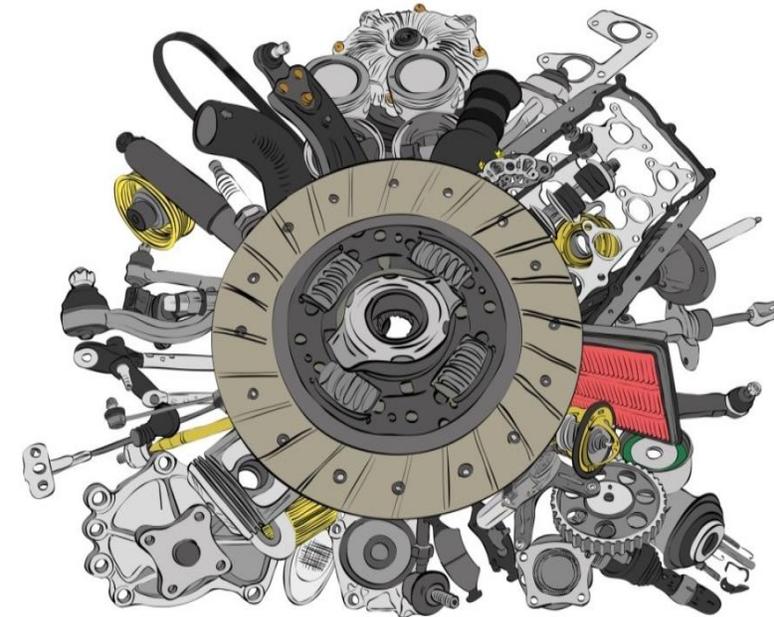


# Strategic Outlook of the Light Vehicle Automotive Sector in North Africa (Algeria, Egypt, Morocco)

December, 2017



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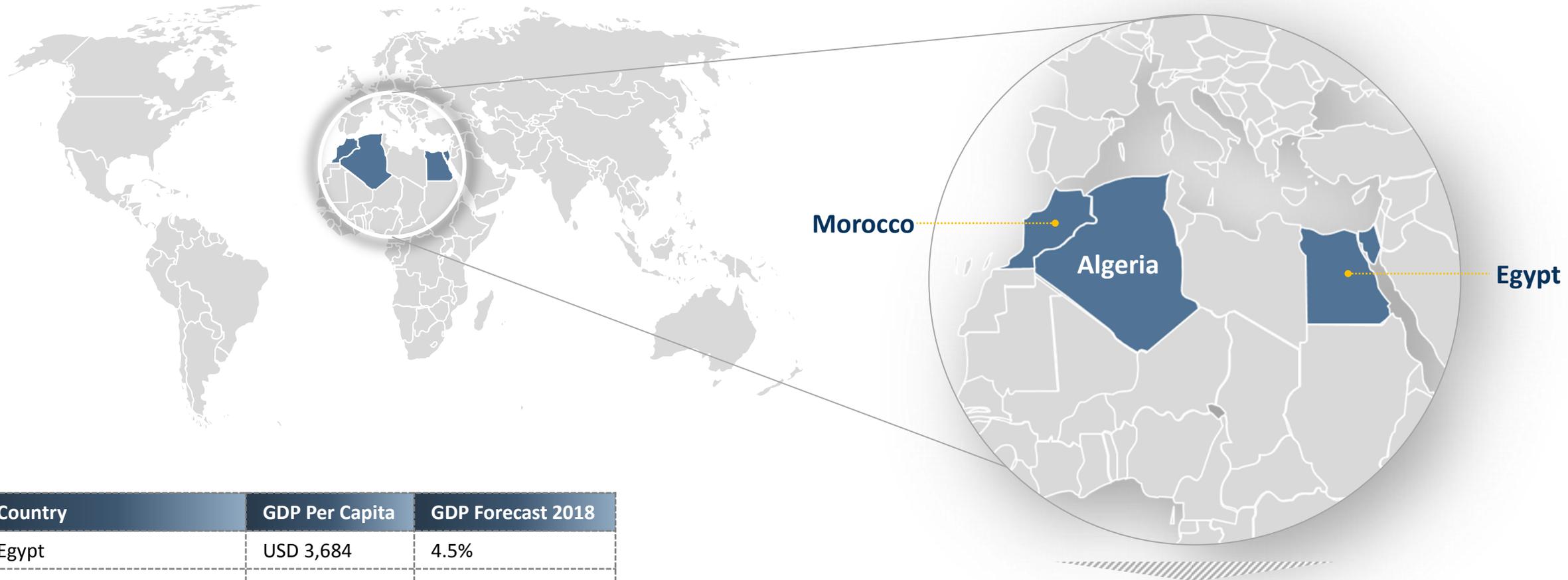
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# Macroeconomic Background and Outlook



# Home to nearly 170 million people; number to cross 185 million by 2022

Geographical Scope of the Document, 2017



Country	GDP Per Capita	GDP Forecast 2018
Egypt	USD 3,684	4.5%
Algeria	USD 3,901	0.8%
Morocco	USD 3,004	3.0%

Average GDP Per Capita in 2016\*: USD 3,530

\*Current prices, US dollars

Source: IMF, Frost & Sullivan.

# Scope of the Document

## Product Scope

- Passenger Vehicles and Pickups upto 3.5 tonnes Gross Vehicle Weight (GVW)
- Spare Parts for Light Vehicles
- Spare parts include tires, batteries and automotive lubricants along with maintenance, mechanical and collision parts
- Route to market defined as:
  - OES (Original Equipment Supplier) e.g. Mopar, Mobis
  - OE Parts e.g. Bosch, Denso
  - Alternate Parts = non tier 1 suppliers
  - Spurious/Fake Parts

## Exceptions and Limitations

- Geographical = North Africa is defined as Algeria, Egypt and Morocco
- Product level = Doesn't include commercial vehicles (more than 3.5 GVW)

## Other Important Points

- Base Year = 2016
- Forecast Year = 2021
- Currency = USD
- Growth = CAGR (Compound Annual Growth Rate)

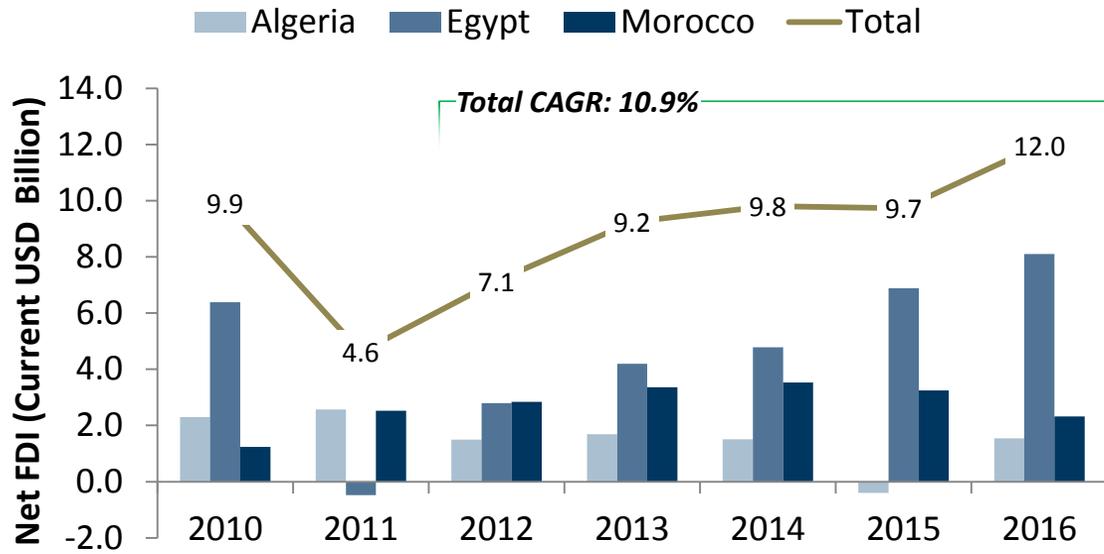
Source: Frost & Sullivan.

# Executive Summary

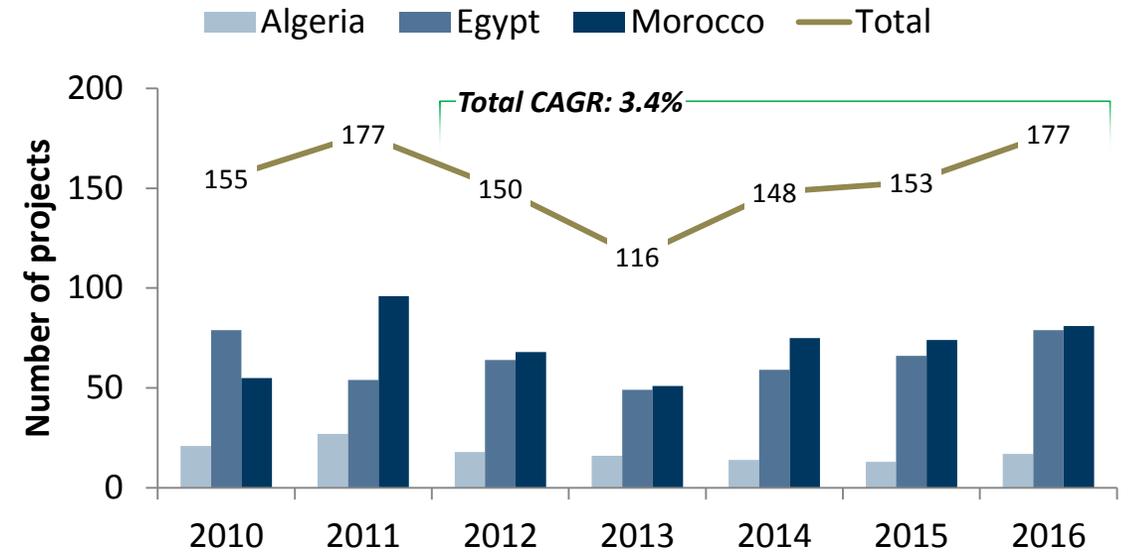


# Number of announced greenfield projects (all industries) was highest since 2011, jumping 16% in 2016 vs. 2015

FDI Investment, North Africa, 2010–2016



Greenfield Projects\*, North Africa, 2010–2016



- High level of protectionism of North African countries is among one of the most serious factors hindering FDIs in the region. Improving economic environment is likely to support growth of the automotive industry, going forward.
- Aggregated level of net FDIs in 2016 reached the peak in the last seven years; however, Morocco saw a decline for the second consecutive year due to higher outward FDI flows reflecting improving strength of Moroccan firms.
- Foreign ownership restrictions in Algeria (up to 49%) is another factor limiting Algeria’s potential in attracting FDIs.

\*Number of announced projects.

Source: World Bank, Frost & Sullivan analysis

# Infrastructure development and regional integration to spur growth in the region

## Commercial Vehicles Market: Top Trends, Africa, 2016



### Growing Urban Centres

Africa will experience rapid urban expansion, owing to fast-paced development across the continent.



### Regional Integration

Several trade corridors across the region will bring nations closer and amalgamate diverse practices.



### Future Infrastructure

Key infrastructure developments in health, transport, power, and connectivity will play an important role.



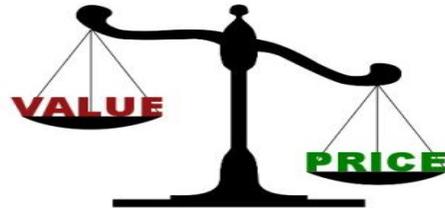
### New Business Models

New business models will be focused on affordable products and services to the customer.



### Rise of Asian OEMs

PV and CV manufacturers from Asia will gain prominence by offering affordable alternatives.



### Rise of Value Trucks

There will be rapid proliferation of trucks built into existing customer demands and regional conditions at reasonable prices.



### Platformisation

Platforms will be seen as a tool to drive down costs, de-congest supply chains, and harmonise selections globally.



### Improving Connectivity

Rapidly increasing penetration of mobile phones and broadband connection in the region will be a continuing trend.

Source: Frost & Sullivan

## Commercial vehicles to be direct beneficiaries of the development; strong positive impact on the overall auto industry

### Morocco

- Casablanca road network worth USD 316 million to be ready by 2020
- USD 8.65 billion as public and private investments in port infrastructure until 2030

### Algeria

- USD 42 billion allotted for developing road infrastructure in the 2015–2019 plan
- Metro network spanning 54 km, with 50 stations planned in Algiers by 2025

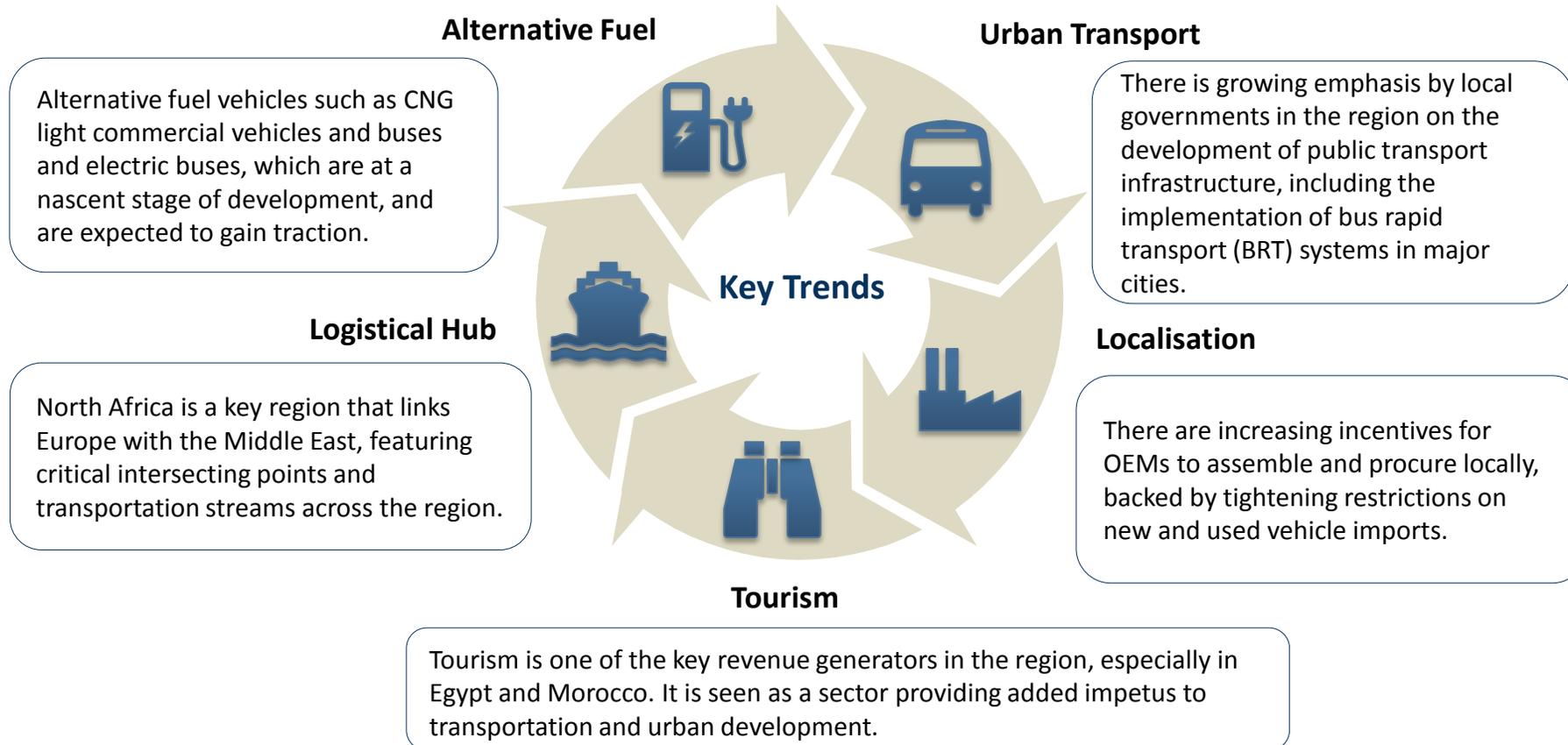
### Egypt

- China to invest USD 15 billion for 15 infrastructure projects in Egypt
- Major expansion plans of Egypt's ports to triple capacity from 120m tonnes to 370m tonnes by 2030

Source: Frost & Sullivan

# Growing emphasis on urban transport, along with government incentives to produce vehicles locally

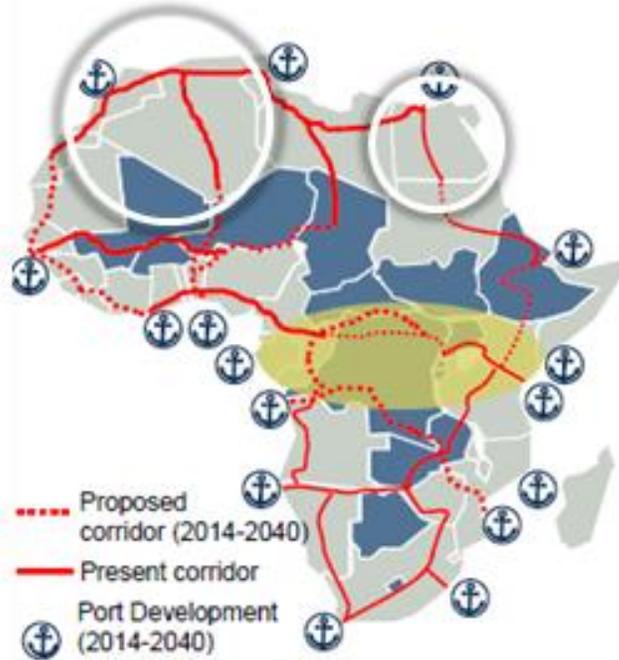
## Commercial Vehicles Market: Key Regional Trends, North Africa, 2016



Source: Frost & Sullivan

# Long term will see higher interconnectivity in the region, boosting intra-regional trade

Trade Corridors, Africa, 2014-2040



Expected investment of \$27.5 billion (2011–2021) towards Trans-African routes- \$3.5 billion towards deep sea ports; \$14.8 billion towards rail; \$9.2 billion towards road logistics to boost intra-regional trade activities

- 1** South Africa will drive inter-regional trade through trade corridor implementation (2021)
- 2** Increased connectivity between Southern and Eastern Africa due to development of trade corridors will revamp trade (2030)
- 3** West and North Africa will show slow corridor development and implementation (2040+)

Trade Evolution, Africa, 2014-2040



Intra-African Trade predicted to evolve in 3 distinct phases with the completion of intra-regional trade corridors ( 2020–2040+)

Source: World Bank, Frost & Sullivan analysis

# Big plans for manufacturing in the region, but strong focus required to source content locally

### Algeria



- New government has announced plans to modify the existing automotive policy in order to revive the market which has been hit since introducing the imports quota.
- Algeria is strongly focusing on supporting the local auto industry and is expected to continue to promote automotive manufacturing within the country.
- Iranian SAIPA is one of the first companies to announce plans to start manufacturing of auto components in Algeria targeting the end of 2017.

### Egypt



- Higher manufacturing costs and compounded investments keep the value of the locally assembled cars high compared with imports.
- Expansion plans in the country include a proposal to boost annual local production to 500,000 units by 2020 to match the import total.
- Car import duties will disappear as per an agreement with the European Union through annual reductions of 10% until 2019.

### Morocco



- The automotive industry in Morocco has played a significant role in spearheading the industrial sector, which has seen an average annual growth of nearly 8% in the last decade.
- Delphi is the largest Tier I parts supplier in Morocco, with 7,200 employees split between two purpose-built facilities in Tangier.
- With a market share of over one third of new vehicle sales Renault/Dacia is Morocco's largest automotive entity and sources about 42% of its parts from local suppliers.

# Automotive Industry - Key Takeaways, Continued

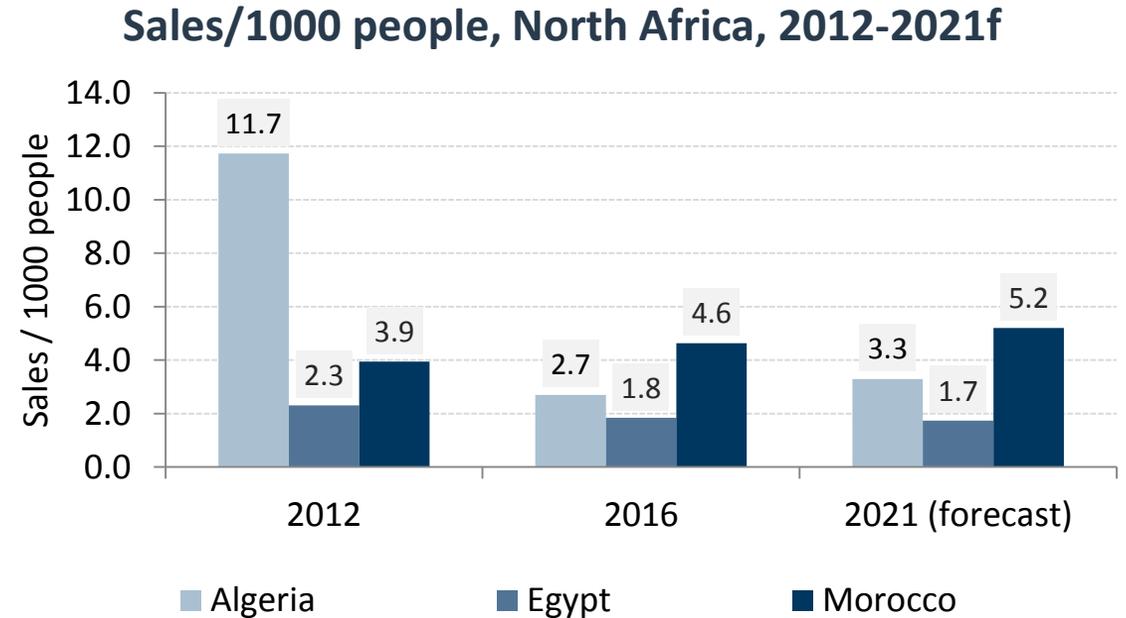
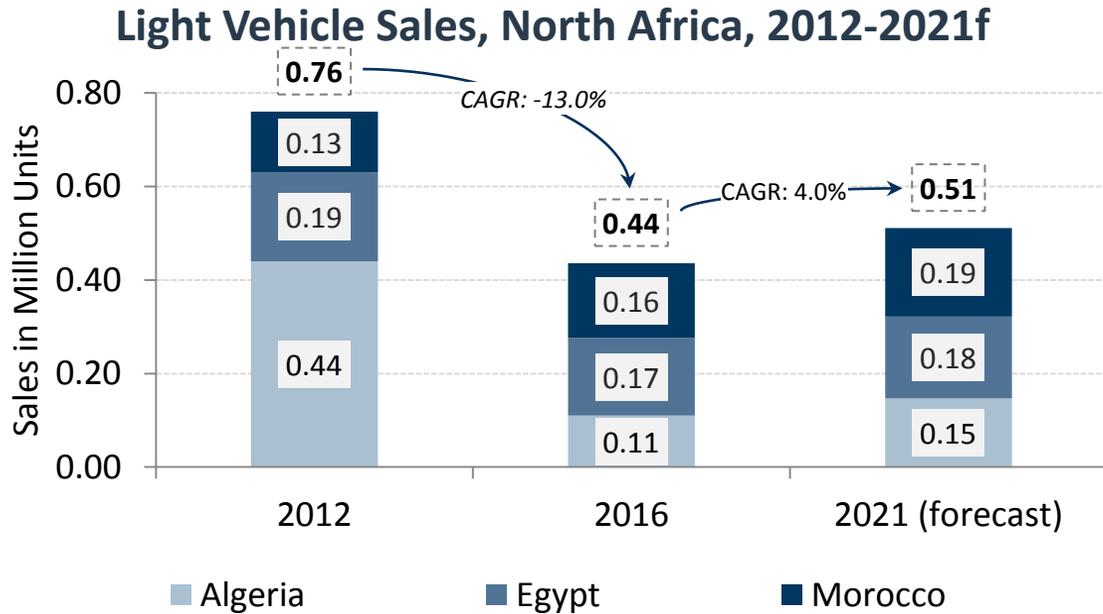
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- Morocco developed an investment cluster programme, which saw Renault enter the local market. Renault will be the only global automaker assembling vehicles in the country until the arrival of Peugeot in 2019.
- In neighbouring Algeria, the government's drive to create a local automotive manufacturing base has led to a quota system being placed on all automakers importing cars to "force" the investment into local assembly. New vehicle sales dropped from over 300,000 units in 2014 to 160,000 units in 2015 and a forecast 95,000 in 2016 due to the quotas. A number of automakers have noted their intent to invest in the country, with Volkswagen being the latest to do so to overcome the market limitations. Review of the automotive policy is expected during 2019 with higher emphasis on local content and employment of Algerian nationals.
- Egypt is currently developing an alternative approach to revitalising its automotive assembly sector. The government is looking to benefit the wider economy from developing the country's automotive industry. In a repeat of the 1960s, the government is aiming to invest in and engineer an entirely Egyptian vehicle for Egyptians. The plan aims to ultimately produce 1 million units annually. The policy is at an early phase and time will tell whether it reaches consensus among policymakers.

# Vehicle Market and Vehicles in Operation



# Morocco has shown an impressive 9% CAGR over the last 11 years and exhibits strong growth potential in the long term

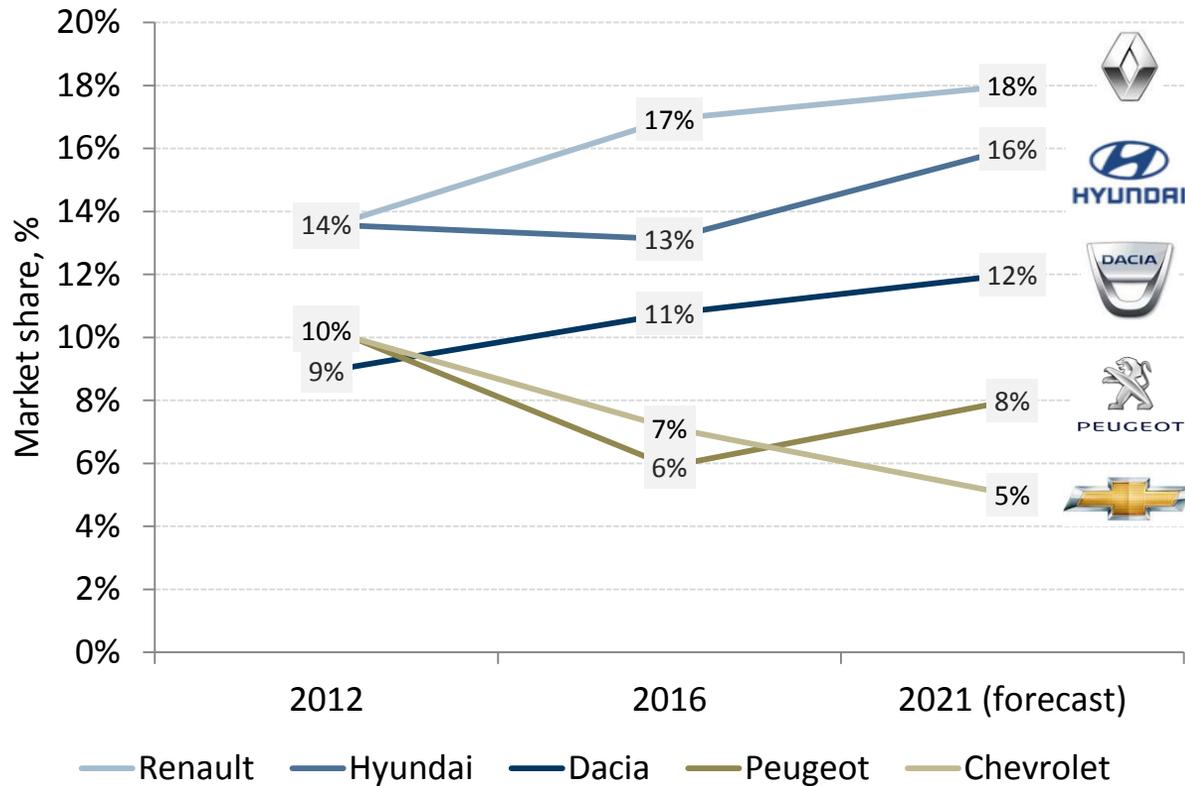


- The region is expected to continue struggling with economic instability in the short term and is likely to start improving in mid-to-long term (5+ years)
- We are expecting the overall CAGR of 3.2% (2016-2021f) for vehicle sales in North Africa (Algeria, Egypt, Morocco)
- Algeria is expected to show the highest growth in 2016-2021 (due to low base effect) growing at 6% annually. The growth is expected once the automotive policy is updated.
- Egypt is likely to decline further in the short term as a result of foreign exchange rates fluctuations before starting recovery in the medium-to-long term.

Source: BSCB, Frost & Sullivan

# Renault/Dacia to continue improving position, Peugeot's investment in Algerian factory to support domestic sales

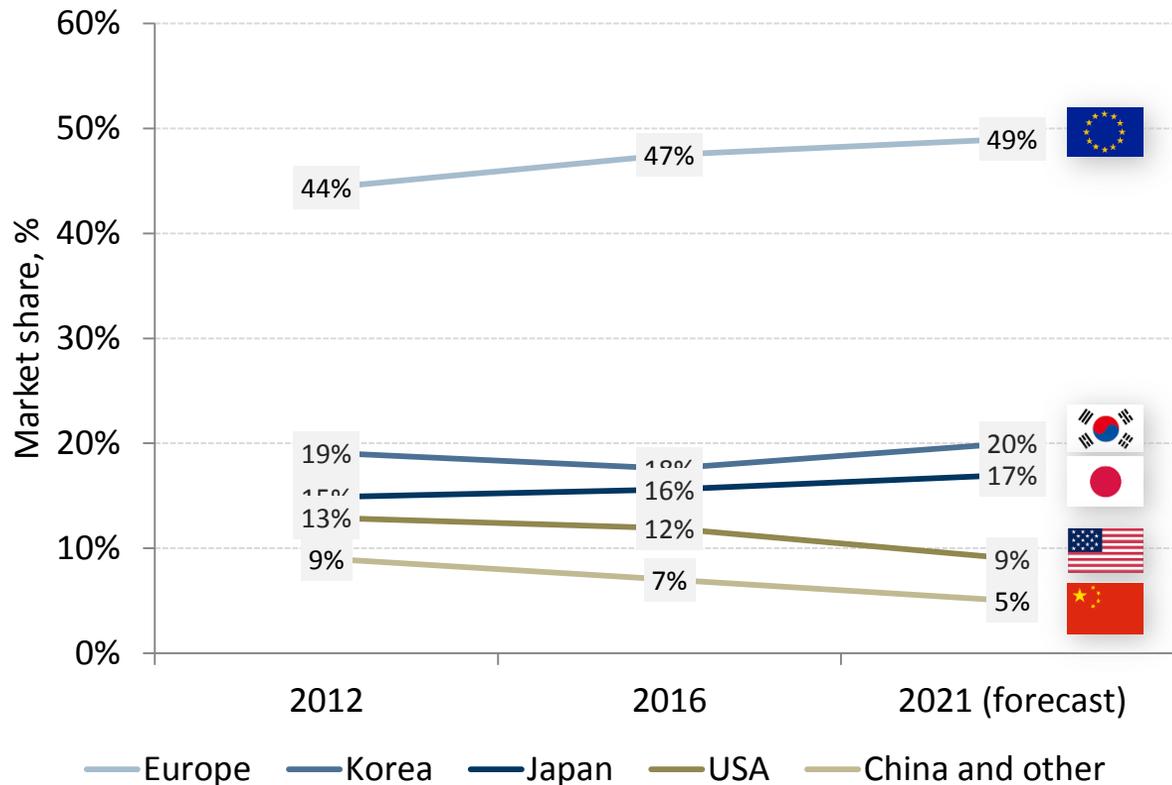
Market Share of Top 5 Brands, North Africa, 2012-2021f



- Renault is expected to remain the market leader with close to 20% market share across Algeria, Egypt and Morocco due to increasing localization of production and strong brand image.
- Combined with Dacia, Renault's market share is likely to reach 30% of the market.
- Hyundai is likely to continue the upward trend due to lower than competition running costs and significantly improving brand image.
- Peugeot is expected to set up production facility in Algeria by 2019 that is likely to support brand's sales in the region significantly boosting exports to other countries of the Middle East and African region.

# Local presence becomes key to success in short term, opening Egyptian market to draw more international players

Market Share by Brand Origin, North Africa, 2012-2021f

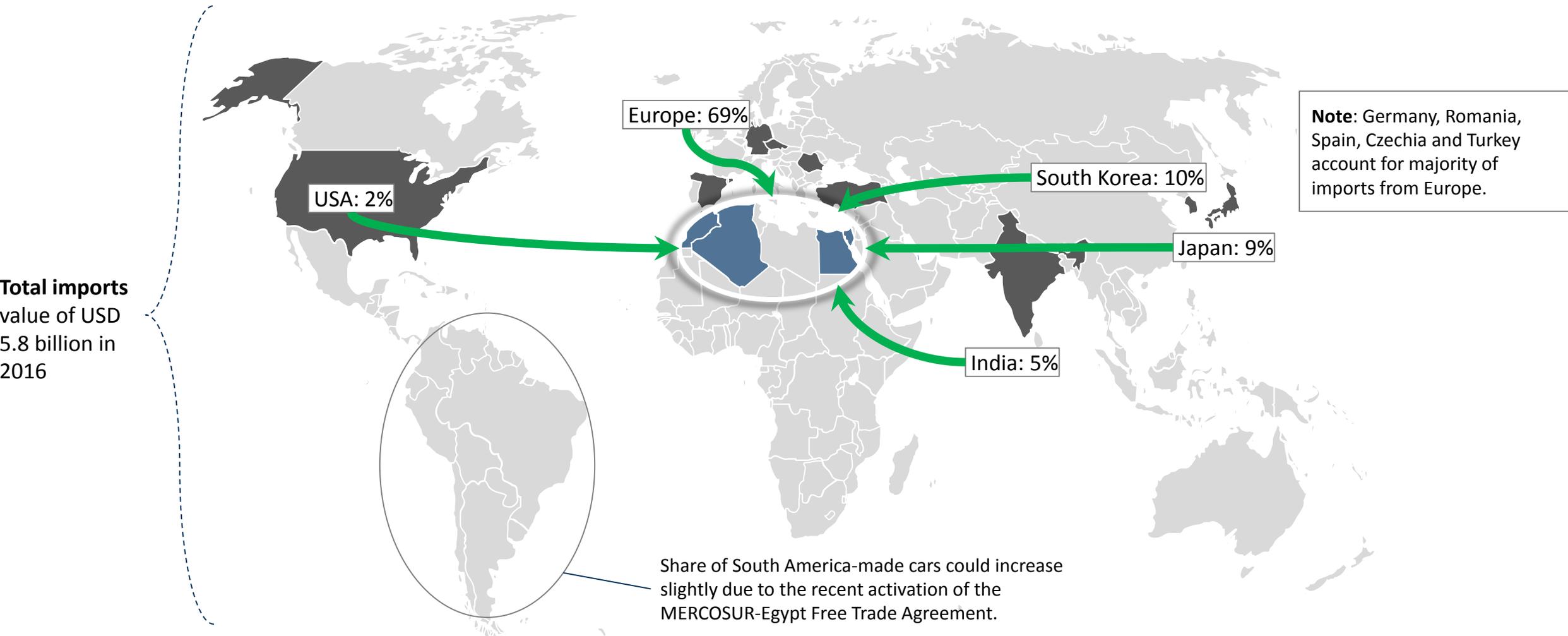


- Egypt is expected to reduce customs duties on imported cars from EU (under the association agreement) by 2019 which is set to boost imports share of EU-made vehicles.
- At the same time, the Free Trade Agreement between Egypt and Mercosur countries which has come into force is not expected to significantly change the structure of imports of vehicles from those countries. However, it can impact imports of spare parts to Egypt which is currently at <USD 50million as of 2016.
- US brands are likely to witness further pressure in the region due to growth of European and Asia like Renault/Nissan Group, PSA and Hyundai/Kia.
- Chinese manufacturers are expected to struggle in the long term due to the increasing production costs, which brings them closer to competitors from Korea.

# Imports of vehicles by partner:

## Europe domination is likely to increase more after 2019 when import duties on EU-made cars in Egypt reach 0%

Light Vehicle Imports by Country: Top Partners, North Africa, 2016

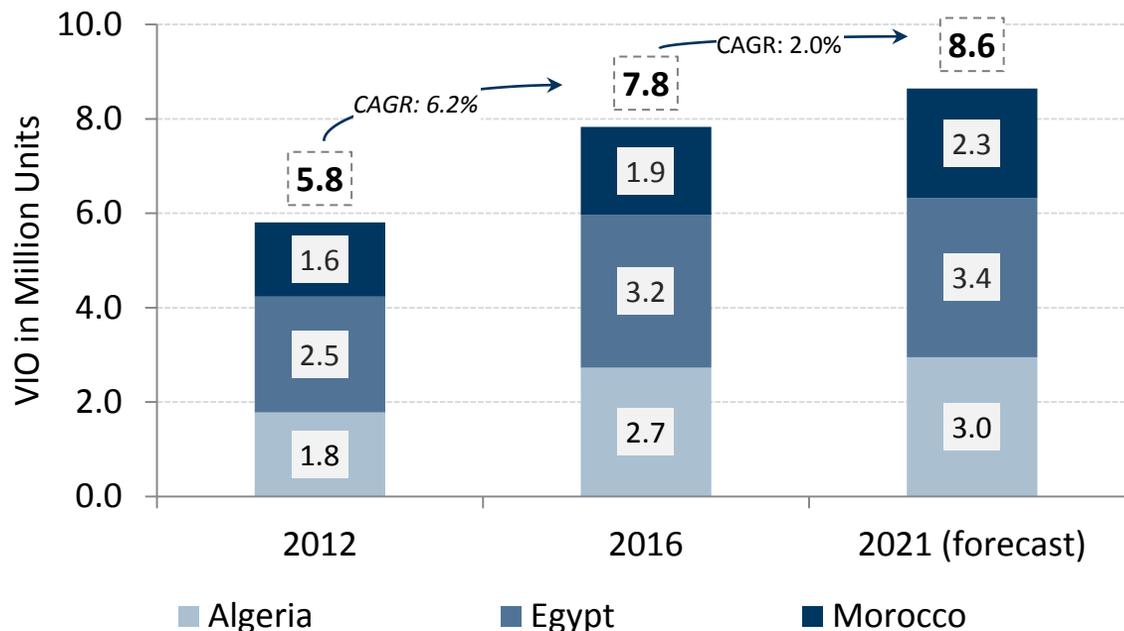


**Note:** China and other countries account for ~9% of imports value.

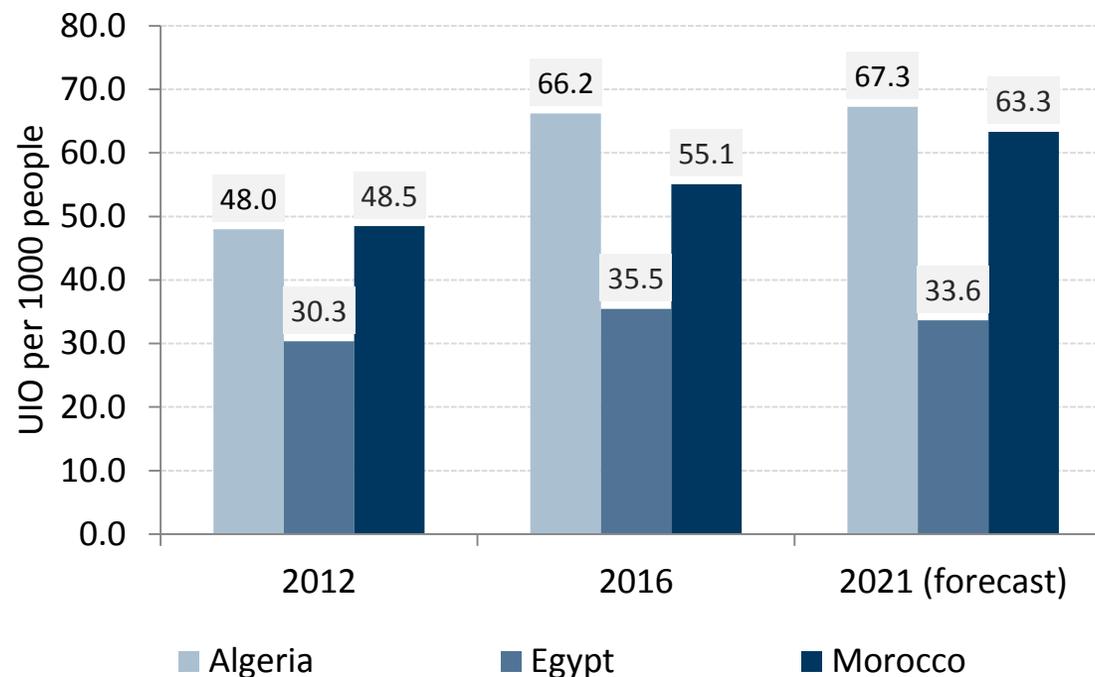
Source: COMTRADE, data for HS code 8703, Frost & Sullivan analysis

# Slightly less than 1 million units of addition within the next five years will boost the parts market

Light Vehicles in Operation, North Africa, 2012-2021f



UIO\*/people, North Africa, 2016-2021f



- Imports of used cars are limited in Egypt, Morocco and Algeria (special conditions apply).
- Number of units in operations is likely to increase at ~2% annually until 2021, propelled by improving sales toward 2020-2021.
- Morocco is expected to see the highest growth in motorization rates supported by steadily growing sales in 2016-2017.

**Note:** only vehicles of less than 15 years old considered in the Units in Operation . \*Units in Operation.

Source: Frost & Sullivan analysis.

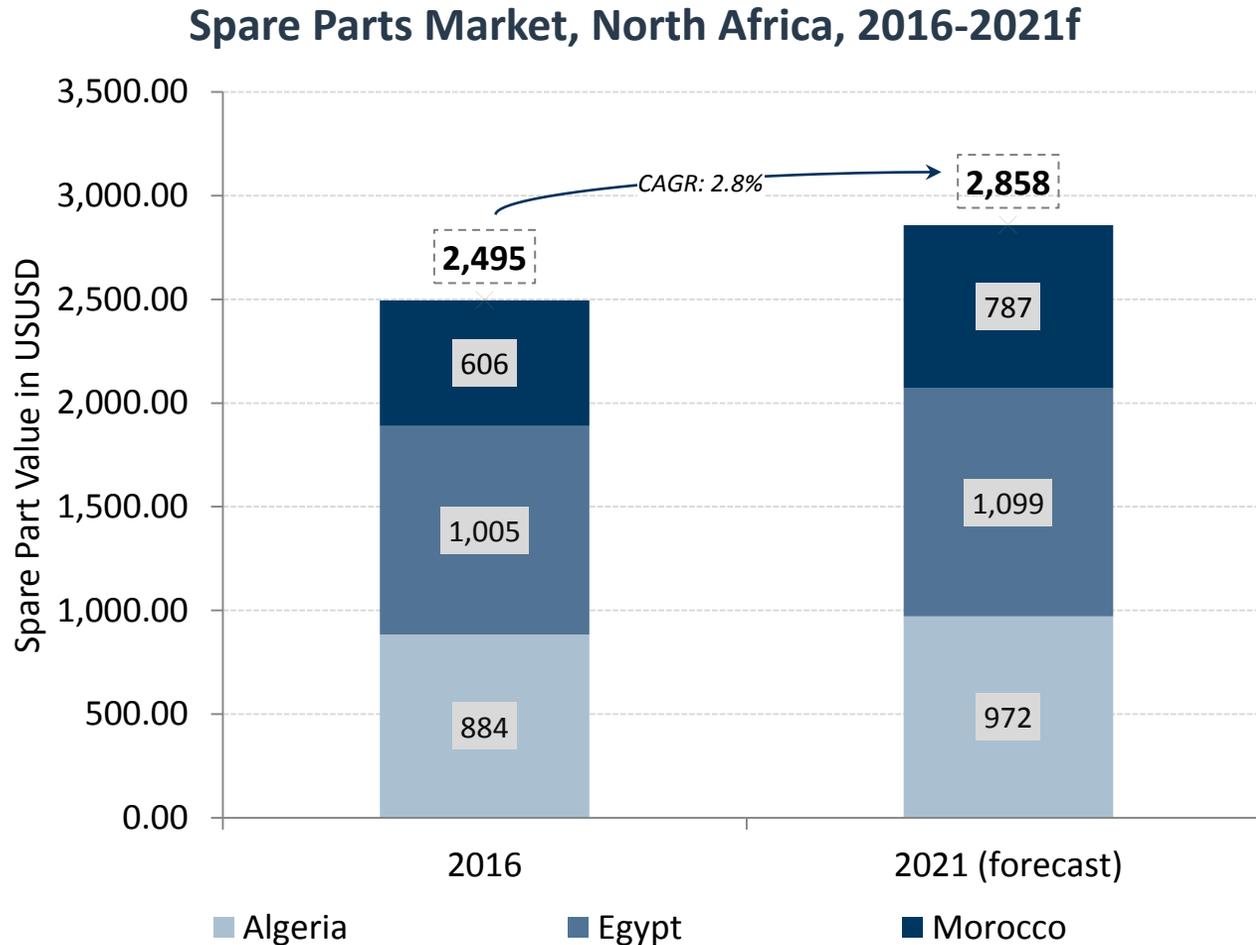
# Parts Aftermarket



# Vehicle Spare Parts: Product Scope



## Slowly increasing expenditure per vehicle to support future industry growth



- The overall North Africa spare part industry expected to grow at a CAGR 2.8% ('16-'21)
  - Algeria = 1.9% CAGR
  - Egypt = 1.8% CAGR
  - Morocco = 5.4% CAGR
- Parts Per Vehicles (PPV) estimated at USD 318 for North Africa (Algeria, Egypt, Morocco), and we are expecting a close to 1% increase in PPV by 2021.
- In North Africa Egypt dominates the spare parts market thanks to the highest number of vehicles in operation and despite having a slightly lower parts per vehicle (around USD 311 in 2016).

**Note:** PPV includes spend on both locally produced parts as well as imports. Labour charges not included. Includes tires, batteries, lubricants, mechanical, body parts etc.

\*Tires, Batteries and Lubricants.

Source: Frost & Sullivan analysis.

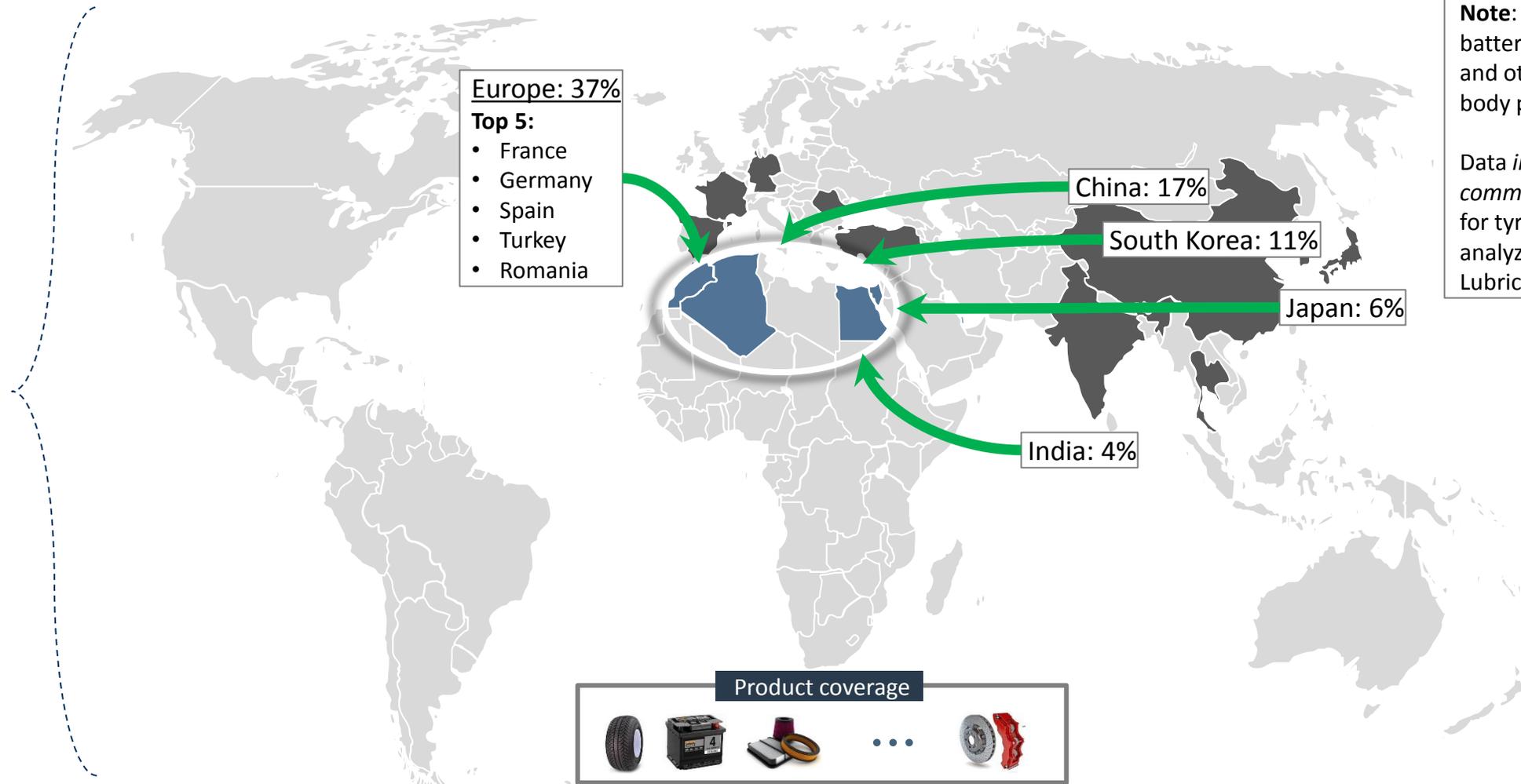
## Imports of auto parts by partner country:

# Most of North Africa's car parts imports come from either Europe or Asia; China on the rise

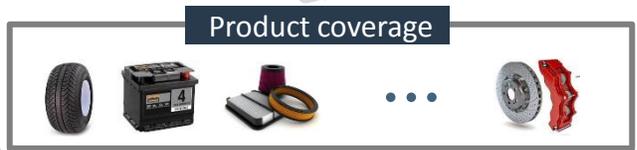
Vehicle Parts Imports\* by Country: Top Partners, North Africa, 2016

Total imports value\* of ~USD 3 billion in 2016

Note: includes components imported for assembly.



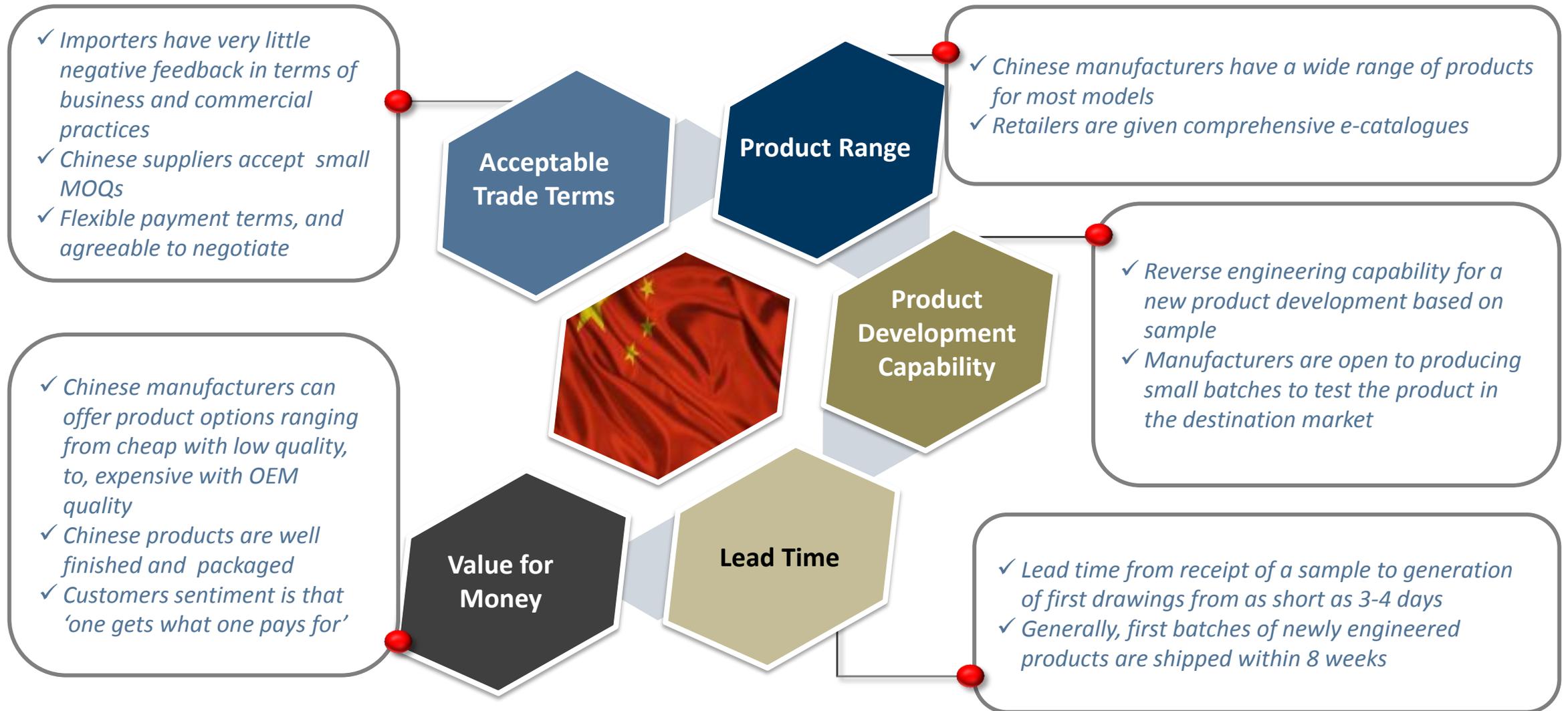
**Note:** data for tyres, batteries, oil filters, air filters and other mechanical and body parts\*.  
Data includes parts used for commercial vehicles (except for tyres, which are only analyzed for light vehicles). Lubricants excluded.



\*Based on analysis of top 5 HS codes for automotive parts: 401110, 842123, 850710, 8708, 870899.

Source: COMTRADE, Frost & Sullivan analysis

# Success Factors of Chinese Auto Parts Manufacturers



# Electro Mobility in North Africa



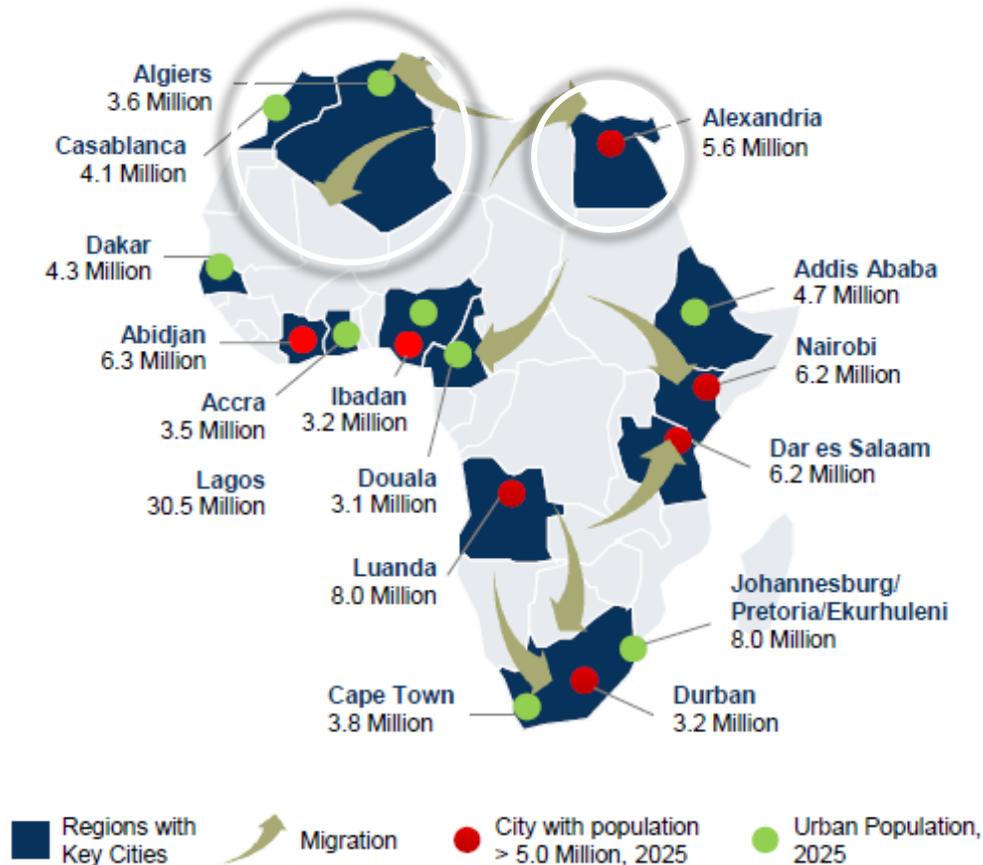
# The future of electro mobility in Africa will be driven by developments within Europe, the United States and Asia

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- European city policies will force OEMs to eventually limit or stop the manufacturing of internal combustion engines in favour of electric vehicles.
- Although Africa will continue producing and purchasing petrol and diesel powered vehicles, the eventual demise of these vehicles in Europe and elsewhere will influence the direction taken by African governments and cities.
- Global OEMs have established manufacturing and assembly facilities in a number of African countries and will continue producing petrol and diesel vehicles in these plants for the foreseeable future. However, it is unlikely for these OEMs to upgrade these facilities to enable the assembly of a more advanced combustion powered vehicles in future when the OEM's wider strategy and focus is one of EVs.
- Private investors are likely to invest only in strategies that adopt up-to-date technologies aligned with advanced mobility markets.
- Automotive manufacturing bodies in conjunction with national governments will promote the local production of EVs, as the potential for local content and value-add is far greater than the traditional value-chains associated with petrol and diesel vehicles which causes a drain on foreign exchange.
- Lack of a stable electricity supply plaguing large parts of Africa will limit the adoption and operation of electro-mobility solutions in the continent.
- Underinvestment in power generation will take decades to rectify and will remain a direct consequence of corruption and lack of government initiative and capability.

# Four key blocks of factors to influence future landscape of mobility in Africa

Urban Population Forecast by Region, Africa, 2025



## Policy

- Government policy as the major driver
- Investment in transport infrastructure is necessary to achieve growth

## OEM Partnerships

- Private companies to lead and support the EV market development

## Emission and Traffic Congestion

- Africa is getting urbanised quickly
- Pollution remains one of the major concerns

## Rapid Urbanisation

- 350 Million people to move to African Cities by 2030
- Youth to dominate societies in large cities
- Commuter bottleneck problems to push for new solutions

Source: Frost & Sullivan

# Driving Factors for Smart Cities in Africa by 2025, Continued

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## Policy:

- Government policy is the major driver within the electro-mobility revolution, and will be critical if Africa is to progress or advance its use of green mobility solutions.
- While Europe is pushing vigorously to advance technology adoption to reduce emissions, African governments have concerns for economic and political problems which receive far greater emphasis from politicians.
- Africa is well positioned to benefit from electro-mobility technologies – African countries are at a stage where investment in transport infrastructure is necessary to achieve growth.

## Emission and Traffic Congestion:

- The rapid urbanisation occurring in African cities is driving ever greater concerns of emissions and traffic congestion.
- African cities remain some of the worst polluted and congested urban areas globally and are gradually forcing governments to adopt strategies to implement public transport solutions that mitigate these problems.

## Rapid Urbanisation:

- An additional 350 Million people are expected to move to African Cities by 2030, resulting in massive urbanisation rates and pressure on the efficient supply of resources and services such as housing, energy and water supply, refuse removal and effective transport systems.
- Majority of the population moving to cities will be relatively young, resulting in largely youth dominated society in major cities.

## OEM Partnerships:

- In various markets, private companies and OEMs are driving growth in EVs and other forms of electro-mobility.
- Where government initiatives are lacking, the private sector through partnerships are investing in charging and other infrastructure to enable the sale of their EVs.
- These partnerships are more prevalent within markets that show greater potential such as South Africa and the markets of North Africa.

# Conclusions, Recommendations and Areas of Opportunities



# Key Challenges and Recommendations

## Key Challenges

**LOW ATTRACTIVENESS FOR OEMs**

**UNSTABLE VOLUMES OF DOMESTIC MARKETS**

**LOW PRESENCE OF SPARE PART MANUFACTURERS**

## APPROACH



- Ensure stability and predictability of the auto industry
- Focus on non-tax aspects like support for R&D, cooperation with universities
- Support demand with subsidized loans and scrappage programme



- North Africa is set to become much more integrated in Africa, local manufacturers should explore export opportunities
- Right mix of protectionist measures and open economy can support long-term development of the auto industry



- Number of units in operation is set to grow: opportunities for fast moving part manufacturers: Tires, Batteries and Lubes
- Promote cooperation of local and foreign suppliers to promote value addition inside the region

# About Frost & Sullivan



# Introduction to Frost & Sullivan

Frost & Sullivan is a leading global strategy consulting company, headquartered in the United States. Established in 1961, in New York City, the company today has 40+ offices across the globe. It has 3 offices in the Middle East in Dubai, Bahrain and the KSA.

The company has a domain knowledge approach to research and strategy consulting (**dedicated team of 300+ automotive researchers and consultants globally, 20+ specifically working for MENASA**). The automotive team has been working closely with OEMs and Vehicle Dealerships in the KSA, the UAE, Kuwait and in Middle East, Africa on multiple projects ranging from price benchmarking to developing their long term strategy and identifying specific areas of business opportunity.



40+ offices, 30 Countries  
1800+ Consultants  
250,000+ Clients serviced worldwide  
Fortune 1000 clients and SMEs

## GLOBAL FOOTPRINT



Strategy / Business Planning  
Market Intelligence  
Competition Benchmarking  
M&A / Financial Modelling  
Organization Restructuring  
Mfg / Process Consulting  
Technology Research

## CONSULTING SERVICES

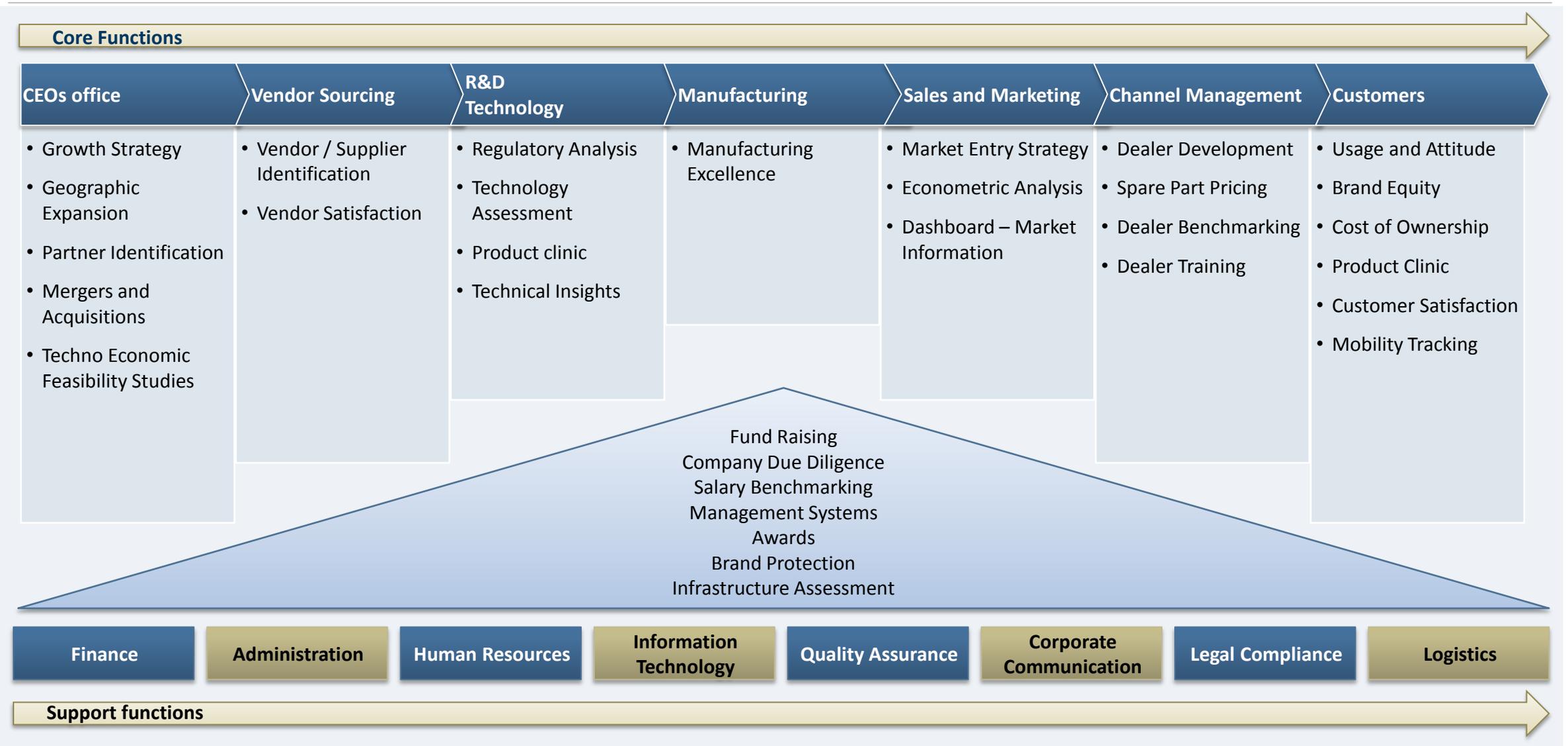


12 Industries  
50+ Product Categories  
Combination of Market, Technology,  
Economics and Applications

## INDUSTRY EXPERTISE

MENASA = Middle East, North Africa and South Asia

# Product Offerings for Automotive across Value Chain



# Frost & Sullivan's Automotive Practice offers 6 levels of Consulting and Advisory Services

## Key Organisational Challenges

1. Operational Improvement

2. Growth

3. Shareholder Value

6 Levels of Engagement	6	<b>Strategy Workshops and Advisory</b>	Strategy Workshops with Boards and Senior Teams on Business and Strategic Planning, Growth Roadmaps, Solving Critical Business Issues
	5	<b>Partner Identification and Research</b>	Working on Inorganic Growth: Mergers and Acquisitions, Joint Ventures, Partner Identification to Due Diligence, Structuring and Post Deal Integration
	4	<b>Consulting Projects</b>	Long term Engagements on Identifying Growth Options, Market Entry Strategy, Business Portfolio Assessment and
	3	<b>Customised Market Research</b>	Customised Market Research Projects to Analyse and Evaluate Customer Requirements, Competition Business, Industry Trends and New Growth areas
	2	<b>Syndicated Research Reports</b>	Knowledge Centre Reports and Industry Updates on Market and Competition provide Tactical Information Support
	1	<b>Decision Support Databases</b>	Customised Databases and information provide all necessary inputs for Operational Planning

## Support Advisory Services

Financial Advisory

Supply Chain Engineering

Manufacturing Advisory

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# Contact Information

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F R O S T  S U L L I V A N



## Contact

### Vitali Bielski

Senior Consultant– MENA, Automotive Practice



E-mail

: [vitalib@frost.com](mailto:vitalib@frost.com)



Bahrain Mobile : +971-55-6728621

### Frost & Sullivan International Inc.

22601, Swiss Tower,  
Cluster Y, Jumeirah Lake Towers,  
P O Box 33372  
Dubai, United Arab Emirates

## Contact

### Subhash Joshi

Regional Head – MENA, Automotive Practice



E-mail

: [subhashj@frost.com](mailto:subhashj@frost.com)



UAE Mobile : +971-56-7686450

### Frost & Sullivan International Inc.

22601, Swiss Tower,  
Cluster Y, Jumeirah Lake Towers,  
P O Box 33372  
Dubai, United Arab Emirates