One year after…

Africa's Next Automotive Hub

Reality Check

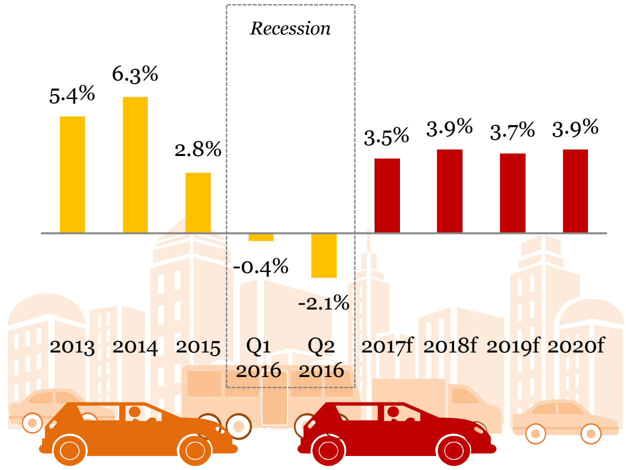
https://www.pwc.com/ng/en/publications/africas-next-automotive-hub.html

The Nigerian government introduced the Nigerian Automotive Industry Development Plan (NAIDP) in 2013 to revitalise the auto industry. Last year, the policy came into full effect. PwC developed scenarios to capture the potential effects of the policy and identified Nigeria as a future automotive hub driven by its large economy, population and government's intent to revive the industry. With the policy in active existence for over a year, we discuss the current situation in the industry.

The Economy

The current economic climate has been challenging for businesses as the decline in global oil prices (to $40 - $50/bbl.) and significant production shortages (from 2.2 mbpd in Q2 2015 to 1.4 mbpd in Q2 2016) has put immense pressure on government revenues and foreign reserves. Nigeria is officially in a recession following negative growth of -0.4% in Q1'2016 and -2.1% in Q2'2016. Consequently, the general and automotive manufacturing industry were worst hit with growth at -7% in Q1' 2016.

Nigeria's Annual Real GDP Growth (%)



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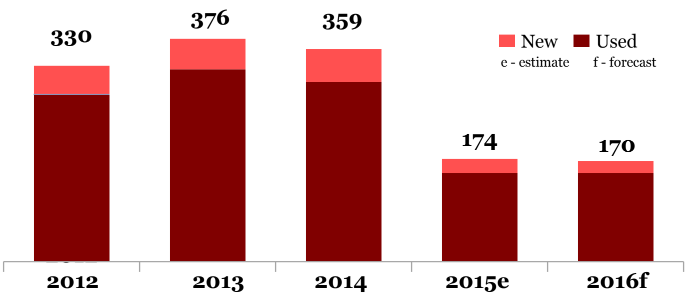
Source: World Bank, NBS

Vehicle Sales

The new tariff regime coupled with the depreciation of the Naira has led to prices doubling between 2014 and 2016 resulting in over a 60% decrease in vehicles sales. The industry relies heavily on imports for direct sales and assembly. Although cars and related components are not on CBN's forex 41 ban list, the difficulty of obtaining foreign exchange has led to increased prices and reduced consumer demand. Corporates, the largest buyers of new vehicles have reduced or postponed purchases thereby extending the replacement cycle of their fleet from 4 years to 7 years. Individuals, in the face of fixed earnings and increasing inflation have seen a fall in disposal incomes reducing their demand of new and used cars.

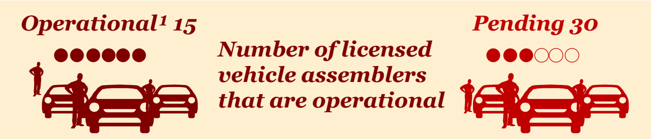
Passenger Vehicle Sales (2010-2016,'000 Vehicles)



Source: OICA, Industry Interviews, PwC Analysis

Vehicle Assembly

With the introduction of the NAIDP, there has been increased activity in local vehicle assembly. The National Automotive Design and Development Council (NADDC) granted thirty five companies licenses to assemble/produce vehicles. Several OEM representatives have begun plans to set up assembly operations to take advantage of the policy.



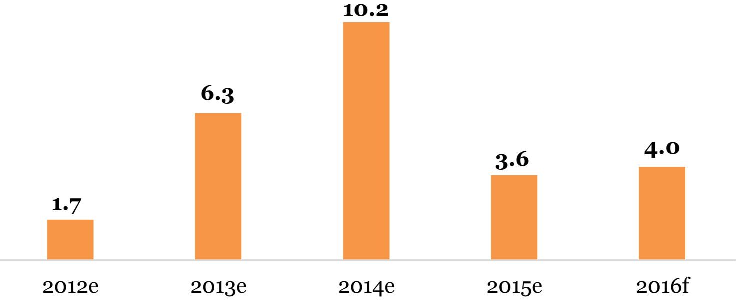
[1]Assume that production has taken place within Q1 2015 & Q2 2016

Select Operational Auto Assemblers

Local Assembler	Brand	Type of vehicle
Stallion Motors	Nissan, Hyundai, Volkswagen, Ashkok Leyland, Iveco	Passenger
PAN Ltd	Peugeot	Passenger
Coscharis Group	Ford	Passenger
Dana Motors	KIA, Renault	Passenger
Innosson Vehicle Manufacturing	Innosson	Passenger, commercial
A.G Leventis Motors	Foton	Commercial
Zahav Automobile Company Nigeria	BAIC, Changan, Stallion Force, Foton	Passenger, commercial
Afri –Ventures Group (kewalram Chanrai)	Foton	Commercial
Honda Automobile Western Africa	Honda	Passenger
Richbon Group	Shacman	Commercial
Perfection Motors	FAW	Commercial
Globe Motors	Higer, Hyundai	Commercial
Proforce Ltd	Proforce	Commercial
Iron Product Industries	Tata	Commercial
National Trucks Manufacturers	Sinotruck, Great Wall, NTM	Commercial

Despite the increased number of local vehicle assemblers, production has dropped by half due to the current economic climate. Assemblers are forced to source foreign exchange from the parallel market to pay for Semi-knocked down (SKD) kits. Limited players in the auxiliary industry keep local component content in production low and restricted to consumables. Reduced vehicle demand has assemblers operating below capacity (10% -20%).

Vehicle Production (2010-2016,'000 Vehicles)



Source: OICA, Industry Interviews, PwC Analysis

Next Steps

In developing our scenarios, we listed key areas to be addressed in order for Nigeria to fully accomplish its potential of becoming Africa's automotive hub.

Continued policy support

It is essential that government continues to implement and enforce protectionist policies to enable the growth of the industry. The current administration has indicated interest in promoting a sustainable and stable environment in support of local auto manufacturing. In August 2016, the Federal Government and Ministry of Trade and Industry in receiving a delegation from African Association of Automotive Manufacturers (AAAG), reiterated their commitment to implementing the NAIDP, as part of efforts at fast-tracking Nigeria's economic diversification goals.

Improved chances of owning a car

Steady income levels and increasing inflation has led to a fall in disposable income. In the face of rising vehicle prices, more Nigerians are unable to afford a car without some form of support. Favourable vehicle financing options are important in encouraging patronage of locally assembled vehicles. There are ongoing negotiations with Wesbank (backed by NADDC) to offer credit financing to retail and corporate purchasers of locally assembled vehicles. In August the NADDC announced plans to contribute N7.5 bn interest free fund with counterpart funding with a South African company and African Development Bank (AfDB).

Tightening the borders

It is vital that investment and progress made by local assemblers be protected, unchecked smuggling activities could frustrate their efforts. Cars are reportedly the most smuggled goods after food (particularly rice), between the Lagos and Seme border. In September, the Nigeria Customs Service (NCS), Federal Road Safety Corps (FRSC) and the Federal Inland Revenue Service (FIRS) partnered on a project to enforce payment of duties before registration. This collaboration between government agencies is a bid to stop vehicle smuggling and increase revenue of the respective agencies.

Setting up auxillary industries

The difficulty of getting forex and the depreciating currency are challenges currently faced by assemblers. An existing auxillary industry with the capacity to generate parts such as batteries, belts, windscreens and tyres etc. will serve as a hedge against foreign exchange fluctuations. Currently, there are no major component manufacturers locally.

Building Human Capital

It is essential that Nigeria is able to provide the manpower needed to fill operational roles which require in-depth technical expertise. The NADDC plans to drive local content within the industry, set-up skill acquisition centres and make inputs into the curriculum for engineering in tertiary institutions. By indication, technical roles in auto assembly are currently filled by local staff.

Potential Disruptions

Globally, the auto industry is currently experiencing change spurred by disruptive technology. Trends like driverless cars, electric powered cars and ride sharing are revolutionising the industry. In Nigeria, ride sharing apps such as Uber, EasyTaxi, GoMyWay and Jekalo have become quite popular. Already Uber has made over a million trips in Nigeria in the last two years. This trend could potentially fast -track Nigeria's path to becoming an automotive hub potentially boosting sales of new and used vehicles as individuals take advantage of partnering with these companies to gain extra income. High use and related wear and tear would also see these vehicles and vehicle components replaced frequently in order to meet the standards and pass the checks of these tech companies.

Prospects

In 2015, we developed three scenarios on passenger vehicle sales based on government support and GDP growth rate.

PwC Scenarios 2050

Locally Assembled/ Produced

Scenario 1	*Scenario 2*	*Scenario 3*
Rapid Growth	Medium Growth	Slow Growth
6,866,000	**4,162,000**	**1,803,000**

Despite support by the government, negative GDP growth has the industry heading towards a slow growth scenario. Under this scenario, used car sales continue to dominate vehicle sales but locally assembled vehicles contribute 40% of vehicle sales by 2025. Nigeria's automotive industry prospects remain centered around proper and timely implementation of the policy. Despite the current economic situation, the introduction of a viable vehicle financing scheme could instantly boost sales and ultimately local production. Technology may be the game changer helping to leapfrog the industry into a more favourable scenario.

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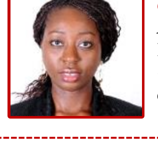

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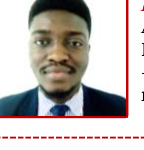

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