

ASIAN AUTOMOTIVE NEWSLETTER

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INTRODUCTION

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

BDA is a corporate finance advisory firm that assists multinational clients in identifying and executing acquisitions, JVs and divestments in Asia. We have focused on the automotive sector since our founding in 1996 and are well placed to assist companies from our Asian offices in Tokyo, Seoul, Shanghai, and Hong Kong. Contact details for these offices as well as those of our New York and London offices are on the back page of this newsletter.

If you think BDA's advisory services may be of use to your firm, please contact me via email at cmaynard@bdallc.com, or call me in Tokyo at (81-3) 3433-5803.

Charles Maynard

CHINA

Akebono Brake of Japan has announced that it will begin production in China in July 2005 in Guangzhou. Akebono Brake is investing ¥1.5bn (US\$14.5m) in setting up local production beginning with drum brake production for rear wheels and adding disc brake output for front wheels from June 2006. Output and annual sales are projected at 130,000 units and ¥2bn (US\$19.4m) in fiscal year 2007. Akebono Brake also aims to set up disc brake-pad production facilities in Suzhou, Jiangsu Province, from November 2005. Akebono Brake's new JV in Guangzhou is designed to meet rising demand from Japanese automakers in the region. Toyota has scheduled local production in 2005. Toyota has a 14.2% stake in Akebono Brake. Oct. 21, 2004

Bridgestone Corp. announced it will spend US\$94.3m to build a new plant in Shenyang, China to produce steel cord for truck and bus tires to meet surging demand in the country. Bridgestone plans to begin operations at the plant in October 2005, with daily output capacity of the material, which is used to reinforce tires, reaching 70 tons by the end of 2007. The plant, in northeastern China, will employ about 260 at full capacity and will supply mainly to Bridgestone's truck and bus tire plant in China. Hit hard by rising material costs, Bridgestone says its strategy is to become more vertically integrated. It now produces synthetic rubber in the US and carbon black in Japan, and is in the process of building a carbon black factory in Thailand. Oct. 6, 2004

China Motor Corp., Taiwan's second largest automaker announced plans to sell a 15% stake in its 50/50 China JV with **Fujian Motor Industry Corp.**, **Southeast Fujian Motor Corp.**, to Japan's **Mitsubishi Motors Corp.** Mitsubishi holds a 19% stake in China Motor. China Motor also has received approval from Beijing to set up a JV with **DaimlerChrysler** to build passenger vans. The US\$204.8m plant will initially produce 40,000 light commercial passenger vehicles annually from early 2006 in Fuzhou. Fujian Motor holds a 50% stake in the JV and China Motor owns 17.6%, with the remaining stake owned by DaimlerChrysler. The plant will begin by producing the **Mercedes-Benz Sprinter**, **Vito** and **Viano** model vans. China Motor expects annual exports to other Asian markets to reach 5,000 to 6,000 vehicles. Nov. 4, 2004

Cooper-Standard Automotive has begun making noise, vibration and harshness control systems at a temporary factory in Kunshan and will break ground soon on a permanent plant there by year-end. Production at the new, wholly-owned unit will begin by the end of 2005 and will include R&D operations. The new plant will manufacture Cooper-Standard's full line of engine mounts, body mounts, bushings and other NVH control systems components. No details on investment or size of either the temporary or permanent plants were revealed. The plant will make products both for use in China and as exports to other nations. Cooper Tire is in the process of selling Cooper-Standard to two New York-based equity groups. In other news, **Cooper Tire** announced plans to make acquisitions in China as it moves toward its goal of US\$1bn in sales there annually, according to a report in the *Toledo Blade*. Oct. 6, 2004

Cummins of the US is to establish by 2006 a US\$20m truck engine technology centre in the Wuhan economic and technological development zone in central China. The **Cummins East Asia Tech Centre** will provide engineering and technical services for all Cummins products built in China, including diesel and natural gas engines, power generators, turbochargers and filtration equipment. Cummins will own 55% of the facility, leaving 45% to **Dongfeng Cummins Engine Co.**, which is itself

a 50/50 JV between the American firm and **Dongfeng Automobile Co.** Dec. 3, 2004

Denso has announced it will begin to produce fuel injectors and fuel injection pumps for gasoline engines at the end of 2005 in its new company - **Denso (Guangzhou Nansha)**, which was established July. The operation calls for an initial capital investment of ¥1.8bn (US\$17.4m). Denso's total investment is expected to amount to approximately ¥2.4bn (US\$23.3m). Oct. 18, 2004

Dongfeng Motor Corporation will acquire a 51% stake in **Zhengzhou Nissan Automobile** by purchasing stock from the two Chinese shareholders of the JV with the Japanese automaker, which is Dongfeng group's major international partner. Dongfeng signed a draft agreement on October 15 with **CITIC Motor Co.** and **Zhengzhou Light-Duty Automobile Works** to take over their respective holdings of 35% and 16% interest at a price of Rmb241.8m (US\$29.2m) and Rmb110.6m (US\$13.4m). Zhengzhou Nissan builds pickups, *Paladin* sport-utility vehicles and *EQ1060* series light-duty trucks. Oct. 17, 2004

Dongfeng Automobile Co., the Nissan-Dongfeng group JV, has opened its latest facility in Xiangfan, Hubei Province and is already turning out Nissan's high-end 3.5-litre V6 *Teana* sedan. The opening of Xiangfan, which has an initial capacity of 100,000 units, has consumed an initial combined investment of Rmb600m (US\$72.5m). Dongfeng Automobile plans to grow annual sales volume from 300,000 units in 2003 to 620,000 units by 2007, including 300,000 passenger cars. Dongfeng is also planning to build a new 300,000 annual production capacity plant with **PSA Peugeot-Citroen**. PSA Chief Executive Officer Jean-Martin Folz has hinted that the new plant could be used to export cars to Europe. As part of a government-led rationalisation process, Dongfeng is one of three leading Chinese automakers aiming to head the expansion of the local auto industry. Oct. 11, 2004

GKN Plc, the British engineering firm, said it had agreed to form a powder metal JV in Shanghai with **Shanghai Automotive**. GKN subsidiary **GKN**

Sinter Metals and Shanghai Auto will produce powder metal components to be used in the automotive and industrial markets under the deal, GKN said in a statement. The partnership includes a modern powder metal production plant in Shanghai. The deal will give GKN access to China's fast-growing automotive industry. Sep. 24, 2004

Hyundai Mobis, the South Korean component supplier, has invested US\$3.5m to set up a new 50/50 JV with **Beijing Auto** in China. The Hyundai Mobis JV is to supply local production of the *Sonata* and *Elantra* models, as well as future planned models. Hyundai Mobis is also aiming to double its production capacity in China by 2008. The production expansion will entail building three new factories in Shanghai, Beijing and Jiangsu Province over the next three years, combined with the doubling of its car seat, chassis module and transmission production operations in Beijing by 2005. The component supplier is seeking to further boost its Chinese operations by establishing a new aftermarket JV with Beijing Auto. Oct. 5, 2004

Hyundai Motor Co. said it was in talks to sell about 80,000 taxis to China, worth US\$1.3bn, as part of Beijing's plans to upgrade its transport. Hyundai also reiterated its plan to raise output in China to 600,000 units a year from 2007, compared with the current 150,000 units. To do so, it will pump in an extra US\$940m in China to make it the company's largest overseas production base, building a second plant in China to secure the economies of scale and make it a core overseas base that produces quality and competitive products. The plan followed the announcement by the car maker that it was setting up a US\$780m JV in China to produce commercial vehicles. Sep. 9, 2004

Koito Mfg. Co., the Japanese automotive lighting equipment maker, announced plans to set up a new production base in Guangzhou, southern China, from 2007. The facility will be Koito's second production foothold in China after its Shanghai plant, which makes automobile headlights for such automakers as **GM** and **VW**. Koito is aiming to supply rising demand from Japanese carmakers

Toyota, Honda and **Nissan** in southern China. Sep. 1, 2004

Leoni, the listed German automotive components group, confirmed that it is close to taking over the majority in an unnamed Chinese target, according to a report from the German paper *Sueddeutsche Zeitung*. Leoni chairman Klaus Probst confirmed that the company plans to expand its vehicle electrical systems operations with the takeover, and plans to finalise it in the near future. He added that Leoni also wants to make acquisitions for its cable operations, and is mainly interested in medium-sized businesses which generate a turnover between Euro20m (US\$26.5m) and Euro70m (US\$92.9m). Five to six potential targets are currently being examined. Oct. 21, 2004

Mitsubishi Materials Corp. said it has set up a subsidiary to make and sell automotive parts in Shanghai. **Diamet Lingqing (Shanghai) Co.**, set up in September with a capital of ¥300m (US\$2.9m), will start test operations in January 2005. The wholly owned unit will manufacture sintered metal products, or metal particles fused into masses through heating without melting, which are used in engines and transmissions. Sales for fiscal 2008 are estimated at ¥365m (US\$3.5m). The Shanghai unit is the firm's third overseas sinter production base following those in the United States and Malaysia. Nov. 15, 2004

Nifco, the Japanese automotive fasteners company, has revealed plans to increase production capacity in China by building a new factory for its local subsidiary, **Dongguan Nifco**, in Shilong Dongguan, Guangdong Province. **Dongguan Nifco Co., Ltd.** was established two years to produce parts for Japanese automakers as they expanded into China. The new plant is designed to meet their growing orders. Nov. 29, 2004

Shanghai Auto and **MG Rover** have reportedly agreed to form a new car-making alliance. According to reports, the deal involves the formation of a new JV, which is to be 70%-owned by Shanghai Auto, with MG Rover taking the remaining stake in the operation. Shanghai Auto is expected to invest

US\$1.86bn in the operation, which will see the renewal of the MG Rover line-up. The deal will include the joint development of new products and the potential of production in China and the UK. The agreement will also double annual production at MG Rover's Longbridge plant to 180,000-200,000 units from around 110,000 units currently, with total joint annual production reaching 1m units. An official announcement on the deal is expected to come in early 2005, following expected authorisation from the Chinese government. Nov. 22, 2004

Shanghai Automotive Industry Corp. (SAIC) announced the official approval of the demerger with **Chery**, transferring its 20% stakeholding in Chery to other stockholders. SAIC has been seeking to shed its ties with Chery following **GM's** allegation last year that the latter company had infringed its copyright designs. The dispute caused considerable embarrassment for SAIC and threatened to sour its JV relationship with GM. The break-up of the SAIC/Chery alliance goes against the current government-backed trend towards the consolidation of the Chinese auto industry. Chery will now continue as an independent carmaker. Oct. 4, 2004

ThyssenKrupp Automotive AG, the German automotive components supplier, has acquired a 34% stake in **Huizhou Sumikin Forging Co Ltd (HSFC)**, the Chinese automotive crankshaft manufacturer, for an undisclosed value. The other two shareholders in HSFC are the Japanese companies **Sumitomo Metals Industries, Ltd.** and **Sumitomo Corporation**. This investment in HSFC will help ThyssenKrupp Automotive increase its presence in Asia. HSFC is expected to employ about 100 people and commence production in November 2004. Oct. 27, 2004

Visteon, the US component supplier, has announced the opening of a new, US\$30m plant in Beijing to produce air conditioning and engine cooling modules for local JV, **Beijing Hyundai**. The plant is a JV between Visteon (80%) and **Beijing Auto** (20%). Visteon has announced a further US\$80m investment in a new compressor facility in Dalian. The JV between Visteon and **Halla**

Climate Control Dalian is to produce air conditioner compressors and components for automakers in China and the Asia-Pacific region from mid-2005. Visteon is aiming to consolidate its position as the leading climate control producer in China and the Asia-Pacific region with its new plant. Sep. 1, 2004

Swedish carmaker **Volvo Car** has agreed in principle to make small cars in Chongqing, according to the *Financial Times*. The decision marks the first time the carmaker has launched production operations outside Europe. Volvo Car's entry is designed to boost **Ford's** presence in the local market, where the US automaker has struggled to build market share, having made a relatively late entry into local production. The Ford-owned Swedish carmaker is planning to build its **S40** small sedan in China using local production facilities at Ford partner **Changan Auto**. A deal between the two companies is expected to be signed in mid-2005, with production expected to start up in 2006. Nov. 30, 2004

INDIA

General Motors India has completed due diligence for its proposed acquisition of the car assembly plant of defunct **Daewoo Motor India (DMI)** and says it will now put in a formal application to the Debt Recovery Tribunal to take over the facility. GM acquired bankrupt Korean automaker Daewoo in October 2002 but excluded the Indian operation, along with a number of others. **Tata Motors**, **Mahindra** and local supplier **Rico** had tendered bids to acquire the engine and transmissions units within the DMI factory. Sep. 2, 2004

Suzuki Motor Corp. will spend ¥10bn (US\$91.5m), to set up a diesel-engine plant in India to meet demand for diesel vehicles in the country. Suzuki, an affiliate of **General Motors**, also plans to set

up its second automobile-production company in India together with its local JV unit, **Maruti Udyog Ltd.**, to meet expected brisk auto demand. Suzuki views India as a high-growth market and is looking to further strengthen its position there. It currently holds a 54% stake in Maruti Udyog, India's largest car maker by sales volume. It hopes to have its new diesel-engine plant in production by late 2006, turning out 1.3-liter diesel engines at a pace of 100,000 units a year. The new plant will supply diesel engines for vehicles produced at Maruti Udyog. Suzuki said it hasn't decided whether it will set up the engine plant on its own or with other companies. Suzuki's second automobile-production company with Maruti Udyog will have the capacity to produce 250,000 vehicles a year and will begin operations in early 2007. Sep. 14, 2004

JAPAN

DaimlerChrysler has agreed with Japanese partner **Mitsubishi Motors** to continue all their current joint car development projects, such as developing mid-sized cars with the *Chrysler* group. A spokesman said DaimlerChrysler CEO Juergen Schrepp had signed a contract with Mitsubishi on the deal, mending a rift that emerged when Daimler refused this year to take part in a capital injection for loss-making Mitsubishi. DaimlerChrysler and Mitsubishi also cooperate on small cars like the four-seat *Smart* compact and Mitsubishi *Colt*, and are working together to bring out a joint "world motor." Sep. 22, 2004

Dana Corporation has increased its stake in **NipponReinz**, a Japanese sealing products producer. Dana now owns 53.7% of the venture, up from 26.3%. **Mitsubishi Cable Industries**,

which had owned 73.7% of the business, retains a 46.3% share. NipponReinz manufactures gaskets, thermal and acoustical protective shields, and wire mesh filters for exhaust and safety system components, such as airbag inflator tubes and exhaust systems. The business, with a factory in Yamato City, has annual sales of approximately US\$50m and employs approximately 220 people. NipponReinz becomes Dana's first fully consolidated manufacturing unit in Japan. Its other Japanese interest includes a technical centre in Toyohashi, minority-owned driveshaft manufacturing and distribution facilities, and sales offices in partnership with **Getrag** and **Najico Spicer**. Oct. 21, 2004

Nissan Motor Co. announced it will pay ¥40.5bn (US\$393m) to raise its stake in car parts maker **Calsonic Kansei Corp.** to 41.7% from 27.6%, making the company a consolidated unit effective Jan. 11. The move is in line with Nissan's strategy of taking a controlling stake - or at least one-third - of important business partners to gain management control of those companies. Calsonic Kansei, meanwhile, said Nissan's bigger capital participation would help it meet a growing need for investment spending to stay competitive. Under a new three-year business plan, the Tokyo-based parts maker said it would establish new engineering bases in Europe and China, and manufacturing and tooling bases in China and Thailand to meet demand in those markets. It plans to invest ¥130bn (US\$1.3bn) in equipment and facilities and ¥90bn (US\$872.8m) for research and development over the three-year period. Nov. 30, 2004

KOREA

Hyundai Motor Co. announced it is setting up a US\$780m JV in China to tap the fast-growing commercial-vehicle market. Hyundai has signed a MOU with China's **Jianghuai Automotive Group** to set up a 50/50 JV, targeting production

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of 90,000 trucks, 10,000 buses and engines for 50,000 small commercial cars a year by 2010. The announcement comes after Hyundai unveiled plans in June to invest an additional US\$740m in **Beijing-Hyundai Automotive Co.**, its Chinese passenger-car JV with **Beijing Automotive Industry Holdings**. Hyundai and its affiliate **Kia Motors Corp.** have targeted production of 1 million vehicles a year in China by 2008. Jiang Huai has been producing 25,000 units of Hyundai's SUV, the *Starex*, a year since 2003 on a CKD basis. Sep. 8, 2004

Renault announced it would spend more than US\$570m in South Korea in the next three years to build a regional hub that will help drive its expansion into the hotly contested China car market. Media reports said Renault would spend one-third of the investment to build an engine plant with a capacity of 200,000 to 300,000 units annually. Some of the gasoline- and diesel-powered engines to be built at the plant in the port city of Pusan, South Korea, would be exported to Europe for use by Renault and to **Nissan Motor Co.** in Japan. Nov. 30, 2004

Shanghai Automotive Industry Corp. (SAIC), the JV partner in China of both **GM** and **VW**, signed a final agreement to acquire a controlling 48.9% stake in South Korea's fourth largest SUV automaker, **Ssangyong Motor Co.**, for about US\$500m. Ssangyong vehicles, mostly SUVs, will be sold in China through Shanghai's current sales network. Currently, Ssangyong is selling its *Chairman* sedan and *Rexton* in China, but SAIC will seek to sell more Ssangyong vehicles in other countries under its "global market strategy." Industry watchers said SAIC's buyout could help Ssangyong build a bridgehead into China's rapidly growing vast market, but also raises concerns that transferring Ssangyong's technology to a Chinese firm could backfire if China floods Korea with cheaper models. SAIC also plans to invest US\$1.1bn in Ssangyong. Details were not released. Oct. 28, 2004

MALAYSIA

Malaysian auto assembler **Naza Group** may add Chinese carmaker **Chery's** cars to its line-up in Malaysia. According to a media report, the two companies are in the process of finalising talks over the cooperation, with Naza reportedly keen to begin assembly and distribution of the Chery QQ town car for the local and regional market with an assembly plant near Penang to be built by end-2004. Chinese carmakers are increasingly targeting expansion into overseas emerging markets in order to increase economies of scale and grow revenue and profits. Chery earlier this year announced plans to begin car assembly in Iran, as well as Pakistan and Venezuela. Sep. 20, 2004

VW and **Proton Holdings Bhd** have agreed on a partnership deal to assemble the German carmaker's vehicles in Malaysia for sale in southeast Asia, Volkswagen announced. It said it would not take an equity stake in Proton as part of the deal, which envisions launching the first locally assembled VW models in Malaysia by the end of 2005 generating sales of over 15,000 units in 2006. Oct. 26, 2004

THAILAND

Toyota Motor Corp. is making Thailand a global production base for new trucks and multi-purpose vehicles designed mainly for markets outside Japan. Toyota will produce in Thailand more than half of 500,000 vehicles to be sold globally a year by 2006 under its Innovative International Multipurpose Vehicles (IMV) Project. Toyota's four Thai plants will produce 280,000 IMV vehicles a year with half geared for the domestic market. Almost all parts and components of Toyota's IMV trucks will come

from Thai-based suppliers which have reached sufficient economies of scale to be competitive internationally, according to Toyota. Sep. 20, 2004

Toyodabo Filtration System (Thailand) is investing nearly Bht400m (US\$9.6m) to expand production of oil filters to 14.4 million pieces a year. The business, which is 40% owned by Japanese tier-one supplier **Denso** and 60% by **Toyota Boshoku**, is expected to achieve export turnover of Bht513m (US\$12.4m) per year. Aug. 22, 2004

VIETNAM

Toyota Motor Corp., Vietnam's dominant foreign car assembler, said it had received licenses to set up two parts plants with a combined investment of US\$52.8m. The plants, to be built in the northern port city of Hai Phong, will produce airbags for export. Toyota accounted for more than one-fourth of all car sales of the 11 foreign car makers in Vietnam during the first eight months of this year. Sep. 17, 2004

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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. 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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