



Quarterly NAACAM Local Value Index

Reviewed Quarter: Ending 30 June 2018.

Introduction

The latest quarterly supplier localisation report, compiled for NAACAM by B&M Analysts, considers the period ending 30 June 2018. The report contains industry information from a representative sample of 41 automotive suppliers, located across South Africa in all the major automotive regions, representing all the major sub-sectors, and supplying the primary automotive markets - local OEM, Tier 1, aftermarket and exports. Reporting is based on a 'quarter on quarter' (2018 Q2 versus 2018 Q1) comparison as well as a 'same quarter this year on same quarter last year' (2018 Q2 versus 2017 Q2) comparison. NAACAM is the National Association of Automotive Component and Allied Manufacturers in South Africa. B&M Analysts enables sustainable growth through innovative solutions for leading industrial sectors.

Sales

The latest quarterly survey results highlight that total sales levels for suppliers improved by 6.0% from the first quarter of 2018 to the second quarter. This increase is due to a combination of total domestic sales growing by 8.0%, mainly due to OEM and OEM P&A sales (66.2% of domestic sales) improving by 10.6%, and aftermarket sales (29.8% of domestic sales) growing by 5.3%, with total export sales increasing by only 2.1%.

When comparing the latest quarterly sales (2018 Q2) against those for the same quarter a year ago (2017 Q2), total sales are up by only 1.7%:

- Domestic sales improved by 4.9%, with OEM linked sale growing by 3.4%, and aftermarket sales up by 10.6%.
- Export sales were down by 4.6%, reflected in weaker direct exports being down 5.0% and exports via OEMs up by 1.4%.

The growth in OEM linked sales for the last quarter and over the last year of 10.6% and 3.4% respectively is encouraging as total OEM production for 2018 Q2 was up by only 1.7% from the previous quarter, with the comparative figure over the last year highlighting a decline of 5.0%. The individual volume performance of the local OEMs has however been highly variable over the last year.

Indicator	2018 Q1 Jan-Mar 2018	2018 Q2 Apr-Jun 2018	YoY change %
Total sales	100	106.02	1.68
Domestic sales	100	107.95	4.90
Export sales	100	102.10	(4.59)

Localisation and investment

Internal value addition (defined as sales less materials) considers the level of local value that is generated by suppliers, with local sourcing reflecting material purchases placed with local suppliers.

- Internal local value addition for 2018 Q2 improved by 4.9% versus the previous quarter, with this due to the total sales growth of 6.0% and total purchases increasing at 6.5%.
- Versus the comparative quarter from the previous year levels have improved by 22.3%. This is mainly because of total purchases being down by 5.2%, mainly due to import levels being 10.5% lower than they were for the same quarter a year ago, with local purchases up by 7.8%.

The levels of investment in capital amongst the suppliers in Q2 of 2018 improved by only 2.6% compared to 2018 Q1, with the latest quarterly level 23.7% lower than the figure for 2017 Q2. The investment level as a percentage of sales for 2018 Q2 is 2.5%, ahead of the level for 2018 Q1 of 2.4%, but far lower than the 2017

Q2 figure of 3.4%. As noted previously, the decrease in investment levels over the last year are most likely linked to OEM model cycles, with the most recent OEM model launch taking place in April 2018.

Indicator	2018 Q1 Jan-Mar 2018	2018 Q2 Apr-Jun 2018	YoY change %
Internal value addition	100	104.85	22.27
Local sourcing	100	105.24	7.83
Investment	100	102.62	(23.70)

Employment and empowerment

The total employment levels amongst local suppliers decreased fractionally for the last quarter versus the previous quarter by 1.0%, with levels improving by 2.1% against the same quarter in 2017. Positively, the growth in employment over the last year is linked to an increase in permanent employees of 2.2%.

Average B-BBEE levels for 2018 Q2 of suppliers improved by only 0.5% versus the previous quarter, but by 10.4% versus the previous year. The average B-BBEE score for 2018 Q2 for the sample is 6.4.

Indicator	2018 Q1 Jan-Mar 2018	2018 Q2 Apr-Jun 2018	YoY change %
Employment	100	99.05	2.51
B-BBEE score	100	100.52	10.43

Outlook

The outlook for the quarter ahead (2018 Q3) is projected to be positive for sales with employment levels expected to remain relatively stable. The outlook for internal value addition is projected to be positive, with the related to the local sourcing for the sample expected to decline, as well as import levels.

Indicator	Sample median	Indicator	Sample median
Sales	Positive	Local sourcing	Negative
Internal value addition	Positive	Employment	Stable

Opinion/Analysis

This report highlights some interesting analysis around the transformation profile of the automotive supplier industry over the past year.

- While the average B-BBEE score of compliant suppliers has improved by 10.4% over the last year, less than 25% of the suppliers are at Level 4 or better, with two-thirds at Level 7 or 8.
- From a black ownership perspective, although the level of shareholding did improve by 17.0% over the last 12-months, ownership levels remained very low. 70% of the suppliers are reporting black ownership levels of less than 20%.
- Positively, local procurement from black suppliers has improved impressively when compared to the comparative quarter a year ago, with 2018 Q2 levels 84.7% higher than they were for 2017 Q2.

The transformation data highlights that major challenges remain for local automotive suppliers, as is evident from the industry's B-BBEE and black ownership profile. However, progress has been made over the last year, especially in relation to local procurement from black suppliers. An increased focus on all these transformation areas needs to remain by local suppliers. The requirements to do so from a policy support perspective are not going away. Contact the NAACAM office if you are looking for specialist advice on this topic. Outside of the in-house resources available, we have several associate members who can guide the manufacturing members accordingly.

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OCTOBER 2018