



# MULTI-MODEL OEM

*SOUTH AFRICA'S ANSWER TO AUTO SECTOR COMPETITIVENESS AND GROWTH*



## ABOUT THE MULTI OEM

- + An efficient, flexible vehicle assembly plant using world class technology with the capacity to assemble 65,000 vehicles per annum
- + Comprises the assembly of a variety of low volume and /or niche Passenger Vehicles (PV) and Light Commercial Vehicles (LCV) to world standards on a mutually cost effective basis, operated by a world renowned Contract Assembler.
- + Targeting all the current and future vehicle importers to South Africa normally with low volumes that do not qualify for the APDP incentive programme;
- + These OEM's are new OEM's from the East or current low volume OEMs from Europe, Europe unit state and Japan;
- + The Market is also for OEM's currently assembling in SA that might need additional assembly capacity; and
- + The type of vehicles varies from small to medium passenger vehicles to SUV's , Minibuses and Pick-ups.

## WHY THE MULTI OEM

- + It is more cost effective to assemble locally vs importing Fully Build Units due to government incentives through the APDP for OEM assembly of at least 50,000 units per annum;
- + Assembly is done closer to markets: South Africa, SADC and Sub-Saharan Africa;
- + African markets growing at more than 5% per annum;
- + SA assembled vehicles can be exported to EU, BRIC and USA under the current favourable import tariffs due to trade agreements;
- + SA assembled vehicles enjoy the benefits from the SA government preferential procurement policy; and
- + Success of current OEM vehicle assemblers in South Africa



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## SOCIO ECONOMIC IMPACT OF THE **MULTI OEM** - THE MOEM IN NUMBERS

### UNITS:

Design capacity of 65 000 unit p/annum.

Can increase to a 100 000 units plant with 3 shift model if the need arises.

### ASSEMBLY JOBS:

Approximately 1300 direct jobs to be created (for 65000 units)

Approximately 4600 Indirect jobs – logistic companies and other service providers (incl. construction).

### LOCAL SUPPLIER DEVELOPMENT OPPORTUNITIES

Development of EC Auto Value Chain with targeted local content of approximately 30% (an opportunity for the further attraction of new suppliers).

Programme to incubate and develop local manufacturers for various components including seating and seating components, batteries, windscreens and exhaust systems.

This will contribute toward the development of SMMEs and BBBEE enterprises in the sector.

# PROJECTED AUTO SECTOR GROWTH IMPACT

**R756 million:** Contribution to the local economy and the Eastern Cape GGP per annum

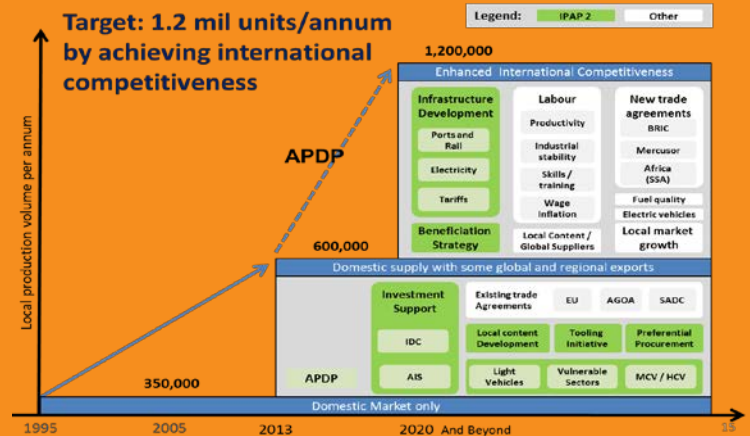
**R2,8 billion:** The annual contribution to production output per annum

**A R25 million:** Annual contribution to government revenues (excluding income taxes payable)

**Over R1 billion:** Import duties and ad valorem tax per annum

Contribution to government targets in industry of achieving 1.2 million units local assembly per annum:

- + There is not enough assembly capacity in South Africa between the current OEM assembly plants to achieve the 1,2 million unit target market. The MMOEM plant is an enabler which will contribute to and support this objective



# TRANSFORMATIONAL IMPACT ON AUTO SECTOR

## Opportunity to transform the local auto sector and deepening local content:

- + Opportunity to influence transformation agenda from the planning initial phase
- + Ancillary services to the MMOEM could be rendered from BBBEE – SMME companies.
- + Opportunity to have a Greenfield BBBEE start-up company combined with an International Investor – Integration of BBBEE from planning phase:
  - BEE company to partner with Multi National operational company via formation of a Newco
- + Utility service providers: IT, consumables, cleaning, maintenance, canteen
- + Supplier service providers: Logistics, Sub assembly, New suppliers (manufacturers)
- + Other support: Training, HR services, Medical, etc

## COUNTRY'S SECTOR ASSEMBLY CAPACITY DEVELOPMENT

The Current OEM's operating in South Africa are all Multi Nationals that are not owned in South Africa. The MMOEM opportunity gives SA the opportunity to have its own automotive assembly capacity.

## VALUE CHAIN / INFLUENCE

The concept provides the opportunity to have an influence over SA own created automotive value chain.

Opportunities will exist for locally owned companies to supply their components to the MMOEM plant.

# IMPROVING EXISTING EC LOGISTICS VALUE CHAIN

**The increased impact of the MMOEM volumes will assist in improving existing economies of scale for the automotive components supply sector and industry in general. It will also assist in building:**

- + A strong business case for the **East London Port expansion** owing to increased volumes,
- + A strong business case for **logistics supply chain upgrades** i.e Railway lines connecting East London with other business hubs, Feeder vessel connecting East London with other markets i.e Durban, Port Elizabeth, Mozambique etc
- + Critical mass for **auto sector related skills development programmes**





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## MILESTONES TO DATE

- + **Feasibility study was done** in 2013 and proved to be feasible on the following criteria's: Technical, Market, Financial and commercial
- + A **Contract assembler** that will also be a principle investor has been **selected and engaged**.
- + **Due diligence process with preferred operating partner has been completed**, and the process is now entering final stage with the market engagement
- + **Funding and Investor partners have been engaged** – Funding and Investment interest and commitment from local and international financiers and local investors - **due diligence will be executed once the preferred operating partner has reached financial business closure** and investment approval.
- + **International Operating Partner Joint Development Agreement signed** with the IDC – MMOEM steering committee consisting of the Dti, IDC and ELIDZ
- + **Take to market process underway**



## FUTURE MILESTONES TO DATE

- + **Start of Project due Q1 2015**
- + **Operational Q4 2017**
- + Full production Q1 2020
- + Signing of the various participating OEMs that is due for completion in October 2014.

**October 2014:**  
Signing of various  
participating  
OEMs due for  
completion

**Quarter 1: 2015**  
Start of Project

**Quarter 4: 2017**  
MMOEM becomes  
operational

**Quarter 1: 2020**  
Full production

## CRITICAL SUCCESS FACTORS

- + **Market confirmation** – Volume commitment from the targeted OEM's
- + **Strategic operating partner commitment and investment**
- + **Strategic infrastructure development by government.** An amount of R3.2 billion is expected to be funded by Government
- + **Funding commitment from other strategic partners**



# MMOEM FUNDING OPTIONS

## FUNDING REQUIREMENTS BREAKDOWN

- + The total project **budget estimate is approximately R8.0 billion** broken down into the following:
  - **R3.2 billion (building and infrastructure) to be funded through grant funding from Government** (DTI through National Treasury over a 3 year period starting from 2014/15 financial year.
  - **R4,8 billion (plant and equipment including Work In Capital) to be fundraised through Equity and Loan finance** from IDC, Outsource Assembler and Private Equity, Automotive Industry Scheme (AIS) grants

## IDEAL FUNDING SCENARIO

- + **Government funding for infrastructure and building** on favourable terms in the early stages of the project start-up
- + **Loan finance of 50% (maximum 60%) and equity of 40%** for the plant and equipment and working capital
- + **Capital repayment holiday** until plant is fully operational
- + **Relaxation of APDP benefits to accommodate the introduction** of a new vehicle assembly plant.
- + The following progress has been made in terms of this funding scenario:
  - **Loan funding from the IDC, the PIC, AfDB and IFC has been obtained in principle.** Final approval will be subject to a bankable business case being submitted once the OEMs have committed volume production to the MMOEM.
  - **The Strategic Operating partner has also committed** to invest approximately in the MMOEM.

## BENEFITS OF SCENARIO 1 FOR SA ECONOMY

- + The project contributes to **significant employment creation and downstream poverty alleviation** in the East London area.
- + **Downstream logistic operations** will also create additional employment opportunities.
- + **Export of local assembled vehicles and reduction in imported value of vehicles** will strengthen balance of payments
- + Government will forfeit some duties but **gain income tax from the MMOEM, suppliers and service providers and from increased payroll** of all involved.
- + The country gains foreign direct investment from the Strategic Operating Partner of approximately R1.3 billion.
- + MMOEM will **contributes to the APDP aim**.

## OTHER FUNDING OPTIONS

- + **Equity funding will be injected by the Strategic Operating Partner and the IDC.**
- + **Private equity investment from investment holding companies** could also be injected.
- + **Loan finance could be made available from development finance institutions in Europe** and other international institutions.
- + NOTE: **No participation or limited Government participation in funding of the project will lead to government's loss of strategic lever to influence transformation** of the Automotive industry.

# ACCESSING GLOBAL MARKETS

## SHIPPING ROUTES FROM EAST LONDON



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