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Volkswagen eyes big stake in China partner JAC, taps Goldman

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Volkswagen AG is exploring purchasing a big stake in its Chinese electric vehicle joint venture partner JAC Motors and has tapped Goldman Sachs as an adviser on the plan, people with direct knowledge of the matter said.

The move by VW, the largest foreign automaker in China, to buy into Anhui Jianghuai Automobile Group (JAC Motors) is the latest by foreign automakers to boost ownership in the world's biggest car market since Beijing relaxed rules last year.

Rival German automaker BMW agreed in October to buy control of its main joint venture in the country for 3.6 billion euros (\$4.05 billion). And Daimler AG also plans to increase its stake in local partner BAIC Motor.

The stake purchase move shows that JAC would be a key player in VW's big global bet on EVs and on strong Chinese demand for such vehicles. VW plans to shift a large part of its planned EV production in China to JAC if it ends up getting control of JAC, said one of the people.

Foreigners were previously prevented from controlling any Chinese automaker or joint venture. Beijing last year removed such caps for firms making fully electric and plug-in hybrid vehicles. Limits on commercial vehicles makers ease in 2020 and by 2022 for the wider car market.

Chinese Premier Li Keqiang promised the European Union on Tuesday that Beijing

would no longer force foreign companies to share sensitive know-how when operating in China and was ready to discuss new global trading rules on industrial subsidies.

VW, which has a market capitalization of nearly \$85 billion, does not currently own shares in Shanghai-listed JAC, which has a market value of more than \$1.7 billion, according to Refinitiv data.

The German car giant's plans are at an early stage but it is keen to take a big stake, said three of the people. Two of them said it will seek to buy shares from JAC's major shareholders, which, Refinitiv data showed, are mainly state-backed firms owning over 40 percent.

JAC's parent, Anhui Jianghuai Automobile Group Holding, holds a 24 percent stake and is fully controlled by the local government.

When contacted by Reuters, VW said: "We are carefully watching what the implications are for our business and for our joint venture partners. In this regard we will explore all possible options together with all stakeholders to secure long-term success in China."

JAC and its parent didn't respond to requests for comment. Goldman declined to comment. The people declined to be identified as the matter was confidential.

JAC is trading at a price-to-book ratio of 0.93, which means VW would have to pay a premium for shares since JAC's state shareholders cannot sell shares for less than their book value.

The Chinese automaker's shares jumped and hit the daily 10 percent maximum increase limit on Wednesday afternoon. VW shares were slightly lower in early trading.

"The news shows the bargaining power of companies like JAC and BAIC is stronger, and Volkswagen's and Daimler's determination to cooperate with Chinese partners in the long-term is also firm," said Patrick Yuan, a Hong Kong-based analyst at Jefferies.

(Reuters)