

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

# ASIAN AUTOMOTIVE NEWSLETTER

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

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## INTRODUCTION

The car rental industry in China is growing rapidly due to the increasing flexibility and affordability of car rentals in the country. In this issue we profile some of the local players and MNCs in the sector.

BDA is a corporate finance advisory firm that assists its clients in identifying and executing acquisitions and JVs in Asia. Please note that we have recently opened a **Tokyo office** in addition to our **Shanghai office** opened in March 2000. All the contact details are on Page 7. If you think that BDA's services may be useful to you, please contact me at [cmaynard@bdallc.com](mailto:cmaynard@bdallc.com).

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## CHINA/HK

**AIGL Group** of Australia and **Chongqing Changjiang Electric Plant** of China have formed a RMB100m (US\$12m) 60:40 JV, **Air-Conditioner International (Chongqing) Co Ltd**, to manufacture automotive air conditioners. It will mainly supply the **Chang'an Company** and **Ford's** Chongqing project that is still under negotiation. Production is scheduled to begin July 2001. AIGL is a supplier of automotive air-conditioners for cars and buses, as well as a manufacturer of car seats. Chongqing Changjiang Electric manufactures a wide range of air conditioning equipment. (September 26, 2000)

**Dongfeng Citroen**, a Sino-French JV, has expanded its production capacity to 150,000 cars and 200,000 engines per year. The company has a localization rate of 85%. (September 20, 2000)

**Shanghai Automotive Industry Corporation (SAIC)**, a state-owned enterprise, has formed a US\$42m JV with two German companies, **EB/HS Company** and **DEG Investment Co Ltd**. SAIC will own 50% of the new entity and the two German companies will each hold 25%. The JV will develop and produce cast-iron automotive components, molds and dies. EB/HS is the largest mold manufacturer in Germany. DEG is an investment company. (September 25, 2000)

## INDIA

**Maruti Udyog Ltd (MUL)**, India's largest carmaker, suspended its operations when employees began an indefinite strike in September 2000. The workers demanded a revision of their incentives and pension scheme. The management and union have stated that they intend to negotiate and explore avenues for settlement. (September 21, 2000)

**Mercedes Benz India Ltd [MBIL]** has introduced a new model, *S320L*, which is now the most expensive car manufactured in India. The company has invested Rs6bn (US\$130m) in constructing the plant and launching car models. Mercedes forecasts that it will turn a profit after selling 1,000 – 1,200 luxury cars by Q4 2000. The model is fully imported and assembled at the Pimpri plant near Pune, Maharashtra. (September 18, 2000)

The **Indian Government** has finalized its **automotive policy** and will make final announcements in November. The policy focuses on developing a growth-oriented environment for auto manufacturers and on regulating imports of used cars. As of April 2001, restrictions of these imports will be removed. The **Society of Indian Automobile Manufacturers (SIAM)** and **Automotive Component Manufacturers Association (ACMA)** have been in discussions with the Government and have subsequently helped to shape the policy. (September 29, 2000)

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## INDONESIA

**Honda Motor Co Ltd** of Japan plans to invest Rp1.3tr (US\$152m) in a subsidiary of **Astra International**, Indonesia's largest carmaker. As a result of the transaction, Honda will hold a 43.47% stake in Astra's **PT Federal Motor** and Astra will hold the remaining 56.53%. According to an Astra spokesperson, Federal Motor and Honda will merge. Astra

and Honda will each hold a 50% share in the new company. (September 11, 2000)

**PT Timor Putra Nasional (TPN)** of Indonesia, needs an additional US\$106m to complete its auto assembling plant. The company was previously owned by Hutomo Mandala Putra, better known as Tommy, the youngest son of former President Soeharto. It has since been taken over by the government and is undergoing a debt restructuring by IBRA, which is necessary before it receives a cash injection. (September 14, 2000)

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## JAPAN

**Denso Corp** of Japan and US companies **Clarion** and **Microsoft** have agreed to form a group to support the promotion of Windows CE as the operating system for car navigation systems. Manufacturers of car navigation systems use their own software. Japanese manufacturers have the largest single market for such systems globally, installing them in more than 1.6 million cars annually. Other firms which have joined the group include **Aisin AW Co**, **Mitsui & Co** and **Xanani Informatics Corp**. (September 20, 2000)

**Honda Motor** of Japan has developed a new version of its *FCX-V3*, a four-seater fuel cell powered car. Its environmentally-friendly model has a 25% lighter engine with 22% more power and a faster start-up time than its two-seater 1999 version. The company aims to market a fuel cell automobile by 2003 or 2004. However, the company estimates that fuel cells will not be widely used for approximately another 10 years. (September 28, 2000)

**Mitsubishi Motors Corp** of Japan has announced salary reductions for dozens of its executives and demoted one executive in charge of product quality in the wake of the disclosure of the company's product quality violations. For over two decades Mitsubishi concealed auto defects that may have required substantial recalls. These actions have resulted in a

police investigation. Simultaneously, DaimlerChrysler is rumored to be negotiating to raise its 34% stake and has appointed one of its executives as COO of Mitsubishi, a departure from its previous 'hands-off' approach. (September 28, 2000)

**Nissan Motor Co** plans to introduce domestically its first compact SUV, *X-Trail*, in October 2000. The new model is aimed to compete with *RAV4* of **Toyota Motor Corp** and *CR-V* of **Honda Motor**. The release of X-Trail is part of Nissan's revival program to release 22 new models by the end of 2002. (September 21, 2000)

**General Motors Corp** has signed a stock purchase agreement with **Suzuki Motor Corp** of Japan. Under the agreement, the US automaker will purchase US\$600m worth of Suzuki's stock, doubling its stake in the company to 20%. The companies also plan to raise more capital and increase personnel exchanges before joint production of the *YGM-1* subcompact car begins in 2001. (September 14, 2000)

**Shin-Etsu Polymer Co** of Japan has developed a windshield wiper blade composed of a special silicon compound that bolsters the water-removing abilities of water-repellent wiper coatings. The new blades do not scrape off the water-repellent coating like conventional rubber blades do, which renders the coatings ineffective after a few months. The life-cycle of the new silicon-based blades is longer, some 20-30 months. (September 6, 2000)

**Toyota Motor Corp** has plans to establish an information technology R&D JV company with six other firms in January 2001. The new entity will develop mobile technology and Internet protocols as well as conducting R&D primarily for Toyota. The JV will further the development of Toyota's intelligent transportation system, its Gazoo multimedia terminal business. The JV will also improve the production processes of the other six firms. These firms include **Aisin Seiki Co**, **DDI Corp** (which is merging with **KDD Corp** and **IDO Corp** to form **KDDI**), **Denso Corp**, **Kyocera Corp**, **Toyoda Gosei Co** and **Toyota Tsusho Corp**. (September 26, 2000)

## KOREA

**Daewoo Motor** warned that it could require a W450bn (US\$402m) capital injection by Q4 2000. In some plants, including the UK, workers have been unpaid for the last month. This issue and others are being discussed with creditors who are owed an estimated US\$16bn. **Ford Motor Company** has formally abandoned its earlier non-binding offer of US\$6.9bn over issues found during due diligence. **General Motors** is now considering making a bid, possibly in conjunction with **Fiat**. (October 4, 2000)

**Kia Motors** (now controlled by Hyundai) has announced a stock repurchase of 80 million shares, or 18% of the total. The decision, made by Kia's board of directors is pending approval by its shareholders. (September 20, 2000)

**Renault-Samsung** is in discussions with **Renault-Nissan**, its cooperation partner, regarding the details of new model introductions. Renault-Samsung intends to sell 120,000 cars per year by 2002 and manufacture 240,000 cars in three to four models by 2005. The company will use its relationship with Renault to export products globally. (September 19, 2000)

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## MALAYSIA

**DRB-Hicom**, the largest Malaysian industrial conglomerate, is selling its 27% stake in leading national carmaker **Proton** to state-owned oil company **Petronas**. The transaction, which has been in negotiation for twelve months is expected to close by Q1 2001. DRB-Hicom had earlier been in negotiations to sell its 32% stake in **EON**. EON's ten year license as the sole distributor of Proton cars has expired and Proton has to date not renewed it. Talks with Proton stalled on price. EON's share price has fallen more than 40% since January. (September 27, 2000)

**GloPex.com**, a US-based Internet exchange for the automobile industry, plans to offer Malaysian

component suppliers infrastructure to execute transactions with both national carmakers, **Perodua** and **Proton**, as well as auto companies worldwide. (September 14, 2000)

**Perusahaan Otomobil Nasional Bhd (Proton)**, the Malaysian national car manufacturer, has recalled all 1995 Proton *Perdanas* due to an irregularity in the dust cover that forms part of the lateral lower arm assembly. The defect may have affected less than 500 cars, but at this point all 6,200 cars manufactured in 1995 have been recalled. **Mitsubishi Motor Corporation** has informed Proton that other models of the car may suffer from the same defect. (September 21, 2000)

**Proton** has increased production levels of the *Waja* model by 30% - 40% due to strong demand, which was five times greater than forecast levels. The company had originally planned to manufacture 45,000 Waja cars in 2000, but it has increased production by an additional 15,000 cars. (September 14, 2000)

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## PHILIPPINES

**Auto Prominence Corporation**, the exclusive **Audi AG** distributor in the Philippines, has launched an aggressive trade-in program to further boost Audi's 20% market share in the Philippine luxury car market. (September 20, 2000)

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## TAIWAN

**Yulon Motor Co Ltd** of Taiwan will sign a dealership contract with **Renault** of France in October 2000. In Q1 2001 Yulon Motor Co Ltd will commence the sale of Renault's *Scenic* compact passenger cars and *Scenic RX4* recreational vehicles in Taiwan. Yulon

Motor Co Ltd also anticipates undertaking the local manufacture of Renault cars and the dealership of heavy-duty trucks in 2001. (September 21, 2000)

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## THAILAND

**Isuzu Motor Company (Thailand) Ltd**, the Thai subsidiary of **Isuzu** of Japan, plans to launch an intranet system. This will link **Tri Petch Isuzu Sales (TIS) Co Ltd**, its national distributor, to almost 100 dealers countrywide. The intranet system will be used to record and supply dealer sales and delivery information, both actual and forecast. Sales projections from dealers will be used to forecast CKD parts orders and assembly orders to Isuzu's production facility. (September 27, 2000)

**Toyota Motor Thailand Co Ltd (TMT)** will embark upon a three-year program entailing reorganization, localization and ecommerce initiatives to retain its leading position in the Thai auto sector. In H1 2000 Toyota's market share fell to 29%, from 34% in H1 1999. A brand manager will be appointed for each Toyota model, and TMT will reduce costs by increasing the use of locally manufactured auto parts. (September 19, 2000)

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## VIETNAM

**Honda Vietnam Company**, the Vietnamese subsidiary of Japanese automaker **Honda**, has increased the level of domestically produced components used in its motorbikes from 50% to 64%. The company is attempting to lower prices and bolster its competitiveness in anticipation of Vietnam's entry into the ASEAN Free Trade Agreement (AFTA) in 2006. Since its inception in 1996, Honda Vietnam has sold 94,000 motorbikes, including the *Super Dream* and *Future models*, which were designed exclusively for

the Vietnamese market. The company anticipates its YoY revenues to double in 2000. (September 1, 2000)

**Sumi-Hanel Co Ltd**, a Japanese-Vietnamese JV company that manufactures auto cables, has expanded capacity at its plant in Hanoi's Sai Dong B Industrial Park. The company invested US\$800,000 and plans to produce 700,000 sets of cables in 2000, generating revenue of US\$16m, a 50% increase YoY. 80% of the plant's production will be exported to Japan, while the remainder will be sold to Honda and Toyota dealers within Vietnam. (September 25, 2000)

**Toyota Motor Vietnam** is leading an initiative to increase the number of locally-made autoparts to drive down the price of vehicles in Vietnam. The company has already localized the production of small parts such as antennae, exhaust pipes, harnesses, package tray trims, radios, separator bars, side glass, spare wheel carriers and covers. It has also encouraged several Japanese autoparts makers to enter the Vietnam market. (September 14, 2000)

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## FOCUS

### Car rental industry in China

The car rental industry in China is characterized by dispersed markets, vigorous competition, nonstandard service and high costs, all of which are obstacles to growth. Despite these factors, the car rental market is developing fast. There are over 400 car rental companies in the country, most of which are located in or around Beijing, Guangzhou and Shanghai. The growth in the number of Chinese companies and individuals using the service stems from the increasing flexibility and affordability of car rentals. Furthermore, there is significant unrealized potential in the car rental market. There are over one million drivers license holders in Beijing alone without cars.

Chinese car rental companies' networks do not typically reach beyond their local markets. Major players in

Beijing are planning to either acquire smaller companies in other cities or to adopt a franchise system to expand their domestic coverage and to achieve economies of scale. **Beijing Shijitong Car Club** and **Beijing Jinri Xingainian Car Club** have already taken this route. Some car rental companies have also diversified into car leasing services as well as offering car rentals for a minimum time period. This allows the rental fees to become the down payment for the car. Chauffeured cars are primarily owner driven and these drivers work through cooperatives or taxi companies, which coordinate bookings with hotels, companies and individuals. The following paragraphs profile some of the leading local players and MNCs in the Chinese market.

#### A. Beijing Jinri Xingainian Car Club

- Established in 1995, the company is a **leading player** in China.
- It has a franchised car **rental chain in 20 cities in China** and has an advanced **Internet car rental service** system.
- The company has **120 employees** and owns more than **3,000 cars**.
- The firm is characterized as **young and aggressive**.

#### B. Beijing Scitech Taxis and Automobile Leasing Co Ltd

- Wholly owned by the **Scitech Group**, the company has a fleet of **240 cars**.
- The leasing division offers 24 hour car repair services, insurance coverage and various types of maintenance services.
- It has a total capital of RMB39m (US\$4.7m).

#### C. Beijing Shijitong Car Club

- Established in 1997 as a subsidiary of **Shijitong Group**, the company has a **nationwide franchised car leasing network** of more than 100 car rental companies.
- It plans to establish 18 regional networks of offices in 2000, which will offer one-way rental services. It has **2,000 car rental outlets** and plans to have one million members across China by Q4 2000.

- In July 1999 **Europcar**, a subsidiary of Volkswagen, **signed a cooperation agreement** with Shijitong, making it the first foreign car rental company to enter the Chinese market. Under the agreement, the two parties display both companies' logos at major airports in China and abroad. Customers of the two car rental companies will have the right to use both firms' resources, which include car rental services, hotel networks and travel agencies.

#### D. Beijing Union Car Rental

- A JV between **CITIC Group** and Hong Kong's **XTJ Group**, it was the first JV car rental company in China.
- Established in 1984, it has a fleet of more than **1,000 cars**, most of which are imported cars like Cadillacs, Mercedes, Nissans and Santanas.
- The company was awarded the **Three Star for Car Rental Companies Award** as well as the **Service Quality Award** by the Beijing Council for 1986, 1987 and 1997. Mr. Ho Fan is the company's president.
- Beijing Union is also involved in the **tour and entertainment** businesses in China.

#### E. Shanghai Angel Car Rental Co

- A subsidiary of **Shanghai Volkswagen Auto Co Ltd**, this state-owned company is a major car rental player in Shanghai with a fleet of more than **1,000 cars**. Although the fleet is mainly comprised of VW Santanas, it also offers stretch Lincolns, City Lincolns and Buicks. The company was established in 1992.
- The company has set up **nine JVs with local partners** in nine different cities in China to broaden the scope of its market coverage. Angel has **eight "wholly-funded" branches** in its Shanghai network, and **six "brand-funded" branches**.
- It has fixed assets of RMB100m (US\$12m) and is a subsidiary of **Shanghai Automobile Industry Corp**.
- Shanghai Angel Car Rental also offers maintenance services, 24 hour repair services, road tolls, annual inspection and insurance for their rental car fleet. The company also provides special services, like temporary

PRC driving licenses for foreign renters and a membership club which offers discounts and no mileage limits.

#### F. Shanghai Friendship Car Rental Co

- Shanghai Friendship is owned by the **Shanghai Municipal Government**. The company previously only provided autos for government activities or for foreign VIPs. It has moved into the taxi business.
- The fleet is comprised of premium vehicles in Shanghai such as Mercedes and Cadillacs.

#### G. Shouqi Car Leasing Co

- Established in April 1992, Shouqi is the **leading car rental company in Beijing**. The company has more than **4,500 vehicles** including buses and coaches. With the support of the central government, Shouqi has provided various car services since its inception for foreign guests of the country.
- It has **four leasing centers in Beijing** and is in the process of cooperating with other car leasing companies. The network of companies covers more than 10 cities throughout China.
- The company offers car repairs, regular maintenance, taxi service, travel agency services, rental car delivery, a driving school and tours. It also owns various hotels and commercial properties.

#### MNC activity

**Budget Car and Truck Rental** has signed an agreement with an as yet unnamed Chinese partner to develop JV operations, the details of which have yet to be revealed.

**Europcar**, a subsidiary of **Volkswagen**, was the first international firm of its kind to enter China's market. Volkswagen has an alliance with Accor hotel, which has two chains, Sofitel and Novotel that are present in China. Volkswagen is a market leader with the Volkswagen, Audi and Skoda brands in the country.

**Hertz and China National Auto Anhua (CNAA)** have agreed to a licensing partnership. Hertz will be able to operate in China through a licensee operation with its Chinese partner using the Hertz name. The JV launched in the **first half of 2000** in key cities such as Beijing, Guangzhou, Shanghai, Tianjin and Xiamen. **North Anhua Group Corp** (the parent of CNAA), has total assets of RMB300m (US\$36m). The company also acts as the sales agent for BMW, Honda, and Shanghai-General Motors in Xiamen, Fujian Province.

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### **ABOUT BDA**

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