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CHINA

China will allow car companies to set up financing units, making it possible for **Ford**, **GM**, **Honda**, **Volkswagen AG**, and other automakers to offer loans direct to Chinese consumers for the first time. Chinese and foreign companies with RMB8bn (US\$967m) or more in total assets, a capital base of at least RMB500m (US\$60m) and a capital adequacy ratio of at least 10% can apply to set up financing businesses under a draft proposal. Auto financing ventures will be allowed to issue bonds, borrow from banks with guarantees, accept deposits from shareholders and vehicle buyers, and offer car loans and leasing services. (October 8, 2002)

Aisin Seiki, the **Toyota group** supplier, will spend ¥1bn (US\$8m) to expand production of manual gearboxes at its Chinese subsidiary, **Tangshan Aisin Gear Co.** As Toyota Motor builds up car production in China, Aisin Seiki will lift annual output to 190,000 units from 140,000 units in 2001. The extra 50,000 gearboxes will be fitted in the Toyota *Vios*, which went into production in Tianjin last month. TAGC anticipates a 2003 turnover of around US\$50m in 2003, nearly 30% higher than it achieved in 2001. Tangshan Aisin Gear Co. was established in 1996 with an investment of US\$41m by Aisin Seiki, **Aisin Ai Co.** and **Toyota Tsusho**. Since then it has put 10 different transmission series into production for passenger cars, mini trucks and light trucks. (November 27, 2002)

Daewoo Commercial Vehicle Co. has struck a deal to build 50,000 heavy-duty trucks in China over the next 10 years. Daewoo Commercial, a former affiliate of **Daewoo Motor** (now restructured with investment from **General Motors group** and **GM Daewoo Auto & Technology Co.**) reached agreement this week with **Baotou North-Benz Heavy-Duty Truck Co.**, based in Baotou City, Inner Mongolia. A deal was signed on November 12 to begin production of 15-ton dump trucks and 16-ton cargo trucks in 2003 at an initial rate of

INTRODUCTION

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

BDA is a corporate finance advisory firm that assists multinational clients in identifying and executing acquisitions, JVs and divestments in Asia. We have focused on the automotive sector since our founding in 1996 and are well placed to assist companies from our Asian offices in Tokyo, Shanghai, Hong Kong and Singapore. Contact details for these offices as well as those of our New York and London offices are on the back page of this newsletter.

If you think BDA's advisory services may be useful to you, please contact me via email at cmaynard@bdallc.com, or call me in Tokyo at (81) 3-3433-5803.

Charles Maynard
Managing Director

2,000 units per year. (November 13, 2002)

Daihatsu will jointly produce mini cars with **First Auto Works (FAW)** from 2005. The Toyota subsidiary will pay around ¥20bn (US\$163m) to construct and tool an assembly plant after a JV is established in 2004. FAW and Toyota will put three types of vehicle into production: medium/large-class luxury sedans, mini vehicles and medium/large-class luxury SUVs. (October 2, 2002)

Faurecia will establish a JV to manufacture car seats in Wuhan, Hubei Province, in partnership with Taiwanese firm **GSK**. Faurecia is to take a controlling 51% stake in the new business, - its fifth venture in China - which will be called **Faurecia GSK Wuhan Automotive Seating Co (FGW)**. It will deliver seats for the **Citroen Xsara** and **Picasso** models built by **Dongfeng-Citroen Automobile** in Wuhan beginning in December 2002. Production should reach full capacity by 2004 with annual turnover of around US\$31m. (October 8, 2002)

General Motors, Shanghai Auto and **Liuzhou Wuling** officially launched their three-way joint venture, **SAIC-GM-Wuling**. The new business, based in the city of Liuzhou, Guangxi Province, also rolled its first new product, the **Wuling Sunshine** people carrier, off the line. **SAIC** signed a contract to take a 75.9% equity stake in **Wuling Motor Co.**, via a series of state asset transfers, in July 2001. **Wuling** was renamed **SAIC Wuling Motor Group Co**. After a further series of investments and stock transfers, GM took a 34% stake in the business. (November 18, 2002)

General Motors has confirmed that it is in talks with **Yantai Bodyworks Co.** and other parties to expand its presence in China. It is speculated that a proposed GM-Yantai JV would make **Buick Sail** sedans but GM officials declined to comment. The **Sail**, a derivative of the **Opel Corsa**, is already in production in Shanghai. Yantai Bodyworks, based in Shandong province and owned by the provincial government, assembles cars using technology from bankrupt **Daewoo Motor Co**. GM has just launched **GM Daewoo Auto & Technology Co.** in partnership with Daewoo Motor, creditor banks, **Suzuki** and its Chinese partner, **Shanghai Auto**. One option, therefore, would be to build Daewoo cars at Yantai under the new GM Daewoo Auto entity, though GM officials say any deal with Yantai would not be connected with the Korean deal. (October 30, 2002)

Honda has received approval from Beijing for the construction of a passenger car plant project exclusively for exports, in Guangzhou. It has also secured the

right to a majority direct stake in the JV – a first in China for any foreign vehicle assembler. Honda will take a 65% stake in the venture, with **Guangzhou Auto Group Corp.** holding 25% and **Dongfeng Motor Group** 10%. The plant, designed to build 50,000 *Fit*-based cars (1,000-1,500cc) per year in the Guangzhou Export Development District from 2H 2004, requires a total capital investment of US\$193m. All of its output will be exported to Asian and European markets. (November 27, 2002)

Hyundai Motor has won approval from the Chinese authorities to build passenger cars in China. Hyundai will produce the *EF Sonata* and the *Elantra XD* towards the end 2002. About 2,000 cars will be rolled out this year from Beijing Auto's existing factory near the capital, increasing to 30,000 next year and 200,000 by 2005. Hyundai said it would make an initial investment of US\$100m in the JV and subsequently lift total investment to raise US\$430m by 2005 and to US\$1bn by 2010. The *Avante XD* is expected to go into production in China in 2004, an SUV and van in 2005 and the next-generation *Verna* in 2007. Over the same timeframe Hyundai will launch local production of the *Optima*, *Rio*, *Sorento* and *Carnival*. Hyundai already has three plants in China making compact cars, buses and vans. The most important is **Yangcheng Yueda-Kia Motors**, which makes Kia's *Pride* subcompact. Annual capacity at the venture will be increased 150,000 units by 2005. (October 15, 2002)

Mando Corp., Korea's largest independent auto parts manufacturer will invest a total of US\$110m in China by 2007 to expand its international presence. Mando Corp. aims to set up at least 10 JVs and wholly owned operation in the PRC by 2004. In the second phase Mando will establish a regional holding company, likely to be named Mando China, to oversee local operations. Plans call for Mando's turnover in China to reach US\$250m in 2006 and more than US\$300m the following year. A Chinese R&D center will be opened next year with a complement of 50 staff. (November 5, 2002)

Mitsubishi Motors Corporation (MMC) and **Beijing Jeep Corporation** will invest up to US\$160m to build Mitsubishi's *Pajero Sport* and *Airtrek (Outlander)* SUVs in China. The total investment to bring the *Airtrek* to China is in the US\$70m-US\$80m range, with about the same amount required for the *Pajero Sport*. The investment will be shared by Mitsubishi and Beijing Jeep. The *Pajero Sport* should go into production in the first quarter of 2003 at the rate of 10,000 units a year. The partners hope to make about 20,000 *Airtreks*

each year beginning early 2004. (November 5, 2002)

NGK Spark Plug of Japan will set up a wholly owned manufacturing facility in Shanghai. It will invest about ¥500m (US\$4m) in the first year to fund plant construction and machinery installation. Initially, NGK will assemble the plugs with components imported from Japan but it will move towards fully integrated local production as soon as possible. The company produced 520 million plugs in 2001/02 for use in cars, commercial vehicle and motorcycles, claiming a global market share of 27%. NGK intends to expand its production capacity in fiscal 2003/04 by 15% from last year to 600 million plugs a year. (November 13, 2002)

PSA and Dongfeng Motor Corp., announced they would invest US\$120m to lift production of *Citroen*-based cars and revive the **Peugeot** brand in China's rapidly growing market. The money will be used to expand output at a joint venture in Wuhan from 2004 and to put Peugeot models into production in China. PSA Peugeot would invest RMB625m (US\$76m) while Dongfeng would add another RMB375m (US\$45) for a total input of RMB1bn (US\$121m). The venture, known as **Dongfeng Peugeot Citroen Automobiles** (or **Shenlong Co.**), intends to sell 150,000 cars a year by 2004 and double that number in the "medium-term". Dongfeng and PSA plan to buy up the 36% of shares in their JV in Wuhan, Hubei province, currently held by other parties including banks. When the buyback is completed early in 2003 each company will hold 50% of the operation. The buyout will cost some RMB2bn (US\$277m) in addition to the RMB1bn used to start up the Peugeot manufacturing operation. (October 27, 2002)

Toyota will transfer production technology for its *Vitz* subcompact to Chinese JV partner **Tianjin Automotive Xiali Co.** for sale under Tianjin Auto's own brand, according to company sources. Tianjin Auto could start manufacturing the car at the rate of about 1,000 units monthly from early 2003 as the *Vitz* shares most of its componentry with the *Platz*. Once the *Vitz* goes into production, Toyota and Tianjin Auto will be building no less than three cars of the same platform – the new *Vios*, the *Vitz* and the *Platz*. (October 15, 2002)

supplier, will establish a presence in India following an agreement with New Delhi-based **Metro Tires** on the production and marketing of motorcycle and scooter tires in India. Metro Tires will receive technical assistance from Continental for the production of tires for motorized two-wheelers for sale under the Continental brand. The number of tires to be manufactured under license is expected to grow from 300,000 units in 2003 to 1.5 million in 2007. India's two-wheel tire market has annual unit sales in the order of 22 million (OE and replacement business). (October 29, 2002)

Honda SIEL Cars is working towards an Indian launch of the *CR-V* sport-utility, as the first of its two CBU import candidates, in March or April 2003. Honda SIEL has already received FIPB clearance for the import of both *CRV* and *Civic* CBU kits. Honda SIEL has announced an additional investment of approximately Rup2bn (US\$42m) over the next three years to fund model upgrades and the introduction of new products. Some of the investment will be internally funded but more will be sourced through fresh borrowing. The company's current debt component is Rup900m (US\$18.6m) on paid-up equity of Rup3.6bn (US\$75m). Honda SIEL's Surajpur assembly plant, which currently produces the *City* and *Accord*, has an installed capacity of 30,000 units per year on a two-shift basis. The company sold 5,772 cars from April to October this year. (November 19, 2002)

Hyundai will terminate production of the *Santra* in Korea and make India the sole global source for the super mini. Industry sources say Hyundai will end domestic *Santra* production late next year and order a capacity ramp-up for the *Santra* assembly line in Chennai. Initially, Hyundai may source components from India and go with CKD assembly in South Korea but officials say the medium-term plan is to completely phase out all involvement in *Santra* production and leave India to handle global demand. **Hyundai Motor India** has invested some US\$700m in the Chennai factory and intends to invest another US\$350m to double straight-time capacity to 250,000 units over four years. HMI currently builds the *Santra*, *Accent* and *Sonata* and is expected to put the *Terracan* SUV into production next February. (November 26, 2002)

INDIA

Continental, the German tire and components system

To submit stories to future editions of this newsletter, please contact Terrence Giang in New York on 212.265.5300 or tgiang@bdallc.com.

JK Industries, has announced a plan to merge with affiliated company **Vikrant Tires** in a bid to consolidate its operations. Vikrant stockholders would get two JK Industries shares for every five shares they held. India rolled about just over 706,000 commercial vehicle tires in fiscal 2001/02 and analysts expect output to hit 740,000 this year. (October 7, 2002)

Mazda intends to double annual car output in China to 45,000 units next year and at the same time expand its network of local sales outlets from 42 to 100. Mazda outsources production to **FAW Hainan Motor Co.**, based in Haikou, southern China. FAW Hainan should complete a US\$16bn expansion of its assembly lines next month. It will produce about 22,000 *Premacy* compact MPVs and *Familia* (323) subcompacts this year and will lift that figure to 30,000 in 2003. To augment FAW Hainan's contribution, Mazda will work with FAW Group to build 15,000 *Atenza* (*Mazda6*) sedans next year, beginning in March. (November 27, 2002)

INDONESIA

Suzuki announced on November 15 that it plans to increase its stake in its Indonesian production and sales unit, **PT Indomobil Suzuki International**, from 49% to 90%. The deal will turn a long-standing JV with **Indomobil Sukses** into a subsidiary. The Japanese automaker will purchase shares from Indomobil Sukses to the value of ¥18bn (US\$147m). Suzuki has strengthened Indonesia as its chief production base in Southeast Asia. (November 17, 2002)

JAPAN

Audi is setting up a JV with independent Japanese importer, distributor and dealer group **Yanase & Co.** in a bid to double sales in the market to 20,000 units by 2007. **Yanase Audi Sales** will be owned 66.6% by Yanase and 33.4% by Audi and is due to be formally established on December 1. Audi wants to indirectly control 40% of its retail sales volume in Japan through the JV. (November 4, 2002)

Toyota and three of its affiliated suppliers - **Koyo Seiko**,

Toyoda Machine Works and **Denso** - will establish on November 1 a JV specializing in the development and sales of electric power steering and electric-hydraulic power steering systems (collectively known as EPS). **FAVESS Co.** will be based in Aichi Prefecture (its first HQ will be the Toyoda Machine Works' technical centre in Okazaki). It will become operational next February, capitalized at ¥480m (US\$3.9m). Koyo Seiko will have a 45% stake and Toyoda Machine Works 35%. Denso and Toyota will each have a 10% holding. It will begin with around 300 employees. Koyo Seiko will provide about 200, Toyoda Machine 100, and Denso will send a further 10 engineers. (October 3, 2002)

KOREA

Autoliv Mando Corporation (AMC), the Korean subsidiary of Swedish safety equipment supplier **Autoliv**, has opened a plant for airbags and seatbelts outside Seoul in Sanchuck. The new US\$9m plant is closer to its key customers than the facility Autoliv Mando rents near Wonju. With the new plant Autoliv Mando plans to widen its customer base to include **Kia Motors**, **Ssangyong Motors**, and **GM Daewoo Auto & Technology Co.** At the same time it will broaden its product portfolio to include electronic components. The construction phase just completed encompasses almost 10,000sq. m. for manufacturing, crash lab space, and offices. The next phase of construction, slated to begin in 2005, will add about 5,000sq. m. of manufacturing space. (October 3, 2002)

GM, Suzuki, Shanghai Auto and **Daewoo Motor's** creditors has transferred the key assets of former **Daewoo Motor Co** to a spin-off, **GM Daewoo Auto & Technology (GMDAT)**. GMDAT will own and operate two Daewoo Motor plants in South Korea and one in Hanoi, Vietnam. GMDAT, with annual capacity of 600,000 units, will roll out a 1.5-litre car (codenamed *J-200*) in mid-November and a new version of the 2.5-litre *Magnus* sedan before the end of this year. GMDAT will have its headquarters in Bupyeong, west of Seoul, and an office in downtown Seoul. (October 17, 2002)

Honda is about to enter the South Korean market, sources say, as demand for new vehicles there continues to build. A local unit will likely be set up 1H 2003, according to reports in Japan that Honda Motor officials have not confirmed, though they concede that the company is "preparing to go into the South Korean

market". The automaker has apparently started a full-scale market research program and is talking to several Korean dealer groups. It is already active in the Korea motorcycle market. (November 25, 2002)

Hyundai and **DaimlerChrysler** broke ground for the construction of their new truck and bus engine factory in Korea in November 14. The site is inside Hyundai's Chonju commercial vehicle plant. The two companies agreed last July to set up a 50-50 engine JV named **Daimler Hyundai Truck Corp.** The 34,000sq. m. Daimler Hyundai Truck factory now under construction represents an investment of W30bn (US\$230m). It will manufacture DaimlerChrysler's latest 900 series diesel engines at the rate of 50,000 units annually when it becomes fully operational by 2005. Pilot production is scheduled to begin in September 2003. The Chonju plant will manufacture the 900 engines in a 4.3-liter four-cylinder version as well in six-cylinder 6.4- and 7.2-litre displacements. They will power a range of Hyundai trucks from (2.5-14 tons) and buses. (November 17, 2002)

Mercedes-Benz has established an affiliate in South Korea, forming a JV with its local sales agency, **Hangsung Motor**. Mercedes-Benz will take a 51% stake in the new unit, **Mercedes-Benz Korea**, leaving Hangsung with 49%. The new company will handle imports of Benz models into Korea while Hansung will be in charge of marketing. In addition to the *S-class* models Mercedes-Benz will launch a wide variety of less expensive or sportier models. (November 27, 2002)

Shanghai Automotive Industry Corp Group (SAIC) has confirmed that it will buy into **GM's** new Korean venture. SAIC will pay US\$59.7m for a 10% stake in **GM Daewoo Auto and Technology Co.** SAIC becomes the first Chinese automaker to invest in a foreign carmaker and joins **GM**, and **Suzuki** as a partner in GM Daewoo Auto and Technology Co. The new venture, in which Daewoo Motor's creditors also have a stake, will operate three of the bankrupt South Korean firm's plants. GM agreed in April to pay US\$251m for a 42.1% stake in the Daewoo spin-off. Suzuki will take 14.9% and Daewoo creditors 33%. (October 13, 2002)

MALAYSIA

Proton has purchased a 4.34% stake in Britain's **Lotus**

Group International for £3.7m (US\$5.7m), making it a wholly owned subsidiary. The cash deal would be financed from internal funds. (October 23, 2002)

PHILIPPINES

BMW Group Philippines, the local arm of German-based automotive company **BMW AG**, recently launched the BMW financial services, a division within the BMW group that would offer BMW buyers and current owners flexible financial solutions. BMW Group Philippines also announced that it will build a training facility on a 1,643 square meter lot in Fort Bonifacio, Taguig, where BMW's certified technicians will be continually updated on the latest technologies introduced in all their products. (November 27, 2002)

TAIWAN

DaimlerChrysler launched **DaimlerChrysler Taiwan** as a tie-up with local company **Capital Motors** to market and sell *Mercedes-Benz*, *Smart*, *Chrysler* and *Jeep* vehicles in the ROC. Capital Motors, which handled Mercedes-Benz in Taiwan for many years, holds a 51% majority stake in the new company through its holding company, **Zhong Li Investment Taiwan**. DaimlerChrysler holds the remaining 49%. (November 19, 2002)

THAILAND

Araco Corp. and **Takashimaya Nipatsu Kogyo Co.**, **Toyota** group suppliers, have established a JV to make seating components in Thailand. The partners will work with Thai company **Summit Auto Industries** to manufacture a variety of parts, including seat frames, to a local Takashimaya Nipatsu seat assembly plant. The turnover target for 2006 is about ¥3bn (US\$24m). **Araco** will take a 67.1% stake in the venture, which will have a capital base of Bht350m (US\$8m), while **Takashimaya Nipatsu** will hold a 20% stake. The remaining 12.9% will be held by **Summit**. (October 24, 2002)

Bridgestone will construct a third tire factory in Thailand as a cost of ¥17bn (US\$139m). The new plant will be Bridgestone's 46th worldwide, and the fourth to focus exclusively on radial tires for trucks and buses. The facility, located in Chonburi, 60 km south of Bangkok, is expected to come on stream 2H 2004 and have a daily capacity of 2,500 tires. Annual capacity is pegged at 900,000. It will export tires around Asia (ASEAN and China) as well as to the Middle East, Africa, the Americas and Europe. Bridgestone is hoping to build up to annual turnover at the plant of around ¥20bn (US\$162m). (November 25, 2002)

GM will produce a Daewoo vehicle in its Rayong, Thailand, plant from first quarter of 2003. The model

itself is not confirmed, but is expected to be either *Lacetti*, which would compete in the C segment against the **Toyota Corolla Altis**, or *Kalos*, which would go head-to-head against the new **Honda City** and **Toyota Vios**. Production is understood to be at the rate of 30,000 units per year including regional exports. (November 28, 2002)

Motor and property group **Tan Chong International**, is investing US\$35m through a subsidiary to acquire all the shares in **Nissan Diesel (Thailand)**. The acquisition, which is subject to approval from the Thai regulatory Board of Investments, would allow Tan Chong to supply trucks to Indonesia and possibly the Philippines. (October 1, 2002)

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. 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 the offices below.

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