The Lebanese Car Market in 2014: Still Suffering from the Poor Economic Backdrop

BLOMINVEST BANK

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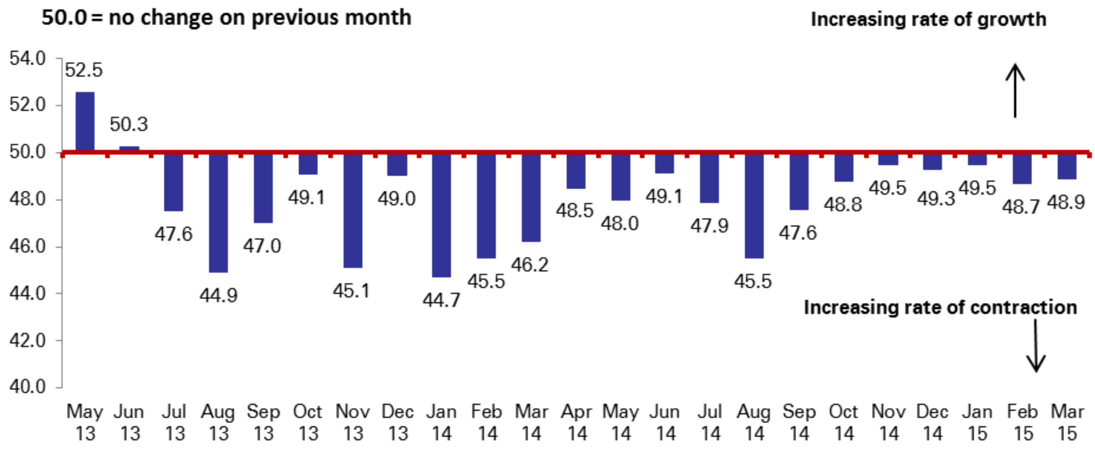
The Lebanese economic backdrop remained bleak in 2014 on account of the spillovers of the Syrian war and the internal political deadlock. The growth of the country's Gross Domestic Product (GDP) stood at a meager 1.8% in 2014 as the slowdown was felt across all the major sectors of Tourism, Real Estate and Construction. In particular, the private sector was dealt a tough-hand as shown by the BLOM Lebanon PMI which averaged 47.6 points during 2014. The index remained below the 50 - points mark, separating economic contraction from economic recession for the entire year.

BLOM Lebanon PMI: Consistently Low Readings Point to Strained Private Sector Data since Collection



Source: Markit, Blominvest Research Department

Amidst these tough operating conditions, it is no wonder that Lebanese car importers reported yet another sour year. The Association des Importateurs d'Automobiles au Liban (AIA) stated that the profits of car importers dropped despite the continuous efforts poured into advertising and promotional campaigns. The weak economic conditions led to a low sales turnover which was combined with a reported increase in charges and salaries. In fact, the net income of a major car importer, Rymco, the only one to be listed on the Beirut Stock Exchange, dropped by 29% year-on-year in the first half of 2014 to $1.53M. This came as a result of the 15.18% surge in cost of goods sold, that exceeded the 8.92% increase in net sales to $78.33M.

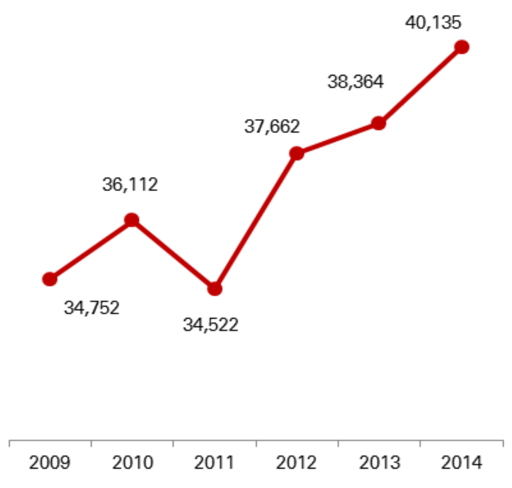
As was the case in 2013, the tough economic times compelled Lebanese consumers to purchase the cars with low price-tags. The AIA asserts that a crushing 90% of registered car are small cars whose price is less than $15,000. Luxury cars, with a selling price above $100,000, account for only 3.5% of total newly registered cars. Also according to the AIA, the preference for small cars stems from the absence of an adapted and structured public transport network and from the very strong competition between the makes.

According to the (AIA), the total number of registered new and imported used cars during 2014 has dropped by 3% in comparison with 2013, by 8% in comparison with 2012 and by 11% in comparison with 2011. The downtrend in car registration has been continuous for the past four years and AIA expects this trend to continue further in 2015. For the month of December 2014 alone, the number of new cars registered has dropped by 4% in comparison with December 2013 and the AIA attributed this decrease to the Central Bank's new regulation imposing a down-payment of 25% on car loans.

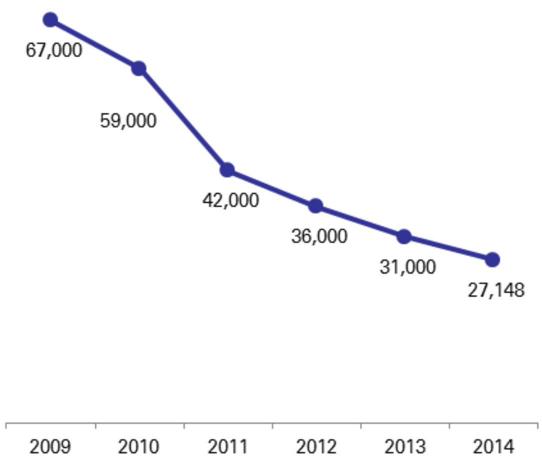
The trend of consumers favoring the purchase of a new, low-price tag car rather than a used car extended into 2014. Registration of both used and new cars has slumped since 2009, dropping by a substantial 34% from 101,752 cars in 2009 to 67,283 in 2014. However in 2014 the number of registered imported used cars fell by 60% compared to 2009 while the number of registered imported new cars rose by 16%. In fact, the market shares have been reversed as the share of new cars in total cars registration surged from 34% in 2009 to a whopping 60% in 2014 while the share of used cars in the total registered a steep fall from 66% in 2009 to 40% in 2014. This shift from used cars to new cars must have pushed many used cars traders out of the market. Factors contributing to this shift include car rental companies that were hit by the declining number of tourists for the past four years.

The rising share of new cars can be linked to two main factors. First, the interest rate on loans for new cars is lower than that applied on loans for used cars. Second, new cars with low price tags are offering more and more appealing designs, therefore combining both the "look factor" as well as the "price factor".

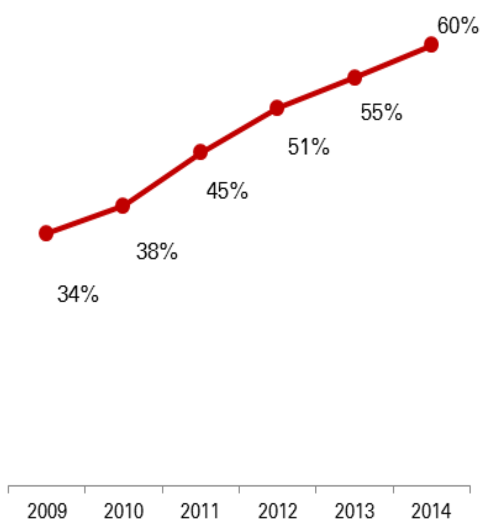
Registered New Cars (Passenger and Commercial)



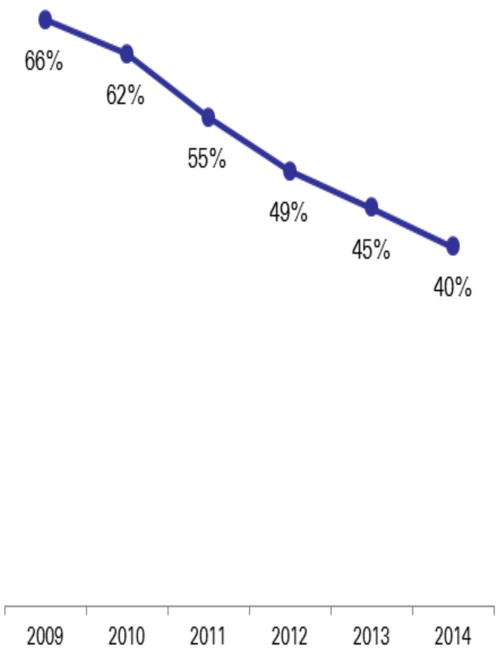
Registered Used Cars



Share of New Cars in Total Cars Registration

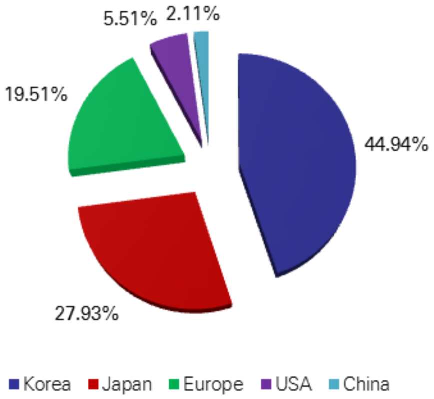


Share of Used Cars in Total Cars Registration

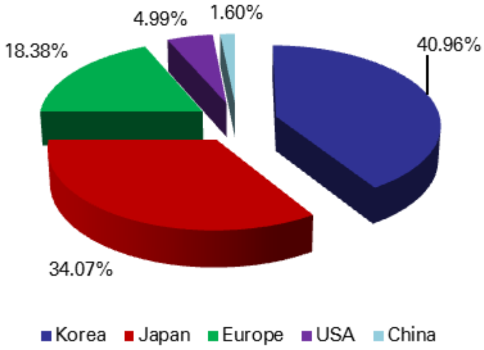


Breakdown of Passenger Cars by Country of Origin

Breakdown of Passenger Cars by Country of Origin in 2013



Breakdown of Passenger Cars by Country of Origin in 2014



Source: AIA

The registration of new cars in 2014 is enough to reveal that Lebanese consumers are still frugal in their purchases and have not majorly changed their preferences. As was the case in 2013, Korean cars occupied the largest share in the registration of new passenger cars. However, the share of Korean cars slid from 44.94% in 2013 to 40.96% in 2013. It's the stake of Japanese cars that rose from 27.93% in 2013 to 34.07% in 2014. European passenger cars came in third place like last year and saw their stake in the total slightly fall from 19.51% in 2013 to 18.38% in 2014. American and Chinese passenger cars came in the last two positions and saw their portion in the total drop from 5.51% and 2.11% in 2013 to 4.99% and 1.60% in 2014.

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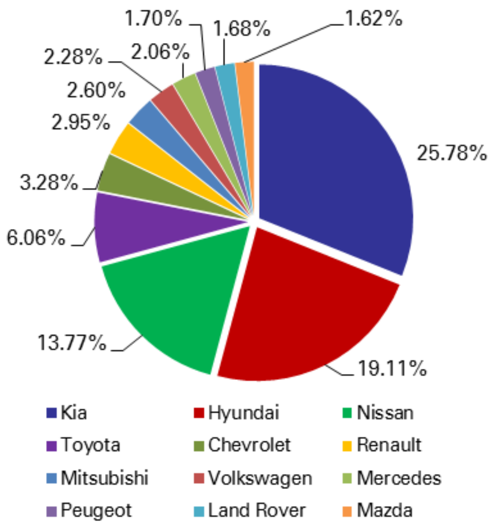
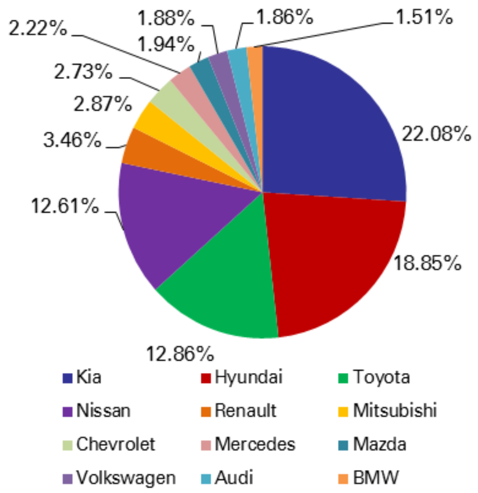
Breakdown of Passenger Cars by Brand

Breakdown of Passenger Cars by Brand in 2013



Breakdown of Passenger Cars by Brand in 2014



Source: AIA

Market Share of Lebanese Car Importers

Importer	Brand	Market Share in 2012	Market Share in 2013	Market Share in 2014
NATCO	Kia	25.18%	24.27%	20.80%
Century Motor Co	Hyundai	17.65%	18.31%	18.13%
RYMCO	Nissan GMC Infiniti Lotus Renault Trucks UD Trucks	16.60%	14.18%	13.25%
Bassoul Heneine	Alfa Romeo BMW Dacia Mini Renault Rolls Royce	8.35%	6.91%	7.41%
BUMC	Toyota Lexus	5.88%	6.90%	13.08%

Source: AIA

Korean Brands: Still at the Top

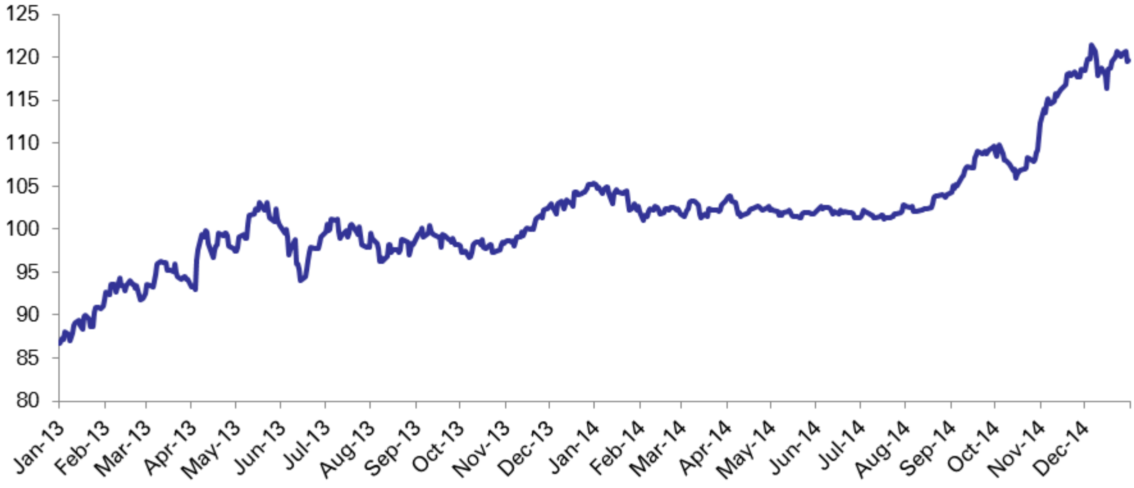
Korean cars are still dominant on the market but have however seen their market share slightly drop. The sliding share of Korean cars in total passenger cars is explained by the fact that the most popular Korean brands in Lebanon, Kia and Hyundai saw their stake in the total decrease in 2014. In 2014, 8,350 new Kias and 7,128 new Hyundais were registered in Lebanon down from 9,310 Kias and 10,084 Hyundais in 2013. Accordingly, Kia and Hyundai saw their stake in total passenger cars drop from 25.78% and 19.11% back in 2013 to 22.08% and 18.85%, respectively. It's in this light that the market share of NATCO, exclusive distributer of Kia in Lebanon, slid from 24.27% in 2013 to 20.80% in 2014 and that the market share of Century Motor Co, importer of Hyundai, fell from 18.31% in 2013 to 18.13% in 2014.

NATCO attributed the slightly lower market share to the difficult economic situation and the fading confidence of Lebanese consumers. In spite of these rough economic conditions, NATCO has been the number one Lebanese car importer for over four years.

Japanese Brands: More Appeal in 2014

In contrast, the greater market share earned by Japanese cars in 2014 is owed mainly to the greater appeal of many Japanese brands: Toyota, Mitsubishi, Mazda, Suzuki and Subaru. This greater appeal may also be linked to the depreciation of the yen in 2014. By end 2014, the yen depreciated by 14% against the dollar to reach 119.68 yen to the dollar compared to 105.3 yen to the dollar at the end of 2013 on account of the tremendous stimulus efforts led by the Bank of Japan (BOJ).

BOJ Stimulus Devaluates Yen against the Dollar



Source: Reuters

Nissan was knocked-off its third place amongst passenger cars by Toyota which saw its stake double from 6.06% in 2013 to 12.86% in 2014 as 2,676 additional Toyotas were registered during that year bringing the total to 4,865 in 2014 compared to 2,189 in 2013. This upturn earned the distributor of Toyota in Lebanon, BUMC, a doubling of its market share from 6.90% in 2013 to 13.08% in 2014.

BUMC's marketing and human resources manager Maria Rita Boustany attributed the higher market share to three core elements: competitive pricing, value-driven offering and an aggressive marketing campaign.

In fact, BUMC introduced in 2014 vehicles suited for the price-sensitive consumers. Ms. Boustany details that during 2014, Toyota vehicles became more accessible to the highly-price sensitive Lebanese consumer, mainly interested in a small passenger vehicle segment. For example, in 2014 – BUMC debuted the completely redesigned Yaris Hatchback, the entry-level package of this model came standard with several luxury options not available at the competition, thus bringing the model greater value along with the bonus of Toyota's undisputed reputation and brand goodwill. In 2014 – BUMC also launched the new Corolla – that also appealed to price sensitive target segment and helped to gain market share."

European Brands: Effect of Weak Euro Still not Fully Reflected

Registered European cars saw their share in total registered passenger cars fall from 19.51% in 2013 to 18.38% in 2014. The top European brand remained Renault with 1,310 new cars registered in 2014, a 23% yearly increase. Mercedes comes in second with 840 new cars registered in 2014, 13% more than 2013. The number of new registered Volkswagen, which comes in third place, fell by a yearly 14% to 710. 702 new Audis were registered in 2014, 3% more than 2013 and 571 new BMWs were registered in 2014, 33% more than 2013.

The depreciating euro did not seem to spur the registration of European cars in Lebanon. In fact, it wasn't until September that the euro slid below 1.3 to the dollar, so the impact was not extended throughout the whole year. However, the registration of new European cars in 2015 might be boosted since the weak euro trend will be felt across the whole year.

American Brands: Drops across the Board

The top American brand for Lebanese car consumers was Chevrolet with 1,034 new registered cars in 2014. However, the number of new registered Chevrolets was higher back in 2013, standing at 1,184.The second American brand is Ford, with 350 registered cars in 2014 compared to 277 in 2013. In third place, comes Jeep with 274 new registered cars in 2013 and 218 in 2014.

Chinese Brands

The number of new registered Chinese passenger cars dropped from 761 in 2013 to 604 in 2014. Geely remains the top selling Chinese brand with 304 new Geelys registered in 2014 as compared to 361 in 2013. As for BYD, 128 cars of this brand were registered in 2014 as compared to 127 in 2013. 70 JAC were registered in 2014 well below the 109 registered in 2013. The number of registered Chery cars was slashed by half from 106 cars in 2013 to 56 in 2014.

Slowdown in Car Sector Takes Toll on much-needed Government Revenues

A slowdown in the car sector is not only perceived when looking at the number of registrations or at the profits of Lebanese car importers but can also be seen through car-related revenues at the Ministry of Finance. According to Lebanese Customs, the value of car imports fell by 7% from $1.2B in 2013 to $1.1B in 2014. Consequently, data available from the Ministry of Finance for the first ten months of the year show that revenues from the excise tax related to car imports dropped from $247.43M up to October 2013 to $231.5M in the same period of 2014.

The lower number of imported cars in 2014 can also affect government revenues through gasoline imports. If fewer cars are imported, lower imports of gasoline and lower gasoline excise revenues would then follow. However, this was not the case in 2014 since lower gasoline prices allowed for higher gasoline imports, in turn allowing the government to collect $284.58M in gasoline excise up to October 2014 compared to $267.99M collected up to October 2013.

Overall, 2014 marked the fourth year of decline in the registration of imported new and used cars. Profits of Lebanese car importers have suffered in spite of the aggressive marketing campaigns they continued to lead. The gloomy economic backdrop did little to help Lebanese consumers shift away from their preference towards cost-friendly vehicles. It seems clear that Lebanese car importers have no other option but to tailor their products and services in light of this trend. Stability and active economic policies need to be restored in Lebanon in order for consumers to be confident and to increase their durable goods purchases.

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