

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

ASIAN AUTOMOTIVE NEWSLETTER

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INTRODUCTION

This issue will take a break from focusing on the Daewoo Motor situation, which looks like it will grind on for a few more months yet. Instead, we look at the major instrument panel manufacturers in Japan, a sector that has been drawing substantial interest from some of the major international players.

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CHINA/HK

Hyundai Motor and **Kia Motors** have jointly established a country headquarters in Beijing, in order to better conduct business in the China, Hong Kong, Macao, Mongolia and Taiwan. The two companies intend to construct production facilities in China to produce models based on five vehicle platforms, including subcompact cars, compact cars, vans, recreational vehicles, buses and commercial vehicles. (November 23, 2000)

Shanghai General Motors Automotive Company, a Sino-US JV company, now plans to source 80% of its parts locally, up from a 1999 localization rate of 50%. Sales in 2000 are expected to reach 40,000 units against 1999 sales of 20,000 *Buicks*. Under the new plan, the company will also purchase engines from Chinese auto parts suppliers. Power transmission control modules and other high tech products will continue to be imported. (October 24, 2000)

Volkswagen has announced plans to invest RMB13bn (US\$1.6bn) in China over the next five years. Between 1991 and 1997, Volkswagen's sales in Asia have grown 600%, driven by its strong presence in the Chinese market. In 1999, Volkswagen's two JVs sold 310,000 units or approximately 50% of all passenger cars sold in China. (November 16, 2000)

INDIA

Daewoo Motors India Ltd (DMIL) has announced that its business will not be compromised, despite the declared bankruptcy of its parent company, **Daewoo Motor**. The subsidiary stated that it has been operating independently of the Korean carmaker. It also noted that it has obtained sufficient parts and supplies from its parent for the next four months in an effort to ameliorate concerns over the company's viability. (November 9, 2000)

Hyundai India, a unit of **Hyundai Motor**, has exported 1,000 units of the *Santro* model small car from Chennai to Indonesia. The shipment marks the largest export order for the company. The cars have been exported as CBUs under the *Kia Visto* brand name. (November 24, 2000)

INDONESIA

Wearnes Automotive & Equipment Pte Ltd, a wholly owned subsidiary of the Singapore-based **Wearnes International Ltd**, has acquired Rup900m (US\$95,400) worth of shares in **PT Grandauto Dinamika (GD)**. GD is based in Indonesia and distributes *Jaguar* and *Rolls-Royce* cars in the country. (November 2, 2000)

JAPAN

Bosch Braking Systems Co of Germany has announced plans to form a power steering systems JV with **Unisia Jecs Corp** of Japan. Unisia will hold a majority stake in the JV, which will be based in Japan and will be formally established by July 2001. The JV will develop, manufacture and sell electrical and hydraulic power steering systems and related products.

The collaborating companies hope to reduce costs and increase global competitiveness. (November 15, 2000)

Mitsubishi Motors has gained approval from Japan's Ministry of Transport to launch a new subcompact wagon in Q4 2000. The car will be the company's only new model this season. The Ministry has refused to approve any models from September 8, 2000 to October 20, 2000 in order to punish the company for neglecting to report its defective vehicle findings. Mitsubishi's sales have fallen by 25% compared to the forecast YoY double digit growth in Japan's domestic car market in October 1999. (October 27, 2000)

Nippon Steel Corp of Japan announced that it will begin manufacturing a special, smoother steel for cars, which is easier to press at its Chiba Prefecture plant. The improved heat-processed galvanized steel has a new thin layer of inorganic film, which reduces the surface friction. Nippon manufactures 3,000 metric tons of steel per month at its two plants in Japan. The company has announced that it would be willing to license its technology to foreign steelmakers. (November 21, 2000)

KOREA

Autoliv Co of Sweden, the leading auto safety equipment manufacturer, has formed a 65:35 JV with **Mando Corp** of Korea. Mando Corp will spin off its airbag unit to form the new company, **Autoliv-Mando**. The new JV has a paid-up capital of US\$10m and is expected to generate W200bn (US\$180m) in annual sales. (November 8, 2000)

Capital Group International Inc (CGII), a US-based investment consulting company, has acquired an 8.07% stake in **Hyundai Motor**. As a result of the transaction, CGII has become the second largest shareholder in Korea's largest carmaker. CGII has stated that it made the purchase as a pure investment.

Hyundai has investigated whether or not the purchase is part of a hostile takeover, but found no evidence supporting this theory. (October 26, 2000)

Daewoo Motor, the bankrupt Korean automotive company, has closed operations at its Pupyong plant. However, the company has resumed operations at its Kunsan facility. It is uncertain how long Pupyong will be closed and whether or not Kunsan will remain operational. (November 17, 2000)

Daewoo Motor's labor union and management have reached a provisional agreement on the restructuring plans for the ailing company. The four-point agreement included the creation of a joint committee to modernize Daewoo's management, rapid implementation a self-rescue plan, disbursement of retirement funds and overdue pay and reestablishing management-labor trust. The key point the labor union ceded was the inclusion of the expression "the restructuring of the workforce" in the agreement. (November 27, 2000)

Daewoo Motor and its partner companies have secured W728bn (US\$609m) in funding from the **Korea Development Bank (KDB)** and 23 other creditors, in the wake of its labor union's endorsement of restructuring plans for the company. The creditors reached an agreement through which they will inject W90bn (US\$74m) by December 2000, with another W355bn (US\$296m) scheduled to be delivered during H1 2001. The creditors have stated that the loans will not be extended past June 2001. (November 29, 2000)

General Motors (GM) has yet to discuss formal plans for a takeover of **Daewoo Motor**, but remains interested in acquiring the beleaguered carmaker. The US company is monitoring Daewoo's court receivership and has announced that it is not yet in a position to discuss its future plans with the Korean company. GM's takeover task force is still actively in contact with Daewoo to discuss the potential takeover. GM will remain in Korea regardless of whether or not it acquires the company. (November 16, 2000)

Hyundai Motor aims to grow its presence in China by increasing its stake in its Jiangsu province JV. The company would like to raise its stake from 50% to

70%. **Hyundai-Kia's** chairman is traveling to the region to begin negotiations. (November 20, 2000)

Hyundai Motor has been ordered to recall some of its *Atoz* subcompact cars, due to defects found in their multifunction switches. The switches lack strength, rendering them prone to break when pressure is applied. Nearly 21,300 *Atoz* cars, produced between August 5 and November 13, 1997 will be recalled. From December 2000, Hyundai will begin offering to replace the switches free of charge. (November 21, 2000)

Samsung Commercial Vehicle Co (SCV) has asked to be declared bankrupt by Taegu's district court in Korea. Its debts exceed its assets by W11.8bn (US\$10m), and the company was unable to secure fresh loans in the wake of its creditors increasing efforts to collect debts. The court could motion to protect the company even before a complete review of application. The court has appointed a custodian to guarantee that assets are divided according to creditor's claims. In a failed attempt to push the company towards positive growth, SCV received a cash injection of W340bn (US\$279m) in September 2000. It has failed to attract foreign buyers. (November 24, 2000)

MALAYSIA

Proton, Malaysia's national vehicle manufacturer, is considering allowing a foreign partner to take a 30% stake in the company. In response to a report that US-based **Ford Motor Company** is keen to form an alliance with Proton, the Malaysian carmaker announced that it would consider exploring product development and engineering alliances with several global automotive manufacturers, including its current partner, **Mitsubishi Motor**. **General Motors** is also rumored to be involved in similar discussions. (October 18, 2000)

The Government of Malaysia has continued to refuse to open its car market up to the proposed ASEAN free trade area (AFTA) by 2003. ASEAN

trade ministers have agreed to let Malaysia delay tariff cuts for cars to 2005. (October 23, 2000)

plan to produce approximately 200,000 pickup trucks per year in Thailand. (November 1, 2000)

PHILIPPINES

Ford Motor Company of the US has introduced a new marketing program, *Ford Outfitters*, to the Philippine car market. The Ford Outfitters program includes an improved lineup of vehicles, including SUVs and pickup trucks, a wide range of adventure gear and a package of events. (November 10, 2000)

Toyota Motor Thailand (TMT), the Thai subsidiary of **Toyota Motor** of Japan, has outsold its rival **Isuzu Motors** in the Thai pickup market for the first time. In a bid to stimulate the Thai auto market, TMT launched an extensive campaign to promote its *Tiger* model of pickup trucks, which are built around the new *Euro 2* engines that offer more power output than older engines. TMT also announced in 2000 that it would start offering a three-year/100,000km warranty along with all of its products in Thailand. (November 20, 2000)

TAIWAN

Solectron, the US-based contract electronics manufacturer, has entered into an agreement with **Sony Corporation** of Japan to acquire a production facility in Kaohsiung owned by **Sony Industries Taiwan**. Solectron will manufacture electronic products such as auto-satellite navigation and car-audio systems on contract for Sony at the Taiwan facility. Solectron has also acquired a plant to produce the same products on contract from Sony subsidiary, **Sony Nakaniida Corp** in Miyagi Prefecture. (October 23, 2000)

VIETNAM

Mekong Auto Corporation, a JV between **Selio Machinery Co Ltd** of Japan, **Sae Young International** of Korea and two Vietnamese companies, has launched two new models of **Fiat** cars, the *Siena HL* and *ED*. The company is the first automobile assembly JV in Vietnam and has an annual production capacity of 5,000 cars. It will initially assemble 80 of the new Fiat models per month, and adjust this number based on demand. Mekong Auto Corporation has been producing Fiat products since 1995. (November 17, 2000)

THAILAND

Jidosha Buhin Kogyo Co, a Japanese autoparts manufacturer and **Isuzu Motors** supplier, plans to move its production of propeller shafts for pickup trucks to Thailand. The company will invest approximately ¥800m (US\$7.3m) to expand the production facilities of an existing Thai subsidiary. The move is expected to increase annual output by 300% to 290,000 units. This will enable Jidosha Buhin Kogyo Co to cut costs and to accommodate Isuzu's

FOCUS:

Japanese instrument panel manufacturers

Japanese auto manufacturers have traditionally held controlling stakes in their automotive components suppliers. In keeping with this trend, all of the instrument panel (IP) producers profiled in our focus are owned in part by major Japanese auto manufacturers. However, this is beginning to change, which the instrument panel sector demonstrates. For

instance, **Delphi Automotive Systems** and **Dalphi Metal** of Spain are negotiating for the purchase of **Nissan Motors'** stakes in **Calsonic Kansei** and **Nihon Plast** respectively.

Instrument panels are the most complex and typically highest margin sector of the five interior sub-sectors, which comprise seats, door trim, floors and headliners. The major US players **Delphi**, **Johnson Controls**, **Lear** and **Visteon** have been rapidly expanding their product range through acquisition in order to be able to offer complete interior systems to the OEMs. The Japanese auto market is much more fragmented than its US equivalent, and the Tier 1 suppliers are smaller both in terms of scale and product range. The following paragraphs profile several of the major instrument panel manufacturers in Japan.

Calsonic Kansei Corp

www.calsonickansei.co.jp

Background – Established in 1938, the company manufactures and sells automotive parts and accessories, including instrument panels. 89% of fiscal 1999 revenues stemmed from its heating and air conditioning products and 9% were generated from the sale of communication and information systems.

Recent news - Nissan holds a 34.35% stake, which **Delphi Automotive Systems** was negotiating to acquire until talks ceased in November 2000. Nissan was seeking US\$400m, while Delphi was prepared to offer only US\$300m. Nissan has insisted that there is no need for a fire sale of its assets and that full prices must be gained for all disposals.

Products – instrument panels, temperature control systems, sensors and switches, exhaust systems, and instrument clusters including custom IC-based digital instrument clusters, cableless electric crossover coils.

Financials – The company recorded 1999 revenues of US\$2.5bn and has a market cap of ¥33.6bn (US\$303.3m) as of November 2000.

INOAC Corp

www.inoac.co.jp

Background – The company is mainly involved in the production of polyurethane, which it manufactures for various applications including car seats and electro-conductive foams. It also manufactures instrument panels and other products.

Recent news – INOAC and **SAI Automotive AG**, a subsidiary of the **Sommer Allibert Group**, have formed a JV to manufacture instrument panels for the Japanese market, in which INOAC will manufacture the components and SAI will provide 10 researchers to develop the technology. The new entity is expected to generate revenues of US\$170m during the next four years, and it already has contracts to supply panels for **Nissan Motor's** Primera and some **Mazda** models. The two companies also have existing JVs in Germany and the US to produce instrument panels, door panels and consoles.

Products – instrument panels, seats and head rests, shoe insoles, facsimile and copier rollers, elastic diaper bands, wax applicators and furniture seats.

Financials – N/A

Mitsuboshi Belting

Background - Mitsuboshi Belting is a leading industrial belt manufacturer, involved in auto components, including console boxes, bumpers and instrument panels. The company allied with **Visteon** to develop modulated car interiors and exteriors. Chemical products including automobile components and structural foam products consists 26% of the total sales. **Toyota** owns 4.9% of the company and **Nissan Motor** 2.5%.

Products - instrument panels, door trim, armrests, headrests, console boxes, urethane bumpers, air spoilers

Financials - The company recorded revenues of ¥72.3bn (US\$669.1m) for year ended March 2000.

Nihon Plast Co Ltd

www.wbs.ne.jp/bt/nihon-plast

Background – Established in 1948, the company manufactures automotive components and parts with 20.9% of revenues generated from instrument related components, 32.2% from steering wheels, and 16.8% from air conditioning related components.

Recent news - Nissan Motor, Nihon's major shareholder, plans to sell a 14% stake to **Dalphi Metal** of Spain, while retaining a 12.6% stake in the company. Under the agreement, Nihon Plast will acquire a 10% stake in Dalphi Metal. Dalphi supplies steering wheels to Nissan.

Products – Instrument panel related products including passenger side SRS airbags, console boxes, lid clusters, package trays, visor meters, glove boxes and glove box lids. The company also manufactures steering wheels, air conditioning related components, trim parts, exterior components and engine related components.

Financials – The company reported revenues of ¥69.3bn (US\$636m) for year ended March 2000. It has a market cap of ¥4.1bn (US\$37m) as of November 2000 and is listed on the Tokyo Stock Exchange.

Nishikawa Kasei Co Ltd

www.kotra.or.kr/homepage/worldclass/oem/content/nishikawa

Background – Established in 1961, the company is involved in the development and design of automotive interiors, including instrument panels, and automotive exteriors. The company has 900 employees. **Mazda Motor Corp** is Nishikawa's major shareholder, with a 44.7% stake. **Nishikawa Rubber Co Ltd**, **INOAC Corp** and **Sumitomo Corp** hold 29.1%, 11.2% and 8.7% respectively.

Products – instrument panels, door trim, bumpers, air bag doors and seat cushions. Its major customers include Mazda, **Matsushita Electric Works Ltd**,

Kawasaki Heavy Industries Ltd, **Denso Corporation**, **Delta Kogyo Co Ltd**, **Toyo Seats Co Ltd** and **Sekisui Chemical Co Ltd**.

Financials – The company recorded 2000 revenues of ¥24.5bn (US\$220m) and has authorized capital of ¥344m (US\$3.2m).

Shigeru Industries

Background - Established in 1960, Shigeru Industries is a privately held company based in Gunma prefecture. It started as a manufacturer of car interior parts, and now designs, manufactures and assembles car interior parts, exterior parts, and sheets for industrial equipment. It has 470 employees. Major customers include **Fuji Heavy Industries (Subaru)**, **Daihatsu**, **Mitsubishi**, and **Kubota**. It has a subsidiary in Indiana manufacturing instrument panel and door trim. Its major shareholder is the Shoda family.

Products - instrument panels, door trim, sheets, sunvisers, roofs, front grills and bumpers.

Financials - The company reported revenues of ¥43.5bn (US\$402m) and profit of ¥256m (US\$2.3m) for year ended March 2000.

Suiryo Plastics

Background - Established in 1968, Suiryo Plastics manufactures injection moldings for door trims and other car interior and exterior parts. Suiryo has 670 employees. **Mitsubishi Motor** holds a 50% stake, **Nanba Press** 25% and **Mitsubishi Chemical** 25%.

Products - instrument panels, door trim, sheets and roof parts.

Financials - The company reported revenues of ¥23.5bn (US\$217m) for year ended March 2000.

Toyoda Gosei

Background - Toyoda Gosei, a subsidiary of **Toyota Motor Group**, is a resin and rubber parts maker. It

was established in 1949 and is listed on TSE with a market cap of ¥441bn (US\$4bn). It develops and manufactures interior and exterior products, weather-strip products, functional parts, airbags, and steering products. 70% of all products go to Toyota Motor, which holds a 42% stake. It has six factories and two logistics center.

Products - instrument panels, steering wheels, bumpers, front spoilers.

Financials - The company reported revenues of ¥267.6bn (US\$2.5bn) and profit of ¥11.4bn (US\$105m) for year ended March 2000.

Background – The company manufactures a broad range of automotive components, particularly interior and exterior parts. Its major shareholder is **Mazda Motor**, which owns over 70% of the company. It has 91 employees, and its major client is **Daikyo Co Ltd**.

Products – instrument panels, injection molding, heat molding, and painting and assembly of interior and exterior parts.

Financials – The company recorded 1999 revenues of ¥3.5bn (US\$31.4m) and has authorized capital of ¥300.1m (US\$2.8m).

Yamaguchi Daikyo Co Ltd

www.hiroshima-cdas.or.jp/shoyokai/jidousya/daikyo/eyamadai.html

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