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Africa's Next Automotive Hub

30%
New vehicles were sold to retail customers i.e individual or home unit purchasers, in 2014.

63%
Nigerian households cannot afford to own a car without some kind of support.

70%
New cars sold will be manufactured or assembled in Nigeria by 2050

pwc

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Total car sales

410,000

Source: PwC Analysis

Sales Ratio
Used Cars:New Cars

75%:25%

Source: MINACs' data, UN Comtrade, PwC Analysis

81 Motorisation Rate

Number of passenger cars per 1000 inhabitants

Source: World Bank, PwC Analysis

Total number of cars on the road

14million

Source: WHO, PwC Analysis

Ratio of new cars to used cars on Nigerian roads

1 New car | **131** Used cars

Source: PwC Analysis

Age Distribution: Used Cars

0-5 years	11%
6-11 years	26%
12-18 years	50%
19+ years	13%

Source: FRSC, PwC Analysis

Number of companies granted license to assemble

35

The Punch Newspaper
29 September 2015

Import Tariff on FBU, SKD and CKD respectively

75%:10%:0%

Source: NADDC

2015 Scenario 1

Imported Used
(Also known as Tokunbo)
335,000

Imported New
(Includes grey imports)
90,840

Assembled/ Manufactured New
30,200

Total Number of Cars
(PwC analysis, most recent value is WHO estimate as at 2011)
14,460,000

Nigerian Used
144,000

2050 Scenario 1

Imported Used
(Also known as Tokunbo)
0

Imported New
762,900

Assembled/ Manufactured New
6,866,000

Total Number of Cars
69,160,000

Nigerian Used
30,140,000

2050 Scenario 2

Imported Used
(Also known as Tokunbo)
0

Imported New
462,500

Assembled/ Manufactured New
4,162,000

Total Number of Cars
40,400,000

Nigerian Used
18,270,000

2050 Scenario 3

Imported Used
(Also known as Tokunbo)
0

Imported New
600,900

Assembled/ Manufactured New
1,803,000

Total Number of Cars
27,310,000

Nigerian Used
9,494,000

Evolution of Nigeria's Automotive Industry

Evolution of Nigeria's Automotive Industry

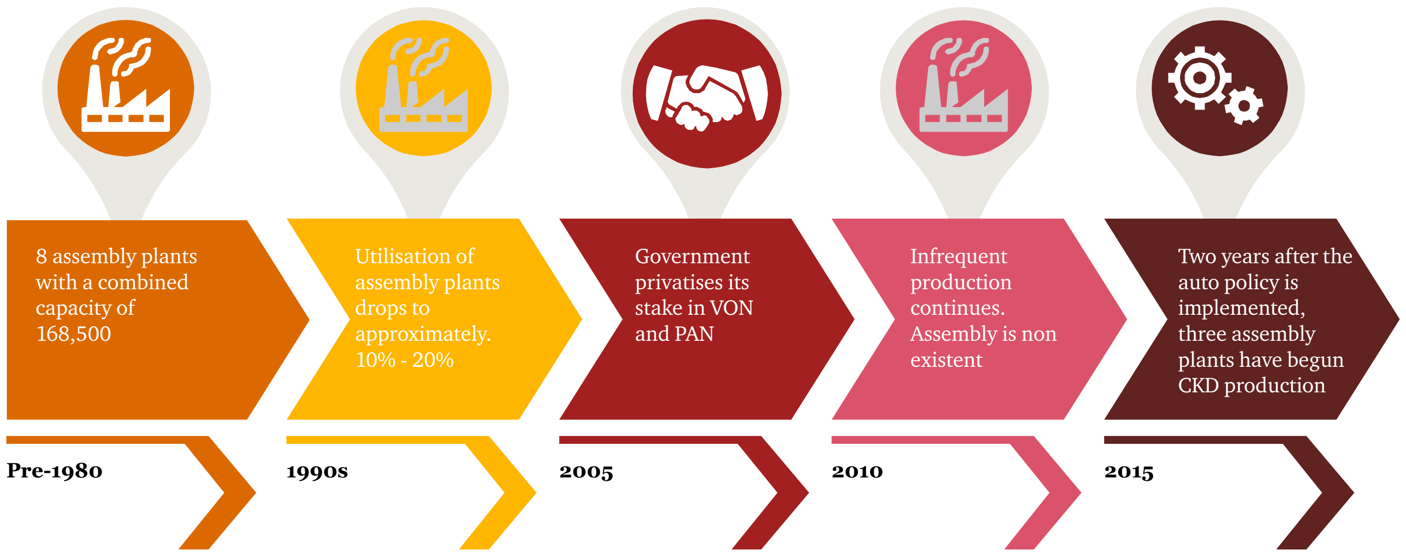
Nigeria has the potential to become the hub of Africa's automotive industry. Home to an estimated 170 million people, over 40 million of who are in the growing middle class, the continent's largest economy is increasingly seen as an attractive destination for investors across all sectors. The largely import dependent automotive industry has become the focus of this attention in recent times.

Golden Age: 1960s – 1980s

The Nigerian Auto Industry has for years been largely import driven although this has not always been the case. In the early 1960s, private companies such as the UAC, Leventis, SCOA and R.T. Briscoe pioneered Completely Knocked Down (CKD) or Semi-Knocked Down (SKD) auto assembly in the country. Subsequently in the 1970s and 1980s, the Federal Government also set up state-owned plants across the country via agreements with European Original Equipment Manufacturers (OEM): Peugeot Nigeria Limited (PAN), Styer Nigeria Limited and National Truck Manufacturers (NTM) in the North of Nigeria; Volkswagen of Nigeria Limited (VON) and Leyland Nigeria Limited in the South, Anambra Motor Manufacturing Company (ANAMMCO) in the East.

Decline: 1990s - 2013

Unfortunately, as the country became more dependent on oil, the local auto industry capacity utilisation reduced significantly. In a bid to jumpstart the auto industry, the National Automotive Council (NAC) was established in 1990 with a mandate to facilitate the production of components and vehicles. This policy and other future attempts by government failed to revive the automobile industry resulting in the government divesting its interest in Peugeot and Volkswagen. Following the privatisation exercise between 2001 and 2005, these companies lost their exclusive right to government tenders leading to a gradual end of assembling in the country.



The new policy has attracted a number of top brands, with three already commencing assembly in Nigeria as at 2015

Kick Start
In order to harness the potential, the Nigerian government in 2013 announced a new national automotive policy, the National Automotive Industry Development Plan (NAIDP), which seeks to discourage vehicle importation and encourage local production. The NAC (Nigeria Automotive Council) now the NADDC (National Automotive Design and Development Council) seeks to ensure timely execution of the provisions of the policy as part of its mandate to revitalise the auto industry.

Industry experts believe that Nigeria's potential annual new-car market could be as high as One million. However, it currently sits at about 56,000 in a used vehicle dominated market. The National Automotive Design and Development Council (NADDC) estimates annual imports at about 400,000 vehicles (100,000 new and 300,000 used), valued at about US$3.45bn. Local production capacity is about 100,000, but utilisation has over the years dropped to less than 15%. The NADDC believes the automotive industry, which currently employs around 2,600 workers, has the potential to generate 70,000 direct jobs and 210,000 indirect ones.

The new policy has attracted a number of top brands, with three already commencing assembly in Nigeria as at 2015. Also, 30 other brands have signed commitments with technical partners and obtained licenses to assemble passenger cars, sports utility vehicles(SUVs), buses and trucks in the country.

Information for this report was obtained through interviews, consumer surveys, mystery shopping and analysis of data from the Nigeria Customs Service, Federal Road Safety Commission, Nigeria Export Processing Zones Authority, Lagos Concession Company, Minacs and United Nation Comtrade.

PwC Projections: 2015 -2050
The potential in the road ahead

Tokunbo cars will become non-existent as a direct result of local production by 2044

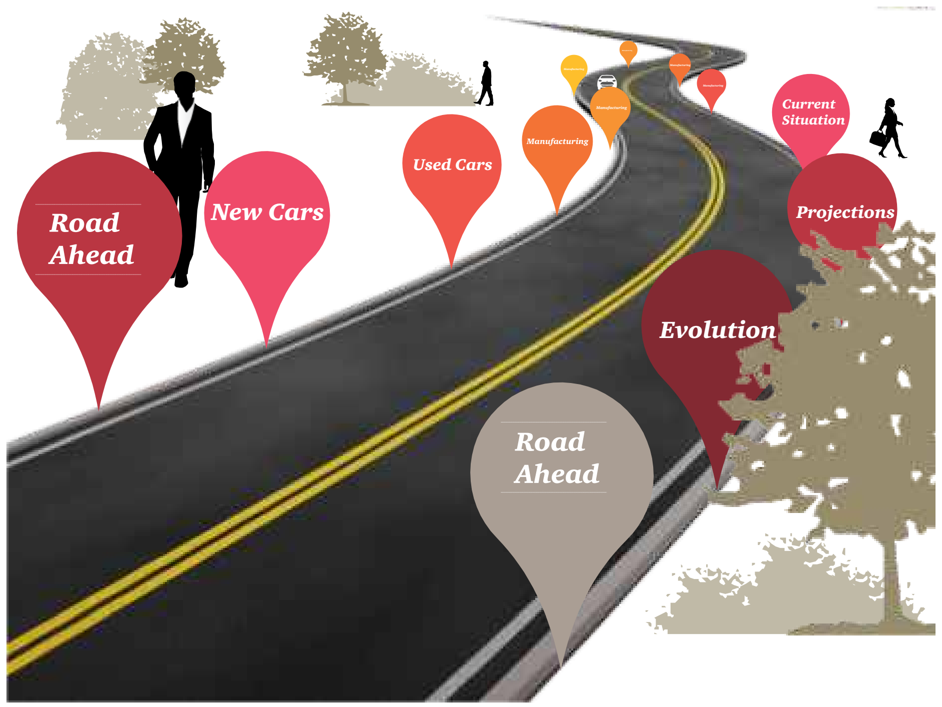
Given the intent shown by the Nigerian government, PwC developed growth projections for the Nigerian automotive industry. The growth projections highlight the potential of the industry and present three different scenarios for the industry till 2050.

In these scenarios, growth is measured in term of car sales and we have assumed it to be dependent on GDP. As a result we use PwC's *The World in 2050*, a report that forecasts economic growth for 32 of the largest economies in the world, for the period 2014 – 50.

Researching the relationship between GDP and car sales for other emerging countries such as Brazil, Mexico, Indonesia, we discovered that generally, there was a direct relationship between new car sales growth rate and GDP growth rate.

We project that with continued government support, the Nigeria auto industry will begin actual manufacturing with components sourced from within, potentially generating over 6 million new cars locally by 2050. Imported used vehicles popularly referred to as Tokunbo cars will become non-existent as a direct result of local production.

This projected growth requires sustained and effective investment in the auto industry made only possible by the government implementing political, economic and legal policies that create a suitable environment for such investment.

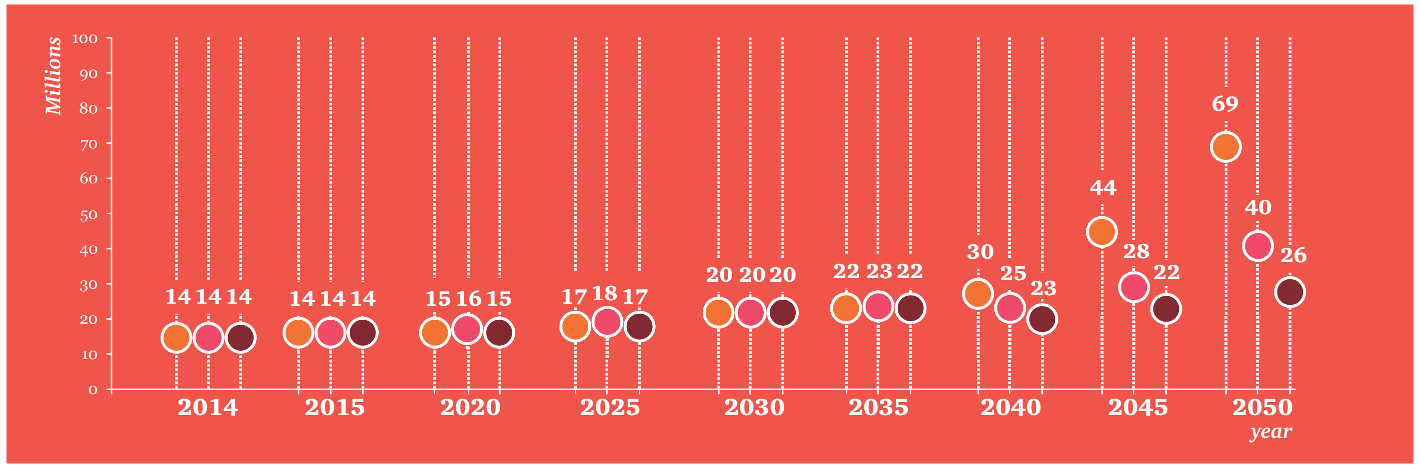


Our Findings

Installed Base

We expect that the Nigerian car park will continue to grow, even if real GDP grows by 5.6% and averages to 4.4% by 2050. In any of the scenarios, the total number of cars on Nigerian roads will exceeds 25 million. Although, GDP growth is less than expected, Nigeria's growing working population and huge domestic market will continuously drive the demand for automobiles by consumers.
In this case however, we expect demand will be met majorly by foreign imports. Lower GDP growth coupled with minimal government support for the auto industry will see Nigeria's current heavy reliance on foreign imports continue. Local contribution to the car park will be limited to basic assembly till 2030.

Installed base projections



Source: WHO global observatory data repository, PwC analysis

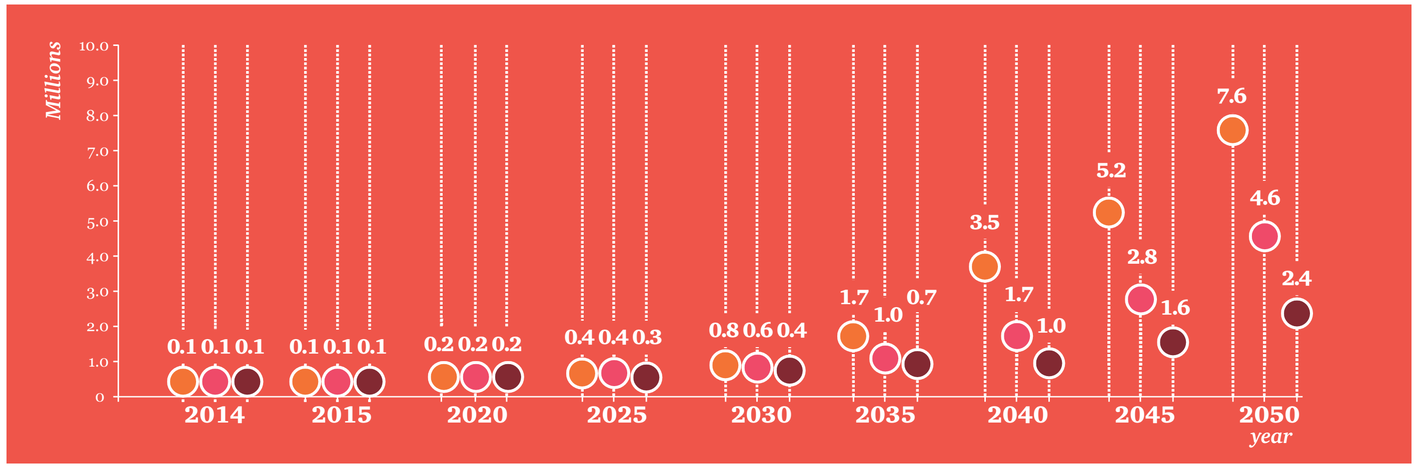
Scenario 1 Scenario 2 Scenario 3

New Cars

We expect new car sales to grow at two times the real GDP growth rate indicating a direct relationship between both variables. This relationship applies across all the scenarios. Although in scenario 1, new car sales grows at three times the real GDP growth rate from year 2025 .

It has been identified by the director general of Nigeria's National Automotive Council that the new car market has a potential of one million new car sales annually. Proper implementation of NAIDP could see Nigeria achieve this potential as early as year 2032, potentially exceeding seven million by 2050.

New car sales projections



Source: MINACS data, BMI Nigeria Automotive report QI 2015, UN comtrade, PwC analysis

Scenario 1 Scenario 2 Scenario 3

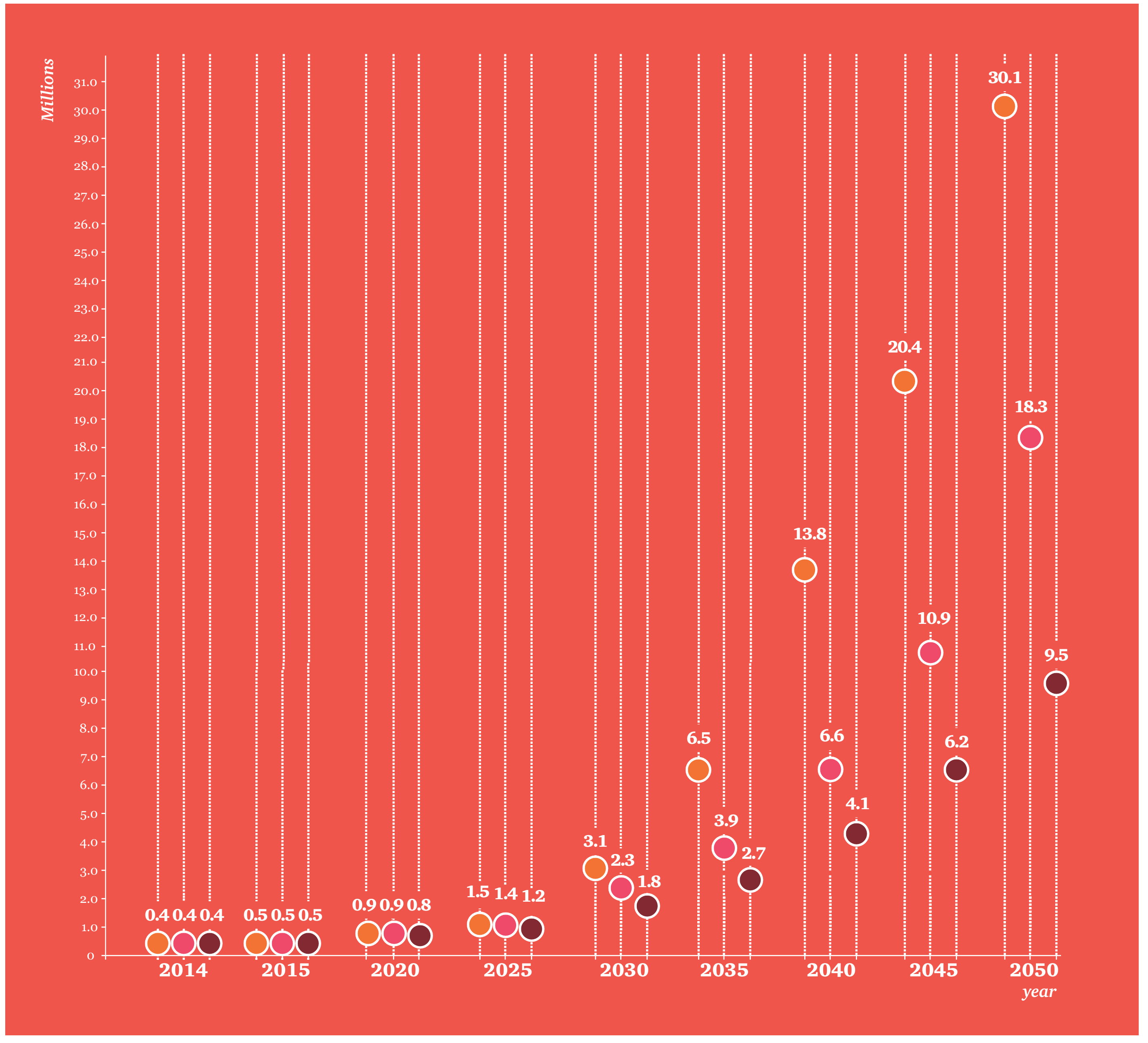
Our Findings

Used Cars

Strongly dependent on new car sales, continued growth in real GDP will result in used car sales accelerating. We predict that one new car to four used car sale ratio will remain constant across all the scenarios. Although it might be assumed that as local assembly or production quota increases, the demand for used cars will drop, the reverse will be the case.

Increased production and demand for new vehicles will increase the supply of used car vehicles bringing prices down. We expect that OEMs will get involved in this market through certified pre owned programmes, making used cars almost as attractive as new cars.

In scenario 1, the used car demand will be generated internally rather than by foreign imports. Tokunbo cars will gradually be phased out by 2034 as consumer confidence in Nigerian vehicles increase.



Source: MINACS data, UN comtrade, PwC analysis

Scenario 1 Scenario 2 Scenario 3

Introducing Our Scenarios

Scenario 1
Rapid Growth

- Real GDP growth is 6.6% till 2020, 5.1% till 2030 and 5.4 % till 2050 making it among the ten largest economies by 2050
- Proper implementation of the National Automotive Industrial Development Plan (NAIDP) especially protecting the borders
- Strong government support

CKD Production Begins 2019

Manufacturing Begins 2023

Tokunbo Phased Out 2034

SKD Phased Out 2035

Nigeria's impressive GDP makes it the 16th largest economy by 2030 and the 9th largest economy by 2050. A large consumer base with ever increasing purchasing power drives the demand for automobiles. The government maintains the auto policy especially the tariff rates of 70% on imported fully built units (FBU) and 0 - 10% on knockdowns (KD) and for locally assembled vehicles.

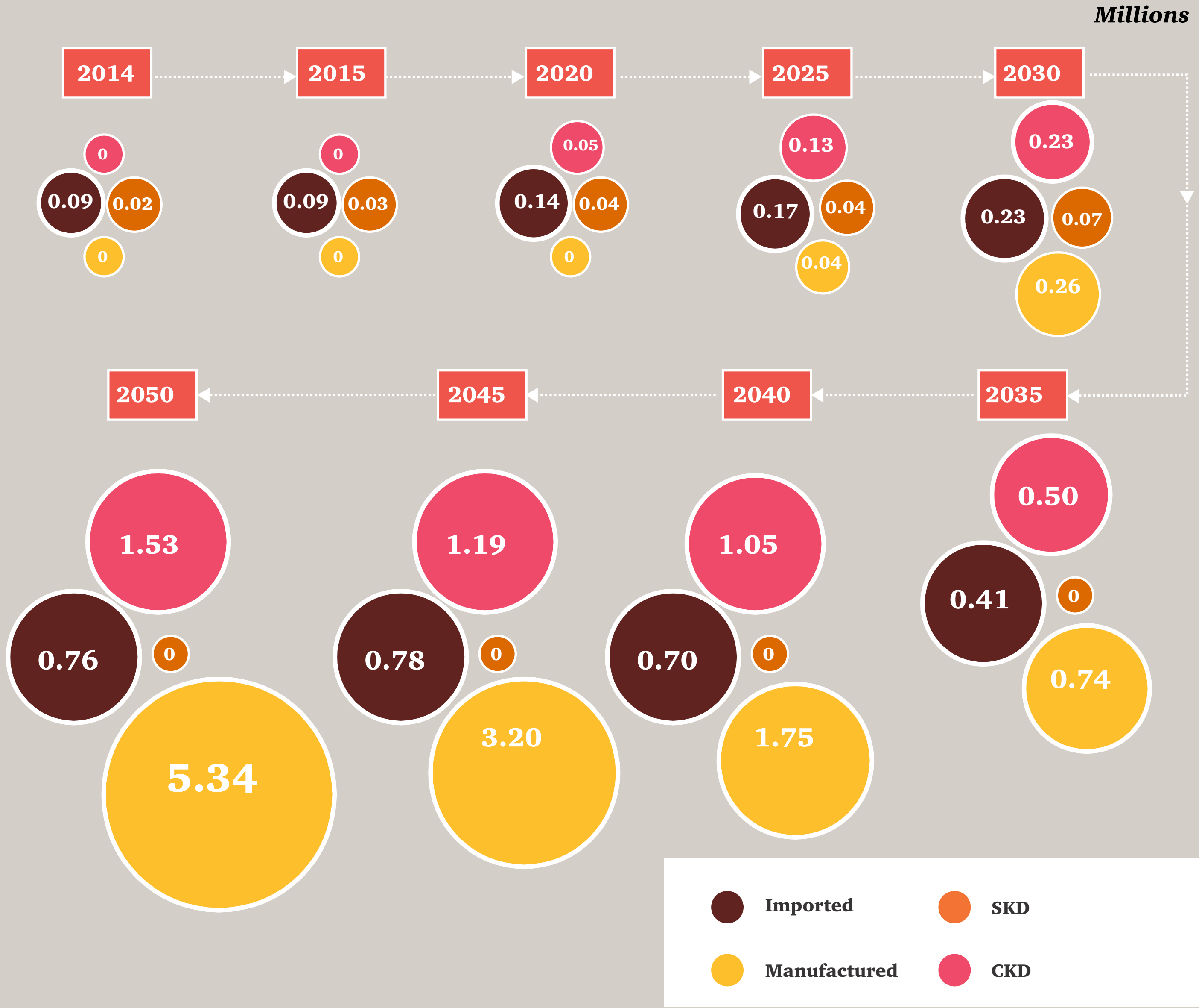
OEMs willing to tap into the Nigerian market would have to begin some sort of assembly or lose out. Currently top OEM brands have realised taking advantage of the policy as the best strategy to assert their position in the market. Nissan, Kia, Hyundai have begun assembling in the country with Ford, Honda, Tata initiating plans to begin assembly later this year.

FBUs attract a 70% tariff; however OEMs carrying out local assembling can bring in FBUs at 35%. However, the number of FBU that can be imported is tied to their units of CKD/SKD production. From 2016, the ratio will be 1 SKD/CKD: 1 FBU and from 2019 will be 2 SKD/CKD: 1 FBU.
OEMs willing to take advantage of the policy will begin to setup assembly units either directly or through a partnership with their dealers. In the early stages, assembling will begin at the most basic level of SKD. OEMs looking to increase capacity in time for the 2019 deadline will begin to invest more into their local operations by upgrading their SKD facilities to CKD and developing local manpower to ensure quality control. As a result, CKD production will amount for 20% of the new car sales by 2020 account.

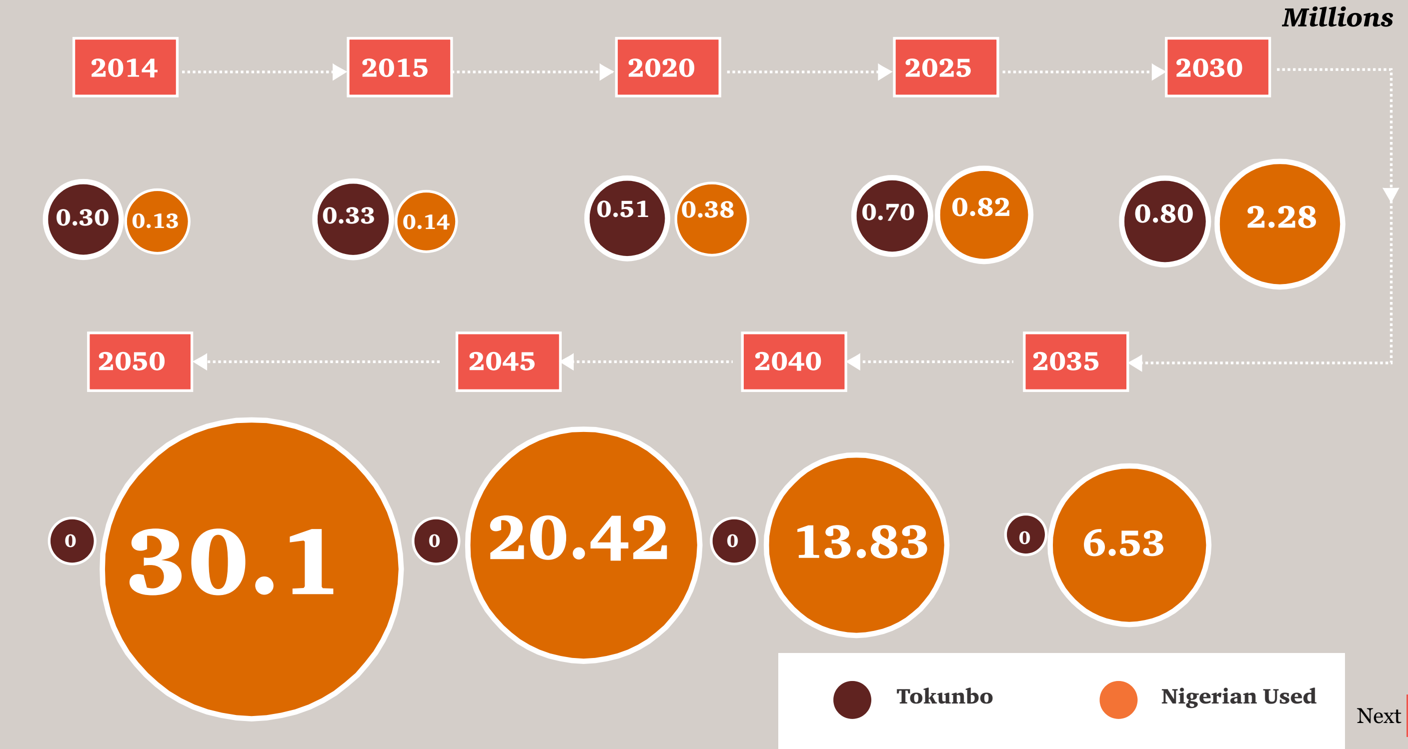
Increased output in other manufacturing sectors and key auxiliary industries such as solid minerals and rubber industry will boost confidence of OEM brands to begin actual manufacturing. We project manufacturing to begin in 2023 and by 2030 account for 33% of new vehicle sales.

As CKD production and eventually manufacturing begins, the customer preference for foreign used imports will gradually reduce. Losing their competitive advantage of being more affordable, customers will gradually shift their preference to locally assembled cars and internally generated used cars. Foreign used cars' 70% market share will steadily drop to 35% by 2028 and die out by 2034.

New Car Sales Projection Breakdown



Used Car Sales Projection Breakdown



Introducing Our Scenarios

Scenario 2
Medium Growth

- Real GDP growth is 6.6% till 2020, 5.1% till 2030 and 5.4% till 2050 making it among the 10 largest economies by 2050
- Partial implementation of the National Automotive Industrial Development Plan (NAIDP) by subsequent administrations
- Moderate government support

CKD Production Begins	Manufacturing Begins	Tokunbo Phased Out	SKD Phased Out
2019	2025	2040	2041

Although Nigeria experiences the same GDP growth described in Scenario 1, moderate government support will result in milestones achieved in Scenario 1 shift forward.

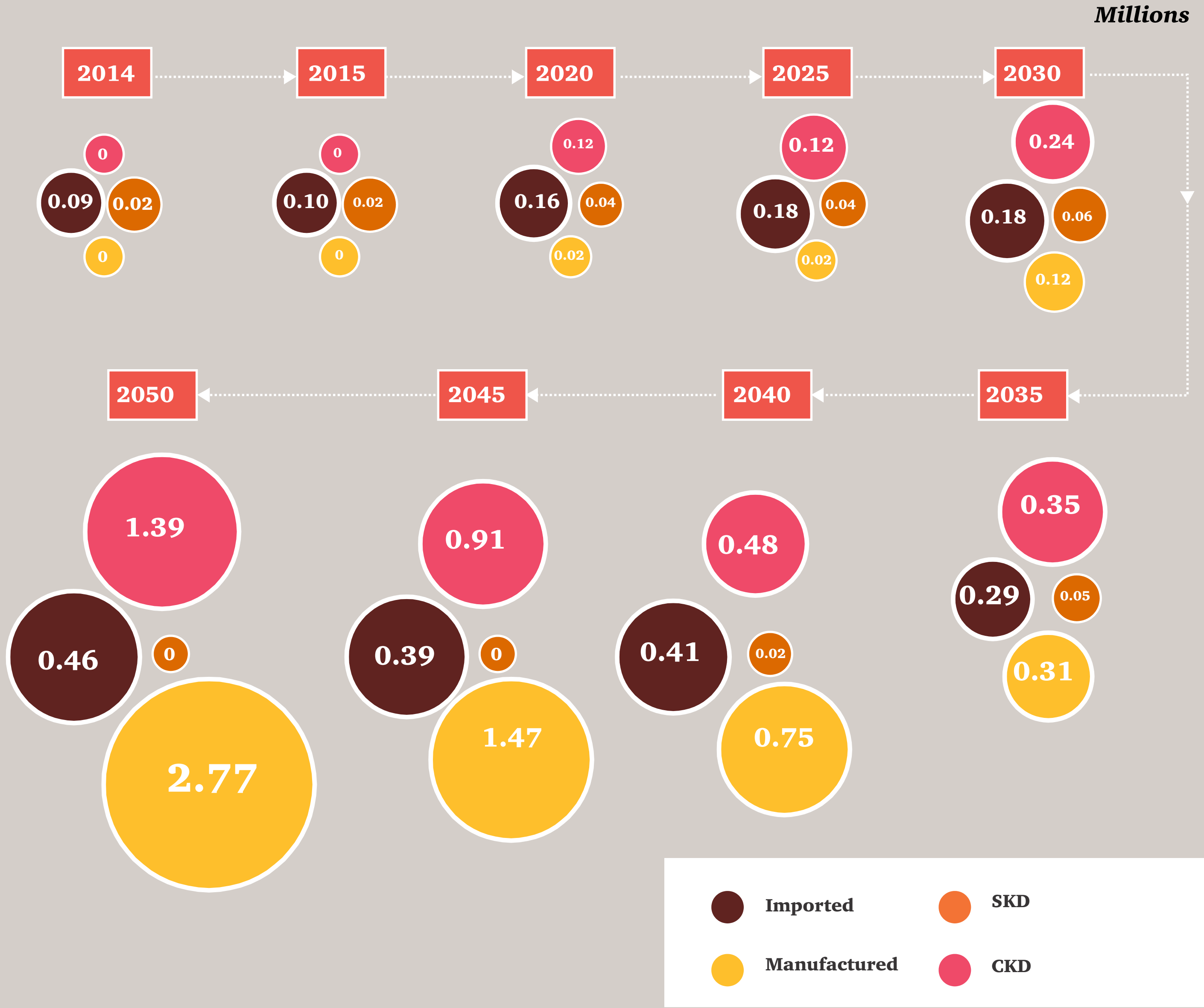
Government maintains the tariff rates from the auto policy but does not properly implement it, thereby extending the timelines. The ratio of 1 SKD/CKD: 1 FBU takes effect in 2018 and 2 SKD/CKD: 1 FBU from 2024.

Extended timelines reduce the pressure felt by OEMs to make more direct investment into the industry. OEMs will prefer to continue producing at SKD and CKD levels.

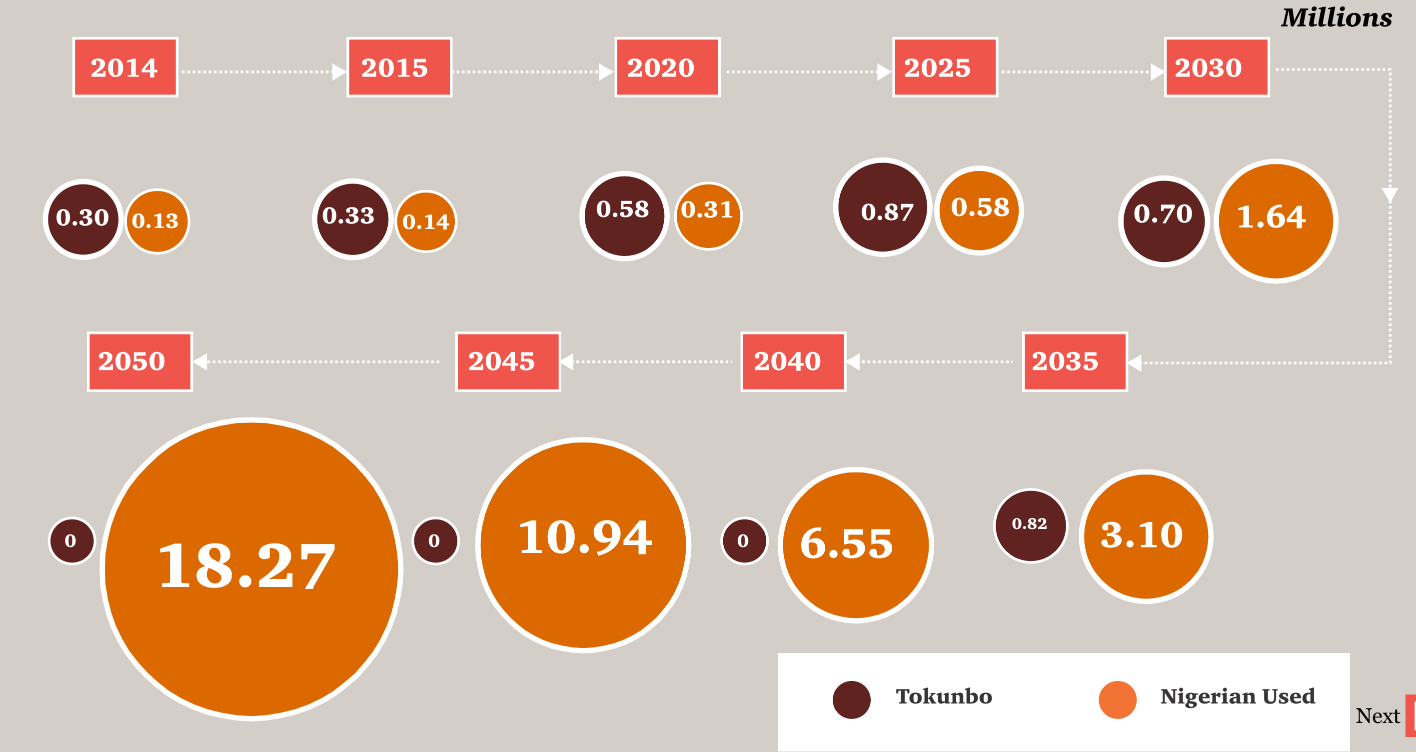
Although other manufacturing sectors experience increased output and growth, actual auto manufacturing only begins in 2025. New vehicle sales from truly made in Nigeria cars do not hit double figures until 2028.

Consequently, Tokunbo continues to dominate the used car market till 2025, the year manufacturing begins and is phased out by 2040 which is six years later than in Scenario 1.

New Car Sales Projection Breakdown



Used Car Sales Projection Breakdown



Introducing Our Scenarios

Scenario 3
Slow Growth

- Real GDP growth is 5.6% till 2020, 4.1% till 2030 and 4.4% till 2050
- Inconsistency in government auto policy results in stagnation of the industry
- Minimal government support

CKD Production Begins *2024*

Manufacturing Begins *2030*

Tokunbo Phased Out *2044*

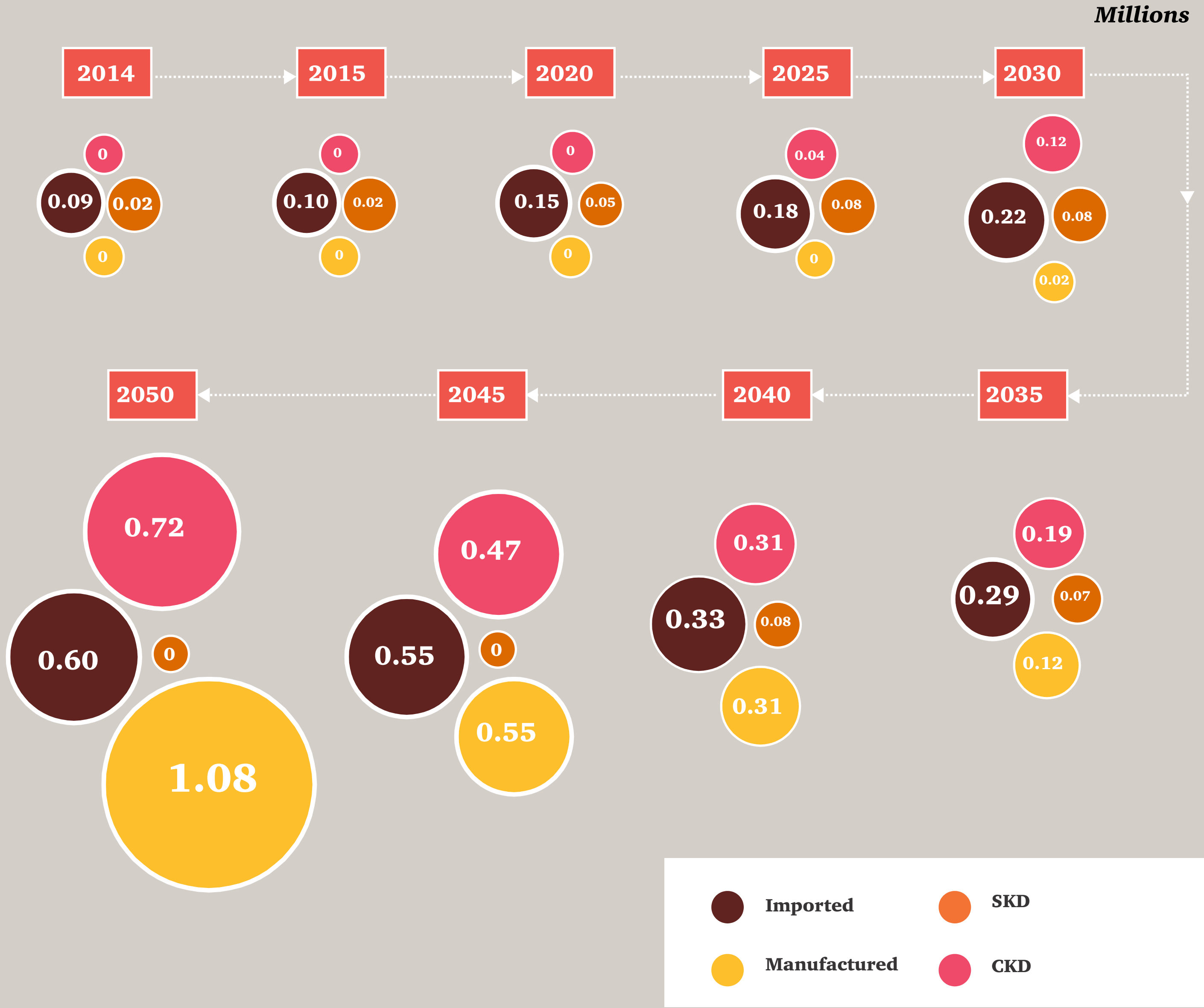
SKD Phased Out *2045*

We assume that real GDP grows at a slower rate than in previous scenarios; 5.6% till 2020 and averages 4.25% till 2050 directly impacting growth in the auto industry. The total number of cars on the roads by 2050 is 27 million, about half the number in Scenario 2.

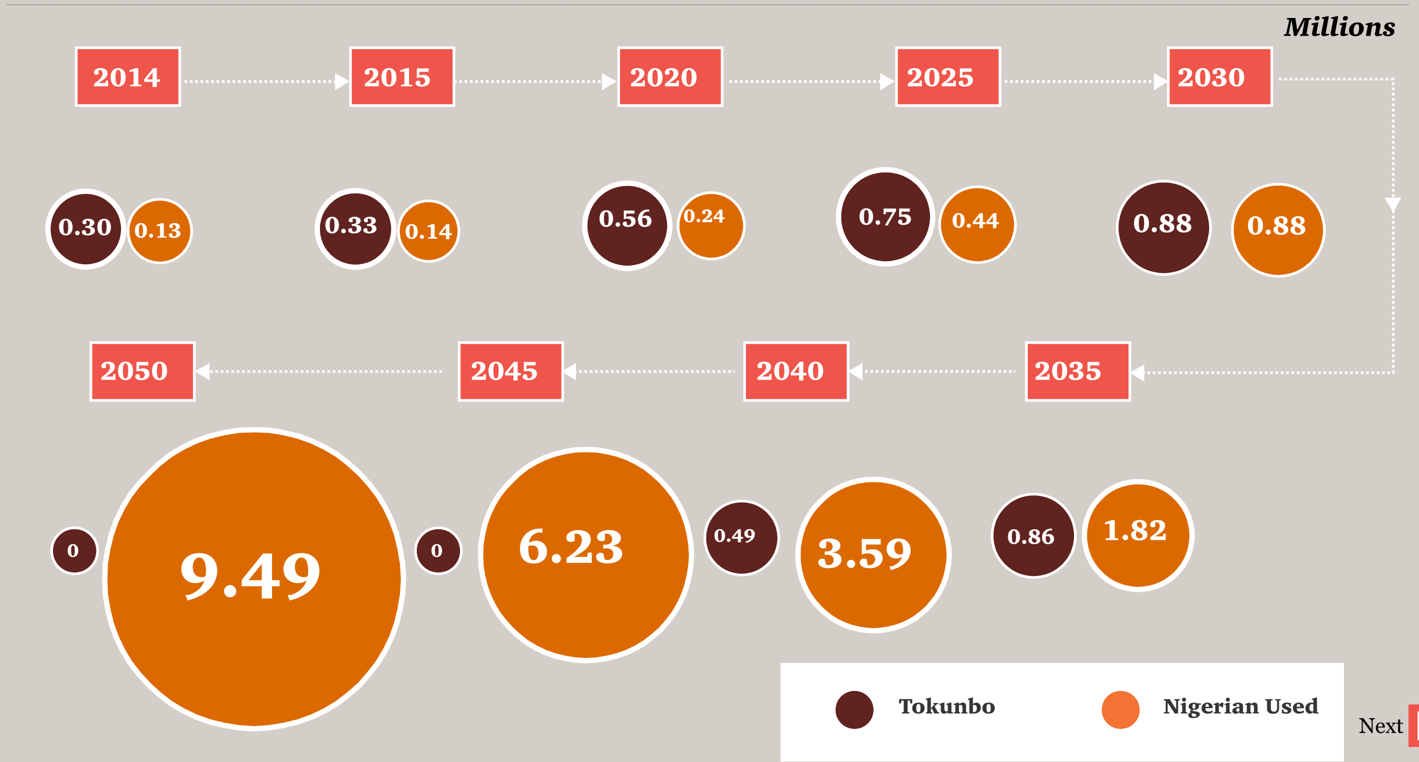
There is inconsistency in the implementation of tariff policy, therefore no incentives for OEMs to assemble locally as quickly as in the other scenarios. The inconsistency results from some government administration abandoning the policy and then picked up by a different administration. This results in the import ratio of 1 SKD/CKD: 1 FBU taking effect in 2025 and 2 SKD/CKD: 1 FBU in 2030.

The market continues to be import driven as over 60% of new vehicles sales are imported by 2025. This was not the case in the previous scenarios, as manufacturing and CKD production had commenced. Confidence in Nigerian cars is low, with Tokunbo preferred by customers and it only gets phased out in 2044.

New Car Sales Projection Breakdown



Used Car Sales Projection Breakdown



What needs to happen?

In order for Nigeria to fully accomplish its potential of becoming Africa's automotive hub the following key areas have to be addressed. The government through the NADDC has realised the importance of these areas and included plans to address them in the auto policy.

Improve the chances of owning a car

Available vehicle financing options is very important to encourage patronage of locally assembled cars. Research indicates that 63% of Nigerians cannot afford to own a car without some form of support. Unfortunately, consumer lending in the country is low and heavily reliant on consumer's employment status and current earnings. Therefore, banks and other financial institutions need to play a more active part in providing finance and improving the demand for locally assembled cars.

Tighten the borders

Nigeria's borders are porous and known to be loosely patrolled. Cars are the most smuggled goods after food (and particularly rice), between the Lagos and Seme border. Grey market imports are thought to account for half of new vehicle sales in the country. Imports through the grey market are done to reduce or avoid duty payments by declaring false information. Grey market cars tend to be cheaper and will compete against locally assembled cars on price.
Unchecked smuggling activities could frustrate OEMs assembling locally and slowly wipe out any progress gained in the industry.

Protecting the drivers

With OEMs setting up operations in the country, it is imperative that similar quality control attained in other developed markets is adhered to locally. The perception of lower quality control could reduce consumer confidence in Nigerian cars. Respective agencies must ensure that vehicle safety standards are maintained by OEMs and their suppliers. NADDC is collaborating with the Standards Organisation of Nigeria to develop 106 vehicle safety standards, as well as setting up automotive component test centers scheduled for completion in 2015.

Setting up auxiliary industries

The growth of companies with products and services supporting auto assembly will improve the country's chances of becoming an automotive hub and provide more economic activity. Progression from basic SKD assembly to CKD or manufacturing is highly dependent on growth of auxiliary industries and supporting infrastructure such as electricity. Therefore, building the capacity for components such as batteries, belts, lights and tyres is key for the success of new auto policy.

Building Human Capital

It is essential Nigeria is able to provide the manpower needed to fill operational roles which require indepth technical expertise.NADDC is looking to work with pioneer OEM investors to fill skills gaps in auto operations, by ensuring all lower skilled and mid-skilled roles are immediately filled by Nigerians. The body plans to drive local content within the industry, set-up skill acquisition centres and make inputs into the cirrculum for engineering in tertiary institutions. For the country to truly fulfil its potential of becoming a hub there is an urgent need to develop and build local technical expertise in the auto industry.

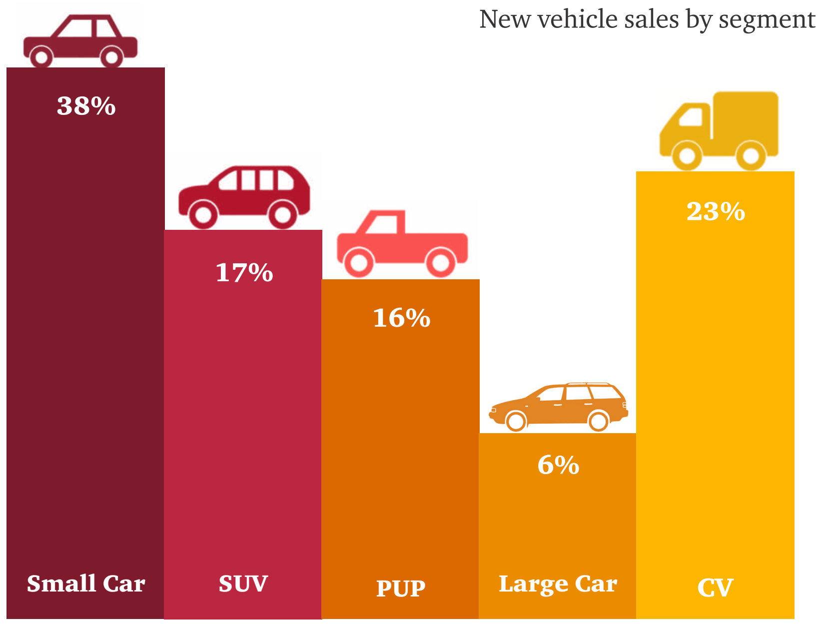
Prospective buyers of motor vehicles assembled in Nigeria would now have financial backing from WesBank, a division of FirstRand Bank Limited of South Africa.

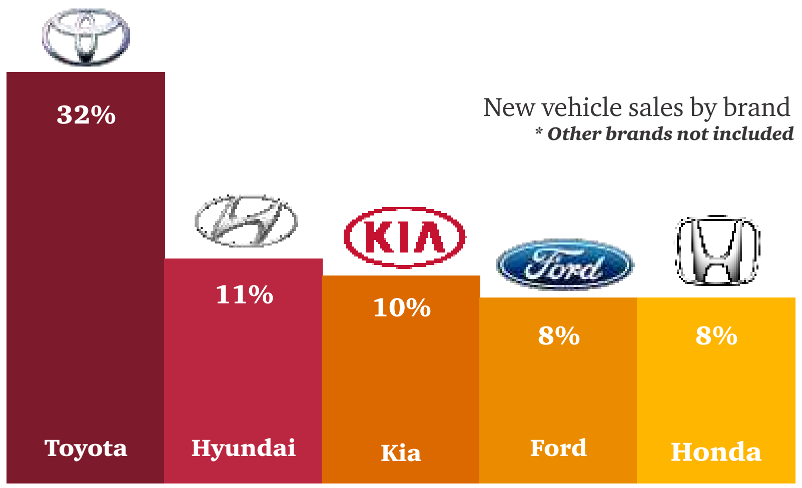
This stems from a Memorandum of Understanding (MoU) Wesbank recently signed with the National Automotive Council (NAC) of Nigeria, to offer vehicle finance to retail and corporate purchasers. The agreement aims to stimulate the sale of locally assembled vehicles in Nigeria.

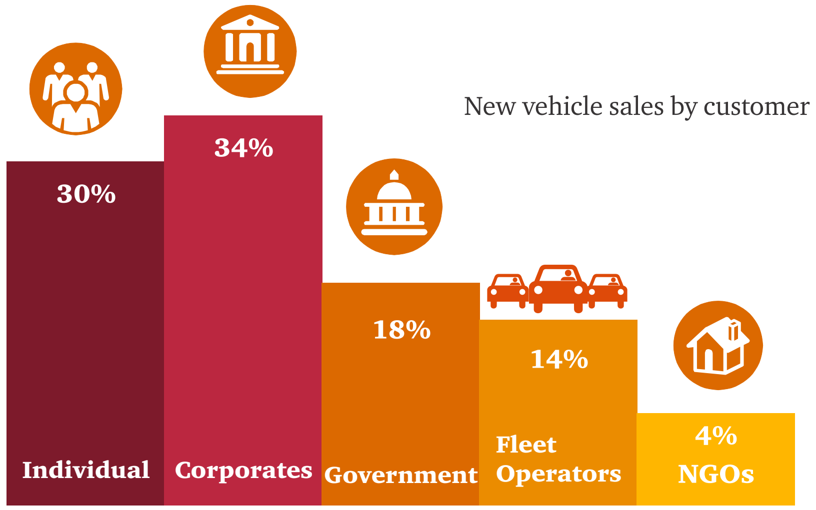
The Current Situation

The Nigeria New Vehicle Market
New Vehicles: Main Statistics

The Nigerian market is dominated by small cars and CVs with a combined 61% market share



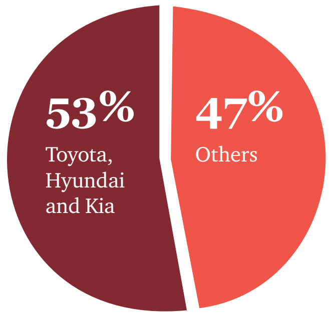




Source: PwC Analysis, Expert interviews, MINACs data, BMI Nigeria Automotive report Q1 2015

The Nigeria New Vehicle Market

An analysis by brand shows that the dominant brands are Toyota, Hyundai and Kia making up over 53% of new vehicle sales.



Market Characteristics

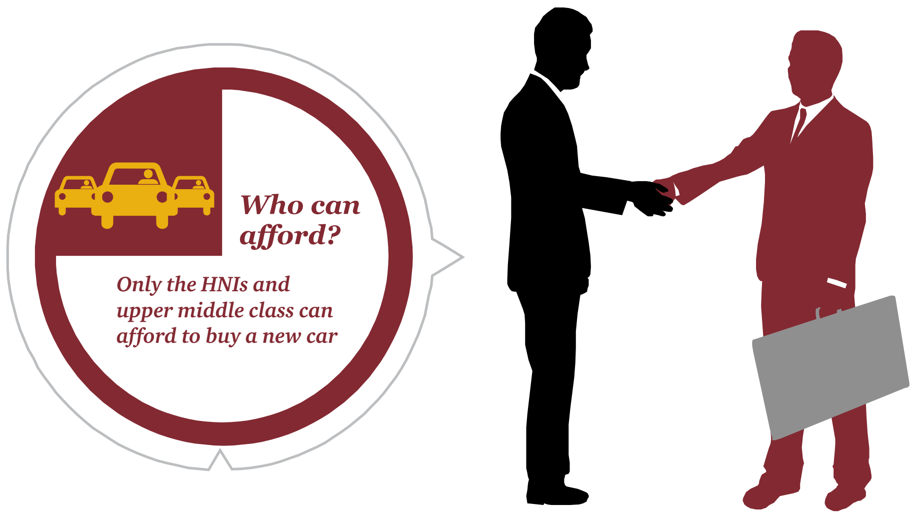
Our findings show that an estimated 56,000 new vehicles were sold in 2014 resulting in a 50 percent increase from 37,000 reportedly sold in 2010. The new vehicle market is dominated by passenger cars which represent 38% of sales while commercial vehicles (CVs) and SUVs had 23% and 17% market share respectively. An analysis by brand shows that the dominant brands are Toyota, Hyundai and Kia making up over 53% of new vehicle sales.

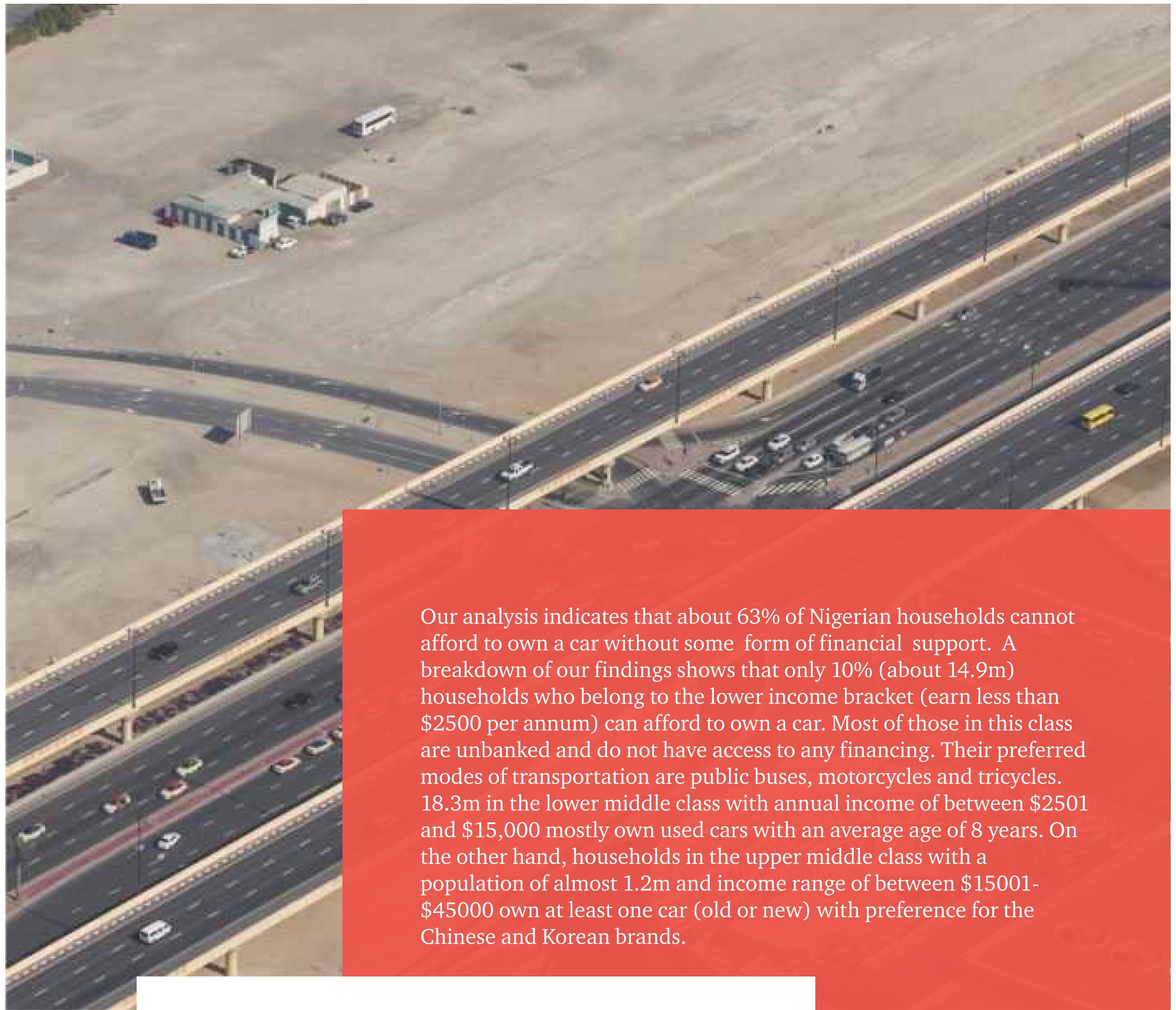
Toyota's models are among the top three bestselling cars in the country. The best of the lot is the Corolla, a choice car for corporate organisation who use it as status cars for middle management or as pool cars and also for upper middle income earners. The Hilux, which is popular among government agencies and construction companies is second, while the Hiace, which is usually bought by as staff bus, school bus, and by the government was third in terms of number of units sold.

Customer segments

The two broad customer segments are retail and fleet. Only 30% of new vehicles were sold to retail customers, with the larger proportion (70%) attributed to fleet customers. Fleet customers such as corporates, government, fleet operators, etc. are the main drivers of new car sales.

Affordability of cars vis-a-vis the annual income earnings of individuals is a critical factor affecting ownership of new cars among retail customers in Nigeria. Lack of financing options is the major obstacle to Nigerians owning new cars. In a survey carried out by PwC 81% of the respondents could not afford a car but, 46% stated availability of financial support would encourage them to get a car.





Our analysis indicates that about 63% of Nigerian households cannot afford to own a car without some form of financial support. A breakdown of our findings shows that only 10% (about 14.9m) households who belong to the lower income bracket (earn less than $2500 per annum) can afford to own a car. Most of those in this class are unbanked and do not have access to any financing. Their preferred modes of transportation are public buses, motorcycles and tricycles. 18.3m in the lower middle class with annual income of between $2501 and $15,000 mostly own used cars with an average age of 8 years. On the other hand, households in the upper middle class with a population of almost 1.2m and income range of between $15001-$45000 own at least one car (old or new) with preference for the Chinese and Korean brands.

Value Chain

How do the cars come in?

With little production taking place, majority of new cars are imported by a range of players. Nigeria has a multi layered distribution network including OEM distributors, appointed dealers, independent dealers and sub-dealers. OEM distributors sometimes double as Independent dealers and Sub-dealers. The implication is that the Nigerian customer can purchase a car from many sources.

Nigeria has a multi-layered distribution network with OEM appointed dealers sometimes doubling up as independent dealers

The new car distribution market is controlled largely by 3 companies viz Toyota Nigeria Limited (TNL), Coscharis Group (CG) and Stallion Group (SG).

Half of new cars sold come in through Independent dealers that source the vehicles directly from OEM dealers in South Africa, Dubai, America etc. The other half take a more complex route with many layers of dealers and sub dealers. Popular OEMs usually have a distributor(s) that might use other appointed dealerships to sell its brand. For example, Toyota cars are distributed by Toyota Nigeria Limited through eight appointed dealers while, Hyundai cars are solely distributed by Stallion Group through Hyundai Nigeria Ltd.
Sub-dealers source vehicles from OEM appointed dealers which account for 10% of cars that get to the end user.
Dealers appointed by OEM distributors account for 40% of new cars that get to the end users. Distributors sell directly to customers and this accounts for 10% of purchases from this source.
Some OEM appointed dealers bring in models and variants not supported by their OEM(s) thereby creating a grey market. For example, Toyota models such as Tundra, Highlander, Sienna, Avalon and Venza are not supported by Toyota Nigeria Limited (TNL) for the Nigeria Market but are often imported by dealers. Likewise, American specs with added features and functionalities not designed for Nigerian roads are also imported by Toyota dealers without approval from Toyota Nigeria Limited.

OEM Distributor
These are major companies that act as local representatives of OEMs. They have distributorship rights and are supported by the OEMs including but not limited to original parts, technical knowledge etc

Appointed Dealership
These are dealerships authorised by OEM distributors to sell their respective OEM brand(s).

Sub Dealer
These are smaller dealerships that source from appointed dealerships not from OEM representatives.

Independent Dealer
These are businesses that bypass local OEM representatives and source from foreign channels.

How are they sold?
The new car distribution market is controlled largely by three companies viz Toyota Nigeria Limited (TNL), Coscharis Group (CG) and Stallion Group (SG). TNL leads the pack despite having only two brands (Toyota and Lexus) in its portfolio. CG distributes Ford, Jaguar, Land Rover, Mercedes, BMW, Rolls Royce and MG brands. SG is the key distributor of eight brands ranging from Hyundai, SsangYong, Audi and Volkswagen to Nissan, Honda, Porsche and Skoda.
Other multi brand distributors include Globe motors, CFAO, West Star, RT Briscoe, Kewalaram and Dana Group.

OEM Distributor

These are major companies that act as local representatives of OEMs. They have distributorship rights and are supported by the OEMs including but not limited to original parts, technical knowledge, etc.

These companies can either operate with their names or form partnerships with the OEMs to operate with the brand name. E.g. Toyota is distributed by Toyota Nigeria Limited (TNL), Ford by Coscharis and RT Briscoe.

Appointed Dealership

These are dealerships authorised by OEM distributors to sell their respective OEM brand(s). Such dealerships are offered support by the local OEM distributors. E.g.TNL distributes its cars through eight dealerships while Coscharis directly distributes its cars acting as its own appointed dealer.

Sub Dealer

These are smaller dealerships that source from appointed dealerships not from OEM representatives.

Independent Dealer

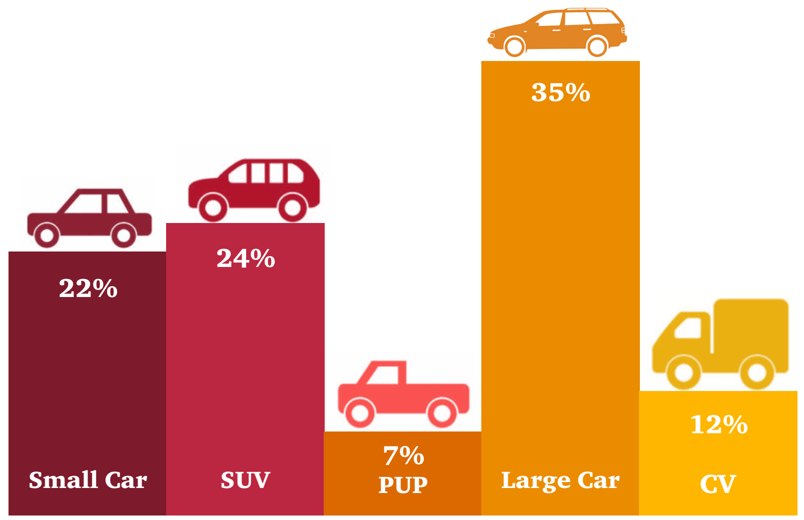
These are businesses that bypass local OEM representatives and source from foreign channels, i.e. dealerships in Dubai, America, etc. They do not have the OEMs backing and as a result sell variants/models not authorised by the OEM for the region.

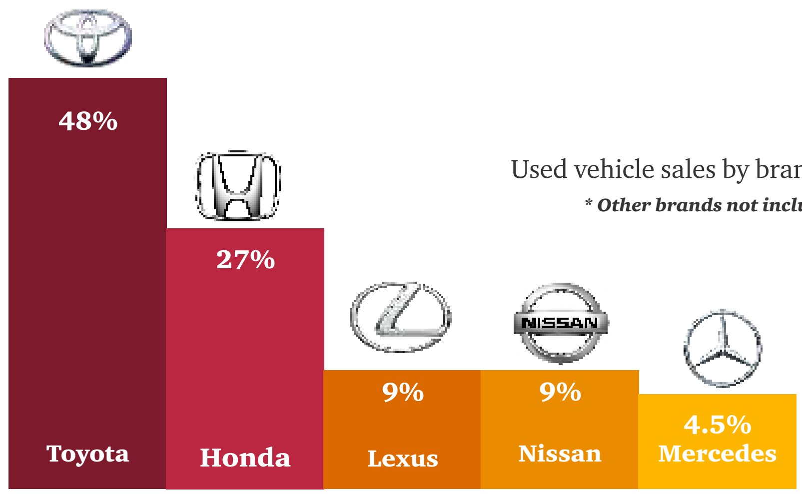
The Nigeria Used Vehicle Market

Used Vehicles: Main Statistics

Less than 2% of used cars are sold through Certified Pre-Owned programmes

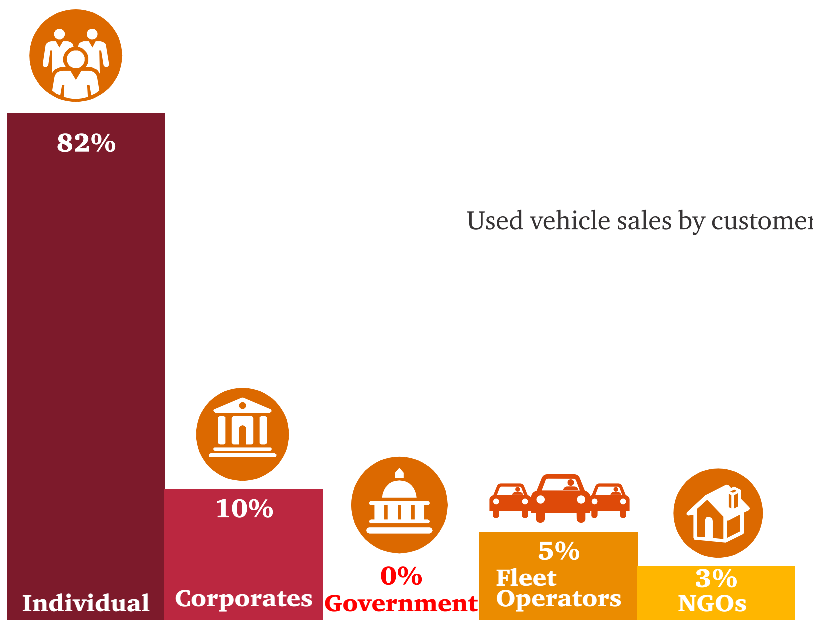
Used vehicle sales by segment





Used vehicle sales by brand

*** Other brands not included***



Used vehicle sales by customers

Source: PwC Analysis, Expert interviews, MINACs data, BMI Nigeria Automotive report Q1 2015

The Nigeria Used Vehicle Market

Market Characteristics

Nigeria is largely a used car market with a ratio of new to used cars at about 1:134. PwC estimated that In 2014, 410,000 cars were imported into the country, about 74% were used cars. An analysis of the age of these cars show that 10% are less than three years old with about 63% over 11 years which places Nigeria in the unenviable position of being an attractive disposal site for old cars.

Used cars are identified under two broad categories in Nigeria:

1. Foreign Used known in popular parlance as "Tokunbo"
2. Nigerian Used

Tokunbo cars make up about 70% of used cars sold in Nigeria. They are imported into the country from the United States, United Kingdom, Germany, or through Cotonou in neighbouring Benin Republic by used car dealers but also by independent sales men and individual buyers. Tokunbo cars are not registered in the country, require very minimal amount of body work if any because they are usually in good condition, have traceable service history and are generally of high resale value.

Nigerian used cars on the other hand have been used in Nigeria and resold. They are usually already locally registered, may require significant level of body work and other repairs depending on the former users' maintenance habits, rarely have any service history and generally have lower resale value. Toyota and Honda dominate the used car market as they satisfy the criteria of price, durability and resale value. Hyundai and Kia are not popular brands in the used market segment because of very low demand for them given a general perception that they lack second hand value. In terms of models, the most popular used cars are listed below. (Note the nickname some of them are known by).

Honda Accord 2004-2006 (End of Discussion or EoD)	Honda Accord 2007 - 2012 (Evil spirit)	Toyota Camry 2007 – 2012 (Muscle)	Toyota Camry 1999-2001 (Pencil light)	Toyota Corolla 2003 – 2006	Toyota RAV4 2002	Volkswagen Golf 1999-2005

Major factors that affect the used car market include local regulations such as tariffs on importation, currency devaluation and reduction in fuel prices. Recent regulatory provision that places 70% tariff on fully built cars and used vehicles (FBUs) and 20% tariff on completely knocked down units (CKDs) is likely going to result in a drop in import volumes of used cars, increase price which will reduce demand and ultimately lead to a shift in focus to local production. Likewise, the devaluation of the Naira will increase prices and reduce demand while the drop in fuel pump price due to fall in global crude oil prices will leave the people with more disposable income which they might consider using to buy used cars.

Customer segments

Individuals are the main drivers of Nigeria's used car market, purchasing ~80-90% of all used cars. A few small corporates and companies using vehicles for commercial purposes e.g. transport, may purchase used cars but only account for 10-20% of the market as companies usually prefer to buy new cars.

Among the most popular models of used cars, the Honda Accord (2004-2006) is popular among first time car owners and young professionals most of whom are in the middle income class. Also popular among this group is the Toyota RAV4 (2002) and the Toyota Corrolla (2003-2006). The Toyota Camry (1999-2001) is mostly used for private and fleet cab business by low income earners who also have a remarkable liking for the Volkswagen Golf (1999-2005). The mass affluent are more likely to go for the Honda Accord (2007-2012) as an alternative to buying a new executive car. The Toyota Camry (2007-2012) is also popular among this class for the same reason.

Value Chain

How do they come in?

Unlike new cars, used car dealers have no affiliations to OEMs. Indeed, the used car market is highly unstructured with relatively limited certified programme offerings. The major sources of Tokunbo used cars are countries in Europe and North America as well as Cotonou in Benin Republic and Lome in Togo.

The seaports and land borders are the two main routes of entry for used cars. Logistics providers agree business terms with shipping companies e.g. FiveStar, to transport cars into the country. Upon entry, licensed custom agents (clearing and forwarding) sort out custom duties and procedures. Then, the car is claimed or delivered to the owner which could be any of an authorised dealer, a stand alone used car dealer, independent sales man or an end user. Some others, mostly salvage or accidented vehicles pass through auto mechanic shops for repairs before sale.

How are they sold?

Used car sales are concentrated in five key hotspots with 60% of sales happening in Lagos. This is not surprising given that the state is the commercial nerve center of the country, and the main entry point both through land and sea for used cars and is home to a large population of affluent and upper income earners which gives it the highest income per capita in the country.

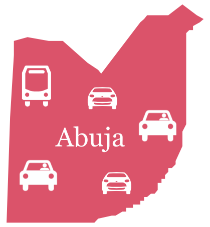
Other used car sale hubs are Kano, the largest commercial centre in Northern Nigeria with a concentration of high income earners; Kaduna, a major cosmopolitan city in Northern Nigeria which also houses an assembly plant; Abuja, the seat of government with concentration of government and middle income buyers and finally; Port Harcourt, the capital of Rivers State with a large number of multinational firms as well as other industrial concerns and one of the wealthiest states in terms of gross domestic product and foreign exchange revenue from the oil industry.

Used Car Hotspots

- Kano is the largest commercial center in Northern Nigeria
- Major used car hotspot includes IBB Way

- Rivers State has a large number of multinational firms, industrial concerns and one of the wealthiest state in terms of GDP and foreign exchange revenue from the oil industry
- Major used car hotspots are Aba road, Oginigba road

- Major cosmopolitan city in Northern Nigeria
- Major used car hotspots are Ungwan-Rimi, Independence Road, Wharf Road



- Abuja, the seat of government with concentration of government and middle income buyers
- Major used car hotspots are Kubwa, Nyanya, Garki

- Lagos accounts for 60% of used car sales in the country
- Major used car hotspots are Berger, Ikorodu Road, Lekki – Epe Expressway

OEM Distributors/Appointed Dealers

These dealers are typically large and have official affiliations with OEMs. Their core business is new cars with a division offering Nigerian used cars with dealer's stamp of approval i.e. a CPO (Certified Pre-Owned) programme. This a fairly new concept in the Nigerian market.

Standalone Dealers

These dealers typically sell used cars in good condition, which are purchased at auctions or used car dealerships in North America and Europe. They have no official affiliation to any OEM.

Independent Salesmen

These are traders with low capital who do not own dealerships but sell from private residences, major highways or mechanic workshops.

Peer to Peer

This segment provides platforms for individuals, private sellers and dealers to advertise used cars for sale. Online channels becoming increasingly significant.

Sales are through an unstructured network of players involving independent salesmen, stand alone dealers and peer to peer sales. A small portion of used cars are sold by some OEM distributors through certified used car programmes. These programmes are new and not as popular as the unstructured network.

Vehicle Manufacturing and Assembling in Nigeria

Tata Motors, India's largest commercial automobile company, has joined other Original Equipment Manufacturers (OEMs) with an interest in setting up automotive assembly plant in Nigeria.

Business Day Newspaper
9 September 2015

Import Vs Assembly

Nigeria's automotive assembly is still in its infancy. In 2014, local assembly accounted for approximated 15% of total vehicle sales. The only type of manufacturing currently being carried out in-country is Semi Knocked Down (SKD) and this is led by three companies: VON Automobile, Peugeot Nigeria and Innoson motors. However, several other industry players have announced plans, following the announcement of the new automotive policy to commence assembly in the country. Currently more than 30 companies have received licenses to assemble cars in Nigeria.

Assembly Clusters

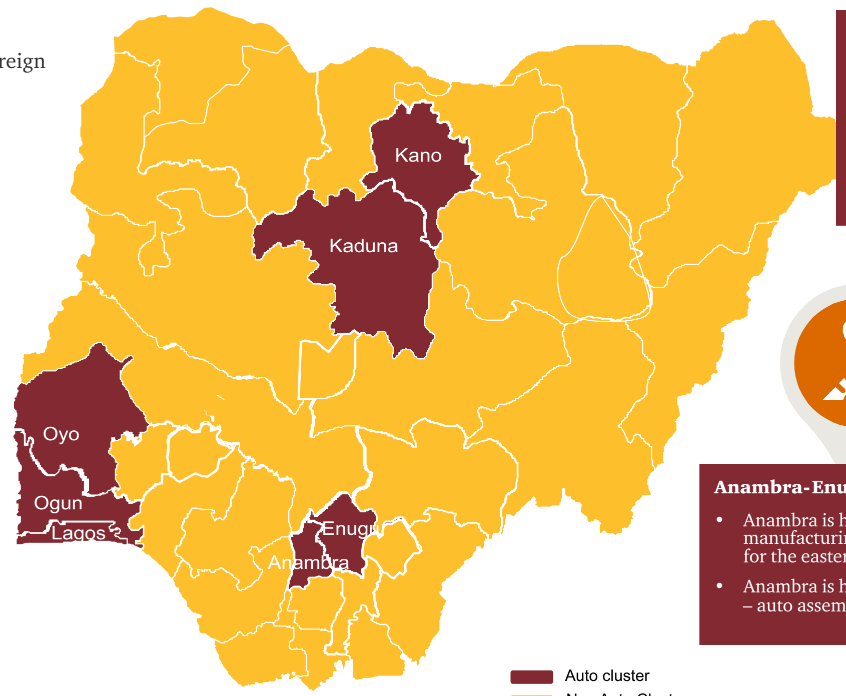
There are three vehicle assembly clusters in Nigeria formed around the three companies mentioned previously.

1. Lagos (South West) with VON Automobile which assembles Kia, Hyundai and Nissan.
2. Anambra State (South East) with Innoson Motors. It assembles Innoson vehicle brands, which are mainly commercial vehicles but more recently SUVs.
3. Kaduna State (North West) with Peugeot Nigeria, which assembles various models of Peugeot.

Three auto clusters, with existing auto assembly plants, have been identified in line with the NAIDP policy

Nigeria - Auto Manufacturing Cluster

Outside of these clusters, OEMs have the option of assembling in the country's Free Trade Zones (FTZ), which offer several incentives including tax and custom duty exemptions, free land rent for construction, and up to 100% foreign ownership of the business.



Kaduna-Kano Cluster

- Currently volatile due to the activities of terrorist groups
- Kaduna is home to one of the auto assembly plants - PAN

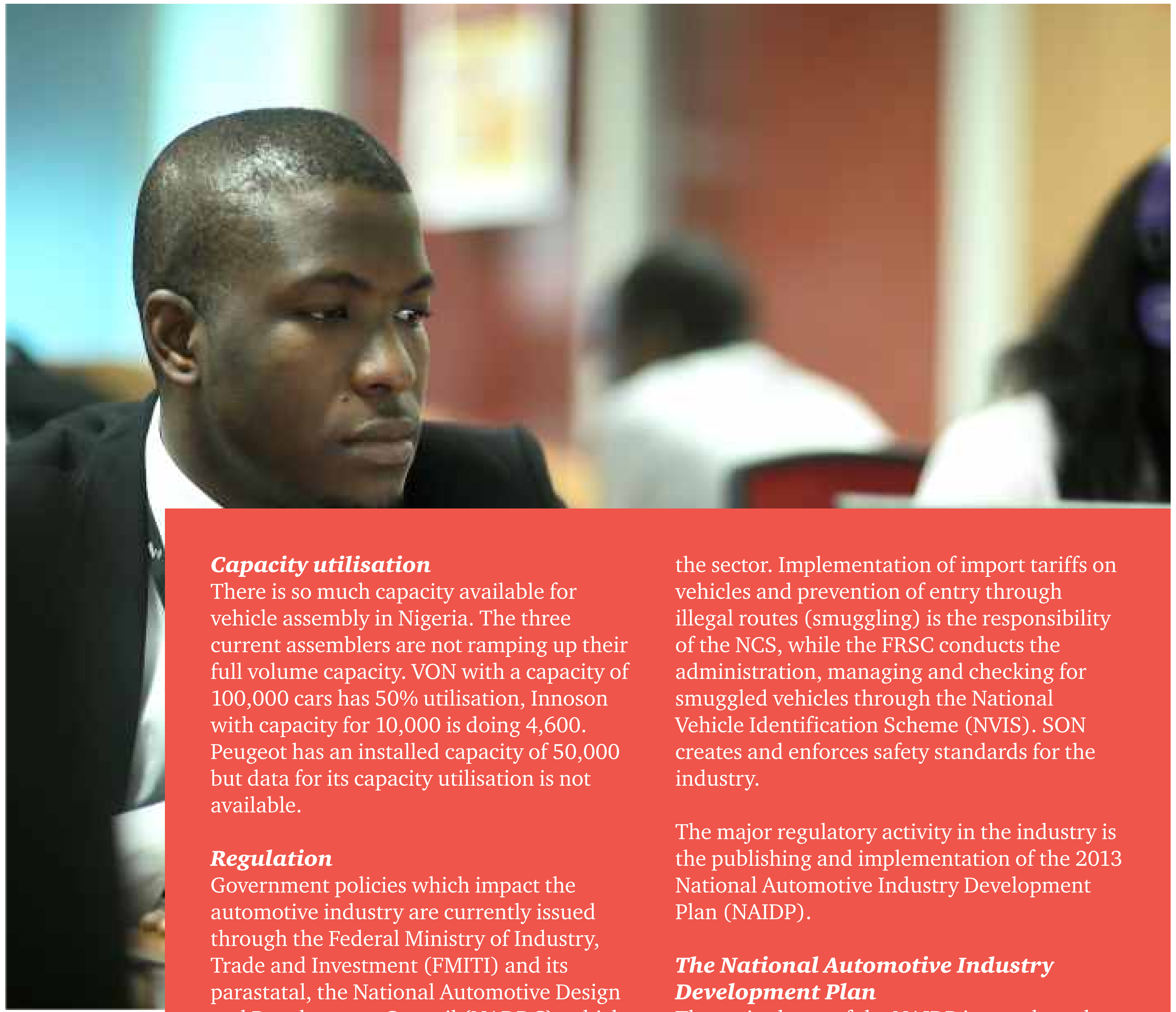
Anambra-Enugu Cluster

- Anambra is home to auto parts manufacturing and parts sales for the eastern region
- Anambra is home to Innoson – auto assembly plant

Lagos-Ogun-Oyo Cluster

- Lagos has two major sea ports and largest car market
- Home to VON – auto assembly plant, owned by Stallion

Source: NAC, PwC Analysis, Interviews



Capacity utilisation

There is so much capacity available for vehicle assembly in Nigeria. The three current assemblers are not ramping up their full volume capacity. VON with a capacity of 100,000 cars has 50% utilisation, Innoson with capacity for 10,000 is doing 4,600. Peugeot has an installed capacity of 50,000 but data for its capacity utilisation is not available.

Regulation

Government policies which impact the automotive industry are currently issued through the Federal Ministry of Industry, Trade and Investment (FMITI) and its parastatal, the National Automotive Design and Development Council (NADDC), which are the main regulators for the auto industry. Other agencies with regulatory oversight that affect the industry are the Nigeria Custom Service (NCS), the Federal Road Safety Corp (FRSC) and the Standards Organisation of Nigeria (SON).

The FMITI is responsible for the formulation of policies and providing general oversight for the industry. NADDC on the other hand is directly responsible for coordinating and monitoring activities in the sector. Implementation of import tariffs on vehicles and prevention of entry through illegal routes (smuggling) is the responsibility of the NCS, while the FRSC conducts the administration, managing and checking for smuggled vehicles through the National Vehicle Identification Scheme (NVIS). SON creates and enforces safety standards for the industry.

The major regulatory activity in the industry is the publishing and implementation of the 2013 National Automotive Industry Development Plan (NAIDP).

The National Automotive Industry Development Plan

The main thrust of the NAIDP is to reduce the country's dependence on imports and stimulate investment in local vehicle production. The government hopes this will help in conserving foreign exchange, create jobs for its teeming youths and also lead to the acquisition of technological know-how.

The plan is a 10-year strategic framework (started in June 2014) that focuses on five key elements: infrastructure, market growth, standards, investment promotion and skills development.

Impact of NAIDP on the Nigerian Automotive Industry

In the short term post policy announcement, the prices of new vehicles have been rising. A report by Punch Newspaper on 11 June 2015, indicated about 20% increase in the prices of new cars, a situation made worse by the devaluation of the Naira against the US Dollar.

Highlighted below are key provisions of the policy.

Objectives, scope and timeframe

What the policy says

The objective of the NAIDP is to curtail Nigeria's dependence on imports by meeting demand with domestic production.

As at September 2015, the NADDC listed 35 companies that have been granted licenses to assemble vehicles covering over 40 brands.

Local manpower development

What the policy says

The NADDC seeks to ensure majority of low-skilled and mid-skilled positions are filled by Nigerians while promoting filling of high-skilled positions by Nigerians in the next four to six years.

Plans to establish auto training centres, as well as partnering with the Nigerian Universities Commission (NUC) to develop curricula for a degree in Automotive Engineering which is to be offered by three universities in addition to the four offering the degree

Standards

What the policy says

NADDC is collaborating with SON to develop 106 vehicle safety standards, as well as setting up automotive component test centres for locally assembled and imported vehicles.

Tariff Incentives

What the policy says

Tariff on CKD, SKD I and SKD II for local assemblers will be 0%, 5% and 10% respectively

Tariff on imported FBU passenger and commercial vehicles is 70% and 35% respectively for 2015, declining to 55% after 2015.

Local assembly attracts a 35% and 20% import tariff on FBU for passenger cars and commercial vehicles respectively. Timelines are as follows:
2014-2015- 1SKD/CKD: 2FBU
2016-2018- 1SKD/CKD: 1FBU
2019-2024- 2SKD/CKD: 1FBU

Demand and auto-financing options

What the policy says

Demand for new vehicles is to be supported through establishment of automotive supplier parks, vehicle financing scheme and a credit guarantee scheme funded mainly through the increased tariffs on FBUs.

Other administrative structure

What the policy says

All vehicles imported and made in Nigeria will be hosted by the NADDC electronic platform to monitor and control all smuggling activities in the Nigerian car market.

Outlook, Challenges and Opportunities

Outlook, Challenges and Opportunities

Beyond assembling, the industry presents other opportunities

The global automotive industry is looking for new growth opportunities and those opportunities reside in Africa. Nigeria, the continent's largest economy and by far the most populated presents huge opportunities for investors in the automotive space. The new auto industry plan which raises import duties on imported cars makes the used car market less attractive. While this encourages the setting up of assembly plants in the country to serve the domestic market, the country may also become a regional hub for West Africa.

Beyond assembling, the industry presents other opportunities. There are existing gaps in the repair and servicing aspects of the industry which will become even more obvious with increased local manufacturing. Plugging this gap will require capacity building, training of skilled labour and adequate supply of spare parts. Other business opportunities which the industry brings include the supply of equipment to domestic assemblers, supply of components and the setting up of local component manufacturing plants. The vehicle distribution system and how vehicles get to the market also need to be restructured and therein lies opportunities for many players. Getting Nigerians to patronise *Made in Nigeria* cars, requires auto financing options to be readily available with terms that are convenient and favourable to people of all income classes.

In addition as more corporates shift towards vehicle leasing and fleet outsourcing, a huge opportunity opens up the fleet and leasing business which promises very impressive returns.

It is important to note that investors in the Nigeria automotive market will be met with various challenges. Doing business in Nigeria can be difficult and expensive.

Infrastructure is not what it should be in the country. Power supply is abysmally poor. The assembly plants might have to generate their own power until the ongoing power reform roadmap of the government begins to yield higher megawatts coupled with efficient transmission capacity. Corruption and layers of administrative bottle necks can be frustrating and companies who are not resilient enough might be forced to leave altogether. Security is still a major concern especially in the Northern part of the country, so also is the lack of skilled manpower for the assembly plants and production lines. Companies must be prepared to invest in training of their manpower to reach their production capacities.

The challenges and uncertainties not withstanding, investors might wish to take note of the fact that this is a country of over 170million people which has been growing at almost 6% p.a over the last 5 years. This population currently buys around 56,000 new cars yearly but an increasing number who are young and upwardly mobile are joining the middle class with disposable income which they are willing to spend on good cars. Someone has to provide the mobility for these people by selling cars to them. Those who participate in this opportunity of solving this challenge either directly by making the cars or providing support in the value chain are certainly in for some good business.

PwC has in-depth knowledge about the auto-industry and market. Our dedicated team of industry specialists working alongside our strategy, operations and tax consultants, can help an organisation interested in entering the market prepare and execute a strategy for building competitive advantage around a changing economic and risk environment.

Glossary

BMI	Business Monitor International
CKD	Completely Knocked Down
CPO	Certified Pre- Owned
CV	Commercial Vehicles
FBU	Fully Built Unit
FMITI	Federal Ministry of Industry, Trade and Investment
FRSC	Federal Road Safety Corp
HNI	High Net Worth Individuals
KD	Knocked Down
MOU	Memorandum of Understanding
NAADC	National Automotive Design and Development Council
NAC	National Automotive Council
NAIDP	National Automotive Industry Development Plan
NCS	Nigeria Custom Service
NUC	National Universities Commission
NVIS	National Vehicle Identification Scheme
OEM	Original Equipment Manufacturer
SKD	Semi Knocked Down
SON	Standards Organization of Nigeria
SUV	Sport Utility Vehicle
TNL	Toyota Nigeria Limited
VON	Volkswagen of Nigeria
WHO	World Health Organization

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