's Tianjin plant, which makes passenger car tires, will be increased 30% to a daily rate of about 13,000 tires. Commercial vehicle tire output at the firm's Shenyang factory will be doubled to 2,000 tires per day. Toyo Tire & Rubber will raise production by 60% by 2003 at its car tire plant in Jiangsu. The facility exports the majority of its output to North America but almost all of the additional volumes will be sold into the Chinese replacement market. (February 12, 2002)

Denso Corp, the Japanese components group which supplies mainly to Toyota group, will expand its presence in China to serve Honda. A car air conditioner manufacturing JV will be set up in Guangzhou with the **Guangzhou Automotive Group**. The new JV will also produce several thousand large air conditioners for buses each year for local bus producers, replacing exports from Japan. Denso also has a technology transfer agreement with Guangzhou Automotive. This is Denso's third air conditioner plant near Guangzhou. (February 3, 2002)

Furukawa Electric of Japan and its Chinese affiliate, **Tianjin Jinhe Electric Engineering (TJEE)**, will manufacture steering roll connectors, an electronic part used in airbag systems. TJEE will initially supply steering roll connectors to **Tianjin Automotive Xiali**, a major Chinese automaker, in which both Toyota Motor and Tianjin Toyota Motor, a JV between Toyota and **Tianjin Automotive Industrial**, hold equity stakes. TJEE will produce 80,000 units annually. The production increase is in response to the Chinese government's new requirement that all new cars be equipped with

INTRODUCTION

We hope you find the *Asian Automotive Newsletter* informative.

BDA is a corporate finance advisory firm which helps multinational clients to identify and to execute acquisitions and JVs in Asia. We focus on the automotive sector and are well placed to advise international companies on structuring acquisitions, JVs and divestments.

If you think that BDA's services may be useful to you, please contact me at cmaynard@bdallc.com.

Charles Maynard
Managing Director

airbag systems. (March 8, 2002)

Hyundai Motor Co of Korea is expanding its group presence in China with a US\$250m 50/50 manufacturing JV with **Beijing Automotive**. A MOU was signed for the creation of **Beijing Hyundai Motor Co** which will have an assembly plant in Beijing with an initial annual capacity of 100,000 units, rising to 200,000 by 2005. The JV will begin to manufacture the mid-sized *EF Sonata* sedan before gradually expanding its lineup to the *Avante XD* and other passenger car models. Beijing Hyundai Motor also plans to develop its own models for the domestic market. (February 6, 2002)

Iveco, the commercial vehicle arm of Italian car maker, **Fiat**, has set up a production JV with **Changzhou Bus Co**, with an investment of US\$40m to assemble minibuses, town buses and inter-city coaches. All of the vehicles will be built with Iveco chassis, engines and major components. China is the biggest national bus market in the world, with annual sales of 50,000 to 60,000 units. (February 1, 2002)

Koito Manufacturing Co of Japan will invest ¥1bn (US\$8m) in a technical center in Shanghai to produce moulds and develop advanced automotive lighting components, where it has a 22% share of the Chinese market. The investment is in lieu of developing products in Japan and then manufacturing in China. The center will employ 100 designers and engineers, of which only 10 will be from Japan. Koito's Shanghai plant supplies Volkswagen and GM. (March 11, 2002)

MG Rover of the UK has created a strategic partnership deal with Chinese automotive group **China Brilliance** to design and build new vehicles. The 50/50 JV will build existing MG Rover models, manufacture engines, and collaborate on the development of new vehicles. (March 21, 2002)

Mitsubishi Electric Corp of Japan plans to establish an auto parts production and sales JV in China by Q2 2002. The local partner is a Chinese subsidiary of **Shihlin Electric & Engineering Corp** of Taiwan. The JV will receive an US\$4m investment to install new equipment at Shihlin's factory in Jiangsu province and will eventually manufacture a range of components, including starter motors. Shihlin will

hold a 49% stake, leaving Mitsubishi Electric with 41% and Mitsubishi Electric's local subsidiary with a 10% stake. The JV targets annual sales of ¥4bn (US\$30m) by 2005. (February 27, 2002)

Japanese companies **Polyplastics Co** and **Mitsubishi Gas Chemical Co** have formed a JV with **Ticona**, the technical polymers division of German firm **Celanese**, in China called **PTM Engineering Plastics (Nantong) Co**. The JV will manufacture Polyacetal resin, extensively used in the automotive industry, in a 60,000 tpa facility. (February 4, 2002)

INDIA

Toyota of Japan is to establish an automatic transmission system factory in the Indian state of Karnataka, near the firm's Qualis assembly plant in Bangalore. Toyota will invest Rup500m (US\$103m) in the first phase with the plant scheduled to begin commercial production in 2004. It will supply Toyota's local JVs and export to Argentina, Indonesia, Malaysia, South Africa, Taiwan, Thailand and Venezuela. (March 8, 2002)

INDONESIA

Ford has established **PT Ford Motor Indonesia (FMI)** as a wholly owned subsidiary to assume the role of sole agent in Indonesia. In 2002, FMI will introduce a number of new models such as the *Ranger*, *Lynx* and *Escape* and develop a dealership network that incorporates a coffee bar, customer Internet connection and a child's play area. In addition, two more dealerships are being established to support aftersales service. (February 15, 2002)

Ichikoh Industries of Japan will double its production capacity for automotive lights in Indonesia by September 2002, increasing monthly output at its local subsidiary, **Ichikoh Indonesia**, to 60,000 units with an investment of ¥1bn (US\$8m). The

subsidiary will begin supplying headlights and tail-lights by Q2 2002 for 8,000 Toyota vehicles each month as well as 3,600 light truck lights for Toyota subsidiary Daihatsu. Ichikoh Indonesia reported turnover of ¥1bn in 2001 which it intends to increase to ¥1.5bn in 2002 and to ¥2bn by 2005. (February 14, 2002)

JAPAN

Clarion Co of Japan will supply **Nissan Motor Co** of Japan with 200,000 car navigation systems for three new cars debuting in 2002 and 2003. This deal represents 10% of total sales of car navigation systems in Japan, which are expected to increase 10% to two million units in 2002. The new Clarion system will also serve as a terminal for Nissan Motor's telematic service, *Carwings*, due to debut next month as an option on the new *March/Micra* small car. *Carwings* will play DVD videos, respond to voice commands, read out e-mail messages, provide information on request and offer satellite navigation capability. Clarion is taking over as a core supplier from Hitachi subsidiary, Xanavi Informatics Corp. (February 18, 2002)

Delphi Automotive Systems intends to triple its sales of automotive parts and repair parts into the Japanese retail market to ¥3bn (US\$23m) by 2006. The US-based car maker will expand its local product range, double the size of its local sales team to 30 and launch its telematics products. The company will also secure its own storage in the greater Tokyo area, serving retailers from its own warehouse. Delphi Automotive, which entered the Japan market in 2000, sells mainly batteries and climate control components. (February 19, 2002)

Federal-Mogul Corporation of the US will establish a technical center in Japan featuring applications engineering, computer-aided design with 24-hour online capabilities between Japan, Europe and North America, engine test cells and sales engineering. The technical center, which is scheduled to open in early 2003, is expected to employ application engineers, designers, analysts

and lab technicians. Federal-Mogul's present facilities and staff are in Yokohama, Japan. In the Asia Pacific area, Federal-Mogul has 30 operations in 11 countries, including 13 JVs. Approximately 85% of the company's Asia-Pacific sales are powertrain products. (February 25, 2002)

Hino Motors, the medium- and heavy-duty commercial vehicle arm of Toyota group, has agreed to supply vehicles to **Scania** in Asia on an OEM basis while the Swedish truck maker will do the same for Hino in Europe. The companies will also share environmental technology. The broad agreement is based off of a similar arrangement between Mercedes-Benz and Mitsubishi's truck arm. Scania, whose lead shareholder is Volkswagen AG (with 19% of share capital and 34% voting rights), has a presence in several Asian markets but trails competitors Volvo and Mercedes-Benz in the region. (March 18, 2002)

Japanese electronics firms **Hitachi** and **Mitsubishi Electric** have identified the automotive industry as a strong growth sector and will combine their large-scale integration (LSI) chip business to become the fifth largest company in this sector behind Motorola, NEC, ST Microelectronics and Infineon. Semiconductor based microcomputers now control a wide range of features in modern motor vehicles including front view monitoring systems, vehicle dynamic control systems, airbags, car navigation systems, and electronic power steering, engine management, common-rail diesel systems, chassis control and telematics. (March 22, 2002)

Nissan Motor Co of Japan sold 61% of its shareholding in Japanese car audio equipment supplier **Clarion Co** as part of on-going efforts to reduce debt. Nissan now holds a 3.7% stake, making Asahi Bank the firm's main investor, with a holding of 4.0%. (March 18, 2002)

Nissan Motor Co of Japan will sell its entire stake in **Tochigi Fuji Industrial Co** (20% of all shares issued) to **GKN Automotive International GmbH**, a subsidiary of UK-based **GKN plc**. Tochigi Fuji Industrial specializes in transfer cases, torque management devices and power take-off units. The GKN Group, including GKN Automotive International GmbH, produces more than one-third of the world's

total supply of driveshafts. Tochigi Fuji will continue to supply Nissan which accounts for 30% of total sales. Established in 1952, Tochigi Fuji Industrial's revenues in 2001 were ¥36bn (US\$272m). In 2001 GKN also purchased Nissan's driveshaft factory in Tochigi for an estimated US\$83 million. The operation makes the majority of driveshafts for Nissan's domestic car production. (March 22, 2002)

Japanese car maker **Nissan Motor Co** has sold a 4.5% stake in affiliated Japanese supplier **Kasai Kogyo Co** to **Akebono Brake Industry Co** of Japan as part of its overall strategy to cut debts. Nissan's holding in Kasai Kogyo falls from 11.2% to 6.7%, leaving **Nagase & Co** as the main shareholder. Kasai Kogyo is expected to acquire a 1.7% stake in Akebono Brake for a cross-shareholding. In addition, Nissan will sell its 12.6% stake in **Nihon Plast Co** of Japan to **Moller Teck Group** of Germany. Nihon Plast will then take a 14.9% stake in Moller Teck, which specializes in the production of resin components such as dashboards. The divestments have helped to lower Nissan's consolidated debt burden, which is to shrink to ¥700bn (US\$5bn) by the end of March 2002. (March 4, 2002)

KOREA

Jatco TransTechnology, the Japanese automatic transmission manufacturer affiliated with Nissan, has agreed to license its technology to **Hyundai Powertech** of Korea. Jatco will help Powertech build five-speed automatic gearboxes for rear-wheel-drive passenger cars rather than its current four-speed automatics for front-wheel-drive vehicles. Powertech will start production of 200,000 units per year in 2004. (March 8, 2002)

MALAYSIA

US-based **TRW Automotive**, has identified Malaysia as a key country for its future manufacturing ventures. The company plans to expand its braking and steering manufacturing

facilities at Bukit Beruntung (Selangor) and Penang. TRW Automotive is also keen to make expansions in China, Korea and Thailand. (March 15, 2002)

PHILIPPINES

Ford of the US will export CBU vehicles from its assembly plant in the Philippines to at least two South East Asian countries. The car maker aims to manufacture and ship a total of 5,467 vehicles (Ford and Mazda) to Thailand and almost 2,000 to Indonesia. The goal is to use the Philippines as the base for vehicle exports to South East Asia. Ford expects volume to increase more than eight-fold over the next five years. (March 21, 2002)

Goodyear is to close its plant at Marikina in the Philippines due to overcapacity, low domestic demand and an influx of low-cost tires from China and South East Asia. The factory, which employs 175 people making 1,200 tires per day, ceased production on February 1, 2002. At its peak in 1999, the plant employed more than 400. Goodyear will continue to operate its other local factory at Las Pinas to satisfy local OEM and replacement demand. (February 4, 2002)

Mazda will outsource production of *Familia* passenger cars to an assembly plant operated by Ford Philippines in Santa Rosa. The Ford facility will build 4,000-5,000 *Familias* per year for sale by Mazda in the Philippines and Thailand. This move will enable AutoAlliance (Thailand), the 50/50 JV plant run by Mazda and its parent company, Ford, to focus on pickup truck production. (February 8, 2002)

SINGAPORE

Toyota is considering the purchase of **Inchcape Motors**, the Singapore subsidiary of UK-based **Inchcape plc**. An acquisition will require the delisting of Inchcape Motors, which distributes Toyota and Suzuki vehicles in Singapore. Inchcape plc will then buy out the minority shareholders of Inchcape Motors for £55m (US\$79m). This move is

in line with Inchcape's strategy over the past few years to sell off portions of its car distribution business. In 2000, Toyota bought full control of Inchcape's UK distribution unit, Toyota GB. (February 21, 2002)

TAIWAN

Sanyang Industry Co of Taiwan will sign a MOU with **Hyundai Motor Co** of Korea for local production and sale of passenger cars, ending a 40-year relationship with Honda of Japan. Sanyang will import selected Hyundai models and begin local assembly of two sedans in September and December 2002. The most likely candidates for the two sedans are the 1.6- or 1.8-litre *Elantra* and the 3.0-litre *XG*. Sanyang also began construction on a NT\$300m (US\$9m) R&D center at its Hsinfeng plant in Hsinchu, northern Taiwan scheduled to be completed Q4 2002. This will act as the main development base for San Yang's domestic and offshore motorcycle plants and may include work for Hyundai models. (February 6, 2002)

THAILAND

Aisin Chemical Co, a Toyota group affiliate, is to take a 34% equity stake in a Thai subsidiary of **Exedy Corp**, a producer of manual transmission parts, for ¥320m (US\$3m). **Exedy Friction Materials** currently produces 150,000 manual transmission clutch plates for passenger cars and motorcycles each month. Aisin intends to double production this year and eventually expand to one million clutch plates per month in 2005 so that its Thai subsidiary can become a regional base exporting manual transmission parts all over South East Asia as the ASEAN Free Trade Agreement (AFTA) is implemented. (February 21, 2002)

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Cybron Holdings of Malaysia will invest RM\$20m (US\$5m) in a factory in Thailand to design and manufacture precision metal and plastic parts for local consumption and export to ASEAN, Japan, Europe and the US. The facility will be in the Hi-tech Industrial Park north of Bangkok and be equipped with computerized manufacturing systems able to fabricate precision plastic parts with embedded metals for the switchgear in turning signals, headlights, windscreen wipers and radio controls. Cybron also operates a factory in Singapore, two in Malaysia and two in Thailand. (February 27, 2002)

Ford Sales & Service (Thailand) projects that total sales of its new vehicles in Thailand will be 500,000 to 600,000 units. To this effect, Ford will introduce a new model each quarter starting in 2002. The first of these, the *Explorer* SUV, was released in Thailand which will be followed by a newly remodeled *Laser* passenger car in Q2 2002. Ford plans to sell 25,000 vehicles overall in a market that is projected to reach 320,000 units in 2002, claiming a 8% market share, up from 6% in 2001. (February 19, 2002)

Japanese manufacturers **Ishikawajima-Harima Heavy Industries** and **Toyota** have established a JV in Thailand to produce turbochargers with an investment of Bt260m (US\$6m). IHI holds 90% of the equity and Toyota 10%. The head office will be located in the Amatanakorn Industrial Estate in south eastern Thailand, where a 4,000 square meter factory will be built. Operations are due to begin in October 2002. (February 21, 2002)

Toyoda Boshoku Corp, an affiliate of Japanese car maker **Toyota Motor Corp**, will set up a JV in Thailand to make automotive filters in partnership with **Denso**, the major Toyota group supplier. The subsidiary, **Toyobo Filtration System (Thailand) Co**, will produce oil filters by February 2003 and engine air filters and cabin air filters will be added at a later date. The JV will be 60% owned by Toyoda Boshoku and 40% by Denso Corp and expects to have US\$16m in revenues by 2005. Denso will be responsible for marketing and sales in Thailand and for building exports to Australia and the Middle East. (February 6, 2002)

OTHERS

Fuji Heavy Industries of Japan, the maker of *Subaru* cars, has agreed to a three-year service alliance in Australia with global partner **General Motors** of the US. **GMAC Australia**, GM's finance company, will provide *Subaru* dealers with dealer financing, consumer loans, leasing and insurance plans under the name of Subaru Finance. This is the third country where the two companies have made such an agreement. (March 11, 2002)

Ogura Clutch Co of Japan will set up factories in Malaysia and China to manufacture clutches for car air conditioners. These are the company's first production bases in Asia outside of Japan. The Malaysian unit will be a wholly owned subsidiary and produce 300,000 units per year. The Chinese

plant was created in response to growth plans of Japanese car maker **Honda Motor Co**, one of Ogura's chief customers. Operations in China are set to begin Q3 2003 with an annual capacity of 1.4 million units. (February 14, 2002)

Stanley Electric, Japan's largest manufacturer of electrical equipment for passenger cars, has created a 50/50 JV with **Hella**, the German supplier, called **Hella Stanley Holdings** in Melbourne, Australia, to facilitate joint collaboration in R&D, procurement, distribution and manufacturing. The JV is capitalized at A\$5m (US\$2m), which provides funds for their joint operations overseas. As an initial step, Hella Stanley will buy a tranche of new shares issued by **Stanley Hungary**, giving the JV a 20% stake in the Hungarian business. Stanley's first European outpost will begin supplying Suzuki and Honda assembly plants by Q4 2002. (March 4, 2002)

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. BDA helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul, Shanghai, Taipei and Tokyo. For further information on BDA's services or on any of the articles in this newsletter, please contact the offices below.

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