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# ASIAN AUTOMOTIVE NEWSLETTER

ISSUE 14, AUGUST 1999

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

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## INTRODUCTION

We hope that you find the *Asian Automotive Newsletter* informative. BDA is a corporate finance advisory firm which helps multinational clients to identify and execute acquisitions and JVs in Asia. We have developed a focus on the automotive sector, in pace with the growing level of M&A and other investment initiatives within this sector in Asia.

If you think that BDA's services may be useful to you, please contact us in New York on (212) 265-5300, or in Singapore on (65) 533-8500.

Charles Maynard  
Managing Director

## CHINA/HK

**Bridgestone**, Japan's largest tire-maker, has acquired a 60% indirect stake in **Shenyang Santai Tyre**, a local manufacturer, making it the second Japanese tire maker to start operations in China after **Toyo Tyre & Rubber**. Bridgestone aims to raise production from 140,000 tires in 1998 to the plant's full capacity of 200,000 tires by the end of 1999. Shenyang is nearly three-quarters owned by **MB Enterprise**, a holding company affiliated with **Mitsui**, the Japanese trading house. (July 10, 1999)

**China Beifang (North) Vehicles Co** and the **Bank of China, Beijing Branch**, are to introduce jointly a new form of consumer credit for motor vehicle buyers in Beijing. China Beifang will act as a guarantor for the buyer providing consumer credit for auto purchases and the Bank of China will extend loans for domestically-made motor vehicles. Loans will be capped at RMB30m (US\$4m). (June 4, 1999)

German-based **Volkswagen** has reached an agreement with **Bank of China** to finance Audi car buyers starting in 2000. The **FAW-Volkswagen Automotive Company (FAW)**, a JV to manufacture Audi and Jetta cars established by **First Automotive Works (FAW)** of China and Volkswagen, sold over 5,700 Audi sedans last year. For FY1998, over 100,000 Audi cars have been sold in China. (July 11, 1999)

**FAW** and **Shanghai Volkswagen (SVW)**, both **Volkswagen** JVs in China, will start production of two new models of cars. The Audi A6 will be produced in Q4 1999 by FAW in Beijing, and the Passat B5 will

be produced in March 2000 by SVW in Shanghai. VW holds about 60% of the car market in China. It sold 123,000 Santana, Jetta and Audi cars in the first five months of 1999, up 2% YoY. (July 11, 1999)

The first **Lamba Auto Parts** franchise store opened in Beijing in June, making it the first auto parts chain store in China. A franchisee of the US-based **National Auto Parts Association** (NAPA), Lamba plans to open more chain stores throughout China as consumer demand for standardized parts and products increase. NAPA's franchise is the world's largest auto parts supply company, selling over 250,000 different auto parts and associated products. (July 11, 1999)

**Shanghai TRW Engine Valve Co (STEVC)**, a JV between US engine valve maker, **TRW**, and local company **Anting Industrial Corp**, intends to increase capacity from its current output of 2.5m units of engine valves per year to 10m units by 2005. Its automated production line imported from Germany can produce various engine valves including a sodium-filled valve. STEVC will supply **Volkswagen's** two JVs in China, FAW-VW and Shanghai Volkswagen. TRW has a 86% stake in STEVC. (July 19, 1999)

**Tianjin Toyota Motor Engine Co**, a 50/50 JV between **Toyota** of Japan and the **Tianjin Automotive Industrial Corp (TAIC)** to produce car engines is expected to receive government approval to establish a car manufacturing project. The plant will produce a line of affordable car models for domestic consumption and will have a capacity of 30,000 units per year. (July 11, 1999)

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## INDIA

Japan-based auto parts maker **Aisin Seiki Co** and local engineer training firm **NTTF** have set up an auto parts JV in Bangalore. **Aisin NTTF** is the seventh production base in Asia for Aisin and will produce door locks, window opening/closing units and other parts for supply to Toyota's local factory, which is scheduled to come on line in December 1999. Aisin holds an 80% stake with the remainder split between NTTF and **Toyota Tsusho Corp**.

The JV aims to sell 25,000 parts in the first year, and to have sales of ¥620m (US\$5m) per year by 2003. (July 19, 1999)

**Piaggio SpA**, the Italian scooter manufacturer, has terminated its technical agreement with its local partner, **LML Ltd**, one of India's leading two-wheeler makers, after disagreements over accounting procedures and transparency. Although Piaggio will continue to hold equity, LML is restricted from both using the Piaggio brand name and from access to new technology. **Piaggio Vespa BV** and **Piaggio CSPA** together hold 24% in the scooter manufacturing JV, while the Singhanian family has an equal stake. The remaining equity is held by public and financial institutions. (June 4, 1999)

According to the **Society of Indian Automobile Manufacturers (SIAM)** the Indian passenger car segment recorded a 23% growth in May. However, sales for **Maruti** fell marginally by 0.2% to 33,680 units due to its failure to comply with European emission standards. Maruti's domestic market share decreased from 87% to 71% YoY due to an influx of new competition. (June 28, 1999)

**Sundaram Fasteners Ltd (SFL)**, a member of the TVS Group, India's largest automotive component group, announced that it would acquire a 51% stake in another auto component maker, **Autolec Industries** for Rs280m (US\$7m). SFL specializes in high tensile fasteners, cold extruded products, sintered components and radiator caps. (June 4, 1999)

**Tube Investments (TI)**, a subsidiary of the diversified **Murugappa Group**, is to increase its annual production of car doors for **Maruti**, the national automaker. Output is to increase from 3,000 to 150,000 sets by July 2000 at its plant near New Delhi. TI also produces door sets for **Hyundai's Santro** car. (July 20, 1999)

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To submit stories for future editions of this newsletter please contact Sunny Hong in Singapore on (65) 533-8500 or shong@bdallc.com.

## INDONESIA

**PT Astra International**, the country's largest carmaker, and **Daihatsu Motor Co** of Japan have jointly launched a new quasi-SUV, the **Taruna**, from Astra's complex in Sunter, northern Jakarta. The company expects to sell 5,000 Tarunas by year-end. The three models of the 1,600 cc Taruna are priced between Rp87m and Rp107m (US\$13,000 to US\$16,000), significantly lower than Astra's top-selling, **Kijang** model, which is produced through a JV with **Toyota Motor Corp**. (July 3, 1999)

**Toyota Astra Motor**, a JV between **Toyota Motor Corp** of Japan and **PT Astra**, is scheduled to produce 1,400cc passenger cars in 2000. This is a move to take advantage of a new government auto policy offering facilities for the development of small passenger cars. Toyota Astra Motor is the country's largest automaker and sold 3,000 units in FY1998. (July 13, 1999)

**DaimlerChrysler AG** has acquired from its local partner, **PT Lima Satria Nirwana**, full ownership in two of **PT Mercedes Benz Indonesia's (MBI)** subsidiaries. The acquisitions, **PT Star Engines Indonesia (SEI)** and **PT German Motor Manufacturing (GMM)**, are in line with DaimlerChrysler's strategy to focus on the development of 8-ton light trucks for export and eventually phasing out its passenger car production facilities. (June 22, 1999)

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## JAPAN

US-based **Avis Inc** and **Japaren Co**, a wholly-owned car-rental subsidiary of **Japan Energy Corp**, have agreed to form a three-year business partnership. Japaren will act as a franchisee of Avis and use Avis' brand name. Japaren projects revenues of ¥2.0bn (US\$17m) within three years. (June 10, 1999)

**Delphi Automotive Systems** of the US is actively considering acquiring stakes in Japanese automotive-parts suppliers in an effort to reduce its reliance on

**General Motors Corp (GM)**. Roughly 60% of Delphi's US\$29bn sales in 1998 were to GM. Since its spinoff from GM, Delphi's target is to increase sales to non-GM companies to 50% of total sales by 2002. **Toyota Motor Corp**, the country's largest automaker, declined a proposal to acquire a 20% stake in Delphi. (July 19, 1999)

**Fuji Heavy Industries Ltd**, the Japanese maker of **Subaru** cars, has opened negotiations with **General Motors Corp and Ford Motor Co** for possible tie-ups in technology and auto parts. Key discussions involved Fuji's technology in four-wheel drive and continuously variable transmission (CVT) vehicles as well as components and transmissions. (July 19, 1999)

**Mazda Motor**, 33% owned by **Ford Motor Co**, will supply **Mitsubishi Motors** with 8,000 commercial vehicles per year beginning Q3 1999. Mazda will supply its **Bongo** vans and trucks for sale under Mitsubishi's **Delica** nameplate. Mitsubishi in turn will streamline its number of truck models to six by 2004. (July 1, 1999)

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## KOREA

Korean conglomerate **Daewoo Group** is engaged in some crisis debt restructuring of US\$4.6bn of short term debt that fell due at the end of June. Four creditor banks and the Chairman of the Financial Supervisory Commission have formed a special task force to accelerate the restructuring of Daewoo, the country's second largest business group. (July 28th, 1999)

**Daewoo** has also failed to reach an agreement over the acquisition of **Samsung Motor Inc** from **Samsung Group**. The government has encouraged Daewoo to make the acquisition in order to consolidate capacity and avoid layoffs at Samsung's manufacturing plant in Pusan. However, the two conglomerates disagreed over the price of the automaker. Samsung Motor has thus applied for court receivership and is waiting to see if talks with Daewoo will continue. **Nissan Motor Co** of Japan has also expressed an

interest in an acquisition. (July 14, 1999)

**Kia Motors Co** of Korea expects to see net profits of Won100bn (US\$84m) for FY1999 and hopes to graduate from court receivership by the end of this year. June sales of 76,000 units surpassed the breakeven point of 70,000 units and exports for the first six months to June increased by 34% YoY. Kia expects to meet its target total sales of 837,000 units for FY1999. (July 13, 1999)

**Mando Machinery Corp**, Korea's largest car parts company, is to sell its alternators and starters factory in Kyongju to **Valeo**, the French car parts group, for US\$170m. The factory is expected to achieve sales of Euro180m (US\$187) in 1999 from an output of three million units. Mando, which went bankrupt in December 1997 due to the collapse of its parent, **Halla Group**, is disposing of several plants to repay its debts. It is negotiating with Carlyle, the US buy-out fund, for the sale of another factory in Asan. Mando is the main supplier of alternators and starters to **Hyundai Motor** and **Kia Motors**. (June 10, 1999)

**Tower Automotive Inc**, a US-based maker of stamped automobile frame parts, is to acquire a 49% stake in South Korean frame-maker **Seojin Industrial Co** for US\$21m and loan it US\$19m to repay its debts. The purchase will complement a JV Tower operates in China as it expands in the region. Closely held Seojin, which had revenues in excess of US\$200m in 1998, operates five factories that supply **Asia Motors Co**, **Hyundai Motor Co Ltd** and **Kia Motor Co** with frames and large structural parts. (June 29, 1999)

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## MALAYSIA

**Amim Holdings Sdn Bhd**, the assembler and distributor of Ford vehicles in Malaysia, and its dealers are jointly investing RM14m (US\$4m) to upgrade Ford showrooms and parts and service facilities. 15 facilities have already undergone renovation while another ten will be completed in December 1999. Ford has set a target to move up from being the fourth largest non-domestic player by sales in the country to third position, within twelve months. (June 11, 1999)

**DRB-Hicom**, the Malaysian industrial group, has agreed to sell its 27% stake in **Proton**, the country's largest carmaker, to **Petronas**, the state-owned oil company. Petronas is to pay RM1bn (US\$263m) for 143m Proton shares. This would value Proton at a 19% discount at the time of purchase. In return, Proton is to acquire DRB-Hicom's interests in several automotive component makers and automotive-related businesses, including national car distributor **EON**, in which DRB-Hicom has a 32% holding. (July 10, 1999)

**GKN Automotive AG**, a subsidiary of UK's **GKN PLC**, has acquired a further 16% from minority shareholders in **Asian Driveshaft Sdn Bhd**, bringing its investment to 58% of the company. The price for the increased equity was not disclosed. (June 21, 1999)

**Land Rover (Malaysia) Sdn Bhd**, the distributor of Land Rover vehicles in the country, has begun local assembly of the second Land Rover model, the **New Discovery**, with a projected production volume of 2,500 units over the next several years. The **Associated Motor Industries Sdn Bhd** (AMI) plant in Shah Alam is the first outside Land Rover's home base in Solihull, England, to undertake the assembly of completely-knocked-down (CKD) kits of the New Discovery, launched in Europe in late 1998. (July 7, 1999)

**MBM Resources Bhd**, a distributor of motor vehicles and manufacturer of metal precision stamped parts and components, has signed an agreement to acquire from its parent company, **Med-Bumiker-Mara Sdn Bhd**, a 20% stake in **Perusahaan Otomobil Nasional Kedua Sdn Bhd (Perodua)** for RM160m (US\$42m). MBM Resources already has a 5% equity in Perodua through subsidiary **Daihatsu (M) Sdn Bhd**, which distributes Daihatsu and Perodua vehicles. (July 13, 1999)

**Perusahaan Otomobil Nasional Bhd (Proton)**, the country's largest automaker, has signed an agreement with Japanese auto parts maker **Kongwha Co** for the supply of engine thermostats. Kongwha also supplies to **Daihatsu Motor Co** and **Mitsubishi Heavy Industries** in Japan. Proton controls over 70% of the Malaysian automobile market. (June 7,

1999)

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## PHILIPPINES

**Ford Motor Corp** of the US opened its fourth dealership, Ford Balintawak, in the Philippines in June. Ford's dealership network is scheduled to expand further to cover the automotive market by September 1999 when Ford's Santa Rosa plant in Laguna commences mass production of passenger cars. Other Ford dealerships are located in Makati, Greenhills and Libis. (June 2, 1999)

**Isuzu Philippines Corp, Mitsubishi Motors Corp, Toyota Motor Philis Co** and other local assemblers and parts makers have voiced strong objections against the Philippine government's scheduled liberalization measures. It intends to allow low-tariff imports on semi-knocked down (SKD) vehicles and abolish net foreign exchange earnings and local content requirements in the car industry in preparation for entry into the World Trade Organization. The manufacturers claim that this jeopardizes the viability of existing players that have invested heavily in their local JVs and who have been confronted with reduced plant capacity utilization since the crisis. (July 8, 1999)

**M&Q Philippines**, a subsidiary of US-based **M&Q Plastic Products**, has increased extrusion capacity by almost 50% for the production of convoluted conduit tubes. Currently, the company has capacity for production of polyethylene, polypropylene and nylon tubing totaling 30m meters per year. The products are used in the automotive sector for wiring harnesses and electrical distribution systems. Initially sold to customers in the Philippines, the company now serves customers throughout Asia and is concentrating on increasing sales in Malaysia, Thailand, India and South Korea. (June 24, 1999)

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## SINGAPORE

**Amtek Engineering** of Singapore will invest US\$4m in a plant in Mexicali, Baja California, to produce components for the automotive parts industry. The plant is scheduled to go on line in 2000 and will produce stamped metal parts for Amtek's US clients as well as multinational exporters located in the Mexican states of Jalisco and Queretaro. Amtek manufactures dies and moulds for metal stamping, precision metal stamped parts, injection plastic parts and moulded rubber components. (June 1, 1999)

**Audi Asia Pacific**, a subsidiary of Germany's **Audi Group**, and Indonesian distributor **Sumber Surya**, also known as Starsauto, have agreed on a partnership for a new franchise in Singapore, called Premium Automobiles. The distributorship will start operations in Q4 1999 and is targeted to sell between 500 and 550 vehicles. Starsauto also distributes for **Daewoo** in Singapore and Australia, and for **Bentley, Jaguar** and **Mercedes-Benz** in Indonesia. (July 1, 1999)

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## TAIWAN

According to the **Board of Foreign Trade**, Taiwan's top five domestic automakers, **China Motor, Kuozui Motors Ltd, Yulon Motor Co, Ford Lio Ho Motor Co** and **San Yang Industrial Co** are actively seeking foreign tie-ups in preparation for a possible entry into the World Trade Organization. The government has traditionally sheltered domestic producers through heavy tariffs, tax incentives and import restrictions. Manufacturers have apparently already begun negotiations with leading automakers such as: **Daihatsu, Ford, Honda, Isuzu, Nissan, Subaru, Suzuki** and **Toyota**. 94% of all vehicles sold in 1998 were manufactured by the top five domestic producers. (July 4, 1999)

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## THAILAND

**BMW** of Germany is to start construction of a plant to manufacture 10,000 3-Series models and Land Rovers by 2004. The plant can be further expanded

to produce new Mini and Rover cars for export by 2010. (July 5, 1999)

According to the **Federation of Thai Industries**, vehicle production from January through May increased 111% YoY to 104,936 units. Of that amount, 42% or 43,682 units were for export. Sales of one-ton trucks led production with 80,548 units made during the period, accounting for 76.8% of total output. Station wagon sales increased by 211% to 1,474 units and motorcycles by 5.85% to 285,660 units. Motorcycle exports for the period fell 86% YoY to 13,799 units while export value also dropped 87% to Bt468m (US\$13m). Thailand earned Bt16bn (US\$43m) in foreign exchange from total auto exports, increasing 67% in value and 93% in volume YoY. (June 30, 1999)

**Hilary International Co**, licensed by **CSI International Inc** of Canada, is to franchise its car-care service shops, **Chippy** and **Smart & Quick**. Chippy will provide paint and paintless vehicle maintenance services while Smart & Quick will provide complete repair services and accessories such as leather or fabric seats, dashboard carpet, bumpers, alloy wheels as well as equipment and accessories made of fabric, velvet, plastic, steel, alloy and fiber glass.

**Toyota Motor Corp** of Japan has gained majority ownership in three non-core automotive subsidiaries from **Siam Cement PCL**, the country's largest industrial conglomerate. The three subsidiaries include: **Siam AT Industry Co Ltd**; **Nawaloha Industry Co Ltd**; and **Thai Engineering Products Co Ltd (TEP)**. They are all also producers of iron and aluminum casting products for automotive and motorcycle components. Other owners include **Tri Petch Isuzu Sales Co Ltd**, which holds 10% in each company and **Thai Suzuki Motor Co Ltd** with a 5% stake in TEP. (July 7, 1999)

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## REGIONAL

**Daewoo Motor** of Korea and Myanmar's state-run automaker, **Myanmar Automobile and Diesel Engine Industries (MADI)**, is to set up an auto assembly plant in August 1999 with operations

beginning in January 2000. The JV will manufacture cars on a semi-knocked down (SKD) basis with parts imported from Korea. Daewoo will have 60% ownership and MADI the remaining 40%. (June 14, 1999)

**Suzuki Motor Corp** of Japan has formed a JV in Cambodia to begin production of 10,000 motorcycles a year beginning in September 1999. Suzuki is the first major Japanese manufacturer to set up a factory in the country since civil war broke out in 1970. 51% of the JV will be owned by a Cambodian dealer of Suzuki products while Suzuki will hold the remaining 49%. The total planned investment is US\$2m and the plant is to be located outside of Phnom Penh. (July 19, 1999)

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## FOCUS:

### Powdered/sintered metal in Asia

This sector is one of the fastest growing and most promising in Asia, with key companies located in Japan, China and Taiwan. Below we have profiled a few of the top Asian companies manufacturing in this region. For further enquiry on this sector in Asia please do not hesitate to contact us.

#### **Ningbo Tongmuo Powder Metallurgy Co Ltd, China**

**Summary:** JV between Ningbo Powder Metallurgy Factory and Muisumi Special Metal Co Ltd from Japan. The company is ISO9002 certified and has a 5,000 tpa capacity to produce a wide range of steel- and copper-based metal parts. The company provides sub-components to the auto, HVACR and industrial manufacturing markets. The company manufactures chassis, engine and transmission components for key customers in the auto sector which include Daihatsu, Daewoo and Hongqi. Powdered metal parts for motorcycles are also manufactured for Honda and Suzuki. 80% of output is sold to the local markets, the remainder is exported to Europe, Japan, Taiwan and the US.

**Turnover 1998:** RMB1bn (US\$125m)

#### **Arasan Aluminium Industries Pvt Ltd, India**

**Summary:** Established in 1980, with 250 employees on site. The company is a manufacturer of sintered metal and products, light metals and alloys, and natural pigments. Under sintered metal and products, Arasan manufactures aluminium powder, paste (capacity 300MT) and atomised powders (capacity of 2,400 MT). Products are sold domestically, mainly to the automotive sector and household sector.

**Turnover 1998:** Rup10 Crore (US\$2.3m)

#### **Hitachi Powdered Metals, Japan**

**Summary:** Hitachi Powdered Metals is one of the largest powdered metal manufacturers, having been spun off from Hitachi Chemical in 1968. The company focuses on large machinery parts for automobiles, agricultural machinery and aircraft sectors. Performance is poor as both sales and profits are decreasing. They are now increasingly focusing their efforts on improving the performance of its subsidiaries in Singapore, Thailand and the US. Powdered Metallurgy products account for 74% of sales, chemicals products 23%, and assembly products 3%.

**Turnover 1998:** ¥11.5bn (US\$1.2bn)

**Net Profit 1998:** ¥460m (US\$48m)

#### **Tokyo Sintered Metals, Japan**

**Summary:** a powder metallurgy-based parts manufacturer belonging to Toyota Motor group. While the majority of its sales stem from auto-related products the group is increasingly developing its expertise in hydraulic assembly equipment, such as pumps. These efforts to develop a second line in part stem from a major fall in demand from the auto sector due to the Japanese recession causing large cuts in production. This had a material impact on profits which declined sharply in 1998. Sintered machinery parts account for 82% of sales, hydraulic assembly equipment 16%.

**Turnover 1998:** ¥5bn (US\$43m)

**Net Profit 1998:** ¥2m (US\$210,000)

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### **ABOUT BDA**

Business Development Asia is a corporate finance advisory firm which assists US companies in expanding their businesses in Asia. BDA helps clients to find local business partners and acquisition opportunities 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 Euan Rellie or Charles Maynard in New York, or Andrew Huntley in Singapore.

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