

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

ASIAN AUTOMOTIVE NEWSLETTER

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INTRODUCTION

We hope you find the *Asian Automotive Newsletter* informative.

BDA is a corporate finance advisory firm which helps multinational clients to identify and to execute acquisitions and JVs in Asia. We focus on the automotive sector and are well placed to help Western companies structure mutually beneficial transactions with local partners.

If you think that BDA's services may be useful to you, please contact me at cmaynard@bdallc.com.

Charles Maynard
Managing Director

CHINA/HK

Cheng Shin Rubber Industrial Company of Taiwan is to double its daily production capacity from 12,000 to 24,000 radial car tires at its plant in Kunshan, Jiangsu Province. The expansion is an attempt to remain competitive in light of France-based **Michelin's** US\$200m JV with China's **Shanghai Tire & Rubber**. (July 17, 2001)

Dongfeng Honda Automobile Parts Company's JV components unit in China will move out of its limited-capacity factory in Huizhou, Guangdong, into a new factory, which was built at a cost of US\$6.2m. One hundred new workers will be employed at the facility, bringing its total staff to 500. (July 3, 2001)

Fiat Group of Italy will start building its *Palio* and *Siena* car models in China at its new Shanghai-based subsidiary, **Magneti Marelli Powertrain Company**, in 2002. The company will independently make approximately 20,000 *Palio* subcompacts, and will produce its larger *Siena* model as part of a JV with **Yuejing Motor Group Corporation** of China. Magneti Marelli Powertrain will initially have an annual production capacity of 150,000 throttles, which it will gradually increase to 900,000 units. The subsidiary will also provide China's major automakers with electric engine management systems. (July 17, 2001)

Mitsubishi Motors Corp (MMC) of Japan is in talks to produce subcompact cars at **Beijing Jeep Corp, DaimlerChrysler AG's** China-based SUV assembly plant. MMC is eager to strengthen its local production base in the face of rising Chinese import tariffs on

Japanese cars. Beijing Jeep has an annual production capacity of 100,000 vehicles. In 2000 it turned out approximately 80,000 vehicles. (June 21, 2001)

Nippon Steel Corporation is in negotiations with **Baoshan Iron & Steel Company** of China to establish a JV for the automotive steel sheet business in Shanghai as early as 2002. The Shanghai facility, due to begin operations in 2004, will have an initial investment of up to ¥30bn (US\$239m) with an annual processing capacity of 100,000 metric tons. (July 11, 2001)

Shanghai Automotive Industry Corporation (SAIC) has signed a contract to acquire a 76% equity stake in Liuzhou-based **Wuling Motor Co.** Wuling Motor has been renamed **SAIC Wuling Motor Group Co.**, and its management will be integrated with the new parent company. After the restructuring, SAIC Wuling Motor will enter a JV with **General Motors** of the US to produce cars for China's rural market. The manufacturing partnership will make minivans and minitrucks, which will sell for less than US\$5,500. (July 24, 2001)

SKF of Sweden is forming a JV with **China's Shanghai Bearing Company** to produce and sell deep groove ball bearings. SKF, which will hold 60% of the JV, is anticipated to increase its turnover in China by 15% and to become the third biggest manufacturer in the local ball bearing market. The JV will invest US\$11.5m in a factory in Shanghai that will begin production of bearings for motor vehicles, electrical motors and power tools by Q4 2002. (July 17, 2001)

INDIA

Eicher Motors Ltd (EML), an India-based, light commercial vehicle manufacturer, intends to invest US\$21.2m to expand its production line to include heavy commercial vehicles (HCV). In Q1 2002, EML plans to launch a 16-ton commercial vehicle to

compete with HCVs manufactured by local companies such as **Ashok Leyland** and **Tata Engineering & Locomotive Company Ltd (Telco)**. EML is part of the US\$212m Eicher Group, which has interests in auto engineering and manufactures, markets and exports tractors, power motorcycles and components. (July 18, 2001)

General Motors (GM) of the US intends to sell its Indonesian-built *Panther AUV* and its US-made *Chevrolet Blazer SUV* in India in an attempt to exploit the growing demand for utility vehicles in the country. The two utility vehicle models will be imported in the form of CBUs or CKD kits in Q4 2001. They will be sold through **General Motors India**, a wholly-owned GM subsidiary, in 2002. (July 12, 2001)

Honda SIEL Cars India Ltd (HSCI), the 80:20 JV between **Honda Motor Company** of Japan and SIEL of India, is to launch the *Accord* model in India with 30% local content. Honda SIEL has invested Rs100m (US\$2m) to prepare its existing Indian factory for assembly of the *Accord* model. The imminent launch of the *Accord* has also prompted Honda Siel to expand its network of car dealerships and service outlets in India to 28 and 26, respectively. A small number of the India-made *Accords*, costing between US\$31,000 and US\$34,000, will be exported to Bangladesh and Sri Lanka. (July 11, 2001)

Stanadyne Automotive Corporation, a US\$3bn manufacturer of fuel-injection equipment for diesel engines, will invest US\$2m to establish a wholly-owned subsidiary to design, manufacture and market precision engine components in India. The investment will be raised according to the needs of the subsidiary, which will be US-based Stanadyne's first facility in Asia. (June 29, 2001)

Toyoda Gosei of Japan has acquired 58.6 million shares, a 26% stake, in **BDR Wadco Automotive**, the Indian subsidiary of US-based auto parts manufacturer **Schlegel Corporation**. Established in 1992 in Sahibabad, India, BDR Wadco Automotive manufactures anti-vibration systems and EDPM weather-strips for automobiles. In addition to BDR Wadco Automotive, Toyoda Gosei has several other

India-based JVs, including **Kirloskar Systems, TG Kirloskar Automotive, Premier Instruments & Controls** and **Premier Moldings and Pressings**. (July 4, 2001)

INDONESIA

Nissan Motor Company will raise its equity stake in its Indonesian manufacturing partner **PT Ismac Nissan** from 35% to 75% by September 2001. Nissan executives hope that the move will increase its annual sales in Indonesia from 1,000 units to 10,000 units by 2003. Nissan President Carlos Ghosn has stated that the company views Indonesia and Thailand as its chief production hubs in the ASEAN region. (July 10, 2001)

JAPAN

BMW of Germany is in talks with Japan-based **Toyota** to purchase up to 30,000 diesel engines per year. Although nothing official has been announced, BMW officials have stated that the engines would be used to supply 30% of BMW's new mini cars, which went on sale in Britain in July 2001. (July 12, 2001)

Fuji Heavy Industries, the Japan-based maker of Subaru vehicles, will take over distribution of replacement car parts in Japan for 20% owner **General Motors**. The Japanese automaker will import a wide variety of parts that are used to repair all GM cars for sale in Japan. This is intended to enable GM to lower its costs in Japan and Fuji Heavy to earn commission revenues. (June 25, 2001)

Hitachi Ltd of Japan will set up a turbocharger production venture in August 2001 with **BorgWarner** of the US. The 50:50 JV, headquartered in Ibaraki

prefecture, will be capitalized at ¥450m (US\$3.6m) and is targeting revenues of ¥8bn (US\$64.5m) by Q4 2005. (June 26, 2001)

Separately, **Hitachi** and **Delco Remy**, an affiliate of **General Motors**, have formed a JV to manufacture electric components for automobiles. The JV, **Hitachi Remy Automotive GmbH**, is capitalized at US\$4m and is owned 51% by Hitachi and 49% by Delco Remy. It will produce and sell alternators and starting motors with an annual sales target of ¥12bn (US\$96.5m) by 2005.

Ichikoh Industries of Japan and France-based car parts supplier **Valeo** will jointly develop automotive lighting technologies at Valeo's factory in North America. The two companies, which formed their alliance in July 2000, will also supply lamps to **Nissan** for installation in the **Renault Clio/Nissan Micra** car model. (July 4, 2001)

Kinugawa Rubber Industrial Company, a **Nissan** affiliate, has announced plans to consolidate operations to cut costs. The company will terminate production of rubber sealing parts at its plant in Tochigi, Japan and will concentrate on bumpers and resin parts. Management will work to lift capacity utilization before all three plants are spun off by March 2002. Sales to Nissan Motor Company and **Nissan Shatai Company** account for 55% and 15% respectively of non-consolidated revenues. Cost reduction initiatives from Nissan are responsible for the consolidation. (July 17, 2001)

Sumitomo Electric Industries of Japan is increasing the volume of wire harnesses it imports. As the production of wire harnesses is labor intensive, they are increasingly being sourced from China, Thailand and Vietnam. Sumitomo Electric currently buys ¥60bn (US\$488m) worth of harnesses from other Asian nations. This figure is expected to rise to ¥70bn (US\$570m) by Q4 2002. (July 23, 2002)

Tennex Corporation, a Japanese engine components manufacturer, is to become a subsidiary of German auto components manufacturer **Mahle GmbH**. Mahle bought new shares worth ¥3bn (US\$24m),

raising its stake from 33% to 58%. (July 18, 2001)

KOREA

Daewoo Motors of Korea has reported a Q2 2001 operating profit of W21.9bn (US\$16.9m), following a Q1 2001 loss of W46.4bn (US\$985m). Daewoo Motor hopes that these latest results will encourage US-based **General Motors (GM)** to proceed with its plans to acquire the bankrupt Korean automaker. A third round of takeover-related discussions in Hong Kong between GM and Daewoo Motor's creditors are reportedly imminent. (July 12, 2001)

Nippon Piston Ring Company of Japan has spent about ¥200m (US\$1.6m) to purchase an 18.5% stake in South Korea's Seojin Cam Company. Seojin supplies camshaft components to Hyundai Motor and its subsidiary Kia Motors, with sales of W5.3bn (US\$4.1m) in 2000. (June 22, 2001)

Taiho Kogyo Company of Japan has formed a JV in South Korea to manufacture compressor parts for in-vehicle air conditioners. Taiho Kogyo holds 93% of the new JV, while **Mitsui & Co** of Japan holds 6%, and a Korean compressor parts firm holds 0.4%. The initial capitalization of ¥534m (US\$4.3m) will increase in Q4 2001, when the Korean partner's stake will rise to 20%. The facility aims to have annual revenues of over US\$4m by 2005. (June 26, 2001)

MALAYSIA

DRB-Oriental Honda Sdn Bhd, a 49:36:15 production and sales JV between Japan-based **Honda Motor Co** and Malaysia-based **DRB-Hicom** and **Oriental Holdings**, has acquired for an undisclosed sum the domestic sales rights for Honda automobiles from **Kah Motor Company** of Malaysia. Prior to

the acquisition the latter was the sole distributor for Honda cars in Malaysia. As a result of the transaction, DRB-Oriental Honda has taken over 39 Honda dealerships and 12 Honda service centers in Malaysia. The company also intends to build a parts warehouse to shorten delivery time to dealers. (July 4, 2001)

Separately, the owners of **DRB-Oriental Honda** will invest US\$45m to build a vehicle assembly plant in Malacca, Malaysia. Construction of the plant, which will have an annual production capacity of 20,000 units, will begin in September 2001. Production of Honda vehicles at the plant is anticipated to begin in 2003. (July 12, 2001)

Jaseri Auto Sdn Bhd has been appointed the official importer, distributor and dealer in Malaysia for vehicles made by Germany-based **Porsche** and **General Motors'** subsidiary, **Saab**. Jaseri Auto has invested US\$0.3m to establish a showroom for the two brands in Glenmarie, Shah Alam and soon intends to open a second flagship facility in central Kuala Lumpur. **Auto Eurokars Sdn Bhd**, a Jaseri Auto affiliate and a company in which Singapore-based **Trans-Eurokars** has a stake, will handle sales and post-sales transactions involving Porsche and Saab vehicles in Malaysia. (July 26, 2001)

Sime Darby, one of the largest diversified business groups in Malaysia, reportedly intends to acquire the outstanding 28% stake in its car retail unit, **Tractors Malaysia Holdings Bhd**. The latter sells cars made by US-based **Ford Motor Company** and **BMW** of Germany. Sime Darby allegedly plans to de-list Tractors by offering to buy back shares it does not own at a 20% to 30% premium above Tractors Malaysia's market price. (June 26, 2001)

PHILIPPINES

Honda Motor Philippines, the Philippines-based subsidiary of **Honda Motor Co** of Japan, plans to build a transmission components factory in

anticipation of free trade among ASEAN member countries. The project is anticipated to generate approximately US\$100m in annual exports through the ASEAN Industrial Cooperation (AICO) scheme, which enables companies in ASEAN member countries to trade various products between factories at preferential duties of 0-5%. Honda Motor Co has an AICO arrangement for auto components between its Indonesian, Malaysian and Philippine subsidiaries. Honda Motor Philippines receives door panels from Thailand, engine blocks from Indonesia and plastic parts, including dashboards, from Malaysia. (July 16, 2001)

SINGAPORE

DaimlerChrysler AG has signed a letter of intent with Singapore's **Economic Development Board** to introduce and test its new environmentally friendly, fuel-cell car in Singapore in 2004. The vehicle, called the *Necar 4A*, is based on the Mercedes-Benz A-class, but it uses fuel-cell technology that generates electric power from hydrogen and emits only water. Singapore was selected as a testing locale because of its relatively high-level of environmental awareness and the local government's efforts to develop it as a hub for environmentally friendly technology. (June 14, 2001)

TAIWAN

Lotus, the luxury automaker 85% owned by Malaysia-based Proton, has opened its first showroom in Taiwan. The Nankang-based showroom, **European Motor Cars**, will be the only authorized dealer on the island.

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Tokyo, Hong Kong, Singapore and Bangkok are the other East Asia cities, where Lotus has showrooms. Lotus executives, who selected Taiwan for its image as a luxury car-oriented market, hope to sell between 75 to 130 cars a year. (June 9, 2001)

THAILAND

Ford Motor Company of the US is a minor but growing player in the Thai vehicle market. In H1 2001 the company's Thailand-based subsidiary, **Ford Thailand** sold 9,024 vehicles, which represents an increase of 19.6% over the same period in 2000. In H1 2001 **Auto Alliance Thailand Co Ltd (AAT)**, a production JV between Mazda and Ford, exported more than 20,000 vehicles or US\$165m worth of vehicles. These statistics have given cause for senior executives at Ford Motor Company to express their confidence in the future success of Thailand as a regional automotive hub. (July 5, 2001)

General Motors Corporation's intends to increase the utilization rate of its assembly plant in Rayong, Thailand to 90% by 2004. The plant, which has an annual production capacity of 120,000 vehicles, already produces 60,000 General Motors' *Zafira* minivans per year. In Q3 2001 the Rayong plant will begin to export the *Zafira* model to **Fuji Heavy Industries** for sale in Japan. It will subsequently also begin production of *Subaru* vehicles for Fuji Heavy. In 2002 it will begin to produce **Alfa Romeo's** *156 sedan* at the rate of 4,000 units per year. In 2003 the plant will begin production of 45,000 **Isuzu** pickup trucks. (June 18, 2001)

VIETNAM

Ssangyong Motor Company of Korea hopes to increase its share in the Vietnamese automobile market by increasing sales of its four-wheel drive (4WD) *Musso* car model. *Musso* vehicles are assembled and sold by **Mekong Auto Corp** under an agreement with Ssangyong Motor. The former is a US\$36m JV between Japan-based **Saeilo Machinery Japan Inc**, Korea-based **Sae Young International Inc** and **VEAM** and **Sakyno**, both of Vietnam. Since 1997 Mekong Auto has sold an average of 1,500 Musso cars per year. It has a 15% market share in the 4WD segment and a 10% share in the passenger car segment in Vietnam. (July 6, 2001)

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