

Equity Research

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Car Conference 2011: Adapting for success in a changing market



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Diversified industrials

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Introduction	3
Brand Pretorious sets the scene	3
Government's view	4
General Motors weighs in.....	7
NAAMSA examines the vision for 2020.....	11
The RMI provides a retail perspective.....	15
NAACAM prefers the MIDP.....	17
Nissan making major progress with electric vehicles.....	19
Consumer under stress.....	22
Dealership success can take many forms.....	23



Introduction

On 12 October 2011, *Car* magazine, in conjunction with NAAMSA, presented a most interesting and informative conference on the SA and global motor industry. It was sold out a week before, with 450 seats taken by representatives from the various aspects of the industry, those who serve the industry, other stakeholders and the media. In this discussion, we will home in on some of the most relevant and illuminating ideas presented.

One of the sponsors, **Alan Hutcheson, the CEO of *Tracker*** kicked off proceedings by making the point that the motor industry should grow by sharing information with like-minded companies in that industry. He also stressed the need for eco-friendly vehicles and drivers.

Our view: to get the motor industry to share data except via surveys or NAAMSA will be a significant achievement, since the tendency for the players to compete very intensely will be hard to overcome. The eco-friendly aspect is far more readily acceptable to the industry, as is apparent from the other presentations.

Brand Pretorious sets the scene

Brand Pretorious, ex-CEO of McCarthy's and ex-President of NAAMSA, then set the scene by noting that this is the definitive motor industry conference in South Africa. He sees seven major trends which the industry needs to respond to:

1. **A very different local and international economic environment**, whose scars will take a very long time to heal. With insolvent banks and countries we can expect a tough environment in the short and medium-term. In his opinion there is a very small probability of a consumer-driven upturn. We need to accept volatility as the norm.
2. **Shift in power in the auto industry**. In 2010, emerging markets provided 51% of global production. As a consequence of their increasing share, there will be even more intense competition in the future and an even tougher environment for the manufacturing industry.
3. **Increased regulation** leading to an even tougher trading environment. He mentioned the National Consumer Protection Act and the National Credit Act among the 40 auto-related pieces of legislation affecting decision-making in the industry. However, he saw significant opportunities as well as threats from this trend.
4. **South Africa's honeymoon period is over**. The country will need to earn export orders and investments on objective criteria. The sympathy of the world has shifted to high sovereign debt countries. Key considerations in investment decisions are cost, quality, flexibility and consistency of supply. A government-business-labour partnership and vision is needed.



5. **Increased pressure on the industry to promote sustainability, protect the environment and to transform.** A red flag for the industry is the need to be more inclusive.
6. **The industry needs to take advantage of the opportunities provided by the revolution in social media and the internet.** We have an open society in a borderless world.
7. **Demographic and psychographic change is occurring with the industry's customers.** In 2009, black disposable income in South Africa exceeded that of white consumers for the first time. The customer has also become more demanding and informed. Trust is critical, especially among active customers. The industry will need to meet the expectations of and fulfill the needs of customers.

In conclusion, he felt that the industry, as a centre of excellence and a strategic South African asset, would have to adopt a more robust business model to adapt to the changing environment.

Our view: These comments are in many ways substantiated by those of the other speakers.

Government's view

Nimrod Zalk, Deputy Director-General of the Industry Development Division, then addressed *“The SA Government's plan to help facilitate investment, foreign direct investments, exports and skills development to help the industry double vehicle production to 1.2m units by the year 2020.”* **He noted that the auto industry is the largest and leading industry in our manufacturing sector.** It has high multipliers throughout the economy: drawing in metal (steel, aluminium & platinum), plastics, leather & textiles.

It accounts for 12% of exports, by far the largest contribution not directly based in primary or semi-processed commodities. Approximately 90 000 people are directly employed in auto manufacturing, whilst about 200 000 are employed in retail and aftermarket activities. NAAMSA estimates that **SA auto production grew by 59% between 2000 and 2011 compared to global growth of 35% and exports grew by 343% compared to 186% over the same period.**

The Automotive Production and Development Programme (APDP) (2012-2020) which replaces the Motor Industry Development Programme (1995-2012) is based on four pillars:

1. **Moderate and stable tariffs** with a stabilisation of tariffs at 25% for vehicle imports and 20% for component imports from 2012 to 2020.
2. **An Automotive Investment Scheme Allowance (AIS)** which unlike other allowances under the programme came into effect in 2010. It supports investments in the manufacturing of new and replacement vehicle models as well as automotive components.



3. **A Local Assembly Allowance.** Zalk did not elaborate on this incentive, but according to the Department of Trade & Industry *Automotive Industry Conference* of 11 September 2011, this allowance is for plants that produce at least 50 000 vehicles per annum. It is applicable to all vehicle production in those plants. The duty allowance for imported components or vehicles is 20% of the sales value of production in 2013, 19% in 2014 and 18% in 2015 till 2020. The current DFA of 27% of locally produced domestic sales remains till 2012.
4. **A Production Incentive (PI)** which provides import rebate credits according to levels of production and value-added in vehicle assembly and component manufacture. These allowances are dependent on a minimum plant volume of 50 000 units per annum to ensure a movement towards significantly higher economies of scale. The DTI at its conference notes that the extent of the PI is 55% in 2013, a 1% annual reduction to 50% in 2018 till 2020 and an additional 5% for specified firms. **Additional support for vulnerable sectors - that are disproportionately affected by the transition from the MIDP to the APDP- is under consideration and this may come in the form of a temporary increase in the production incentive for sectors such as catalytic converters, leather and stainless steel.**

The APDP and AIS have been instrumental in securing R14bn in investment commitments from assemblers and component suppliers. According to NAAMSA & Zalk, OEM expansion plans include:

- **Volkswagen's** investment in the new Polo and Vivo models, which will produce 136 000 vehicles p.a (current output is 110 000 p.a.).
- **Toyota** to increase production from 130 000 to 220 000 vehicles p.a. in the medium term.
- **BMW South Africa's** programme to raise production of the fourth generation 3-Series from the current 55 000 to 80 000 units p.a., with more than 80% of production destined for export markets.
- An increase in production of **Nissan & Renault** vehicles from the current 55 000 to 76 000 units p.a..
- **Daimler-Chrysler** raising output of the new C-Class Mercedes from 50 000 to 70 000 units p.a..
- **General Motors** production of the Chevy Spark in South Africa increasing to 55 000 to 60 000 units p.a. (currently 45 000).



Ford Ranger



Source: Ford SA

- **Ford's** R3.4bn high volume export programme for the new generation Ford Ranger pickup and associated engine, which will export to 148 countries. This vehicle was launched at NAAMSA's *Johannesburg International Motor Show* (at Nasrec from 6th – 16th October 2011). Vehicle production will reach 85 000, while the engine plant will produce 145 000 units. Current vehicle output (i.e. non-Ranger) is 18 000 units.

Zalk noted that, as the regulations for the duty-based elements of the APDP are being finalised, for implementation in 2013, due consideration is being given to certain vulnerable component subsectors which require a transitional period. A higher but declining level of support for these subsectors may be on the cards for a limited period of time to allow them to make individual and collective efficiency improvements and are linked to other commitments such as employment retention.

Work is also underway to finalise an electric vehicle (EV) position paper for cabinet consideration which will include proposals on the creation of a legislative and regulatory environment for the operation of EV's, relevant testing infrastructure for EV's, local manufacturing for domestic and global markets; the initiation of charging infrastructure, and educational campaigns on EV's. The aim is for SA to become a producer of EV's, related technologies and componentry.

Our view: the OEM's appear to have established a strong working relationship with the government, but the component manufacturers are likely to lose most from a production-related programme (APDP), rather than one which favours exporters (MIDP). This view is echoed by the NAACAM presentation later in the conference.



General Motors weighs in

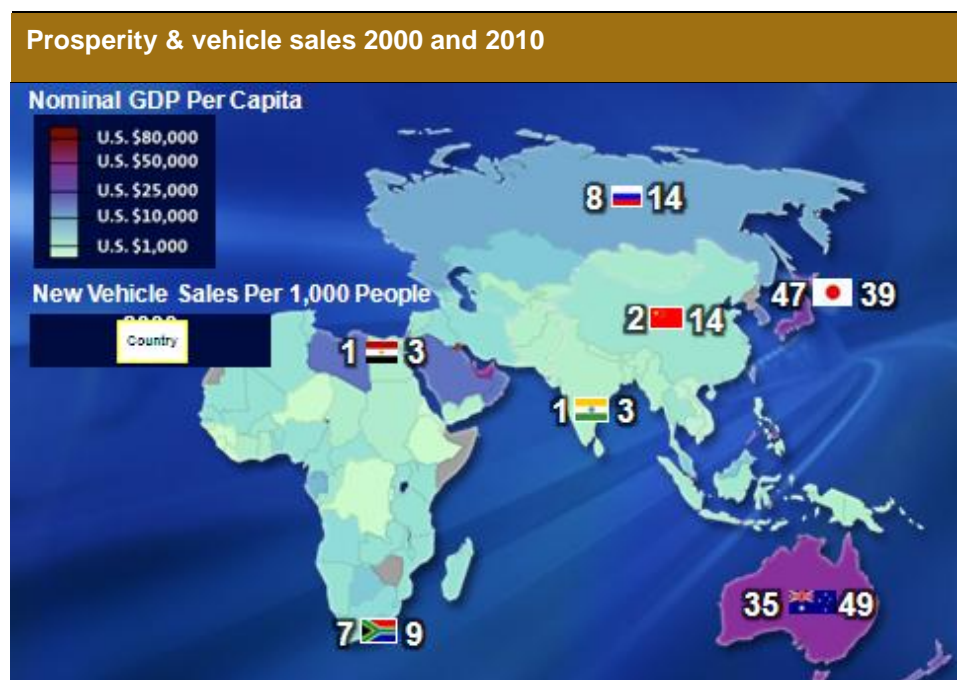
Tim Lee, President: General Motors International Operations delivered the keynote address. He assessed in a South African context, “*What are the lessons and principles that could be applied from emerging markets (EM’s) – especially China, to foster an even more robust strategy for the SA auto industry going forward?*”

He noted that the following key points about General Motors:

- Leaner company with a healthy balance sheet and a global focus.
- Six consecutive quarters of profitability.
- Sales and market share are increasing.
- Growing focus on South Africa.

He commented that the SA government had provided steadfast support to the local automotive industry.

- The U.S, Western Europe and Japan drove growth in the industry’s first century.
- EM’s are driving growth today.
- In 2010, China set a new global industry production record (of 18.3m units).



Source: General Motors

There have been major increases in vehicle ownership per 1 000 people between 2000 and 2010, especially in Australia, China, India and Russia, while in Japan there was a negative trend.



- Nominal GDP per capita in EM's is below \$10 000-\$15 000 per annum.
- There are growing personal incomes and rising middle classes in EM's.

Vehicle ownership in selected countries per 1 000 people



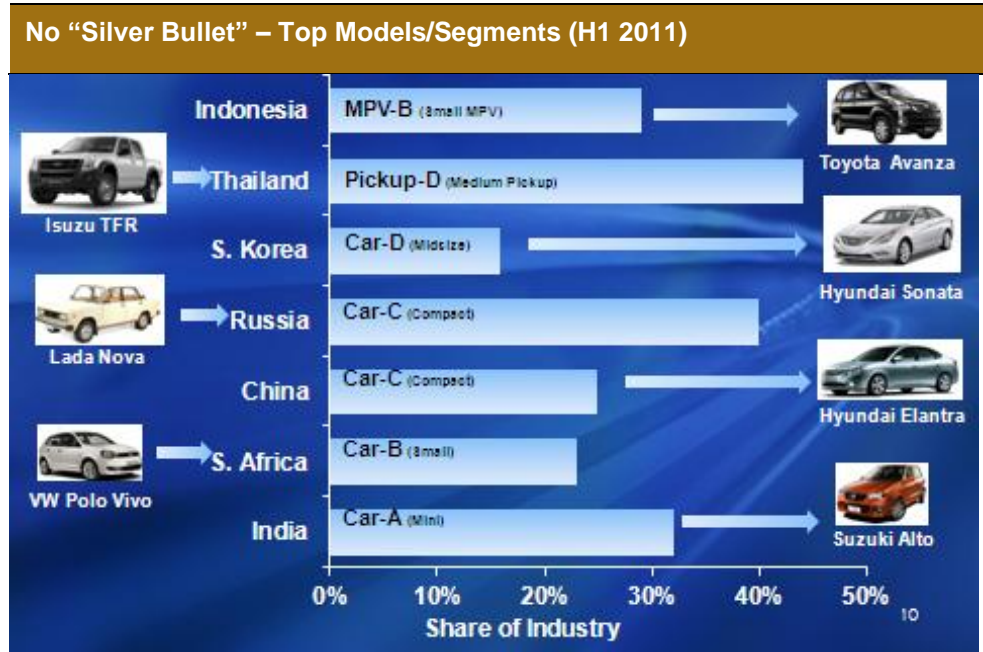
Source: General Motors

- New middle classes are driving demand for four-wheel transportation
- There is a huge opportunity in EM's for gaining customers and talent.

He noted that the BRICS are not homogeneous. In fact South Africa should be aware that it forms part of the CIVETS countries as well. These are Columbia, Indonesia, Vietnam, Egypt, Thailand and South Africa. Our competition for automotive investment is coming from these countries, amongst others.

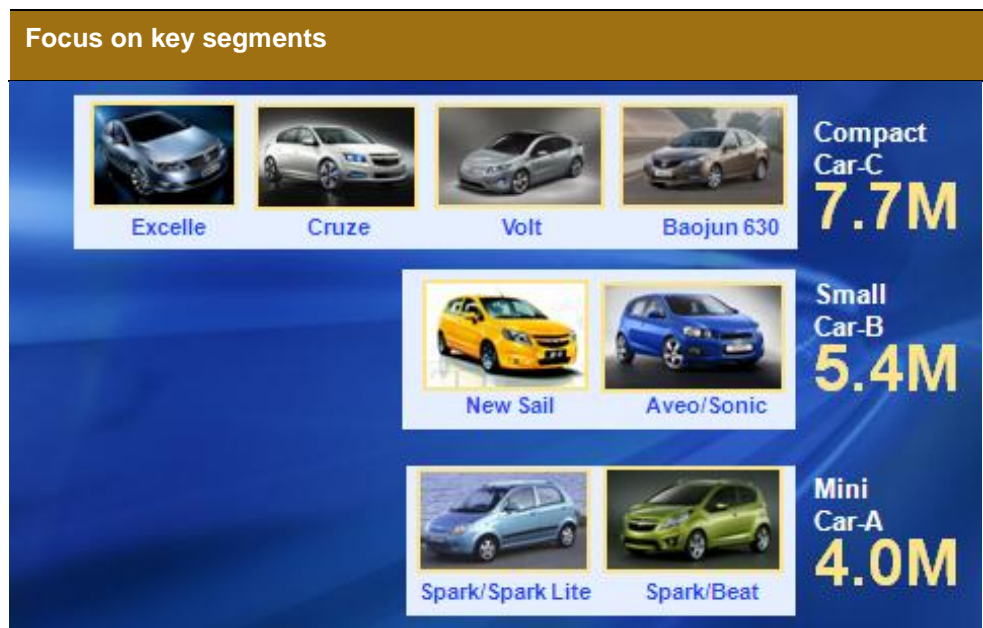
He sees certain challenges facing auto manufacturers in EM's:

- Government policies that can change quickly.
- Varying legal systems.
- Popular unrest and rapidly changing political situations.
- Varying industry standards.
- Macroeconomic risks.
- Poor infrastructure.
- Fluctuating petroleum prices.
- No one model or segment which dominates all EM's.



Source: General Motors

As a result GM is concentrating on a few key models and segments:



Source: General Motors

On the topic of GM and South Africa:

- **This country is a key component of GM's EM strategy.**
- GM began doing business in South Africa nearly a century ago.



- It sold nearly 55 000 vehicles in 2010, for market share of over 11%.
- GM sold more than 50 600 vehicles in the first nine months of 2011.
- GM Sub-Saharan Africa
 - Includes central and southern Africa
 - Is integrated into South Africa operations.

Chevrolet Utility & Sonic



Source: General Motors

There is growing GM investment in South Africa e.g. in the Chev Utility and Chev Sonic Hatch, as well as the vehicle conversion and distribution centre and the parts distribution centre.

Vehicle conversion & distribution centre & the parts distribution centre



Source: General Motors

However, there are a number of challenges which the SA auto industry will have to face:



Source: European Industrial Relations Observatory

The first is that we lose too many days through strikes and this definitely affects the decisions which GM makes relating to further investments in this country.

Furthermore, we need stable and cost-competitive infrastructure, free and preferential trade agreements, high-volume and world-class suppliers as well as clear and stable rules for investment and expansion.

He concluded that investment depends on market and volume opportunities, competitiveness of sourcing and future prospects. If South Africa were to tick these boxes in a convincing way, it could become a leader in the EM auto industry (currently we supply less than 1% of total global output).

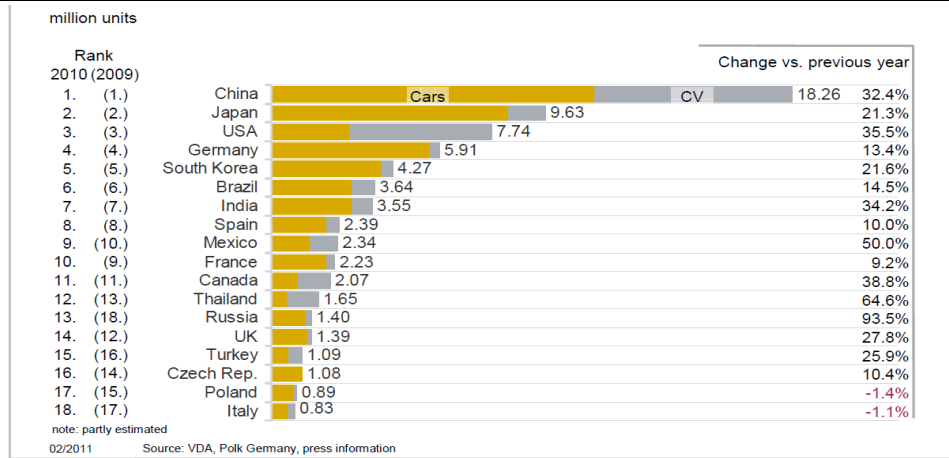
Our view: this presentation was an excellent exposition of the way in which a major global OEM looks at investment in EM's in general and South Africa in particular. We have a long way to go to rival the major players in EM's. However, the local auto industry does not need to be anywhere near as large as those in India or Brazil in order to produce a further, considerable, long-term stimulus to economic growth in this country.

NAAMSA examines the vision for 2020

The next presentation was by David Powells, the CEO of Volkswagen SA and the President of NAAMSA. He examined the vision for the year 2020 under the new APDP and its impact on the automotive industry. He placed the SA auto industry in context by showing that in 2010 it produced only 0.61% of the global output of 77.9m units. He also produced a detailed ranking of production by country.



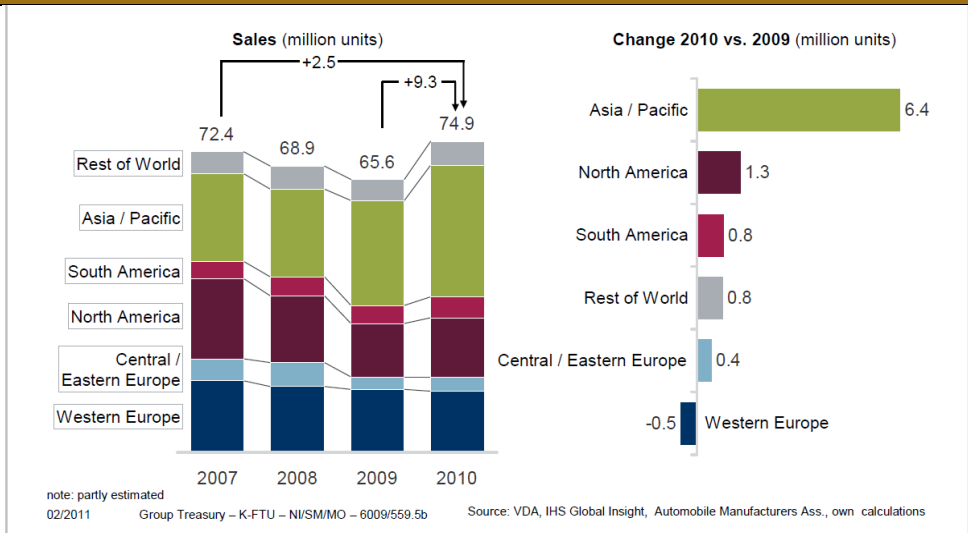
Ranking of most important production countries (January-December 2010)



Source: VDA, Polk Germany, press information

South Africa at 472 000 units in 2010 did not feature in the top 18 auto manufacturers. Nevertheless, despite its small scale by international standards, the local auto industry produced around 12% of the country’s exports.

Vehicle sales by region (2007-2010)

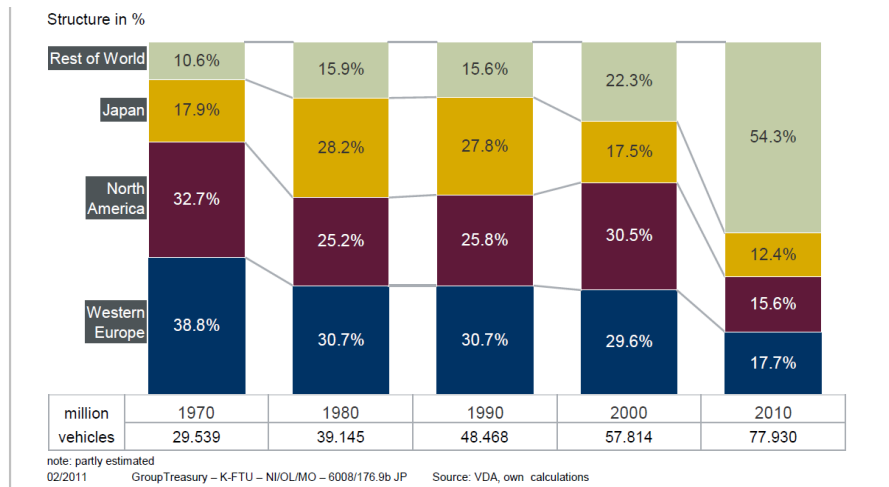


Source: VDA, HIS Global Insight, Automobile Manufacturers Association & NAAMSA

He also noted that there was a significant shift in sales by region towards Asia and the Pacific over the past four years, a trend which is more clearly seen over the past forty years.

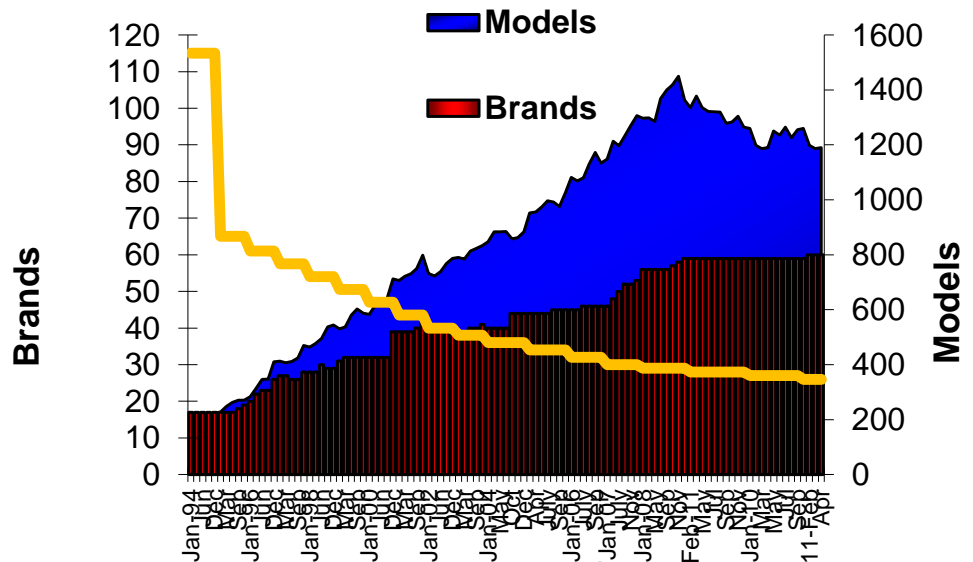


Structure of car/CV production (1970-2010)



Source: VDA & NAAMSA

Competition in the SA Passenger Market (1994- 2011)



Source: NAAMSA

He also noted that with the reduction of duties since the MIDP was instituted in 1995, the number of brands and models had increased rapidly. His next focus was the government’s plan for developing the industry.

The new APDP will have stable, moderate import tariffs from 2012:



- 25% for Completely Built Up Vehicles (CBUs).
- 18% for CBU's out of Europe via the EU preferential rate.
- 20% for CKD components used by vehicle assemblers.

The Vehicle Assembly Allowance (VAA) will allow vehicle manufacturers with a plant volume of at least 50,000 units per annum to import a percentage of their components duty free.

The Production Incentive will be in the form of a duty credit aimed at raising production value-added:

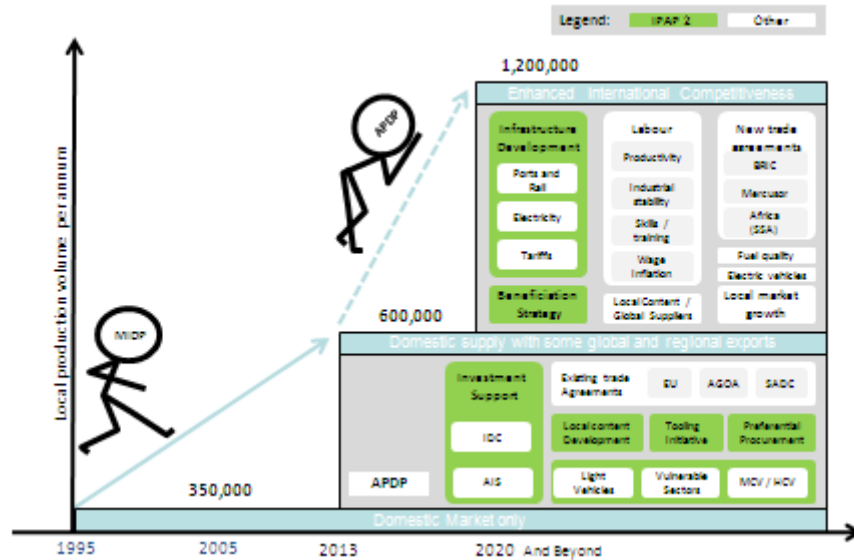
- 55% reducing to 50% over 5 years.
- Value-added = Sales minus Imported Components and Non-qualifying Raw Materials.
- Additional 5% for vulnerable sub-sectors.
- OEM's accrue the PI Benefit for the parts supplied by component manufacturer.
- The 25% Standard Value is added on to qualifying raw materials
 - PGM's
 - Leather
 - Aluminium
 - Steel
 - Stainless steel .

The AIS program provides support to light motor vehicle manufacturers and automotive component manufacturers.

- The AIS provides for a taxable Cash Grant of 20% of the qualifying investment in Productive Assets (OEM has achieved /will achieve 50 000 units annual production within 3 years).
- An additional taxable Cash Grant of 5% to 10% is available to projects that are considered as strategic by the DTI and meet specified performance requirements.
- Projects below R30m by light motor vehicle manufacturers and R1m by component manufacturers will not qualify.
- The approved AIS grant is paid over a period of 3 years.
- The commencement date of the program was 1st of July 2009 (retroactive legislation).



The roadmap towards 1.2m vehicles and achieving international competitiveness



The NAAMSA graphic above summarises the auto industry and government’s views on the way to achieve the required 9.5% CAGR in production from 555 000 in 2011 to 1 200 000 in 2020.

In Powells’ view, some important impediments to the achievement of this goal include the rapidly increasing cost of labour and electricity, as well as strikes and infrastructure limitations.

Our view: the OEM’s and the the government have a common vision when it comes to the development of the industry. However, there was no labour representative speaking at the conference. Thus, given the number of strike days and the rapidly rising cost of labour, it appears that the achievement of this vision will depend in large measure on the cooperation of labour (as well as the containment of inflation in other input costs such as electricity and the other factors mentioned by Tim Lee).

The RMI provides a retail perspective

Jeff Osborne, the CEO of the RMI (Retail Motor Industry Organisation) discussed the high road to success in a changing automotive market and the ramifications of the Consumer Protection Act on the automotive retail sector. The RMI represents activities with the following characteristics:

- 8 000 predominantly SMME businesses.
- 280 000 employees.
- 14 Sectors:



- Fuel, franchise dealers & tyre dealers.
- Independent workshops, motor body repairers etc.
- The setting of standards and self-regulation.

During the past 10 years the following factors have affected the retail motor industry in this country, including:

- Technological advance (literally a geometric progression).
- Increasing number of models and derivatives.
- Economic circumstances versus cost of motoring.
- NCA/credit extension / duration of loan agreement.
- BEE/transformation.
- Approximately 40 pieces of legislation and regulation.
- Skills shortage has worsened.
- Practice and policies of big business in their endeavour to survive.
- Consumer Protection Act.

One of the many areas in which the RMI is working is the likely periodic compulsory testing of vehicles of over 10 years old. This is expected to happen within the next two years. Other areas include:

- Securing a better dispensation on fringe benefits.
- Roadworthy validity period.
- Active at BUSA and NEDLAC on e-tolling, AARTO and other legislative matters.
- NADA dealer satisfaction survey.
- SAMBRA repairer satisfaction survey.
- Right to repair/independent workshop.
- Assisting dealer councils with franchise agreements.
- Skills shortage/looking at specialised positions (diagnostic).
- Reviewing apprenticeship criteria.

Our view: The periodic testing initiative could have major implications for the large numbers of aged and unroadworthy vehicles on our roads. These are very much past their sell-by dates.



NAACAM prefers the MIDP

Thereafter, Stewart Jennings, the NAACM President and CEO of PG group discussed how the component industry is adapting to the ever-changing automotive market. He commented on a few pertinent supplier statistics:

- Revenue last year was valued at over R65 billion, 10% up on 2009, but well below 2008 levels.
- The employment of suppliers is just over 65 000, down from a peak of 82 000 at the beginning of 2008.
- Despite this decline, supplier employment is more than double that of the OEMs and it is in the supplier sector where the greatest job opportunities lie.
- More than half the locally-owned suppliers and sub-suppliers are SMMEs.
- Component sector employment in 2011 has increased by 5% (not all permanent jobs) but the overall manufacturing sector lost 68 000 jobs in Q2 alone.
- This statistic alone indicates the success of the MIDP.

He then produced exports statistics for motor components for 2010:

- EU R21 billion.
- Africa R3,3 billion.
- USA R3 billion.
- Brazil R940 million.
- Japan R420 million.
- Australia R300 million.
- S. Korea, China and India each over R200 million.
- 35% of production is sold to local vehicle assemblers (OEMs), 45% is exported, mainly to overseas OEMs and 20% is for local spare parts.
- Total component exports were R34 billion in 2010.
- The APDP - its effect on exports is currently important and being analyzed. He feels that it needs to be 'tweaked' to cater for the need to encourage exports.
- Economies of scale is the most important determinant of component manufacturing efficiencies.

He made the following comments about imports:

- Imported cars now make up 70% of the market (from 31% in 2003), the highest in the world (with Australia) of any car-producing country outside of economic blocs.



- SA import duties of 25% are lower than almost all developing countries, the same as China, which produces 25 times the vehicles SA produces and the same as the USA duty on pickups (they produce 5m). Furthermore, we are the only country where duties can be fully rebated by credits.
- Most spare parts for these cars are also imported.
- Local content in vehicles has declined in recent years.
- The MIDP structure allows OEMs to use export credits to import components duty-free.
- Older-generation vehicles with high local content have been replaced by more sophisticated ones.
- OEMs are using more multinational suppliers, many of whom assemble components from imported sub-components, thus eroding local sub-supplier capabilities.
- Cost competitiveness locally has deteriorated.
- **Often figures quoted do not reflect real local content.**
- The industry trade deficit (including vehicles) is R25 billion.

He had further comments to make on the global competitiveness of the local components industry:

- Decisions on vehicle and component production are made globally, mainly on price.
- Our competitiveness is being eroded by increases beyond our control – notably electricity (including punitive peak charges), wages, logistics and a strong and volatile currency.
- Our ports are the most expensive in the world.
- Artisan shortages force premium pay (seven times that in Thailand).
- Port and rail inefficiencies cause congestion and costly safety stock requirements.
- The strong rand has eroded competitiveness and cost jobs.

His concluding comments were as follows:

- The local automotive suppliers, along with many other manufacturers, are facing their toughest period, exacerbated by the global nature of the sector.
- The lower export incentives from 2013 will challenge the ability of suppliers to compete internationally.
- It is important for authorities to address the barriers to competitiveness and infrastructure investment, provide temporary relief where appropriate and facilitate improved productivity and skills development.

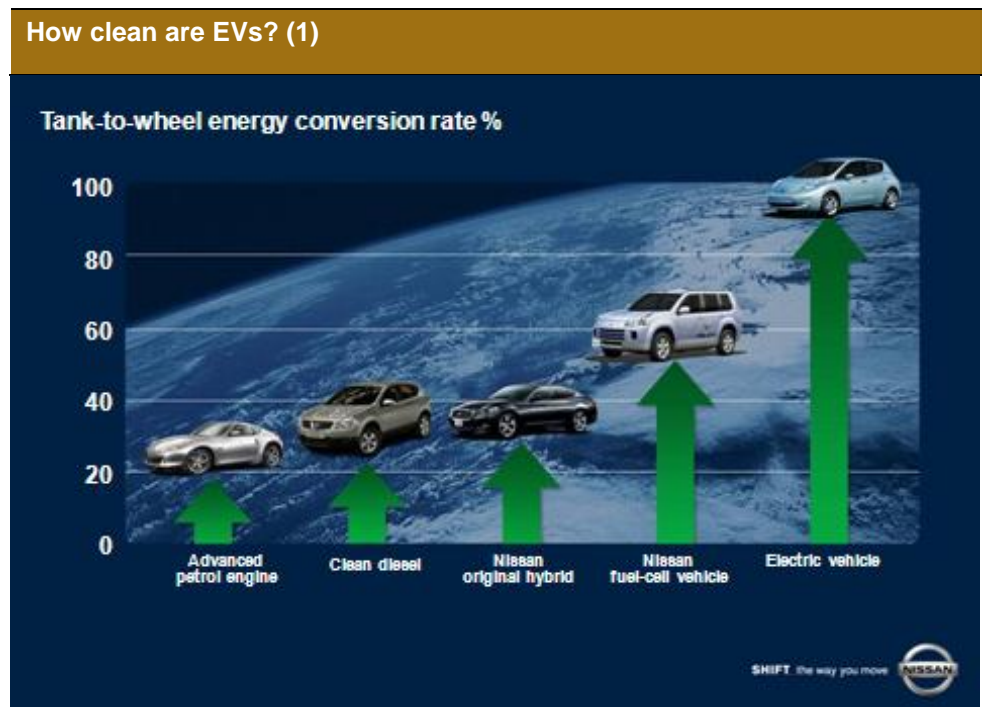


- There is a need to have a more competitive and stable currency.
- The industry will focus on improving competitiveness.

Nissan making major progress with electric vehicles

We were then treated to a most insightful view by Pierre Loing - Vice-President of Product Planning and Zero Emission's business unit in Nissan International.

His topic was: *"Electric vehicles in South Africa, the future is today."* He noted that there are a number of debates about EV's: how clean and safe, the range, affordability and infrastructure. To begin, he commented that 25% of global carbon dioxide emissions are from vehicles, thus contributing heavily to global warming. Consequently, Nissan's approach is to reduce such emissions from its vehicles by 90% by 2050.

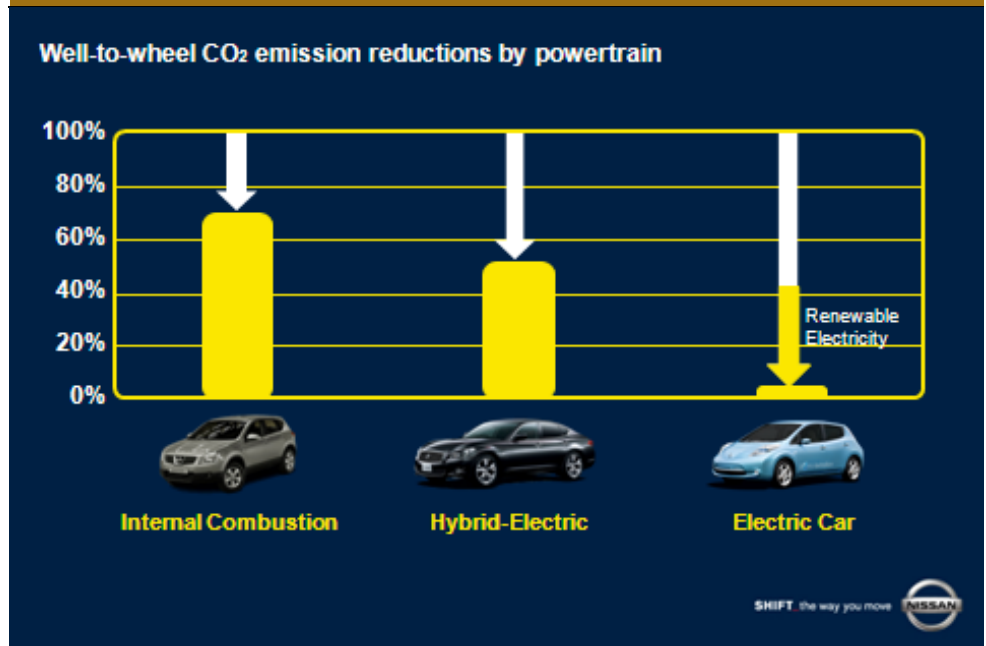


Source: Nissan

- Clearly there is no technology on this graphic apart from fuel cells which comes close to the efficiency of an EV.
- In his view, fuel cells are likely to be sold in large numbers in not less than a decade.
- Even then, the EV is the most efficient.



How clean are EVs? (2)



Source: Nissan

He stated that Nissan’s advanced lithium ion battery is twice as powerful as the previous generation, is compact, safe durable and resistant to overheating. After 5 years it will have 80% of its capacity left and 70% after 10 years.

There is a second life for the battery after ten years, in that it can be recycled and resold to store energy generated by rooftop solar panels.

Nissan Leaf



Source: Nissan



The Nissan Leaf can reach a maximum speed of 145km per hour, has torque of 260 NM, power of 80kw and a range of 175km. Acceleration is very fast indeed, and it is so silent that Nissan had to manufacture noise up to 20km per hour so that pedestrians could hear it coming. The saving in running cost per year is 800 to 1 200 euros. The NCAP rating is five stars. It is World and European Car of the Year 2011.

The cost in Europe is 30 000 euros including battery and after incentives of 5 000 euros.

He believes that in three to five years EV's will catch up with petrol engines and will not need incentives.

With access to London at seven pounds sterling for petrol- and diesel-engine vehicles, and access to city centres likely to reduce for these vehicles over time, there is a case to produce an electric commercial vehicle.

Our view: We believe that Nissan is on the right track with this initiative and although the EV will still improve its range, time to charge (overnight), top speed, infrastructure availability etc., the day of the EV in this country is sooner than we think.



Interestingly, Rolls-Royce recently presented its once-off 102EX Phantom Experimental Vehicle at the Geneva Motor Show. The Phantom employs a lightweight aluminum spaceframe, two 145kW (388hp combined) electric motors that give the Phantom EX 800Nm of torque, versus the 338kW (453hp, 720Nm, 6.75 litre engine) of a standard Phantom.

With a whopping 640kgs (1,410lbs) of lithium-ion battery cells (338V, 71kWh), the Phantom EV has a range of 125 miles (201km) with a 20-hour recharge cycle or a fast charge in 8 hours. It can be plugged into the mains or a 7kW inductively ('wirelessly') charged system. Lotus Engineering helped Rolls-Royce with the all-electric drive system.

The group's rationale for going the EV route is that RR owners, who are not particularly concerned with costs of fuel or emissions and do not like a limited range



of 200 km on their vehicles, ultimately will need to own an EV, because in due course a number of CBD's in major cities will ban the internal combustion engine.

Consumer under stress

According to Alan Todd, MD of Ramsay Media Research Services, their surveys of SA consumers indicate that there have been a number of automotive consumer shifts of late:

- 76% are buying fewer movable assets now than in the past.
- 79% are more cautious about spending.
- 63% claim the great recession has changed their buying behaviours.
- 54% claimed the great recession has changed their buying behaviours forever.
- 36% are worried about their debts.
- 41% are using credit only for emergencies.
- 50% feel less inclined to use credit.
- 99% of new car buyers have internet access:
 - 59% access the internet more than twice a day.
 - 8% access the internet twice a day.
 - 14% access the internet once a day.
- 70% use the internet to get information.
- 76% have purchased something on the internet.
- Owners of major brands are keeping their cars longer: Audi 40% over 5 years, BMW 47%, Mercedes 52%, Toyota 47% and Volkswagen 55%.
- Across all marques, only 43% of vehicle owners say they would definitely buy the same marque again.

Our view: Clearly car owners are less likely to buy, are more selective and informed, keep their vehicles longer and are less brand loyal when they come to replace their vehicle. This has implications for dealerships which tend to gain increasing portions of revenue and profit from after-sales maintenance and parts. With brand loyalty under pressure, there is an increasing onus on the dealership to provide perceived quality, value, service & support.



Dealership success can take many forms

The final presentation that we will discuss is that of Greg Levine, on *Adapting marketing strategies in a changing automotive market.*” This South African was head of sales and marketing for Audi SA, then moved to Audi UK where he was head of operations. Since January 2011, Levine has spearheaded the marketing of McClaren. We found his views very enlightening, especially his insights into how successful dealerships and vehicle operations work internationally.

Showroom of Longo California dealership



Source: Greg Levine

This is the miniscule showroom of Longo California. Yet this dealership sells 13 000 new cars and 8 000 used cars per annum. It has around 550 staff with opening times from 8am – 10pm, 364 days a year. To give an idea of the scale of the vehicles outside, perhaps the following image will assist.



Aerial view of Longo California



Source: Greg Levine

Longo California contrasts strongly with the dealership below.

Audi West London dealership



Source: Greg Levine

It has 37 new and 87 used cars on display simultaneously.



Audi West London showroom



Source: Greg Levine

There are 32 workbays. It sells 900 new and 1 100 used cars per annum.

The Collection dealership



Source: Greg Levine

A third approach is the multi-franchising strategy which is exemplified by the Collection which covers an entire city block.



- UK average: R150 (unlimited access at 15Mbs).
- People with wireless connection from home: 499 000 (stable y-o-y).
- People watching TV online: 111 000.

He discussed a variety of uses of the internet in dealerships, inter alia using webcams on the technician's head to relay the picture of what he is doing, so that the customer can then communicate in real time if he is happy with the work being done.

Our view:

With respect to Levine's comments on the internet, we have gathered some information on the telecoms situation in South Africa (supplied by Trishona Naidoo, Vunani Securities Ltd. Trainee Telecommunications Analyst).

South Africa – Telecommunications industry snapshot (mid-2010)

Segment	Subscribers (millions)	Penetration (%)
Mobile*	51.6	103.2
Internet	6.8	13.6
Fixed line	3.7	7.4
Facebook	3.4	6.8

Sources: African Telecoms News, Telkom SA Annual Report 2011, Internetworldstats, Nick Burcher.com & StatsSA.

Interestingly, although South Africa demonstrates low internet, fixed line and facebook penetration, its mobile subscribers exceed the total population. Furthermore, a recent report by Canadian research company *Sysomos*, finds that **South Africa has become the tenth largest Twitter user in the world**. According to the report, SA accounts for 467 500 users or 0.85% of the total global use of the popular micro-blogging platform. This suggests opportunities for dealers to utilise cellphones and Twitter to disseminate promotional and other ideas to the local population.

In order to interpret the dealer sales data presented by Levine, we compare our largest vehicle retailer, Imperial, and its dealer sales with those of Longo and Audi London. The results make for interesting reading.

Vehicles / annum (units)	New	Used	Total	New/ used	Dealer- ships	New/ dealer	Used/ dealer	Total/ dealer
Imperial	65428	31455	96883	2.1	85	770	370	1140
Audi West London	900	1100	2000	0.8	1	900	1100	2000
Longo California	13000	8000	21000	1.6	1	13000	8000	21000

Source: Imperial Annual Report 2011, Greg Levine.



Clearly the Longo and Audi dealerships above benefit from much higher buying power in their market areas. However, the Longo dealership in particular achieves overwhelming sales figures despite having a very small showroom.

In conclusion, there were other interesting presentations at this conference, but the main points we derived have been summarised above.

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