豊田通商株式会社

＜November 4, 2022Africa Business Briefing　Main Questions and Answers＞

Date　：November 4, 2022　12:00～13：00
Speaker　：CFO　Hideyuki Iwamoto
Africa Division CEO　Richard Bielle
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Q. What is your assessment of the recent significant growth in profits of the Africa Division by business and by region/country?

A. Mainly mobility and healthcare contribute to profits, while consumer goods is in the process of building its market position and infrastructure has potential, which we expect to grow. Since GDP growth rates vary from country to country, we would like to expand not only into niche markets but also into mass markets, and in the future we would like to build a foundation for continuous growing without being affected by changes in the GDP of each country.

Q. What factors have contributed to CFAO's significant growth in the past two years after several years of flat performance since the M&A in 2012?

A. In 2012, Toyota Tsusho, a member of the Toyota Group, became the parent company, which changed the relationship with existing partners, especially with some automakers, and affected commercial distribution and products. In addition, in 2015, the oil crisis worsened business confidence, resulting in sluggish performance.
The merger of Toyota Tsusho's African operations with CFAO in 2016, followed by the transfer of operations from Toyota in 2019, strengthened its management base and led to the current earnings increase. Although it took time to build, we believe that we were able to secure a solid revenue base, which has led us to the present.

Q. Do you expect consumer goods to be profitable in the future? What is the time horizon for the growth of the infrastructure strategy?

A. In the consumer goods business, scale is important. For example, in the supermarket business, the company plans to expand the number of stores and achieve 300M euro revenues, which known as critical mass, over the next two years.
We expect such efforts to contribute to profits within the next five years.
In terms of infrastructure, there are projects such as port development in Angola and geothermal power generation in Kenya. EPC is still the mainstay of infrastructure in Africa, and we would like to expand our IPP business in the future. To achieve this, CFAO needs to strengthen its organization. In terms of achievements, 250 MW of wind power is currently in operation in Egypt, and an additional 500 MW is under development.

For example, as the first stage, the first wind power generation project in Egypt is in operation, and a second project is being considered. In total, we have about 70 potential infrastructure projects, 13 of which are IPP projects, and we will continue to work hard on them.

Q. Would like to know the future business climate in Africa.

A. The impact of recent inflation is also being felt in Africa. We think that inflation will be higher next year, and it is important to find ways to pass this on to sales prices. Although the outlook for business confidence is uncertain, we believe that Africa's potential is still great and that growth can be sustained in the future. In the past, when Lehman Brothers collapsed, some thought that profits in Africa would fall sharply, but as a result, there was no major impact, and we feel that Africa's underlying strength has been reevaluated and its profile further enhanced. CFAO has 170 years of business experience in Africa. This experience enables us to take a proactive approach to business and make quick decisions close to the field, and we will continue to grow in the future.

Q. We recognize that the dealer business is currently the main earnings driver for the mobility business, but which initiatives will contribute to earnings in the future?

A. CFAO's mobility business is a fusion of various fields, so it is difficult to say what portion of the business is profitable and how it will grow in the future. Rather, we would like to aim for further earnings growth by acquiring new customers (B2C). In addition, it is difficult to define what we mean by "dealership business." The margin from simply selling new cars is smaller in profit, so we will therefore strengthen the entire automobile sales value chain.

In sales, new car and used car sales, as well as maintenance services, are the main profit drivers, with the goal of achieving a 100% absorption ratio as a KPI, where costs are covered even if sales are not. In the past, CFAO's profits were mainly from new car sales, but now profits are increasing with the addition of exports to Africa from Japan and other countries, distribution (the business of distributing cars to dealers), new and used car sales at dealers, service, parts, and sales finance.

We have the KD business in Africa. It’s bit of a challenge, because it will not become a big profit center. The cost of car assembly is higher due to the more expensive logistics. Generally speaking, it cause more costs, compared to the full CBU imports. So the additional costs have to be absorbed by us or to be covered by the government, as they want to have the local plant. We expect that they give the zero tax, for example in order to compensate the zero import duty to cover higher cost.

On the other hand, The KD production business also contributes to employment growth and is a good example of expanding business while solving social issues and We will watch how expanding the KD production business will contribute to profits.