

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

ASIAN AUTOMOTIVE NEWSLETTER

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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.

Charles Maynard
Managing Director

CHINA/HK

Beijing Jeep Corp, the China-based JV of German-American **DaimlerChrysler** of Germany, announced the start of production of its flagship *Jeep Grand Cherokee* model. The vehicle will be formally launched in China by Q4 2001. The vehicle is a tangible result of an agreement between DaimlerChrysler and **Beijing Automotive Industry Co (BAIC)** that outlines "mutual cooperation" for at least 30 years going forward. The agreement calls for capital investment, new management and the injection of advanced automotive technology. The JV plans to launch a new model every year, led by the high-end *Grand Cherokee*. (September 20, 2001)

Delphi Automotive Systems of the US has exited two JVs in China, with total consolidated sales of US\$14.2m. The businesses manufacture suspension and steering components and are being sold as a result of Delphi's restructuring initiative. The first JV is **Tianjin Delphi Suspension Systems Co**, formed in 1997 with **Tianjin Municipal Shock Absorber Co** of China, an affiliate of the **Tianjin Automotive Industrial Corporation (TAIC)**. The second JV is **Saginaw Steering Xiaoshan Steering Gear Co**, formed in 1996 with **Zhejiang Wanda Steering Gear** of Zhejiang province. (September 24, 2001)

First Automobile Works Group Corporation (FAW), the makers of China's only local sedan brand, *Hongqi*, endeavor to achieve a stronger market position for their car through international cooperation. FAW executives are inviting major international auto companies to invest either technology or capital into the Hongqi project. (September 30, 2001)

INDIA

Delphi Automotive Systems of the US will expand its aftermarket sales in India by directly marketing to car owners. Worldwide, aftermarket sales generated US\$2.1bn for Delphi in FY 2000, but India's contribution was insignificant. In total, Delphi generated revenues of Rs3.3bn (US\$68.5m) in India in FY 2000, predominantly on an OEM basis. (October 4, 2001)

The Indian Government has cleared the way for Japan-based **Suzuki** or its partner **General Motors** to acquire a majority stake in **Maruit Udyog**, India's leading carmaker. Suzuki, which holds a 50% share in the company, had previously been blocked from obtaining a majority stake. This divestment is an attempt to minimize taxpayers' investment in an industry with shrinking margins. The Government will off-load its equity share, which is worth about US\$140m, according to a timetable that will be finalized before the end of FY 2001. (October 4, 2001)

INDONESIA

BASF Coatings of Germany will market its *R-M* brand of automotive refinish paints in Indonesia through **PT Catur Warnaindah Sentosa**, an affiliate of **PT Catur Sentosa Adiprana** of Indonesia. The latter reported revenues of €102m (US\$92.6m) in FY 2000 and is recognized to be the largest coatings, building material, and related products manufacturer in Indonesia. (August 30, 2001)

JAPAN

Hino Motors of Japan, **Toyota's** truck arm, will begin buying components from **Isuzu Motors** of Japan

before the end of FY 2001 to reduce costs. Isuzu, which is 49% owned by US-based **General Motors**, is scheduled to deliver 1,000 air suspension systems per year for installation in a medium-duty Hino truck that will be launched in Q1 2002. (October 1, 2001)

Japanese Automobile Manufacturers Association (JAMA), the most powerful foreign voice in the Southeast Asian motor industry, has requested that ASEAN members drop tariffs on small imported cars to a uniform 30% as soon as possible. Tariffs on CBU small cars range from 30% in the Philippines to 140% in Malaysia. These tariffs stand in contrast to the 2.5% that the US imposes. (October 11, 2001)

Mitsubishi is divesting its transmission division. The factories will integrate with **Nissan's** unlisted transmission subsidiary **JATCO Transtechnology**. The latter will acquire Mitsubishi's facilities in Kyoto and Okayama in return for a 20% equity stake in JATCO, which manufactured approximately two million automatic transmissions in FY 2001. JATCO and Mitsubishi will jointly develop transmissions to cut development costs. (October 4, 2001)

Nissan has announced that it will terminate its 33 year-old contract to buy continuously variable transmissions (CVTs) from **Fuji Heavy Industries** of Japan. Nissan sold its 4.1% stake in Fuji Heavy last April to **General Motors** and will now source all CVTs from **JATCO**, its transmission subsidiary which has recently solidified relations with **Mitsubishi**. In FY 2000 Nissan purchased 71,000 CVTs from Fuji Heavy for use in various subcompact autos. Fuji manufactured a total of 179,000 CVT units in 2000/2001, selling 92,000 to third parties. (October 14, 2001)

Nissan of Japan will sell its entire stake in **IID Inc** of Japan, a design and research subsidiary, via a management buy-out. IID was established in 1990 and focuses on vehicle design, product planning, market research and customer satisfaction research. Nissan will continue to work with IID, but the investment reduction frees up IID to pursue work with other customers. IID employs 60 people in Tokyo. (October 14, 2001)

Nissan intends to take a 15% equity stake in its France-based parent company, **Renault SA**, in 2001. The move will increase Renault's holding in Nissan from 36.8% to 44.4%. It will also cement the global alliance of the two automakers. (October 16, 2001)

Robert Bosch of Germany will integrate its existing two Japanese units into a unified business that will serve as its product development and manufacturing base in Asia. The merged entity will reportedly be called **Bosch Automotive** and will produce engine parts, air conditioner components and brake parts. The two units posted a consolidated loss of ¥17.8bn (US\$146.4m) last year on a turnover of ¥332.7bn (US\$2.75bn). (October 11, 2001)

Toyota has announced that it will develop a low-cost SUV for emerging markets, particularly Asia and Latin America. The new SUV will have a 1.3-liter engine and will be based on the **Daihatsu Terios**. The vehicle will be sold under both badges in what is the first major JV partnership between the two companies. The cars will be made at Daihatsu's plant in Indonesia, while the engine will be sourced both from that factor and from a Toyota facility in Thailand. (September 7, 2001)

Japanese automakers **Toyota**, **Hino**, **Nissan Diesel** and **Yamaha** have temporarily halted operations at their assembly plants in Pakistan due to growing security fears and transportation bottlenecks caused by US-led military strikes in neighboring Afghanistan. All automotive plants in Pakistan are expected to be affected by a general strike that has been called on October 16, 2001. If suppliers do not deliver components, then output will surely be affected. (October 15, 2001)

KOREA

ArvinMeritor of the US has formed a strategic alliance with US\$400m Ulsan, Korea-based **Sejong**

Industrial Co. The two companies, which are leading producers of exhaust systems in their respective countries, will develop and supply exhaust systems and related components to North American and Korean production units of **Hyundai Motor** and its subsidiary **Kia Motors**. It is likely that they will also collaborate on exhaust projects in other countries. (September 17, 2001)

Daewoo Motor Co of Korea closed two of its three domestic plants in the middle of negotiating a takeover deal with **General Motors**. Several of Daewoo's key suppliers refused to ship components to its Kunsan and Pupyong production facilities until they received a total of US\$501m in unpaid bills. Daewoo disputes the charge that it has any outstanding balance with its suppliers and claims that its obligations have already been settled by its court receiver. Separately, after cutting a third of its workforce, Daewoo is now operating profitably. GM is reportedly willing to pay US\$1bn for the Korean carmaker. (September 19, 2001)

Hyundai Motor of Korea and **DaimlerChrysler** have each contributed US\$76.7m to form a Korea-based JV to manufacture engines for commercial vehicles. The JV, **Daimler-Hyundai Commercial Vehicle Co** will begin to produce diesel engines for DaimlerChrysler's *900 series* commercial vehicles and for Hyundai's medium-duty trucks and large buses in 2004. It will have an initial annual production capacity of 50,000 engines that will eventually be increased to 100,000 units. (August 27, 2001)

MALAYSIA

Citroen of France will begin producing its new *C3* model in Malaysia in 2002 along with local partner **Directional Malaysia**, which belongs to the **DRB-Hicom** group. The *C3*, a five-door hatchback, will be assembled with a 1.4-liter engine at **Proton's** AMM plant in Pekan, Malaysia. (September 26, 2001)

Daihatsu and **Mitsui & Co**, both of Japan, intend to increase their equity participation in **Perodua**, one of Malaysia's two national carmakers, in order to gain direct management control over the latter's production arm. The two companies, which respectively hold 25% and 7% stakes in Perodua, will increase their combined equity to 51%, with Malaysia-based **UMW Corporation Sdn Bhd** holding the remaining 49% stake in the company. The JV created as a result of this equity restructuring will acquire a 51% stake in Perodua's two wholly owned manufacturing units, **Perodua Manufacturing** and **Perodua Engine Manufacturing**. Following this transaction, cars manufactured for export markets will bear the Daihatsu brand name, while cars produced for the Malaysian market will be sold under the Perodua name. (September 18, 2001)

Oriental Holdings Bhd of Malaysia may soon become the sole manufacturing partner for **Hyundai Motor** in Southeast Asia. It already manufactures and exports a number of auto components for Hyundai, through its 60% owned venture **Oriental-Hyundai Sdn Bhd** to which Hyundai lends its name but has no equity stake. Under the proposed new arrangement, Hyundai Motor will rely more on Oriental Holdings for its manufacturing capabilities and possibly take a stake in Oriental-Hyundai. (October 1, 2001)

Oriental-Hyundai has agreed to assemble cars locally for **Hyundai Motor** subsidiary **Kia Motors Corp**. Through Oriental-Hyundai, Kia cars will be produced outside of Korea for the first time ever. Kia will launch its 1.6-liter *Spectra* model in Malaysia, which, priced at US\$20,789, will be one of the cheapest foreign cars available in the country. (October 3, 2001)

(AUVs). Honda is the leading manufacturer of passenger cars in the Philippines, but it has not yet had any product offerings in the AUV segment, which accounts for 31.8% of the local vehicle market. Honda will shortly release a wider, longer and cheaper version of its *C-RV* SUV to compete with the AUVs sold by **Isuzu**, **Mitsubishi** and **Toyota** in the Philippines. (September 4, 2001)

Mitsuba Corp, a Japan-based manufacturer of automotive components, will construct a new plant in the Philippines to manufacture pressed and molded parts by March 2002. The Japanese company already has a Philippines-based subsidiary, which runs its existing production facility for wipers, wiper motors and horns. However, the existing facility is nearing maximum output capacity. Mitsuba intends to invest a total of US\$5.8m in the new facility. (August 21, 2001)

The Philippines Board of Investment (BOI) has approved a US\$500m proposal by US-based **Ford Motor Company** that entails a division of production between its subsidiaries in the Philippines and Thailand. The proposal is the first under the ASEAN Industrial Cooperation (AICO) scheme that allows trade in CBUs rather than components. Ford will ship approximately US\$272m worth of CBUs and parts from Thailand to the Philippines, while transporting US\$279m worth of CBUs in the opposite direction. Under the scheme, Ford will pay tariffs of 0%-5% on its products rather than the prevailing CBU duties of 20% in the Philippines and 15% in Thailand. Ford's proposal was approved by the BOI mainly because it is expected to boost the Philippines' automotive exports from 10,300 units in 2002 to 19,800 units in 2004. (September 6, 2001)

PHILIPPINES

Honda Cars Philippines, the Philippines-based subsidiary of **Honda Motors**, is endeavoring to penetrate the local market for Asian Utility Vehicles

TAIWAN

The **World Trade Organization (WTO)** has approved Taiwan's entry accord after eleven years of negotiations. Among the stipulations for gaining

membership to the WTO, Taiwan has had to remodel its trading system and abandon an auto-related legislation requiring a minimum local content ratio of 40%. The **Taiwan Transportation Vehicle Manufacturers Association (TVMA)** believes that the scrapping of the local content measure will have a significant impact on the domestic auto industry. It is likely to result in nearly a third of locally made components being replaced by imports, while duties on imported parts will be lowered from, 14.6% to 8.9% by 2004. (September 19, 2001)

Ford Lio Ho, Yulon Motors, China Motors and Hotai Motors, Taiwan's four major automakers, anticipate stiff competition from Mainland Chinese carmakers as a result of pending WTO membership. The four companies have committed US\$874m to build new R&D facilities on the island by 2006. (September 19, 2001)

THAILAND

DaimlerChrysler has acquired from the Thailand-based **Thonburi Group** the outstanding 49% stake in auto finance company **Mercedes-Benz Leasing Thailand (MBLT)**. DaimlerChrysler also increased its paid-up capital in MBLT from US\$9m to US\$12m and subsequently renamed the business **DaimlerChrysler Leasing Thailand**. According to senior executives at DaimlerChrysler Leasing Thailand, approximately 40% of new *Mercedes-Benz* and *Chrysler Jeep* owners in Thailand became clients of the company in H1 2001. (August 15, 2001)

Orix Corp of Japan and its local subsidiary **Thai Orix Leasing** will acquire all of the outstanding shares in their Thailand-based automobile leasing JV, **SCG Car Services**, held by local partner **Siam Cement Group**

(**SCG**) for US\$5m. Orix will retain a 70% equity stake, while Thai Orix Leasing will hold the remaining 30% in SCG Car Services. As Orix expects demand for leased cars in Thailand to grow, it plans to increase SCG Car Services' fleet from 2,200 leased vehicles to 5,000 by 2006. (September 6, 2001)

Siam Motors & Nissan Co (SMN), a JV between Japan-based **Nissan Motors** and **Siam Group** of Thailand, has launched a new pickup truck model, *Frontier*, which it is expecting to become one of the top five in the country. Unlike the pickup truck models produced by **Toyota** and **Isuzu**, Nissan's *Frontier* has a computer-controlled 16-valve diesel engine, which offers electronic fuel distribution for the first time in the Thai pickup truck sector. (September 19, 2001)

VIETNAM

Denso Corp, a Japan-based auto parts maker and an affiliate of **Toyota Motor**, has established a subsidiary, **Denso Manufacturing Vietnam Co. Ltd**, in a suburb of Hanoi to manufacture electrical and electronic auto parts for Toyota's subsidiary in Thailand. Denso plans to invest US\$12.5 million dollars to build a 6,000 square-meter production facility, which should be operational by September 2003. (October 10, 2001)

Mechanical Communications and Transport Corp, a Vietnam-based engineering company, reportedly plans to invest US\$300m to build a factory for the manufacture of cars with over five seats and passenger coaches in Hanoi's Dong Anh district. 25% of the auto parts for the venture will be made in Vietnam, while the rest will be imported. The company is in talks with automakers in China, Korea and

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Hungary to acquire production lines and technologies for its factory, which will have an initial production capacity of 5,000 units. Details of the financing of the proposed car factory have not been released. (September 3, 2001)

Nissan Vietnam, a JV between **Da Nang Auto Engineering Company** of Vietnam and Japan-based **Nissan Motor**, has had its investment license revoked by Vietnam's **Ministry of Planning & Investment**. The license was granted to the JV in June 1996 to invest in the construction of a car factory in Hoa Khanh Industrial Park in Da Nang City. It was revoked because no construction has been carried out to date, and the JV's management has not offered any explanation for its inaction. (September 18, 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 and acquisitions. 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 the relevant office.

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