

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

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INTRODUCTION

This issue's focus looks at Jiangling Motors, based in Jiangxi province, one of the key growth nodes in the Chinese auto sector. Jiangling is a Shenzhen-listed company with important joint ventures with Ford and Isuzu. Other Tier I and Tier II suppliers have been attracted to this site following its recent growth and have subsequently made substantial investments in the auto components sector there.

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CHINA/HK

China's **State Administration of the Machinery Industry (SAMI)** is planning to merge the 13 largest auto assembly companies into three or four consolidated entities. This restructuring will create a few internationally competitive companies with sufficient critical mass, it is hoped, to compete effectively against the multinational players. The 13 manufacturers produce 92% of China's total local output of 1.6 million vehicles a year. There are currently 120 auto manufacturers in China. (May 17, 1999)

General Motors' 50-50 JV with Shanghai Automotive Industry Corporation (SAIC) has started full production at its plant in Shanghai. There is apparently strong demand for the Buick models, and the company should meet its relatively modest target of selling 20,000 units in 1999. (May 1, 1999)

Kia Motors of Korea plans to set up an auto assembly plant in China. Kia has formed the US\$15m JV, **YKMC**, with **Yuefa Motors** of Yancheng city, Jiangsu province. Kia will hold a 30% stake. The parties estimate that production of Kia's sub-compact Pride car (branded Xiaofusing) will reach 50,000 by 2001. The vehicles will be distributed across China through YKMC's 200 strong dealership network. (May 17, 1999)

Sichuan Station Wagon Manufacturing Factory of China and **Toyota Trading Company** of Japan have established a 47:53 JV as part of Toyota's goal of building medium-sized buses in China by December 2000. A total of ¥860m (US\$7m) has been invested in the venture. Toyota now has 29 JVs and

businesses in China. Its investment to date in China totals ¥43bn (US\$350m). (May 10, 1999)

According to the **Ministry of Construction**, the number of taxis in China has reached 700,000 and is likely to total 800,000 by 2000. In **Beijing, Shanghai** and **Tianjin** there are 65,000, 40,000 and 30,000 respectively. Taxi populations in **Changchun, Guangzhou, Jinan, Shenyang, Shenzhen** and **Wuhan** all exceed 10,000. (May 14, 1999)

INDIA

Eicher Motors, a local assembler, plans to launch a new 10-ton commercial vehicle in Q1 2000. The group is also planning to produce compressed natural gas (CNG) vehicles. Eicher recently announced profits of Rp78m (US\$1.8m) for 1998, on flat sales. (May 26, 1999)

General Motors India Limited is to launch its new Euro II version of the Corsa model in Q3 1999. Originally GM had planned to launch the Euro I in 1999 and the Euro II in April 2000. The price of the new model is yet to be announced. The car will be manufactured at GM's **Halol** plant. (May 21, 1999)

Maruti Udyog Ltd (MUL), an Indian auto manufacturer, will launch a modified version of its Alto model by Q3 2000 in India. The Indian version of the car, to be renamed, will take a more rounded shape and a 1000 cc engine. The car will be priced higher than its basic 800 cc engine model, providing a reasonable solution for those wanting to upgrade their vehicles. (May 31, 1999)

INDONESIA

The **Minister of Industry and Trade**, Rahadi Ramelan, has announced that all local content rules

for the auto industry will be eliminated. The Minister also stated that import duties on vehicles will be harmonized and restrictions on imported components will be relaxed. This is part of a bid to make the automotive industry more competitive internationally. Mr. Ramelan restated the decision to cancel the national car project, emphasizing the notion that all car projects would receive equal treatment from the government. (May 9, 1999)

Astra International, Indonesia's biggest auto assembler, distributor and retailer, is in the final stages of settling and restructuring its outstanding debt, which is currently in excess of US\$1bn. In H1 1999, Astra has sold several noncore assets in an effort to recover from its debt, most recently a small non-automotive asset. If Astra receives approval from its creditors, it will be the first Indonesian company to secure a debt-restructuring deal covering more than US\$1bn. (May 13, 1999)

JAPAN

Akebono Brake Industry reported FY 1998 losses of ¥4.4bn (US\$35m). The company cited the fall in auto production as well as extraordinary losses relating to Russian treasuries. The company also announced a restructuring plan, which includes reducing the workforce by 500 employees to 4,500. (May 10, 1999)

"Big Five" Revenues and Net Profit for 1998

	98 Revenues (US\$bn)	98 Net Profit (US\$m)
Honda	49.0	2,500
Mazda	16.8	311
Mitsubishi	18.6	207
Nissan	53.8	(223)
Toyota	103.8	2,900

Denso, the manufacturer of electronic components, announced that FY 1998 group net profits to March 1999 fell 17% to ¥59bn (US\$488m). Sales growth in North American and Europe more than offset lower sales in Japan. The company said that outlook for the current year was unlikely to change. (May 15, 1999)

Fuji Heavy Industries, which manufactures **Subaru** cars, announced that it plans to form new alliances with other car companies. Fuji does not plan to change its relationship with **Nissan**, following its alliance with **Renault**. Profits for Fuji increased by 9.8% to ¥33.7bn (US\$271m) for 1998. The company also plans to consolidate ten dealerships to reduce administrative and inventory costs. (May 25, 1999)

Mazda Motor reported its first annual profit in six years, three years after **Ford Motor** bought a controlling interest in the firm. Mazda reported profits of ¥38.7b (US\$311m) for 1998-1999, up from a loss of US\$5m in 1997-1998. Mazda cited reduced costs and increased market share as the key factors behind the rise in profits.

Mazda Motor, 33.4% owned by **Ford Motor**, is looking to create alliances between its suppliers and foreign component makers. At present, only one of Mazda's suppliers, **Japan Climate Systems**, has entered an equity alliance with an unspecified partner, with the goal of growing the company's international competitiveness and global reach. **Visteon**, the components maker affiliated with Ford, was considering alliances with Mazda suppliers, mostly Hiroshima-based, unlisted companies. (June 4, 1999)

Mitsubishi Motors Corp's president will meet with **Volvo Cars** executives to discuss the future of their JV **Netherlands Car BV (NedCar)**. Uncertainty about the JV increased after Volvo's CEO stated that the company is considering producing its medium-

sized vehicles at a US plant operated by **Ford**. Ford acquired Volvo cars from Sweden's AB Volvo early this year for US\$5.78bn. NedCar is Mitsubishi's sole passenger-car operation in Europe. If the JV is dissolved, it appears that Mitsubishi will have to choose either to dispose of its entire stake in the 50:50 venture or to acquire complete control. (June 4, 1999)

Nissan Motor has announced another year of losses, making this its sixth year out of the last seven in the red. Low sales in Japan and the U.S. were cited as reasons for the loss. Consolidated losses totalled ¥27.7bn (US\$224m) for 1998, almost double last year's ¥14bn (US\$113m). Nissan also announced that it will sell a division that makes forklifts to a unit of **NACCO Industries** of the US. The transaction will help Nissan to repay debt and improve focus on its auto business. (May 25, 1999)

Suzuki Motor will launch "Wagon R+", a small vehicle which was developed in Japan in conjunction with **General Motors**. This is the first car that Suzuki will launch since General Motors raised its equity stake to 10%. (May 24, 1999)

Toyota Motor experienced a 21.6% decrease in net profit for 1998-1999, its first fall in five years. Toyota is considering a listing on the New York and London exchanges. Toyota would be the second car company in Japan to list in New York: **Honda** shares have been traded in New York since 1963. (May 25, 1999)

KOREA

Hyundai sold 37,707 cars in the first four months of 1999 (up 27.8% from last year). In the same period **Kia** saw a 52.6% increase in sales, selling a total of 38,170 cars. In April, sales reported by domestic manufacturers totalled 94,400 units, a recovery in 1998, but a 20,000 unit decline in 1996. (May 17, 1999)

Hyundai Business Group reportedly plans to turn **Hyundai Precision** into a specialized manufacturer

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of auto components. **Kia Precision Works** will be absorbed into Hyundai Precision and the company plans to acquire a number of domestic and foreign auto components manufacturers. (May 17, 1999)

MALAYSIA

Edaran Otomobil Nasional (EON) expects sales to improve by 48% for 1999. It stated that the government's efforts to relax credit, lower interest rates combined with a recovering economy would all help boost EON's car sales. EON hopes to sell 100,000 cars in 1999 compared with 67,595 in 1998. EON sold 34,105 cars in Q1 1999, double the amount sold in Q1 1998. 1998 profits plunged 88.5% in 1998 to RM49.4m (US\$13m). Total Malaysian car sales fell 60% in 1998. (May 18, 1999)

Ford Motor Company is one of the potential US candidates considering investing in either **Perusahaan**

Otomobil Nasional Bhd (Proton) or **Perusahaan Otomobil Kedua Sdn Bhd (Perodua)**. Executives from Ford have been meeting with Malaysian auto executives and touring operations facilities. Ford has an existing JV in Malaysia, **Amim Holdings Sdn Bhd**, a 30:30 venture with **Tractors Malaysia Holdings Bhd**. The JV assembles and imports several Ford vehicles such as Lynx and Telstar cars, Explorer four-wheel-drive, Splash and Courier pick-ups, and Econovan and Transit vans. It is expected that Perodua and not Proton is likely to partner with a US company due to Perdua's depleted financial situation and limited technological capabilities. However, it has also been rumoured that Perodua and Proton will merge. (June 3, 1999)

MBM Resources Bhd, distributor of **Daihatsu** and **Perusahaan Otomobil Kedua Sdn Bhd (Perodua)** cars in Malaysia has announced an increase in sales since January 1999. The company saw a sharp decrease in sales from 1997 to 1998 from 8,955 of Daihatsu and 10,503 units of Perodua to 1,202 and 5,287 respectively. The group expects to sell 2,300 units of Daihatsu and 9,000 units of Perodua Kancil in 1999. (June 4, 1999)

Performance of luxury car brands in eight Asian markets for 1998

	Mercedes Benz	BMW	Jaguar	Volvo	Audi	Total
Singapore	1,965	1,450	136	288	286	4,125
Malaysia	2,341	1,150	25	422	335	4,273
Thailand	1,515	1,009	5	812	463	3,804
Indonesia	470	913	1	134	128	1,646
Philippines	94	326	16	273	44	753
Hong Kong	1,825	1,341	128	675	210	4,179
Taiwan	4,685	6,558	117	2,997	1,215	15,572
South Korea	123	320	0	140	147	730
Total	13,018	13,067	428	5,741	2,828	35,082

Source: Singapore MTA estimates

SINGAPORE

As part of its expansion plan, **Cycle & Carriage (C&C)** will acquire 30% of **Fulco Holdings**, leaving 70% with the Phua family, its current owner. The new JV, **Cycle & Carriage Fulco Motor Dealer** will be a C&C dealer, selling and marketing new and used cars, vehicle-related finance and insurance services. C&C also plans to restructure its interest in another JV, **Novel Leasing**, which owns **Novel Automotive**. **Novel Automotive** will be renamed **Cycle & Carriage Motor Dealer**. C&C distributes **Mercedes Benz, Mitsubishi** and **Proton** vehicles and reported a net loss of S\$26.7m (US\$15.7m) for 1998, its first loss since 1985. (May 13, 1999)

ST Auto, a unit of **ST Engineering**, is expanding rapidly into accident repair. It established **Star Accident Repair (SAR)** in 1997 and has now opened three satellite facilities to cater for growing volume. SAR's revenues now total S\$10m (US\$6m) and the group handles 3,500-4,000 cases a year. (May 20, 1999)

TAIWAN

Formosa Plastics Group (FPG), the chemicals and manufacturing conglomerate, plans to invest US\$2bn in the manufacture of electric cars and auto parts. FPG plans to capitalize on lower tariffs levied on Taiwanese cars upon Taiwan's admittance into the World Trade Organization (WTO), which it expects to occur in late 1999. Management estimate that a plant will be ready for production in three years. Taiwan has agreed to cut car import tariffs from 30% to 17.5% by 2008. (May 13, 1999)

THAILAND

Thai car assemblers and parts producers have **lobbied** the government to persuade other ASEAN members **to cut import tariffs**. Fifty local companies support the tariff cut and want rates to be moved to between zero and 5%. A tariff cut would allow Thailand's auto industry to export in greater numbers and perhaps secure its position as the auto hub for the region. Tariffs in ASEAN on fully built up units typically range from 100% and 300% (May 22, 1999)

Car sales in Thailand are improving as vehicle sales in April increased 27.6% on a YoY basis to 14,035 units. Cumulative automobile sales for the first four months of this year increased 2.8% to 50,269. The local auto market slumped by more than 70% in 1998. (May 18, 1999)

Jaguar, the British car company owned by **Ford**, has reaffirmed its interest to invest in an assembly plant in Thailand. The project was originally mooted in 1995, but was halted because of the economic crisis. (May 19, 1999)

Mr. Sonthaya Noicharoen, a private investor, has become a major shareholder of **Swedish Motors Corporation (SMC)**, the assembler and distributor of **Volvo** cars. Mr. Noicharoen spent only Bht13m (US\$ 350,000) to buy an 18% shareholding when the stake was auctioned by **Industrial Finance Corporation of Thailand (IFCT)**. SMC's problems stemmed from already existing financial difficulties, combined with a dispute with one of its other JV partners, **Chrysler Corp.** (May 13, 1999)

Tan Chong International Limited (TCIL) of Singapore hopes to make inroads into the Thai market when it starts the distribution of **Subaru** cars there in July. The cars will be 100% imported. The company will also continue to focus on auto distribution opportunities in the Chinese market. (May 19, 1999)

FOCUS:

Jiangling Motors – a case study in adaptation.

China's auto industry offers the largest single auto growth opportunity in the world today. A few key companies are now emerging as leaders in the market out of the 120 national automakers. In almost all cases the successful companies are JVs between local and international auto manufacturers. Local state owned enterprises (SOEs) have gained capital, production capability and technology; the international companies have gained rapid access to the market.

Many of these transformations have occurred on relatively beneficial terms to the local players. This has mainly stemmed from the desire of foreign automakers to enter the market and the government's reticence to allow them. Jiangling is an example of a company that has benefited from this process. It remains, however, to be seen whether Jiangling and other local companies will evolve beyond being partners to international companies and emerge as self-standing assemblers in their own right, or whether they will be sustained or subsumed by the MNCs.

Jiangling Motors Co. Group ("JMCG") has evolved since 1984 from a cumbersome state-owned enterprise to a listed company on the Shenzhen stock exchanges with two key foreign partners, **Ford** and **Isuzu**. It has remained a fully integrated automotive company including large-scale component and vehicle manufacture. Although its basic goal has remained unchanged, little else has. Jiangling's moves have been driven by necessity, but also illustrate the benefits that foreign capital, partnerships and technology can bring.

The development of the modern JMCG stems from a decision in 1989 to merge nine large and medium state-owned enterprises (SOEs) in Nanchang, Jiangxi province. One of the largest of these nine merged SOEs was the Jiangxi Motors Factory. This entity was then listed on the Shenzhen Stock Exchange in November 1993 by JMCG as the **Jiangling Motor Company** ("JMC"). JMCG retains a 41% stake in JMC. Ford owns a 30% stake (raised in January 1999

from 20% through an innovative rights issue). This US\$54.5m investment in JMC raised Ford's stake from 20% to 30%. **Shanghai Automotive Industry Corporation** ("SAIC") owns 3%. The remaining 26% is held by the public.

JMC's **1998 revenues** totalled RMB2bn (US\$241m) and the company incurred a net loss of RMB59.4m (US\$7.6m). The 1998 loss was attributed to increased competition impacting margins as prices were cut by 6%. This is the company's first loss since 1993.

The Group's relationship with **Isuzu** dates back to 1984 when Jiangling began the manufacture of Isuzu light trucks. This co-operation was formalised in April 1993, when a subsidiary, **Jiangling-Isuzu Motors** ("JIM") was founded. 75% of JIM's equity is held by JMC, 12.5% by Isuzu and 12.5% by **Itochu**, the Japanese trading company. The subsidiary manufactures Isuzu N-series light trucks and TF-series pickup trucks. The plant has a capacity of 40,000 units per year.

Ford acquired a 20% stake in JMC in September 1995. JMC subsequently built a 60,000 unit per year production plant for the manufacture of Transit mini-buses. The first unit came off the line in May 1997. Sales for 1998 totalled almost 10,000 units.

The Jiangling Engine Factory remains fully held by JMC. Its main product is the 4J-series diesel engine for Isuzu, but the plant is also beginning to supply engines to Ford's Transit models as well. Connecting rods, cylinder blocks, cylinder heads are all made on site. The plant currently also sells to **Guangzhou Yangcheng, First Automotive Works** and a number of tractor and generator manufacturers

JMCG is heavily involved in **auto components** as well as vehicle manufacturing, both through its wholly-owned divisions as well as through joint ventures with various foreign parties. The investments by the principals have attracted investment from Tier I suppliers such as:

1. **Climate Control Systems Co.**, an automotive air conditioner JV with **Ford China Operations**,

established in March 1996

- Jiangling-Lear Interior System Co.**, set up in May 1997 to manufacture interior systems mainly for Ford's Transit model. The Nanchang plant is one of **Lear's** seven investments in China.

JMC also has a number of wholly owned subsidiaries, including separate plants that handle the manufacture of axles, casting, frames, tool & dies and wheels.

JMC has set about reforming its **distribution** system and has established a network of 56 dealers throughout the country who are responsible for sales, service and spare parts. Isuzu's and Ford's focus on the commercial vehicle and pickup truck sectors reflect market conditions. While both sectors are increasingly competitive, they are also key growth sectors in the Chinese market and will remain so.

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