

CHINA



Mark Godfrey reports on how China's robust recovery from the COVID-19 pandemic is allowing its paint market to develop sophistication and its industry to expand exports

China: A tale of two price-points

China's embrace of Scandinavian style is propelling sales of innovative decorative paints among young homeowners in China. "Simplicity" and "high quality lifestyle" are the watchwords of the Nordic style being marketed by Jotun, whose focus on the premium part of the Chinese market appears to have paid dividends.

EXTERNAL INFLUENCES

The Norway-based firm recorded a record year in 2020 in China in terms of sales, profit and market share. China's economy recovered quickly from COVID-19 in Q2, 2020, said Jinn Yep Chan, Business Director for decorative paints at Jotun China. While the broader paint market in the country grew by 6-7% yr-on-yr during 2020, Jotun grew its overall sales in China by double figures, said Chan.

"We did that by increasing its distribution network through a franchise-type dealer network. And by focusing on the premium end of the market." By premium he means young middle-class homebuyers whose travel and trips to giant IKEA stores in Beijing have made them amenable to Nordic decorative fashion tastes.

Now Jotun wants to double its own distribution network by opening more concept stores through its dealers: it wants to double the number of such stores to 200 in 2021, focusing on larger "first and second tier" cities, said Chan.

A new Nordic 'Premium Paints' concept store opened by Jotun in a Beijing mall "allows clients to browse beautiful panels [in various paint colours] which can inspire [customers] to choose colour schemes," said Chan. He explained how the Nordic aesthetic differs from the American (represented in China by PPG and other players). "There's been an evolution in paint tastes in China: in China 10 years ago, the majority of paint was in white or light yellows or blues. More exposure to European styles through travel has changed Chinese tastes." The American aesthetic is "bright and shiny", but the Nordic aesthetic is more "minimalist and cosy".

DOMESTIC FACTORS

China remains reliant on imports at the high end of the market. While its exports are increasing, these are of a lower price point to internationally branded products.

There has also been a boom in domestic spending – a Chinese government 2020 stimulus designed to keep the economy afloat during the COVID-19 pandemic has been a boon for local paint makers, such as San Ke Shu Paint Co, based in Fujian, which is projecting that 2020 revenues rose 39% yr-on-yr, alongside a 23.3% jump in profit.

The company's performance was driven by demand for its water proofing and insulation paints, explained Zhan Zhi Yang, an analyst at Fuzhou-based Xing Ye Securities, who monitors the paint manufacturer. San Ke Shu promotes itself to consumers – it runs adverts on China National Radio targeted specifically at new homeowners, he noted.

San Ke Shu is well placed geographically, said Zhan, with manufacturing facilities in Anhui, Fujian, Hebei and Henan. Zhan sees the main risks to continued growth as a slowdown in China's real estate market and increased competition in the paints sector.

China's spending on infrastructure grew sharply in the second half of 2020, backed by Chinese Yuan Renminbi CN¥4.7trn (US\$752bn) of special local government and national government bonds. Whereas



China's embrace of Scandinavian style is propelling sales of decorative paints in China

western countries paid COVID payments to their citizens, such as the UK's furlough scheme, China focused on its fiscal stimulus, explained HSBC's Chief China Economist Qu Hongbin in a paper.

While this has been good for the construction industry, it has not given a direct boost to private consumption (which accounts for 39% of China's GDP, compared to 65% in the USA), which in turn makes for a slower recovery in retail sales.

Yet China's focus on bricks-and-mortar projects to drive economic growth is the main growth strategy of another leading local player, Oriental Yuhong Waterproof Technology Co Ltd (Dong Fang Yu Hong in Mandarin), which is based in Beijing. Its marketing slogan, 'Less leaking, better life' is hardly the most reassuring slogan but may have its origins in the quality issues facing Chinese construction – and the country's diverse climate.

Oriental Yuhong has flagged profits for Q4, 2020 of at least CN¥969M (US\$150M) – an increase of 93.7% on the same period in 2019. The company's profitability is down to increased real estate finishings and stagnant raw material costs, according to Zhao Jun Sheng, an Analyst at Beijing-based DongXing Securities. Yuhong's 28 manufacturing bases give it geographic reach, said Zhao.

Beijing-based Oriental Yuhong has used its 2016 investment in German firm DAW (Deutsche Amphibolin-Werke SE) to increase its consumer facing business: its 'De Ai' brand (the name is a play on the Chinese characters for 'Germany' and 'love'), was named on a list of 500 top suppliers to the Chinese real estate development sector collated in 2020 – the 'Best 500 of China Real Estate Developers Preferred Brand' award.

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■ PRICE DISPARITIES

It is clear that there's a major gap in the pricing power of Chinese paint and coatings manufacturers and international peers. China's coatings import and exports are both increasing, according to data from the General Administration of Customs of China, yet while exports are larger in volume terms they are lower in value per unit compared to imports. China exported 211,378t of paint and coatings in 2019 said China Customs, up 10.9% yr-on-yr, and the export value was US\$679M, an increase of 8.2% yr-on-yr. China imported 180,840t, worth US\$1.37bn in 2019, a yr-on-yr increase of 32.5%.

However, the average import price of Chinese coatings was US\$7229/t, whereas the average export price was US\$3217/t, according to the China Customs. Its data shows imports coming especially from Germany, South Korea and Japan – 19.8%, 19.5% and 14.4% respectively of China's coatings imports in 2019. The top three destinations for Chinese exports were Hong Kong, Vietnam and Panama, with export volume accounting for 16.9%, 8.9% and 6.2% respectively. Exports are

made up largely of “acrylic- and polyester-based paints”, according to a China Customs note.

With the country's highly fragmented paint and coatings manufacturing scene long encouraging cut-throat competition on price, it is hard to see how Chinese paint production will move up the value chain in its international market offerings in the short term.

Overall, paint and coatings production is expected to expand from 22Mt to 25Mt between 2020 and 2025, according to the China National Coatings Industry Association (CNCIA). Yet there are real risks to this scenario materialising – and those risks include a falloff in the Chinese and wider Asian real estate markets.

Meanwhile, it appears that the premium end of the domestic market will remain the preserve of international brands.

One curious thing also seems to be constant: the Chinese aversion to DIY, which continues to distinguish this market from Europe, where COVID-19 lockdowns prompted a surge in paint sales to homeowners. While there are growing numbers of Chinese willing to paint, the figure is “not significant” and the bulk of painting is done by decoration companies, explained Jinn Yep Chan. Jotun, for example, co-operates with the large Jia.com, an interior design platform that allows homeowners to pick their paints and price the job online. ■

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