

Automotive Situation Developments and Prospects

BBVA Research Colombia

November 2015

Agenda

1. Structure of the automotive sector
2. Growth potential in the Medium term
3. Automotive sector over the short run
4. Prices and financing

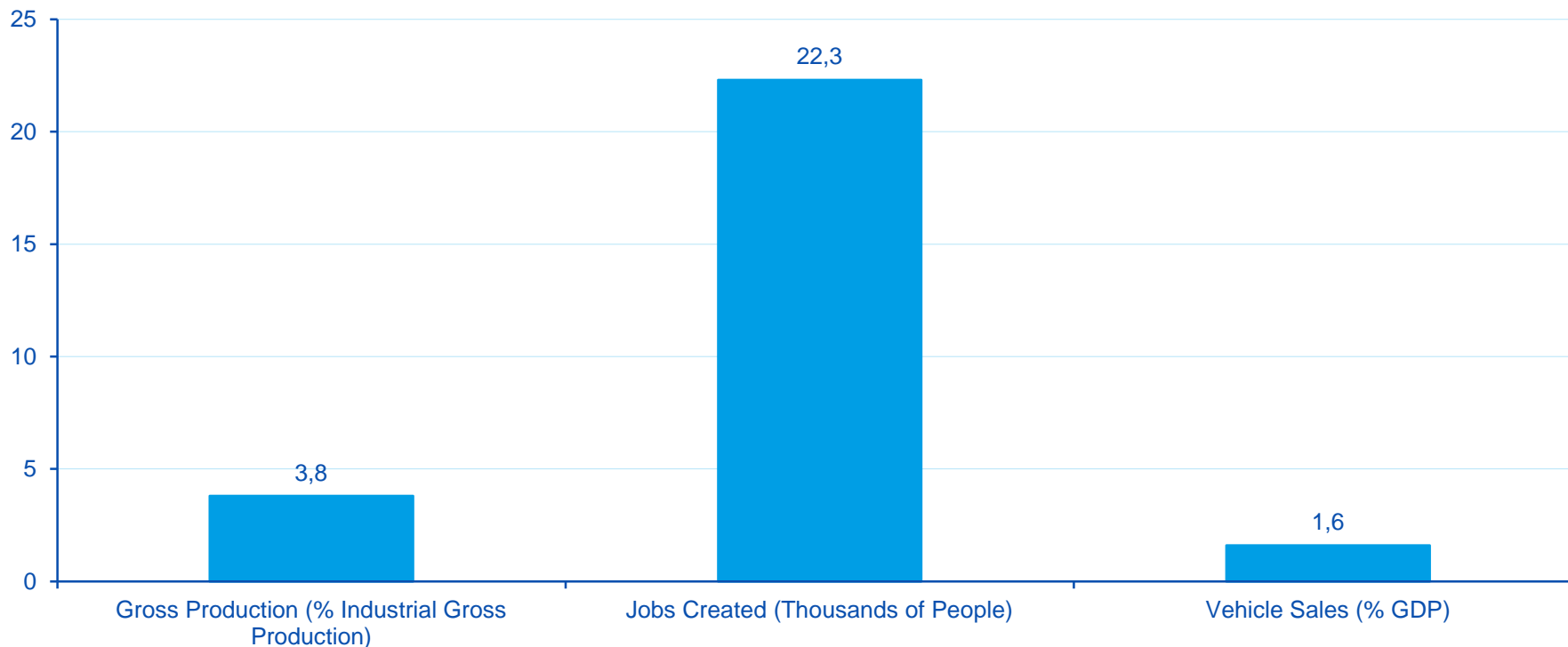
Structure of the automotive sector

The Automotive sector is an important sector

Together with the motorcycle sector the automotive sector represents the 4% of the industrial production, generates more than 22,000 jobs and vehicle sales are 1.6% of GDP. The sector is related to other sectors such as insurance, finance, maintenance, metallurgy, etc.

The Automotive Sector

Source: DANE y BBVA Research

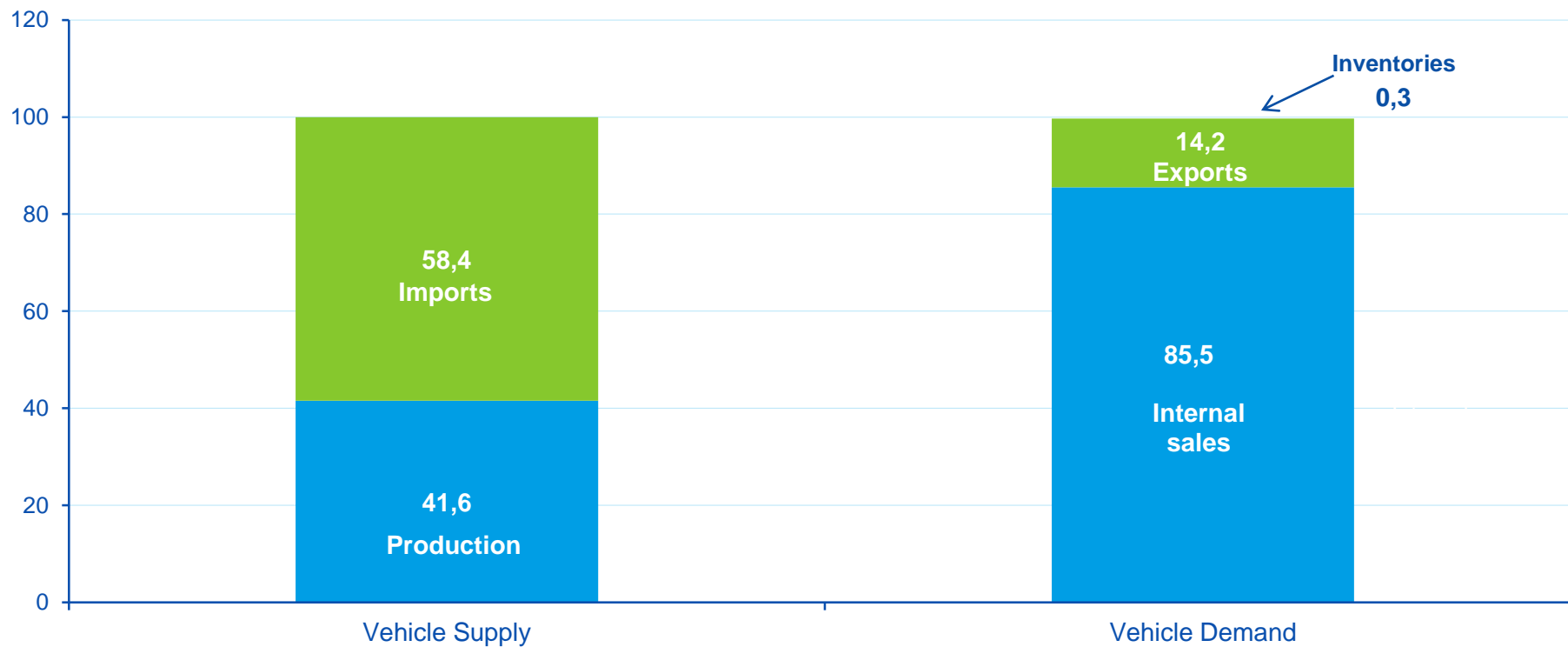


Balance of supply and demand in the sector

The demand of vehicles is mostly domestic

Supply and demand of vehicles (% of total supply in units , 2013)

Source: DNP, Acolfa, DIAN and BBVA Research

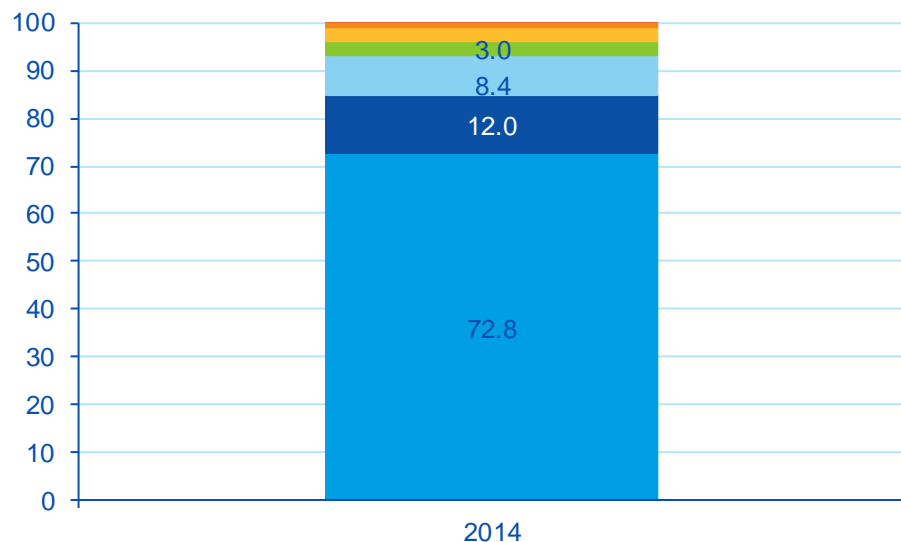


In 2014 domestic production accounted for 33.6% of the domestic market of vehicles

72.8% of the domestic production of vehicles are private vehicles (covering 49% of its domestic demand). SUV represent 27% of total sales of vehicles and only 12% of domestic production

Sales of assembled vehicle by type (% of total value of assembled vehicle sales, 2014)

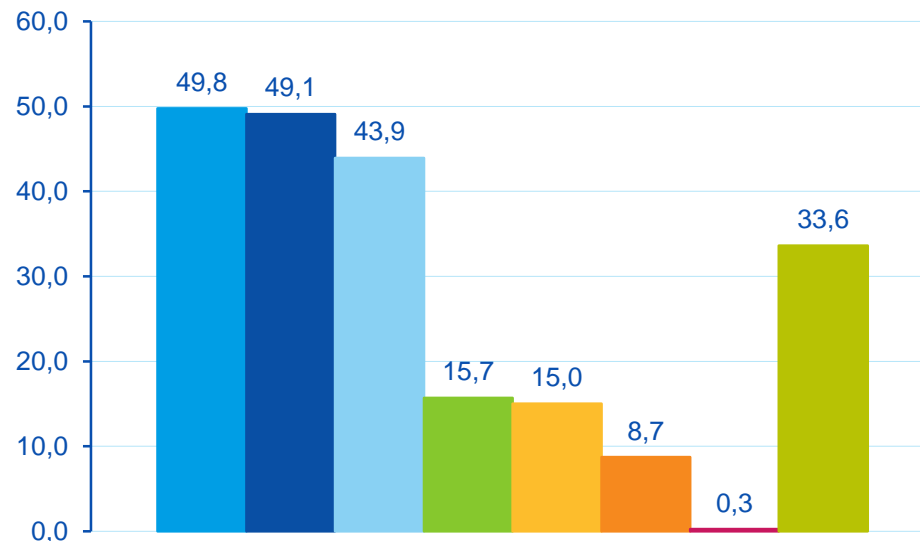
Source: Fenalco and BBVA Research



- Private vehicles ■ SUV
- Passengers ■ Pick Ups
- Vans ■ Taxis
- Freight

Domestic production by type of vehicle (% of total sales by type, 2014)

Source: Fenalco and BBVA Research



- Passengers ■ Private vehicles ■ Freight
- Pick Ups ■ SUV ■ Taxis
- Vans ■ Total

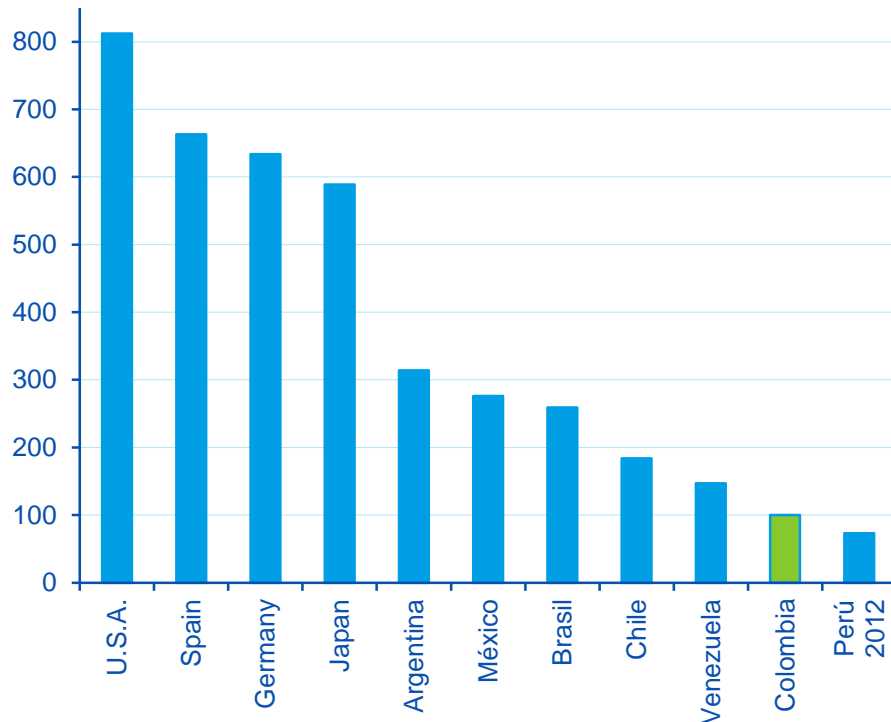
Growth potential in the medium term

Colombia is still maintaining a low per capita and per household tenure of cars and motorcycles

For every thousand inhabitants there are 100 vehicles in Colombia. A 13.5% of the households have one private car and 23.3% of them have a motorcycle. There are differences between areas

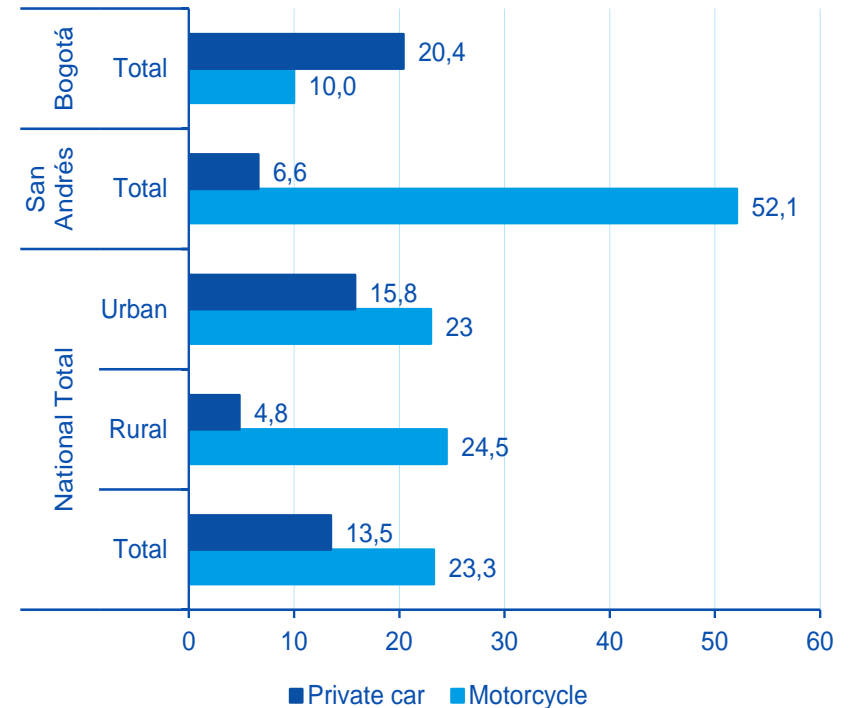
Vehicle penetration index (number of vehicles per 1,000 inhabitants)

Source: Lubrita yBBVA Research



Vehicle and Motorcycle penetration in Colombia 2014 (% of Households)

Source: DANE y BBVA Research

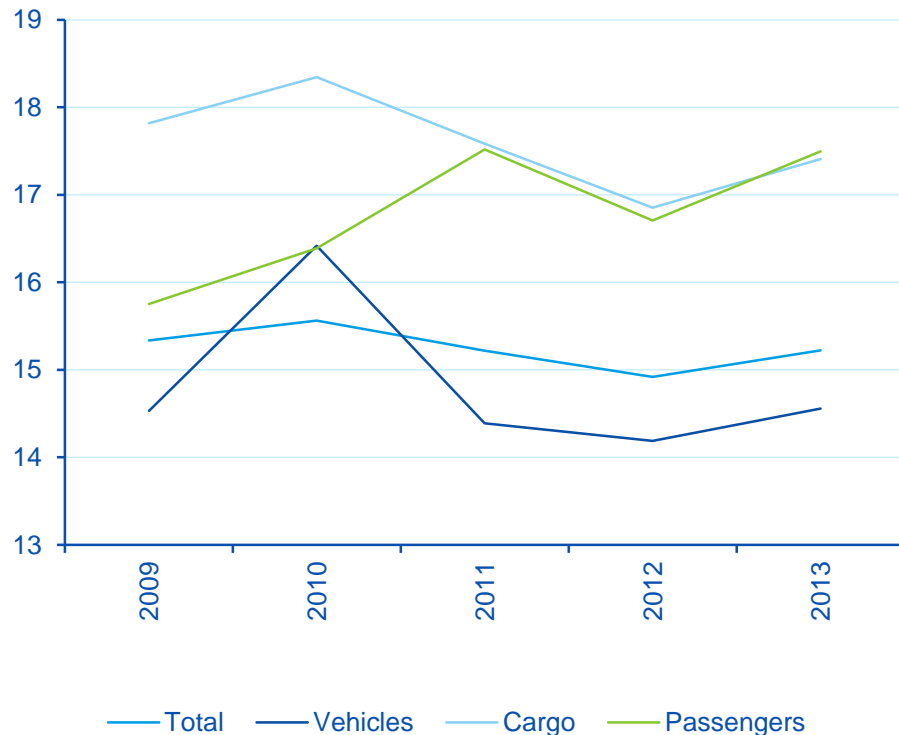


Improvements in terms of renewal have been scarce

The age of the fleet decreased marginally between 2009 and 2012 (from 15.3 years to 14.9 years). Freight and passengers vehicles are 16.9 and 16.7 years old, respectively.

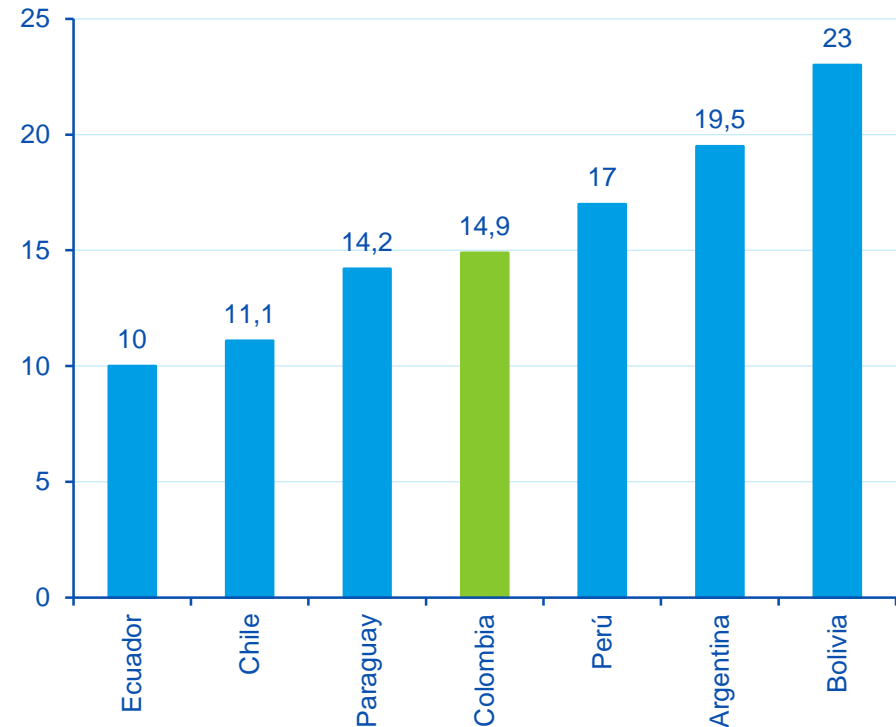
Age of the vehicle fleet in Colombia 2009-13 (Years)

Source: Ministry of Transport and BBVA Research



Average age of Automotive park (Years)

Source: Survey FTS UNCRD/BID 2011 and BBVA Research

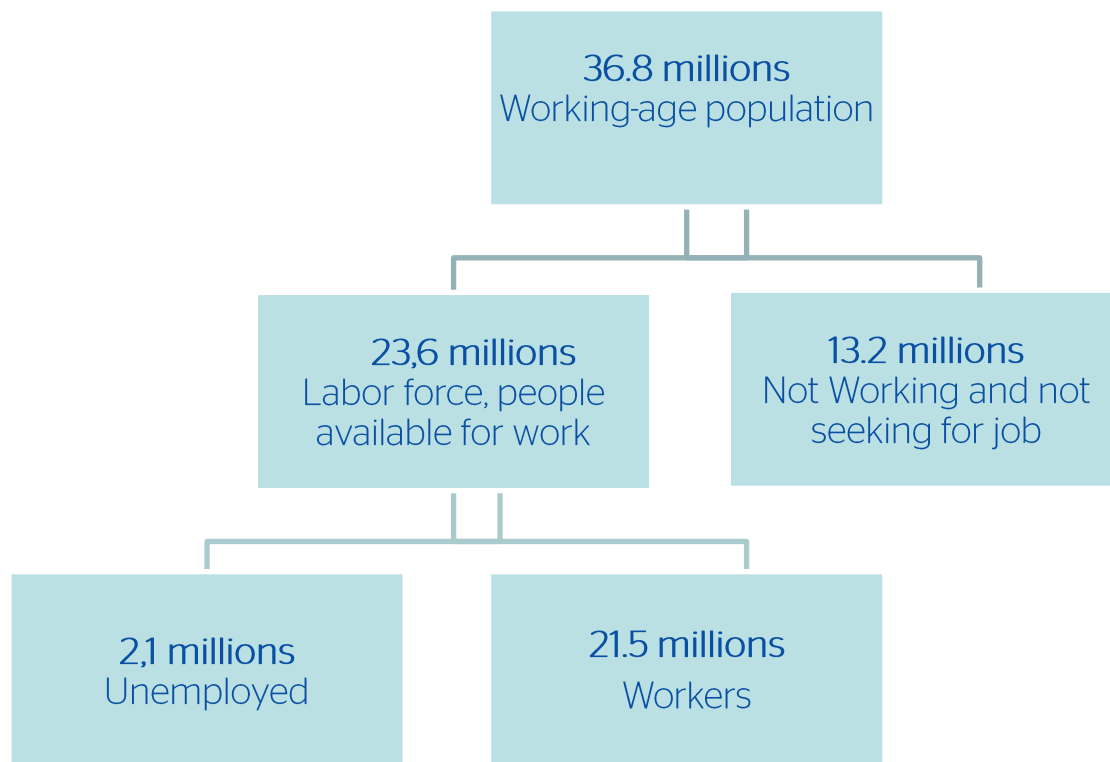


58% of the working age population is occupied in Colombia

There are 21.5 million worker and 36.8 million people of working age in Colombia

Distribution of Working Age Population in 2014 (number of people)

Fuente: DANE y BBVA Research



Unemployment rate = 9,1%
(unemployed/labor force)

Participation Rate
=64,2%
(labor force/working-age
population)

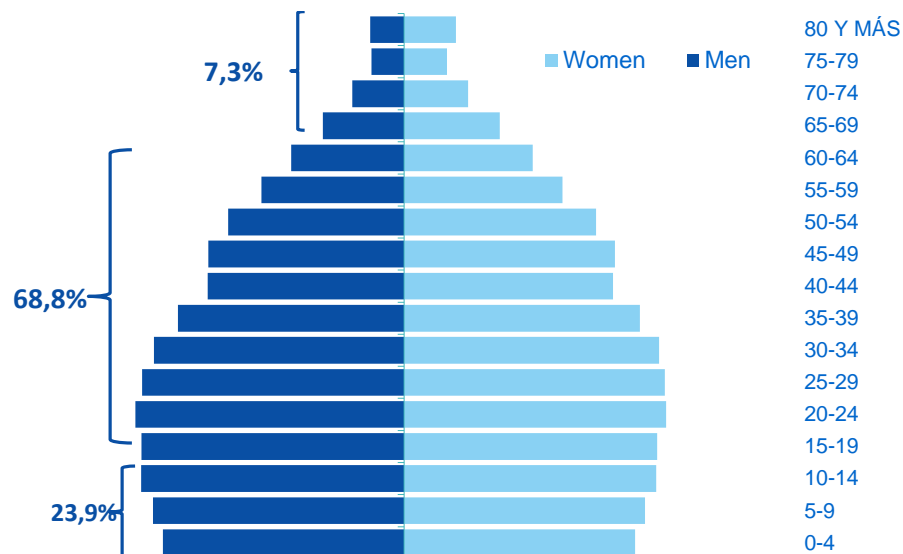
Occupation rate = 58,4%
(workers/working-age
population)

Demographic bond

Until 2025 the participation of the working age population will grow

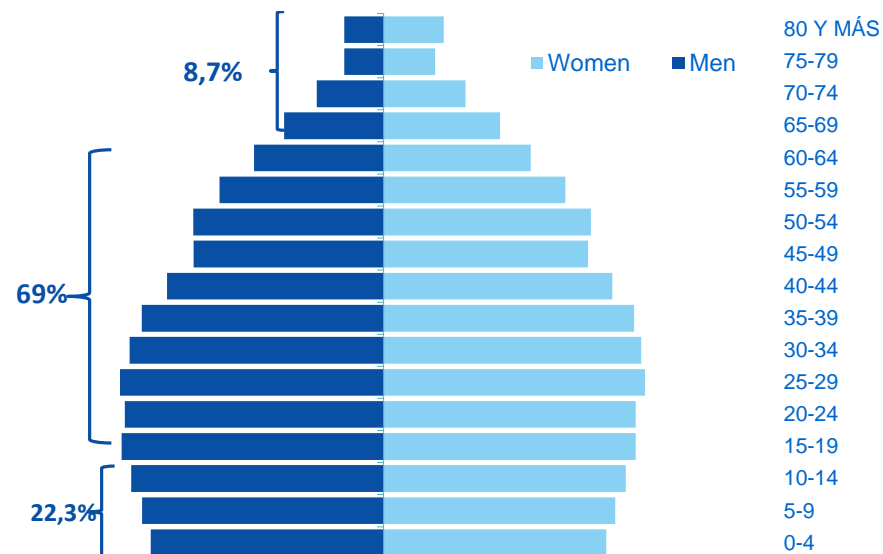
Population Pyramid 2016 (Number of people, % of total population)

Fuente: UN y BBVA Research



Population Pyramid 2020 (Number of people, % of total population)

Fuente: UN y BBVA Research

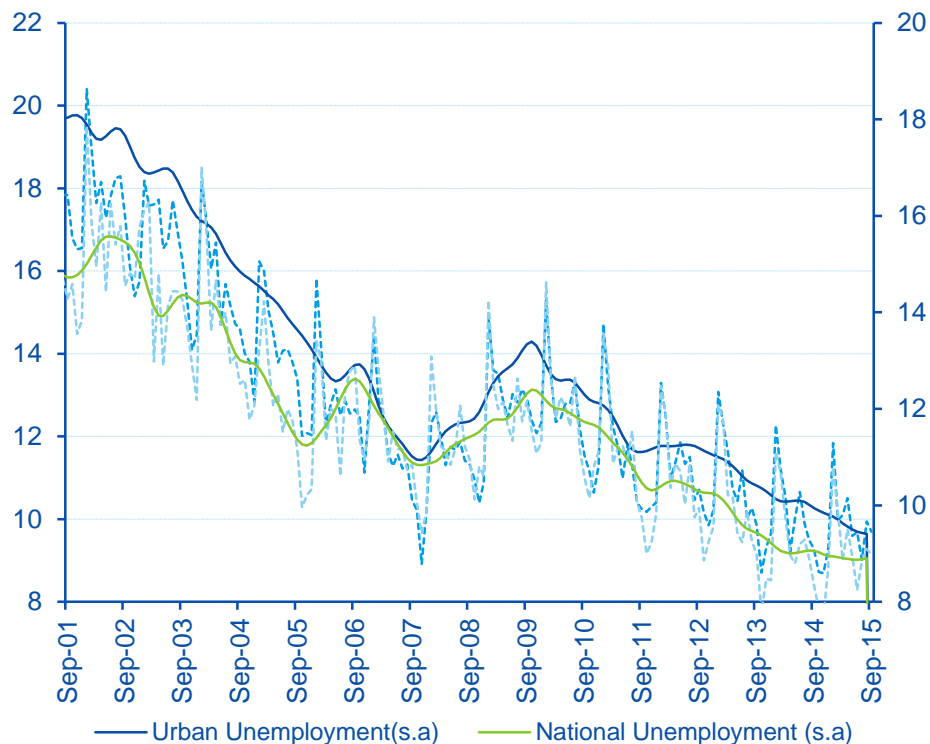


Income has improved

Urban unemployment rate decreased in 8 p.p. from august 2001 to august 2015 and in 6 p.p. nationally (same period). The informality rate has stand at 48 in 2015 (vs a 51 in 2007-2012)

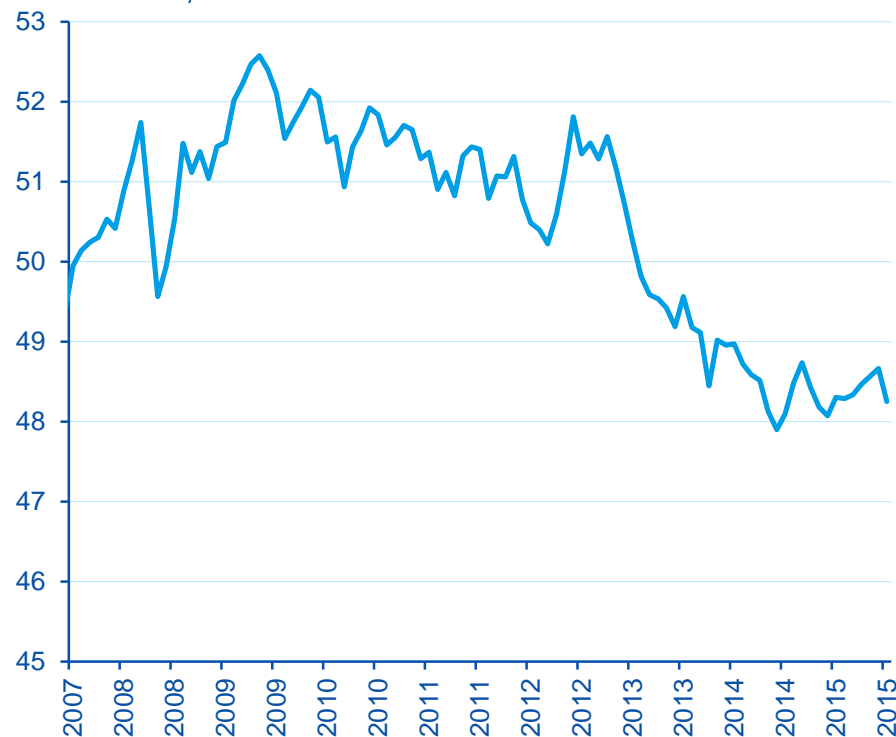
Unemployment Rate (% of PEA, 13 cities)

Source: DANE y BBVA Research



Informality Rates (Informal as a proportion of occupied, 13 Cities, Until 5 workers)

Source: DANE y BBVA Research

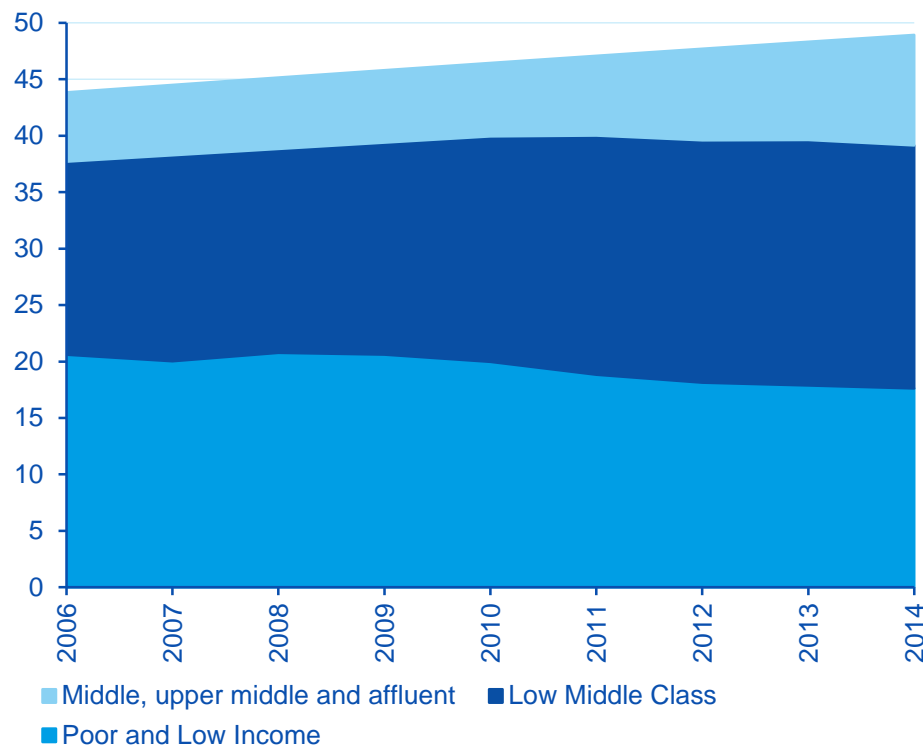


Middle classes are growing in Colombia: 500 thousand people reached these income levels a year

The proportion of people in middle, upper middle and affluent classes went from 14% to 20% between 2006-2014 (an average yearly growth of 500 thousands people -BBVA Research-)

Population by income level in Colombia 2006-2014 (Number of people)

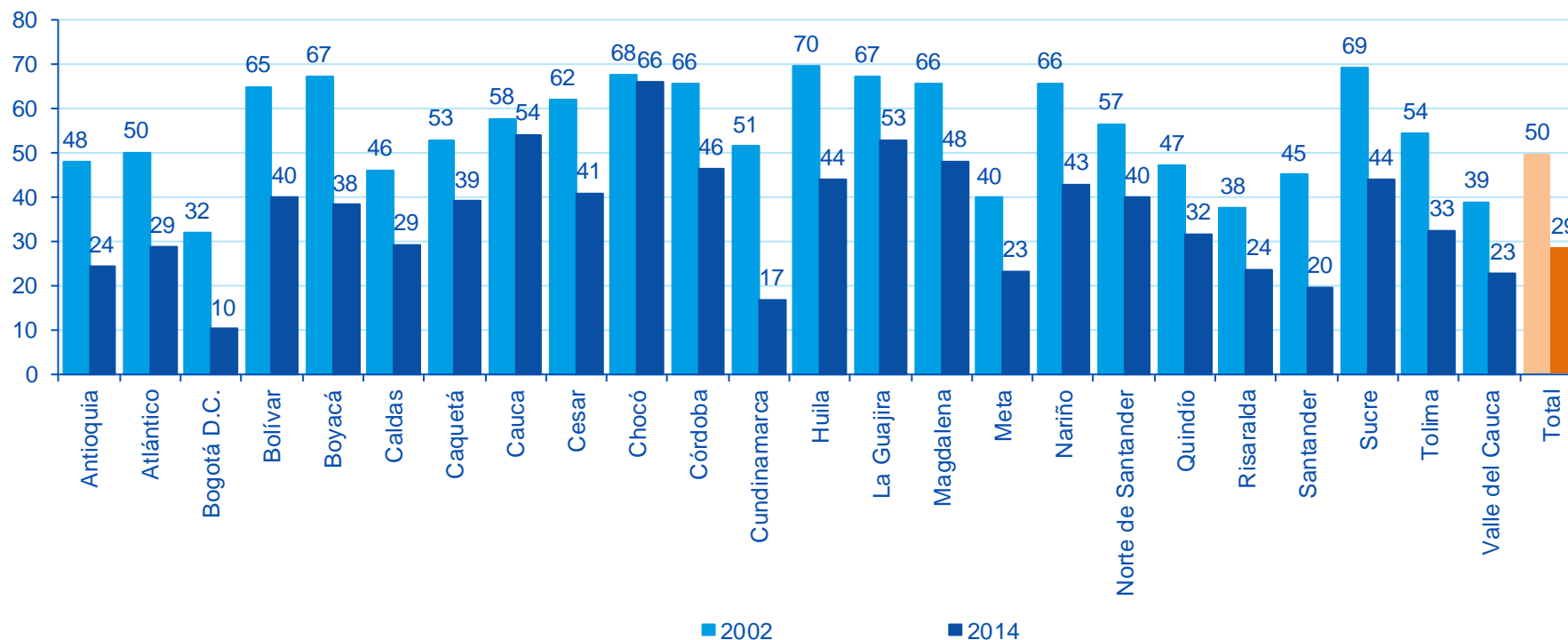
Source: IMF, ECLAC and BBVA Research



Regions are wealthier: there have been systematic reductions in poverty

Poverty by departments and compared to the national average (%)

Source: BBVA Research, DANE

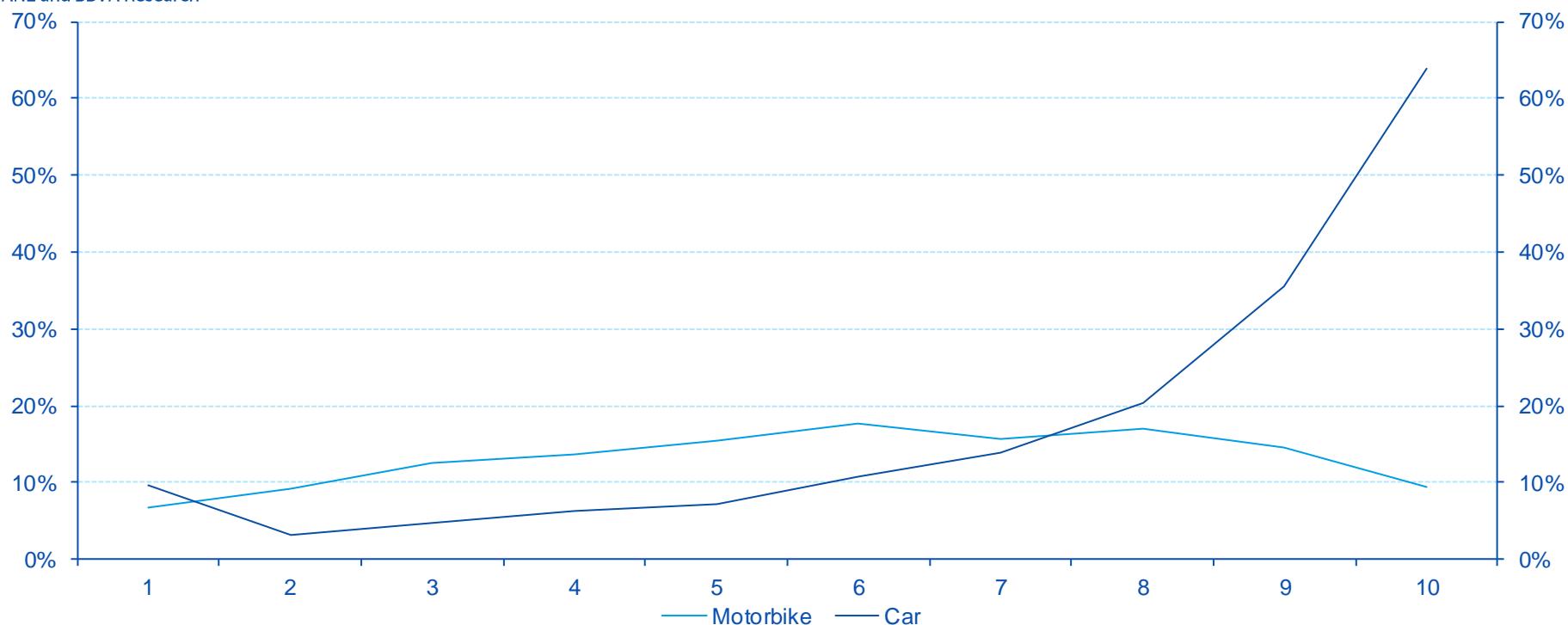


It seems that there is a positive relationship between income and vehicle purchases

This relationship is accentuated in the higher income deciles. Presumably reaching income elasticity higher than 1 for car ownership in these deciles –elasticity >1 defines luxury goods –

Ownership of cars and motorcycles by income decile (As a percentage of total households in the decile)

DANE and BBVA Research



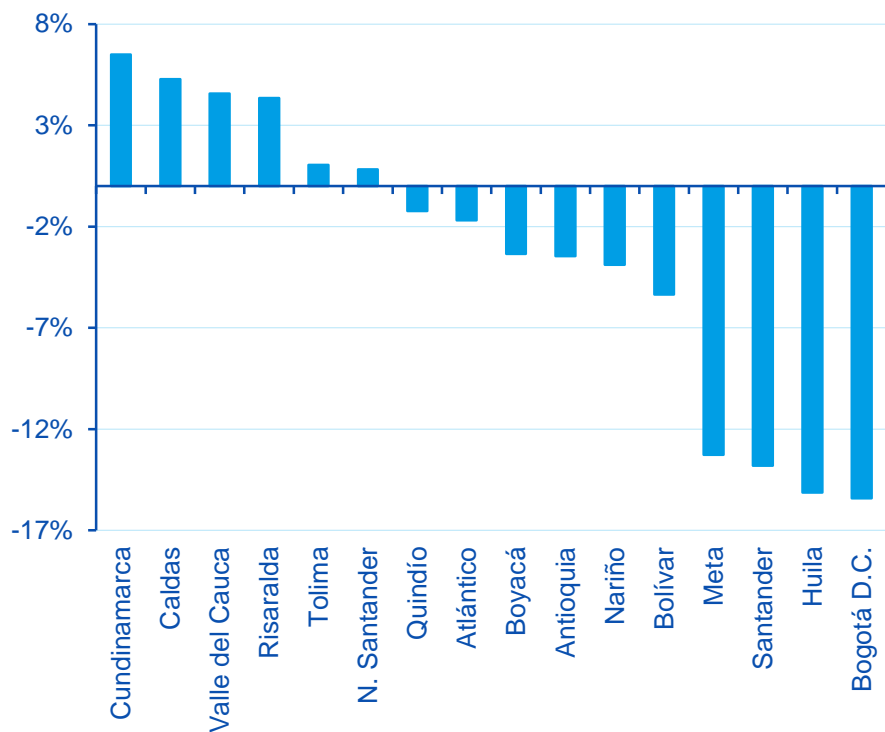
* Each value refers to the percentage of households owning at least one car in the first case, or at least one motorcycle, in the second, out of the total households in the decile.

Some regions are dynamic. Bogotá leads in terms of vehicle sales.

In 2015, Bogotá accounted for most of the sales, with 70.296 new vehicle registrations (33.4% of total). Antioquia (14.2%) came next, followed by Valle del Cauca (11.3%) and Cundinamarca (8.3%)

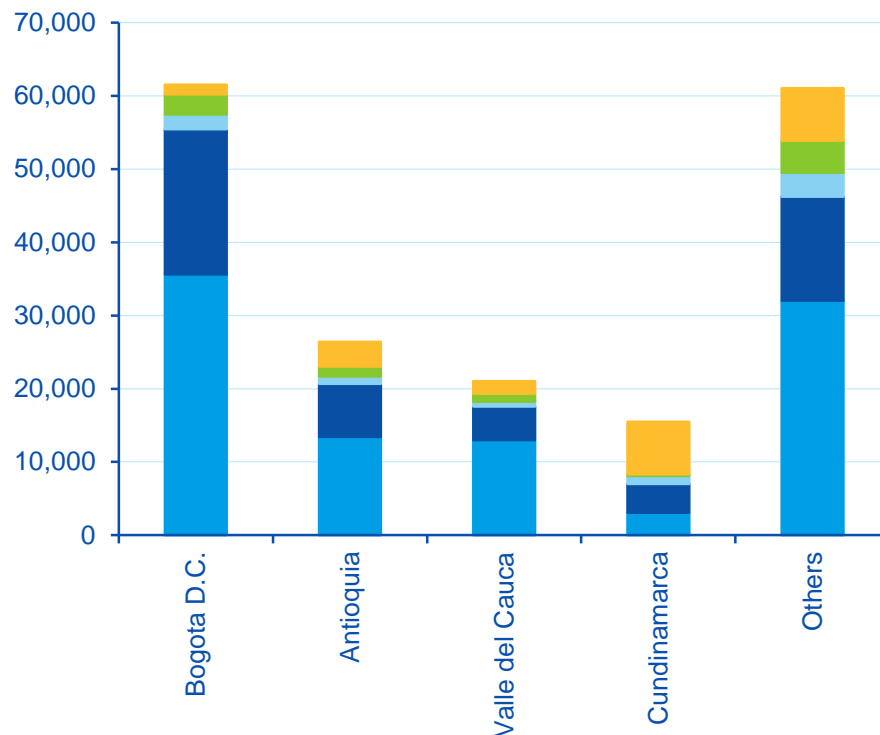
Registrations by departments (% growth, 2014-15 August)

Source: Fenalco y BBVA Research



Vehicle registrations by departments and by type 2015 ('000s of units)

Source: Fenalco y BBVA Research



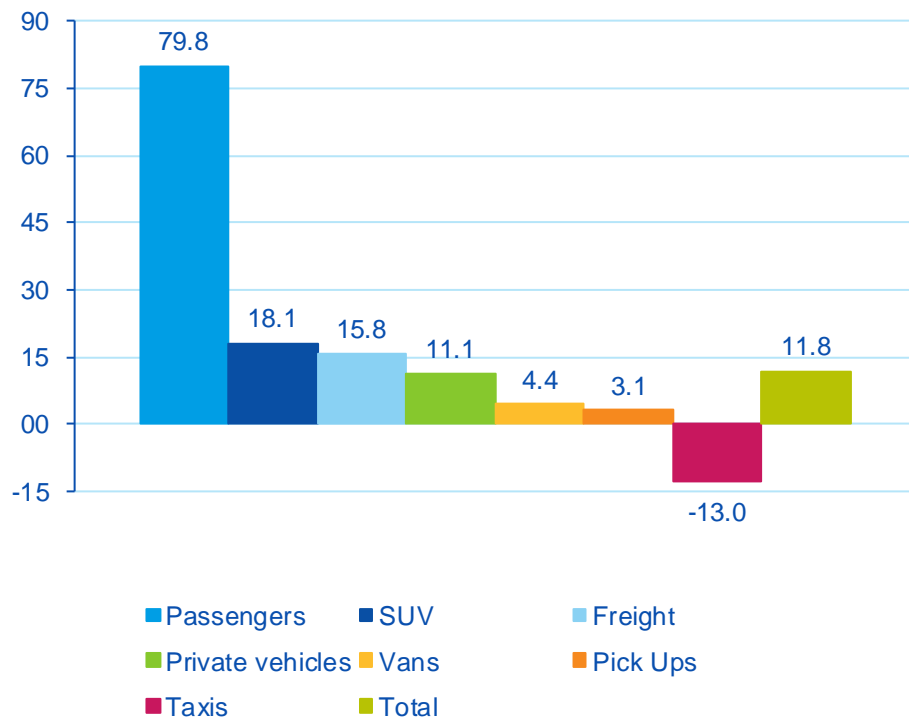
Automotive sector over the short run

2014 was dynamic in terms of the domestic demand for vehicles, with an 11.8% increase in sales

Total sales rose from 294,000 units in 2013 to 328,500 in 2014. The best-selling brands in 2014 were Chevrolet, with 82,501 cars sold and Renault with 51,027.

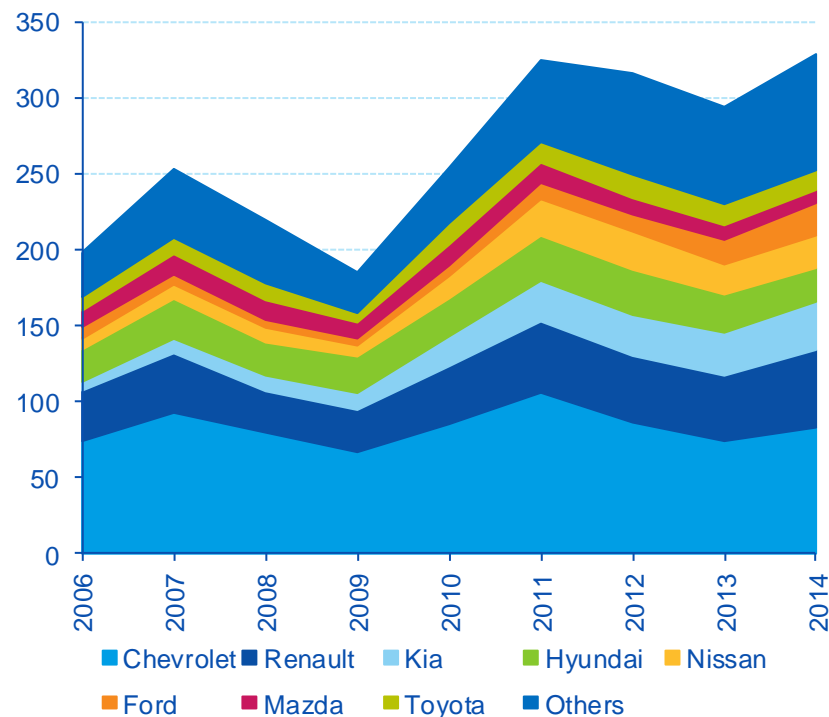
Sales by type of vehicle and type
(% Growth 2014-2015, y/y)

Source: Fenalco y BBVA Research



Vehicles sales by brand ('000s of units, 2014)

Source: Fenalco y BBVA Research

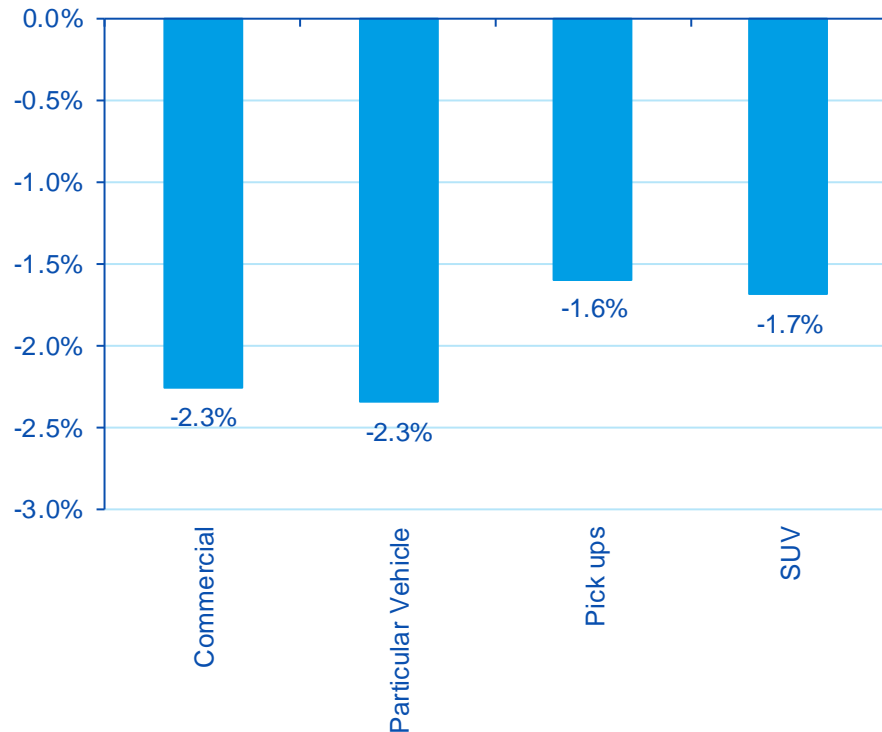


Sales have decelerate in 2015: -8% YoY in September (from 228,5 to 210,3 thousands vehicles)

Commercial vehicles contributed the most (in -2,3 p.p) to the reduction (of -8% YoY), even though its participation is lower than 20% of total sales. Nearly all the brands saw their sales reduced YoY.

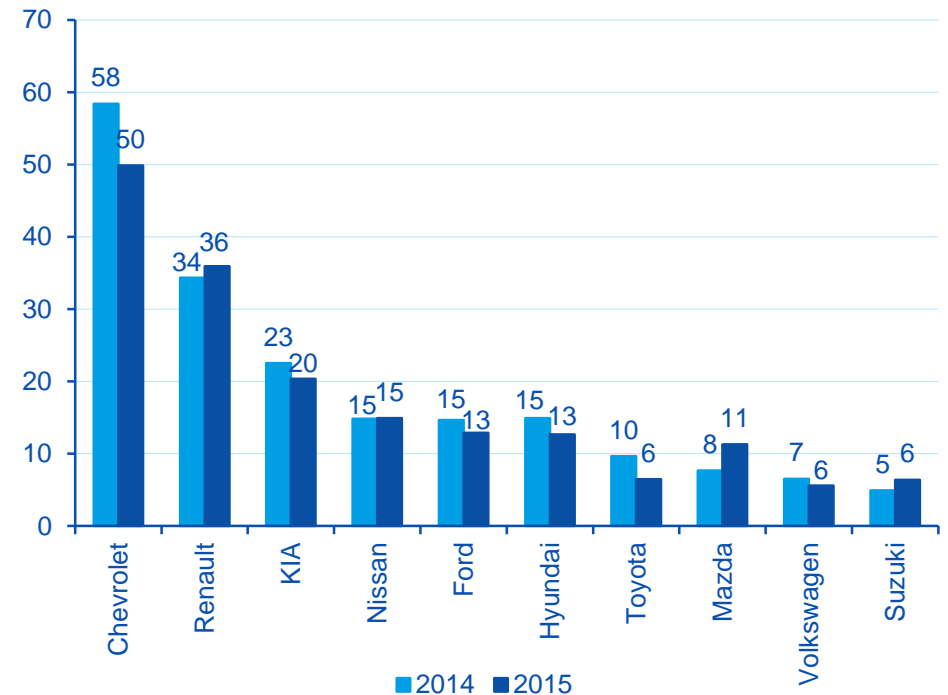
Registrations by type of vehicle (% of Contribution to Growth 2014-2015 accumulated to September, y/y)

Source: Fenalco and BBVA Research



Registrations by brand ('000s of units, 2014-2015 accumulated up to September)

Source: Fenalco and BBVA Research

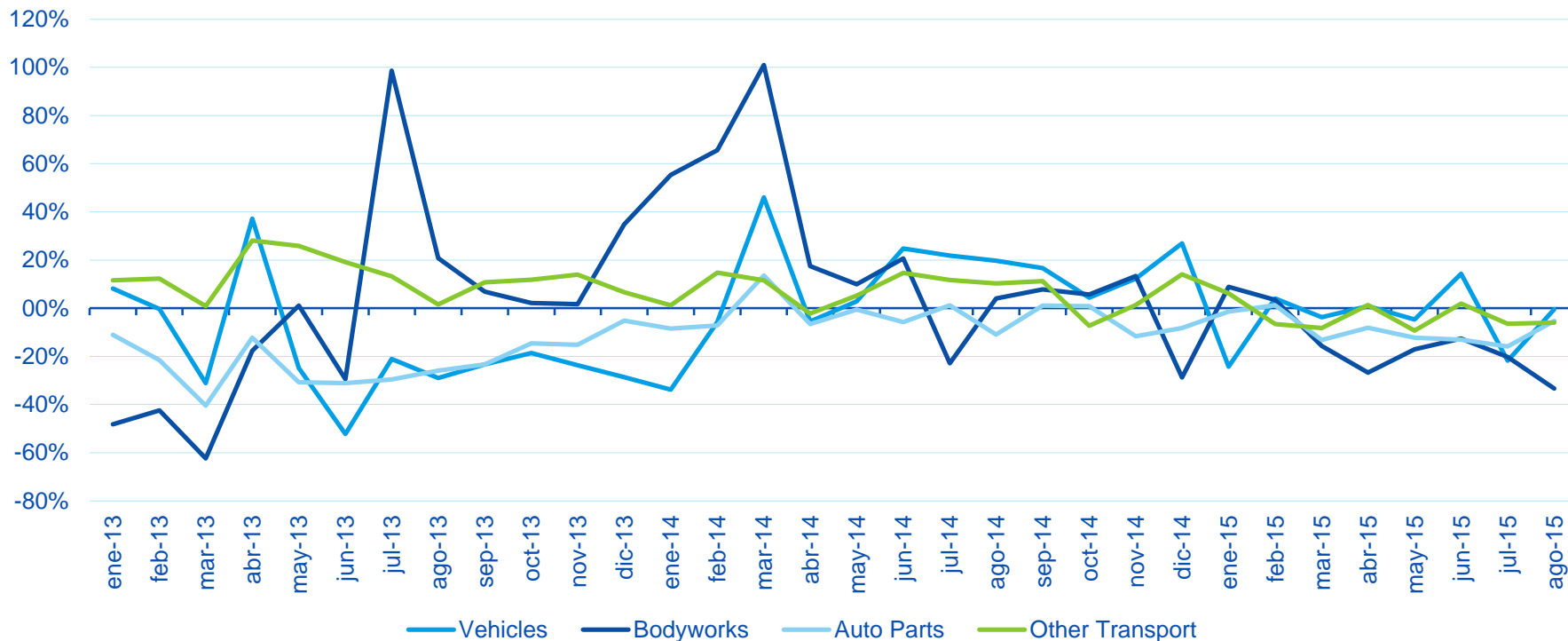


Cars, bodyworks, auto parts and other transportation production growth in 2015

All sectors in the automotive industry are experiencing a growing in a negative ground, in line with the overall macroeconomic outlook.

Real production: vehicles, auto parts, car bodyworks and other transport * (% growth YoY 2Q,2015)

Source: DANE y BBVA Research

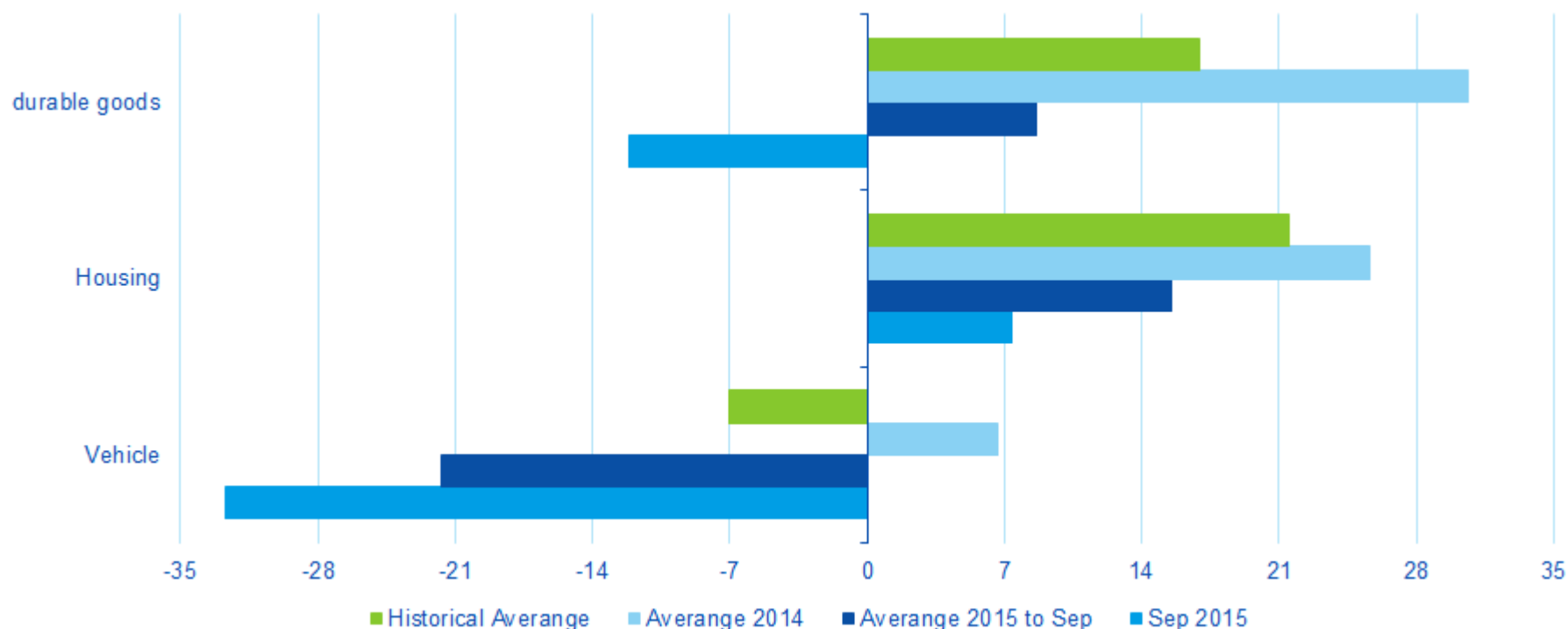


The willingness of car buying by households is decreasing

The consumption of durable goods anticipates and amplifies the economic cycles.

Willingness to buy durable goods, housing and vehicles (balance of responses)

Fuente: Fedesarrollo & BBVA Research

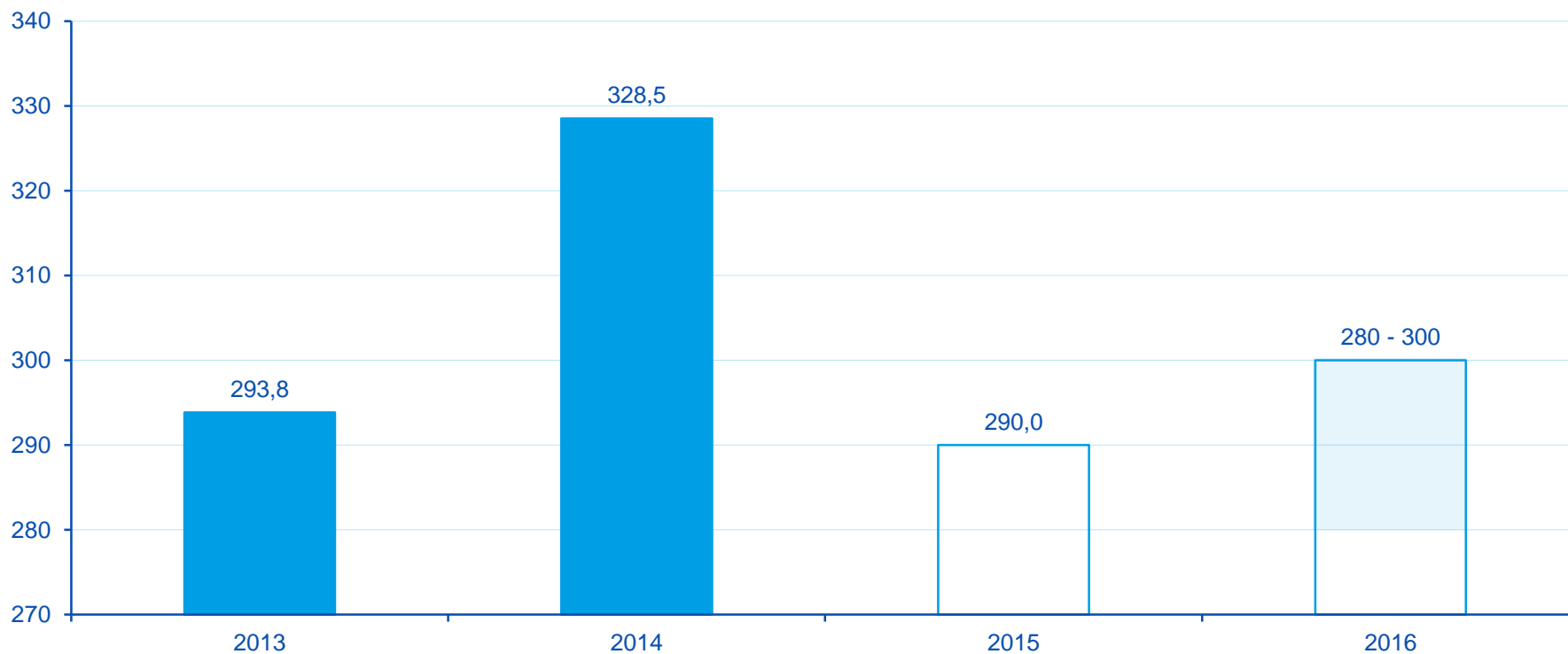


We expect vehicle sales of 290,000 units in 2015, with a higher share of Colombian-built vehicles

Since February 2015, we predicted sales of 290 thousands for 2015. We expect a relatively similar figure in 2016.

Vehicle sales: observed and estimated ('000s of units)

Source: Fenalco y BBVA Research



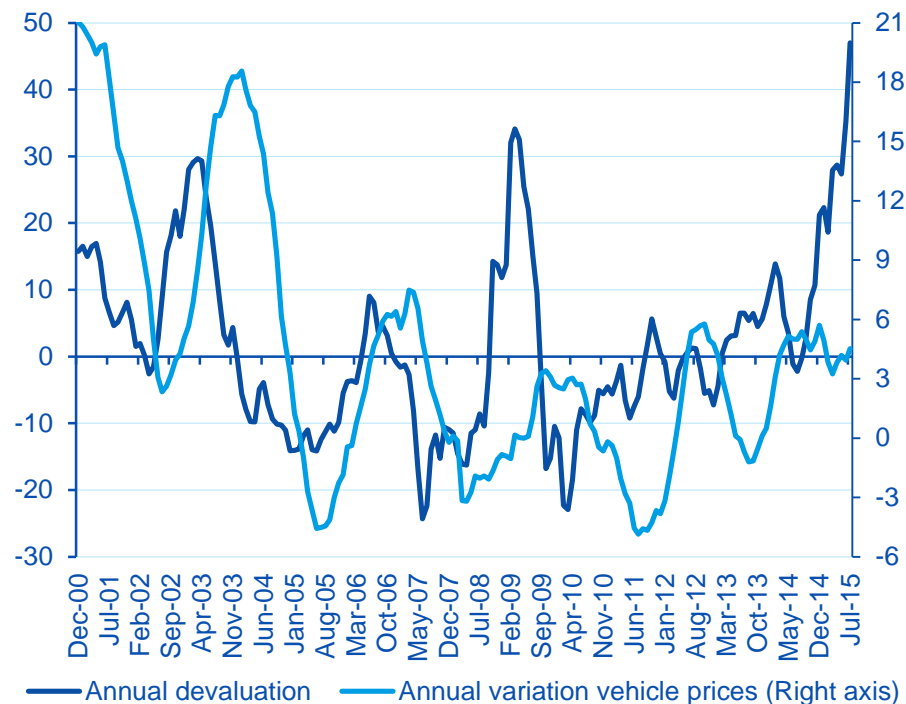
Prices and financing

Gradual acceleration in private vehicle prices. This may spread to the other automotive lines

...It is likely that the progressive increase in prices was explained by the depreciation of the exchange rate -ER-, which began in 2H2014.

Exchange rate depreciation vs. USD and variation in car prices (% var., YoY)

Source: BanRep, DANE & BBVA Research



The low pass-through of the exchange rate into prices is due, among other reasons, to the share that national assembly still has on domestic sales

This last point is explained by the price elasticity of demand, which is greater than one (as an absolute value) in the case of vehicles and, in general, for all durable goods.

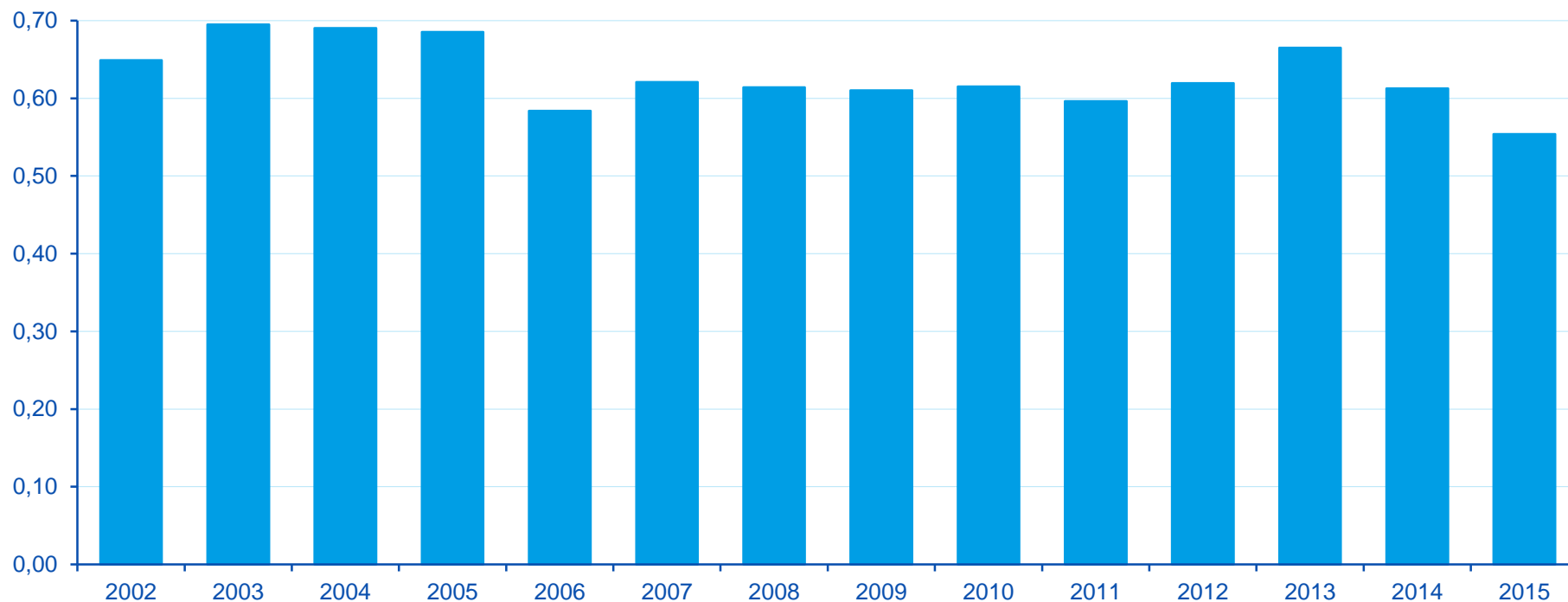
The expectation of the average devaluation in 2015, which is around 35%, would involve an increase in vehicle prices of 14%.

The purchasing power of households could improve in 2015 or...more plausible, they buy lower quality cars

As of today, a household would need to spend 55% of its entire year's income to buy a car, less than the 61% needed in 2014

Private vehicle purchasing power * (Number of years.)

Source: DANE & BBVA Research



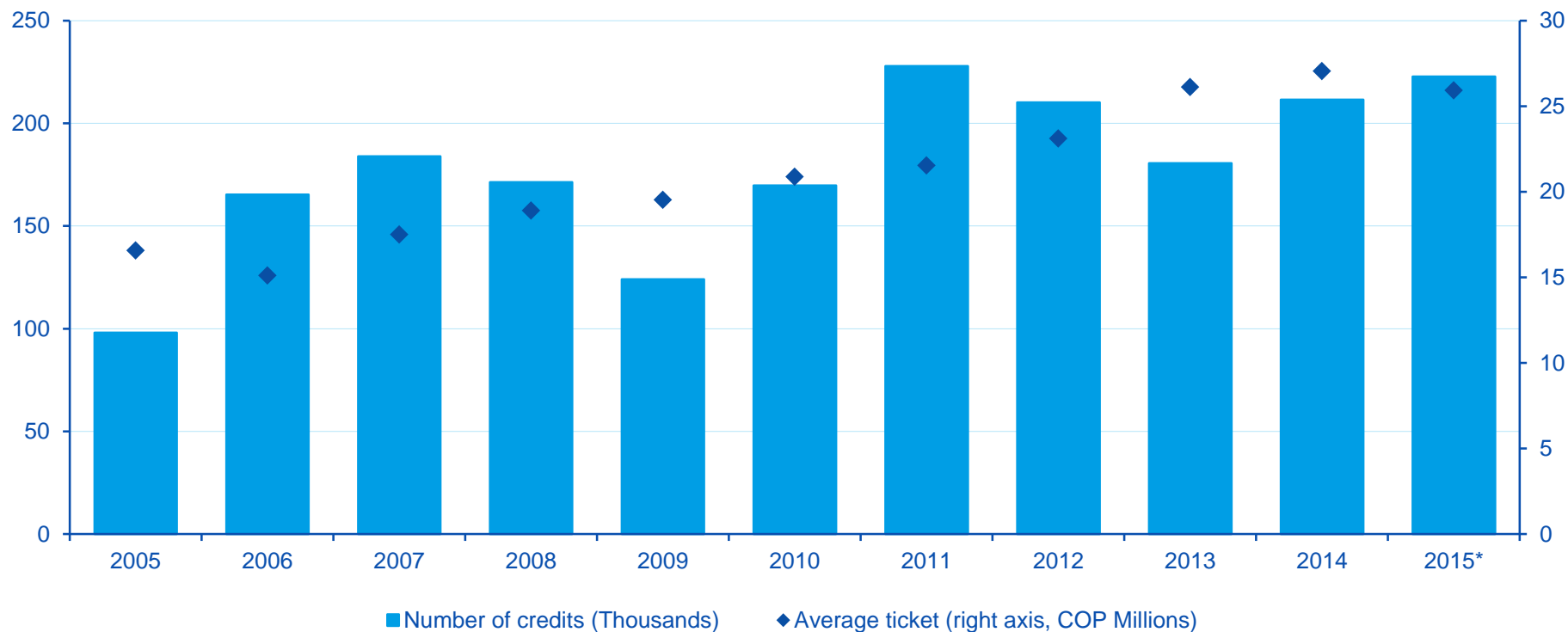
* Percentage of annual income after taxes required to purchase a vehicle.

Credit boosted sales in 2014

The balance of credit for buying vehicles came to COP10.4trn by the end of 2014. This represents an increase of 14.7% since December.

Number of new loans taken out a year to buy a vehicle, and average loan amount ('000s & COP millions)

Fuente: Superfinanciera & BBVA Research *Jul 2014-Jun 2015



Thanks

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