

Middle East and North Africa Automotive Sector

The route to recovery in the supply chain

Forecast and analysis and special report preview by



AUTOMOTIVE
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December 9th 2020



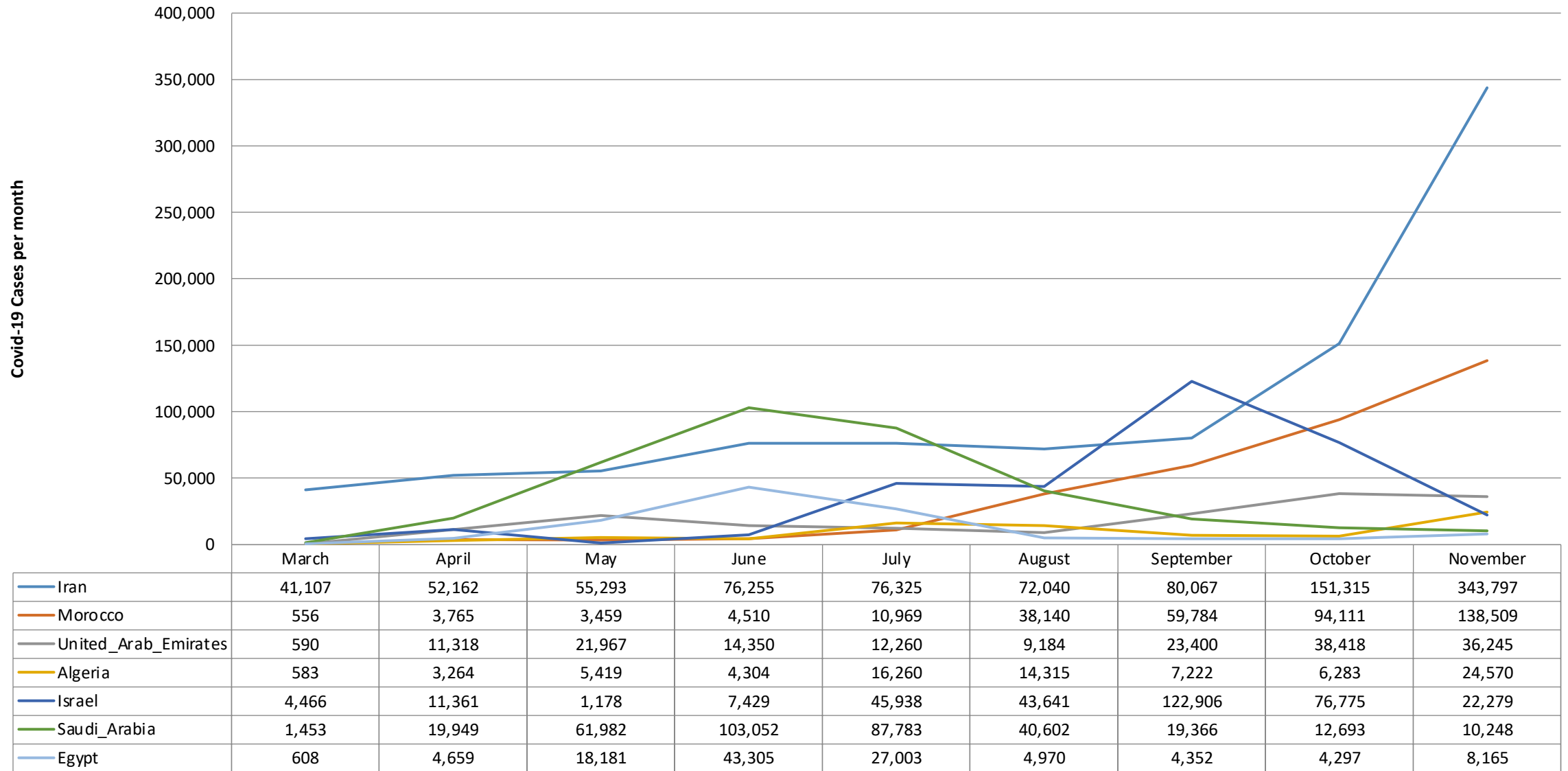
Middle East & North Africa

- 22 countries spanning Iran to Morocco with population of 503m people, and significant divergence in economic development, infrastructure and trading terms.
- Top 10 markets make up **90% of total new vehicle sales** (Iran, Saudi Arabia, UAE, Israel, Egypt, Morocco, Algeria, Kuwait, Iraq, Oman)
- Combined annual total new vehicle demand to **drop 24.8% in 2020** from 2.67m to 2m units, **rising 1.1% in 2021** before wider recovery takes hold
- Combined vehicle production to **drop 28% in 2020** from 1.29m to 930,000 units, with moderate recovery in 2021 expected

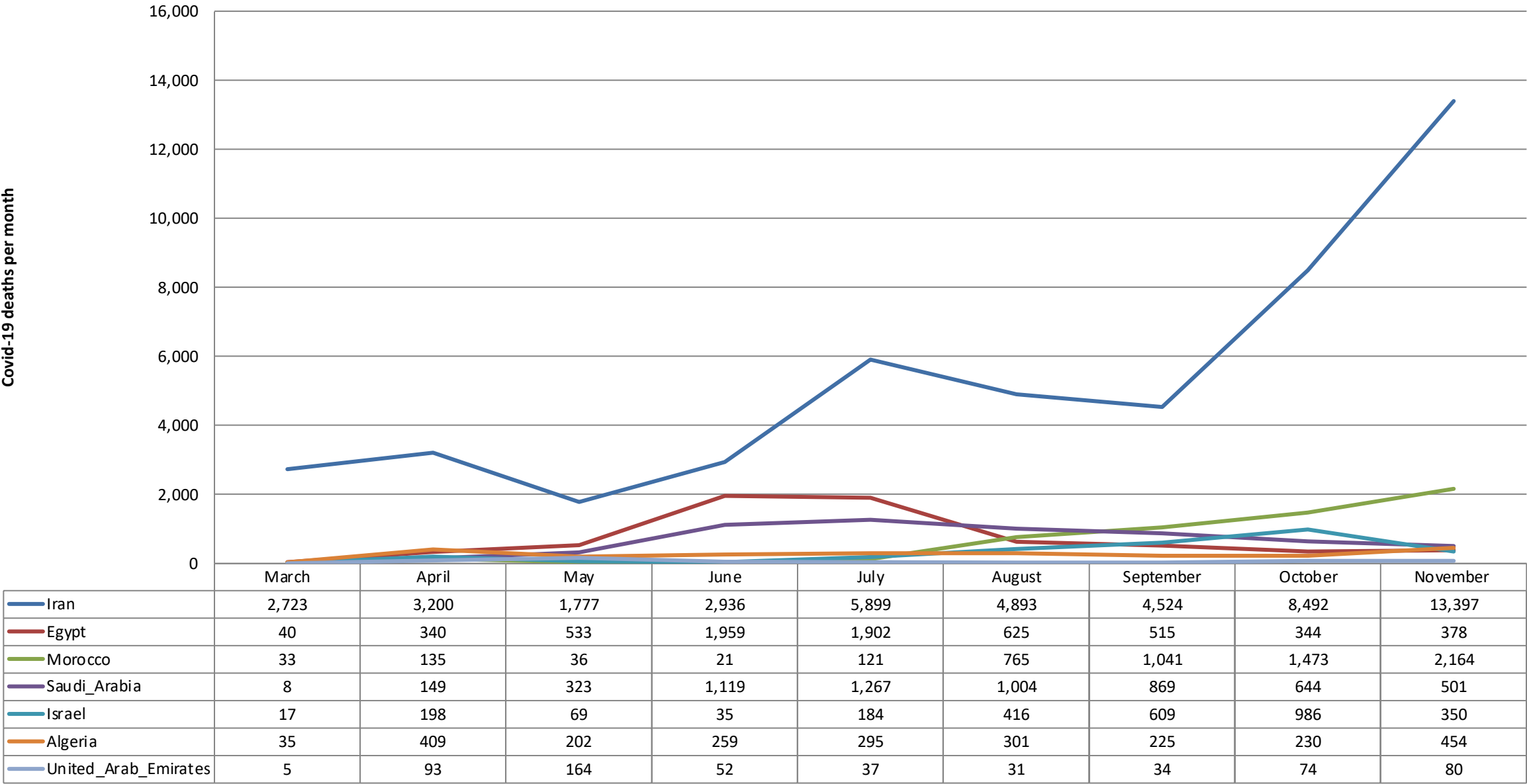
Navigating supply chain & trade complexity

- Covid impact is felt hard in regional supply chain: varied medical response, ongoing restrictions, oil price instability in Gulf markets, declines in exports, uncertainty over vaccine distribution...
- Geopolitics matter: US relations on Iran; Israel and UAE normalisation; GCC relations w/Qatar
- Government policies across region to encourage growth, investment and diversification
- ...but double-edged sword of 'Gulfisation' policies: liberalisation topped with nationalisation
- Free trade give and take: FTAs with Europe & Turkey in North Africa; GCC customs union in principle but not fully functional; Iran effectively closed off; Algeria block on vehicle imports
- Rising trade and investment potential with China, Africa
- Huge variation in logistics infrastructure and service – but significant investments in ports and SEZs
- Digitalisation and electrification potential in vehicle market and supply chain

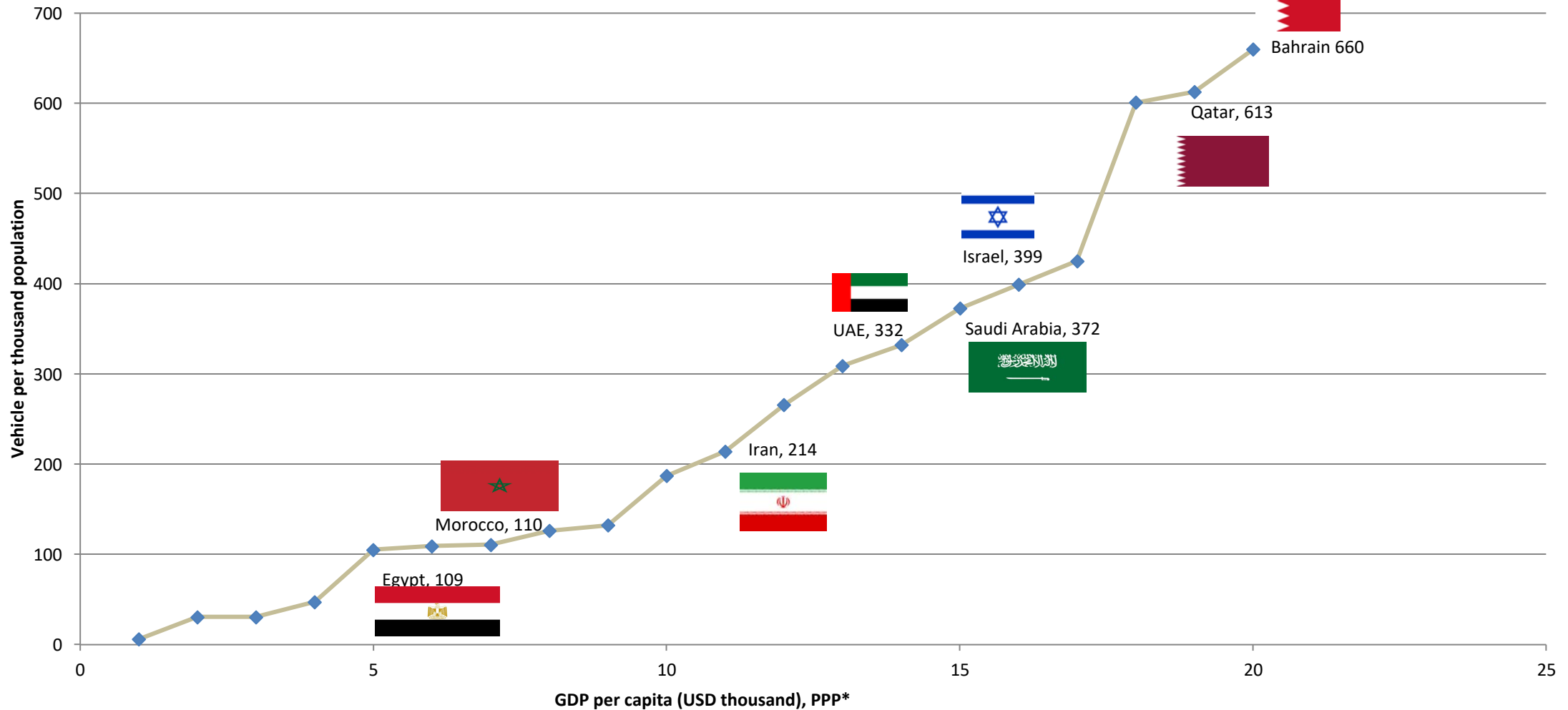
Covid-19 cases in key MENA markets



Covid-19 deaths in key MENA markets



MENA Vehicle penetration rate (2019)



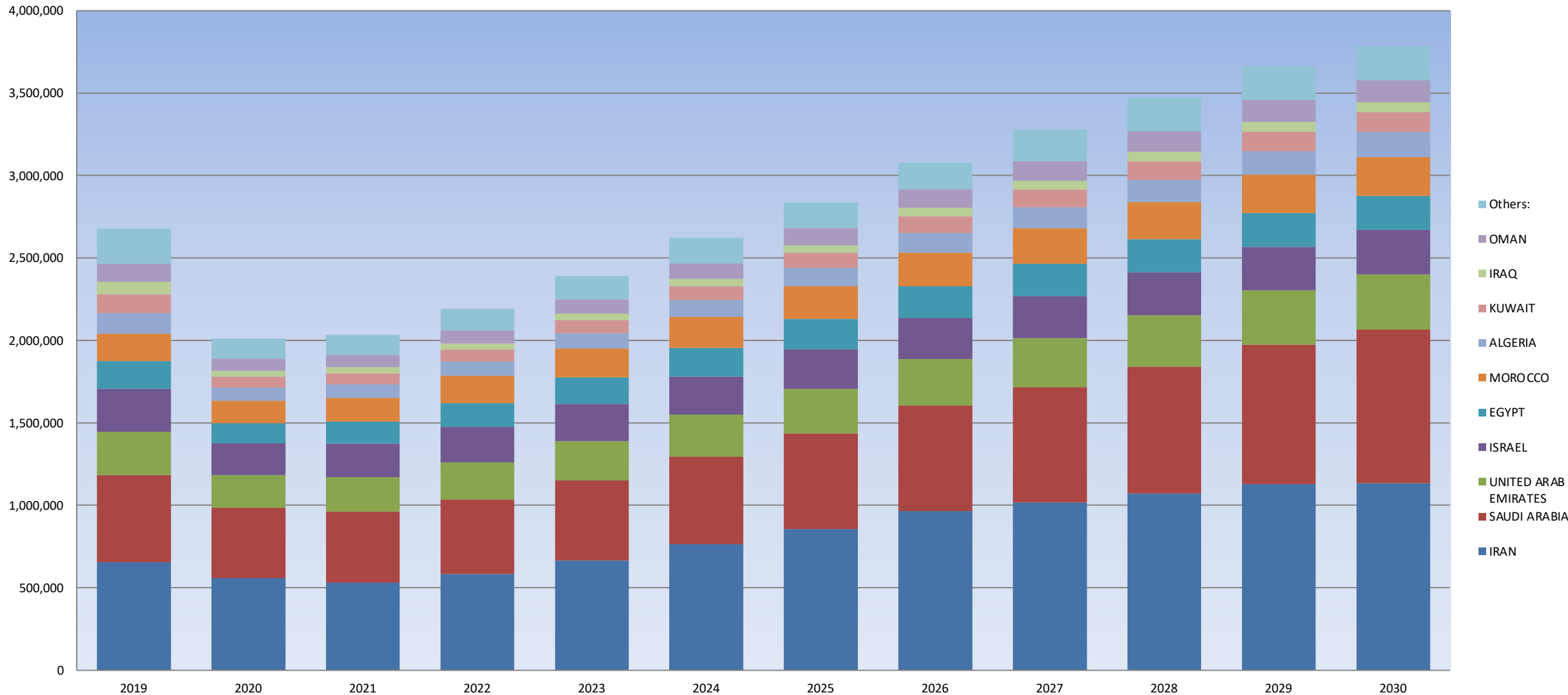
* Motor Vehicles per 1,000 people, based on GDP per capita, PPP (at constant 2011 international \$)

Source: Automotive from Ultima Media

- Markets like **Saudi Arabia, UAE, Israel** high per capita income & vehicle penetration, mid-to-premium range
- Markets like **Egypt** and **Morocco**, high population, low per capita income, low-to-medium range vehicles

MENA New Vehicle Sales Forecast

Source: Automotive by Ultima Media

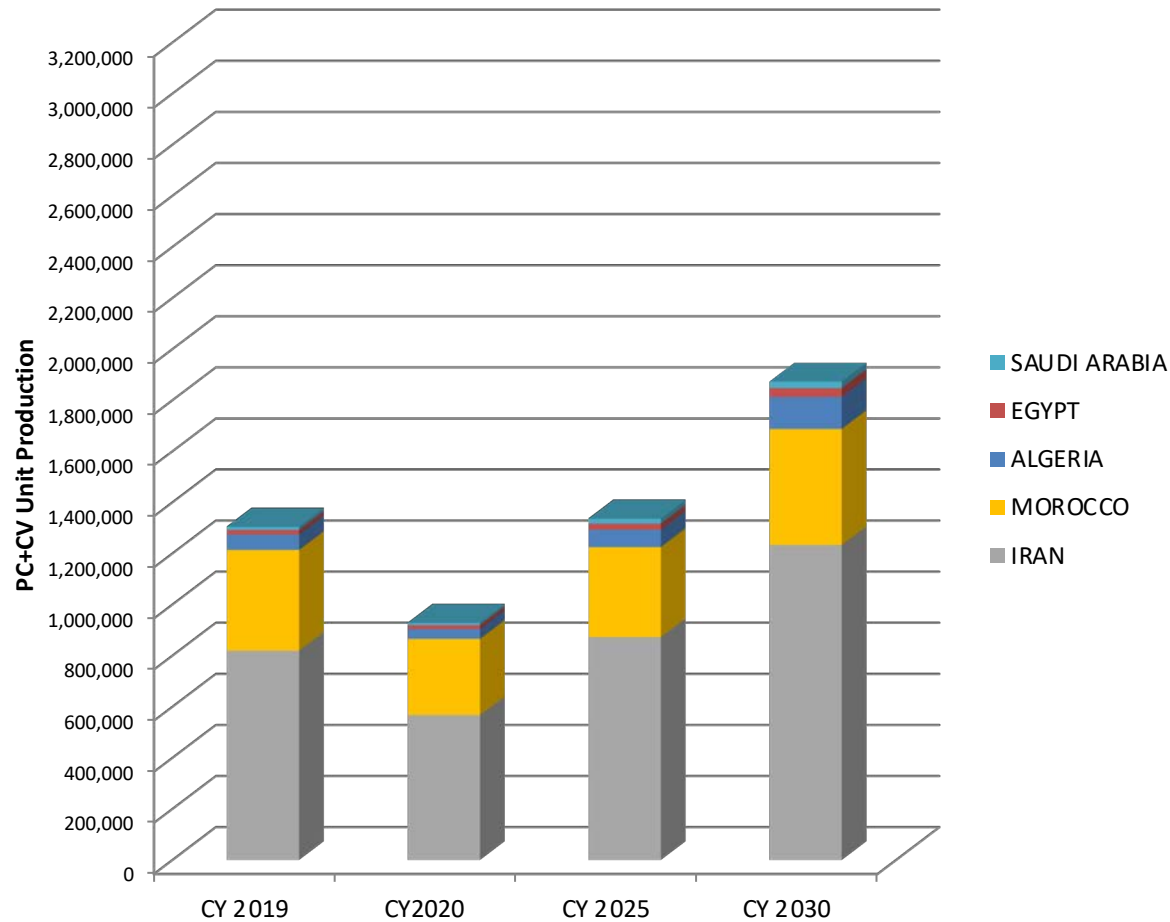


- Region to see **average annual GDP growth of 4.5%** from 2021-2030
- MENA combined annual sales to **hit 3.7m in 2030** – above pre-crisis but below **4.16m peak in 2014**

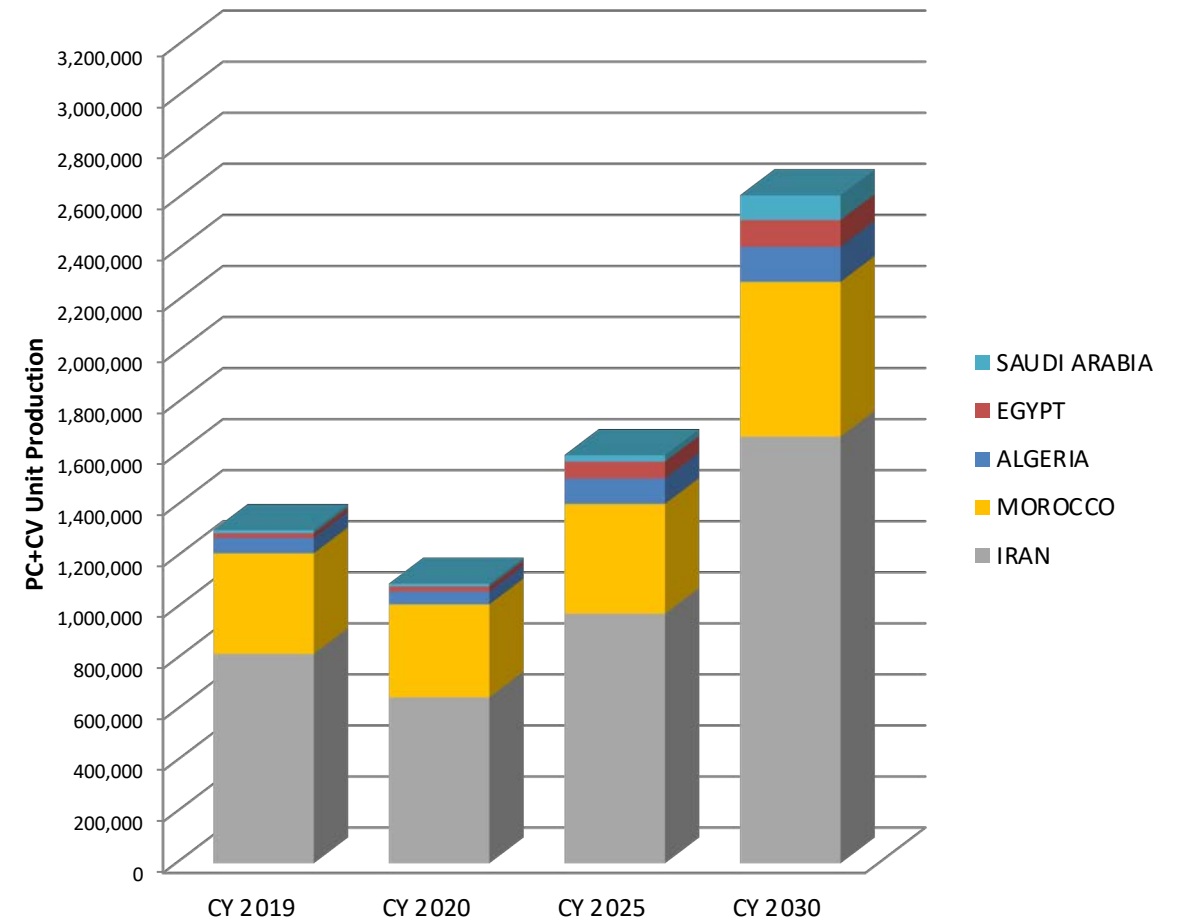
MENA Vehicle Production Forecast

Source: Automotive from Ultima Media

Realistic Outlook



Optimistic Outlook



- Production to recover from 2020 lows. Realistic forecast of **1.8m units per year by 2030**, but with upside above 2.5m. Will depend on trade relations, export recovery and local supply base

Saudi Arabia Vehicle Sales Snapshot

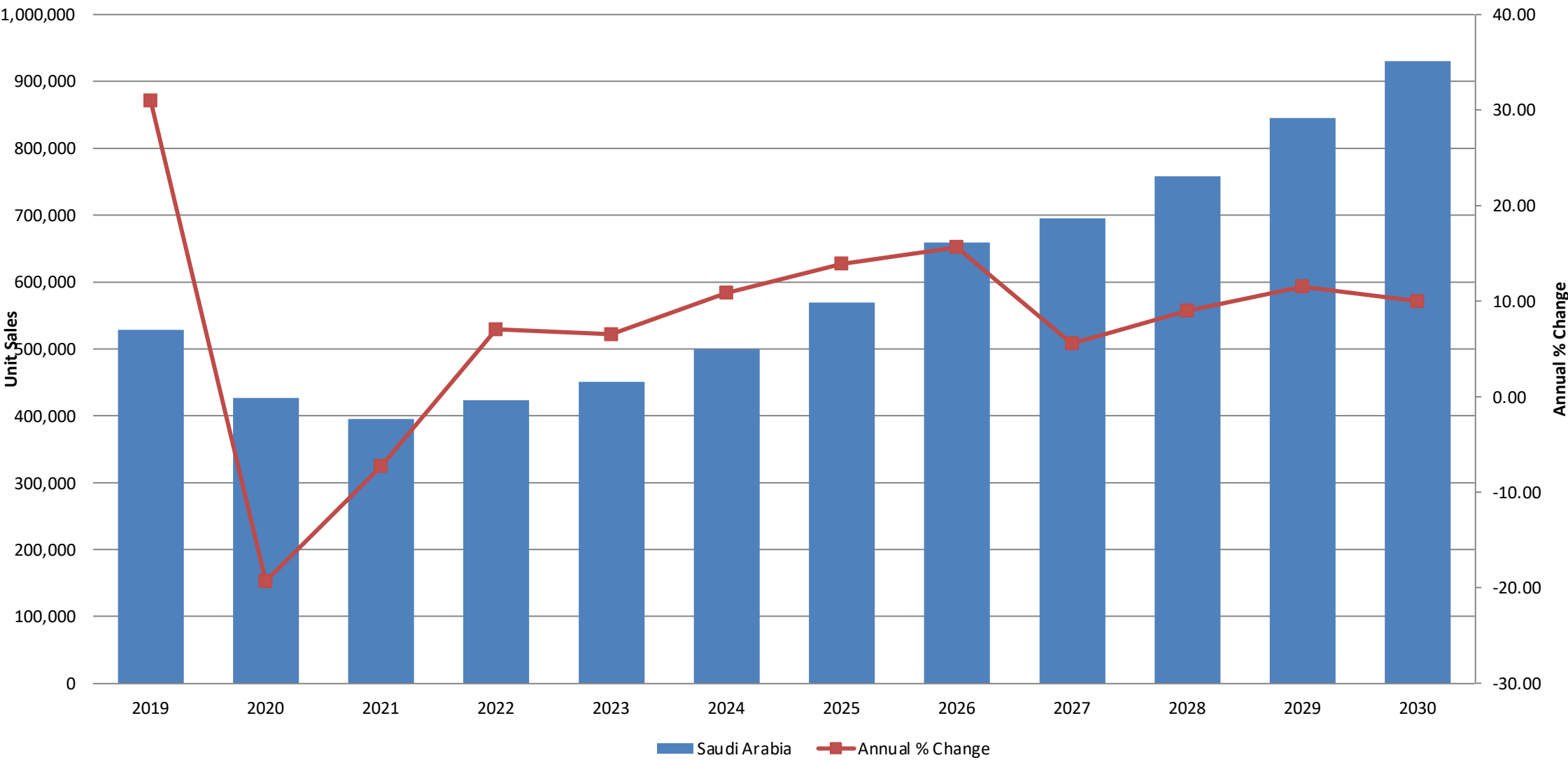
- Population 34.6m, high per capita income over \$23,000, pent-up demand
- Market hit high of 830,000 units in 2015 before falling by half to 400,000 units in 2018
- 2020 Q2 sales drop due to strong response to Covid-19, oil price uncertainty
- VAT and import tariff increase to 15% in June led to demand pull forward, but will weigh on sales
- Tariff exemptions for auto – and may now be postponed or withdrawn
- Economic liberalisation and diversification, women driving leave room for growth
- Oil dependency, trade relations, 'saudisation' policies will weigh on economy





Saudi Arabia Vehicle Sales Forecast

Source: Automotive by Ultima Media



- 2020 sales to drop 19.3% to 426,735, with double dip decline expected in 2021
- Stronger recovery from 2022 with 2030 sales forecasted to hit 930,000 units

Saudi Arabia Vehicle Production Snapshot

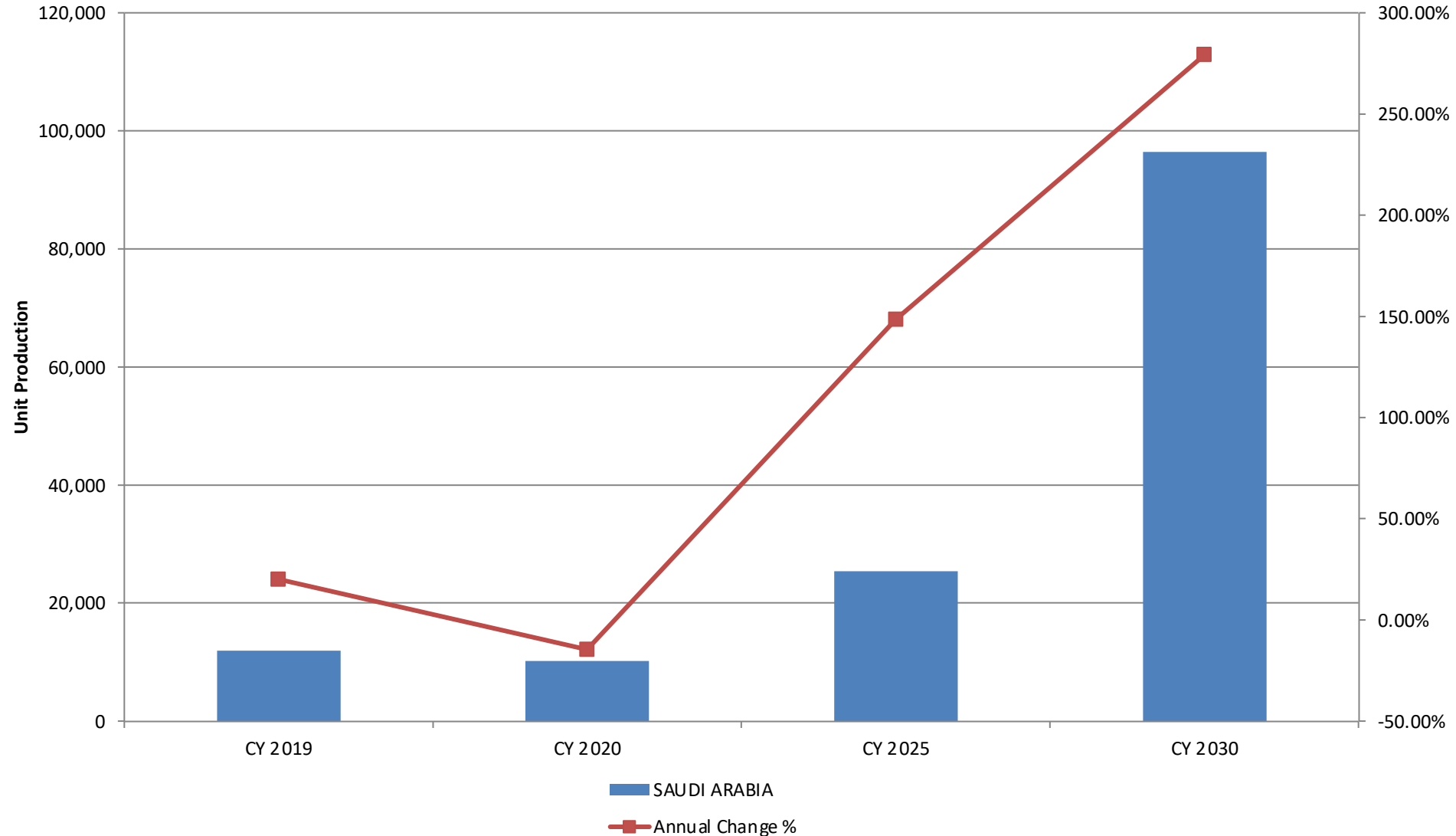
- 2020 only small-scale assembly of Isuzu vehicles
- Vision 2030 targets 250,000 units per year supported by government incentives and investment
- Very limited local supply base
- Ssangyong potential, but now hold; earlier Toyota discussions have come to little
- Potential interest from Chinese OEMs
- 2030 realistic forecast 25,000 annual production, with upside to 95k+ if OEM agreements secured. Below government target of 250,000 upa





Saudi Arabia Vehicle Production Forecast (Optimistic)

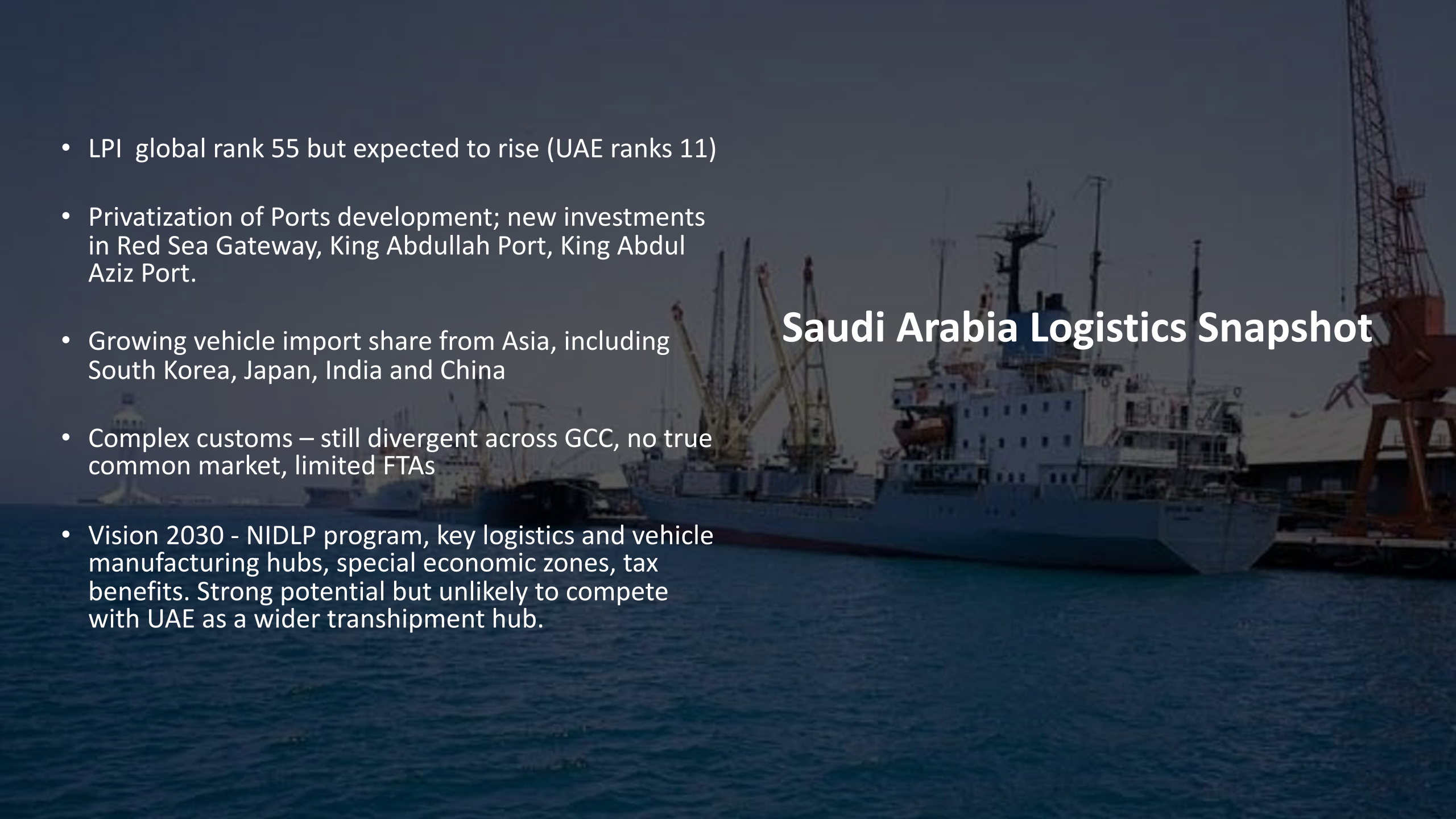
Source: Automotive by Ultima Media



- Optimistic outlook based on global OEM investment in passenger cars and trucks, i.e. Toyota, Daimler
- Realistic outlook assumes only low-scale assembly

- LPI global rank 55 but expected to rise (UAE ranks 11)
- Privatization of Ports development; new investments in Red Sea Gateway, King Abdullah Port, King Abdul Aziz Port.
- Growing vehicle import share from Asia, including South Korea, Japan, India and China
- Complex customs – still divergent across GCC, no true common market, limited FTAs
- Vision 2030 - NIDLP program, key logistics and vehicle manufacturing hubs, special economic zones, tax benefits. Strong potential but unlikely to compete with UAE as a wider transshipment hub.

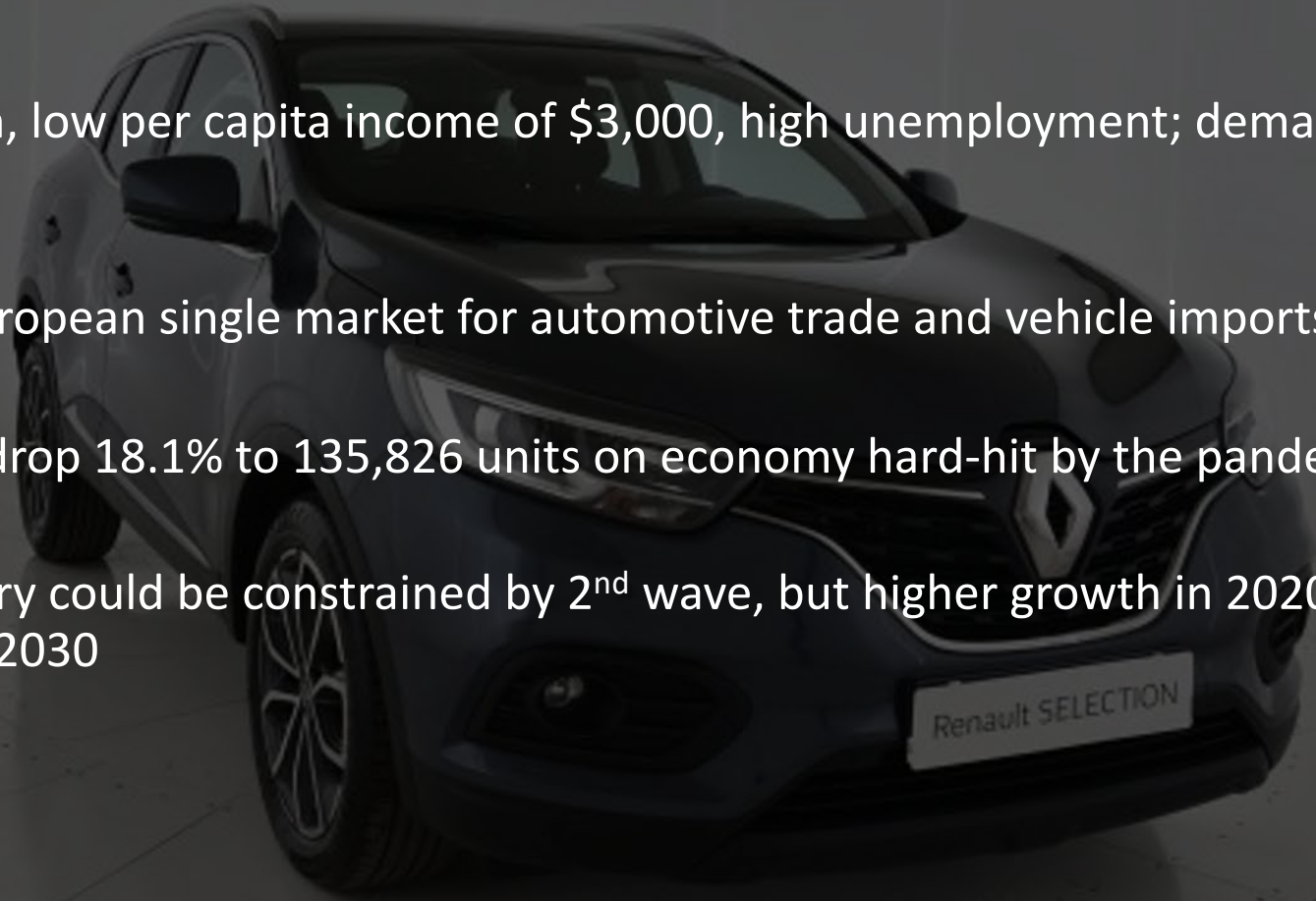
Saudi Arabia Logistics Snapshot





Morocco Vehicle Sales Snapshot

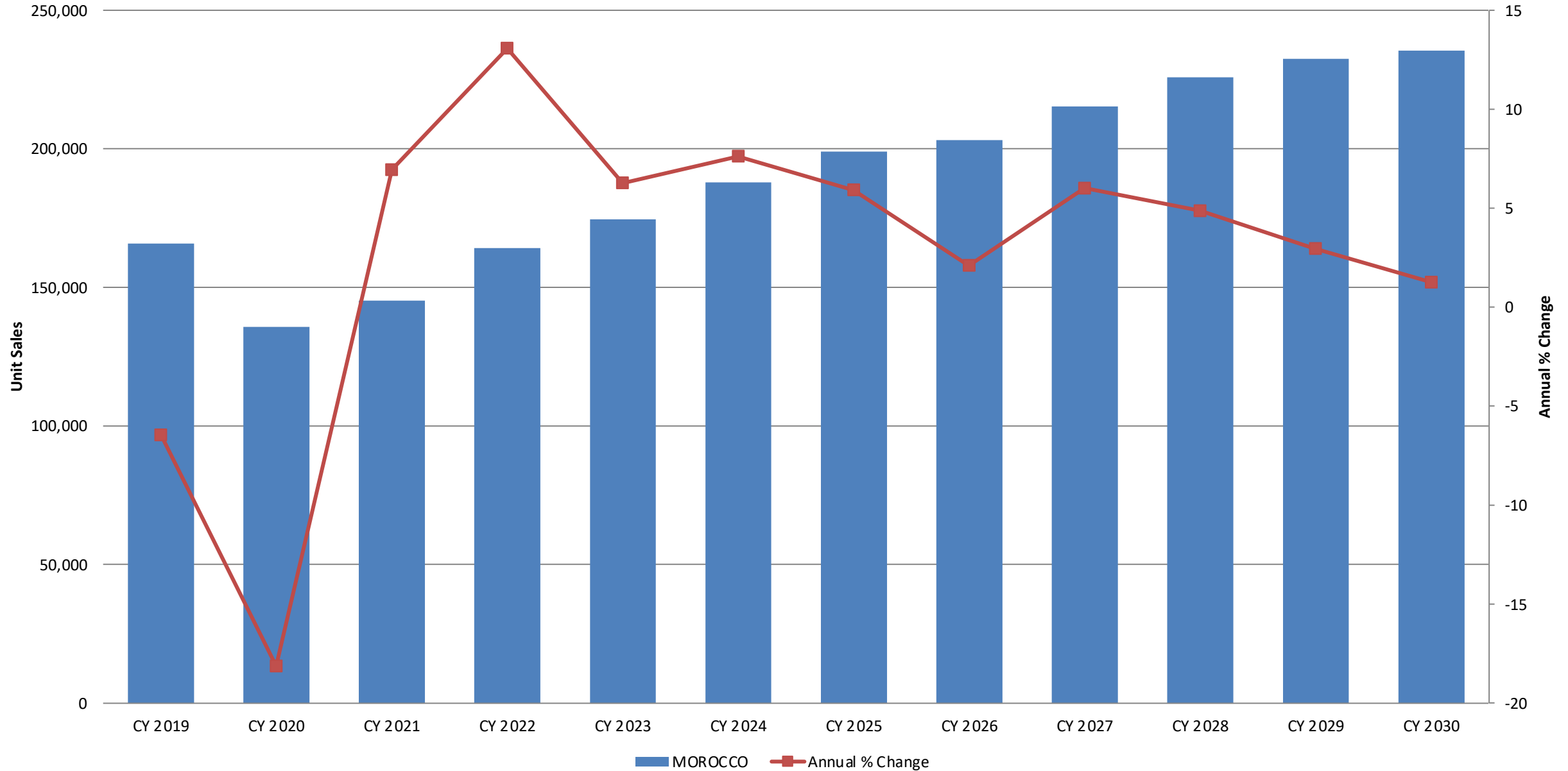
- Population 36.5m, low per capita income of \$3,000, high unemployment; demand for mid-low-cost vehicles
- Closely tied to European single market for automotive trade and vehicle imports
- FY 2020 sales to drop 18.1% to 135,826 units on economy hard-hit by the pandemic
- Moderate recovery could be constrained by 2nd wave, but higher growth in 2020s to hit 235,000 units by 2030





Morocco Vehicle Sales Forecast

Source: Automotive by Ultima Media





Morocco Vehicle Production Snapshot

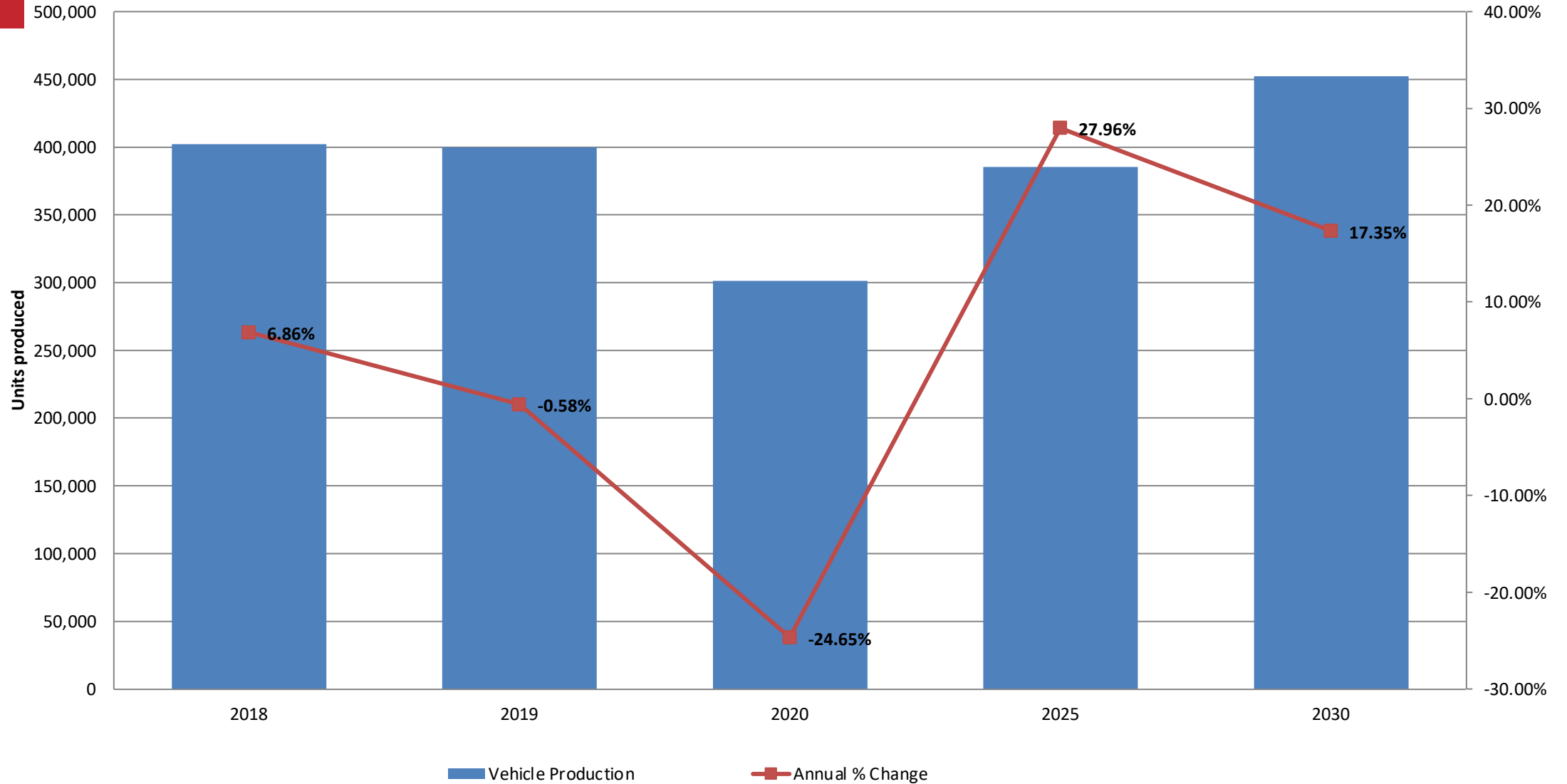
- Pre-Covid output nearly 400,000 per year across Renault (Tangier and Casablanca plants) and PSA (Kenitra), with around 90% of output exported to Europe.
- Pre-Covid Renault plans to expand Casablanca, PSA to double capacity at Kenitra, BYD plans for factory. Government target of 1m units of production by 2023
- OEMs and Govt. aims for 80% local content rate but current level around 40-50%. Global tier suppliers have invested including Valeo, Lear and Faurecia
- Reduced investment will constrain production recovery, but still strong low-cost production and export base for EU (i.e. Citroën Ami production). 2030 range from 430k to 600k





Morocco Vehicle Production Forecast (Realistic)

Source: Automotive by Ultima Media

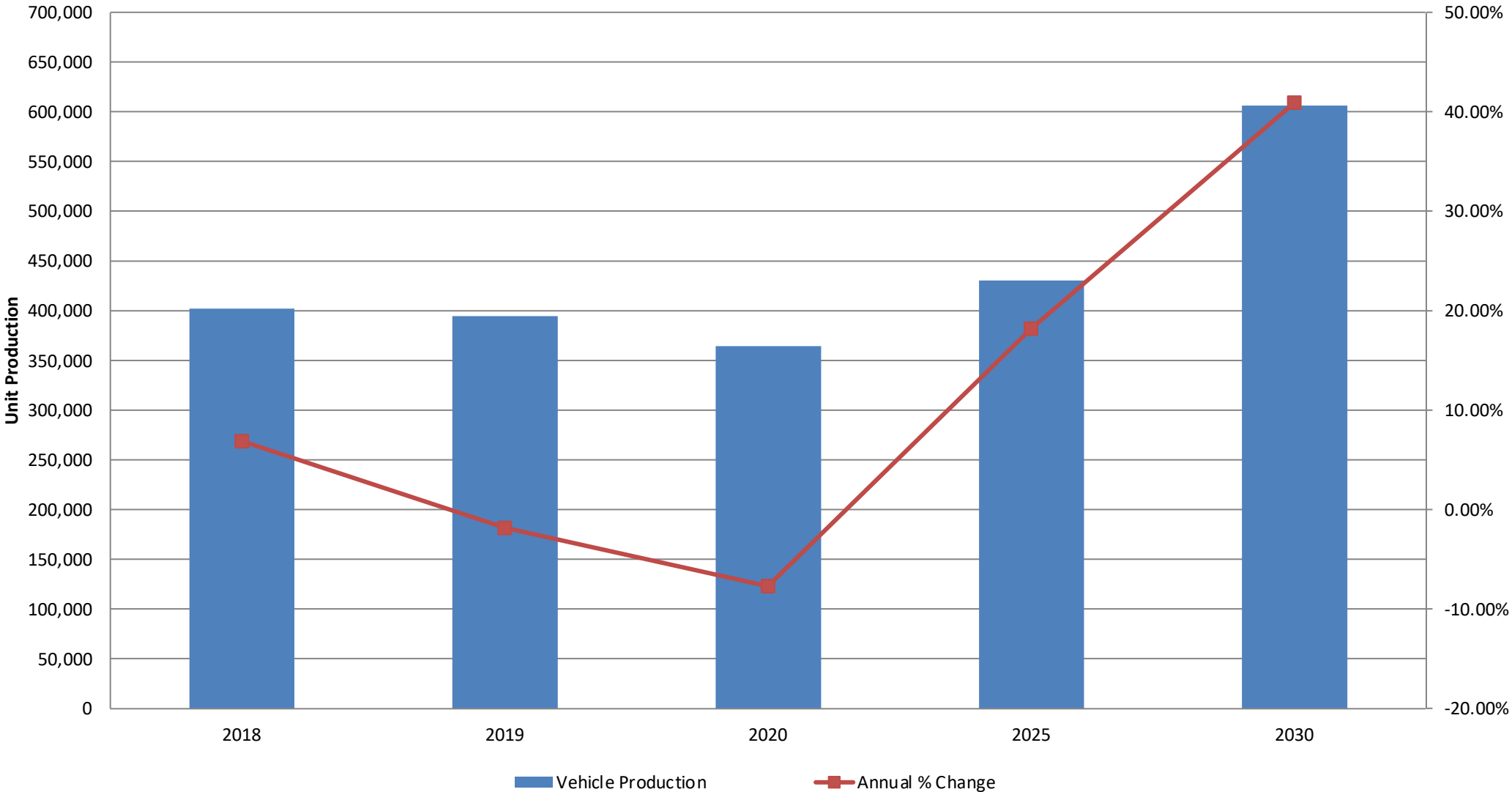


- This scenario: exports hurt by declined in European markets; crisis leads Renault to streamline investment; PSA expansion more limited than initially planned; BYD investment put on ice



Morocco Vehicle Production Forecast (Optimistic)

Source: Automotive by Ultima Media



- This scenario: stronger Europe recovery. Renault shifts more Sandero, EV production to Morocco; PSA boosts Kenitra lineup from Europe production (i.e. shifts from France, Czech); new OEM entry



Morocco Logistics Snapshot

- LPI global rank 114, falling further back over the last decade. Low score on Timeliness, Tracking, Customs
- However, automotive port operations are more developed, notably Tanger-Med's ro-ro facility and Automotive City, and strong FDI
- Investment in Kenitra Atlantique, where a new ro-ro port is being developed
- Morocco integrated into European logistics network for parts and vehicle flows thanks to FTA, ferry and shipping links
- Rail services enhanced between Kenitra and Tangiers, surge in component production in free zones in these areas
- Port Strategy 2030 sets \$7 billion investment for port development





Egypt Vehicle Sales Snapshot

- Population over 100m, low per capita income around \$3,000, high unemployment
- Vehicle sales hit high of 350,000 units in 2014, fell by more than half by 2017 on unstable oil price, economic shocks
- FTA with EU, Turkey, Morocco see vehicle tariffs to drop to zero, and increase in imports.
- Relatively high proportion of commercial vehicle sales (25%)
- 2020 sales to drop 29.2% to 120,000 units on Covid-19 impacts, oil price, mitigated by government support
- Recovery from 2021 will see sales growth surpassing 200,000 units by 2030 forecast – below prior peaks

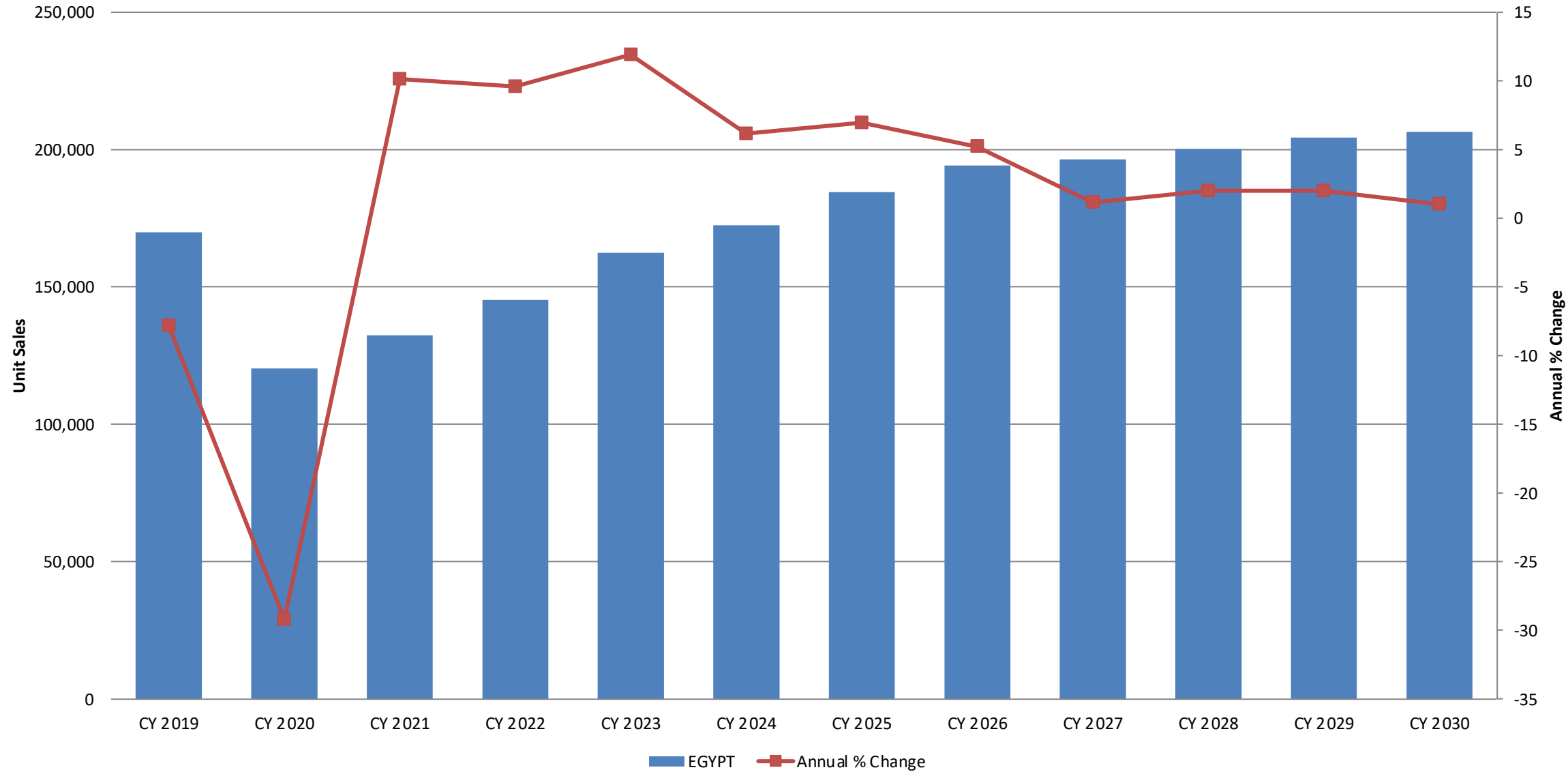




Egypt

Vehicle Sales Forecast

Source: Automotive by Ultima Media





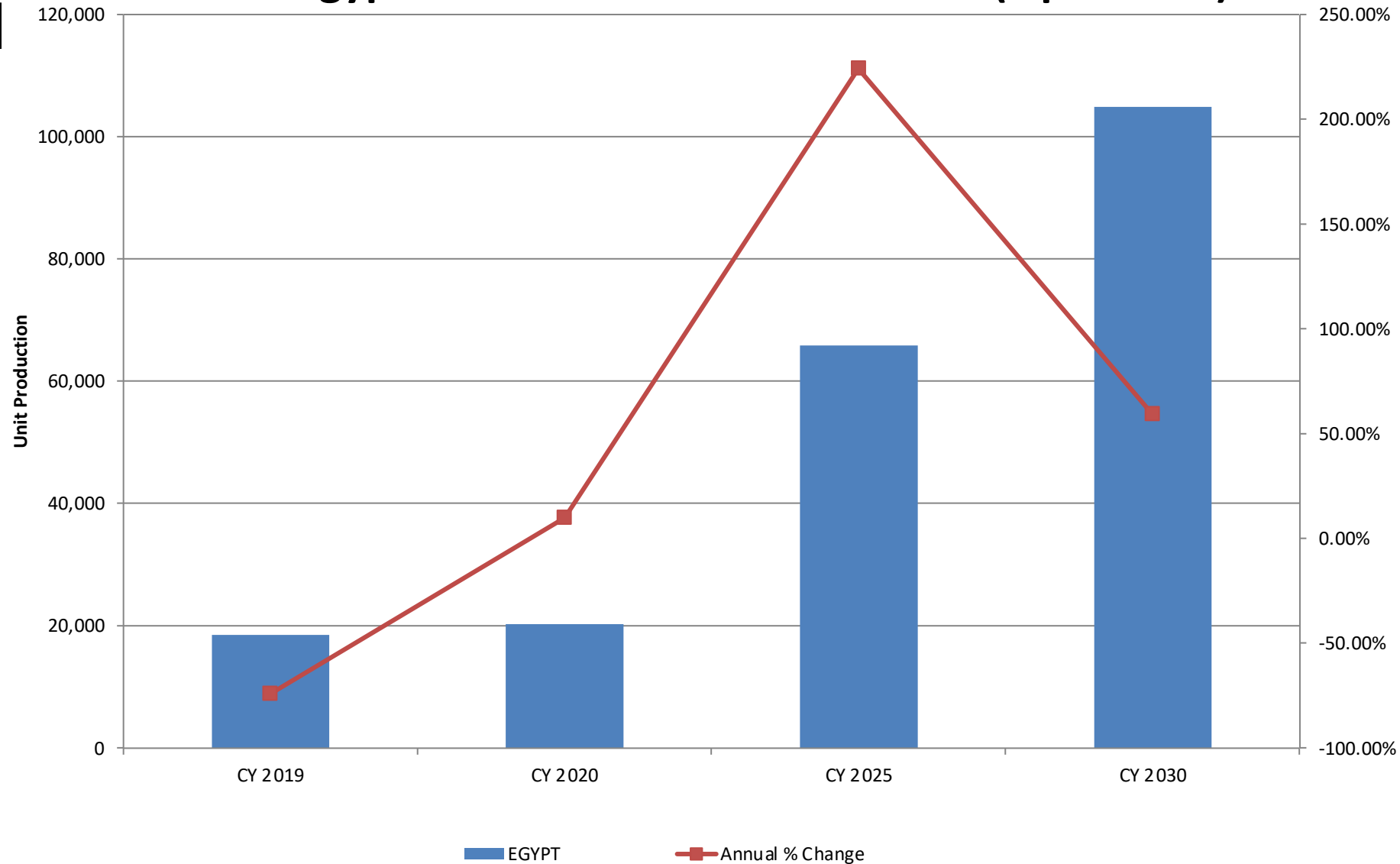
Egypt Vehicle Production Snapshot

- 2019 production fell to 18,000 units from the 52,000 units in 2018 and 60,000 in 2014
- Changes in import tariffs and FTAs with Europe have seen imported vehicle prices fall in comparison to domestic production
- Limited local component and supply base
- 2030 realistic forecast of 35,000 units but with upside to 100k if capacity utilisation rises, export potential and new OEM investment



Egypt Vehicle Production Forecast (Optimistic)

Source: Automotive by Ultima Media



- Local kit plants have annual capacity for 100,000 up to incl. for Hyundai, Nissan, Suzuki, Jeep, Isuzu, Chevrolet
- Higher production depends on existing + new production realised (i.e. Mercedes, Chinese OEMs)



Egypt Logistics Snapshot

- LPI global rank 67 (out of 160 ranked countries), an improvement from 92 since 2010
- Gains in Timeliness, Infrastructure, Tracking but significant gaps remain
- Key shipping routes through Suez Canal but limited domestic port and ro-ro capacity
- New investments include new basin at DP World Sokhna
- Port Said ro-ro facility expected by 2021 with 800K car capacity from Bolloré Ports, Toyota Tsusho, Nippon Yusen

MENA Supply Chain Opportunities

Vehicle Sales

- Intrinsic demand, govt. policies, low vehicle density and population growth will support vehicle sales
- Higher income market potential for premium, connected and electric vehicle imports
- Emerging market potential in Iraq, North Africa
- Trade normalisation potential including GCC, Israel and especially Iran
- Infrastructure investment and development will support commercial vehicle sales

Vehicle Production

- Iran recovery and potential sanction removal will drive production in Middle East
- North Africa a growing opportunity thanks to access to Europe, low costs and rising supplier base
- Potential for Chinese OEM investment

Automotive Trade

- Major port development activity across MENA, strong focus on developing container and ro-ro facilities
- SEZ and FTZ locations help optimise supply and storage
- Transshipment and re-export potential to regional, African and global markets
- Scope for investment in connectivity, more sophisticated logistics and 3PL services

Extensive market report on Middle East & North Africa coming Q1 2021....

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