

ANALYSIS OF LEBANON'S AUTOMOBILE SECTOR



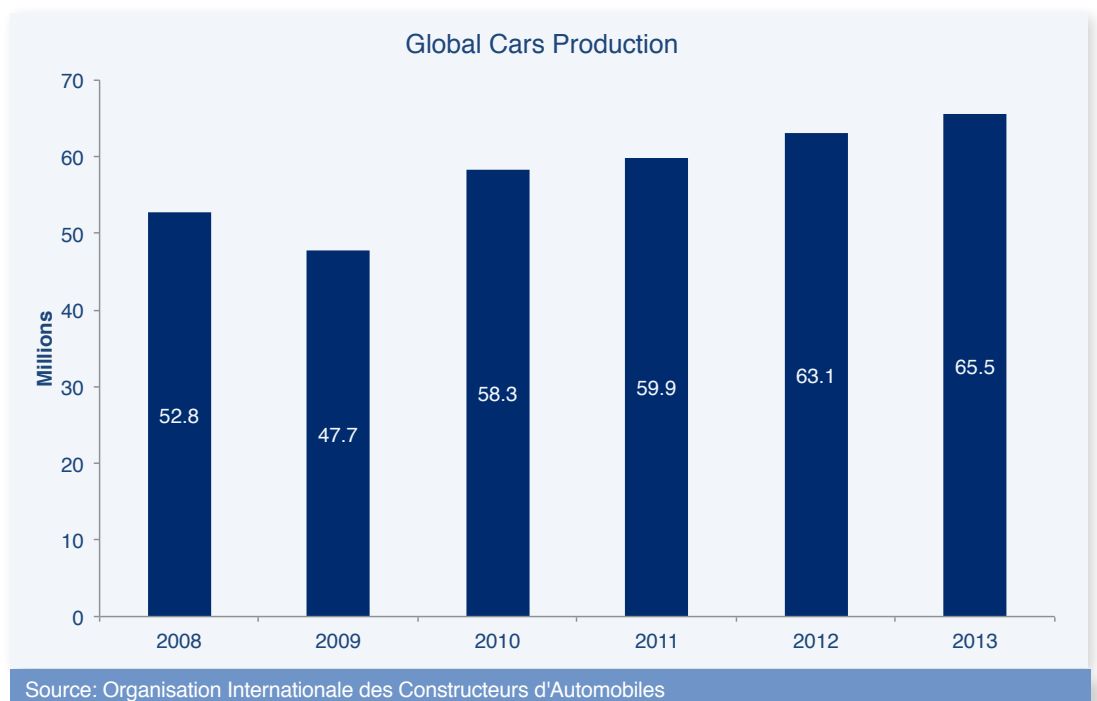
TABLE OF CONTENTS

Global Automobile Market	3
Lebanon's New Car Sales	6
Evolution of New Car Sales	6
New Car Sales by Places of Origin	7
New Car Sales by Brand	9
Lebanon's Car Imports	11
Evolution of Car Imports	11
Car Imports by Countries of Origin	12
Cars-Related Government Revenues	14

GLOBAL AUTOMOBILE MARKET

For the last century, the car culture has spread over the entire globe. As much as any other products, the car has shaped not only the global economy but the way billions of people live. In Europe alone, the automotive industry accounts for roughly 12 million jobs (including related jobs), in the US, more than 8 million, and in Japan, more than 5 million. For all of its staying power, though, the industry has also seen constant change.

Overall, the global automotive industry is in better shape than it was five years ago, especially in the US, where profits and production have recovered following the recent economic crisis, while in China, growth remains strong. In fact, global cars assembly have increased by an average annual growth rate of 8.5% since 2010, reaching a total of 65.5 million cars produced in 2013.



China, which is now the world's largest automobile producing nation, also continues to lead the global growth with more than 3 million vehicles added to the market in 2013, thus placing it on top of car producing countries. In fact, China has witnessed an annual average growth of 23% in its automobile production over the period 2009-2013. It is followed by Japan, which despite the drop in its car production, succeeded in capturing 12% of the market for cars production. The Japanese cars industry was particularly hit in 2011 due to the earthquake and tsunami which hit the country during that year. However, the industry managed to recover in 2012, only to witness a 4% drop in car sales in 2013 to reach 8.2 million units.

GLOBAL AUTOMOBILE MARKET

As for Germany, it has maintained its rank as the third largest producer of cars in the world. Yet, the German cars industry has been growing at an inconsistent pace, witnessing declines in production in certain years and modest rises in others. This is mainly due to the challenges faced by the industry including increased competition from abroad, falling sales, and higher production costs. As such, German cars production grew by 1% only in 2013 to 5.4 million units after having witnessed an 8% decline in the previous year. Meanwhile, the US automobile industry has witnessed a revival in the past three years after witnessing a steep 42% decline in cars production in 2009 amidst the global financial crisis which hit the country. In fact, cars production in the US has been consistently growing since 2010, reaching 4.3 million units in 2013 and thus accounting for about 7% of the market.

South Korea saw consecutive 1% declines in car production during 2012 and 2013, reaching 4.1 million vehicles produced. These drops come as a direct result of the continuous labor strikes that the two major South Korean car producers (Hyundai and Kia) witnessed in a request to improve labor wages in the industry. As for Brazil, the country has witnessed a growing cars industry in the recent years. This is attributed the Brazilian government's decision to cut excise taxes for the industry in 2012 in order to recover plummeting sales on the back of competition from imports and souring automotive loans.

Top Global Cars Producers						
Million	2008	2009	2010	2011	2012	2013
China	6.7	10.4	13.9	14.5	15.5	18.1
<i>% Change</i>		<i>54%</i>	<i>34%</i>	<i>4%</i>	<i>7%</i>	<i>17%</i>
Japan	9.9	6.9	8.3	7.2	8.6	8.2
<i>% Change</i>		<i>-31%</i>	<i>21%</i>	<i>-14%</i>	<i>20%</i>	<i>-4%</i>
Germany	5.5	5.0	5.6	5.9	5.4	5.4
<i>% Change</i>		<i>-10%</i>	<i>12%</i>	<i>6%</i>	<i>-8%</i>	<i>1%</i>
US	3.8	2.2	2.7	3.0	4.1	4.3
<i>% Change</i>		<i>-42%</i>	<i>24%</i>	<i>9%</i>	<i>38%</i>	<i>6%</i>
South Korea	3.5	3.2	3.9	4.2	4.2	4.1
<i>% Change</i>		<i>-8%</i>	<i>22%</i>	<i>9%</i>	<i>-1%</i>	<i>-1%</i>
India	1.8	2.2	2.8	3.0	3.3	3.1
<i>% Change</i>		<i>18%</i>	<i>30%</i>	<i>7%</i>	<i>8%</i>	<i>-4%</i>
Brazil	2.5	2.6	2.6	2.5	2.6	2.7
<i>% Change</i>		<i>1%</i>	<i>0%</i>	<i>-3%</i>	<i>4%</i>	<i>5%</i>

Source: Organisation Internationale des Constructeurs d'Automobiles

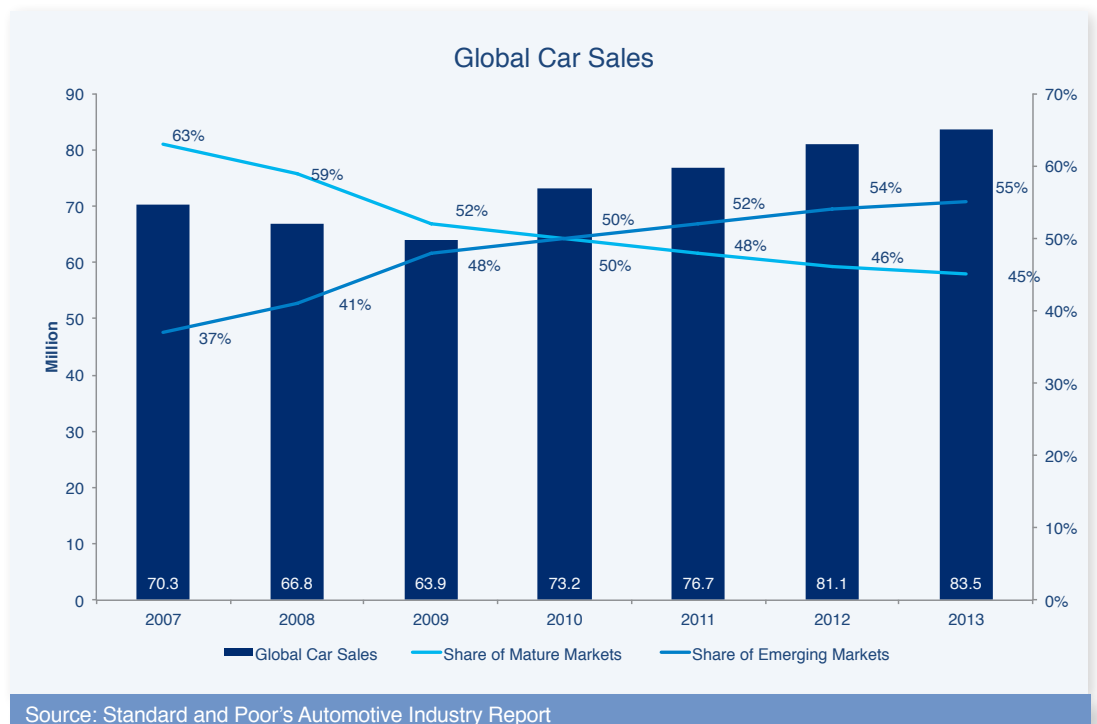
When it comes to global car sales, the market has been characterized by a quick recovery following the global financial crisis. In fact, after car sales fell by 5% in 2008 and 4.5% in 2009, the market in 2010 witnessed a revival, with global car sales rising by 14.5% and exceeding pre-crisis level. Since then, global car sales have expanded steadily, rising by an average annual rate of 4.5% over the period 2011-2013. Global car sales reached 83.5 million in 2013.

GLOBAL AUTOMOBILE MARKET

Since the early 1900s, cars have been a symbol of personal freedom, style, accomplishment, and mobility. In 2012 alone, consumers spent about USD 2 trillion globally on new vehicles, a proof that provides ample evidence of automobiles' continued importance in modern life. The global automobile market is in the midst of dramatic growth and change, the likes of which it has not experienced since the industry's inception. Although annual car sales in the world's mature auto markets have been on the rise, a new set of emerging markets—with larger and younger populations, rapidly growing economies, and low vehicle-ownership rates— have become the engine for growth. To serve these markets, automakers are in a grand race to set up local production, tailor vehicles to the needs of local consumers and increase sales, market share, and profits in these areas.

The landscape of the cars industry has changed considerably, including the impact of cars manufacturing on the global economy and environment as well as on vehicle engineering. In 2010, a shift in the balance of power within the global cars industry occurred when the world's emerging growth markets— led by China, India, Brazil, and Eastern Europe—accounted for slightly more than one-half of the 73.2 million cars sold worldwide. This marked the first time in the 120-year history of the cars industry that the world's mature markets—led by the U.S. Canada, Western Europe, and Japan— did not account for the lion's share of sales. Since then, emerging growth markets have extended their lead in the global sales race for cars, with 52% of the worldwide market in 2011, 54% in 2012, and 55% in 2013.

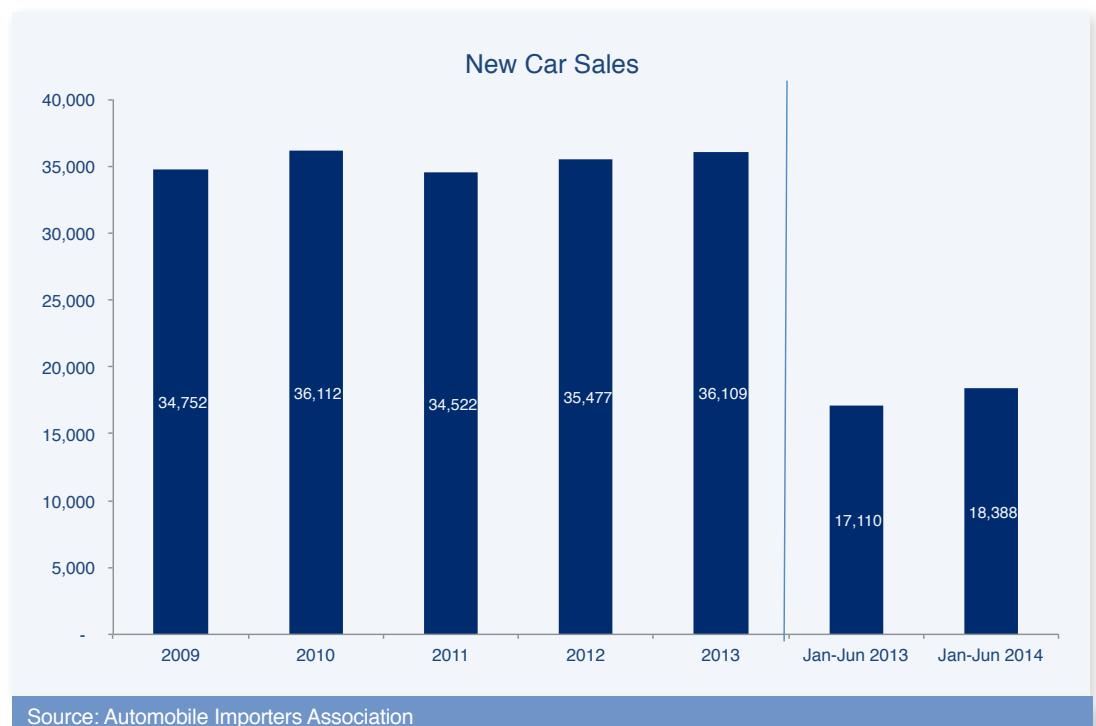
For global automakers and their suppliers, the rapid rise of emerging growth markets has brought about some big changes. These include the construction of massive new production facilities, adjustments to the sizes and types of vehicles produced, and technological improvements and variations in drivetrain configurations.



LEBANON'S NEW CAR SALES

EVOLUTION OF NEW CAR SALES

After new passenger cars sales increased by 90% in the year 2008 to reach 35,418 units, sales dropped in 2009 by a slight 2% with 34,752 units sold, reflecting a necessary correction. During the year 2010, registration of new passenger cars increased by 4% to reach 36,112 units, according to figures released by the Automobile Importers Association in Lebanon. However, the increase was reversed in the year 2011, where the number of new passenger vehicles declined by 4% to reach 34,522 cars. The drop in the number of new car sales in 2011 comes as a direct impact of deteriorating consumer confidence and lower spending trends, as Lebanon witnessed worsening political and security conditions. However, the number of new vehicle sales slightly recovered in 2012 and 2013, witnessing an average 2.5% yearly increase to reach 36,109 cars in 2013. Although this is an encouraging sign which suggests a consolidation of the market, sales were still lower than they were in before. Also, during the first half of 2014, 18,388 new passenger vehicles were sold in Lebanon – a 7% year-on-year rise, confirming the positive trend that emerged in 2012. This rise may be attributed to the competition among the different dealers and car importers, who have been resorting to several marketing efforts to increase their sales.



LEBANON'S NEW CAR SALES

NEW CAR SALES BY PLACES OF ORIGIN

Over the 2009-2013 period, one major trend has appeared in Lebanon: the emergence of Korean automakers as undisputed leaders of the industry at the expense of the traditional Japanese, American, and European manufacturers. On a minor scale, this four year period has also seen Chinese automakers gain a considerable market share, more than doubling their amount of cars sold from 296 in 2009 to 761 in 2013, a 157% growth. Both these trends illustrate how consumers are moving away from more expensive, predominantly European and Japanese cars toward more economical Korean and Chinese automakers. This change in purchasing attitude is a result of the negative economic climate and rising fuel prices. For the first time in six years, Japanese car sales returned to growth and increased by 5% to 10,084 cars in 2013. On the other hand, European car sales continued to fall for the fifth consecutive year, by 6% to reach 7,046 units. As for American cars, after two consecutive years of growth, their sales also dropped by 11% to 1,991 units.

In the first half of 2014, Japanese car sales were the only to improve, in comparison with the same period of 2013, where they reached 5,992 units, hence recording a 43% yearly growth. Overall, European cars suffered the biggest drop in sales, as only 2,585 new cars found a customer, a 25% drop. Sales of US and Chinese cars both dropped by 13% to 825 and 270 units respectively, while sales of Korean cars fell by 2% to 8,024 units.

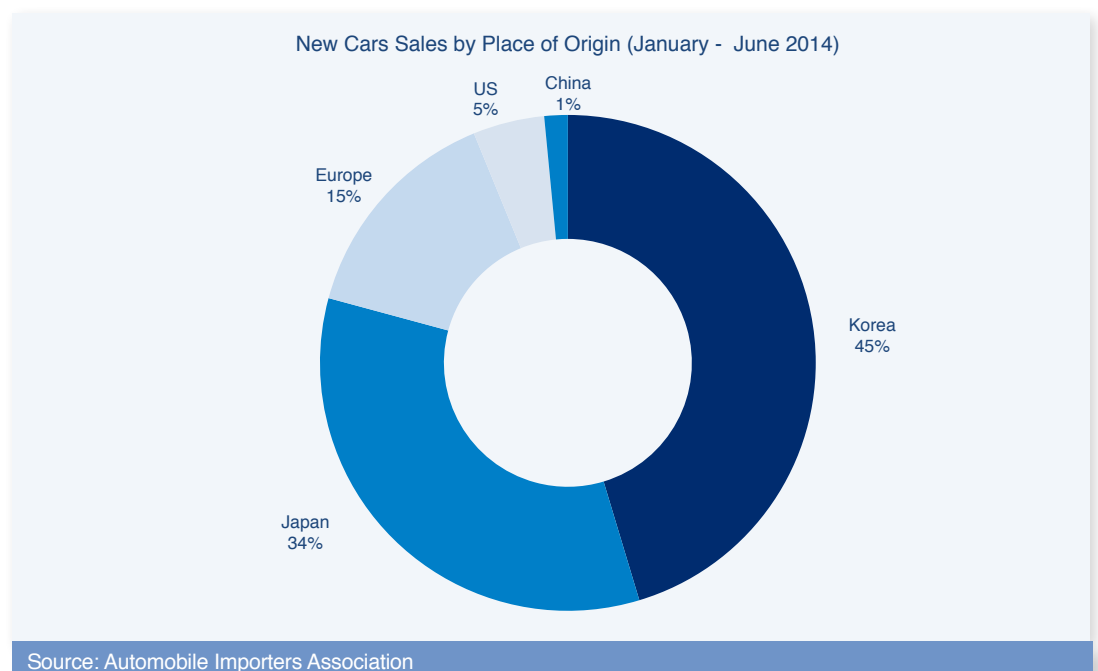
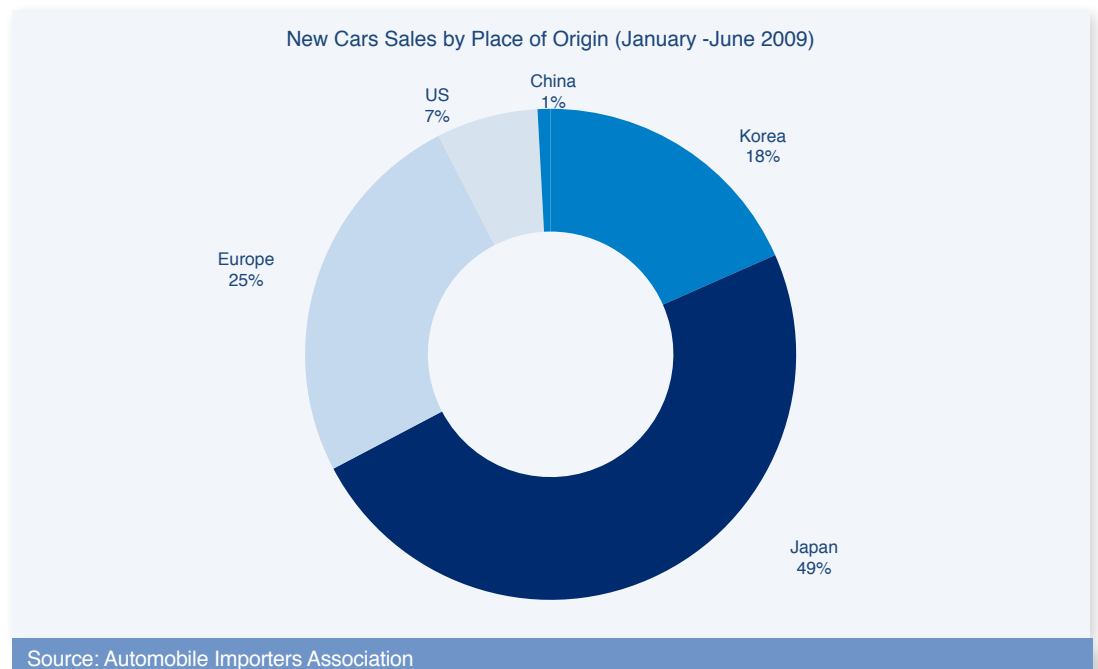
Place of Origin	2009	2010	2011	2012	2013	Jan-June 2013	Jan-June 2014
Korea	6,385	10,827	13,798	15,993	16,227	8,190	8,024
<i>% Change</i>	<i>-2%</i>	<i>70%</i>	<i>27%</i>	<i>16%</i>	<i>1%</i>		<i>-2%</i>
Japan	16,996	14,623	10,760	9,560	10,084	4,196	5,992
<i>% Change</i>	<i>-2%</i>	<i>-14%</i>	<i>-26%</i>	<i>-11%</i>	<i>5%</i>		<i>43%</i>
Europe	8,745	8,419	7,533	7,216	7,046	3,460	2,585
<i>% Change</i>	<i>-1%</i>	<i>-4%</i>	<i>-11%</i>	<i>-4%</i>	<i>-2%</i>		<i>-25%</i>
US	2,325	2,000	2,079	2,242	1,991	952	825
<i>% Change</i>	<i>-14%</i>	<i>-14%</i>	<i>4%</i>	<i>8%</i>	<i>-11%</i>		<i>-13%</i>
China	296	243	351	629	761	312	270
<i>% Change</i>	<i>172%</i>	<i>-18%</i>	<i>44%</i>	<i>79%</i>	<i>21%</i>		<i>-13%</i>

Source: Automobile Importers Association

LEBANON'S NEW CAR SALES

NEW CAR SALES BY PLACES OF ORIGIN

Considering the place of origin of new passenger cars sold, it can be noted that Korean cars' popularity widened over the years, while the popularity of other countries/continents' cars dropped. This market mutation has greatly affected the repartition of market shares. The increased importance of Korean cars, whose market share has grown from 18% to 45% in four years, has principally taken place at the expense of Japanese cars, whose share of the market has shrunk from 49% in January-June 2009 to 34% in January-June 2014, and European car sales, which represented 15% of total sales in January-June 2014, a drop from 25% in the same period of 2009. American car sales also consist of a smaller slice of the market, as their share has shed two percentage point between the first half of 2009 and that of 2014, from 7% to 5%. Meanwhile, China has maintained a stable market share at 1% in the first six months of 2014. As such, the trend observed in the new cars market indicates a shift in consumer preference from high-end European and American cars, to fuel-efficient and inexpensive Korean cars.



LEBANON'S NEW CAR SALES

NEW CAR SALES BY BRAND

When it comes to the evolution of new car sales by brand, it can be clearly noted that sales of Korean Kia cars and Korean Hyundai cars have significantly increased over the period 2009-2013. At the other end of the spectrum, it can be observed that the two Japanese car brands Nissan and Toyota lost their popularity over the five-year period 2009-2013. European brands, including Renault, Mercedes, and BMW, maintained an almost stable number of car sales over the years 2009-2013.

In the first half of 2014, Toyota enjoyed a particularly good semester, with 2,110 units sold, a 162% year-on-year increase. Nissan sales also increased, by 8% to 2,402 units in January-June 2014. A deep look provides a contrast between Kia sales, which fell by 6% to 4,445 units in the first half of 2014, and Hyundai sales, which improved by 4% to 3,576 units in the same period. Volkswagen and Audi sales dropped by 22% and 5% to 317 and 322 units, respectively. Meanwhile, Mercedes and BMW sales climbed by 19% and 8% to 365 and 248 units, respectively. Further, Renault had a particularly good semester, as its sales soared by 36% to 638 units in the first half of 2014.

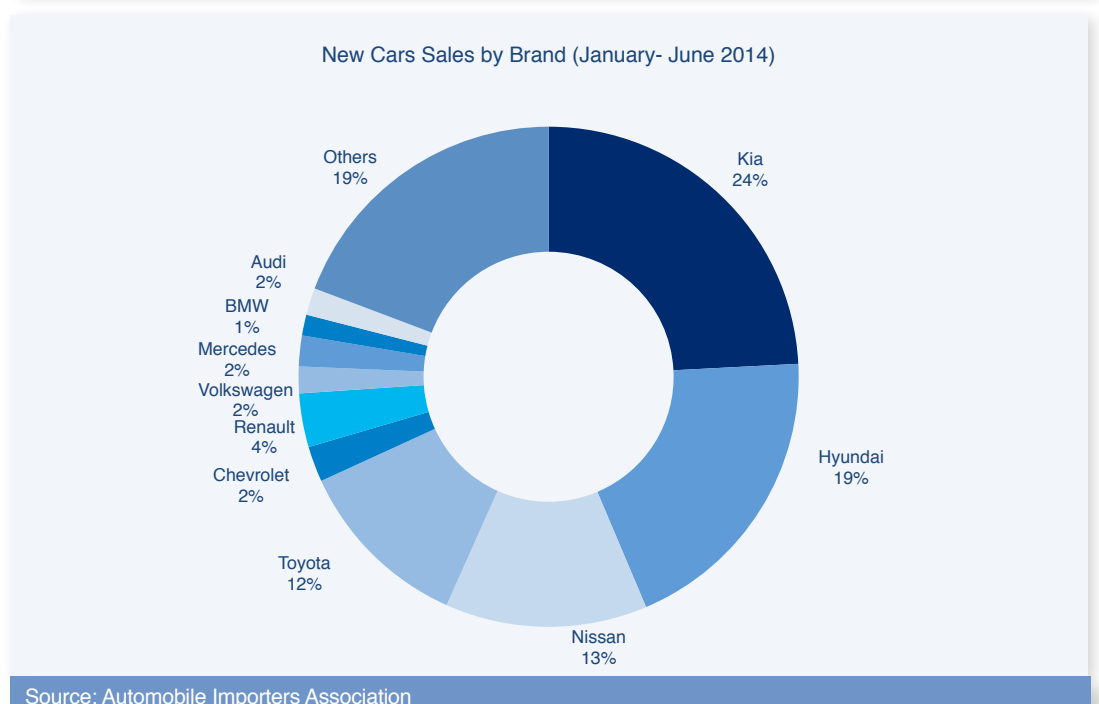
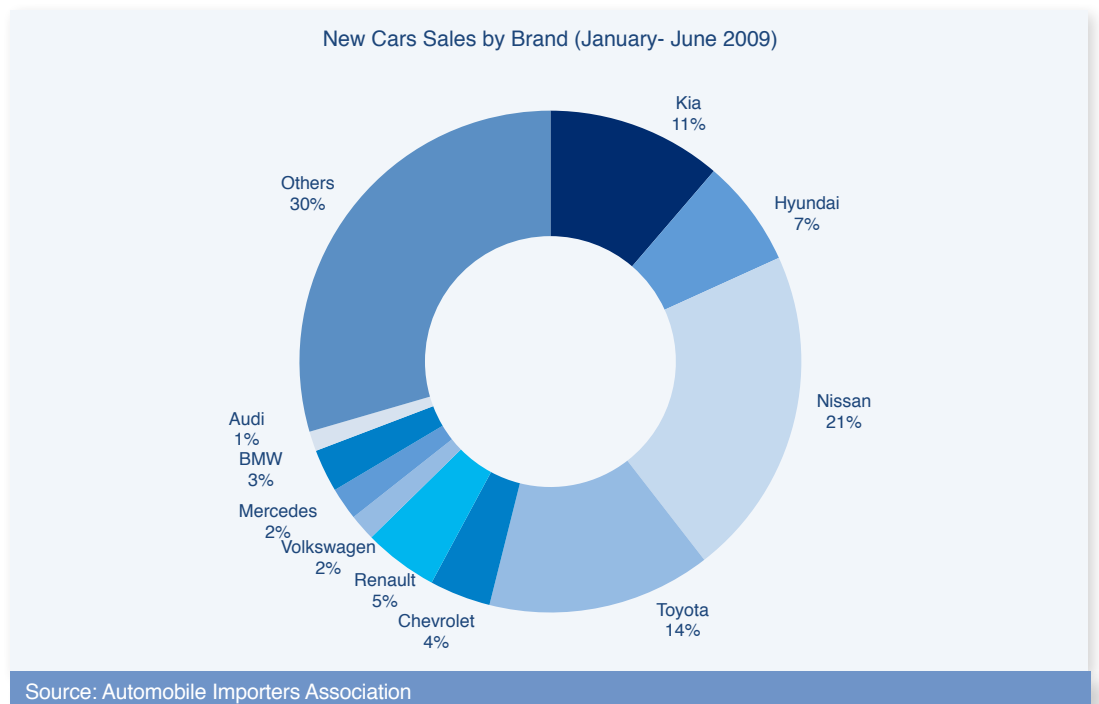
Brand	2009	2010	2011	2012	2013	Jan-June 2013	Jan-June 2014
Kia	3,922	6,494	8,305	9,484	9,310	4,733	4,445
% Change	-7%	66%	28%	14%	-2%		-6%
Hyundai	2,409	4,315	5,485	6,507	6,901	3,455	3,576
% Change	6%	79%	27%	19%	6%		4%
Nissan	7,394	5,988	6,123	5,811	4,974	2,218	2,402
% Change	6%	-19%	2%	-5%	-14%		8%
Toyota	5,010	2,876	1,724	1,861	2,189	805	2,110
% Change	-6%	-43%	-40%	8%	18%		162%
Chevrolet	1,369	1,338	1,440	1,491	1,184	516	423
% Change	-10%	-2%	8%	4%	-21%		-18%
Renault	1,668	1,325	1,371	1,302	1,065	468	638
% Change	16%	-21%	3%	-5%	-18%		36%
Volkswagen	595	702	622	792	823	404	317
% Change	5%	18%	-11%	27%	4%		-22%
Mercedes	727	815	808	698	743	307	365
% Change	20%	12%	-1%	-14%	6%		19%
BMW	959	816	427	667	428	230	248
% Change	53%	-15%	-48%	56%	-36%		8%
Audi	444	521	547	552	681	339	322
% Change	18%	17%	5%	1%	23%		-5%
Others	10,255	10,922	7,670	6,312	7,811	3,635	3,540
% Change	8%	7%	-30%	-18%	24%		-3%

Source: Automobile Importers Association

LEBANON'S NEW CAR SALES

NEW CAR SALES BY BRAND

The repercussions on market shares by automaker are logical: Kia and Hyundai have significantly increased their slice of the market: from 11% and 7% in the first six months of 2009 to 24% and 19% in January-June 2014, respectively. This signifies a rising dimension of Korean car makers and a falling dimension of Japanese car makers in the Lebanese cars market. Nissan and Toyota have seen their market shares shrink from 21% and 14% in the first half of 2009 to 13% and 12% in the same period of 2014. Whilst Mercedes and Volkswagen maintained their market share of 2%, Audi is the only other automakers to have gained market share from 1% in January-June 2009 to 2% in the same period of 2014. Finally, over the same period sales of Chevrolet cars went from 4% to 2% and sales of Renaults from 5% to 4% of the total market.

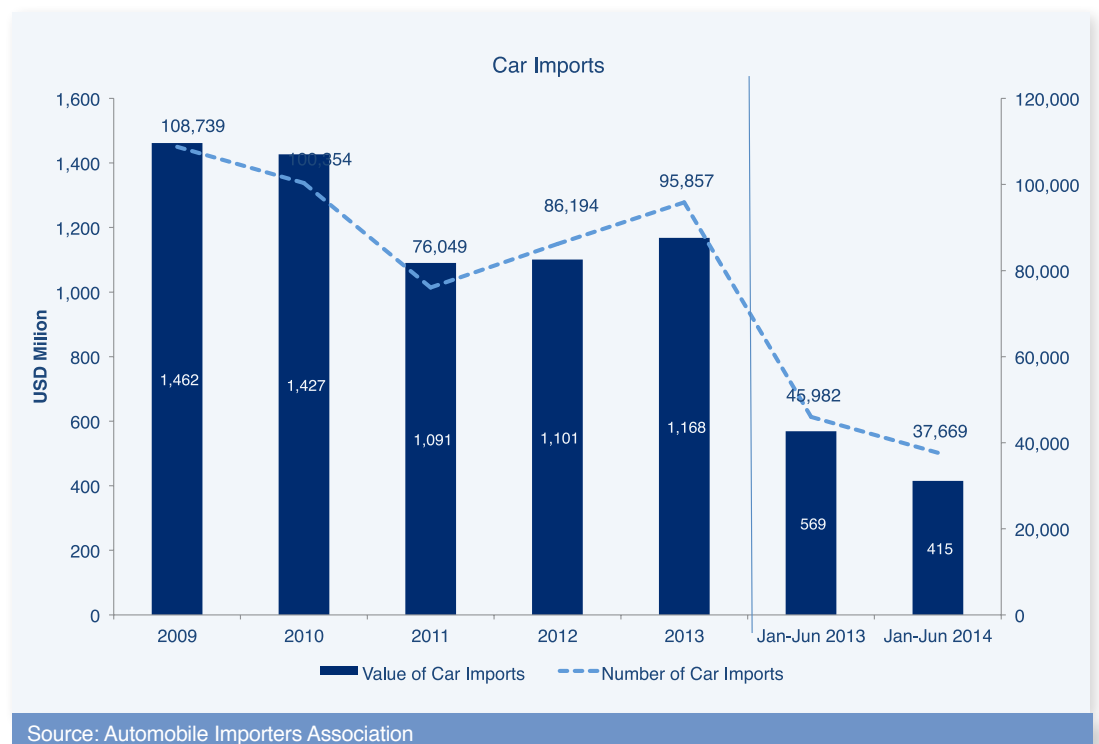


LEBANON'S CAR IMPORTS

EVOLUTION OF CAR IMPORTS

As the demand for cars slightly recovered in 2012, car imports (new cars, used cars, and re-exports) witnessed improvements in terms of value and number of imported cars. In fact, the number of imported cars followed a rising trend in 2012 increasing by 13.4% to reach 86,194 units. Similarly, the value of car imports witnessed a 0.9% increase, recording USD 1,101 million in 2012. Imports data is particularly revealing of this shift towards economical cars in Lebanon. Although in 2013 overall imports by value grew by 6%, from USD 1.1 billion to USD 1.16 billion, it continues to suggest a general downscaling of the Lebanese auto industry. Between 2009 and 2013, the total amount of imports has fallen from 108,739 to 95,857 units – an 11.8% drop. However, the total value of these imports has dropped from USD 1.46 billion to USD 1.7 billion, a disproportionate 20.1% drop. The direct correlation of this is the average price per car imported, which has dropped by 9.4%, from USD 13,445 to USD 12,183.

In the first half of 2014, the trend of rising car imports was reversed, with the value of imported cars falling by 27% to USD 415 million and the number of car imports dropping by 18% to 37,669 cars in January-June 2014.



LEBANON'S CAR IMPORTS

CAR IMPORTS BY COUNTRIES OF ORIGIN

Analysis of the value of car imports by countries of origin reveals that Germany tops the list, followed by US, Japan, and Korea, consecutively. Although maintaining the first position in the value of car imports by countries of origin, cars imported from Germany have been following a falling trend since 2010. The value of imported German cars fell by 11% in 2012 reaching USD 344.6 million, and further dropped by 6% in 2013 totaling USD 323 million. As for cars imported from the US, their value declined by a yearly 26% in 2011 but recovered in 2012 and 2013, increasing by an average 10% yearly to USD 190 million in 2013.

Due to the significantly falling demand for Japanese cars over the years, the value of imported Japanese cars deteriorated over the years 2010-2012. The value of imported Japanese cars fell by a significant 46% in 2011 reaching USD 190.1 million, and further dropped by 14% in 2012 totaling USD 164.1 million. However, 2013 witnessed a slight recovery for the imports of cars from Japan of 4%, to USD 190 million. In contrast, the heightening domestic demand for Korean cars resulted in a consequent increase in the value of imported Korean cars. The value of these car imports rose by 21% in 2012, and 8% in 2013 to reach USD 169 million.

The value of imported cars from the UK reached USD 101.7 million in 2013, rising by 25% year-on-year. As for imported cars from France, their value has been on the decline in the past two years. In fact, the value of imported French cars fell by a yearly 28% in 2012 and 17% in 2013, with the value of imported French cars totaling USD 9 million by the end of 2013.

USD Million	2009	2010	2011	2012	2013	Jan-June 2013	Jan-June 2014
Germany	528.0	525.4	385.1	344.6	323	162	113
<i>% Change</i>	<i>22%</i>	<i>0%</i>	<i>-27%</i>	<i>-11%</i>	<i>-6%</i>		<i>-30%</i>
US	262.5	212.9	158.1	165.5	190	91	68
<i>% Change</i>	<i>2%</i>	<i>-19%</i>	<i>-26%</i>	<i>5%</i>	<i>15%</i>		<i>-26%</i>
Japan	401.4	350.0	190.1	164.1	171	87	62
<i>% Change</i>	<i>3%</i>	<i>-13%</i>	<i>-46%</i>	<i>-14%</i>	<i>4%</i>		<i>-29%</i>
Korea	85.6	118.1	129.1	155.9	169	82	43
<i>% Change</i>	<i>3%</i>	<i>38%</i>	<i>9%</i>	<i>21%</i>	<i>8%</i>		<i>-48%</i>
UK	84.7	101.7	92.7	106.1	133	65	41
<i>% Change</i>	<i>10%</i>	<i>20%</i>	<i>-9%</i>	<i>14%</i>	<i>25%</i>		<i>-37%</i>
France	14.6	18.3	15.0	10.8	9	6	2
<i>% Change</i>	<i>-48%</i>	<i>26%</i>	<i>-18%</i>	<i>-28%</i>	<i>-17%</i>		<i>-66%</i>
Others	86.2	102.2	121.6	154.4	173	75	88
<i>% Change</i>	<i>-7%</i>	<i>18%</i>	<i>19%</i>	<i>27%</i>	<i>12%</i>		<i>17%</i>

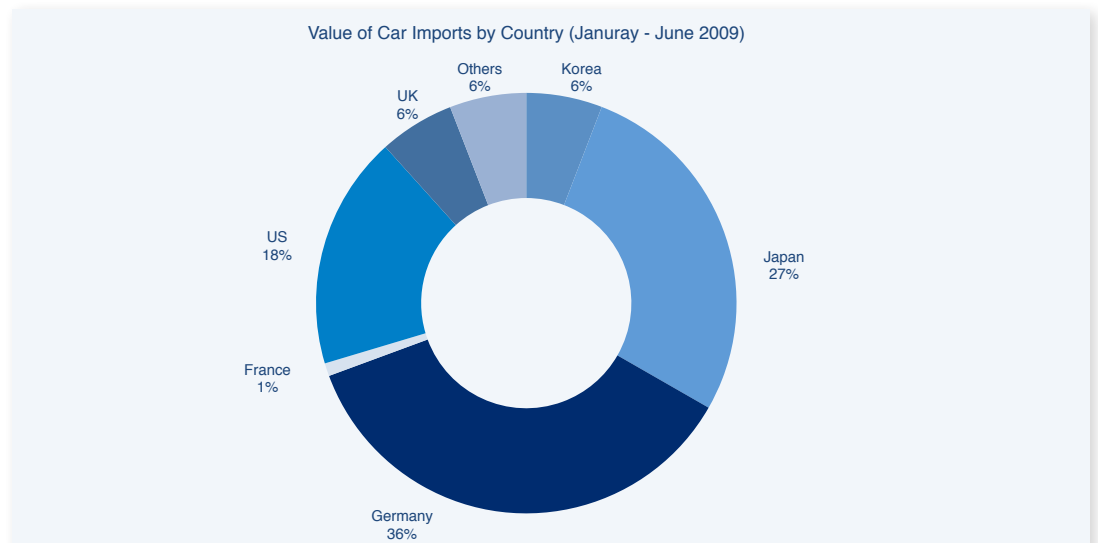
Source: Automobile Importers Association

LEBANON'S CAR IMPORTS

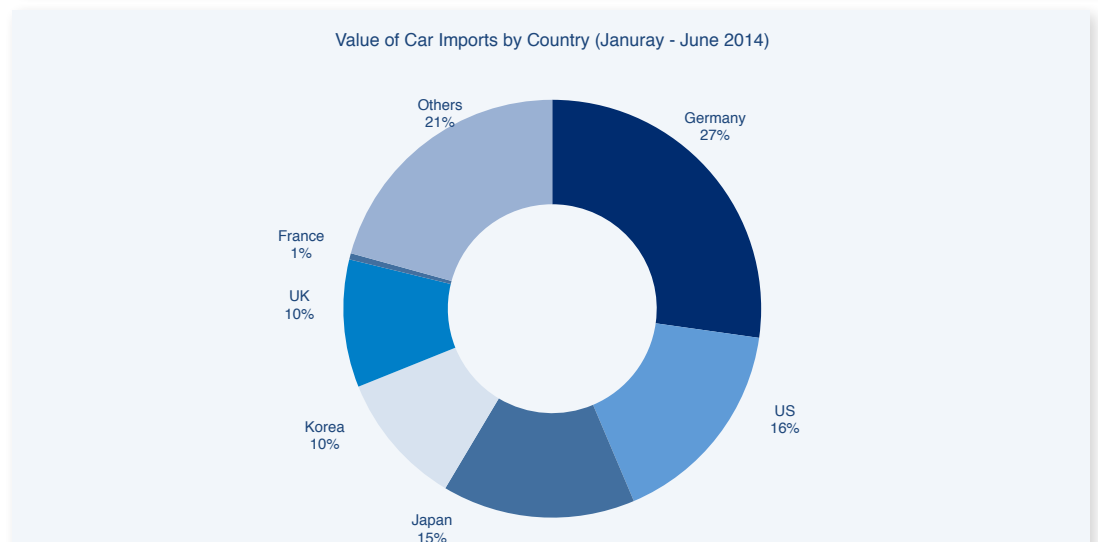
CAR IMPORTS BY COUNTRIES OF ORIGIN

A revealing aspect of car imports indicates that although Korean cars are the market leaders in units sold by a certain margin, they only rank fourth in imports by value, as shown in the first six months of 2014 when they only comprised 10% of the total value of cars imported – a sharp contrast with their 45% market share in sales by unit. This illustrates the fact that Korean sales are almost exclusively composed of entry-level economical autos. In fact, it is German cars that dominate the market in terms of imports by value in recent years (27% share in January-June 2014). This indicates that German cars are mostly sold as used cars rather than new cars. However, the share of German car imports has plummeted from a previous 36% in January-June 2009, signaling the shift in demand away from expensive cars. As for Japanese car imports, their share has declined from 27% in the first half of 2009 to 15% in the same period of 2014. In fact, Japanese cars have been the principal victim of the rise in popularity of Korean cars as the total value of their imports has sunk by about 57.4% in the past five years.

As imports of cars from the United Kingdom continued to climb, the continuing strong performance has consolidated its market share to 10% in the first six months of 2014, up from 6% in the same period of 2009. Finally, the market share of cars imported from France remained stable around 1% in the first half of 2014.



Source: Automobile Importers Association



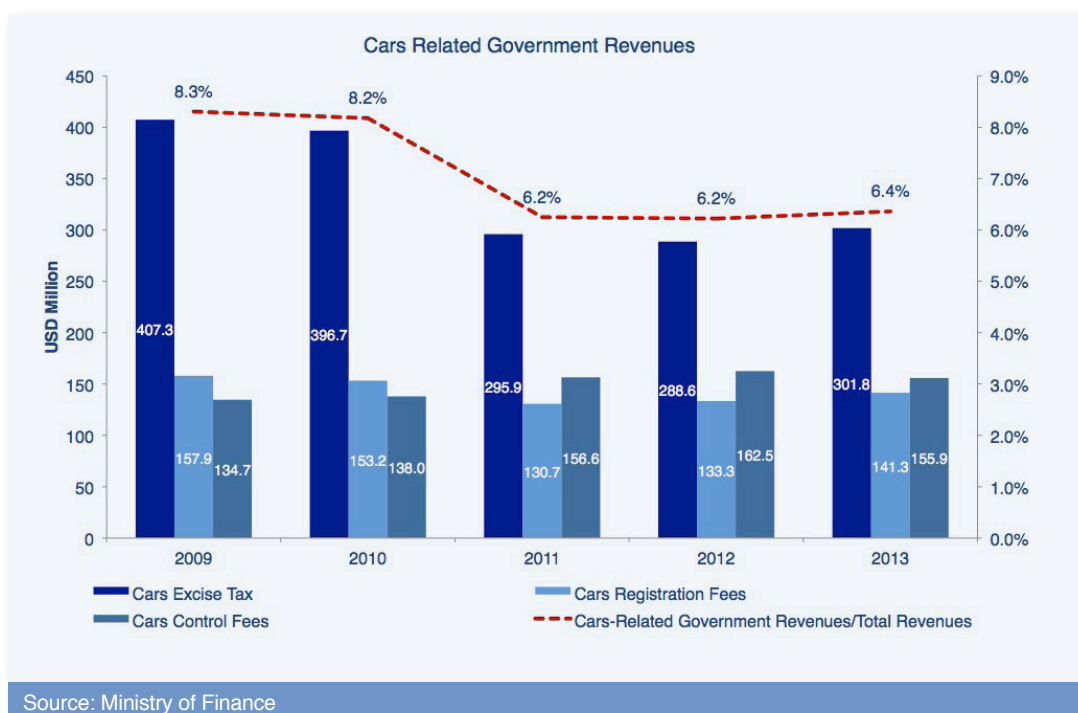
Source: Automobile Importers Association

CARS-RELATED GOVERNMENT REVENUES

Trends in car sales and car imports directly affect government's revenues through their direct impact on cars excise tax, cars registration fees, and cars control fees collected. In 2013, total Government revenues from the Automobile industry grew by 0.3% to USD 942 million. This represented 6.4% of total government revenues.

Excise tax collected on cars grew by a year-on-year 14% to reach USD 407.3 million in 2009. However, affected by the economic slowdown, car sales deteriorated in the past few years leading to a 25% year-on-year drop in excise tax collected on cars in 2011 to reach USD 295.9 million, dropping down from USD 396.7 million in the previous year. The fall in cars excise tax continued through 2012, dropping by 2% to record USD 288.6 million collected. In 2013, as sales of new cars continued to increase, car excise taxes grew by 5%, the first growth in four years, to USD 301.8 million.

In terms of cars registration fees, the government's collection of these fees rose by 21% during 2009 to reach USD 157.9 million, but declined by a slight 3% in 2010, reaching USD 153.2 million. As a consequence of falling demand for cars, registration fees dropped by 15% in 2011, totaling USD 130.7 million, but somewhat improved in 2012 to reach USD 133.3 million. Car registration fees continued to grow by 6% in 2013 as more cars were sold, thus reaching USD 141.3 million. On the other hand, cars control fees, also known as 'mécanique' fees have been on the rise over the past few years as the stock of cars within the country increased. These fees rose by 13% in 2011 to reach USD 156.6 million, and further increased in 2012 to record USD 162.5 million. However, car control fees, fell by 4% in 2013 to USD 155.9 million.



Mazen Soueid, Stephanie Ghanem, Ziad Hariri, Nadine Yamout, Rita Nehme

Disclaimer:

This material has been prepared by BankMed, sal based on publicly available information and personal analysis. It is provided for information purposes only. It is not intended to be used as a research tool nor as a basis or reference for any decision. The information contained herein including any opinion, news and analysis, is based on various publicly available sources believed to be reliable but its accuracy cannot be guaranteed and may be subject to change without notice. BankMed, sal does not guarantee the accuracy, timeliness, continued availability or completeness of such information. All data contained herein are indicative. Neither the information provided nor any opinion expressed therein, constitutes a solicitation, offer, personal recommendation or advice. BankMed, sal does not assume any liability for direct, indirect, incidental or consequential damages resulting from any use of the information contained herein.