

# ASIAN AUTOMOTIVE NEWSLETTER

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

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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, Korea, Shanghai, Hong Kong and Singapore. Contact details for these offices as well as those of our New York and London offices are on the back page of this newsletter.

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Charles Maynard

## CHINA

Detroit's Big Three automakers have reached trade pacts with China that allow them to export thousands of vehicles and increase their stakes in a growing automotive market that eventually could rival the world's largest. **DaimlerChrysler** intends to export approximately 4,500 vehicles to China from North America including *Chrysler* and *Mercedes-Benz* vehicles. **GM** said it plans to export thousands of vehicles valued at roughly US\$1.3bn as well as supply **Shanghai General Motors** US\$400m worth of components and assemblies for 13,000 vehicles, and US\$700m worth of component kits for the *Buick Regal* sedan and *Pontiac Buick* GL8 wagon. Nov. 12, 2003

**Akebono Brake** plans to establish production operations in China by the end of 2005, the company said in a statement released on December 10. Initial plans are for Akebono operations in China to exclusively support Japanese automakers with locally manufactured friction materials and core brake components. Dec. 11, 2003

**Austrim Nylex** of Australia has secured contracts worth AUD15m (US\$11.6m) per year to supply half a dozen vehicle assemblers in China. The company's films and fabrics division will supply its vinyl products for door trim, seating, instrument panels and consoles to **Nissan** and **General Motors** in China, among others. Nov. 10, 2003

**Autoliv** has announced plans for a second facility as its first airbag factory in China is approaching maximum capacity less than two years after it opened. The new complex will be built on an

adjacent site in Shanghai and house airbag module production lines and a test and development center. Nov. 24, 2003

**Behr GmbH & Co KG** and **Shanghai Automotive Co Ltd**, a subsidiary of **SAIC**, have agreed to set up a 50/50 JV to develop, manufacture and market automotive air conditioning and engine cooling products. The new company, **Shanghai Behr Thermal Systems Co Ltd**, will target Chinese automakers as well as European and American car and truck manufacturers in China. Oct. 30, 2003

The **Bosch Group** and China's biggest manufacturer of fuel-injection systems, **Wuxi Weifu Group**, will establish a JV to develop and manufacture electronic diesel fuel injection systems for the Chinese market. The partners plan to invest a total of about €70m (US\$326m) through to 2008 in the company. Dec. 3, 2003

**Continental** of Germany is to merge two of its Chinese JVs for truck brake systems. **Shanghai Automotive Brake Systems Co (SABS)** and **Shanghai Automotive Brake Actuation Co** will be integrated under the SABS name and location. Continental said it had signed a contract with JV partner **Shanghai Automotive** about the move. Continental is still seeking a JV partner in the tire business in China. Dec. 4, 2003

**Cooper Tire & Rubber Company** of the US will build a factory for radial passenger and light truck tyres in China with **Kenda Rubber Industrial**. Construction work on the plant, outside Shanghai, will begin in mid-2004 and the production lines should be rolling in late 2005. Initial production will be wholly for export. Dec. 18, 2003

**DaimlerChrysler** has signed an agreement with **Beijing Automotive Industry Holding Co** to make *Mercedes-Benz* luxury cars and trucks in China. Total investment is likely to amount to €1bn (US\$1.3bn). However, **Hyundai Motor Co** has objected to the manufacturing JV, citing an exclusive partnership agreement signed with Beijing Automotive in April 2002. On October 16, Hyundai suspended indefinitely talks on its planned

commercial vehicle alliance with DaimlerChrysler in an indirect protest at the German automaker's contract with Beijing Automotive. Sep. 7, 2003

**Dana** has signed a LOI to form a JV with **Dongfeng Motor** to make and assemble commercial axles and other components in China as well as establish a research and technical center for manufacturing, materials, and systems development for medium- and heavy-duty axle products. Oct. 2, 2003

**Eaton Corporation** of the US is planning to form a 55/45 JV with **Changzhou Senstar Automobile Air Conditioner Co Ltd** in China to produce automotive air conditioning hose and tube assemblies and power steering hose and tube assemblies in Shanghai for **VW's** China operations. The JV will be called **Eaton Senstar Automotive Fluid Connector (Shanghai) Co Ltd** Jan. 6, 2004

**Garden State Tanning** announced a partnership with two Chinese companies, the **Richina Group** and **Shanghai Light Industry Holdings**, to build an automotive leather finishing plant in Shanghai. In addition, **Garden State Tanning** has changed its name to **GST AutoLeather**. GST executives expect the finished leather to be used primarily in cars produced in China. Nov. 11, 2003

**Hino** and **Shanghai Diesel Engine Co**, both engine manufacturers, announced plans for a 50/50 JV to build and sell heavy-duty diesel engines to Chinese customers at the Japanese company's first offshore facility dedicated to engine production. The JV, named **Shanghai Hino Engine**, will build a factory in Shanghai with annual output capacity of 15,000 units. Sep. 22, 2003

**Hydro Aluminium** of Norway will construct its first wholly owned automotive components plant in China with an investment of NOK150m (US\$22.3m). A factory in Suzhou, north of Shanghai, will manufacture lightweight precision tubes and tubing components. Key customers will be Tier One suppliers of global market heat and fluid transfer systems. Dec. 11, 2003

**Hyundai Autonet**, the auto electronics equipment unit of Hyundai, has announced plans for a 50/50 JV, to be named **Tianjin Hyundai Hangsheng Electronics Co** with **Shenzhen Hangsheng Electronics Stock Co** in Tianjin, China. Shenzhen Hangsheng does business with most major Chinese automakers including its leading shareholder, **Dongfeng Motor Corporation**, which has a 36% stake. Sep. 18, 2003

**JFE Holdings**, **Kawasaki Steel** and **NKK** are forming a JV with **Guangzhou Iron and Steel Enterprises Group** to produce steel sheet in Guangzhou, China. The proposed business unit, **Guangzhou JFE Steel Sheet Co**, will be set up in the city's new industrial zone of Nansha to serve the auto industry. Sep. 18, 2003

**Kia Motors** says it will put its *Carnival* people-carrier into production in China next year. The MPV will initially be assembled from CKD kits shipped in from South Korea at **Dongfeng Yueda Kia** in Jiangsu Province. Production will begin in June and the company expects to roll about 30,000 *Carnivals* off the line in 2004. Dec. 6, 2003

**Mitsubishi Fuso Truck & Bus** confirmed plans to establish a truck JV with a Chinese manufacturer. The two potential partners are **Anhui Xingma Automobile** and **Beijing Foton Motor**, a subsidiary of **Beijing Automotive Industry Holdings**. Mitsubishi is also in negotiations with **Beijing Jeep** to gain an equity stake in the JV between **DaimlerChrysler** and Beijing Automotive. Sep. 2, 2003

**Mitsubishi** plans to increase investment in **Southeast Fujian Motor Corporation (Southeast)**, which builds the *Lancer* (now called *Lioncel*) sedan, *Freeca/Adventure* and several versions of the Mitsubishi *Delica*. Southeast is a 50/50 JV between Taiwan's **China Motor Corporation** (Mitsubishi's assembly partner in Taiwan) and **Fujian Motor Industry Group**. Sep. 2, 2003

**NTN Corporation** of Japan is establishing two more production JV in China. NTN and **Changzhou**

**Guangyang Bearing Co** (the parent company of **NRB China Bearings**) will build a factory in Changzhou to manufacture a wide range of ball bearings and roller bearings specifically for the auto industry. NTN will own 51% of the company and have full management control. Also NTN, **Korea Flange Co** and an unnamed Taiwanese firm are setting up a JV facility outside Beijing, focusing on automotive constant velocity (CV) joints. This is NTN's third Chinese JV in the past 18 months to focus on CV joints and components. Nov. 29, 2003

**Renault** will buy into a truck and MPV manufacturing unit belonging to **Dongfeng Motor**, the local partner of its Japanese affiliate, **Nissan**. The French group will invest capital and inject technology, brands and products into **Dongfeng Liuzhou Automotive**, according to Chinese officials. No further details are being made public at this stage. Jan. 6, 2004

Swedish bearings giant **SKF** has formally opened its new factory in Shanghai, China, its fifth facility in the country. **SKF Shanghai Bearings Co** is a JV between **SKF**, which owns 60%, and **Shanghai Bearing Group Co**, which owns the remaining 40%. SKF will have full management control. Nov. 14, 2003

**Sumitomo Electric Industries** has announced plans to strengthen operational capacity in China through its new unit, **Sumidense Mediatech Suzhou**, which will begin developing and producing wiring harness applications with the aim of supplying Japanese automotive manufacturers in Japan and across Asia, and to other China-based automotive manufacturers. Sumitomo Electric will double its staffing in the PRC to 10,000 people. Nov. 5, 2003

**Tenneco Automotive** of the US and **Eberspacher International** of Germany have inked an agreement to establish a JV in China to manufacture emission control products and systems for BMW and Audi. Tenneco Automotive and its Chinese units will own 55% of the business, Eberspacher 45%. Nov. 24, 2003

**Toyota** and **FAW Group** have established a JV vehicle sales company, **FAW Toyota Motor Sales Co.** The company will handle sales and aftersales service of Toyota and **Daihatsu** vehicles, parts and accessories in China. Operations formally began on November 1, interacting with 68 dealers. Nov. 3, 2003

**Toyota** has been cleared by the Chinese government to set up a 70/30 JV in Guangdong Province with **Guangzhou Automobile Group Co** to produce as many as 500,000 engines a year for export. The two partners will invest a combined ¥30bn (US\$283m) in the plant. Nov. 13, 2003

**Valeo** is increasing its stake in **Shanghai Valeo Automotive Electrical Systems** from 30% to 50%. The JV was set up with **SAIC** to make starters and alternators. Valeo is also increasing its stake in **Valeo Shanghai Automotive Electrical Motors & Wipers Systems**, its JV with **STEC**, a subsidiary of **SAIC**, to 55% from 50%. The two JV's main customers are **Shanghai VW**, **Shanghai GM**, **FAW** and **Jinbei**. Dec. 16, 2003

**Volkswagen AG** announced plans to set up a €40m (US\$304.8m) engine factory in Shanghai with **SAIC**. The facility will have an initial annual production capacity of 180,000 engines, rising eventually to 300,000. Sep. 30, 2003

**Volvo Car** plans to establish an assembly operation in China to build its new line of S40 and V50 models. No word yet on when or where such a facility would open. Sep. 5, 2003

To submit stories to future editions of this newsletter, please contact Ms. Sora Ahn in New York on 212.265.5300 or sahn@bdallc.com.
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## INDIA

**Nissan** will soon enter the Indian passenger vehicle market with the release of its *X-Trail* sport-utility. Nissan has so far been limited to light-duty commercial trucks built at a JV with **Hyderabad Allwyn** under the *Cabstar* brand. Currently, there are no plans to bring in cars built by Nissan's alliance partner, **Renault**. Dec. 23, 2003

**Sigma Vibracoustic India**, a JV between **Sigma** and **Vibracoustic** of Germany, says it has booked a Rup1bn (US\$22m) order from **DaimlerChrysler** for anti-vibration components. Sigma Vibracoustic will be a single-source supplier for these components. Oct. 6, 2003

**Tata Group** of India says it has signed a MoU to acquire **Daewoo Commercial Vehicle Co**, an operation excluded from **GM's** takeover of **Daewoo Motor** assets last year. The value of the takeover deal is estimated to be 140 billion won (US\$118m). Nov. 7, 2003

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## INDONESIA

**PT Indomobil Niaga Indonesia**, the Indonesian distributor of **Suzuki** cars, has revealed that Suzuki plans to make Indonesia its production center in Southeast Asia. The operation is expected to produce up to 120,000 units annually. Sep. 23, 2003

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## JAPAN

**Continental Teves (CT)**, a JV between **Continental** and **Nisshinbo Industries**, acquired **Nagano Japan Radio's** wheel sensor unit as well as its Chinese subsidiary. CT makes braking systems for Japanese and Korean automakers, producing much of its output at its Chinese plant, **NJRC (Lianyungang) Electronics**. Continental expects sales of its auto electronics to grow twice as fast as its tire business in the future. Oct. 9, 2003

**DaimlerChrysler** wants to increase its holding in Japanese truckmaker **Mitsubishi Fuso**, according to a new report issued by Reuters, quoting sources close to the matter. The objective, according to the source, is to create a situation that enables it to benefit from the economies of scale locked up in its investments. Mitsubishi Fuso and DaimlerChrysler do share some components and are collaborating on heavy-duty engine development but DCX obviously want more. Dec. 9, 2003

**Hino Motors**, **Toyota's** truck arm, and **Isuzu** announced plans to establish a 50/50 holding company to consolidate control over bus manufacturing subsidiaries of both companies. By establishing a JV, Hino and Isuzu intend to promote their on-going joint initiative to consolidate bus manufacturing operations while enhancing functional capabilities of **J-Bus**, established in 2002 as a start-up preparation company for the planned creation of a JV. Sep. 16, 2003

**Nissan Motor** and affiliated commercial vehicle maker **Nissan Diesel** have established a 85/15 JV company called **Nissan Motor Light Truck Co**. The new unit will cover development, manufacturing and sale of 1 ton to 2 ton payload light-duty truck bodies, drivetrain and associated parts. It will not only target the Japanese market but also those of China and Europe. Oct. 7, 2003

**Nissan** plans to outsource some *Serena* minivan assembly work in Japan to French tier one supplier **Valeo** from 2005. Valeo may also perform the same role for *Sentra* passenger cars made in Mexico. Production of the Japanese modules would probably involve Valeo's Japanese JV, **Zexel Valeo Climate Control**. Sep. 4, 2003

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## KOREA

**GM Daewoo Auto & Technology Co** plans to double its investments in R&D and facility expansion to a trillion won (US\$846m) next year. US\$200m will be spent to build a diesel engine plant, which will in turn produce diesel engine passenger cars, through an alliance with **Fiat & GM Powertrain**, a JV between GM and Fiat. GM DAT will also buy transmission manufacturer **Daewoo Powertrain** for US\$44m. The business will be renamed **GM Daewoo Powertrain**. Oct. 17, 2003

**Hyundai Mobis** has opened a brake factory in Cheonan, South Korea, capable of manufacturing a million brake systems a year. The brakes use technology supplied by **Robert Bosch** of Germany. Mobis has also just opened a large chassis module plant in Beijing, China. Dec. 5, 2003

**Ssangyong Motors'** creditors have signed a memorandum of understanding with **China National Bluestar Group** to sell South Korea's fourth largest carmaker to the Chinese chemicals group. Bluestar has the right to acquire a controlling 49% stake and to conduct a four-week due diligence study on Ssangyong, according to Chohung Bank, the chief creditor. Jan. 6, 2004

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## MALAYSIA

**Continental AG** has lifted its stake in Malaysian conglomerate **Sime Darby's SDC Tire** operation to 51% from 30%, giving it better access to the Southeast Asian markets. The company wants to claim a 20% share of the Southeast Asia market, which it says consumes nearly 30 million tires per year, about double the size of the Chinese market. Oct. 13, 2003

**Cycle & Carriage (C&C)** will begin local assembly of **Peugeot** and **Mazda** cars in early 2005. C&C will invest RM20m to RM50m (US\$5m to US\$13m) to set up the operations. C&C is aiming for a 3% share of the car market in Malaysia for each brand. Currently, Peugeot's share is 1.3% and Mazda's 1.5%. Sep. 4, 2003

**Tan Chong Motor Holdings** of Malaysia is to invest as much as RM40m (US\$10.5m) to set up a local assembly operation for **Renault**, working through a subsidiary called **TC Euro Cars**. This will be Renault's first CKD production base in Southeast Asia will be in Malaysia, starting late next year. Renault expects Malaysia to become a hub for export to Thailand, Indonesia and Vietnam. Sep. 4, 2003

**Roots Industries**, the largest electric vehicle horn manufacturer in India, is setting up a wholly owned subsidiary in Malaysia. Production of two product lines (around three dozen variants) is expected to begin by the end of the year in collaboration with **Duromac** of Malaysia. Nov. 14, 2003

**UMW Holdings** subsidiary **UMW Toyota** and **Takanichi Co** will set up a 65/35 JV, called **Takanichi SIM**, to manufacture car seats and other parts in Malaysia. Takanichi specializes in interior components; its main shareholders are **Toyota Motor** (79.95%) and **NHK Spring** (20.05%). Nov. 5, 2003

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## PHILIPPINES

**Ford Motor** plans to turn the Philippines into a regional export hub for Southeast Asia, infusing an additional US\$50m into its Santa Rosa operation. The money will be spent on facility upgrades, tooling and engineering costs related to new vehicle programs. Oct. 14, 2003

**Honda Parts Manufacturing Corporation** has commenced production of manual transmissions at a new factory next to its existing facility at Laguna Technopark, Manila. Transmissions will be exported to Honda assembly plants in Southeast Asia and Europe. Aug. 24, 2003

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## THAILAND

**Ford** has made Thailand the base for its regional operations headquarters with the formation of **Ford Services Thailand (FST)** to support all manufacturing in Southeast Asia as well as sales, marketing and consumer credit operations right across Asia Pacific. Support will consist of finance, business development, personnel issue, manufacturing support and planning, material planning and logistics, and purchasing. Dec. 16, 2003

**GKN Driveline** and **Toyota Machine Works (TMW)** will form two new JVs in Thailand to manufacture and supply driveshafts for Toyota in Thailand, as well as for GKN Driveline and TMW operations across Asia-Pacific, including Japan. Sep. 1, 2003

**Charoen Pokphand**, the Thai business group, has formed a JV with **Kodama Chemical Industry** of Japan to manufacture plastic parts for the automotive

industry. Charoen has invested Bht120m (US\$3m) in the first phase of the JV, called **Echo Autoparts** (Thailand). A further US\$6m to US\$10m will be injected over time to expand capacity and branch out into automotive electronics and electrical parts. Nov. 14, 2003

**Honda** has revealed a plan to invest Bht1.17bn (US\$29.5m) in Thailand next year, mainly to enhance local R&D capability for motorcycles. Honda R&D Southeast Asia Co will get Bht850m while Honda Thailand Technical Training Centre is to receive Bht317m. The company says this will make Thailand its main two-wheeler R&D base in Southeast Asia and its third largest worldwide. Dec. 21, 2003

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## VIETNAM

**Toyota** has announced plans to set up an export center in Vietnam. The US\$5m facility in Vinh Phuc Province will source parts from local manufacturers for export to Toyota plants worldwide. The sourcing program will kick off next June with parts from the Vietnamese factories of **Denso** and **Harada**, and eventually, the center will source parts from more local suppliers. Oct. 14, 2003

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## ABOUT BDA

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