Promising path towards recovery

Growth from Knowledge

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Middle East Car Market during and after COVID

November 2021

Agenda

a. Socio-economics in MENA region during COVID pandemic and outlook for 2022

b. COVID influence and outlook on the MEA car market

c. Megatrends and threats to the traditional car market

Socio-economics in MENA region during COVID pandemic and outlook for 2022

Following a year of economic distress, Gulf Cooperation Council (GCC) economies are expected to return to an aggregate growth of 2.2% in 2021. This growth is buoyed by the global economic recovery, projected at 5.6% and the revival of global oil demand and international oil prices.

The decline in global oil demand and prices alongside the COVID-19 pandemic dealt the GCC countries a health crisis and a commodity market shock causing a GDP contraction of 4.8% in 2020.

Non-oil GDP is proportionately larger now in all the GCC countries than it was 10 or 20 years ago, but there is still work to be done. Many are still highly reliant on oil and gas exports, which remain at over 70% of total goods exported in Kuwait, Qatar, Saudi Arabia and Oman, and oil revenues exceed 70% of total government revenues in Kuwait, Qatar, Oman and Bahrain.

Egypt: was one of the few emerging market countries that experienced a positive growth rate in 2020. As a result of the government's swift and prudent policy response, coupled with IMF support, the Egyptian economy showed resilience in the face of the pandemic.

Bahrain: Bahrain will continue to rely on fiscal support measures in 2021 to overcome the economic contraction in 2020. GDP growth is expected to reach 3.3% in 2021 and remain at the same pace during the medium-term.

Kuwait: Oil exports will continue to drive Kuwait's growth dynamics. Economic growth is forecast to rebound to a moderate 2.4% in 2021, before ramping up to an average 3.2% in 2022-23.

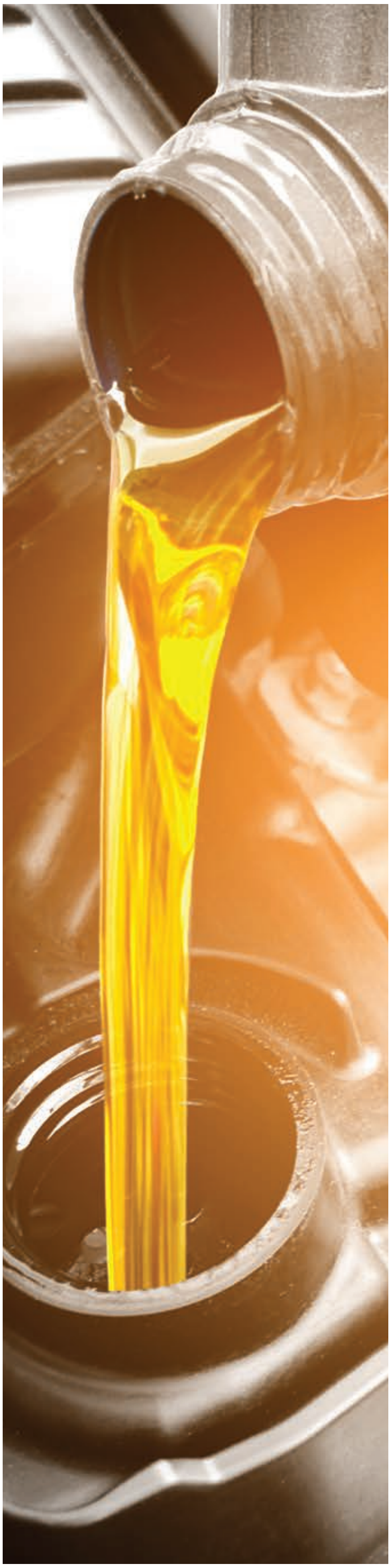
Oman: Oman's economy is forecast to recover in 2021, albeit at a moderate 2.5% growth rate as a sizable infrastructure investment program gains momentum. Medium-term growth is projected to average 5.3% over the forecast period.

Qatar: Qatar is forecasted to post a strong growth rebound with LNG demand in South and East Asia underpinning medium-term prospects. Qatar's economy is projected to grow by 3% in 2021 before accelerating to 4.1% in 2022 and 4.5% in 2023.

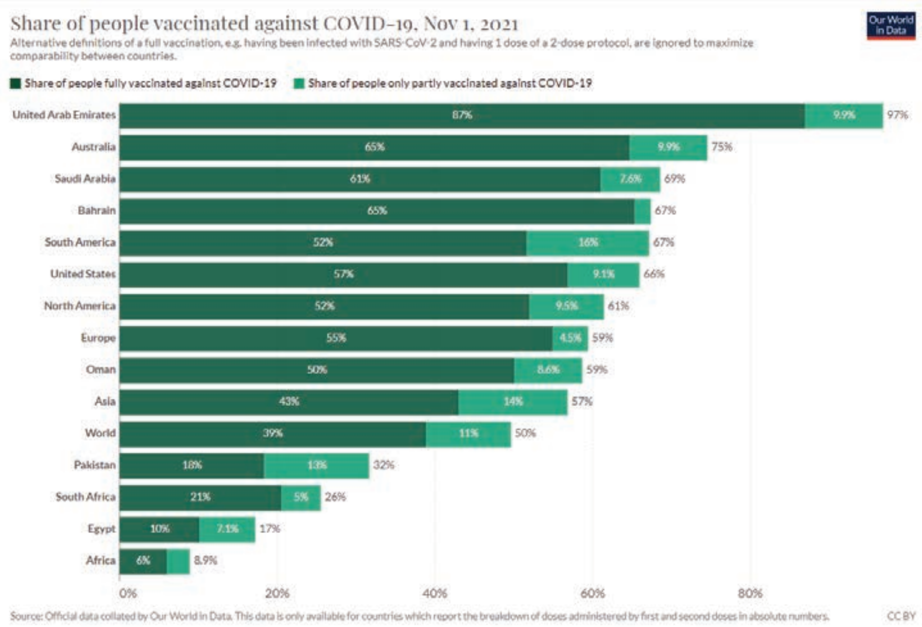
Saudi Arabia: Firmer global oil demand will support Saudi Arabia's economic recovery in 2021 with GDP growth expected to reach 2.4% in 2021. Medium-term growth is projected to average 3% over the forecast period.

United Arab Emirates: The UAE is expected to swing back to growth in 2021, estimated at 1.2%, before accelerating to 2.5% in 2022 and 2023 driven by government expenditures and the staging of Expo 2020 in October 2021.

Country	2019	2020	2021F	2022/23F
WORLD	2.6%	-3.4%	5.6%	4.6%
KSA	0.3%	-4.1%	2.4%	3%
UAE	1.7%	-6.1%	1.2%	2.5%
EG	5.6%	3.6%	3.3%	5.2%
OM	-0.8%	-6.3%	2.5%	5.3%
KW	0.4%	-8.9%	2.4%	3.2%
QA	0.8%	-3.7%	3%	4.1-4.5%
BH	2%	-5.1%	3.3%	3.3%



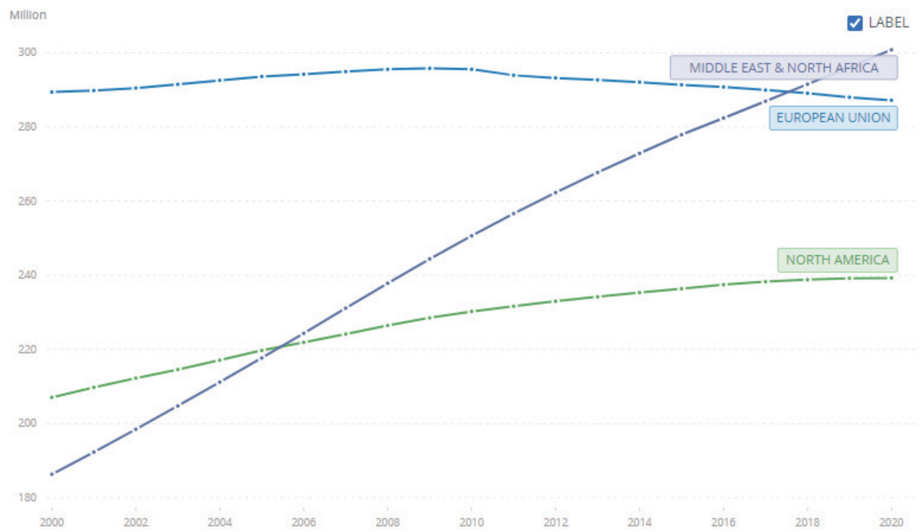
https://www.worldbank.org/en/news/press-release/2021/08/03/gcc-countries-back-on-path-to-economic-growth-after-contraction-due-to-the-pandemic
https://www.imf.org/en/Countries/EGY
https://www.imf.org/en/News/Articles/2021/07/14/na070621-egypt-overcoming-the-covid-shock-and-maintaining-growth



Population ages 15-64

Growth rates 2020 vs. 2000:

EU: -1%
North America: +16%
Middle East & NA: +61%



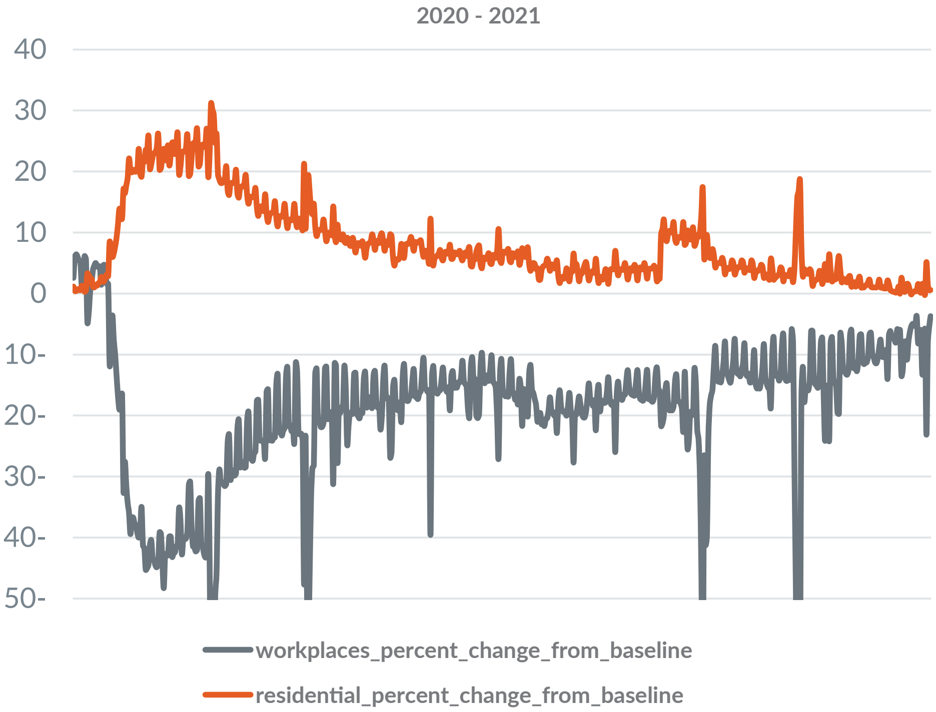
UAE, KSA & BH are among the leading countries when it comes to COVID vaccination rate, being ahead of most regions.

This fast and extensive approach towards fighting COVID-19 spread will support economic recovery in the Middle East region.

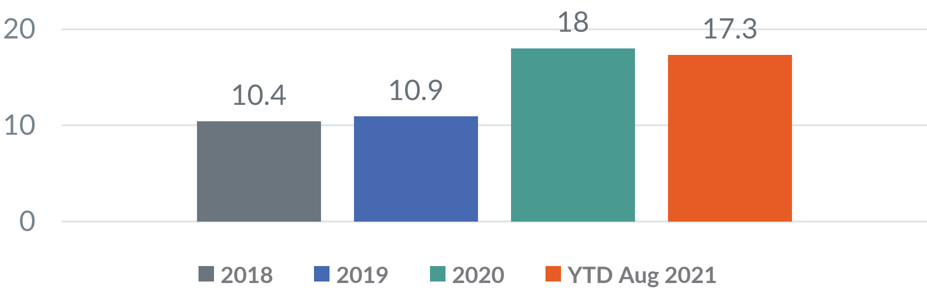
Population growth in Middle East and North Africa is another driving force for future economic uplift and has a direct impact on the vehicle market when it comes to market size.

https://data.worldbank.org/indicator/SP.POP.1564.TO?end=2020&locations=EU-XU-ZQ&start=2000

Google Mobility Report*



Revenue share of Online Sales on TCG market (KSA & UAE)



Influential factors for private vehicle usage in 2020/21

-	+
Working from home during lockdown and permanently thereafter	Shift towards private transportation to escape COVID threat
Change of shopper behavior towards e-commerce	

The COVID-19 pandemic changed work and consumer behavior permanently as it accelerated the digitalization process across the world.

The Google Mobility report for 2020 & 2021 shows how people were forced to stay away from their workplace in ME & EG.

Despite the fact that the number of people working from home in September 2021 reached the pre-COVID level, we can clearly note that the time spent at work is lower than before, which shows that the working-from-home trend seems to be sustainable.

Another trend is the growth of e-commerce within in the region. More online shopping means less usage of private transportation which potentially has a negative effect on the car and aftersales market. Whereas online sales in KSA & UAE stood for only 10-11% of TCG revenue in 2018/2019, it rose to 18% in 2020 and stayed at this high level in 2021 (17.3%). This shows how consumers got used to online shopping during the COVID lockdowns. In some ME regions, business models like mobile mechanics, mobile oil changes or mobile car washes quickly evolved as a result.

A multi-channel approach will be an opportunity for the vehicle & aftersales market in the future. **Some big players extended their business more towards ecommerce:**

- Nissan Middle East launched its Nissan Shop@Home platform. Through the platform, users can configure and customise their car, check for stock availability in their nearest dealership, calculate financing and buy it online and have it delivered to their doorstep.
- Seez, a UAE-based automotive digital platform serving parts of the region, has signed a partnership with a regional government authority which will also allow consumers to buy and register any car online.

Nevertheless, there was one factor which increased vehicle usage in 2020/21 - the shift towards private transportation to escape the threat of getting COVID infection.

* Change Rate of Visitors compared to baseline days (the median value for the 5-week period from January 3 to February 6, 2020
UAE, KSA, GCC, EG, combined; each country equally weighted
GfK Market Intelligence

COVID influence and outlook on the MEA car market

The impact of the COVID-19 pandemic on the car market is inevitable. Closed manufacturing units, social distancing norms and reduced consumer spend on transportation - due to reduced need and job insecurities - brought global car sales down by 14% in 2020. Passenger cars were adversely affected as commercial vehicles still saw a relatively high demand to get needed products to consumers.

The GCC car market experienced 70-80% drop in sales during the peak of the pandemic from March to May 2020 when most showrooms were forced to shut down.

Major banks in the region had halted issuing new credit cards and personal loan disbursements due to economic uncertainty.

In the aftermarket, consumers delayed vehicle maintenance, resulting in up to 70%-75% less revenue related to periodic maintenance and spare parts purchase in certain countries.

A higher number of people have been opting for pre-owned cars for the last few years, and the ratio of pre-owned to new car transactions has increased.

Car dealerships produced new ways to sell (example UAE):

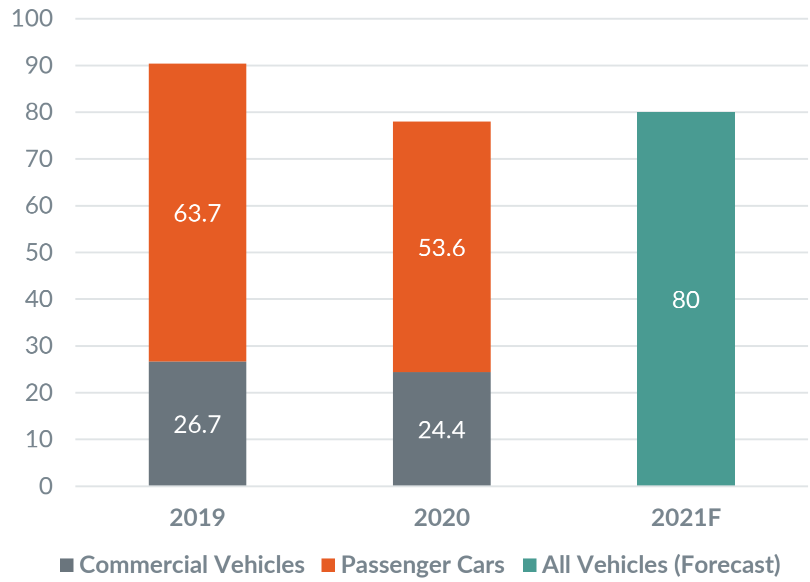
- Car dealerships in the UAE are actively pushing leasing programs starting from as low as AED 1,000 a month with an option of owning the vehicle later if the financial situation improves.
- These deals are also coming with optional 'job loss' insurance cover, as dealerships escalate their efforts to convince buyers to lease or buy a new car.

The car market started to recover in 2021 but sales are forecasted to be below the figures of 2019. The global semiconductor and chip shortage has been wreaking havoc on the automotive industry as their chips have been pushed to the back-burner in favor of more profitable industries such as mobile phones and laptops. Major global automakers have been forced to lower production or announce additional factory downtime at their production facilities, including Toyota, Ford, and Volkswagen, cutting their global output by 40%. The cost of the semiconductor shortage has ballooned by over 90% for the world's automakers, resulting in an expected USD 210 bn hit on 2021 revenues, Bloomberg reports.

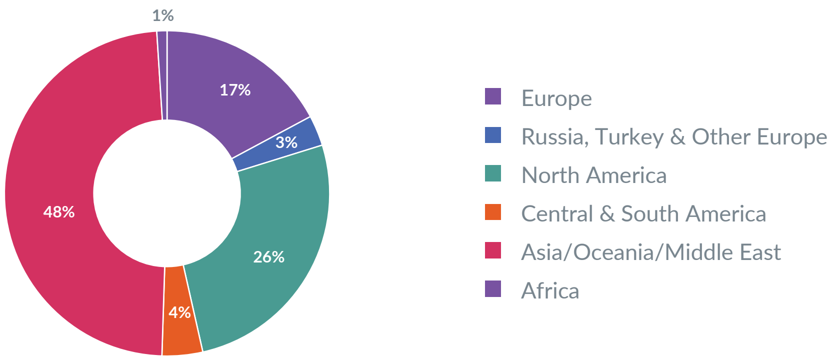
Global supply chain woes are not helping the situation: Shipping costs for chips and other car components have increased around 400% YTD for local firms as a shortage in containers pushes shipping prices up, causing a simultaneous crisis for the local sector, i.e., they're using their existing stock of chips. Therefore, waiting times have gone up for imported cars.

Egypt: As an importing nation, the impact is very real: the shortage affects auto-manufacturers on two fronts: fully-assembled cars imported from abroad as well as CKDs (Completely Knocked Down) which are imported components assembled into a car at a local facility, GB-Auto board members explain: CKDs were more affected due the automaker being unable to access enough electronic control units (ECUs). Abou-Ghaly Motors has felt the impact since February 2021, their car imports have fallen 50% in 2021 due to the lack of supply in the market.

Global Sales – All Vehicles (in million)



Region : Car Sales Share (H1 2021)



Megatrends and threats to the traditional car market

Path to net-zero and carbon neutrality

- The UAE was the first MENA country and oil exporter to make a public commitment towards becoming carbon neutral by the middle of the century. The country will invest about $163 billion towards reaching its energy transition goals over the next three decades.
- The world's biggest oil exporter, Saudi Arabia, has pledged to cut its carbon emissions to net zero by 2060.
- Bahrain aims for carbon neutrality by 2060.
- Government initiatives (e.g., CO2 taxes, subsidies of alternative fuels/technologies) will affect future car sales.

Market for Electric Vehicles

- The aspiration of reaching climate goals will further accelerate the market for oil-alternative transportation.
- The Middle-East and African electric vehicle market was valued at USD 35 million in 2020, and it is expected to reach USD 84 million by 2026, registering a CAGR of over 15% during 2021 and 2026.
- Electric vehicles require less maintenance and lubricants which will eventually reduce the after-sales market.
- It is critical for suppliers to adjust to new technologies to maintain growth dynamic.

https://www.thenationalnews.com/business/road-to-net-zero/2021/10/11/explainer-what-the-path-to-net-zero-and-carbon-neutral-means/
https://www.bbc.com/news/world-middle-east-58955584
https://www.mordorintelligence.com/industry-reports/middle-east-and-africa-automotive-electric-vehicle-market

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