

## EXECUTIVE SUMMARY

# AFRICA AUTOMOTIVE INDUSTRY ATTRACTIVENESS

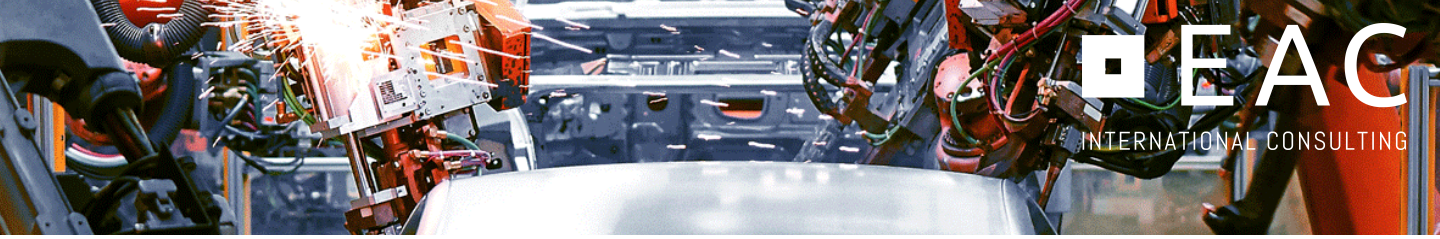
*“OPPORTUNITIES FOR INTERNATIONAL AUTOMOTIVE PLAYERS”*

APRIL 2021

EAC – EURO ASIA CONSULTING PARTG

A new study of EAC’s international Automotive practice team shows the promising opportunities the African automotive ecosystem holds. As more and more OEMs and tier suppliers establish their value-chain in African countries, the increasing ecosystem maturity is bound to play an effective and key role in the domestic and export markets.

EAC critically examined the value-add African economies would offer considering its attractive demographics and skillsets vis-à-vis cost structures mix and trade agreements. The study presents relevant facts and offers initial strategic as well as operative suggestions for international automotive manufacturers and tier suppliers in Africa.

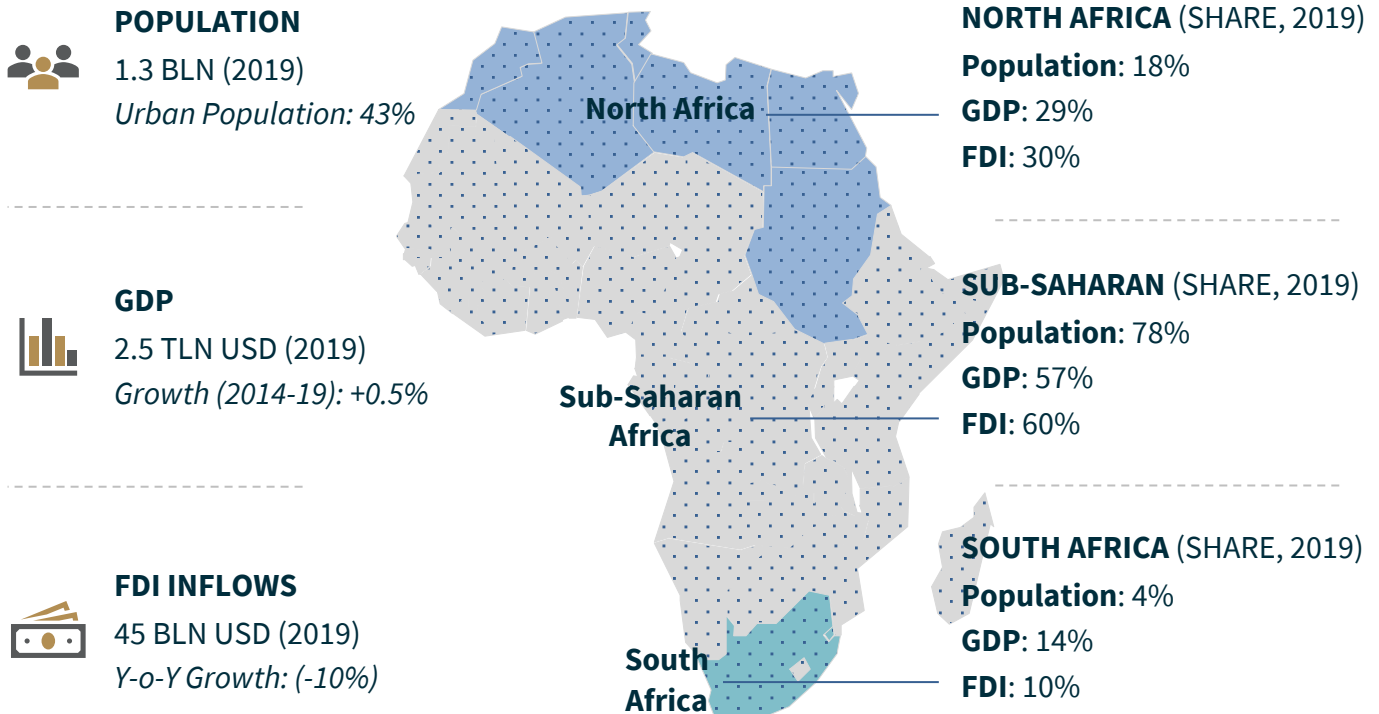


## EXECUTIVE SUMMARY (1/4)

### AFRICA – AN INTRODUCTION

#### *African GDP primarily constituted by Algeria, Egypt, Morocco, Nigeria and South Africa economies*

Africa, with a GDP of 2.5 tln USD in 2019, consists of 52 countries with a population of 1.3 bln that has a median age of 19 years. The agriculture sector employs 60% of the total workforce and contributes ~30% to the overall GDP, while metals and food items are key export commodities from across Africa.



The five countries that consolidate the continental economy are Algeria, Egypt, Morocco, Nigeria and South Africa, while the countries that had the highest GDP growth rates in 2019 were Rwanda, Ethiopia, Côte d'Ivoire and Ghana – all four being 'sub-Saharan' African countries.

#### *Diverse demographics and ecosystems additional to critical logistical pre-conditions due to continent size*

Africa's sheer size is often misrepresented on maps – covering an area of 30 mio sqkm, it is equivalent to 13 countries' cumulative area, including that of the United States, China and India. Such conditions demand mobility requirements for personal and public transport in urban, semi-urban and rural regions, and at the same time need to be considered in manufacturing logistics planning.

As one would imagine, the historical backgrounds, demographics, cultures, political systems and industry ecosystems change significantly and vibrantly across economies. Therefore, for a micro analysis of the automotive ecosystem, this study segments countries into North Africa, Sub-Saharan Africa and South Africa – regions that exhibit similar ecosystem maturity levels and trends amongst the countries.

## EXECUTIVE SUMMARY (2/4)

### AUTOMOTIVE SUPPLY MATURITY

***New investments in the African automotive value-chain driven by local presence of tier suppliers, increasing technical competence and attractive cost structures***

The African automotive supply ecosystem's maturity is significantly high as Automotive OEMs and tier companies have not only invested in the countries to meet local demand, but more so to leverage the attractive resources and cost structures for exports.

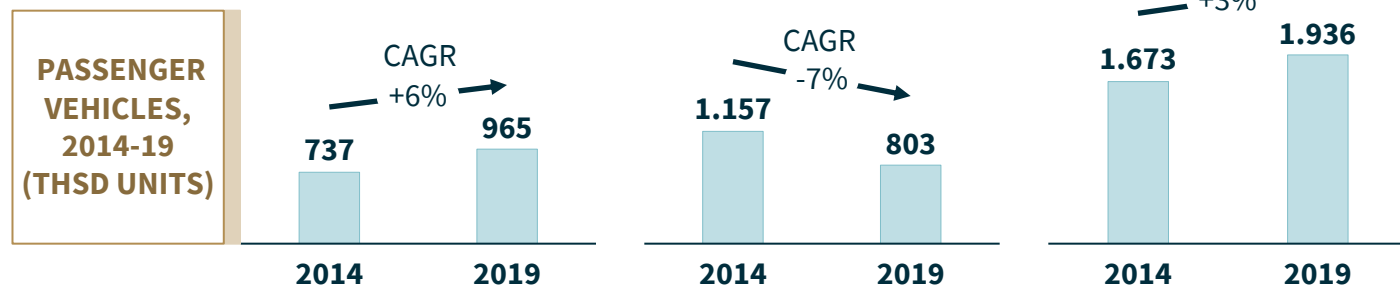
with R&D and testing footprint. South Africa boasts of presence of Asian, EU and US OEMs, and a supply base of well over 500 tier suppliers, that produced ~350 thsd passenger vehicles in 2019.

Morocco, Egypt, Algeria and Tunisia have 8-10 EU and Korean OEMs presence that produced ~600 thsd passenger vehicles in 2019. The tier suppliers base that enables local value-addition as high as 60% in Morocco, with Government policies targeting 80-90% until 2024-25.

#### VEHICLE PRODUCTION

#### NEW VEHICLE SALES

#### USED VEHICLE SALES



Source: OICA, EAC primary research and analysis

The highly attractive trade agreements such as EFTA, EU FTA, ECOWAS, Egypt-UAE/ Agadir Agreement/ PAFTA and preferential import duties as low as 0-2.5%, that countries have amongst other African countries, and with the United States, Mexico, EU and MEAST have indeed played a central role in development of local value-chain.

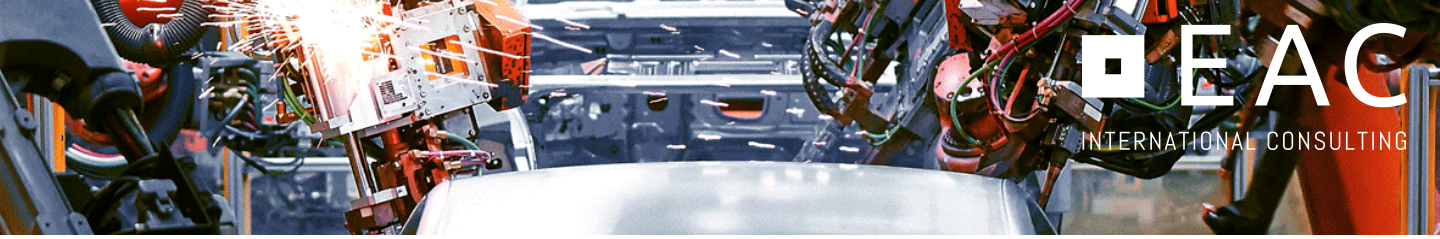
***Trade agreements and preferential import duties within Africa and with EU, US, MEAST make the maturing value-chain in African countries attractive for OEMs and tier suppliers alike***

South Africa, Morocco and Egypt – the ‘first movers’ as our analysis categorizes them, have a distinct and well-established automotive value-chain, not only for manufacturing and assembly, but also,

Such targets become realistic to achieve also by the mature skill levels of local workforce and highly attractive remunerations that has an average range of 2,000-14,500 EUR per annum in the automotive industry.

***Exports of vehicles and components from North African countries crossed critical size of ~4 bln EUR in 2019, signifying local value-addition competence that is as high as 60%***

Legacy tier companies such as Bosch, Valeo, Leoni, Delphi Automotive and Nexteer; while electronics/ sensor companies such as TE Connectivity and Marquardt have strong footprint in Egypt, Morocco, Tunisia and Algeria.



## EXECUTIVE SUMMARY (3/4)

Morocco and Tunisia exported automotive components worth ~700 mio EUR in 2019.

Egypt and Algeria house SKD plants of BMW Group, Mercedes-Benz, Renault, Stellantis, and VW Group while Morocco has Stellantis and Renault SKD plants. Tunisia represents a broader Asian cluster, from Korean OEMs Hyundai and Ssangyong to Indian OEMs TATA Motors and Mahindra. Morocco, the primary exporter of passenger vehicles in North Africa, exported vehicles worth ~3 bln EUR in 2019.

***Sub-Saharan African countries are witnessing new investments from EU and Japanese OEMs - 'future-proofing' strategies as the market evolves beyond imported used vehicles***

Countries in sub-Saharan Africa, are the ones under the spotlight currently – Nigeria, Ghana and Kenya in particular.

On the west coast, Nigeria, with its attractive import duty structure of 0-10% on knocked-down units, already hosts assembly plants of OEMs from Asia (Nissan, Honda, Hyundai, Kia), EU (Stellantis), and the United States (Ford), with localization levels of up to 20%.

Ghana, also on the west coast, has been witnessing resurgence of OEM assembly footprint – VW Group started assembly of hatchbacks, sedans and SUVs at its plant with annual capacity of 5 thsd units since H1-2020 (with plans to increase capacity to 20-30 thsd units). Nissan, Toyota and Suzuki new plants were to be commissioned until end-2020.

On the east, Kenya has three local vehicle assemblers while VW Group has been producing hatchbacks since 2019. Much like Nigeria and Ghana, localization level of passenger vehicles is currently limited to 15-20%.

***Local companies in Egypt, Morocco have established themselves as mature competence partners in embedded and application SW development for CASE-focused solutions***

Touching upon the value-add in CASE, the skilled workforce in embedded and application software domains in countries such as Egypt are also attracting offshore centers that cater to global software R&D projects, for example, Valeo Egypt's software and R&D center enables innovative technologies such as the Electric Supercharger, HUD, Park4U, Range Extender Stator, SCALA, Sensor Cleaning.

In fact, EAC is currently executing an ER&D B.O.T. project in Egypt, and the competent ecosystem positions the region extremely competitively against legacy software development hubs in CEE and India.

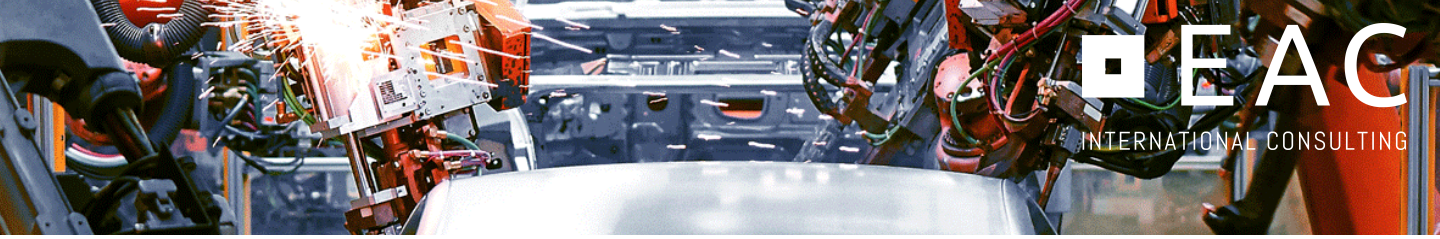
### AUTOMOTIVE DEMAND MATURITY

***Africa is a nascent market for new PVs, that dropped below the 1 Mio units sales mark from 2016 – indeed, availability of affordable imported used vehicles is the prime factor***

The overall African automotive market is at a nascent stage with new passenger vehicles sales of ~800 thsd units in 2019 that has declined from ~1,100 thsd units in 2015. This decline is primarily attributed to availability of quality used passenger vehicles imported into Africa.

The new passenger vehicles sales is driven by South Africa (~350 thsd units)<sup>1)</sup> and countries in North Africa such as Morocco, Egypt, Algeria and Tunisia (~430 thsd units)<sup>1)</sup>, with premium segment holding 13% and 3-5% respectively. Consumer preferences, here too, are shifting towards SUVs and crossovers.

1) GNI per capita: Germany – 47,000 USD, India – 1,450 USD



## EXECUTIVE SUMMARY (4/4)

### ***Premium segment market share of the new PV sales has remained consistent at 13% in South Africa, 3-5% in North Africa and 4-5% in Sub Saharan Africa***

~11 thsd new passenger vehicles were sold in sub-Saharan countries Nigeria, Ghana and Kenya in 2019, with premium segment holding 4-5% of sales. Rest of the sub-Saharan countries contributed ~9 thsd units in 2019.

SUVs and pick-ups continue to have a strong foothold (60% of new vehicles sales), especially in countries with limited infrastructure beyond urban cities such as in Kenya and Nigeria.

This nascency becomes even more pronounced considering used passenger vehicles market's dominance – used vs new passenger vehicles ratio of 2:1 in South Africa and used passenger vehicles parc of ~550 thsd units in sub-Saharan Africa.

85-90% of passenger vehicles imported into Africa cater to the used passenger vehicles market. Annually, approximately 800 thsd used passenger vehicles are imported by the leading importers in sub-Saharan Africa from Japan, EU and the United States. Germany holds over 50% of EU passenger vehicles exports to Africa. West African countries import 70% of overall used passenger vehicles imported into Africa.

### ***With GNI per capita of 1,500-2,500 USD in majority of African countries, quality used passenger vehicles imported from EU, US and Japan become the 'favored choice'***

Such deep distinction between the markets outline the affordability status for new passenger vehicles, given that GNI per capita in most African countries is below 2,500 USD, even less than 1,500 USD in Sub-Saharan Africa<sup>1)</sup>, making used passenger vehicle sales hold up to 70-80% of transactions in 2019.

1) GNI per capita: Germany – 47,000 USD, India – 1,450 USD

Due to the strong European influence in North African countries, especially Morocco, preference for EU brands is high, followed by Asian OEMs. These preferences change drastically in the Sub-Saharan countries wherein Asian brands dominate the market, especially with availability of used Japanese domestic market imports.

### ***New PV sales estimated at >2 mio units (basecase) by 2030 driven by new cars preference with income growth, supported by government reforms and OEM assembly resurgence***

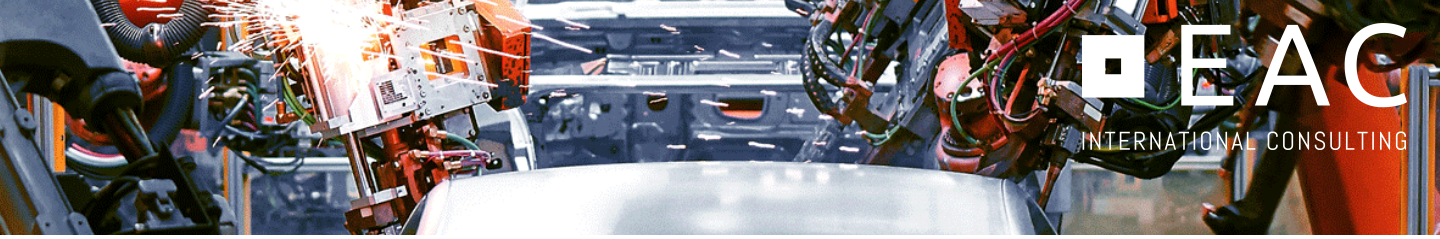
Given the current landscape and growth fundamentals, future PV sales expected to reach 2.3 mio units (base case) by 2030 based on potential new cars penetration, rising income levels, impetus on reforms and emerging mobility models. Considering an optimistic case, the market holds potential for 2.9 mio units by 2030.

## STRATEGIC TAKEAWAYS – AUTO INDUSTRY

### ***Expected increase in the local value-chain maturity in the North Africa and new CKD investments in the Sub-Saharan Africa need consideration for the strategic planning in Africa***

Leveraging local value-chain in Africa for low-cost manufacturing advantage and serving regional and global markets. Exploring tier supplier ecosystem based in Morocco and Tunisia, regional technology partnerships/ ER&D/ innovations as potential synergies for value-chain integration as well as preferential benefits offered through free trade agreements with EU, USA and Middle East.

In summary, the African countries undoubtedly hold opportunities for the 'traditional car' and CASE solutions alike, and the regional strengths and opportunities should be considered for mid- to long-term corporate strategy.



## STRATEGIC IMPLICATIONS - INTERNATIONAL OEMS

**Key considerations for international OEMs include market-oriented products, new sales models, co-operation and sourcing opportunities, with focus on CASE**

With new PV sales expected to triple by 2030 (base case), Africa presents significant opportunities for international OEMs to consider entry/ expansion in the region. African market exhibits diverse product preferences requiring international OEMs to evaluate regional priorities and evaluate most suitable sales models with focus on CASE. Besides, the existing cost competitive manufacturing ecosystem allows for exploring opportunities in partnerships for assembly and sourcing.

### STRATEGIC IMPLICATIONS AFRICA – OUTSIDE-IN CONSIDERATIONS

#### Implication

#### Key Insights

#### Target Markets

#### PORTFOLIO AND SALES MODELS



- **Effective product (PV) mix of**
  - **ICE vehicles** aligned to the market demand
  - **PHEV/ electric portfolio** considering the regional policies
- **Explore ‘flexible mobility models’-** introduction of (new/ pre-owned vehicles) in urban region and upcoming demand hubs



#### LOCAL VALUE CHAIN



- Leverage **local assembly presence** combined with **logistical benefits** and **FTAs** to explore potential **export opportunities** within **Africa** (especially to sub-Sahara) and the neighboring **Middle Eastern** markets
- Explore opportunities for establishment of **contract assemblies**



#### GLOBAL SOURCING



- **Potential auto-component sourcing** from auto component hubs **considering logistical and trade agreement benefits** (preferential duty benefits ranging ‘0-2.5%’)
- **Access ER&D oppurtinities** to leverage low-cost advantage and technological competencies



#### SHARED MOBILITY



- **Explore potential opportunities** for introduction of ‘shared mobility’ platforms
- **Partnership opportunities** with the existing mobility service providers (Uber, Lyft, etc.)



## STRATEGIC IMPLICATIONS - INTERNATIONAL AUTO COMPONENT SUPPLIERS

*Key implications for intl. tier suppliers include identifying new customer segments, leveraging localization initiatives and evaluating technology partnerships for CASE*

Manufacturing/ assembly presence of leading European and Asian OEMs coupled with government initiatives to increase localization presents significant opportunities for international tier suppliers to consider entry/ expansion in the region.

Africa exhibits a strong footprint of >500 tier suppliers across the value-chain allowing for international tier suppliers to consider inorganic growth via strategic partnerships and acquisitions. Besides, few African countries (especially in North Africa) exhibit significant competence for ER&D outsourcing and can hence be considered by tier suppliers for development of centre of innovation/ excellence with focus on developing components for CASE.

## AFRICA STRATEGIC IMPLICATIONS – OUTSIDE-IN CONSIDERATIONS FOR TIER SUPPLIERS

### New customer segments

- Identification of new OEM customer segments - PHEV/ electric vehicle portfolio by leveraging the regional government electrification targets

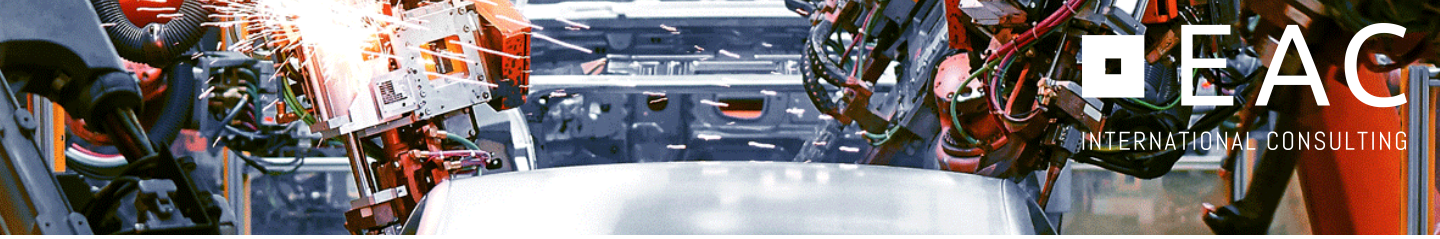


### Leverage Localization

- Local manufacturing footprint can be leveraged to supply to the existing OEM customer base and assessing potential value chain integration growth opportunities by strategic M&As

### Technology Partnerships

- Synergy assessment with the technology partners for ER&D, competence opportunities for embedded and application software development



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**EAC SUPPORT OPTIONS FOR AUTOMOTIVE INDUSTRY IN AFRICA**

- #1 AFRICA MOBILITY OUTLOOK 2030**

  - Deep-dive market transparency, long-term strategic planning, ecosystem maturity analysis & opportunity assessment 2030  
– Outlook, countries prioritization and co-operations models

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- #2 FOOTPRINT ADVISORY**

  - Location assessment based on strategic and operational parameters including  
– Govt. incentives, value-chain maturity, cost advantage etc.

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- #3 PARTNERING CONCEPTS**

  - Assessment of local co-operation ‘best-practices’ and identification of potential partners for value-chain development  
– Existing co-operation models learnings and risks analysis

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- #4 AFRICA GLOBAL SUPPLY HUB**

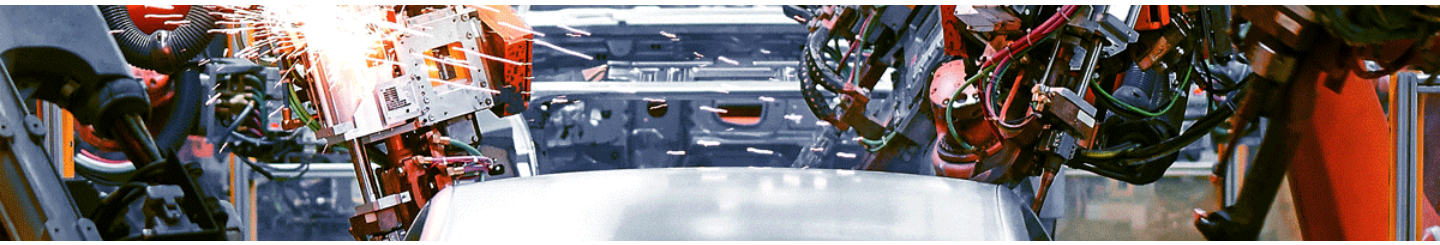
  - Strategic sourcing and supply of auto components from existing tier supplier ecosystem to leverage cost and trade benefits  
– Legacy processes, assemblies and battery raw materials

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- #5 AFRICA ER&D ATTRACTIVENESS**

  - Transparency on ER&D competence for embedded and application software development near-shoring opportunities  
– Techno-commercial attractiveness analysis





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