

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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## AUSTRALIA

**MAHLE Group** of Germany will establish a JV in Victoria, Australia with **Automotive Components Ltd. (ACL)** of Australia. The JV will produce piston and piston rings, and will have an initial investment of A\$36m (US\$18.7m). The new JV, called **MAHLE-ACL Piston Products**, will begin production of connecting rod modules and other engine parts in 2003. MAHLE will hold 51% in the JV, which will participate in **GM's V6 Ecotec** engine program in Australia and will sell piston blanks for **Toyota's** new four-cylinder engine. (December 17, 2001)

## 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 help Western companies structure mutually beneficial transactions with local partners.

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

## CHINA/HK

**BMW** of Germany has submitted a JV proposal with **Brilliance Automotive Holdings** of Shanghai to produce luxury passenger cars for the China market. Production of the vehicles in China will reduce import tariffs significantly and allow BMW to strengthen its presence in the premium market. BMW and Brilliance officials have not yet announced what models will be manufactured at the site. (October 29, 2001)

China will start to lift restrictions on its auto insurance market next year, according to the **China In-**

**Insurance Regulatory Commission (CIRC).** Two state-owned insurers dominate China's auto insurance market – **the People's Insurance Company of China** and **China Pacific Insurance**, which enforce premiums set by the CIRC. Beginning in the eastern coastal areas in Q4 2002 and expanding nationwide gradually, the newly liberalized industry regulations will encourage better service and coverage. (November 27, 2001)

**Honda** of Japan will begin building 1.3-liter small cars in China beginning in 2003 at an initial rate of 20,000-30,000 units. The car will be based on the popular *Fit* and will sell for less than RMB135,000 (US\$16,300) each.

**Keihin Corp.** of Japan will begin producing fuel injection systems for passenger car engines in China by Q1 2002. The systems will be manufactured in an existing factory in Nanjing that makes carburetors for motorcycles. Capital spending on the transition is not expected to surpass US\$1m, and parts for the systems will be sourced from Japan and the Philippines. Output will be shipped to **Guangzhou Honda Automobile Co.** for use in the *Accord* model. (November 8, 2001)

**Kikuchi Co.** and **Takao Kinzoku Kogyo Co.**, both Japanese frame component manufacturers, will establish a 50:50 JV in Guangdong Province. The facility will be ready to supply parts for Honda's plants in Guangzhou by Q4 2002, and aims for a turnover of Y3bn (US\$25m) by 2005. (November 27, 2001).

**Kinugawa Rubber Industrial Co.** of Japan will quintuple production of weather strips and other body sealing parts at its wholly owned subsidiary in Fujian, China to about Y1bn (US\$8m) per year by 2004. (December 6, 2001).

**MAN** engineering group of Germany is soon to create a truck production JV in China. **Luoyang Yutong Automotive**, a Chinese bus maker based in Henan Province, is expected to be the local partner. It is one of the top three bus manufacturers in

China. The JV will likely begin with production of models from MAN's Neoplan bus division, which builds more than 7,000 buses a year. (November 26, 2001)

**Nifco** of Japan, a US\$786m supplier of auto parts, plans to establish a subsidiary in Guangdong, China in Q1 2002 to make car parts. The unit, which will be capitalized at Y560m (US\$4.6m) will be 90% owned by Nifco's Hong Kong subsidiary, with the remainder held by a local company. The facility will manufacture plastic fasteners, among other parts, and is aiming at sales of Y400m (US\$3.6m) by 2006. (November 8, 2001)

**The People's Bank of China** has announced that it will likely allow domestic Chinese car manufacturers to set up joint ventures with foreign financial institutions or banks to offer credit finance to individual car buyers. This will allow domestic automakers to compete with multinational automakers, who will be free to provide loans to Chinese consumers as soon as China joins the WTO in December of 2001. The policy initiative should spur growth in the Chinese auto industry. (November 28, 2001)

**Yokohama Rubber Co.** of Japan will form a JV in China in January 2002 for tire production and sales. Japan's second largest tire producer announced that it would invest US\$60m in the project, which will have a capital base of US\$12m. The JV will be based in Hangzhou, Zhejiang Province and will be funded 45:50:5 among Yokohama, a local tire producer, and a Singaporean trading firm that markets Yokohama tires in China, respectively. The factory will have an annual output capacity of 750,000 tires by May 2003. The company hopes to increase its share of the Chinese tire market from 3% to 8% over the medium term. (November 2, 2001)

## INDIA

**Ford Motor Co.** of the US will start manufacturing its ROCAM engine, which power the 1.6-liter *Ikon*, in India by Q1 2002. Ford will outsource the manufacturing to **Hindustan Motors'** plant in Pithampur. Localization of the engine will avoid burdensome tariffs and will free Ford from having to set up its own engine plant. (October 30, 2001)

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## INDONESIA

**Honda** will build a new plant in Indonesia at a cost of US\$30m, replacing a smaller facility. The factory will come on stream in Q2 2003 and produce 20,000 automobiles in its first year, compared with the 12,000 produced at Honda's current facility. (December 19, 2001)

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## JAPAN

**BMW Japan** will build a dedicated sales network of about 60 showrooms for its new Mini small car, which is slated for local launch next spring. The showrooms will be located in the same buildings as existing BMW outlets but will be separate so as not to compete with the higher priced 3, 5, and 7 series. The original Mini has a substantial following in Japan. (October 17, 2001)

**Dana Corporation** of the US is continuing its planned expansion in Japan, despite enforcing significant cutbacks in its other global operations. The company is building a Y1bn (US\$8.3m) R&D cen-

ter dedicated to developing drive shafts, frame parts, and other chassis-related components. In the second phase the facility will also develop new engine components, oil pumps, and potentially other parts as well. The R&D center is due to begin operations in 2003. (October 20, 2001)

**Federal-Mogul Corp.**, of the US, and **Teikoku Piston Ring Co. Ltd.**, of Japan, will jointly invest US\$10m over the next year to form a JV for the manufacture of high performance steel piston rings. The company will be called United Piston Rings, Inc. and will manufacture at Federal-Mogul's current Manitowoc, WI facility. The company will serve automotive engine manufacturers, especially Japanese transplant customers in North America. Federal-Mogul and Teikoku Piston Ring currently have JVs in China, India, the United Kingdom and the US as well as technology licenses in Germany, France, Turkey, Korea, the United Kingdom and the US. This is the second JV in the US between Federal Mogul and Teikoku, after the initial cylinder liner JV in Lake City, MN established in 1999. (November 1, 2001)

**Isuzu Motors Ltd.** of Japan will end production of sports utility vehicles (SUVs) produced at its Kanagawa plant near Tokyo by the end of March 2004. The manufacturer, 49 percent owned by General Motors (GM) of the US, is expected to halt annual production of its 20,000 *Big Horn* SUVs. About 75 percent of the SUVs are for the US market, sold under the brand name *Trooper*. Instead, the plant will focus on trucks and will procure SUVs from GM for the US market to sell under the Isuzu brand name by Q3 2002. Isuzu will replace other SUV models in Japan with GM's Chevrolet models. (December 12, 2001)

**Nissan** has announced that it will terminate a 33-year-old contract to buy continuously variable transmissions (CVTs) from **Fuji Heavy Industries**. Nissan sold its 4.1% stake in Fuji Heavy last April to **GM**. Nissan will source all CVTs from **JATCO**, its transmission subsidiary which it has partnered with **Mitsubishi**. Fuji Heavy intends to replace Nissan

business with sales to GM affiliates, such as **Fiat**. (October 11, 2001)

**Unison Capital** of the US will acquire **Kiri Corporation** of Japan, an affiliate of **Nissan Motor Co.** Unison will pay up to Y7.4bn (US\$61.7m) to acquire Nissan's 38% stake in the manufacturer of brake parts, engine components, gear and clutch components; and machine tools for the automobile industry. The purchase is conditional on Unison being able to acquire a total stake of 70% or more in the company. (November 26, 2001)

**Webasto AG** of Germany will start manufacturing roof systems for convertible cars at its Hiroshima-based subsidiary, **Webasto Japan**. The subsidiary will invest about Y1bn (US\$8.2m) to produce 2,500 convertible roofs each year for **Daihatsu's Kopen** model. Webasto has a 45% share of the world market for vehicle sunroofs, and makes 3.5 million a year. (November 15, 2001)

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## KOREA

**Autoliv Mando Corporation** of Sweden will build a new facility in Sanchuck, Korea to produce airbags and seatbelts for the Korean automotive industry. The facility represents an investment of approximately US\$8.5m and will be finished with Phase I of its construction by August 2002. The second phase will begin in 2005. Autoliv supplies airbag modules to **Hyundai Motors** and **Renault Samsung Motors**. With the new facility, Autoliv will add **Kia Motors**, **Ssangyong Motors**, and **GM/Daewoo Motors** to its customer list. (November 23, 2001)

**Hyundai Mobis Co.** of South Korea has announced a worldwide brake technology alliance with

**Robert Bosch** of Germany. Hyundai Mobis will pay unspecified royalty fees for accessing the German firm's technology. (November 16, 2001)

**Korean government officials** have announced an "Auto Valley" will be built in Ulsan, the host city to **Hyundai's** main manufacturing facility. A total of W200bn (US\$157m) will be invested in the project, including W52.5bn (US\$39m) from the central government. (November 26, 2001)

**Kumho**, South Korea's second largest tire manufacturer, has announced that it will sell an 80% equity stake to a foreign investment fund for up to US\$1.5bn. It is reported that **Carlyle Group** and **JP Morgan**, both of the US, are two of three bidders for the stake, with offers ranging from US\$1.2bn-US\$1.5bn. It is reported that Kumho insists on maintaining management control, which has led analysts to conclude that the price is relatively high. Nevertheless, Kumho anticipates closing the deal by early 2002. Kumho is in severe financial trouble stemming from losses in its construction interests, as well as its low-performing holding in Korean airline, **Asiana**. The company is carrying an estimated US\$2.5bn of debt. (November 22, 2001)

Creditors of **Ssangyong Motor Co.** of Korea have agreed to a 1tr won (US\$794m) debt-to-equity swap and a cash injection of US\$200m in new funds to help the troubled company survive until it finds a new owner. **Chohung Bank** of Korea, the primary creditor, will release the cash when the Ssangyong's labor union agrees to cooperate on a restructuring package that will involve significant job losses. The bailout extends Ssangyong's debt re-scheduling package by two years to 2003. (December 3, 2001)

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## MALAYSIA

**Land Rover**, a subsidiary of **Ford Motor Co.**, will invest Bt500m (US\$11.2m) to assemble *Freelander 4x4s* in Thailand for domestic consumption, as well as export. The company will use **Thai-Swedish Assembly's** facility for production, expanding the facility that currently builds **Volvo** passenger cars. The company targets sales of 900 vehicles for 2001/2002, and anticipates that by Q4 2003 all four of Land Rover's models – *Range Rover*, *Discovery*, *Freelander*, and *Defender* – will be available. (November 2, 2001)

**Toyota Group** of Japan, through its subsidiary **Daihatsu**, has invested M\$171.6m (US\$45.2m) to purchase a 41% stake in **Perodua Auto Corporation (PAC)**, a newly created holding company that owns 51% of Perodua's assembly and engine production units. Toyota-affiliate **Mitsui** paid M\$41.9m (US\$11m) for a 10% stake in the new holding company, while **Perodua Sdn. Bhd.**, the original umbrella firm owned largely by Malaysian investors, has a 49% stake in PAC. The new structure gives Toyota direct control over production, leaving marketing, distribution, sales, and service functions under Perodua's other subsidiary, **Perodua Sales**. This allows Perodua to remain a 'national' carmaker and thus enjoy preferential tariff and duty rates. The arrangement will give Perodua an advantageous position in the lower end of the car market. It is also indicated that Malaysia's stance on ownership of industrial assets is shifting, and may even be a trial for the eventual denationalization of Perodua. (December 7, 2001)

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To submit stories to future editions of this newsletter, please contact Delphine Hou in New York on 212.265.5300 or [dhou@bdallc.com](mailto:dhou@bdallc.com).

## PHILIPPINES

**Ford Motor Co.** has signed a memorandum with the **Philippine Government** to take advantage of the AICO (ASEAN Industrial Co-operation) scheme, which will see Ford become the first large-volume exporter of built-up vehicles from the Philippines. The plant there will export 65,000 passenger cars to Thailand and Indonesia over the next five years. Starting in Q1 2002, Ford will relocate the production of *Ranger* one-ton pickup trucks sold in the Philippines to Thailand and, conversely, shift assembly of its Laser passenger car from Thailand to the Philippines, thereby ending duplication of production facilities in the South East Asia. In all, Ford estimates that the scheme will boost intra-regional trade by more than US\$1bn through 2006. (November 22, 2001)

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## TAIWAN

**Dana Corporation's ROC Spicer Group** in Taiwan has been selected by **Ford** of the US as supplier for the four-wheel-drive system for the 2002 Escape, which will be built by **Ford Lio Ho Motor Co.** Roc Spicer will supply independent aluminum rear suspension axles equipped with an Electronic Rotary Blade Clutch (E-RBC) for the Escape. Ford Lio Ho Motor will also ship Dana four-wheel-drive CKD kits to other Ford affiliates around Asia for final assembly. Dana will also provide Ford with main driveshafts. (December 19, 2001)

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## THAILAND

**Toyo Radiator Co.** of Japan will open an automotive heat exchanger factory in Thailand, adding Y500m (US\$3.9m) into its wholly owned subsidiary, **Toyo Radiator Thailand**. The company has to date concentrated its efforts on heat exchangers for home air conditioners. Full production is expected to begin in Q2 2002 and will initially target the motorcycle markets, with passenger car components being manufactured on site by 2003. Output at that time will be 90,000 car exchangers and 180,000 motorcycle units. (December 18, 2001)

## VIETNAM

Toyota will begin producing vehicle bodies from unprocessed steel plates in Vietnam in 2003. This is a change, as Toyota to date has imported pre-formed steel plate. The new facility will be built at Toyota Vietnam's assembly plant outside Hanoi at a cost of approximately US\$7m. It will be able to handle 2,000 bodies per year, and by 2006 it should be able to produce 10,000 bodies. (November 6, 2001)

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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 Charles Maynard in Tokyo, Euan Rellie in New York, Andrew Huntley in Singapore, Simon Wu in Shanghai or Paul DiGiacomo in Hong Kong.

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