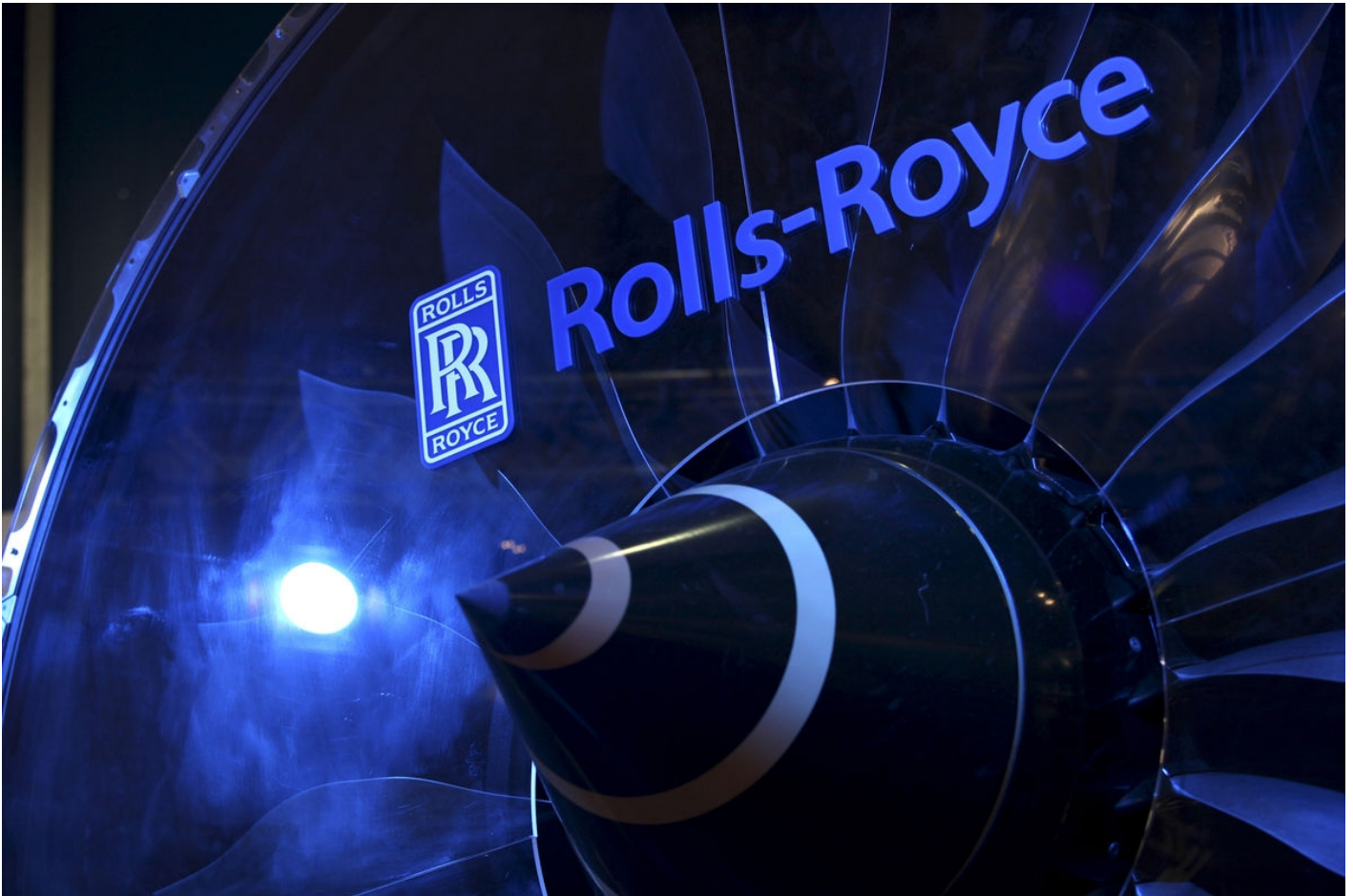




# ROLLS-ROYCE PLANS ASIAN PRODUCTION PUSH WITH CHINA STILL KEY

News / Manufacturer



**Rolls-Royce Holdings Plc said it will step up plans to establish an Asian manufacturing capability to match that in its native UK as the second-biggest maker of jet engines doubles output with the introduction of new Boeing Co. and Airbus Group SE jets.**

The move, which will pare production costs, brings Rolls closer to its fastest-growing clients and provides a back-up for British plants as output reaches unprecedented levels, aerospace unit president Tony Wood said. While a focus for "current volatility," China remains the key driver of air-transport growth, he said.

"Much of our fleet of nearly 4,500 engines for large civil aircraft are flying with airlines based in Europe and North America," Wood said in an interview. "As that base grows to more than 7,500 over the next 10 years, the focus will switch toward Asia."

Rolls-Royce's strategy is under scrutiny after activist investor ValueAct Capital Management boosted its stake following the appointment of Warren East as chief executive officer. While fellow shareholders Sequoia Fund Inc. and Investec Ltd. have queried the wisdom of expanding in

marine engines and power gear, aero-engine manufacture remains the dominant activity.

Shares of Rolls-Royce rose as much as 2.3 percent and were trading 1.4 percent higher at 745 pence as of 2:44 p.m. in London, where the company is based, valuing it at 13.7 billion pounds (US\$21 billion).

The stock has fallen 13 percent this year following a 32 percent drop in 2014, hurt by a series of profit revisions. It rose 3.4 percent Monday after Rolls said it would fire a further 400 people at the marine unit as the lower oil price crimps offshore demand.

## **XWB**

Rolls's assembly site in Singapore, which handed over its first turbine in 2012, will accelerate production of the Trent 1000, one of two engine choices on the 787, and Trent 900, an option on Airbus's A380 superjumbo.

The plant, which includes a full-size test bed, is designed to make 250 to 300 units a year at full capacity. That will allow the company's main site at Derby in the English Midlands to focus on lifting build rates for the Trent XWB, which has an exclusive position on the A350, the industry's newest wide-body model, from about one engine per week to one a day.

"With higher production volumes and the steep ramp up in engines over the next three years, we've been able to reduce risk by ensuring dual supply chain capability wherever possible," Wood said.

Work on metallic fan cases for the Trent 1000 will also transfer to Malaysia's UMW Holdings Bhd. over the next five years as part of a 25-year supply agreement, leaving Rolls-Royce's plant at Ansty, England, where they're currently made, to focus on other models.

## **Risk Factor**

In a note to shareholders last week, Goldman Sachs listed "program risks" from increased output of the XWB and Trent 1000 as a threat to earnings, alongside currency fluctuations, tighter defense budgets and declines in spending on offshore-oil apparatus. It reinstated a "buy" rating on the stock with a targeted 50 percent price gain on the assumption that the ramp up can be successfully delivered.

While U.K. production at about 300 engines a year, the British operation will increasingly lean toward product development, such as all-composite fan cases for the next generation of aircraft powerplants, which are being developed at a new research center near Bristol.

## **Outsourcing**

The proportion of each engine that Rolls-Royce outsources to suppliers is also set to increase to about 80 percent from 70 percent now. Those companies are in turn establishing footholds in Asia, with GKN Plc buying Fokker Technologies Group BV for EUR706 million (US\$800 million) in a deal that boosts its exposure to China in aircraft wiring, and Senior Plc building a 6 million-pound Thai plant that will be its third in the region.

"This is a very deliberate strategy to get the best design and engineering from the guys in the UK and then get a good cost advantage with a very high quality by using our facility in Thailand," Senior CEO David Squires said in an interview.

For Rolls, the changes will be seismic, amounting to "a multiyear transformation of our industrial base," according to Mike Mosley, chief operating officer for the company's supply chain, who spoke in Derby.

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