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## 8. INDEPENDENT MARKET RESEARCH REPORT

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SMITH ZANDER

Date: 30 August 2023

The Board of Directors

**Smart Asia Chemical Bhd**

No.11, Jalan Indah Gemilang 5  
Taman Perindustrian Gemilang  
81800 Ulu Tiram, Johor  
Malaysia

Dear Sirs / Madams,

**Independent Market Research Report on the Paints and Coatings Industry in Malaysia (“IMR Report”)**

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This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD (“**SMITH ZANDER**”) for inclusion in the draft Prospectus in conjunction with the proposed listing of Smart Asia Chemical Bhd on the ACE Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry in which Smart Asia Chemical Bhd and its subsidiaries (“**Smart Asia Group**”) operate and to offer a clear understanding of the industry dynamics. Smart Asia Group is principally involved in the development, manufacturing, distribution and sale of decorative paints and protective coatings for household and industrial applications; development, manufacturing, distribution and sale of related products, namely colourants, and binding and coating chemicals; sale and trading of painting tools and accessories, aerosol spray paints and other related products to complement its decorative paints and protective coatings offerings; and the provision of original design manufacturer (“**ODM**”) services of decorative paints, protective coatings as well as binding and coating chemicals for third party brand owners. Hence, the scope of work for this IMR Report will address the following areas:

- (i) The paints and coatings industry in Malaysia;
- (ii) Key industry drivers, risks and challenges of the paints and coatings industry in Malaysia;
- (iii) Competitive landscape of the paints and coatings industry in Malaysia; and
- (iv) Prospects and outlook of the paints and coatings industry in Malaysia.

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an “overall industry” perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies mentioned in this report.

For and on behalf of SMITH ZANDER:



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**DENNIS TAN**  
MANAGING PARTNER

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The research for this IMR Report was completed on 18 August 2023.

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**About SMITH ZANDER INTERNATIONAL SDN BHD**

*SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.*

**Profile of the signing partner, Dennis Tan Tze Wen**

*Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has over 25 years of experience in market research and strategy consulting, including over 20 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.*

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## SMITH ZANDER

## 1 THE PAINTS AND COATINGS INDUSTRY IN MALAYSIA

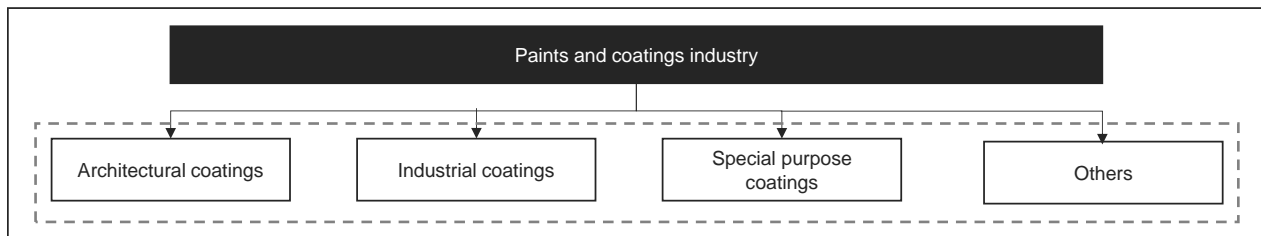
## Overview

Paints and coatings are liquid, liquefiable or solid mastic compositions, that change into a solid film after being thinly spread on a surface or substrate. They are widely applied on amongst others, buildings, infrastructure, structures, furniture, vehicles, machinery and equipment for aesthetics and protective purposes.

The paints and coatings industry can be broadly segmented into the following categories:

- (i) **Architectural coatings** – are applied on the exterior and interior of residential, commercial and industrial buildings as well as structures to preserve, protect and adorn the surfaces of buildings and structures. Architectural coatings include decorative paint and coating products such as exterior wall paints, interior wall paints and wall sealers that can be applied onto the surfaces of exterior and interior walls and ceilings.
- (ii) **Industrial coatings** – are commonly used for various applications including concretes, flooring and various manufactured products such as machinery and equipment, furniture, and metal products, to protect against corrosion, decay, wear and tear as well as to maintain the appearance, functionality, and longevity of a structure or a product. Industrial coatings include protective coating products such as zinc chromate primer (i.e. generally used on iron and steel surfaces to prevent corrosion), red oxide primer (i.e. generally used on ferrous metal surfaces to prevent rust formation), epoxy coating (i.e. generally used on concrete and metal structures and surfaces and is highly resistant to abrasion and harsh chemicals) and micaceous iron oxide (i.e. generally used on steel structures to protect against corrosion).
- (iii) **Special purpose coatings** – are coatings used to serve specific purposes such as marine coatings (i.e. used in the marine environment to protect water vessels from freshwater or saline water), automotive paints and traffic markings (e.g. paint on roads, airports and parking lots).
- (iv) **Others** – refer to miscellaneous items including painting tools and accessories such as brushes, rollers, spray guns, paint trays and aerosol paint sprays that are used to support the application of paints and coatings.

## Segmentation of the paints and coatings industry



Note:

- [---] denotes the segment in which Smart Asia Group's products are categorised under.

Source: SMITH ZANDER

There are a diverse range of paints and coatings in the market which vary in terms of colour, composition, function, property and quality based on their formulations. The formulation of paints and coatings is developed and modified through the process of combining various components in varying proportions to create a specific desired paint or coating. Each component used in the formulation of paints and coatings provides a specific property or function to the paint or coating. Some of the basic components that can be found in paints and coatings include binders, solvents, pigments and additives. Details for each of the basic components are as follows:

- (i) **Binder** – is a film-forming substance used to hold the pigment of paint or coating to an applied surface and to bind all components of a paint or coating together. Examples of binder include alkyd resin, acrylic resin and epoxy resin.

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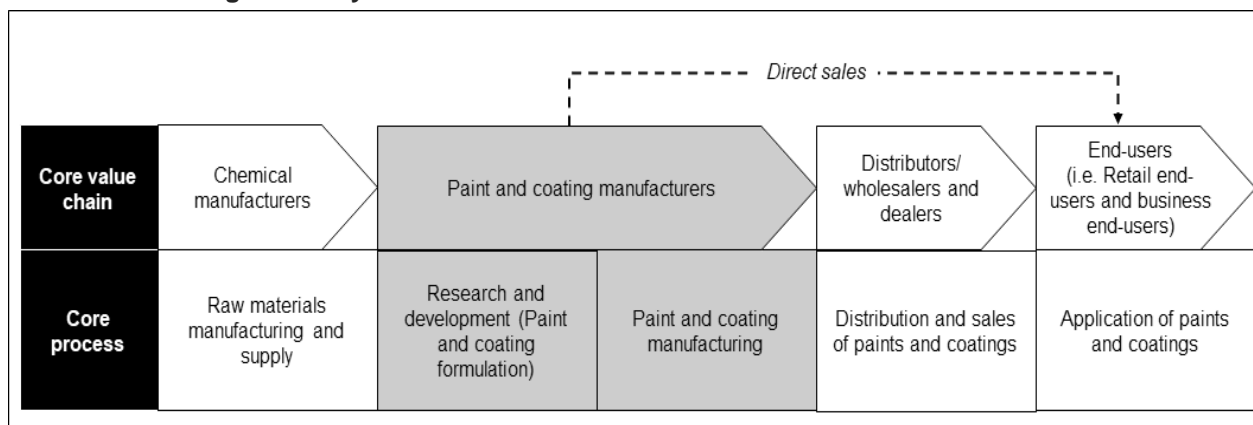
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- (ii) **Solvent** – also known as a thinner, is used to adjust the viscosity of paint or coating so that the paint or coating can be spread on a surface uniformly and smoothly. Examples of solvent include toluene, turpentine and xylene.
- (iii) **Pigment** – is used to impart colour and opacity when added to a paint or coating formulation. Examples of pigment include titanium dioxide, iron oxide and zinc oxide.
- (iv) **Additive** – is used to manipulate or enhance certain properties of a paint or coating. For instance, thickeners and modifiers are used as additives to achieve the desired ease of application of a paint or coating. Further, additives such as defoamers are used to reduce or eliminate the formation of foam in a paint or coating.

The types and proportion of components used in the formulation of a paint or coating are based on its property and function requirements. Such property requirements include amongst others, solvency (e.g. water-based or oil-based), finish and sheen (e.g. flat-matte, semi-gloss and high gloss) and application (e.g. exterior, interior, metal surface or wood surface) whereas function requirement may include aesthetic purposes, protection against corrosion, ultra-violet rays, fire, sunlight, water, fungal growth and/or bacteria growth, and/or specific purposes such as reflecting light for traffic markings to enhance road visibility especially during low-light or dark conditions. A good quality paint or coating is typically determined based on several attributes such as ease of application, durability, resistance against chemical and environmental effects as well as opacity.

In recent years, there has been increasing concern for environmental sustainability. Hence, many consumers are starting to lean towards green products and maintenance measures, like opting for eco-friendly paints and coatings instead of conventional ones. Some components in conventional paints and coatings may contain high Volatile Organic Compounds (“**VOC**”) that release environmentally harmful chemicals into the atmosphere, contributing to poor air quality and negative environment impact, while eco-friendly paints and coatings are formulated to have zero or low VOC which are more efficient, greener and safer for the environment and health. With ever-increasing environmental awareness, paint and coating manufacturers have become more innovative in the formulation and production of eco-friendly paints and coatings.

**Paints and coatings industry value chain**



Note:

- denotes the role of Smart Asia Group in the value chain of the paints and coatings industry.

Source: SMITH ZANDER

In Malaysia, the paints and coatings industry value chain involves multiple core processes, namely raw materials manufacturing and supply, research and development (“**R&D**”) (paint and coating formulation), paint and coating manufacturing, and distribution and sales of paints and coatings for end-users’ application. The raw materials manufacturing and supply process is carried out by chemical manufacturers to produce the necessary components of paints and coatings such as binders, solvents, pigments and additives for the manufacturing of paints and coatings. Further, the R&D (paint and coating formulation) process which is performed by the paint and coating manufacturers, is one of the key processes which keeps paint and coating manufacturers competitive in the industry whereby the paint and coating manufacturers continuously develop

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products with new and/or enhanced formulations in terms of new colours and functions, as well as enhanced properties to cater to changing market trends and customer requirements.

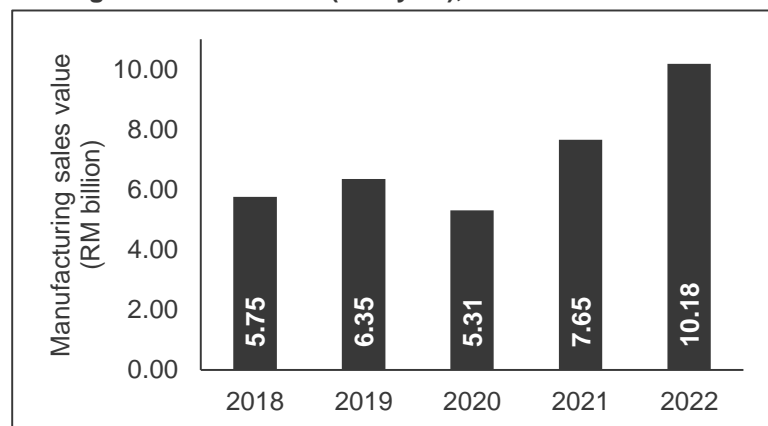
Paints and coatings are usually off-the-shelf products but can also be custom-produced for end-users. Off-the-shelf products are sold to business end-users and retail end-users (i.e. end-users who purchase paints and coatings from retail hardware stores or retail paint stores, or purchase online via e-commerce platforms) whereby the formulation of paints and coatings are determined by the paint and coating manufacturers. Despite the formulation of paints and coatings being generally fixed in terms of their properties and functions, the colour of the paint and coating can be customised by adding and mixing colourants (i.e. concentrated dispersion of pigments) into a base paint or coating to match end-users' desired shades. Retail end-users may request to customise the colour of their paints and coatings instantly at the time of purchase in certain retail hardware stores or retail paint stores that offer paint-tinting services and are equipped with automated paint tinting machines in-store.

On the other hand, paints and coatings sold to business end-users (e.g. manufacturers (i.e. for manufactured products like machinery and equipment, vehicles and furniture), property developers, construction companies and painting contractors (e.g. for renovation, construction and/or infrastructure development projects)) can be customised based on its specified criteria in terms of amongst others, properties, functions, colour and performance of the paint and/or coating. Paints and coatings are sold by paint and coating manufacturers directly to retail end-users and business end-users, as well as indirectly through their distribution channels comprising, amongst others, distributors/wholesalers (i.e. who purchase paints and coatings from paint and coating manufacturers to be subsequently sold to business end-users and/or distributed to dealers for onward sale to retail end-users), and dealers which are retailers such as retail hardware stores, retail paint stores and online paint retailers.

**Industry Performance, Size and Growth**

The size of the paints and coatings industry in Malaysia is represented by the manufacturing sales value of paints, varnishes and similar coatings ink and mastics.

In 2019, the manufacturing sales value of paints, varnishes and similar coatings ink and mastics in Malaysia increased by 10.43% from RM5.75 billion in 2018 to RM6.35 billion in 2019. Subsequently, in view of the outbreak of the novel coronavirus disease 2019 ("**COVID-19**") pandemic in early 2020, the manufacturing sales value of paints, varnishes and similar coatings ink and mastics declined by 16.38% to RM5.31 billion in 2020.

**Manufacturing sales value of paints, varnishes and similar coatings ink and mastics (Malaysia), 2018 – 2022**

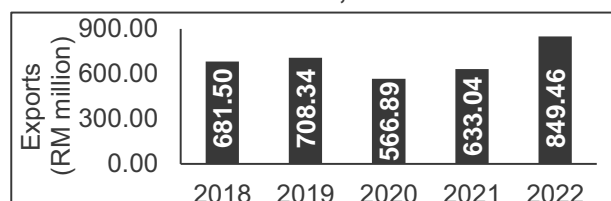
Sources: Department of Statistics Malaysia ("**DOSM**"), SMITH ZANDER

This was due to the impact of the COVID-19 pandemic whereby the imposition of nationwide movement restrictions by the Government of Malaysia ("**Government**") to curb the spread of COVID-19 had led to temporary halts in business operations in various industries that use paints and coatings for their operations such as the construction and manufacturing sectors, which subsequently dampened the demand for paints and coatings. Nonetheless, the manufacturing sales value of paints, varnishes and similar coatings ink and mastics in Malaysia recovered in 2021 and 2022, recording a compound annual growth rate ("**CAGR**") of 38.46% from RM5.31 billion in 2020 to RM10.18 billion in 2022, as economic activities in Malaysia resumed upon the lifting of the nationwide movement restrictions imposed by the Government. Further, SMITH ZANDER forecasts the manufacturing sales value of paints, varnishes and similar coatings ink and mastics in Malaysia to increase from RM10.18 billion in 2022 to RM11.93 billion in 2023, RM14.04 billion in 2024 and RM16.52 billion in 2025, recording a CAGR of 17.51% from year 2022 to 2025.

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As Smart Asia Group has exported its decorative paints and protective coatings to Brunei, Cambodia, Indonesia, Singapore and Vietnam (collectively known as “**Selected Countries in Southeast Asia (“SEA”)**”), the exports of paints and varnishes from Malaysia to the Selected Countries in SEA is shown below.

In 2019, the exports of paints and varnishes from Malaysia to the Selected Countries in SEA grew by 3.94% from RM681.50 million in 2018 to RM708.34 million in 2019. However, in 2020, the exports of paints and varnishes from Malaysia to the Selected Countries in SEA declined by 19.97% to RM566.89 million in 2020 due to a slowdown in the global economy and major supply chain disruptions caused by the COVID-19 pandemic thus resulting in a lower demand for paints and varnishes.

**Exports of paints and varnishes from Malaysia to Selected Countries in SEA, 2018 – 2022**

Sources: DOSM, SMITH ZANDER

Nevertheless, the exports of paints and varnishes from Malaysia to Selected Countries in SEA recovered in 2021 and 2022, recording a CAGR of 22.41% from RM566.89 million in 2020 to RM849.46 million in 2022. Further, SMITH ZANDER forecasts the exports of paints and varnishes from Malaysia to the Selected Countries in SEA to increase from RM849.46 million in 2022 to RM946.25 million in 2023, RM1,054.06 million in 2024 and RM1,174.15 million in 2025, recording a CAGR of 11.39% from year 2022 to 2025.

## 2 KEY INDUSTRY DRIVERS, RISKS AND CHALLENGES OF THE PAINTS AND COATINGS INDUSTRY IN MALAYSIA

### Key Industry Drivers

#### ► Growth recovery in the construction industry in Malaysia drives the demand for paints and coatings

The demand for paints and coatings in Malaysia is driven by construction activities undertaken to construct residential, commercial and industrial properties as well as infrastructure such as roads, bridges and highways.

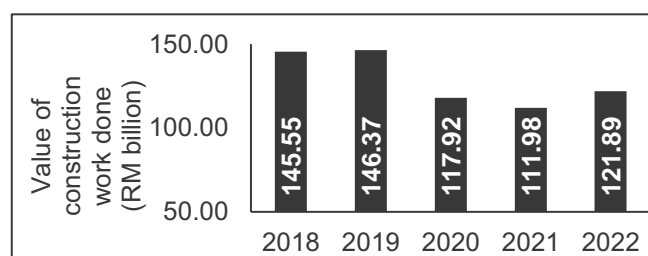
Construction activities are largely economic-driven, whereby economic growth contributes to increased disposable income among the population arising from higher employment, and increased earnings for businesses and companies due to greater operating scale and wider market reach. Consequently, this leads to increased demand for residential, commercial and industrial properties as well as supporting infrastructure, which in turn leads to higher demand for paints and coatings.

In 2019, the performance of the construction industry in Malaysia, as measured by the value of construction work done, increased by 0.56% from RM145.55 billion in 2018 to RM146.37 billion in 2019.

However, in view of the COVID-19 pandemic since early 2020, Malaysia's value of construction work done declined from RM146.37 billion in 2019 to RM111.98 billion in 2021 at a negative CAGR of 12.53%. This was due to the temporary halt of construction

activities except those listed under critical services (maintenance and repair works) as a result of the imposition of various degrees of movement restrictions as well as several outbreaks of COVID-19 cases at construction sites throughout the country in 2020 and 2021.

Nevertheless, the construction industry in Malaysia recovered in 2022 whereby the value of construction work done increased by 8.85% from RM111.98 billion in 2021 to RM121.89 billion in 2022 due to economic recovery upon the easing of movement restrictions as well as transitioning from COVID-19 pandemic

**Value of construction work done (Malaysia), 2018 – 2022**

Source: DOSM

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phase to endemic phase. Moving forward, the recovery of the construction industry in Malaysia is expected to further expand driven by the Government's continuous efforts in promoting infrastructure development in the country (e.g. facilitate the progress of ongoing infrastructure projects which include Johor Bahru – Singapore Rapid Transit System (RTS) Link and East Coast Rail Link (ECRL)) which will subsequently spur the growth of the paints and coatings industry.

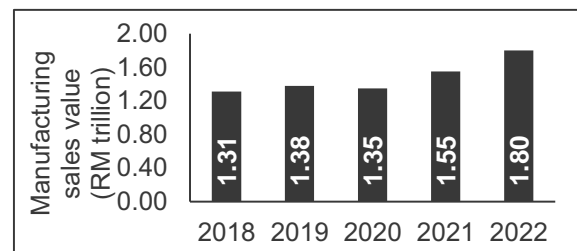
► **Growth in the manufacturing sector in Malaysia drives the demand for paints and coatings**

Industrial coatings are widely used and applied in the manufacturing sector on various manufactured products such as machinery and equipment, as well as furniture, which helps to provide the manufactured product an aesthetic look, as well as protect and strengthen the product's durability and resistance against chemical and environmental effects to extend the product's overall lifetime. Therefore, an increase in demand for manufactured products will drive the growth of the overall manufacturing sector which will in turn spur the growth of the paints and coatings industry.

In Malaysia, the manufacturing sector remained the second largest contributor to the national economy, contributing 24.10% of the national gross domestic product ("GDP") in 2022, second to the services sector which contributed 58.33% of the national GDP in the same year<sup>1</sup>. With the manufacturing sector being one of the top contributors of the Malaysian economy, the paints and coatings industry is set to benefit from the manufacturing sector, with customers from various manufacturing segments.

In 2019, the performance of the manufacturing sector in Malaysia, as measured by manufacturing sales value, grew by 5.34% from RM1.31 trillion in 2018 to RM1.38 trillion in 2019. However, in view of the COVID-19 pandemic, Malaysia's manufacturing sector declined by 2.17% to RM1.35 trillion in 2020. This was due to the temporary suspension in manufacturing activities as a result of the imposition of various degrees of movement restrictions by the Government to curb the spread of the COVID-19 pandemic in 2020.

**Manufacturing sales value (Malaysia), 2018 – 2022**



Sources: DOSM, SMITH ZANDER

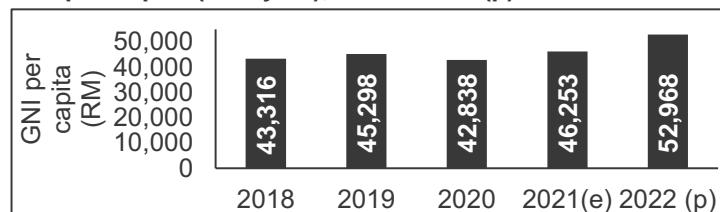
Nevertheless, Malaysia's manufacturing sector recovered in 2021 and 2022, recording a CAGR of 15.47% from RM1.35 trillion in 2020 to RM1.80 trillion in 2022.

Any growth in the manufacturing sector is expected to lead to an increase in demand for manufactured products. As the demand for manufactured goods increases, the demand for paints and coatings is expected to increase and thereby benefitting players in the paints and coatings industry.

► **Increasing disposable income and affluence lead to investments in property**

Malaysia is an upper-middle income developing country with a growing economy and increasing wealth. The gross national income ("GNI") per capita in Malaysia increased by 4.58% from RM43,316.00 in 2018 to RM45,298.00 in 2019.

**GNI per capita (Malaysia), 2018 – 2022(p)**



Notes:

- (e) – Estimate.
- (p) – Preliminary.
- Latest available information as at the date of research completion.

Source: DOSM

However, in 2020, Malaysia experienced an economic contraction due to the impact of the COVID-19 pandemic which had negatively affected the disposable income of consumers who had experienced pay cuts or loss of employment.

<sup>1</sup> Sources: DOSM, SMITH ZANDER

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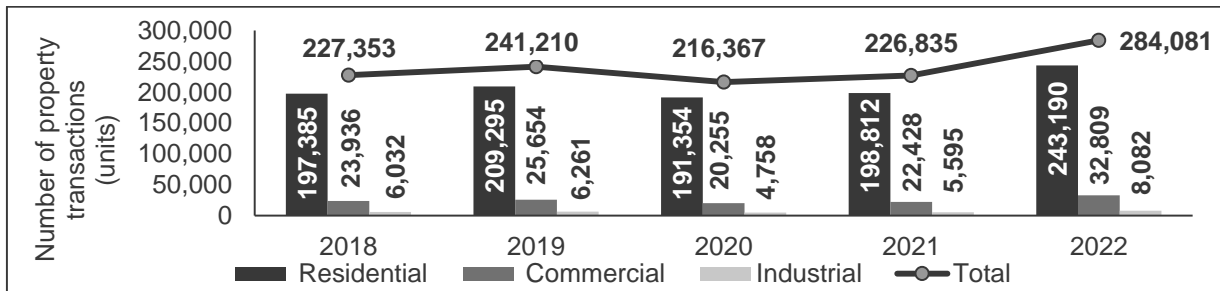
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In 2020, GNI per capita declined year-on-year by 5.43% to RM42,838.00. Nevertheless, in 2021 and 2022, the economic conditions of Malaysia gradually recovered, and GNI per capita grew from RM42,838.00 in 2020 to RM52,968.00 in 2022 at a CAGR of 11.20% as the impact of the COVID-19 pandemic began to subside.

The increasing GNI per capita indicates a more affluent population with improved standards of living and greater propensity to spend. Further, there has been a growing interest of consumers in carrying out do-it-yourself (DIY) home or building improvement and maintenance projects to improve the aesthetic appeal as well as maintain the condition of their homes and buildings.

Additionally, increasing GNI per capita may also lead to increased investments in residential, commercial and industrial properties. In 2019, the number of property transactions (i.e. comprising residential, commercial and industrial properties) in Malaysia increased by 6.09% from 227,353 units in 2018 to 241,210 units in 2019. However, in 2020, the number of property transactions declined by 10.30% to 216,367 units in 2020 due to the impact of COVID-19. Nevertheless, with the economic recovery in Malaysia, the number of property transactions recovered in 2021 and 2022, from 216,367 units in 2020 to 284,081 units in 2022 at a CAGR of 14.58%. As such, the growth in the number of property transactions is in tandem with the growth in GNI per capita.

**Number of property transactions (Malaysia), 2018 – 2022**

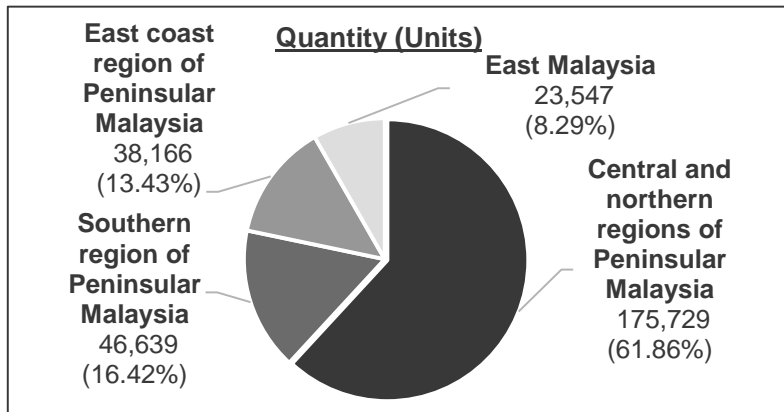


Sources: National Property Information Centre (“NAPIC”), SMITH ZANDER

In 2022, the central and northern regions of Peninsular Malaysia accounted for 61.86% of the total number of property transactions (i.e. comprising residential, commercial and industrial properties) in Malaysia, signifying higher property investments and demand for paints and coatings in these regions.

As consumers’ disposable income increases, this will encourage more consumer spending and thus increase the demand for property investment in residential, commercial and industrial properties. As newly purchased residential, commercial and industrial properties generally require renovation and refurbishment works including painting works, this will in turn boost the demand for paints and coatings and therefore drive the paints and coatings industry in Malaysia.

**Number of property transactions by regions (Malaysia), 2022**



Notes:

- Central and northern regions of Peninsular Malaysia comprise Kedah, Kuala Lumpur, Negeri Sembilan, Perak, Perlis, Pulau Pinang, Selangor and Wilayah Persekutuan Putrajaya.
- Southern region of Peninsular Malaysia comprises Johor and Melaka.
- East coast region of Peninsular Malaysia comprises Kelantan, Pahang and Terengganu.
- East Malaysia comprises Sabah, Sarawak and Wilayah Persekutuan Labuan.

Sources: NAPIC, SMITH ZANDER

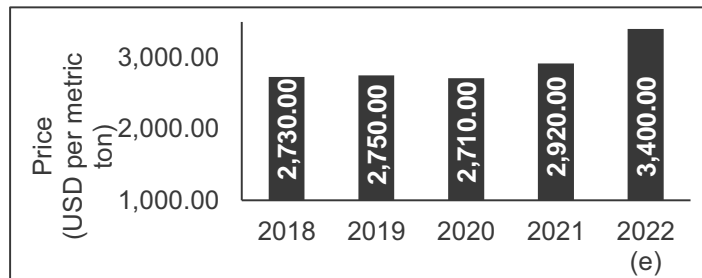


**8. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)****SMITH ZANDER****Key Industry Risks and Challenges****► Exposure to price fluctuation of raw materials for paints and coatings**

The key raw materials that are used in paints and coatings manufacturing include binders, solvents, pigments and additives. Raw materials constitute a large part of the operating costs for paints and coatings manufacturing and are susceptible to price fluctuations as a result of demand and supply conditions.

For example, titanium dioxide, a type of pigment, is one of the commonly used raw materials in the production of paints and coatings and is subject to price fluctuations.

Between 2018 and 2020, the titanium dioxide prices remained fairly stable. Subsequently, the price of titanium dioxide increased significantly year-on-year by 7.75% in 2021 and 16.44% in 2022 which may be due to the aftermath of the COVID-19 pandemic which led to a global supply chain disruption, as well as rising demand for titanium dioxide in view of the gradual recovery of the global economy from the COVID-19 pandemic.

**Titanium dioxide prices, 2018 – 2022(e)**

Notes:

- (e) – Estimate.
- Latest available information based on United States of America's import prices as at the date of research completion.

Source: United States Geological Survey

Therefore, any unfavourable changes in the demand and supply conditions of raw materials for paints and coatings may cause the price of raw materials for paints and coatings to increase materially, which may lead to a rise in cost of production for paint and coating manufacturers. If the paint and coating manufacturers are unable to pass on the raw material cost to their customers, they may have to bear the increasing costs, which could materially impact their financial performance and profitability.

**► Dependency on manual labour for the manufacturing of paints and coatings**

The manufacturing processes for paints and coatings may either be semi-automated or fully automated. While most manufacturing processes for paint and coating production can be automated using machines such as high-speed dispersion mixers and paint shakers, manual labour may be required in certain processes such as transferring intermediary products from one machine to be loaded into another machine during various stages of the manufacturing process. Further, workers may also be required to carry out in-process inspection and/or post-manufacturing inspection on the paints and coatings for quality control.

The issue of labour shortages is common in the manufacturing industry (including the paints and coatings industry) in Malaysia where Malaysia is dependent on foreign workers as a result of limited supply of local workers for manufacturing-related operations. Any quota restrictions or suspensions in the hiring of foreign workers may cause difficulties in employing sufficient labour. Further, any increase in the levy rate for foreign workers or minimum wages for employees will increase the cost of labour which may adversely impact the paint and coating manufacturers' profitability. Further, paint and coating manufacturers may also face challenges arising from the time required to register foreign workers, which may disrupt their operations due to insufficient workers.

If a suspension or similar policy issues were to cause a suspension or cessation of future intake of foreign workers, the paint and coating manufacturers may be forced to source for local workers which may come at higher cost. Paint and coating manufacturers who are unable to pass on the increase in labour costs to their customers may experience material impact on the profitability of their businesses. Further, any delay in hiring sufficient number of local workers may result in operational disruptions which would subsequently affect production schedules and cause delays in production and delivery schedules as well as potential order cancellation from customers. Consequently, this may affect the paint and coating manufacturers' business and financial performance.

**8. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)****SMITH ZANDER****► Exposure to competition**

The paints and coatings industry in Malaysia is fragmented and competitive due to the large number of industry players comprising local and foreign industry players. Industry players generally compete in terms of branding, pricing, range of products and quality of products.

In order to remain competitive, industry players shall implement measures and strategies such as providing quality products at competitive prices, employing effective branding and marketing strategies as well as continuously innovating and developing paint and coating products with new and/or enhanced formulations and functions to cater to the everchanging market trends and customer needs. Any failure on the industry players' part to remain competitive could lead to reduced sales volume and impact their profitability.

Moreover, industry players shall also upkeep their manufacturing technologies and capabilities to increase productivity and remain competitive, including the adoption of automation which is in-line with the Government's initiative towards Industry 4.0 which encourages the adoption of automation in manufacturing processes. In the event if the industry players do not upkeep their manufacturing technologies and capabilities, these players will be exposed to the risk of decreased efficiencies in their manufacturing process. Further, paints and coatings manufactured using outdated manufacturing technologies may not meet modern quality standards and customer expectations, which may result in customer dissatisfaction and loss of customers.

**3 COMPETITIVE LANDSCAPE OF THE PAINTS AND COATINGS INDUSTRY IN MALAYSIA****Overview**

The paints and coatings industry in Malaysia is competitive due to the fragmented nature of industry players comprising local and foreign companies. Local industry players are home-grown companies that have their own manufacturing facilities in Malaysia, and their products are primarily distributed and marketed in Malaysia. Some of the local industry players may also market and distribute their products in other regional countries. Foreign industry players consist of multinational companies who have manufacturing facilities in Malaysia to manufacture and sell their products locally and/or regionally.

Paints and coatings industry players generally compete in terms of amongst others, branding, range of products, pricing, quality of products, delivery timing and manufacturing capacities. For industry players such as Smart Asia Group that primarily distributes decorative paints and protective coatings via intermediaries such as distributors/wholesalers and dealers, it is essential to build strong brand presence and maintain good business relationships with these intermediaries. Additionally, such industry players shall also continuously expand their distribution network to broaden and/or strengthen their market presence.

The paints and coatings industry in Malaysia has various barriers to entry in terms of branding, distribution network and technical expertise. Having a strong branding is imperative as paints and coatings are sold based on brand as customers typically associate brands with the quality of the paint or coating. Therefore, new entrants are required to invest in marketing to create strong brand presence to gain traction and compete with existing industry players. Additionally, in order to remain competitive, industry players require a wide distribution network that can reach urban, suburban and rural customers. As existing industry players already have wide distribution networks with significant influence amongst industry stakeholders such as distributors and dealers, this will make it more difficult for new entrants to expand their distribution network. Moreover, technical expertise is imperative for starting up a paint and coating business as well as to remain sustainable in the long run. Technical expertise especially in the formulation of paints and coatings is important to continuously develop paints and coatings with new colours and functions, as well as enhanced properties to pursue product differentiation and remain competitive.

**Key Industry Players**

As Smart Asia Group is principally involved in the development, manufacturing, distribution and sale of decorative paints and protective coatings for household and industrial applications, the basis for selection of

**8. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)****SMITH ZANDER**

the key industry players in the paints and coatings industry in Malaysia is as follows:

- companies principally involved in the manufacturing and sale of decorative paints and protective coatings;
- companies with manufacturing facilities in Malaysia; and
- companies which recorded more than RM30.00 million revenue based on their respective latest available financial years (or combined revenue of more than RM30.00 million for group of companies).

The list of key industry players in the paints and coatings industry in Malaysia is as follows:

Company name	Examples of decorative paints and protective coatings brands in Malaysia	Latest available financial year	Group/ company revenue (RM million)	Segmental revenue from sale of similar products and/or services as Smart Asia Group <sup>(1)</sup> (RM million)	Gross profit/ (loss) (RM million)	Gross profit/ (loss) margin (%)	Profit/ (loss) after tax (RM million)	Profit/ (loss) after tax margin (%)
Nippon Paint group of companies <sup>(2)</sup>	NIPPON PAINT and Momeno	31 December 2022	2,396.08	2,359.94	593.51	24.77	156.84	6.55
Jotun Paints (Malaysia) Sdn. Bhd. (a subsidiary of Jotun A/S)	JOTUN	31 December 2022	962.06	962.06	231.55	24.07	55.19	5.74
Kansai Paint group of companies <sup>(2)</sup>	KANSAI PAINT, mr.Paint Man, SANCora, CROWN, GOODY and I-Signature PAINTS	31 December 2022	431.55	430.66	101.78	23.58	2.33	0.54
AkzoNobel group of companies <sup>(2)</sup>	Dulux, Dulux Professional, Colourland paints, Hammerite, MAXILITE PLUS and MESA PAINT	31 December 2022	320.14	301.01	8.88	2.77	(14.75)	(4.61)
Kossan Paint group of companies <sup>(2)</sup>	KOSSAN and KOSSAN PAINT	31 December 2022	138.79	138.79	N/A <sup>(3)</sup>	N/A <sup>(3)</sup>	7.82	5.63
SKK group of companies <sup>(2)</sup>	SKK	31 December 2022	116.83	96.38	20.98	17.96	4.84	4.14
Seamaster Paint group of companies <sup>(2)</sup>	seamaster paint	31 December 2022	84.27	84.27	19.08	22.64	0.09	0.11

**8. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)****SMITH ZANDER**

Company name	Examples of decorative paints and protective coatings brands in Malaysia	Latest available financial year	Group/ company revenue (RM million)	Segmental revenue from sale of similar products and/or services as Smart Asia Group <sup>(1)</sup> (RM million)	Gross profit/ (loss) (RM million)	Gross profit/ (loss) margin (%)	Profit/ (loss) after tax (RM million)	Profit/ (loss) after tax margin (%)
Smart Asia Group	Smart Paints, Durra Paints, Toplus and Hunter	31 December 2022	79.22	-(4)	23.54	29.71	8.61	10.87
TOA group of companies <sup>(2)</sup>	TOA, Captain and SUPERTECH	31 December 2022	58.90	58.90	16.26	27.61	(1.62)	(2.75)
KCC group of companies <sup>(2)</sup>	KCC and KCC paint	31 December 2022	62.91	62.91	14.60	23.21	0.70	1.11
MCI Paint group of companies <sup>(2)</sup>	BAOMA, BLUE-i, BRUSH & ROLLER and BENZI	30 June 2022	31.73	31.73	8.14	25.65	(0.26)	(0.82)
Federal Paints Manufacturing (M) Sdn. Bhd.	Federal Paint	31 March 2023	30.15	30.15	N/A <sup>(3)</sup>	N/A <sup>(3)</sup>	0.61	2.02

**Notes:**

- The identified key industry players include all industry players that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that have no online and/or published media presence, or are operating with minimal public advertisement, and hence SMITH ZANDER is unable to state conclusively that the list of industry players is exhaustive.
- (1) Due to differing segmental revenue definitions of industry players, this may include some revenue derived from sale of products (e.g. adhesive and sealant) other than the sale of similar products and/or services as Smart Asia Group, and/or revenue derived from countries outside Malaysia.
- (2) Group of companies are Malaysian entities that are involved in the paints and coatings business. Financial information is the combined figures of the group of companies.
- (3) N/A – not available, as gross profit is not reported in the annual reports of the group of companies.
- (4) Not applicable. Segmental revenue is disclosed for all key industry players, save for Smart Asia Group.

Sources: Smart Asia Group, various company websites, Companies Commission of Malaysia, SMITH ZANDER

**Industry/Market Share**

In 2022, the paints and coatings industry in Malaysia was recorded at RM10.18 billion, based on the manufacturing sales value of paints, varnishes and similar coatings ink and mastics in Malaysia. For the financial year end 31 December 2022, Smart Asia Group's revenue derived from its manufacturing segment was recorded at RM70.09 million, and thereby Smart Asia Group captured a market share of 0.69% in the paints and coatings industry in Malaysia.

## **4 PROSPECTS AND OUTLOOK OF THE PAINTS AND COATINGS INDUSTRY IN MALAYSIA**

The growth of the paints and coatings industry in Malaysia is driven by the growth recovery in the construction industry in Malaysia. Construction activities are largely economic-driven, whereby economic growth contributes to increased disposable income among the population arising from higher employment, and increased earnings for businesses and companies due to greater operating scale and wider market reach. Consequently, this leads to increased demand for residential, commercial and industrial properties as well as supporting infrastructure, which in turn leads to higher demand for paints and coatings.

Further, industrial coatings are widely used and applied in the manufacturing sector on various manufactured products such as machinery and equipment, as well as furniture, which helps to provide the manufactured product an aesthetic look, as well as protect and strengthen the product's durability and resistance against chemical and environmental effects to extend the product's overall lifetime. Therefore, an increase in demand for manufactured products will drive the growth of the overall manufacturing sector which will in turn spur the growth of the paints and coatings industry.

Additionally, increasing GNI per capita may lead to increased investments in residential, commercial and industrial properties. As consumers' disposable income increases, this will encourage more consumer spending and thus increase the demand for property investment in residential, commercial and industrial properties. As newly purchased residential, commercial and industrial properties generally require renovation and refurbishment works including painting works, this will in turn boost the demand for paints and coatings and therefore drive the paints and coatings industry in Malaysia.

In view of the abovementioned factors which drive the growth of the paints and coatings industry in Malaysia, SMITH ZANDER forecasts the manufacturing sales value of paints, varnishes and similar coatings ink and mastics in Malaysia to increase from RM10.18 billion in 2022 to RM11.93 billion in 2023, RM14.04 billion in 2024 and RM16.52 billion in 2025, recording a CAGR of 17.51% from year 2022 to 2025. Further, SMITH ZANDER forecasts the exports of paints and varnishes from Malaysia to the Selected Countries in SEA to increase from RM849.46 million in 2022 to RM946.25 million in 2023, RM1,054.06 million in 2024 and RM1,174.15 million in 2025, recording a CAGR of 11.39% from year 2022 to 2025.

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