

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

# ASIAN AUTOMOTIVE NEWSLETTER

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

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## INTRODUCTION

The Japanese electronics industry is highly regarded for the quality and reliability of its products. In this issue we review some of the trends impacting key companies, in the sector

BDA is a corporate finance advisory firm that assists its clients in identifying and executing acquisitions and JVs in Asia. Please note that we have recently opened a **Tokyo office** in addition to our **Shanghai office** opened in March. All the contact details are on Page 7. If you think that BDA's services may be useful to you, please contact me at [cmaynard@bdallc.com](mailto:cmaynard@bdallc.com).

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## CHINA/HK

**Australia's NRMA Auto Association** has announced a JV with **Enbao Continental Automobile Association (CAA)**, China's largest automobile service club. CAA is the oldest auto club in China and has services in 7 cities. Since its inception in 1995, it has provided vehicles in trouble with free emergency aid and repair and towing services, answering over 20,000 calls every year. The new company will focus its activities on Beijing but plans to expand its services to Shanghai and Guangzhou. (July 7, 2000)

A total of 111 **Chinese car dealers** have been authorized to sell *Audi A6* sedans, *Shanghai Buicks* and *Guangzhou Hondas*. This authorization indicates the government's support for the domestic sedan manufacturers to set up a complete sales service network. The 111 dealers were chosen by the State Administration for Industry and Commerce (SAIC) and the State Development and Planning Commission (SDPC). (June 13, 2000)

**Dongfeng Citroen Automotive Co**, the Sino-French JV between **Dongfeng Automobile Co** and **Citroen Corp**, sold 19,400 cars in H1 2000, a 34% YoY increase. The company has also started to manufacture parts for the French market. It will manufacture a number of components for 100,000 Citroen sedans manufactured in France. By 2005 the total annual production is expected to increase to 450,000 units. (July 19, 2000)

**First Automotive Works Corporation**, the producer of *Jiefang* heavy and medium duty trucks, has grown significantly in 2000. The company sold 15,671 trucks

in March (up 33% over same period last year), 13,112 in April (up 18%) and 12,500 in May (up 24%). This trend is a continuation of its growth in 1999 when its share of the national heavy duty truck market jumped to 52% in 1999 as compared with 28% in 1998. Its share of the medium truck market also rose from 49% in 1999 to 55% May 2000. (July 24, 2000)

**Japanese car companies** plan to expand aggressively in the Chinese market with the hope that China will lower import tariffs and abolish auto import restrictions after it joins the WTO. **Honda** plans to increase its sales offices in major cities such as Shanghai, Beijing, and Guangzhou from its current total of 40 to 120 before the end of this year. **Suzuki** plans to increase the number of its sales centers in China to 300. In addition to its sales offices in Shanghai and Guangzhou, **Mitsubishi** also plans to set up dealerships in Tianjin and Dalian before the end of the year and to establish a national sales network. (July 25, 2000)

**Shanghai Automobile Industry Corporation, Volvo Bus Corporation, and Volvo China Limited** will establish the **China-Sweden Shanghai Shenwo Bus Corporation** with an investment of US\$97m. The Chinese party and the Swedish party will each hold 50% of the equity in the JV. Production will begin next year with an annual capacity of 8,000 units. The company plans to expand gradually into the export market. (July 3, 2000)

**Shanghai Volkswagen** launched *Shanghai Passat* on 6 June, which is based on VW's original *Passat* but has been redesigned for Chinese road conditions. The basic model will be sold in China for Rmb245,000 (US\$30,000) and the luxury model for Rmb289,000 (US\$35,000). (7 June, 2000)

**Tianjin Toyota Motor**, a 50-50 joint venture between **Toyota Motor Corp** and **Tianjin Automobile Xiali**, will produce a 1.3/1.5 liter subcompact car based on Toyota's *New Basic Car* platform. (July 13, 2000)

## INDIA

**Bajaj Auto** will invest Rup2.5bn (US\$55.9m) in the next eighteen months to boost its output of motorcycles and scooters. The company's sales jumped 87% in the first quarter to 85,266 units from 45,642 last year. A significant portion of the additional investment would be put into expanding facilities at the firm's motorcycle plant in Waluj. This plant will serve as a global hub for its Japanese partner **Kawasaki Motor Corp** to source lower horsepower motorcycles for its export markets. (July 18, 2000)

**Hyundai Motors (India)** is aiming to make India a global export base for cars and auto components and aims to export over US\$60m in the current fiscal year. The company will initially export body panels and automotive components and then move on to completely built units. (July 24, 2000)

**Maruti Udyog**, a 50:50 joint venture between the **Indian government** and **Suzuki** will be launching its new small car, *Alto*, in Q3 as a part of its new strategy to revive sagging sales. (June 28, 2000)

**Mitsubishi Electrical Automotive (India)** is setting up its manufacturing unit for auto electrical components at the Industrial Model Township (IMT) in Gurgaon, near New Delhi. An investment of US\$5m will be used to supply components to **Maruti, Honda** and **Hindustan Motors**. (July 19, 2000)

**Sterling Tools Ltd**, an auto fasteners manufacturer, has launched a B2B portal, **sparesindia.com** for selling auto spares online. With an initial investment of Rup4 crores (US\$0.9m) the company expects to connect 5,000 auto component manufacturers to 50,000 retailers who annually sell goods worth Rup12,500 crores (US\$2.7bn). The manufacturers plan to sell the auto parts online to retailers at rates 7% to 12 % lower than offline prices. (July 13, 2000)

## INDONESIA

**Cycle & Carriage Ltd (CCL)**, the largest shareholder of **PT Astra International Indonesia** has increased its ownership of Indonesia's biggest automotive company. CCL held 29% of Astra shares after it won a tender to buy government shares in the company. It bought 57.29 million more shares from the regular market on July 14<sup>th</sup>, bringing its total equity stake to 39.5%. (July 17, 2000)

**Kia Motors** and the **Indonesian government** have agreed to resume work building an auto assembly line in Indonesia. Kia, now owned by Hyundai, will produce 30,000 units of Kia's compact model *Sephia* per year at its Cicampek plant, near Jakarta. (July 5, 2000)

**Nissan Motors** is considering selling its stake in affiliate **Calsonic Kansei Corp** to US auto-parts maker **Delphi Automotive Systems Corp**. Nissan owns 33% of Calsonic Kansei, which makes electronic parts, air conditioners, mufflers and other auto parts. Calsonic had 1999 revenues of US\$2.6bn, with Kansei's 1999 revenues totalling US\$1.2bn. The companies merged in April. (July 14, 2000)

**Sumitomo Rubber Industries** is now the largest shareholder in **Hwa Fong Rubber Industries Co**, a Taiwanese tire maker. It bought 10% of the company, paying US\$15m to buy 20 million shares. Hwa Fong Rubber produces 700,000 tires per year for Sumitomo Rubber. Sumitomo is considering the use of Hwa Fong's production subsidiaries in China and Thailand to expand its businesses in Asia. (July 19, 2000)

**Suzuki** plans to build a second passenger car model at its **Chongqing Changan Suzuki Automobile** JV in Sichuan. The one liter engine *Lingyang* will be priced at RMB90,000 (US\$10,900). (June 30, 2000)

**Yamaha Motor Co** aims to boost global sales to 2.7 million motorcycles in fiscal year 2001, an increase of 23% from fiscal year 1999. The firm plans to offer an Asian model by setting up a development and purchasing center in a member country of ASEAN this year. It is also considering the possibility of selling its motorcycles through the **Gazoo** Internet system established by **Toyota Motor Corp**. (July 18, 2000)

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## JAPAN

**Japan's** five top automakers all increased production YoY in H1 2000, largely driven by a recovery in domestic sales and an increase in exports to North America and Asian nations. (July 21, 2000)

**Mazda** will consolidate 37 Japanese wholesale distributors of mini vehicles and small cars into one firm, **Mazda Autozam Corp**. This is Mazda's latest move in a five-year drive to restructure its distribution network. Under this system, wholesalers will distribute Mazdas to independent dealerships from seven outlets instead of the current 57. (June 30, 2000)

**Mazda** will manufacture **Ford Motor Co** cars in its Japanese plants from 2002. Mazda, a Ford affiliate, has agreed to produce 40,000 - 50,000 units of Ford's *Focus* model and a one liter car at Mazda's plant headquarters in Hiroshima Prefecture and other factories. No US or European cars have been made in Japan since **Nissan Motor Co** manufactured **Volkswagen AG's** *Santana* from 1984 to 1990. (July 18, 2000)

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## KOREA

**Daewoo Motor** will sell off its commercial vehicle plants via an auction in September. Four bidders are expected to take part, including **Renault** and **Volvo**. The Daewoo commercial vehicle units include a facility producing 20,000 trucks in Kunsan, Cholla-pukto Province, and another with an annual production capacity of 6,000 buses in Pusan. The units also include **Avia** in the Czech Republic which has a

production capacity of 20,000 units, **DMP** in Poland with a 32,000 unit capacity and a bus plant in China with a 5,000 unit capacity. (July 15, 2000)

**Hyundai Motor** will be expanding its vehicle plant in Chonju in line with its agreement with **DaimlerChrysler** to turn the plant into a JV. The expansion will provide 500 new jobs and work to more than 20 parts suppliers. (July 18,2000)

**Hyundai Motor** formed an equity tie-up with **DaimlerChrysler AG** to make a full-scale entry into the Japanese market in January next year. Imports of Hyundai cars will be overseen by **Hyundai Motor Japan Co.** This decision was made after the effective liberalization of the import and export of cars between South Korea and Japan. (July 10, 2000)

**Kumgang Korea Chemicals** will set up a joint venture with Japan's **Asahi Glass Co (AGC)** to jointly produce and market automobile windshields and rearview mirrors. The joint venture will start with total capital of W100bn (US\$90m), of which Kumgang will put up 60% and Asahi 40%. Kumgang will be able to access modern technology for the production of automobile glass products. (July 21, 2000)

**The South Korean Fair Trade Commission** rejected a proposal by **Hyundai Group** to retain its auto-related affiliates and to spin off nearly all of its other businesses. Hyundai Group will now spin off all of its auto-related affiliates, including **Hyundai Motor Co** and **Kia Motors Corp** into a separate business group. (July 3, 2000)

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## MALAYSIA

**Honda Motor Co** will set up a production plant in Malaysia, with Malaysia's **DRB-Hicom Group** and **Oriental Holdings Bhd**, aimed at bolstering its position in South East Asia prior to full trade liberalization. Honda will hold 49% of the new

company called **DRB-Oriental-Honda**, which will have an authorized capital of RM500m (US\$130m). The JV will initially produce between 15,000 and 20,000 vehicles annually. It will also manufacture and distribute Honda vehicles, spare parts and accessories. (July 19, 2000)

**ASEAN** has accepted Malaysia's proposal to delay opening up its automotive sector until 1 January 2005. **ASEAN** members have agreed under the **ASEAN Free Trade Area (AFTA)** scheme to cut tariffs, including those on cars, to between zero and 5% by 2003. **ASEAN** trade ministers are due to meet in Thailand in October to adopt rules governing delays in tariff cuts by members. (July 26,2000)

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## PHILIPPINES

**Bangko Sentral's** data showed that commercial bank lending for car purchases continued to fall in the first quarter. Total auto loans for the country's 52 commercial banks as of March stood at P8.7bn, 12% lower than last year. Many purchases have shifted to cash transactions due to the uncertainty over long-term interest rates. (July 26, 2000)

**Universal Motors Corp** launched *Nissan Frontier Pickup* – a 4x4 Silver Edition Manual and Automatic Pickup. It is available on a limited basis at an introductory price of P975,000 (US\$21,800) for the manual variant and P1,015,000 (US\$22,700) for the automatic variant. (July 14, 2000)

**The Chamber of Automotive Manufacturers of the Philippines Inc (CAMPI)** reported that automotive vehicle sales from January to June this year increased 19.2% to 41,523 units from 34,849 in the same period last year. Growth can mainly be attributed to a 22.9% increase in sales of commercial vehicles. (July 15, 2000)

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## SINGAPORE

**AutoFrance**, a new division of **Regent**, a car distributor, has taken the distribution of *Peugeot* from **LeCar**. **Regent** already distributes *Ford* and *Land Rover*, and is a member of the **Sime Singapore Group**. (July 8, 2000)

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## TAIWAN

**AC Delco**, a US auto-parts maker, recently signed an agreement with **Neotech Corp**, a parts dealer in Taiwan, to jointly develop a rapid maintenance chain. To promote the chain, AC Delco provides several preferential terms to new franchise operators, such as zero-royalty and zero-guarantee fees. AC Delco began developing its rapid maintenance chain business in Taiwan in mid-1999. The firm has set up 33 chain stores and plans to increase the number to 50 by the end of the year. (July 20, 2000)

The **Toyota Premio**, was the best selling car model in Taiwan during H1 2000. A total of 21,274 new sedans were sold in this period, an increase of 13% on last year. (July 12, 2000)

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## THAILAND

**Auto Alliance**, a JV between **Ford Motor Co** and **Mazda** reported an increase in exports from their Rayong plant. Output totalled 20,530 vehicles, compared with 17,488 during the same six month period last year. (July 12, 2000)

**Delphi** and **Dana**, two US based auto part manufacturers, are investing in Thai-based production plants under a program supported by the Thai Board of Investment. Dana plans to invest Bht1.4bn (US\$32m) to produce 200,000 car chassis per year to supply the Isuzu and GM auto assembly plants in Rayong. Delphi plans to invest Bht700m (US\$16m) to set up facilities to produce calipers and clutch accessories for Ford. (July 1, 2000)

**Li and Fung Distribution**, a unit of the Hong Kong-based industrial conglomerate Li and Fung, plans to make Thailand a center for its automotive parts manufacturing and distribution. The company plans to take advantage of Thailand's position inside the ASEAN Free Trade Area (AFTA), which is in the process of lowering tariffs between members of ASEAN. (July 14, 2000)

**Thailand's** automobile sales rose 43.1% in H1 2000, driven by low interest rates and an improving economic environment. Sales in June totalled 23,368; with the year to date total at 122,339. (July 14, 2000)

**Volvo Thailand** is developing and launching a wider range of products in order to better utilise production capacity over the next three years. The plant is currently running at only 20% of its capacity of 10,000 units per year. (July 12, 2000)

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## VIETNAM

**Toyota Motor Vietnam** reported sales of 2,171 units for the first six months of the year. Toyota continues to maintain its leading market share of 36% in the first six months, a 7.2% increase over the same period last year. (July 18, 2000)

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## FOCUS

### Focus: Japanese Automotive Electronic Parts Manufacturers

Japan has been a world leader for the past thirty years in both the automotive and electronics sectors, building a reputation for the manufacture of reliable and innovative products. Many of the Japanese automotive electronic component manufacturers do not concentrate solely on this sector alone, either producing a wide variety of automotive parts, as many US suppliers did ten years ago, or providing products to different industries besides the automotive sector.

We see a number of trends occurring already which will accelerate. While much has been made of foreign parties investing in the Japanese automotive sector, such as Bosch's Japanese subsidiary's merger with Zexel to create Bosch Automotive Systems, we are also beginning to see an increase in domestic M&A. The trends that have been driving the European and North American auto markets are now reaching Japan; a greater focus on core competencies, the need for economies of scale and the vital importance of profitability are all being, or beginning to be, accepted as key principles.

As is too often the case in Japan, the technological prowess of these companies is not matched by financial performance. Profits after tax typically range from 3% to substantial losses, despite electronics being one of the higher value-added sections of the auto components industry. Many companies in the industry have substantial liability problems which is one of the key drivers behind their Price to Book Values being as low as 48% in the case of Mitsuba. Given the current consolidation in the sector, from a JV or an acquisition perspective, it is obviously important to understand which manufacturers these companies have traditionally sold to.

#### Calsonic Kansei

Created when Calsonic Corp and Kansei Corp both Nissan affiliates, merged on April 1<sup>st</sup> of this year. Nissan is the major shareholder with 33% of the stock, which it is currently in the process of selling to Delphi. The company specializes in heat exchange

systems which account for 89% of revenues. Its electronic components, such as control units, sensors and actuators, mainly complement its HVAC system products.

Market Cap:	¥42.7bn (US\$390m)
PAT (Calsonic):	¥-8.9bn (US\$-82m)
Sales (Calsonic):	¥277bn (US\$2.6bn)
(Kansei):	¥131bn (US\$1.2bn)
LT Debt/Equity:	0.78

#### Clarion Co.

90% of Clarion's sales are derived from car audio electronics equipment, the company manufactures car audio-video; CD changers, VCD converters, radio/CD cassette combinations and speaker systems. It also focuses on navigational and voice guidance systems. Nissan is the company's largest customer. The figures below relate to the year 1999. However, Clarion posted losses of ¥25bn (US\$129m) this year.

Market Cap:	¥68.1bn (US\$624m)
PAT(to March 99):	¥1bn (US\$10m)
Sales to March 99:	¥199.5bn (US\$1.8bn)
LT Debt/Equity:	0.64

#### Mitsuba Corp.

Formerly Mitsuba Electric Manufacturing, Mitsuba makes automobile parts, motorcycle parts and bicycle lamps. It manufactures electronic parts for field-of-vision systems such as wipers and window washers, actuator systems, controls, starting and drive systems including power steering and cruise control modules. Mitsuba mainly supplies Honda, Mitsubishi motor and Nissan.

Market Cap:	¥18.8bn (US\$171m)
PAT:	¥1.54bn (US\$14m)
Sales:	¥113.8bn (US\$1bn)
LT Debt/Equity:	0.49

#### Mitsubishi Electric

The company is large and highly diverse; electronic automotive components constitute under 20% of total group sales. However this sector is well-established in the US and the company has just started an automotive electrical component manufacturing base in the Czech Republic.

Market Cap:	¥2tr (US\$19bn)
PAT:	¥24.8bn (US\$227m)
Sales:	¥3.7tr (US\$34.6bn)

### Stanley Electric

Automotive lighting and electronic equipment including headlamps, rear combination lamps, other car electronics products and light bulbs accounted for 62% of revenues; semiconductor and other electronic equipment including LED and LCD displays produced the remaining 38%. Stanley primarily supplies to Honda.

Market Cap: ¥226.3bn (US\$2bn)  
PAT: ¥4.64bn (US\$42m)  
Sales: ¥192.8bn (US\$1.7bn)  
LT Debt/Equity: 0.11

### Sumitomo Electric

Sumitomo Electric is the largest manufacturer of cables and wires in Japan, but this sector only

accounted for 42% of Group revenues. It manufactures electrical equipment, braking and navigational systems. Sumitomo currently has a JV with US auto parts manufacturer Visteon, to manufacture electronic parts for automobile modules and it has recently formed an alliance with Optec Dai-Ichi Denko to form a joint venture to manufacture coiled wires for electrical appliances and the automotive industry.

Market Cap: ¥1.3tr (US\$12.7bn)  
PAT: ¥23.6bn (US\$216m)  
Sales: ¥1.4tr (US\$11.9bn)  
LT Debt/Equity: 0.42

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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. For further information on BDA's services or on any of the articles in this newsletter, please contact Charles Maynard in New York, Euan Rellie in London, Andrew Huntley in Singapore or Frank Zhang in Shanghai.

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