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ASIAN AUTOMOTIVE NEWSLETTER

Issue 29, February 2002

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

CONTENTS

INTRODUCTION	1
CHINA/HK	1
INDIA	3
INDONESIA	3
JAPAN	3
KOREA	4
MALAYSIA	4
TAIWAN	5
THAILAND	5
VIETNAM	5
OTHER	6

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.

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CHINA/HK

Aisin Takaoka Co of Japan, one of the Toyota group's core suppliers, has established its first company in China. Based in Tianjin, the factory will be operational from Q3 2002 and will make and sell brake parts. The main customer will be Toyota's car assembly plant in Tianjin, which is due to be operational in Q2 2003. **Aisin Takaoka (China)** is capitalized at ¥300m (US\$2.4m), with Aisin itself contributing 51% of the total amount, trading house **Toyota Tsusho Corp** 5% and a Taiwanese company 46%. (January 4, 2002)

German supplier **Benteler Automotive** and Chinese company **Shanghai Huizhong Automotive Co** are to establish a new JV chassis parts company in China. Named **Shanghai Benteler Huizhong Co**, the JV will be located in Shanghai producing chassis components (cross-members, subframes and control arms) by Q3 2002 for several OEM customers. The company will initially have 200 staff. (January 15, 2002)

Goodyear of the US announced a US\$120m expansion of its tire plant in Dalian, China. Originally set up in 1994 as a JV with local player **Dalian Rubber General Factory**, Goodyear is keen to strengthen its position in the rapidly expanding high performance consumer segment of the market. The expansion will take place over a five year period. (January 17, 2002)

Isuzu Motors of Japan will soon begin production

of engines and a variety of components in China for local assemblers. The company plans for the production of low-pollution diesels in Chongqing for sale to Chinese truck manufacturers. Components production will get underway in the second phase at a later date. Isuzu's parent company, US-based **General Motors (GM)**, expects truck demand through 2008 to grow at 5-7% per year. Isuzu has pulled out of a troubled bus production JV in China but is eager to strengthen its 17-year-old venture in Chongqing, which turns out trucks with a loading capacity of up to four tons. The goal is to lift annual truck sales from 50,000 units to 100,000 within three years. Isuzu trucks will go on sale through GM's dealer network in China in Q4 02. (January 15, 2002)

Mazda of Japan intends to increase its annual vehicle production in China from the current level of 5,000 units to 40,000 by 2004. In preparation for increased local output, the company will recruit 15 new main dealers this year to take its national network to 30. Mazda's presence in China is currently confined to SKD assembly of the 1.8-litre *Premacy* compact MPVs in Hainan. Hainan will turn out two types of passenger cars, one of which is the *Familia/323*. (January 14, 2002)

Several parts suppliers affiliated with **Nissan Motor Co** of Japan are expanding production in China to effect price cuts demanded by the automaker and to prepare for its first major foray into local car production. Nissan plans to produce passenger vehicles in cooperation with Chinese group **DongFeng Motor Corp** as early as 2003. One of the parts suppliers is **Calsonic Kansei Corp**, which will start production of car air-conditioning equipment in China in 2002 through alliances with five companies, including one in Taiwan. Early in 2003, **Unisia Jecs Corp** will start operating a plant near Shenzhen to make drive parts and is set to boost clutch output at an affiliated factory in Shanghai. **Kinugawa Rubber Industrial Co** has announced plans to quintuple output of automotive seals at a subsidiary in Fujian by 2004. The company will sell 50% of output to customers in China and export

the rest to Japan. In its three-year rescue plan, launched in October 1999, Nissan targeted a 20% reduction in procurement costs. It has already come close to that mark, helping boost operating profits by 40% in the first half of fiscal 2001/02. (January 25, 2002)

Renault Samsung Motors of Korea will launch exports of the passenger car *SM5* sedan to China in 2002. The *SM5* is based on the *Cefiro* model from Japanese car maker **Nissan**, which has capital ties and a global alliance with French carmaker **Renault**. Renault Samsung Motors, which was created in 2000 when Renault purchased bankrupt **Samsung Motors Co** of Korea, has an annual production capacity of 240,000 vehicles, but it expects to sell only about 90,000 vehicles in Korea this year. (January 8, 2002)

Shenyang Brilliance Automotive Co of China is set to sell half of its 50% equity stake in **Jinbei GM Automotive Co**, a US\$230m JV with **General Motors (GM)** of the US that makes Chevrolet *Blazer* light trucks and *S-10* crewcab pickup trucks in China. Shenyang Brilliance will sell a 25% stake to three Chinese firms for a total of nearly US\$29m. The company will retain a 25% holding. The trio of Chinese buyers are **Liaoning Development Group** (10%), **Liaoning Energy Corp** (7.5%) and **Shenyang Auto Industry Assets Management Co** (7.5%). Shenyang is using capital from this sale to fund its first *Zhonghua* brand of passenger cars, being launched in 2002. GM, which keeps its 50% stake, believes the sell-off will not affect operations at the JV, which is based in the north-eastern province of Liaoning. (January 8, 2002)

Toyota of Japan has appointed 40 exclusive dealers in China as part of its start of local production of own-brand models next year at a JV with **Tianjin Auto** of China. The Japanese carmaker seeks to capture 10% of the local passenger vehicle market by 2010. The 40 dealers located throughout the country will cover new car sales, after sales service and repairs and will also sell imported models. This exclusive network will be supported by 70 existing

service centers. In addition, Japanese rival **Honda Motor Co** plans to expand its Chinese dealer network from 120 outlets to 160 in 2003. (January 2, 2002)

Unisia Jecs Corp of Japan will expand production in China in 2003. Only 25% of capacity is being used at the firm's factory in Shanghai but Unisia expects much higher levels of demand and is ready to commit more resources to the market. The plant, which currently builds pressure plates and other components, will also produce propellor shafts and several other engine components. Unisia Jecs is also considering opening a second factory in Shenzhen, China in the near future. (January 2, 2002)

INDIA

Goodyear of the US is continuing its efforts in India via a US\$36m investment in its Indian subsidiary **Goodyear South Asia Tyres**, located at Aurangabad. This is Goodyear's second investment in the same plant aimed at expanding production capacity. (January 17, 2002)

Hindustan Motors (HM) of India announced a contract to manufacture 1.3- and 1.6-litre petrol engines and transmissions at its Pithampur plant for **Ford India's Ikon** passenger car. The **CK Birla Group** subsidiary will supply engines and transmission for *Ikons* for domestic and export markets. *Ikon* export volumes (mainly to Mexico and South Africa) are currently ahead of domestic sales. HM will bear most of the Rs700m (US\$15m) investment in the expectation of boosting profits by more than US\$3m per year. The benefit for US-based Ford is a much higher localization rate. Once HM-supplied engines start going into the *Ikon*, its local content ratio will increase from 75% to 90%. (January 15, 2002)

INDONESIA

Honda Motor Co of Japan has started construction work on an automobile manufacturing plant in Karawang, Indonesia, working through its local manufacturer and assembler, **PT Honda Prospect Motor**. Scheduled to come on-line in April 2003, the new plant represents an investment of US\$30m and will have an annual production capacity of 40,000 vehicles. The new Karawang factory will take over the production of all Honda automobiles in Indonesia, including the *Stream* SUV and will eventually be used as a regional export base in ASEAN. (January 27, 2002)

JAPAN

BMW Japan will expand its dealer network by more than 30 franchises to 215 this year and, despite the poor state of the Japanese economy, believes new models will help it boost sales in 2002 to 38,000-40,000 units, from the 36,255 achieved last year. The Japanese subsidiary of German carmaker **BMW** expects to see much higher sales of the *3 Series*. The firm has already received 10,000 advance orders for the new *Mini*, which goes on sale in Japan on March 2, 2002. BMW Japan is creating a special network of 72 *Mini* dealers, who will aim to shift 10,000 of the small cars this year. (January 18, 2002)

Fuji Heavy Industries (FHI) of Japan intends to manufacture 571,000 vehicles globally in 2002, up 0.4% from 2001. Domestic factories are expected to account for 460,000 units with 179,000 CBU vehicles for export. The US is a major foreign market for FHI's *Baja* SUV and *Subaru* 4x4 cars. In 2001 FHI spent US\$784 per car in sales incentives in the US market and will increase that amount to US\$850 per car for 2002. (January 15, 2002)

Isuzu Motors, the GM affiliate, and Toyota group's

commercial vehicle arm **Hino Motors**, both of Japan, plan to merge their ailing bus operations by 2003. The deal represents the resurrection of a merger proposal that was floated in 1999 but shelved the following year as both firms gave internal restructuring their full attention. Isuzu and Hino will set up a JV in 2002 as a stepping stone towards a full merger in 2003, at which point the combined operation expects to be at break-even. (January 7, 2002)

Mitsubishi Aluminum Co and **Nissan** affiliate **Unipres Corp** will establish a JV to manufacture aluminum parts for the auto industry. The company will be established on March 1, 2002 with a capital base of ¥280m (US\$2.1m). Mitsubishi Aluminum will take a 65% equity stake, leaving Unipres with the remaining 35%. A factory will be built on land near Mitsubishi Aluminum's plant in Susono, Shizuoka, to manufacture a variety of aluminum parts, including bumpers. The partners expect a 2002/03 turnover target of ¥2bn (US\$15m). (January 14, 2002)

Sumitomo Metal Industries of Japan and the **Corus Group** of the UK have agreed to a wide-ranging partnership in automotive steel sheet. The agreement covers a cross-supply arrangement for thin sheet and specialty steel as well as co-development of new products and extensive technology swaps. Technical collaboration will focus on customers' needs for weight reduction and sustainability. The first area covered is steel sheet which includes production technologies of high strength and coated steel for the automotive industry and various application technologies for the auto industry. The second area of focus is bars and wire rods for the production of engineering steels for the automotive industry and the development of improved free-cutting engineering steel. (January 12, 2002)

KOREA

Daewoo Motor Sales (DMS), the listed sales and distribution arm of bankrupt Korean automaker **Daewoo Motor Co**, is set to lay off 12% of its workforce prior to the expected partial takeover by US-based **General Motors (GM)** of Daewoo's vehicle business. DMS, along with a number of Daewoo Motor's plants was excluded from the memorandum of understanding signed by GM and the automaker's creditors last September 2001, though it is expected to continue selling Daewoo cars after the deal through a network of 200 direct outlets and 560 affiliated dealerships in Korea. Although it squeezed out a profit in 2000 even as Daewoo Motor posted multi-billion dollar losses, DMS will post an operating loss of about W45bn (US\$35m) for 2001 as demand for Daewoo cars slumped. (January 8, 2002)

MALAYSIA

Edaran Otomobil Nasional (EON) of Malaysia has still not clinched a new distributorship agreement with national carmaker **Proton**. Talks were ongoing but outstanding issues include Proton's demand that distributors of its vehicles contribute 30% towards the R&D costs assigned to each new model. The distributor's profit margins have historically been much higher than that of the company which develops the products that it sells. **Proton Edar**, the other Proton distributor accepted this contribution as part of the agreement it signed with the carmaker in 2001. (January 9, 2002)

Nichias Corp of Japan will start production in Malaysia of metals for use in car engines in a bid to lower costs. The company will spend about ¥700m (US\$5.4m) to set up a factory with a monthly output capacity of 100 tons at its Malaysian subsidiary. The facility is due to come on stream in June 2002, with

output being supplied to local Japanese assemblers. The operation will specialize in the production of steel plates coated with rubber for use as vibration damping sheets in and around the engine. At present, the firm's domestic plants in Nara and Okayama are exporting a total of 50 tons of the product to Malaysia each month. (January 21, 2002)

TAIWAN

Honda Motor Co is to establish a wholly owned sales subsidiary in Taiwan, capitalized at NTD\$170m (US\$4.9m) and based in Taipei. The unit's main focus is to create a sales and service network for cars and motorcycles by H2 2002, with the actual start of sales scheduled for a later date. In phase one, the priority will be on marketing and servicing imported Hondas. Local assembly may come next. (January 12, 2002)

THAILAND

AutoAlliance (Thailand), the JV between US-based **Ford** and Japanese automaker **Mazda** has produced 136,045 CBU and CKD pickups for export to more than 130 countries worldwide (the chief markets being Europe, Australia and New Zealand) over the last three years. AutoAlliance has an aggregate export value over the last three years

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of US\$1.2bn. While Thailand's longtime export leader, Japanese automaker **Mitsubishi's** local assembler **MMC Sittipol**, saw exports shrink by only 5% in 2001, AutoAlliance export volumes shrank by 16%. This allowed a more recent entrant, US-based **General Motors**, to claim second place in the export rankings in 2001 with a rapid ramp-up of *Zafira* MPV shipments. In 2002, AutoAlliance (Thailand) aims to keep export production steady at about 42,000 units including CBU pickup shipments to the Philippines which is starting this year under the AICO scheme. (January 21, 2002)

Honda Motor Co of Japan will launch a supermini based on the *Fit* platform in Thailand by end 2002. The Thai plant will start production of a new passenger car, based on Honda's Global Small Platform, for the domestic market in Q4 2002. Honda engineers are currently developing the future Thai-made *Fit/Jazz* version in Japan. Honda aims to lift its Thai sales volumes by 8-13% to 40,000-42,000 units this year, including several hundred units of the new small car. Early 2003 exports of the *Thai Fit* will begin to neighboring ASEAN markets as well as Japan, where Honda is running at full capacity. The new addition will boost the current 64% utilization rate of the Thai plant. (January 28, 2002)

VIETNAM

Toyota of Japan will begin production of vehicle bodies from unprocessed steel plates in Vietnam in 2003. This method is a change from Toyota's current practice of importing pre-formed steel plates. The new facility will be built at **Toyota Vietnam's** assembly plant outside Hanoi at a cost of approximately US\$7m. It will initially be able to handle 2,000 bodies per year and then gradually increased to 10,000 bodies by 2006. (December 6, 2001)

OTHER

Chrysler, the US-based subsidiary of German automaker **DaimlerChrysler AG**, is working with its Asian affiliates, **Mitsubishi Motors Corp** of Japan and **Hyundai Motor Co** of Korea, to develop a universal engine designed for small and compact cars for production in 2004. The base unit for joint development would be a four-cylinder motor initially developed by Hyundai. There will be many versions of the same basic design, with a larger-displacement version for the North American market, and further variants for Asia and Europe. The new family of engines will displace between 1,800-2,400cc. (January 8, 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 Charles Maynard at cmaynard@bdallc.com.

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