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BAIC wants production at Coega plant 'as soon as possible'

Signs vehicle finance partnership agreement with Absa to strengthen its presence and growth potential in South Africa.

By Roy Cokayne 21 Apr 2023 00:05

Beijing Automotive Group Co is also bringing more car models into the South African market. Image: Supplied

Chinese automaker Beijing Automotive Group Co. Ltd (BAIC) is hopeful about commencing production at the group's vehicle production plant in the Coega Industrial Development Zone (IDZ) "as soon as possible" following long delays.

This is according to BAIC South Africa CEO Jianhui Wang speaking to Moneyweb this week at the signing ceremony marking a vehicle finance partnership agreement between BAIC and Absa. The agreement is aimed at strengthening its presence and growth potential in the local market.

Read: Global auto group Stellantis plans manufacturing facility in SA

Wang's latest comments on the BAIC production plant, follows the announcement in August 2016 that the Coega Development Corporation (CDC) had signed an historic R11 billion investment deal with BAIC for the establishment of a completely knocked down (CKD) vehicle manufacturing plant at the IDZ.

> The BAIC deal was heralded at the time as the biggest automotive investment in Africa in the past 40 years.

The Industrial Development Corporation (IDC), which has a 35% shareholding in the project, and BAIC with the majority 65% stake, indicated then that the plant would be developed in two phases, with 2 500 jobs created in the construction phase.

It was expected to be completed by the end of the first quarter of 2018, produce up to 100 000 vehicles a year and create 100 000 new jobs.

Delays and higher costs

Wang told Moneyweb the construction of the plant has taken longer to complete because of the Covid-19 pandemic, which lasted several years; the sharp increase in ocean freight costs compared to pre-Covid-19; and the significant depreciation of the rand against the US dollar.

He admitted the exchange rate of the rand against the US dollar has resulted in an increase in the cost of the project, including construction and operational costs.

"It's a big problem for us," he said.

> Wang added the total investment in the project to date is more than $300

> **Wang added the total investment in the project to date is more than $300 million, including an additional investment of more than $70 million by the IDC at the beginning of 2023.**

However, he said they are continuing to push ahead with the construction of the plant. BAIC is also bringing more product into the South African market, apart from the Beijing X55, and is now collaborating with Absa.

“There is no doubt we will develop this market more [for BAIC]. South Africa is a strategic market and very important for us,” he said.

Wang added that the construction of a paint plant will be completed by June this year, which will complete the construction of the three processes at the vehicle manufacturing plant – the welding, paint and assembly shops.

Production

He said production trials will be completed in August 2023, but it is difficult to say when production will commence because “big scale” or volumes are required to start production.

“We cannot give the exact time when we will start production. We want to start production as soon as possible … but must also consider the exchange rate, which is a big challenge for us,” he said.

Wang noted that BAIC currently has 32 dealers in South Africa and has plans to grow its dealer network to between 40 and 50 dealerships this year.

However, he stressed the importance of having a balance between the number of BAIC dealerships and its sales because of exchange rate and profit considerations.

Read:
Coega aims to become the champion of socio-economic development [Sept 2019]
China’s BAIC sees first cars from SA plant early 2018 [Sept 2017]
Beijing Automobile Intl Corp to invest $800m in SA industrial zone [Aug 2016]

Wang expects BAIC to have about 50 dealerships in SA by 2024 and its sales are expected to increase by between 20% and 30%.

He added that BAIC is also negotiating with other original equipment manufacturers (OEMs) to sell their products through the BAIC dealer network.

“We can bring that product into our plant to do the production if we have good [sales] volume in the future,” he said.

Stellantis

There is speculation that global auto group Stellantis, with brands like Peugeot, Citroën, Fiat and Alfa Romeo, could use some of the excess capacity at BAIC’s production plant in Coega.

This followed Stellantis signing a Memorandum of Understanding (MoU) in March this year with the IDC and the Department of Trade, Industry and Competition to develop a manufacturing facility in South Africa.

Wang said BAIC is open to producing models under contract at its Coega plant for Peugeot and other OEMs.

> **The aim is for the Stellantis project to be completed by 2025.**

"It is possible and negotiable, depending on the cost and profit. We welcome other brands approaching us to have this discussion.

"We had this discussion with some of the Chinese and European brands in the past two years," he added.

Absa agreement

The need for a partnership between BAIC and a major bank in South Africa has assumed much greater importance because of BAIC's increased presence and potential in the domestic market.

Absa Vehicle and Asset Finance managing executive Charl Potgieter said on Tuesday the alliance with BAIC SA means the two organisations are cooperating in the market with their product.

> **Neither of the parties has made any financial investment into the alliance but are making a management investment to co-develop products.**

Potgieter said the alliance for Absa represents an opportunity to boost its share of financed vehicles sold in the country as the popularity of affordable brands originating from Asia continues to grow among South Africans.

"We want to increase our retail finance market share, which is now just over 24%, and our ambition is to grow that market share in collaboration with our partner BAIC.

"We are very excited about BAIC's future in South Africa," he said.

> **Potgieter said there is an increase in sales of Chinese automotive brands in the South African market and this also applies to BAIC manufactured vehicles.**

He said the South African consumer has come to appreciate the growing trend in affordable luxury branded vehicles and expects "more bang for their buck" when buying new or used vehicles during these tough economic times.

Potgieter said Absa is committed to offer BAIC various services that will allow both entities to reach their growth ambitions.

He said Absa will be providing its full suite of vehicle related finance and insurance products to BAIC, including retail finance, wholesale finance, fleet opportunities, and insurance.

Potgieter said the agreement with BAIC only applies to South Africa, but the intent is to solidify and embed it into the network and then have conversations about the rest of Africa.