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OPINION

# DUMISANI NDLOVU: SA automotive sector — where the rubber meets the road

Growth of certain brands indicates shift in choice by consumers looking for good value propositions

BL PREMIUM

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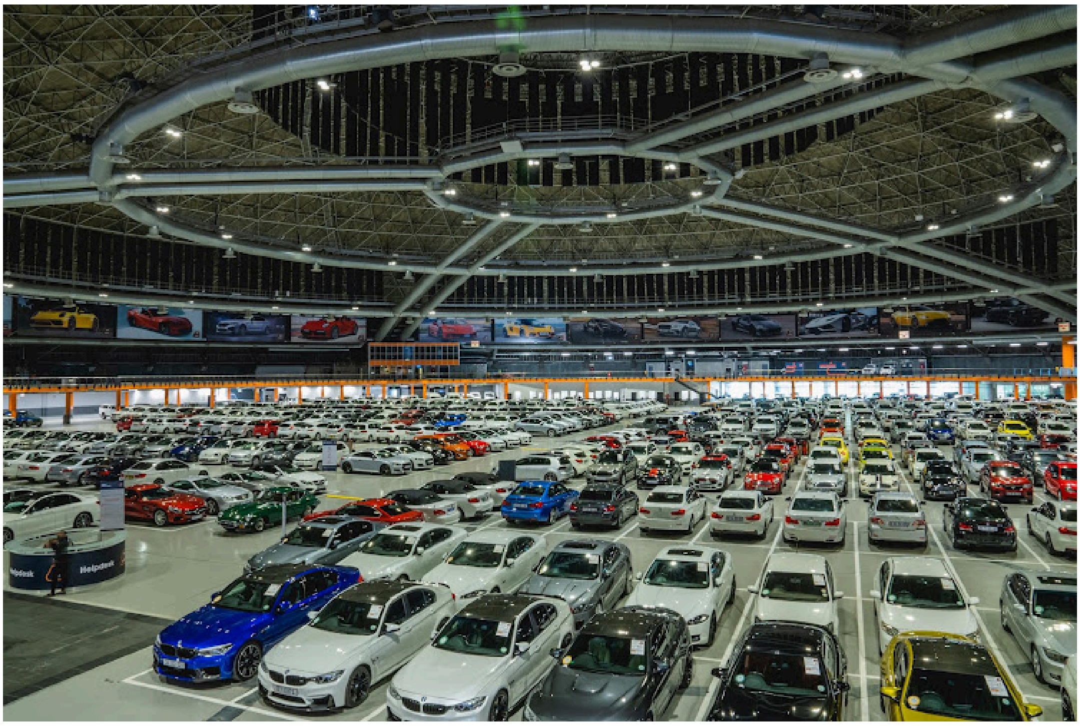
by DUMISANI NDLOVU



The WeBuyCars showroom at The Dome in Johannesburg. Picture: SUPPLIED

In light of the recently weak new car sales release (-11.7%) by the Automotive Business Council (also known as Naamsa) for March, we take a closer look at what is happening on the ground in the automotive retail space.

While it is well known that the SA consumer continues to face financial pressure due to constrained disposable income as a result of higher interest rates and inflation, the question to ask is whether the negative trend seen in the total new domestic car sales (-5.3% year-to-date), is expected to worsen or are we close to the bottom.

Persistent high inflation globally continues to challenge the narrative of interest rate cuts. This issue is no different for SA where the February headline inflation print of 5.6% landed towards the top end of the Reserve Bank's 3%-6% target. According to the March monetary policy committee (MPC) statement, the expectations of reaching the midpoint of this range have now been pushed out to the end of 2025.

We couple this with near-term uncertainty around what is expected to be a highly contested election in May, which we believe could create further delays in purchases of vehicles by the mid- to upper-end consumer.

However, while we await the outcomes of the elections, for the long-term investor, we believe there could be opportunities in a number of listed JSE companies with a variety available in the automotive retail sector.

The growth in the Suzuki, Haval, Mahindra and Cherry brands indicates a shift in choice by the consumer in pursuit of a good value proposition. These brands which are also carried by Supergroup and CMH (now trading on price:earnings multiples (PE) of 5.5x and 5.3x respectively), have demonstrated resilience in the current environment, seeing combined market share increases from about 21% in 2023 to about 24% so far this year.

Affordability remains the key driver in our view. In addition, we note model specifications which have historically only been available to the luxury vehicle driver such as the touchscreen user interface, being included in some entry-level vehicles. This combination of price and spec continues to gain traction with the consumer.

We also consider the integrated business models such as that of Motus trading on a PE of 5x, which while facing a near-term headwind of high inventory levels in this environment, has the potential to perform strongly in an interest-rate cutting environment given its exposure to the majority of the vehicle value chain.

The used-car market remains uniquely positioned in SA given its relative market of about 1-million cars a year, compared to the new vehicle market of about 530,000- 540,000. Newer used cars (1-3 years old) typically offer better profit margins because of the added products and services which can be attached to these vehicles. For this exposure, it is worth looking at Zeda which trades on a PE of 3.4x and operates predominantly in the car rental space, giving it access to the newer used-car market upon annual de-fleeting.

Lastly, we look forward to trade in WeBuyCars as it unbundled from Transaction Capital on Thursday. WeBuyCars introduces a different proposition in the automotive retail sector by offering a trading platform for older models. With consumers in this segment looking for a reliable and transparent platform we see this business model as having scope to grow in this niche segment via a combination of a business-to-business and business-to-consumer offering. Its market share of about 14% of the used-car market speaks to some potential runway for growth.

While a rising tide lifts all boats, we acknowledge that it is challenging to time the exact recovery in the automotive retail space. We do believe, however, that there are various opportunities that one can participate in at various points of the cycle.

*• Ndlovu is an equity analyst at All Weather Capital.*

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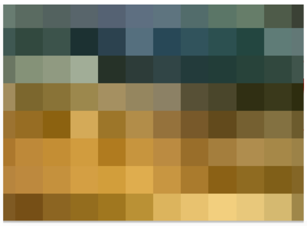

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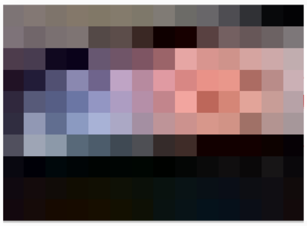

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