

# SOUTH EAST ASIAN AUTOMOTIVE NEWS

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A bimonthly newsletter of developments in the auto and auto parts market.

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## INDONESIA

**PT Astra International**, Indonesia's largest car maker, posted a net loss of Rp487bn (US\$65.2m) in the first nine months of 1998, compared with Rp326.9bn (US\$43.7m) net profit for the same period in 1997. (December 2<sup>nd</sup> 1998)

**Daihatsu Motor Co** has announced plans to construct a sister model to the *Terio*, a compact SUV, in Indonesia. Production will begin as early as summer 1999. (November 12<sup>th</sup> 1998)

## INTRODUCTION

It was a pleasure to meet so many of you again, and some for the first time, at the EIU automotive conference in Singapore on November 16<sup>th</sup> and 17<sup>th</sup>. The mood of the conference was mixed, with most firms remaining upbeat about the region despite the expectation of a few tough years ahead. This issue's focus reports on trends in automotive M&A in the region.

We hope that you find *South East Asian Automotive News* useful and informative. BDA is a corporate advisory firm that helps its clients to identify and execute acquisitions and joint ventures in South East Asia. If you think that BDA's services may be useful to you, please contact us in New York at (212) 265-5300.

Charles Maynard  
Managing Director

## MALAYSIA

**Directional Sdn Bhd**, the sole importer of Citroen cars in Malaysia, had 1998 revenues of RM90m (US\$23.5m) and expects to increase revenues to RM180m (US\$47m) in 1999. Director Mr. A. Parkunan said that the local automotive industry had witnessed some recovery in September and October. (November 25<sup>th</sup> 1998)

**DRB/Hicom** has confirmed that **Petronas** has initiated discussions with the group with the intention to buy a controlling stake in DRB's subsidiary, **Proton**. **UMW Holdings Bhd** is the major share holder in Perodua, with a 38% equity interest in the company. (October 30<sup>th</sup> 1998)

**EON (Edaran Otomobil Nasional Bhd)** is expected to report a loss of RM38.3m (US\$10m) this year, estimates **Kleinwort Benson Research (M) Sdn Bhd**. EON is looking to slash costs but is constrained by its inability to retrench its staffs because it is a national project guided by PM Mahathir Mohamad. EON's sales of Proton cars fell 66% from last year's period to 5,274 units. Proton began to promote its Proton Iswara (its cheapest car) last year as a strategy to shift demand towards the cheaper models. However, this could result in a slimmer profit margin for EON. (December 9<sup>th</sup> 1998)

**EON**, the **Proton** distributor, will post its first ever loss in 1998 since going public in 1990, according to analysts. The loss is estimated at US\$10m versus a US\$113m profit in 1997. EON's sales of Proton fell 66% compared to last year. Because it is a national project guided by PM Mahathir Mohamad, the company has to try to cut costs without retrenching any of its 2,700 staff. (December 9<sup>th</sup> 1998)

**Fiat Auto**, the car unit of Italy's largest automotive group, has set up an Asian representative office in Kuala Lumpur. The office will be responsible for markets in Korea, South East Asia and Taiwan. (December 1<sup>st</sup> 1998)

The **Malaysian Motor Traders Association** has released figures showing that Malaysian car sales rose by 9.5% in October 1998 to 13,504 units from 12,338 units in September 1998, though it is still a substantial year-on-year decline from October 1997. This rise is the seventh monthly increase in eight months. (November 26<sup>th</sup> 1998)

**Proton** reported a net loss of RM123m (US\$32m) for the first half ended Sept 30, 1998, compared with the previous year's interim net profit of RM415m (US\$109m). Turnover of the group fell 55.3% to RM1.7bn (US\$444m) in H1 from RM3.8bn (US\$1bn) in H2 1997. (December 4<sup>th</sup> 1998)

**Proton** has added Egypt to its list of overseas markets, with the signing of a distribution agreement with **Mimar Automotive**. Proton will export the *Satria*, *Putra* and *Wira* models to Egypt. It is targeting sales of 900 units in 1999. Egypt's

passenger car sales are among the highest in the Middle East and sales in 1996 totalled 41,000 units. (December 1<sup>st</sup> 1998)

**Proton Motor Co** has opened a US\$15m auto showroom, the Proton Centre, in Istanbul, **Turkey**. Sales are forecast to exceed 3,500 units in 1999 as a result of strong marketing by **Jepta Holdings**, the sole distributor. Showcased were the Proton *Wira* 1.6 models and the *Kriss* 110cc motorcycles. (November 23<sup>rd</sup> 1998)

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## PHILIPPINES

**Ford, Honda, Mitsubishi** and **Toyota** will take part in a Reverse Trade Fair in Manila. This is an attempt to help develop and support the local parts and components suppliers, and make them more globally competitive. At least 60 Filipino parts producers are expected to attend this inaugural fair, where they will be able to learn which parts are required by the car manufacturers. (November 27<sup>th</sup> 1998)

**Ford Motor Co**, the world's second largest motor vehicle company, may scale down planned investments and downgrade operations in the Philippines if the Government refuses to grant tax and duty free privileges on its capital equipment importation, which may account for US\$50m out of the planned US\$333m investments here. This investment is envisioned by Ford to launch the Philippines as an integrated assembly and parts manufacturing base for the export of auto components. (October 23<sup>rd</sup> 1998)

**Francisco Motors Corp** and **Columbian Motors Corp**, both Filipino carmakers, are joining forces with **Hyundai Motors** in a bid to position themselves within the increasingly foreign dominated domestic market. The partnership will assemble and distribute the full range of Hyundai models. Hyundai is targeting sales of 9,000 units by next year, from current sales of 3,000 units in 1998. (October 23<sup>rd</sup> 1998)

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## SINGAPORE

**Eurosports Auto**, a unit of **Gay Hin Enterprise**, has purchased a franchise to distribute Lotus cars in Singapore, after a ten year break. The *Elise* model is being assembled by **Proton**, which has a 63.75% stake in **Lotus**, at its plant in Shah Alam. The *Esprit* model will be manufactured in Britain and shipped directly to Singapore (October 30<sup>th</sup> 1998)

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## THAILAND

The **Automotive Industry Club** has released figures showing that 41,993 units were exported in the first three quarters of 1998. The most profitable export market for Thai built-cars has been Australia. (November 24<sup>th</sup> 1998)

**BMW** has invested Bht3.5bn (US\$97m) to build a factory in the Amata City Industrial Estate in Rayong. Jesus Cordoba, President of **BMW (Thailand)** made this commitment at a meeting with Prime Minister Chuan Leekpai. The plant will start up in 2000. It will produce parts and assemble vehicles, probably the *BMW 3 Series*, *Rover 75* and *Land Rover Freelander*, for domestic and export sales. (October 15<sup>th</sup> 1998)

**Chrysler Sales and Services (Thailand)**, a subsidiary of **Chrysler International**, plans to open a new head office, showroom, service center and parts warehouse in Bangkok by January 1999. The company has signed up dealers for its Chrysler and Jeep brands, and has resumed assembly of 100 to 150 Jeep Cherokees per month at its Bangchan plant. (October 2<sup>nd</sup> 1998)

**General Motors** will begin car production at a new plant in Rayong, Thailand, under the Opel brand in H1 2000. The original plan of spending US\$750m on a factory to commence production in mid-1999 was reworked due to the recession. The plant will now cost US\$500m. It will have an initial production volume of 40,000 cars, of which 80% will be exported. The model of car to

be produced will be unveiled at the Thai Car Show in December 1998. (November 18<sup>th</sup> 1998)

**Thai Automotive Ltd**, previously known as **Thai Automotive** and a former affiliate of US auto-maker **Chrysler Corp**, is to be liquidated. Creditors won a court-appointed receiver's order for the closure of Thai Automotive, formerly a distributor and service provider for Chrysler. Chrysler, now part of **DaimlerChrysler AG**, is in dispute over its obligation (according to some creditors) to take partial responsibility for a US\$40m loan made to **Thai Chrysler**, in which the US auto-maker held a 30% stake. (November 22<sup>nd</sup> 1998)

The **Thai Customs Dept** has released figures showing that CBU cars imported by Thailand fell by 77% year-on-year from 761 in October 1997 units to 174 units October 1998. Of the total, 67 units were imported from Europe with the remaining 107 coming from Japan. (November 23<sup>rd</sup> 1998)

**Thai Rung Union Car**, an automotive parts producer and assembler of pickup trucks, has sold most of its stake in a seatbelt and airbag joint venture to its Swedish-based partner, **Autoliv**. Thai Rung sold 25% of Autoliv (Thailand) for Bht100m (US\$2.5m), reducing its stake to 15%. The JV makes car safety restraint systems for both the domestic and export market. (October 30<sup>th</sup> 1998)

**Toyota Motors Thailand** has released figures showing that October car sales in Thailand had improved for the first time both month-on-month and year-on-year since February 1997. Toyota plans to increase exports from Thailand to 20,000 units next year. (November 23<sup>rd</sup> 1998)

**YMC General Assembly** distributor, **Thai Yarnyon**, and their parent **Yontrakit**, are reworking the relationship with their principal, **BMW**. YMC will continue to supply components and kits to BMW's new plants. After lengthy negotiations, the group is likely to be left with a limited role in building and selling BMWs. Yontrakit will try to expand its relationship with **Audi** and **VW** to include assembly. Another subsidiary, **Yontrakit Intersales**, currently distributes Audis and VWs. (October 2<sup>nd</sup> 1998)

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## VIETNAM

The **Ministry of Trade** has released figures stating that 16,614 car units and 266,718 motorcycle units have been imported in 1998 through to October 31<sup>st</sup>. 1997's figures for the year end stood at 23,589 car units and 244,300 motorcycle units. These figures include CKD kits. (November 30<sup>th</sup> 1998)

**Singapore Technologies Automotive**, announced that it is pulling out of 2 JV projects in Vietnam after the regional downturn affected these ventures. **ST Automotive (Vietnam) Pte Ltd**, and its JV partners in Vietnam have decided to liquidate JV companies **Transport Technologies Ltd(TTI)** and **Transport Technologies International Vietnam Ltd(TTVI)**. ST Auto Vietnam has agreed with its partners that the companies should be wound up, and liquidation is now in progress. It added that the liquidation of these companies will not have a material impact on the earnings for the group in FY 1998. (December 5<sup>th</sup> 1998)

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## REGIONAL

**China** has announced stringent car emission rules to take effect from January 1<sup>st</sup> 1999 in Beijing and Shanghai. Beijing will restrict the sale of new cars to those equipped with electronically-controlled fuel injection, whilst Shanghai will launch a 'green fuel' campaign. These rules will apply to all vehicles under 2.5 tonnes. Cars sold before this deadline, however, will not have to abide by the new rules. (November 29<sup>th</sup> 1998)

The **Chinese State Statistics Bureau** figures show sedan production across the country amounted to 47,000 units in October 1998, up 12% year-on-year and 13% month-on-month. Production totaled 420,000 cars from January to October, an increase of 4% on last year. (November 18<sup>th</sup> 1998)

**Daewoo** and **Samsung** are poised to swap businesses in a further rationalization of the auto in-

dustry in Korea. **Samsung Motor** will become part of the Daewoo Group's auto business and Daewoo will give Samsung its electronics business. While officials at Samsung Motor expect the company to lose US\$286m in 1998, analysts expect the loss to be much bigger. (December 9<sup>th</sup> 1998)

**Daihatsu Motor Co** will begin manufacturing its compact sports-utility vehicle, the *Terio*, in **Taiwan** in December 1998, in the hope of expanding its business within East Asia. Daihatsu plans to sell 10,000 vehicles a year in Taiwan. (November 12<sup>th</sup> 1998)

**Ford Motor Co** will pay US\$54.5m to increase its shareholding in Chinese automaker **Jiangling Motors Corp** from 20% to 30%. This will expand the Jiangling's Ford *Transit* minivan production. The minivan sector is a strong segment of **China's** auto market and the *Transit* will be built from 50% local parts. (November 20<sup>th</sup> 1998)

**General Motors** has begun production at the first automatic transmission plant in **China**. The transmissions are a key component for the new Buick, which the US\$1.5bn Shanghai auto venture will start producing at the end of 1998. The plant, a 50:50 JV with **Shanghai Automotive Industrial Corp.**, is based in the Pudong District and is one of the largest **US** investments on the mainland. GM has 16 ventures on the mainland, three auto/truck production facilities and 13 auto component production facilities. (November 12<sup>th</sup> 1998)

**Hyundai Motor Co**, South Korea's largest automobile manufacturer, has won the right to acquire **Kia Motor Corp** and its affiliate **Asian Motors Co**. Hyundai beat **Daewoo Motor Co**, **Ford Motor Co** and **Samsung Motors Ltd** in the bidding. Hyundai will dominate the domestic market with more than a 65% market share. (October 20<sup>th</sup> 1998)

**Industrial and Commercial Bank of China (ICBC)** has begun offering car loans in a bid to support the car market and the economy. ICBC plans to help boost the economy by providing car loans for domestically built cars. The majority are three to five year loans, with each loan not exceeding 80% of the purchase price. (November 18<sup>th</sup> 1998)

**Sichuan Toyota**, a JV between **Toyota Motor Corp**, **Toyota Tsusho Co** and the Chinese bus maker, **Sichuan Wagon Car Manufactory**, will build a US\$99m plant in Chengdu, the provincial capital of Sichuan, **China**. Toyota Motor said it will produce 29-passenger small buses from 2001. This is Toyota's first vehicle assembly effort in China. The plant is expected to produce 3,000 vehicles in its first year, rising to 10,000 by 2005. (November 12<sup>th</sup> 1998)

**Suzuki Motor Corp**, the world's third largest motorcycle company, has established a JV in Yangon, **Myanmar**. The venture plans to commence production of cars and motorbikes in Q1 1999. Suzuki has teamed up with the state-owned **Myanmar Automobile and Diesel Engine Industries** to form the US\$10m company. The plant will have a capacity of 20,000 motorcycles and 3,000 small cars a year. (November 28<sup>th</sup> 1998)

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## FOCUS:

### M&A in the Asian automotive industry

Historically, Asian automotive M&A activity has been very limited, being generally confined to relatively small, domestic transactions within national markets. Most Asian automotive companies are typically unlisted and are either family or government-controlled. Strict foreign ownership regulations have restricted equity participation by foreign companies. Those foreigners that have been successful in these markets, such as the Japanese, have worked within the existing equity regulations and established a close network of joint venture relationships with local players in each market.

The Asian crisis has had a major impact on Asian automotive M&A activity. Traditional sources of funding are no longer available. The crippling decline in sales and a severe banking crisis has resulted in dramatic reversals in the fortunes of Asian companies. Foreign direct investment is one of the few sources of funds remaining.

Full equity ownership by foreign companies is now possible in almost all markets including **Indonesia**, **Korea**, **Malaysia** and **Thailand**.

These developments are conducive to M&A activity. Subsequently, European and Asian automotive companies see acquisition as one of the most effective entry routes into Asian markets.

### Trends in Asian M&A activity

The following trends have become increasingly apparent in the M&A industry in Asia:

- Diversified Asian companies are restructuring their businesses and divesting non-core businesses. This process is providing plenty of potential acquisition opportunities.
- Governments are taking a central role in promoting M&A activity. For instance, **Petronas**, the Malaysian state oil company, has proposed the purchase of an equity stake in **Proton**, the Malaysian national car company, from **Hicom Holdings**. Principals are resuming control of local distributors. **BMW**, **Chrysler** and **Mercedes-Benz** are all taking this route in Thailand.
- M&A activity closely follows the development of a country's industrial base. Accordingly, over the next three years **Korea** and the large markets of **China** and **India** will see the greatest M&A activity in the automotive sector.
- Much of the acquisition activity has stemmed from components suppliers following the auto manufacturers into new markets through joint ventures or acquisitions.

There are also a number of issues impeding M&A activity in the region that may account for the lack of M&A transactions since the crisis:

- Volatility of currencies and political and economic environments still plague the region.
- Prices are falling and losses are likely to continue in the automotive sector in both **Korea** and **ASEAN** into 1999.

The chart below illustrates that M&A activity closely follows the development of the industrial base. Over the next three years Korea will see the greatest M&A activity in the automotive sector.

Country	Development of industrial base	Regulation of FDI	Options	Potential for M&A activity
Korea	High	Low	Independent manufacturers producing medium to high quality product. Market entrants can achieve faster entry through acquisitions, but joint ventures and greenfields are alternatives.	High
India / China	Medium to Low	Medium to High	Equity regulations suggest a joint venture, either with an existing manufacturer or through a greenfield.	Medium to Low
Thailand / ASEAN	Medium	Low	Existing competition are owned or part-owned by other international companies. Market entrants can greenfield, either alone or through a joint venture.	Medium

- Differences in valuation methods - Asian companies prefer to use asset valuations, while Western companies typically analyse projected cashflows.
- A lack of good financial and industrial data - many companies have difficulty in identifying and accurately assessing appropriate JV/acquisition candidates due to the lack of readily available, reliable corporate or industry information.

### Conclusion

M&A will increase substantially in 1999 and 2000 in the Asian automotive sector. While the emphasis pre-crisis was on finding potential candidates for acquisition, the key skill now is to sort through the companies available to find high quality, well qualified candidates. This requires a thorough knowledge of the market, access to financial information, on the ground expertise and the ability to rapidly establish and develop relationships with potential targets.

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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 specialises in the automotive industry and helps clients to find local business partners and opportunities, and to execute JVs and acquisitions. BDA has offices in New York and Singapore, and has senior advisors in Bangkok, Jakarta, Kuala Lumpur and Manila. 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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