XCOM Africa
YOUR BUSINESS TO AFRICA

The African & Nigerian Automotive Industry

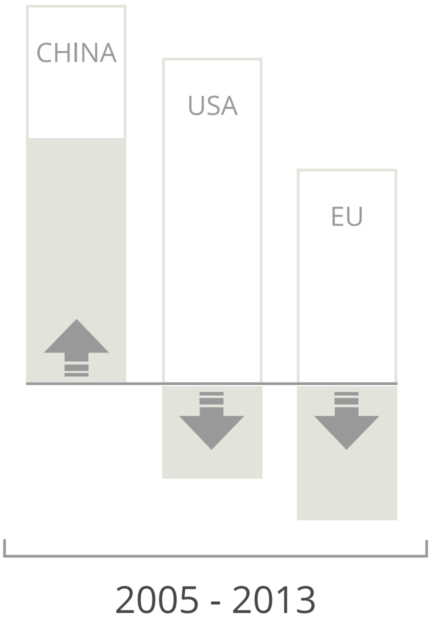
Market report – 2015

Content

1. The Global Auto Industry

Bringing mobility to the world

Since the day Carl Benz made his invention, the automobile has spread around the world, bringing mobility to billions of people and creating millions of jobs worldwide. In 2013 more than 85[1] million new vehicles were sold worldwide, an increase of close to 4% compared to 2012 and up from 66 million in 2005. Where exactly these vehicles were sold, where they will be sold tomorrow, what Africa's role is and why especially Nigeria is interesting, will be the topic of this article.



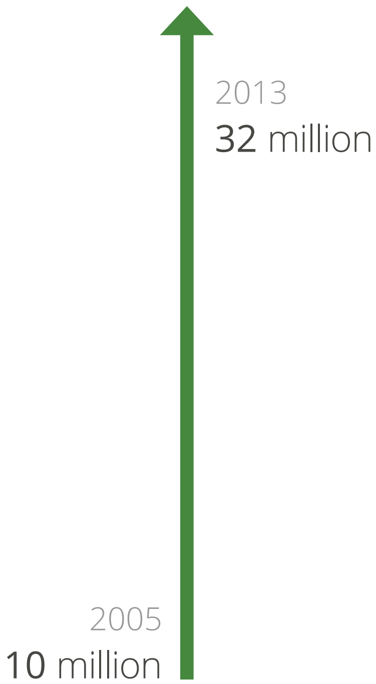
What are the biggest markets?

Today China is the biggest global market for automobiles measured by the number of sold new vehicles, with close to 22 million cars in 2013. This was a 14% increase over 2012 and more than a quarter of worldwide sales. China overtook the US (USA vehicle sales 2013: 16m +4% since 2012) as the largest market around 4 years ago[2]. Furthermore, China's sales went quadrupled from 5.7m in 2005 while US sales decreased from 17.4m since then.

In Europe neither the short term perspective nor the "long term" perspective are too positive: looking at Europe (EU 27) - the third largest market worldwide - sales stood at 14 million vehicles in 2013, approx. 200,000 less than a year before and down from 18 million in 2005.

In short: Two out of the three largest vehicle markets are now smaller than they were in 2005.

1 Source for Global sales numbers: OICA Report
2 Source: CNBC



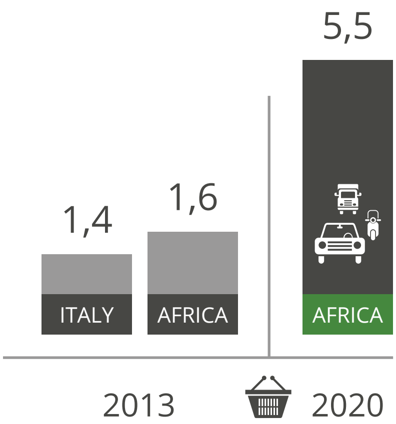
Where does the global growth come from?

The answer is not surprising: It is coming from the global emerging markets, first and foremost from China and the other BRIC countries. Sales in China quadrupled since 2005, while sales in Brazil, Russia and India doubled in the same period. All in all sales in these countries went up from 10 million ('05) to almost 32 million ('13).

The global trend: Since 2010 majority of new vehicles are sold in the global emerging markets. Especially countries like the BRICs have huge populations whose purchasing power is increasing at an enormous pace. An increasing number of people is able to afford the luxury of an own (brand new) car, rising economies and infrastructure investments lift the need for commercial vehicles to transport goods around the country.

Global light vehicle sales in mature and emerging market proportions
(in mio. units)

Figure 1: Global light vehicle sales



Source: OICA Report, Ford

Africa's beginning success story has already started to reach the automobile sector:

What is the growth engine of tomorrow?

At the first sight Africa does not play a major role in the global automotive business. Sales on the whole continent were estimated (solid numbers are rare for most SSA countries) to stand at around 1.6 million in 2013 - that is just about 200,000 more than Italy (1.4 million).

Still Africa is more than that:

Today Africa has a population of about 1 billion people, a number that is forecasted to grow to 1.25 billion by 2025 and to 2.4 billion in 2050[3]. GDP of the Sub Sahara region grew at 4.7%[4] in 2013 and six out of the ten fastest growing countries over the past decade were African[5].

Vehicle sales growth
(Index numbers, 2005=100)

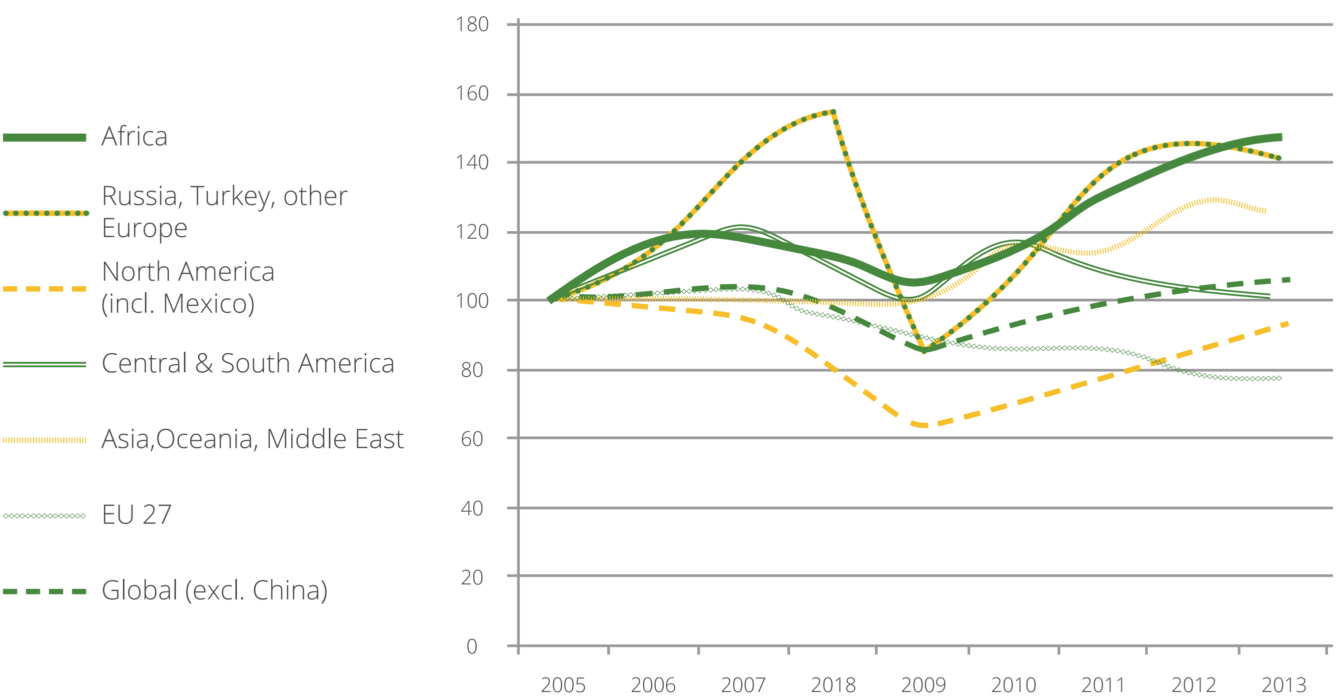


Figure 2: Vehicle Sales Growth (excluding China)

3 Source: United Nations (2014)
4 Source: World Bank
5 Source: The Economist

Special view on China: China is a huge market for vehicles, by far the largest worldwide. One in four new vehicles on this planet is sold in China. But the picture is beginning to change: Companies like BMW are sceptical about future growth perspectives. An overheating real estate sector, overcapacities in many industries, huge household and corporate debts have been identified as dangerous bubbles, some experts expect economic growth rates to decline to less than 6% between 2015-2019 and 4% between 2020-2025. It is therefore necessary to look beyond China for future growth in the automotive industry.

Source: Manager Magazin 2015

In figure 2 we chose index numbers to measure the development of these markets with 2005 as the basis year. The result: Africa developed faster over this period of time than any other global region (excluding China). In other words: **Africa is the second fastest growing market for vehicle sales on this planet!**

On the entire African continent - this includes more than 50 diverse countries - **automobile sales increased by 50% since 2005 on average!** As a comparison: That is a larger relative increase than that of Asia (again excluding China)! Leaving out China **global vehicle sales increased by only 5% since 2005** (when including China this number rises to 30%)! Central and South America remained almost at the same level, European and North American markets even contracted.

Additionally vehicle sales globally are forecasted to peak over the next decade: Sales in the western world will further decline due to concepts such as car sharing and other alternative modes of transport. New vehicle sales in China will also at least slow down, e.g. registration of new cars will be regulated in order to fight environmental problems.

One of the few places on this world where further impressive growth numbers are expected is Africa with its developing economies and increasing population. **Africa is the last growth frontier!**

Which are the most interesting countries in Africa?

Currently among the largest and also best performing are some countries from Africa's north belt. Vehicle sales in Algeria and Egypt increased around 2.5 fold since 2005, sales in Morocco almost doubled as well. Interestingly even if it is still the largest market on the continent (650,000 sold new vehicles in 2013) South Africa's market is just 5% bigger now than it was in 2005. But let us also have a look at the "rest" of the Sub Sahara region: The fastest growing national market on the continent between 2005 and 2013 was Angola, where sales of new vehicles increased more than 3 fold, resulting in an estimated 29,000 in 2013. But there are more of such stories: In Ghana sales went up threefold, passing

13,000 in 2013. In Kenya new vehicle sales more than doubled to 13,000 in 2013. Additionally the country hosts local auto assembler Mobius Motors, which produces a car specifically adjusted to African needs. Through funding from the US the company has highly aspirational growth plans. Further OEMs active in Kenya through contract assembly with local partners include Toyota, Tata and Nissan.

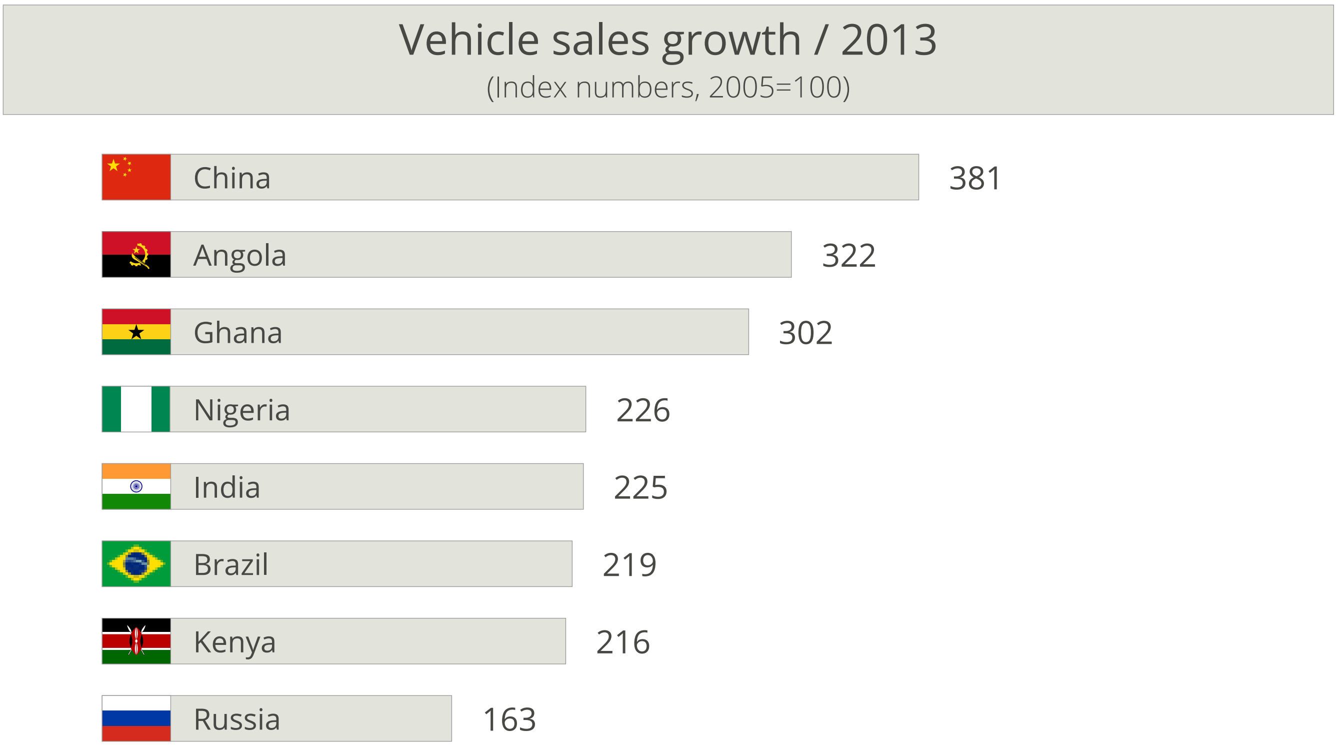


Figure 3: Vehicle Sales Country Ranking

Especially interesting is Nigeria: Officially becoming the biggest economy in Africa in 2014, being home to 170 million people and showing a GDP growth of 7.4% in 2013[6], around 52,000 new vehicles are estimated to have been sold in 2013, 2.3 times of the 2005 figures. This is a relative increase higher than that of Russia, Brazil or India! The Nigerian Customs Service even puts the number of new (imported) vehicles at 100,000 in 2012. Additionally the country kicked off its own automotive assembly industry in 2014 with the vision to become the major assembling country in SSA. Indeed we are yet talking about dramatically lower absolute numbers in most African countries, including Angola, Nigeria, Kenya and Ghana. Without any doubt sales in Russia, India or Brazil are a lot higher in absolute terms. But still: the global automotive industry is looking for new growth opportunities and those opportunities will be in Africa. Let us take Nigeria as an example:

6 Source: African Development Bank

2. Country Focus: Nigeria

Why Nigeria?

Nigeria is very interesting for many reasons. One is that Nigeria is by far the most populated country on the continent: Today almost every fifth African is a Nigerian; by 2050 Nigeria is projected to have 440 million inhabitants, overtaking the US with a forecasted population of 400 million[7].

Another reason is that Nigeria is the largest economy in Africa: After the country rebased its GDP it stood at $520bn in 2013, compared to $350bn of South Africa as the continent's number two[8].

These two factors alone show the huge opportunities: a population of presently 170 million people with a quickly increasing income want to buy own cars; the rising economy and investments in infrastructure push transport, logistics and the demand for commercial vehicles.

This also enabled the Nigerian government to take a brave step to unlock more opportunities: Effectively starting in June 2014 the Nigerian government introduced a 35% levy plus 35% customs on imported new FBU cars (FBU: fully built up), while at the same time giving incentives for assemblers to come into the country: machinery can be imported import duty and VAT free, CKD (completely knocked down) kits are also import duty free while 5%/10% customs are collected for SKD I / II (Semi knocked down) kits. It took these measures to revive/start domestic vehicle assembly, which had initially been built up in the 1980s when companies like Volkswagen and Peugeot set up plants in Nigeria. The national oil boom, followed by increasing corruption, bad governance and finally an oil crisis however made the industry moribund during the 90s.

Launch of the Nigerian Automotive Industry Development Plan (NAIDP)

Prior to the launch of the NAIDP - the plan behind these measures - Nigerian new vehicle sales were dominated by Toyota, which controlled more than 40% of the market in 2012. Second and third were Kia and Hyundai with 11% and 10% market share.

The imports of vehicles (new & used) had been rising at a CAGR of close to 9% between 2007 and 2012, resulting in vehicle imports (including passenger cars, commercial vehicles and buses) worth around $5 billion in 2012. According to the

7 Source: UN Department of Economic and Social Affairs, World Population Prospects
8 Source: World Bank

Nigerian Customs Service the country imported 400,000 vehicles in that year, of which 300,000 were used and 100,000 new - a number significantly higher than other estimates stated above.

As part of the Nigeria Industrial Revolution Plan (NIRP), a government initiative aimed at diversifying the Nigerian economy away from the oil sector, the government took these numbers as a proof that Nigeria reached a stage of being able to support a domestic vehicle assembly industry. It therefore introduced the NAIDP, rising import duties on imported new cars and complicating the import of used cars - so called "Tokunbos".
The idea behind is that the import duties will stifle competition from imports to "enable" companies to invest in local assembly in order to serve the domestic market. In fact this had been done before, e.g. in Brazil which completely prohibited imports of FBU vehicles in the 1950s or South Africa which also protected the domestic industry with high import duties. One of the ultimate goals is to create jobs in the own country: the Nigerian government aims at creating around 70,000 direct jobs, plus several hundred thousand indirect jobs in supplier and raw material industries.

The result in Nigeria so far: many of the big OEMs reported significant drops in their vehicle imports into Nigeria, while at the same time more than 20 OEMs signed agreements to start assembly in Nigeria. Out of these 20+ assemblers, some already started assembly, others are at earlier stages.

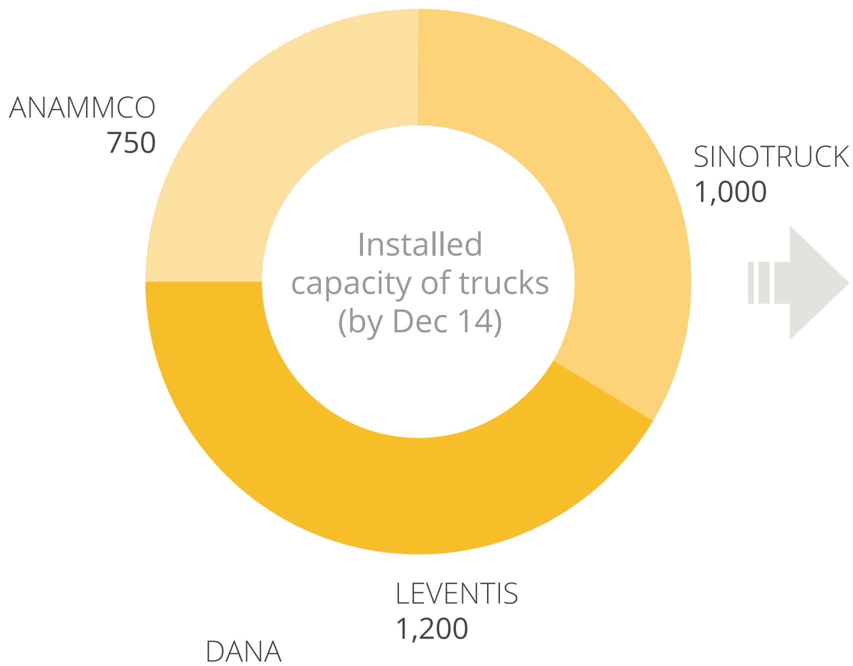
But let us have a more detailed look at it.

Arising Opportunities: Automotive Assembly in Nigeria Today

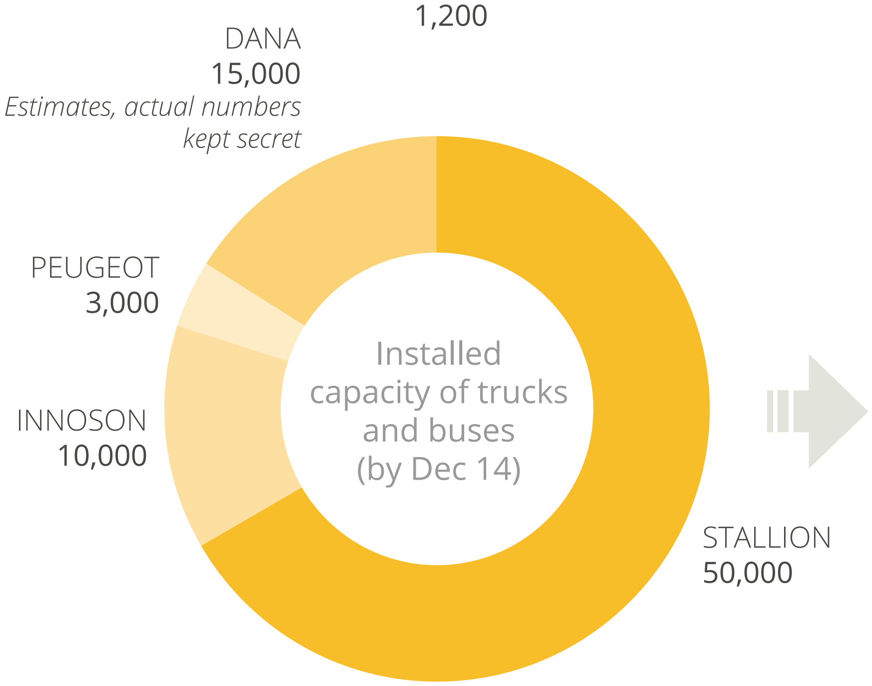
Currently installed vehicle assembly capacities in Nigeria stands at more than 70,000 vehicles per year, in total 7 companies have started to assemble vehicles. The highest capacity has Stallion Motors, which is part of the multi billion dollars conglomerate Stallion Group. Stallion Motors assembles vehicles for Hyundai, Nissan, Tata and Ashok Leyland at the former Volkswagen of Nigeria (VON) plant in Lagos, which the company took over in 2012. Nissan is already increasing its market share aggressively, coming from around 1,000 sold new vehicles in 2012 to around 6,000 in 2014.
Self-declared "only truly Nigerian owned" Innoson Vehicle Manufacturing (IVM) has an installed capacity of 10,000 vehicles and enjoys good government patronage: IVM vehicles are now becoming increasingly visible on the streets of Nigeria. The company's CEO and owner Innocent Chukwuma had once started his own business with the import of motorbikes then expanded to motorbike assembly, plastic industry and tyre manufacturing before starting vehicle assembly.
Another interesting company is Peugeot Automobile Nigeria (PAN), currently targeting to assemble around 3,000 vehicles, but however having much space for growth at its plant in Kaduna which was originally built in the 1980s.

Also assembling passenger cars, Dana Motors, which is part of Nigerian Dana Group (approx. $2bn revenues and including Dana Air, one of Nigeria's airlines), is "reserved" about revealing current capacities but plans to assemble the whole Kia range of passenger cars in 2015. So far it assembles Kia Rio, Cerato and Optima at its plant in Lagos. Furthermore 3 companies - Anammco, Leventis and Sinotrucks Nigeria - are assembling trucks in the country. Looking at the OEMs behind these companies, Chinese Shacman, Foton and Sinotruk, already gives an indication that China has recognized the opportunities in the market.

Figure4: Installed capacity in Nigeria



TRUCK ASSEMBLY CAPACITY	
Total capacity	
3,000	
Modes of assembly	
Sinotruck, Leventis	SKD 1
Anammco	CKD



CAR AND BUS ASSEMBLY CAPACITY	
Total capacity	
75,000	
Modes of assembly	
Mode of assembly	SKD 1

Source: XCOM Africa Analysis

Future opportunities: Industry perspectives

So far only a share of those companies planning to enter the Nigerian market has already started assembly. A larger number has signed MoUs, is currently building plants or conducting feasibility studies.

Among those who are already planning to enter the market until 2016 are many Chinese OEMs, such as e.g. Higer which made an agreement with Nigerian auto dealer Globe Motors to invest $120m in an assembly plant with a capacity of 22,000 vehicles. Chinese Dongfeng brand signed an MoU with Nigerian Coscharis Motors, also an auto dealer, to invest $50 million in an assembly plant.

Even though the vast majority of the companies "in the pipeline" are Chinese, there is also e.g. Nigerian SCOA Motors which is building an assembly plant for MAN trucks, or CFAO Automotive which is converting a warehouse into an assembly plant for Mitsubishi Fuso. Especially interesting for Western businesses trying to exploit opportunities in the market are also Toyota, VW (already announced to start assembly with Stallion Motors), Ford and Mercedes Benz (trucks), which are all conducting feasibility studies in Nigeria.

All in all, not all commitments will be kept: Out of those who are yet "in the pipeline" some will realize that it does not make sense to spilt a yet relatively small market as the Nigerian among more than 15 local assemblers. It is also very likely that not all feasibility studies will lead to actual investments. Nevertheless we expect installed capacity to rise to around 140,000 vehicles until the end of 2016 and in a good scenario to more than 180,000 in 2020. By 2016 an estimated €800 million will have been invested local assembly plants.

Challenges & risks

Talking about all these opportunities it would be careless not to consider the vast challenges which this industry faces: Doing business in Nigeria is difficult and expensive. Nigeria ranks among the most corrupt countries in this world, infrastructure is improving but not good, electricity supply is less than intermittent (in fact outages are often longer than actual light periods; all assemblers will still need to generate their own electricity over the next years), purchasing opportunities for Nigerians need to be created to enable them to move from "Tokunbos" (used cars) to new cars, local component production needs to develop, skills have to be developed, general elections have been postponed to March 2015, Boko Haram is still causing instability in the north-east etc. etc. . To make it short: challenges are huge. BUT: Many of these challenges are being tackled in promising ways, e.g.:

Reforms in the power sector are ongoing - e.g. according to KPMG among the boldest power sector reform processes worldwide - incoming investments are huge.

Investments into infrastructure are huge as well. According to an EY report[9] Nigeria has a portfolio of active infrastructure projects (=projects being planned or currently implemented) worth $100bn!

Many Nigerian assemblers partner with local banks to create financing options. Furthermore the Nigerian government signed an agreement with WesBank South Africa to create options as well.

Local component manufacturers received loans and are growing

Training centres are being created at the plants and with government support. Some universities (e.g. in Ibadan) introduced automotive related degrees.

Elections are in 2015, but the NAIDP is backed by law. Whether PDP remains in office or not the risk of policy reversal is thereby reduced (no 100% guarantee can be given though)

9 Source: EY (2014): Africa by numbers - A focus on Nigeria

3. Summary

Africa in a different way: There are one billion people living on this continent, which is economically growing at close to 5% p.a. These one billion people are currently buying around 1.6 million new vehicles, yet an increasing number of them belongs to the middle class and demands for increasing mobility. So interesting questions are: Who will provide mobility to these people? Who will sell vehicles how to the rising middle class of this continent? Or also: who will assist those who try to sell or even assemble vehicles there? Those who create answers to these questions will be those to make great business in Africa.

Nigeria is a great example for unveiling opportunities. A completely new potentially huge sector is emerging. It is a sector in which e.g. German companies are among the leading in the world. We are not just talking about investment opportunities for the big car brands/OEMs: From supplying e.g. equipment to domestic assemblers, to supplying components or even selling to local component manufacturers, there are lots of different business opportunities.

Challenges for western companies are to find the right way to make use of these opportunities and also to be on time: In a few years the Nigerian automotive sector is likely to be split between those who invested early enough, which will make it difficult for foreign newcomers to gain foothold.

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