



Coatings, Adhesives and Sealants in the GCC

December 2012

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Coatings, Adhesives and Sealants

Construction in the Gulf Cooperation Council (GCC) countries, after more than two decades of growth, has matured into a quality driven industry with due regard to safety and a new sensitivity to environmental compatibilities to usher in an era where great importance is now placed on the quality and sustainability of a construction or development in the region than the construction itself. In this era, the importance of raw materials, which help enhance, the quality and sustainability of construction, have gained importance and the momentum has caught on to the coatings, adhesives and sealants market in the GCC.

Paints, coatings, adhesives and sealants are extensively used in the construction and automotive industries and in a region characterized by a highly affluent and growing population, increasing standards of living and strong government backing for expansion and diversification of the economy and its industries, construction activity and its associated coatings, adhesives and sealants market have received a strong fillip in recent years and likely to exhibit strong growth potential as these economies surface from the aftermath of the global economic slowdown.

The indoor quality of a building construction and its surrounding built environment is determined by the quality of paints, coatings, adhesives and sealants used and therefore the latter plays a pivotal role in ensuring not only air quality within a building but also the energy efficiency of its heating and cooling systems. In view of the desert's harsh climatic conditions prevailing in the GCC, coatings, sealants and adhesives provide the required materials to ensure air tightness of the building envelope as well as preventing deterioration of building exteriors and interiors due to moisture infiltration, poor indoor temperature and humidity levels and deterioration of building materials used in the building. Better air tightness ensures reduced air transfer through the building exterior fabric thus reducing the energy required to heat or cool it and increasing energy efficiency of the building.

In recent years GCC economies have embarked on ambitious expansion and diversification programs wherein infrastructure projects have received strong focus. Moreover, the global economic slowdown and the social unrest following the Arab Spring have also shifted government emphasis onto affordable housing in GCC countries, as there was a huge demand supply mismatch across the residential segments of most of the GCC building construction markets that required the urgent attention of the policy makers, forcing countries such as Saudi Arabia, Bahrain and Kuwait have allocated vast sums in their budgets toward

developing affordable housing schemes across their country. Many of these countries have also increased the importance given to tourism as an important source of foreign exchange earnings for the economies, which in turn has also spurred growth across the hospitality and retail segments of these economies. The resultant rise in construction activity is likely to fuel demand for coatings, adhesives and sealants to feed into the construction industries of these economies.

Coatings

Though estimates of market size are hard to obtain for the adhesives and sealants market, analysts estimate the market for coatings in the GCC at around US\$ 2.2 billion as of 2011. Depending on the type of construction, the requirement for coatings may vary between 0.5 to 10 percent of building material costs across the GCC. Saudi Arabia and Qatar are noted to be the main users of coatings in the coatings market with Saudi Arabia accounting for an estimated 50 percent share of the GCC market demand for coatings and the demand for architectural and decorative coatings the fastest and largest growing segment in the coatings market. The attractiveness of the paints and coatings market in the GCC is witnessed in the trend of large number of players entering the market making it a low margin high volume business. With no clear standards or rules as yet established, companies can gain market share in this market which is not yet as mature as its European and other Western counterparts, through making the first move or innovating using latest technologies to provide the required edge in this market. There is a significant presence of international players in the coatings market

Adhesives and Sealants

Adhesives and Sealants are specialty chemical products that are extensively used across a wide variety of applications representing a market of 12.2 million tons globally from uses of which adhesives account for over 75 percent and sealants roughly the remaining 25 percent. While adhesives and sealants have similar chemical compositions using similar technologies, they vary in terms of their functionality or end use. After Asian markets, the Europe, Middle East and Africa (EMEA) represents the second largest market for adhesives and sealants with GCC's thriving construction industry a growing market for these specialty chemical products. The market for adhesives and sealants can be either classified on the basis of end use into eight broad markets or in terms of the technologies into four globally well known technologies or 15 classes of polymers used in the formulation of the product.

Water-borne systems that are used across more than half of the market for adhesives and sealants are used across building construction, packaging and conversion based applications. Solvent borne systems are used in construction applications as contact adhesives though these systems are highly restricted based on the environmental regulations requiring minimal use of Volatile Organic Compounds (VOC) that are against environmental compliance, thereby putting a brake on the growth of this segment in general globally as other systems have overtaken it by clear substitution. Reactive systems or chemically reactive adhesives and sealants and is used in structural adhesive bonding and sealant formulations and this market segment normally has a sustained market worldwide. The fourth polymer system popularly used worldwide are hot melts that are pure solid systems used in packaging/conversions, woodworking and joinery and other such product assembly adhesives, a fast growing market segment worldwide.

Adhesive and Sealants are primarily comprised of four main raw material classes as polymer bases, namely, vinyls, acrylics, rubber (both natural and synthetic) and polyurethane that are used across applications and technologies in varying compositions.

Some other raw materials used in the manufacture of adhesives and sealants that are more application specific include epoxies, silicones, natural products like starches and dextrins apart from high value adds such as used in niche markets such as modified acrylics, anaerobics, polysulphides, polyolefins and cyanoacrylates.

Adhesive and sealant demand across the construction sector comprises nearly 25 percent of the demand for the products across applications. The oil and gas, refining and water desalination and filtration sectors are other major markets for adhesive and sealants across the GCC apart from infrastructure which is the current focus of most GCC countries. Rough estimates by analysts, put the market value of the GCC adhesives market at approximately 2 percent of the global market wherein the market was further broken down into the following broad segments, namely Poly Vinyl Acetate (PVA), Rubber Based Adhesives (RBA), Hot Melt Adhesives and Poly Urethane Adhesives (PUA), with PVA and RBA representing the largest shares in the market followed by Hot melt and PUA as of 2011.

The coatings, adhesive and sealants market is characterized by the need for constant innovation and the key to survival and gaining market share is not only to invest in constant innovation but to also constantly move toward water based solvents and other environmentally sound product mix to conform to the GCC's rising need to meet environmental certifications across the markets be it construction, automotive, or hydrocarbons.

GCC Building Construction Sector overview and Top Building Projects

The main market for Coatings, Adhesives and Solvents (CAS) is the GCC building construction industry is one of the emerging global markets that has emerged from the global economic slowdown relatively unscathed compared to its European and other global neighbours as well as likely to fuel demand for CAS products the most. The primary driver for this upward trend is as much the GCC need to reduce their dependence on the fast depleting hydrocarbon base, as to combat any adverse effects of the slowdown and the Arab Spring, for which, the GCC economies have in recent years, embarked upon ambitious expansion and diversification plans involving huge government spending across their industrial, energy and infrastructure sectors alongside building up their social infrastructure such as affordable housing, education, healthcare and sanitation so as to upgrade the standards of living of its masses while achieving sustainable economic growth across a varied base of basic and heavy industries. All these industries directly or indirectly drive demand for CAS products at exponential rates and are likely to do so much more riding the GCC expansion phase in the near future.

While the GCC construction industry had witnessed a tremendous growth phase between 2007 and 2009 owing to these government investment plans, it also rapidly met the end of the boom, as profligate spending and unchecked building construction combined with the adverse impact of the global economic slowdown shrinking credit availability brought these markets to a crawl by end of 2009. The Arab Spring that affected other economies of the Gulf, proved to be a mixed blessing in terms of reversing investment and tourist flows to the GCC as it began to be perceived as a safe haven for investors amid the slowdown as it made a strong rebound. Regulations and stronger emphasis on building codes and quality have given a big boost to this recovery trend.

Recovery has however been gradual though strong in 2010 and 2011 and the construction industries across the region restarted erstwhile projects shelved or put on hold and thereafter also gradually resumed fresh projects. Amid the turbulent times of 2009 and 2010, UAE markets took the largest battering, while Bahrain and Kuwait were marginally affected adversely by the Arab Spring and social and political unrests

across these states. However, governments across the GCC came back with heavy socio-economic packages to prevent a spread of such unrests by concentrating on investments across the infrastructure and social housing sectors, thus giving a boost to the construction industry alongside.

Building projects worth over US\$ 62.5 billion were awarded to contractors in 2011 across all the building sectors including residential, commercial, hospitality and retail and is likely to reach US\$ 64.5 billion in 2013 after a brief decline in 2012 to US\$ 48.4 billion as a number of projects earlier resumed after the slowdown neared completion and oversupply was tackled with a more cautious approach to fresh contract awards until normalcy was gradually restored. There are however strong growth signals for the GCC economies in 2012, that have prompted analysts to revise growth estimates for the GCC region upward, citing fundamentals such as its strong and consistent economic growth, political stability amidst unrest in its neighbourhood, strong oil prices boosting their revenues, clear-cut government plans and vast spending to fuel the growth across its non-oil sectors, for the revision. These factors are likely to fuel growth in construction in 2013. The following is the list of top building projects across the GCC as of December 2012:

Table 1: Top 30 Building Construction Projects across the GCC (US\$ Million), December 2012

Project Name	Country	Client	Consultant	Contractor	Value (US\$ Million)	Status
Barwa Al Khor Project - Urjuan	Qatar	Barwa Real Estate Company	KEO International Consultants; Qatar	-	9,600	Design
Amphibious 1000	Qatar	Seaquest Marine Technology Plc	Giancarlo Zema Design Group	-	500	Concept Stage
Viva Bahriya	Qatar	United Development Company (UDC)	SRSS Associates	& Various Contractors	2,000	Construction
Lusail Phase II - Fox Hills	Qatar	Qatari Diar Real Estate Investment Company (QDREIC)	-	-	3,800	Design
Energy City Project Phase 1	Qatar	Energy City	PFC Energy	-	3,000	Design

Project Name	Country	Client	Consultant	Contractor	Value (US\$ Million)	Status
New Doha International Airport	Qatar	NDIA Steering Committee	-	Various Contractors	10,000	Construction
Muscat International Airport Expansion - Phase 1	Oman	Ministry of Transport & Communications	COWI & Partners; Oman; Larsen Architects	TAV Construction; Turkey; Consolidated Contractors International Company (CCCI); Oman	4,000	Construction
New Terminal at Salalah International Airport	Oman	Ministry of Transport & Communications	COWI & Partners; Oman; Larsen Architects	Galfar Engineering & Contracting; Oman; Larsen & Toubro; Oman	760	Construction
Eco - Resort at Ras al-Hadd	Oman	Ministry of Tourism; Oman; Qatari Diar Real Estate Investment Company (QDREIC)	Dar Handasah; Oman; Spillis Candela DMJM	-	300	Design
Mutrah Redevelopment	Oman	Muscat Municipality; Haya Water (OWSC)	-	-	500	Concept Stage
Sohar Free Zone	Oman	Sohar International Development Company	Mott MacDonald; Oman	Premier International Project	2,000	Construction
Al Khairan Residential City Project	Kuwait	Public Authority for Housing Welfare (PAHW)	Gulf Consult; Atkins; Kuwait	Not Appointed	27,000	Design

Project Name	Country	Client	Consultant	Contractor	Value (US\$ Million)	Status
Jaber Ahmed Sabah Hospital	AI Kuwait	Ministry of Health; Kuwait; Ministry of Public Works (MPW); Kuwait	Gulf Consult; Langdon Wilson; Kuwait	Kuwait Arab Contractors	1,057	Construction
Kuwait Cancer Control Center Expansion	Kuwait	Ministry of Health; Kuwait	Pan Arab Consulting Engineers (PACE)	Alghanim International General Trading & Contracting; Kuwait	597	Construction
Boubyan Island Development	Kuwait	Ministry of Public Works (MPW); Kuwait; Mega Projects Agency (MPA)	Hellmuth Obata Kassabaum (HOK); Gulf Consult; Mouchel; Kuwait	Hyundai Engineering & Construction Company /Mohammed Abdulmohsin Al Kharafi & Sons	6,640	Construction
North Bahrain New Town Project - Main File	Bahrain	Ministry of Works & Housing; Bahrain	-	-	4,500	Design
Janayen Hamala Housing Development	AI Bahrain	Al Salam Bank	Manara Developments Company	Abdulla H. Al Mutawa Group (AMSG); Saudi	1,325	Construction
20,000 Low-cost Housing Project in Bahrain Phase 1	Bahrain	Ministry of Housing; Bahrain; Naseej BSC	-	Chase Perdana Sdn. Bhd.	550	Construction
Kingdom Riyadh Land - Main File	Saudi Arabia	Kingdom Holding Company	Omrania & Associates (O&A); Saudi Arabia	-	7,000	Design
King Abdullah Economic City (KAEC)	Saudi Arabia	Emaar Economic City; Saudi	-	Various Contractors	51,953	Construction

Project Name	Country	Client	Consultant	Contractor	Value (US\$ Million)	Status
Riyadh East Sub Center - Main File	Saudi Arabia	Hamed & Ahmed Mohammed Al Mozainy Real Estate Co.	-	-	8,000	Tender for Construction Contract
Makkah Gate Cultural Oasis	Saudi Arabia	Al Balad Al Ameen Company for Urban Development; Makkah Municipality; Sumou Real Estate Company; Makkah Gate Company	AI	-	10,000	Design
South Obhur Project - Main File	Saudi Arabia	Rayadah Investment Company	Sulaiman Khorashi Office	-	15,000	Design
King Faisal University in Al Ihsa - Staff Accommodation - Phase 2	Saudi Arabia	King Faisal University	Arch-Centre for Architecture & Engineering Consultant; Saudi	AI Arrab Contracting Company	7,012	Construction
Masdar City in Abu Dhabi	UAE	Masdar (Abu Dhabi Future Energy Company)	Flack & Kurtz Consulting Engineers; ETA Ascon; Transsolar; WSP Group; Abu Dhabi	AI Ahmadiah Contracting; Dubai; Abu Dhabhi; Hip Hing Construction - Hong Kong	22,000	Construction
Nebras Aviation City	UAE	Strata	-	-	10,000	Concept Stage
Ghantoot Green City - Main File	UAE	International Capital Trading LLC	KEO International Consultants; Abu Dhabi	-	10,000	Design

Project Name	Country	Client	Consultant	Contractor	Value (US\$ Million)	Status
Danet Abu Dhabi	UAE	Al Qudra Real Estate	Architectural & Engineering Consultants; Abu Dhabi (AEC); RSP (Raglan Squire and Partners) Architects	Various Contractors	9,260	Construction
Al Ghadeer at Saih As Sidirah	UAE	Sorouh Real Estate	Sun Engineering (South Korea)	Jin Construction General Contracting	5,400	Construction
Khor Dubai	UAE	Dubai Culture and Arts Authority	Kling Dubai Consult	-	1,907	Design

Source: Ventures Onsite MENA Projects Database www.venturesonsite.com