Invest in Lesotho's

Automotive Sector

LESOTHO

An ideal location for automotive component suppliers targeting South African Original Equipment Manufacturers (OEMs) and the secondary market to cut costs.

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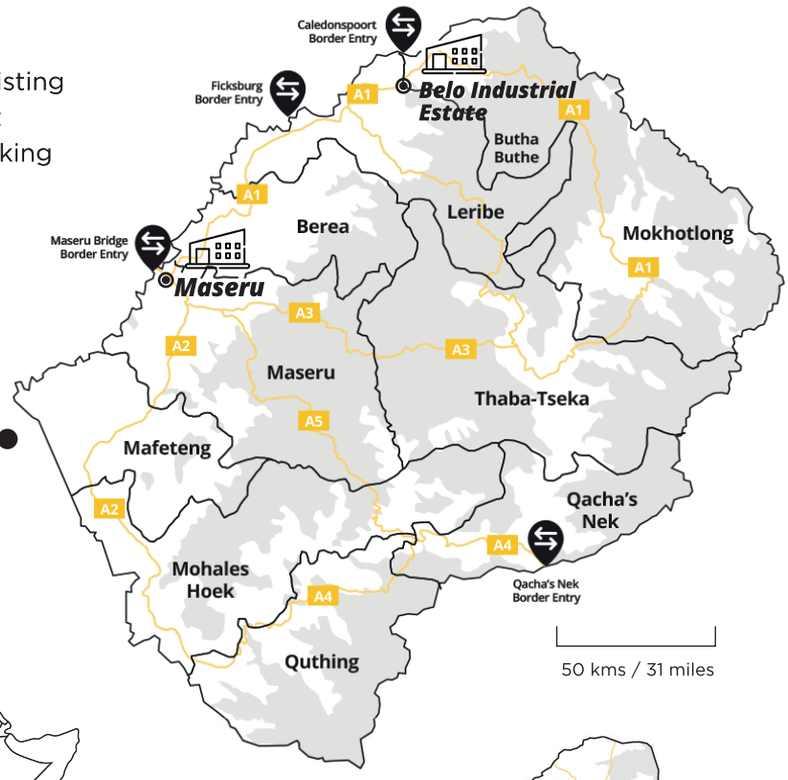
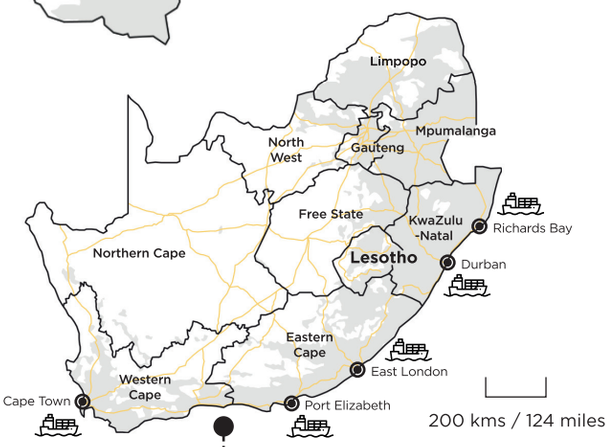
Automotive Sector

Introduction

Thanks to its competitive wage rates and geographical location, Lesotho is an excellent option for labour intensive automotive component manufacturers seeking to be near South African OEMs to cut their production costs.

Lesotho aims to promote a cluster of 2nd and 3rd tier producers around existing investor Adient as an original equipment manufacturer. Lesotho is particularly looking for investment in debossing, leather cutting and lamination, embroidery and plastic profiles and retainers to supply Adient as well as other component manufacturers that are not based in Lesotho currently. South African component manufacturers could also invest in wire harnessing, and other labour-intensive operations.





- DEBOSSING
- LEATHER CUTTING
- LEATHER LAMINATION
- EMBROIDERY
- PLASTIC PROFILES
- WIRE HARNESSING

Strengths & Opportunities

Lesotho is a member of the South African Customs Union (SACU) and therefore enjoys duty and tariff-free access to the South African market. Customs clearance is relatively straightforward, and with proper planning, delays can be minimised.

A GROWING MARKET

The South African automotive industry supplies the SACU, SADC, EU and USA markets with vehicles, a market of around

907

MILLION CONSUMERS

INCREASED PRODUCTION

The new South African Automotive Masterplan (SAAM) aims to increase production volumes to

1.4

MILLION VEHICLES

per annum by 2035 and substantially diversify and deepen the component supply chain. Lesotho's automotive products qualify as originating in South Africa under the SAAM.

South Africa has eleven automotive manufacturers:

PERFECTLY SITUATED

Lesotho's central location makes it ideal as a timely supplier of components to the South African automotive assembly hubs in Port Elizabeth, Durban and Gauteng. Maseru is 499 kms from Roslyn near Pretoria; 542 kms from Durban; and 702 kms from Port Elizabeth. Road connexions in South Africa with Lesotho are of high quality.

Automotive Sector

Belo Industrial Park, Butha Buthe.

Automotive Component Factory, Maseru.

Tikoe Industrial Park, Maseru.

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Financial Analysis

TOTAL INVESTMENT

A total investment of approximately:

LSL* 82m

comprising fixed assets of LSL 69.1m, pre-production expenditure of LSL 3.14m and initial working capital of LSL 9.57m will be required for the establishment of the Automotive Component manufacturing enterprise. The graphs below illustrate a financially viable operation with the opportunity expected to generate a profit throughout its operational life.

NET PROFIT

The enterprise's annual net profit after tax increases from

LSL 35.4m

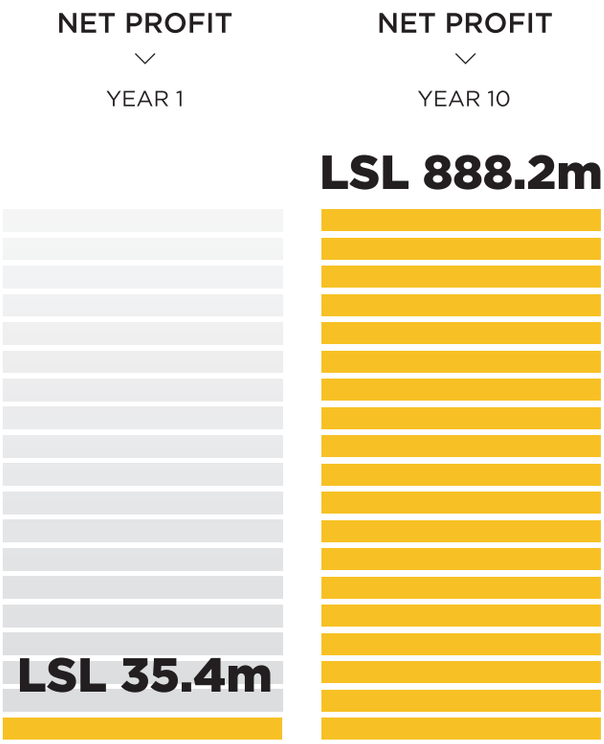
in year 1 to approximately:

LSL 888.2m

in year 10. Similarly, the projected cash flows of the envisaged project indicate that it will generate positive net cash flows throughout the 10-year operational period.

Automotive Component Factory, Maseru.

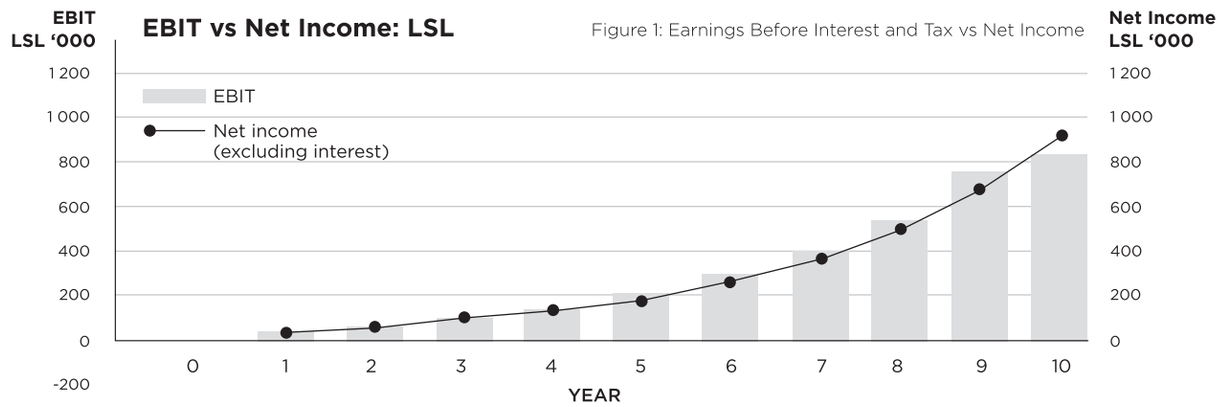
In addition to the positive NPV and IRR, the initial investment cost of the project is expected to be fully recovered in just over 3 years. The investment opportunity further responds favourably to Lesotho's developmental objectives through its positive socio-economic impact in terms of employment creation, economic agglomeration and potential forex earning opportunities.

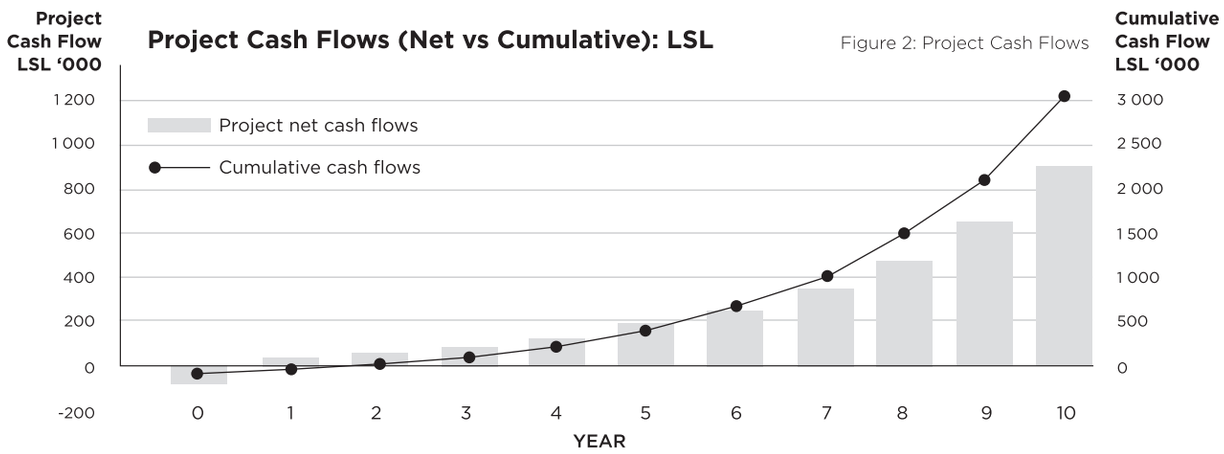


***1 LSL** = 1 ZAR
15 LSL = 1 USD (as of April 2021)

Automotive Sector

Financial Analysis





The projected future cash flows generated by the enterprise are discounted at a rate of 18%. The outcome of the discounted cash flow analysis is summarized in Table 1.

Table 1: Investment Indicators

Net present value (NPV)	**LSL 843m**
Discounted payback period	**3.17 years**
Internal rate of return (IRR)	**88%**
Profitability index (PI)	**10.84**

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The positive NPV at a discount rate of 18% and corresponding IRR of 88% highlight the financial viability of the Automotive Component manufacturing investment opportunity.

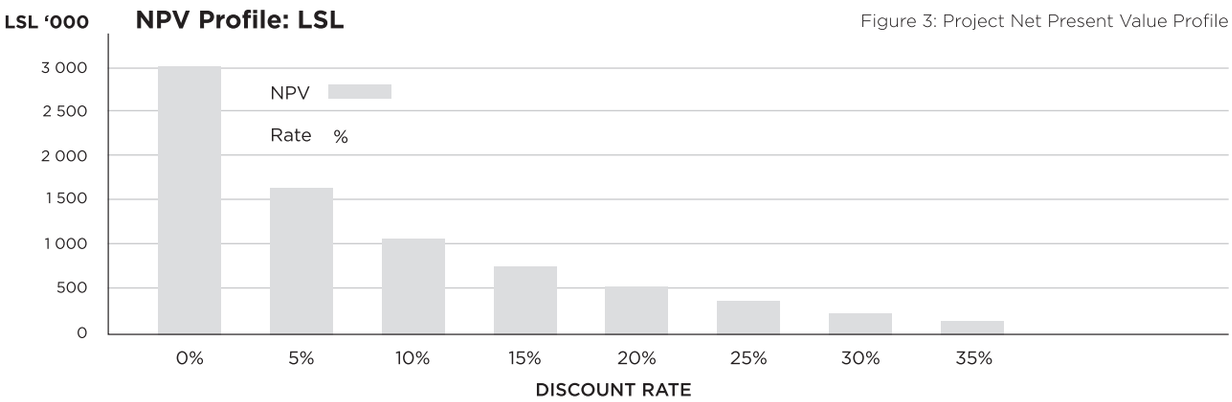

Figure 3: Project Net Present Value Profile

Automotive Component Factory, Maseru.

Belo Industrial Park, Butha Buthe.

Notes

The financial analysis of the Automotive Components investment opportunity is computed over a ten-year period. Revenue and expenditure projections are in line with industry growth prospects and market potential and have been informed by and benchmarked against industry standards and norms. In addition, assumptions relating to inflation: depreciation and salvage value: and company tax have been worked out based on the existing laws and directives of the country. The figures above represent high level estimates as of January 2021 and are not derived from a full feasibility study. Investors are advised to conduct their own due diligence. The project assumes that the investor will have a viable business case that is driven by international client demand.

For more information please contact:

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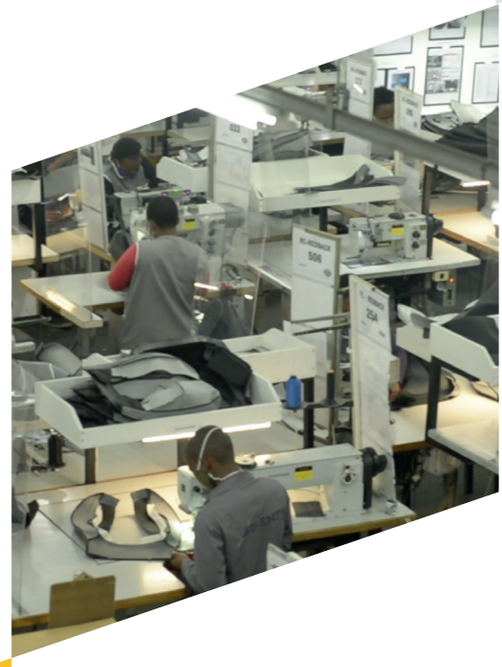

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