

**Q4 2015**

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# **IRAN**

## **AUTOS REPORT**

INCLUDES 5-YEAR FORECASTS TO 2019



# Iran Autos Report Q4 2015

INCLUDES 5-YEAR FORECASTS TO 2019

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## Part of BMI's Industry Report & Forecasts Series

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## BMI Industry View

We factored a permanent nuclear deal between Iran and the P5+1 countries into our sales and production forecasts earlier in the year, as it was the core view of our Country Risk team that a deal would be reached. We therefore maintain our forecast for 35% growth in car sales in calendar year 2015, which will see the market return to just below its peak of 2011, and forecast 27% growth in total vehicle output. At the moment, much of this growth is still coming from the effects of the interim deal that was agreed and allowed some imports to recommence.

As the lifting of sanctions will only be fully finalised by the end of the year, we look to 2016 for the real results. We forecast sales growth of 20% as more brands enter the market and consumers take advantage of an unprecedented level of variety. This would take to the market to 1.8mn units - a new high for Iran and a reflection of real growth rather than just a return to pre-sanction levels. By 2017, we see the volumes surpassing 2mn units, with an improved economy and favourable demographics adding to the choice of brands as key drivers of growth.

France's **PSA Peugeot Citroen** will be the main beneficiary through its Peugeot brand, which has long dominated the market. The company felt a significant financial blow from its absence from Iran and its keenness to return is underlined by the deal it already has in place with local firm **IKCO** to return to the market as soon as sanctions are lifted.

As for new brands to come, the lifting of sanctions provides the opportunity for US brands to enter the market, which would be a momentous shift in the competitive landscape. The Iranian Auto Parts Association claims that American brands have already expressed an interest in investing in the market, where we believe they will be playing catch-up to some of their European rivals. They will not only need to build a brand presence but also a strategy in terms of logistics and distribution, which could cost them time in getting to market.

# SWOT

## Iran Auto Industry SWOT

### Strengths

- The largest car-producing nation in the Middle East.
- Growing middle class should provide high demand for new cars over the medium term.
- New car sales and production both look set for strong growth over the current year.

### Weaknesses

- Local parts and components manufacturers face capacity constraints, which will mean greater reliance on foreign imports in car assembly.
- Iran is insisting on tough new preconditions before allowing foreign carmakers back into the country, which could deter some inward investment.
- Aging equipment and technology in need of investment and knowledge sharing from Western investors.

### Opportunities

- Agreement on a permanent nuclear deal will increase Iran's attractiveness to foreign manufacturers, as it offers a significant new market.
- As Iran's car sector grows, it will increasingly rely on outsourcing for parts and components.
- Domestic manufacturers are also looking to boost exports over the coming years.
- Nuclear deal paves the way for the arrival of new brands, not least American OEMs

### Threats

- A collapse in the agreement before implementation would continue to cut the country off from international investment.
- Political instability remains a key concern for the whole Iranian economy.



## Political

### Political SWOT Analysis

#### Strengths

- Since the overthrow of the Pahlavi family in 1979, there has been some reduction in the level of political corruption, while wealth distribution has improved marginally.
- The Revolutionary Guard and Basij militia are fiercely loyal to the supreme leader, helping to maintain social stability.
- Sanctions relief will boost economic growth notably.

#### Weaknesses

- The country has one of the poorest human rights records in the region, and authorities do not hesitate to quell dissidents. A number of journalists and anti-government protesters are being held in custody.
- While decision-making ultimately rests with the supreme leader, the regime is heavily fragmented, and consensus is hard to reach.
- Widespread perceptions of electoral fraud during the course of June 2009's presidential elections have damaged the regime's legitimacy in the eyes of many Iranians.

#### Opportunities

- The Majlis (parliament) is more than just a rubber stamp; the move by 150 parliamentarians (out of 290) to hold former president Mahmoud Ahmadinejad accountable for his handling of the economy in March 2012 is a positive indication that checks exist.
- The victory of moderate cleric Hassan Rouhani in Presidential elections in June 2013 is leading to a significant improvement in relations with the West.
- The long term potential in Iran across a range of sectors is enormous given a large population, well-educated workforce and pent-up demand.

#### Threats

- Despite progress in nuclear talks, the prospect of further US and EU sanctions and the possibility of a military strike by the US or Israel cannot be dismissed.
- Youth unemployment is high.

**Political SWOT Analysis - Continued**

- The strong influence of the Revolutionary Guards within the political and economic arena will continue to present a challenge to reform.
-

## Economic

### Economic SWOT Analysis

- Strengths**
- Iran has the world's second largest proven oil reserves after Saudi Arabia, and the world's second largest proven gas reserves after Russia.
  - Oil and gas aside, Iran is rich in other resources and has a strong agricultural sector.
- Weaknesses**
- Local consumption of hydrocarbons is rising rapidly; this, coupled with ageing technology in the sector, will have a negative impact on its oil and gas exporting capacity.
  - International sanctions discourage foreign oil companies from bringing much-needed technical knowledge and equipment to maintain oil output levels.
- Opportunities**
- The gas sector remains underdeveloped despite significant improvements in recent quarters, and there is considerable room to maximise this source of revenue.
  - A shortage of housing, provides opportunities for investment in residential construction.
- Threats**
- Lower oil prices will have a marked impact on the economy. Although an Oil Stabilisation Fund exists to protect the economy at times of weaker oil prices, it has increasingly been used to fund government overspending and could be close to empty.
  - Capital flight could accelerate should negotiations on the nuclear programme fail.
-

## Operational Risk

### SWOT Analysis

#### Strengths

- Iran boasts high numbers of skilled graduates in technical fields such as engineering, construction and science.
- The transport network offers good internal and cross-border connections, and is currently able to meet the country's supply chain needs.
- The banking sector is relatively well developed, allowing extension of finance and credit to citizens.
- A well established intelligence agency and robust counter-terrorist capabilities deter attacks in most areas of the country.

#### Weaknesses

- Costs of employment are increases because the Iranian Labour Code affords workers a high level of protection and generous benefits.
- The costs of inland transportation, as well as the risk of congestion and traffic accidents disrupting supply chains, is raised due to reliance on the road network as the dominant freight mode.
- There is widespread corruption and heavy handed censorship, which will pose unforeseeable operational costs and limit business activities.
- The expansion of IS in Iraq poses a significant risk to Iran's security.

#### Opportunities

- The literacy rate of the labour force is increasing as the benefits of investment in primary school education are filtering through.
- The development of road and rail connections with Iran's neighbours highlights the country's potential to develop into key transit point for East-West trade.
- Relaxing of sanctions is resulting in greater foreign direct investment inflows.
- There is potential to combat the drug supply into Europe through programmes in Iran.

**SWOT Analysis - Continued**

**Threats**

- The availability of highly skilled labour is restricted as the brain drain results in an exodus of technically qualified workers.
  - The risk of electricity and water shortages will be enhanced due to growth in energy- and water-intensive agricultural, mining and manufacturing industries.
  - Lax intellectual property protection carries the threat of patent theft, fraud or infringement, leading to profit losses.
  - Even if sanctions are lifted, the difficult operating environment in Iran, typified by high taxes and widespread corruption, will continue to deter investors.
-

## Industry Forecast

**Table: Autos Total Market - Historical Data And Forecasts (Iran 2013-2019)**

	2013	2014e	2015f	2016f	2017f	2018f	2019f
Vehicle production, units	651,211	1,090,846	1,394,099	1,713,129	1,882,676	2,052,888	2,263,540
Vehicle production, units, % y-o-y	-35.9	67.5	27.8	22.9	9.9	9.0	10.3
Vehicle sales, units	737,000	1,153,300	1,556,955	1,868,346	2,036,497	2,240,146	2,486,563
Vehicle sales, units, % y-o-y	-28.5	56.5	35.0	20.0	9.0	10.0	11.0
Vehicle trade balance, units	-198,830	-227,325	-353,187	-363,636	-381,316	-436,000	-495,049
Vehicle trade balance, units, % y-o-y	25.1	14.3	55.4	3.0	4.9	14.3	13.5
Vehicle fleet, units	13,331,919	13,936,956	14,613,552	15,276,080	15,934,928	16,686,710	17,552,220
Vehicle fleet, % y-o-y	5.3	4.5	4.9	4.5	4.3	4.7	5.2
Vehicles per 1,000 of population	172.1	177.6	183.9	189.9	195.7	202.6	210.8

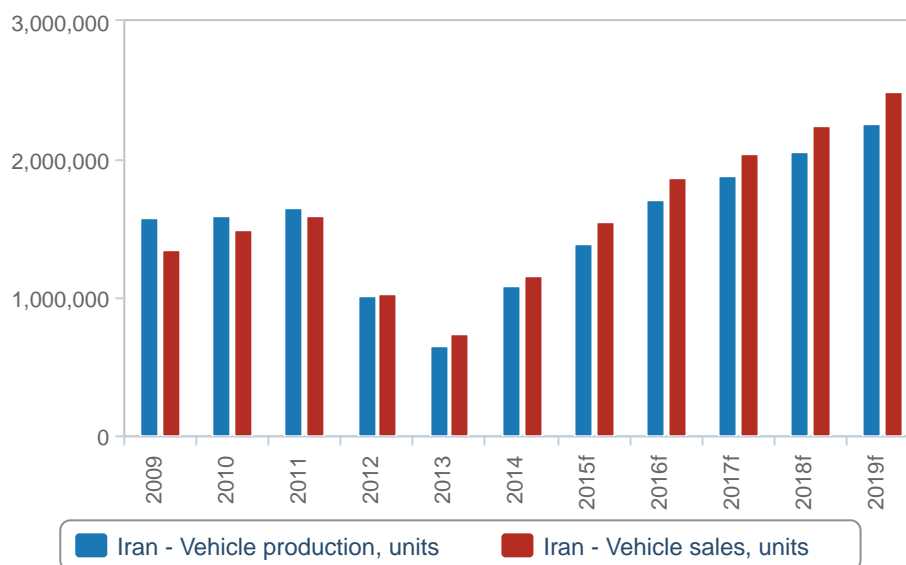
*e/f = BMI estimate/forecast. Source: National sources, BMI*

As Iran's biggest non-oil industry, the Autos sector will benefit greatly from the lifting of international sanctions. The market's size and growth potential will see brands which were already active in Iran and newcomers alike racing to stake their claim.

We factored a permanent deal into our sales and production forecasts earlier in the year, as it was the core view of our Country Risk team that a deal would be reached. We therefore maintain our forecast for 35% growth in car sales in calendar year 2015, which will see the market return to just below its peak of 2011, and forecast 27% growth in total vehicle output. At the moment, much of this growth is still coming from the effects of the interim deal that was agreed and allowed some imports to recommence.

## Stabilisation Before Growth Kicks In

### Iranian Vehicle Sales And Production



f = BMI forecast. Source: National sources, BMI

As the lifting of sanctions will only be fully finalised by the end of the year, we look to 2016 for the real results. We forecast sales growth of 20% as more brands enter the market and consumers take advantage of an unprecedented level of variety. This would take to the market to 1.8mn units - a new high for Iran and a reflection of real growth rather than just a return to pre-sanction levels. By 2017, we see the volumes surpassing 2mn units, with an improved economy and favourable demographics adding to the choice of brands as key drivers of growth.

### Competitive Landscape Shake-Up

Despite the influx of brands that is expected in Iran, we believe those that already had a presence in the country previously will have the advantage. In addition to already having access to facilities, usually through a local partner, they will also have brand awareness on their side and local knowledge of doing business in what can be a tough operating environment (see *'No End To Risks As Sanctions Eased'*, May 5).

France's **PSA Peugeot Citroen** will be the main beneficiary through its Peugeot brand, which has long dominated the market. The company felt a significant financial blow from its absence from Iran and its

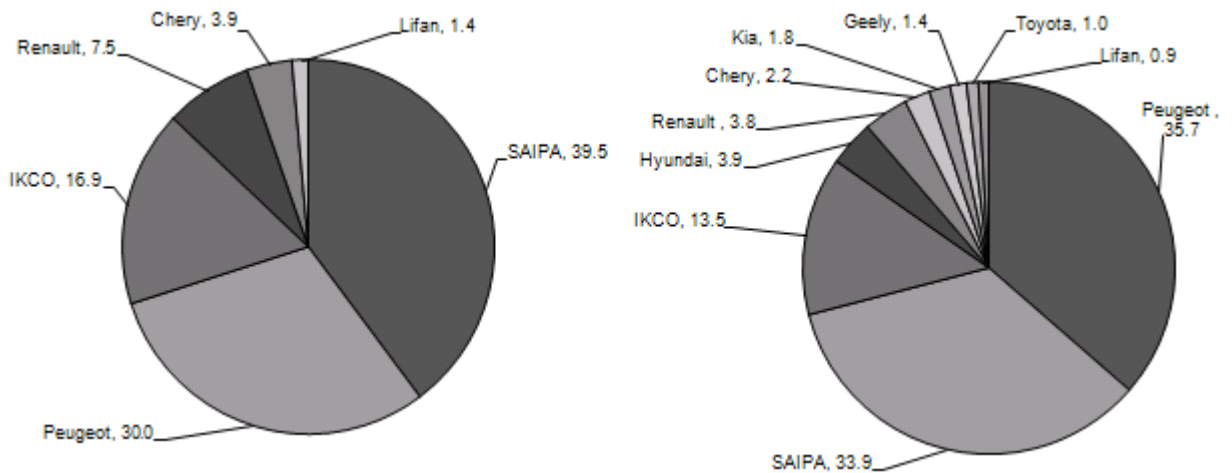
keenness to return is underlined by the deal it already has in place with local firm **IKCO** to return to the market as soon as sanctions are lifted.

Thanks to IKCO's experience of producing Peugeot models, the brand has still had a presence while sanctions were in place, but the implementation of the temporary nuclear deal saw Peugeot's market share increase to 35% in 2014. Chipping away at that kind of market leadership will be tough for other brands. However, we expect other returnees, including Renault and Hyundai-Kia to also enjoy the benefits of brand loyalty.

The imposition of sanctions allowed some brands that were not covered by the restrictions to increase their exposure in Iran. Chinese brands such as Chery and Lifan made it into the top five brands in 2013 as the variety on offer became scarce and cash-strapped consumers looked for low-cost options. While the addition of new brands has certainly brought change to the competitive landscape, we believe it will be difficult for these brands to maintain the level of market share that they achieved when sanctions were in place, and this is already evident in their 2014 market share.

### Hard To Beat Peugeot

Iran Car Market By Brand Share (%), 2013 (LHS) and 2014 (RHS)



Source: IVMA, BMI



There is demand among Iranian consumers for established international names, and as the chart below shows, the return of more brands under the temporary nuclear agreement saw these Chinese companies pushed down the rankings as Peugeot returned to its familiar place at the top.

As for new brands to come, the lifting of sanctions provides the opportunity for US brands to enter the market, which would be a momentous shift in the competitive landscape. The Iranian Auto Parts Association claims that American brands have already expressed an interest in investing in the market, where we believe they will be playing catch-up to some of their European rivals. They will not only need to build a brand presence but also a strategy in terms of logistics and distribution, which could cost them time in getting to market.

That said, from a demand perspective, we believe American brands would be well received in Iran. As our Food and Drink team has previously pointed out, a growing young population, which is increasingly brand conscious, is positive for Western companies looking to enter the market (*see 'Iran Consumer Potential To Attract Western Firms Following Nuclear Deal', April 14*).

While the best model for entering the Iranian market will be through a local partner, we expect to see the terms of these partnerships changing in the post-sanction era. IKCO's conditions for a partnership with Peugeot, with which it already has a long-standing relationship, reportedly included a much bigger focus on technology transfer and R&D.

We pointed out at the time that this highlights the mutual reliance on display in partnerships such as these. While the market's size and potential is a significant draw for international brands - particularly those that have felt the financial impact of their absence such as Peugeot and Renault - the demands put forward by IKCO show where the Iranian industry has been lacking and needs support in return (*see 'IKCO Conditions Highlight Mutual Reliance', May 8 2014*).

We expect more partnerships to follow these lines as brands to look gain entry to the market. Although it can sometimes be a deterrent for companies to have to share their technology, we believe the rewards on offer in Iran will outweigh the negatives.

## Passenger Vehicles

**Table: Passenger Car Market - Historical Data And Forecasts (Iran 2013-2019)**

	2013	2014e	2015f	2016f	2017f	2018f	2019f
Passenger car production, units	538,170	925,975	1,203,767	1,504,709	1,655,180	1,804,146	1,991,513
Passenger car production, units, % y-o-y	-38.3	72.1	30.0	25.0	10.0	9.0	10.4
Passenger car sales, units	737,000	1,153,300	1,556,955	1,868,346	2,036,497	2,240,146	2,486,563
Passenger car sales, units, % y-o-y	-28.5	56.5	35.0	20.0	9.0	10.0	11.0
Passenger car trade balance, units	-198,830	-227,325	-353,187	-363,636	-381,316	-436,000	-495,049
Passenger car trade balance, units, % y-o-y	25.1	14.3	55.4	3.0	4.9	14.3	13.5
Passenger car fleet, units	11,400,000	12,198,000	12,833,165	13,439,009	14,030,344	14,701,966	15,481,994
Passenger car fleet, % y-o-y	7.3	7.0	5.2	4.7	4.4	4.8	5.3
Passenger cars per 1,000 of population	147.2	155.4	161.5	167.0	172.3	178.5	185.9

e/f = BMI estimate/forecast. Source: National sources, BMI

Passenger cars remain the dominant vehicle segment in both sales and domestic production terms in Iran. Most of the carmakers looking to invest in the country are passenger car manufacturers and as such, this is where we see the most opportunities in the country's auto sector.

According to production data from the Iranian Vehicle Manufacturers Association (IVMA), which is taken as a proxy for domestic sales, the market is still very much dominated by **Peugeot** and looking to have an agreement ready to sign with **IKCO**, as soon as a permanent deal is announced, will increase its foothold. Chinese brands have also been expanding their presence and taking advantage of the absence of major Western brands. However, their volumes are not currently enough to trouble the leaders. **JAC** registered the highest growth among the top 10 brands in 2014, however, with sales more than doubling from the previous year. **Geely** also registered a solid 48.6% increase.

Table: Iran Car Sales By Brand Top 10

	2013	2014	% chg y-o-y	Market share (%)
Peugeot	181,051	318,697	76.0	35.7
SAIPA	237,724	302,346	27.2	33.9
IKCO	102,051	120,289	17.9	13.5
Hyundai*	29,987	34,485	15.0	3.9
Renault	45,221	33,869	-25.1	3.8
Chery	23,610	19,294	-18.3	2.2
Kia*	13,234	16,358	23.6	1.8
Geely*	8,532	12,680	48.6	1.4
Toyota*	6,246	9,339	49.5	1.0
Lifan	8,201	7,741	-5.6	0.9

\*2013 estimated from growth rate supplied. Source: IVMA

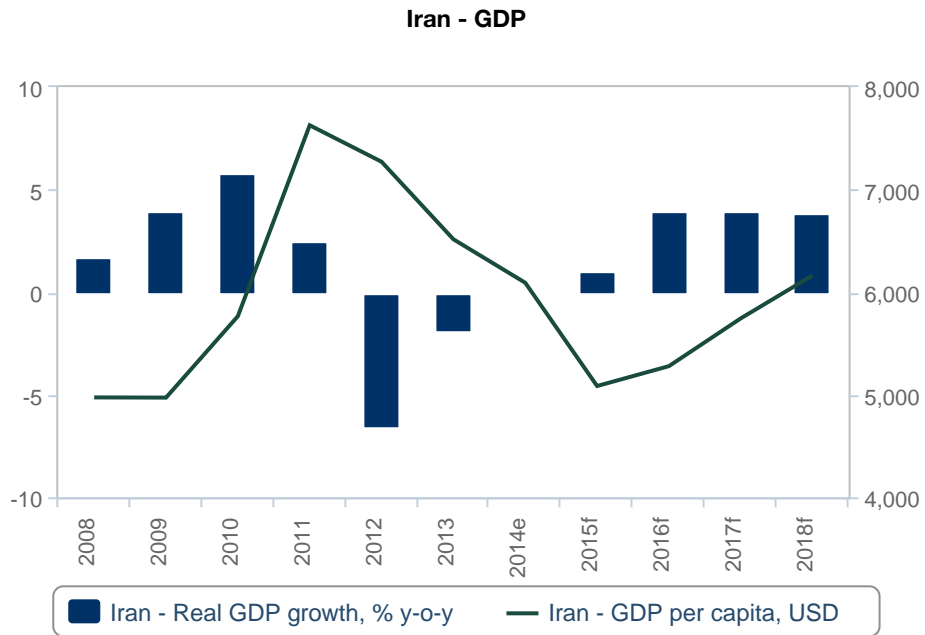
## Macroeconomic Forecast

### Economy To Grow Again On Sanctions Relief

***BMI View:** After three years of stagnation and recession Iran's economy will return to growth in 2015. This will be primarily due to sanctions relief as we expect an agreement to be reached over the country's nuclear programme. Overall, we expect real GDP growth of 3-4% from 2016 onwards, driven increasingly by fixed investment and net exports.*

Our expectation for sanctions to be unwound on Iran from Q315 will provide a significant boost to the country's economy. Sanctions across sectors such as on shipping, banking and oil will be relaxed as Iran complies with Western powers' demand over the dismantling of its nuclear programme. On the back of this we forecast Iran's economy to return to growth in 2015, following three years of recession. The impact of the unwinding of sanctions will be tempered by growth in imports, and because sanctions on the key oil sector will not lead to a significant uptick in exports until 2016 at the very earliest. In addition, years of underinvestment across all sectors will mean that although growth will reach around 4.0% over the coming years, a booming economy is off the cards as the recovery is tempered by logistical and bureaucratic issues.

## Noticeable Boost From Nuclear Deal

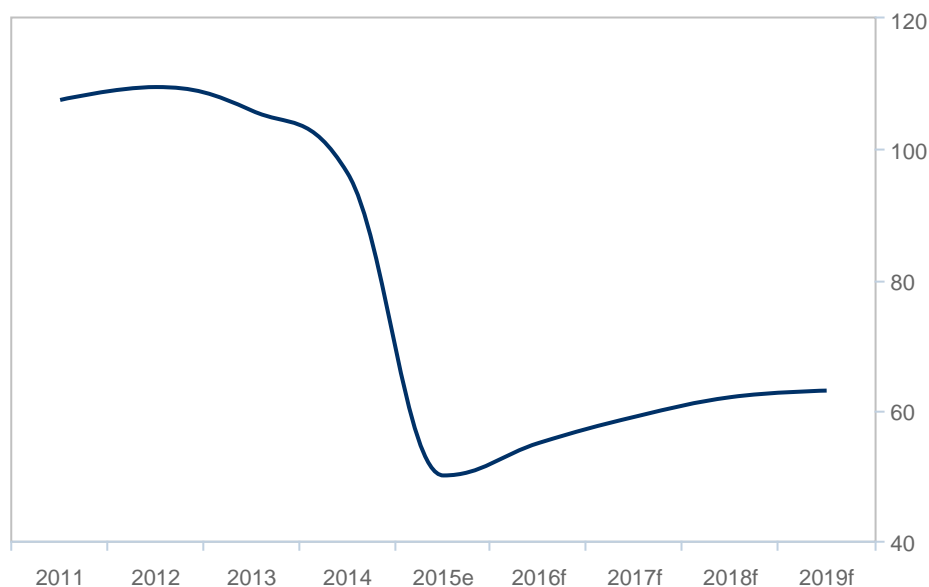


*e/f = BMI estimate/forecast. Source: BMI, UN*

In addition, lower oil prices will play a key role in limiting the impact of the unwinding of sanctions. We forecast oil prices to average USD53/bbl in 2015 and USD57/bbl in 2016 as a result of global oversupply. This will ensure government spending and private consumption growth will be relatively low. Fixed investment and exports will become increasingly important growth drivers, though this will be a slow process as opposed to a sudden jump once sanctions are eased. Indeed, while we expect President Hassan Rouhani's administration to undertake significant efforts to reform to the economy, the effects will be limited by a persistently opaque business environment, domestic resistance to opening up the economy and the slow political process.

## Sanctions Relief To Mitigate Weaker Oil Prices

Global - OPEC Basket Average Price (USD/bbl)



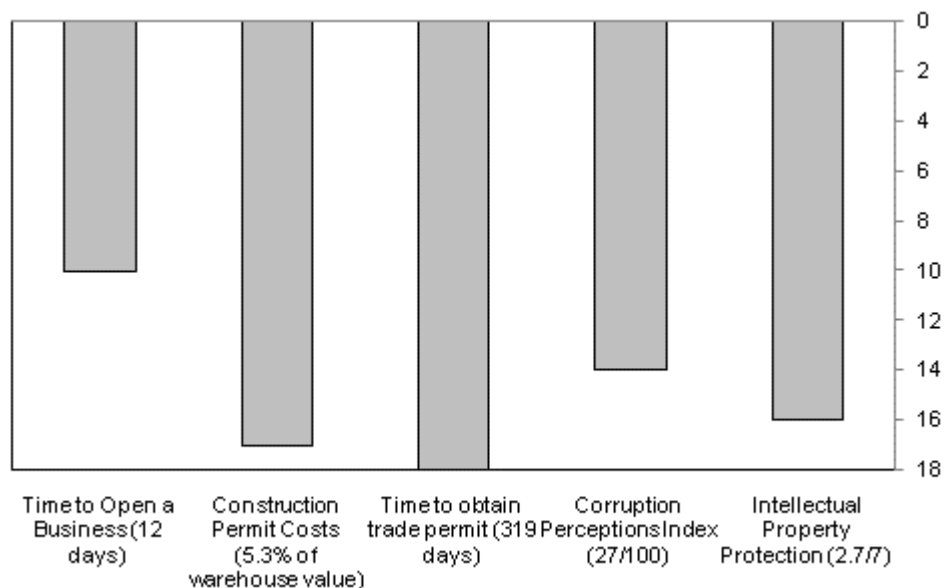
f = BMI forecasts; Source: BMI

**Private Consumption Outlook:** A reduction in sanctions bode well for private consumption over the longer term, however, this positive impact is unlikely to be felt until 2016 at the earliest. Subsidy cuts, high inflation and a depreciating rial, factors which we expect to continue over 2015, have dampened consumer demand substantially and will weigh on growth for the coming quarters. We forecast real growth of 2.0% and 4.0% in 2015 and 2016, respectively. The inflationary environment will improve, but persistently elevated price pressures will continue to hit purchasing power.

**Government Spending Outlook:** Lower oil prices will push Iran into a sustained fiscal deficit, averaging 4.0% of GDP over the coming three years. In response, we expect the government will quicken subsidy reforms and privatisation plans, however, this will be insufficient to prevent sustained deficits over the coming years.. As a result, government spending will remain subdued, which we forecast to increase by -3.0% and 1.0% in 2015 and 2016, respectively. (See: 'Sustained, But Manageable, Budget Deficits Coming' April 10).

## Impediments Remain For Investment

MENA - Rankings Indicators Of Business Environment (2013)



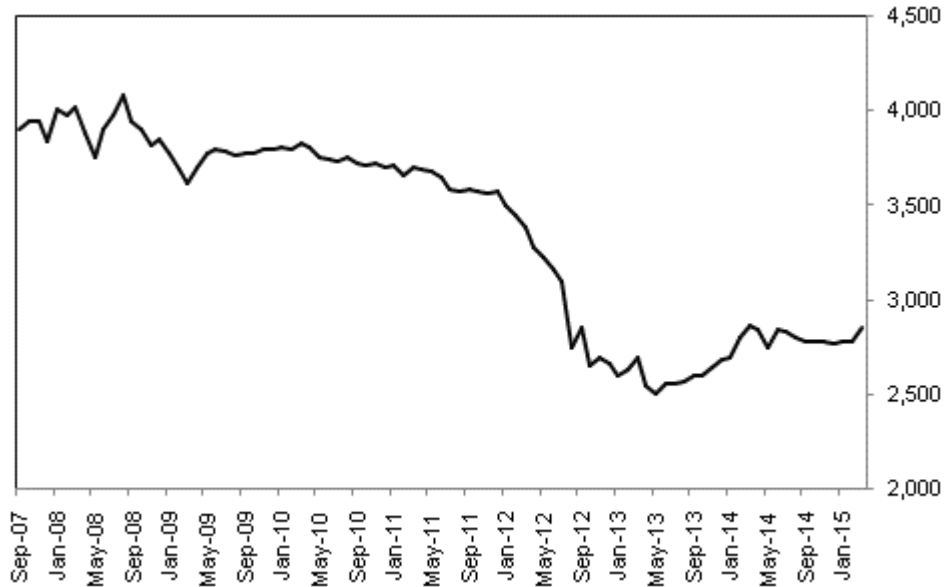
Source: BMI. NB Out of 18 MENA countries, excludes West Bank. For CPI and IPP, higher number is better.

**Fixed Investment Outlook:** Given Iran's dire need for investment as well as the myriad of opportunities across a range of sectors, gross fixed capital formation (GFCF) will be a key beneficiary of any reduction in sanctions, particularly for infrastructure.

Russian and Chinese companies have built a strong presence in Iran, particularly as a result of Western sanctions. However, we are starting to see growing interest from other international players in Iran, including Korean companies such as **GS Engineering & Construction** which has started surveying the Iranian market, looking for opportunities in gas infrastructure in particular. Furthermore, Arab, French, and Turkish companies are showing greater interest in returning to the Iranian construction market, with the awarding of the construction of the USD1.8bn Tabriz-Bazargan Highway to Turkish **Bergiz Insaat** in January 2015. With regards to regional players, we anticipate Omani and Qatari companies will show an interest in Iran, as well as Dubai-based **Arabtec**. Overall we forecast real growth in GFCF of 1.0% and 4.0% in 2015 and 2016 from an average of -3.1% over 2010-2014.

**Slight Improvement...**

**Iran, Oil Production, '000bbl/d**



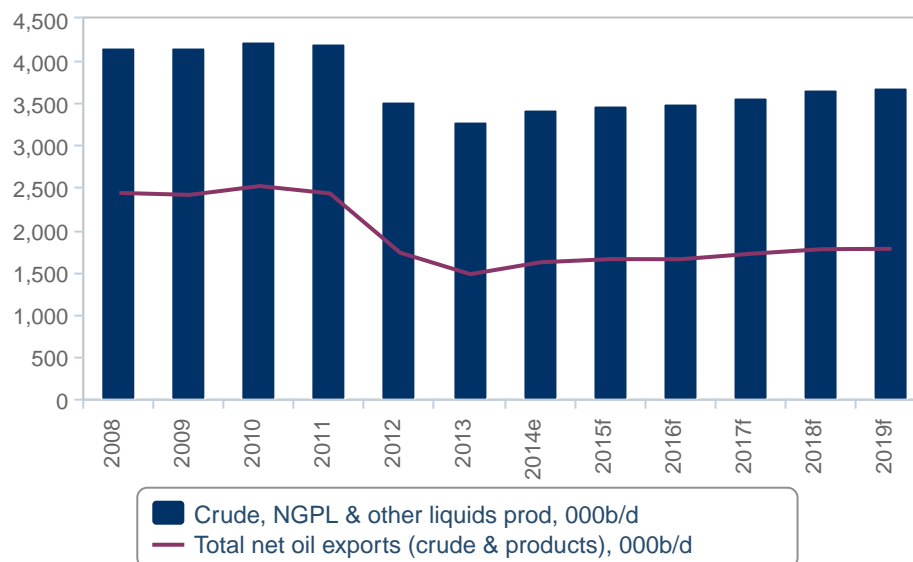
Source: IEA, BMI

However, a host of factors will hinder a more rapid expansion of fixed investment. Foreign companies in nearly every sector have recently expressed interest in returning to the Iranian market, but a key impediment will be Iran's difficult operational environment, with high levels of bureaucracy providing a significant barrier to trade and the utilities infrastructure struggling to meet demand. Iran scores poorly overall in the **BMI** Operational Risks Index, with 41.5 out of 100 ranking the country 13th out of 18 states in the MENA region. Indeed, Iran is a regional laggard across indices such as corruption and bureaucracy, factors which will not improve with a relaxation in sanctions.



### ... But Longer Term Growth Is Marginal

Iran - Oil Production



BMI/EIA

**Net Exports Outlook:** As we have previously outlined, Iranian oil exports will not suddenly increase from Q315 when a deal is announced. Sanctions on oil will take several months to be relaxed and years on underinvestment will weigh on export potential. In addition, as we have noted previously, several logistical and production difficulties preclude us from forecasting for a quick return of Iranian crude to the market. According to the International Energy Agency, total oil production expanded by 2.3% y-o-y in March, compared with a 2.1% increase in 2014. Low base effects and an uptick in condensates exports - which are not subject to international sanctions - will lead to an acceleration of energy export growth this year. We also factor in a steady incremental increase in Iranian exports, as Iran offloads oil in floating storage and slowly ramps-up production, progressively adding to oversupply in the oil market.

Import growth will remain muted over the coming quarters as we expect continued depreciation of the rial even with a deal over Iran's nuclear programme. However, once the economy begins to pick up speed from 2016 onwards, we expect import growth to head higher as consumer demand increases.

**Table: Economic Activity (Iran 2010-2019)**

	2010	2011	2012	2013	2014	2015e	2016f	2017f	2018f	2019f
Nominal GDP, USDbn	429.4	575.4	555.8	504.7	478.0	404.2	424.8	467.8	507.7	549.2
Real GDP growth, % y-o-y	5.8	2.5	-6.6	-1.9	0.0	1.0	4.0	4.0	3.9	4.1
GDP per capita, USD	5,766	7,628	7,272	6,516	6,092	5,085	5,279	5,745	6,164	6,594
Population, mn	74.5	75.4	76.4	77.4	78.5	79.5	80.5	81.4	82.4	83.3
Unemployment, % of labour force, eop	13.5	13.3	13.1	13.0	11.0	10.0	10.0	10.0	10.0	9.0

National Sources/BMI

**Table: GDP By Expenditure (Iran 2012-2019)**

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Private final consumption, IRRbn	2,999,816.0	3,513,034.6	4,356,163.0	5,445,203.7	6,643,148.5	7,872,131.0	9,131,671.9	10,592,739.5
Private final consumption, USDbn	245.9	195.4	168.6	175.7	184.5	207.2	228.3	252.2
Private final consumption, real growth % y-o-y	-1.7	-1.0	3.0	2.0	4.0	4.5	4.0	4.0
Government final consumption, IRRbn	715,016.5	962,204.9	1,202,756.1	1,443,307.3	1,717,535.7	1,992,341.4	2,271,269.2	2,634,672.2
Government final consumption, USDbn	58.6	53.5	46.6	46.6	47.7	52.4	56.8	62.7
Government final consumption, real growth % y-o-y	-7.2	1.6	4.0	-3.0	1.0	2.0	2.0	4.0
Fixed capital formation, IRRbn	2,443,180.6	3,490,657.1	3,005,140.7	3,179,685.8	3,457,146.7	3,769,754.0	4,123,129.2	4,502,417.6
Fixed capital formation, USDbn	200.3	194.1	116.3	102.6	96.0	99.2	103.1	107.2
Fixed capital formation, real growth % y-o-y	-12.3	-11.3	3.0	1.0	4.0	4.5	5.0	5.0
Exports of goods and	1,656,188.0	3,161,244.1	4,281,699.4	2,742,566.4	3,624,794.8	4,212,747.6	4,788,513.7	5,258,451.0

GDP By Expenditure (Iran 2012-2019) - Continued								
	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
services, IRRbn								
Exports of goods and services, USDbn	111.4	120.3	128.9	138.3	148.8	160.3	172.8	186.4
Exports of goods and services, real growth % y-o-y	-13.3	5.0	3.0	0.2	4.0	3.0	3.0	3.0
Imports of goods and services, IRRbn	1,381,800.0	2,553,261.2	1,757,353.4	1,830,024.8	1,977,877.7	2,153,663.1	2,340,346.7	2,538,519.1
Imports of goods and services, USDbn	89.7	97.2	104.9	113.0	121.7	131.1	141.2	152.2
Imports of goods and services, real growth % y-o-y	-16.1	-16.0	-5.0	-1.0	3.0	4.0	4.0	4.0
Net exports of goods and services, IRRbn	274,388.0	607,982.9	2,524,345.9	912,541.7	1,646,917.1	2,059,084.6	2,448,167.0	2,719,931.9
Net exports of goods and services, USDbn	21.7	23.0	23.9	25.3	27.1	29.2	31.6	34.3
Net exports of goods and services, real growth % y-o-y	-8.0	40.5	11.1	1.2	4.8	2.2	2.2	2.1

BMI/UN

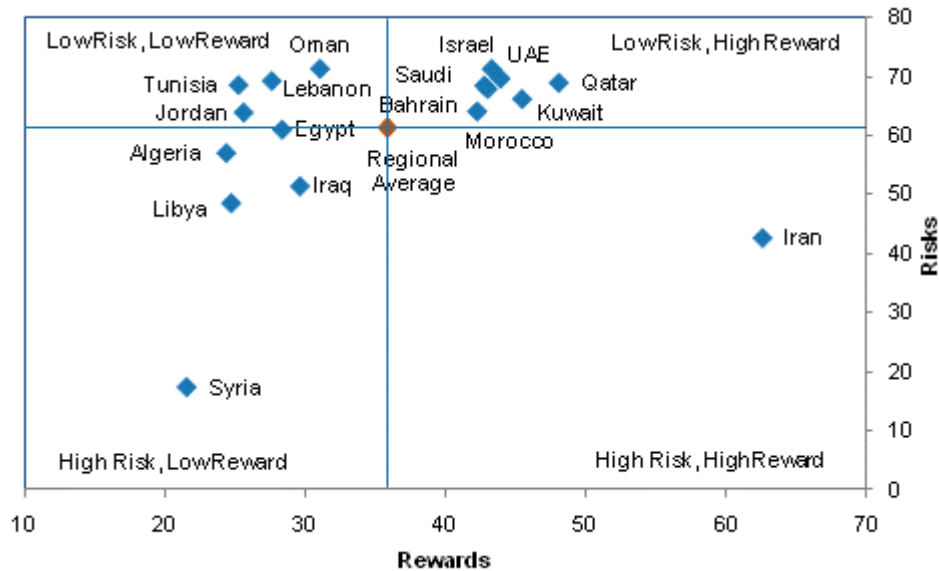
# Industry Risk/Reward Ratings

## MENA - Risk/Reward Index

In the latest update of our Risk/Reward Index for the Middle East and North Africa's Autos sector, Iran's overall score has risen, as the potential for the country to open up to Western brands has increased its sales and production growth scores. It is an outlier in the high risk, high reward segment, as the Gulf Cooperation Council (GCC) states still offer the most stable and attractive environments for doing business.

### GCC Still The Safe Haven For Growth

MENA Autos Risk/Reward Index (scores out of 100)



Notes: Higher scores = higher rewards/lower risk. Source: BMI

### Iran The Epitome Of 'High Risk, High Reward'

Iran is the notable outlier as the only country in the high risk, high reward quadrant. Its rewards score reflects the growth potential on offer; the country is the region's biggest car market with more than 1mn units. In addition, carmakers will once again have the opportunity to produce locally when the nuclear agreement reached in July is finalised.

However, these rewards are still very much tempered by risk, as highlighted by our Operational Risk team. Although a thawing of relations with the West will see Iran improve its position in **BMI's** Operational Risk Index, there are still numerous security risks. These risks, plus threats to trade and investment, including a poor rule of law, mean companies will face a challenging business environment (*see 'No End To Risks As Sanctions Ease', May 5*).

## GCC Leads On Stability

Perhaps unsurprisingly, the GCC states are grouped together in the low risk, high reward quadrant. Although most of the countries lack domestic production to contribute to their growth potential scores, they offer the most stable business environments and consistent sales growth opportunities. Qatar is slightly ahead of the pack, as its much higher GDP per capita (on a purchasing power parity basis) buoys its sales growth forecast.

Morocco has also joined this group, reflecting the increased investment activity in the country over the year so far. Strong private consumption makes the country a regional economic outperformer. This, coupled with its low-cost manufacturing base and favourable geographical position, means carmakers have been targeting Morocco as a new production and sourcing base (*see 'Five Reasons Carmakers Are Choosing Morocco', May 27*). From a business environment perspective it is also one of the most stable North African states, and this has carried it just over the average score for risks (*see 'Security Risks Less Onerous Than Other North African States', July 31*).

## Conflict Risks Are Pertinent

One link between most of the countries in the high risk, low reward segment is that they are involved in ongoing conflicts. Syria, Libya and, to some extent, Iraq are low on investment opportunities, and market growth is limited. As reflected in the chart, Iraq is the best positioned of the three, relatively speaking. Companies are still operating in the country, but increasing instability at the borders, particularly that with Jordan, one of its major trading partners, is impacting its growth potential (*see 'Border Instability Favours Iranian Carmakers', May 22*).

Egypt sits right on the average score between high and low risk, and this is a clear reflection of the country's precarious security situation, with fresh formal security talks with the US having only just restarted after a six-year break. The autos market itself is enjoying a period of recovery after the Arab Spring dampened demand, but we believe there are still fundamental risks to the manufacturing sector (*see 'Viability Of Vehicle Production At Risk', May 15*).

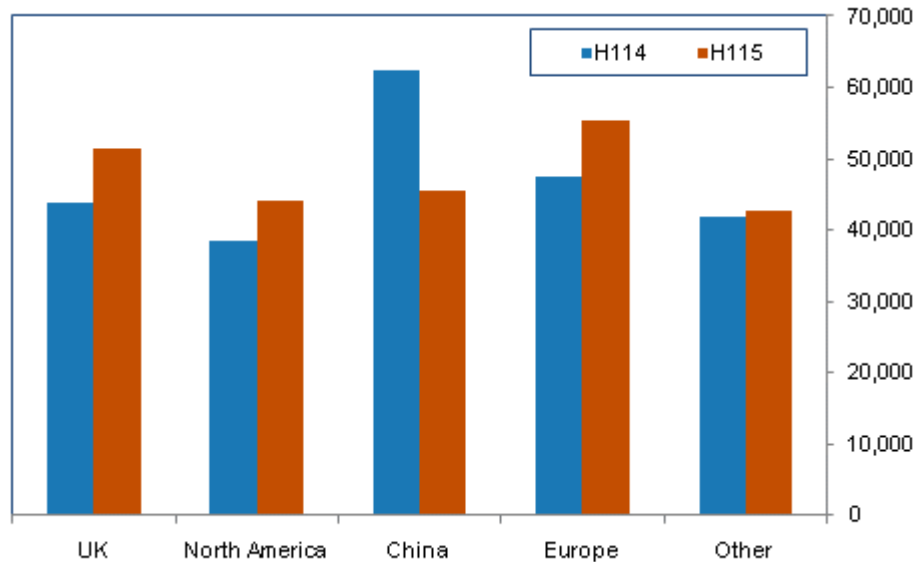
## Company Profile

### Company Monitor

While the Middle East and North Africa (MENA) is already among the biggest and fastest growing regions for **Jaguar Land Rover (JLR)**, we believe it will grow in importance as a revenue generator for the carmaker as other major markets such as China see slower growth. This aligns with our view that carmakers will need to look elsewhere now that the former growth markets of the world are facing obstacles to continued expansion (see *'Where Now For Carmakers?'*, July 10).

### Looking To Offset China Drop

JLR Retail Sales By Region H115 (CBUs)



Source: JLR

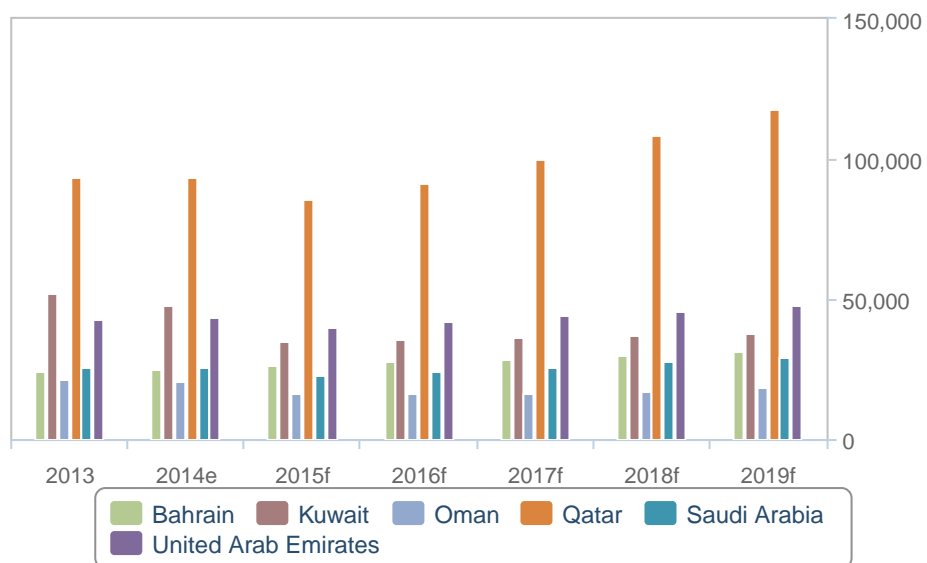
MENA was the carmaker's fifth-largest region in 2014, according to regional managing director Bruce Robertson, with Land Rover sales in the region growing around 6% and Jaguar reporting 'similar growth'. As results for H115 show that JLR's sales in China are already feeling the effects of both the clampdown on luxury spending and the downturn in the equity market (see *'Bursting Equity Bubble Will Damage Car Sales'*, July 8), the carmaker needs markets such as MENA to help make up for the shortfall.

JLR is already in the midst of a multi-year investment plan, which will see its regional dealership network grow from 43 to 60 by 2018/19 and create 2,000 new jobs. According to Robertson, some USD1.5mn was invested in 2014 to make products suitable for local markets and as far as future spending is concerned, each importer in the region will spend USD5-10mn on upgrading facilities and training staff.

Some dealers are going further, however. JLR's exclusive dealer for Bahrain, **Euro Motors**, is spending USD30mn on a new showroom for JLR models, which achieved 41% growth in the country in 2014. As well as a workshop to provide servicing, the showroom, due to be open by the end of 2015, will stock new and approved second-hand vehicles. We believe this strategy suits Bahrain as it has a relatively low GDP per capita compared with its GCC neighbours, and for many consumers, second-hand might be the most accessible route into premium brands such as Jaguar and Land Rover.

### Middle Of The Road For Spending Power

GDP Per Capita For GCC States (USD)



National Sources/BMI

Increasing access for consumers is part of the carmaker's regional strategy, with financing plans rolled out throughout the GCC. The programme is already available in Kuwait, Bahrain, Qatar and Saudi Arabia, and according to Robertson speaking earlier in the year, the goal is to have financing available for customers

everywhere in the MENA region. The carmaker expects the bigger markets to dominate in terms of take-up, based on sheer size, with Kuwait and Qatar showing the biggest initial adoption rates.

Investment has also gone into local research and development (R&D), making the USD1.5mn R&D centre in Dubai one of only five in the world. The centre tests for very specific conditions such as extreme heat and driving in sand, underlining the importance of making products adapt to local requirements.

In terms of new products, the region has two new launches from the brands that JLR wants to push the most - Jaguar and Land Rover. In a market where SUVs are a growth driver, Range Rover has been the outperformer for JLR, but it is hoping the new Land Rover Discovery Sport will be a success in the region and we believe the conditions are supportive, particularly for premium SUVs (*see 'SUV Will Build On Maserati Growth', January 30*).



## Iran Khodro Company (IKCO)

### Strengths

- Iran's largest auto manufacturer.
- Third-largest seller of cars in the domestic market over 2014.
- Samand and Peugeot Pars models remain popular.

### Weaknesses

- Company needs investment in its facilities and R&D.
- Company is primarily focused on one country.

### Opportunities

- With a permanent nuclear deal agreed, there is scope for more rapid growth in new car sales.
- Desire of foreign companies to enter Iran gives IKCO leverage in JV talks.
- Future tie-up with Peugeot would be beneficial to both companies.
- Local production facilities give the company a competitive edge within Iraq.

### Threats

- If the deal fails before implementation, it would be devastating for the local auto industry.
- Political instability remains a key concern for the whole Iranian economy and, by extension, new car sales.
- Increased foreign imports could eat into IKCO's market share over time.

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**Company Overview** IKCO is the largest auto manufacturer in Iran and was established in 1963. The firm also has foreign production facilities, including sites in Azerbaijan, Belarus and Venezuela.

In recent years, IKCO has concentrated on expanding its own ranges, as opposed to those it produces under license to other manufacturers. These models include the Dena, Runna, Soren, Sarir, Samand and Bardo. In addition, the company still produces variants of the Peugeot 405, 206 and 207 models, according to its website.

### **Strategy**

In January 2015, the IRNA reported that IKCO had expanded its after-sale services in various Iraqi cities, with the country also looking to increase its market share in the Persian Gulf littoral countries, according to managing director Hashem Yekke-Zare'a. The governor of the Iraqi city of Karbala, Aqil al-Tarihi said: 'Foreign vehicles manufactured in various countries, including Russia, are present in Iraq but most of them do not match the geographical conditions of Iraq. They are appropriate for use in the winter season, but do not match the summer season perfectly, while the Iran Khodro products do not have that deficiency'.

In light of the nuclear deal, IKCO has also established a new firm to expand cooperation between Iranian suppliers and their international counterparts. According to the company's CEO, Hasehm Yekke Zare, the newly-formed Avrand Plastic Company aims to develop the capabilities of domestic suppliers and enhance the quality of their final products. He said: 'Given the recent nuclear deal reached between Iran and the P5+1 group of countries and the subsequent positive atmosphere, Avrand Plastic can play a leading role in supplying necessary parts and exporting new Iranian products to the international markets'

### **New Products**

In June 2015, IKCO signed a memorandum of understanding with Sharif University of Technology and Amirkabir University of Technology to design and produce hybrid electric cars in the country. The company expects to manufacture the first model within three years. The Iranian government is arranging a support package to encourage hybrid electric car production under a long-term fuel economy plan, according to Minister of Industry, Mines and Trade Mohammad Reza Nematzadeh. 'This package is a prerequisite to the promotion of hybrid and electric cars in Iran because such automobiles must be produced and presented to the market for customers to buy them,' he said.

## Societe Annonyme Iranienne de Production Automobile (Saipa)

- Strengths**
- Second-largest car manufacturer in Iran.
  - Company's Pride model is the most popular in Iran.
  - Strong increases in sales and production reported for 2014.
- Weaknesses**
- Company needs investment in its facilities and R&D.
  - Company is primarily focused on one country.
- Opportunities**
- Company is looking to increase exports.
  - Future tie-up with Renault could be beneficial to both companies.
  - Local production facilities give the company a competitive edge within Iraq.
- Threats**
- Political instability remains a key concern for the whole Iranian economy and, by extension, new car sales.
  - Increased foreign imports could eat into Saipa's dominant market share over time.

- 
- Company Overview** Saipa is the second-largest auto manufacturer in Iran. The company produces a wide range of passenger and commercial vehicles, some of which are based on models previously developed by Kia (Pride) and Renault (Logan). The company is also looking to develop its own models, such as the Tiba, which is reportedly selling well at present.
- The Iranian government has control over the company through IDRO, an agency of the Ministry of Industry and Mines. In 1998, Saipa listed on the Tehran Stock Exchange as a first step towards privatisation. The majority 14.3% stake in private hands belongs to the Bahman Group, which is also engaged in autos manufacturing, under licence from Mazda, through Bahman Auto.
- Strategy** Speaking to Press TV in February 2015, Saipa's head of commerce and sales office, Mohammad Reza Abbasi, stated that Saipa saw production and sales both rise by 32% during 2014. Looking forward, Abbasi said that Saipa will start to produce a low-cost

car, known as the Saina, during the first half of the new Iranian calendar year, with the company also set to launch more than 10 models at the next motor show to be held in Isfahan.

In the same month, Press TV reported on comments from Saipa's CEO, Saied Madani, that the company would soon launch three new models onto the Iraqi market. Madani said that his company is looking to boost its market share within Iraq, saying that 'Saipa products are always highly received in Iraq thanks to their competitive prices, cheap spare parts and low fuel consumption'. Saipa operates one auto plant in Iraq that primarily produces Tiba and X100 models.

In July 2015, reports surfaced once again that Renault is in talks with its Saipa-owned joint venture partner Pars-Khordro to acquire a minority stake in the local firm. The deal is said to include infrastructure, including production plants, but Renault has not commented on the reports.

## Regional Overview

### Industry Trend Analysis

In BMI's regular round-up of production investments, we track the latest projects from the production side of the industry and analyse trends that we see developing on a regional basis. In doing so, we hope to build a picture of any potential hubs that may be developing, as well as identifying company strategy in terms of production bases and export programmes.

**Table: MENA Production Investments**

Date Announced	Country	City/State/Region	Company	Value	Brief Description	Date On Stream
Apr-15	UAE	Dubai	W Motors	n/a	New plant for production of super cars, premium cars and electric vehicles, with an initial annual production capacity of 35 cars, rising to 200	2016
May-15	Saudi Arabia	Sudair Industrial City	Daewoo International/ SNAM/PIF	USD1bn	Agreements finalised for new vehicle production plant for both domestic and export markets, with an initial annual production capacity of 150,000 units	2018
May-15	Morocco	TBC	PSA Peugeot Citroen	n/a	Reports of a new production facility for export to North Africa and surrounding markets with annual production capacity of around 100,000 units	n/a
May-15	Oman	TBC	IKCO	USD100mn	Proposed new vehicle production plant with annual assembly capacity of 20,000 SKD kits, to serve Oman and neighbouring markets including Yemen, Sudan, Eritrea and Ethiopia	TBC
May-15	Egypt	TBC	AvtoVAZ/ Kamaz/GAZ/ UAZ	TBC	Looking to increase local assembly presence, often with local partners	TBC

*n/a = not available, TBC = to be confirmed. Source: BMI*

### GCC Production Spreads

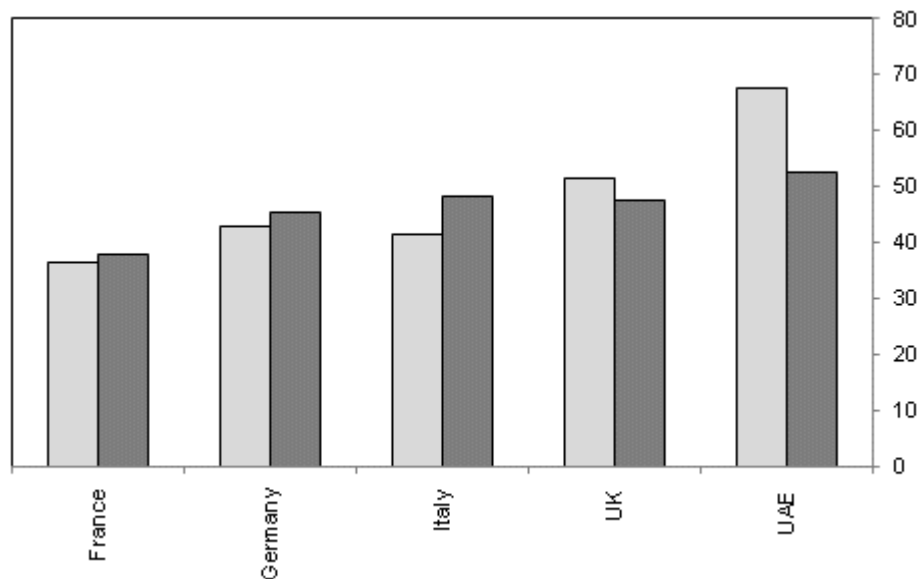
One of the most notable trends in this latest round-up is that three of the five listings are in Gulf Co-operation Council (GCC) states. In addition to more details on a USD1bn project in Saudi Arabia, led by **Daewoo International**, there are also projects in Dubai and a proposed plant in Oman, suggesting that the

idea of domestic production in the GCC is spreading beyond the base that has been developing in Saudi Arabia.

**W Motors**, which plans to establish a plant for a range of vehicles in Dubai, including super cars and electric vehicles, highlighted some of the advantages that Dubai has over Europe as a production base. This included lower taxes on raw materials, labour, working hours and insurance. This is borne out by our Operational Risk team's Labour Risk Index, which shows that for both labour costs and flexibility of labour, the UAE has the highest score (indicating a more attractive market) in both categories when compared with the major European autos manufacturing bases.

### UAE Has Labour Market Edge

Select Countries - Labour Cost And Flexibility Of Labour



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Source: BMI Labour Risk Index (scores out of 100, higher score is most attractive)

Iran's **IKCO** has gone a step further, suggesting that Oman can act as an export base for markets such as Yemen, Sudan, Eritrea and Ethiopia, rather than producing in Africa itself. However, this is not the first interest in Oman in relation to establishing automotive production, as the Oman Investment Fund (OIF) acquired a 40% stake in Italian components firm **Sigit** in April, which was linked to attempts to develop a

production base in the country. OIF also owns a 30% stake in **Karwa Auto Motors**, which announced plans in 2014 to build buses in Oman at a USD200mn plant. This is due to come on stream within three years.

## Changes In North Africa

In line with our view that Egypt's position as North Africa's main production hub is at risk, Morocco has received increased interest. Although yet to be confirmed, there are reports that French carmaker **PSA Peugeot Citroen** will establish a plant in the country to serve its North African markets. With Carlos Tavares now at the helm, it would not be a surprise if the reports of a PSA plant in Morocco are confirmed, as he was a key figure in **Renault's** North African expansion during his time at the company.

We also believe there are several reasons why Morocco is an attractive option for carmakers (*see 'Five Reasons Carmakers Are Choosing Morocco', May 27*). While not included in the table as it does not involve capacity investment, **Ford Motor** has also announced plans to increase its sourcing of components from Morocco for use at its plant in Valencia, Spain.

This comes at a time when **Daimler** has announced its withdrawal from domestic assembly in Egypt, moving to Algeria instead. A trade deal between Egypt and the EU means it is increasingly more competitive for European companies to export to Egypt from Europe than to produce locally. This adds to threats to the local production industry, which we have already highlighted (*see 'Viability Of Vehicle Production At Risk', May 15*).

However, there is some good news in this latest update, as a bilateral deal between Egypt and Russia has resulted in major Russian vehicle producers, including **AvtoVAZ**, **UAZ**, **GAZ** and **Kamaz**, announcing plans to increase their exposure in Egypt through local assembly. AvtoVAZ is planning to increase its local output from 2,500 units currently to 3,000 units in 2016, while Kamaz and GAZ are looking for local partners to begin assembly of trucks and buses respectively.

## Global Industry Overview

With the first half of the year gone, we look at how the key trends we highlighted for 2015 are playing out (*see 'Global Autos: Key Trends For 2015', December 8 2014*) and any new trends that we think will be noteworthy for H215. We will also look at existing and new risks and opportunities in the sector.

### 1. Currency Weakness Hurting African Growth

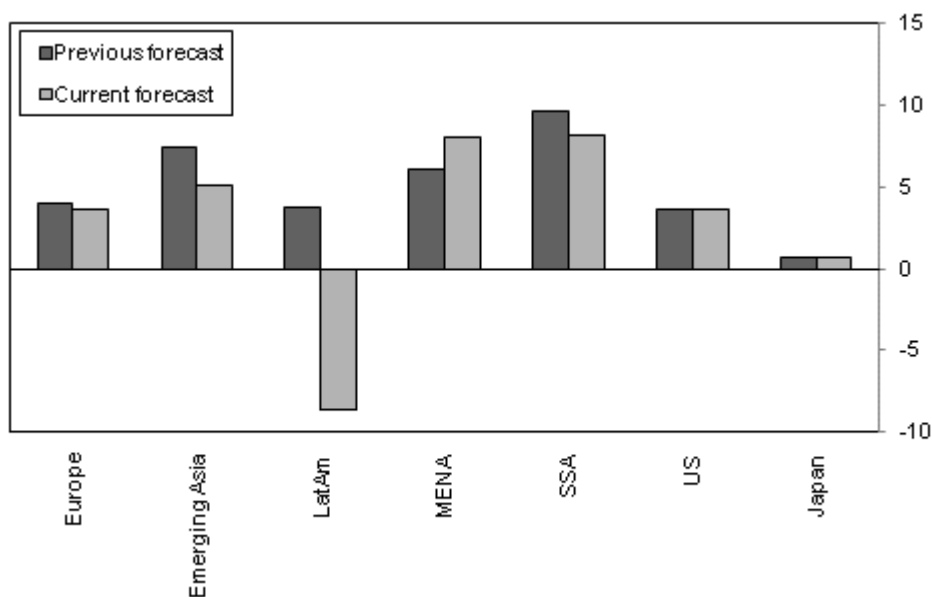
Our forecasts still show that Sub-Saharan Africa (SSA) will have the highest vehicle sales growth in 2015. However, the margin by which it will be the fastest growing region is much reduced and this is largely owing to weak currencies across the region, which are increasing the price of imports. Affordability is already an issue in SSA where incomes are relatively low on a global scale, and with less domestic production to rely on than some of the more developed markets, imports are integral to the sector's growth.

In South Africa we have already seen even the more affordable Chinese brands having to rethink their strategies as the weak rand pushes up prices. Based on our forecast for a sustained depreciatory trend, we expect this to be something that carmakers will need to plan for on a long-term basis (*see 'Chinese OEMs Face Prolonged Rand Weakness', June 9*).



## African Advantage Eroded By Weak Currencies

Global Vehicle Sales Growth Forecasts By Region (% chg y-o-y)



Source: BMI

We have also seen how some companies are already building a strategy around using a re-export hub within the region to reduce exposure to unfavourable exchange rates. **Volvo Trucks** has addressed both affordability and currency issues by entering the used truck market with an authorised second-hand division and has set up its base in South Africa to export to other markets in the region (*see 'Volvo Finds Opportunities In Second Hand Trucks', June 11*). We expect to see more strategies implemented to deal with foreign exchange issues over the second half of the year.

## 2. Increasing Local Content In Trouble Spots

As we pointed out in our last Key Trends update, lower oil prices have hurt some oil exporters more than others, particularly those governments that are heavily reliant on oil income for foreign currency. The chart above shows that our outlook for Latin America has deteriorated markedly since the end of 2014 and the worsening conditions in Brazil, Argentina and Venezuela are behind that downward revision.

That said, investment has continued to flow into Brazil and Argentina's autos sector, as well as into Russia's, where the same currency weakness linked to low oil prices is hurting the market. At first glance, this

investment activity is counter-intuitive given the contractions forecast for all the markets mentioned above in 2015. However, most of the investment projects recorded in our regional investment round-ups have a localisation theme in common.

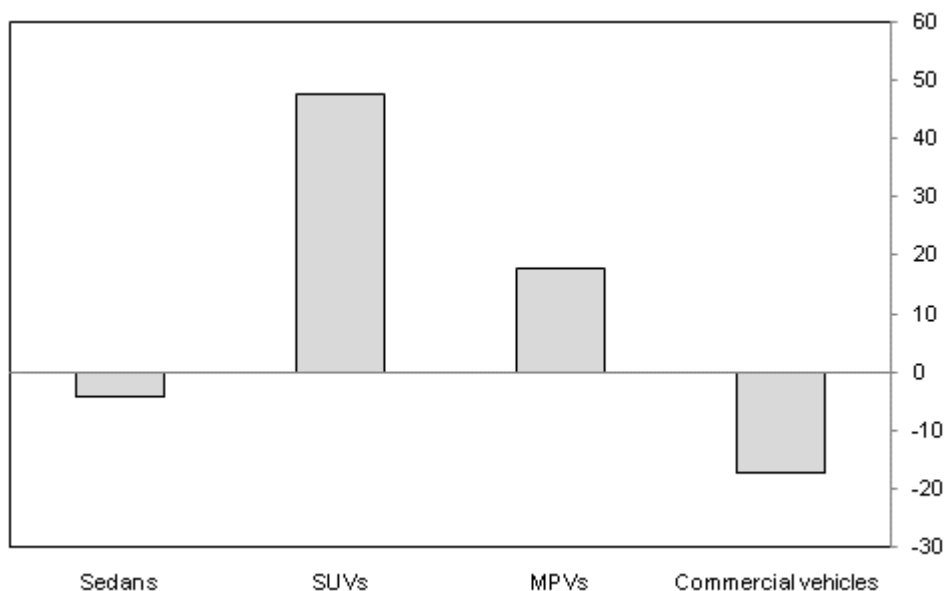
Carmakers are investing to increase the level of local content used in vehicles produced in the countries, with the aim of reducing their exposure to unfavourable currency moves by cutting back on imported parts. It will also make products more competitive to tap demand when it does improve in these markets. These projects could take more than a year to start showing results, but the level of activity supporting the localisation trend means that we expect suppliers to start outperforming the carmakers themselves in some of these markets (*see 'Localisation Boosting Supplier Outperformance Over Automakers', May 6*).

### 3. SUVs Rolling On

Our view that SUVs would be the segment of choice in 2015 is playing out well and will continue to do so. It is the outperforming segment in a Chinese market that is otherwise struggling for growth, and demand for SUVs in North America is behind much of the investment we have seen in the region in the first half of the year (*see 'Autos Investment Round-Up: SUV Demand Drives Investment', February 13*).

## SUVs Keep Market Afloat

China Vehicle Sales Growth By Segment, 5M15



Source: CAAM

As we expected, subcompact SUVs are playing a part in this global growth as more carmakers roll out new models in the category. We expect this to be the case over the remainder of the year as the smaller models continue to find the middle ground for car owners looking to comfortably upsize, and drivers who are looking to downsize but keep the features of an SUV.

By the end of the year, we expect to see attention turning to other sub-segments of the SUV market, as luxury brands step up their efforts to add SUVs to their product range. We expect such product additions to give these brands a boost in regions where SUVs are especially popular (see *'SUV Will Build On Maserati Growth', January 30*). We also look forward to the arrival of electric SUVs with **Tesla Motors** planning to launch the Model X within the next few months, while **BMW** has revealed plans for an SUV for its 'i' range to be built in the US.

#### 4. Tech/Autos Lines Are Blurring

The integration of the autos and technology sectors will only gain even more momentum through the development of connected cars, autonomous cars and even business models that skirt the idea of car ownership altogether, such as car-sharing schemes (*see 'Car-Sharing Offers A New Hope For Automakers', June 8*).

As both connected and autonomous vehicles are new areas for the autos and technology sectors, we expect to see ongoing co-operation between the two industries as knowledge sharing is vital. However, we also expect to see questions arising over which side controls the new battleground: the car dashboard. The traditional model has been built around a carmaker's proprietary Telematics system, which integrates apps from technology firms. **Apple's** CarPlay turns this model on its head, however, by enabling the driver to connect their iPhone to the vehicle and use it through the car's digital interface, with the provision to add apps from the carmaker. This underlines our view of a car rapidly becoming another gadget to consumers.

Other questions that have arisen, and which will continue to be major talking points over the remainder of the year and beyond, surround the amount of data being generated by connected cars and the security this requires. Like much of the 'Internet of Things' (IoT), the sector needs global standards, particularly as we move toward Vehicle to Vehicle technology where all vehicle brands and models will be required to communicate globally. However, as our ICT team points out, achieving that level of global regulation often takes time and this could be a problem for the autos sector as progress outpaces that in most other IoT technologies (*see 'Connected Car Security Requires Standardisation', February 10*).

## Demographic Forecast

Demographic analysis is a key pillar of **BMI**'s macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail the population pyramid for 2015, the change in the structure of the population between 2015 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

### Population

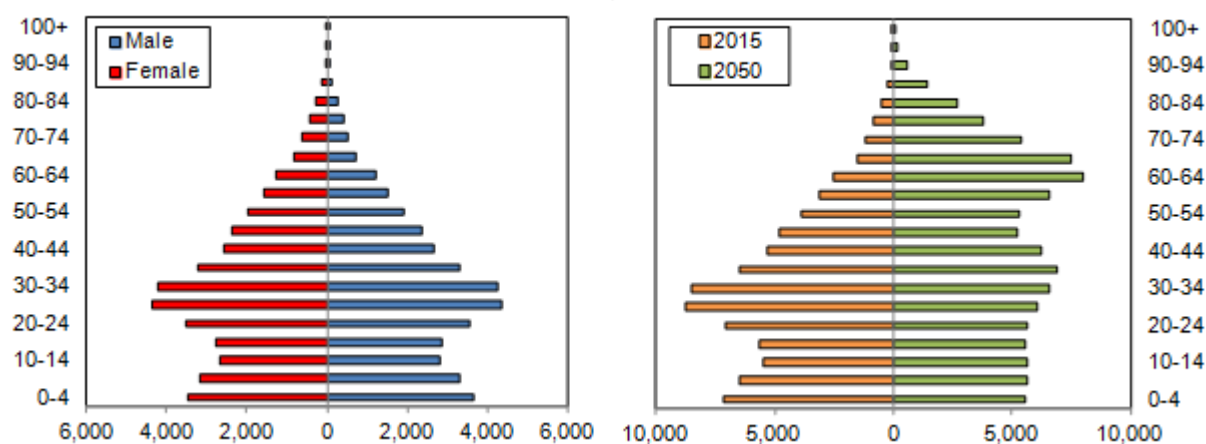
(1990-2050)



*f = BMI forecast. Source: World Bank, UN, BMI*

## Iran Population Pyramid

2015 (LHS) &amp; 2015 Versus 2050 (RHS)



Source: World Bank, UN, BMI

Table: Population Headline Indicators (Iran 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, total, '000	56,361	65,911	70,152	74,462	79,476	84,148	88,064
Population, % change y-o-y	na	1.6	1.2	1.3	1.3	1.1	0.8
Population, total, male, '000	28,807	33,504	35,917	37,656	39,915	42,307	44,213
Population, total, female, '000	27,554	32,406	34,235	36,805	39,560	41,840	43,850
Population ratio, male/female	1.05	1.03	1.05	1.02	1.01	1.01	1.01

na = not available; f = BMI forecast. Source: World Bank, UN, BMI

Table: Key Population Ratios (Iran 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Active population, total, '000	28,945	40,290	48,583	53,034	55,945	58,184	60,945
Active population, % of total population	51.4	61.1	69.3	71.2	70.4	69.1	69.2
Dependent population, total, '000	27,415	25,620	21,569	21,427	23,530	25,964	27,118
Dependent ratio, % of total working age	94.7	63.6	44.4	40.4	42.1	44.6	44.5

**Key Population Ratios (Iran 1990-2025) - Continued**

	1990	2000	2005	2010	2015f	2020f	2025f
Youth population, total, '000	25,543	22,850	18,115	17,585	19,140	20,362	19,984
Youth population, % of total working age	88.2	56.7	37.3	33.2	34.2	35.0	32.8
Pensionable population, '000	1,872	2,770	3,453	3,841	4,389	5,601	7,134
Pensionable population, % of total working age	6.5	6.9	7.1	7.2	7.8	9.6	11.7

f = BMI forecast. Source: World Bank, UN, BMI

**Table: Urban/Rural Population And Life Expectancy (Iran 1990-2025)**

	1990	2000	2005	2010e	2015f	2020f	2025f
Urban population, '000	31,748.6	42,210.8	47,393.5	51,332.8	55,362.4	59,374.4	63,078.7
Urban population, % of total	56.3	64.0	67.6	68.9	69.7	70.6	71.6
Rural population, '000	24,613.2	23,700.3	22,758.8	23,129.5	24,113.9	24,774.2	24,985.6
Rural population, % of total	43.7	36.0	32.4	31.1	30.3	29.4	28.4
Life expectancy at birth, male, years	61.2	68.7	70.0	71.3	72.8	74.2	75.5
Life expectancy at birth, female, years	65.8	70.6	73.1	75.1	76.6	78.0	79.2
Life expectancy at birth, average, years	63.4	69.6	71.5	73.1	74.6	76.0	77.3

e/f = BMI estimate/forecast. Source: World Bank, UN, BMI

**Table: Population By Age Group (Iran 1990-2025)**

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, total, '000	9,312	6,316	5,483	6,555	7,146	6,751	6,148
Population, 5-9 yrs, total, '000	8,905	7,552	5,476	5,416	6,507	7,116	6,729
Population, 10-14 yrs, total, '000	7,324	8,981	7,154	5,613	5,487	6,494	7,105
Population, 15-19 yrs, total, '000	5,822	8,800	9,247	7,215	5,643	5,466	6,474
Population, 20-24 yrs, total, '000	4,697	6,932	9,143	8,993	7,067	5,595	5,424
Population, 25-29 yrs, total, '000	4,054	5,315	6,859	8,704	8,726	6,997	5,541
Population, 30-34 yrs, total, '000	3,535	4,442	5,202	6,521	8,484	8,649	6,937
Population, 35-39 yrs, total, '000	3,030	3,886	4,693	5,210	6,497	8,410	8,579
Population, 40-44 yrs, total, '000	2,123	3,372	4,112	4,833	5,262	6,431	8,333
Population, 45-49 yrs, total, '000	1,620	2,857	3,421	4,032	4,757	5,193	6,353

**Population By Age Group (Iran 1990-2025) - Continued**

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 50-54 yrs, total, '000	1,526	1,929	2,800	3,244	3,895	4,665	5,101
Population, 55-59 yrs, total, '000	1,393	1,431	1,766	2,637	3,109	3,788	4,548
Population, 60-64 yrs, total, '000	1,140	1,322	1,336	1,639	2,500	2,985	3,652
Population, 65-69 yrs, total, '000	898	1,145	1,257	1,279	1,550	2,340	2,813
Population, 70-74 yrs, total, '000	507	825	1,055	1,129	1,143	1,369	2,090
Population, 75-79 yrs, total, '000	269	508	654	802	876	902	1,105
Population, 80-84 yrs, total, '000	135	203	347	413	528	598	637
Population, 85-89 yrs, total, '000	48	66	112	172	216	290	343
Population, 90-94 yrs, total, '000	10	17	21	38	63	84	119
Population, 95-99 yrs, total, '000	1	2	3	4	8	15	22
Population, 100+ yrs, total, '000	0	0	0	0	0	1	2

*f = BMI forecast. Source: World Bank, UN, BMI*

**Table: Population By Age Group % (Iran 1990-2025)**

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, % total	16.52	9.58	7.82	8.80	8.99	8.02	6.98
Population, 5-9 yrs, % total	15.80	11.46	7.81	7.27	8.19	8.46	7.64
Population, 10-14 yrs, % total	13.00	13.63	10.20	7.54	6.90	7.72	8.07
Population, 15-19 yrs, % total	10.33	13.35	13.18	9.69	7.10	6.50	7.35
Population, 20-24 yrs, % total	8.34	10.52	13.03	12.08	8.89	6.65	6.16
Population, 25-29 yrs, % total	7.19	8.06	9.78	11.69	10.98	8.32	6.29
Population, 30-34 yrs, % total	6.27	6.74	7.42	8.76	10.68	10.28	7.88
Population, 35-39 yrs, % total	5.38	5.90	6.69	7.00	8.18	9.99	9.74
Population, 40-44 yrs, % total	3.77	5.12	5.86	6.49	6.62	7.64	9.46
Population, 45-49 yrs, % total	2.88	4.33	4.88	5.42	5.99	6.17	7.22
Population, 50-54 yrs, % total	2.71	2.93	3.99	4.36	4.90	5.54	5.79
Population, 55-59 yrs, % total	2.47	2.17	2.52	3.54	3.91	4.50	5.17
Population, 60-64 yrs, % total	2.02	2.01	1.90	2.20	3.15	3.55	4.15
Population, 65-69 yrs, % total	1.59	1.74	1.79	1.72	1.95	2.78	3.19
Population, 70-74 yrs, % total	0.90	1.25	1.50	1.52	1.44	1.63	2.37
Population, 75-79 yrs, % total	0.48	0.77	0.93	1.08	1.10	1.07	1.26
Population, 80-84 yrs, % total	0.24	0.31	0.50	0.55	0.66	0.71	0.72



**Population By Age Group % (Iran 1990-2025) - Continued**

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 85-89 yrs, % total	0.09	0.10	0.16	0.23	0.27	0.34	0.39
Population, 90-94 yrs, % total	0.02	0.03	0.03	0.05	0.08	0.10	0.14
Population, 95-99 yrs, % total	0.00	0.00	0.00	0.01	0.01	0.02	0.03
Population, 100+ yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

*f = BMI forecast. Source: World Bank, UN, BMI*

## Methodology

### Industry Forecasts

**BMI**'s industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined.

Common to our analysis of every industry is the use of vector autoregressions. Vector autoregressions allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

**BMI** mainly uses OLS estimators and, in order to avoid relying on subjective views and encourage the use of objective views, we use a 'general-to-specific' method. **BMI** mainly uses a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example poor weather conditions impeding agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. **BMI** selects the best model according to various different criteria and tests, including but not exclusive to:

- $R^2$  tests explanatory power; adjusted  $R^2$  takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value);
- All results are assessed to alleviate issues related to auto-correlation and multi-collinearity.

**BMI** uses the selected best model to perform forecasting.

Human intervention plays a necessary and desirable role in all of **BMI**'s industry forecasting. Experience, expertise and knowledge of industry data and trends ensure that analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

## Sector-Specific Methodology

A number of principal criteria drive our extrapolations and forecasts for each autos variable.

### ▪ **Production And Sales**

At a general level, we approach our forecasting from both a micro and a macro perspective, assessing the expansion plans of relevant multinationals/indigenous firms, while also taking account of the prevailing economic outlook. In this latter respect, our projections for macro variables such as industrial output, private consumption, government investment, monetary policy and GDP growth play a key role.

Figures for production are derived from a generic source (thereby ensuring maximum comparability between country data-sets), and include all vehicles with four wheels or more. For sales, we rely on data from government agencies and national automobile associations. Unless otherwise stated, sales numbers include domestically produced and imported vehicles, but not exports. The sector's contribution to GDP is projected by taking the US dollar production value as a proportion of nominal GDP, using our own macroeconomic and demographic forecasts.

### ▪ **Auto Imports And Exports**

These variables are mainly calculated at the micro level, using individual company reports. Changes in government policy, particularly with regard to tariffs and quotas, also have a significant bearing.

## Sources

Aside from government departments and official company reports, we rely on the International Organization of Motor Vehicle Manufacturers (OICA), other established think tanks, institutes, and international and national news agencies.

## Risk/Reward Index Methodology

**BMI's Risk/Reward Index (RRI)** provides a comparative regional ranking system evaluating the ease of doing business and the industry-specific opportunities and limitations for potential investors in a given market. The RRI system divides into two distinct areas.

### Rewards

Evaluation of sector's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development. This is further broken down into two sub categories:

- **Industry Rewards.** This is an industry-specific category taking into account current industry size and growth forecasts, the openness of market to new entrants and foreign investors, to provide an overall score for potential returns for investors.
- **Country Rewards.** This is a country-specific category, and the score factors in favourable political and economic conditions for the industry.

### Risks

Evaluation of industry-specific dangers and those emanating from a state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period. This is further broken down into two sub categories:

- **Industry Risks.** This is an industry-specific category whose score covers potential operational risks to investors, regulatory issues inhibiting the industry and the relative maturity of a market.
- **Country Risks.** This is a country-specific category in which political and economic instability, unfavourable legislation and a poor overall business environment are evaluated to provide an overall score.

We take a weighted average, combining industry and country risks, or industry and country rewards. These two results provide an overall RRI, which is used to create our regional ranking system for the risks and rewards of involvement in the autos industry in a particular country.

For each category and sub-category, each state is scored out of 100 (100 being the best), with the overall RRI a weighted average of the total score. As most of the countries and territories evaluated are considered by **BMI** to be 'emerging markets', our index is revised on a quarterly basis. This ensures that the score draws on the latest information and data across our broad range of sources, and the expertise of our analysts.

In constructing this index, the indicators in the table below have been used. Almost all indicators are objectively based. Given the number of indicators/datasets used, it would be inappropriate to give all sub-components equal weight. The weighting given is described in the table.

**Table: Automotive Risk/Reward Index Indicators And Weighting Of Indicators**

	<b>Weighting, %</b>
Rewards	70, of which
Industry Rewards	65, of which
Vehicle ownership, % of population	10
Total vehicle stock, mn	10
Total production	10
Production growth, five-year forecast average	10
Total vehicle sales	10
Sales growth, five-year forecast average	10
Country Rewards	35, of which
Urban/rural split	10
Rigidity of employment	10
Labour costs	10
GDP per capita, USD	10
Risks	30, of which
Industry Risks	50, of which
Regulatory environment	10
Competitive landscape	10
Country Risks	50, of which
Corruption	10
Bureaucracy	10
Market orientation - openness	10
Legal framework	10
Long-term monetary risks	10
Long-term external risks	10
Long-term financial risks	10
Long-term policy continuity	10

Source: BMI

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