

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

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INTRODUCTION

The Renault-Nissan deal has finally got out of the starting gates. While this was not the deal hoped for by many in the business, it would have been unthinkable even two years ago. The Asian automotive business is in the globalization cycle and this trend can only accelerate.

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.

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CHINA / HK

Beijing Auto & Motor Cycle Manufacturing Plant, Beijing's oldest car plant, could face bankruptcy after five years of losses and may sell prime land in the city center to pay off its debts. Overcapacity and weak demand has led to intense competition in the market which caused the state-owned plant to lose RMB97m (US\$12m) in 1998. The financial difficulties, however, have not impacted its JV with **Chrysler** which produces Cherokee Jeeps for the domestic market. (March 22, 1999)

Delphi Automotive Systems, the autoparts business of **General Motors**, had sales of US\$280m in 1998 from its 15 ventures in China. About a third of these sales were to overseas markets, including automakers in North America and Europe. Delphi's 1999 goals in China include increasing sales by 20%, developing an aftermarket service, bringing production at its China ventures to international quality standards, and hiring more local management. (March 4, 1999)

General Motors is preparing to add minivan production to its new vehicle factory in Shanghai. The plant is currently licensed to build only full-size *Buicks*, for which the market has shrunk rapidly since GM began the venture in the early 1990s. The Chinese Government has not officially approved the move, but GM has already ordered stamping dies specifically for the manufacture of minivan panels. (March 1, 1999)

Honda Motor plans to open 100 automobile sales outlets throughout China by 2001. It will open the first 30 outlets in March 1999 when it starts sales of the Accord passenger car model assembled at its plant in Guangzhou. Full-scale production is slated to begin this autumn. (February 19, 1999)

Inchcape Pacific, Hong Kong's largest car retailer, is considering setting up a vehicle-purchasing business on the internet, which could be one of the first of its kind in Asia. Under the service, Inchcape would sell distributors and dealers the right to offer services on its Web site, and earn a commission on every vehicle sold. The service is expected to be relatively inexpensive to run, but will require start-up capital of US\$10m. (February 1, 1999)

Jardine International Motor Holdings (JIMH) reported a drop in pre-tax profit to US\$49.5m from US\$80.6m a year earlier. Car sales, however, increased 32% to 131,800 and revenue rose 52% to US\$3.56bn, primarily due to the **Appleyard** acquisition in the UK. Hong Kong is likely to remain its most successful operation in 1999, but JIMH will also focus on its investments in the UK and its JV in India. (March 4, 1999)

Toyota Motors is awaiting approval from the Chinese Government to set up a new car manufacturing plant in Tianjin. This 50-50 JV with **Tianjin Automotive Industry** will cost an estimated US\$1bn and produce 30,000 a year cars at capacity. Toyota has established 28 autoparts and components factories in China with a combined capital of RMB3bn (US\$375m). Until now Toyota has failed to localize its car production in China, lagging behind rivals such as **Citroen**, **General Motors** and **Volkswagen**. (March 15, 1999)

Shejiang Qianjian, the Chinese partner of mainboard-listed **Lion Asiapac** of Singapore, received approval to list their jointly-owned motorcycle assembly operations on the Shenzhen stock exchange. The offer will consist of 65 million new shares at RMB5.38 a share, representing 25% of the enlarged capital of the new company. (March 13, 1999)

INDIA

The Association of Indian Automobile Manufacturers announced that auto sales for 1998 declined 4.5% relative to 1997. **Maruti Udyog**, the largest domestic manufacturer, experienced a 6.4% drop in sales. Korean auto manufacturers **Daewoo** and **Hyundai**, however, improved on 1997 sales. Some analysts estimate that capacity in the Indian auto market is double that of demand. (March 25, 1999)

Piaggio, the Italian motor-scooter manufacturer, is hoping to form a JV with **LML Ltd**. The company plans to export roughly US\$5m in components this year from India. The company is also in talks with **Scooters India** to source components for Piaggio's international operations. (March 15, 1999)

Visteon Automotive Systems India is looking at acquisitions and JVs to expand its business operations outside of Chennai. Visteon, a division of **Ford Motor**, has set up a US\$150m plant next to the Ford plant in Maralmalainagar near Chennai. The unit has started exports to Ford plants in Europe and Brazil. (February 23, 1999)

INDONESIA

Bridgestone, the Japanese automobile tire-manufacturing company, has announced that its Indonesian JV, **PT Bridgestone Tire Indonesia**, began production at its second factory in Karawang in February. The JV is controlled by **Bridgestone** (51%), **Mitsui** (6%) and local partners (43%) (February 22, 1999)

Honda Motor will launch a JV company in Jakarta to handle its Indonesian automobile operations. **PT Honda Prospect Motor**, capitalized at US\$70m, will

be 49% owned by Honda, with the remainder held by **PT Prospect Motor**, a local company. The venture aims to increase Honda's efficiency and speed to market in Indonesia. (February 22, 1999)

JAPAN

Calsonic Corp and **Kansei Corp**, two large automotive parts suppliers, have agreed to merge. Nissan owns significant minority stakes in both companies. The merger is seen by many analysts as a way for Nissan to exercise more control over suppliers within its keiretsu. (March 24, 1999)

Honda Motor, Japan's third-largest automaker, said group income rose 15.9% to a third consecutive record in the Oct-Dec quarter as sales of more profitable cars in the US compensated for a decline in revenue. The maker of Odyssey minivans and Accord sedans posted a net profit of Y75.5bn (US\$645bn), up from Y65.2bn (US\$557m) year-on-year. (February 19, 1999)

Honda Motor is planning to import its new Canadian-made Odyssey minivan into Japan in the second half of this year. Rather than try to turn the redesigned Odyssey into a high-volume brand in Japan, Honda hopes instead to achieve a more wide-ranging product line to sustain its three-channel Japanese sales network. (February 25, 1999)

Japanese automakers may be hurt by their affiliated autoparts makers' high fixed costs and redundancies. Parts suppliers' fixed costs are rising as economies of scale decline, which is increasingly translating into a loss of competitiveness for Japan's car makers. Japanese suppliers are trapped in auto makers' keiretsu groups, making it difficult for those suppliers to seek either foreign or domestic M & A partners outside these groups. (March 15, 1999)

The Japanese Automobile Manufacturers Association announced that Japanese automobile production in January fell 7.8% year-on-year, as well as dropping for the third straight month. The decline in Janu-

ary, amounting to production of 769,484 units, followed an 8.0% fall in December and a 1.3% decline in November. (February 25, 1999)

Mazda Motor and **Ford Motor** have agreed to produce a new jointly developed SUV at a Mazda plant in Japan's Yamaguchi Prefecture. Production of the vehicle will begin in late 2000. Mazda will build right-hand-drive versions for the domestic and export markets. The company views the vehicle as a strategically important product that would give it access to a new customer base. (February 15, 1999)

Mitsubishi Motors is seeking a partner, and would allow a foreign vehicle manufacturer to buy a controlling stake in the company, as part of its effort to return to profitability. The company has more than US\$17.5bn in debt, which may pose a formidable obstacle to foreign suitors looking for a foothold in the Japanese and Asian markets. (February 16, 1999)

Renault of France has agreed to purchase a controlling 36.75% stake in troubled **Nissan Motor** and a smaller stake in its truck-maker affiliate **Nissan Diesel Motor** for US\$6bn. Under the tie-up, the two firms will share auto plants across the world, such as Renault's South American factories, and Nissan's Mexican and US plants. (March 17, 1999)

Softbank and **Microsoft** have agreed to set up an internet auto brokerage JV in Japan. Microsoft already operates two similar services in the US. The Japanese version will be based, in part, on the **CarPoint** service in the US. New car sales are expected to begin in November 1999. The total investment in the venture is US\$7m. Softbank will hold 50%, Microsoft 40% and the Japanese unit of **Yahoo!** will hold the remaining 10%. (March 25, 1999)

KOREA

Daewoo Group has agreed to take over the **Samsung Group's** auto business, **Samsung Motors**. Daewoo will continue production of Samsung's SM5 line for at least the next two years at a production rate of

30,000 cars per year. As part of the agreement, Samsung will guarantee annual sales of 15,000 cars. (March 24, 1999)

The Chung family feud to control **Hyundai Motor**, the key unit of the nation's largest chaebol, is now over. Chung Se-yung, honorary chairman of Hyundai Motor, became the largest shareholder (37.67%) of **Hyundai Industrial Development & Industrial** by taking over the shares of his nephew, Chung Mong-koo, chairman of the **Hyundai Group**. In exchange, Chung Mong-koo received an 8.3% stake in Hyundai Motor, becoming chairman of Hyundai Motor's board of directors. Chung Mong-koo has secured full managerial control of **Hyundai Motor, Kia Motors, Hyundai Precision & Industry** and **Inchon Iron & Steel**. (March 15, 1999)

Kia Motor's labor union announced a decision to go on strike to protest pay-cuts implemented last year, although the date of the strike has not been announced. This move by Kia's union is aimed at deterring **Hyundai Motor**, Kia's new owners, from effecting further job cuts of blue collar workers at Kia. 20% of Kia's white collar workers were fired in January 1999. (March 8, 1999)

Samsung Motor's management and workers have reached an accord to end its two-month old labor strike. This removed the last obstacle in the takeover of Samsung by **Daewoo Motor**. Samsung Motor has remained idle since December 1998 when its workers walked out in protest against the acquisition by Daewoo. The agreement provides that Samsung pay six months of salary to all employees and another ten months wages for retiring workers and two months of salary to those who are to be rehired by Daewoo. (March 15, 1999)

MALAYSIA

Cycle and Carriage Bintang, a 49% subsidiary of Singapore-listed **Cycle & Carriage**, plans to repurchase up to 10% of its paid-up capital, or 9.7 million

shares, in an attempt to stabilize its share price. The group posted a net loss of RM2m (US\$500,000) in 1998 against a net profit of RM147m (US\$39m) in 1997. Revenues declined to RM590.7m (US\$155m) from RM1.5bn (US\$394m). This loss is mainly due to the 70% plunge in sales of **Mercedes-Benz** cars, a steeper fall than the national average of 60%. (February 26, 1999)

UMW Sdn Bhd, a wholly-owned subsidiary of **UMW Holdings**, will sell a 21% stake in **UMW Toyota Motor Sdn Bhd** to **Toyota Motor**. The sale price will be based on the December 31, 1998 net asset value of UMW Toyota Motor. On completion, UMW Holdings will hold a 51% stake in UMW Toyota Motor, while Toyota's holding will rise to 39%. (March 5, 1999)

UMS Holdings Bhd reported a fall in revenues of 11.4% to RM54m (US\$14m) in 1998 from RM61m (US\$16m) in 1997, while pre-tax profit dropped by 78% to RM12m (US\$525,000) in 1998. UMS's core business is the distribution of mechanical power transmission and material handling products/systems, and industrial spare parts. (March 12, 1999)

SINGAPORE

Cycle & Carriage reported a net loss of S\$26.7m (US\$15.7m) for 1998, its first net loss since 1985. Aggressive provisions for foreseeable losses in its property business were largely responsible for the negative bottom line. Decreased car sales and intense price competition in all its key motor markets also impacted earnings. (February 26, 1999)

Daewoo Motor vehicles will be distributed in Singapore by two separate parties in an unusual arrangement. **Starsauto**, part of a larger Indonesian group, will continue to represent Daewoo's traditional line of sedans. Meanwhile, family-owned **JTA Motors** will be responsible for Daewoo's off-road vehicles like the Musso and Korando, and an upmarket model called the Chairman. (February 4, 1999)

Inchcape Motors saw its 1998 net earnings decline 43% to US\$20m due to losses in Brunei and a nonrecurring exceptional income of US\$16m in 1997. The group will give up its **Audi** and **Volkswagen** agencies in Brunei in H2 1999 and focus on its **Toyota** and **Lexus** brands. (March 8, 1999)

Nihon Tokushu Toryo (NTT), a Japanese auto components manufacturer, has acquired a 20% stake in **Eftec Asia**, a Singapore-based car paint, adhesive, and sealant maker, owned by **Eftec** of Switzerland. This will give NTT a global presence as a maker of auto supplies, centered on anticorrosive paints. Also, Eftec's investments in production facilities in Thailand and China have now started operations. (March 10, 1999)

TAIWAN

Ford Motor has announced that it will cut production and jobs at its plant in Taiwan, highlighting the effect of the island's economic slowdown on foreign car firms. **Ford Lio Ho Motor** this week said it would cut 300 jobs or 15% of its local workforce, and suspend production for a week to help clear out inventories. It is the first such move since the company set up its Taiwan venture in late 1972. Ford predicts that the Taiwan car market will contract by about 8.5% this year to between 420,000 and 450,000 vehicles. Ford's sales in Taiwan fell to 72,900 last year from 77,700 in 1997. (March 12, 1999)

THAILAND

The Federation of Thai Industries has reported that new vehicle sales in Thailand rose 2.1% in February to 12,369 units from the same month in 1998. On the contrary, new vehicle sales in January fell 12% from a year earlier, to 9,708 units, following a De-

ember gain. **Toyota's** sales accounted for 31% of the market, with **Isuzu** following with a market share of 26.7% and **Nissan** third with 11.1%. (March 12, 1999)

Daewoo Motor, the Korean carmaker, recently injected Bht400m (US\$11m) into its Thai operation in order to bail out the cash-strapped company and improve its competitiveness in the local car market. Daewoo Motor has acquired a majority stake from its Thai partners and now holds an 80% stake, with the balance still held by Thai partners. (February 17, 1999)

Nissan Motor expects to begin exporting cars to Australia from Thailand in a move to bolster its recession-plagued Thai affiliates, while taking advantage of the depreciated Thai Baht. Nissan also plans to begin exporting pickups to Australia in the next few months from its **Siam Nissan Automobile** facility. (March 19, 1999)

Perodua of Malaysia plans to procure more parts from suppliers in Thailand by the end of 1999 to expand its global sourcing program. The move was designed to take advantage of the lower tariffs that would come with the full implementation of AFTA by 2003. Perodua has signed a three-year, RM10m (US\$2.6m) contract with **United Seino Transportation (UST)** of Malaysia, which should save the company 20% in logistical costs. (March 3, 1999)

The **Somboon Group**, one of Thailand's top three autoparts makers, has sold most of its stakes in nine subsidiaries to Japanese companies and creditors. The company has decided to reduce its 51% holding in nine affiliates to just 5%. Existing Japanese partners have agreed to buy the shares in order to keep the operations of the companies afloat. Sales of the Somboon group dropped last year to Bht750m (US\$20m) from Bht1.3bn (US\$35m) the previous year. (March 5, 1999)

The **Thai Board of Investment** reported a positive response from twenty leading American companies in the automotive parts industry that are interested in entering Thailand through both acquisitions and JVs.

The Deputy Secretary General, Chackchai Panichapat led a business mission in February to the US where two seminars and individual meetings with more than 20 companies were organized. (March 3, 1999)

FOCUS:

Korean auto parts manufacturers

Korea has seen an improvement of its economic fortunes since the Government asked the IMF for assistance on December 2, 1997. It has also seen a dramatic rationalization of the auto assemblers, as **Hyundai** acquired **Kia** in an open auction and **Daewoo** and **Samsung** have agreed to merge their automotive units.

Kim Dae Jung, the country's President, has abided by the IMF's strict rules. However, the country is dealing with a major financial crisis that is being addressed only tentatively. The anti-bankruptcy laws are not resolving the situation as they allow insolvent companies to continue operations.

Korea has a much larger and more developed industrial base than any country in South East Asia. The country has traditionally followed the Japanese model, with a small number of large, very diversified groups dominating the economy. Despite moves to moderate their influence, the chaebol still remain the dominant force in the Korean economy.

Some acquisitions by foreigners were completed in 1998, but the Korean tendency to value their companies according to asset replacement costs instead of forecast earnings has kept down the number of transactions. More realism on valuation is inevitable. Substantial M&A activity will occur in the medium to long term. Below we have profiled several leading Korean auto components manufacturers.

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

1. CHANG WON CARBURETOR INDUSTRY

Corporate overview - Established in 1976. Has received a presidential award for the high quality of its products. Has obtained ISO9001 certification.

Products - Carburetors for automobiles, fuel pumps, rocker arms and diecasting parts.

Customer base - 18.3% overseas.

Financials - Revenues in 1998 were W78bn (US\$66m). Assets valued at US\$60m.

2. DAEWOO AUTOMOTIVE COMPONENTS

Corporate overview - Established in 1984 to produce automotive components.

Products - Electronic control systems for brake systems of motor vehicles or trailers. Motor vehicle steering and suspension parts and spare parts (front/rear axles). AC/DC rectifiers and air conditioners.

Customer base - Approximately 32% overseas. Primary customer is Daewoo.

Financials - Revenues in 1997 were W815bn (US\$690m). Current market capitalization is W48bn (US\$41m).

3. ILJIN BLOXWICH CO LTD

Corporate overview - Established in 1978. Company has sales offices in Detroit, Frankfurt, Germany and Tamil Nadu, India.

Products - Wheel bearings - 0-3rd generation wheel bearings, tensioner bearing and water pump bearings. Engine parts - flywheel and ring gears, drive plates and flexible flywheels. Suspension parts - ball joint, lower arm, spindle, pillow ball joint. Brake parts - wheel disc, drum and ABS rotor.

Customer base - Supplies to all of the Korean manufacturers. 80% of 1998 revenues were derived from exports.

Financials - Revenues in 1998 were W54bn (US\$45m). Revenues in 1997 were W111bn (US\$94.5m).

4. MANDO MACHINERY CO LTD

Corporate overview - Established in 1968 and currently has 7,894 employees. The company has three consolidated subsidiaries - two in South Korea, one in UK. **Halla Engineering & Construction Corporation** holds 32.62% equity.

Products - 83% brakes, anti-lock brake systems, steering parts, shock absorbers, starter motors and air conditioners

for automobile and general use. 17% non-automotive. Mando has technology tie-ups with GFDE Co. Ltd and **Nishida Co** of Japan.

Customer base - 26.8% overseas.

Financials - Revenues in 1998 were W2,405bn (US\$2bn). Current market capitalization of W52.2bn (US\$48m). Assets valued at W1,126 bn (US\$953m).

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ABOUT BDA

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