

Paint sector awaits potential future growth from government-backed development mega projects

Paul Cochrane reports on the Saudi Arabian coatings market

The Saudi Arabian paint industry's output grew comparatively slowly in 2019 according to some market data but is expected to experience more robust growth over the next few years as the government invests heavily in new development projects and infrastructure. India-based market researcher Mordor Intelligence said that the Saudi Arabia paints and coatings market generated US\$1.164bn in sales last year (2019), up from US\$1.142bn in 2018 and US\$1.120bn in 2017. In 2020, the country's coatings market is estimated to reach US\$1185.71M.

The country sources most of its paint and coatings from its significant production industry. Its turnover in Saudi Arabia was estimated at US\$672M in 2018, US\$701.3M in 2019 and is forecast to reach US\$729.4M million this year, according to Euromonitor International figures. Growth in production was 4.3% between 2018 and 2019 and is forecast to dip to 4% in 2019 to 2020, but rebound to 6.5% in 2020 to 2021, according to Euromonitor. Mordor Intelligence estimates annual average growth in sales within the sector of 3.52% for 2019-2024.

Danish coatings major has estimated annual paint production in the kingdom was 280Mlit last year (2019). Imports are lower – the kingdom imported US\$35.2M worth of synthetic non liquid paints from all European Union (EU) countries in 2018; and just US\$4M worth of liquid synthetic paints from the EU that year, for instance.

Commenting on the variable growth the Saudi paint market has been experiencing, "Last year sales were good, but not like previous years," said Murad Faniyin, Specification Manager at Al-Jazeera Factory for Paints Co, based in Khamis Mushayt, in south west Saudi Arabia, a company that produces 400,000t/yr of paint.

This switchback in demand is borne out by the fact that nationwide, construction projects worth more than US\$40bn were commissioned in 2014, rising to a peak of nearly US\$60bn in 2015 before declining



Artist's impression of part of the Qiddiya City development, 40km from Riyadh

Image: www.qiddiya.com

over the subsequent years. In 2018, the total had slumped to US\$26.4bn, according to Middle East Economic Digest Projects (MEED).

■ CONSTRUCTION MARKET SLOWS

"The Saudi market has been struggling since 2017. Construction is down between 20% and 25%, and that has affected everyone, not just the paint sector," said Ahmed Abou Alfa, Commercial Manager for western Saudi Arabia at Hempel, which produces 18Mlit of paint a year. Construction accounted for 5.1% of the kingdom's economic activity in 2019, down from 6% in 2018, according to the Saudi Arabian Monetary Agency (SAMA), the country's central bank.

The country is of course rich pickings for the paint and coatings sector given that it has a US\$786bn economy with a population of 33.6M, according to World Bank figures. That said, its economy has been impacted by low oil prices, while economic sentiment across much of the Gulf region has been muted due to regional instability and rising tensions with Iran. London-based Capital Economics estimated the kingdom's economic growth at 1.3% in 2019.

There has been a drop in GDP per capita as a result, from US\$25,243 in 2012 to US\$23,338 in 2018, according to World Bank figures, which has impacted decorative paint sales. "People used to do home improvements every couple of years, now it is every five or seven years, so that has impacted sales," said Abou Alfa.

Also, instead of decorative paints, consumers are opting for the cheaper options of wallpaper, wood panelling and decorative panels. "It is a new trend, and not good for the paint industry as we cannot compete with such technical finishing," he added.

■ COMPETITION HAS LED TO INNOVATION

However, the competition has prompted coatings companies to release innovative products. "We are introducing new paints for the segment, like graffiti paint and magnetic paint using new technologies," said Faniyin.

Hempel also released new products last year, including Hempaline Defend 45090 and Hempaflor Decorate 600, but like other companies is waiting for the market to stabilise before launching further products, said Abou Alfa.

Demand for intumescent paint is also slowly increasing but sales of general protective paints have seen sluggish demand due to a limited number of new infrastructure projects and refineries being built for the oil sector. "Maintenance projects are always there, but it is less than one percent of the overall market," said Abou Alfa.

With the overall market struggling, there is heightened competition between local manufacturers National Paints Factories Co Ltd and Al-Jazeera, and international manufacturers AkzoNobel, PPG Industries, which produces Sigma Paints, Hempel and Jotun.

“The market is really sensitive to prices, [with clients] demanding reductions of less than a quarter of a [Saudi] Riyal [US\$0.06] per litre to get a contract. A lot of smaller paint companies have not been able to compete and have gone out of business since 2018,” said Abou Alfa. There have also been mergers, such as Riyadh-based BBC Paints with German brand Caparol.

Epoxy had the largest share of the coatings market in 2019, accounting for around 40% of the total, followed by polyester, vinyl ester and polyurethane, each at around 20%, according to Mordor Intelligence. Demand for polyurethane coatings is expected to grow on the back of increased industrial activity in the kingdom.

■ VISION 2030

The anticipated uptick in the paint sector’s fortunes is due to the projects announced under the kingdom’s Vision 2030 economic diversification programme moving from the design phase to construction. Some 5000 projects, valued at more than US\$1.6trn, are in the pre-execution phase, according

to international construction consultancy firm Linesight. “These projects will act as a market driver for this year and the near future,” said Faniyin.

They include the construction of 91 new tourism facilities, as well as multi-billion dollar projects, such as Qiddiya City, a cultural, sports and entertainment development 40km from the capital, Riyadh. Other major schemes include the Red Sea Project, a high-end tourism development on the country’s north east Red Sea coast and Amaala, a 3800km² luxury tourism development in the same Red Sea region. Around US\$2bn is being invested, mainly through the private sector, in a heritage tourism project at Souq Okaz, in Taif, in the south west.

■ NEOM CITY

The biggest development is NEOM City, a 26,500km², US\$500bn project announced in October 2017. NEOM, short for the Latin-Arabic term Neo-Mustaqbal (meaning ‘new future’), is being constructed in the Tabuk region and will cover 468km² of the

kingdom’s Red Sea coast, close to the Jordanian border. The first phase is due to be completed by 2025, which will help boost paint sales, said Abou Alfa. Even so, he said, paint sales will not recover to the levels seen in the nation’s last construction boom of five years ago.

Meanwhile, new regulations issued in 2019 by the Saudi Standards, Metrology and Quality Organisation (SASO) are expected to drive demand for more specialised paints that comply with requirements for buildings to improve thermal insulation and fire prevention. A further regulation requires all companies to follow a SASO standard to limit volatile organic compounds (VOCs) emissions, noted Faniyin.

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The Powder Coating Research Group partners with the Global Alliance to eliminate lead paint

The Powder Coating Research Group, a centre of technical excellence in Columbus, Ohio has recently become a partner in the international effort to eliminate lead-based paint throughout the world. The Global Alliance to Eliminate Lead Paint is a voluntary collaborative initiative to catalyse efforts to achieve international goals of preventing children’s exposure to lead from paint and minimising occupational exposures to lead paint. Its broad objective is phasing out the manufacture and sale of paints containing lead to eventually eliminate the risks that such paints pose.

The President of PCR Group, Kevin Biller, explains: “After travelling the world in my role as a powder coating advocate, I found that many developing nations suffer the bane of exposure to lead-containing coatings.” He further states that, “Not only is the workforce in paint manufacturing facilities exposed to unacceptably high levels of lead and other heavy metals, but consumers, including children and aftermarket personnel are regularly exposed through toxic scenarios, such as chipping paint and the refurbishment of coated items.”

The Global Alliance to Eliminate Lead Paint is a joint effort by the World Health



BAN LEAD PAINT

Organization and the United Nations Environmental Programme. Major paint suppliers like AkzoNobel and Jotun are partners, as well as a number of coatings trade groups, such as the American Coatings Association, British Coatings Federation and ABRAFATI.

The Lead Paint Alliance is guided by an Advisory Council chaired by the US EPA and consists of Government representatives from Colombia, Republic of Moldova, Kenya, Thailand, the International Pollutants Elimination Network (IPEN), Health and Environmental Alliance (HEAL), the American Bar Association, Rule of Law Initiative (ABA ROLI) the World Coating Council, AkzoNobel and Pacific Paint (Boysen) Philippines.

The negative impact of lead exposure to humans cannot be overstated. Exposure to lead occurs when paint flakes off window frames, doors, playground equipment and other consumer items. Lead-containing paint particles can then poison groundwater, soil and the atmosphere. Eventually lead is ingested by humans through food, drinking water and the respiratory system. Even trace amounts of lead cause serious health issues in children including significant cognitive impairment, loss of appetite, stunted growth, poor language development, sluggishness and reduced weight. The concentration is accumulative as the body does not easily metabolise lead.

The economic impact of health impairment from lead exposure has been estimated to be nearly US\$135bn in Africa. The cost to switch to non lead-based paints is miniscule in comparison for paint makers and their customers.

PCR Group is in the process of drafting a white paper that identifies viable pigment replacements for lead-based colourants commonly used by paint manufacturers in many developing nations. Biller will be presenting these options at the *North African Coatings Congress* being held in Casablanca, Morocco in October 2020.