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FOOD & DRINK REPORT

INCLUDES BMI'S FORECASTS

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VIETNAM FOOD & DRINK REPORT Q1 2012

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BMI Industry View

The State Bank of Vietnam's aggressive monetary tightening measures are expected to take the steam out of domestic demand over the coming quarters. While inflationary pressures are continuing to moderate, we remain concerned about the lagged impact of monetary tightening on consumer spending. However, given the positive dynamics of low unemployment and strong tourism growth, there is still considerable scope for optimism in the country's domestic demand picture in the near term. Over the longer term, the domestic demand picture for Vietnam looks brighter. A massive youthful population, sector immaturity and a plethora of macroeconomic driving factors make the Vietnamese consumer goods sector a high-growth prospect. In particular, the mass grocery retail sector is forecast to experience strong growth as it continues to attract considerable attention from international retailers, despite the challenges involved in doing business in Vietnam. Given that it has one of the highest mass grocery retail growth forecasts in the Asia Pacific region, it is not hard to see why.

Headline Industry Data

- 2011 food consumption growth = +11.2%; compound annual growth forecast to 2016 = +5.1%
- 2011 alcoholic drink value sales = +20.9%; compound annual growth forecast to 2016 = +10.5%
- 2011 soft drink volume sales = +7.4%; compound annual growth forecast to 2016 = +6.3%
- 2011 mass grocery retail sales = +15.1%; compound annual growth forecast to 2016 = +12.5%

Key Industry Trends

Coffee Potential Perking Up Sector Investments: **Masan Consumer** has launched a bid for a 50.1% stake, valued at around VND1.07trn (US$51mn), in the Vietnamese coffee producer **Vinacafe Bien Hoa Joint-Stock Company**. By acquiring a controlling stake in Vinacafe, Masan clearly wants to put itself in a strong position to leverage on the exciting demand dynamics in the Vietnamese coffee sector. According to the Vietnam Coffee and Cocoa Association, Vinacafe is the country's second largest coffee exporter, and Masan could tap into Vinacafe's expertise and brand name to grow its presence in the domestic coffee sector. Reflecting Vinacafe's strength in the Vietnamese coffee sector, the coffee producer consistently grew its revenues over the past five years and recorded an impressive 30% compound annual average growth in its headline sales between 2006 and 2010. Also looking to capitalise on Vietnam's coffee potential, **Nestlé** plans to increase its coffee sourcing from local farmers in Vietnam and has committed to a new coffee factory in the country. The US$270mn factory will be constructed in the south-east province of Dong Nai and will produce Nescafé-branded products for the domestic and international markets from 2013.

Rural Market Potential Firmly In The Sights Of Consumer-Facing Players: Fast-growing rural sales at **Masan Consumer** have attracted the sights of global private equity firm **Kohlberg Kravis Roberts & Co** (KKR). KKR agreed to acquire a 10% stake in Masan Consumer in April 2011 for US$159mn. In another example, Vietnamese spirits major **Halico**'s expansions in the rural market caught the attention of UK spirits producer **Diageo**, which agreed to acquire a stake of around 24% in Halico for GBP33.0mn in March 2011 (US$53.9mn). These investments underline the fantastic fundamental long-term growth prospects in the Vietnamese rural market, which ties in nicely with our wider outlook on the country's domestic demand story.

Key Risks To Outlook

Downside risks to our economic outlook for Vietnam, which includes a sputtering economic recovery in the US, sovereign debt concerns in the eurozone and a potential hard landing in China, have escalated significantly in recent months. Our country risk team has recently downgraded our real GDP growth forecast from 6.3% to 6.0% for 2011 to reflect a deteriorating economic environment that we expect to persist through the coming months. As weak economic momentum spills into H112, this could weigh on consumer sentiment and domestic demand growth.

SWOT Analysis

Vietnam Food Industry SWOT	
Strengths	▪ The food-processing sector accounts for a sizeable proportion of industrial output and GDP, with the sector attracting significant foreign investment in recent years from Unilever, Nestlé and San Miguel. ▪ Vietnamese consumers, particularly the young and affluent, are interested in brands and, accordingly, renowned Western products backed by investment in marketing and promotions tend to have highly successful launches. ▪ The wealthy urban centres of Hanoi and Ho Chi Minh City now provide highly receptive consumer audiences. ▪ Large and diverse domestic agricultural output aids the stability of ingredient supplies and prices for local producers – a vital strength during this period of global volatility.
Weaknesses	▪ There are wide income disparities between urban and rural areas, and local consumption patterns vary significantly according to income. ▪ The food-processing industry remains largely fragmented except for a few key sectors, such as dairy and confectionery. ▪ The country's agricultural sector has been criticised for being too slow to adapt to new technologies to be globally competitive in the long term, although the government is working hard to address this. ▪ Vietnam's infrastructure is still weak. Roads, railways and ports are inadequate to cope with the country's economic growth and links with the outside world. ▪ The lack of white goods among large sections of the consumer base slows down the development of the high-potential dairy sector.
Opportunities	▪ Accession to the WTO, in January 2007, will continue to benefit Vietnamese exporters, with the gradual removal of market barriers and trade restrictions set to increase competition. ▪ Rising income levels and changing lifestyles, particularly in urban areas, are increasing consumer demand for snacks, convenience and luxury food items. ▪ Vietnam's large domestic market, growing export opportunities and low labour costs, as well as the prospect of acquiring newly privatised food companies, offer further investment opportunities. ▪ The country's agricultural sector is in need of significant investment, and willing investors can expect assisted entry. ▪ A growing tourism sector fuels interest in convenience categories.
Threats	▪ Vietnam's WTO membership may result in smaller companies unable to cope with the increased competition being forced out of business. ▪ Elevated agricultural commodity costs will remain a risk for the profitability of processed-food manufacturers; farmers themselves also claim this as a threat, with the primary level reportedly seeing little in the way of these higher prices.

Vietnam Drink Industry SWOT	
Strengths	▪ Vietnamese consumers, particularly the young and affluent, are interested in brands, and, accordingly, renowned Western products backed by investment in marketing and promotions tend to have highly successful launches. ▪ The wealthy urban centres of Hanoi and Ho Chi Minh City now provide highly receptive consumer audiences. ▪ Alcoholic drinks are widely consumed and have gained popularity in recent years. ▪ Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.2% annually between 2000 and 2010.
Weaknesses	▪ There are wide income disparities between urban and rural areas, and local consumption patterns vary significantly according to income. ▪ The drinks industry remains largely fragmented except for a few key sectors, such as alcoholic and soft drinks. ▪ Vietnam's infrastructure is still weak. Roads, railways and ports are inadequate to cope with the country's economic growth and links with the outside world.
Opportunities	▪ Accession to the WTO, in January 2007, will continue to benefit Vietnamese exporters, with the gradual removal of market barriers and trade restrictions set to increase competition. ▪ Vietnam's large domestic market, growing export opportunities and low labour costs, as well as the prospect of acquiring newly privatised drink companies, offer further investment opportunities. ▪ A growing tourism sector is fuelling interest in convenience categories, in addition to sub-sectors such as soft and alcoholic drinks. ▪ In line with consumers' rising disposable incomes, there are opportunities for premium-branded products in the soft and alcoholic drinks sub-sectors. ▪ The global trend towards health consciousness provides an opportunity for drinks manufacturers to diversify into perceived healthier options.
Threats	▪ Vietnam's WTO membership may result in smaller companies unable to cope with the increased competition being forced out of business. ▪ Elevated raw-material costs threaten profitability in a competitive market in which higher prices cannot easily be passed on to consumers. ▪ Prolonged macroeconomic instability could prompt authorities to put reforms on hold as they struggle to stabilise the economy, making the market less attractive for international investors.

Vietnam Mass Grocery Retail Industry SWOT	
Strengths	▪ The potential size of the mass grocery retail market makes it an attractive target for foreign retailers once improved market terms are granted. Further growth is expected, especially in the supermarket format. ▪ Hypermarkets, supermarkets and convenience stores have all proved popular in Vietnam, catering to different types of consumers and different shopping occasions. ▪ A growing multinational presence in the retail sector has aided the acceptance of modern retail best-practices in Vietnam, particularly things like added-value in-store services. ▪ Vietnamese economic growth has averaged 7.6% annually since 2000, fuelling a steady middle-class emergence and growing consumerism. ▪ The economic boom has lifted many Vietnamese out of poverty, with the official poverty rate in the country falling from 58% in 1993 to 20% in 2004. ▪ The formation of buying groups has proved an effective means of facilitating quicker expansion among smaller industry players.
Weaknesses	▪ Vietnam's retail distribution networks remain underdeveloped, and expansion-oriented firms must invest in infrastructural development as well as new store openings. ▪ Regulations governing international participation in modern retail in Vietnam have resulted in slow rates of expansion, and aspects of government policy continue to make life challenging for foreign firms in spite of WTO accession. ▪ Poverty levels among the country's vast rural population hugely inhibit the potential audience size for modern retail in Vietnam. ▪ Vietnam remains one of the world's most corrupt countries, according to Transparency International's 2010 Corruption Perceptions Index, where its score was 2.7, placing it in 22nd place in the Asia-Pacific region.
Opportunities	▪ The hypermarket concept is still in its infancy and, as familiarity with modern retailing grows, this format will represent an immense growth opportunity. ▪ Modern retail is currently focused on the major urban centres of the north and south, which still boast space for new entrants, and central Vietnam and the provinces provide further opportunities still. ▪ Modern retail concepts, such as discounting and private labelling, should prove popular with price-conscious Vietnamese consumers as familiarity with modern retailing builds. ▪ Rapid urbanisation and the development of new housing complexes provide ideal locations for the rolling out of modern retail outlets with a large and receptive audience.
Threats	▪ Were industry majors Tesco, Carrefour and Walmart all to enter Vietnam, the window of opportunity for other entrants would rapidly close. ▪ Rising operating costs will threaten retailer profit margins; price increases have to date been passed on to shoppers, but this cannot continue indefinitely in the price-conscious market.

Business Environment

BMI's Core Global Industry Views

The third quarter of 2011 has seen the developed world consumer come under pressure once more as economic weakness and political uncertainty have had a tangible effect on the food and drink industry. Going into 2011, we held the view that there was likely to be a cautious improvement in confidence in Western Europe and the US. Although the recovery in developing world countries had a long way to run before they returned to pre-crisis levels of output and consumption, at least they were looking healthier. We have had to tone this view down after a particularly challenging third quarter. The result is that the value message is still resonating strongly, probably more so than we had imagined going into 2011.

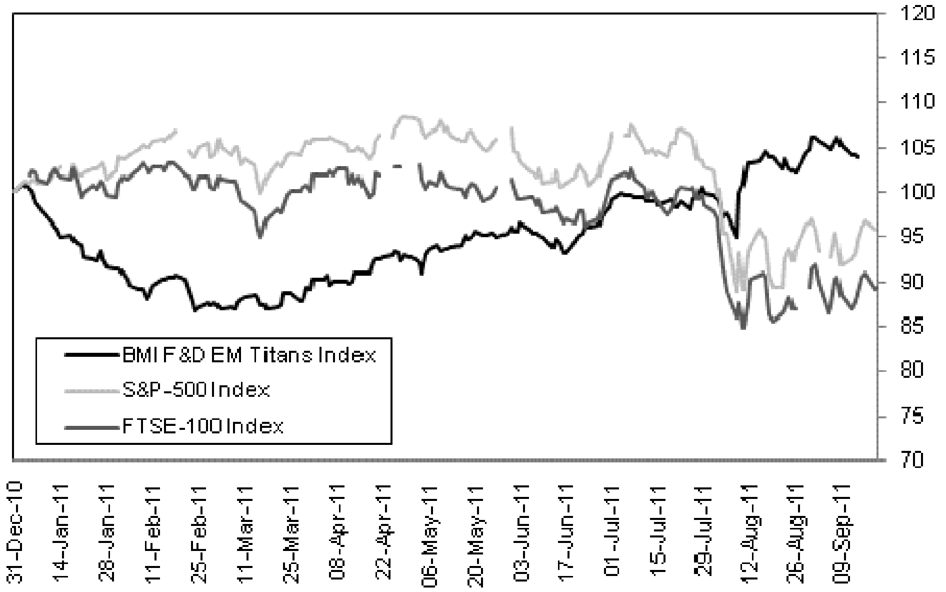
Certain events have clearly not helped here, such as the ongoing European debt crisis and, in the case of the US, the downward revision to the historical GDP series, which among other things revealed that the 2008-2009 period was much worse than the pre-revision numbers revealed. However, based on some of the numbers reported by major food and drink companies over the Q3 period, it seems as if the eurozone has looked weaker than the US.

Underperforming European businesses have generally been to blame, as the share prices of **Carrefour** and **Carlsberg** fell at a sharper rate than the wider markets and some of our own indices in the Q3 period.

Our headline long-term view that companies with strong exposure to emerging markets (EMs) remains as strong as ever. Even as developed world equities have outperformed EM equities in 2011 (MSCI World Index against MSCI EM Index), **BMI**'s own food and drink EM index has outperformed both aforementioned MSCIs and the S&P-500 and FTSE-100 benchmarks.

EM Consumer Outperforms Over Q3 Period

BMI F&D EMT, S&P 500 & FTSE 100



Source: Bloomberg, BMI

Food Price Inflation Less Of A Concern In Second Half Of 2011

One of the biggest themes in the food and drink industry over the past few years has been accelerating food prices, which pose particular challenges to food-producing companies. A general increase in commodity prices, including a sharp increase in the price of energy, has driven up inflation in developed and emerging markets. This was certainly in evidence in the early part of 2011 as much higher input costs (compared to 2010) started to affect the gross margins of the food industry. However, while food prices certainly remain elevated historically, our Commodities team expects prices of most grains and softs to come down over the next few months.

Table: Food Prices, 2010 And 2011

	Year-End 2010 Estimated Prices	Current Prices	Year-End 2011 Forecast Prices
Coffee Price, Usc/lb	161.8	262.8	240
Sugar #11 Price, Usc/lb	21.97	28.06	25
Wheat Price, Usc/bushel	576	680.25	750
Corn Price, Usc/bushel	422	698	680
Rice Price, US$/cwt	12.46	17.05	14

Note: Current prices as of September 20 2011. Source: Bloomberg, BMI

Contrasting Results/Sentiment Coming Out Of Europe And The US

What seems clear from Q3 is that the US consumer is doing better than its counterpart in Europe. The latest results from **Kroger**, the second largest US grocery retailer by volume, support our recent suggestion that consumer spending is better than would be suggested by recent consumer confidence surveys. Kroger increased its sales forecast for 2011 after announcing that its sales for the three months to the end of August had increased by 11.5% to US$18.8bn. This included like-for-like sales growth of 5.3% (excluding fuel), which would be a respectable figure even if the economic conditions were more benign and represents very strong growth given the economic backdrop. In the higher-end space, the upscale US food retailer **Whole Foods Market** has continued to perform well in 2011.

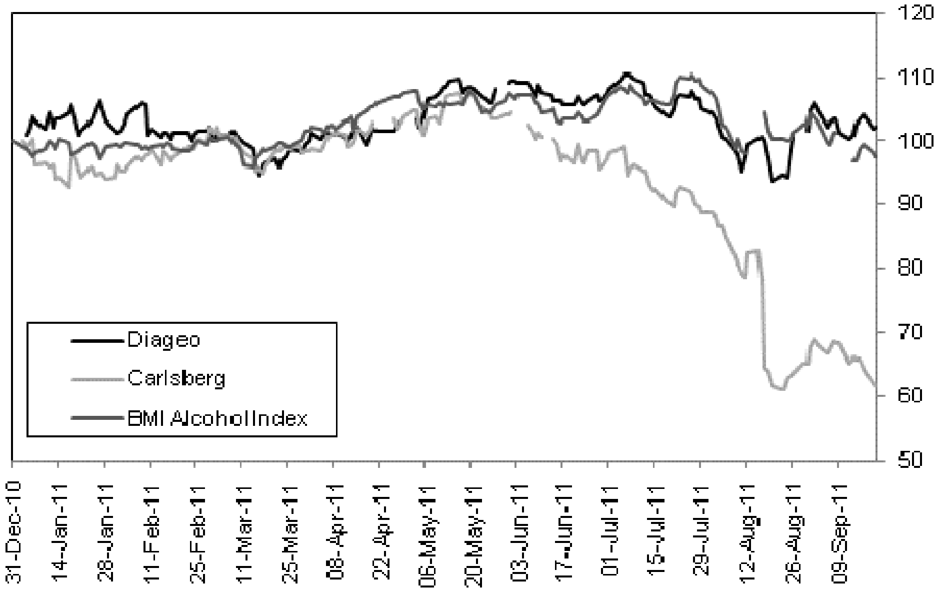
These strong results fit with our view that, for US consumers who have managed to avoid unemployment, the current situation is better than that being borne out by consumer confidence surveys. As recently highlighted by our Country Risk team, US consumer confidence surveys have started to deviate significantly from consumption. Consider the University of Michigan-Reuters survey of US consumer sentiment; prior to the end of the recession in June 2009, consumer confidence had a high correlation (0.89 correlation coefficient) with real personal consumption growth. However, since June 2009, the relationship has collapsed, with a correlation coefficient of just 0.21.

Things look a lot worse in Europe. Over the Q3 period, we saw some very poor results, with unfavourable reactions from the market in the alcohol and food retail sectors in particular. Carlsberg's Copenhagen-listed shares sold off by nearly 15% in early trading on August 17 2011 after it halved its year-end profit earnings guidance on the back of a worse-than-expected first half (to June 2011). While a weak Russia was a major issue, it is also true that Carlsberg has a lot more exposure to Europe than some of its rival global beer majors. In 2009, Europe accounted for more than 90% of Carlsberg's sales revenue. Whereas **Anheuser-Busch InBev** and **SABMiller** are growing strongly in Africa, Asia and Latin America, which is helping to offset their weakness in the developed world, Carlsberg simply cannot do so in the same way.

Heineken followed this by announcing that its full-year earnings were likely to remain stagnant. To add insult to injury from a market point of view, this was compounded by ordinary outlooks. Disappointing outlook statements are not going to be received well by the market, especially in the current economic climate. Carlsberg has significantly underperformed **BMI**'s alcohol index, whereas UK alcohol group **Diageo** – a company that is more diversified geographically – was altogether more positive in its outlook after reporting above-consensus year-end earnings over Q3. While Diageo, which is mainly in spirits, and Carlsberg operate in different industries with different nuances, the overarching theme here is that Europe was not a great place to be doing businesses.

Europe Weakness Hits Carlsberg Hard In Q311

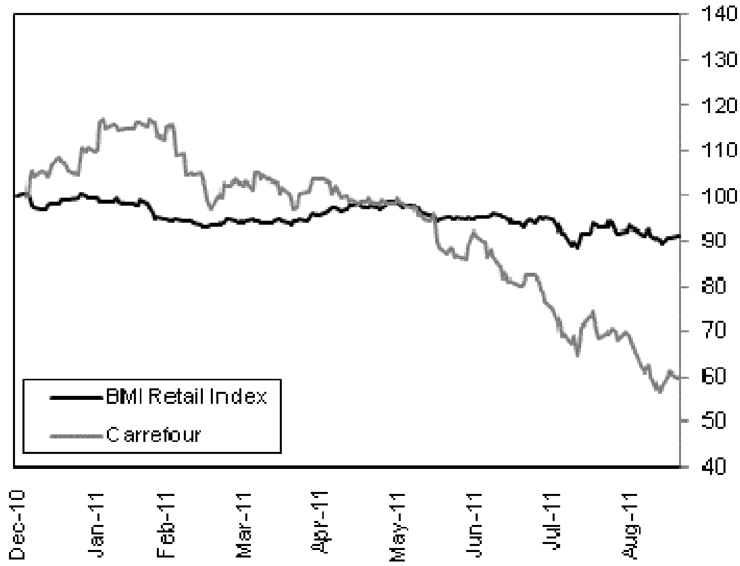
Diageo, Carlsberg & BMI Alcohol Index



Source: Bloomberg, BMI

Difficult Few Months For Carrefour As Weak France Bites

Carrefour & BMI Food Retail Index



Source: Bloomberg, BMI

We can extend this argument by looking at French retailer Carrefour, which by annual sales is the world's second largest retailer behind **Walmart**. We have long highlighted the competitive challenges Carrefour faces at home, which pre-date the global financial crisis. If the UK and the US have dragged on **Tesco** and Walmart's sales and earnings over the past few years, the effects have been far more severe for Carrefour in France, which we believe has driven the selling pressure that has taken Carrefour below its 2009 low. Carrefour has had to issue a number of profit warnings as it struggles to revive its French business, with consumer spending still depressed.

Value Still Hugely Important In Developed World

A discussion of ongoing weakness in Europe leads us nicely to the ongoing importance of providing a strong value message to consumers. In the current economic environment, especially in the eurozone, discount stores are generally still faring well. We have certainly been seeing this in Spain, where the price-focused **Mercadona** has overtaken **El Corte Inglés** to become the country's largest retailer by sales. Reporting its full-year results (ending February 28 2011), El Corte Ingles announced that its sales flatlined, coming in only 0.3% higher at EUR16.41bn. This puts it just behind Mercadona, which has been expanding aggressively and registered annual sales of EUR16.49bn. Our weak outlook for the Spanish consumer sector means that Mercadona's leading position is unlikely to be threatened in the medium term, and the firm is likely to pull away and establish a sizeable lead as the country's largest retailer.

High unemployment, falling real wages, a large stock of private sector debt and fiscal austerity will keep consumers focused on deleveraging rather than spending for the foreseeable future. We can relay this argument to a number of other European economies as well.

EM Consumer Still Doing Quite Well

BMI's Food and Drink Emerging Titans Index, which includes the top five companies by market capitalisation in the food, food retail, alcohol and soft drinks sectors, has done well in 2011, highlighting how sentiment to EM consumers has remained quite strong despite the challenges the global economy has faced in 2011.

Companies such as Brazilian beer giant **AmBev** (owned by AB InBev) and Chilean retailer **Cencosud** have grown tremendously over the past few years as consumer incomes have increased. This emphasises why a lot of the large-cap developed world food and drink companies are spending so much money in EMs and why valuations are so high.

Developed world companies are investing a lot in growth markets to try and broaden their businesses. For example, emerging Asian and Latin American regions are gaining prominence in **Fonterra**'s growth strategy. With a near-monopoly in its home markets of Australia and New Zealand, Fonterra, the New-Zealand-based global dairy export giant, has plans to grow its EM business, with a particular focus on Brazil, China and India. While the burgeoning dairy demand in these markets offers strong promise for Fonterra's future growth prospects, we note that the dairy cooperative is particularly vulnerable to external factors such as rising grain costs, higher farmer payouts and intensifying competition.

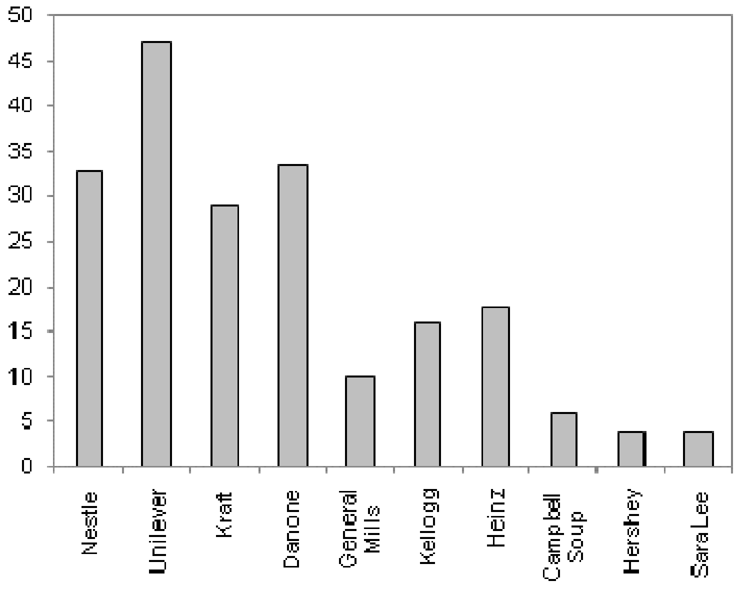
Accounting for an estimated 34% of the world's dairy trade, Fonterra is New Zealand's biggest global exporter. In fact, the firm's exports account for close to 7% of the country's GDP. With such dominance in New Zealand, expanding its presence in global export markets is going to be increasingly important to Fonterra as it hunts for stronger growth opportunities.

Even China has been more willing to allow foreign investment into its consumer companies over Q3. After more than 15 months of wrangling with the Chinese authorities, Diageo in July 2011 finally received the green light from China's Ministry of Commerce to acquire an extra 4% of **Sichuan Chengdu Quanxing Group Company**, taking its stake to 53%. According to local regulatory requirements, Diageo will then have to launch a mandatory tender offer for local white spirits producer **Sichuan Swellfun** (subsidiary of Quanxing Group and the producer of spirits brand Shui Jing Fang).

Although Diageo's acquisition of Quanxing Group is valued at just GBP13mn (US$20.8mn), the significance of the deal lies with China's willingness to let its iconic local brands fall into foreign hands. Diageo's takeover of Sichuan Swellfun will make it one of the very first foreign companies to successfully acquire a listed Chinese company.

Heinz On The Up

Revenues From Emerging Markets (%)



N.B. Heinz figures refer to previous financial year. Source: Nestle, Investor Relations, BMI Estimates

Over Q3, we also note that US food producers **Heinz** and **Campbell's Soup** posted contrasting results for their latest financial quarters. For the first quarter (ending July 27) of its financial year, Heinz was buoyed by its growing EM exposure and registered revenue growth of 3.1% on an organic basis and 14.9% on a reported basis (thanks to acquisitions in Brazil and China). However, Campbell's, which has been less proactive in developing an EM business, was hit by very weak demand in its core categories in the US and had organic growth of just 1% in the fourth quarter (ending July 31) of its financial year. This performance pattern has been ongoing since mid-2010 and is reflected in the relative performance of the firms' shares. We see little prospect of this trend reversing in the short term and see scope for Heinz to pull further ahead, with its latest results demonstrating the dynamism of its fledgling EM business.

Functional Food And Drink A Key Area For Growth

We continue to hold the view that over the long term, the functional food and drink industry will provide great opportunities in the developed world in particular. Even in this challenging climate, we are seeing some companies continuing to grow quite strongly. We highlight the example of US company **Hansen Natural**. It has continued to register dynamic earnings growth, with net profits for the of 2011 up by 44.5% year-on-year (y-o-y) to reach US$139.3mn. Sales for the period were up by 35.6% to US$818.6mn.

Hansen's flagship products, Monster energy drinks, delivered resilient growth during the downturn, and its results have set it apart from the wider soft drinks sector. In developed markets, the sector has suffered as consumers reduce consumption of carbonates owing to health concerns and generally reduced spending on discretionary items during the economic downturn. This strength can be attributed to the popularity of Monster, which is in a high-growth category and is also gaining market share.

Table: BMI's Core Views For The Food & Drink Industry

Short-Term Outlook
Raw material prices will trend lower in H211 and become less of a threat to both producers and retailers.
In developed markets, economic weakness and political uncertainty will weigh on spending.
The value theme is still very important across the developed world, with price consciousness inherent.
Long-Term Outlook
Companies with strong emerging market exposure will continue to outperform.
Multinationals will increasingly pursue frontier market investments.
Investment in innovation will increase as producers seek differentiation; emphasis will be placed on protecting innovations.
Some consumer goods manufacturers will continue to leave sectors under threat from private labels while others will calibrate their portfolios toward private labels to capitalise on their growing demand.
Government legislation will play an increasing role in marginalising unhealthy food and beverage products.
Premiumisation will re-emerge as a key driving force behind revenue growth.
Demand for convenience in retail and food will continue to grow.
Functional foods will provide considerable opportunities in developed markets in particular.
Consolidation will continue as producers seek greater efficiencies.
Beverage companies will continue to invest in diversification away from carbonated beverages and into healthier sub-sectors.
Private equity companies will take a greater interest in emerging market consumer assets.

Source: BMI

Asia Pacific Risk/Reward Ratings

Forward-Looking Ratings

BMI *has recently introduced a new and improved set of risk/reward ratings across all of our regions. The main rationale behind our new ratings is to make them more forward-looking, with a greater emphasis on growth-oriented indicators. Our new ratings aim to provide investors with a clearer picture of the opportunities on offer in the food and drink markets and allow them to better assess the more relevant risks of operating in the respective food and drink markets.*

Our new risk/reward ratings are grouped into two broad categories, namely risks and rewards. The reward rating aims to assess the potential size of the return on any investment, taking into account the sector's current size and potential for future growth. The second grouping is a risk rating that examines the respective risks involved when operating in the different markets. With an aim of making our ratings more forward-looking, we have introduced growth-oriented indicators such as market fragmentation and youth population in place of our previous indicators such per capita soft drink and alcoholic drink consumption levels, food and drink trade balance, economic structure and market entry potential.

While per capita food consumption remains an important proxy of assessing the overall spending power of a particular food and drink market, these new growth-oriented indicators will provide a better indication of the potential scope for growth in the respective markets. For instance, the subjective indicator of market fragmentation captures how relatively consolidated or underdeveloped a market is. For a market such as Australia, its consolidated nature means that industry players could struggle to grow organically, and there are arguably limited opportunities for growth in the longer term.

In terms of risk, which accounts for 40% of the overall score, we have introduced mass grocery retail penetration and income distribution indicators. In our opinion, mass grocery retail penetration would allow investors to better understand the retailing environment in their respective markets and the potential challenges they could face in distributing their products to the end-consumer market. Higher scores (ie, better mass grocery retail penetration) are risk-positive in the sense that they reflect better developed routes to consumers, while low scores reflect the predominance of kiosks and markets with weak centralised distribution networks. Another key addition to our new risk/reward ratings is income distribution. This is an important indicator, as investors are already eager to tap into the mass-market segment and will need to better understand the size of the low and middle classes in their markets. In this article, we aim to identify the most attractive propositions for consumer goods producers in the Asia Pacific region within the context of our new risk/reward ratings.

Table: China Food & Drink Risk/Reward Ratings – Q112

	Data	Score out of 10	Weighting	Weighted score
Rewards				
Food consumption per capita, US$	403.3	3.0	6	1.8
Market fragmentation (subjective)	8.0	8.0	12	9.6
Per capita food consumption five-year compound annual growth rate to 2016, %	13.2	8.0	12	9.6
Population size, mn	1,345.9	10.0	11	11.0
GDP per capita, US$	4,862.5	2.0	8	1.6
Youth population, %	29.7	3.0	11	3.3
Risks				
MGR penetration, %	6.0	6.0	10	6.0
Regulatory environment (subjective)	6.0	6.0	10	6.0
Short-term economic growth	93.1	9.3	4	3.7
Income distribution	46.5	7.0	4	2.8
Lack of bureaucracy	52.4	5.2	4	2.1
Market orientation	40.0	4.0	4	1.6
Physical infrastructure	54.9	5.5	4	2.2

Source: Bloomberg

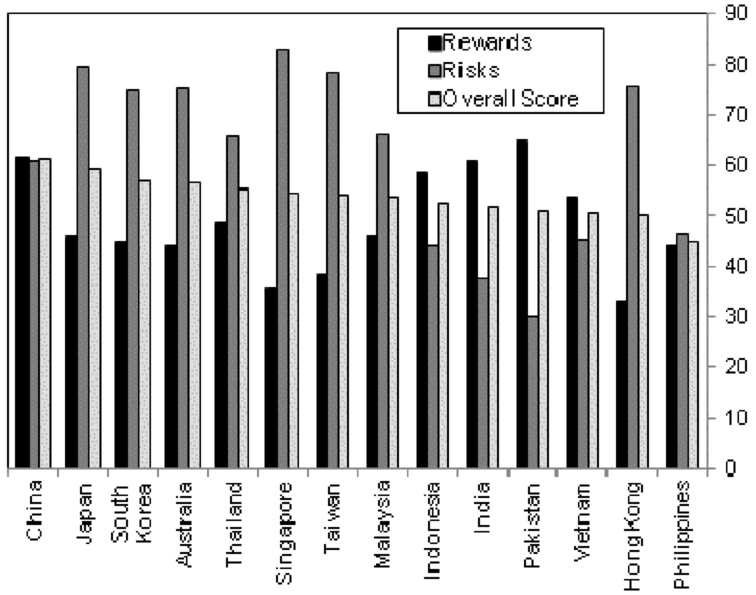
China A Regional Outperformer

In our new risk/reward ratings, China remains a regional outperformer, thanks to its impressive balance of strong rewards and risks (*see chart*). An overall rewards score of 61.5 reflects the fact that China represents a very dynamic market for the food and drink sector, supported by rising affluence, a massive population size and the relatively underdeveloped nature of its food and drink sectors. However, interestingly, while one would normally expect China to emerge tops in terms of rewards, Pakistan has a stronger rewards score of 64.8, which bears out the forward-looking nature of our new ratings. In terms of market fragmentation, Pakistan receives a higher score of 10, which compares with China's score of 8, accentuating its appeal as an even more enticing proposition over the longer term. The relatively fragmented nature of the Pakistani food and drink market compared with China's translates into a stronger scope for growth in the longer term, while the lack of strong incumbent market players means that multinationals would face lesser competitive headwinds when expanding in the country.

China is also missing out on the youth dynamic, which is another factor why it is only placed second in terms of rewards. Investors targeting countries with a youthful population should easily find a rapidly expanding market as this demographic group matures over time. However, due to its one-child policy, which was first introduced in 1978, China's population is rapidly ageing, and the country is expected to face a declining working-age population beyond the next 10 years. Pakistan, on the other hand, is a demographic behemoth with a large and youthful population, implying potentially dynamic opportunities for consumer goods players targeting the mass market in particular.

China Leading The Pack

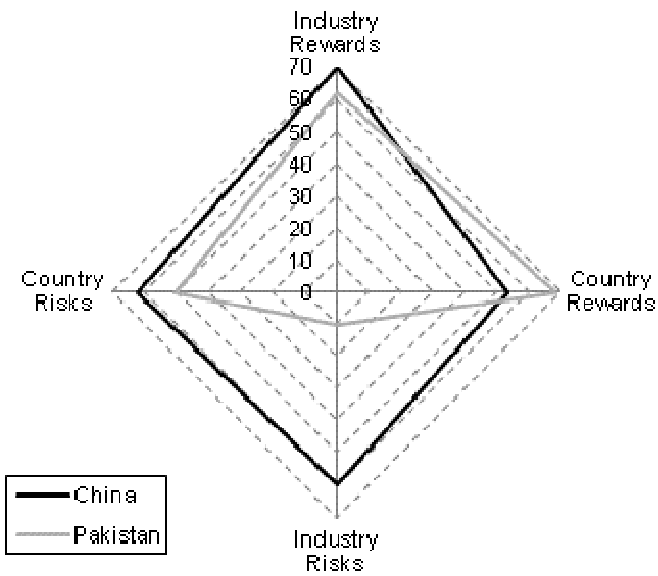
Asia Pacific Food & Drink Risk/ Reward Ratings – Q1 2012



Source: BMI. Scores Out Of 100, with 100 highest. For full methodology see Appendix at the back of our Food & Drink Quarterly Reports, or visit our online service

China's Risk/Reward Balance Distinguishes It From High-Growth Pakistan

China And Pakistan Risk/Reward Ratings Breakdown

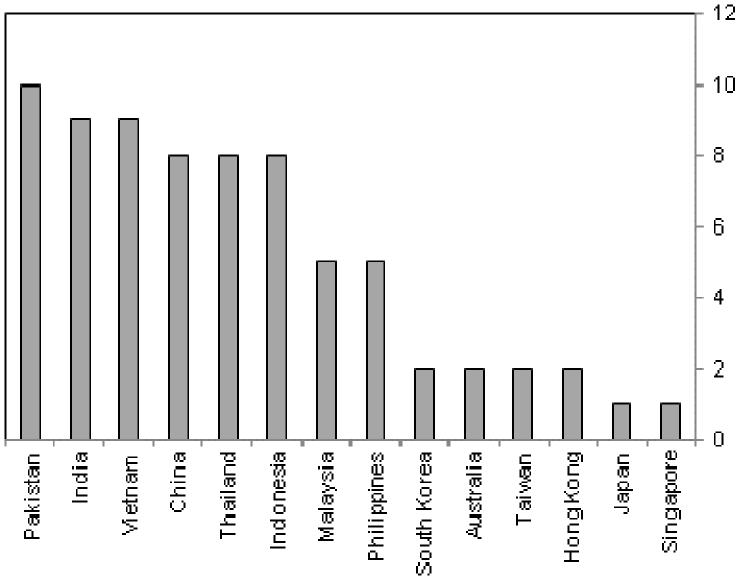


Source: BMI. Scores Out Of 100, with 100 highest. For full methodology see Appendix at the back of our Food & Drink Quarterly Reports, or visit our online service.

Of course, having a strong reward profile is not the only factor contributing to China's outperformance in our regional rankings. A key feature of our risk/reward ratings has been the importance of striking a balance between investment risks and rewards. Although Pakistan is a regional outperformer in terms of rewards, it remains a very risky place to do business, and operating challenges such as excessive red tape, widespread corruption and massive income inequalities will continue to blight the country's investment attractiveness (*see chart*). In contrast, China's sound near-term economic fundamentals, a relatively well-developed infrastructural system, better developed routes to market and a more conducive regulatory environment combine to bolster the country's reputation as an investment hotspot.

Japan, South Korea And Australia Are Mature Markets

Market Fragmentation Scores For Selected Asian Countries



Source: Note: Lower market fragmentation scores reflect a more mature market. Scores Out Of 10, With 10 Highest. Source: BMI

Japan, South Korea And Australia: Offsetting Limited Returns With Strong Risk Profiles

Characterised by low risk, developed economies such as Japan, South Korea and Australia sit at the top of our rankings. Although these economies lag behind their higher-growth peers in terms of providing strong investment returns, with their individual reward scores falling below the regional average reward score of 48, their favourable risk profiles are perceived to outweigh the potential rewards, thus allowing them to secure upper-ranking spots.

Japan, South Korea and Australia share the common traits of high per capita food consumption levels, a consolidated market and an ageing population, which rule out the prospect of explosive growth in their food and drink markets. Due to their mature nature, which is reflected in their low market fragmentation scores (*see chart*), these markets failed to match the dynamism witnessed across the emerging Asian economies. Growth in these markets is supported by a growing premiumisation momentum rather than a consequence of heightened dynamism among industry players.

However, strong risks ratings have bolstered the markets' investment appeal, allowing them to achieve the region's strongest risk/reward scores. Solid macroeconomic fundamentals, well-established distribution infrastructure, low bureaucracy, developed food retailing sectors and a relatively relaxed regulatory climate are some of the positives these developed markets share, which explains their strong risk profiles.

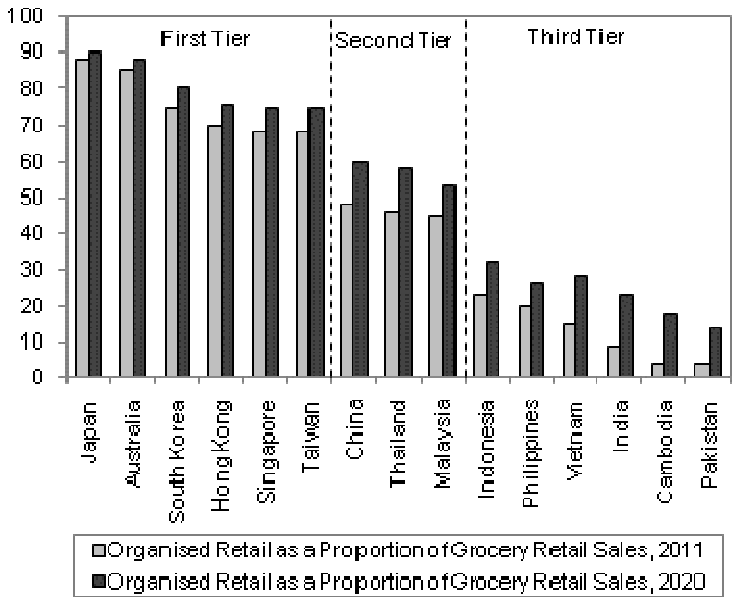
A noteworthy element of the ratings is Japan's stronger risks performance when compared with Australia and South Korea. Japan has better scores than its developed market peers in terms of mass grocery retail penetration and its regulatory climate, contributing to a stronger risks rating than the markets below it (other than Singapore). For Australia and South Korea, the expansions of industry players are hampered by restrictive government legislation, and this increasingly interventionist stance of regulatory bodies clearly would not be welcoming for foreign investors. In South Korea, for instance, the parliament passed a bill in November 2010 that supermarkets could not open within 500m of traditional markets and family-run stores without seeking approval from the local authorities and small business associations. This was subsequently widened to 1km in July 2011. This tighter retail legislation will clearly frustrate the expansionary efforts of large-scale operators, making it more difficult for retailers to grow their domestic footprint organically. These new indicators (mass grocery retail penetration and regulatory environment) have allowed us to better capture the relevant risks of operating in the food and drink markets.

Thailand, Malaysia, Indonesia And India: Very Exciting Investment Plays

Meanwhile, EM economies such as Thailand, Malaysia, Indonesia and India have mid-table positions in our new risk/reward ratings. While Thailand and Malaysia have stronger risk performances than their EM peers, with risks scores of 65.6 and 65.9 respectively, the opposite dynamic is in play for economies such as Indonesia and India, which are equipped with weaker risks scores but far more impressive rewards ratings.

Better Routes To Market In Thailand And Malaysia

Organised Retail As A Proportion of Grocery Retail Sales (2011 versus 2020 forecast)



Source: BMI estimate

One of the key factors behind Thailand's and Malaysia's outperformance to their EM peers is the presence of relatively developed food retailing sectors. Thailand and Malaysia receive stronger scores in terms of mass grocery retail penetration, illustrating better developed routes to market in these countries when compared with Indonesia and India (*see chart*). Thailand and Malaysia are already equipped with relatively well-developed mass grocery retail sectors thanks to rapid urbanisation and fast-accelerating income growth, and these relatively established retail links should facilitate the reach of foreign investors to the end-consumer market. Another positive supporting Thailand's and Malaysia's investment appeal is their relatively conducive business environments. Unlike India and Indonesia, Thailand and Malaysia are more receptive to foreign investment, thus enhancing their appeal as attractive investment destinations.

While Indonesia and India do not yet possess healthy risk profiles, the impressive growth prospects on offer in these markets coupled with their relative immaturity have somewhat mitigated the challenges presented by their operating environments. Both Indonesia and India have massive youthful populations and underdeveloped food and drink sectors, and these markets are already quickly shaping up as very exciting investment plays.

Philippines And Hong Kong: Not Much Going For Them

Towards the bottom of our table sit Philippines and Hong Kong, reflecting a lack of a healthy balance of risks and rewards. Philippines and Hong Kong receive overall scores of 45.0 and 50.2 espectively. In the case of Hong Kong, its investment attractiveness is held back by the maturity of its food and drink sectors (which implies limited room for growth) as well as a small and ageing population (which translates into a smaller market for consumer-facing players). For the Philippines, it fails to score high on both the aspects of risks and rewards, causing it to languish at the bottom of our ratings table.

Table: Asia Pacific Food & Drink Risk/Reward Ratings – Q112

	Limits of Potential Returns			Risks to Realisation of Returns				
	Limits of Potential Returns	**Food and Drink Market**	**Country Structure**	**Risks to Realisation of Potential Returns**	**Market Risks**	**Country Risk**	**Food & Drink Rating**	**Rank**
China	61.50	70.00	53.00	61.04	60.00	62.07	61.31	1
Japan	45.67	28.00	63.33	79.59	85.00	74.17	59.23	2
South Korea	45.17	46.00	44.33	74.78	80.00	69.56	57.01	3
Australia	44.17	36.00	52.33	75.09	75.00	75.19	56.54	4
Thailand	48.50	56.00	41.00	65.62	65.00	66.23	55.35	5
Singapore	35.83	34.00	37.67	82.94	80.00	85.87	54.67	6
Taiwan	38.33	36.00	40.67	78.27	80.00	76.53	54.31	7
Malaysia	45.67	44.00	47.33	65.94	65.00	66.88	53.78	8
Indonesia	58.33	60.00	56.67	44.24	35.00	53.48	52.70	9
India	61.00	58.00	64.00	37.39	20.00	54.78	51.56	10
Pakistan	64.83	62.00	67.67	30.07	10.00	50.15	50.93	11
Vietnam	**53.83**	**62.00**	**45.67**	**45.49**	**35.00**	**55.98**	**50.50**	**12**
Hong Kong	33.17	34.00	32.33	75.74	75.00	76.48	50.20	13
Philippines	44.33	32.00	56.67	46.08	35.00	57.16	45.03	14

Source: BMI

Vietnam Food & Drink Risk/Reward Ratings

Vietnam is ranked 12th in our new and improved risk/reward ratings for the Asia Pacific region. Although Vietnam scores relatively high on the aspect of investment rewards, the country has a weaker performance in the aspect of investment risks. Given that our new ratings are more future-focused, we placed a greater significance on growth indicators such as five-year compound annual average growth in per capita food consumption to better assess the investment appeal of Vietnam.

Vietnam is one of the highest-growth economies in the Asia Pacific region, and this is reflected in its relatively high score of 6 for the indicator of five-year compound annual average growth in per capita food consumption. To put things into perspective, Vietnam is placed behind only China and India in terms of per capita food consumption growth, underlining the tremendous potential in this market. The relatively fragmented nature of the Vietnamese food and drink market is also indicative of the strong scope for growth in the market. Given the lack of strong incumbents in sectors such as coffee and mass grocery retail, multinational consumer goods players would face lesser competitive headwinds in trying to build up scale across Vietnam.

A massive youthful population enhances the investment appeal of Vietnam. Youth consumers are typically very receptive to new ideas and product innovation, and multinational consumer goods producers targeting the mass market in particular should find a growing market among this demographic group. The trend of consumer-facing players focusing their expansions on the mass-market segment is clearly under way and will continue to pick up momentum as consumers get richer over the coming years.

A relatively subdued industry risks performance will continue to weigh on Vietnam's overall investment appeal. The country scores low on the indicator of mass grocery retail penetration, which highlights the significant challenges multinationals would face in facilitating the distribution of their products and improving the visibility of their brands. In contrast, in emerging markets such as China and Thailand, which have relatively more-developed food retailing markets, consumer goods players would face relative ease in entrenching their presence.

Vietnam continues to underperform on the country risks indicator. The country's poor infrastructure continues to be an impediment for many foreign investors; however, we see this as a diminishing problem as the government is investing heavily in new roads, railways and ports. Corruption is another major hindrance to running a business in Vietnam.

Macroeconomic Outlook

External Headwinds Prompt Downward Growth Revision

BMI View: *We expect Vietnam's real GDP growth for 2011 and 2012 to be much weaker than we previously forecast owing to escalating economic headwinds in the US, eurozone and China. We are increasingly concerned that the slowdown in manufacturing sector growth, which indicates weak demand for Vietnamese exports, will be sustained over the coming quarters, presenting significant downside risks to growth. Consequently, we have downgraded our real GDP growth forecast from 6.3% to 6.0% for 2011, and we expect growth to remain subdued at 6.9% in 2012.*

Vietnam's real GDP growth figure came in at 6.1% y-o-y in Q311, in line with our view that monetary tightening by the State Bank of Vietnam and a reduction in public spending would continue to be a drag on growth over the coming quarters. Meanwhile, downside risks to our outlook on external demand – a sputtering economic recovery in the US, sovereign debt concerns in the eurozone and a potential hard landing in China – have escalated significantly in recent months. Consequently, we have downgraded our real GDP growth forecast from 6.3% to 6.0% for 2011 to reflect a deteriorating economic environment that we expect to persist over the coming months. Looking into 2012, we believe Vietnam's real GDP growth will remain subdued by historical standards at 6.9%, as weak economic momentum spills over into H112.

Manufacturing Sector Activity Points To Cooling External Demand

Looking at growth rates across the three broad classifications of economic activity in Vietnam, we note that there is a notable slowdown in industry and construction growth, from 7.3% y-o-y in Q211 to 6.8% in Q311. This is largely due to a slowdown in the manufacturing sector. According to figures published by the General Statistics Office, the manufacturing sector grew at a much slower pace of 7.1% y-o-y in Q311, compared with 9.1% the previous quarter. To put into perspective the critical role that the manufacturing sector plays in driving the economy, we highlight that the sector alone accounts for around 22% of GDP, and manufactured goods make up slightly more than 50% of total exports. Given that a large proportion of the sector's output is exported, a slowdown in manufacturing activity suggests that producers are anticipating weaker demand for Vietnamese exports over the coming months. We are increasingly concerned that a sustained slowdown in the manufacturing sector over the coming quarters would present significant downside risks to our outlook on external demand and, in turn, undermine the government's efforts to tackle a stubborn trade deficit.

Tight Labour Market To Support Private Consumption Growth

Despite growing risks of a sustained slowdown in the manufacturing sector, our view that private consumption growth will remain resilient continues to hold. The manufacturing sector currently absorbs around 14% of the labour force. In contrast, the agricultural sector remains the major source of employment, absorbing an estimated 40% of the labour force. Given that the agricultural sector is relatively more resilient during periods of an economic slowdown, particularly one that is mainly driven by external demand, we believe that the unemployment rate will remain stable at historical lows of 2.5-3.0% over the coming quarters. This, in turn, supports our view that resilient private consumption growth will help to cushion a slowdown in net exports (we are forecasting private consumption growth to come in at 6.5% and 6.0% in 2011 and 2012 respectively).

Investments Likely To Remain Depressed

Lending rates, which surged to around 25.0-27.0% in Q211 as a result of the central bank's monetary tightening since the beginning of the year, have fallen to around 17.0-19.0% in September 2011. We believe that this is due to a combination of a decline in demand for credit as well as easing inflationary pressures, which is leading to a contraction in the spread between lending rates and the bank's current policy rate of 14.00%. Although lending rates have fallen significantly, we are sceptical that this will provide a boost to gross fixed capital formation growth. Firstly, current lending rates are at historical highs, and credit growth in the first nine months of the year remained low at 9.5%, below the government's target of 17%. Secondly, we believe that deteriorating global economic headwinds will have a negative impact on investor sentiment, which should, in turn, depress foreign direct investment inflows over the coming quarters. These negative factors should offset any positive effects that lower lending rates would have on gross fixed capital formation growth. Accordingly, we expect gross fixed capital formation growth to slow from 7.0% in 2010 to 5.0% and 5.5% in 2011 and 2012 respectively.

Monetary Normalisation Could Come Sooner

On a more positive note, there is growing evidence that inflation has peaked (consumer price inflation slowed to 22.4% in September 2011 from 23.0% in August). Thus, should inflation continue to ease over the coming months, we believe that the State Bank of Vietnam could embark on monetary normalisation much sooner than we have previously expected. Falling commodity prices suggest that downside risks to economic growth could become a greater concern for policymakers. Thus, we see upside risks to our outlook on real GDP growth in 2012 (albeit this is not our core view) that the central bank would ease monetary policy by mid-2012, providing a boost to economic growth.

Table: Vietnam - Economic Activity

	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP, VNDbn [2]	1,485,038.0	1,658,389.0	1,953,223.3	2,379,025.2	2,783,319.1	3,152,968.4	3,547,056.7	3,972,115.8
Nominal GDP, US$bn [2]	89.8	92.8	101.9	115.5	136.6	159.2	184.3	211.8
Real GDP growth, % change y-o-y [2]	6.3	5.3	6.8	6.3	7.2	7.2	7.2	7.2
GDP per capita, US$ [2]	1,041	1,063	1,153	1,294	1,515	1,749	2,004	2,282
Population, mn [3]	86.2	87.3	88.4	89.3	90.2	91.1	92.0	92.8
Industrial production index, % y-o-y, ave [1,2]	13.6	6.7	14.1	10.0	15.0	16.0	17.0	16.0
Unemployment, % of labour force, eop [2]	4.7	6.0	5.0	6.0	5.0	5.0	5.0	5.0

Notes: [e] BMI estimates. [f] BMI forecasts. [1] at 1994 prices; Sources: [2] General Statistics Office. [3] World Bank/BMI calculation/BMI.

Industry Forecast Scenario

Consumer Outlook

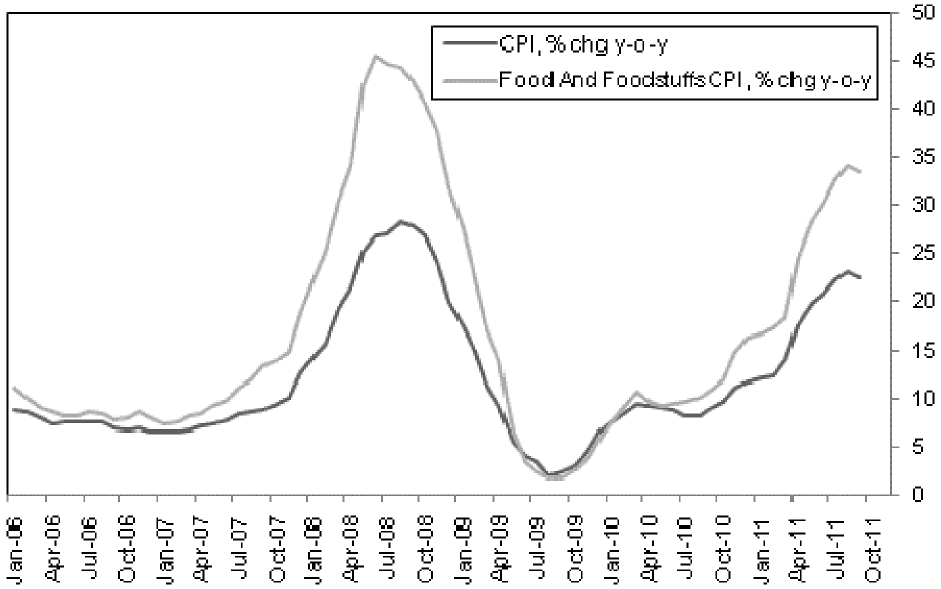
The State Bank of Vietnam's aggressive monetary tightening measures are expected to take the steam out of domestic demand over the coming quarters. While inflationary pressures are continuing to moderate, we remain concerned about the lagged impact of monetary tightening on consumer spending. However, given the positive dynamics of low unemployment and strong tourism growth, there is still considerable scope for optimism in the country's domestic demand picture in the near term. Over the longer term, the domestic demand picture for Vietnam looks brighter. A massive youthful population, sector immaturity and macroeconomic driving factors make the Vietnamese consumer goods sector a high-growth prospect.

Tight Labour Market To Support Domestic Demand

Despite the external headwinds, we believe private consumption growth will continue to hold up strongly over the coming quarters. The manufacturing sector currently absorbs around 14% of the labour force. In contrast, the agricultural sector remains the major source of employment, absorbing an estimated 40% of the labour force. Given that the agricultural sector is relatively more resilient during periods of an economic slowdown, particularly one that is mainly driven by external demand, we believe the unemployment rate will remain stable at historical lows of 2.5-3.0% over the coming quarters, which should help support domestic demand.

Inflation Peaked?

Vietnam CPI & Food And Foodstuffs CPI (% chg y-o-y)



Source: Bloomberg, General Statistics Office

Strong Tourism Growth Boosts Demand Growth

A strong showing in the Vietnamese tourism sector is also expected to have positive spillover effects for the consumer-facing sectors. Vietnamese tourist arrivals increased by 15.5% y-o-y in September 2011. Tourist arrival growth has been particularly strong over the past few months, which should provide a strong fillip for consumer goods sales, particularly for more expensive premium products.

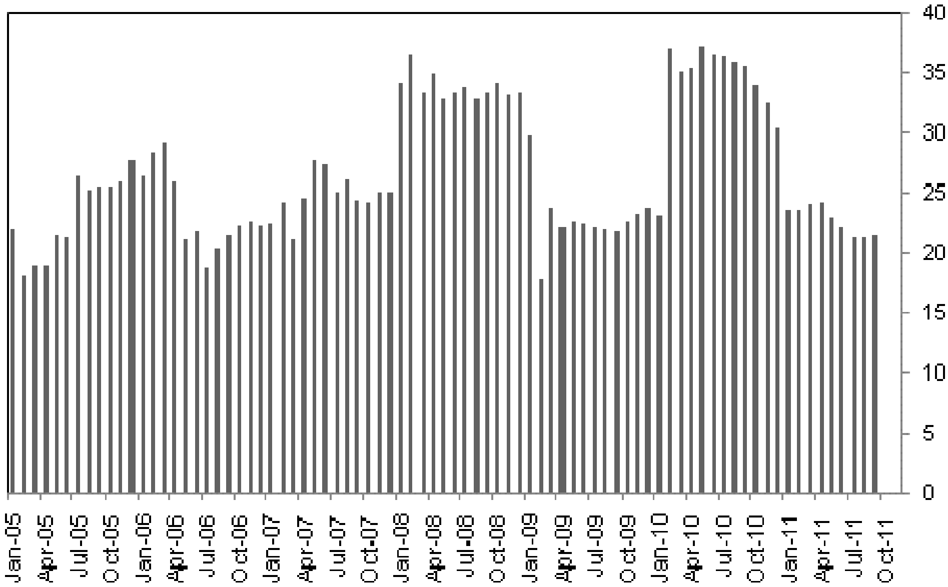
Aggressive Monetary Tightening Dampens Domestic Demand

Despite these positives, the impact of aggressive rate hikes since the beginning of the year provides some reason for caution in Vietnam's near-term domestic demand picture, and we believe consumer spending growth will continue to moderate over the coming quarters. Prompted by overheating concerns, the State Bank of Vietnam engaged in an aggressive round of monetary tightening since January 2011. Between February and October, the central bank hiked its benchmark policy rate by 600 basis points.

We believe the lagged impact of monetary tightening in the earlier months of 2011 will prevent domestic demand from reaching its full potential by the end of the year. The impact of monetary tightening on consumer spending is borne out by recent retail sales figures. Retail sales have moderated since February 2011, when the central bank initiated its monetary tightening cycle, recording growth of 21.5% in September. While this is an impressive growth figure which underlines the robustness of the domestic demand conditions, we observe that retail sales growth has trended along a distinct deceleratory path in

Retail Sales Taking A Hit

Vietnam Retail Sales Growth, % chg y-o-y



Source: General Statistics Office, Bloomberg recent months (*see chart*), bearing out the impact of monetary tightening on consumer spending.

Risks To Outlook

Downside risks to our economic outlook for Vietnam, which include a sputtering economic recovery in the US, sovereign debt concerns in the eurozone and a potential hard landing in China, have escalated significantly in recent months. Our country risk team has recently downgraded our real GDP growth forecast from 6.3% to 6.0% for 2011 to reflect a deteriorating economic environment that we expect to persist through the coming months. As weak economic momentum spills into H112, this could potentially weigh on consumer sentiment and domestic demand growth.

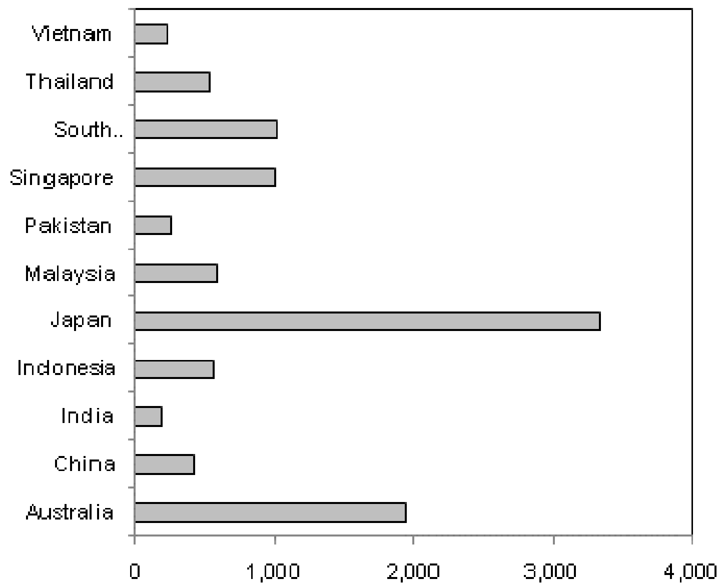
Cannot Deny Vietnam's Long-Term Potential

If a tighter credit environment poses a threat to near-term domestic demand conditions, the long-term potential of the consumer-facing sectors in Vietnam is undeniable. Rapid economic growth in Vietnam over the coming years should translate into higher income, in turn benefiting consumerism. GDP per capita in Vietnam is forecast to more than triple to reach US$4,444 by 2020.

Most exciting though is the country's favourable demographic profile; 51.9% of the population is estimated to be younger than 30, implying potentially dynamic opportunities for consumer goods players targeting the mass-market segment in particular as this demographic group matures over time.

Low Consumption But Massive Room For Growth

Selected Countries Per Capita Food Consumption (2011) US$



Source: BMI forecast

The immaturity of food, drink and retail sectors in Vietnam ensures that the country will retain its appeal as one of the most exciting markets in the region for some time to come. Low existing per capita food and drink consumption levels in Vietnam imply that considerable room for growth remains (*see chart*). Moreover, organised grocery retail makes up only 15% of overall grocery retail sales, compared with levels of between 40-70% elsewhere in South East Asia. Given just how far organised retail has to run before its proportional contribution is comparable with developed economies and countries such as China, Thailand and Malaysia, there are going to be huge opportunities for mass grocery retail growth in Vietnam.

Food

Food Consumption

- Food consumption is forecast to expand at a compound annual average growth rate of 5.1% between 2011 and 2016.

- Per capita food consumption is also forecast to increase robustly at a compound annual average rate of 4.3% between 2011 and 2016.

Food consumption in Vietnam is forecast to experience strong growth of 5.1% on compound annual average terms between 2011 and 2016, at which point consumption is expected to reach VND538.4trn (US$29.5bn). Meanwhile, per capita food consumption is forecast to grow by an impressive 4.3% on a compound annual average basis over the same period, reaching a fairly modest VND5.8mn (US$316) by 2016, reflecting the low starting base.

This impressive level of growth in food consumption could be attributed to two key factors: the rising affluence among Vietnamese consumers and an ongoing expansion of the mass grocery retail industry in the country.

Currently, income levels in Vietnam are a long way behind developed economies, and consumer purchases remain largely centred on food staples and daily necessities. However, as incomes start to accelerate off a low base on the back of sturdy economic growth, consumer tastes and preferences are expected to calibrate towards the higher-value food and beverage segments, which should guarantee a receptive and growing audience for branded food and beverage products in the medium term.

This massive potential provided by the burgeoning size of the middle class in Vietnam is already attracting the sights of major consumer facing players in the country. Private equity firm **Kohlberg Kravis Roberts & Co**'s recent acquisition of a 10% stake in **Masan Consumer**, the largest producer of condiments including fish, soy and chilli sauce and the second biggest producer of instant noodles in Vietnam, underlines its confidence in the opportunities available in the mass-market segment. As another case in point, according to Tran Vu Hoai, the head of corporate relations for **Unilever Vietnam**, Unilever's Vietnam sales have been growing at an annual average of 18.5% over the past decade to reach US$700mn in 2010, of which rural sales make up about 50%, bearing out strong growth prospects in the rural consumer market.

In particular, we expect functional food products to garner stronger appeal among Vietnamese consumers over the coming years. Given the nutritional health benefits of functional foods, these products have witnessed strong demand in Vietnam over the past few years in line with a growing shift towards health awareness. In 2000, the functional food market comprised only a dozen imported functional food products. By 2005-2006, domestically produced functional foods accounted for 33% of the entire food market, and in 2008, this figure doubled, underlining the burgeoning demand for functional food products.

The ongoing expansion of the mass grocery retail industry will also drive up per capita food consumption levels, provided goods sold through such outlets remain competitively priced. Ultimately, food consumption growth will be driven by the government's ability to harness rural spending power and by modern retailers' ability to find a model that stirs consumer interest, without forgetting that price will remain the major purchasing determinant.

Table: Food Consumption Indicators – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Food consumption (US$bn)	18.69	19.30	22.10	24.28	26.02	27.61	29.50
Food consumption (VNDbn)	357,538	397,546	450,240	480,762	500,915	517,774	538,431
Per capita food consumption (US$)	212.7	217.3	246.3	267.8	284.2	298.7	316.2
Per capita food consumption (VND)	4,069,939	4,477,277	5,017,705	5,303,117	5,470,722	5,601,030	5,771,427
Food consumption growth, VND (% chg y-o-y)	10.72	11.19	13.25	6.78	4.19	3.37	3.99

NB Excludes beverage consumption. f = BMI forecast. Source: General Statistics Office of Vietnam, BMI

Canned Food

- Canned food value sales growth is expected to outpace canned food volume sales growth; value sales are forecast to increase at a compound annual average rate of 10.4%, outperforming volume sales growth of 4.3% between 2011 and 2016.

Buoyed by ongoing urbanisation and increasing affluence among Vietnamese consumers, **BMI** is currently forecasting strong compound annual average growth of 10.4% in canned food sales, in value terms, to 2016, significantly overshadowing 4.3% compound annual average growth in canned food volume sales. This stronger value growth in the canned food sub-sector reflects an acceleration of a premiumisation momentum, as demand for higher-value products such as canned food picks up strongly on the back of rising disposable incomes.

Vietnamese consumers are experiencing a growing awareness of hygiene concerns and food origin as their living standards improve and as numerous health scares beg their greater caution. This will further encourage consumers to purchase processed foods over fresh produce, and strong investment in this sector from both domestic and international operators should help to fuel sales growth. Meanwhile, city workers are increasingly cutting back on restaurant meals and opting for canned and processed foods in order to save money, with major retailers such as **Saigon Co-op** reporting a recent spike in sales.

Table: Canned Food Value/Volume Sales – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Canned food sales, volume ('000 tonnes)	9.21	9.73	10.23	10.77	11.35	11.96	12.50
Canned food sales (VNDmn)	408,055	496,167	574,269	641,927	719,525	806,262	900,498
Canned food sales (US$mn)	21.33	24.09	28.18	32.42	37.38	43.00	49.34

NB Excludes beverage consumption. e/f = BMI estimate/forecast. Source: General Statistics Office of Vietnam, BMI

Confectionery

- Confectionery value sales growth is forecast at 8.5% on compound annual average terms to 2016.

- The chocolate sub-sector will continue to outperform over the next five years, with value sales in the sector forecast to grow at a compound annual average rate of 10.3% to 2016.

Vietnamese confectioners are facing increasingly positive headwinds over the coming quarters. Prices across the global agricultural complex are moderating, which should provide some relief to the profitability of domestic confectionery players. Over the longer term, dynamics such as rising purchasing power, a massive youthful population, growing health awareness and continued investments in the sector underpin a strong growth outlook for the Vietnamese confectionery sector.

The longer-term outlook for the Vietnamese confectionery market is also positive. With factors such as rising purchasing power, favourable demographics, growing health awareness and continued investments in the sector supporting confectionery demand, we are forecasting a compound annual average growth of 8.5% in confectionery value sales in local currency terms to 2016.

- **Rising Disposable Incomes:** Rapid wealth accrual (GDP per capita is forecast to more than triple to reach US$4,444 by 2020) translates into a greater discretionary appetite for premium confectionery products. As an increasing number of domestic confectioners expand their upmarket product ranges, this should bolster value sales growth over the coming years.

- **A Massive Youthful Population:** 51.9% of the Vietnamese population is estimated to be younger than 30, and the maturation of this demographic group means that there are dynamic opportunities in the mass market. Moreover, this demographic group is generally more receptive to Western cultures, which should give an impetus to confectionery demand.

- **Growing Health Awareness:** Health awareness is prompting shifts of consumption habits towards functional and healthy confectionery products. Capitalising on the growing trend, domestic confectioners such as **Tan Tan Food & Foodstuff** and **Vina Mit** are expanding their functional product offerings. These products typically carry higher price tags, and their rising demand should translate into higher value sales in the sector.

- **Continued Sector Investments:** Sustained competition levels in the Vietnamese confectionery sector ensure that dynamism in the market is unlikely to cool off anytime soon. **Nabati Indonesia**, a leading Indonesian biscuit producer, recently announced plans to start distributing its biscuit products in Vietnam – a testament to the attractiveness of the sector. Meanwhile, domestic confectioners such as **Kinh Do** are expected to continue to invest in broadening its product ranges and expanding its distribution channels.

Table: Confectionery Value/Volume Sales – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Confectionery volume sales ('000 tonnes)	105.2	110.6	115.8	122.0	129.1	136.9	145.2
Confectionery volume sales (% chg y-o-y)	6.16	5.08	4.75	5.33	5.79	6.06	6.06
Chocolate sales (VNDmn)	3,019,132	3,358,784	3,957,826	4,456,590	5,004,814	5,609,098	6,047,864
Sugar confectionery sales (VNDmn)	2,585,471	3,009,146	3,430,349	3,801,881	4,204,280	4,649,347	5,131,158
Gum sales (VNDmn)	457,152	485,170	516,433	544,358	569,465	593,637	626,492
Confectionery sales (VNDmn)	6,061,755	6,853,100	7,904,609	8,802,829	9,778,558	10,852,083	11,179,056
Confectionery sales growth, VND (% chg y-o-y)	17.02	13.05	15.34	11.36	11.08	10.98	3.01
Chocolate sales (US$mn)	157.8	163.0	194.2	225.1	260.0	299.2	331.4
Sugar confectionery sales (US$mn)	135.1	146.1	168.4	192.0	218.4	248.0	281.2
Gum sales (US$mn)	23.89	23.55	25.35	27.49	29.58	31.66	34.33
Confectionery sales (US$mn)	316.8	332.7	388.0	444.6	508.0	578.8	612.6

e/f = BMI estimate/forecast. Source: General Statistics Office, Company information, Trade press, BMI

Table: Sugar Confectionery

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Sugar confectionery production, tonnes	152,553.17	169,429.06	188,935.32	210,880.82	235,738.08	262,494.12	291,324.88
Sugar confectionery production, tonnes, % change y-o-y	13.26	11.06	11.51	11.62	11.79	11.35	10.98
Sugar confectionery sales, tonnes	141,660.50	158,058.82	176,979.93	198,418.38	222,660.89	248,738.96	275,969.55
Sugar confectionery sales, tonnes, % change y-o-y	13.65	11.58	11.97	12.11	12.22	11.71	10.95
Sugar confectionery exports, tonnes	22,843.84	24,978.89	26,599.39	27,984.55	29,534.50	31,208.44	34,077.21
Sugar confectionery exports, tonnes, % change y-o-y	14.14	9.35	6.49	5.21	5.54	5.67	9.19
Sugar confectionery imports, tonnes	11,951.17	13,608.65	14,644.00	15,522.11	16,457.30	17,453.28	18,721.88
Sugar confectionery imports, tonnes, % change y-o-y	19.85	13.87	7.61	6.00	6.02	6.05	7.27
Sugar confectionery balance, tonnes	10,892.67	11,370.24	11,955.39	12,462.44	13,077.20	13,755.16	15,355.33
Sugar confectionery balance, tonnes, % change y-o-y	8.47	4.38	5.15	4.24	4.93	5.18	11.63

e/f = BMI estimate/forecast. Source:

Trade

- Export growth between 2011 and 2016 is forecast at a compound annual average rate of 8.6%, stronger than import growth of 8.1%.

We see growing downside risks to our outlook for Vietnam's food and drink exports. A sputtering economic recovery in the US, sovereign debt concerns in the eurozone and a potential hard landing in China are placing increasing pressure on our outlook. With regard to imports, we are forecasting slower growth over the coming months on the back of moderating domestic demand and a slowdown in the broader economy. For 2011, we are currently pencilling in a 7.7% growth in exports, outperforming a 6.5% growth rate expected for imports.

Over the next five years, the outlook for Vietnam's food and drink trade balance is relatively stronger, as the country is forecast to maintain a healthy and growing trade balance. While exports are forecast to experience growth of 8.6% on a compound annual average growth basis between 2011 and 2016, imports are forecast to experience compound annual average growth of 8.1% over the same period.

A major driver behind the growth in exports is sustained government efforts to improve local food production and agricultural industries. This will boost output and make more produce available for export, as well as improve the quality competitiveness of local exports.

Over the long term, increasing urbanisation and continued exposure to Western influences are expected to generate growing import demand, and increasingly busy lifestyles and rising interest in branded produce will lead to growth in the processed-food industry. In order to meet this demand, local manufacturers will be forced to import the necessary raw ingredients.

Beyond 2016, the government is likely to be hopeful that its investments and efforts to attract foreign investors will pay off, and that much of this new and specific type of demand will be able to be accommodated domestically.

Table: Trade Indicators – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Exports (US$mn)	12,168	13,099	14,338	15,839	17,520	19,403	21,511
Imports (US$mn)	3,886	4,138	4,534	4,974	5,463	6,005	6,607
Balance (US$mn)	8,282	8,961	9,804	10,865	12,057	13,397	14,904

e/f = BMI estimate/forecast. Source: UNCTAD, BMI

Drink

Alcoholic Drinks

- Alcoholic drink value sales are forecast to increase at a compound annual average growth rate of 10.5% between 2011 and 2016.

The outlook for Vietnam's alcoholic drinks industry remains very strong, and it continues to attract considerable interest from foreign investors. A number of industry majors such as **Diageo**, **Asia Pacific Breweries** (APB) and **Carlsberg** have been attracted by the alcoholic drinks sector's bright outlook, with rising consumption fuelled by strong economic growth, rising affluence and a fast-growing tourist industry. Their continued investments in the sector will keep dynamism propped up to buoy alcoholic drink value sales.

We are forecasting an increase of 7.5% in volume sales on a compound annual average growth basis between 2011 and 2016, while value sales are forecast to experience stronger growth of 10.5% on a compound annual average growth basis as consumers begin to trade up to higher-value drinks along with rising disposable incomes.

Beer will continue to dominate the alcoholic drinks sector, accounting for the vast majority of volume sales, and will be the main contributor to value sales. This is due to the strong interest the beer sector has been attracting from both local and international brewers, with volume sales expected to experience growth of 7.5% on a compound annual average growth basis to 2016.

APB's recent investment in the Vietnamese beer industry is a strong testament to the sector's potential. APB will invest SGD90mn in expanding production at its Ho Chi Minh brewing joint venture by 50%. The company will increase output at the facility, which is a 60:40 joint venture with **Saigon Trading**, to 2.8mn hectolitres a year; add a second canning facility; and expand its warehouse space. Coupled with expansions under way at its Danang and Hanoi sites, the brewer is expected to have expanded total Vietnamese output by 25% before the end of 2011.

Volume sales growth in the wine and spirits industry is also expected to be robust over our forecast period to 2016, albeit developing from much lower bases. Both are fairly immature industries which have been held back by an absence of multinational investment and their relatively higher price tags. However, prolific wealth accrual among Vietnamese consumers is fuelling shifts in consumption habits towards higher-value alcoholic drink products, and this trend is particularly evident in the urban centres such as Ho Chi Minh City, Hanoi and Danang. Exposure to Western cultures is also driving the local demand for spirits and wines. The biggest consumers of wine and spirits in Vietnam used to be Western expatriates and tourists, but local consumers are developing a strong appetite for these products in line with rapidly growing affluence. The spread of organised retail in the country acts as another impetus behind spirits and wine sales, facilitating consumer reach to a greater variety of brands in supermarkets, hypermarkets and local wine stores.

Looking ahead, investments in the Vietnamese spirits and wine sub-sectors are expected to intensify as an increasing number of investors recognise the higher margin growth opportunities on offer in these sub-sectors, and this should instil further dynamism to drive volume sales.

Table: Alcoholic Drinks Value/Volume Sales – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Alcoholic drinks sales (VNDmn)	33,233,049	40,206,455	46,460,583	52,030,494	58,479,751	65,724,576	73,389,368
Alcoholic sales growth, VND (% chg y-o-y)	18.46	20.98	15.56	11.99	12.40	12.39	11.66
Alcoholic drinks sales (US$mn)	1,737	1,952	2,280	2,628	3,038	3,505	4,021
Alcoholic drinks sales (mn litres)	2,105	2,269	2,479	2,705	2,948	3,210	3,493
Alcoholic sales growth, litres (% chg y-o-y)	8.16	7.78	9.26	9.12	8.99	8.87	8.83
Beer sales (mn litres)	2,089	2,251	2,461	2,685	2,927	3,186	3,468
Spirits sales (mn litres)	16.30	17.45	18.52	19.85	21.52	23.44	25.49

e/f = BMI estimate/forecast. Source: General Statistics Office, Company information, Trade press, BMI

Hot Drinks

- **BMI** is pencilling in a compound annual average growth of 9.4% and 7.0% in coffee and tea sales, in volume terms, respectively to 2016.

Vietnam's sturdy economic growth over the next few years will continue to fuel demand for higher value food and beverage products, such as coffee. Vietnam's massive youth population, for whom visiting cafés and drinking coffee is a growing lifestyle choice, is another major positive behind our coffee forecast. Moreover, as this group of young, aspirant consumers enters the workforce, the accordant rise in their level of incomes will serve to further buoy the demand for higher-value coffee products. The tea sector is also set to experience strong growth over our five-year forecast period, buoyed by rising incomes and increasing domestic demand.

These dynamics will continue to attract the sights of multinational coffee producers, in turn imbuing the sector with greater dynamism over our forecast period. As a case in point, **Masan Consumer** has launched a bid for a 50.1% stake, valued at around VND1.07trn (US$51mn), in the Vietnamese coffee producer **Vinacafe Bien Hoa Joint-Stock Company**. By acquiring a controlling stake in Vinacafe, Masan clearly wants to put itself in a strong position to leverage on the exciting demand dynamics in the Vietnamese coffee sector. According to the Vietnam Coffee and Cocoa Association, Vinacafe is the country's second-largest coffee exporter, and Masan could tap into Vinacafe's expertise and brand name to grow its presence in the domestic coffee sector. Reflecting Vinacafe's strength in the Vietnamese coffee sector, the coffee producer consistently grew its revenues over the past five years and recorded an impressive 30% compound annual average growth in its headline sales between 2006 and 2010.

Also looking to capitalise on Vietnam's coffee potential, **Nestlé** plans to increase its coffee sourcing from local farmers in Vietnam and has committed to a new coffee factory in the country. The US$270mn factory will be constructed in the south-east province of Dong Nai and will produce Nescafé-branded products for the domestic and international markets from 2013.

Table: Hot Drinks Value Sales – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Coffee sales, tonnes	39,808	43,831	48,681	54,240	60,542	67,323	74,622
Tea sales, tonnes	217,329.3	230,166.5	246,144.0	264,708.6	285,762.2	308,416.6	343,314.1

NB Combined tea and coffee sales only available data. e/f = BMI estimate/forecast. Source: General Statistics Office, Company information, Trade press, BMI

Soft Drinks

- We expect soft drink value sales to increase at a compound annual average growth rate of 8.2% to 2016, outperforming a 6.3% compound annual average growth in volume sales.

We are forecasting growth of 8.2% in the Vietnamese soft drink sector, in value terms, between 2011 and 2016; over the same period, we expect volume sales to grow by 6.3%, both on a compound annual average growth basis. Economic growth, increasing urbanisation, external investments and rising tourist numbers will all serve to drive this growth.

Although Vietnamese consumers will retain an interest in healthy living as Western influences pervade consumption habits, we would expect carbonated soft beverages to be the highest-growth sub-sector of the soft drinks industry to 2016, owing to their popularity among aspirational young Vietnamese consumers and their relative lower price tags when compared with energy drinks and premium fruit juices.

Intensified rivalry between the country's major soft drinks players **PepsiCo** and **The Coca-Cola Company** (TCCC) is another key driver behind our bullish growth forecast for the sector. PepsiCo has set aside an investment war chest of US$250mn for Vietnam over the next three years and will continue to invest in projects that include upping the manufacturing capacity of its Vietnam operations, strengthening existing brands and continuing product development through innovation. We believe these investments will further strengthen PepsiCo's foothold in Vietnam, where it has already invested in two new manufacturing facilities, including a beverage plant in Can Tho. TCCC does not intend to rest on its laurels. The company has invested more than US$280mn over the past decade and plans to invest an additional US$200mn in Vietnam by 2013.

Table: Soft Drinks Value/Volume Sales – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Soft drinks sales (mn litres)	1,695	1,820	1,977	2,157	2,315	2,478	2,628
Soft drink sales growth, litres (% chg y-o-y)	20.37	7.41	8.61	9.11	7.35	7.00	6.08
Soft drinks sales (VNDmn)	6,429,799	7,115,215	8,113,658	8,917,715	9,736,804	10,619,224	11,421,833
Soft drink sales growth, VND (% chg y-o-y)	15.98	10.66	14.03	9.91	9.18	9.06	7.56
Soft drinks sales (US$mn)	336.0	345.4	398.2	450.4	505.8	566.4	625.9

NB Figures include both on-trade and off-trade sales. Volume data is calculated using per capita consumption and population data while value is calculated using historic average price estimates. Source: Company information, Trade press, BMI

Table: Carbonated Soft Drinks

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Carbonated soft drink production, litres mn	887.11	967.83	1,061.12	1,166.09	1,284.98	1,412.96	1,550.73
Carbonated soft drink production, litres mn, % change y-o-y	10.66	9.10	9.64	9.89	10.20	9.96	9.75
Carbonated soft drink sales, litres mn	863.55	941.52	1,032.66	1,135.77	1,252.58	1,378.29	1,513.61
Carbonated soft drink sales, litres mn, % change y-o-y	10.45	9.03	9.68	9.99	10.28	10.04	9.82
Carbonated soft drink exports, litres mn	37.71	41.08	43.63	45.82	48.26	50.90	53.75
Carbonated soft drink exports, litres mn, % change y-o-y	13.42	8.93	6.22	5.01	5.34	5.47	5.60
Carbonated soft drink imports, litres mn	14.15	14.78	15.17	15.50	15.85	16.23	16.63
Carbonated soft drink imports, litres mn, % change y-o-y	5.59	4.44	2.65	2.19	2.28	2.38	2.47
Carbonated soft drink balance, litres mn	23.56	26.30	28.46	30.32	32.41	34.67	37.12
Carbonated soft drink balance, litres mn, % change y-o-y	18.71	11.63	8.23	6.51	6.90	6.98	7.07

e/f = BMI estimate/forecast. Source:

Mass Grocery Retail

- Overall mass grocery retail (MGR) sales are forecast to increase at a compound annual average growth rate of 11.1% to 2016.

- The hypermarket sector is expected to witness the strongest growth among the MGR sub-sectors, recording a compound annual average growth rate of 12.2% between 2011 and 2016.

Vietnam continues to be one of the most promising markets for MGR in the Asia Pacific region, and we are continuing to forecast very strong growth rates in what is considered one of the region’s brightest new prospects. Over our forecast period of 2011 to 2016, **BMI** is forecasting that value sales through modern retail outlets in Vietnam will increase by 11.1% on a compound annual average growth basis, with all modern formats present in the country – supermarkets, hypermarkets and convenience stores – contributing to this growth.

There are two primary drivers of this growth forecast. One is Vietnam’s economic development. The country has proved successful at attracting multinational investment in spite of its often-restrictive foreign investment policies and underdeveloped infrastructure. This investment has led to job creation, which in turn has led to the emergence of a new consumer class in the country – in major urban centres at least – which has an interest and can afford to participate in modern consumption methods such as mass grocery retailing.

With Vietnam increasingly becoming one of South East Asia’s top attractions, the country’s increasing tourism levels will also assist the emergence of modern retail, particularly in the convenience sector. Recent government data show that tourism levels increased by 15.5% y-o-y in September 2011, and this continued strength in the tourism sector is expected to provide a strong fillip to domestic retail sales.

Rapid inflows of sector investment also should bolster growth in domestic retail sales. Japanese retailer **AEON** has plans to enter the Vietnamese market by 2013, while **E-Mart** recently inked an agreement with **U&I Investment Corporation** to establish a joint venture in Vietnam with an aim of setting up retail stores in the country. These investments clearly underline the massive potential on offer in the Vietnamese retail sector.

It should also be noted that while multinationals pose a serious threat to local enterprises operating in the attractive urban centres of Hanoi and Ho Chi Minh City, secondary and tertiary towns and cities in outlying provinces could reap considerable benefits from multinational investment. In our view, multinational sector involvement will eventually lead to rapid crowding in Vietnam’s major urban centres, forcing retailers to turn to unexplored regions in search of growth.

Sales through the convenience store format are forecast to experience the slowest growth rate, at 8.7% on compound annual average growth terms to 2016. The main reason behind this relatively modest growth is the format's low starting point, with the concept still very much in its infancy. Accordingly, the demand for convenience, with the pay-off of higher prices, is not yet on the agenda for most consumers; they are still familiarising themselves with the modern format in general. Nevertheless, this subsector can be expected to attract growing interest from retailers, with Japanese convenience retailer **FamilyMart** having recently opened its first outlet in Ho Chi Minh City. The retailer plans to have 300 stores in five years as it looks to capitalise on the city's young and increasingly busy population.

Vietnamese consumers are most familiar with the standard supermarket format, as well as with hypermarkets, owing to its popular combination of both food and non-food items. Therefore, these two formats are set to witness the strongest levels of growth at 11.3% and 12.2%, on compound annual average growth terms, respectively over our forecast period to 2016. In addition, the supermarket and hypermarket formats are set to receive the most attention from new retail investors owing to their greater per-store profitability levels, which will be of vital importance in a market where foreign investment in store openings is still limited.

Singapore MGR operator **NTUC Fairprice** and Vietnam's **Saigon Union of Trading Co-operatives** are two recent examples of companies looking to exploit the high per-store profitability levels in the hypermarket sector. The two companies have recently inked a joint venture agreement to establish a chain of hypermarkets in Vietnam. Given Saigon's local expertise and NTUC's experience in operating hypermarket stores, this is clearly a formidable-looking partnership, and their expansionary activities are likely to place considerable upward pressure on our hypermarket growth forecast for Vietnam.

If there can be a downside in the case of such an impressive retail growth forecast, it comes in the form of Vietnam's majority rural population, which drags down food consumption levels in the market to unattractive levels. The risk for retailers is that as soon as the country's major cities start to become saturated with business opportunities, few other communities exist that can currently support modern retail development. Even the low prices offered by discounters would be unlikely to attract buyers in rural communities, for whom self-sufficiency and wet markets remain the sole methods of consumption. This point is, however, still a long way off. Retailers will invest in Vietnam in line with their own need to expand, confident of the country's economic development and growing consumer base.

Table: Mass Grocery Retail Value Sales by Format – Historical Data & Forecasts

	2010	2011f	2012f	2013f	2014f	2015f	2016f
Supermarkets (VNDbn)	57,060	65,374	75,356	85,590	97,084	109,810	124,291
Hypermarkets (VNDbn)	22,804	26,270	32,054	36,747	41,523	46,691	52,494
Convenience stores (VNDbn)	17,962	19,828	21,992	24,355	26,811	29,631	32,740
Total mass grocery retail sector (VNDbn)	97,826	111,472	129,402	146,691	165,418	186,132	209,525
Total mass grocery retail sector growth, VND, (y-o-y)	25.14	13.95	16.08	13.36	12.77	12.52	12.57
Supermarkets (US$bn)	2.98	3.17	3.70	4.32	5.04	5.86	6.81
Hypermarkets (US$bn)	1.19	1.28	1.57	1.86	2.16	2.49	2.88
Convenience stores (US$bn)	0.94	0.96	1.08	1.23	1.39	1.58	1.79
Total mass grocery retail sector (US$bn)	5.11	5.41	6.35	7.41	8.59	9.93	11.48

e/f = BMI estimate/forecast. Source: Company information, Trade press, BMI

Food

Key Industry Trends And Developments

Consumer-Facing Players Focus On Rural Market Potential

Rural consumers, which generally have lower incomes, have a smaller discretionary appetite for higher-value consumer goods, which has made it tougher for companies such as **Unilever** and **Proctor & Gamble** (P&G) to sell some of their products. Also, weak distribution infrastructure in rural areas frustrates the expansion efforts of consumer goods producers, while the dominance of traditional retail makes it even harder to reach would-be consumers efficiently.

However, these challenges have not deterred several consumer goods manufacturers from setting up shop in the Vietnamese rural consumer market, clearly underlining its immense potential. Fast-growing rural sales at **Masan Consumer**, the largest producer of condiments including fish, soy and chilli sauce and the second biggest producer of instant noodles in Vietnam, has attracted the sights of global private equity firm **Kohlberg Kravis Roberts & Co** (KKR). KKR agreed to acquire a 10% stake in Masan Consumer in April 2011 for US$159mn. As another example, Vietnamese spirits major **Halico**'s expansions in the rural market caught the attention of UK spirits producer **Diageo**, which in March 2011 agreed to acquire a stake of around 24% in Halico for GBP33.0mn (US$53.9mn).

These investments underline the fantastic fundamental long-term growth prospects in the Vietnamese rural market, which ties in nicely with our wider outlook on the country's domestic demand story. Rising income, sector immaturity, the spread of organised retail and a plethora of macroeconomic-driving factors make the Vietnamese consumer goods sector a high-growth prospect, and the rural consumer market will benefit strongly from these dynamics.

According to Tran Vu Hoai, the head of corporate relations for **Unilever Vietnam**, the firm's sales have been growing at an annual average of 18.5% since 2000 to reach US$700mn in 2010, of which rural sales make up about 50%, bearing out strong growth prospects in the rural consumer market. This potential means that multinationals and local consumer goods players have unsurprisingly been keen to position themselves early and will continue expanding in the rural markets in order to reap the exciting rewards on offer. Unilever and P&G are offering some of their products, such as shampoos and fabric softeners, in cheaper small sachets which cost around VND500 (US$0.02), and local confectioner **Pham Nguyen Foods** is providing smaller variants of its chocolate cakes as it looks to familiarise consumers with the company's products. Lowering production costs is another initiative employed by consumer goods manufacturers when tapping into rural consumer demand. Halico, for instance, uses plastic instead of glass for its vodka bottles to cut costs and offer its products at more affordable prices to rural consumers.

Vietnam Figuring Prominently On Food Producers' Radars

Japanese ingredients producer **Ajinomoto** recently announced that it had set up a sales company in Bangladesh in August 2011 to sell seasonings and processed foods to local consumers. This investment forms part of Ajinomoto's broader strategy of growing its footprint across international markets, with a particular focus on emerging markets in the Middle East, Africa and South Asia.

Ajinomoto's overseas expansion is illustrative of the challenging growth prospects of the Japanese food market. Impacted by the March 11 earthquake, tsunami and ensuing nuclear disaster, consumer spending in Japan remains fragile, with high unemployment levels and feeble economic growth suggesting that this weakness is likely to persist for some time. Recent financial results from Ajinomoto mirror this domestic demand weakness, with domestic food product revenues down by 0.3% for the quarter ending June 2011.

Ajinomoto has clearly acknowledged this pressing need to expand abroad. As detailed in its FY2011-2013 medium-term management plan, Ajinomoto plans to increase its overseas profit ratio from a current 59% to 62% by FY2013 and 75% by FY2016 by venturing into new markets such as South Asia while strengthening its market position in existing markets such as Thailand and Vietnam.

Philippines-based fast-food chain **Jollibee** also has big international ambitions. The company, which has 2,338 stores, of which 17.4% are in international markets, aims to increase the proportional contribution of its overseas revenues from a current 20% to 50% within a span of three years. Jollibee operates the fast-food chains Jollibee, Chowking, Greenwich, Red Ribbon and Manong Inasal across the Philippines and in international markets such as China and Vietnam, with overseas sales already making up 20% of its overall revenues.

Given the burgeoning potential in emerging Asian economies on the back of dynamics such as rising consumer affluence, strong economic growth and favourable demographics, Jollibee clearly wants to ramp up its presence in these markets to lock in these exciting opportunities. According to Jollibee's CEO, Tan Caktiong, the company plans to continue strengthening its presence in Vietnam and China while exploring new markets such as the Middle East.

Vietnam's Potential Provides Strong Impetus To Growth

Despite a poor earnings showing in its Australia and New Zealand business division, multinational dairy cooperative **Fonterra** recorded a strong 12.6% growth in its overall profit for the year ending July 2011. This resilience in overall profitability can be attributed to a successful hedging of its foreign exchange exposure and its ability to pass on the inflationary burden to its emerging market consumer base.

While Fonterra generated an increase of 9.8% in its revenues from its Asia, Africa and Middle East division, it recorded an even more impressive growth of 12.0% in its operating income from the region, reflecting the underlying robust demand conditions in these markets. Fonterra delivered double-digit sales growth in the high-growth markets of Sri Lanka, Vietnam, China, Middle East, Malaysia and Thailand on the back of rising consumer demand for higher-value dairy products. Fonterra's improving profitability in its Asia, Africa and Middle East division – even in the face of rising commodity prices – also suggests that the emerging market consumer is in a better shape to accept its price hikes. Moreover, the undeveloped nature of these markets means that they are likely to be less competitive (particularly in relatively sophisticated sectors such as baby nutrition and dairy), and Fonterra is less likely to see its customers shift to other brands even if it hikes its prices aggressively.

Market Overview

Agriculture

Owing to the country's vast population, food security – or the state's desire to be free from reliance on food imports – has always been something of an issue in Vietnam. As a result, the country's agricultural sector has become one of its most important industries and serves as a major employment provider, particularly in rural areas.

Thanks to significant government investment in the sector, agriculture in Vietnam has developed enormously in recent years, and output is now achieving annual growth to the point where the country can meet domestic demand in most areas. In fact, some agricultural sub-sectors have developed to such an extent that surplus produce is becoming available for the export market. This has predominantly occurred in the fields of livestock and fisheries, which are, owing to their potential profitability, the areas that have attracted most private investment in recent years.

However, despite improvements over the review period, Vietnam's agricultural industry still has some way to go if it is to become globally competitive and prove a real stimulant to the country's economy. To help meet this aim, the country is to receive a combined loan of US$110mn from the World Bank and the Asian Development Bank. This will enable Vietnam to start producing and exporting more processed agricultural goods, rather than selling them in their basic forms. Considerable investment in new processing facilities that meet international standards will be needed, while production capacity will also need to be increased to meet the longer-term storage needs of processed foods. Agricultural losses also remain a problem, and we believe a review of harvesting techniques will be needed if the industry is to fulfil its vast potential.

Food Processing

Vietnam's food-processing industry comprises around 260 seafood-processing plants (the country is a major exporter), 24 slaughterhouses and meat-processing plants, 160 beverage plants, 65 fruit- and vegetable-processing plants, 27 plants manufacturing instant noodles, and 23 confectionery manufacturers. Despite a significant proportion of processed food being imported, consumption of imported produce remains fairly low in the country – although it has increased in the main population centres of Ho Chi Minh City and Hanoi.

Overall, the Vietnamese food-processing industry remains largely fragmented and is dominated by relatively small domestic operators. International firms, including companies such as Procter & Gamble and **The Coca-Cola Company**, have had to enter into joint ventures with domestic operators in order to be allowed to operate in the country. This has been enough of a deterrent to prevent significant foreign investment in the country's agribusiness and food-processing industries, and this lack of investment has contributed to the underdevelopment of these industries and their failure to fulfil their full potential.

Food Consumption

In terms of consumption trends, the expansion of modern lifestyles and the rise in disposable incomes – which have accompanied Vietnam's economic growth, particularly in major urban centres – have increased consumer demand for snacks, convenience foods and premium and luxury food items. Domestic food manufacturers are beginning to respond to this trend, albeit slowly, and are increasing the range of ready-to-eat and semi-prepared foods on offer. In addition, domestic food producers are having to confront the penchant for Western consumption habits and brands that is common in Vietnam, particularly among younger and more affluent consumers. The dairy sector in particular has experienced very strong growth in recent years, along with increasing urbanisation and rising incomes. Huge multinational companies have managed to sway consumer preferences with their considerable advertising and promotional power, and domestic firms have to work hard to secure brand loyalty.

Drink

Key Industry Trends And Developments

Coffee Potential Perking Up Sector Investments

Masan Consumer, which is the largest producer of condiments such as fish, soy and chili sauce and the second biggest producer of instant noodles in Vietnam, has recently launched a bid for a 50.1% stake, valued at around VND1.07trn (US$51mn), in the Vietnamese coffee producer **Vinacafe Bien Hoa Joint-Stock Company**. Masan plans to acquire 13.32mn Vinacafe shares for VND80,000 (US$3.84) per share. In our opinion, the very dynamic rewards on offer in the Vietnamese coffee sector and an exciting consumer growth story are likely to have emerged as strong motivations behind Masan’s acquisition.

A very dynamic consumer story continues to take shape in Vietnam, and Masan’s investment clearly underlines its confidence in the country’s consumer outlook. A massive youth population (51.9% of Vietnam’s population is estimated to be younger than 30) underpins a hugely dynamic outlook for consumer-facing players in Vietnam, particularly for consumer goods players targeting the mass-market segment as this demographic group matures over time. This, coupled with low existing per capita food and drink consumption levels, implies that considerable room for growth in the food and drink sectors remains.

As incomes rise in Vietnam, coffee consumption is expected to grow impressively over the coming decade. As people get richer, opportunities at the premium end of the coffee market should strengthen. The younger, more educated generation, in particular, is witnessing a stronger uptake of higher-quality coffee.

By acquiring a controlling stake in Vinacafe, Masan clearly wants to put itself in a strong position to leverage on the exciting demand dynamics in the Vietnamese coffee sector. According to the Vietnam Coffee and Cocoa Association, Vinacafe is the country’s second-largest coffee exporter, and Masan could tap into Vinacafe’s expertise and brand name to grow its presence in the domestic coffee sector. Reflecting Vinacafe’s strength in the Vietnamese coffee sector, the coffee producer consistently grew its revenues over the past five years and recorded impressive 30% compound annual average growth in its headline sales between 2006 and 2010.

Meanwhile, US coffee giant **Starbucks** recently launched its instant coffee brand in Singapore as it looks to build a stronger footprint in the Asia Pacific region. A high growth coffee market that is likely to emerge on Starbucks’ radar is Vietnam. As in China and India, drinking coffee is a growing lifestyle choice in Vietnam, and the rise in incomes of the local youth population will serve to further buoy the demand for premium coffee products. To 2015, we are forecasting a 11.6% compound annual average growth in Vietnamese coffee sales, in volume terms, attracting the sights of Starbucks as it plans to open its first outlet in Vietnam in 2013.

Also looking to capitalise on Vietnam's coffee potential, **Nestlé** plans to increase its coffee sourcing from local farmers in Vietnam and has committed to a new coffee factory in the country. The US$270mn factory will be constructed in the south-east province of Dong Nai and will produce Nescafé-branded products for the domestic and international markets from 2013. The investment, which is expected to create 200 jobs, is part of the company's CHF350mn (US$470.63mn) plan announced in 2010 to increase sustainable coffee farming.

Alcohol And Soft Drinks To Capture Multinationals' Attention

Japanese food and beverage producer **Suntory** has plans to establish a soft drinks joint venture with Indonesian packaged food and beverage firm **GarudaFood** as it looks to tap into the burgeoning soft drinks potential in South East Asia. While the joint venture will help Suntory to secure a firm foothold in Indonesia, even more noteworthy is the possibility of leveraging on the partnership to expand its presence in other high-growth regional markets. On this front, the massive soft drinks potential of Thailand, Vietnam and Malaysia means that these countries are likely to emerge on Suntory's radar in the near-to-medium term.

According to media reports, GarudaFood will transfer its soft drinks business to the joint venture, in which Suntory will own a 51% stake. Suntory plans to invest around JPY10bn (US$126.3mn) in the joint venture. In addition, Suntory will also acquire a 34% stake in **PT Sinar Niaga Sejahtera**, the sales and distribution arm of GarudaFood.

The motivation for Suntory to expand its overseas presence is straightforward: domestic demand continues to stutter along, and it is pivotal for the Japanese firm to secure an early foothold abroad to hedge against the growing maturity of the domestic food and drink sector. Growth opportunities in the Japanese soft drinks sector clearly do not compare favourably to those available in other emerging markets such as Indonesia and Vietnam.

Looking beyond Indonesia, other high-growth markets such as Thailand, Vietnam and Malaysia are likely to attract Suntory's attention. For Thailand and Vietnam, sector immaturity translates into considerable room for growth as consumerism starts to pick up. Malaysia's soft drinks sector is more mature than the soft drinks sectors of Thailand and Vietnam, but we expect a growing shift towards health awareness playing a greater role in fuelling soft drinks demand in the country.

In the Vietnamese alcoholic drinks market, UK spirits giant **Diageo** successfully concluded a public offer for the acquisition of an additional 5.07% stake in Vietnamese spirits major **Hanoi Liquor Joint Stock Company** (Halico) for approximately GBP6.4mn (US$10.5mn) on August 19 2011. The public offer was opened on July 21 2011. Diageo has agreed to buy Halico shares at VND213,600 (US$10.3) a share from shareholders who participated in the offer, allowing it to increase the total stake in Halico to 30%. The firm has previously owned a 24.93% equity stake in Halico by purchasing 18.67% from **VinaCapital** and a further 6.26% from other shareholders through an over-the-counter acquisition. Diageo is now undergoing the clearing procedures for the completion of the transaction.

Market Overview

Soft Drinks

Per capita consumption of soft drinks in Vietnam is low but growing. The soft drinks sector is dominated by multinationals **The Coca-Cola Company** and **PepsiCo**, which jointly command an estimated 88% share of the market. The major focus of the multinationals is on carbonated soft beverages, with small local drinks firms producing other types of drinks and fighting it out for the remaining market share. The largest of the other players is **Saigon Beverages Joint Stock Company** (Tribeco), with an approximate 6% market share.

Smaller drinks companies have had a chance in recent years to win some market share back from the major multinationals owing to the rising interest in healthy drinks, such as teas and juices, in which these local firms specialise. In fact, the competition that these high-growth categories have stimulated has seen investment interest in the soft drinks sector increase in recent months. Most recently, Japanese major **Kirin Beverage** announced plans for a Vietnamese soft drinks joint venture with local noodle producer **Acecook**.

The country’s largest and second largest coffee manufacturers –Vinacafe Bienhoa Joint Stock Company and **Thai Hoa Coffee Corporation** respectively – are leading the investment activity in the coffee sector. Thai Hoa Coffee will invest US$34mn in a processing plant with the capacity to produce 65,000 tonnes of fresh coffee, 100,000 tonnes of dry coffee and 2,000 tonnes of soluble coffee annually. Meanwhile, Vinacafe Bienhoa has constructed a plant capable of supplying 3,200 tonnes of exportable instant coffee. Singapore’s **Jayangti Pte** has also joined the investment activity in the coffee sector, investing US$16.5mn in a factory with the capacity to produce 6,000 tonnes of instant coffee. Vietnamese coffee giant **Trung Nguyen Corporation** is starting work on a US$40mn instant coffee plant, which is expected to have an annual capacity of 60,000 tonnes. Most recently, **Outspan Vietnam Coffee Company**, under Singapore’s **Olam Group**, invested US$50mn opening a coffee plant with an initial annual capacity of 4,000 tonnes before rising to 7,000 tonnes after two years.

Alcoholic Drinks

In the brewery sector, several multinational operators have established joint ventures to avoid being subject to the high import duties on beer. Domestically produced international brands include Heineken, Fosters, Tiger, Carlsberg and San Miguel, with the first three all produced by **Heineken** and **Fraser & Neave**'s Asian joint venture **APB**. The government levies substantial duties on all imported alcoholic beverages, and there are consumption taxes. There is a substantial black market for smuggled products, with the government estimating that a third of spirit sales come from smuggled goods. High taxes have created this smuggling problem, which the government now must work hard to address. Owing to the inherent price sensitivity of Vietnamese consumers, the majority of alcoholic drink products in the country fall at the economy end of the market. However, this is changing gradually – particularly within wealthy urban centres – with the brewing industry a major driver of this slow move towards premiumisation.

A number of foreign players have invested in the Vietnamese market, including the Danish major **Carlsberg** (operating both alone and via a stake in **Habeco**); UK spirits leader Diageo (operating both alone and through a partnership with Halico); the Philippines' **San Miguel Corporation**, which recently announced plans to boost beer production in Vietnam to 1mn hectolitres; Anglo-South African brewing leader **SABMiller** (which recently bought out local partner **Vinamilk**); UK-based **Scottish & Newcastle** (S&N) and its partner **Vinataba** (S&N's Vietnamese operations fell into the hands of Carlsberg after the Danish firm's takeover of the UK brewery and asset split in partnership with Heineken, and Carlsberg has subsequently decided to withdraw from its joint venture with Vinataba); and, most recently, Japan's **Sapporo** through its acquisition of a 65% stake in **Kronenbourg Vietnam**, the Carlsberg and Vinataba 50:50 joint venture. Heineken's Vietnamese operation is controlled through **Vietnam Brewery**, which is majority-owned by the Dutch brewing major and APB. The group's Vietnamese partner is **Saigon Trading Co**. Government privatisations of state-owned brewing companies have given foreign players a chance to increase their market share in Vietnam, and this process is likely to continue in the coming years.

Despite the growing presence of multinationals in the market, local firms continue to dominate; state-backed brewers Sabeco and Habeco control an impressive 34% and 19% of the local beer market respectively.

Mass Grocery Retail

Key Industry Trends And Developments

Retail Opportunities Within Sights Of Regional Players

South Korean retailer **Lotte** clearly has its sights set on overseas markets; it now has 107 outlets outside South Korea as a result of an aggressive expansion drive, with 82 based in China, 23 in Indonesia and two in Vietnam. Looking to further expand its footprint in these high-growth mass grocery retail (MGR) markets, Lotte plans to open more than 200 stores in the country by 2018 as well as set up more outlets in Vietnam and Indonesia in H211.

Lotte is not alone in pursuing opportunities abroad. Domestic retailer **E-Mart**, which is owned by **Shinsegae**, recently inked an agreement with **U&I Investment Corporation** to establish a joint venture in Vietnam with an aim of setting up retail stores in the country. The relative immaturity of MGR sectors in these emerging markets translates into much stronger scope for growth than in South Korea over the long run, and these high-growth markets will continue to figure prominently on the radars of South Korean retailers.

Japanese retailer **AEON** will invest JPY200bn (US$2.49bn) by 2013 to expand its business footprints in Asia, including in China, Malaysia and Vietnam. AEON will introduce a convenience store chain called Ministop in Ho Chi Minh City in Vietnam, and also plans to set up a shopping mall by 2013. The retailer's store formats include shopping malls, convenience stores and small supermarkets.

Singapore MGR operator **NTUC Fairprice** also has concrete plans to expand in Vietnam and has inked a joint venture agreement with Vietnam's **Saigon Union of Trading Co-operatives** to establish a chain of hypermarkets in Vietnam. Given Saigon's local expertise and NTUC's experience in operating hypermarket stores, this is clearly a formidable-looking partnership, and their expansionary activities are likely to place considerable upward pressure on our hypermarket growth forecast for Vietnam.

This follows Japanese convenience retailer **FamilyMart** announcing plans to focus on its Asian operations outside of Japan, with a concentration on Vietnam and China, in order to reduce its reliance on its stagnant domestic market. The company, which operates one outlet in Vietnam, is aiming to launch five more stores in Ho Chi Minh City in the near term and expand its Vietnamese network to 300 outlets in five years.

Retailers Scouting For New Retail Locations

Pockets of wealth in less-urbanised areas are beginning to attract the attention of foreign retailers. Stretching its retailing footprint beyond the big cities, where it is already enjoying rapid growth, French retailer **Groupe Casino** has opened its 14th Vietnamese outlet in the city of Nam Dinh and hopes to replicate its urban success in the smaller provinces and cities. German retailer **Metro Cash & Carry** is also looking further afield for strong growth opportunities by opening distribution centres in the provinces of Binh Dinh, An Giang and Binh Duong, as well as in the southern city of Vung Tau.

Domestic retailers do not intend to let these massive growth opportunities pass them by. Interestingly, domestic retailers have sought partnerships with foreign retailers in expanding their retail reach rather than going it alone. A recent example would be **Trung Nguyen Group**'s partnership with Japanese retailer AEON's convenience subsidiary **Ministop** to develop a convenience store chain in Vietnam.

This strategy can be linked to the capital springboard and expertise provided by foreign retailers. By linking up with a financially powerful, expansion-oriented foreign retailer, domestic retailers should find themselves in a stronger position to contend with growing competition from big multinational retailers.

For now, traditional retail stores will continue to dominate Vietnam's retail landscape. Eventually, however, retailers could find it increasingly difficult to expand their networks in big cities, which are witnessing rapid crowding. Such a scenario would, in turn, prompt retailers to turn to under-retailed areas in search of future growth, encouraging the spread of modern retail across the country.

Immense Retail Growth Sparks Speculation

UK retail leader **Tesco** has stayed silent on speculation that it is considering a foray into the Vietnamese retail market. Growing organically in Asia remains a keystone in Tesco's wider emerging market strategy, and we would not be surprised if Vietnam were to emerge on the retailer's long-term radar. Tesco's rumoured entry is not the only piece of speculation to arise from the market's undoubted potential.

South Korean retailer Lotte has denied news published by the JoongAng Ilbo newspaper regarding its plans to acquire Vietnam-based retailer **Maximark**. According to the newspaper, the company was in talks to acquire the local supermarket chain; however, Lotte representatives said Maximark does not have any intentions of divesting its Vietnamese operations. Lotte is looking to expand its footprint outside South Korea, planning to open more outlets in Vietnam and Indonesia in H211.

Market Overview

Over the past five years, an increasing presence of supermarkets and shopping centres has been gradually eroding the traditionally dominant position of open-air markets in urban areas. Modern MGR outlets are now concentrated around Vietnam's major urban centres. The vast majority of these outlets are found in and around the main urban centres of Hanoi and Ho Chi Minh City, although modern retail outlets are increasingly appearing in smaller central towns and cities.

Convenience stores in Vietnam are generally larger than those in Western Europe or the US and stock a wider range of goods in order to fully cater for areas that do not have the scale to warrant a large supermarket outlet. In rural areas of the country, open-air markets continue to dominate, although this can be expected to change as modern retail formats become more commonplace and this acceptance spreads to the provinces.

Unlike many markets in the region, the Vietnamese authorities initially encouraged the entry of modern retailers rather than viewing them as a threat to traditional operators. In Hanoi, city authorities have actively encouraged supermarket expansion as a means of modernising lifestyles and progressing towards a fully functioning market economy. However, as cities have started to get more crowded, with the market share of traditional retailers suffering accordingly, there have been signs that the government is backtracking slightly on this open policy. In line with the country's WTO accession, the Vietnamese government now looks like it will have to allow foreign investment in order to stimulate modernisation and job creation while at the same time employing restrictions to protect its traditional retail sector.

Owing to the growing demands of customers in Vietnam, supermarkets are increasingly providing a wider variety of products. Demand for a wide range of produce and a certain standard of product has risen in line with disposable incomes, which have in turn increased in line with improvements in the economy. Food products such as fresh meat and vegetables, ready-to-cook meals and snack foods are sold alongside non-food product lines, including toys, gifts and electrical appliances, in supermarkets and hypermarkets. In fact, MGR outlets in Vietnam focus more on non-food items than similar stores in the Western world. Daily food items are still, for the most part, purchased from markets. Accordingly, for the time being, stores are better off giving more floor space to profitable non-food items. If they are to effectively erode the market share of traditional retail, however, this focus will have to change and they will need to compete directly in terms of stocking the sorts of foods available in markets – namely fresh food produce – at low prices.

In addition to open-air markets and modern MGR outlets, there are also a large number of small, independently operated grocery store chains. The most significant of these operators include **Western Canned Food**, **Kim Thanh**, **Food Stuff Shop** and **Hanoi Star**. International operators within the sector include Germany's **Metro**, France's **Vindémia** (now wholly owned by Casino), Japan's **Seiyu** and, most recently, Hong Kong's **Dairy Farm**. In addition to the above, speculation continues to grow concerning the possible entry of some of the world's leading multinational retailers. The UK's Tesco, France's **Carrefour** and US-based **Walmart** have all been linked with a possible market entry and, in preparation for this, leading local retailers have started to form associations in order to strengthen their buying and distribution power and, in turn, their ability to compete.

France's **Casino** is already present with its **Big C** chain, and has been present in the Vietnamese market for more than 10 years, having opened its first hypermarket in Dong Nai in 1998. It has now established outlets in Ha Noi, Hai Phong, Hue, Da Nang, Bien Hoa and Ho Chi Minh City. Japan's FamilyMart also recently entered the market with the opening of its first outlet in Ho Chi Minh City. The company has ambitious expansion plans aiming to increase its Vietnamese network by opening a total of 300 outlets in five years.

Table: Structure Of Vietnam's Mass Grocery Retail Market By Estimated Number Of Outlets

	2003	2004	2005	2006	2007	2008	2009	2010
Supermarkets	1,640	1,700	1800	1,915	2,030	2,165	2,181	2,297
Hypermarkets	185	193	200	212	221	230	235	250
Convenience stores	895	920	930	955	989	1038	1050	1137
Total MGR outlets	2,720	2,813	2930	3,082	3,240	3,433	3,466	3,684

Source: General Statistics Office, Company figures, BMI

Table: Structure Of Vietnam's Mass Grocery Retail Market – Sales Value By Format (US$bn)

	2003	2004	2005	2006	2007	2008	2009	2010
Supermarkets	1.38	1.50	1.72	2.02	2.29	2.60	2.53	2.98
Hypermarkets	0.39	0.46	0.57	0.76	0.91	1.02	1.01	1.19
Convenience stores	0.47	0.54	0.62	0.75	0.82	0.89	0.85	0.94
Total MGR sales	2.23	2.49	2.91	3.53	4.02	4.51	4.39	5.11

Source: General Statistics Office, BMI

Table: Structure Of Vietnam's Mass Grocery Retail Market – Sales Value By Format (VNDbn)

	2003	2004	2005	2006	2007	2008	2009	2010
Supermarkets	21,339	23,579	27,203	32,260	36,865	42,714	44,972	57,060
Hypermarkets	6,058	7,191	9,008	12,145	14,600	16,835	18,021	22,804
Convenience stores	7,245	8,439	9,856	11,997	13,211	14,677	15,181	17,962
Total MGR sales	34,642	39,209	46,068	56,402	64,676	74,226	78,175	97,826

e = BMI estimate. Source: General Statistics Office, BMI

Table: Average Sales Per Outlet By Format – 2010

	US$mn	VNDbn
Supermarket	1.30	24.84
Hypermarket	4.77	91.22
Convenience store	0.83	15.80
Total MGR	1.39	26.55

Source: BMI

Table: Grocery Retail Sales By Format – Historical Data & Forecasts (%)

	2011	2020f
Organised/MGR	15	28
Non-organised/Independent	85	72

f = BMI forecast; Source: BMI Research

Competitive Landscape

Table: Key Players in Vietnam's Food Sector

Company	Sub-sector	Sales (VNDbn)	Sales (US$mn)	Year-Ending	Employees	Year Established
Unilever Vietnam	Food and beverages	EUR17.7bn*	24,774.9	Dec-10	5,500	1995
Nestle Vietnam	Food and beverages	CHF7.8bn**	9,354.0	Dec-10	na	1995
Masan Consumer	Food – Instant noodles, sauces	5,690	273.1	Dec-10	5,079	1996
Vissan Import Export Corporation	Food – Meat	na	125.0e	2010	2,500	1974
San Miguel Purefoods Vietnam	Food and beverages – Miscellaneous	na	100.0e	2010	na	na
Sao Ta Foods Joint Stock Company	Food – Seafood	1,470	70.6	Dec-10	na	1996
Nam Viet Corporation	Food – Seafood	1,432	68.7	Dec-10	na	1993
Bibica Corp	Food – Confectionery	787.8	37.8	Dec-10	1,305	1999
Halong Canned Food Joint Stock Company	Food – Canned seafood, meat, fruit & vegetables	533	25.6	Dec-10	1,070	1957
Hanoi Milk Joint Stock Company	Food and beverages – Dairy	326	15.6	Dec-10	na	2001

e = BMI estimate, na = not available. Source: BMI, Trade press, Company corporate data

Table: Key Players in Vietnam's Drink Sector

Company	Sub-sector	Sales (VNDbn)	Sales (US$mn)	Year-Ending	Employees	Year Established
Sabeco	Beverages – Alcoholic	16,714	802.3	Dec-10	na	na
Vinamilk	Beverages – Dairy	16,081	771.9	Dec-10	3,000	1976
Unilever Vietnam	Food and beverages	EUR17.7bn*	24,774.9	Dec-10	5,500	1995
Nestle Vietnam	Food and beverages	CHF7.8bn**	9,354.0	Dec-10	na	1995
Coca-Cola Vietnam	Beverages – Soft drinks	na	175.0e	2010	1,182	1994
Habeco	Beverages – Alcoholic	3,266	156.8	Dec-10	na	na
Vietnam Brewery Ltd	Beverages – Alcoholic	na	150.0e	2010	500	1991
Pepsi-IBC Vietnam	Beverages – Soft drinks	na	140.0e	2010	na	1991
Trung Nguyen Corp	Beverages – Coffee	na	125.0e	2010	na	1996
San Miguel Purefoods Vietnam	Food and beverages – Miscellaneous	na	100.0e	2010	na	na
Saigon Beverages Joint Stock Company (Tribeco)	Beverages – Soft drinks	678	32.5	Dec-10	1,074	1992
Vinacafe Bienhoa Joint Stock Company	Beverages – hot drinks	na	30.0e	2010	na	1969
Tan Hiep Phat Group	Beverages – Alcoholic & Soft drinks	na	25.0e	2010	2,000	1994
Hanoi Milk Joint Stock Company	Food and beverages – Dairy	326	15.6	Dec-10	na	2001

*e = BMI estimate, na = not available. *Sales from Asia, Africa and Central and Eastern Europe, **Sales from Other Asian Markets. Source: BMI, Trade press, Company corporate data*

Table: Key Players in Vietnam's Mass Grocery Retail Sector

Parent Company	Country of Origin	Sales (VND bn)	Sales (US$mn)	Financial Year Ending	Fascias	Format	Outlets In Vietnam	Established
Saigon Co-op	Vietnam	11,500e	552e	December 2010	Co-op Mart	Supermarkets	50	1989
					Co-op	Convenience stores	90	
					Co-op Food	Convenience stores	17	
Metro Cash & Carry Vietnam	Germany/ Vietnam	EUR 2.5bn*	3,622	December 2010	Metro	Cash & Carry	17	2002
CP Group	Thailand/ Vietnam	THB 720bne	23,880e	2010	FreshMart	Convenience stores	120	na
Groupe Casino	France/ Vietnam	EUR 11.1bn***	15,581	December 2010	Big C	Hypermarkets	9	1998
Hanoi Trade Corporation	Vietnam	6,600 e	316.8e	December 2010	Hapro	Supermarkets	50	na
					Hapro	Convenience stores	700	
Vietnam National Textile And Garment Group	Vietnam	na	20e	2010	Vinatex-mart	Supermarkets	58	na
Saigon Trading Corporation	Vietnam	na	13e	2010	Saigon	Supermarkets	12	1995
Dairy Farm International Holdings	Vietnam	na	2,395.8**	December 2010	Wellcome/ Citimart	Supermarkets	3	na
Intimex Hanoi	Vietnam	na	9e	2010	Intimex	Supermarkets	14	1979
An Phong Company	Vietnam	na	3e	2010	Maximark	Supermarkets	11	na
Seiyu	Japan/ Vietnam	na	2e	2010	Seiyu	Supermarkets	1	na

*na = not available, e = estimate, *Asia/Africa sales ** East Asia regional sales, ***International Sales, Source: Company Financials, Trade press, BMI*

Company Monitor

Food

Unilever Vietnam

Company Overview	Unilever Vietnam is a wholly owned subsidiary of Anglo-Dutch fast-moving consumer goods leader Unilever. The parent took full control of the subsidiary in mid-2009, buying the 33.3% stake it did not already own from its local partner. By far the largest section of Unilever's portfolio in Vietnam is accounted for by personal care products; the company also has a large number of homecare brands. Its presence in the food sector is relatively smaller than that of its other consumer products, but it does have some notable brands in Knorr, Lipton and Wall's.
Strengths	▪ Strong brand appeal facilitates reach to Vietnamese consumers. ▪ Diverse product portfolio with multiple price entry points allows Unilever Vietnam to capitalise on varying demand from different income groups. ▪ Complete ownership of its local subsidiary means full operational control. ▪ Focus on affordability ensures access to a wide lower income consumer base.
Weaknesses	▪ Limited food product offerings as compared to the other food and drink multinationals limit further sales opportunities. ▪ The absence of a local partner could impact its ability to respond to changing local taste preferences.
Opportunities	▪ Urbanisation and middle-class growth could dramatically increase Unilever Vietnam's existing consumer base. ▪ Rising incomes could increase demand for non-essential consumer items. ▪ Relative sector immaturity provides massive long-term growth opportunities for Unilever Vietnam. ▪ Vietnam's favourable demographic profile is well-suited to Unilever's fast-moving consumer goods portfolio.
Threats	▪ Not a problem for non-perishable personal care items, food expansion may necessitate further supply chain investment due to underdeveloped infrastructure. ▪ Increased competition from rival multinationals and expansionary local and regional players could undermine the company's strong market share position. ▪ Input cost volatility cannot easily be passed on in such a price-sensitive environment.
Strategy	Reaching out to the Vietnamese rural consumer base has not been particularly easy for consumer goods manufacturers, both local and multinational. Lower income, rural consumers have a smaller discretionary appetite for higher-value consumer goods, which has made it tougher for Unilever to sell some of its products. In the rural areas, weak distribution infrastructure frustrates the expansion efforts of consumer goods producers, while the dominance of traditional retail makes it even harder to reach would-be consumers efficiently. However, these challenges have not deterred Unilever from setting up shop in the

Vietnamese rural consumer market, clearly underlining the immense potential in this market. Rising income, sector immaturity, the spread of organised retail and a plethora of macroeconomic-driving factors make the Vietnamese consumer goods sector a high-growth prospect, and the rural consumer market will benefit strongly from these dynamics. According to Tran Vu Hoai, the head of corporate relations for Unilever Vietnam, the firm's sales have been growing at an annual average of 18.5% over the past decade to reach US$700mn in 2010, of which rural sales make up about 50%, bearing out strong growth prospects in the rural consumer market.

These dynamics mean that multinationals and local consumer goods players have unsurprisingly been keen to position themselves early and will continue expanding in the rural markets in order to reap the exciting rewards on offer. Unilever is offering some of its products such as shampoos and fabric softeners in cheaper small sachets, which cost around VND500 (US$0.02) as it looks to familiarise consumers with its products.

Company Data

Unilever does not publish country-specific performance data. Vietnam is included within the Asia, Africa and Central & Eastern Europe operating region.

- Estimated local sales: US$650mn

Asia, Africa and Central & Eastern Europe Revenue

- 2010: EUR17.69bn
- 2009: EUR14.90bn
- 2008: EUR14.47bn
- 2007: EUR13.42bn

Asia, Africa and Central & Eastern Europe Operating Income

- 2010: EUR2.25bn
- 2009: EUR1.93bn
- 2008: EUR1.70bn
- 2007: EUR1.71bn

Nestlé Vietnam

Company Overview	Nestlé Vietnam is a wholly owned subsidiary of Swiss food and beverage major Nestlé. The subsidiary domestically manufacturers beverages, dairy products, prepared meals and cooking ingredients in three Vietnamese production plants. The company also distributes pharmaceuticals in Vietnam, although it imports rather than domestically manufactures these goods. In terms of food and beverage brands, the company markets Nescafé, La Vie, Gau, Milo, Nestea and Maggi in Vietnam.
Strengths	▪ Strong brand appeal facilitates reach to young, aspirational Vietnamese consumers. ▪ Strong price proposition will appeal to emerging consumers. ▪ Health and wellness commitment should appeal to an increasingly affluent middle class.
Weaknesses	▪ Despite a growing commitment to South East Asia, Vietnam has received relatively less investment from the parent company than other neighbouring economies. ▪ Domestic and multinational competition is high, even in this fragmented marketplace, and Nestlé Vietnam will have to continue pouring in capital investments to secure its market share.
Opportunities	▪ High birth rates create strong sales opportunities for Nestlé's infant nutrition products. ▪ Urbanisation and middle-class growth could dramatically increase Nestlé Vietnam's existing consumer base. ▪ Rising incomes could increase demand for non-essential consumer items. ▪ Relative sector immaturity provides massive long-term growth opportunities for Nestlé Vietnam.
Threats	▪ Further expansion in Nestlé's core dairy sector will necessitate significant supply chain investments to improve distribution infrastructure. ▪ Input cost volatility cannot easily be passed on in such a price-sensitive environment.
Strategy	Given Nestlé's enormous global product portfolio, its Vietnamese product offerings are fairly limited. Interestingly, the company appears to have a dual-pronged growth strategy, of which aspects might appear incompatible but which have propelled it to one of the country's leading consumer goods players. It emphasises product value, engaging in price promotions in an effort to build customer loyalty among Vietnamese consumers. Avoiding economy positioning, Nestlé Vietnam is also pushing the health and wellness credentials that the company promotes globally. With discretionary spending still limited among much of Vietnamese society, necessity remains a far more important purchasing determinant than health. However, by combining its health push with its value positioning, Nestlé is developing a long-term strategy that should appeal to both Vietnam's increasingly affluent middle classes (via the health push) and its emerging consumer base (via the value push). While this reflects the company's midterm Vietnamese strategy, Nestlé has given an indication that it may review its product portfolio in a number of emerging markets where rising commodity costs are threatening margins and where a price-sensitive environment makes these costs harder to pass on to consumers. With a lack of higher-margin premium products in Vietnam, the market could be the subject of a review. Whether this will result in

a reduction in portfolio size is as yet unclear.

Company Data

Nestlé does not post country-specific performance data for Vietnam. Vietnam resides within its Zone Asia, Oceania and Africa operating region, under the Other Asian Markets division.

- Estimated local sales: US$550mn

Other Asian Markets Revenue

- 2010: CHF7.80bn
- 2009: CHF6.89bn
- 2008: CHF6.64bn

Masan Consumer

Company Overview

Masan Consumer, formerly Masan Food (a name change which reflects its desire to diversify into a wider range of consumer products) is part of Masan Group, a company that is engaged in financial services via its Techcombank arm. The company is a leading producer of instant noodles and sauces, including soy sauce, fish sauce and chilli sauce. A branded food specialist, its key brand names include Nam Ngu, Chin-Su, Tam Thai Tu and Omachi. The company controls 74% of the domestic fish sauce market, 80% of the Vietnamese soy sauce market and 40% of the local premium instant noodles market.

Strengths

- A nationwide distribution network gives Masan rare access to both of the country's high-spending urban centres and the rural, low-spending population.
- Established strong brands are a significant advantage in the current regional environment of food hygiene and safety scares.
- Investment from a leading private equity fund should provide capital for expansion.
- Its increasingly diversified product portfolio caters specifically to local tastes.

Weaknesses

- Local consumers generally do not exhibit strong brand loyalty or a preference for Vietnamese products.
- Domestic and multinational competition is high, even in this fragmented marketplace, and Masan will have to continue pouring in capital investments to secure its market share.

Opportunities

- A young and fast-growing population represents a receptive audience for branded foods.
- Further product development in perceived healthy and innovative product channels is a long-term opportunity, even if the audience for such goods is currently small.
- Masan has received investments from a number of multinationals, providing funds for future expansions, product launches and marketing campaigns.
- The company has confirmed that it may consider mergers and acquisitions as a means of accelerating growth.
- Product diversification will help secure new avenues of growth.

Threats

- Despite having an established nationwide distribution network, the movement of goods remains a problem given the country's underdeveloped infrastructure.
- The arrival of multinationals, with an emphasis on branded food sales, will jeopardise Masan's market share.
- Elevated input costs could threaten margins, with these difficult to pass on to consumers in what remains a price sensitive environment.
- Recent monetary tightening measures could reduce discretionary spending, with demand for branded food and beverages to suffer.

Strategy

Masan has been a key local player in terms of Vietnam's transition from non-branded to branded foodstuffs. If it is to maintain healthy growth rates in the long term, it may also have to look to further portfolio diversification. Increased investment from international food and drink companies, with powerhouse brands and immense marketing resources, will create additional competitive pressure for Masan. Yet the company does have the advantage of an existing distribution reach and an established domestic name.

Masan will not sit on its position, and its latest capital investment will help facilitate its move into non-food consumer products, including beverages, home and personal care. To aid its transition to a more diversified company, Masan will seek to establish umbrella brands, thus leveraging its existing strong brand name. This is an advisable strategy if under pressure from Western powerhouse brands. The company is also likely to pursue increased manufacturing efficiency, a priority that must be balanced against expansionary investments during such a period of volatile input costs.

Demonstrating its diversification ambitions, Masan has launched a bid for a 50.1% stake, valued at around VND1.07trn (US$51mn), in the Vietnamese coffee producer Vinacafe Bien Hoa Joint-Stock Company. Masan plans to acquire 13.32mn Vinacafe shares for VND80,000 (US$3.84) per share. In our opinion, the very dynamic rewards on offer in the Vietnamese coffee sector and an exciting consumer growth story are likely to have emerged as strong motivations behind Masan's acquisition.

A very dynamic consumer story continues to take shape in Vietnam, and Masan's investment clearly underlines its confidence in the country's consumer outlook. By acquiring a controlling stake in Vinacafe, Masan clearly wants to put itself in a strong position to leverage on the exciting demand dynamics in the Vietnamese coffee sector. According to Vietnam Coffee and Cocoa Association, Vinacafe is the country's second-largest coffee exporter, and Masan could tap on Vinacafe's expertise and brand name to grow its presence in the domestic coffee sector.

Looking ahead, the backing of an expansion-oriented private equity player Kohlberg Kravis Roberts & Co (KKR) should continue to prove very supportive of Masan's expansion plans beyond the processed food sectors into other consumer goods products. Earlier in April, KKR acquired a 10% stake in Masan for US$159mn as it looks to leverage off Vietnam's private consumption boom. Given KKR's growing appetite for emerging market-based assets, we believe it will continue to commit significant sums of investment in expanding Masan's domestic scale. Closely following KKR's injection of equity capital into Masan, the latter announced that it has a war chest of as much as US$500mn to pursue acquisitional growth, which should leave Masan increasingly well-placed to reap the attractive rewards on offer in Vietnam.

Company Data

- 2010 Revenue: VND5,690bn
- 2009 Revenue: VND3,958bn
- 2010 EBITDA: VND1,425bn
- 2009 EBITDA: VND715bn
- 2010 Net Income: VND1,253bn
- 2009 Net Income: VND669bn

Vietnam Dairy Products Joint Stock Company (Vinamilk)

Company Overview	Vinamilk is the market leader in Vietnam's dairy industry. It produces more than 200 dairy products for domestic sale and for export. The company recently released more of its state-owned equity in order to reduce the state's share to 50% and qualify for stock-market listing. Vinamilk controls an estimated 75% of the high-growth Vietnamese dairy market.

Strengths

- A market-leading dairy brand name which dominates sales in this high-growth channel.
- A diverse product range and a large export division allow Vinamilk to offset downturns in one category with an improved performance elsewhere.
- Benefiting from soaring demand for both primary and processed dairy products in the fast-growing local economy.

Weaknesses

- Competition from international investors is intense, and Vinamilk will have to keep up its expansionary activities in order to secure its market share.
- Reliance on Vietnam, which is characterised by a vast low-income rural population, means that Vinamilk faces a limited audience size for fresh dairy.
- Vinamilk still faces raw material shortages, importing more than 70% of its raw material from abroad, and this places it highly exposed to commodity price volatility.

Opportunities

- In urban centres, processed dairy products represent a high-value, high-margin channel.
- Dairy consumption at the mass-market level is experiencing high single-digit growth annually.
- Experience in the emerging Vietnamese market should increase Vinamilk's chances of success when exporting to other emerging South East Asian markets.
- Increasing product diversification, such as with instant coffee, will allow the company to benefit from strong forecast growth in the other food and drink subsectors.
- Vinamilk's recent investments in domestic capacity expansions and in New Zealand's Miraka will allow it to ease current supply shortages.

Threats

- Vietnam's weak distribution infrastructure reduces sales opportunities for perishable, high-value dairy products.
- Vinamilk considers itself disadvantaged by the strength of international brand names, and their prevalence will only increase going forward.
- Elevated commodity costs threaten profitability, particularly with regard to mass-market primary products.

Strategy

To exploit the rewards on offer in the Vietnamese dairy sector, Vinamilk started construction on a US$120mn milk factory in the southern Binh Duong province in late 2010. We are maintaining our upbeat assessment of the growth prospects of Vietnam's dairy sector on the back of the country's favourable demographics.

We believe Vinamilk's expansion will allow Vietnam to reduce its import dependency gradually over the long term. The new factory will have a capacity of 400mn litres of milk per year when it becomes operational in 2012 and is expected to double its capacity by 2017. The company is also planning to increase its stock of milk cows to 80,000, which will allow it to boost its milk supply by 1.3mn litres a day.

While we are largely positive on the outlook for Vietnam's dairy sector, we do see certain risks limiting the scope for long-term growth in the dairy industry. In the wake of the melamine contamination scandal in China, Vietnam's lack of a national quality-control body for dairy products continues to weigh on consumer confidence and domestic demand for dairy products, and the poor quality of the country's dairy products (the majority of domestically produced dairy products have lower-than-advertised protein levels) deters consumers from drinking locally produced fluid milk. In view of this, we expect Vinamilk to continue ramping up investments in marketing and branding initiatives to improve consumer confidence in its dairy brands.

Due to the perishable nature of dairy goods, Vietnam's underdeveloped distribution infrastructure remains a key challenge for dairy industry players. The inaccessibility of rural areas coupled with a low ownership of white goods among rural communities will continue to limit the growth prospects of the country's dairy sector.

Company Data

Revenue

- 2010: VND16,081bn
- 2009: VND10,820bn
- 2008: VND8,381bn
- 2007: VND6,675bn
- 2006: VND6,289bn

Net Profit

- 2010: VND3,616bn
- 2009: VND2,376bn
- 2008: VND1,249bn
- 2007: VND963bn
- 2006: VND660bn

San Miguel Pure Foods Vietnam Co Ltd

Company Overview	Pure Foods is a leading Vietnamese food and beverage company and is part of the Philippines-based San Miguel Corporation, which owns 97% of the company. In 2003, Pure Foods acquired a pig-farming and feeding-mill facility from Taiwan Tea Corporation. It was the food division's first acquisition, and feeds now contribute around 15% to group revenue. In Vietnam, 80% of the unit's output is used directly by the business, while the remainder is sold to customers within Vietnam. As well as feed, the unit produces and distributes Le Gourmet processed meat products.
Strengths	▪ San Miguel is a hugely important regional food company and thus a highly influential parent company. ▪ The company has a strong tradition in health food production, which stands it in good stead as the global health trend catches up with emerging Asia.
Weaknesses	▪ Questions have been raised about Pure Foods' ability to balance meat farming, feeds and branded food operations, with product focus tending to be the industry buzzword during this period of high operating costs. ▪ The company has faced significant negative publicity in recent years, with accusations that its plant has caused serious environmental and health concerns.
Opportunities	▪ High feed prices should help to supplement Pure Foods' profits for as long as grain demand from the alternative energy sector remains strong. ▪ Branded consumer food products represent an important long-term growth channel for the company. ▪ Processed meat products, which meet the emerging demand for convenience, should prove the next logical step for Pure Foods.
Threats	▪ Regional food hygiene scares have served to undermine consumer confidence in local meat producers. ▪ Growing competition from international food manufacturers could undermine any competitive advantage Pure Foods possesses from being a regional player. ▪ Just as higher animal feed costs will benefit Pure Foods in its feed division, they could make life more challenging in the company's meat-farming sector.

Strategy

Pure Foods is focused on increasing revenues and improving profit margins by boosting operating efficiencies across all divisions. Accordingly, it embraces and attempts to use the most up-to-date technologies in its business activities. In terms of specific strategies, the company intends to increase the size of its hog farm by 19%, after the division contributed significantly to profits. The company has recently opened five Monterey Meatshops in southern Vietnam. Three are in major supermarkets in Ho Chi Minh City, with the remaining two in Binh Duong.

Pure Foods Filipino parent company San Miguel is now looking to sell up to 49% of Pure Foods in order to finance its diversification into other sectors. Such a capital injection could benefit the Vietnamese subsidiary. The parent's diversification strategy has meant that Pure Foods has not received significant expansionary investments in recent years and a renewed focus, triggered by a new partner, could accelerate revenue growth for the Vietnamese unit.

Company Data

San Miguel Corporation does not publish financial data at a country-level

- 2010 Vietnam revenue estimate: US$100mn

Drink

Hanoi Beer Alcohol Beverage Corp (Habeco)

Company Overview

Habeco is a major Vietnamese brewer and dominates sales in the north of the country, particularly in the increasingly affluent city of Hanoi. In early 2007, Carlsberg acquired a 10% stake in the company and in September 2009 increased its holding to 30%, making it Habeco's largest single strategic investor. The firm has a focus on economy brands, which has helped the firm ward off international competition and delivered sustained growth. The firm is also positioning itself for growth in the spirits markets. In 2008, through its subsidiary Hanoi Liquor Joint Stock Company (Halico), the firm entered into a joint venture with UK-based spirits leader Diageo, the world's largest spirits company. The two companies have joined forces to expand within what remains a fledgling branded spirits industry and to exploit the strong growth potential that exists in the market.

Strengths

- Habeco is already looking towards regional expansion, profitable partnerships and premium brands.
- Dominance in what is perceived as one of the world's highest-potential beer markets provides strong growth potential.
- Its economy-heavy portfolio means that Habeco brands tend to perform well even during periods of low consumer confidence.

Weaknesses

- In 2008, Habeco postponed its scheduled IPO due to challenging trading conditions in the local market. Volatile local stock market conditions continue to restrict access to new capital from this source.
- Relatively weaker dominance in the more affluent southern part of Vietnam limits the potential for stronger revenue growth.
- Focus on economy segment could eventually prove an impediment to growth as incomes increase.

Opportunities

- Vietnam's proximity to the dynamic frontier beer markets of Laos, Cambodia and Myanmar offer up huge opportunities for regional expansion.
- Vietnam's beer market has grown at a rapid pace, supported by economic growth, rising tourism and favourable age demographics.
- Increasingly close relationship with Carlsberg should facilitate wider distribution and synergies.
- We recently revised up our beer consumption growth forecast for 2011, highlighting the extent of the short-term opportunity on offer.

Threats

- Competition in the sector continues to intensify as multinationals seek out the few truly explosive growth opportunities that remain in the regional beer market.
- The expansion pace of the market leaders has raised concerns that the beer industry is now oversupplied, particularly when one considers that much of the country still lives in poverty.
- Sabeco has reportedly attracted the attention of US giant Anheuser-Busch InBev. A takeover would likely lead to an increase in investment and hence competition.

Strategy

The benefits of Carlsberg's acquisition have been substantial for Habeco. The local firm now has access to a number of popular Western beer brands, and while these are for now beyond the financial reach of the average Vietnamese consumer, this is slowly changing in line with the country's sustained growth. As well as the share sale, the two companies are now expected to cooperate in other key business areas, perhaps marketing and distribution, to effectively combine their respective expertise.

Faced with multinational competition in recent years, Habeco has focused closely on its competitive strengths. The company has continued to pursue growth in the Bia Hoi segment; this low margin but high volume keg-only product now accounts for 40% of its total sales. The unique distribution challenges of Bia Hoi – it is sold in the Hanoi area's street cafés, typically to lower income consumers – has kept international players out of this segment and given local players some breathing space. In extending its relationship with Carlsberg, Habeco is expressing an interest in widening its own product portfolio and looking for ways to improve margins.

Carlsberg and Habeco together control around 33% of Vietnam's beer market, putting them even with Sabeco, which dominates in the higher-spending south. Together, the two partners will be optimistic about achieving market leadership, after which wider regional growth is likely to become a priority, with the attractive frontier markets of Laos, Cambodia and Myanmar on the doorstep. Habeco will be looking to leverage the expertise of new shareholder Carlsberg to increase distribution beyond its northern stronghold and to add new brands to its portfolio to support the popular Hanoi Beer and Halida brands.

Habeco's strategy of playing to its strengths while leveraging off of an international partner to increase distribution and boost its premium profile served it well in 2010. Producing 600mn litres of beer, the company exceeded its production growth target of 588mn litres for the year.

Company Data

- 2010 Revenue: VND3,266bn

Saigon Beer Alcohol and Beverage Corporation (Sabeco)

Company Overview

Sabeco is Vietnam's leading brewer, controlling around 33% of total beer sales and a far larger proportion of sales in southern Vietnam. The state-backed brewer has recently commenced initial privatisation and had planned to offload around 20% of its shares in order to raise US$560mn. Tough market conditions meant than only 61% of this target was reached, although this was not seen as a poor reflection on Sabeco, whose flagship Saigon Beer and Beer 333 continue to enjoy strong success. The state currently holds an 89.5% stake in Sabeco.

Strengths

- Dominance in what is perceived as one of the world's highest-potential beer markets provides strong growth potential.
- Strong economy beer brands Saigon Beer and Beer 333 are very popular in the south.
- Its economy-heavy portfolio means that Sabeco brands tend to perform well even during periods of low consumer confidence.

Weaknesses

- A disappointing IPO, although not attributable to the perceived attractiveness of Sabeco itself, is reflective of tough market conditions.
- A predominantly economy portfolio reduces Sabeco's competitiveness in wealthy urban centres and its ability to exploit the tourist dollar.

Opportunities

- A potential multinational corporation partnership would improve brand portfolio and boost the availability of capital, with behemoths SABMiller, Anheuser-Busch InBev, Asahi Breweries and Heineken all thought to be interested.
- We recently revised up our beer consumption growth forecast for 2011, highlighting the extent of the short-term opportunity on offer.
- Tourism represents an excellent opportunity for Sabeco to enter the premium branded segment.
- Regional diversity allows for easy expansion in what remains an immature market despite investment levels.

Threats

- Elevated raw material costs threaten profitability in a competitive market in which higher prices cannot easily be passed on to consumers.
- The expansion pace of the market leaders has raised concerns that the beer industry is now oversupplied, particularly when one considers that much of the country still lives in poverty.
- Significant expansion plans from Carlsberg, APB and Habeco could threaten Sabeco's market share.

Strategy

Sabeco's IPO was meant to raise funds to support continued expansion – a vital requirement if it is to continue to dominate amid intense local and international competition. Although short of initial targets, IPO funds are likely to drive further expansion, with regional diversity thought to be a particular priority.

Sabeco increased production by 21% in 2010 thanks in part to the construction of a 50mn-litres-per-annum factory in the south central province of Ninh Thuan; this followed on the back of the establishment of the 200mn-litres-per-annum Cu Chi brewery in March 2008.

As well as expansion, brand diversification remains a key element of the company's strategy as it looks to complement its popular local economy brands with some premium, potentially international, products. Finding a multinational partner could contribute enormously towards this and should not be a difficult objective for such an attractive firm.

Company Data

- 2010 Revenue: VND16,714bn
- 2009 Revenue: VND15,400bn

Carlsberg

Company Overview	Carlsberg entered Vietnam in 1993 via the acquisition of a 60% stake in South East Asia Brewery in northern Vietnam. It has since expanded, acquiring 30% of Halong Brewery in the north east of the country in early 2007 and 50% of Central Vietnam's Hue Brewery in 1994, followed by an announcement in late 2009 that it would acquire the remaining 50%. Also in early 2007, Carlsberg acquired a 10% stake in state-owned Habeco, followed by a 16% stake in April 2008, then in September 2009 it further upped its stake to 30%, making it Habeco's largest single strategic investor. The Danish company now has a market share of around 10% in Vietnam, which will increase following the completion of the Hue Brewery acquisition, and is the country's second largest international player behind Heineken-backed Asia Pacific Breweries. Carlsberg estimates that together it and Habeco control 33% of Vietnam's beer market, putting them on level pegging with market leader Sabeco.
Strengths	▪ Carlsberg's strong financial capacity enables it to pour in significant capital investments without the need for immediate returns. ▪ The famous Carlsberg brand should prove popular with young, brand-oriented consumers. ▪ Early pursuit of a diverse regional presence has given Carlsberg a head-start. ▪ Carlsberg acquired Scottish & Newcastle's Vietnamese business. S&N had itself been expansionary in Vietnam, thus significantly lifting Carlsberg's output.
Weaknesses	▪ Distribution infrastructure remains problematic, with separate brewing facilities in separate regions the best way to overcome this, despite the obvious expense. ▪ Carlsberg lacks a presence in the economy end of the market, and in such a price-sensitive market, these brands remain the most popular. ▪ Carlsberg will have to invest heavily in acquisitions and expansions if it is to achieve its goal of establishing a strong presence across the country, which could weigh on its profitability.
Opportunities	▪ Economic growth should lift sales of Carlsberg's premium, international brands. ▪ Small-scale brewers, struggling with increased competition, could represent handy market-share-building acquisition targets. ▪ We recently revised up our beer consumption growth forecast for 2011, highlighting the extent of the short-term opportunity on offer.
Threats	▪ In line with market liberalisation, the beer market will receive a flood of investment in the coming years, dramatically ramping up competition levels. ▪ Elevated commodity costs threaten brewers in a market where higher costs cannot be passed on to consumers.
Strategy	One of Carlsberg's key objectives in Vietnam is to improve its regional presence. To this end, it has formed a joint venture – Hanoi Vung Tau Joint Stock Company – with Habeco for a brewery construction in southern Vietnam, thus complementing its northern, north-eastern and central facilities. Carlsberg's focus remains on economy local brands, such as Hue. However, it is increasingly targeting tourists and wealthy urban residents with its premium, eponymous Carlsberg

brand. The Vietnamese beer market continues to attract major investment, and Carlsberg will want to ensure that its early entry sees it retains a favourable position. Inorganic growth will be integral to this, and Carlsberg is expected to play an active role in the future auction of small-scale brewers. With its increased stake in Habeco, the company is optimistic about achieving market leadership, after which regional growth is likely to become a priority. The company has also been investing heavily in marketing and brand building, and is now the sponsor of the Carlsberg Gulf Classic in the region.

Company Data

For Asia region:

- H111 Net Revenue (end June 2011): DKK3.3bn, growth of 21%
- 2010 Revenue: DKK5.6mn, growth of 33.0%
- 2009 Revenue: DKK4.2bn, growth of 18.9%

Mass Grocery Retail

Metro Cash & Carry

Company Overview

Germany's Metro Group has been the pioneer of the cash-and-carry format in Vietnam, having entered the market in 2002. It operates 17 outlets and is Vietnam's leading multinational retailer. As is the case across its entire Asian store network, Metro is present only in the wholesale format in Vietnam and has not to date hinted at amending this strategy to incorporate consumer grocery retailing.

Strengths

- The financial backing of parent company Metro enables it to pour in significant capital investments without the need for immediate returns.
- By remaining in the wholesale sector, Metro is able to exploit the needs of the country's still-strong independent retail sector.
- As one of few international brands in the market, Metro has proved popular among consumers.
- Metro's strategy for growth is very compatible with Vietnam's current economy, as this remains an inherently price-sensitive market, with premium brands appealing to very few.

Weaknesses

- Distribution remains a problem for Metro, particularly with regard to the sale of perishables, as Vietnam's infrastructure is still weak; roads, railways and ports are inadequate to cope with the country's growth
- Metro will have to continue to invest heavily in expansions and distribution networks, with little short-term returns.
- Metro's reliance on independent retailers as its customer base means it faces a major threat of declining sales opportunities from the proliferation of organised retail.

Opportunities

- In the long term, Metro could consider unveiling one of its popular European consumer retail brands on to the Vietnamese market.
- By working with local suppliers, Metro is ensuring that its economic contribution extends beyond retail, putting it in a favourable negotiating position with government.
- Expansion into increasingly wealthy central cities is an important growth channel for Metro.

Threats

- The arrival of fellow multinationals, in line with sector liberalisation, will erode an element of Metro's competitive differentiation.
- Elevated operating costs threaten profit margins, with these hard to pass on to buyers on such a price-sensitive independent sector.
- Proliferation of organised retail threatens future sales opportunities for Metro.

Strategy

Metro plans to pursue a reasonably moderate expansion strategy in Vietnam, investing US$120mn in opening five more stores – subject to the receipt of further licences for new store openings – with Hanoi, Ho Chi Minh City, Nha Trang and Dong Nai representing potential targets. Metro is also intent on building its relationship with suppliers, with a view to ultimately adding Vietnamese produce to its global network. To date, this has focused on non-food items, although growing demand for Vietnamese seafood, fruit and vegetables has prompted Metro to establish another sourcing office in the country. A recent loan from the European Investment Bank will assist Metro both in financing store openings and in enabling Metro to invest in supplier training. The fact that Metro is present only in the wholesale sector necessitates a relatively modest approach to growth, although the company will be wary of the effect of greater competition following sector liberalisation.

Company Data

Metro Group does not publish country-specific financial data

- 2010 Asia/Africa Revenue: EUR2.50bn
- 2009 Vietnam Revenue Estimate: US$150mn

Saigon Co-op

Company Overview

Saigon Co-op is Vietnam's leading retailer. The firm has 90 convenience stores and 50 supermarkets, the majority of which are located in Ho Chi Minh City, where Co-op controls 50% of the city's supermarket sector. It has also recently launched a new chain of convenience stores called Co-op Food. Its network is oriented towards low-income consumers, although it increasingly resembles that of the modern retail concept proliferating in the country.

Strengths

- Saigon Co-op has a very strong brand in the southern part of the country, where its name is synonymous with low prices.
- Operating in both the supermarket and convenience sectors diversifies Saigon Co-op's potential audience size.
- With a focus on low-cost and, increasingly, private label goods, the company is well positioned for strong performance during periods of low consumer confidence.

Weaknesses

- Scale-building investments of the type needed if Saigon Co-op is to remain competitive will be enormously costly.
- Unlike its potential rivals, Saigon Co-op cannot make high-risk investments, needing immediate returns in order to remain afloat.
- Unlike in many other markets in the region, being a domestic operator does not give Saigon Co-op a major advantage against its foreign counterparts.

Opportunities

- Saigon Co-op's low-profit markup will give it a strong edge over its multinational rivals should they enter Vietnam.
- Price-cutting promotions are an excellent means of generating customer loyalty, although they are becoming increasingly hard to offer.
- Seeking partnerships is a wise means of building scale in a low-risk manner.
- Planned fresh food and convenience offerings are strong long-term growth prospects.
- The retailer has announced plans to launch an outlet in neighbouring Cambodia, which has a far less developed mass grocery retail sector, giving it a first mover advantage.

Threats

- The imminent arrival of international retailers poses a real threat to Saigon Co-op's market leadership, as it is far less experienced than the newcomers.
- Focus on Vietnamese brands could backfire as exposure to Western brands increases.
- Price hikes – a result of rising food prices – could threaten customer loyalty.

Strategy

Saigon targets Vietnam's low-income population – providing choice at affordable prices. Its strategy involves maintenance of this image and, having been forced to raise prices in 2008 due to high wholesale costs, it has since been promoting a five-pronged approach to keeping prices low. This involves requesting suppliers to justify price increases; building stockpiles of basic items; improving distribution to ensure supply and reduce panic buying; accepting lower profit margins; and looking for further cost cuts through efficiency. As well as targeting 100 supermarkets by 2015, it is also targeting logistical improvements and, potentially, further joint ventures and partnerships to help meet its store-opening aims, particularly in those cities in which it lacks expertise or infrastructure. Saigon Co-op's slim margin markup should help it in the face of multinational competition. The firm has joined the trend towards private-label goods, recently developing its Co-op Mart brand for frozen and dried goods and its SGC brand for clothing. It has also recently launched a chain of small-scale convenience stores, Co-op Food, and has ambitions of expanding this to 120 outlets by 2012. Bringing convenience to residential areas of Ho Chi Minh City, along with further supermarket openings, is part of the company's strategy for preparing for the arrival of multinational competition. The retailer recently announced plans to build its first ever overseas supermarket in Cambodia.

Saigon's recent partnership with Singapore mass grocery retail operator NTUC Fairprice should also give it a strong boost in the Vietnamese mass grocery retail market. NTUC and Saigon inked a joint venture agreement to establish a chain of hypermarkets in Vietnam as they look to ride on the exciting emerging markets demand story that is expected to play out in Vietnam over the next decade. For Saigon, the partnership deal makes clear strategic sense as Saigon would able to leverage NTUC's expertise in the hypermarket sector to build and grow its domestic presence. An enlarged scale of operations would also lift its bargaining power and strengthen its competitive position in this price-competitive retail environment.

Company Data

- 2010 Revenue: VND11.3trn (BMI estimate)
- 2009 Revenue: VND8.6trn, growth of 35%
- 2008 Revenue: VND6.4trn; growth of 48.9%

BMI Food & Drink Methodology

Food & Drink Business Environment Ratings

Ratings Methodology

BMI has revised the methodology of its Food & Drink Business Environment Rating. Our approach has been threefold. First, we have redefined the risks rated in order to more accurately capture the operational dangers to companies operating in this industry globally. Second, we have attempted, where possible, to identify objective indicators that may serve as proxies for issues/trends that were previously evaluated on a subjective basis. Finally, we have used **BMI**'s proprietary Country Risk Ratings (CRR) in a more nuanced manner in order to ensure that only the aspects most relevant to the industry have been included. Overall, the new ratings system – which now integrates with those of all 16 Industries covered by **BMI** – offers an industry-leading insight into the prospects/risks for companies across the globe.

Ratings System

Conceptually, the new ratings system divides into two distinct areas:

Limits of Potential Returns: Evaluation of sector's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development.

Risks to Realisation of Returns: Evaluation of Industry-specific dangers and those emanating from the state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period.

Indicators

The following indicators have been used. Overall, the rating uses three subjectively-measured indicators, and 41separate indicators/datasets.

Table: Limits Of Potential Returns	
Food & Drink Market Structure	
Food and drink consumption per capita, US$	Indicator denotes overall breadth of market. Large markets score higher than smaller ones
Soft drink consumption per capita, US$	Indicator denotes overall breadth of market. Large markets score higher than smaller ones
Alcoholic drink consumption per capita, litres	Indicator denotes overall breadth of market. Large markets score higher than smaller ones
Per capita food consumption growth (5yr %)	Indicator denotes sector dynamism. Scores are based on total growth over our 5-yr forecast period
Food and drink trade balance	Indicator denotes market's natural resources and dependency on imports for food and raw ingredient supply
Country Structure	
Economic structure	Rating from BMI's CRR. It evaluates the structural balance of the economy; evaluating issues such as over-reliance on single sectors/markets as well as past economic volatility
Population size	Proxy for potential market size. Large countries are considered more attractive
GDP per capita, US$	A proxy for wealth. Size of population is important, but needs to be considered in relation to spending power. High income states receive better scores than low income states
Market entry potential/Maturity	Subjective rating based on the level of industry development and the level and strength of industry competition in a market. Mature and/or competitive markets receive low scores

See Business Environment section of report for regional and country specific ratings explanation

Table: Risks To Realisation Of Potential Returns	
Food & Drink Market Risks	
Barriers to entry	Subjective rating based on the prevalence of industry-specific barriers that might impede investment and growth. States with many barriers receive low scores
Regulatory environment	Subjective rating based on the industry-specific regulatory environment and the presence of potentially restrictive legislation. Low scores reflect a regulatory environment
Country Risks	
Short-term economic growth	Rating from BMI's CRR. It evaluates likely growth trajectory over two-year forecast period, based on BMI's forecasts and projections of business and consumer confidence
Short-term financial risk	Rating from BMI's CRR. It denotes risk of currency crisis and stability of banking sector. The former would hit revenues in hard currency; the latter would curtail investment funding
Short-term monetary risk	Rating from BMI's CRR. It denotes the risk of inflationary pressures and interest rate fluctuations, while taking into account the position of a country's economic cycle
Short-term external risk	Rating from BMI's CRR. It denotes the state's vulnerability to externally-induced economic shock, which tend to be the principal triggers of economic crises
Characteristics of society	Rating from BMI's CRR. It evaluates impact of income distribution, poverty and ethnic division on broader stability
Scope of state	Rating from BMI's CRR. Low state control markedly increases security risks, thereby increasing costs in certain states
Institutions	Rating from BMI's CRR. It evaluates the risks to business posed by official bureaucracy, the broader legal framework and corruption
Market orientation	Subjective rating from BMI's CRR to denote predictability of openness to foreign investment and trade
Physical infrastructure	Rating from BMI's CRR. Poor power/water/transport infrastructure act as bottlenecks to sector development
Labour infrastructure	Rating from BMI's CRR to denote cost/availability of labour. High costs will affect risk-returns calculations

See Business Environment section of report for regional and country specific ratings explanation

Weighting

Given the number of indicators/datasets used, it would be wholly inappropriate to give all sub-components equal weight. Consequently, the following weight has been adopted.

Table: Weighting

Component	Weighting
Limits of Potential Returns	70%
- Food and Drink Market Structure	50%
- Country Structure	50%
Risks to Realisation of Potential Returns	30%
- Food and Drink Market Risks	40%
- Country Risks	60%

See Business Environment section of report for regional and country specific ratings explanation

BMI Food & Drink Industry Glossary

Food & Drink

Food Consumption: All four food consumption indicators (food consumption in local currency, food consumption in US dollar terms, per capita food consumption and food consumption as a % of GDP) relate to off-trade food and non-alcoholic drinks consumption, unless stated in the relevant table/section.

Off-trade: Relates to an item consumed away from the premises on which it was purchased. For example, a bottle of water bought in a supermarket would count as off-trade, while a bottle of water purchased as part of a meal in a restaurant would count as on-trade.

Trade: In the majority of **BMI**'s Food & Drink reports, we use the United Nations Standard International Trade Classification, using categories Food and Live Animals, Beverages and Tobacco, Animal and Vegetable Oils, Fats and Waxes and Oil-seeds and Oleaginous Fruits. Where an alternative classification is used due to data availability, this is clearly stated in the relevant report.

Canned Food: Relates to the sale of food products preserved by canning; inclusive of canned meat and fish, canned ready meals, canned desserts and canned fruits and vegetables. Volume sales are measured in thousand tonnes as opposed to on a unit basis to allow for cross-market comparisons.

Confectionery: Refers to retail sales of chocolate, sugar confectionery and gum products. Chocolate sales include chocolate bars and boxed chocolates; gum sales incorporate both bubble gum and chewing gum; and sugar confectionery sales include hard boiled sweets, mints, jellies and medicated sweets.

Drinks Sales: Soft drink sales (including carbonates, fruit juices, energy drinks, bottled water, functional beverages and ready-to-drink tea and coffee), alcoholic drink sales (including beer, wine and spirits) and tea and coffee sales (excluding ready-to-drink tea and coffee products which are incorporated under **BMI**'s soft drinks banner) are all off-trade only, unless stated in the relevant table/section.

Mass Grocery Retail

Mass Grocery Retail: **BMI** classifies mass grocery retail (MGR) as organised retail, performed by companies with a network of modern grocery retail stores and modern distribution networks. MGR differs from independent or traditional retail, which relates to informal, independent-owned grocery stores or traditional market retailing. MGR incorporates hypermarket, supermarket, convenience and discount retailing, and in unique cases co-operative retailing. Where supermarkets are independently-owned and not classified as MGR, **BMI** will state so clearly within the relevant report.

Hypermarket: **BMI** classifies hypermarkets as retail outlets selling both groceries and a large range of general merchandise goods (non-food items) and typically over 2,500m² in size. Traditionally only found on the outskirts of town centres, hypermarkets are increasingly appearing in urban locations.

Supermarket: Supermarkets are the original and still most globally-prevalent form of self-service grocery retail outlet. **BMI** classifies supermarkets as over 300m², up to the size of a hypermarket. The typical supermarket carries both fresh and processed food items and will stock a range of non-food items, most commonly household and beauty goods. In addition, the average supermarket will increasingly offer customers some added-value services, such as dry cleaning or in-store ATMs, etc.

Discount stores: Although most commonly between 500m² and 1,500m² in size, and thus of the same classification as supermarkets, discount stores will typically have a smaller floor-space than their supermarket counterparts. Other distinguishing features include the prevalence of low-priced and private label goods, an absence of added-value services – often called a no-frills environment – and a high product turnover rate.

Convenience stores: **BMI**'s classification of convenience stores includes small outlets typically below 300m² in size, with long opening hours and located in high footfall areas. These stores mainly sell fast-moving food and drink products (such as confectionery, beverages and snack foods) and non-food items, typically stocking only two or three brand choices per item and often carrying higher prices than other forms of grocery store.

Co-operatives: **BMI** classifies co-operatives as retail stores which are independently owned but club together to form buying groups, under a co-operative arrangement, trading under the same banner, although each is privately owned. The arrangement is similar to a franchise system, although all profits are returned to members. The term is becoming more archaic with fewer co-operatives remaining that conform to this model. Most co-operative groups now have a more centralised management structure and operate more like normal supermarkets and are thus classified as such within **BMI**'s reports.

BMI Food & Drink Forecasting And Sources

How We Generate Our Industry Forecasts

BMI's industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined. **BMI** mainly uses OLS estimators and in order to avoid relying on subjective views and encourage the use of objective views, **BMI** uses a 'general-to-specific' method. **BMI** mainly uses a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example a deep industry recession, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately-selected regression models. **BMI** selects the best model according to various different criteria and tests, including, but not exclusive to:

- R^2 tests explanatory power; Adjusted R^2 takes degree of freedom into account;
- Testing the directional movement and magnitude of co-efficients;
- Hypothesis testing to ensure co-efficients are significant (normally t-test and/or P-value); and
- All results are assessed to alleviate issues related to auto-correlation and multi-co-linearity.

BMI uses the selected best model to perform forecasting.

It must be remembered that human intervention plays a necessary and desirable role in all of **BMI**'s industry forecasting. Experience, expertise and knowledge of industry data and trends ensures that analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Within the Food & Drink industry, this intervention might include, but is not exclusive to: significant company expansion plans; new product development that might influence pricing levels; dramatic changes in local production levels; product taxation; the regulatory environment and specific areas of legislation; changes in lifestyles and general societal trends; the formation of bilateral and multilateral trading agreements and negotiations; political factors influencing trade; and the development of the industry in neighbouring markets that are potential competitors for FDI.

Example of Food Consumption Model:

$(\text{Food Consumption})_t = \beta_0 + \beta_1*(\text{GDP})_t + \beta_2*(\text{Inflation})_t + \beta_3*(\text{Lending Rate})_t + \beta_4*(\text{Foreign Exchange Rate})_t + \beta_5*(\text{Government Expenditure})_t + \beta_6*(\text{Food Consumption})_{t-1} + \varepsilon_t$

Sources

BMI uses the following sources in the compilation of data, developments and analysis for its range of Food & Drink reports: national statistics offices; local industry governing-bodies and associations; local trade associations; central banks; government departments, particularly trade, agricultural and commerce ministries; officially-released information and financial results from local and multinational companies; cross-referenced information from local and international news agencies and trade press outlets; figures from global organisations, such as the World Trade Organisation (WTO), the World Health Organisation (WHO), the United Nations Food and Agricultural Organisation (FAO) and the Organisation for Economic Co-operation and Development (OECD).