

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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## CHINA/HK

**Shanghai Brilliance Group Co Ltd**, a leading auto-related company, has announced that its subsidiaries, **Shanghai Wulong Automotive Parts Investments Co Ltd** and **Shanghai Huan Investment Co Ltd**, have sold their stakes in **Shenyang Brilliance Dongxing Automotive Parts Co Ltd** for a combined RMB121m (US\$14.6m) to **Key Choices Group Co Ltd** in December 1999. Shanghai Wulong and Shanghai Huan together owned all of Shenyang Brilliance's shares. (February 24, 2000)

The Chinese Government has announced its plan to replace 450,000 motor vehicles in 2000. The move is part of China's five-year plan to boost economic development in the country. According to the national office in charge of motor vehicle renewal, a target has been set for the replacement of 1.8m units between 1996 and 2000. To encourage motor vehicle renewal, the office will earmark US\$36m in subsidies to certain localities. At the same time, the office will establish local branches to help implement motor vehicle replacement and to promote legislation. (March 28, 2000)

The Chinese Government has set a production target of 2m motor vehicles, including 700,000 cars, for the domestic automotive industry in 2000. To meet this target, the government will reform taxes and levies on purchases of motor vehicles and adopt measures to support manufacturers in producing economy cars. In 1999, the country produced 1.8m motor vehicles, up 10% from 1998. (February 28, 2000)

## INTRODUCTION

There has been a high level of M&A activity in the auto sector in Asia. Recent transactions include a LOI signed between DaimlerChrysler and Mitsubishi, negotiations involving Daewoo and Samsung Motors in Korea and a deal struck between Cycle & Carriage and Astra in Indonesia. These are clarion calls for global auto players to get into action mode in Asia.

We hope that you find the *Asian Automotive Newsletter* informative. BDA is a corporate finance advisory firm that helps clients to identify and to execute acquisitions and JVs in Asia. If you think that BDA's services may be useful to you, please contact me at [cmaynard@bdallc.com](mailto:cmaynard@bdallc.com).

Charles Maynard  
Managing Director

## INDIA

**Delphi India**, a subsidiary of **Delphi Automotive Systems** of the US, has entered the aftermarket in India and has appointed **Jullundur Motor Agency** to sell Delphi-brand shock absorbers and struts. Delphi India intends to expand its product portfolio and to increase investment to upgrade its products. (February 26, 2000)

**Maruti Udyog Ltd**, a 50:50 JV between **Suzuki Motor Corp** of Japan and the Indian government, will invest ¥20bn (US\$180m) annually to launch a new car model in India every year for at least three years. Maruti's sales have increased by 20% to 400,000 cars in 1999. However, its market share dropped from 83% to 63% as other competitors entered the market. (February 28, 2000)

**Suprajit Engineering**, a Bangalore-based automotive cables and instruments manufacturer, will invest Rup2crores (US\$46,000) to acquire a majority stake in **Winners Computers Services**, a profitable company with a projected turnover of Rup1.5crores (US\$34,000) in 2000. Winners' software division provides solutions for small and medium tier companies in India and overseas. Its networking division focuses on local area networks, enterprise wide networks, Internet and intranet solutions. (March 15, 2000)

**Tata Steel** of India is in talks with automobile manufacturers abroad to set up operations in India for auto grade cold-rolled (CR) products, which will account for a majority of the production at its 1.2m tpa CR mill. The Jamshedpur-based mill is operating at over 98% capacity. (March 3, 2000)

largest industrial group with major auto assembly, distribution and retail interests. This transaction should pave the way for many more sales by IBRA. C&C's timing was driven by **Mercedes-Benz's** intention to reclaim the distribution rights for its products in Singapore. (April 5, 2000)

**PT Selamat Sempurna**, an Indonesian manufacturer of automotive spare parts, will raise its annual production capacity from 400,000 to 600,000 units of radiators in 2000. Selamat Sempurna's subsidiary, **PT Andhi Chandra Automotive Product (ACAP)**, also plans to double its production capacity to 20m units of air filters in 2001. Approximately 7% of the air filters produced by ACAP will be exported. Demand for automotive spare parts in the domestic market is also expected to increase. (March 27, 2000)

**PT Tjahaja Sakti Motor Corp's** Managing Director, Prijono Sugiarto, does not expect imported CBUs to gain more than a 10% market share in Indonesia, despite new regulations that reduce tariffs on CBU imports. Sugiarto stated that local carmakers will still have the advantage of lower production costs. Car sales in Indonesia were estimated at 93,000 units in 1999. Sales in 2000 are expected to rise to 160,000 units, still well below the pre-crisis level of 400,000 units per year. (February 25, 2000)

**Proton** of Malaysia and the **Indonesian Association of Automotive Equipment (GIAMM)** have agreed to form a strategic alliance to manufacture components for Proton cars. Proton will be entitled to use the engineering and design facilities of the **Technology Research and Application Agency (BBPT)** and the almost defunct **Nusantara Aircraft Factory (IPTN)** to develop components for its cars. (March 16, 2000)

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## INDONESIA

**Cycle & Carriage**, the Singapore-based car distributor, was successful in its consortium bid for IBRA's 40% stake in the **Astra Group**, Indonesia's

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## JAPAN

**DaimlerChrysler** has signed a LOI to acquire a 34% stake in **Mitsubishi Motors** for US\$2bn. This move will provide DaimlerChrysler with a foothold in Japan,

similar to that of **Ford** and **General Motors**. It will also make **Honda** and **Toyota** the only remaining wholly-owned, major Japanese auto manufacturers. By 2004 DaimlerChrysler and Mitsubishi will release a highly fuel-efficient, subcompact passenger car, which will be produced in Europe. Mitsubishi's minicar technology will be used to develop the cars, which will run 100km on three liters of gasoline. DaimlerChrysler will finance the marketing of the cars. The firms' alliance excludes Mitsubishi's truck business.

DaimlerChrysler will continue to sell its own trucks in Asia rather than those of Mitsubishi. The company will consider any interesting partnerships or acquisition opportunities for its truck division. However, it will continue in this business alone if they cannot identify a suitable candidate. The company stated that it has no interest in buying a stake in **Nissan Diesel Motor Co**, noting that the truckmaker is already in partnership with French automaker, **Renault SA**. DaimlerChrysler attempted earlier to partner with Nissan Diesel but talks were unsuccessful. (March 29, 2000)

**The Japan Auto Appraisal Institute** has created **JAAI Net**, an Internet-based system that enables dealers to easily determine the value of used vehicles offered as trade-ins. The JAAI has set up a database containing the latest price information on 57,000 domestic and foreign models produced between 1995 and 1998. The system will be available nationwide from July 2000. (March 3, 2000)

**Linde AG** of Germany, the world's largest forklift manufacturer, is teaming up with **Komatsu Forklift** of Japan in a global marketing deal that will boost the German group's strong presence in the Japanese market. Komatsu will market Linde's products in Japan. They will also rely heavily on Linde in the European markets, where the German company has close to a 40% market share. Linde is to supply products to Komatsu in Europe and to provide access to its sales channels. (February 15, 2000)

**Mitsubishi Motors** plans to purchase **Volvo Car Corp's** 50% stake in **Ned Car BV** and to sell the shares to **DaimlerChrysler**. Volvo Car, the former

passenger car division of **Volvo AB**, is a subsidiary of **Ford Motor Co**. Volvo AB is Sweden's largest truckmaker. DaimlerChrysler will not become involved in Mitsubishi's truck alliance with Volvo AB. (March 29, 2000)

**Nabco Ltd**, a Japanese manufacturer of automobile brakes, will acquire a controlling 43% stake in Kobe-based **Koutou Electronic Co**, to enter the remote monitoring of air conditioning systems business. Koutou, which was established in 1986, uses satellite communications technology in its remote operated systems. Nabco hopes to create an information system, which will combine its sensor technology with expertise acquired from Koutou. (March 29, 2000)

**Nissan Motor Co Ltd** has declined to confirm reports that it will sell its entire stake in **Fuji Heavy Industries Ltd** to **General Motors Corp** for ¥20bn (US\$180m) in April 2000. Nissan is a major shareholder in Fuji Heavy Industries; its 25 million shares equal a 4.1% stake in the company. (March 4, 2000)

**Toyota Motor Corporation** is considering increasing its stake in the entity created by the merger of **Chiyoda Fire and Marine Insurance Co** and **Dai-Tokyo Fire and Marine Insurance Co**. Toyota currently owns 44.7% of Chiyoda. The merger will reduce Toyota's stake to 20%. Toyota will have effective management control if it decides to increase its stake in the merged entity to over 33.3%. (March 15, 2000)

**Toyota Motor Corporation** plans to raise its stake in **Hino Motors Ltd** from 20.1% to 33.4%. Hino Motors will sell ¥20bn (US\$200m) in new shares to Toyota and invest the proceeds in its dealership network. Toyota may raise its stake to more than 50% if Hino's profitability increases. (March 10, 2000)

**Toyota Motor Corporation** has announced a capital alliance with **Yamaha Motor**, the world's second-largest motorcycle manufacturer. Toyota will reportedly acquire a 5% stake in Yamaha Motor from its parent company, **Yamaha Corporation**, for ¥10.5bn (US\$97.6m). The acquisition will make Toyota the second largest shareholder in Yamaha Motor after

Yamaha Corporation, which owns 33.3%. Yamaha Corporation and Yamaha Motor will each acquire 500,000 shares of Toyota from the secondary market in Q2 2000. (March 7, 2000)

Japan's automobile exports in February 2000 grew 1.9% from the previous year to 379,293 units. Exports to China, Malaysia, Thailand and other Asian countries increased by 69.4%, which can be attributed to the recovery of the Asian economy. Meanwhile, motorcycle exports rose 15.3% to 164,400 units in February, the first monthly increase in a year. Exports to both the US and the EU expanded over 10%, making up for the fall in shipments to the rest of Asia, where Japanese manufacturers have expanded their local motorcycle production. (March 28, 2000)

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## KOREA

**Burmah Castrol** of the UK, an oil and chemicals group, announced a three-year partnership with **Hyundai** of Korea. Burmah will become Hyundai's preferred supplier of lubricants and the sponsor of the **Hyundai FIA World Rally** championship team. (February 29, 2000)

**Fiat** is negotiating with its JV partner in Vietnam, **Mekong Corporation**, to supply components and bodies for assembly in North Korea. Mekong Corporation is majority-owned by South Korea's controversial Unification Church, founded by Sun Myung Moon. Once the agreement is finalized, the JV will produce 10,000 Fiat *Palio Siena* models in North Korea and will make Fiat the first foreign assembly operator in North Korea. (February 21, 2000)

**General Motors Corp**, **Ford Motor Co**, **DaimlerChrysler**, **Fiat SpA** and **Hyundai Motor Co** announced their intentions to bid for **Daewoo Motor Co** and its sport utility arm **Ssangyong Motor Co**. The Daewoo group narrowly escaped bankruptcy when its domestic creditors agreed in June 1999 to delay repayment of US\$8.3bn in debt for six months

and extend US\$3.3bn in new loans. Units on the sales block include Daewoo Motor, Ssangyong Motor, Daewoo Motor Sales, Daewoo Capital and Daewoo Telecom's transmission division. Daewoo Motor's commercial vehicle operation is excluded. (February 28, 2000)

**Kia Motors** has announced that it will repurchase W500bn (US\$450m) worth of its own stock and set up a W50bn (US\$45m) fund for investments in venture firms. Kia Motors will invest in hi-tech auto parts manufacturers, new Internet technology firms and companies specializing in new materials. It plans to provide management and technical assistance to the firms it has chosen for investment. (March 14, 2000)

**Renault** has reportedly increased its offer for **Samsung** to US\$550m. This offer was US\$100m more than its initial one. However, the sale of Samsung Motors to Renault was postponed until after the April 13 parliamentary elections. Industry sources allege that the delay stems from the recent discovery of Samsung's "contingent debt" of W291bn (US\$260m). (April 5, 2000)

**Ssangyong Motor** and **Hansol CSN** have agreed to form a strategic alliance to market Ssangyong cars on Hansol's Internet shopping site, *autoclub.com*. Beginning in April 2000, the agreement marks the first partnership in Korea between a cyber shopping mall and an automaker. Hansol CSN, which operates the nation's largest online mall with 1.6m community members, will act as a dealer and oversee all aspects of the sale of Ssangyong cars. (March 31, 2000)

**Toyota Motor Corp** has set up a wholly-owned sales subsidiary in South Korea, **Toyota Motor Korea Co**, to become the first Japanese automotive manufacturer to begin full scale distribution operations in Korea. Toyota decided to inaugurate its subsidiary after the Korean government lifted an import ban on

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automobiles from Japan in July 1999. Toyota Motor Korea Co, is capitalized at US\$7.4m and will begin sales activities in January 2001. It has a sales target of 800 Lexus models in its first 12 months of operation and will initially employ 18 local workers. (March 13, 2000)

(US\$7.9m) factory in Semenyih to produce lead calcium batteries for the local and export markets. (March 29, 2000)

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## MALAYSIA

**MBM Resources Bhd**, the exclusive distributor of Japan's **Daihatsu** vehicles in Malaysia, announced that it will purchase an additional 20% stake in **Perusahaan Otomobil Kedua Sdn Bhd (Perodua)** from **Med-Bunika-Mara Sdn Bhd**. The acquisition of 28m shares for RM2.50 (US\$0.66) per share, will increase MBM Resources' equity to 23.6%, making it the second largest Perodua shareholder after **UMW Corporation Sdn Bhd**, which has a 38% stake. Perodua sold 90,000 vehicles in 1999. (March 16, 2000)

**Petronas**, Malaysia's national oil company, announced that it will acquire a 27.2% stake in **Proton** from majority shareholder, **Hicom Holdings**, for RM1.03bn (US\$271m). Proton reported an 85% decline in net profits to RM66.8m (US\$17.6m) in 1999. (March 4, 2000)

**Polymate Holdings Bhd**, a Malaysian car battery manufacturer, is awaiting approval from the Securities Commission to acquire a 65% stake in UK-based **Batec Ltd**, a Malaysian car battery distributor. While battery products are the company's main business, it has no plans to dispose of its plastic products and packaging divisions. (March 31, 2000)

**Watta Holding Bhd**, a Malaysian car battery manufacturer plans to expand its lead acid batteries production capacity from 60,000 to 80,000 units per month starting June 2000. This will enable the company to maintain its market leadership in Malaysia. The company currently holds 25% of the domestic battery market share which is estimated at two million units annually. Watta plans to set up a RM30m

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## THAILAND

**Fiat** of Italy plans to set up a JV with **Phra Nakorn Automobile (PNA) Group**, one of the largest local car distributors, to manufacture and distribute *Alfa Romeo* and Fiat brand cars in Thailand. Fiat intends to raise its overall production capacity of Alfa Romeos to 400,000 units a year by 2005. The first of four models to roll off the production line will be the mid-sized Alfa Romeo. Approximately 800-1,000 units will be produced in the first year, 1,500 units in the second year and 2,000 units in the next two years. (February 21, 2000)

**Volkswagen AG**, the world's third-largest car manufacturer, has begun assembling its *Passat* and *Audi A6* models in Thailand. Volkswagen is using imported parts for the assembly, following the scrapping of the 54% local content requirement regulation. The components are currently 100% imported. However, approximately 15% of the parts of both models may eventually be manufactured locally depending on the quality and pricing of these parts. The plant will assemble 2,000 Volkswagen vehicles, 1,300 *Passats* and 700 *Audi A6s*. (March 3, 2000)

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## REGIONAL

**BMW** has announced its plan to build an automobile manufacturing plant in East Asia. China, Hong Kong and Malaysia are the three countries which BMW has shortlisted for its expansion. (February 16, 2000)

**Jincheng Group** of China, a producer of motorcycles, airborne equipment and engineering hydraulic products, has opened **Jincheng-Argentina**,

its second JV company in South America. The JV was jointly founded with **Daltac Company** of Argentina. Jincheng will provide technology, equipment and motorcycle CKD kits, while the Argentinian side will contribute marketing skills, sales networks and capital towards the new JV. The JV will have an annual assembly capacity of 30,000 motorcycles. In 1999, Jincheng sold a total of 15,000 motorcycles in Argentina and earned profits of US\$1m. Jincheng has a 10% share of the motorcycle market in South America. (February 22, 2000)

**Shannons Corporation**, Australia's largest insurance agency and auction house for vintage and classic cars, has been sold to **Royal & Sun Alliance Insurance Australia Ltd (RSA)**. RSA intends to run Shannons, which is a supporter of and specialist provider to the classic vehicle movement, as a separate business within the RSA group. (March 28, 2000)

**Toyota Australia** is to take over the local operations of the struggling **Daihatsu** car brand from July 2000. The move is expected to strengthen Daihatsu's position in the local market. In the short term, Daihatsu products will continue to be distributed from existing facilities. However, they will eventually be fully integrated into Toyota Australia's operations. (February 22, 2000)

stock prices, mounting debt and an increasing realization of the necessary economies of scale. US companies have begun to devote major resources to key Asian markets as exemplified by GM's Shanghai and Rayong plants and Ford's plants in Rayong and Chennai. US companies have also developed a penchant for directly targeting parent companies in Japan, as illustrated in the paragraphs below.

General Motors has acquired a 49% stake in **Isuzu**, a 10% stake in **Suzuki**, and most recently a 20% stake in **Fuji Heavy**, the owner of **Subaru**. GM has also won a reputation for allowing the incumbent management a high degree of autonomy. This strategy is viewed as one of the key reasons GM was successful in its bid for a stake in **Fuji Heavy**. Ford has focused on increasing its stake in **Mazda** and has had a more troubled management record in this venture. The acquisition of a 34% stake in **Mitsubishi** for US\$2bn has filled a gap in **DaimlerChrysler's** portfolio and has given it a major boost in the compact to medium car range. Last year's acquisition of 36.8% of **Nissan** by **Renault** epitomizes the extent to which the landscape has changed in the last five years.

DaimlerChrysler's purchase of the stake in Mitsubishi has boosted its combined market share in Japan to 11% and to 9.4% in the rest of Asia, from below 4%. Ford and General Motors are both seeking major market shares in the region. They have concluded that the most practical way of achieving this is through acquisitions.

The next major transaction is likely to involve **Daewoo Motors**, for which **Ford**, **Fiat**, **GM** and **Hyundai** are all competing. If a non-Korean firm acquires Daewoo, it will signify the first major entry into the Korean market by a foreign player. As the recent strikes in Korea demonstrate, the transaction is politically sensitive. Renault's proposed acquisition of **Samsung** provoked less of a response as Samsung's market share is hardly material.

Most of the forthcoming M&A activity in Asia is likely to occur in Japan and Korea. As car manufacturers in the region begin to integrate themselves into global competitors, their components suppliers will follow. This logic is obvious, and a substantial number of such transactions are already

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## FOCUS

### M&A activity in the Asian car industry

The Big 3 US car companies have penetrated the Asian car market with unanticipated speed. Five years ago there was endless talk of "Fortress Asia", which was perhaps just a misnomer for "Fortress Japan." The Japanese were dominant in almost every car market in Asia. Meanwhile, US car manufacturers hardly made any headway in the Japanese market, with the exception of minority stakes held by **Ford** and **General Motors**.

Seven years of recession have left Japanese car manufacturers in a more distressed state, with poor

pending in Korea. This process will accelerate in both countries with companies such as **Delphi** leading the way. “Pairing off” of suppliers will occur, but for each successful deal there will be many that fail.

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