

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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## CHINA/HK

**General Motors'** first China-made Buick sedan rolled off the production line in December 1998. GM is hoping that 1999 domestic sales of Buicks will reach 20,000 units. GM has also announced that it is considering building smaller, less costly vehicles at its US\$1.6bn plant which is a JV with **Shanghai Automotive Industry Corp**, China's biggest automaker. This announcement follows a car spending curb imposed on China's bureaucracy and cost cutting by state-owned companies. (January 18, 1998)

## INTRODUCTION

We have renamed this publication *Asian Automotive Newsletter*. The change reflects the increasing coverage we are devoting to China, India, Japan, Korea and Taiwan. We are working on automotive transactions in all the countries covered in this newsletter and are well placed to assist in your business development efforts in the region.

We hope that you find *Asian Automotive Newsletter* informative. BDA is a corporate finance advisory firm that helps clients identify and execute acquisitions and JVs in Asia. If you think that BDA's services may be useful to you, please contact us in New York at (212) 265-5300, or in Singapore at (65) 533-8500.

Charles Maynard  
Managing Director

## INDIA

The **Association of Indian Automobile Manufacturers** has released figures showing that Indian car sales during November 1998 fell 15% to 28,249, from 33,265 in November 1997. Total sales of trucks fell 15% to 11,990, from 14,189 for the same period. Motorcycle sales rose 3.4% to 266,482 from 257,683 during this same period. Car sales during the first eight months of the fiscal year ending March 1999 fell 3.1% to 262,244, from 270,581 the year before. (December 29, 1998)

**Maruti Udyog**, India's largest carmaker, has cut the price of its best-selling Maruti 800 by nearly 12% in a bid to stimulate sluggish car demand and make the vehicles affordable to more Indian consumers. The Maruti 800 is priced at US\$4,350. The price cut was announced just before **Tata Engineering and Locomotive Company**, part of the **Tata Group**,

launched its own small car, the Indica. (December 31, 1998)

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## INDONESIA

**PT Astra International** experienced a sharp drop in sales in 1998 with only 40,684 units sold compared to 195,048 units in 1997. Meanwhile, the company's market share rose to 59% from 50%. The company's motorcycle sales sank to 264,777 from 856,676 in this period, but again Astra's market share rose to 61% from 48%. (January 15, 1998)

The **Indonesian Automotive Manufacturers Association** reported that Indonesia's total car sales for 1998, including exports, plunged 83% to 68,413 units from 392,203 in 1997. Total domestic car sales fell to 58,011 units from 325,789, however exports grew to 10,402 from 5,361 during this same period. Sales of the Timor national car fell to 2,473 units from 19,471 having been stripped of tax privileges under the IMF's economic reform package. Luxury-car sales were also hard-hit with sales of Mercedes-Benz dropping to 444 units from 3,367 during this same period. (January 20, 1999)

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## JAPAN

**Honda's** CEO, Hiroyuki Yoshino, said that 1998 domestic sales would be 700,000 units or less, well below the 810,000 units it had forecasted and below 1997's 809,000 units. Honda has historically outperformed most of its domestic rivals on a financial basis and achieved record profits in spite of the collapse in Japanese demand during the first half of 1998. (December 23, 1998)

**Isuzu Motors** has unveiled a restructuring plan, which includes a group-wide reduction of 4,000 employees and an attempt to reduce the group's interest bearing

debt of Y1,000bn by Y300bn by March 2000. Isuzu also plans to begin exporting pickup trucks from Thailand to Australia in 1999. It will transfer the manufacturing of pickup trucks from Japan to Thailand starting with the next model. The company will reorganize its other operations in Asia, including its businesses with **General Motors**. (December 28, 1998)

The **Japan Automobile Dealers Association** has reported that domestic sales of automobiles declined for a second consecutive year in 1998, dropping to their lowest level since 1986. Registrations of new cars, trucks and buses fell 15% in 1998 from 1997's sales of 4,335,318 units. Japan's big five: **Honda, Mazda, Mitsubishi, Nissan** and **Toyota** all said that their Japanese sales slumped amid the country's worst recession since World War II. (January 21, 1999)

**Nissan Motor Co Ltd.** is ready to sell a controlling equity stake to a foreign company, the company's president said. **Nissan**, Japan's second largest automotive manufacturer, has announced plans to cut domestic capacity by 15%, a move that could involve closing plants. The **Japan Automobile Manufacturers Association** has predicted sales will recover by only 2.5% in 1999, to 6.05 million vehicles. All manufacturers are suffering, but Nissan is having particular difficulties because of its high net debts, poor cash flow and a model range that is seen as dull. (December 19, 1998)

**Toyota Motor** has agreed to join with **Hertz** of the US in the Japanese car-rental business, starting in April 1999. Hertz, the world's leader, will introduce Toyota's rental outlets to its customers who wish to rent vehicles in Japan. Toyota's car rental business, **Toyota Rent-a-Lease**, will offer services to these customers through its 1,100 outlets in Japan. Hertz does not have any outlets in Japan, and hopes to benefit from the increased recognition among Japanese abroad. (January 21, 1999)

If you would like to submit stories to future editions of this newsletter, please contact Paul DiGiacomo in New York on (212) 265-5300 or [pdigiaco@bdallc.com](mailto:pdigiaco@bdallc.com)

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## KOREA

**Daesung Electric** and **Delphi Automotive Systems'** Packard Electric division are forming a JV to support the design and manufacture of auto components for Korean OEMs. Delphi is assuming a 45% share of Daesung Electric. The JV will operate under the Daesung name. Daesung is currently manufacturing and supplying Delphi Packard Electric bussed electrical systems and other components to Delphi customers under technical assistance agreements. An expert in automotive switch and relay technology, Daesung will also work with Delphi Packard Electric's European switch group to research future sales opportunities across Asia. (December 28, 1998)

**Daewoo Motor**, Korea's second-biggest car maker, has announced that it sold a total of 893,295 vehicles in 1998, overtaking **Hyundai Motor's** number one position for the first time ever. Hyundai Motor sold a total of 880,066 vehicles in 1998, while **Kia Motors** sold 467,545 vehicles. Combined sales of Korea's three largest car makers in 1998 dropped by 54%, underscoring the nation's worst recession since the Korean War. (January 15, 1999)

**Ford Motor** has sold its entire 9% stake in **Kia Motors**. Ford said it would continue to do business with Kia, for example, by selling Kia vehicles in some markets, but declined to disclose the terms or the buyer of the stake. Ford's sale of its Kia stake comes ahead of a capital restructuring of Kia, which would have reduced Ford's stake. (December 28, 1998)

**Halla Group** has agreed to sell its 35% stake in **Halla Climate Control** to **Ford Motor** in an effort to improve its financial position. The deal will double Ford's interest in Halla Climate to 70%, and give the US automaker management control. Halla Climate Control makes air conditioners and heaters for cars. Its customers include **Hyundai, Kia, General Motors** and Ford. (January 20, 1999)

**Hanwha Group** and **Ford Motor** have announced they will sell their unlisted unit **Hanwha Automotive Components**, a JV established in 1987, to Canada's **Tesma International** for US\$23m. Under the contract, the South Korean group will sell its 51% stake in Hanwha Automotive and Ford its 49% stake to the Canadian company. Tesma will take over all assets, business rights and debts of the unit. (December 28, 1998)

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## MALAYSIA

**Federal Auto Cars Sdn Bhd**, the sole distributor of **Volvo** cars in Malaysia, sold 2,237 vehicles in 1998, a drop of 5.8% compared with 1996. Despite this domestic decline Taufik Yahya, General Manager of SAC, stated that Volvo had managed to maintain its market share in the luxury car segment at around 26% in 1998. He also noted that Federal Auto had begun to assemble Volvo vehicles for the Asian region and had exported over 300 units in 1998. (December 12, 1998)

**Ford Motor's** acquisition of **Volvo AB's** car business is unlike to affect Volvo's East Asia unit's plan to take over all operations in Malaysia from the listed **Federal Auto Group**, a source close to the group said. Volvo Asia is headquartered in Singapore while Ford Asia is based in Tokyo. Volvo is to buy **Federal Auto Holdings'** stake in **Federal Auto Industrial**, an assembly plant in Shah Alam, and another operational facility. The entire price being considered is close to RM50m (US\$13m). (February 2, 1999)

**Petronas'** planned purchase of a controlling stake in Malaysia's national car project, **Proton**, remains clouded by valuation disputes after more a month of negotiations. A Petronas official said that talks were currently centered upon the acquisition of **Hicom's** 27% interest in Proton. "We'll deal with the EON stake later," he quoted. Hicom owns 52% of EON, the distributor of the national car. (January 19, 1999)

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## SINGAPORE

**Intraco Ltd** will stop selling **Rover** cars by end-April 1999, after having held the franchise through its **Intra-Motors** subsidiary for almost a decade. Instead, it will focus on expanding its more stable businesses, including its workshop services and car rental/leasing franchise. Intra-motors is also the master franchiser of the **Thrifty** car rental brand in a number of Asian countries and has three repair workshops and a specialized crash repair workshop. (January 6, 1999)

**QAF Brunei** and **Trans Eurokars** have announced that they plan to invest S\$20m (US\$14m) over the next few years setting up a purpose-built facility for the Rover and MGF vehicle lines. In the meantime their JV, **Midlands Auto Pte Ltd**, will become the sole domestic distributor of these vehicle lines from April 30, 1999. (January 6, 1999)

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## TAIWAN

**General Motors** and Taiwan's **Chinese Automobile Co** have jointly announced an agreement to establish a new auto retail and maintenance network in Taiwan. The move comes after GM's Taiwan unit said in November 1998 that it would begin a study looking into strengthening business ties with financially-troubled Chinese Automobile Co. Chinese Automobile has been distributing cars and manufacturing auto parts for GM for 10 years. The network will include 54 retail stores and 61 service centers. (December 24, 1998)

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## THAILAND

**Honda's Accord**, assembled in Ayutthaya, has been

successfully introduced to the Australian market following November 1998 when Australia removed tariff barriers on finished vehicles. From 1999, all *Accords* to be sold in Australia and New Zealand will be assembled at the Ayutthaya plant rather than in North America. Honda expects to export 6,000 *Accords* to New Zealand and Australia, 1,000 *Civics* to New Zealand, and 1,000 units of the less expensive *Honda City* to the Middle East, Singapore and Brunei. The company still faces excess capacity. Its assembly line in Ayutthaya has halved capacity to 30,000 units a year. (December 30, 1998)

**Siam Cement (SC)**, the country's largest industrial conglomerate, is negotiating with **Toyota Motors** to reduce its stakes to 30% in each of its metal producing JVs. SC has stakes in **Nawalona Industry**, 41%; **Siam AT Industry**, 49%; and **Thai Engineering Products**, 50%. Toyota is also being asked to acquire 20% of **Siam Toyota Manufacturing**, an engine producer, reducing SC's holding to 20%. Toyota has agreed to raise its equity stakes in the four companies and takeover some US\$54.3m in the combined debts of these JVs. (December 24, 1998)

**Mitsubishi** has provided a Bht6bn (US\$144m) long-term loan to **Tri Petch Isuzu Sales**, Thailand's second largest automobile distributor. The loan, made through newly established affiliate **MC Automobile (Thailand)**, will help Tri Petch carry out sales promotions, repay debt and reduce costs. Tri Petch suspended operations at its new 250-rai plant in the Gateway Industrial Estate, Chacheongsao in 1997. (December 24, 1998)

**Sales of passenger cars** in Thailand rose year-on-year in December 1998 for the first time in more than a year, but analysts were divided over whether that heralds an economic recovery. Sales reached 6,478 units in December 1998, up nearly 16% on 1997, according to **Toyota Motor Corp**, which compiles figures for the industry. December sales were also up 69% on November's sales. Many dealers are offering interest rate-free monthly installments, as well as longer repayment terms on auto loans. Total new vehicle sales in December rose 18% year-on-year, to 17,888 units. (January 15, 1999)

The **Thai Cabinet** will postpone its plan to raise excise

tax on motorcycles from 3% to 5% until January 1, 2000. Economic difficulties which plague low-income households was cited as the key reason. The delay will mean that the government will forego Bht300m (US\$7.2m) in revenues. (December 30, 1998)

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## VIETNAM

**Honda Vietnam** has sold a monthly average of 8,000 locally assembled *Super Dream* motorcycles in recent months, Vu Anh Dung, Deputy Director General, said yesterday. He estimated that total sales would reach 80,000 units by the end of 1998. However, a source close to the company said Honda Vietnam is likely temporarily to suspend production by year-end due to slow sales and increasing volumes of stock. Dung did not confirm the news. (December 17, 1998)

**Vietnam's motor car industry** is reeling from a disastrous year and carmakers say that their survival is threatened unless the government takes action soon. The country's 11 JV car assemblers sold only 5,000 vehicles in 1998, compared with 6,000 in 1997 and 8,000 in 1996. The car executives say a slowdown in domestic demand is partly to blame. The chief culprit is Hanoi's policy of allowing a flood of cheap second-hand vehicles into the country. "Auto JVs have no hope unless the Vietnamese government takes decisive measures," said Lee Chong-gi, General Director of the Hanoi-based **Vietnam Daewoo Motor Corp.** (January 17, 1999)

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## FOCUS:

### Auto Components in Japan

The global auto industry continues its breakneck consolidation and the ripple effect of this process has now reached the OEM auto and auto component

manufacturers of Japan and Korea. Acquisitions, mergers and alliances between Western and Asian OEM manufacturers are just beginning to occur and this process will accelerate. Successful parties will be those that complete good up-front research and are able to build relationships based on trust. The manoeuvrings of the OEM auto manufacturers will clearly play a large role. This focus profiles a number of listed Japanese auto component suppliers.

### 1. AKEBONO BRAKE INDUSTRY CO LTD

**Background:** Akebono Brake was established in 1929. The company has 10 consolidated subsidiaries; six in Japan; and four in the USA. 15.4% of its sales were to overseas customers.

**Range of products:** 96% of its products are brakes and related products while the remaining 4% were derived from the real estate business.

**Financials:**

	Ybn	US\$m
1998 revenues	124.0	1,000
Market cap	20.8	181

PE ratio		8.19x
52 week price change		-41.7%

### 2. EXEDY CORPORATION

**Background:** Exedy Corporation was established in 1950. The company has 11 consolidated subsidiaries; five in Japan; four in the US; one each in the UK and Australia. Nissan Motor is the company's major shareholder with a 25.8% stake.

**Range of products:** Clutches and transmissions for automobiles account for 86% of the groups products, a further 12% is transmissions for industrial equipment, including power shift transmissions, torque convertor transmissions and dual clutches. 21.6% of its sales are to overseas customers.

**Financials:**

	Ybn	US\$m
1998 revenues	10.4	900
Market cap	22.8	198

PE ratio		43.19x
52 week price change		-48.5%

### 3. JIDOSHI KIKI CO LTD

**Background:** Jidoshi Kiki Co was established in 1995. The major shareholder is Zexel Corporation with a 33.75% stake in the company.

Range of products: Automobile power brake actuators account for 43% of the products manufactured; power steering equipment, 29%; and other automotive parts, 28%. 20% of its customer base is derived from **Isuzu Motors Ltd**, 16% comes from **Mitsubishi Motors Corp** and 11% from **Toyota Motor Corp**.

Financials:

	Ybn	US\$
1998 revenues	68.5	597
Market cap	18.0	157
PE ratio	<i>N/a</i>	
52 Week price change	-35.7%	

#### 4. KIRIU MACHINE MANUFACTURING CO

Background: Kiriu Machine Manufacturing was established in 1906 and has three subsidiaries in Japan and two in Taiwan. **Nissan Motor Co Ltd** is the major shareholder in the company with a 36.3% stake.

Range of products: Brake parts, engine components, gear and clutch components comprise 94% of the products manufactured. The remaining 6% are machine tools. 18.3% of their customers are based overseas.

Financials:

	Ybn	US\$m
1998 revenues	26.3	230.0
Market cap	4.9	42.5
PE ratio	<i>15.5x</i>	
52 week price change	-33.9%	

#### 5. NIPPON PISTON RING CO LTD

Background: Nippon Piston Ring Co Ltd was established in 1934. The company has six subsidiaries in Japan and one each in the USA and Germany.

Range of products: 83% of the products are piston rings, and cylinder liners. The remaining 17% are other non-automotive. 26.8% of their customer base are abroad.

Financials:

	Ybn	US\$m
1998 revenues	43.4	230
Market cap	14.8	129
PE ratio	<i>60.0x</i>	
52 week price change	-25.0%	

#### 6. TEIKOKU PISTON RING CO LTD

Background: Teikoku Piston Ring was established in 1939.

Range of products: Piston rings, cylinder liners, valve sheets and metal gaskets comprise 78% of total sales. The remaining 22% of revenues are derived from diesel engine parts, remote infrared equipment and temperature control equipment. 18.3% of their sales were to overseas customers.

Financials:

	Ybn	US\$m
1998 revenues	32.7	285
Market cap	8.1	71
PE ratio	<i>19.2x</i>	
52 week price change	<i>12.6%</i>	

#### 7. TOKICO LTD

Background: Tikoco Ltd has ten consolidated subsidiaries, nine in Japan and one in the US.

Range of products: 66% of product is sold to the auto sector including shock absorbers, suspension struts, electronic control suspension systems, gas springs and disc and drum brakes. Flow meters, gasoline meters, anti-vibration systems comprise 26% of sales, with small air compressors making up the remaining 8%. 26.8% of their sales were to overseas customers.

Financials:

	Ybn	US\$m
1998 revenues	128.1	1,000
Market cap	17.2	150
PE ratio	<i>N/a</i>	
52 week price change	-47.2%	

#### 8. UNISIA JECS CORPORATION

Background: Unisia was established in 1956. The company has one subsidiary out of Japan, in Mexico. Nissan Motor Co Ltd is the company's major shareholder with a stake of 29.57%.

Range of products: 52% of the products are engine parts, 17% are transmission/drive parts and 31% steering/suspension and other automobile parts. Nissan Motor Co Ltd. buys 71.1% of all sales.

Financials:

	Ybn	US\$m
1998 revenues	219.8	2,600
Market cap	30.5	266
PE ratio		12.7x
52 week price change		-27.6%

**9. ZEXEL CORPORATION**

Background: Zexel was established in 1939. The company has 33 subsidiaries in Belgium, Germany,

Japan, South Korea, Thailand and the USA.

Range of products: 45% of product sold are diesel engine fuel injection systems, another 45% are auto air conditioning units. Key customers include Isuzu Motors Ltd (18.6%), Nissan Motors Ltd (16.8%).

Financials:

	Ybn	US\$m
1998 revenues	269.3	2,000
Market cap	53.9	470
PE ratio		N/a
52 week price change		-27.2%

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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 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, through our New York office, or Andrew Huntley in Singapore.

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