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Abstracts

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Sudan Over the short term, BMI does not expect the situation to improve for new vehicle sales in either Sudan or South Sudan. Following the secession of South Sudan, which is home to the majority of oil fields, and consequently, oil revenue, we believe there will be a return to only tentative GDP growth of 1.1% in Sudan. The hammering out of a definitive agreement with South Sudan on the distribution of oil wealth will be a key factor in establishing economic stability, as will Sudan's attempts to develop its extraction industries as an alternative income to oil. However, increasing tensions between the two threaten the oil sector in both countries and our Oil & Gas team has revised down its combined oil production and export forecasts, which will undoubtedly impact economic growth until a the situation can be resolved.

This poses risks for potential investors in the autos sector. A number of Kenyan auto dealers are looking to set up sales units in South Sudan, attracted by the potential income from the new country's oil reserves.

The poor infrastructure means that most of the dealers are focusing on sales of trucks, which are better equipped for the terrain, but BMI believes there are other risks to this strategy, not least the escalating tensions with Sudan over oil production and transit fees.

Early movers into the market include DT Dobie, representative of Nissan Motor, and China's Foton East Africa, which has already invested in domestic production in Kenya to serve the wider region. Foton has already reached an agreement with a local dealer in Juba, and will begin exports of its pick-up and light trucks.

However, while companies are drawn to South Sudan's economic growth potential

based on its oil sector, the recent downward revision of BMI's oil production and net export forecasts cast doubt over this expected boom.

BMI's Oil and Gas team has downgraded its combined Sudan and South Sudan oil production and net exports forecasts, largely on the back of their view that South Sudan will not export any oil until Q412.

For now, we expect average production to fall to less than 50,000 barrels per day, compared to 2011 estimates of over 300,000bbl/day. If the conflict between the two escalates much further, even this could prove overly optimistic. This will in turn impact economic growth, as the government relies on oil exports for about 98% of total revenues.

Tanzania BMI believes that challenging macroeconomic dynamics in 2012 could prove to be a major deterrent for strong vehicle sales growth in Tanzania during 2012 and accordingly forecast a slowdown in new sales growth down from an estimated 20% year-on-year (y-o-y) growth in 2011 to 10% y-o-y in 2012. Of particular concern to us are the inflationary pressures in the country which are likely to remain stubbornly elevated during the year. Equally discouraging is the anaemic growth outlook for Europe, which will also weigh on exports and hence demand.

All of these come in a market which relies heavily on vehicle purchases from the government and business for much of the sales, as new vehicles remain unaffordable for a substantial majority of private consumers. Our longer term forecasts for vehicle sales accordingly call for a lacklustre growth beyond 2012.

However, a number of new players are making inroads into the market, primarily to benefit from strong performances in the mining, agriculture, transport and communications sectors. In April 2012, local news sources revealed that Foton East Africa is spending approximately TZS125mn (US\$80,076.87) to open three outlets in Tanzania and is eyeing growth in the light, medium and heavy trucks segment. With similar motives, Swedish commercial vehicle manufacturer Scania's Tanzania subsidiary Scania Tanzania aims to open new branches in Dar-Es-Salaam, Tanga, Mtwara, Dodoma, Iringa and Morogoro, the company's Managing Director Mark Cameron revealed in January 2012. Others such as Chinese stateowned truckmaker Sinotruk has shown interest in the construction of a heavy-duty truck assembly plant in Tanzania.

The only upside to our cautious outlook is a possible increase in vehicle sales on credit

or other alternative forms of financing. In February 2012, Toyota Motor revealed it is looking to grow its business in Tanzania by establishing a leasing programme for company fleet sales. Meanwhile, in 2011, Stanbic Bank Tanzania Limited rolled out car loans compliant with the Sharia law - in addition to its other banking products - to make an early presence in an as-yet undeveloped credit market. The small size of its new car market and limited growth potential has put Tanzania in 16th position in BMI's Risk/Reward Ratings for the autos industry in Africa this quarter - slightly ahead of Sudan. But BMI sees significant scope for Tanzania to move up in the ratings systems in the medium and longer term. The country is gradually emerging as a popular entry point for international players.

Uganda Uganda's new vehicle market is a tiny fraction of the total autos sector, with second-hand vehicles still the only affordable option for many consumers. Even then, sales of passenger cars are around two-thirds the volume of commercial vehicles, with buses comprising the lion's share as public transport is the most widespread means of getting around.

According to the Total Industry Volume report, as reported by the Daily Monitor in April, car sales in Uganda have been hit by slowed growth characterised by high inflation, currency depreciation and the rising cost of doing business in the country.

Car sales in the first quarter of 2012 stood at 425, a drop of 17% compared with the same period last year, when 513 were shifted.

The chairman of Uganda Motor Vehicles Importers Association, Nelson Tugume, told the Daily Monitor the slump was down to a struggling economy. He said: 'Cars are not a life necessity so consumers can postpone buying them to cater for basic needs.

'This is an economic problem. As long as the economy continues to struggle then car sales will be low.' This defies signs last year that new vehicle sales were growing, albeit at a much slower rate. According to the Uganda Motor Industry Association, sales of new vehicles for the first eight months of 2011 were up 3% year-on-year (y-o-y) to 1,785 units, compared with the 1,618 units sold the year before. As in other countries in the region, the growth was spurred by a healthy construction sector, which generated demand for trucks and heavy vehicles. The data show that out of the total vehicles sold, 984 were pick-up trucks, while passenger car sales comprised 377 estates and 227 sedans.

There are positive signs for the industry, however. The Uganda National Roads

Authority has announced that construction of the US\$350mn toll road connecting Kampala with Entebbe Airport will start in July 2012, reports Road Traffic Technology. Construction work on the 50km road, which is due to be completed by July 2015, will be financed by China's Export-Import Bank. The road will facilitate transportation between the capital city and the country's only international airport, as well as easing traffic congestion on the existing road between the two locations.

Meanwhile, the rate of Ugandan economic growth is predicted to increase by 5.4% during FY2012/13, reports Yahoo! News. The expected rise is attributable to projected government investment in infrastructure, education, energy and transportation. The Ugandan government has also prioritised a reduction in inflation to single digits following its rise to an 18-year high of 30.4% in October 2011.

According to local dealers, access to financing is boosting growth in the new vehicle market. Some banks will finance a larger percentage of the cost of a new car than a second-hand one, as a new one will be less of a risk. The Development Finance Company of Uganda Bank offers 100% financing for new trucks and buses. However, the data show that bus sales have not spiked as expected in preparation for the phasing out of 14-seater vans used as buses.

In the new car market, Toyota Uganda is the undisputed leader. In the first eight months of 2011, it accounted for 718 of the 1,785 new vehicles sold, equal to a market share of around 40%. It was followed by Motorcare Uganda with sales of 309 units and Skenya Motors with sales of just 34 units.

There is also a thriving motorcycle market in the country, which has attracted investment in local production. In February 2011, the local distributor for Yamaha Motor motorcycles, Nile Fishing Company, opened the country's first motorcycle assembly plant. The UGX18.8bn (US\$7.5mn) facility has a daily production capacity of 50 units, but the company plans to expand the plant by March 2013, to have five assembly lines producing a total of 250 bikes per day. The first model to be built at the plant is the Yamaha Crux, which is often used for commercial purposes, but other models will be added. Meanwhile, the first signs of a domestically designed car have come from a Ugandan university. Makerere University's College of Engineering, Design, Art and Technology has unveiled its own electric vehicle (EV), the Kiira EV, which has been developed and produced by students over a three-year period. While the car meets the brief of showcasing local skills and innovation, BMI believes the country's underdeveloped power generation capacity means it is unlikely that widespread usage of EVs will be a viable option any time soon.

Kenya New vehicle dealers in Kenya sold 1,525 units in January-February 2012, compared with 1,775 vehicles sold during the same period of 2011, according to data released by the Kenya Motor Industry Association (KMI). The slump has been attributed to several factors, including the forthcoming general elections and strict measures by the government to reduce new car orders, according to CMC Motors CEO Bill Lay. In addition, sales dropped due to high interest rates, owing to the Central Bank of Kenya's measures to tighten liquidity. High interest rates had a direct affect on showroom prices of vehicles, since new vehicle sales are primarily funded by bank credit.

Although data from the KMI shows that the total new vehicle market grew 10% year-on-year (y-o-y) in 2011, not all local distributors are capitalising on the trend. The growth in demand for pick-up trucks is leading to a shift in the competitive landscape. Total vehicle sales in 2012 are expected to increase by 9.42% y-o-y to 12,769 units, reaching 17,828 units in 2016.

KMI data show that while the total new vehicle market grew 10% y-o-y in 2011, the Japanese earthquake and tsunami had the biggest impact on the country's larger dealers. As a result, those that the association groups as smaller dealers saw their market share increase from 6.5% in 2010 to 10%, while their sales rose 69% compared with 6.1% growth for the combined larger dealers. General Motors East Africa (GMEA) offset some of the negative impact of restricted supplies for its Isuzu truck brand, however, through its domestic production, which underlines the advantages to be gained in an increasingly competitive vehicle segment.

According to data from the KMI, growth in the agriculture, manufacturing and trade sectors is driving demand for pick-up trucks, which accounted for 35% of total vehicle sales in the nine-month period.

Sales of heavy commercial vehicles still account for 26.8% of the market, behind pick-ups. We also believe that construction projects in the region will fuel sales in the heavier segments over our forecast period. Further growth in Kenya's construction sector is forecast over the next two years by BMI's Infrastructure team, supporting the favourable conditions for the commercial vehicle segment.

The government has development plans with a total cost of US\$22bn that include significant improvements to roads, railways, seaports, airports, water, sanitation and telecommunications. According to the government, Kenya is focusing on these in the hope of attracting, accelerating and retaining investors who often complain its

dilapidated facilities increase the cost of doing business, rendering Kenya's products uncompetitive in the global market.

BMI believes the infrastructure spending plans announced by the governments of Kenya represents an encouraging sign that the political commitment to long-term infrastructure investment is strengthening. BMI has previously commented on the effects of a weakening Kenyan shilling on the country's used car segment and new data show the extent of the problem, with figures not expected to improve in the short term. Data from the Kenya National Bureau of Statistics show that used car sales for the eight months to August 2011 were down 20% y-o-y to 33,073 units, from 39,790 in the same period of 2010 previous year.

Dealers reported a 30% increase since the start of 2011 in the charges associated with importing used cars, including the exchange rate against the yen and US dollar and higher freight costs. The shilling reached a record low of below KES100.0/US\$ on September 26 2011, and the Central Bank of Kenya expects sustained currency volatility over the next six months. Inflation has exacerbated the situation and, according to Kwame Owino, chief executive of the Institute of Economic Affairs, this has particularly hit the middle class, which is the biggest customer base for used cars.

Domestic production is one solution to such issues and Kenya is attracting investment, particularly from Chinese companies. Commercial vehicle manufacturer Beiqi Foton Motor launched its first domestically produced trucks in June 2011, after establishing a local subsidiary in the country in late 2010. The Foton Slip Double Cab pick-up truck was assembled at the Kenya Vehicle Manufacturers facility, where it will be assembled until Foton's own plant comes onstream. As part of a growing focus on Africa by Chinese auto companies, the company is building its own vehicle assembly plant, which is scheduled to begin operations in May 2012. Chery Automobile will be the next Chinese carmaker to invest in Kenya.

According to Justus Nguu, director of Chery's local franchise holder Stantech Motors, Chery is now in negotiations with the Chinese government to secure financing of US\$50mn for the Kenyan plant, which the carmaker plans to open in 2013.

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