

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

ASIAN AUTOMOTIVE NEWSLETTER

Issue 23, February 2001

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

CONTENTS

INTRODUCTION	1
CHINA / HONG KONG	1
INDIA	2
INDONESIA	2
JAPAN	2
KOREA	3
MALAYSIA	4
THAILAND	4
FOCUS: Daewoo components suppliers	5

INTRODUCTION

Daewoo Motor's bankruptcy has adversely impacted its automotive components suppliers. The future of these companies depends upon the Daewoo-GM negotiations, which are moving forward at a grinding pace. If this transaction closes, there is likely to be a wave of foreign buyers acquiring or forming JVs with major local suppliers.

BDA is a corporate finance advisory firm that assists its clients in identifying and executing acquisitions and JVs in Asia. I can be reached at cmaynard@bdallc.com. Please contact me if you have opportunities, issues or questions that you would like to pursue.

Charles Maynard
Managing Director

CHINA/HK

DaimlerChrysler is planning to sign a LOI by February 2001 with **First Autoworks (FAW)**, one of China's leading state-owned vehicle companies. The two companies aim to set up a 50:50 JV, which will manufacture trucks and buses. The agreement comes as a disappointment to **Volkswagen**, which itself is looking for a Chinese partner in bus and truck production, particularly given Volkswagen's and FAW's longstanding partnership in auto manufacturing. (January 23, 2001)

Shanghai Automotive Group and **General Motors** have negotiated to buy 51% and 35% respectively of **Liuzhou Wuling Automotive Co Ltd's** B-shares to be issued in 2001. Negotiations between the three companies are scheduled to conclude in March 2001. Based in Guangxi, Liuzhou Wuling manufactures 150,000 minivans annually. The company will increase production levels to 200,000 annually after floating the shares. Over time, it will increase production to 400,000 units, with a view to raise levels ultimately to one million units. (January 5, 2001)

One of China's traditional automotive manufacturing provinces, Hubei, has more than 70% of its car production capacity lying idle. In 2000, only 190,000 vehicles were manufactured in the province, despite a total capacity of 650,000 units. A diverse group of automotive products are generated in the province, including heavy, medium, and light-duty trucks, cars, minivans, and special-purpose vehicles. The province also produces a significant portion of China's automotive parts and fittings. (January 8, 2001)

INDIA

Hindustan Motors (HM), a subsidiary of **CK Birla** of India, has finalized plans to roll out a premium car and a multi-utility-vehicle (MUV) by 2002. HM is presently examining **Mitsubishi Motor's** premium *Galant* car and *Pajero* MUV for possible launch in the domestic market. HM will manufacture the car in India but would initially import most of the components from Japan. Over time however, HM plans to localize component production. The Indian carmaker is also entertaining the possibility of introducing new models of existing vehicles such as its *Ambassador* and *Lancer*. (January 19, 2001)

Toyota Kirloskar Motor Ltd (TKML), an 89%:11% JV between **Toyota Motor** and **Kirloskar Group** of India, has rolled out a limited edition version of *Qualia*, one of its multipurpose vehicles (MPVs). The company plans to produce only 1,000 units of the premium vehicle, which will be priced at Rs800,000 (US\$17,500). TKML hopes that the limited edition release will spur demand for the *Qualia*, of which the company hopes to sell 35,000 units in 2001 compared to 21,285 units in 2000. In 2000, TKML held a 35% market share in the Indian MPV sector and intends to increase its share to 46% in 2001. (January 15, 2001)

INDONESIA

The Indonesian Government has agreed to allow Irian Jaya to import used cars from Japan and South Korea duty free. The area has a shortage of cars as many locals sent theirs out of the region during clashes with police and separatists. Irian Jaya also needs trucks, bulldozers, and pickup trucks. According to the Industry and Trade Minister, Irian Jaya does not need many vehicles, but it is in desperate need of some imports. The people of Irian Jaya on average cannot afford new cars, but would be able to purchase used Japanese and Korean imports, which cost about Rp35m (US\$4,000) each.

JAPAN

Mitsubishi Rayon Co of Japan has developed a new type of PVC-free automotive coating material, which is based on an environmentally friendly acrylic resin. The coating material offers improved protection from elements such as heat and weather and can be easily molded into convenient sheets. The company will begin producing 1,000 tons per year and plans to invest ¥2bn (US\$17.3m) in order to increase capacity to 10,000tpa. The material costs 2.5 as much as PVC products, but Mitsubishi hopes to decrease cost to 1.5 times. PVC-based materials are thought to emit dioxins under certain combustive conditions. Toyota Motor has plans to use the acrylic-resin material for coating its suspensions. (January 18, 2001)

Sanyo Electric Co of Japan has announced that it will supply **Ford Motor Co** with battery systems for hybrid vehicles that have gasoline engines and electric motors. Ford will install the battery systems in its *Escape HEV* sports utility vehicle, which will come to market in 2003. Sanyo will produce the batteries in Japan and export them. Japanese electronics manufacturers developed the nickel metal hydride battery system for use in hybrid vehicles in 1999. (January 9, 2001)

Toyota Motor Corp has been testing fuel cell powered cars with cells that can be refueled in order to capitalize on the existing infrastructure of gasoline stations. Fuel cell powered cars are expected to debut in Japan between 2005 and 2010 with an aim to make them widespread after 2010. Fuel cells generate power through a chemical reaction of hydrogen and oxygen, emitting mainly water, and are therefore environmentally friendly. The Ministry of Economy, Trade and Industry intends to hold talks with the public and private sectors in January 2001 to discuss ways to promote the spread of fuel cell powered vehicles. (January 23, 2001)

Toyota Motor Corp has formed an agreement with **General Motors Corp** in which the former will sell the latter's new compact SUV in Japan. The vehicle will carry the Toyota brand, and it will be the first GM car to be marketed by Toyota since the *Cavalier*

subcompact in the mid 1990s. Separately, GM has plans to manufacture the right-hand drive version of their co-developed *Pontiac Vibe* in its production facilities in California. The two companies also intend to collaborate with **Exxon Mobil Corp** to develop hydrocarbon fuel for next-generation vehicles powered by fuel-cells. (January 9, 2001)

The Japanese-US automobile and automotive parts agreement has expired with Japan refusing to accept an extension. According to Tokyo, the goal of the agreement has been reached. Japan's automotive industry has been opened, as shown through the number of partnerships and alliances formed between Japanese and foreign automakers. The two countries have plans to discuss the possibility of entering a new agreement, although Tokyo has voiced that it would prefer to establish a bilateral forum to address environmental issues and other problems related to the automotive industry. (January 4, 2001)

KOREA

DaimlerChrysler Korea has launched its mid-sized *Chrysler Sebring Sedan* models in Korea. The new car is an upgrade from the *Stratus*, the most popular imported car in Korea. It has a 200-horsepower engine, with brighter headlights, disk brakes and a 2,736-cc V6 double overhead camshaft engine. DaimlerChrysler Korea is selling the car for W37.7m (US\$29,500). (January 17, 2000)

Hyundai Mobis and an undisclosed US company intend to form a JV to manufacture driver seat modules. The US company aims to expand its auto parts operations and has been conducting due diligence on Hyundai Mobis' Chonan and Ulsan plants. Hyundai Mobis will retain a 51% stake in the JV and the US company will provide technology in order to improve the production of driver seat modules. The two firms expect that the new company will have revenues of W400bn (US\$315.6m) for its first year. (January 22, 2001)

Hyundai Motor and **DaimlerChrysler** have arranged to form a JV, tentatively called **Hyundai Star Commercial Alliance**, which will manufacture commercial vehicles. The two companies will sign the agreement in April 2001. DaimlerChrysler has already conducted due diligence at Hyundai's plant in Chonju, a city in southwestern Korea and plans to hold a 50% stake in the JV plant. Hyundai intends for the JV plant to become its commercial vehicle manufacturing base. (January 12, 2001)

Hyundai Motor has been instructed by the **Construction and Transportation Ministry** to recall several models of its vans due to defects. The *Trajet Galloper* and *Starex* model have had problems with their power steering, starting and suspension systems respectively. A total of 39,024 units will be recalled. The Korean carmaker will notify the relevant van owners and replace the defective parts for free at its company run service centers for one year starting from February 20, 2001. (January 22, 2001)

Hyundai Motor and **KIA Motor's** US sales branches have denied reports that they intend to merge. According to the president of **Hyundai Motor America Co (HMA)**, neither company has ever had any intention of forming a joint entity. (January 18, 2001)

Kia Motors has been required by the Construction and Transportation Ministry to recall its *Carnival* and *Carens* models. The *Carnival* model's oil pump could break during rapid acceleration and deceleration, and the *Carens's* engine could stop suddenly due to problems with the ration of fuel and air. About 100,300 *Carnivals* built between December 1997 and September 2000 and 10,000 *Carens* manufactured between June and December 2000 will be recalled. Kia will notify owners of the recall and rectify the defects free of charge at its repair shops and designated locations. (January 10, 2001)

Pohang Iron & Steel Co (POSCO) has restated that it will not supply hot-rolled coils to **Hyundai Pipe Co**, an affiliate of **Hyundai Motor Group**. POSCO does not want to supply its competitor, Hyundai Pipe, with the materials to manufacture steel plates because

there already is a domestic supply glut. According to POSCO, supplying Hyundai Pipe with hot-rolled coils would relegate POSCO to being a materials provider to Hyundai Pipe, which would preclude POSCO from being able to compete in the higher value-added steel plate market. The dispute began in 1997 when Hyundai Pipe constructed a plant for steel plate manufacturing. Since POSCO refuses to supply Hyundai Pipe with hot-rolled coils, the latter has been sourcing them in Japan. (January 18, 2001)

Ssangyong Motor Company of Korea has been granted the authority to extend its workout program to the end of 2001 because its labor union has agreed not to strike. The company's labor union submitted a written agreement that it would not strike while Ssangyong's workout program was underway. The labor union concluded that if the workout plan were to fail, there would be no future for the company or its workers. The company has implemented a new management strategy and hopes to expand its domestic dealerships from 36 to 150 by 2002. (January 22, 2001)

MALAYSIA

Daihatsu Japan, a subsidiary of **Toyota Motor Corp**, has increased its stake from 25% to 51% in Malaysia's second largest carmaker, **Perusahaan Otomobil Kedua Sdn Bhd (Perodua)**. Perodua manufactures the multipurpose mini wagon *Kenari*, the sedan *Kancil*, the four-wheel drive *Kembara* and the MUV *Rusa*. (January 5, 2001)

Oriental Holdings Berhad (OHB) and **Hyumal Motor Snd Bhd (HMM)** have signed a memorandum of agreement to form a 60:40 JV, **Oriental-Hyundai Snd Bhd**. Oriental-Hyundai's subsidiary, **Oriental Assemblers Snd Bhd**, will begin assembling Hyundai's completely knocked-down (CKD) vehicles by Q3 2001. Oriental-Hyundai assembles Honda, Mercedes and Peugeot vehicles in Malaysia, and HMM is the

local distributor of completely built-up (CBU) Hyundai vehicles. (January 19, 2001)

THAILAND

General Motors announced plans to dramatically increase annual production levels of its *Zafira* minivan at its Thai assembly plant in Rayong from 8,500 units to 60,000 units. The company estimates that it will export 55,000 of the vehicles annually to the European Union, up from 7,000 units in 1999. It intends to sell 3,000 units domestically up from 1999 sales of 1,500 units. GM will operate its plant at more than full capacity, by running two shifts and doubling its workforce from 600 to 1,200. It will also increase productivity per hour by 50%, raising production levels to 15 units per hour. (January 24, 2001)

Sumitomo Metal Industries Ltd has plans to invest ¥1bn (US\$8.6m) to increase its mechanical steel tubing capacity at two of its plants in Thailand and Vietnam. The company will increase capacity in Thailand from 25,000 tons to 40,000 by October 2001. In Vietnam, Sumitomo Metal will construct production facilities to manufacture 20,000 tons of steel tubing annually. (January 25, 2001)

FOCUS:

Daewoo components suppliers

There are approximately 500 automotive components distributors in Korea that supply parts to Daewoo Motor. Among these firms, 260 are exclusive suppliers to Daewoo. As a result of Daewoo's bankruptcy, these companies are facing severe financial difficulties. The companies have begun rationalizing their operations, diversifying their customer base as well as

looking to other means to solve their financial difficulties such as inviting foreign investment. The following paragraphs outline a select group of Daewoo components suppliers.

Dongwon Metal Industrial

Background - Established in 1989, the company manufactures a broad range of automotive components. It sells 55% of its production to Daewoo and 45% to Hyundai. Dongwon Metal has plants in Kyungsan and Asan Korea as well as JV plants in India, Uzbekistan and Poland.

Products - The company manufactures mufflers, steel pipes for auto parts, doorframes, impact beams, tie bars, press parts, channels and moldings.

Financials - The company recorded revenue of US\$122m in 1999. It has a PER of H16.65/L8.23 and an EV/EBITDA of H11.85/L9.59.

Ownership structure - The company is listed on the KSE 18500 with a market cap of US\$6m as of January 2001. Lee Eun Woo is the CEO and his family holds a 40% stake.

Dong Seo Ki Yeon

Background - Established in 1966 as Dongyang E-hwa Industrial, the company was renamed in 1996. It has two subsidiaries in Korea and three subsidiaries overseas. It has four plants in Korea, located in Namdong Industrial Complex in Incheon, Pubyong in Incheon, Iksan and Kimhae. The company mainly manufactures interior components and subsystems. 91% of its revenue stems from supplying Daewoo Motor.

Products - The company manufactures door trim, head lining, floor carpets, shelf-back panels, head rests, LID glove boxes, shelf-back panels and under-tray covers. It also produces hood insulations.

Financials - The company recorded revenue of US\$41m in 1999.

Ownership structure - The company is privately owned, and the Ryu family holds an 80% stake. The owners originally aimed to list the company on KOSDAQ in 1997.

Dongyang Auto Body

Background - Established in 1995, the company is a subsidiary of Dongyang Industrial and has only one plant, located in Kunsan. It is dependent on Daewoo for 100% of its revenue and has severe debt obligations.

Products - The company manufactures automotive under body frameworks, including front longitudinal and rear longitudinal parts, back panel uppers, wheel completes and front completes.

Financials - The company recorded revenue of US\$27m in 1999.

Ownership structure - The company is privately owned. Dongyang Industrial holds a 65.5% stake in Dongyang Auto Body.

Dongyang Mechatronics

Background - Established in 1978, the company has diversified product lines and is involved in manufacturing auto components (50% of revenue), hydraulic cylinders (40% of revenue) and industrial machines (10% of revenue). For its auto components, the company is 100% dependent on Daewoo Motor. It has plants in Namdong Industrial Complex in Incheon, Ikan and Changwon.

Products - The company manufactures electronic motors, such as front wiper motors, rear wiper motors, window life motors and cooling fan assembly.

Financials - The company recorded revenues of US\$108m in 1999. It has a PER of H10.62/L4.62 and an EV/EBITDA of H4.46/L3.81.

Ownership structure - The company is listed on the KSE 13570 with a market cap of US\$14m as of

January 2001. Cho Byung Ho is the CEO and holds a 25% stake.

Han San Industrial

Background - Established in 1994 the company is a unit of the Daeyee Group. It has a plant in Kunsan that supplies parts to Daewoo Motor's Kunsan plant. The company is 100% dependent on Daewoo Motor for business. It is affiliated with Dae Yee Industrial, which supplies plastic auto parts to Daewoo Motor's Bupyung plant.

Products - The company manufactures plastic wheel covers, plastic grills and molding housing clusters.

Financials - The company recorded revenues of US\$12m in 1999. Its plant is only 40% operational due to the decline in Daewoo's demand for parts.

Ownership structure - The company is a unit of the Daeyee Group.

Koryo Company

Background - Established in 1967 as Dong Heung Electronics, the company is 100% dependent on Daewoo Motor for business and specializes in the manufacture of auto seats and leather products. The company changed its name in 1998 when it acquired its affiliate, Koryo, which primarily manufactured leather. It has two plants in Inchon, and one each in Haman and Kunsan.

Products - The company manufactures auto seats, seat components, seat tracks and leather products.

Financials - The company recorded revenues of US\$188m in 1999 for its seat business. It has been under court receivership since November 17, 2000.

Ownership structure - The company is privately owned. Koryo was listed on KOSDAQ for two years, from 1996 to 1998.

Kwang Jin Machine

Background - Established in 1973 the company is a unit of the Kwang Jin Group and primarily manufactures door window regulators which it supplies to Daewoo Motor. It is 87.2% dependent on Daewoo for revenue, and its other customers include Ssangyong Motor and Kwang Jin Sang Gong. Kwang Jin Machine has a plant in Banwol Industrial Complex in Ansan-city.

Products - The company manufactures door window regulators (cable and drum models, arm models, and push-pull models), pedal assemblies (including accelerators, clutches and brakes) and multipurpose ladders.

Financials - The company recorded revenues of US\$30m in 1999.

Ownership structure - The company is privately owned, the Kwon family holds a 90% stake.

Samlip Precision Industrial

Background - Established in 1989 the company supplies automotive components to a number of Korean auto companies including Daewoo Motor (59%), Daewoo Public Motor (19%), Hyundai Precision (8%), Ssangyong Motor (6%) and others (8%). Samlip formed a JV in India, Korin India, in 1996 and has a contract to supply parts to an Indian automaker, Mahindra.

Products - The company manufactures mainly rear axles, rear axle assemblies, front and rear cross members, axle housings, front suspension systems, suspension arms and oil pans.

Financials - The company recorded revenues of US\$43m in 1999 and expects its 2000 revenue to be 30% less due to Daewoo's bankruptcy.

Ownership structure - The company is listed on the KSE 33250. It has a market cap of US\$12m as

of January 2001. It has a PER of H12.06/L5.99 and an EV/EBITDA of H21.51/L17.11.

Yoon Young

Seil Industrial

Background - Established in 1979 as Samyang Fiber, the company was renamed Seil Industrial in 1990. A subsidiary of Segye Co, Seil is 100% dependent on Daewoo for its floor carpet business. Seil has plants in Inchon, Kumi and Kunsan.

Products - The company manufactures mainly floor carpets, but it is also involved in head linings, shelf, trunk and door trims.

Financials - The company recorded revenues of US\$35m in 1999. It is currently under court receivership.

Ownership structure - The company is privately owned.

Background - Established in 1990 the company supplies automotive components to Daewoo Motor. It is 99% dependent on Daewoo for its business.

Products - The company manufactures steel wheel discs, body panels, chassis components and seat components.

Financials - The company recorded revenues of US\$72m in 1999. It has a PER of H10.36/L1.44.

Ownership structure - The company is listed on KOSDAQ 31510 and has a market cap of US\$7m as of January 2001. Its major shareholders are Kim Sung Choong and CEO Gong Byung Chae who hold 23.8% and 6.6% stakes respectively.

Charles Maynard, Managing Director
Christina Meyer, Analyst

Peter Thomas Black, Analyst
Cynthia Ngai, Analyst

ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists US companies to expand their businesses in Asia. For further information on BDA's services or on any of the articles in this newsletter, please contact Charles Maynard in New York, Euan Rellie in London, Andrew Huntley in Singapore or Simon Wu in Shanghai.

New York

Charles Maynard
Business Development Asia LLC
The Economist Building, Suite 1105
111 West 57th Street
New York, NY 10019
Tel: (212) 265-5300
Fax: (212) 265-4300

Singapore

Andrew Huntley
Business Development Asia Utd Pte Ltd
20 Raffles Place
#10-07 Ocean Towers
Singapore 048620
Tel: (65) 533-8500
Fax: (65) 533-8506

London

Euan Rellie
Business Development Asia Ltd
10 Crown Place
London EC2A 4FT
United Kingdom
Tel: (44) 20-7655-3660
Fax: (44) 20-7655-8953

Shanghai

Simon Wu
Business Development Asia
Shanghai Centre, Suite 506A
1376 Nanjing Road West
Shanghai, China, 200040
Tel: (86) 21-6279-8390
Fax: (86) 21-6279-8906
bda@bdallc.com
www.bdallc.com

Tokyo

Kumiko Yanagida
Business Development Asia
Otemachi First Square
4/F East Tower, 1-5-1 Otemachi, Chiyoda-ku
Tokyo 100-0004 Japan
Tel: (81) 3-5219-1504
Fax: (81) 3-5219-1201