

UNITED ARAB EMIRATES



The Etihad Arena in Abu Dhabi is the UAE's largest indoor multi-purpose venue. Originally scheduled to open in March 2020, it finally opened in January 2021

UAE paint market sales depressed by COVID-19 but industry is ready to rebound

Paul Cochrane reports on how the pandemic and its knock-on effects have had repercussions for the coatings industry in the UAE

The United Arab Emirates' (UAE) paint market was steadily ticking along prior to the COVID-19 pandemic, with more steady demand after double-digit growth during the construction boom of the mid-2000s.

And the first few months of 2020 started well, with solid sales. But, when the virus impacted the Gulf region and the government imposed stay-at-home measures in April and May, sales plunged. "Our factory was running but most of the shops were closed so retail was impacted and projects were shelved. But towards June and onwards we saw a little bit more activity in retail," said Arun Menon, Decorative Segment Manager for Dubai and the northern Emirates at Jotun UAE.

The overall decorative and projects market in Dubai and the Northern Emirates (Sharjah, Ajman, Fujairah, Ras al-Khaimah, and Umm al-Quwain) in 2019 was estimated by Jotun at UAE dirham AED530M (US\$144.3M), of which AED320M (US\$87.1M) is retail, the remainder being major construction projects, and total volumes of 85Mlit (which excludes wood finishes and industrial floor coatings). The market in Abu Dhabi (including its eastern city of Al Ain, on the Oman border) was estimated by Jotun

at AED250M (US\$68M), with volumes of around 50Mlit. The downturn last year led to an overall paint and coating market contraction of around 15%, Menon added. Euromonitor International paint and coatings retail sales figures for the UAE were US\$23.6M in 2019, US\$21.9M in 2020, with a projection for US\$22.3M for 2021. However, Menon argued these figures were "too low".

■ REAL ESTATE DEVELOPMENT SLOW-DOWN

What is clear, however, is that the market's health is less rosy now than in 2019. There had been investment in residential projects in the lead up to Dubai hosting the *World Expo 2020*, but that was cancelled (until October 2021). Also, UAE real estate development had already started to slow down in 2019, well before COVID-19 struck. "The major developers – Emaar, Nakheel, Dubai Properties – started to tone down their plans because the real estate market was not picking up and inventory was also high," said Menon. Paint retail networks had been growing by around 5% to 6% a year in 2018-19 and in Abu Dhabi by 3% to 4%, he added, although here COVID-19 has depressed growth.

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No wonder. The pandemic caused many plans to be shelved. Rental price rates fell in Dubai by 12% in 2020 and by 3.5% in Abu Dhabi, according to real estate services company Jones Lang LaSalle (JLL). Retail and commercial space was impacted by the pandemic due to the shift to e-commerce and remote working. Overall, the UAE construction market contracted by 3.9% in 2020, according to JLL. The impact on Abu Dhabi has been less significant than Dubai however, with fewer projects shelved.

The tourism slowdown also impacted spending, with the number of arrivals dropping by roughly two-thirds, from 16.73M in 2019, to 5.51M in 2020, according to the Dubai Department of Tourism and Commerce Marketing data.

“The Dubai projects that were not shelved are still going on, but we’re not seeing tendering like before. But it has been a mixed bag the last few years, with the pandemic accelerating the decline in new projects,” said Menon.

The government is, however, still investing in infrastructure, particularly high-value projects to bolster the UAE’s role as a logistics and tourism hub. There are some US\$75bn projects in the pipeline, of which US\$13bn is earmarked for transport infrastructure projects, according to financial information services firm Fitch Solutions.

Sunil Gudur, a paint sector consultant and former Manager of Al Gurg Paints in Sharjah, expects the UAE paint market to be subdued this year as a result of “big government projects on hold”, and the big private sector players “openly saying they have over-supply vis á vis demand, I can’t see how the paint market will rejuvenate in a hurry,” he said.

The country’s economic decline last year, estimated at 5.8% by the Central Bank of the UAE, with the economy forecast to grow by just 2.5% in 2021, has led to a lot of layoffs and foreign expats leaving the country. Gudur expects this to have an impact on rentals and real estate sales.

■ DROP IN RENTAL PRICES IMPACTS PAINT MARKET

“With the pandemic taking a huge toll on so many jobs, and companies affected, there has been an outward flow of manpower, so it will have a detrimental impact on the market. In some cases, developers are offering up to 35% discounts on rentals,” said Gudur.

This drop in rental prices has impacted the paint market, said Menon. “The premium paint segment has suffered a bit, which is mainly due to building maintenance, such as smaller real estate companies with 10 to 15 buildings having restricted cash flow due to lower rents and fewer tenants moving in.”

As elsewhere in the world, with people stuck at home, there has also been an uptick in refurbishing. This change in consumer behaviour has seen do-it-yourself (DIY) growing (previously unpopular due to cheap labour, with maintenance and paint companies typically hired to do the job). But with people reluctant to have strangers in their homes due to the pandemic, there has been a drop in such demand. “What we have seen is DIY stores like Ace Hardware have really picked up over the last year, for all products, so that is a new segment that is booming. It is about 10-15% of retail sales,” said Menon.

Decorators have responded to the change by requiring painters to have COVID-19 tests and wear personal protective equipment (PPE). “Many of the maintenance firms are very professional in that way. COVID-19 vaccination rates are also high in the Emirates, which is an advantage,” said Menon. The paint sector is expected to start investing in e-commerce to bolster sales, following the trend for digitalisation. New launches of products are still planned, added Menon, while there has been strong demand for anti-bacterial paints.

■ OIL PRICE RISE

Finally, the rise in oil prices this year, to more than US\$70 a barrel from around

US\$36 a year ago, has had a mixed impact. It has been a boon for the UAE government’s coffers (potentially helping it push ahead with infrastructure projects). But, for the paint industry it has led to tighter margins because of the importance of oil as an input.

“At the current price, the sector’s lost out on raw material pricing. Even with lower volumes and higher margins we could have offset losses, but that advantage has been taken away by the higher oil prices. It has been a big hit for the sector, as at US\$36 a barrel margins were quite healthy,” said Gudur.

Indeed, Jotun estimates prices for decorative have risen 5% this year, and for protective lines by 10-15%.

Moreover, sales of protective paint have dipped due to the pandemic, because of the delay in some major projects. But here the UAE fossil fuel sector has helped: “What has helped is oil and gas projects need to go on, they can’t be shelved, so we believe post-April things will pick up for the protective segment,” said Menon.

Overall, he expects the UAE paint and coatings market to recover to 2019 sales levels, “if activity stays the same as the first quarter”. But, with COVID-19’s progress continuing to be unpredictable, such forecasts may have to be treated with care.

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