



Sub-Saharan Report [Business Plus]

These reports are by Mr. Ryota Kikkawa, an expatriate employee working in Johannesburg with a view across the region.

Business Plus

With a growing population, abundant natural resources, and enormous infrastructure and industrial development potential, Africa, particularly sub-Saharan Africa, has been called the "Continent of Hope". In Marubeni's mid-term management plan, "Global Challenge 2018", sub-Saharan Africa has been cited as an important region to actively pursue opportunities to lay the groundwork for future business.

The Marubeni Research Institute has modified the "Sub-Saharan Report", which basically presented an overview of sub-Saharan countries, to focus on the latest business trends and prominent business models in the region, including Marubeni's own businesses. This revised version is called "Sub-Saharan Report [Business Plus]".

Sub-Saharan Africa Automobile Business

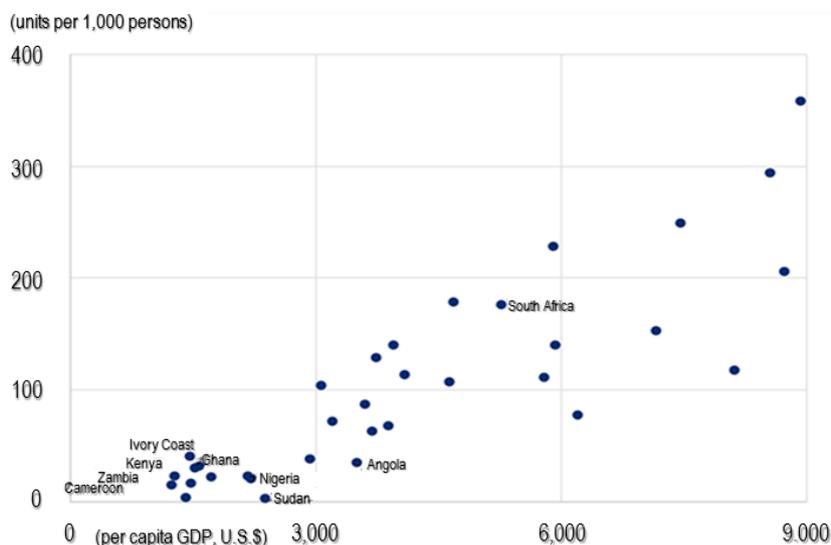
December 4, 2017

This is a new version of the Sub-Saharan Report entitled the "Sub-Saharan Report [Business Plus]" introducing Marubeni's rapidly growing business activities in the region and the broader context. For the first edition I have chosen to look at Marubeni's automobile business in the region, initiated and managed by Marubeni's Automobile and Leasing Division at the headquarters.

The World Automobile Market and Sub-Saharan Africa

The automobile penetration rate in sub-Saharan Africa is 3 automobiles per 100 people which is very low compared to the world average of 18.2. Total new car sales in the region are around 700 thousand units per year which is less than 1% of the world total of 94 million annually. In general, it is said that motorization begins to take off once per capita income surpasses the \$3,000 level, however, there are only a few countries in sub-Saharan Africa, like South Africa, with per capita incomes exceeding \$3,000 (graph 1). Furthermore, 80% of all new car sales in sub-Saharan Africa take place in South Africa. In most other sub-Saharan African countries the extensive diffusion of autos has yet to take place, so the market is still wide open.

Graph 1: Per Capita GDP and Automobile Ownership by Country (World)



Sources: IMF, OICA

Note: Countries with populations of more than 10 million and annual per capita GDP of between \$5,000 and \$9,000

Looking at production, please note that many sub-Saharan African countries manufacture no automobiles in their country. Auto factories producing finished motor vehicles are centered in South Africa or are in only a few other countries that have local content laws that limit the import of finished autos.

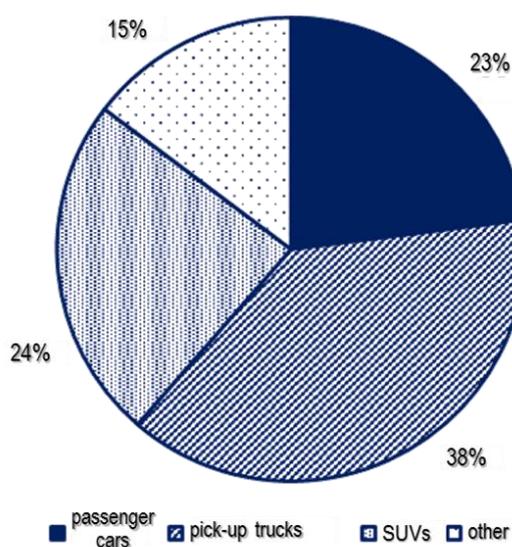
Table 1: Auto Production Plants in Sub-Saharan Africa

Maker	Production Base	Production Capacity	Main Models
Toyota	South Africa	220,000	Corolla, Hilux, Fortuna, Dyna
	Kenya	N/A	Land Cruiser
Nissan	South Africa	N/A	NP200, Livina, Tiida, Sandero, Fiat Palio, Siena
	Nigeria	N/A	Patrol, Caravan, Sunny, NP300 Pickup ※Stallion Group manufacturing on consignment
Mazda	South Africa	N/A	BT-50
	Zimbabwe	N/A	
Suzuki	Nigeria	N/A	
Honda	Nigeria	1,000	Accord
Hyundai	South Africa	6,000	HD65、HD72、H100
Lifan	Ethiopia	N/A	Lifan 520
Geely	Ethiopia	N/A	
FAW	Ethiopia	N/A	
Renault	South Africa	N/A	
Daimler	South Africa	100,000	C-Class (Freightliner, Mitsubishi Motors also manufacturing it)
BMW	South Africa	71,000	BMW3 Series
VW	South Africa	120,000	Polo, Polo Vivo
VW	Kenya		
PSA	Kenya		
Ford	South Africa	4,500	Isuzu N,F,E Series (GM is scheduled to exit)

Source: Various media reports

Looking at the auto market in Ghana the number of new and used autos owned in Ghana is around 890,000 vehicles. This means that with a population of 28 million Ghana's auto penetration rate is roughly 3%, about the same as the average for sub-Saharan Africa. The country has about 100,000 kilometers of roads, which is actually the largest in Africa in terms of road length per land area. However, the condition of Ghana's roads is poor even in urban areas, so most people prefer four-wheel drive vehicles like pick-up trucks and SUVs (graph 2). As Ghana was a British colony, it is accustomed to left-side steering giving the U.K. and the U.S. an advantage in regards to used car imports to Ghana. On the other hand, new cars are mainly Japanese and Korean models.

Graph 2: Breakdown of New Car Models in Ghana



Source: Toyota Ghana

Last year, new car sales in Ghana were 10,500 vehicles. Excessive fiscal austerity by the new government has depressed the market, however, with fiscal expenditures expected to return to normal in 2018 a revitalization of the economy and

recovery in the market should take place.

Toyota Ghana

Marubeni acquired GHAMOT, a state-owned auto distributor, in 1998, and started Toyota Ghana Company Limited as a dealership for Toyota automobiles. Toyota Ghana sells Toyota motor vehicles and parts, and also provides maintenance services through 7 locations in Ghana; 4 branch outlets and 3 other auto shops. In addition to being highly appreciated by local communities for their CSR (corporate social responsibility) activities, Toyota Ghana plans to locate a main auto shop at the University of Ghana in 2019 as part of an industry-academia collaboration.

Marubeni has two expatriates working at Toyota Ghana, Mr. Takuya Kajjura, who is president, and Mr. Atsushi Ueno, who is vice-president (picture 2). Marubeni has made its presence felt as a trade intermediary and for providing finance for the procurement of motor vehicles and replacement parts as well as through negotiations with manufacturers helping Toyota Ghana win the strong trust of local customers and Toyota through their high quality services and marketing capability. Besides providing the hardware, manufacturers also try to support their distributors in other areas (software side). In this regard, Toyota Ghana has been proactively working with Toyota to differentiate itself from Toyota distributors in other countries with some of the results of their efforts becoming pilot examples for other distributors



Picture 1: The showroom at Toyota Ghana's Accra Branch



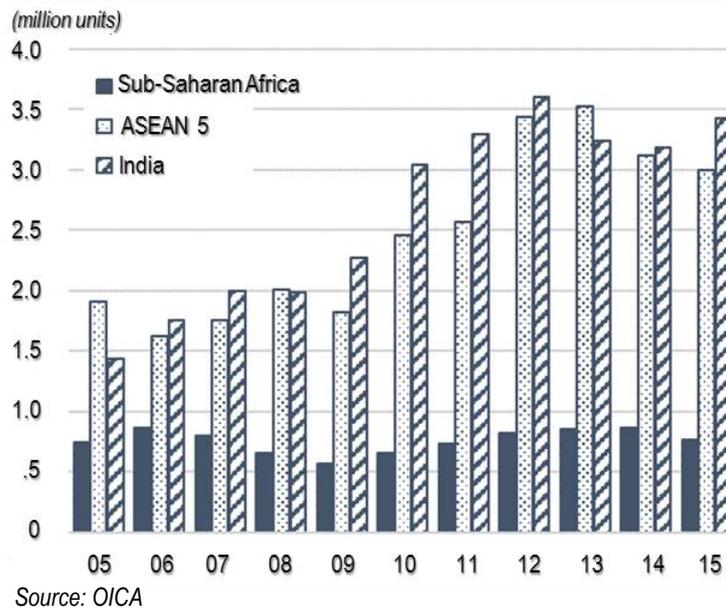
Picture 2: President Kajjura and Vice-President Ueno

Business Climate/Issues

The motor vehicle market in Ghana is certainly a growth market, however, looking at new car sales alone one does not see an explosively growing market.

It is not the new car market, but rather the rapidly expanding second-hand car market that generates most of the auto sales growth in sub-Saharan Africa. Automobile ownership in sub-Saharan Africa has been increasing at a pace of about 1 million vehicles per year with Ghana's car ownership expanding rapidly at 40,000 units annually. However, unlike Asia where new car sales have been rapidly growing, sub-Saharan Africa's new car market has been fairly flat for the past 10 years (graph 3). In terms of new autos, as imports are not controlled, parallel product imports (imports without the original manufacturer's permission) will not cease. In Ghana, per capita GDP will not begin to exceed \$3,000 until the 2030s, so without sharp growth in incomes new car sales are unlikely to see much of an increase. As long as this situation continues any rise in new car sales will remain moderate.

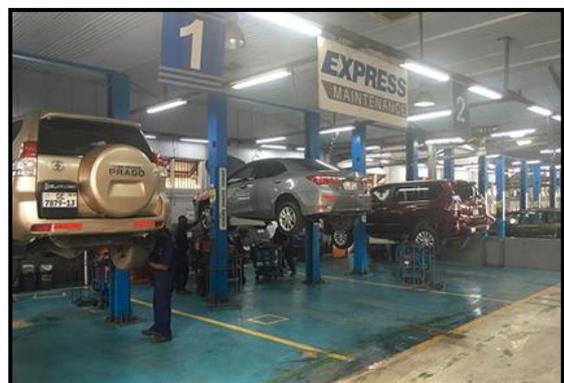
Graph 3: Number of Autos Owned/New Auto Sales in Asia and Sub-Saharan Africa



Regarding Toyota Ghana, Toyota automobiles already have the number one share of new car sales in the country and is an important point when considering future sales growth. Also, another point that Toyota Ghana is keeping in mind, which President Kajjura mentioned, is a possible capital tie-up with the auto dealerships of CFAO (note 1), a wholly-owned subsidiary of Toyoda Tsusho.

Outlook for Marubeni’s Auto Business in Sub-Saharan Africa

In order to make further headway in the Ghanaian market, it will necessary to develop businesses other than those strictly related to new car sales. These might include operating leases for vehicles (non-ownership use) rather than just purchase related, handling high quality used autos (certified), providing driver guidance and traffic/transit management support services for company and commercial drivers, handling replacement parts other than the manufacturer’s originals, and so on. As there are still few examples of wide-scale leasing and after-scale services being deployed in the sub-Saharan Africa market, expectations are that there is a lot of room for growth in the market in these areas (picture 3).



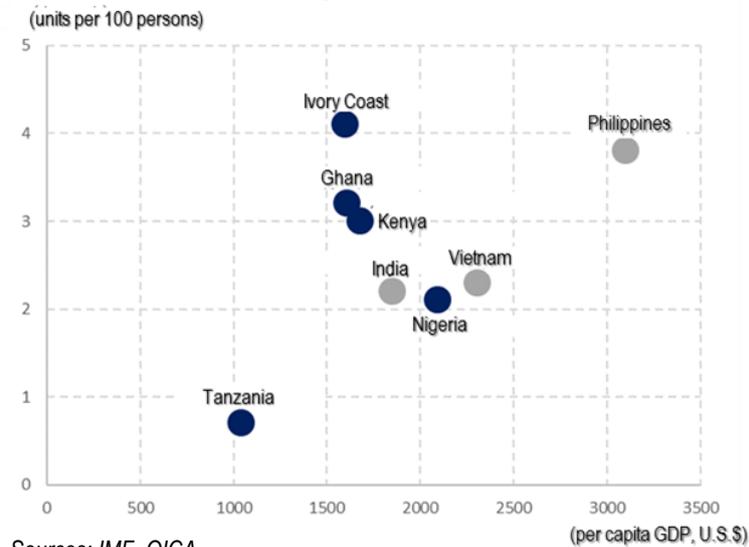
Picture 3: Toyota Ghana’s strong after-sales services; the photo shows their “Express Service”, which completes a repair in less than 1 hour

View of the Sub-Saharan Auto Market by Marubeni’s Expatriates

In terms of future prospects, to advance Marubeni’s presence in the sub-Saharan auto market President Kajjura thinks it is very important for a subsidiary company to approach the entire market from a broad perspective and in comprehensive fashion (providing all its services) rather than just trying to pinpoint certain local areas and responses, while at the same time working with other subsidiaries and units to create synergistic effects across the region.

Other than motor vehicles, sub-Saharan Africa still has very few other means of transportation which means that a very large portion of auto demand is still dormant. For example, such countries as the Ivory Coast, Ghana and Kenya boast car ownership levels equal to or even higher than Asian countries with similar per capita incomes, which means the market, including new cars, is expected to grow (as income rises). It is true that individual country markets are relatively small, but if you look at the sub-Saharan market as a whole it presents a large growth opportunity. To take advantage of this opportunity President Kajjura says, "it is essential that Marubeni form capital alliances with its main partners and increase the number of bases across the region. So, Toyota Ghana needs to deepen its existing business, while at the same time pursuing capital tie-ups and partnerships in parallel. As you can see from the examples of other companies typified by Toyoda Tsusho's subsidiary CFAO, the capital integration of car distributors (dealers) is accelerating in sub-Saharan Africa, so there is only a short timeframe left to follow suit. As such, Marubeni and Toyota Ghana must not let this limited opportunity escape".

Graph 4: Per Capita GDP and Auto Ownership in Selected Asian and Sub-Saharan African Countries



I have briefly outlined the auto market in sub-Saharan Africa and Ghana and introduced Marubeni's subsidiary company Toyota Ghana. For those of us in Japan Africa is psychologically distant, however, we can see that by having people on the ground and rooted locally one of our businesses in Africa, Toyota Ghana, is showing good results. As mentioned in "Global Challenge 2018", sub-Saharan Africa has been cited as an important region to actively pursue opportunities in to lay the groundwork for future business. In this regard, the groundwork for Marubeni's auto business in sub-Saharan Africa is being laid to expand and grow. In our next edition of "Business Plus" I would like to introduce the coffee business.

Note 1: CFAO is French trading company that is a 100% owned subsidiary of Toyoda Tsusho. CFAO's auto sales business covers 53 of Africa's 54 countries.



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In order for the Marubeni Research Institute to acquire first hand information from the field and contribute to the company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

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