



Quarterly NAACAM Local Value Index

Reviewed Quarter: Ending 30 September 2018.

Introduction

This quarterly supplier localisation report, compiled for NAACAM by B&M Analysts, considers the quarterly period ending 30 September 2018. The report contains industry information obtained from a representative sample of 42 automotive suppliers, located in the major automotive regions across South Africa. The sample represents all the major automotive sub-sectors, supplying the primary local automotive markets. The reporting is based on a 'quarter on quarter' (2018 Q3 versus 2018 Q2) comparison as well as a 'same quarter this year on same quarter last year' (2018 Q3 versus 2017 Q3) comparison. NAACAM is the national association for automotive component and allied manufacturers in South Africa. B&M Analysts enables sustainable growth through innovative solutions for leading industrial sectors.

Sales

Total sales levels improved by just over 4% from the second quarter (Q2) to the third quarter (Q3) of 2018. This increase is due to total domestic sales growing by 6%, linked to OEM and OEM P&A sales improving by 7.3%, with total export sales declining fractionally. Total quarterly sales versus those for the same quarter a year ago (2018 Q3 vs. 2017 Q3) are up by only 1.6%:

- Domestic sales improved by 1.9%, with OEM related sales growing by 3.6%, and aftermarket sales down by 2.2%.
- Total export sales are up by 1.1%, with direct exports up 1.6%, exports via OEMs down 4.2%.

Indicator	2018 Q2 Apr-Jun 2018	2018 Q3 Jul-Sep 2018	YoY change %
Total sales	100	104.16	1.64
Domestic sales	100	106.04	1.89
Export sales	100	99.98	1.07

The growth in OEM linked sales in 2018 Q3 (of 7.3%) is well behind the comparative strong production growth for the major OEMs (of 19.8%). This could be linked to a delay in OEM volume growth being reflected in supplier sales, and while volume growth is evident for all OEMs, it is skewed substantially by two major exporting OEMs where volumes increased by over 50% from Q2 to Q3. Over the last year, total OEM volumes are down by 3.9%, compared to supplier linked OEM sales which are up by 3.6%.

Localisation and investment

Internal value addition (defined as sales less total local and imported materials purchases) 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 Q3 improved by 6.6% versus the previous quarter, linked to total sales growth of 4.2% and total purchases increasing by 3.3%.
- Versus the comparative quarter a year ago, internal local value addition levels improved by 5.9% due to total sales growth of 1.6% and total purchases being up by 0.2%.

The levels of capital investment in 2018 Q3 declined by 4.5% versus 2018 Q2, with the latest level 38.8% lower than the comparative figure in 2017. The 2018 Q3 investment level as a percentage of sales is 2.9%, with the level for the previous quarter 3.2%. These are both far lower than the 2017 Q3 figure of 4.8%. The decline in investment levels over the last year may be partly linked to OEM model cycles, with the latest OEM model launch taking place in April 2018.

Indicator	2018 Q2 Apr-Jun 2018	2018 Q3 Jul-Sep 2018	YoY change %
Internal value addition	100	106.57	5.92
Local sourcing	100	100.66	(0.55)
Investment	100	95.50	(38.79)

Employment and empowerment

Total employment levels amongst local suppliers remained largely unchanged from 2018 Q2 to 2018 Q3, with latest levels 2.8% lower versus the same quarter in 2017.

Average B-BBEE levels for 2018 Q3 have remained unchanged versus the previous quarter, but are 7.9% better than the level a year ago. The average B-BBEE score for 2018 Q3 for the sample is 6.8.

Indicator	2018 Q2 Apr-Jun 2018	2018 Q3 Jul-Sep 2018	YoY change %
Employment	100	100.04	(2.76)
B-BBEE score	100	100.00	7.93

Outlook

The outlook for the last quarter of 2018 (2018 Q4) is projected to be stable for all the indicators considered, namely, sales, local sourcing, internal value addition and employment levels.

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

Interest piece

Local light vehicle production, for both the local market as well as exports, is projected to reach 800,000 units by 2023, with supporting local content to increase from 39.2% to 42%. This is roughly in line with the SA Automotive Masterplan's 2035 objectives. The attainment of the local content targets is reliant on having a competitiveness local supply base in place that can meet and support OEM sourcing requirements. The level of supplier capital investment is one of the important indicators of supplier readiness to achieve the intended higher levels of local content. Evaluating these levels can however prove challenging as they are very cyclical in nature, driven by the model launch activities of individual OEMs.

That said, cumulative investment by the entire supplier industry over the last year, for the period 2017 Q4 to 2018 Q3, was roughly R 3.3 billion. Over the 5-year period 2019 to 2023, the planned OEM investment is projected to be over R 40 billion, which should unlock more than R 20 billion in automotive supplier investments.

To achieve this objective, supplier investment levels need to increase by 12% in 2019 to around R 3.7 billion, with year-on-year growth needing to be 4.2%, 5.3%, 3.8% and 4.9% for the period to meet the R 20 billion target.

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