BBVA Research

Uruguay

Automobile Market Outlook

April 2011

Economic Analysis

- The number of people per car in Uruguay is among the lowest in the region, as the vehicle fleet has not yet fully recovered from the crisis of 2002.
- Sales posted a record growth in 2010, led by cars and light utility vehicles. The market leader was Chevrolet (28.7% of the market).
- The local industry is dominated by three carmakers, most of whose production is destined to the bigger Mercosur partners, while 95% of domestic demand is supplied by imports.
- Prospects are promising in the medium term given the outlook for strong economic growth and exchange-rate stability, and sales would be above 52,000 units in 2012.
- The low level of bank financing for car purchase is the result of several factors, including problems of access due to the relatively high price of vehicles and the elevated level of informality in the labor market.

BBVA

Index

Closing date: 28 March 2011

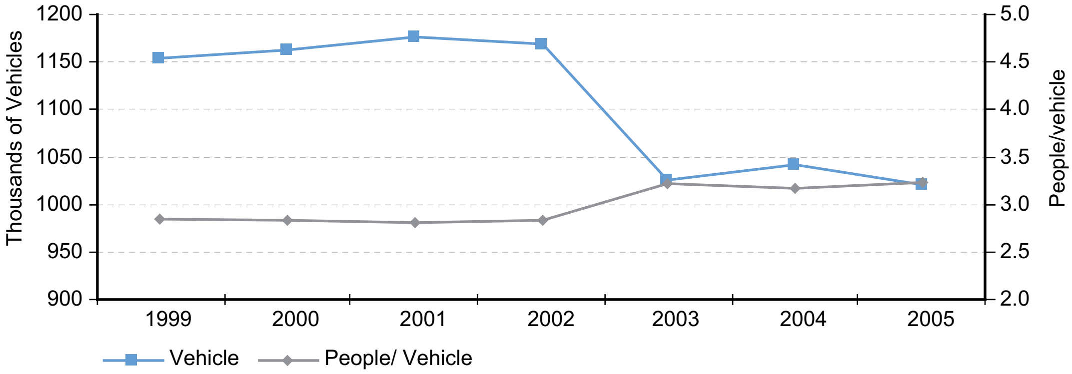
1. Positive indicators of motorization following the crisis of 2002

Although it is one of the smallest countries in South America in terms of area and population, Uruguay has one of the highest per capita incomes in the region (USD 12,400 in 2010).

The country has a mainland area of 176,215 km^2 and an estimated population for 2010 of 3,356,584, giving a population density of 19.0 people per km^2. Its road network in 2009 amounted to 8,838 km, and investment in its infrastructure stood at UYU 7550 million (USD 372 million at the then exchange rate), pressured by the increase in national and regional transport.

The number of people per vehicle (including motorcycles and mopeds) in 2005 was 3.2, clearly better than the regional average. However, these figures are relative, as information is only available until 2005, so the values are still affected by the major economic crisis in 2002. Moreover, the fall in the number of vehicles on the roads may reflect not so much a disposal of physical capital, which is unlikely, but a methodological change in the records, as older vehicles were deregistered.

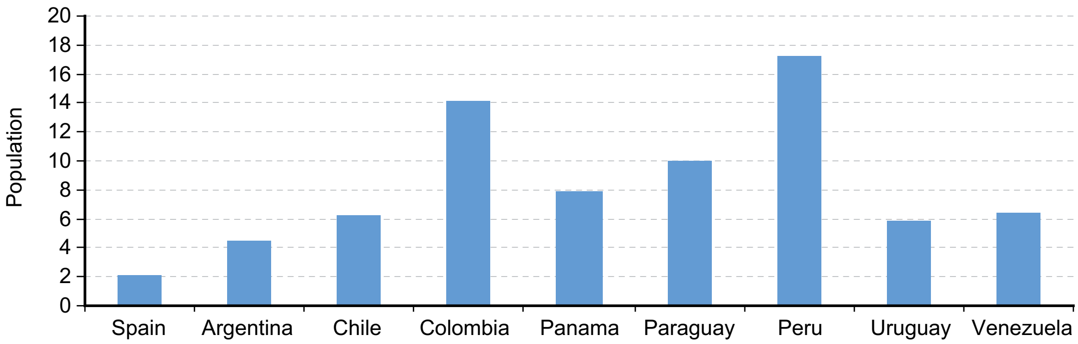
Chart 1
Vehicle Fleet Evolution



Source: BBVA Research

Looking only at cars, Uruguay also performed well at the regional level, with 5.9 people per car, very close to Argentina, the country with the lowest ratio in the region (see Chart 2).

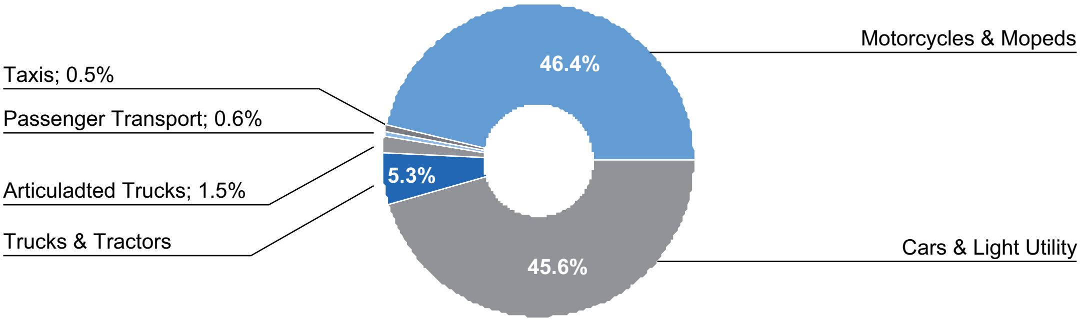
Chart 2
People per Vehicle



Source: BBVA Research

Motorcycles and mopeds represented in 2005 46.4% of the motor vehicle fleet in Uruguay (Chart 3), with cars next in order of importance at 45.6%.

Chart 3
Vehicle Fleet by Category



Source: DNT

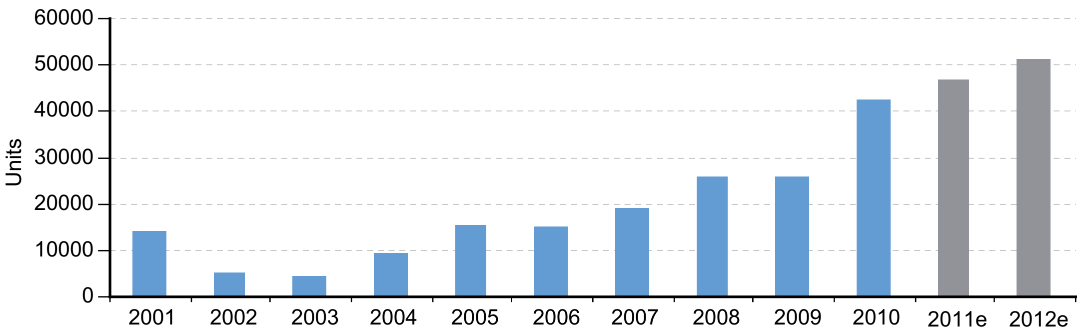
Although no information is available on the overall age of the vehicles on the road, the new car sales in the last five years barely represent 23.6% of the total vehicles. The figure increases to 32.5% taking into account the last 10 years, thus revealing the overall age of the fleet.

2. Car sales will continue to grow, but at a slower pace

Last year sales of new vehicles amounted to 43,710 units at a total of USD 960 million, with the average price per unit at around USD 22,000.

According to information from the Uruguayan Vehicle Trade Association (ACAU), of the total sold 40,664 units were cars and light utility vehicles (93.0% of the total), 2,795 trucks (6.4%) and 251 buses (0.6%).

Chart 4
Automobile Sales



Source: ACAU

Chart 4 shows how 2010 saw a swift increase in the pace of growth of total vehicle sales to 64.3% y/y (the average rate of growth in the five previous years was 22.5% y/y). This positive performance was linked to the strong growth in the Uruguayan economy, leading to significant expansion in the levels of consumption in a context of a rising exchange rate. There was also a rise in the levels of financing, with stable interest rates and improved conditions of accessibility by the population with respect to vehicle prices.

However, even in the context of rapid economic growth in Uruguay and exchange-rate stability, it is unlikely that demand will continue to expand at rates as high as in 2010. We estimate that vehicle sales will rise by an annual 9.5% over the next two years, so the number of units sold in 2012 would be over 52,000 units.

3. Chevrolet and Volkswagen account for around 40% of sales

The breakdown by automaker shows that in the cars and utility vehicles category, the light Chevrolet and Volkswagen vehicles head the ranking with a share of 28.7% and 12.8% respectively.

Table 1
Sale of Cars and Light Utility Vehicles to the Public by Make

		2010		2009	
	Automakers	Units	Share	Units	Share
1	CHEVROLET	11657	28.7%	6071	24.1%
2	VOLKSWAGEN	5192	12.8%	3106	12.3%
3	FIAT	3755	9.2%	1501	6.0%
4	NISSAN	2135	5.3%	1103	4.4%
5	PEUGEOT	1891	4.7%	1697	6.7%
6	RENAULT	1632	4.0%	859	3.4%
7	FORD	1694	4.2%	1212	4.8%
8	TOYOTA	1560	3.8%	1005	4.0%
9	HYUNDAI	1366	3.4%	770	3.1%
10	SUZUKI	941	2.3%	846	3.4%
11	CITROEN	1009	2.5%	702	2.8%
12	GWM	858	2.1%	434	1.7%
13	DFM	698	1.7%	398	1.6%
14	EFFA	671	1.7%	719	2.9%
15	BYD	577	1.4%	179	0.7%

Source: BBVA Research using ACAU data

In terms of sales of heavy vehicles (trucks and buses), the ranking is headed by Volkswagen at 23.2%, followed by JMC with 15.7% and JAC with 11.5%.

Table 2
Sale of Heavy Utility Vehicles by Make to Public

		2010		2009	
	Automakers	Units	Share	Units	Share
1	VOLKSWAGEN	707	23.2%	436	19.6%
2	JMC	479	15.7%	322	14.5%
3	JAC	350	11.5%	135	6.1%
4	HYUNDAI	298	9.8%	140	6.3%
5	FOTON	218	7.2%	162	7.3%
6	SCANIA	219	7.2%	140	6.3%
7	MERCEDES BENZ	197	6.5%	345	15.5%
8	AEOLUS	122	4.0%	154	6.9%
9	VOLVO	119	3.9%	37	1.7%
10	IVECO	102	3.3%	62	2.8%

Source: BBVA Research using ACAU data

4. Increase in the trade deficit of the automobile sector

Most demand for vehicles in the country is met by imports, although in recent years there has been an increase in domestic production. The same is true for assembly companies, one dedicated to the assembly of light vehicles, the second one to trucks and the third to vehicle armoring. All of them also export.

If we analyze foreign trade in vehicles and spare parts in 2010, we can se that the trend in exports was clearly expansive (see Chart 3) but imports grew even more boosted by strong domestic demand. Thus the negative balance increased to USD 573.3 million. The main destinations of Uruguayan sales are its biggest Mercosur partners, which account for 85% of the total: Argentina (75%) and Brazil (10%). This is the result of the advantages generated by the common market, which have allowed Uruguay to export with a tariff of 20%, below those vehicles from outside the zone with fixed quotas. This implies a potential vulnerability to regional economic cycles, in particular that of Argentina.

Table 3

Foreign trade in Transport Equipment

	USD million		Change
	2009	2010	%
Exports	132.4	191.0	44.2%
Imports	454.6	764.2	68.1%
Trade balance	-322.2	-573.3	77.9%

Source: BCU

5. Ample space for growth in bank financing

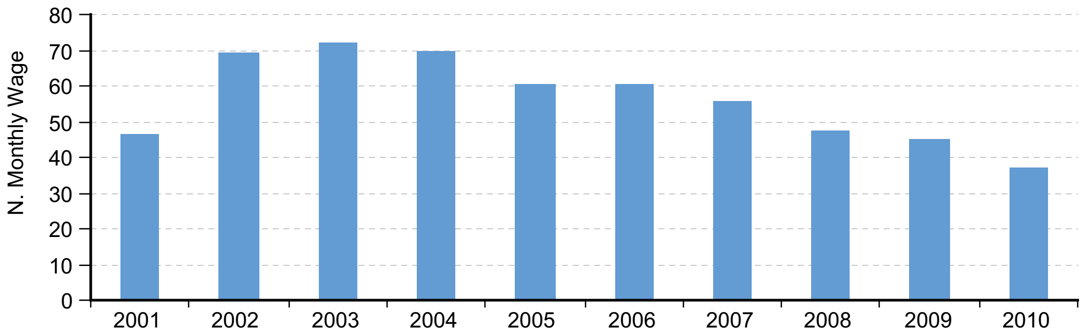
The level of financing of car purchases by the financial system in Uruguay is very low, although there has been a slight increase in recent years. Among the reasons explaining this are the high relative price of vehicles in terms of wages and the high rate of informality in the labor market.

A significant proportion of the price of vehicles is taxes and duties, in particular import tariffs. For a vehicle from outside the Mercosur zone the tax and duties (import tariffs, VAT and the specific internal tax (IMESI) account for 49% of the price, while for vehicles from Argentina and Brazil (Mercosur) or Mexico (given the free trade agreement) the figure is 39%.

As can be seen in Chart 5, about 37 average monthly wages were required in 2010 to buy a vehicle. Although this proportion has improved since 2004 as a result of the appreciation of the real exchange rate and higher real wages, it is still high compared to countries such as Argentina, where the proportion is 28 monthly wages.

Chart 5

Access to Vehicle



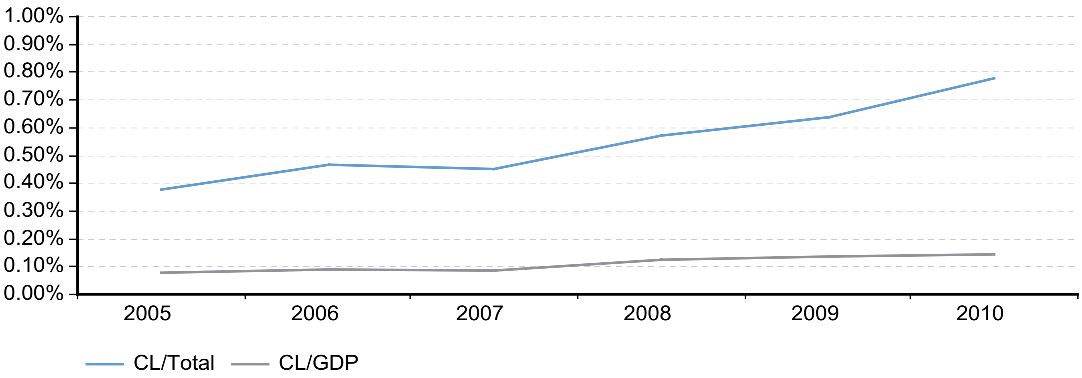
Source: BBVA Research

Around 51% of the labor force works in the informal market. This limits their access to bank finance. As a result, the share of car loans out of total lending is only 0.8%, while as a proportion of GDP it is barely 0.14% (Chart 6).

As an example, a typical loan is for up to 5 years with a nominal rate of around 7.5% a year plus the corresponding inflation rate (the so called “indexed unit credits”). It is worth noting that in recent years the nominal interest rate has tended to fall. Loans can also be in dollars at rates of around 9% a year.

The lack of car loans has been partially offset by other forms of financing, such as the use of consumer lending facilities for the purchase of vehicles, the growing importance of leasing as a means of financing light and heavy utility vehicles, and also finance via dealers.

Chart 6
Car Loans



Source: BBVA Research

In a positive macroeconomic scenario over the coming years, together with the prospects for growth in vehicle sales, bank financing will probably allow the financing of car purchases. The challenge, then, is to develop new financial instruments that can increase credit penetration and take advantage of the broad liquidity and solvency of the financial institutions operating in the market.

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called “BBVA”) to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates’ proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the “financial promotion order”), (ii) are persons falling within article 49(2) (a) to (d) (“high net worth companies, unincorporated associations, etc.”) Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

“BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance”.

BBVA is a bank supervised by the Bank of Spain and by Spain’s Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

This report has been prepared by the Argentina Unit:

Chief Economist
Gloria Sorensen
gsorensen@bancofrances.com.ar

Jorge Lamela
jorge.lamela@bancofrances.com.ar

With the assistance of:
Juan Manuel Manias
Marcos Dal Bianco
Diego Pereira Pereyra
Diego Villalba

BBVA Research

Group Chief Economist
Jorge Sicilia

Chief Economists & Chief Strategists:

Regulatory Affairs, Financial and Economic Scenarios:

Financial Scenarios
Sonsoles Castillo
s.castillo@grupobbva.com

Financial Systems
Ana Rubio
arubiog@grupobbva.com

Economic Scenarios
Juan Ruiz
juan.ruiz@grupobbva.com

Regulatory Affairs
María Abascal
maria.abascal@grupobbva.com

Market & Client Strategy:
Antonio Pulido
ant.pulido@grupobbva.com

Equity and Credit
Ana Munera
ana.munera@grupobbva.com

Interest Rates, Currencies and Commodities
Luis Enrique Rodríguez
luisen.rodriguez@grupobbva.com

Asset Management
Henrik Lumholdt
henrik.lumholdt@grupobbva.com

Spain and Europe:
Rafael Doménech
r.domenech@grupobbva.com

Spain
Miguel Cardoso
miguel.cardoso@grupobbva.com

Europe
Miguel Jiménez
mjimenezg@grupobbva.com

United States and Mexico:

United States
Nathaniel Karp
nathaniel.karp@bbvacompass.com

Mexico
Adolfo Albo
a.albo@bbva.bancomer.com

Macro Analysis Mexico
Julián Cubero
juan.cubero@bbva.bancomer.com

Emerging Markets:
Alicia García-Herrero
alicia.garcia-herrero@bbva.com.hk

Cross-Country *Emerging Markets* Analysis
Daniel Navia
daniel.navia@grupobbva.com

Pensions
David Tuesta
david.tuesta@grupobbva.com

Asia
Stephen Schwartz
stephen.schwartz@bbva.com.hk

South America
Joaquín Vial
jvial@bbvaprovida.cl

Argentina
Gloria Sorensen
gsorensen@bancofrances.com.ar

Chile
Alejandro Puente
apuente@grupobbva.cl

Colombia
Juana Téllez
juana.tellez@bbva.com.co

Peru
Hugo Perea
hperea@grupobbva.com.pe

Venezuela
Oswaldo López
oswaldo_lopez@provincial.com

Contact details

BBVA Research Latam
Pedro de Valdivia 100
Providencia
97120 Santiago de Chile
Teléfono: + 56 26791000
E-mail: bbvaresearch@grupobbva.com