



THE NIGERIAN PAINTS AND COATINGS MARKET RESEARCH REPORT-2014

Disclaimer

No person other than your organization is authorized to rely on this report. Your use of this report is at your sole risk. This report is provided on an “as is” and “as available” basis. Naijalink Ltd. makes no representation or warranty regarding the accuracy or completeness of this report and expressly disclaims any duty to update it. This report may contain both public and non-public raw, third-party data from sources that Naijalink Ltd. does not control. Unless otherwise indicated, the information contained in this report has not been independently verified or validated. Naijalink Ltd. expressly disclaims all warranties of any kind, whether express, implied or statutory, including, but not limited to the implied warranties of merchantability, fitness for a particular purpose, title and non-infringement. Naijalink Ltd. does not guarantee the accuracy, completeness or timeliness of unconfirmed data provided by third-party sources. You agree that Naijalink Ltd. shall not be liable for any damages incurred by you or your organization or any third party arising as a result of reliance upon this report or any claim attributable to errors, omissions or other inaccuracies in this report or interpretations thereof. This report is confidential and may not be shared with others. By reading this report, you agree to be bound by the above "Disclaimer".

Contents

Executive summary	4
Introduction	6
1. Nigeria – an introduction	7
1.1 The Nigerian economy	9
1.2 Foreign Trade	12
1.3 Population and labour force	14
1.4 Opportunities in Nigeria.....	15
2. Overview of the Nigerian paints market	16
2.1 Market Summary	16
2.2 Key Players	19
3. Paints and coatings categories.....	22
3.1 Decorative paints segment	23
3.2 Industrial paints & coatings	24
4. Locally made paints vs imported paints	27
4.1 Local paint production	28
4.2 Imported paints	29
o <i>Lessons learned</i>	30
5. Raw Materials for paints and coatings in Nigeria	32
5.1 market drivers & challenges to the raw materials market	32
6. Potential customers	35
6.1 Profiles of Potential customers.....	35
7. Industry potential and sector attractiveness	40
7.1 Outlook and trends	43

Appendix I - Doing business in Nigeria	45
Golden rules for doing business.....	45
Business culture & communication	46
Entry Strategies.....	47
Registering a Business in Nigeria	48
Appendix II – Foreign Trade	51
Custom duties	51
Payments systems.....	51
Banking system	52
Free Trade Agreements	52
Double taxation Agreements	52
Investment Promotion and protection Agreement (IPPA)	52
Liberalisation of Ownership Structure	53
Repatriation of profit	53
Guarantees against Expropriation	53

Executive summary

The Nigerian paint & coatings market is growing rapidly with the increase of private and government investment in infrastructure and the growing demand for higher quality products and services. With Nigeria experiencing significant construction and infrastructure growth, and as an economic boom is currently driving the country towards industrialization, the paints & coatings industry is quickly becoming a strategic growth market.

Fast economic growth in the last few years - which propelled Nigeria from a country with GDP of \$88 billion a decade ago to a country with GDP of \$510 billion in 2013 - has been a significant driver of the paints & coatings market. This is despite the obvious poor state of country's infrastructure. According to Frost & Sullivan, the paint and coatings market grew to an estimated \$200 million in 2012. Because of the high correlation between GDP and paint volume growth we believe that the paints & coatings industry could double by the end of the decade growing by a CAGR of 9.01%.

At the fore of the government's plans is turning Nigeria into a fully-fledged industrialized country. Significant infrastructure investments over the last couple of years in building industrial plants, real estate properties, roads, bridges and manufacturing activities have provided decent opportunities for the paints & coatings industry.

There are numerous paints & coatings companies in Nigeria operating at varying capacities and scale in different parts of the country. However, the competitive nature of the industry and the fact some of the companies lack good distribution network, access to financing and therefore economies of scale, means very few companies dominate the paints & coatings market. Products from companies like Berger paints Nigeria plc, CAP plc, and PCMN plc dominate the paints & coatings market.

Most of these major market players have a long history of operation and serve all the various paints & coatings segments, unlike the small and medium scale businesses who only have the expertise and capacity to serve the decorative segment only, and in a few cases, the coil and wood segments as well.

Decorative paints remains a dominant segment of the Nigerian paints and coatings market mainly due to significant volume of real estate activities that goes on every year in Nigeria. Rising per capita income and efforts to tackle the challenge of large housing deficit continues to support the decorative paints segment, and the segment still continues to show high growth potential.

The decorative segment accounted for about 71% of 2012 volumes according to a report from Frost & Sullivan. We estimate this to be about 91 million litres annually, contributing about \$120 million to the total value of the paints & coatings market. The market consists of both local and foreign brands, each serving the needs of the various income classes across the population.

Industrial paints and coatings accounted for an estimated 29% of the total volumes. A major driver of this segment is oil & gas projects which represent a significant value of capital expenditures undertaken annually. In sub-segments of industrial coatings like coil coatings, auto refinishes, wood coatings, protective coatings, heavy duty coatings and marine coatings, these markets have developed gradually over the years as manufacturing and production capacity in these industries has grown.

The real estate, manufacturing, construction, power and energy industry are expected to be major drivers of long-term economic growth. Strategies developed with a long-term view will have the greatest benefits as most industries in Nigeria are constantly evolving with new opportunities opening up every time. Anticipated entry of auto companies and consumer durables, coupled with a real estate industry with positive long-term outlook, will increase activity across the various paints & coatings categories.

The Nigerian paints industry has come a long way from when paints were expensive and considered a luxury item. Today, individuals and companies have high awareness levels about the benefits of paints and coatings and this has provided a huge boost to the industry. Looking forward, the industry, especially for companies willing to innovate and adopt new technologies and which offer competitive prices can provide stable cash flow in the long-term.

As standards and policies with regards the industry are still unclear, companies can gain entry into the market and achieve positive results. The market is expected to continue to grow and innovation using latest technologies to provide the edge with regards quality and pricing will be a significant factor in the future.

Introduction

Interest in the Nigerian economy has grown significantly in the last few years and this is changing the business landscape. As both local and foreign investors see opportunities, they are also presented with the challenge of how to unlock these potentials considering the poor state of available infrastructure in the country.

One industry which will benefit immensely from the process of infrastructural evolution is the Nigeria paints & coatings industry.

As Nigeria moves ever closer to being an industrialized economy, infrastructure development will remain at the top of the agenda for the government and private investors. Policies developed to enhance manufacturing, to promote and improve real estate activities and investments in infrastructure, will be essential factors for achieving sustainable economic growth in the future. We see numerous opportunities for both domestic and foreign players in the paints & coatings industry.

This report provides an in-depth analysis of the Nigerian paints & coatings market, covering extensive market and company research. It outlines the underlying sectors directly affecting the paints & coatings market and their relationship going into the future. It provides a profile of the largest local companies in the paints & coatings industry, details on revenue and performance of those companies. The report also assesses the market perception of locally made versus imported brands.

We will begin by painting the landscape: Nigeria as a country and its macroeconomic developments that will influence the paints industry and as such will be of interest to the Turkish companies wishing to establish trade relations with Nigeria.

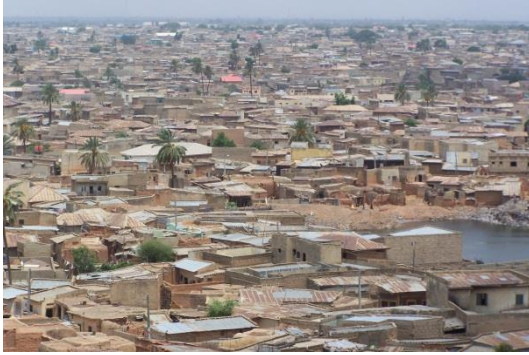


1. Nigeria – an introduction

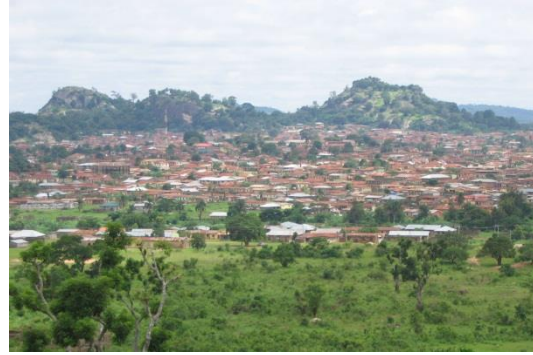
Mention “Nigeria” in a conversation and everyone seems to have an opinion. Most of those will not be favourable to the country and its people, nor will you hear anything about the business opportunities the country has to offer. However, as one investor once mentioned: “replace the word ‘Nigeria’ in a fact sheet with ‘South Africa’ and the companies will line up to do business there”. It seems that the image of Nigeria in terms of business may not be based on the facts. This first part of our report will therefore highlight those facts and create a deeper understanding of this country rightfully dubbed “The Giant of Africa”.



Nigeria, or officially the Federal Republic of Nigeria, is by far the most populous country in Africa with an estimated population of 140-170 million people, and is the 7th most populous country in the world. The country is based on the coast of West Africa and has been a democracy since 1999. There are now 36 federal states ruled by a Governor, plus the Federal Capital Territory around the capital Abuja where the President is based.



Kano's ancient city centre



Kabba in the middle belt

Geographically the country is quite diverse. The north is semi desert, a hot and dry savannah with a Middle-East feel about it. The more temperate middle region has rivers, mountains and fertile lands. The south has lush, tropical vegetation and a humid climate. The average temperature is around 30°C; higher in the dry season (Oct-Mar) and lower in the rainy season (Apr-Sept). Nigeria is blessed with natural resources including oil and solid minerals, and apart from the occasional flooding there are little natural dangers.

Nearly 50% of the population live in cities and this share is increasing. About 10 cities have over a million inhabitants, including the capital Abuja, the “commercial capital” Lagos, and Port Harcourt (centre of the oil industry).

While the country is generally stable, fights over the division of the oil wealth as well as ethnic and religious differences tend to cause tensions. Currently there are issues around Muslim terrorists in the north, while the dispute with the previously-troublesome militants in the Niger Delta seems to have been resolved for now. Lagos has been left untouched by all of the tensions so far and remains a city where everyone focuses on one thing only: doing business.



Man in traditional outfit 'spraying' money



Lagos, ever busy business centre

1.1 The Nigerian economy

Nigeria is one of the most developed economies in Africa. It is a middle income, mixed economy and emerging market, with expanding financial, service, communications, and entertainment sectors. Growth at an average of 6.5% p.a. in the last decade has helped position Nigeria as an attractive frontier market and indeed one of the most attractive markets in Africa. The Nigerian Bureau of Statistics (NBS) estimates 2013 growth will have been 7.4%.

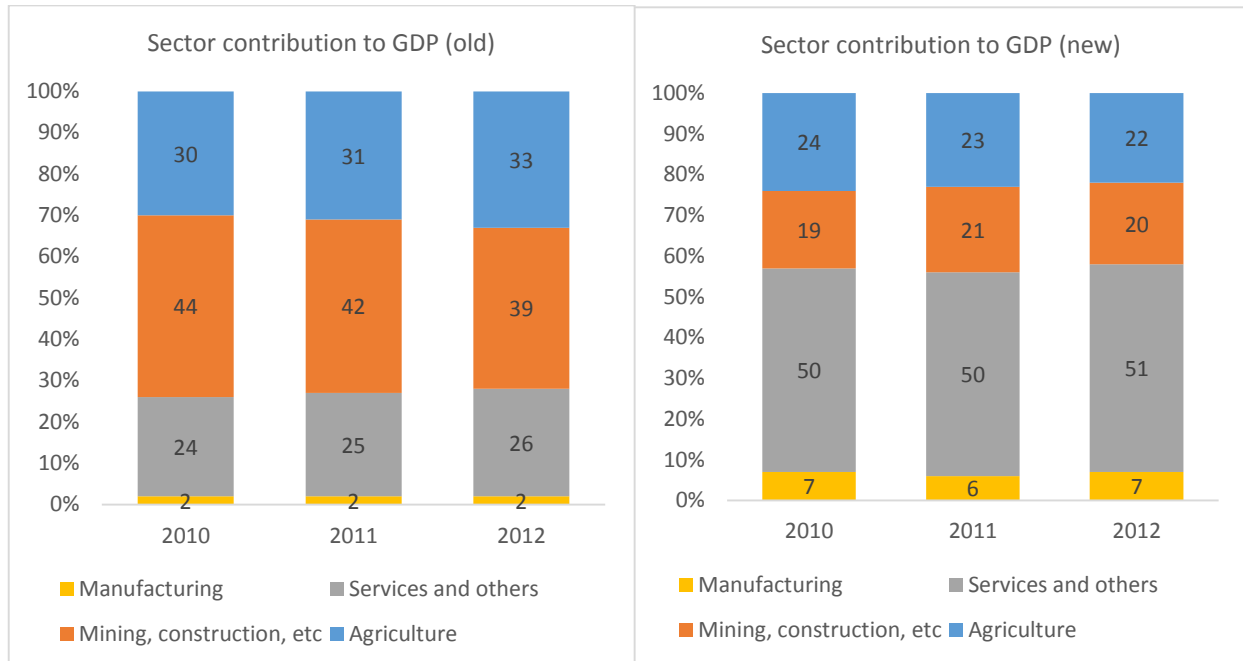
With a GDP of nearly USD 510bn Nigeria is the largest economy in Africa. The economy of Lagos alone, is bigger than that of Ghana and Lagos State's economy actually ranks 4th on the continent. Nigeria's economy is characterized by the following:

- Strong and continued growth
- A massive and growing population
- Heavy reliance on the oil industry
- A country dependent on imports
- Increasing and substantial FDI inflow
- Substantial unemployment
- Insufficient electricity generation
- Corruption and infrastructural challenges

In April 2014, the NBS released Gross Domestic Product (GDP) rebased figures that almost double previous estimates for Nigeria. The country's GDP now stands at \$509.9bn, 89% larger than the previously stated estimate and it's a far leap from the \$46bn in the year 2000. Economic growth in the last year was driven mainly by the performance of the non-oil sector (specifically the services, wholesale and retail, industrial, and building and construction sectors) which grew by 8.7% and accounted for 88.3% of total GDP.

Historically, Nigeria was driven mainly by its agricultural sector and was once famous for its "red gold"; the palm oil that e.g. made FMCG giant Unilever to single out Nigeria as a production hub. However, once the "black gold" (oil) was discovered the focus shifted to this new sector and gradually agriculture lost in importance; Malaysia took over as world leader in palm oil production, and the "groundnut pyramids" in the north shrivelled. For the last few decades the oil & gas sector has been the major (foreign exchange) earner for the country. The agriculture sector is still the largest employer in the country.

The rebasing exercise indicates that continued expansion of the services sector and steady growth of non-oil GDP continues to drive the economy forward, providing several investment opportunities whilst also helping diversify an economy largely dependent on oil revenues.



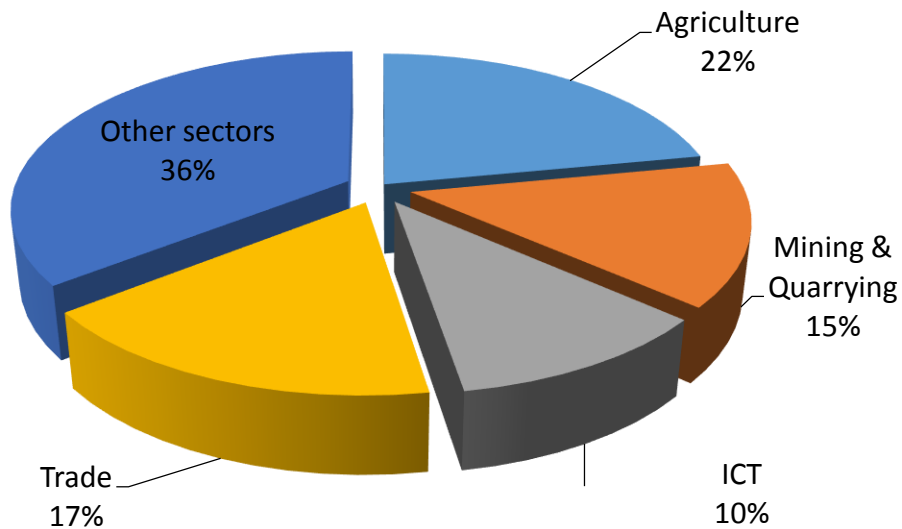
Economic reforms to improve poor infrastructure and to enhance the growing middle class should continue to support rapid economic growth. The consensus among economists and analysts is that the country has the potential to grow at double digits rate in the next few years - should Nigeria earnestly tackle infrastructural challenges. Government reforms to this end are currently in progress and there has been some progress in the key energy sector. Most importantly: the private sector is a vibrant engine of the economy.

Four sectors contribute more than 60% of total GDP: Agriculture, Mining & Quarrying (which in the classification of the Nigerian Bureau of Statistics includes oil & gas), ICT and trade. The latter also reflects Nigeria's status as an importing country.

A wider sector analysis, based on the rebasing exercise completed in April 2014, shows that:

- Agriculture remains the dominant contributor to GDP in 2013.
- Electricity, Gas Steam and Air Conditioning supply was the fastest growing sector with a massive 44% growth in 2013. This indicates a growing positive influence of investments on the power sector in recent years.

- Finance & Insurance and Arts, Entertainment and Recreation posted growth of more than 20% in 2013.
- Oil & Gas sector has underperformed GDP growth and contracted in 2012, with a further contraction expected in 2013.



Demand for decorative coatings is affected by real estate activity and new construction. The housing and construction market in Nigeria has showed strong growth over the years benefiting from sound economic fundamentals. Real estate and construction activity in Nigeria are forecasted to continue increasing in the medium-term providing support for increased paints & coatings demand. Growth in industrial activities tends to follow GDP growth and despite high cost of production, outlook in the long-term is positive as investments in infrastructure continues to rise.



Display of decorative paint in a middle segment retail shop



The construction boom is of great influence on the growth of the paints sector

1.2 Foreign Trade

The total value of products imported into Nigeria in 2013 amounted to \$43.8 billion, a 24.7% increase from imports value of \$35.1 billion in 2012. Total exports for the 2013 calendar year amounted to \$89 billion, lower by 36.5% from the 2012 value of total exports of \$140 billion.

Table 1: Nigeria's top 10 exports between 2010 and 2012

Product	2010 \$ billion	2011 \$ billion	2012 \$ billion
Crude oil, bituminous minerals	60.90	90.11	99.05
Refined petroleum	9.805	15.17	12.22
Petroleum gas	4.716	6.677	8.968
Rubber	0.555	7.445	10.06
Cocoa beans	1.048	0.958	3.033
Leather	2.073	0.431	0.686
Special purpose ships	0.314	0.774	0.603
Tanned Goat Hides	0.956	0.329	0.378
Other oily seeds	0.641	0.390	0.497
Milk	0.0001	0.006	1.076

Source: UN Comtrade and UN Trade Service

Table 2: Nigeria's top 10 imports between 2010 and 2012

Product	2010 \$ billion	2011 \$ billion	2012 \$ billion
Cars & Vehicles	4.137	3.014	3.607
Refined Petroleum	0.375	5.815	0.534
Wheat	0.839	3.476	1.491
Delivery trucks	2.016	1.089	1.078
Rice	0.494	1.652	1.920
Non fillet frozen fish	0.745	1.786	1.231
Pasta	0.0008	3.475	0.0017
Electric transformers, static converters	1.231	1.171	0.427
Raw sugar, cane or beet sugar in solid form	0.372	1.478	0.984
Electrical apparatus for line telephony or line telegraphy	0.664	0.830	0.947

Source: UN Comtrade and UN Trade Service

Table 3: Top 10 trading partners

Exports	Imports
India	China
USA	USA
Netherlands	India
Spain	Netherlands
South Africa	Germany
United Kingdom	France
France	Belgium
Brazil	Brazil
Germany	United Kingdom
Japan	South Africa

Source: UN Comtrade and UN Trade Service

Crude oil and petroleum products still account for the larger part of import as well as exports as Nigeria is an oil-producing country but has very limited refining capacity. The main trading partners are also those that headquarter oil giants like Shell and Chevron, or who are the main customers for oil.

In terms of consumer goods and building materials Turkey scores increasingly well in Nigeria, positioned between Europe (often considered too expensive) and China (often suboptimal quality). The geographic nearness to Turkey and the availability of direct flights between Nigeria and Istanbul through Turkish Airlines have only added to the popularity of Turkey as a business destination.

Turkey's goods exports to Nigeria in 2012 were 438 million \$, up by 11.4% (393 million \$) from 2011, and up 447% from 2004. The top export categories (2-digit SITC) for 2012 were:

- Iron & steel (136 million \$);

- Electrical machinery, apparatus and appliances (54 million \$);
- Manufactures of metals (36 million \$);
- Non-metallic mineral manufactures (26 million \$); and
- Articles of apparel and clothing accessories (25,4 million \$).

Turkish goods imports from Nigeria totaled 1,1 billion \$ in 2012, up 36.5% (823 million \$) from 2011, and up 478% from 2004. The top 5 imports categories (2-digit SITC) for 2012 were:

- Gas, natural and manufactured (672,9 million \$);
- Petroleum, petroleum products and related materials (342,2 million \$);
- Oil-seeds and oleaginous fruits (81,9 million \$);
- Leather, leather manufactures, n.e.s., and dressed furskins (11.1 million \$); and
- Non-metallic mineral manufactures (6,4 million \$)

The figures above are the official trade figures as published by the Turkish Ministry of Economy on their website. For further information about trade regimes relevant to Nigeria we refer to the appendix.

1.3 Population and labour force

With approximately 170m inhabitants today, the Nigerian population accounts for 60% of ECOWAS and 20% of sub-Saharan Africa. The UN projects that by 2020, Nigeria will have the world's third largest population. In the last decade alone, the population grew by 33%. The Lagos Bureau of Statistics puts the Lagos population at over 20m people; nearly 12% of the nation's population. The Lagos per capita GDP (pre-rebasing) stood at \$4465 according to the NBS: almost 3 times the national average.

The Nigerian middle class with spending power is growing and has become a formidable driving force of the economy in its own right. According to McKinsey & Company, a significant 11% to 18% of urban households in Nigeria have purchasing power and annual incomes over \$10,000. Nigerian households with incomes of more than \$5,000 a year will increase from a current 20% of the population to 27% by 2020. Nigerian household consumption expenditure is expected to reach \$437.7bn by 2017 from \$198.9bn in 2013 (EIU). This would mean a 120% increase in consumption expenditure in just 4 years and 1.6 times of 2012 GDP.

The Nigerian labour market is quite large. Estimated at 93 million people, the Nigerian labour market is one of the largest in the world. Unemployment has tipped upward in the last few years despite economic success and the size of the Nigerian labour force has grown rapidly driven by a fast growing population. A significant proportion of Nigeria's labour can be classified as semi-skilled and the country's academic and vocational framework for training potential labour market populations has long been criticised. Wages and salaries are relatively low across the various skills segments. Companies in Nigeria have the right to set their own remuneration package which according to law must not be lower than the minimum wage. Wages in Nigeria are still pretty low with the minimum wage still at about \$113/ month. Employers usually need to invest a lot in training programs for employees.

1.4 Opportunities in Nigeria

Looking at all the above, the conclusion, despite the obvious challenges, is that Nigeria is the new frontier for doing business. Opportunities can be found in nearly every sector, but especially those that apply to the fast-growing sectors of the economy such as construction and real estate. The paints and coatings sector leverages on the success of the general economic boom in Nigeria and is therefore a deserving sector to consider for foreign suppliers and investors.



Eko Atlantic, a business district on reclaimed land in Lagos, is the largest ongoing civil engineering project in the world. The construction will create even higher demand for paints and coatings. Construction will start Q4 2014

2. Overview of the Nigerian paints market

2.1 Market Summary

The Nigerian paints & coatings market was worth an estimated \$200 million in 2012. Growing by an estimated CAGR of 9.01%, the market was an estimated \$218 million in 2013 and will reach \$238 million in 2014. Due to a significant number of unorganized players, estimating production capacity and sales volumes are difficult. However, from our analysis we estimate total sales volume to be around an estimated 128 million litres a year.

The Nigerian paint & coatings industry is segmented into organized and unorganized sectors. The organized sector consists of companies with adequate access to capital and an increasingly effective distribution network. Inadequate access to funds and technical expertise required for industrial coatings is a major factor we used in differentiating market players.

In decorative paints segment, both organized and unorganized players are present as it does not require heavy technological investments. Lenient government policies make it easy for new players to enter into the market resulting in a large number of players in the Nigerian paints & coatings industry.



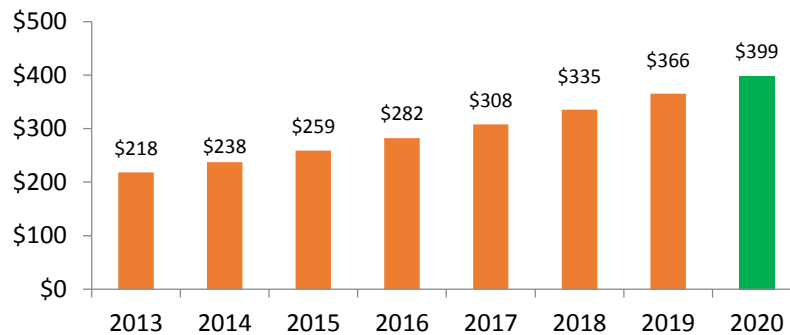
The sector comprises of about 5 big companies with each company's annual revenues in excess of \$7 million, and numerous small and medium scaled companies nationwide.

In 2012, according to Frost & Sullivan, decorative paints & coatings which have a strong correlation with the real estate industry was an estimated 71% of total volume of paints & coatings in Nigeria. From our observations of the different prices in the different paints & coatings segment we estimate the decorative segment accounts for about 60% of total sales value. The industrial coatings sector accounts for an estimated 29% of total volume and 40% of total sales value.

The industry has been growing fast in the last few years, but rising costs and growing competition has affected profit margins of most companies. Strong economic growth is creating a platform for increased

economic activities and this is expected to continue in the medium-term. We anticipate that the sales value in the industry will reach an estimated \$400 million in 2020, a CAGR of 9.01 %.

Paint & coatings industry: Growth outlook



Source: Naijalink research

Pricing, quality in this order plays a huge role in the purchasing decisions of majority of end users in the market. In the industrial segment, paints & coatings buyers are sensitive to prices but have quality in some circumstances at par with prices, unlike in the decorative segment where consumers will usually put prices before quality.

Although the decorative paints segment will play an important role in the growth of the industry over the next 6, we see the industrial segment as the market with more growth opportunities. Historically, the market for OEM coatings in Nigeria has been relatively non-existent, but we expect this to change in the next 6 years, albeit gradually.

The following are the main drivers of the sector in general:

- **Fast growing economy**

Rapid growth of the economy has provided an anchor for growth and development across all industries in the Nigerian economy. A fast growing economy saw Nigeria become Africa's no 1 destination for Foreign Direct Investments - mainly in capital projects to develop energy, manufacturing, financial, real estate and industrial infrastructure.

- **High demand for real estate properties**

Residential housing demand and growing demand for commercial real estate properties is having a positive effect across the paints and coatings segments. This had positive effects on coil coatings,

wood coatings, interior and exterior decorative paints, powder coatings used for extrusions and protective coatings for steel and metals.

- **Growing construction market**

Due to private and public efforts to address infrastructure deficit, the last 5 saw an increase in construction activities. Construction plays a huge role in building new houses influencing the decorative paints segment and sub-segments of the industrial coatings positively.

- **Industrial production**

Manufacturing has grown gradually from an average industry a couple of years ago due to high dependence on imports to a major driver of the economy. Although, OEM manufacturing still has a long way to go, there however, has been a significant demand for coatings used when building factories and protective coatings.

However, Nigeria remains a challenging country, and for the paints and coatings industry these were the challenges that stood out most:

- **High cost of production**

High cost of energy and power remains relatively high in Nigeria. Energy prices remain relatively high across the country and companies have to generate their power through the use of diesel generators. Power generation usually amounts to about 15% of operating cost.

- **Cost of raw materials**

Raw materials used in the industry have to be imported and are subjected to import levies, fluctuation in oil prices and activities in the countries where they are being imported from. This impact directly on the margins of companies, in most cases affecting profitability as in some cases companies are forced to reduce price to the competitive nature of the market.

- **Adulteration/ counterfeit**

Industry players complain of situations where small paint makers produce paints and use the containers of well recognised brands in marketing those products.

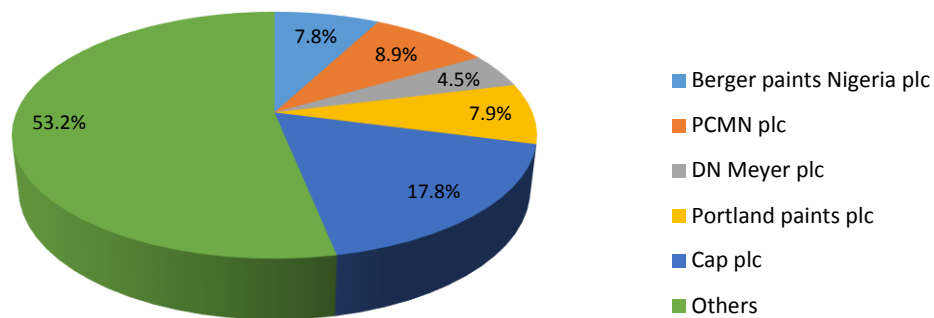
- **Political uncertainties**

The oil & gas industry which drives activities in the industrial coatings segment have seen growth diminish recently due to uncertainty about the industry going forward. There is bill still being debated on for about 5 years now on how the industry should be run causing uncertainties about ownership of assets should investments be made.

2.2 Key Players

Although the market is highly fragmented, the following 5 companies account for approximately 46.8% of total revenues generated by the paints & coatings industry in 2013: Cap plc, Paints & Coatings Manufacturing Nigeria plc, Portland paints Nigeria plc, Berger paints Nigeria plc, and Dn Meyer plc. As the profiles below show, they all are local companies with a strong international component.

Share of total revenue in the Nigerian paints & coatings market



Source: Naijalink research



Chemical and Allied Products plc evolved from the world-renowned British multinational Imperial Chemical Award Industries plc, which formalized its Nigerian operations in 1957 under ICI Exports Limited to what is now known today as CAP plc . The company markets Akzo Nobel’s Dulux in Nigeria through 19 agents, and is involved in promoting its own Caplux brand. Cap plc currently ranks number 1 in terms of total revenues generated by any company in the paints and coatings business in Nigeria. In 2013, revenues stood at \$38.7 million, an increase of 18.4% from 2012. The company’s total market share of revenues also increased from 16.3% in 2012 to 17.8% in 2013. Activities of the company are mostly in the high end decorative market. In 2012, Frost & Sullivan ranked the company number 2 in terms total annual production volumes.



Paints & Coatings Manufacturing Nigeria Plc (PCMn) commenced business in Nigeria in 2001 in Port Harcourt, as the Sole distributor of international Paints Protective coatings and Marine coatings. Presently, the company is one of the most important companies in Nigeria when it comes to industrial coatings. The company is ranked number

2 in terms of total market revenues generated, with a market share of 8.9%. In 2013, revenues generated by the company were a total of \$19.3 million, a 6.3% increase from 2012 revenues of \$18.2 million.



Portland Paints Nigeria Plc was incorporated in 1985 and listed on the Nigeria stock exchange in 2009. The company became a subsidiary of UAC of Nigeria Plc. The company manufactures locally and represents a couple of international companies such as Hempel Marine/Protective Coating produced by Hempel Denmark, Crown trade coatings produced by Crown Paints UK, and the Sandtex brands which the company produces locally and internationally on their behalf by Crown paints UK. The company is ranked number 4 in terms of total market revenues generated with a market share of 7.9%, a reduction by 1.1% from 9% in 2012, owing to a 3.3% drop in annual revenue from \$17.9 million in 2012 to \$17.3 million in 2012. A significant share of total revenue is generated from sales of decorative paints products considered locally as premium paints products.

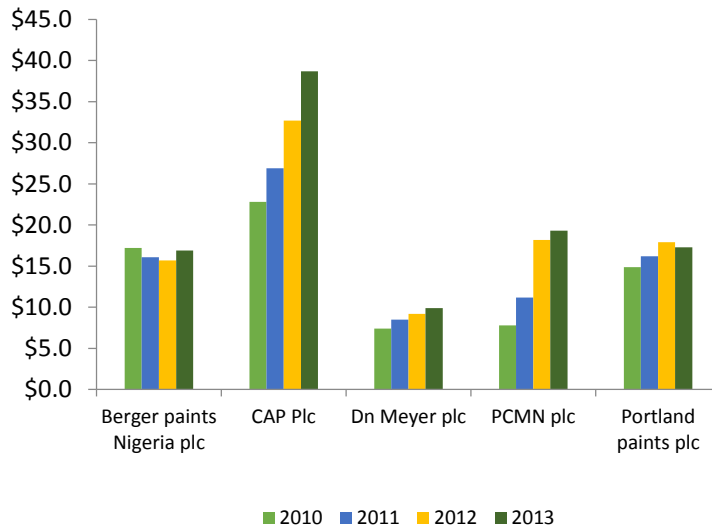


Berger Paints Nigeria Plc was founded in 1969 and the company is involved in manufacturing, development, distribution and sale of industrial and decorative paints and coatings. Berger brands are known across Nigeria. The company operates 18 sales depots across strategic cities in the country. Based on revenues generated, in 2013 the firm was the 4th biggest paints & coatings company in Nigeria with a share of 7.8%, down by 0.1% from 7.9% in 2012. Revenues generated in 2013 were a total of \$16.9 million as opposed to \$15.7 million in 2012. In 2012, Berger Paints Nig. Plc entered into a partnership arrangement with the biggest paint company in South Korea, KCC to jointly serve the Nigerian paints & coatings market. The partnership aims to leverage on the quality and durability that the KCC marine and protective brands offer. In 2013, the company invested about \$3.3 million in new equipment. In 2012, Frost & Sullivan ranked the company number 1 in terms total annual production volumes with an estimated share of 23%.



Dn Meyer plc was incorporated on the 20th May, 1960 and converted to a Public Company in 1979. The company currently serves the industrial and decorative coatings segment in Nigeria. Owing to high cost of sales and managerial problems the company recorded 4 straight years of losses from 2009 to 2012 despite rising revenues, before it recorded profit in 2013. The company is ranked at number 5 in terms of revenues generated with a market share of 4.5%, down from 4.6 % in 2012.

Revenues of the biggest 5 companies in the last 4 years



Source: Naijalink research

Continuous growth in combined revenue of the companies profiled in this section supports our thesis of a \$400 million paints & coatings market by the end of the decade. CAGR of revenues of the 5 companies over the last 3 years currently stands at 13%. These companies are currently taking steps to gain more coverage and plans are in place to expand operations. A resurgence of oil & gas activities over the next few years should see numerous projects which will further increase demand for industrial coatings.



Products in an average paint shop

3. Paints and coatings categories

A growing Nigerian economy has meant new industries have sprung up or industries that operated at smaller capacities have expanded to try to deal with growing demand. This has supported the Nigerian paints and coatings market to grow into a \$218 million market in 2013.

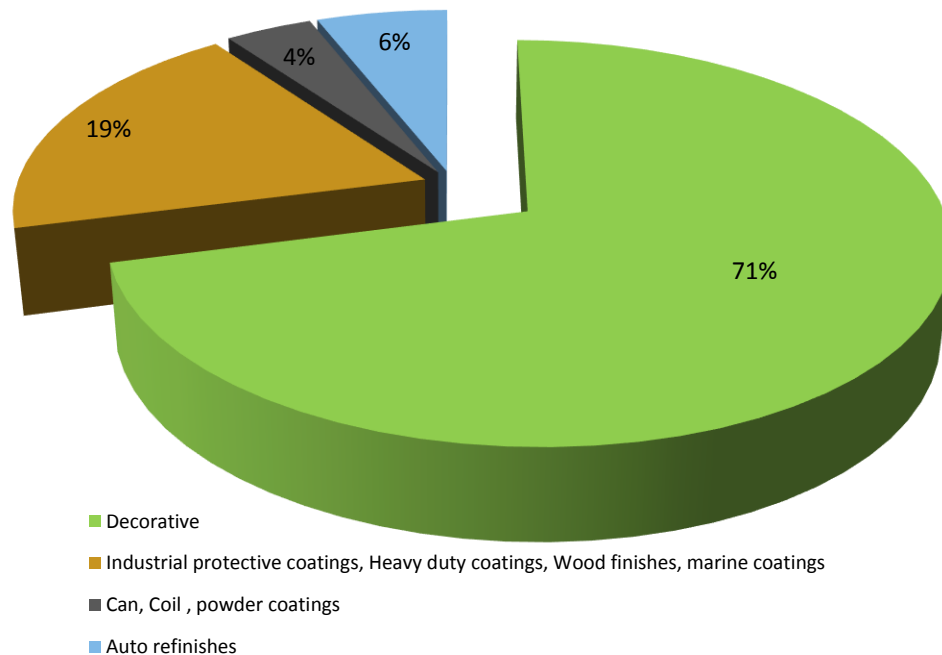
The Nigeria Paints & Coatings market can be broken down into the following segments:

1. Decorative Paints
2. Industrial paints and coatings

Decorative coatings comprises a majority of the Nigerian paints & coatings market representing an estimated 71% of total volume and about 60% of market value. A vibrant real estate market and change in attitude of homeowners to painting their homes have supported the growth of the market.

Percentage Volume Split of Total Paints & Coatings Market, Nigeria, 2012

Source: Frost & Sullivan



3.1 Decorative paints segment

The decorative paints segment is an important contributor to the Nigerian paint industry. As mentioned earlier, 60% of the industry's revenue is generated by this segment. The demand for decorative paints has been increasing tremendously over the past few years. Firms in this segment continue to invest and build strong distribution networks across the country. The decorative paints market was worth an estimated \$120 million in 2012. Sales volume was an estimated 91 million litres.

In recent years, companies have evolved through developing numerous colours and products to fit the different consumer segments. Distribution has also improved with more companies having sales depots in strategic locations across the country.

Market drivers

- High demand for residential housing
- High demand for commercial real estate
- Increase in purchasing power across income groups
- Urbanization

Challenges

- Too many similar products of poor quality
- Too many producers of paints warranting fears of excess supply

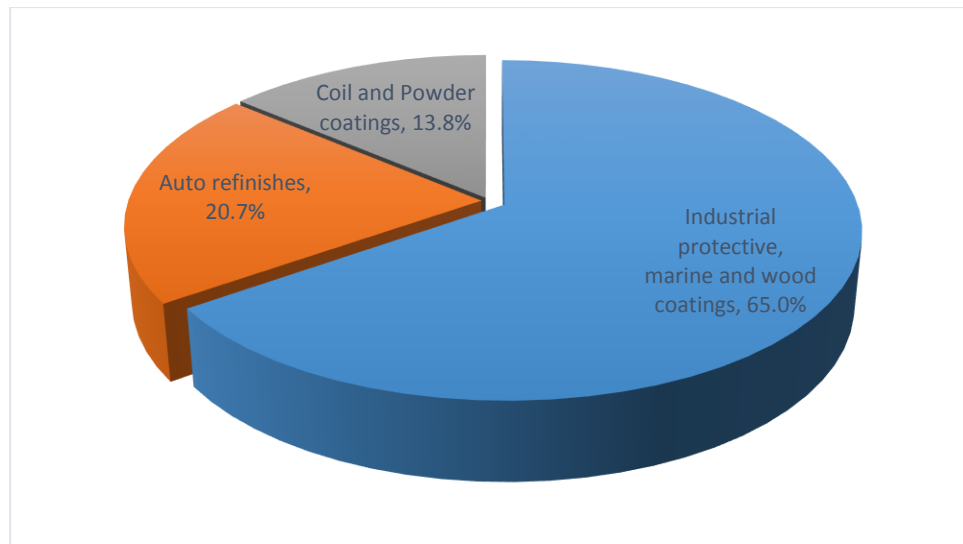
SWOT Analysis of the Decorative paints segment:

Strengths	Weakness
<ul style="list-style-type: none"> • Increasingly effective sales and distribution networks • Effective value and supply chain 	<ul style="list-style-type: none"> • Innovation • High cost of production • Cost of capital and access to funds
Opportunities	Threats
<ul style="list-style-type: none"> • Economic growth opening up, albeit, slowly rural markets • Investments in cities 	<ul style="list-style-type: none"> • Excess supply • Economic stagnation owing to political uncertainty • Rising raw materials prices

3.2 Industrial paints & coatings

Industrial coatings accounted for about 29% of total volumes in 2012 at an estimated \$80 million. Total sales volumes were an estimated 37 million litres. This segment can be broadly categorised into Industrial protective coatings, Marine coatings, Wood finishes, Coil coatings, Powder coatings, and Auto refinishes.

Volume breakdown of industrial coatings



Source: Frost & Sullivan, Naijalink research

Industrial protective coatings

This segment is mainly focused on the oil & gas sector in Nigeria. The oil & gas sector industry is one of the most established industries in Nigeria and majority of capital expenditures undertaken every year are in this industry. This drives the demand for coatings in Nigeria. Industrial protective, marine and wood coatings accounted for about 65% of the industrial coating segments.

- **Market drivers:** Well established oil & gas industry; Growing manufacturing
- **Challenges:** Policy issues affecting levels of investments in the oil & gas industry

Marine coatings

These are coatings used for ships and boats as well as offshore facilities such as oil rigs. Activities in the oil & gas industry drive the demand for marine coatings.

- **Market drivers:** Burgeoning international trade, sustained growth in the oil sector



Construction at the Escravos LNG terminal; the sector, and infrastructure development in it, is a huge boost for the protective paints industry.

Wood finishes

These are paints & coatings used generally for furniture and protection of wood. Since most furniture in Nigeria is made out of wood and produced locally, there is a significant market here even though the users of wood coatings are very fragmented.

- **Market drivers:** Fast growing economy, Rising incomes, High demand for real estate, High demand for furniture, and Government policies to promote local manufacture of furniture

Can and Coil Coatings

These coatings are used mainly in the aluminium industry in Nigeria. End products are used for roofing sheets and packaging cans. Can and coil coatings and powder coatings accounted for 4% of the total Nigerian paints & coatings market and 13.8% of the industrial coatings segment.

- **Market drivers:** Real estate growth, Construction growth, and sharp increased in the consumption of canned beverages and food products (plus the installation of major canning factories).
- **Challenges:** Importation of finished aluminium products

Powder coatings

These are coatings used mainly in the extrusions industries in Nigeria.

- **Market drivers:** Growing construction market, and Rising residential and commercial real estate spurring the extrusions market

Auto refinishes

Auto refinishes accounted for an estimated 6% of the total paints & coatings market and 20.7 % of the industrial coatings market. The market has grown rapidly in recent years as the volume of cars imported into Nigeria has increased. The market is expected to keep growing.

- **Market drivers:** Growing economy, Rising incomes, High importation of previously-owned vehicles, Poor traffic, and the emergence of a domestic car assembly industry.

SWOT analysis of the Industrial Coatings segment

Strengths	Weaknesses
<ul style="list-style-type: none"> • Established manufacturing network • Effective marketing and sales network • Government policies which aims to promote local sourcing of coatings (local content law) 	<ul style="list-style-type: none"> • High cost of production • Raw material prices • High cost of sales • Lack of technical expertise
Opportunities	Threats
<ul style="list-style-type: none"> • Anticipated increase in activities of the oil and gas industry • Gradually developing auto industry • Infrastructure growth • Expanding Marine sector • Drive towards industrialization 	<ul style="list-style-type: none"> • Economic slowdown • Raw material prices

4. Locally made paints vs imported paints

The Nigerian paints industry is segmented into different classes of consumers, namely businesses and individuals. Businesses include real estate firms who purchase paints for large scale housing projects, and industrial companies who buy paints for use in projects such as for oil & gas activities, aluminium coating, heavy duty equipment coating, auto refinishing, marine coating used for warehouse floors and ships and boats, and protective coatings. Individuals consist of buyers who purchase mainly for their personal residential uses and artisans.



These classes of consumers approach their purchasing decisions of paints & coatings differently, with price playing a huge role for most consumers, rather than quality especially when it comes to decorative paints. However, for industrial coatings, quality is often as important as the price.

Under the decorative segment, there are numerous brands which serve the low income and middle income market and these brands are produced locally. The quality of imported paints and coatings are generally higher than those produced locally under the decorative segment and they are usually more expensive. Brands like Akzo Nobel's Dulux paints licensed for production locally by CAP plc is considered a premium brand due to its high quality just as Crown trade paints imported by Portland paints.

For the industrial protective coatings used in the oil & gas, the government is actively promoting policies that make it mandatory for companies to source paints & coatings used for fabrication, maintenance and repairs locally, hence a significant reduction in the importation of finished industrial



protective coatings. International companies license local producers to manufacture and market these paints. Popular brands are international protective and marine coatings, Hempel protective and marine coatings and sigma protective and marine coatings.

Paints & coatings prices

From our analysis of the market and interviewing paints & coatings distributors, below is table showing some prices for paints & coatings in Nigeria. As the market is very competitive and with pricing playing a significant role in purchasing decisions prices of paints & coatings usually have little variance. Although, distributors we interviewed provided prices for other brands, we have not used it in this report and only provided estimates of confirmed retail prices.

	Segment	Paint type	Imported/Local	Prices/litre \$
Fine coat	Decorative	Emulsion	Local	0.875
President paints	Decorative	Emulsion	Local	0.875
Megasea	Decorative	Emulsion	Local	0.84
Prestige	Decorative	Emulsion	Local	0.875
Crown paints	Decorative	Vinyl matt	Imported	20
San Marco	Decorative	Emulsion	Imported	5.3
Portland Sandtex	Decorative	Emulsion	Imported	21
Alpha star	Decorative	Emulsion	Local	1.56
Blendtech	Coil	Topcoat polyester	Local	5.75
Berger paints Nigeria plc	Coil	Topcoat polyester	Local	5.7

Source: Naijalink research

4.1 Local paint production

Over the last five years, the Nigerian paints & coatings industry has evolved to become highly competitive, with the number of players increasing rapidly to more than 50. The industry consists of 8 listed companies and numerous private companies. Berger paints plc, Cap plc, Dn Meyer plc, Portland paints plc and PCMN plc are the top five paints & coatings companies in terms of revenue.

As the market is open, new players threaten the dominant position of existing companies and keep increasing their market share as consumers are price sensitive. Competition is likely to intensify further as new players are planning to enter the Nigerian paints & coatings market.

The top five players have an estimated 46.8% share of the total revenue of paints & coatings for 2013. Dominance of the top five paints & coatings companies has been decreasing over the last few years with

increasing number of companies importing mostly decorative products and local producers serving the low and middle income markets.

Most companies operating in the market have revenues below \$1 million. Companies featured in this segment of the report are popular and well-known brands across the country. Below are details of some of the local paint companies:

Company name	Website
Apex paints	http://www.apexpaints.com/
Berger paints Nigeria plc	http://www.bpnplc.com/
Cap plc	http://www.capplc.com/
Dn Meyer Plc paints	http://www.meyerpaints.com/
Eagles paints	http://eaglepaints.com.ng/
Finecoat paints	http://chemstargroup.com/
IPWA plc	http://www.ipwaplc.com/
Megasea Paints	http://www.megaseapaint.com/index.html
PCMN plc	http://www.pcmnigeria.com/
Portland Paints plc	http://new.portlandpaintsng.com/
Premier paints plc	http://www.premierpaintsplc.com/
President paints	http://presidentpaints.com/
Prestige paints	http://www.prestigepaint.com.ng/

4.2 Imported paints

Importation of paints & coatings is allowed into Nigeria, although the government is currently trying to reduce it by increasing import levies. Importation of paints & coatings into Nigeria are by the biggest companies and even then these brands can be considered premium/luxury products considering the general standard of living and income levels.



Sikkens is market leader in automotive paints

Most of these paints are industrial paints and are often sold directly to companies. The top foreign paints brands in Nigeria are listed in the table below.

Popular imported/ licensed brands

Brand name	Company	Paint & coatings segment
Dulux	Akzo Nobel	Decorative
Sikkens	Akzo Nobel	Auto refinishes
Crown paints	Crown paints UK	Decorative
Nippon paints	Nippon paints Japan	Coil coatings
International protective coatings	International	Protective and marine coatings
Hempel	Hempel coatings	Protective and marine coatings
KCC	KCC Corporation	Protective and marine coatings

According to UNcomtrade, the value of paints & coatings imported into Nigeria in 2012 was an estimated \$52.6 million. This means imports accounted for about 26.3% of the total market in 2012. A significant amount of this importation is done by the biggest paints & coatings companies like PCMN plc and Portland paints plc.

○ *Lessons learned*

The South African member company of the Beckers group made an attempt to enter the Nigerian paints & coatings a couple of years ago, aiming to take advantage of a growing aluminium coil coatings business.

The company's initial strategy was to operate from South Africa by importing raw materials needed to formulate coil coatings and stocking these materials with local aluminium coil coaters and formulating when the customers contacts the company to make coatings. Beckers S.A continued to operate this strategy for a couple of years but soon realised the strategy was failing.

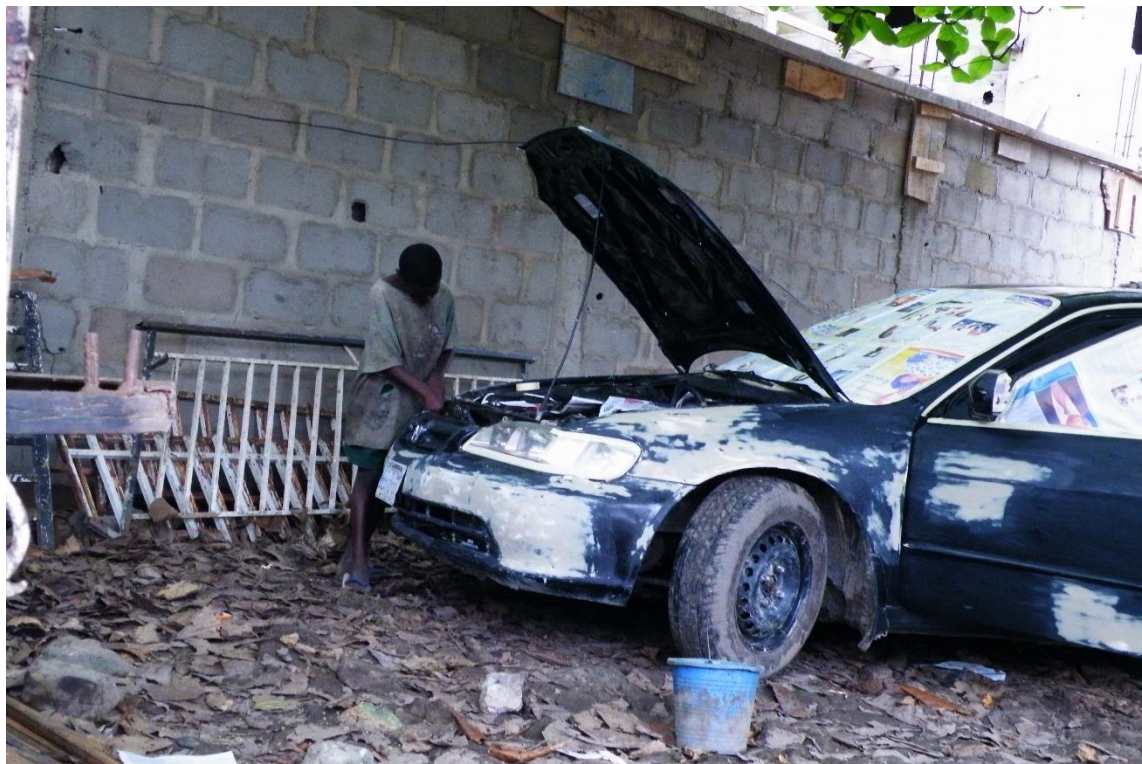
Like some other international businesses who don't succeed with their initial Nigerian market entry strategy, Becker's made the following mistakes:

- Underestimating the market.
- Underestimating market competition.
- Insufficient knowledge of the Nigerian business space.
- Overestimating consistency of demand.

Beckers group has since opened up a factory in Nigeria to service the Nigerian market.



Many products are used in the informal market where standards of work are often low and where the cost of products is their main selling point



5. Raw Materials for paints and coatings in Nigeria

Of all the raw materials needed in a typical paint formulation, like resins, solvents or water, pigments and additives, only resins and water are produced in Nigeria. All other raw materials used are all imported.

Raw materials	Local	Imported
Resins	Yes	Yes
Pigments	No	Yes
Solvents	No	Yes
Water	Yes	No
Additives	No	Yes

Germany, Netherlands, India, Ireland, China, France, Belgium, Spain, Italy, Eastern Ukraine, South Africa, UAE, and South Korea are the major sources of paints raw materials used by producers in Nigeria from companies like BASF, Ciba, BAYER, Cray Valley, Wacker, Brentag, Asiafine, and DSM.

Most companies source raw materials locally, buying from companies who are specialized in the business of trading chemicals. In other cases, the biggest companies source raw materials through leveraging international partners. These local companies imports raw materials, stores, and supplies to companies on demand, and in some cases through annual contracts.

5.1 market drivers & challenges to the raw materials market

- **Economic growth**

This is especially important in a market like Nigeria's. A booming economy has played a huge part in the creation of new industries that need coatings and therefore require supply of paints & coatings raw materials. Economic growth has been particularly important for demand in the decorative segment as standard of living has improved and perceptions and attitudes to paintings and coatings have changed from something of luxury to necessity.

- **Fast growing paints & coatings market**

A growing paints & coatings means the demand for raw materials used in the industry has increased significantly over the last couple of years, both at the small scale and large scale levels. Going through the financial statement of the 5 big players in the Nigerian paints and coatings

industry, we observed a trend of increase in payments for raw materials which we attribute to 3 things namely: increased demand for raw materials, inflation and volatile exchange rates.

- Government policy to significantly reduce volume of finished paints imported into the country**
 The Nigerian government aims to promote local manufacturing and production in most industries of the economy, and is aggressively pursuing policies that can aid this. One of these policies is increasing tariffs being paid on finished paints & coatings products imported into the country. Another of these policies is making it mandatory for companies involved in oil and gas activities to source protective coatings used locally. This is boosting the industry and is seen as a positive move which will impact the industry significantly in the future. This also creates opportunities for raw materials supplier who can compete in terms of quality.

At the same time, the following challenges can be identified:

- Quality control**
 Small scale business owners we interviewed complained of challenges with poor quality raw materials imported to the country which affects final paints formulations.
- Cost of raw materials**
 Volatile exchange rates and dependence on imports means raw materials prices are high. Since raw materials are mostly crude oil by-products they are also affected by the prices of crude oil in the international markets.
- Inadequate stock**
 Paints & coatings producers we interviewed complain of periods when importers of raw materials run out of stocks. This affects supply of finished products.



SWOT analysis of the raw materials market

Strengths	Weaknesses
<ul style="list-style-type: none"> • Developed manufacturing network • Improved distribution network and improved supply chain for raw materials which has supported the growth of small scale paint makers. 	<ul style="list-style-type: none"> • Lack of technical expertise for industrial paints & coatings • Dependence on imports
Opportunities	Threats
<ul style="list-style-type: none"> • Growing demand as the market expands • Policies to reduce importation of finished paints & coatings products will spur demand for raw materials to be used locally. • As the Nigerian economy continues to evolve with entrance of new industrial companies, this will create new demand. 	<ul style="list-style-type: none"> • Import policy; a hike in import duties could see a drop in demand • These materials are crude oil based inputs and the associated volatility in crude oil prices affects the prices of these raw materials.

We foresee the following trends in the raw materials market:

- **Organized retail of raw materials**
Purchasing raw materials has become easier in the last few years due to an increasingly improved supply chain and distribution network.
- **Reduction in Imports**
Policies by the government to reduce the importation of industrial protective coatings and improved local manufacturing means importation of paints & coatings has been reducing in the last couple of years.
- **Growth in Industrial segments pushing up demand for raw material**
Industrial paints & coatings have seen a surge in demand due to increasing activities in the oil & gas industry, shipping industry and the automobile industry.

6. Potential customers

The Nigerian business environment is constantly evolving and improving as new opportunities continue to arise. Nigerian business owners and executives are constantly looking for competitive advantages and are always open to new businesses.

Potential customers can be raw materials importers and finished products importers, and companies open to production licenses from international companies. Owing to increased demand for coatings and a rise in the number of paints and coatings companies in Nigeria, the raw materials supply chain has improved rapidly.

Customers are willing to import finished products that give them a quality and price advantage after considering the import duties and cost of importation. However, from

our analysis of the decorative market, the dominant imported foreign products available in the market are either imported by the biggest paints & coatings companies in Nigeria or are manufactured locally after being licensed to do so by the international company.

In the industrial segment, government policy aimed at increasing local production of protective coatings used in the oil & gas industry means very little quantity of those coatings are being imported. However, coatings in other industrial coatings sub-segments are still being imported. International licenses to produce are on the rise in Nigeria, targeting services for the industrial segments.



6.1 Profiles of Potential customers

In this section, we profile some of the biggest importers of paints & coatings raw materials in Nigeria and an importer of paints in Nigeria. The list below is not exhaustive. There are also many ad-hoc importers based on e.g. a particular building project or, in the case of raw materials, as an occasional side business

to the importation of other chemicals. We also want to reiterate that the major importers of paint and raw materials are the largest local companies as mentioned above.

Chemlap Nigeria Limited

Address	621, Lagos-Abeokuta Expressway, Danjuma Garage Ijaye Ojokoro, , Ojokoro, Lagos
Website	n/a
Telephone	234 1-4922971, 4924238
Segments of strength	Distribution of raw materials

Chizzy Nigeria Limited

Chizzy Limited is a leading supplier of raw materials to the paints and inks manufacturers in Nigeria. The company is a family-owned and operated business that has grown over the years by providing customers with quality products and service. The company has representatives in all major cities in Nigeria.

Address	Opposite Saddle Club, Olowora Junction, Isheri Road, Olowora, Ikeja, Lagos
Website	http://chizzyltd.com/
Telephone	+234-1-2305007, 7747936, 7907464
Segments of strength	Importation and distribution of raw materials

Comart Nigeria Limited

The company was incorporated in 1981 as a trading company specializing in Industrial Raw Materials and Chemicals. The company imports, stocks and distributes chemicals and other raw materials for the paint and other industries. The company represents:

- Ashland Aqualon
- Bayer material Science
- Vink Chemicals GmbH & co.KG
- Kimix Chemical Company Limited
- Nuplex
- 20 Micron Limited

Address	Cormart House, Plot A Block 2, Apapa Oshodi Industrial Estate, Ilupeju, Lagos
Website	http://cormart-nigeria.com/
Telephone	+234 1 280 6770 – 79 , +234 1 774 0383
Segments of strength	Importation and distribution of raw materials

Dezern Nigeria Limited

The company currently manufactures resins in the eastern part of Nigeria and distributes across all parts of Nigeria.

Address	87 Ogui Road, Enugu
Website	http://dezernnigerialimited.com/profile.php
Telephone	+234 7034135131, +234 8058856329
Segments of strength	Manufacture of resins

Emychem Nigerial Limited

The company is involved in the distribution of raw materials to paints & coatings companies in Nigeria.

Address	2A, Henry Carr Street, Off Akanni Doherty Street, Ikeja Lagos
Website	n/a
Telephone	+234 8129120666, +234 8129120777
Segments of strength	Distribution of raw materials

Nagode Industries Limited

The company is a member of the Nagode Group of companies. The company imports, warehouses & distributes chemical raw materials to various industries in Nigeria. Products include binders, pigments, titanium dioxides, solvents, additives and specialty chemicals used to achieve specific properties in paints.

Address	Suite 1 - Eleganza Plaza, 33, Mobolaji Johnson Avenue, Oregun, Ikeja – 100212,Lagos
Website	http://www.nagode.com/
Telephone	+234-7093178133
Segments of strength	Importation and distribution of raw materials

Nycil Limited

Nycil Limited was established in 1980, and is a pioneer in the manufacture of synthetic polymers and specialty chemicals. The company is rated as one of the leading service provider as well as one of the largest manufacturers of synthetic resins and specialty chemicals in Nigeria and it is the market leader in wide range of high quality polymer such as Alkyd Resins, Homo Polymers Emulsion, Acrylic Copolymers, Plasticizers, Saturated and Unsaturated Polyester Resins, Dispersants, etc.

Address	Plot 5-8, Ogun State Housing Corporation Industrial Estate, KM 6, Ota Idiroko Road, Ota, Ogun State
Website	http://www.nycil.org/index.html
Telephone	+234 1 7733008, +234 1 7912808
Segments of strength	Manufacture of resins

Orkila Chemicals Limited

The company is a member of a network of a group of companies called the Orkila Group. The company imports, stores and supplies Industrial raw materials to companies in Nigeria.

Address	32B Ladipo Oluwole Avenue Ikeja Lagos
Website	http://www.orkila.com/
Telephone	+ 234 1 774 21 82
Segments of strength	Distribution of raw materials

Robinson ventures

Address	206, Abeokuta Expressway, Pleasure B/stop Agege, Lagos
Website	n/a
Telephone	n/a
Segments of strength	Distribution of raw materials

Regatta Industries

The company is involved in the distribution of paints and industrial raw materials.

Address	Jega Close, Oregun, Ikeja, Lagos, Nigeria.
Website	n/a
Telephone	+234 0705 348 8961
Segments of strength	Distribution of raw materials

San Marco Nigeria Limited

The company is a medium scale decorative paints importer in Lagos state. Established in 2002, the company thrives on being sole importers and distributors of finished decorative paints products into Nigeria.

Address	5, Ibrahim Odofin Close, Agungi - Lekki, Lagos State
Website	http://www.san-marcong.com/

Telephone	+234 (0) 809 906 4444
Segments of strength	Importation of decorative paints

Truvalu Limited

The company procures and supplies raw materials.

Address	3, Folawewo Avenue off Ogundana Street off Allen Avenue, Ikeja
Website	http://truvalultd.com/
Telephone	234-1-8538058, 08033333536, 234-1-8761555, 08059993319
Segments of strength	Distribution of raw materials



Some shopping areas in Nigeria with (clockwise) Silverbird Galleria in Abuja, The Palms in Lagos, Banex Plaza in Abuja, and DIY store Game in Lagos where they also sell paints.



7. Industry potential and sector attractiveness

Construction, industrial and real estate activities accelerated in the past 3 years and should continue at a faster rate until 2020. Consequently, the outlook of the Nigerian paints & coatings market is positive in the near to medium-term.

Excess supply could arise over the next 3 years in the decorative segment due to the large number of producing companies if the rate of real estate activities doesn't meet targets, especially for residential housing properties. Despite the large amount of new capacity coming up in the decorative segment, economic expansion projected to remain consistent with a chance of exceptional double digits growth is expected to support increasing production capacity.

The industrial paints & coatings segment continues to benefit from Nigeria's underserved industrial market which is projected to keep expanding over the next 10 years. Increased manufacturing activities with the addition of new factories and plants are anticipated as this industry still maintains a positive outlook with stable growth potential. Also, we are already seeing new industries like the auto industry spring up with more new industries expected to be created owing to strong economic fundamentals.



GZI can production plant – Agbara Estate, Ogun State

Paints & coatings consumption will increase compared to present consumption and local production will receive a boost as the country needs to develop its infrastructure, including industrial, transportation, real estate, energy and power.

Overall, demand is expected to rise by more than 40% by the end of 2017 to approximately 179 million liters. Initiatives by the government to boost the residential housing market through low interest rates for financing mortgages and energy and power investments will support this increase in demand. This growing demand will be met by planned increases in capacity by some of the existing players, who are scaling up their plants.

As virtually all the machineries and electrical appliances used are imported, the coatings markets for these industries are very small and in some cases non-existent, mainly because the cost of producing such things presently outweigh their benefits. However, there are already ongoing plans to improve power generation capacity over the next decade to reduce business costs and attract manufacturing companies who. This will radically change the already investment positive Nigerian business landscape.

Industry outlook

Industries	Current state of the industry	Outlook in the next 10	Market competition
Residential buildings	Fast growth	Very positive	Very competitive
Commercial buildings	Fast growth	Very positive	Competitive
Factories	Fast growth	Positive	Competitive
Ships & Boats	Slow growth	Good	Very competitive
Cars, Buses	Medium growth	Very positive	Developing market
Furniture	Fast growth	Very positive	Competitive
Appliances	Non-existent	Good	Non existent
OEM Machinery	Non-existent	Good	Non existent
Packaging cans	Fast growth	Very positive	Competitive
Bridges, Highway safety	Fast growth	Positive	competitive
Power stations	Very fast growth	Very positive	Developing market
Energy plants	Fast growth	Very positive	Very competitive

Source: Naijalink research

By the end of the decade, cost of production is set to drop significantly as we expect relatively stable energy and power supply. This will bode well for paints & coatings companies as they can produce cheaper while having more markets to serve.

The underlying industries influencing growth in the Nigerian paints & coatings market still have a great deal of potential for expansion. This is as most industries are still widely underserved and are expected to grow rapidly over the next decade.

Owing to inefficient power supply and the fact raw materials have to be imported, the cost of production is high and rival companies have to compete to attract price sensitive customers. Customers are open to new products, although good quality and competitive prices are very important.

The number of paints & coatings companies has grown rapidly in the last few years, although they are mostly small and medium scale businesses. However, considering raw materials are imported, size of the company and economies of scale is even more important in a market like Nigeria's.

The table below provides a brief analysis of forces influencing the Nigerian paints and coatings market using Porter's five forces analysis.

Porter's Five Forces Analysis	
Industry Competition	Medium
	<ul style="list-style-type: none"> • Growing number of market players both large and small companies • Industry is projected to grow very fast over the next decade creating opportunities for competitors.
Bargaining Power of Buyers	High
	<ul style="list-style-type: none"> • Buyers are price sensitive • Similar quality of products and high number of producers means buyers have alternatives.
Bargaining Power of Suppliers	Medium
	<ul style="list-style-type: none"> • Raw materials are imported and subjected to import tariffs • Decorative and Industrial categories dominate the industry.
Barriers to Entry	Low
	<ul style="list-style-type: none"> • Government policy supports investments (even international) across most sectors of the economy • Price and fair quality plays a big role for distributors as the market is price sensitive.
Threat of substitutes	High
	<ul style="list-style-type: none"> • Customers are open to new products as long as they are of fair quality and acceptable prices.

On the back of recent strong economic growth and a positive economic outlook, the Nigerian paints & coatings market presents good investment opportunities, even more so taking into consideration recent infrastructure, real estate and industrial investments.

The industry also possesses certain weaknesses and faces threats which are dependent on both internal and external factors. The table below provides a summary of the SWOT analysis of the Nigerian paints and coatings industry.

SWOT ANALYSIS	
Strengths <ul style="list-style-type: none"> Favourable present and projected economic growth. Booming construction 	Weakness <ul style="list-style-type: none"> Raw materials are being sourced from outside Nigeria, (import duty, levy and VAT to be factored into price of finished goods) Cost of production is high due to power problems
Opportunities <ul style="list-style-type: none"> A growing number of OEMs are showing interest in doing business in Nigeria; this will open up new markets. Infrastructure deficit; improved drive to bridge this gap by the public and private sector. 	Threats <ul style="list-style-type: none"> The significant threat to the sector is a slowdown in economic growth. Problems in countries where raw materials are being sourced from could affect supply in Nigeria (or any producer dependent on such suppliers)

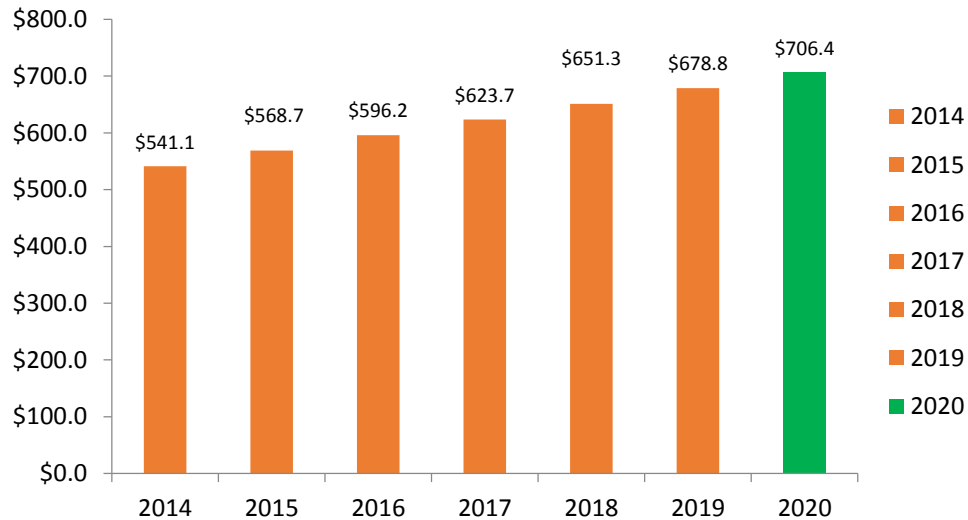
7.1 Outlook and trends

Spurred on by a fast growing economy, Nigeria has seen numerous reforms and restructuring of its key industries. The economy despite being stifled by poor energy supply, inefficient distribution network due to poor infrastructure has found ways to stimulate growth on average of 6.5% in the last decade.

Housing deficits which will need construction of about 1 million new homes annually to bridge the deficits over the next decade and rural urban migration continues to drive the housing market. This is having a chain reaction benefit for segments of the paints and coatings industry like the decorative, wood, and coil coatings market.

The last 18 months has seen the Nigerian government try to develop the auto OEM industry. Presently, there are about 3 operational auto assembling companies in Nigeria, with a total of about 14 auto companies proposing to begin operations between 2014 and 2016. Although, most of the materials used are still being sourced abroad, we see a scenario where over the next few years these companies will begin sourcing coatings locally, creating a whole new market for paint makers.

As dependence shifts from the oil & gas industry into other non-oil industries of the economy, this is having a huge impact on capital formation for new projects in the other sectors of the economy. Infrastructure investments over the next few years to provide the needed structures for businesses could drive growth to reach peak double digit figures in as early as 3 years' time. Saying this, the Nigerian economy is expected to grow at a CAGR of 5.4% over the next 40 years.



Source: Naijalink research

Infrastructure, real estate, construction and manufacturing have been gaining a lot of attention in recent years and have seen significant investments. Presently, there are numerous construction projects going on to improve the state of the country's infrastructure and to provide affordable real estate. It is expected that at least over the next decade these sectors will contribute significantly to sustaining stable economic growth.

As incomes increase and new industries try to develop and expand, this will create new opportunities for the paints and coatings industry. For example, due to historically low incomes, the average home owner 10 to 15 years ago was content on just building a home without painting either the interior or exterior of the home, or just painting the interior. Also, 10 – 15 years ago, aluminium roofing sheets seemed a luxury and Nigerians built houses using zinc sheets and asbestos. This trend has been changing and paints & coatings companies are positioning themselves to serve the market.

Although we expect increased demand for coatings in all segments, the next 5 years will provide interesting opportunities for industrial coatings as construction projects in the power, energy, and petrochemicals get into gear.

Irrespective of the challenges of doing business in Nigeria, the country will be a deserving market for paints and coatings companies for years to come.

Appendix I - Doing business in Nigeria

The Nigerian market is one of the most dynamic markets in the world. Most industries that make up the Nigerian economy are still at the level analysts will refer to as the “growth stage”; burgeoning demand, increasing capacity, solid economic fundamentals and favourable short, medium and long-term outlook, thus, creating numerous sound investment opportunities.

The Nigerian government in the last few years has been making concerted efforts to ensure the business climate is as hassle free as much as possible for both domestic and foreign investors. This is as the government tries to encourage more foreign investors to take advantage of the numerous business opportunities available in the country, and to help develop a rapidly growing economy

Nigeria was ranked 147th among 189 countries in the Ease of Doing Business 2014 by the World Bank.

Figure 1: Doing Business in Nigeria

Description	Rank
Starting a Business	122
Registering Property	185
Getting Credit	13
Protecting Investors	68
Paying Taxes	170
Trading Across Borders	158
Enforcing Contracts	136

Source: World Bank

Golden rules for doing business

While long-term investments and partnerships with the government may be more risky, the private sector offers plenty opportunities. Corruption has long been an endemic problem in Nigeria, but it is not true that you cannot do business without paying bribes. Usually you can go a long way by building up relationships and creating genuine commercial incentives. The private sector is easier to manoeuvre in, but it may be best to rely on local partners for advice on the more sensitive aspects of doing business in Nigeria.

Some golden rules for doing business in Nigeria:

- Obtain in-depth information before entering the market
- Work with reliable and knowledgeable partners; Authenticate potential business partners through official channels or people you know and who are reliable. Moreover, make sure your

partner has the required network to make your business a success. The greatest threat is not to find a fraudulent partner, but an ineffective one.

- Visit Nigeria regularly to understand the market and to re-enforce business ties. Don't expect success without making the effort to establish proper relationships.
- Don't take unnecessary security risks (check your embassy's advice)
- Avoid paying bribes and beware of fraud. If something looks too good to be true, it usually is.
- Be patient: establishing long-term relationships and mutual trust are the key to success in Nigeria.
- Have clear payment conditions and ask your bank for further advice to avoid payment issues.

Another note on the “ease of doing business” is that it also depends on the partner one works with. In fact, one of the things that can make doing business in Nigeria difficult is the ‘unpredictability’. If you establish a business on ground, open a shop, you can have many types of “officials” who come to charge you for the strangest items. For example: marketing taxes since you have a sign board. Some of these levies are perfectly legal, but sometimes officials will try to extort you. A strong local partner will deal with such people, and will make sure that the lowest-possible fees are paid when and only if due.

Business culture & communication

- In Nigeria, important business is conducted face to face. No worthwhile transactions can be completed quickly or impersonally, and often follow-up visits rather than emails are required. Emails are often left unanswered, and you normally have to call someone to alert them that they should check their email. Exceptions to this rule are the large and internationally-oriented companies. Business appointments preferably are made through personal calls, or hand-delivered messages.
- Most Nigerians, even those in the highest positions, use a personal email address (e.g. yahoo or Gmail) instead of a corporate email address. This practice sometimes makes it difficult to assess whether people are serious or not.
- Business visitors should be appropriately dressed at meetings. Casual dress may convey a casual attitude, and is not appreciated. A Nigerian will try to look as best as he can, and portray himself as better off than in reality. Wealth commands respect, as do age and position. Titles should be used, particularly the honorific titles of traditional leaders.
- Company representatives should be flexible in business dealings and able to make decisions on contractual matters without lengthy referral to their home offices. Nigerians are not known for

punctuality and especially in Lagos people tend to show up late due to traffic congestion. However, the most powerful of the people meeting is allowed to be later; when selling something you should try to show up in time even if the other person makes you wait. Having that said, international businessmen still command great respect and preference in Nigeria, and usually you will not have to wait long. To ease the process, it is always better to confirm and reconfirm a meeting to make sure nothing else comes up.

- Furthermore, many travel frequently both inside and outside the country. Business appointments can easily be cancelled, postponed and shifted. This is normal, but again it can be minimized by actively following up on the meeting.

Entry Strategies

Manufacturing locally through license agreements

International companies who sought to expand into the Nigerian market and local producing company who are looking to improve product offerings employ this strategy. Some of the biggest Nigerian companies are currently producing products locally under license after agreements with international companies. We expect to see this type of agreements increase over the next few years as more international companies aim to take advantage of the burgeoning demand for industrial coatings in Nigeria and as the local companies aim to improve quality and product portfolios.

Sole distributors/importers

Through sole distributors/importers, the local company imports products and full payment or part payment is made ahead or after delivery of goods, depending on the agreement. This is a popular strategy employed by international companies and is always effective in the Nigerian market as the importer is in most cases established with good distribution network.

This type of strategy is applicable in the raw materials and finished products categories.

Joint venture agreements

Going forward, this is a particular interesting strategy for raw materials producers to invest in Nigeria. This allows the international company to leverage the local companies knowledge of the market.

Registering a Business in Nigeria

Nigeria has been a member of the WTO. Foreign companies can establish their own trading company in Nigeria to distribute products directly, or choose to establish representative office to handle issues of product promotion, marketing, training, after-sales services and support for distributors.

The Nigerian Investment Promotion Commission (NIPC) Act No 16, 1995 requires alien to register with the Commission before commencing business in Nigeria. The Act also guarantees that “no enterprise shall be nationalized or expropriated by any government in Nigeria”. The act provides that a non-Nigerian whether company or individual may invest and participate in the operation of any enterprise in Nigeria except those in the negative list (arms and ammunition, narcotic drugs and psychotropic substance, para-military and military wears and accoutre).

With regards ownership of businesses, the NIPC Act supports 100% of foreign ownership of shares in any company. Foreign investors under the provisions of the Foreign Exchange law (Monitoring & Miscellaneous Provision Act No. 17 of 1995) are free to repatriate their profits and dividends net of taxes through an authorised dealer in a freely convertible currency.

Incorporation procedure

All business enterprises must be registered with the Registrar-General of the Corporate Affairs Commission (CAC). Business activities may be undertaken in Nigeria as:

- Private or Public Limited Liability Company
- Unlimited Liability Company
- Company Limited by Guarantee
- Foreign Company (branch or subsidiary of Foreign Company)
- Partnership/Firm
- Sole Proprietorship
- Incorporated Trustees
- Representative Office

A foreign investor/company looking to set up a business in Nigeria should follow the necessary steps to incorporate a company locally, Nigerian branch or subsidiary. The Companies and Allied Matters Act, 1990 is the law regulating incorporation of businesses. The Corporate Affairs Commission (CAC) is responsible for administration of the Act.

1. The following documents are required when setting up a company:

- A copy of the Memorandum and Articles of Association of the Company (which must be subscribed to by at least two persons, together holding at least 25% of the company’s authorized share capital together with evidence of payment of stamp duty.
- A statement of the authorized share capital of the company together with evidence that the stamp duty payable in respect of the amount of share capital has been paid.
- A statement of the particulars of the initial directors of the company, of which there must be at least two.

- A notice of the situation of the registered office of the company.
- A declaration, sworn to by a Lawyer that all matters preliminary to the registration of the company have been complied with.

Stamp duty and filing fees are payable to the Federal Commissioner for Stamp Duties and the Registrar - General of Companies respectively. If the application is approved, a Certificate of Incorporation will be issued and the company can commence business subject to its having obtained the necessary investment approvals.

2. The next stage after incorporation, the company is expected to register with the NIPC. Documents for NIPC registration:
 - Completed copies of the NIPC Form 1 (Original and 3 copies)
 - Original copy of receipt of purchase of NIPC Form 1 (and three copies)
 - A copy of COMPANYs' Certificate of Incorporation (and three copies)
 - Evidence that COMPANY has a minimum share capital of =N=10million. (3 copies)
 - COMPANYs' Allotment of shares and Particulars of Directors (3 copies)
 - Details of the shareholding structure of COMPANY (3 copies)
 - Joint Venture, Shareholders' or Partnership Agreement, where applicable (3 copies).
3. The next stage is to obtain a business permit from the Ministry of Internal Affairs. Documents for registration with the Ministry of Internal Affairs:
 - Completed copies of the NIPC Form 1 (Original and 3 copies)
 - Original copy of receipt of purchase of NIPC Form 1 (and three copies)
 - A copy of COMPANYs' Certificate of Incorporation (and three copies)
 - Evidence that COMPANY has a minimum share capital of =N=10million. (3 copies)
 - COMPANYs' Allotment of shares and Particulars of Directors (3 copies)
 - Details of the shareholding structure of COMPANY (3 copies)
 - Joint Venture, Shareholders' or Partnership Agreement, where applicable (3 copies)
 - Certificate of Capital Importation.
4. The Certificate of Capital Importation above last is a document which serves as evidence of importation of foreign company's capital/equity contribution into Nigeria. The foreign company must obtain the document if they intend to remit dividends to non-resident shareholders or repatriate capital on disinvestments. The procedure is done through the Nigerian bank through which capital is transferred into Nigeria.

Procedure for obtaining the Certificate of Capital Importation:

- The foreign shareholders will instruct their bank ("the remitting bank") by telex to transfer the necessary funds either directly to COMPANY's bankers or to their foreign affiliate
- The transfer must be accompanied by a telex stating that the money being remitted to the bank is for the account of COMPANY and that the money represents the foreign investors' capital contribution to the equity of COMPANY

- Upon confirmation that the funds have been remitted to Nigeria, COMPANY is required to send a formal letter of application to the receiving bank to issue a CCI in respect of the equity contribution
- The following documents must be submitted together with the letter of application:
 - A Board resolution of COMPANY authorizing the foreign investment
 - A letter from COMPANY stating the purpose for which the money has been remitted
 - A copy of the certificate of incorporation of COMPANY;
 - A copy of the swift message from the remitting bank
- If satisfied with the documentation the receiving bank will issue a CCI in respect of the funds. The receiving bank is required to notify the CBN whenever it issues a CCI.

Expat quota

In the case where expatriates will be employed, the company must obtain an Expatriate Quota position for each expatriated it wished to employ. A company having a paid-up share capital of not less than ₦10,000,000.0 (Ten million Naira only) (approximately 80,000 US Dollars) is entitled to one automatic quota positions, while a company capitalized at ₦20,000,000.00 (twenty million Naira only) (approximately 155,000 US Dollars) is entitled to four automatic quota positions. Procedure for obtaining Expatriate Quota:

- Application is made to the Ministry of Internal Affairs
- In addition to the requirements listed under Business Permit application, the following requirements have to be met for Expatriate Quota applications
- Evidence of acquisition of operational machinery and equipment
- Management and Technical Services Agreement
- Minimum authorized share capital of ₦10million
- Tax Clearance Certificate
- Company applying for Permanent Until Reviewed (PUR) Quota slots must show evidence of payment of tax for minimum of ₦1 million
- Names, addresses, qualifications and positions to be occupied by the expatriate
- Project Implementation Program
- Training Program for Nigerians and a Management Succession Schedule

NOTAP

In the case where the foreign company is providing foreign technology, management or assistance to a Nigerian company, this must be approved by the National Office for Technology Acquisition and Promotion (NOTAP).

Appendix II – Foreign Trade

Nigeria is a member of a number of organizations which allows for easy facilitation of trade dealings. Some of these organizations are:

- Economic Community of West African States (ECOWAS)
- African Union (AU)
- G20 (an organisation of important economies across the world)
- Organisation of Petroleum Exporting Countries (OPEC)
- New Partnership for Africa’s Development (NEPAD)
- International Chamber of Commerce (ICC)
- African Development Bank Group (AfDB)
- World Federation of Trade Unions (WFTU)
- World Trade Organization (WTO)
- United Nations (UN)
- Commonwealth
- Etc.

Custom duties

The Nigerian Federal government regularly reviews the duties to be paid on importation of products into the country in line with its economic strategies and international agreements. Recently there have been at times radical hikes in rates on certain products with the aim of boosting local production of such goods and services. Notable examples of such products are rice and cars.

The table contains some examples of current import duties.

Table 4: Some examples of import duties in Nigeria

CET Code	Description	Import duty	Value Added Tax
3206110000	Pigments containing 80% by weight of titanium dioxide	5	5
3206190000	Other pigments and preparations based on titanium dioxide	5	5
3206200000	Pigments and preparations based on chromium compounds	5	5
3208100000	Based on polyesters	20	5
3208201000	Vanishes including lacquers	20	5
3208202000	Paints including enamels	20	5

Source: Nigeria Customs Service (NCS) CET tariff

Payments systems

The central Bank of Nigeria (CBN) is constantly trying to ensure that the payments systems in place are efficient. The payments system in place in Nigeria is called the National Payments System (NPS). Payments

in Nigeria can be made by cash, cheques and electronically. Over the last couple of months, the CBN has been actively adopting strategies which aim to encourage electronic payments as opposed the widely popular payment method by cash.

Banking system

The Nigerian banking system has developed quickly to become one of the most stable banking systems in Africa. Currently, there are 21 commercial banks in Nigeria. These banks have evolved in the last couple of years having gone through bad debts, fraud and capitalization challenges. Actively playing important roles in guiding the Nigerian banking system through torrid periods is the Central Bank of Nigeria which supervises activities of Banks in Nigeria.

Free Trade Agreements

Nigeria has been a WTO member since 1 January 1995. Nigeria currently has no Free Trade Agreement in place.

Double taxation Agreements

In the last few years, double taxation agreements have been entered into by Nigeria with a number of countries. These agreements are entered into with a view to affording relief from double taxation in relation to taxes imposed on profit taxable in Nigeria and any taxes of similar character imposed by the law of the country concerned.

The method of relief from double taxation under Nigeria's tax treaties is by way of a "tax credit". The mechanism of the tax credit is such that the tax payable in Nigeria on profits of a Nigeria Company being remitted into the country is reduced by the amount of "foreign tax" paid abroad. The converse is equally true where an overseas company receives profits from abroad. Nigeria has DTA with the following countries:

Investment Promotion and protection Agreement (IPPA)

As part of additional effort to foster foreign investors' confidence in the Nigeria economy, Government continues to enter into bilateral investment promotion and protection agreements (IPPAs) with countries that do business with Nigeria. The IPPA helps to guarantee the safety of the investment of the contracting parties in the event of war, revolution, expropriation or nationalisation. It also guarantees investors the transfer of interests, dividends, profits and other incomes as well as compensation for dispossession or loss. To this end, Nigeria has concluded and signed IPPAs with:

- France
- United Kingdom
- Netherlands
- Romania
- Switzerland

- Spain
- South Africa etc.

Negotiations with the United States of America, Belgium, Sweden and the Russian Federation are at various stages.

Liberalisation of Ownership Structure

The government in repealing the Nigerian Enterprises Promotion Act of 1972 (Amended in 1977 and in 1989) and promulgating the Nigerian Investment Promotion Commission Act of 1995 has liberalized the ownerships structure of business in Nigeria. The implication of this is that foreigners can now own 100% shares in any company as opposed to the earlier arrangement of 60%-40% in favour of Nigerians.

Repatriation of profit

Under the provisions of the Foreign Exchange (Monitoring & Miscellaneous Provision Act No. 17 of 1995), foreign investors are free to repatriate their profits and dividends net of taxes through an authorised dealer in freely convertible currency.

Guarantees against Expropriation

The Nigerian Investment Promotion Commission Act guarantees that no enterprise shall be nationalized or expropriated by any government in Nigeria.



İSTANBUL CHEMICALS AND CHEMICAL PRODUCTS EXPORTERS' ASSOCIATION
Dış Ticaret Kompleksi A-Blok çobançeşme Mevkii, Sanayi Caddesi Yenibosna-Bağçelievler İstanbul/TURKEY
Tel: +90 212 454 00 00 Fax: +90 212 454 00 41
www.immib.org.tr