automechanika
DUBAI

The Egyptian automotive aftermarket

africon
bridging potentials

The Egyptian automotive aftermarket

September 2021

About the authors:

africon GmbH is a Germany based consulting company, supporting companies from all over the world to expand their business in Africa. We consult the management of companies in developing and implementing their individual Africa strategies. With representations in Nigeria, Ghana, Kenya, Ethiopia, Tanzania, and South Africa, as well as a network of partners across the continent, we have worked on more than 30 projects in the automotive market across Africa in the last few years. We gathered most of the automotive data noted in this article locally, from companies operating in the Egyptian automotive industry. We would like to specifically thank Ready Parts / GB Auto for the contribution of their vast expertise that complements the insights offered in this article.

Egypt is currently one of Africa's most exciting markets. With a population of more than 100 million people, the country ranks as the third most populous country in Africa. It is also Africa's second-largest economy with a GDP of $360 billion, after overtaking South Africa in 2020. Egypt recorded a GDP growth of 3.6% in 2020 while pre-pandemic growth exceeded 5% per year[1]. The IMF predicts that growth will slow to around 2.5% this year but recover to more than 5% from 2022 forward[2]. After economically difficult years in 2016/17, inflation has come down to around 6%. Unemployment has been reducing, and GDP per capita in USD terms has increased by almost 50% since 2017[3]. Consequently, Egypt has been the largest recipient of FDI in Africa for several years in a row, receiving more than $9 billion worth of investments in 2019 and almost $6 billion in 2020[4]. This growth is driven, among other things, by continuous economic and fiscal reforms. For instance, on the Ease of Doing Business Index, Egypt has improved by 14 places since 2018[5].

While Covid did and does still impact the country, Egypt remained one of the very few countries globally to still report full year GDP growth in 2020. Tourism, a significant industry in Egypt, remains affected. Shipping costs and supply disruptions negatively impacted various sectors. However, operations in most businesses have remained or returned to being relatively stable.

[1] World Bank (2021)
[2] IMF (2021)
[3] World Bank (2021)
[4] UNCTAD (2021)
[5] Ease of Doing Business – World Bank Group (2021)

In line with its leading economy in Africa, Egypt is also home to one of Africa's largest vehicle fleets. Around 6 million vehicles dwell on the country's roads, a number which has been increasing steadily over the past years. The majority (approximately 4.6 million units) are passenger vehicles, followed by almost 1 million trucks and about 470,000 buses. Most passenger vehicles are petrol-powered, while many commercial vehicles rely on diesel engines. The government is increasing the share of dual-fuel cars, which can use both petrol and compressed natural gas (CNG). Around 300,000 vehicles in Egypt already use CNG. This number will likely increase further over the next years.

> *"As a part of the global vision to replace internal combustion engines with more environmentally friendly alternatives, Egypt is also taking bold steps into this direction. In 2020 the government announced an initiative to encourage consumers to replace old vehicles with new vehicles operating on CNG engines. Extended credit facilities are some of the provided green program incentives."*
>
> *Mohamed Yahia, Managing Director of Ready Parts (GB Auto Group)*

In line with the country's general population, the concentration of the vehicle parc largely follows the Nile River. More than a third of all vehicles in Egypt are in the greater Cairo/Giza area. Another third is in Alexandria, home to Egypt's largest port, and the broader Nile Delta region.

Chevrolet/Isuzu and many Asian brands such as Hyundai, Toyota, and Nissan hold significant market shares within the overall vehicle fleet. However, fuelled by preferential import duties, the percentage of European brands has grown over the past years, while Chinese brands have expanded their influence on the market, especially in the commercial vehicles segment.

New vehicle sales in Egypt have recently grown, currently standing at more than 200,000 units per year. Around half of this figure is assembled locally. Egypt is home to many notable local vehicle assemblers like GB Auto, General Motors Egypt / Mansour Automotive, and Nissan. While most passenger vehicles are produced for the domestic market, many busses are exported to regional markets.

Electric mobility is so far playing a relatively limited role in the local vehicle parc. Nevertheless, the government is promoting the spread of this technology. In line with this government initiative, China's Dongfeng Motors has announced plans to assemble EVs in Egypt in the premises of the state-owned El Nasr Automotive Manufacturing Company. The project might see the production of up to 25,000 electric vehicles per year[6]. Whether these announcements turn into reality will likely depend on the

[6] Al-Monitor (2020)

right framework conditions. These include investment in necessary charging infrastructure, financial incentives for buyers and others.

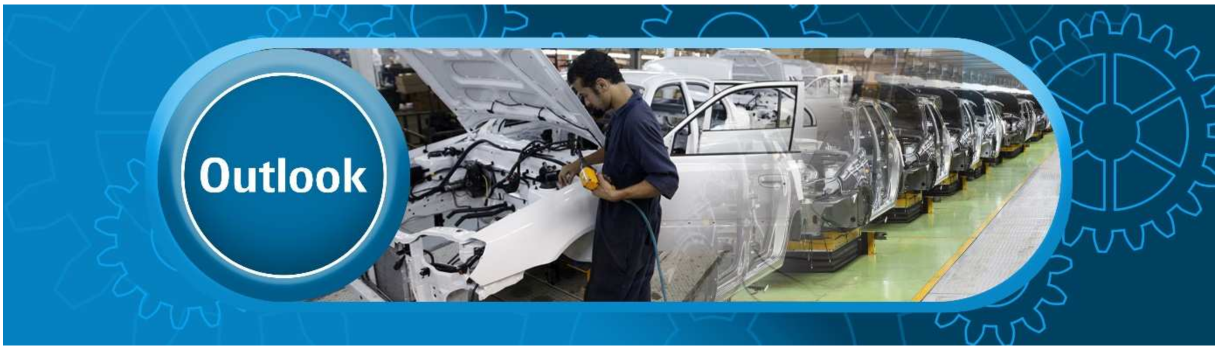
Driven by its large vehicle fleet, the Egyptian parts aftermarket likely stands at between $1-2 billion in size. The market dipped in 2017 but has since grown at more than 5% per year, despite a slowdown in 2020 fuelled by the global pandemic.

Most parts still come from imports. China is Egypt's largest automotive parts supplier, followed by other Asian countries, including Korea and Japan. Germany and the US are also among the top 10 suppliers of parts and components to the country. Globally leading brands enjoy relatively high market shares for the supply of crucial parts.

Despite the high degree of imports, there are many local component manufacturers, who supply the local vehicle assemblers, the local aftermarket, and exports markets. Products manufactured in Egypt include batteries, brake parts, wiring, and filters. The French company Valeo runs a software R&D centre in Cairo.

The importer/distributor landscape in Egypt consists of various smaller and larger companies, most of which are based in Cairo. Large companies such as GB Auto and Mansour Automotive play leading roles on the OES side of the market. The independent aftermarket is fragmented, with various primarily small and medium-size businesses playing essential functions. More prominent IAM distributors include, for example, SMG and A-Part. The importers/distributors sell directly to end-users, workshops, and a network of wholesalers and retailers across the country. As is the case in other African markets, a significant share of Egyptians buys their parts from retailers themselves instead of buying them from the workshops. However, most do follow the advice of their trusted mechanics.

A growing trend in the Egyptian aftermarket is the e-commerce channel. Platforms such as Odiggo, Tawfiqia, and Egyparts are becoming more visible. Amazon Egypt (previously known as Souq) , also lists some automotive items. Despite the challenges, such as consumers wanting to see and touch parts before the purchase, this channel might well gain importance in the future.



With growth likely recovering relatively soon, the Egyptian aftermarket is well-positioned to provide great opportunities for parts producers, distributors, and service providers. However, with these favourable framework conditions, the intensity of competition locally might well rise over the coming years. As more global parts producers are increasingly looking at the African continent, Egypt will likely be a prime target for many. Producers may very well have to invest in more own structures on the ground or, in some product categories, look for options to add value locally to capture more significant market shares.

Over the past 70 years, GB Auto has become the leading one-stop-shop supplier in the Egyptian automotive market, including the aftermarket. We currently see three factors strongly influencing the future of our market in Egypt: firstly, we are expecting a period of strong growth across various industry segments. Secondly, online sales will likely gain significant importance. Thirdly, the share of CNG-powered vehicles increasing further, which will open up new industry segments and growth opportunities."

Mohamed Yahia, Managing Director of Ready Parts (GB Auto Group)