

South Africa - Automotive Retail Financial Performance Trends October 2020 - September 2021

Executive Overview

The vagaries of the local and international markets, seemingly have no impact on the Automotive Retail Sector investment returns in South Africa. Steady and stable returns, continue to be generated as is shown in (Fig 1), which in turn is a reflection of the solid base from which the sector operates.

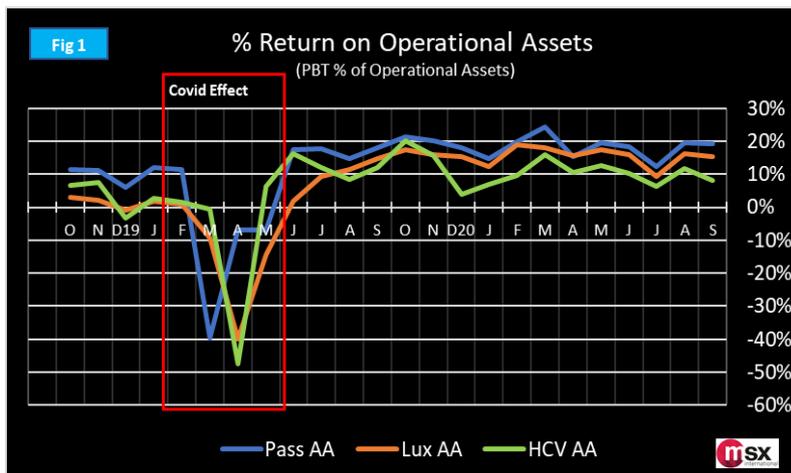
This sturdy performance bears witness to the solid foundation the automotive sector has, as a result of clear Government policy which has attracted local and foreign direct investment. This policy certainty has emerged from high level collaboration between Government and Auto sector representatives. A shining example for other sectors.

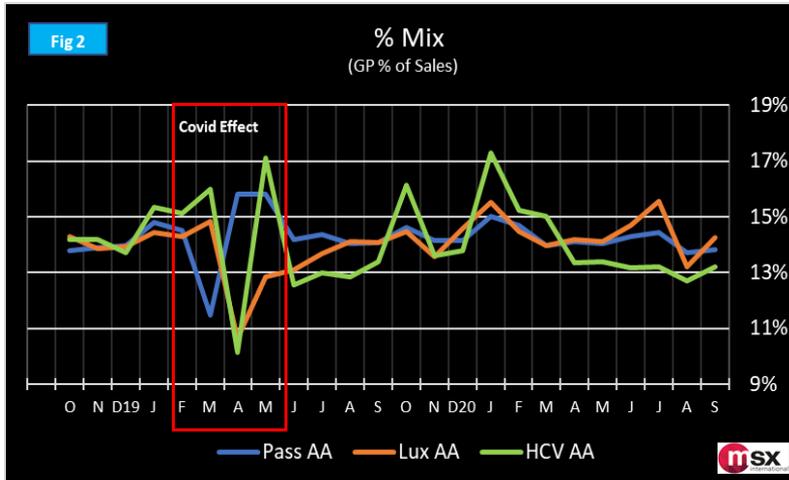
MSX's Benchmark KPIs defined

Benchmark KPIs are a one-month actual average of the auto segment's performance. Unrealistic data related to the pandemic has been excluded from the analysis. All KPIs are an aggregation of brands within each of the three major auto segments.

Retail Network Performance

MSX's MRA Performance Management model is the framework for interpreting and commenting on the retail performance of dealers in the South Africa markets. The performance measured by the % Return on Operational Assets (Fig 1) in the last three post covid quarters, has ranged between 10% and 20%. If two times the interest rate on investments is the hurdle for judging performance, then dealers are doing well.

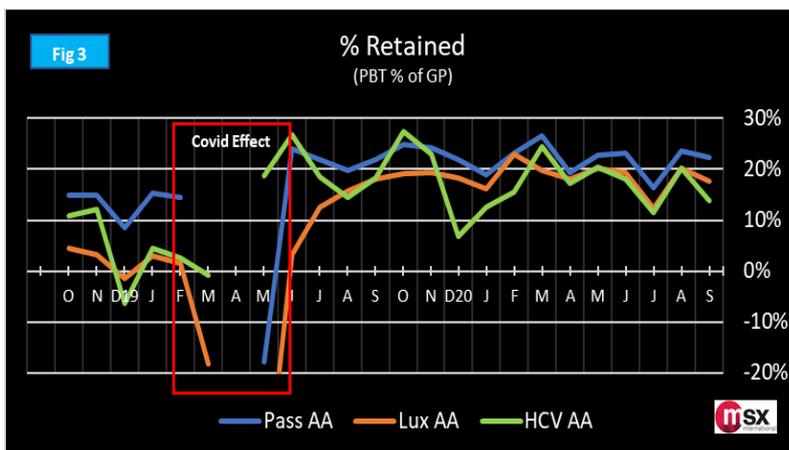


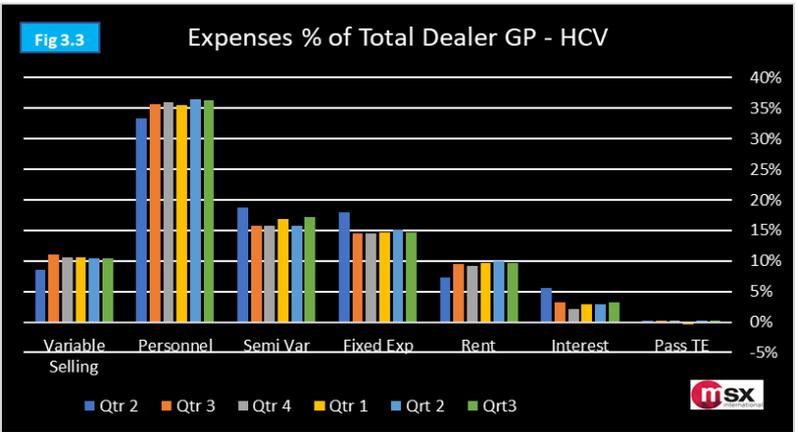
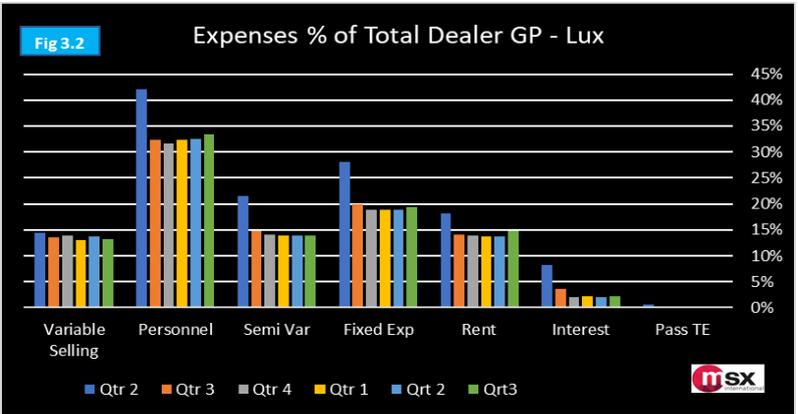
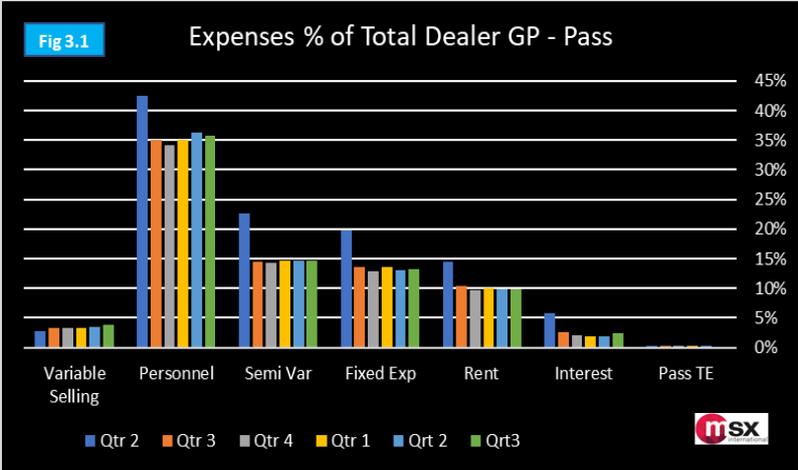


The MRA model is an equation with three variables. Combined these generate the return on operational assets. The first of these levers is the Mix (gross margin). In Fig 2 margins in the last three quarters are reflecting a downward trend and read together with the overall contribution to expenses as measure by Aftersales Absorption (Fig 9) would suggest margins in sales operations (New + Used) are under pressure.

Retained

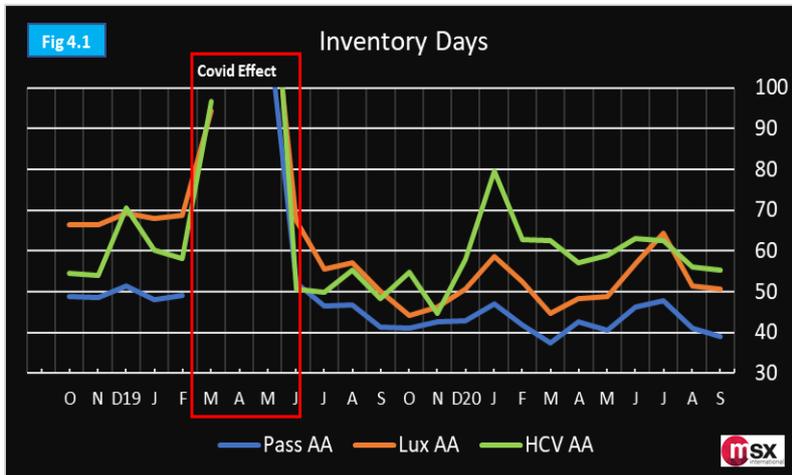
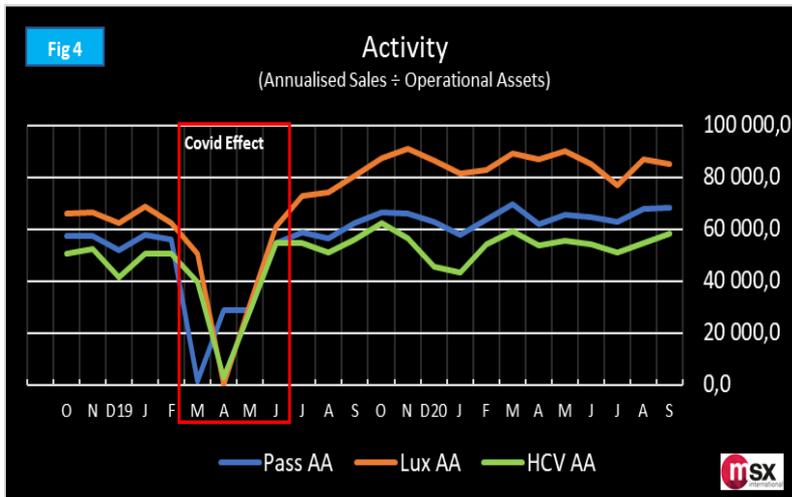
The R in MRA is Retained. It measures the Net Profit remaining in percentage terms after deducting all expenses. The slow attrition of Retained (Fig 3) suggests that while expenses are stable, the gross margin is declining. A heads-up for dealers to keep expenditure under control. The analysis of expenditure in Fig 3.1 to 3.3 shows that on average expenditure is being well managed.





Asset Activity

Activity is the A in the MRA model and measures the number of times total operational assets are turned over in a year. An improvement in Activity (Fig 4) would indicate that the monetary quantum of operational assets is reducing particularly inventories (Fig 4.1) which continue with a downward trend as we know vehicle inventory is in short supply.



Activity as reflected by productivity of sales executives is further evidence of what is happening in new and used departments. Figures 5 and 6 show the trends. The trend for Used Vehicles (Fig 6) confirms the markets desire for Used Vehicles.

Fig 5

New Units Retailed / Sales Executive

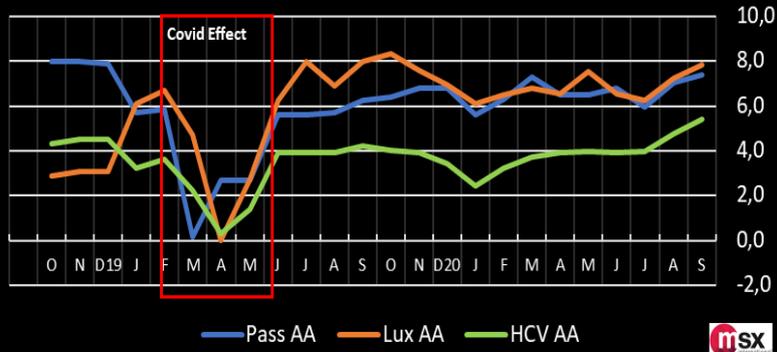
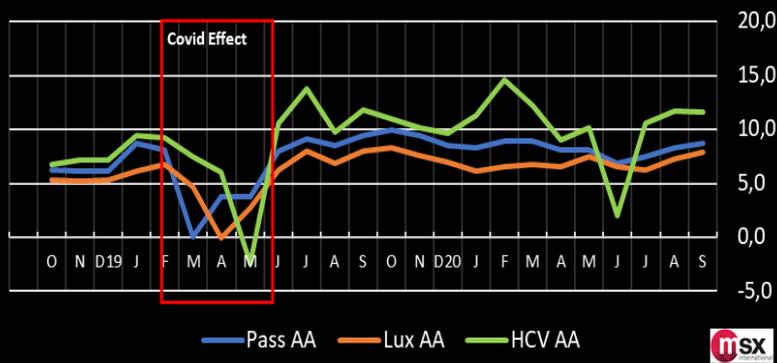


Fig 6

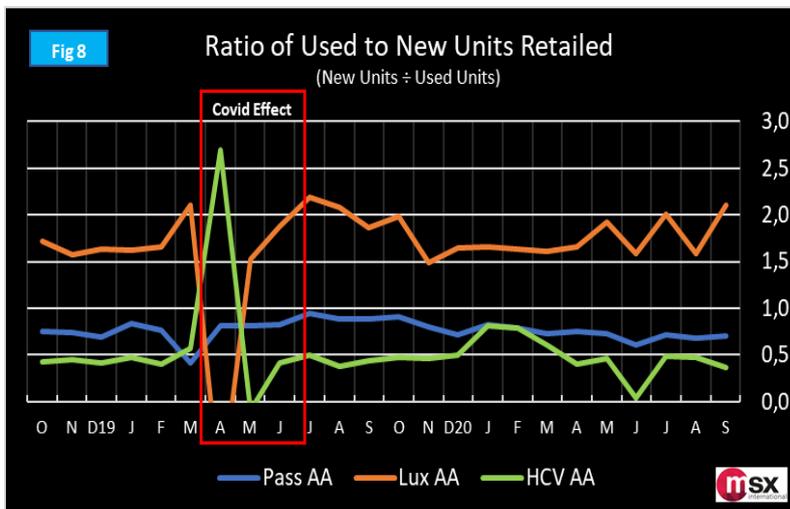
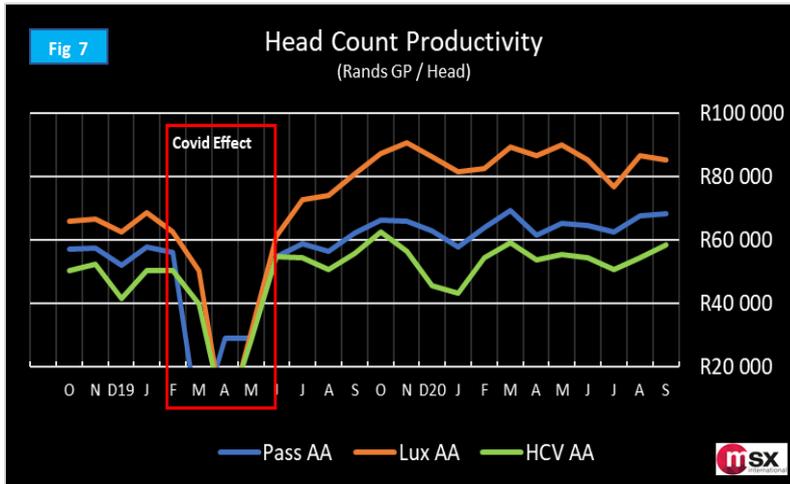
Used Units Retailed / Sales Executive



Other KPI Performance Trends

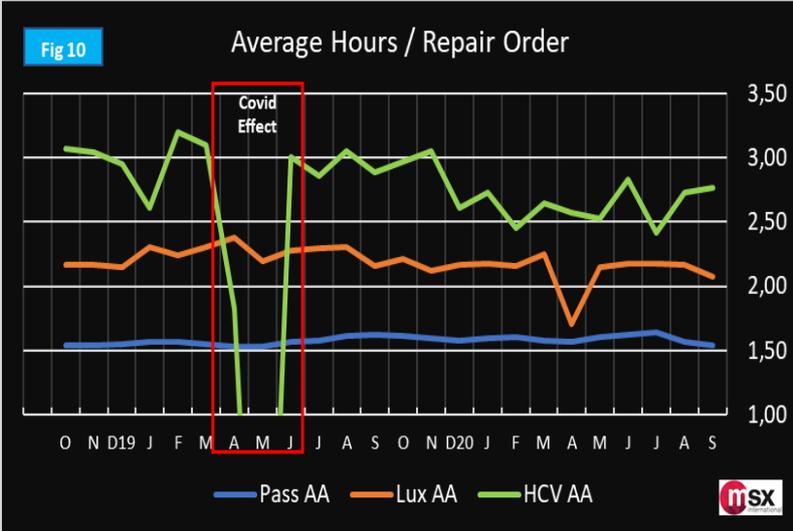
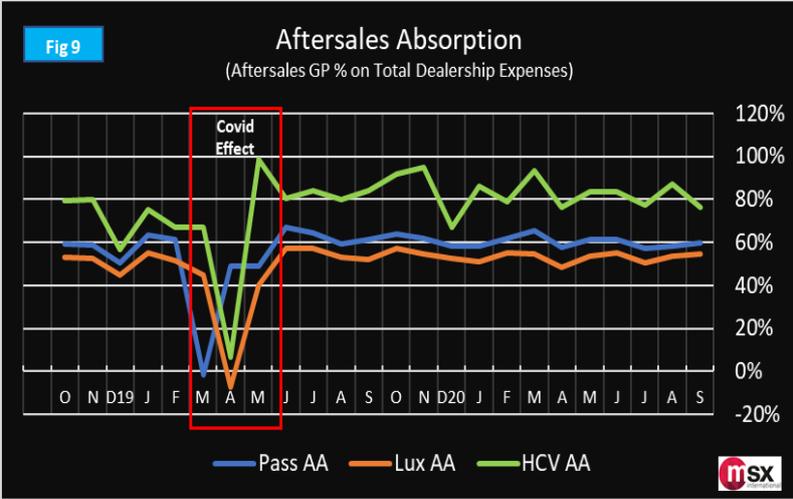
Head count productivity (Fig 7) shows a gradual improvement and this is mostly due to head count attrition.

The ratio of used to new vehicles confirms the ongoing demand for used vehicles and that consumers seek value in this segment.

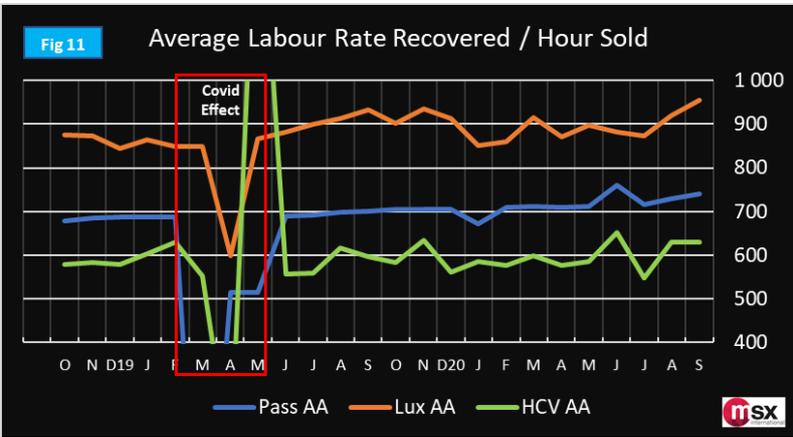


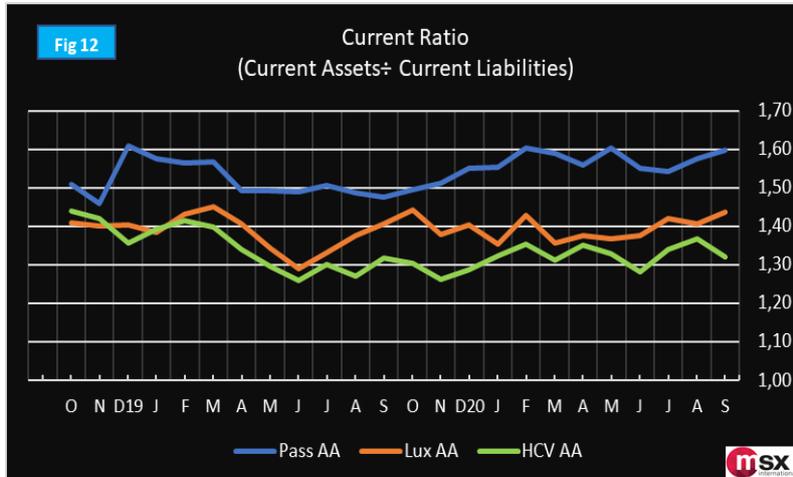
Inventory short supply problems, both globally and locally will require dealers to make the most of aftersales. A crucial KPI to track (Fig 9) will be aftersales absorption. At this juncture in time there is no evidence of a falloff in aftersales operations and profitability, though there is evidence that the attrition of skilled technicians is on the rise as they seek to establish their own independent workshops.

The marginal reduction in the average hour per repair order (Fig 10) would suggest that efficiencies maybe improving.



The steady rise in the average labour rate recovered (Fig 11) likely due to inflationary factors and dealers clawing back labour margins through higher prices.





The ability to honour short term liabilities with adequate reserves of current assets or cash equivalents is important. Fig 12 shows a steady improvement, which is a positive trend

Future Prospects

Operational efficiencies and productivity to optimise profitability should remain a top priority. A fourth global round of the Covid 19 pandemic, is going to create constraints. Time spent with advance preparation and in particular high and low road covid impact scenarios would assist with future proofing operations.

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