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Economic Context

The Lebanese economy remained in a challenging position in 2015, however some improvements were achieved. Tourism activity reached a four-year high in 2015 with the number of tourist arrivals rising by 12.05% to 1.52 million. Lower oil prices and the depreciation of the euro allowed for the trade deficit to narrow by a yearly 16% to \$13.29B by November. Lower energy prices also alleviated the burden of transfers to EDL on the Ministry of Finance as transfers dropped from \$943.88 million up to May 2014 to \$472.07 million in 2015.

On the downside, public debt is still on an upward trajectory reaching \$70.4B by November and the fiscal deficit broadened by a yearly 17.38% to \$2.61 billion by September. The activity of the private sector remains subdued with the BLOM Lebanon PMI staying under the 50 points mark separating economic expansion from economic recession for all but one month since inception. Unrest in the region and local political hurdles have continued to weigh on consumer sentiment and on inflows of foreign investments.

Registration of New Cars in 2015

The economic challenges facing Lebanon took their toll on the demand of durable goods, notably cars but the situation slightly improved in 2015. The car market has been struggling since 2011 with four years of yearly drops in the registration of new and imported used cars. However, data from the Association of Car Importers in Lebanon highlighted an improvement in the registration of new cars in 2015. The number of registered used cars also registered its first increase since 2009 jumping by more than 5%.

The number of newly registered commercial and passenger cars in 2015 increased by 3.78% to 41,654 cars. The improvement is the result of price reductions, aggressive promotional campaigns and after-sale services carried out by importers in reaction to the sluggish market demand. The progress was also the result of depreciations in the euro, the yen and the decline in oil prices. In the festive month of December alone, the number of new registered cars increased by 3.73% year-on-year to 3,616 cars. In an official statement, Mr. Antoine BouKhater, the president of the AIA however qualified this upturn as a “slight increase” and still noted that the low price tag cars are dominating the market.

Interestingly, the progress in car registration in 2015 was led by passenger cars rather than commercial cars. Notably, the increase was mainly due to the 4.09% yearly increase in passenger cars to 39,361 cars since the registration of new commercial vehicles actually dropped by 1.12% to 2,293 cars. According to Mr. Pierre Heneine, owner at the Bassoul Heneine dealership, demand for commercial cars has been declining, first because of subdued economic conditions and second because the registration of commercial cars is too burdensome in terms of required documents and bureaucracy. To avoid the hassle of registering a commercial car, buyers are favoring the purchase of a passenger car with characteristics close to that of a commercial car. Mr. Heneine, also highlights that a trend worth mentioning in Lebanon and that is also seen worldwide, even in Europe, is the higher demand for SUVs for which the registration in Lebanon grew by a yearly 24% in 2015. Low oil prices must have contributed to consumers leaning towards larger vehicles.

Nonetheless, the Lebanese market is still dominated by cars with a price tag below \$20,000. Kia, remained the top brand on the Lebanese market and allowed its distributor NATCO to grab the highest market share of 18.07%. NATCO has maintained the highest market share since at least 2010. However, in 2015, NATCO’s market share was the lowest since 2011 as other importers gained ground. BUMC came in close second with a share of 16.08%, followed by 14.60% for Century Motor Co, 11.54% for Rymco and 9.32% for Bassoul Heneine.

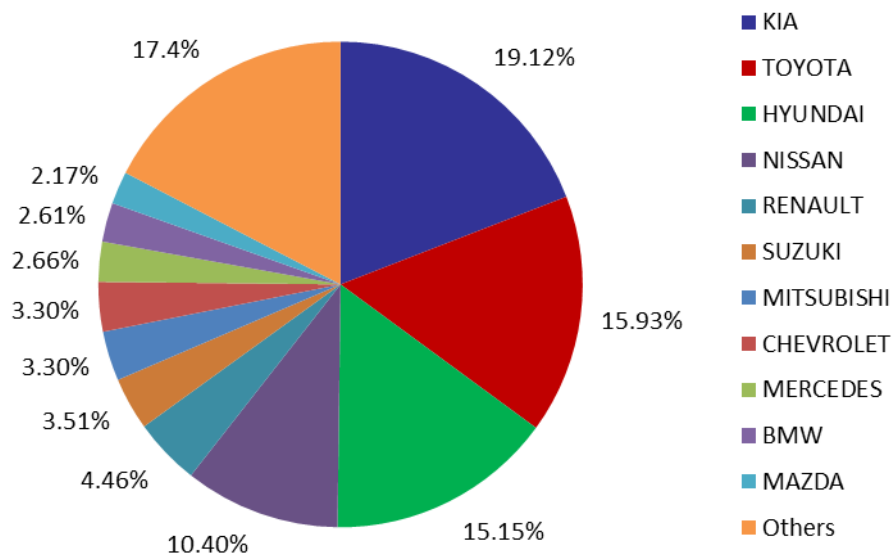
Market Share of Lebanese Car Importers

| Importer | Brand | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------|----------------|--------|--------|--------|--------|--------|--------|
| NATCO | Kia | 17.98% | 24.06% | 25.18% | 24.27% | 20.80% | 18.07% |
| Century Motor Co | Hyundai | 11.95% | 15.89% | 17.65% | 18.31% | 18.13% | 14.60% |
| RYMCO | Nissan | | | | | | |
| | GMC | | | | | | |
| | Infiniti | | | | | | |
| | Lotus | | | | | | |
| | Renault Trucks | 17.64% | 18.56% | 16.60% | 14.18% | 13.25% | 11.54% |
| | UD Trucks | | | | | | |
| Bassoul Heneine | Alfa Romeo | | | | | | |
| | BMW | 7.88% | 7.34% | 8.35% | 6.91% | 7.41% | 9.32% |
| | Dacia | | | | | | |
| | Mini | | | | | | |
| | Renault | | | | | | |
| Rolls Royce | | | | | | | |
| BUMC | Toyota | 10.40% | 5.13% | 5.88% | 6.90% | 13.08% | 16.08% |
| | Lexus | | | | | | |

Source: AIA

Car importers have had to adjust to consumers' demand through many channels. Car importers have offered their consumers appealing after-sales services. To cite an example, back in 2014, Rymco introduced the "Mobile Workshop", a service facilitating the maintenance procedure, enabling the clients, in the comfort of their homes, to have their vehicles checked and repaired by Rymco's technical team. The car importers also engaged in aggressive marketing campaigns, any budget they could spare was poured into marketing efforts.

Car Brands, Share in Total Passenger Cars



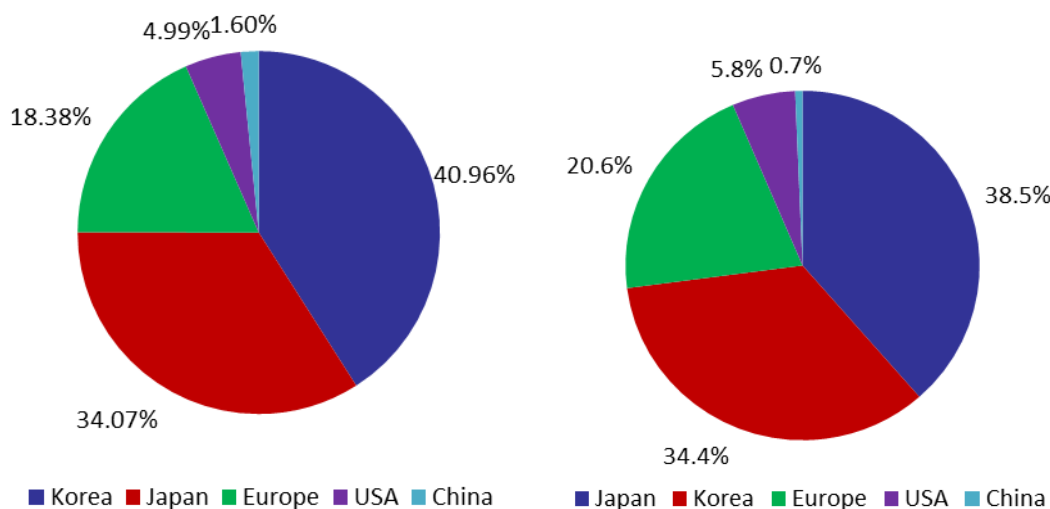
Source: AIA

Breakdown of Passenger Cars by country of Origin

After three years of ranking in first place, Korean cars cleared the way for Japanese cars. In 2015, Japanese passenger cars grasped the largest share of 38.5% in the total followed by 34.4% for Korean cars, 20.6% for European cars, 5.8% for American cars and 0.7% for Chinese cars. The depreciation of the Japanese yen that started back in 2013 and the fall in oil prices that started back in 2014 partly explains the higher popularity of Japanese cars on the Lebanese market. New successful models also had a positive impact on demand. Data from Reuters shows that the Japanese yen depreciated by 21% in 2013, 14% in 2014 and stagnated by 0.52% in 2015.

European passenger cars also gained market share as their stake in the total rose from 18.38% in 2014 to 20.6% in 2015 and that due to the depreciation of the euro against the dollar by 10% to 1.086 in 2015.

Breakdown of Passenger Cars by country of Origin 2014 Breakdown of Passenger Cars by country of Origin 2015



Source: Association of Car Importers in Lebanon

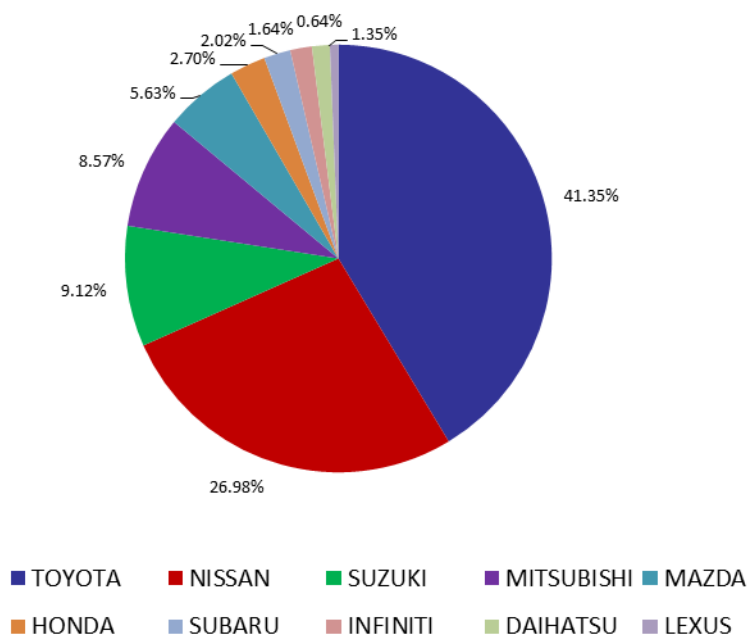
Korean Cars: Knocked-Off First Place for the first Time since 2013

Hyundai and Kia are the star Korean brands on the Lebanese market. Despite their popularity on the market, the number of registrations for Korean brands fell from 15,490 in 2014 to 13,542 in 2015. In detail, the number of new registered Hyundai cars fell from 7,128 in 2014 to 5,964 in 2015 and the number of new registered Kia also dropped from 8,350 cars in 2014 to 7,525 in 2015.

Japanese Cars: The Most Popular in Lebanon’s New Car Fleet

The depreciation of the Japanese Yen made Japanese cars more affordable for the frugal Lebanese consumer. According to the AIA, the number of new registered Japanese cars registered a double-digit growth of 18% to 15,166 cars in 2015. The most popular Japanese brand is Toyota with a stake of 41.35% in the total, followed by 26.98% for Nissan, 9.12% for Suzuki, 8.57% for Mitsubishi and 5.63% for Mazda.

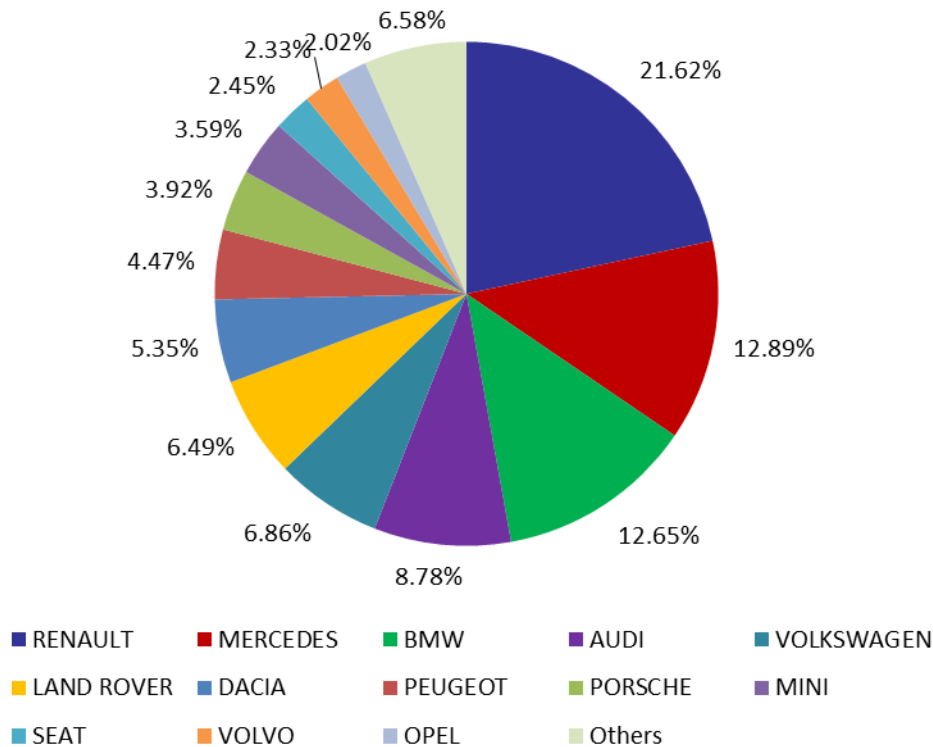
Breakdown of Japanese Cars in Lebanon



The registration of Toyota continued to increase in 2015 with a 29% yearly increase to 6,271 cars. According to Maria Rita Boustany, Manager of Marketing and Human Resources at BUMC, “our strategy is still comprised of competitive pricing, value-driven offerings, and aggressive marketing campaigns as demonstrated during this year’s Ramadan campaign and December-To-Remember campaign. During 2015, BUMC launched several new models: Toyota Avanza, Toyota RAV4 and the Toyota Land Cruiser as well as the Lexus SUV lineup from the luxury compact crossover, Lexus NX, Lexus RX and Lexus LX. Each launch brought a lot of excitement and interest to our lineup as Toyota models”.

The number of new registered Suzuki cars surged from 546 in 2014 to 1,383 in 2015. Mitsubishi cars also had a good year as the number of new registered Mitsubishis went up by 20% to 1,300 in 2015. Mazda registrations also registered a 16% yearly upturn to 854 cars in 2015. Subaru, Infiniti, Daihatsu and Lexus also joined the upward trend. The only exception amongst Japanese brands is Nissan with a yearly decline of 14% to 4,092 cars in 2015.

European Cars: Boosted by Weak Euro



Due to the depreciation of the euro, the registration of new European cars grew by a yearly 17% to 8,117 in 2015. Renault cars, which hold the largest share in European vehicles, saw their number rise from 1,310 in 2014 to 1,755 in 2015. In 2015, one of the new models released by Bassoul Heneine is the Renault Sandero Stepway Automatic which was able to be offered at a price reduction of 10% due to the depreciation of the euro. According to Mr. Pierre Heneine and Mr. Nagy Heneine from the Bassoul Heneine dealership, which registered its highest market share since 2010, “we reflected the depreciation of the euro onto our prices **fully** and in a **timely** manner”.

Mercedes and BMW followed suit with yearly upturns of 25% and 80% to 1,046 and 1,027, respectively. According to Bassoul Heneine, their 2015 bestseller was the X6 due to the previously mentioned trend in SUVs. Audi registrations ticked up by 2% to 713 while Volkswagen registration slumped from 710 cars in 2014 to 557 cars in 2015.

In the luxurious segment, upturns were registered across the board at the exception of Maserati, Bentley and Rolls Royce. Registrations of Porsche, Jaguar, Ferrari and Lamborghini rose from 296, 84 and 5 in 2014 to 318, 109 and 28 in 2015, respectively. In contrast, the registration of Maserati fell from 66 in 2014 to 46 in 2015, the registration of Bentley from 11 to 8 and the registration of Rolls Royce from 4 to 3 over the same period.

Registration of New American Cars: Double-Digit Increase in 2015

The registration of new American cars surged by 20% in 2015 to 2,272 cars. Chevrolet holds the highest share of 57% amongst American cars followed by shares of 20% for Ford, 9% for Jeep, 7% for Cadillac, 6% for GMC and 1% for Dodge. The registration of Chevrolet increased by a yearly 25% to 1,297, the registration of Ford grew by a yearly 31% to 459, the registration of Cadillac also rose by 16% to 151, the registration of GMC increased by 18% to 127 and Dodge registration ticked up by 3% to 31. The only cars to have witnessed a yearly decline were Jeep with a 9% yearly downtick to 198.

Wrap Up of the Market

All in all, the status of the market for new and used cars has improved in 2015. The importers of European and Japanese new cars benefitted from the depreciation of the euro and the yen to increase their sales. They also relied on strong marketing and benefitted from the drop in oil prices to see that consumers are more inclined to renew their cars.

Traders of used cars however note that the decline in market share they have witnessed in previous years can be explained by tougher financing conditions for consumers. Interest rates on loans for new cars are lower than those for used cars, loans for used cars also incur additional insurance fees. According to Mr. Walid Francis, the head of the Syndicate of Car Expo Owners in Mount Lebanon, even the custom fees on used imported cars are higher than those on new cars.” In this context, used car traders are seeking to offer appealing financing options for their consumers and to offer them a one year guarantee.

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