The future outlook of the SA auto sector post Covid-19

Prof Justin Barnes, Toyota Wessels Institute for Manufacturing Studies, Gordon Institute of Business Studies, 3rd November 2020

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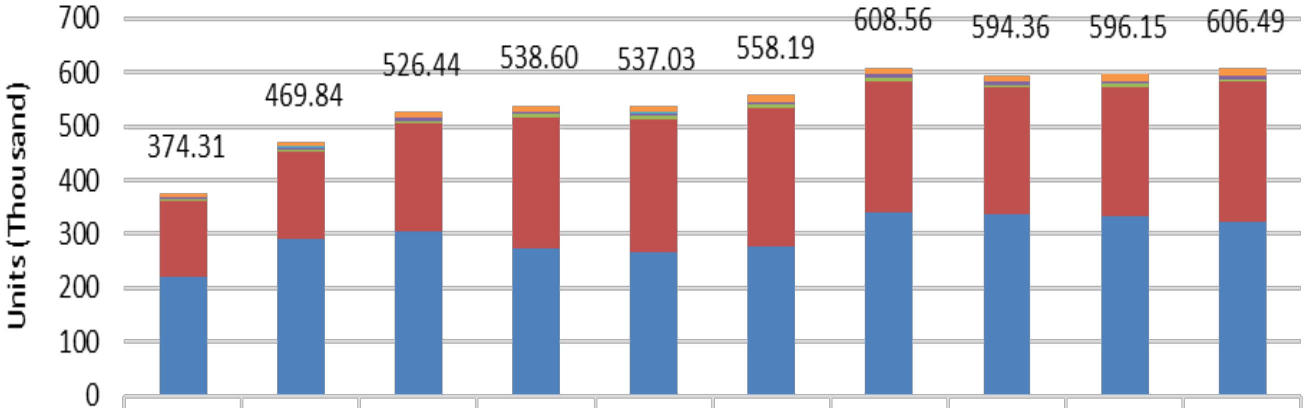
Overview of presentation

1. Locating South Africa's position within the global auto industry – prior to the crisis
2. Covid-19 and its impact on the global and local auto industry
3. SA's position post Covid-19: macro, meso and micro perspectives

1. SA in a global perspective prior to Covid-19

- US$ 4 trillion global industry: Asia-Oceania c50% of sales and production
- SA = 0.6% of global production in 2018; 54.2% of Africa production (from 90% in 2009)
- SA vehicle production = 606k in 2018, from 374k units in 2009 (CAGR of 5.8%) >> to 632k in 2019
- SA sales = 552k in 2018 >> CAGR of -2.1% for 2012-18 >> reduced to 537k in 2019
- Vehicle production driven by exports >> mainly to EU, and therefore exposure to global mega-trends

South African vehicle production (for local sales and exports)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
XHV	5.55	7.48	10.14	9.98	10.99	11.97	11.88	10.90	11.25	12.55
BUS	0.95	0.83	0.69	0.89	0.72	0.90	0.87	0.80	0.81	0.88
HCV	3.66	4.25	4.48	5.01	5.40	5.35	5.74	5.48	5.22	5.46
MCV	4.31	4.12	4.73	5.46	6.28	6.32	6.19	5.39	4.80	4.95
LCV	140.68	162.18	199.84	245.08	248.40	255.63	243.53	235.33	242.30	261.09
PAS	219.16	290.97	306.56	272.18	265.25	278.02	340.35	336.46	331.78	321.56
Total	374.31	469.84	526.44	538.60	537.03	558.19	608.56	594.36	596.15	606.49

Source: AutoStats (2019)

Global auto industry mega trends

OEMs shifting production closer to emerging markets

Changing consumer and end user customer preferences

Environmental pressures

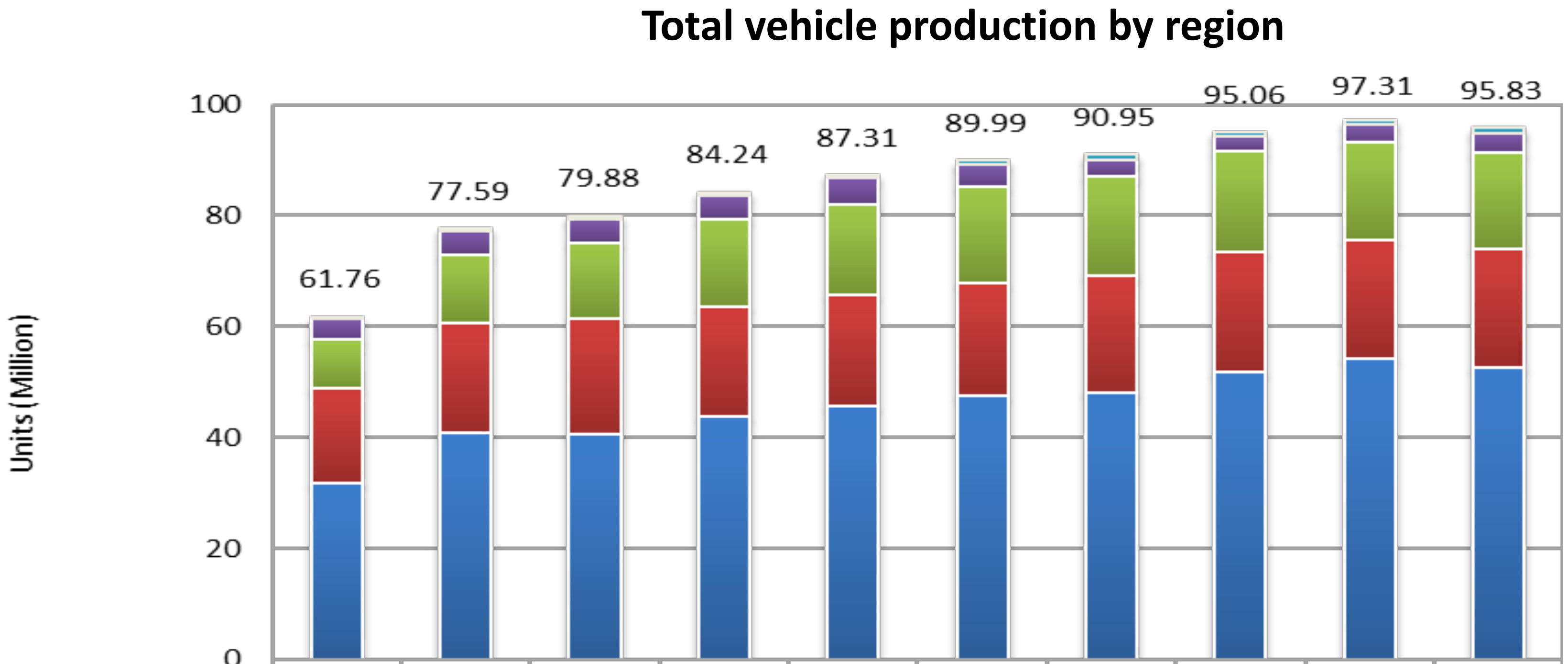
Infotainment and vehicle connectivity

Autonomous vehicles (AVs)

Transport as a Service (TaaS)

Mega Tier 1s

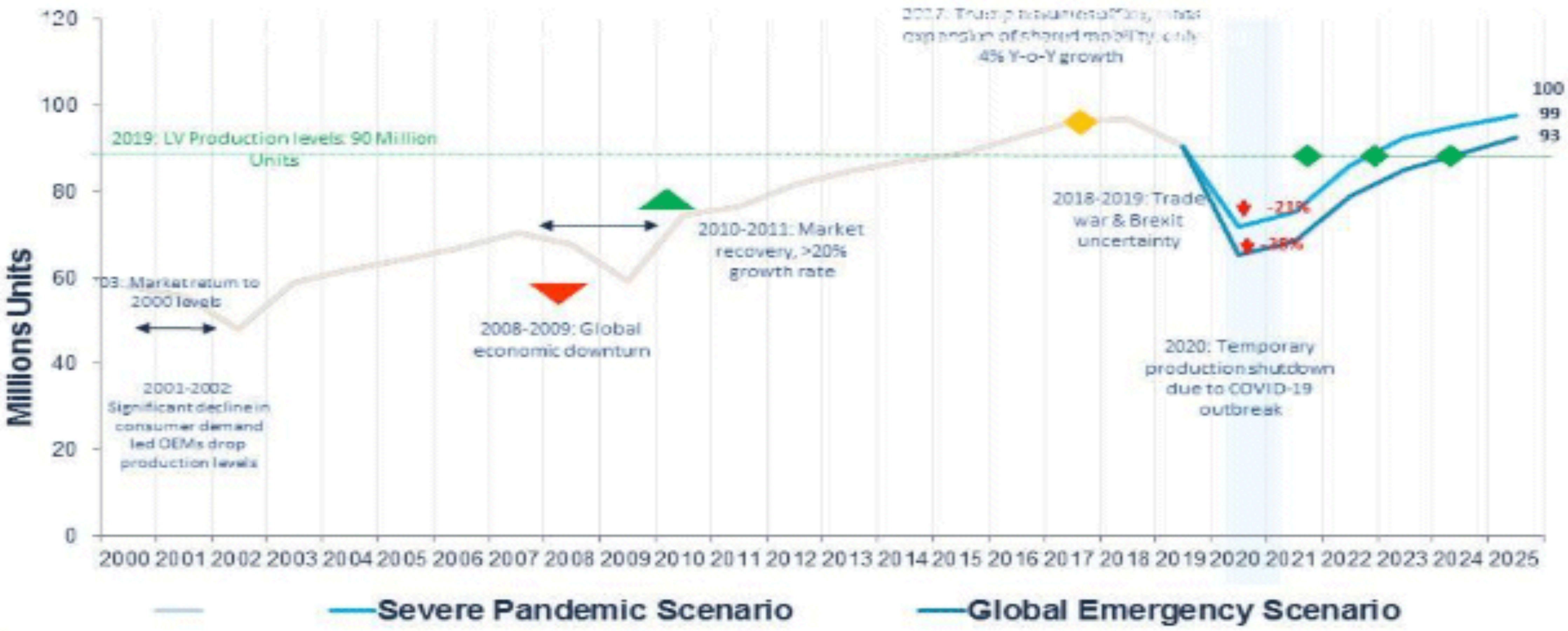
OEMs shifting production closer to rapidly growing emerging markets



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Africa	0.41	0.51	0.56	0.59	0.63	0.72	0.84	0.90	1.00	1.13
South America	3.77	4.19	4.32	4.29	4.58	3.99	3.01	2.67	3.16	3.29
North America	8.76	12.15	13.48	15.80	16.50	17.42	17.95	18.15	17.48	17.44
Europe	17.06	19.81	20.95	19.86	19.83	20.46	21.17	21.49	21.56	21.27
Asia-Oceania	31.76	40.92	40.58	43.70	45.78	47.41	47.99	51.85	54.12	52.70
Total vehicle production	61.76	77.59	79.88	84.24	87.31	89.99	90.95	95.06	97.31	95.83

Source: OICA – Production Statistics for 2009 to 2018 (2019)

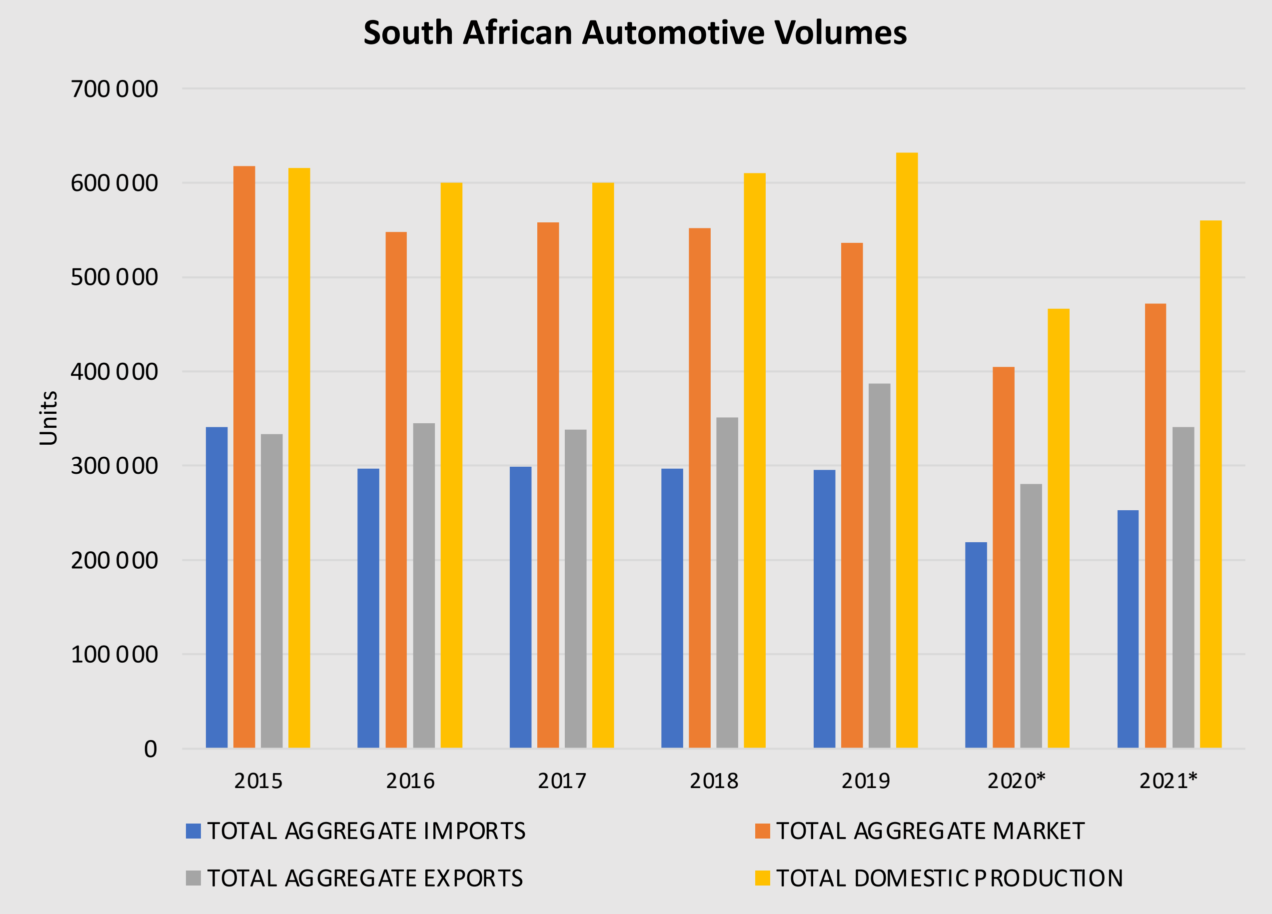
2. Covid-19 impact: Global automotive outlook – production to decline 21% or more



Note: Light Vehicles include Passenger Vehicles and Light Commercial Vehicles with GVWR of up to 6 MT

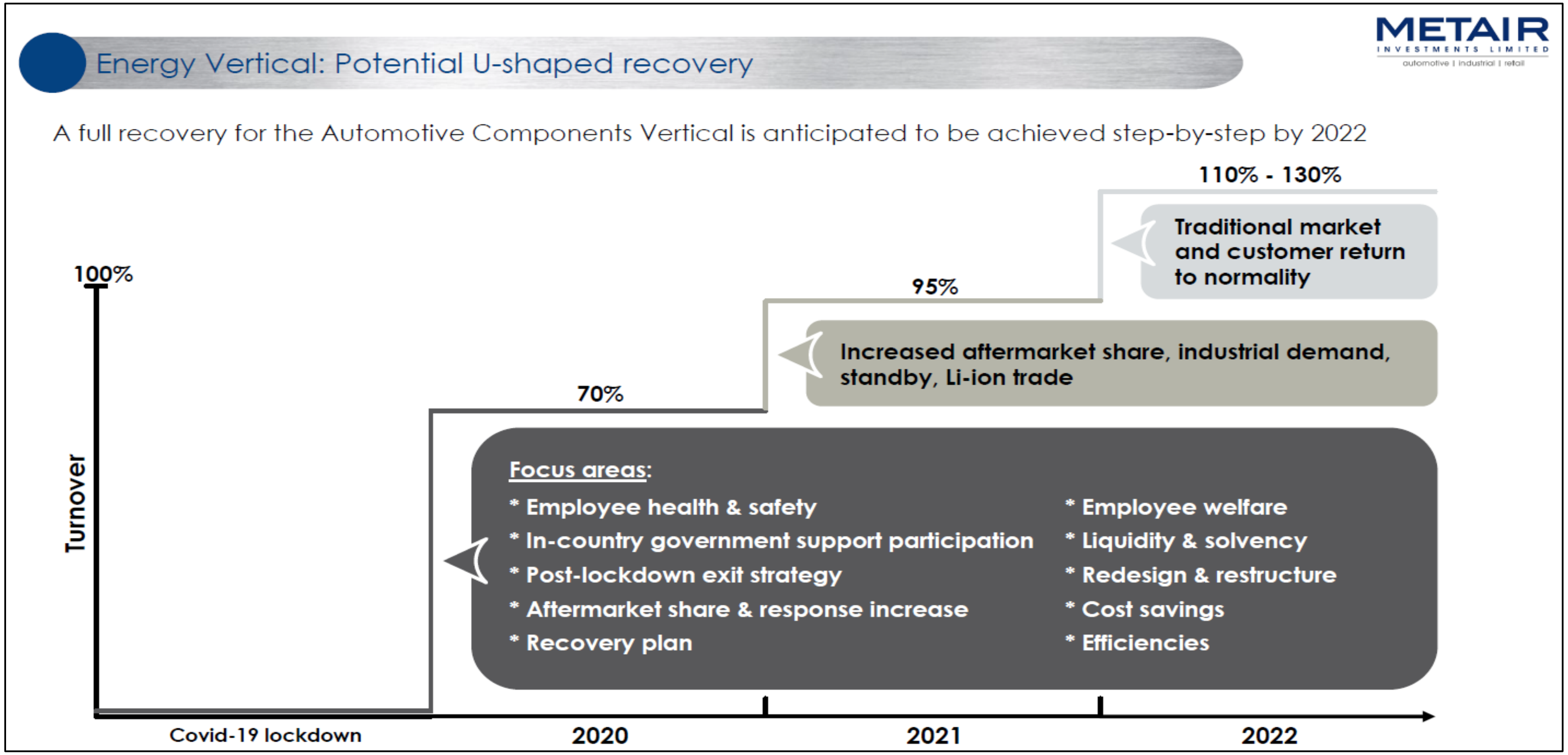
Covid-19: Local automotive outlook

- **Production projection:** 467k in 2020 versus 632k in 2019. 2021 level projected at 560k
- **Sales projection:** 405k in 2020 versus 537k in 2019. 2021 level projected at 472k
- **Export projection:** 281k in 2020 versus 387k in 2019. 2021 level projected at 341k
- **Import projection:** 219k in 2020 versus 295k in 2019. 2021 level projected at 253k



* Projections updated for COVID-19
Source: NAAMSA, May 2020

Automotive outlook – Global and local



Source: METAIR, May 2020 (https://www.metair.co.za/investors/presentations/)

3. Position of the SA auto industry post Covid-19? *Macro, meso and micro-level factors*

Positively	Negatively
1. Established production; local content increasing off low base 2. High level of national government support, confirmed to 2026/2035 3. Depreciating currency and benign inflation – RER advantage 4. Potential regional market growth – long run forecast maintains interest	1. Short-term Covid-19 impacts (cashflow, operating losses, etc.) 2. Low volume industry by global standards; at margins of GVCs 3. Excessively import dependent. Local content low – high logistics and transport costs 4. Globally uncompetitive government administered services (e.g. Eskom, Transnet, local government rates, etc.) 5. Firm-level operating standards generally not at global operating levels and slow competitive progress 6. Domestic market performance – excessive taxation 7. Regional market "chimera"?

How do these impact the South African Automotive Masterplan?

SAAM
2035 vision

A globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society

Objectives: 1% of global vehicle production, 60% local content, 100% employment growth, competitiveness to leading competitor standards, industry transformation, increased value addition within GVCs

1	2	3	4	5	6
Local market optimisation	Regional market development	Localisation	Infrastructure development	Industry transformation	Technology and associated skills development

Supporting institutional environment (including M&E)

Enabling SAAM policy post-2020