EDITORIAL – Nexteer targets Chinese EPS market to drive growth

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Having invested heavily in its Chinese EPS operations over the past few years, Nexteer is well-positioned to gain further market share in its second biggest market.

China has become a key growth market in Asia for Nexteer over the years, and the company expects the market to remain so in the years ahead. The US-based supplier has been investing heavily in China over the past few years, particularly in the electric power steering (EPS) segment. The EPS systems effectively eliminate the conventional hydraulic system's components, replacing with an electric motor and ECUs, depending on the complexity of the system.

Nexteer’s strategies for profitable growth include expanding in China and other emerging growth markets; expanding and diversifying revenue base; and capitalizing on EPS, which according to the company is an enabler for advanced driver assistance systems (ADAS). Nexteer’s EPS receives commands from the vehicle's central computer and sensors. This information is then translated into mechanical, steering functions. The company claims that its EPS has been enabling ADAS features since 2007 – long before ADAS was a hot topic in the industry. The company's EPS systems share many of the same building blocks as ADAS as well as varying levels of automated driving.

Growing revenues in China

Asia-Pacific is the second largest market for Nexteer after North America. In 2016, the company’s revenue in the region grew 16.6% y/y to approximately USD855 million. The US-based automotive steering system supplier continues to increase market share in China through localized production; the region contributed 22% of the company’s total sales in 2016, up from 16% in 2014. The company’s revenue in China grew at a compounded annual growth rate (CAGR) of 4% over four years through 2016. North America represented 66% of the total revenue in 2016 and Europe and South America accounted for 11%. Excluding China, rest of Asia accounted for just 1% of total 2016 revenue.

Source: Company website

Nexteer’s performance in China has been improving on the back of the rising automotive market in the country. According to IHS Markit data, light vehicle production in China grew from 23.6 million units in 2015 to more than 27.6 million units in 2017. Vehicle
production in the country is expected to increase to more than 30 million units in 2020. China is the largest market for Nexteer in Asia-Pacific where the company operates three plants and two customer service centers. The company's Asia-Pacific headquarters is also located in Shanghai, China. In 2016, Nexteer launched 21 new major customer programs in the region.

**Company's regional performance in 2016**

- **North America**: 66.00%
- **China**: 22.00%
- **Europe and South America**: 11.00%
- **Rest of Asia**: 1.00%

*Source: Company website*

The share of EPS in the company's total revenue has increased from 45% in 2013 to 62% in 2016. Driveline (DL) was the second biggest revenue contributor with 17% share, followed by Steering Columns and Intermediate Shafts (CIS) with 16% and Hydraulic Power Steering (HPS) with 5% share.

**Nexteer's product-wise revenue share**

- **EPS**: 62.00%
- **CIS**: 16.00%
- **HPS**: 5.00%
- **Driveline**: 17.00%
Growing local presence

Nexteer has been consistently investing to strengthen its Chinese operations. Recently, the company has made investments for expansion of its EPS operations in the region. Last month, the company broke ground for a new plant, which will manufacture EPS, in Liuzhou, China; and in November 2017, the company broke ground on its new Asia-Pacific Technical Center in Suzhou Industrial Park, China. The new tech center is expected to help the company advance its manufacturing, research and development (R&D), testing and validation of products including EPS in China.

In April last year, the company agreed to form a 50:50 joint venture (JV) with Dongfeng Motor Parts and Components Group in China to supply EPS systems to Dongfeng Motor Group and its alliances with foreign carmakers. Earlier in 2016, the company expanded its Suzhou, China-based technical center operations to increase regional autonomy in product design, development and release of customer programs. The site is uniquely designated as a technical homeroom for brush motor-based Column EPS products.

In October 2016, the company opened a new facility in Chongqing (China). The Chongqing-based JV with Chongqing Jianshe Industry (Group) Co., Ltd. manufactures products such as brush and brushless motor powered column-assist EPS (CEPS) for a range of Chang'an brand vehicles.

In August 2015, Nexteer opened a new manufacturing plant in China. The company also offers brush motor column-assist EPS (BEPS) in China to various customers including SGMW for the Wuling Hongguang S minivan and the Bao Jun 560 SUV. All these investments position Nexteer for continued growth in the region.

Strong order backlog

As of 30 September 2017, EPS represented 70% of the company's overall orders to delivery backlog, followed by DL (15%). According to Nexteer, total orders to delivery backlog is worth USD24 billion. In 2017, the company launched 15 new major customer programs worldwide – nine in APAC, four in North America, and two in Europe and South America. Of these 15 new programs, eight were launched in EPS and seven in driveline product line. During 2017, the company launched Pinion EPS (PEPS) Gen 3.0, which is 40% lighter over its previous generation and offers 70% more assist output. The company also launched Rack EPS (REPS) Gen 3.0 with 32% reduction in circuit board area and power-off pinion position monitoring.

Order backlog as of 30 September 2017

Source: Company website

Nexteer is benefiting from conversion to EPS from hydraulic power steering (HPS) in China due to legislation governing fuel economy.
and exhaust emissions. Nexteer's EPS systems enable an expanding range of advanced driver assistance features such as active return to center lane keeping and haptic feedback among others. IHS Markit expects demand for EPS systems in China to rise roughly 40% from 2016 to 2023. According to IHS data, EPS installation in China is forecast to go up from nearly 25.8 million units in 2017 to more than 28 million units in 2020. With a firm focus over the years on strengthening its EPS manufacturing capabilities in China, Nexteer has established a sound footing to gain further market share in the world's largest automotive market.

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