



Metair – Initiation

Key message: Restructuring, debt reduction and simplification are key features as Metair focusses on the regional automotive market.

- We initiate on Metair released following their 1H FY24 results. A HEPS loss of 3c was reported on a 4% decline in revenue and 59% decline in EBIT. Hyperinflation in Türkiye (Mutlu) continues to impact earnings significantly - this makes analysing the current results challenging to reconcile to a normalised earnings base (77c excluding Mutlu and 79c excluding Mutlu and including Hesto).
- Metair is going through a significant restructuring process aimed to simplify the group (which will result in more normalised reporting and improving forecasting ability) and reduce debt. The strategic focus will be on automotive component manufacturing in South Africa, with growth sought in the sub-Saharan Africa mobility and energy sectors. The AutoZone acquisition is in line with this strategy.
- In this report we look forward to FY25 and use this as our base valuation year – with the assumptions that Mutlu is sold In FY24 and Hesto is fully consolidated in FY25. This removes significant complexity in the reporting structure with no hyperinflation accounting (post-Mutlu sale) and the full consolidation of Hesto.
- The key issue of the debt structure will be addressed as net finance costs increased 59% (due mainly to Mutlu - elevated debt levels, high working capital and interest rates in Türkiye). Mutlu currently accounts for approx. 70% of the interest cost for Metair. Mutlu's debt has increased substantially recently to continue to be able to operate in a hyper-inflationary and high-interest rate environment – interest costs alone were R340m (of a total R493m) for 1H24.
- Metair remains within temporarily adjusted debt covenants and lenders remain supportive of the debt restructuring. Post the Mutlu sale net debt is expected to be approx. R3.7bn (incl. Hesto) with net debt:equity at approx. 2.7x and will be subject to a restructuring to ring-fence South African debt and allow Hesto debt to be restructured (along longer-term project financing terms).
- On a pro-forma basis excluding Mutlu and consolidating Hesto, we forecast HEPS for FY25 of 183c. We value Metair using FY25 EBITDA multiples and derive a Target Price of R15.70. This implies an exit PE multiple of 8.6 times on FY25 HEPS.

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Price (09/10/2024): R12.36
Target Price: R15.70
Dividend yield: 0%
Total return: 27%

Market cap R2.51bn
Shares in issue 195.3mn

Financial summary

ZARmn (year to December)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	13905	15856	11687	19059	20213
EBITDA	826	927	-3068	1386	1447
Net income	-40	96	-3669	357	450
Headline EPS (diluted)	-16	133	135	183	230
PE Ratio	0.0	9.3	9.1	6.8	5.4
Dividend	90	0	0	0	58
Dividend yield (%)		0.0%	0.0%	0.0%	4.7%

Source: Factset, Company data, Chronux Research estimates

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Figure 1 Financial summary

Financial year to December	FY22	FY23	FY24E	FY25E	FY26E
ZAR/USD exchange rate	16.40	18.40	18.37	17.60	17.57
ZAR/Romanian Lei exchange rate	3.50	4.00	4.00	4.00	4.00
Per share data					
Earnings (diluted)	(20)	48	(1,878)	183	230
Headline earnings (diluted)	(16)	133	135	183	230
<i>HEPS growth</i>			2.0%	35.1%	26.0%
NAV		2,797	1,721	2,084	2,277
Dividend	90	0	0	0	58
Valuation ratios					
P/E ratio		9.3	9.1	6.8	5.4
P/B		0.44	0.72	0.59	0.54
Dividend yield		0.0%	0.0%	0.0%	4.7%
Income Statement (ZARmn)					
Sales	13,905	15,856	11,687	19,059	20,213
<i>Sales growth</i>		14.0%	-26.3%	63.1%	6.1%
Cost of Goods Sold (COGS)	(12,667)	(13,935)	(10,051)	(16,391)	(17,383)
Gross Income	1,238	1,921	1,636	2,668	2,830
<i>Gross margin</i>	8.9%	12.1%	14.0%	14.0%	14.0%
SG&A Expense	(1,317)	(1,462)	(1,180)	(2,360)	(4,720)
Other Operating Income/Expense	(6)	(232)	(3,933)	0	0
EBITDA	826	927	(3,068)	1,386	1,447
<i>EBITDA margin</i>	5.9%	5.8%	-26.3%	7.3%	7.2%
Depreciation & Amortisation	(373)	(441)	(300)	(496)	(500)
EBIT (Operating Income)	453	487	(3,367)	890	947
<i>EBIT margin</i>	3.3%	3.1%	-28.8%	4.7%	4.7%
Nonoperating Income - Net	398	556	0	0	0
Net Interest Expense	(377)	(741)	(195)	(355)	(275)
Equity in Earnings of Affiliates	(239)	(10)	17	18	19
PBT	235	292	(3,545)	553	690
Income Taxes	(239)	(163)	(106)	(177)	(221)
<i>Tax rate</i>	101.7%	55.9%	-3.0%	32.0%	32.0%
Consolidated Net Income	(4)	129	(3,652)	376	469
Minority Interest	(36)	(33)	(17)	(19)	(19)
Net Income	(40)	96	(3,669)	357	450
Headline adjustments	8	167	3,933	0	0
Headline income	(32)	262	264	357	450
Cash flow statement (ZARmn)					
Changes in working capital	(661)	28	(255)	(503)	(520)
Cash from operating activities	(640)	112	219	857	1,040
Capital expenditure	(425)	(576)	(600)	(476)	(505)
Other	(175)	51	248	40	35
Investing cash flow	(600)	(525)	(352)	(437)	(471)
Changes in borrowings	1,357	257	270	(500)	(500)
Other	(37)	(102)	(44)	0	0
Financing cash flow	1,320	155	226	(500)	(500)
Change in cash	80	(257)	93	(80)	69
Balance sheet (ZARmn)					
Total assets	12,832	13,109	8,226	10,660	10,619
Cash and equivalents	1,299	969	660	580	649
Other current assets	6,193	6,273	4,173	4,324	4,481
Non-current assets	5,341	5,867	3,393	5,757	5,489
Total liabilities	7,635	7,576	4,864	6,588	6,169
Long-term liabilities	912	1,700	1,474	3,120	2,620
Current liabilities	6,723	5,877	3,390	3,468	3,549
Total shareholders' funds	5,197	5,533	3,362	4,073	4,449
Net debt/(cash)	2,605	2,876	1,641	3,367	2,798

Source: Factset, Company data, Chronux Research estimates

Valuation

- We value Metair on a Sum-of-the-Parts valuation using FY25 as a base year (a “normalised” year assuming the sale of Mutlu and consolidation of Hesto has occurred).

Figure 2 Sum-of-the-Parts Valuation – FY25 EBITDA

<u>ZARm</u>	<u>Comment</u>	<u>FY25 EBITDA</u>	<u>EBITDA Multiple</u>	<u>Enterprise Value</u>
Energy Storage	3-5x multiple for industrial consumer business	513	4.0	2050
Automotive Components	3-5x multiple for industrial consumer business	1060	4.0	4238
Total		1572	4.0	6288
Investments/loans				686
Minorities				-540
Net (debt)/cash				-3367
Equity value				3067
Number of shares ('000s)				195.373
Value per share (ZAR)				15.70

Source: Company data, Chronux Research estimates

- **Energy Storage:** We value the Energy Storage Vertical at a 4 times EBITDA multiple suitable for a relatively mature business. The growth in NEV's will ultimately impact demand for automotive batteries for internal combustion engines, although the growth of hybrids relative to full EV vehicles suggests the move away from internal combustion engines may take longer than expected. First Battery has expanded its traded product portfolio to increase the range of standby, renewable energy applications and industrial backup solutions to diversify from the automotive sector.
- **Automotive Components:** We value the Automotive Components Vertical at a 4 times EBITDA multiple to reflect the Hesto turnaround and the potential acquisitive/organic growth prospects. Metair has already made a strategic move with the proposed acquisition of AutoZone.
- We assume dividends will be considered only from FY26 should debt reduction allow.
- On a pro-forma basis excluding Mutlu and consolidating Hesto, we forecast HEPS for FY25 of 183c. We value Metair using FY25 EBITDA multiples and derive a Target Price of R15.70.
- We use pro-forma numbers excluding Mutlu for our FY24 HEPS forecast of 135c.
- This implies an exit PE multiple of 8.6 times on FY25 HEPS. Our valuation on a PE basis is shown in the following table. We believe that Metair should trade at a 7-9x PE multiple in line with peer industrial companies.

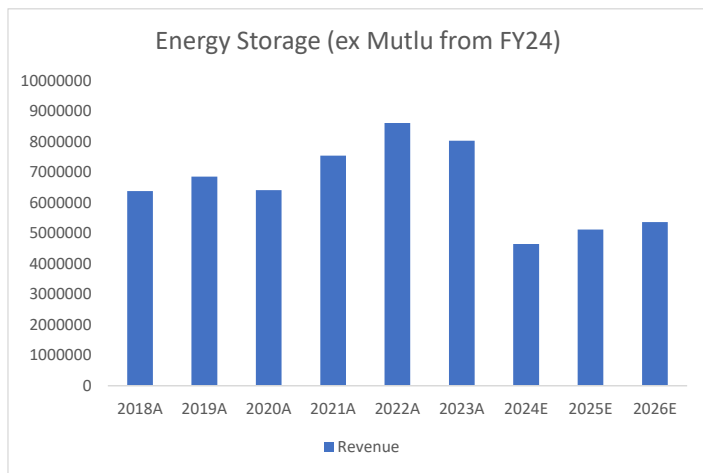
Figure 3 PE Valuation

	<u>2023A</u>	<u>2024E</u>	<u>2025E</u>	<u>2026E</u>
Diluted HEPS	133	135	183	230
MTA PE	9.3	9.1	6.8	5.4
MTA implied exit multiple	11.8	11.6	8.6	6.8

Source: Company data, Chronux Research estimates

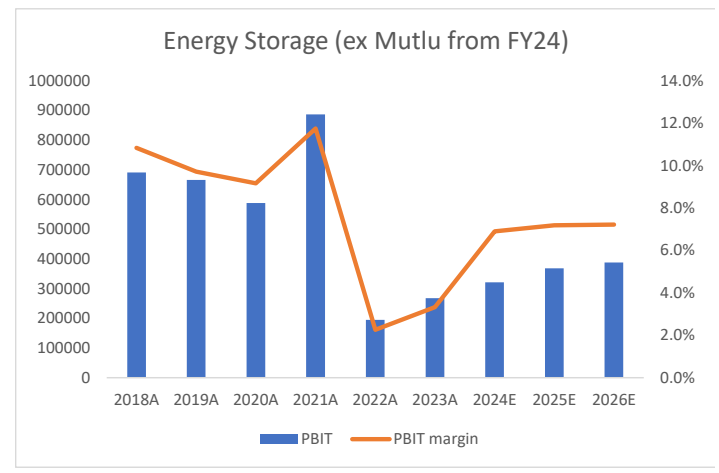
Divisional Forecast

Figure 4 Segment Revenue – Energy Storage (R000)



Source: Company data, Chronux Research

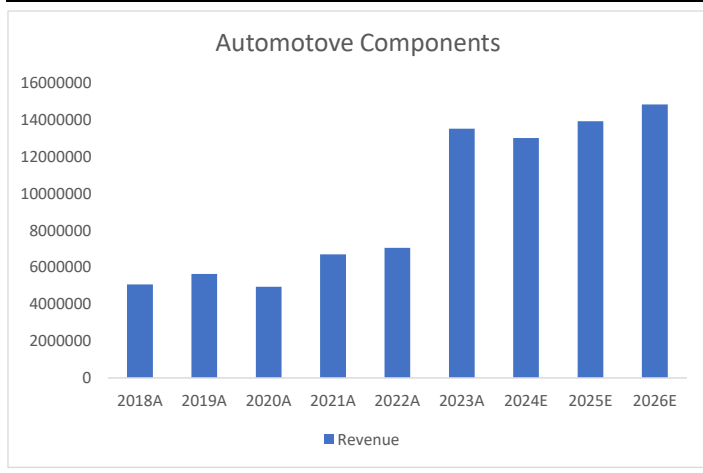
Figure 5 Segment EBIT – Energy Storage (R000)



Source: Company data, Chronux Research

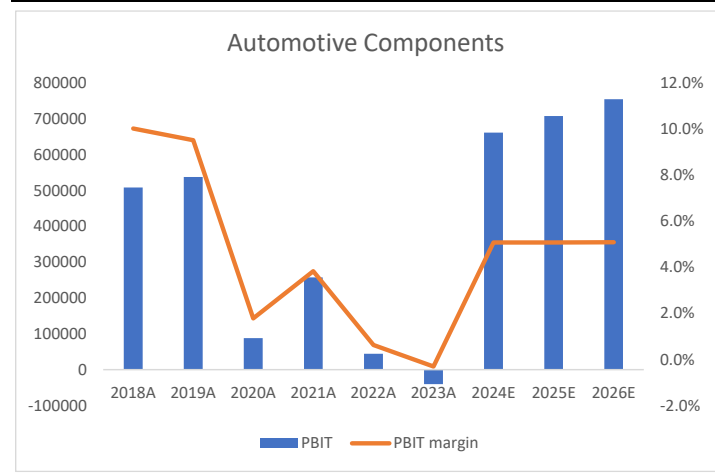
- **Energy Storage:** We assume an operating margin of 12% for First Battery and 3% for Rombat in our valuation reference year of FY25.
- Mutlu is excluded from FY24 in our assumptions.

Figure 6 Segment Revenue – Automotive Components (R000)



Source: Company data, Chronux Research

Figure 7 Segment EBIT – Automotive Components (R000)



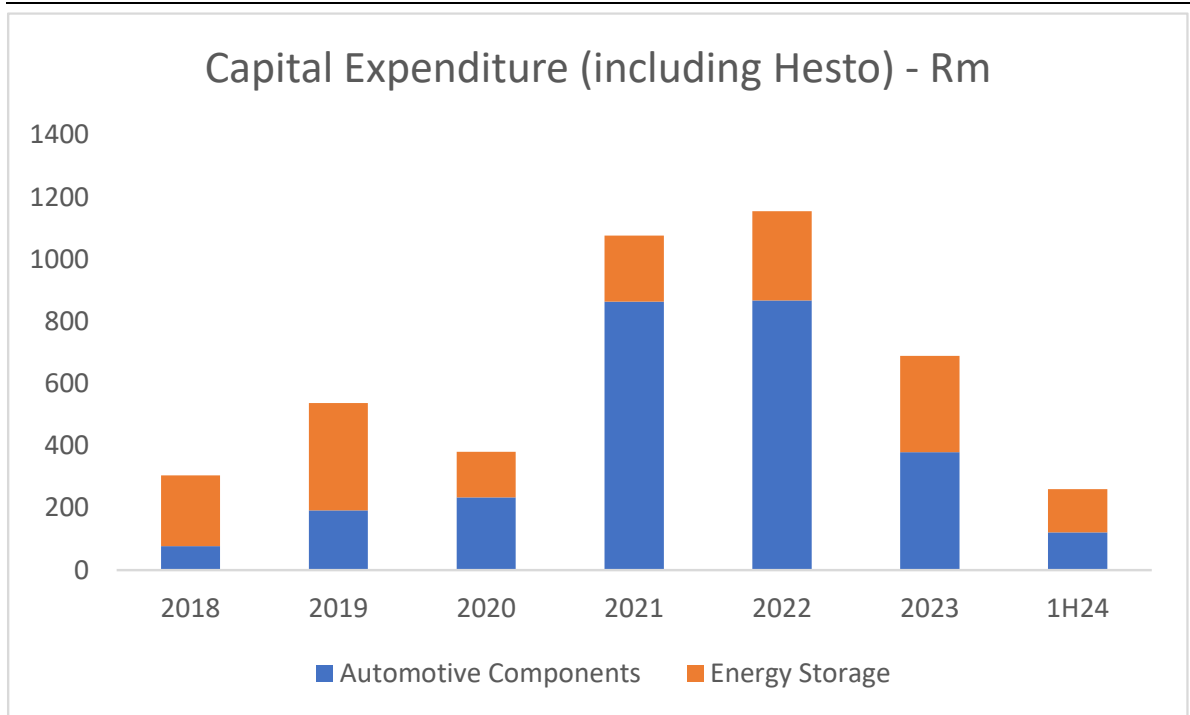
Source: Company data, Chronux Research

- **Automotive Components:** We assume an operating margin of 4% for Hesto and 6% for the rest of the vertical in our valuation reference year of FY25.
- Hesto is included in the numbers as per the segmental reporting format. Significant losses in Hesto contributed to the low segmental EBIT in FY22 and FY23, with a swing to a positive contribution forecast in FY24 following the R112m EBIT in 1H24 (which covered interest costs – approx. R220m per year).

Capital Expenditure

- Capital expenditure has been high in recent years, mainly due the R1.6bn expansion at Hesto.
- The investment into Hesto has been the most significant project for Metair in recent years. Hesto is generating profits again after a strong focus on a turnaround strategy and a commercial price adjustment that provides strong support for revenues and operating profit over the remaining model life of up to nine years.
- Current capex commitments amount to R676m (including R140m for Hesto).
- Maintenance and other ongoing capex is expected to be in the R400-450m range.

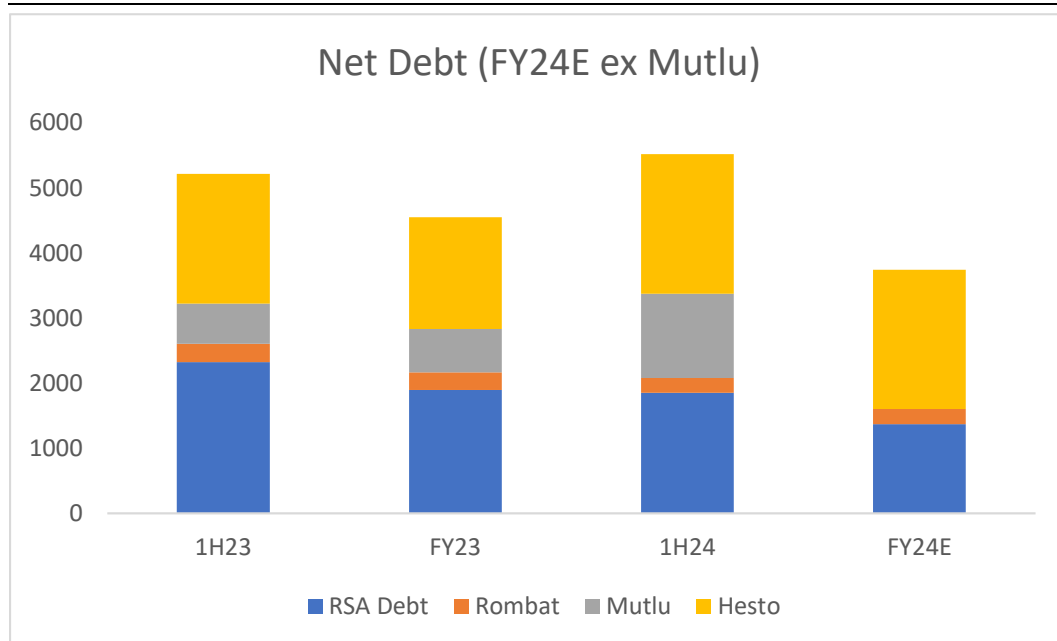
Figure 8 Capital Expenditure (including Hesto) – (Rm)



Source: Company data, Chronux Research estimates

Debt

- Over the last two years, Metair has made substantial investments in projects to support new customer model launches to position the group for forecast growth in the South African automotive industry. Mutlu's debt has also increased substantially due to higher working capital investments and the high cost of borrowings in Turkiye. Combined with a short-term decline in profitability, mainly at Hesto and Mutlu, total group net debt increased to levels that are too high for a business of this nature.
- The group has also provided financial guarantees for funding and trade credit support advanced to Hesto by the minority shareholder, Yazaki Corporation. The funding support is subordinated in favour of external funders but requires a rebalance from Metair. Hesto debt of R2.146bn is currently not consolidated in the balance sheet but is recognised in total reported debt and included in covenant calculations.
- The group's reported net debt to equity ratio remained high at 59% (FY2023: 52%). Net debt to EBITDA was 3.5 times (FY2023: 2.6 times). This was higher than the target of 2.5 times due to funding taken up for new projects and the impact of hyperinflation on Mutlu's results. The group's revolving credit facilities of R1 275 million (RCF 1, R750 million maturing August 2026 and RCF 2, R525 million maturing April 2025) and preference share funding of R840 million (maturing December 2024) are subject to covenant methodology.
- Net debt, calculated on a covenant testing methodology which includes Hesto, amounted to R5.4 billion (FY2023: 4.6 billion) in 1H24, at 2.95 times adjusted EBITDA (FY2023: 3 times). Despite the high debt level, the group remained within agreed banking covenant levels of not more than 4X.

Figure 9 Net debt (FY24E ex-Mutlu) – (Rm)

Source: Company data, Chronux Research estimates

- The Metair board has approved a debt restructuring to address the elevated debt levels. The proceeds of the Mutlu sale will be used to pay off South African debt and reduce the interest charge. Hesto's debt obligations will be restructured with the consolidation of the business (although Metair owns 74.9% it is equity accounted due to conditions in the shareholders agreement).

Mutlu sale

- The sale of Mutlu is significant - the effects of hyperinflation and high interest rates in Türkiye are approx. R750m per year and a significant burden on the income statement and balance sheet. Mutlu currently accounts for approx. 70% of the interest cost for Metair with interest rates in Türkiye at 45-55%. Mutlu's debt has increased substantially recently to continue to be able to operate in a hyper-inflationary and high-interest rate environment – interest costs alone were R340m (of a total R493m) in 1H24.
- The sale of Mutlu for US\$110m on a debt free cash free basis will generate net cash of approx. R480m (net of debt, working capital and transaction costs). This will be applied debt reduction.
- Post the Mutlu sale net debt should reduce by approx. R1.3bn with all operational debt transferred to the purchaser. Net debt for the group is expected to be approx. R3.7bn (including Hesto). This will result in a net debt:EBITDA ratio of approx. 2.7X – still higher than the targeted 2.5X but lower than the covenant (4X).

Debt covenants

- Metair remains within debt covenants subject to the temporarily adjusted terms with lenders.
 - Dividend and interest cover ratio – not less than 1X (currently 1.79X)
 - Net debt to adjusted EBITDA – not more than 4X (currently 2.95X)
 - Priority debt covenant - not more than 3X (currently 1.83X)
- A restructuring and ring-fencing of South African debt is planned to rebalance and recapitalize Hesto debt. This will introduce longer-term external funding (along project finance lines). Post 30 June 2024 a US\$38.2m bridge loan (in ZAR equivalent of R685m) was raised as a subordinated loan to Hesto.

AutoZone acquisition

- Metair has recently announced the acquisition of AutoZone Holdings (AutoZone) - a privately owned leading distributor of auto parts, spares and car accessories in South Africa, with approximately 169 retail stores and 7 QSV stores. The acquisition price will be a maximum of R290m, with adjustments for working capital.
- AutoZone entered into business rescue proceedings on 1 July 2024 and is currently operating in terms of its Business Rescue Plan.
- As at 1 July 2024, the value of AutoZone's net assets (excluding liabilities that are subject to the Business Rescue Plan) was approximately R485 million (including net working capital of R421 million). For the financial year preceding business rescue proceedings up until 30 June 2024, AutoZone generated positive EBITDA of approximately R62 million and a net loss attributable thereto of approximately R61 million.
- A key driver of the historical trading performance of AutoZone has been the impact of the significant debt on the balance sheet predominantly related to the 2014 leveraged buyout of the business. This funding structure impacted AutoZone's ability to invest in working capital sustainably, ultimately impacting historical profitability. All of AutoZone's historical debt will be settled following implementation of the Business Rescue Plan.
- Metair believe that following a restructuring of the debt and investment in working capital, the business can return to profitability and be value accretive for Metair.
- We view this transaction as being in line with the new strategy and provided Metair with diversification in the South African market. AutoZone is a well-established business in South Africa and with the correct financial backing should be able to get back to normal operations relatively quickly without significant brand or customer erosion.
- With the used car market in South Africa becoming increasingly active as customers switch from new to used vehicles due to significant new car inflation in recent years, the opportunity for spare parts should grow in future years.
- This is a move into the retail sector where Metair does not have significant exposure. Strong focus will need to be maintained to resume normal trading operations and ensure suppliers and customers are not lost or alienated (supplier creditors did have to take a haircut in the business rescue agreement).

Group Strategy

- Metair is going through a significant restructuring process that will restructure and reduce debt, simplify the business structure (through the sale of Mutlu and consolidation of Hesto) and focus on automotive component manufacturing and trading opportunities in the sub-Saharan African mobility and energy sectors. Metair has exposure the region already through associate ABM in Kenya.
- This strategy looks to focus on businesses and geographies that Metair is better able to manage. The main aim is to reduce debt levels and the complexity of the business, which has been compounded by the hyperinflationary environment experienced in Türkiye recently which has made financial reporting complex. Metair aims to become more of a regional sub-Saharan African focussed business where growth opportunities can be exploited.
- Progress progress has been good so far with announced sale of Mutlu and the proposed acquisition of AutoZone Holdings (AutoZone).
- Despite significant senior management turnover, the current team is now making significant strides to deliver on the new strategy and simplify the group structure (which will result in more normalised reporting and improve the ability to value Metair).
- In the following section we look at the potential growth prospects in South Africa and sub-Saharan Africa in the automotive components sector – the region Metair will focus on for growth.

Sub-Saharan African Automotive Growth Prospects

- With a strategic focus on the sub-Saharan African automotive component market, Metair has an opportunity to build its automotive component business in South Africa to support the local automotive industry and for potential African export opportunities. Opportunities to invest in manufacturing and trading operations in the region will be investigated should the sub-Saharan African automotive manufacturing market expand.

South African Automotive Sector

- South Africa has a long-established industry and is the largest producer on the continent. The industry dates back to the 1920s and was established behind tariff walls. From the 1960s, there was a series of local content programmes which required increasingly higher levels of local content. This was followed by the Motor Industry Development Programme (MIDP) in 1995, which enabled exporters of vehicles and components to earn rebates on import duties.
- The 2013 Automotive Production and Development Programme (APDP) allowed for rebates to be earned on the basis of production. The APDP was updated in 2021 (APDP2). There are seven manufacturers of light vehicles. There are also a number of assemblers of medium and heavy commercial vehicles which are mainly assembled on an SKD basis.
- The industry is highly export oriented. Europe is the largest market for these exports. Exports to the rest of Africa are significant.
- In 2021, South Africa introduced the South African Automotive Masterplan (SAAM 2021-2035) with ambitious targets to increase production to 1% of global production (1.4m vehicles from the current approx. 600 000 vehicles), local content (to 60%) and employment.
- See Appendix 1 for a more detailed overview of the South African automotive sector.

African Automotive Market

- The African automotive market remains small relative to the global market and many of its small national markets are mainly supplied by imports of used cars. Moreover, it is divided into over 50 mainly very small economies and is therefore mostly unattractive to investors in a sector where optimal scale is very large in relation to the average African national market size.
- While Africa accounts for 17.2% of the global population, the continent only accounts for 1.2% of the global production of vehicles and 1.1% of global sales of vehicles. The African motorisation rate of 49 vehicles per 1,000 inhabitants is 23% of the global average of 209 vehicles per 1,000 inhabitants.

- Most African countries rely on used car imports for a supply of cheap transport. This effectively means that Africa is a dumping ground for used vehicles that other countries do not want. While it does provide an affordable source of vehicles, it does make the establishment of local automotive manufacturing difficult as it is almost impossible to compete against used car imports on a price basis. The used vehicle import industry can also be a powerful lobby against the establishment of local automotive manufacturing policies that mostly look to restrict or reduce used vehicle imports as a policy tool to attract automotive investment.
- South Africa and Morocco dominate vehicle production (producing over 90% of Africa's production), distantly followed by Algeria and Egypt. There is very small-scale assembly and component production capacity in Ethiopia, Ghana, Kenya, Namibia, Nigeria, Rwanda and Tunisia. All other countries are primarily importers although some do have aspirations in assembly.

Attractive Investment Policies

- Success stories like South Africa and Morocco with substantial automotive manufacturing and associated component industry development prove that, with the right policy support, automotive manufacturing and associated component industry development in Africa can be viable. Full assembly from complete knock down (CKD) is only done at scale in South Africa, Morocco and Egypt. Almost all other vehicle assembly in Africa is through low value-add SKD (semi knock down) kit with limited local content.
- Global OEM's are encouraging policies that incentivise investment in vehicle assembly and have actively followed countries where the regulatory climate supports a local vehicle industry. While assembly plants (outside of South Africa and Morocco) are in the main very small compared to global standards and are mainly SKD assembly, the growing footprint of major OEM's such as VW, Toyota, Ford, Suzuki, Renault, Hyundai, Kia and Nissan provide a base for growth and potential shift from SKD to CKD production over time. Chinese automotive firms are also establishing in countries like Kenya, Rwanda and Ghana.
- South Africa and Morocco are the two largest exporters from the African continent, which adds scale to their operations. Both countries restrict used car imports. South Africa's MIDP and APDP have proved successful due to their consistency and long-term vision to increase export competitiveness and attract OEM investment. Morocco has succeeded as an automotive exporter by integrating into the European Union and attracting large scale investments in modern assembly plants.
- Many countries are establishing policies to support growth of the automotive and component industry. Successful policies in South Africa and Morocco have helped to develop sustainable automotive assembly and component businesses as international OEM's have responded to the incentives on offer. Typical policies include restrictions on used car imports (banned in South Africa and Morocco), higher tariffs on imports new vehicles, production and import credits, and investment tax allowances. Incentives for component manufacturing are also offered.

African Continental Free Trade Area (AfCFTA)

- Closer integration through the African Continental Free Trade Area (AfCFTA) could expand the market and attract both regional and foreign investment. Once fully implemented, the AfCFTA will be the fifth-largest economy in the world. With growing consumer populations, increasing urbanisation, and a wealth of untapped natural resources and development capacity, there is significant scope for investment.
- Under AfCFTA, state parties are expected to grant tariff preferences to goods that meet certain origin criteria. The purpose of these rules is to ensure that goods entering a particular country from another member state within the AfCFTA have actually been produced with sufficient local content to qualify for preferential tariff treatment. Without such rules, it would be difficult for state parties to protect their local production and competitive domestic industries against competition from non-AfCFTA countries.
- Developing the automotive industry means attracting investment in assembly. The AfCFTA potentially offers an expanded regional market to attract such investment. It would also be important that Rules of Origin (RoO) limit the importation of semi-knocked down (SKD) vehicles to allow increased local content. This would encourage the growth of the component sector, which requires large scale assembly plants to justify investment in significant domestic content. Component manufacturers do not need to be in the same country as automotive manufacturers under AfCFTA with the allowance of free trade flows across the continent.

Growth areas in sub-Saharan Africa

- In sub-Saharan Africa, Ghana and Kenya offer the best opportunities for growth in automotive assembly and associated components with specific policies aimed at supporting and growing the automotive industry. These countries are likely to be the growth hubs for West and East Africa, albeit from a very small base. Both countries support the move from SKD's to CKD's over time with associated localisation of the vehicle component chain. This would also be supported by the AfCFTA drive for regional hub development to establish scale.
- Africa has a potential demographic dividend coming from the growing middle class relative to more developed markets.
- While the establishment of any significant automotive manufacturing operations rivalling the scale of South Africa and Morocco is unlikely in the short-term, automotive sector development policy on a country specific (specifically Ghana and Kenya in sub-Saharan Africa) and regional basis (through the AfCFTA) is developing rapidly and should lay the foundation for further investment and growth. SKD assembly will likely dominate any growth due to scale issues.

Automotive component opportunities

- Component manufacturing opportunities will likely remain limited in the short-term with SKD assembly preferred due to the small scale of output in most sub-Saharan African countries outside of South Africa. However, local component manufacturing of basic products (leaf springs, wiring harnesses, external body components) does occur. In potential automotive hubs like Ghana and Kenya investment opportunities may present in the medium-term.
- However, automotive manufacturing hub development and regionalisation policies (AfCFTA) could create new opportunities for intra-Africa trade. With these trends component manufacturing would not need to be in the same country as vehicle assembly. OEM's will likely support this trend to create regional standardisation to facilitate developments of automotive manufacturing and component hubs that can operate at scale.
- This means that South Africa is well positioned to grow exports of vehicles and components into Africa. With the potential AfCFTA regional trade benefits it has the potential to become a hub to support the development of automotive industries in countries by supplying fully built vehicles, SKD kits (as it does to various African countries already) and components as localisation increases as per automotive policy development plans.

African Association of Automotive Manufacturers (AAAM)

- The independent African Association of Automotive Manufacturers (AAAM) was established in November 2015. It is the only African entity that focuses on the expansion and deepening of the automotive industry across the continent, by working with governments to shape and implement policies that will attract investors, unlock the economic potential of the continent, and align a global network of stakeholders committed to the development of the automotive industry in Africa.
- The recognition of its role and importance has seen AAAM membership grow from 17 in 2020 to 63 in 2023. The AAAM is currently assisting several prospective African countries with the formulation of automotive policy development options aimed at replicating an automotive ecosystem similar to the South African model, involving OEMs, suppliers, financiers, government and other relevant industry role-players. The AAAM has worked in Nigeria, Ghana, Kenya, Egypt and Ethiopia, and more recently, with other member states, including Ivory Coast, Rwanda, Gabon, Namibia, Botswana and Lesotho. Building the automotive market also hinges on having the correct policies in place, and the AfCFTA has been one of the drivers of this, providing a mandate to industrialise the continent.
- AAAM has been a major player for the sector, working directly with governments in Egypt, Ghana and South Africa, among others, and directly with the AfCFTA Secretariat to help shape the vision and strategy for the automotive sector under the AfCFTA trade agreement. Specific global companies are also recognizing the opportunity for industrialization in Africa through the automotive sector. For example, Volkswagen has recognized the potential and need for new, modern and safe vehicles to be produced in African countries to meet African demand rather than the continent continuing to rely on imported used cars. So far, the company has successfully established local assembly operations in Kenya, Rwanda and Ghana and two wholly owned subsidiaries in Rwanda and Ghana.

- The AAAM has carried out very significant work on the sector and is promoting a pan African Auto Pact. The proposal has gained considerable traction among a number of leading auto producing countries on the continent. The idea is to encourage specialisation and economies of scale across the continent with TRIMS arrangements enabling participant country industries to rebate duties on product imported from other participant countries. It does allow for SKD in the initial stages, but this would be under strict conditions with upgrading to CKD required within specified time frames.
- The AAAM Pan-African Auto Pact vision includes five million vehicles being built and sold in Africa by 2035. The proposal has gained considerable traction among a number of leading auto producing countries on the continent. The idea is to encourage specialisation and economies of scale across the continent with trade-related investment measures (TRIMS) arrangements enabling participant country industries to rebate duties on product imported from other participant countries. It does allow for SKD in the initial stages, but this would be under strict conditions with upgrading to CKD required within specified time frames.
- The AAAM argues that a simple RoO based system is not sufficient and favours a separate plurilateral agreement for the automotive sector. It has worked on bilateral arrangements, for example between Ghana and South Africa, as building blocks towards a broader Auto Pact which would be based on TRIMS based with participant countries specialising in a few models and importing other requirements. It argues for a 60:40 (40% African content) RoO arrangement for auto sector.

Aftermarket parts

- Aftermarket (or replacement) parts are produced in a large number of African countries albeit mostly in limited volumes. Clusters have developed even in countries without major vehicle assembly but with large imported used vehicle populations.
- A constraint is that the wide variety of imported vehicles means that there is a very large range of parts required apart from standard, generic parts. This limits the possibilities for achieving economic scale in production. This industry does provide a basis for original equipment (OE) component supply and would benefit from expanded assembly on the continent.

Motorcycles

- Parts of Africa (mainly west, east and north Africa) have large markets for motorcycles. This may represent an important development opportunity within the broader automotive sector. Currently there is some small-scale assembly of motorcycles with minimal use of domestically produced parts.
- The sector has three potential advantages with respect to vehicle production. First, the market is already quite large in relation to optimal scale. In 2015, Africa imported motorcycles to the value of \$1.86 billion representing 9.9% of global imports. Nigeria alone imported motorcycles to the value of motorcycles worth \$447 million, equivalent to 2.4% of total global imports.
- A second factor is that the technology requirements are relatively low in comparison to vehicles. Motorcycles provided a starting point for the automotive industry in a number of Asian countries.
- Third, used imports are much less of a factor. This greatly facilitates the possibilities and limits the costs of providing some protection to local industry. But there is no doubt that protection would be required in order to enable new producers to compete with low-cost Asian imports.
- Internal free trade within the continent, a fairly low common external tariff and some protection for parts could lay the ground for large scale assembly and, even more importantly, for the development of a regional supply base under the AfCFTA. The potential exists to attract a large-scale investment in motorcycle production as Morocco has done in the case of passenger vehicles. This may require modest but well-designed incentives. The benefits of large-scale production lie in the associated possibilities for extensive localisation of the supply chain.




Electric Vehicles

- Demand for electric vehicles (EVs) is growing exponentially. A number of developed countries plan to ban internal combustion engine (ICE) vehicle sales by as early as 2035. In Africa, the level of penetration for electric vehicles is very low. In South Africa, for instance, EV sales make up less than 1% of sales. The advent of electric vehicles may offer opportunities as well with lower scale requirements. Optimal scale production for EVs appears to be lower than for ICE vehicles and this partly accounts for the large number of new entrants into the industry, especially in China but also in other developing countries. In Africa, there are also lower sunk investments in ICE drive train production so the continent can avoid the huge restructuring costs facing large scale producer countries.
- Policies are being developed in major markets such as South Africa but there is understandably a reluctance to provide incentives for products which are going to be bought by higher income consumers. Major producer countries face important decisions around managing the transition. In Morocco, decisions will be made by multinational producers with an eye on their major market, the EU. But the secondary north African and Middle Eastern market are lagging with EV uptake which creates a potential problem. The same issue arises in South Africa whose main export market is also Europe, albeit with a higher percentage of domestic, rest of Africa and rest of world sales. In most other countries where ownership rates are low and there is reliance on high levels of importation, there is little pressure on policy makers to rapidly develop policy for this sector.
- The sector could benefit from an uptake in electric vehicles by the public transportation network. For instance, the Government of India has sanctioned approximately six thousand e-buses to promote faster, early adoption and manufacturing of EVs. The government stepped in to fill the gap in demand left by the private sector due to high upfront costs, poor financing resources, and lack of charging infrastructure. This early-stage domestic adoption and electrification of public transport network is likely to boost local manufacturing of battery cells and packs, electric motors, and other components along the EV supply chain. It will also provide an opportunity to move to low-carbon urban development, create jobs, and increase acceptance of EVs by the public. Another successful example can be seen in the city of Shenzhen in China with the world's first and largest fully electric bus and taxi fleets.
- In parts of Asia, most notably China, there is a huge and growing market for electric two wheelers. In fact, in China with 250-300 million electric two wheelers on the road, the electric transition has already happened. This has been driven by strong supportive policies not least the prohibition of ICE two wheelers in many Chinese cities. India and other Asian countries are now promoting the sector as well. Electric three wheelers are increasingly being used as a low cost means of public transport in Asian countries. There are three key considerations for policy makers here – reducing urban air pollution and CO2 emissions, limiting oil imports and also developing electric vehicle technology. But electric two wheelers are very competitive in any event. Many of Africa's large cities are highly polluted and electric two wheelers may offer an opportunity to leapfrog to new technology, where the technology is simpler than for ICE based vehicles. A further advantage is that Africa lacks large scale investment in ICE technology and therefore can avoid the costs associated with stranded assets.

Metair Overview

Automotive Components Vertical

Figure 10 Automotive Components

	Company	Ownership	Key businesses and products
	Smiths manufacturing	75%	Heating, ventilation, and air conditioning (HVAC) and climate control systems, air cleaners, wiper and washer systems, radiators, reserve tanks, charge air coolers, compressors, engine control units, air conditioning pipes and hoses, cooling modules, radiator fan shrouds and condensers
	Hesto Harnesses	74.9%	Wiring harnesses, instrument cluster/combination meters, moulded parts
	Lumotech	100%	Headlights, tail lights, reflectors and plastic injection mouldings
	Supreme Spring Division	100%	Coil springs, leaf springs, stabiliser bars, torsion bars
	Automould	100%	Plastic injection moulding, chrome plating, body colour painting and assembly
	Unitrade	100%	Automotive cable, automotive wire
	Alfred Teves Brake Systems Pty Ltd	100%	Brake pads, brake discs, brake shoes, hydraulics and other braking components
	Valeo SA	49%	Front end modules
	Tenneco Automotive	25.1%	Shock absorbers, struts

Source: Company data

- The Automotive Components vertical produces original equipment (OE) components used in the assembly of new vehicles, as well as spare parts and other products used in the South African automotive aftermarket.
- Products include brake pads, shock absorbers, lights, radiators and air-conditioners as well as generic aftermarket products for use in imported vehicles. Primary customers are the OEMs manufacturing new vehicles in South Africa as well as the local automotive aftermarket.

Hesto






- Hesto is 74.9% held by Metair with the remaining 25.1% held by a technical partner Yazaki.
- Hesto has impacted profitability and debt levels in recent years with the R1.6bn investment to support a new customer model. The launch and ramp up to support the new vehicle involved material unforeseen complexities, including design and engineering changes to wiring content and a substantial increase in labour hours. A model facelift introduced in April 2023 also affected the harness design and manufacturing. These complexities resulted in higher than expected up-front costs, labour and line capacity as well as inventory at Hesto. This has resulted in significant debt levels within the Hesto business.
- Metair strengthened Hesto management and oversight and implemented intensive corrections to enhance efficiencies and reduce costs. Metair has been working closely with Hesto's technical partner and customer on the project to ensure its long-term success, which included a commercial price adjustment that provides strong support for revenues and operating profit over the remaining model life of up to nine years.
- These interventions resulted in Hesto generating R104 million in EBIT in 2H23 after recording an EBIT loss of R711 million in 1H23. Revenue increased by 7% and a profit of R112m was generated in 1H24.
- Due to the project finance debt structure sought in the debt restructuring, PBT is expected to be relatively low from Hesto for up to 7 years as EBIT will be largely used to cover finance costs. Hesto will therefore not contribute significantly to the bottom line for the forecast period.

Notes from the results

- Overall vehicle production volumes were 7% softer, declining from c. 292 000 in H1 2023 to c. 270 000. Globally, Toyota Motor Corporation has faced certain challenges with their engine certification processes which have unfortunately impacted the local OEM (TSAM) and their ability to produce and export some of their product to Europe in FY2024. Indications are that these issues will be resolved in the short-term and production volumes will resume to normal levels.
- Cutbacks in local vehicle production are having a significant effect on component manufacturers. According to the NAAMSA, passenger cars and light commercial vehicle sales have decreased by 6.9% and 9.4%, respectively, for H1 2024.
- Core subsidiary businesses (excluding Hesto) namely, lighting (Lumotech), suspension (Supreme Springs) and H-VAC (Smiths Manufacturing) contributed R3.3 billion to group revenue, a 14% decrease from H1 2023, and generated EBIT of R196 million (H1 2023: R264 million) at a margin of 5.9% (H1 2023: 6.8%), impacted by temporary lower customer demand and supply chain disruptions. The impact was effectively mitigated through continued focus on operating efficiencies and stringent cost control.
- With the inclusion of Hesto, the Automotive Components business generated revenue of R6.2 billion (H1 2023: R6.6 billion), being a decrease of 6%. EBIT showed a strong recovery from a loss of R448 million in H1 2023 to a profit of R308 million in H1 2024, with a margin of 5.0% (H1 2023: 6.8% loss).
- The Hesto turnaround strategy continued in a positive direction. Revenue increased by 7% from R2.7 billion to R2.9 billion and EBIT improved from a loss of R711 million in H1 2023 to a profit of R112 million in H1 2024, covering net interest charges. This performance mitigated the decrease of volumes from a major customer and demonstrates the recovery from the previously reported challenging new customer model ramp up. Ford volumes progressed in line with expectations and close collaboration between Hesto, its customers and technology partner has positively supported revenue and operating profit over the remaining revised business case model life of eight years. Management continues to focus on production efficiencies and cost reductions as well as preparations for new customer facelifts and model introductions.

Energy Storage Vertical

Figure 11 Energy Storage

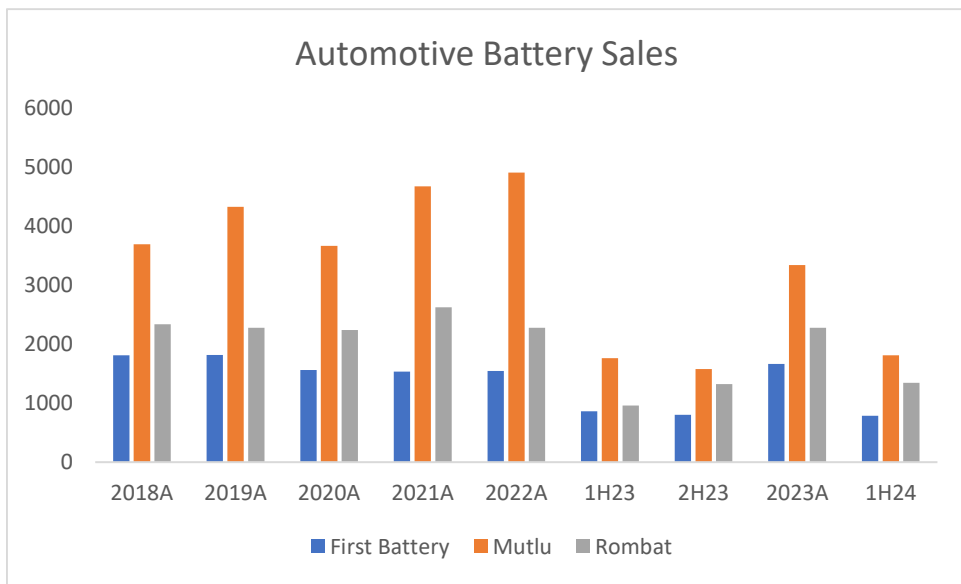
Company	Ownership	Key businesses and products
 Mutlu Akku	100%	Batteries, solar systems, backup systems, stan charging systems
 First Battery	100%	Batteries, solar systems, backup systems, stan charging systems, Battery Centre franchise
 Rombat	99.4%	Batteries, solar systems, backup systems, stan
 Dynamic Battery Services	100%	National and international distribution of key ba
 Associated Battery Manufacturers	25%	Automotive and solar batteries

Source: Company data

- The Energy Storage vertical manufactures batteries for use in mobility applications and in the telecoms, utility, mining, retail and materials/products handling sectors.
- Automotive batteries are supplied to major automotive original equipment manufacturers (OEMs) for installation in new vehicles in South Africa, Europe, Romania, Kenya, Turkey and Russia through subsidiaries in Romania (Rombat), Turkey (Mutlu Akü), the United Kingdom (Dynamic Battery) and South Africa (First National Battery), and through associate ABM in Kenya.
- Batteries are also sold into the automotive aftermarket through aftermarket distribution channels and franchised retail networks.

- Overall automotive battery sales are shown in the figure below.

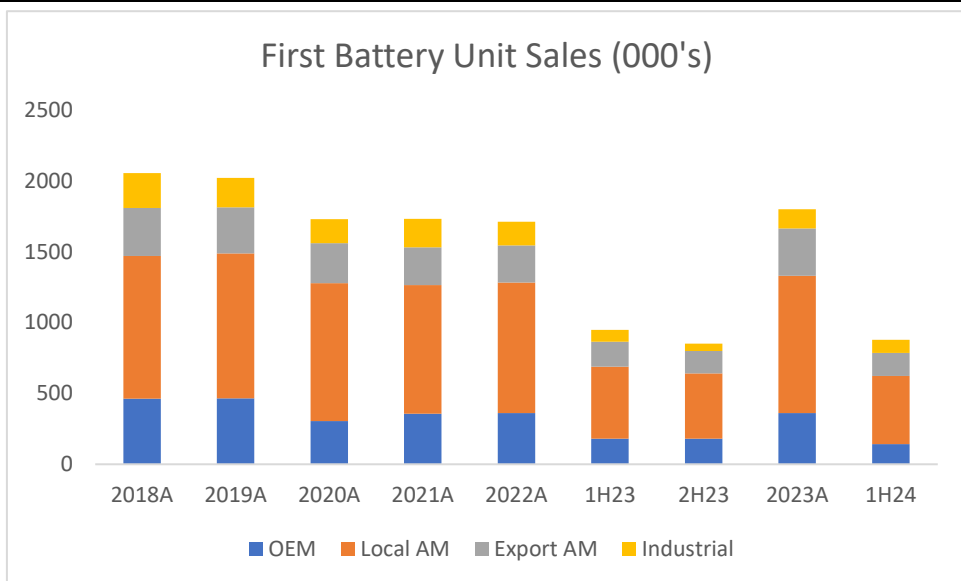
Figure 12 Metair – Automotive Battery Sales (000's)



Source: Company data

- First Battery saw a fall in unit sales in 1H24 in a competitive and price sensitive market.

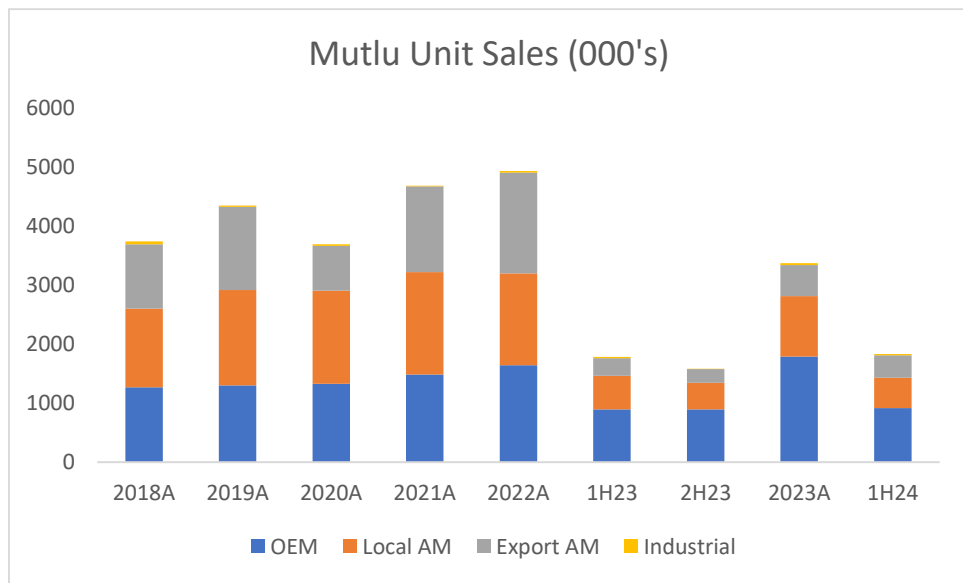
Figure 13 First Battery – Unit Sales (000's)



Source: Company data

- Mutlu’s export sales fell substantially in FY23 with the start of the Ukraine conflict. Export sales have increased in 1H24.

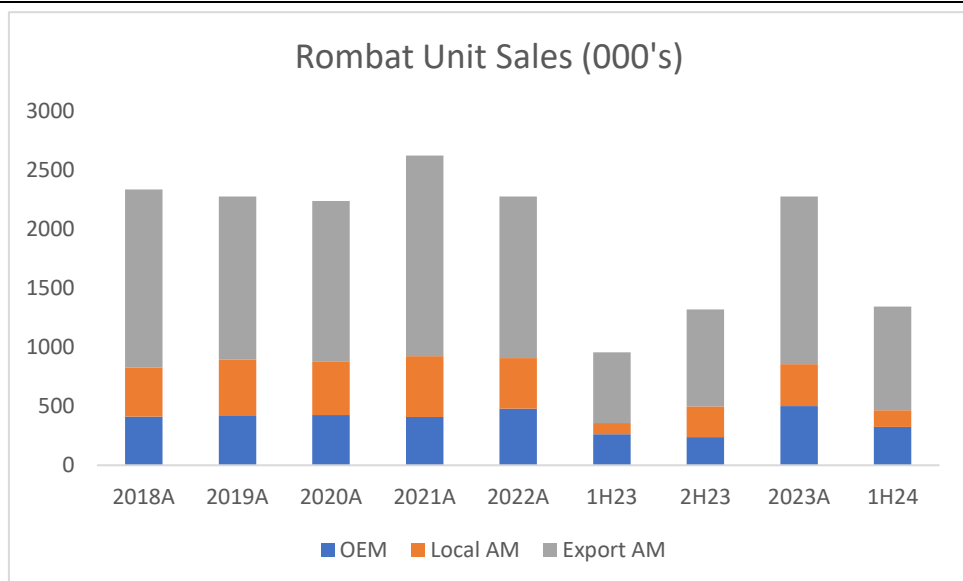
Figure 14 Mutlu – Unit Sales (000's)



Source: Company data

- Rombat saw a much improved 1H24 relative to the prior year – with sales in line with 2H23.

Figure 15 Rombat – Unit Sales (000's)



Source: Company data

Notes from the results

- The Energy Storage Vertical’s revenue increased by 23% to R4.6 billion (H1 2023: R3.7 billion) with an increase in total volumes of 10% from 3.6 million to 3.9 million units. Total OEM battery sales volumes accounted for 35% of total energy volumes (H1 2023: 36%), a slightly higher mix than the target of 30%. The group’s emphasis remains on correcting the sales mix going forward.
- When excluding the impact of hyperinflation in Türkiye, the vertical reported a 12% increase in revenue to R4.5 billion (H1 2023: R4.0 billion) and generated R392 million in EBIT (H1 2023: R291 million) at a margin of 8.6% (H1 2023: 7.2%).

- As a result of Mutlu, on a reported hyperinflation basis, EBIT for the vertical declined 95% to R6 million (H1 2023: R121 million) after the non-cash impact of inflating inventory and cost of goods sold.
- Rombat automotive battery volumes increased by 41% to 1.3 million batteries (H1 2023: 0.957 million batteries), resulting in an EBIT of R20 million (H1 2023: R11 million loss). The volume recovery was supported by strong market gains in European exports and aftermarket.
- First Battery's automotive battery volumes decreased 9% from 0.864 million units to 0.786 million units in a competitive and price sensitive market. First Battery generated EBIT of R152 million (H1 2023: R83 million) at a margin of 14% (H1 2023: 7.4%) owing to increased focus on product mix and improved manufacturing efficiencies.
- Mutlu automotive battery volumes increased to 1.8 million batteries (H1 2023 1.76 million batteries), stemming from a 28% increase in export sales. However, the sales mix continues to be weighted in OEM at c. 50% and declining local aftermarket sales of 0.5 million batteries (H1 2023: 0.6 million). When translated into South African Rand (ZAR), Mutlu contributed R185 million (H1 2023: R220 million) of EBIT on a pre-hyperinflation basis, as the TL devalued on average 35% against the ZAR and 43% against the United States Dollar.
- Türkiye interest rates increased to 50% and inflation peaked at 71.6%.

Appendix 1: South African Automotive Industry

- As the largest manufacturing sector in the country's economy, a substantial 21,9% of value addition within the domestic manufacturing output was derived from vehicle and automotive component manufacturing in 2023, while the broader automotive industry's contribution to the GDP comprised 5,3% (3,2% manufacturing and 2,1% retail).
- In 2023, there were seven operating multinational OEMs with CKD automotive manufacturing plants in South Africa, with two more on the horizon. The presence of vehicle and automotive component production in the country supports upstream and downstream linkages to various other economic activities.
- The export value of vehicles and automotive components increased by R43,5 billion, or 19,1%, from the R227,3 billion in 2022 to a record R270,8 billion in 2023, comprising 14,7% of total South African exports. Vehicle exports increased by 47 809 units to a record 399 594 units in 2023, up from the 351 785 units exported in 2022, while the vehicle export value increased by R46,9 billion from R157,0 billion in 2022 to a record R203,9 billion in 2023. Automotive component exports, however, reflected a decline of R3,4 billion from R70,3 billion in 2022 to R66,9 billion in 2023. The domestic automotive industry exported to 148 countries in 2023, down from the 152 destinations in 2022, with the export value more than doubling in the case of 29 of these countries from 2022 to 2023. South African automotive trade under the APDP2, amounting to a significant R520,5 billion in 2023, comprised 16,7% of South Africa's total trade GDP, up from 16,5% in 2022.
- The introduction of an investment allowance for new EV investments, set to commence in March 2026, to claim 150% of qualifying investment spending in the first year, is a crucial step in attracting investments, fostering innovation, and enhancing the growth of the sector within South Africa. Foreign direct investment (FDI) allows the transfer of technology, which serves as a vital enabler for the domestic automotive industry, as it establishes a lasting interest in driving growth. Investment by the seven original equipment manufacturers (OEMs), with technology embodied in the investment, amounted to R5,2 billion in 2023, while the component sector received investments of R4,2 billion.
- The automotive industry is widely regarded as one of the industrial policy success stories of South Africa's democratic era. The following table highlights the significant social and economic contribution made by the domestic automotive industry to the South African economy for 2022 and 2023. A comparison is also provided with 1995, when the Motor Industry Development Programme (MIDP) was implemented, to highlight the substantial achievements to date, with particular reference to the industry's export performance.

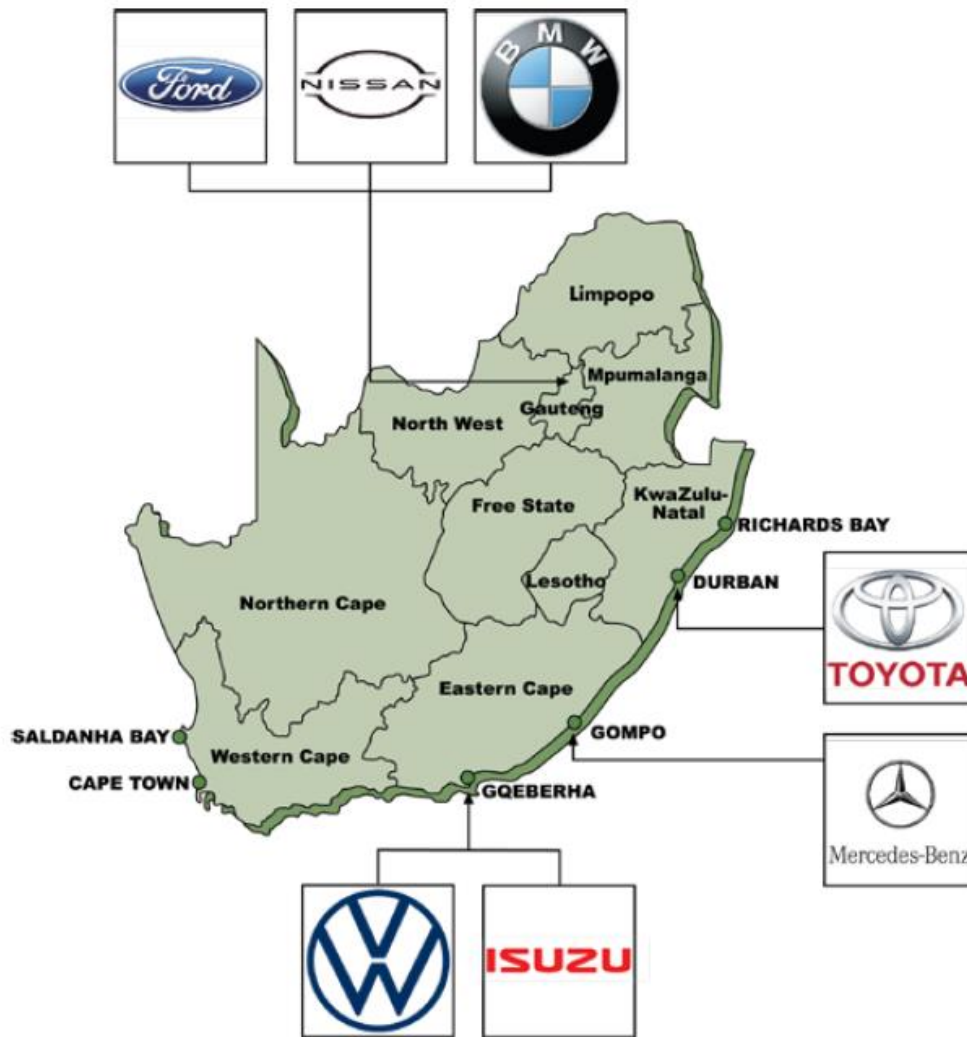
Figure 16 South African Automotive Industry – Contribution to Economy

Indicator	Performance		
	1995	2022	2023
Broader automotive industry contribution to GDP	6,5%	4,9%	5,3%
Vehicle and component production as % of South Africa's manufacturing output	22,1%*	21,7%	21,9%
Average monthly employment by vehicle manufacturers	38 600	33 321	33 509
Automotive component sector employment	65 500	83 362	82 560
Capital expenditure – vehicle manufacturers	R847 million	R7,1 billion	R5,2 billion
Capital expenditure – component sector	R100 million*	R4,5 billion	R4,2 billion
Total South African new vehicle sales	399 967 units	529 541 units	531 787 units
Total South African vehicle production	389 392 units	555 885 units	633 332 units
South Africa's vehicle production as % of Africa's vehicle production	85,0%	54,4%	54,1%
South Africa's global vehicle production ranking	20th	22nd	22nd
South Africa's global vehicle production market share	0,73%	0,65%	0,67%
Vehicle ownership ratio per 1 000 persons	102*	182	182
Vehicle parc (number of registered vehicles)	6,0 million	13,0 million	13,1 million
Total automotive export revenue	R4,2 billion	R227,3 billion	R270,8 billion
Automotive export revenue as % of total South African export revenue	4,1%	12,4%	14,7%
Number of export destinations	63	152	148
Number of export destinations with export values more than doubling year-on-year	0	29	29
Top automotive export destination in Rand value terms	Germany	Germany	Germany
Total South African vehicle exports	15 764 units	351 785 units	399 594 units
Value of vehicle exports	R0,9 billion	R157,0 billion	R203,9 billion
Top vehicle export destination in volume terms	China	UK	Germany
Value of automotive component exports	R3,3 billion	R70,3 billion	R66,9 billion
Top automotive component export category in Rand value terms	Stitched leather seats	Catalytic converters	Catalytic converter
Top automotive trading partner (imports and exports) in Rand value terms	Germany	Germany	Germany
Top automotive trading region (imports and exports) in Rand value terms	EU	EU	EU
Top country of origin for total automotive imports in Rand value terms	Germany	Germany	Germany
Top country of origin for vehicle imports	Germany	India	India

Source: AIEC, Econometrix, naamsa, NAACAM, OICA, SARS, StatsSA

- An overview of the South African Automotive Industry is shown in the following figures.

Figure 17 South African Automotive Market



Source: naamsa

Figure 18 South African Automotive Market

Key automotive features	Gauteng	KZN	EC
Number of OEMs (manufacturing plants)	BMW SA Nissan SA Ford Motor Company of Southern Africa	Toyota SA Motors	Volkswagen Group Africa Mercedes-Benz SA Isuzu Motors SA Ford Motor Company of Southern Africa engine plant
Medium, heavy, extra-heavy commercial vehicle and bus companies	Babcock, Ford, Hyundai Automotive, Iveco, JMC, MAN Truck & Bus, MarcoPolo, Powerstar SA, Scania, Sinotruk, Stellantis, Tata Trucks, UD Trucks, and VECH South Africa	Bell Equipment, MAN Truck & Bus, Toyota, and Volvo Group Southern Africa	FAW Trucks, Isuzu Motors, Daimler Truck Southern Africa and Volkswagen Group Africa
Number of automotive component suppliers	200	80	150
Motor vehicle parc as % of South Africa's total vehicle parc of 13,13 million vehicles	38,4%	13,4%	6,5%
Passenger car sales as % of total 2023 passenger car sales of 347 388 units	34,7%	14,2%	3,9%
LCV sales as % of total 2023 LCV sales of 151 492 units	32,6%	12,4%	4,8%
MCV/HCV sales as % of total 2023 MCV/HCV sales of 32 907 units	39,9%	12,4%	3,0%
Light vehicle production by OEMs in the province as % of total 2023 light vehicle production of 599 631 units	29,9%	28,3%	41,8%
Light vehicle exports by OEMs in the province as % of total 2023 light vehicle exports of 398 795 units	32,5%	18,7%	48,8%

Source: AIEC, naamsa

South African Automotive Policy

- The automotive industry is a key sector of the economy for every major country in the world, shaped by government policy interventions and based on the realities of the sector, such as economies of scale, patterns of demand, the location, as well as cost competitiveness issues. From an economic point of view, it is a strategic industry and contributes to a significant portion of a country's GDP. South Africa has developed and maintained a world-class automotive manufacturing value chain through ongoing government support and constructive collaboration with global OEMs, component manufacturers and labour. The automotive industry has the potential to catalyse South Africa's industrial development, hence, the South African government fully realises the importance of a healthy and growing automotive industry as a largescale employer, the largest manufacturing sector in the country's economy, and a very successful exporter.
- The ongoing high levels of investments by global vehicle brands in the country are key, considering the current automotive technology revolution and globally competitive landscape, and will provide partnering opportunities for domestic companies through the automotive value chain.
- Whilst the automotive industry has a positive impact on the South African economy, the cost to the fiscus is offset by the revenues earned through taxes collected. During the five-year period from the 2017/18 tax year to the 2021/22 tax year, corporate income and personal income taxes collected from the automotive industry covered the cost of industrial support provided through the APDP and APDP2, providing a net neutral position for the fiscus while creating substantial economic gain.

- The Automotive Production Development Programme Phase 2 (APDP2) operates within the framework of the South African Automotive Masterplan (SAAM), which was implemented on 1 July 2021, and which provides the incentive framework for the industry for the period from 2021 to 2035. One of the attractions of South Africa's various automotive policy regimes over the past three decades has been its long-term vision and consistency. The APDP2 is a Trade-Related and Investment Measure (TRIM) which allows for safe and secure foreign direct investment and allows for duty rebates for the localisation of activities. TRIMs are policy tools that have played a crucial role in the efforts to advance industrial development and in the creation of backward and forward linkages, in enhancing technology transfer, contributing to increasing employment, and addressing balance-of-payments concerns. These measures could be designed to attract FDI, encourage entrepreneurship, and foster the growth of domestic industries. Moreover, these measures have been critical for effective industrial policies and have been widely deployed by various economies at some time in their industrialisation processes. Although trade arrangements assist in shaping the domestic automotive industry's export patterns, it is more the automotive TRIMs policy that drives the export patterns. The TRIMs policy is inherently aimed at trade facilitating, as it allows for imports and exports on a more sustained basis, which is the basis for long-term trade partnerships.
- The SAAM 2035 vision is the achievement of "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". The vision of the SAAM can be classified into four components.
- The first component is the improvement of the industry's global competitive position.
- The second component is related to the industry's contribution to the transformation of the South African economy, and which includes employment equity through the greater inclusion of Black-owned firms. The transformation levels that have been set must be adhered to in order to participate in the benefits of both the APDP2 and AIS.
- The third component is related to the sustainable development of the South African economy, and includes aspects such as industry growth, employment levels, skills development, and environmentally friendly products and processes.
- The fourth component is related to the shared prosperity created by the industry and includes the financial health and wellbeing of firms within the value chain, the fair remuneration of employees, and the holistic contribution of the value chain to the South African fiscus.
- A key summary of the SAAM 2021-2035 objectives is as follows:
 - Grow South African vehicle production to 1% of global production (1.4 million vehicles per year) by 2035;
 - Increase local content in South African manufactured vehicles to 60%;
 - Double automotive employment in the supply chain;
 - Improve automotive industry competitiveness levels to that of leading international competitors;
 - The transformation of the South African automotive value chain; and
 - Deepen value-addition within South African automotive value chains.
- The automotive sector recognises that the SAAM vision can only be realised if the six development objectives are met. Achieving the SAAM objectives will require careful coordination and a close working relationship between government, the private sector and organised labour. Six industry development pillars have been identified as critical to the realisation of the SAAM. The six pillars relate to:
 - local market optimisation,
 - regional market development,
 - localisation,
 - infrastructure development,
 - industry transformation, and
 - the development of industry-required technologies and skills.

- Seven workstreams, chaired by the CEOs of naamsa member companies, have been established. The industry-required technologies and skills pillar has been divided into two separate workstreams. The workstreams, feeding into the Executive Oversight Committee meetings, chaired by the Minister of Trade, Industry and Competition, support the execution of the SAAM 2021-2035 to grow the domestic automotive industry.
- The APDP2 contains many elements similar to the previous APDP policy regime. The APDP2 consists of the following four pillars that drive the programme:
 - Import Duty (domestic industry protection);
 - Volume Assembly Localisation Allowance (VALA) (duty rebate mechanism);
 - Production Incentive (PI) (duty rebate mechanism); and
 - Automotive Investment Scheme (AIS) (cash grant).
- The four key elements of the APDP2 may be described as follows:
 - Tariffs: There is a set tariff regime on vehicles and automotive components imported into South Africa. Import duties on vehicles and automotive components will remain at 25% on light vehicles and 20% on original equipment components through 2035. A preferential agreement under the SADC-EU EPA and SACUM-UK EPA has resulted in imported vehicles from the EU and the UK paying only 18% duty. These tariffs are meant to provide adequate protection to justify continued domestic vehicle manufacturing. The purpose of the tariff structure under the APDP2 is to incentivise industry, and not to generate revenue.
 - Volume Assembly Localisation Allowance (VALA): This support is based on local value-addition. The VALA is set at 35% of local value-add for OEMs above 10 000 vehicles produced annually per plant from 2026 on. Transition was set at 40% in 2021 and will reduce annually to 35% by 2026. This will provide a support level of 3,2% at 40% local content but could increase to 4,2% if local content increases to 60%.
 - Production Incentive (PI): Government has decided to adjust its incentives to ensure the development of automotive component suppliers, as well as to support those suppliers exporting into automotive supply chains elsewhere in the world. The APDP2 also supports the export of SKD kits to regional markets, provided that the kit comprises a complete vehicle. The production incentive benefit on components has been increased from 20% to an effective 25% by increasing the benefit factor for components from 50% to 62,5%. This results in a 5% support level at 20% duty. For OEMs manufacturing vehicles, the PI remains at 50% at a duty rate of 25% (also 5% support at a 40% LVA). Duty credits in the form of a Production Rebate Certificate (PRC) have replaced Production Rebate Credit Certificates (PRCCs) under the APDP2. The vulnerable status PI benefits of high material-content products, which received additional support in the transition from the MIDP to the APDP, have been removed.
 - “Value-added” has been defined in simple terms as the manufacturer’s selling price less the value of nonqualifying material and imported components. The OEM production incentive is calculated through the supply chain and is earned by the OEM who pays the suppliers’ import duty via a quarterly duty account.
- In the case of suppliers, the component manufacturer earns the rebates for component exports and/or the manufacture of replacement parts.
- Automotive Investment Scheme (AIS): The AIS is designed to grow and develop the automotive industry through investment in new and/or replacement models and automotive components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain.
- The AIS represents the only industry support that is of physical cost to the fiscus in the form of a non-taxable cash grant of 20% of the value of qualifying investment in productive assets by light motor vehicle manufacturers, and increased support of 25% of the value of qualifying investment in productive assets by component manufacturers and tooling companies, as approved by the DTIC. Investments in NEV projects can earn a cash grant of 30%. This support is available to encourage investments by OEMs and component manufacturers in a manner that supports productive capacity upgrading. For an OEM to claim the AIS, a minimum annual volume of 50 000 units is required.

- The total investment approved since the inception of the AIS until the end of 2023, amounted to R108,6 billion, while the sum total of incentives approved since inception amounted to R28,9 billion. Since inception, 710 projects have been approved under the AIS, creating 28 891 additional jobs. The DTIC implemented a change to the AIS guidelines in 2017, applicable to all new applications approved from 1 September 2017, which requires applicants to maintain base-year employment levels throughout the entire incentive period, from the application stage until claim periods.
- A competitiveness improvement cost grant of 15% of qualifying costs will also be available for automotive component manufacturers. The objective of this benefit is to enhance the competitiveness of component manufacturers through the improvement of processes, products, quality standards, and related skills development through the use of business development services. The grant is a function of the expenditure incurred by component suppliers to improve competitiveness and must be linked to a new or replacement model of a light vehicle manufacturer.
- The SAAM 2035 also covers medium and heavy commercial vehicles, but VALA and PI incentives do not apply to the MCV/HCV assembly operations. The APDP2 applies to only light vehicles (passenger cars and light commercial vehicles), although components produced for heavy commercial vehicles also qualify for the PI, as does the manufacture of local tooling. A PI, under the same regulations applicable to light vehicles, can be earned on components produced for trucks. The PI, however, is earned by the component manufacturer and is not passed through to the heavy commercial vehicle manufacturer, as is done for light vehicles. The level of protection on heavy commercial vehicles has been set at 20% import duty, which is lower than the level on light commercial vehicles and passenger cars, which attract an import duty of 25%, as well as a maximum ad valorem duty of 30%, depending on the free on board (FOB) value.
- Domestic assembly operations of trucks and buses, based on a SKD definition, receive the benefit of the duty-free importation of all driveline components, which include the engines, transmissions, drive-axles and gearboxes. However, tyres that are manufactured domestically, attract a 15% import duty.
- The SAAM 2035, which was developed before the bans of fossil-fuelled ICE vehicles in the EU and UK were announced, set the objective of more than doubling the domestic production of vehicles to increase economies of scale, and therefore, the domestic component industry's international competitiveness. The South African automotive industry at present is facing a complex challenge: how to transition both its automotive market and productive capacity to EVs, while simultaneously achieving the objectives outlined in the SAAM 2035. The imperative is to decarbonise the economy along with the inevitable transition to NEVs to safeguard the industry's exports.
- Policy regulation is a big lever for NEV adoption, giving confidence to consumers, OEMs, automotive component suppliers and investors in the ecosystem. The DTIC's EV White Paper outlines a comprehensive electric vehicle roadmap for South Africa, tailored to the automotive industry. The primary goal of the White Paper is to set a course to transition the automotive industry from primarily producing ICE vehicles to a dual platform that includes EVs in the production and consumption mix, alongside ICE vehicles in South Africa by 2035. An electric vehicle stimulation policy is something the sector has been working towards for some time. As South Africa's most successful non-commodity manufacturing industry, it is critical to the domestic economy that the automotive industry achieves its potential through 2035.

NEV's

- With climate change as the defining challenge of our time, a pivotal step towards sustainability and growth is to establish new energy vehicle (NEV) manufacturing within the domestic context. In this regard, the South African automotive industry experienced some noteworthy developments in 2023. The pulse of this dynamic sector accelerated as the industry surged forward with the release of the DTIC's Electric Vehicle White Paper, November 2023. The White Paper outlines a comprehensive electric vehicle roadmap for South Africa and the structure of a suite of policy interventions tailored to the automotive industry. The primary goal of the White Paper is to set a course to transition the automotive industry from primarily producing Internal Combustion Engine (ICE) vehicles to a dual platform that includes electric vehicles (EVs) in the production and consumption mix, alongside ICE vehicles in South Africa by 2035. This vision is aligned with the foundational objectives outlined in the South African Automotive Masterplan (SAAM).
- The White Paper aims to unlock the full potential of NEVs in South Africa. This step not only supports the country's efforts to combat climate change but also aligns the domestic automotive industry with the changing demand in export markets, along with positioning South Africa as a key player in the global shift towards sustainable transportation.

Exports from South Africa

- South Africa has advantageous access to world markets through free trade agreements (FTAs) with major markets such as Europe and the UK, and a preferential trade arrangement with the US. South Africa is also a member of the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). The country is regarded as a geographic gateway to the rest of the continent and is strategically positioned for access to the African market. South Africa's trade negotiations are conducted alongside its country partners in SACU, comprising Botswana, eSwatini, Lesotho, and Namibia, following the renewed SACU Agreement in 2004 that requires SACU to negotiate all trade agreements as a bloc.
- SACU, at present, enjoys FTAs with the 27-country EU, the UK, as well as the European Free Trade Association (EFTA), comprising Iceland, Lichtenstein, Norway and Switzerland. SACU is also part of the 15-country SADC free trade area, has a preferential trade agreement (PTA) with the Common Market of South America (Mercosur), comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela, while South Africa also enjoys duty-free and quota-free entry into the US market under the African Growth and Opportunity Act (AGOA), a unilateral trade preference programme.

Africa

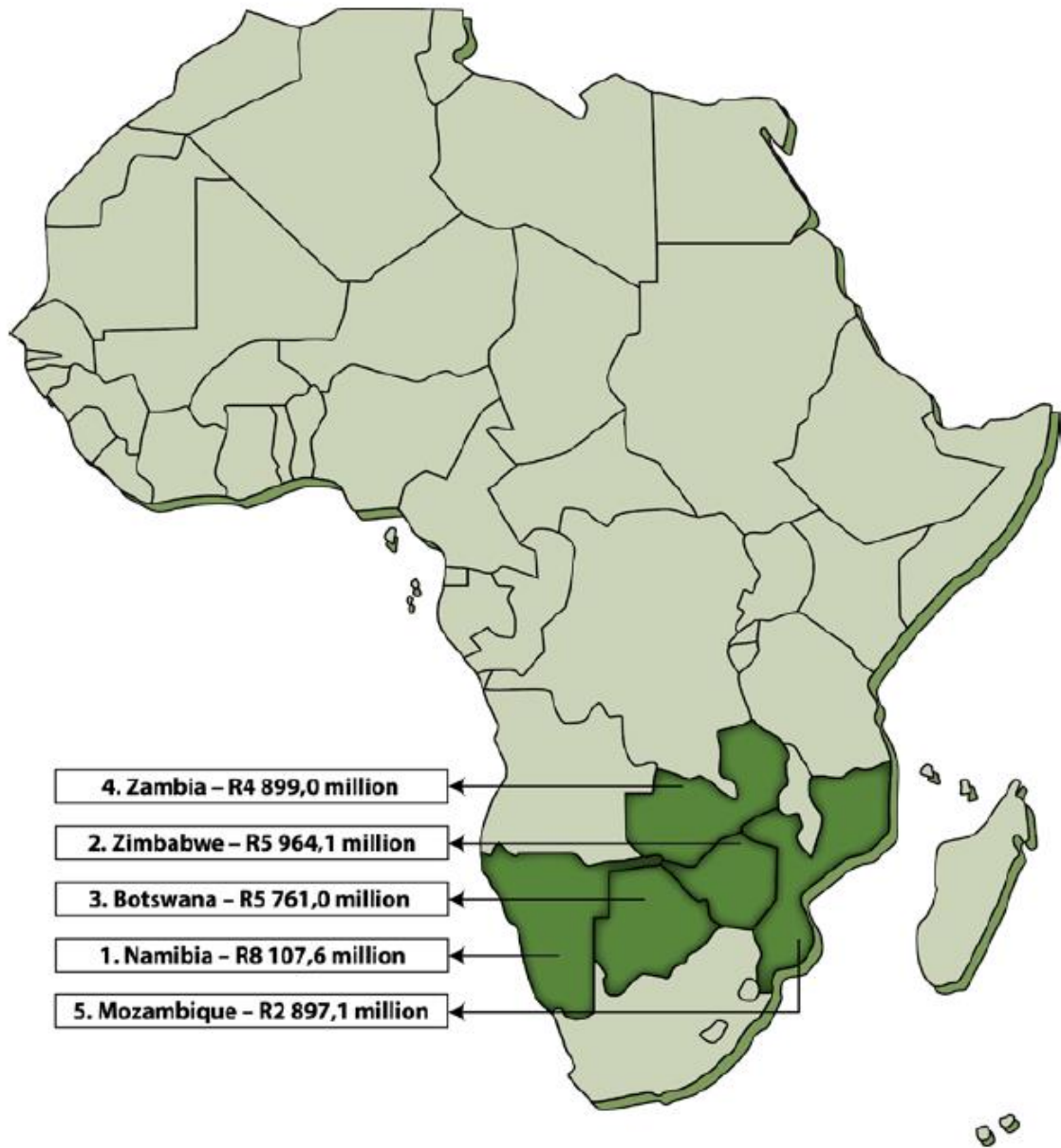
- In 2023, Africa comprised the domestic automotive industry's second-largest export region, accounting for R42,8 billion, or 15,8% of the total automotive exports of R270,8 billion. The automotive export value to the continent increased by a significant 22,5%, from the R34,9 billion in 2022 to R42,8 billion in 2023. In addition to completely built-up vehicles and automotive component exports, the domestic automotive industry has also been expanding its footprint in Africa by exporting semi-knocked down (SKD) kits for assembly in some countries in partnership with South African OEMs.
- Africa is a continent with a rapidly growing population and a burgeoning middle class driving the demand for transportation. The continent's new vehicle market potential, however, poses significant challenges, as up to 85% of vehicle sales consist of used vehicles in most sub-Saharan countries, driven by affordability issues and weak regulation. However, Africa's shared mobility sector, which includes services like ride hailing and car-sharing, is set to see the second fastest growth after Asia, driven by rapid urbanisation.
- Ride-hailing services in Africa are gaining popularity, with more customers abandoning their private or public modes of transport due to mobility-sharing advantages such as convenience, reduced travel costs, less traffic congestion and lower emissions.
- Total automotive exports to Africa, excluding BELN country (Botswana, eSwatini, Lesotho, Namibia) data, increased by a substantial R4,97 billion, or 24,2%, from R20,56 billion in 2022 to R25,53 billion in 2023, while total automotive exports, including BELN country data, increased by R7,86 billion, or 22,5%, from R34,90 billion in 2022 to R42,76 billion in 2023.
- Automotive component exports to the continent increased by 4,0%, from R16,59 billion in 2022 to R17,26 billion in 2023. Vehicle exports to African countries increased from 22 563 units in 2022 to 25 381 units in 2023. The value of vehicle exports in the following table includes sales to BELN countries, which recorded a year-on-year increase in vehicle sales of 23,2% in 2023, and the export value of vehicles, therefore, increased year-on-year by 38,2% in 2023.

Figure 19 South African Component Exports to SADC by Product Category

Component	2020*	2021*	2022*	2023*	2020**	2021**	2022**	2023**
Total (R million) Including BELN country data					24 052,0**	28 361,1**	30 083,5**	37 929,1**
Total (R million) Excluding BELN country data	11 843,8*	14 103,9*	15 740,0*	20 704,0*				
Air conditioners	10,8	13,4	13,4	24,7	29,0	27,4	35,2	50,6
Alarm systems	32,1	37,9	49,1	66,9	51,6	62,4	77,9	97,7
Automotive glass	13,4	15,5	18,3	26,4	89,2	78,9	84,0	106,2
Automotive tooling	128,9	178,8	225,8	255,8	211,1	295,3	392,8	405,5
Axles	39,9	70,9	91,4	95,9	66,7	101,3	129,7	140,4
Batteries	195,3	209,4	259,7	311,4	350,2	369,4	445,0	484,1
Body parts / panels	39,0	30,1	57,3	164,9	140,1	106,6	152,0	293,0
Brake parts	73,2	94,4	106,0	140,0	182,5	218,1	239,7	290,8
Car radios	2,4	1,8	8,3	14,4	19,0	18,8	20,8	22,5
Catalytic converters	103,6	105,5	109,0	186,9	145,5	152,8	163,5	254,3
Clutches / shaft couplings	50,2	60,2	75,6	60,9	135,4	152,2	176,1	160,4
Engines	307,8	345,0	475,1	448,5	429,2	429,8	559,2	612,6
Engine parts	413,1	459,7	574,6	557,5	688,4	787,2	965,3	955,5
Filters	164,2	199,9	219,6	219,6	295,1	368,7	402,7	383,8
Gaskets	89,4	113,2	116,2	116,2	127,6	154,6	164,7	167,1
Gauges / Instruments / parts	278,0	327,3	351,8	422,9	380,1	457,9	495,5	586,9
Gear boxes	63,8	119,6	115,0	113,9	101,9	174,2	235,5	206,6
Ignition / starting equipment	96,1	86,6	104,7	109,0	230,1	228,3	249,6	266,6
Jacks	15,0	21,4	27,3	20,8	22,5	30,8	51,7	34,3
Lighting equipment / parts	41,6	73,7	77,0	71,7	101,5	148,2	170,3	175,0
Radiators / parts	54,3	33,6	52,3	39,3	99,8	90,7	107,4	102,3
Road wheels / parts	25,3	35,8	44,8	35,9	51,4	63,0	80,0	67,5
Seats	10,3	15,4	17,6	22,6	21,2	24,6	29,2	33,6
Seat belts	2,7	2,8	4,5	3,5	5,7	5,5	8,2	7,9
Shock absorbers / suspension parts	36,3	48,6	76,2	80,7	106,3	116,9	154,2	168,6
Silencers / exhausts	6,0	8,1	11,9	9,4	13,0	17,7	22,1	23,1
Springs	19,8	22,1	29,0	66,3	28,5	32,1	41,4	86,8
Steering wheels / columns / boxes	13,9	19,6	20,9	16,6	37,6	49,5	57,2	53,4
Stitched leather seats / parts	4,5	7,9	10,2	14,8	13,3	19,0	21,9	32,4
Transmission shafts	441,7	523,7	672,8	742,4	623,1	739,3	865,9	987,3
Tyres	445,5	541,8	661,1	702,0	1 075,4	1 179,9	1 335,7	1 454,7
Wiring harnesses	17,9	22,3	24,0	28,8	60,3	66,2	63,3	64,2
Other parts	2 907,7	3 326,0	3 886,8	4 050,3	5 444,1	6 423,2	7 124,0	7 124,6
Light vehicles	3 447,3	4 511,6	5 426,6	9 082,0	8 829,0	10 507,4	12 313,8	18 181,9
Medium / Heavy vehicles	2 252,8	2 420,3	1 726,1	2 381,1	3 846,6	4 663,2	2 648,0	3 846,9

Source: AIEC, naamsa, SARS

Figure 20 Top South African Automotive Component Export Destinations in SADC

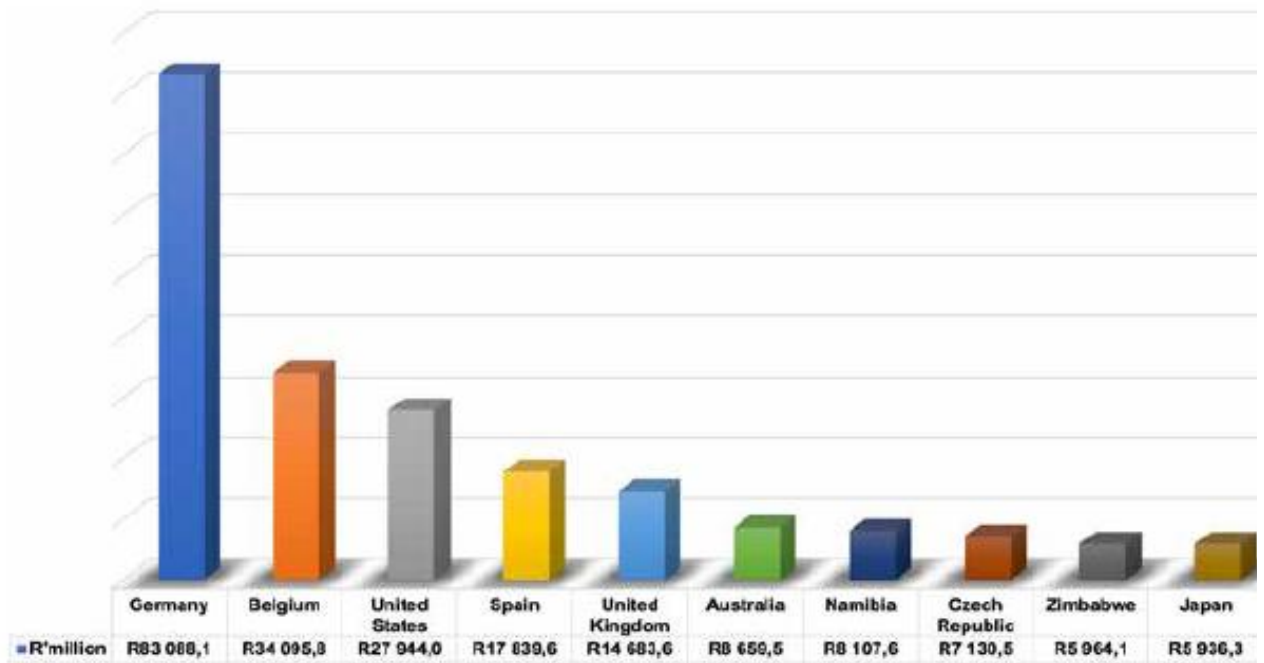


Source: naamsa, SARS

Total exports

- Vehicle exports, a crucial element of the domestic OEMs’ financial viability and sustainability, remained resoundingly positive, and continued their upward momentum in 2023. Vehicle exports at an all-time high of 399 594 units in 2023 reflected a sound increase of 47 809 vehicles or a gain of 13,6% compared to the 351 785 vehicles exported in 2022, exceeding the previous record of 387 092 units in 2019. A total of 399 594 left- and right-hand drive vehicles were exported to 109 countries around the world in 2023.

Figure 21 Top South African Automotive Export Destinations



Source: naamsa, SARS

- Passenger car exports comprised 258 266 units, or 64,6% of the total; light commercial vehicle exports comprised 140 529 units, or 35,2% of the total; and medium and heavy commercial vehicle and bus exports comprised 799 units, or 0,2% of the total. Four of the seven OEMs exported more than 50% of their vehicle production. Exports remain key to generate sufficient economies of scale, and to achieve improved international competitiveness.
- South African OEMs manufacture a broad range of vehicles, including passenger cars, light commercial vehicles, medium commercial vehicles, heavy commercial vehicles, extra-heavy commercial vehicles and buses.
- Passenger car models manufactured in South Africa in 2023 include the following:
 - BMW X3
 - Ford Everest
 - Mercedes-Benz C-Class 4-Door
 - Toyota Corolla 4-door previous series (designated Quest),
 - Cross and Fortuner
 - Volkswagen Polo, new and previous series (designated Vivo)
- Light commercial vehicle models manufactured in South Africa in 2023 include the following:
 - Ford Ranger
 - Isuzu Motors D-Max
 - Nissan Navara and NP200
 - Toyota Hilux, HiAce and Quantum
 - Volkswagen Amarok

- Despite slowing global growth owing to ongoing and new geo-political tensions, supply chain disruptions, inflationary pressures and multi-year high interest rates in major export markets, the launch of new models by major domestic vehicle exporters supported vehicle exports in 2023. The following table reveals the top 10 vehicle export destinations from 2019 to 2023 for passenger cars and LCVs. In terms of number of units exported in 2023, Germany surpassed the UK, which dominated the rankings for nine consecutive years since 2014, to move into top position followed by Japan, Italy and France. VWSA, with its Polo model, maintained its top position for the fifth consecutive year in 2023.

Figure 22 Top 10 Destinations for South African Light Vehicle Exports

Country	2019	2020	2021	2022	2023
Total (R billion)	143,4	117,0	133,2	154,3	200,0
Ranking of exporters	VW	VW	VW	VW	VW
Number 1 to 5	MBSA	MBSA	Ford	MBSA	MBSA
	BMW	BMW	Toyota	Ford	Toyota
	Ford	Ford	BMW	BMW	BMW
	Toyota	Toyota	MBSA	Toyota	Ford
Germany	37 152	25 736	42 671	67 399	85 776
UK	101 401	67 798	60 260	67 884	80 550
Japan	33 435	23 645	15 765	23 750	23 207
Italy	14 624	10 546	18 295	18 914	23 185
France	25 629	13 956	22 130	23 772	21 223
USA	12 437	8 584	6 821	20 566	19 590
Spain	11 217	7 345	10 876	9 588	14 899
Belgium	11 379	10 048	11 752	14 812	13 819
Poland	7 606	5 441	6 491	6 426	12 261
Australia	16 284	13 041	9 676	11 507	11 996
Other	115 101	84 590	92 704	86 326	92 289
Total (units)	386 265	270 730	297 441	350 944	398 795
Light vehicle production	603 082	422 905	471 433	524 895	599 631
% of production exported	64,0%	64,0%	63,1%	66,9%	66,5%
Number of base models produced	11	11	10	10	10
Average volume per model produced	54 826	38 446	47 143	52 490	59 963

Source: naamsa, SARS

- A significant 66,5% of light vehicle production was exported in 2023. Vehicle exports remain imperative to support higher vehicle production volumes, as well as higher employment levels, as employment in the vehicle manufacturing sector is generally linked to vehicle production. Higher production volumes enable the domestic OEMs to generate rebate credits, so that the imported vehicles and growing choices demanded by a consumer-driven market can be offered at more favourable prices by rebating the relevant import duties. The only economically viable way to achieve improved economies of scale is for OEMs to focus their plants on longer production runs for a limited number of models.
- The average volume per model produced in the domestic market increased from 52 490 units in 2022 to 59 963 units in 2023. Two models achieved a production volume in excess of 100 000 units, and two models above 85 000 units.
- South Africa's bilateral trade arrangements continue to generate significant gains for the domestic automotive industry. Europe and the UK continued to dominate as a region and accounted for a substantial 75,5%, or three out of every four vehicles exported in 2023, with 50,3% of light vehicle production destined for the region. The legislation to ban the sales of new internal combustion engine (ICE) vehicles in the EU and the UK by 2035 in favour of EVs, limits a slow transition approach, given the high export exposure of the domestic automotive industry and the required timeframe to respond. The transition to NEVs is therefore not merely a strategic option but a necessity and an urgent imperative.

- To maintain and grow South Africa's production base and secure export markets, the country must actively participate in the global shift toward cleaner transportation solutions. The domestic OEMs need to be enabled to compete for production contracts to supply markets that require new technology vehicles to capitalise on the huge growth opportunities that exist. The first phase of the South African EV roadmap will therefore focus on developing the productive capacity of the domestic automotive industry to safeguard the country's vehicle exports. There, however, needs to be a seamless transition towards newer automotive technologies, as the industry cannot afford to operate on two parallel technology tracks, manufacturing both old and new types of vehicles, because it is already struggling to attain economies of scale. Furthermore, transitioning South Africa's automotive productive capacity to EVs further supports the country's contribution to global decarbonisation.
- The following table reveals that despite sustained pressure from growing global challenges, such as weak economic growth, growing economic divergences, new protectionism and rising unemployment globally, vehicle exports to major regions, such as Europe and Africa, reflected a positive performance from 2022 to 2023.

Figure 23 Changing Composition of South African Vehicle Exports by Major Regions

Region	2019	2020	2021	2022	2023	% change 2023 / 2022
Europe	285 599	197 355	229 672	255 709	301 639	+18,0%
Asia	39 879	29 440	24 170	35 154	35 015	-0,4%
Africa	23 382	16 987	21 825	22 563	25 381	+12,5%
North America	13 540	9 463	7 981	21 684	20 910	-3,6%
Australasia	17 350	13 698	10 621	12 389	12 483	+0,8%
Central America	5 651	3 156	3 045	2 759	2 952	+7,0%
South America	1 691	1 188	706	1 527	1 214	-20,5%
Total	387 092	271 287	298 020	351 785	399 594	+13,6%

Source: naamsa

Commercial Vehicles

- In 2023, the following medium, heavy and extra-heavy commercial vehicle companies were represented in the country:
 - Babcock
 - Bell Equipment Scania
 - Daimler Truck Southern Africa
 - FAW Trucks
 - Ford Motor Company
 - Hyundai Automotive SA
 - Isuzu Motors SA
 - Iveco
 - JMC
 - MAN
 - Mercedes-Benz SA
 - Powerstar SA
 - Sinotruk
 - Stellantis
 - Tata Trucks

- Toyota
 - UD Trucks
 - VECH South Africa
 - Volkswagen Group SA
 - Volvo Group Southern Africa
- In 2023, the following bus companies were represented in South Africa:
 - Daimler Truck Southern Africa
 - Isuzu Motors SA
 - Iveco
 - MarcoPolo
 - Scania
 - Volvo Group Southern Africa
 - MAN
 - The following table reveals that the main export destinations for trucks and buses have consistently been neighbouring countries in the Southern African Development Community (SADC) free trade area.
 - Zimbabwe was the overall top destination for all truck and bus exports in 2023, including for heavy commercial vehicles, buses and medium commercial vehicles, the latter shared with Mozambique, while Zambia was the top destination for extra-heavy commercial vehicles.
 - Underscoring the indispensable role of trucking in Africa's and the region's economy, the African Continental Free Trade Area (AfCFTA), implemented on 1 January 2021, is expected to significantly increase traffic flows on all transport modes, including road for container cargo movement and infrastructure projects, which could open up significant export opportunities for the domestic commercial vehicle sector.

Figure 24 Top Destinations for MHV, HCV and Buses Exported

Country	2019	2020	2021	2022	2023
Total (R billion)	4,6	4,2	5,1	2,7	3,9
Ranking of exporters	Volvo Group Toyota Scania	Volvo Group UD Trucks Toyota	Volvo Group UD Trucks Toyota	UD Trucks Volvo Group Scania	UD Trucks Volvo Group Scania
Number 1 to 5	MBSA MAN	Isuzu Scania	Scania Isuzu	Isuzu Toyota	Daimler Isuzu
Zimbabwe	294	179	245	463	365
Zambia	194	62	94	143	227
Mozambique	199	150	146	126	168
Mauritius	31	34	8	25	18
Malawi	28	61	32	66	10
Tanzania	52	12	15	7	5
Saudi Arabia	2	0	0	1	3
Mauritania	15	14	14	5	2
Denmark	0	0	0	0	1
Other	12	45	25	5	0
Africa	825	557	574	840	795
Total (units)	827	557	579	841	799

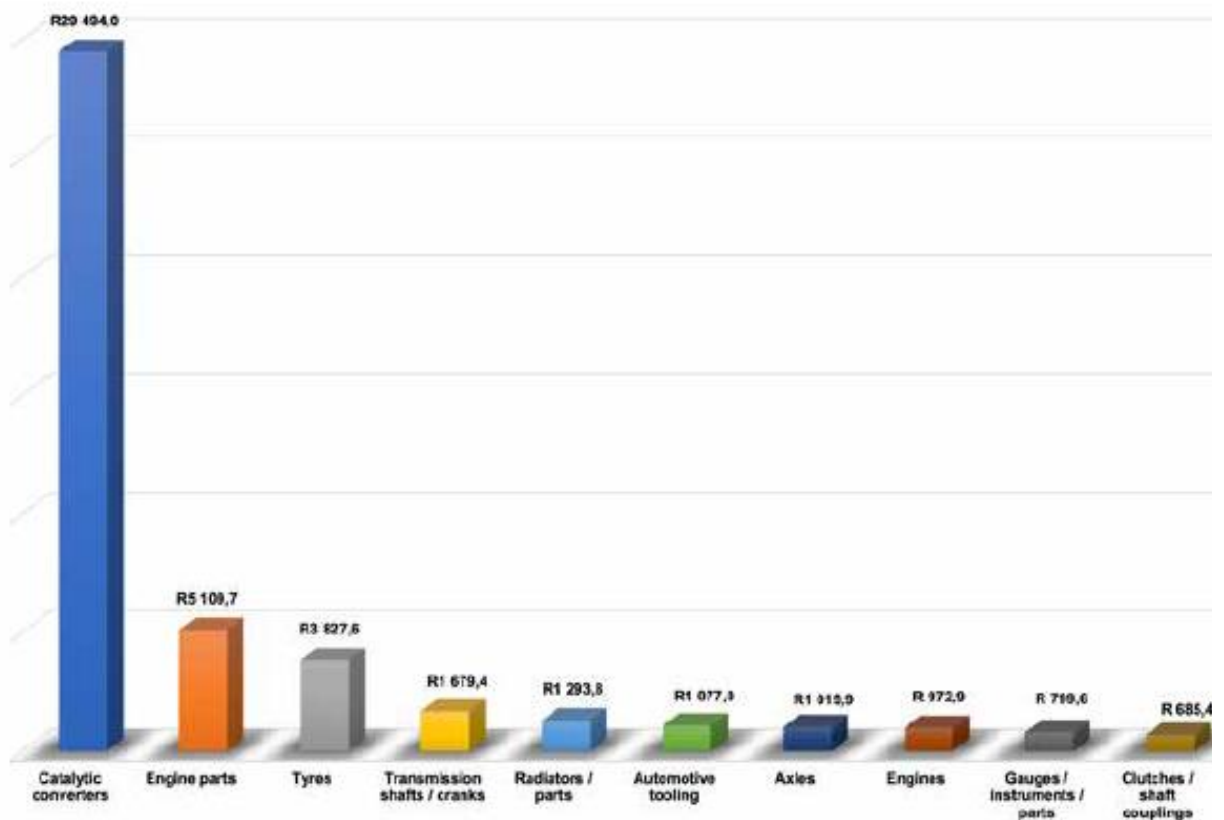
Source: naamsa, SARS

Automotive Component Exports

- The automotive production system is OEM-driven which inevitably shapes the supply chain. Tier 1 multinational component suppliers are, therefore, following the footprint of their OEM customers, so that they may supply on a just-in-time basis. OEMs and suppliers must work closely together to streamline their operations and meet the changing demands of the market. The large component suppliers tend to develop a system of production sites, and therefore a trade dependence, which is related to the OEMs' locations. Economies of scale, in particular, are important for production, including for aftermarket sales.
- The automotive component industry plays an important role in supporting vehicle manufacturing and aftermarket services in South Africa. South Africa has a well-developed automotive component manufacturing industry, accounting for the lion's share of employment in the automotive manufacturing industry, to the extent that in 2023, the component sector had 82 560 employees versus the 33 509 employees in vehicle manufacturing. The domestic automotive component sector consists of a diverse group of various tier-level automotive suppliers. Out of the 198 first-tier suppliers in South Africa, about 75% are foreign multinational companies, while the South African-owned companies are more represented within the second- and third-tier supplier bases. Localisation of components and materials remains key, as part of the longer-term automotive industrialisation strategy in South Africa.
- The shift toward NEVs globally has increased demand for certain components, such as batteries and semiconductors, which are in short supply. EVs and hybrids are often equipped with more advanced features, technologies requiring systems-on-chip designs, and highly developed process nodes. They also need more semi-conductors for their power and electronic control systems than gasoline-powered vehicles.
- This rapid transition will be challenged by the rising cost of raw materials, raw material availability, and a potential lack of readiness in the automotive supply base and supporting industries.
- The main changes in the configuration of an electric vehicle include the reduction of engine size, the exclusion of the fuel tank and exhaust in full BEVs and FCEVs; the introduction of larger batteries; power electronics; thermal management systems and high voltage wire harnesses; and electric motors. HEVs and PHEVs include electronic components, however, they do not lose the ICE-specific components, while BEVs and FCEVs are bringing about a significant disruption of the supply chains. This includes the introduction of new types of raw materials, new grades of existing raw materials as well as new components, while some ICE-specific components are expected to become obsolete over time. These changes in the supply chain are resulting in the re-organisation of the global value chain with the growing importance of locations that can supply the EV-specific components. The technological changes shaping the transition present several opportunities to manufacture NEVs with growing global demand, thus supporting the long-term sustainability of the domestic automotive industry.
- To support the EV transition, a combination of emission reduction regulations (e.g. zero-emission vehicle mandates and ICE bans) and incentive schemes are increasingly being adopted by various countries.
- In terms of emissions reduction policies, the most common instrument used has been zero-emission mandates. The business case for production is dependent on a combination of domestic and export demand, infrastructure, competitiveness, and incentives. This is not unique to South Africa but is the global approach to automotive production.
- What is required in South Africa is the development of and investment in NEV component technology and expansion of the fledgling electric vehicle supply chain; re-investment and support towards the reskilling and upskilling of the workforce to ensure the right skills are available for the design, engineering and manufacturing of NEVs and related components and systems; the transition of South Africa towards the cleaner fuel technologies available globally; and an adoption of new and sustainable manufacturing processes to significantly reduce greenhouse gas emissions and to improve environmental health.
- Key imperatives for the South African automotive industry include the dual goals of greater localisation and transformation. The SAAM 2021-2035 target is in the order of 500 second- and third-tier suppliers, of which 25%, or 130, of these suppliers, need to be Black-owned by 2035, off a very low base currently.

- In this regard, the launch of a R6-billion Automotive Industry Transformation Fund (AITF) to support Black participation in the automotive industry supply chain is imperative. The AITF was established as a collective Equity Equivalent Investment Programme (EEIP), as defined in the Broad-Based Black Economic Empowerment (B-BBEE) Codes, between the seven manufacturing OEMs in South Africa. It aims to facilitate transformation across the sector’s value chain, through the provision of access to developmental funding, access to market, and access to capacity development for qualifying Black-owned entities. The AITF will play a key role in the implementation of the SAAM 2035, especially in terms of localisation and industry transformation.
- A distinct diverse range of original equipment components and aftermarket parts is manufactured in South Africa. The country’s manufacturing capabilities are illustrated by the fact that the EA111 engine for the VW Polo and Polo Vivo is manufactured in South Africa, while Ford is manufacturing the new 3.0L V6 turbodiesel engine for the new Ford Ranger along with the existing assembly line for the 2.0L Single Turbo and Bi-Turbo diesel engines. Design changes and additional derivatives of the engines have been added for the next generation Ranger. Both companies’ engines are linked to export programmes, with the Ford engines exported to more than 100 global markets.
- The bulk of the domestically manufactured automotive components are sold as original equipment components to the OEMs, and the balance to exports and the aftermarket. In 2023, automotive component exports declined by 4,8% to R66,9 billion, from R70,3 billion in 2022, mainly due to the decline in catalytic converter exports. However, catalytic converters remained the top automotive component exported from South Africa, and comprised 44,1% of total automotive component exports, followed by engine parts, tyres and transmission shafts and cranks.

Figure 25 Top Automotive Component Exports by Value (Rm)



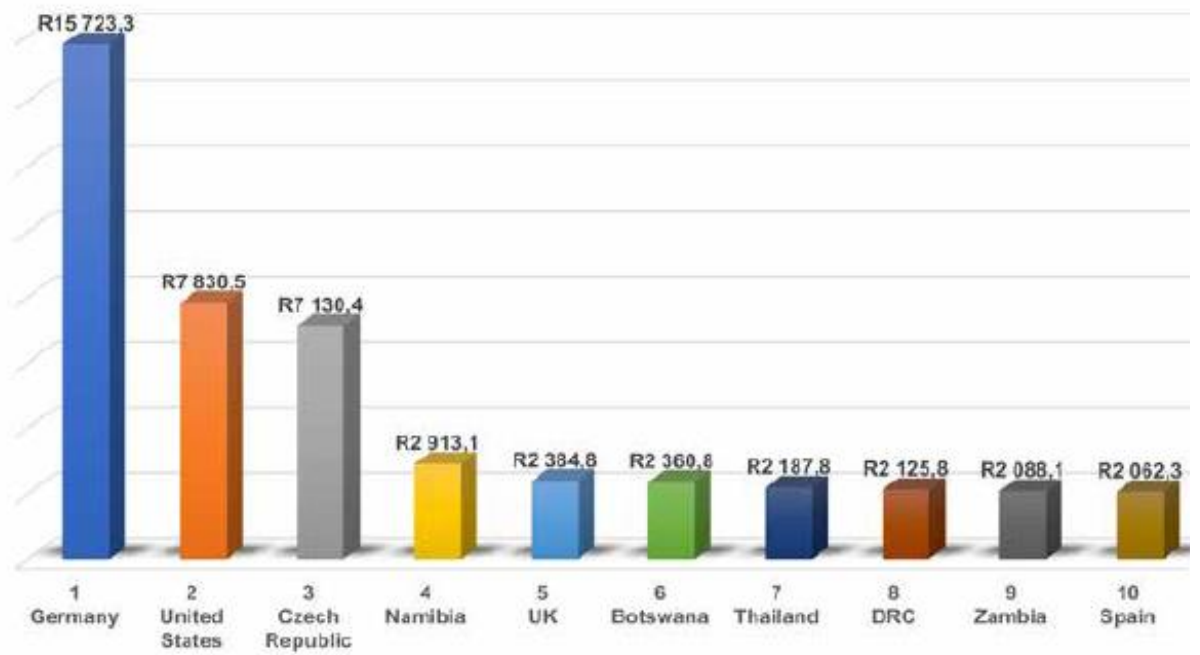
Source: naamsa, SARS

- Given South Africa’s geographic location, the focus of exporters tends to be on high-value domestically beneficiated, logistics-friendly automotive components. The following table reveals the automotive component export ranking by product category from 2019 to 2023.

Figure 26 Automotive Component Export Ranking by Product Category

Component category	2019	2020	2021	2022	2023	% of total export value	Ranking
Total (R million) Including BELN country data	53 667	54 476	69 198	70 270	66 861		
Catalytic converters	20 359	25 978	34 891	33 955	29 494	44,1%	1
Engine parts	4 345	3 340	5 083	4 719	5 110	7,6%	2
Tyres	2 619	2 697	3 084	4 053	3 828	5,7%	3
Transmission shafts / cranks	1 152	1 182	1 296	1 415	1 679	2,5%	4
Radiators / parts	1 536	1 284	1 272	1 447	1 294	1,9%	5
Automotive tooling	943	783	880	973	1 077	1,6%	6
Axles	529	432	615	656	1 020	1,5%	7
Engines	1 904	1 095	1 372	850	973	1,5%	8
Gauges / Instruments / parts	657	514	662	687	800	1,2%	9
Clutches / shaft couplings	608	588	674	652	685	1,0%	10
Filters	587	561	660	607	609	0,9%	11
Silencers / exhausts	405	313	417	409	603	0,9%	12
Body parts / panels	520	241	243	339	598	0,9%	13
Batteries	411	440	429	510	575	0,9%	14
Automotive glass	513	532	529	547	556	0,8%	15
Shock absorbers / suspension parts	569	492	430	393	438	0,7%	16
Gear boxes	229	257	282	381	361	0,5%	17
Brake parts	315	263	270	289	356	0,5%	18
Lighting equipment / parts	268	206	271	319	337	0,5%	19
Ignition / starting equipment	290	283	278	308	317	0,5%	20
Stitched leather seats / parts	200	101	85	187	229	0,4%	21
Road wheels / parts	382	243	242	271	225	0,3%	22
Gaskets	159	186	226	219	222	0,3%	23
Wiring harnesses	151	131	194	171	175	0,3%	24
Alarm systems	120	82	92	105	138	0,2%	25
Springs	50	68	74	89	134	0,2%	26
Steering wheels / columns / boxes	59	59	71	139	113	0,2%	27
Seats	43	59	43	43	64	0,1%	28
Air conditioners	62	70	35	48	56	0,1%	29
Jacks	35	34	36	60	40	0,1%	30
Car radios	19	28	20	24	39	0,1%	31
Seat belts	8	8	8	17	13	-	32
Other parts	13 620	11 926	14 434	15 388	14 703	22,0%	33

Source: naamsa, SARS

Figure 27 Top Automotive Component Export Destination by Value

Source: naamsa, SARS

Figure 28 Top Automotive Component Export Destination by Value

Country	2022 R million	2022 Ranking	2023 R million	2023 Ranking
Germany	15 821,8	1	15 723,3	1
USA	8 788,2	2	7 830,5	2
Czech Republic	7 486,8	3	7 130,4	3
Namibia	2 917,2	4	2 913,1	4
UK	2 455,5	6	2 384,8	5
Botswana	2 237,2	7	2 360,8	6
Thailand	2 516,8	5	2 187,8	7
Democratic Republic of Congo	1 712,6	11	2 125,8	8
Zambia	2 035,4	9	2 088,1	9
Spain	2 204,7	8	2 062,3	10
Zimbabwe	1 893,9	10	1 765,7	11
Mozambique	1 581,7	12	1 621,6	12
Brazil	1 484,6	14	1 530,1	13
Belgium	1 427,8	15	1 473,1	14
Netherlands	1 514,3	13	1 322,9	15
Turkey	1 157,3	18	1 085,8	16
Japan	1 265,4	17	1 028,0	17
Argentina	1 418,0	16	866,6	18
eSwatini (formerly Swaziland)	812,5	20	831,2	19
Australia	589,2	21	597,6	20
Lesotho	567,4	22	554,1	21
Angola	420,3	24	526,0	22
South Korea	957,2	19	511,8	23

Source: AIEC, SARS

Vehicle Imports

- One of the reasons why the South African automotive industry remains the dominant vehicle production market in Africa is that used vehicle imports are not allowed into the country. Strict control measures ensure that only a limited number of legal import permits are issued to allow specified used vehicles into South Africa. Left-hand drive vehicles are also not allowed into the country.
- A process of homologation is required before any motor vehicle model, whether domestically manufactured or imported, can be introduced into the South African market. The National Regulator for Compulsory Specifications (NRCS) is tasked with ensuring public safety and environmental protection.
- The homologation procedure of the NRCS intends to ensure that all new vehicle models comply with the relevant South African legislation, standards and specifications, as well as codes of practice, before use by the public-on-public roads.

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