

ASIAN AUTOMOTIVE NEWSLETTER

Issue 50, March 2007

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

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INTRODUCTION

We are pleased to be publishing Issue 50 of our newsletters. The Asian auto sector has expanded enormously since we published our first newsletter in 1998, and on the back of this expansion, Asian M&A, our business and our readership have also grown very substantially.

BDA remains an Asia-focused corporate finance advisory firm which assists multinational clients to identify, assess and execute cross-border transactions, including acquisitions, divestments, JVs and restructurings. We have offices and professional staff in all of the major Asian automotive markets, as well as in Bahrain, the US and the UK. If you are interested to discuss any of the articles within this newsletter, please do contact me direct.

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CHINA

Alcoa opened an aluminum brazing sheet plant to serve the Asian automotive market. **Kunshan Aluminum Products**, a JV between Alcoa and **Yencheng Engraving**, produces heat-exchanger materials for auto and other industrial heating and air-conditioning applications and complementary common alloy aluminum products. The plant is Alcoa's third flat-rolled products factory in China. Pittsburgh-based Alcoa produces primary and fabricated aluminum. (January 15, 2007)

Delphi will set up a US\$40m parts venture in China with a local company to boost sales. Delphi will hold 60% of the half-shaft manufacturing company in Anhui, its second such venture with China's **Hebei Lingyun Industrial Group**. Lingyun will own the remaining 40%. The venture will hire 500 people and start full operation by mid-2008. It will double the half-shaft capacity of Delphi's steering division in China. (December 20, 2006)

Dongfeng Nissan Diesel Motor plans to localize its heavy-duty truck axles to compete with low-priced Chinese trucks. **PK-UD Axle Co**, a 55/45 JV between Japan's **Press Kogyo Co** and **Nissan Diesel Motor**, will begin manufacturing axles for heavy-duty trucks and buses in China. The company is erecting a factory and plans to start volume production in May. Dongfeng Nissan Diesel will be the JV's first customer. PK-UD Axle will be the first Japanese-owned company to make heavy-duty truck axles in China. (March 7, 2007)

Faltec, a Japanese maker of exterior resin parts, is setting up a JV manufacturing plant in China after receiving orders from **Dongfeng Motors** for front grilles, wheel covers and mud guards. **Jiaxing Minqiao Automotive Parts** is a JV equally owned by **Altia Hashimoto**, part of Faltec and **Forecast Industries**, a subsidiary of China's **Minshi**. The two companies have invested US\$19m in the building and equipment. The plant will begin operations in February 2008. (February 14, 2007)

FAW Xiali Automobile, **Toyota Motor's** China partner, plans to invest US\$386m from 2007 to 2010 to boost production capacity. The company's expansion scheme includes doubling its vehicle production capacity to 400,000 units and the addition of a new engine assembly line. To maintain growth momentum, the company will increase R&D capabilities and roll out more new models in the next few years. (January 19, 2007)

Great Wall Motor will set up a US\$257m engine plant to expand vehicle sales overseas, especially in developed markets. Great Wall has already shipped 500 of its *Hover* SUVs to Italy and expects to top 1,000 units for full-year sales. The facility, in Great Wall's base in Hebei, will have capacity of 400,000 gasoline and diesel-fueled engines. Production will start in H1 2008. (January 18, 2007)

Invista plans to build a plant in China to produce nylon yarn used in air bags. Invista will continue to supply polyester yarn used for seat belts from its plant in Salisbury, North Carolina until its plant becomes operational in China. Its major customers are **Autoliv China** and **Kolon Nanjing**. (February 14, 2007)

Kumho Tire Company of Korea plans to double tire sales to leading carmakers in 2007 to 1 million units, from 500,000 units in 2006. By expanding production at its three plants in China, Kumho Tire plans to raise its market share to 8% from 2% in the global tire market by 2015. Kumho's third and latest plant in Changchun, China came onstream in July 2006. (February 16, 2007)

Mahle has started supplying engine valves in China from a new JV in Macheng, Hubei Province. Last month, Mahle acquired 60% of an existing valve manufacturing operation owned by **Hubei Tri-ring Valve**, which holds the remaining shares. The JV is Mahle's first valve plant outside Europe and has capacity of 20 million valves. The company plans to export engine valves from China to other regions. (February 19, 2007)

Mitsubishi Heavy Industries plans to start manufacturing engine valves for export to Europe at its plant in Shenyang by 2008. The plant will double capacity to 20 million valves during 2007 in anticipation of the exports. **Shenyang Aerospace Xinguang Mitsubishi Heavy Industries Engine Valve** is a JV between Mitsubishi Heavy and **Shenyang Aerospace Xinguang**. (December 20, 2006)

NOK-Freudenberg Group, a German-Japanese auto component supplier, will set up its fifth Chinese factory, a coatings plant for shaft seals in Wuxi, Jiangsu province. The plant is expected to begin operations in May 2007. (December 13, 2006)

Robert Bosch plans to boost its purchasing in China this year. The German supplier will source US\$1.3bn components from China in 2007. For 2006, the figure stood at US\$1.0bn. Bosch has a global purchasing volume of US\$15.8bn. Half of Bosch's purchasing volume in China is for its plants in the Asia-Pacific region. Bosch will buy the majority of components it sources in China from non-Chinese suppliers with operations in the country as few fully domestic Chinese suppliers can meet Bosch's quality standards. (January 15, 2007)

SAIC Motor began production of a gasoline engine based on a previous generation *MG Rover* engine that meets European emissions standards. The gasoline engine was developed with help from **Ricardo**, the UK-based engineering consultant. The 2.5-liter V-6 engine will go into SAIC Motor's first self-branded car, the *Roewe* sedan, which is based on the *Rover 75* lower-premium sedan. Volume assembly will begin in

mid-2007. The company plans to export the car to Europe by 2010. (January 8, 2007)

Shanghai Automotive has completed its US\$2.4bn restructuring, transforming itself into the largest domestically listed automaker. Under a plan unveiled in July 2006, **SAIC Motor**, the country's top car maker, transferred key operations to its unit **Shanghai Auto** in exchange for US\$2.5bn (RMB19.1bn) of new shares in the unit, securing a fund-raising channel to aid the group's global expansion. The restructuring significantly increases Shanghai Auto's net asset value and profits, the company said. Had the deal been in effect during 1H2006, it would have raised Shanghai Auto's earnings by 28.5% for the period. (December 20, 2006)

Toyota Motor will start building the *Yaris* subcompact, the smallest car in its product line-up, at a JV plant it owns with **Guangzhou Automobile Group** in China in mid-2008. The *Yaris*, called *Vitz* in Japan, will be the second model to be produced at the 200,000 units-a-year plant in southern China, which began building the *Camry* sedan last May. The world's second-largest automaker said it would boost its capital in the JV, **Guangzhou Toyota Motor**, by US\$49m partly to help finance the plan. (December 28, 2006)

Volvo signed a non-binding framework agreement outlining a possible investment in **Dongfeng Motor**, owned by **Nissan Motor** and **Dongfeng Motor Group**. Dongfeng could become a fifth Volvo brand along with *Volvo*, *Renault*, *Mack* and *Nissan Diesel*. The move will boost Volvo's Asian business, particularly in China, where an existing truck venture, owned with **CNHTC**, has had weak deliveries partly due to new rules on weight loads. Volvo could invest in the heavy and medium duty commercial vehicles segment of the Dongfeng JV, while Nissan Motor would focus on cars and light vehicles. (February 1, 2007)

Yorozu plans to double the size of its China suspension-parts manufacturing operations by March 2008. Yorozu will invest US\$38m to expand its plant in Guangzhou province with

buildings, equipment and employees (December 20, 2006)

ZF Friedrichshafen, global supplier of driveline and chassis parts, plans to expand its Chinese operations after **Jiangying Xingcheng Special Steel Works** has proven able to produce high quality steel. ZF helped Jiangying Xingcheng improve its quality control for the steel which can be used in its gear parts. This achievement is seen as significant because it paves the way for more specialty steels, currently imported from Europe, to be made in China. (January 15, 2007)

INDIA

Audi will start production in India of its *A6* model some time in Q3 2007. Production will be based at a plant in Aurangabad, Maharashtra and will involve the assembly of parts manufactured in Germany for Audi *A6* cars destined for the Indian market. Audi has also set up a distribution company based in Mumbai in Q1 2007 and will expand its Indian dealer network to at least eight exclusive Audi dealers in coming years. At present it has three dealers in the country. (December 18, 2007)

BMW will start assembling cars in India in 2007 and expects to produce 1,000 vehicles in the first year of operation. The Munich-based company plans to sell 150,000 cars in Asia by 2008, after sales in the region climbed 13.8% in 2006 to a record 126,949 vehicles. BMW's plant in Chennai, Tamil Nadu, is the group's fifth factory in Asia and will make 3- and 5-series BMWs exclusively for the Indian market. BMW sold just 257 cars in India in 2006. (February 8, 2007)

Bombay Burmah Trading's subsidiary, **Afco Industrial & Chemicals**, acquired Chennai-based **Electromags Automotive Products** for US\$11m. Bombay Burmah Trading is India's second-oldest listed company with interests in timber trading, tea plantations and textiles. No details were provided, but the move is in line with

Bombay's goal to increase its presence in the fast-growing auto components business. Electromags makes electro-mechanical components and its customers include **Bosch, Honda, Sundaram Clayton** and **TVS Motorcycles**. (December 16, 2006)

Caparo Group of the UK completed the acquisition of the sheet metal business of India's **International Auto** through its wholly-owned subsidiary, **Caparo Engineering India**. The acquisition comprises sheet metal operations in Pune and Jamshedpur. The units have an installed pressed parts capacity of 16,000 TPA, employ 300 people and have annual revenues of US\$16m. It is one of the major suppliers of sheet metal auto components to **Tata Motors**. The company is also investing US\$113m to develop a 120 acre facility near Chennai to cater to the automotive industry. (January 29, 2007)

Eaton Corp began the construction of its plant in Ranjangaon for medium and heavy duty truck transmission and components. The facility will be spread over 60,000 sq. ft. and will be completed in Q4 2007. The new plant will house machining, heat-treating and assembly operations and will employ 120 people. Products will be sold domestically and will also serve Eaton's global truck customers. (January 30, 2007)

Endurance Technologies, the Indian auto parts maker, plans to acquire aluminum die-casting firms **Nuova Renopress** (Italy) and **Amann Druckguss** (Germany). The companies will cost US\$60m, including another components manufacturer, **Paioli Meccanica**, with which Endurance has had a previous technical collaboration. The companies have 40 years of die-casting and machining experience. Customers include **Bosch Group, DaimlerChrysler** and **Siemens VDO**. Endurance will now have three plants in Europe and 18 in India and is looking at further acquisitions in Europe. (February 16, 2007)

Hyundai Motor's second Indian plant in the southern Indian state of Tamil Nadu will begin

mass producing its new mini-cars in October 2007. The new assembly line will allow Hyundai Motor India to double capacity to 600,000 vehicles. Targeting sales of 320,000 units in India, the carmaker plans to export the remaining units. Hyundai, with a market share of 18%, is the second largest automaker in India after **Maruti Udyog**. (February 23, 2007)

Hyundai Motor plans to set up a light commercial vehicle manufacturing plant in Pune, India. According to sources close to the development, Maharashtra Industrial Development Corporation has agreed to allot 700 acres to the Korean company for its new plant in India. A MoU between the company and the State Government is expected to be signed soon. Though the details are yet to be known, an auto industry analyst said the investment could be over US\$225m. (March 5, 2007)

Kansai Paint is building its latest facility in Bangalore to better supply Japanese automakers' facilities in the region. The new Bangalore plant will have capacity of 6,000 tons of paint per month. It will primarily make automotive paint, but it will also make construction paints for the projected economic development of southern India. The company will invest US\$50m in the project. Kansai Paint will also expand capacity at its six other Indian plants. (March 3, 2007)

Mahindra will build a new plant costing US\$564m to make vehicles for its JV with US truck and engine maker **Navistar International**. Mahindra signed an agreement with the western state of Maharashtra for the plant which will have an initial capacity of 250,000 units. Mahindra has a 51% stake in the JV for light, medium and heavy trucks and buses. The proposed plant will make medium and heavy commercial vehicles with 90% of content sourced locally. (January 16, 2007)

Minda Industries announced that it is likely to acquire a European auto components supplier in Q2 2007. The automotive switch maker plans to buy either a switch maker or an alternative fuel conversion kit maker for US\$60m-US\$80m.

Minda Industries has so far expanded capacity for growth and formed JVs to access technology. It has a JV with Italy's **FIAMM** for automotive horns and batteries. Minda agreed with French car parts maker **Valeo** to form a JV to make lamps and starter motors. (February 6, 2007)

India's cabinet has approved selling the government's remaining 10.3% stake in leading car maker **Maruti Udyog**. The stake will be sold to banks and financial institutions and bids are expected soon. Indian mutual funds will also be eligible to take part. No details were given on when the sale will take place. Maruti is 54.2% owned by Japan's **Suzuki Motor**. **SBI Capital Markets** and **Kotak Mahindra Capital** have been appointed as advisors. (December 21, 2006)

Modine Manufacturing plans to invest US\$14m over the next three years in a plant in Chennai, India. The plant will make products for India's commercial vehicle and bus markets. (December 25, 2006)

Nissan, Renault and **Mahindra** have agreed to form a JV to build cars in India. The companies will set up a factory in the auto hub of Chennai to manufacture small cars. The JV will be 50% owned by Mahindra, while Nissan and Renault will each hold a 25% stake. Capacity will be 400,000 units in 2009. (February 23, 2007)

Sona Group's flagship company **Sona Koyo Steering Systems** announced it has raised US\$35m through a private placement of its equities with **JM Financial India** in its holding company, **Sona Investments**. JM Financial Products, a JV between JM Financial and investment bankers Morgan Stanley, effectively raised its holding in the company to 13.4%. The

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funds will be used for organic and inorganic growth. (February 9, 2007)

Suzuki Motor announced it will invest US\$1.7bn to expand capacity of its car and engine plants in India. It has already invested US\$832m in its plants run by **Maruti Udyog**, and another US\$1.7bn will be spent by 2010, bringing total capacity to 1 million cars a year from 630,000. Maruti, majority-owned by Suzuki, opened its fourth car plant in Haryana, near New Delhi, which will have an initial capacity of 100,000 units. That will be expanded to 300,000 units by 2010. A diesel engine and transmission plant, inaugurated at the same location, will start at an output of 100,000 units and reach 300,000 over the same period. The company plans to export 200,000 cars by 2010 to Europe and other markets. It also hopes to export diesel engines to Suzuki units worldwide, starting with Hungary. (February 6, 2007)

Toyota Motor plans to build a new plant by 2010, concentrating on inexpensive, smaller model cars. The new plant, which will be built close to the company's first plant near Bangalore, will aim to produce 100,000 cars a year, doubling the firm's capacity in India. It will cost US\$328m-US\$410m. (February 12, 2007)

INDONESIA

Hyundai Motor will assemble trucks and buses at a plant in Indonesia. Hyundai Motor said the plant, which has been built by Indonesia's **Korindo Group** with an investment of US\$23m, will have capacity of 3,600 buses and 2,400 trucks. Korindo Group will be responsible for marketing and sales. Demand for commercial vehicles in Indonesia is forecast to reach 400,000 vehicles in 2007 on the back of an economic recovery. Hyundai already has an assembly plant for compact cars and mini-vans in Indonesia. (February 28, 2007)

SAIC Motor, part of **Shanghai Automotive Industry (SAIC Group)**, will set up a plant in Indonesia before the end of 2007 in partnership with **GM**. SAIC Motor, if successful, will start to make mini CKD vehicles in Indonesia for the SE Asian markets, which SAIC has long sought to penetrate. The company, **SAIC-GM-Wuling Automobile Co**, has almost completed acquisitions of facilities in Indonesia, and is considering the formation of a new JV plant. (February 2, 2007)

JAPAN

Denso plans to invest US\$80m to increase its global production of diesel engine fuel injection systems by 30% in 2010. With environmental regulations being tightened worldwide, demand is expected to grow for diesel-powered vehicles, which emit less carbon dioxide than gasoline-powered cars. Denso aims to lift the global market share of its common-rail systems, from 15% to 20%. By investing aggressively, the company seeks to challenge **Bosch**, which controls more than half the market. (March 2, 2007)

Mitsui USA will acquire **Steel Technologies**, a US flat-rolled steel processor, to upgrade its ability to deliver steel products to Japanese automakers operating in the US, for US\$430m. Steel Technologies, not affiliated with any of the major automakers, processes automotive steel sheets. With a work force of 1,000, the Kentucky firm operates 23 coil centers for processing steel sheet in the US, Canada and Mexico. Since the 1980s, Mitsui and Steel Technologies have jointly operated coil centers in the eastern US. (March 1, 2007)

Nippon Kayaku, a Japanese safety device manufacturer, plans to build its new manufacturing facility in China. The Chinese plant will be the fourth leg in the company's global expansion, along with its existing plants in Japan, the US and the Czech Republic. They will spend US\$10m to build the manufacturing plant near Hangzhou,

Zhenjiang Province. **Nippon Kayaku** sells its components to a variety of global seat belt makers, including **Takata** and **Tokai Rika** in Japan, **Autoliv** in Europe and **TRW Automotive** in the US. (January 24, 2007)

PSA Peugeot-Citroen will supply diesel engines to **Mitsubishi Motors**, its Japanese counterpart, under a new agreement that extends operational ties between the two companies. Peugeot-Citroen will start supplying its 2.21 common-rail direct injection diesel engine to Mitsubishi Motors from mid-2007. The Japanese company, which plans to introduce its new *Outlander* SUV model in Europe this month, will roll out a version equipped with the Peugeot-Citroen diesel engine toward the end of the year. (January 17, 2007)

Volvo will take over **Nissan Diesel Motor** from **Nissan Motor** for US\$1.1bn as well as assume US\$1.1bn of net debt. Volvo already owns a 19% stake. Volvo, the world's No. 2 truck maker, owns the *Volvo*, *Renault* and *Mack* brands, is seeking to grow in Asia and capitalize on Nissan Diesel's expertise in hybrid technology. (February 20, 2007)

Yokohama Rubber plans to expand into the ultra large tire market for construction vehicles, launching production and sales of 49-inch products in 2009. The company plans to set up a production line at its factory in Onomichi, Hiroshima Prefecture, to manufacture ultra large tires, which are used for dump trucks and other giant construction vehicles weighing in at 150-300 tons. Demand for ultra large tires has been rising sharply, driven by the global boom in natural resources development. (February 14, 2007)

KOREA

Autoliv has agreed to buy the remaining 35% of shares in its Korean JV. Sweden-based Autoliv will integrate the business unit **Autoliv-Mando**, created in 2000, into its global business operations. The unit reported 2006 revenues of

more than US\$230m. The purchase price was not disclosed but the firm said the acquisition was expected to increase earnings per share by US\$0.03 in 2007. (January 11, 2007)

Hyundai Mobis acquired a controlling 38.3% stake in **Korea Automotive Systems (KASCO)** for US\$27m as part of its strategy to strengthen its brake systems business. **KASCO**, a subsidiary of **Korea Flange Co**, makes brakes and power steering oil pumps and holds a 25% share of the domestic brake system market. The transaction will be closed by June 1, 2007. (February 28, 2007)

Hyundai North America will build a new engine plant at its facility in Alabama. The plant will produce four-cylinder 2.0-litre engines for its mid-sized sedan *Sonata* model built at the site. Construction is slated to be completed by Q4 2008 and the plant will have capacity of 200,000 units. Hyundai's expansion in the region is partly being driven by the pressure from the increasing Won, squeezing margins in North America. (February 21, 2007)

Modine has secured US\$143m of new and replacement business for a number of Hyundai/Kia commercial vehicle programs over the 2006-08 period. The majority of parts will be supplied from Modine's Korean facilities, which were acquired in July 2006 from **WiniaMando**. Modine will also supply US\$90m of HVAC systems, condensers and charge air coolers for Hyundai SUVs, commencing with 2007 models and extending over five years. The programs also include US\$12m of business to provide oil coolers for one type of Hyundai's new Euro-V diesel engine. (January 8, 2007)

MALAYSIA

PSA Peugeot Citroen ended talks on a possible cooperation with Malaysia's troubled carmaker **Proton**. Malaysia's government is currently in

talks with a number of companies to provide loss-making Proton with the necessary know-how to recover its status as Malaysia's biggest-selling carmaker. The Malaysian government owns 59% of Proton, including a 43% stake held by investment arm, **Khazanah Nasional**. (March 5, 2007)

THAILAND

Ashimori Industry is expanding production capacity by 60% at its plant in Thailand, which produces seatbelts and other automobile interior products, to meet increasing demand for Japanese automakers in the region. Ashimori is building a second factory on a site adjacent to the existing facility southeast of Bangkok. The new 7,700 sq. meter factory will double the size of the Thai plant as a whole. Plans call for the plant to make seatbelts and airbags, as well as covers for station wagon cargo areas and power rear sunshades. The new plant will begin production in 2007. (January 15, 2007)

Ford is planning an extra investment of up to US\$1bn in its Thai production operations. The proposed new plant will manufacture up to 150,000 units per annum, with 80% of its output for export. The company has yet to decide on a final location for the new plant. (February 26, 2007)

Tata Motors has announced that it has finalized a JV agreement with Thai manufacturer **Thonburi** to build pick-up trucks in Thailand. Tata will hold a 70% stake in the company, which will assemble pick-ups at Thonburi's existing plant in Thailand. The vehicles will be sold in the domestic Thai market and other markets in ASEAN nations. Tata is currently raising its domestic production capability and expanding its operations overseas, but the company will face stiff competition in Thailand from **Ford, GM, Isuzu, Mitsubishi** and **Toyota**. As a result, Tata will likely have to compete on price with its Thai-produced pick-ups. (December 18, 2006)

VIETNAM

Johnson Controls opened a new US\$8m plant in Vietnam, producing automotive interiors. Based in the Vietnam-Singapore Industrial Zone, the plant will supply modules to Japan and Malaysia, as well as the Vietnamese market. The plant will

have capacity of 833,000 units. In addition to the new plant, Johnson Controls also plans to expand production in other areas, including power equipment. The US company cited Vietnam's 'promising market' as one of the reasons for its increased investment in the market. (March 1, 2007)

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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, divestments and capital raising. For further information on BDA's services or on any of the articles in this newsletter, please contact the offices below.

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