Q1 2013

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VIETNAM

FOOD & DRINK REPORT

INCLUDES BMI'S FORECASTS

ISSN 1749-3072

Published by Business Monitor International Ltd.

VIETNAM FOOD & DRINK REPORT Q1 2013

INCLUDES 5-YEAR FORECASTS TO 2017

Part of BMI's Industry Report & Forecasts Series

Published by: **Business Monitor International**

Copy deadline: October 2012

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BMI Industry View

Despite the expected stuttering of the near-term consumer story in Vietnam, we remain optimistic about the country's longer-term commercial potential. Our view is based on factors such as the country's favourable demographic profile, with under-30s accounting for half of total population, and the immaturity of food, drink and mass grocery retail sectors. Added to that, urban consumers in particular are increasingly receptive to marketing and promotional initiatives, with premiumisation thus expected to remain one of the key drivers of consumer spending.

Headline Industry Data (local currency)

- 2013 per capita food consumption growth = +6.4%; forecast compound annual growth rate (CAGR) to 2017 = +8.4%
- 2013 alcoholic drink value sales = +12.5%; forecast CAGR to 2017 = +13.5%
- 2013 soft drink value sales = +13.4%; forecast CAGR to 2017 = +13.7%
- 2013 mass grocery retail sales = +11.1%; forecast CAGR to 2017 = +12.3%

Key Industry Trends

Vietnamese Supermarkets Facing Strong Foreign Competition: According to Vu Vinh Pu, chairman of the Ha Noi Supermarkets Association, the increasing number of foreign retail outlets is compounding the economic hardships faced by domestic retailers. Domestic retailers **FiviMart** and **Intimex** have reduced their number of outlets and saw profits fall 5-10% in H211 compared with H111, which have partly been attributed to declining consumer purchasing power and partly to the presence of international wholesaler **Metro Cash & Carry**, French-owned **Big C** and Malaysian department store **Parkson**.

Spirits Major Diageo Acquires Additional Stake in Vietnamese Halico: In June 2012, UK drinks group **Diageo** acquired an additional 10.6% stake in Vietnamese spirits firm **Hanoi Liquor Joint Stock Company** (Halico), raising its total equity to 45.5%. The move is in line with the firm's strategy to increase its sales in emerging markets. Diageo is seeking to capitalise on the robust growth of the branded spirits sector in Vietnam. Diageo has earmarked Vietnam due to its rising population, rapidly growing middle class and Halico's strong market standing in local premium spirits.

Key Risks To Outlook

Downside Risks Prominent: Despite the country's significant long-term potential as a consumer market, Vietnam's near-term consumer outlook could be negatively impacted by growing uncertainties over unemployment in the manufacturing sector. Weaker-than-expected export growth can further compound this situation, especially as Vietnam's consumer confidence levels are already severely dented.

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. 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. ▪ Rising unemployment levels are taking their toll on consumer confidence.

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 7.1% annually between 2000 and 2011. ▪ Competitive pressure is quickly intensifying in the drinks sectors, which is likely to drive greater sector dynamism and fuel growth.
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. ▪ Despite the growing presence of multinationals in the market, local firms continue to dominate the beer market. ▪ 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. ▪ Establishing separate breweries in different regions is costly but remains one of the best strategies to overcome the lack of infrastructure.
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. ▪ Rising unemployment levels are taking their toll on consumer confidence.

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 7.1% annually between 2000 and 2011, fuelling a steady middle-class emergence and growing consumerism. ▪ The economic boom has lifted many Vietnamese out of poverty, generating a greater demand for the higher-value modern retail concepts. ▪ 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.
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, are likely to 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. ▪ Rising unemployment levels are taking their toll on consumer confidence.

Business Environment

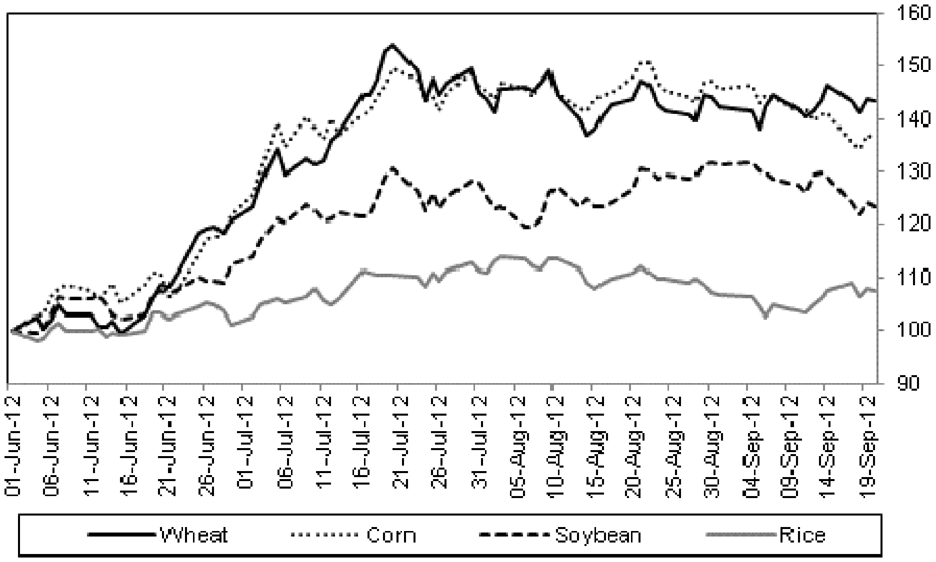
BMI's Core Global Industry Views

The events of the last quarter have generally continued to support our core short- and long-term views. The principal exception has been the performance of commodity prices. In June we suggested that an easing of commodity prices was likely to continue thanks to global economic weakness and decent stocks-to-use ratios in major commodity categories. However, this assessment had to be swiftly revised as the US suffered its worst drought in 50 years, leading to massive production forecast downgrades for corn and soybean.

This has led to a spike in prices across all grain categories (*see chart*). We do not expect further upward pressure for the rest of the year, but do expect prices to remain elevated as Southern Hemisphere crops fail to compensate for crop losses in the Northern Hemisphere. This has already started to have an impact on margins for food firms, and will very likely continue to have an impact on results into 2013, with the consumer environment across most developed markets still too weak to accommodate major price increases without a subsequent reduction in volumes.

Spike In Prices

Select Grains – Price Rebased (1 June 2012 = 100)



Source: BMI, Bloomberg

Emerging Market Expansion

To offset developed market weakness, major food firms have been investing in emerging market assets, and this trend featured heavily again during the last quarter. In general, US firms lag behind their European counterparts with respect to emerging market exposure, and it is notable that in recent months US firms have been doing much of the running in an effort to close this gap.

US confectionery producer **Hershey** has announced that it is to take full control of its Indian operations by buying out its joint venture partners. The firm will purchase the 43% stake in **Godrej Hershey,** currently owned by local firm **Godrej Industries,** along with a 6% stake from a number of smaller shareholders. The move follows speculation that Hershey was looking to restructure the business to take greater advantage of the dynamic Indian market that the joint venture failed to fully exploit. Hershey's decision to instead to buy out its joint venture partners suggests that the firm will use the existing business as a platform to kick-start the distribution of its own brands. It may also see potential in confectionery brands Nutrine and Maha Lacto, and beverage brands Jumpin and Sofit, which will be included in the purchase.

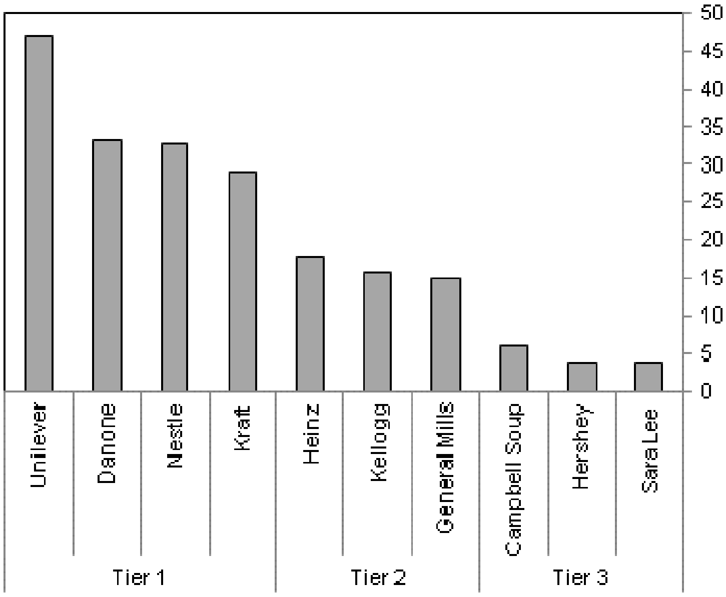
Also in the last quarter, US-based spice and seasonings producer **McCormick & Co** agreed to buy Chinese firm **Wuhan Asia-Pacific Condiments** (WAPC) for CNY900mn (US$141.5mn). In 2011, McCormick announced its target to generate 12% of its revenue from emerging markets by 2015, which compares with 9% currently, and to achieve this aim the firm has recently stepped up its focus on acquisitions. WAPC is focused on making chicken stock/bouillon and owns the DaQiao and ChuShiLe brands, which have a strong position in central China. The firm has annual sales of CNY730mn and had registered sales growth of 25% on average between 2007 and 2011, highlighting the attractiveness of the seasonings sector in China and across other emerging markets.

Meanwhile, US food giant **General Mills** has said that it is looking for acquisitions in India to cement its exposure to the world's most attractive emerging markets. In an interview with the Financial Times, the firm's CFO suggested that exposure to the Indian market would complement its strong growth in China and improved position in Brazil following the acquisition this year of **Yoki**.

BMI has regularly suggested that **Campbell Soup Company**'s portfolio is currently poorly suited to growth in emerging markets, as home-made soup is a cheap staple in many of these markets, and canned soup has therefore been poorly received. This assertion now seems to be increasingly recognised by the company, with the firm announcing that it would focus resources on its baking and snacking unit, and the firm's CEO stating in an interview with the Wall Street Journal that it was eyeing acquisitions to boost this part of the business. This would follow the footsteps of **Kellogg**, which has found cereal a relatively tough sell in some of the most attractive emerging markets and has recently focused on the salty snack category, most notably with the acquisition of Pringles.

US Food Firms Lag Behind

Revenues From Emerging Markets (%)



Source: BMI estimates, Nestlé, Investor relations

Deals emanating from Europe have meanwhile been focused in the alcoholic drinks segment. Heineken looks set to seal full control of **Asia Pacific Breweries** (APB) after reaching an agreement with **ThaiBev** and its partner **TCC Assets** (both linked to Thai billionaire Charoen Sirivadhanabhakdi), which had launched a cash bid for full control of Singapore conglomerate **Fraser and Neave**, which owns a substantial stake in APB. The acquisition will give **Heineken** improved access to a large number of high-growth markets including Thailand, Cambodia, Vietnam and Indonesia, putting the firm in a much stronger position to develop its Asian business.

Also over the last quarter, Italian spirits group Campari announced the acquisition of Jamaican rum producer Lascelles DeMercado in a deal worth up to US$415mn. Campari will pay US$338mn to acquire the 81% stake owned by CL Financial**,** and will make a public tender offer for the remaining shares. The deal gives the firm exposure to the buoyant rum category, and affords the firm two of the strongest rum brands in the Caribbean: Appleton and Wray & Nephew. The move continues Campari's strategy of buying neglected brands that it can bolster with its strong distribution system and marketing expertise.

Diageo is another firm growing quickly in emerging markets, but this growth is actually spurring investment in the UK, with the firm announcing plans to invest GBP1bn in its Scotch whisky production facilities. The move comes at a time when whisky export volumes have returned to growth, with voracious demand in emerging markets now looking sufficient to offset any weakness in developed markets.

With export demand now growing at breakneck speed and finally offering up true scale, **BMI** expects widespread investment in the industry to resume, with Diageo's announcement likely to be followed by further investment from all of the major players as they seek to develop capacity to meet the demands of middle-class consumers across emerging markets.

Frontier Markets Increasingly Attractive

One of our core views is that multinationals will increasingly pursue frontier market investments as opportunities in the traditional emerging markets become more scarce and competition increases. Over the last quarter this trend was exemplified by **PepsiCo** and **The Coca-Cola Company** both announcing plans to re-enter Myanmar. The untapped potential of Myanmar's consumer sector is also increasingly attracting the sights of regional consumer goods investors, with **Lawson** and **Singha** recently flagging up expansion plans for the country. For Coca-Cola and Pepsi, Myanmar's youthful population and currently low soft drink consumption levels are likely to translate into a lot of room for growth. The fact that these two firms are among the first Western companies to make concrete plans for expansion demonstrates how important first-move advantage is perceived to be within the soft drink sector.

Developed Market Consolidation

Within developed markets, consolidation has been relatively low on the agenda in 2012, with most firms instead keen to expand their emerging market exposure. However, two notable deals have come to light over the past three months. UK-based soft drink producers **Britvic** and **AG Barr** have revealed that they are holding merger discussions. This looks like a logical deal, with Britvic's Robinson's and PepsiCo bottling franchise nicely complementing AG Barr's Irn-Bru and Rubicon brands. We have long suggested that AG Barr looked like a potential takeover target given its attractive brands and strong growth. However, the proposed deal would actually see AG Barr's CEO take the helm of the enlarged company, reflecting AG Barr's strong performance and Britvic's recent weakness.

Meanwhile, Norwegian conglomerate **Orkla** is to buy local food producer **Rieber & Søn** in a deal worth NKR6.1bn (US$1bn). The price represents a 78% premium on Rieber's closing share price ahead of the announcement, and the substantial premium can be linked to Orkla's strong desire to reshape itself as a fast-moving consumer goods firm with the scale to compete with industry majors, such as **Unilever** and **Nestlé**. Orkla and Rieber have a strong geographical overlap across the Nordic region and emerging Europe, but limited overlap within their product portfolio, which is likely to help the deal to gain approval from Norway's antitrust authorities. With its heritage as a conglomerate, Orkla has interests in areas such as power generation and aluminium production, and the firm is expected to continue to divest these assets and use the proceeds to bolster its food and drink operations. Given the firm's exposure to mature markets in the Nordics, we would expect further acquisitions to be centred on emerging Europe, with deals such as the 2010 acquisition of Estonian confectionery maker **Kalev Chocolate Factory** serving as an example.

Emerging Markets Buying Developed

Last quarter we outlined the increased trend for emerging market-based firms to acquire developed market assets, and this has continued. Chinese soft drink firm **Wahaha** has emerged as a surprise front runner in the battle to acquire the snack unit of **United Biscuits**, which controls brands such as Hula Hoops and KP Nuts and has been put up for sale by its private equity owners. An acquisition would boost Wahaha's portfolio of foreign brands in the Chinese market as well as help to diversify the firm's geographic spread by providing access to high-spending European markets.

Meanwhile, state-owned Chinese food producer **Bright Food** announced plans to acquire a 70% stake in Bordeaux wine exporter **Diva**, which generates 45% of its sales in China and 60% in Asian markets, to establish a foothold in the wine sector. The acquisition forms part of its broader ambitions of building a diversified portfolio, with the firm having previously acquired a 60% stake in UK breakfast cereal **Weetabix,** along with food firms in Australia and New Zealand.

All Eyes On Indian Retail

In the retail sector, all the focus has been on Asia; in particular, India. In what might be in time remembered as the most significant global retail event of 2012, India looks set to finally open up its retail industry to foreign investors, potentially paving the way for global retailers **Carrefour**, **Tesco** and **Walmart** to enter what is potentially an outstanding retail opportunity. Until now, India has stubbornly stuck to its guns in refusing to allow foreign retailers to own controlling interests in domestic retailers. This was perceived to be a protectionist stance benefiting the plethora of small kiosks that dominate the retail landscape across most Indian states. The new legislation will allow foreign retailers to acquire 51% controlling stakes in Indian retailers, and the policy reforms come at a time when the Indian economy is facing its most testing period for a number of years, with economic growth slowing down markedly. That said, retailers will still have to find willing states in India, as the government is allowing individual states to decide whether to allow foreign retailers in.

The new legislation has been met very favourably by the pro-business lobby, and shares in some of India's leading retailers, including **Pantaloon Retail** and **Shoppers Stop**, rose substantially when the new policy measures were announced on the expectation that they might now be seen as key acquisition targets for major Western firms.

Outside of India, the news emanating from the Asian retail sector has been more mixed. Carrefour has announced plans to exit Singapore, with the firm revealing it will close its two existing hypermarket outlets by the end of 2012. The move comes after the firm failed to sell the business and continues the firm's process of removing itself from Asian markets in which it is not likely to become one of the top three largest players.

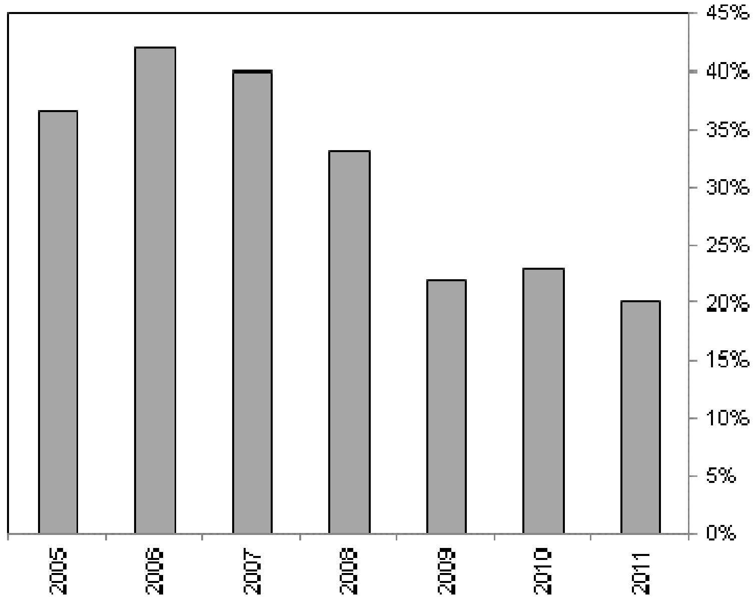
The move to exit Singapore comes after the firm also exited Thailand in late 2010 by offloading its retail stores to French mass grocery retail player **Casino Guichard-Perrachon**. The firm is also present in Malaysia, having 24 stores in the country generating sales of around EUR405mn (US$559mn). Here the firm has also failed to secure one of the top three market spots, and in 2010 put the assets up for sale, in combination with its Singapore holdings (the two countries are geographically close and have cultural ties). The sale process was subsequently discontinued after assets failed to achieve the expected bids. However, the decision to exit Singapore suggests that a decision to exit Malaysia may soon also be forthcoming.

China is also proving challenging. A drop in profits at Chinese retailer **Lianhua,** combined with **Tesco**'s announcement that it is to shut four stores in the country, highlights the difficult state of the underlying market, which has high levels of competition and weakening demand. Tesco announced it is to shut four of its current hypermarkets, with a spokesperson stating that it was taking 'a more cautious approach to our capital investment in the market'. The stores to be shut are in the country's second- and third-tier cities, suggesting that the firm's store format is not well adjusted to less well-developed parts of the country, where local supermarkets have established a loyal base. In its latest quarter, Tesco reported like-for-like sales growth of just 0.6% in China, and this is clearly a long way off the dynamic growth levels that would be expected of such a promising consumer market.

As well as shutting these four outlets, Tesco has previously scaled back its expansion plans for China and now intends to open only 15-20 new hypermarkets a year. The firm's flagship 'Lifespace' shopping malls have proven to be difficult to execute, and the firm now operates just eight, making it very unlikely that it will come anywhere close to its target of 50 by February 2016. Tesco is not alone in finding China hard going. Over the last two years, Carrefour has closed a number of underperforming stores and has also reined in its pace of expansion. Walmart is also witnessing slower customer traffic and has struggled to maintain control of standards under its franchise operating structure – a position that has seen the firm face a number of regulatory complaints and has damaged its reputation.

The Power Of Innovation

Nespresso Sales Growth



Source: Investor relations

Protecting Innovations Becoming More Crucial

Another of our core long-term views is that investment in innovation will increase as producers seek differentiation, and that emphasis will be placed on protecting innovations. The actions of **Nestlé** over the last quarter have clearly demonstrated this trend. In June the firm inaugurated a new clinical development unit in Lausanne, Switzerland, that will conduct clinical-style trials to establish the efficacy of its product innovations in the areas of health and wellness. The move comes after an increase in scrutiny of the validity of health claims made within the food sector across the EU and North America. **BMI** has previously posited that this increased level of scrutiny will actually be beneficial to larger players, as they will have the funding available to conduct the trials that are required to scientifically support the claims made in the functional sector.

Innovation has also played a key role in the development of the Nestlé Nespresso coffee pod system, and has helped make coffee pods the fastest growing part of the coffee industry in Europe. In stronger economies it has benefited from consumers trading up from instant coffee (based on taste) and freshly ground coffee (based on convenience). In weaker economies, such as Italy and Spain, the sector has benefited from a move away from the on-trade sector, with coffee pods offering a price advantage over cafes and restaurants despite their premium positioning. However, in August, Nestlé was dealt a blow in its bid to secure exclusivity over its Nespresso coffee pod system in Europe after a German court ruled in favour of a rival selling unofficial capsules that were compatible with Nestlé's Nespresso machine. Nestlé had sought an injunction against **the Ethical Coffee Company** and its distributor **Betron**, but Dusseldorf's regional court has rejected the request.

With the Ethical Coffee Company's capsules selling for around 30% less than Nespresso's official versions, Nestlé faces the prospect of losing its monopoly on the market. Further court cases are ongoing, including a battle with **D.E Master Blenders 1753** (formerly part of **Sara Lee**) in the Netherlands, France and Belgium. The CEO of the Ethical Coffee Company suggested that he was not surprised by the ruling and likened it to developments in the printer industry, with unofficial printer cartridges successfully challenging the monopoly position of printer makers and now being a ubiquitous part of the market.

Producers Facing Private Label Choice

Another of our core views is that some consumer goods manufacturers will leave sectors under threat from private labels while others will calibrate their portfolios toward private labels to capitalise on their growing demand. This was again in evidence in the last quarter, with US food producer **Dole** reaching an agreement with Japanese conglomerate **Itochu Corp** to sell its global packaged food business and its Asian fresh produce unit for US$1.7bn. The move will leave the firm focused on fresh produce and is a move away from the added-value sector. The sale represents a big injection of cash that will bring the firm's debts down to a much lower level, and will put the firm in a much better position to take advantage of growth opportunities in the currently unfashionable fresh produce category.

Meanwhile, Italy's **Barilla** looks to be moving in the other direction, with the firm announcing that former Unilever executive Claudio Colzani is to be the company's new CEO. The move comes shortly after Barilla revealed it was looking to offload its German bakery business, **Lieken**. Taken together, these moves are a signal of the firm's underlying strategy, with a focus on its core consumer brands likely to take centre stage. Barilla is the world's largest pasta producer, and therefore looks particularly threatened by the growth in private labels, with pasta proving to be a sector for which the advantages of branded products are harder to convey. However, with strong brands and a focus on its premium positioning alongside innovation, we believe Barilla is likely to be able to keep this threat at bay over the longer term.

Table: Core Views
Short-Term Outlook
The recent spike in commodity prices will put pressure on margins into 2013.
Developed markets will still feel the pinch, with economic weakness and political uncertainty weighing on spending. There are tentative signs of improvement in the US consumer market.
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.
Emerging market-based firms will increasingly pursue developed market investments for the purposes of diversification.
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 continue to be attracted to unfashionable food and drink categories.

Source: BMI

Asia Pacific Food & Drink Risk/Reward Ratings

China Outperforms On Impressive Risk/Reward Balance

There have been minimal changes in **BMI**'s Asia Pacific food and drink risk/reward ratings over the past quarter. China continues to lead our Q113 ratings, while the Philippines and Pakistan continue to lag behind the rest of the pack. In this article, we examine the relative attractiveness of the Asian food and drink markets from the aspects of both risks and rewards, stressing the importance of striking a balance between risks and rewards to achieve robust investment appeal.

There are two aspects to our risk/reward analysis: the **reward** part of the rating takes into account market size, current consumption levels, future industry growth prospects (based on our five-year industry forecasts), market fragmentation (with greater fragmentation indicating higher opportunities) and the size of the youth population. Meanwhile, the risk part of the rating takes into account the legislative environment, the level of development of the organised retail sector (with higher development leading to lower risks), as well as relevant aspects of the economic and political environment.

India And Pakistan Lead The Pack In Rewards

Intuitively, developed Asia Pacific markets score high on the indicator of **food consumption per capita**, with the premiumisation trend particularly well entrenched in markets such as Singapore and Japan. However, while these countries boast high food and drink spending levels, the relative maturity of their markets mean that they are viewed less favourably on the indicator of **market fragmentation** and **per capita food consumption, five-year compound annual growth**. Pakistan, India and Vietnam are among the most fragmented markets in the Asia Pacific region, which means there remains tremendous room for growth in the longer term. Although Pakistan, India and Vietnam are home to established, risk-averse food and drink players such as The Coca-Cola Company and Nestlé, the fragmented and massive size of these markets is likely to provide relative ease of entry for regional consumer-facing companies. Comparatively, in markets such as China, Thailand and Indonesia, the rapid emergence of competition serves as a stronger headwind for potential market entrants. Not surprisingly, it is the underdeveloped markets that score high on the indicator of per capita food consumption growth.

Table: Food & Drink Risk/Reward Sub-Factor Ratings, Q113 (score out of 10)

	Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia	Pakistan	Philippines	Singapore	South Korea	Taiwan	Thailand	Vietnam
Reward														
Food consumption per capita	6	3	10	1	4	10	4	1	2	9	9	10	3	1
Market fragmentation	2	8	2	9	8	1	5	10	5	1	2	2	8	9
Per capita food consumption 5-year compound annual growth	1	7	2	6	5	1	3	4	4	3	5	4	5	5
Population size	4	10	2	10	9	8	4	8	7	2	5	4	6	7
GDP per capita, US$	10	3	9	2	2	10	4	2	2	10	7	6	3	2
Youth population (%)	3	2	1	6	5	2	6	8	8	2	2	2	3	4
Risk														
MGR penetration	8	6	7	1	3	9	6	1	2	7	8	7	6	1
Regulatory environment	7	6	8	3	4	7	7	1	5	9	8	9	7	5
Short-term economic growth	7	8	9	6	7	6	8	5	7	9	9	9	7	6
Income distribution	9	7	9	6	7	9	6	7	6	9	9	9	7	7
Lack of bureaucracy	8	5	8	4	3	8	7	3	4	8	5	7	6	4
Market orientation	7	4	9	4	5	6	7	4	6	8	6	6	7	5
Physical infrastructure	7	6	5	7	5	8	7	6	6	10	7	8	6	7

Source: BMI

The indicators of **youth population** and **population size** assess the attractiveness of the Asia Pacific markets from a demographic perspective. A massive population offers greater scope for organic growth for food and drink companies, which partly explains the increasing flurry of investments in China and India in recent years. Meanwhile, a youthful population generally translates into exciting opportunities in the mass-market segment. Philippines and Pakistan are perceived favourably on this front.

The final factor in the reward part of the table is **GDP per capita**. This metric is similar to the indicator of food consumption per capita, as both assess the market's appeal in terms of consumer spending power.

Similarly, developed countries score well on the indicator of GDP per capita, with Singapore, Japan and Australia leading the pack.

Singapore Performs Most Strongly In Risks

On the risks side, factors such as mass grocery retail (MGR) penetration, regulatory environment, short-term economic growth, income distribution, lack of bureaucracy, market orientation and physical infrastructure combine to assess the structural challenges present in respective markets.

MGR penetration measures the maturity of the organised retail market in terms of food retailing. A high MGR penetration score reflects better routes to market and more developed retail distribution networks, which eases the distribution of goods to the end-consumer. Japan, Australia and South Korea are ahead of the curve in terms of organised retail development. The concept of modern retailing has quickly diffused in markets such as Australia, Japan, Hong Kong, Singapore and South Korea, and this can be linked to rapid urbanisation and continued expansion of affluent consumer bases in these economies over the past decades. Elsewhere in emerging markets (EMs), the development of the MGR sector continues to be held back by restrictive regulations and income inequalities. The lack of established formal food retailing systems in EMs such as India, Vietnam and Pakistan complicates distribution efforts for food and drink companies and remains a major hurdle for potential investors.

The second factor, **regulatory environment**, evaluates the impact of regulatory hurdles such as foreign direct investment (FDI) regulations and restrictive sub-sector legislation on the expansion efforts of consumer-facing companies. Countries such as Pakistan, India and Indonesia remain plagued by investment risks such as heavy bureaucracy and red tape, which deter less hardy investors from setting up shop in these markets. While consumer goods investors typically face greater regulatory hurdles in developing markets, government regulations continue to play a prominent role in shaping the developed food and drink markets as well. In South Korea, for instance, the government passed a bill in November 2010 mandating that supermarkets could not open within 500m of traditional markets and family-run stores without seeking approval from local authorities and small-business associations. This cordon was subsequently widened to 1km in July.

The third factor, **short-term economic risk rating**, assesses the degree to which the country approximates the ideal of non-inflationary growth with falling unemployment, contained fiscal and external deficits and manageable debt ratios. On this front, we caution that growing headwinds are piling on the near-term horizons for Asia Pacific food and drink markets due to economic uncertainties in the US, eurozone debt woes and a Chinese hard landing.

Income distribution, which is another risk factor taken into consideration, is measured by the proportion of private consumption accounted for by the middle 60% of earners. High levels of income inequality are pervasive in developing markets, which warrant them as tricky places to do business as consumer goods investors often have to plough in more marketing and advertising expenditures to encourage consumer uptrading. India, Malaysia and the Philippines do not compare as favourably as their peers in this regard.

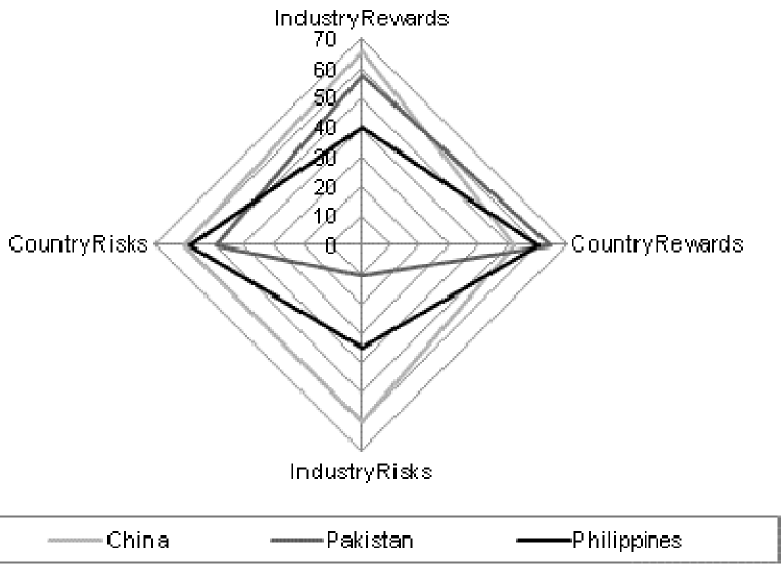
The fifth factor, **lack of bureaucracy**, is a measure of the hurdles that any producer is likely to face in areas such as starting and closing businesses, paying taxes, dealing with licences, and registering property. Bureaucracy is viewed as a major problem in countries such as Indonesia, India, Pakistan, Philippines and Vietnam.

Market orientation is a measure of how business oriented an economy is and measures the level of FDI protectionism, tax rates and the level of government intervention. India, China and Pakistan are judged most negatively on this front, posing considerable challenges to consumer goods investors.

The last factor, **physical infrastructure**, underlines the nature of the transport and distribution infrastructure. The lack of well-developed physical infrastructure in EMs such as Indonesia, Pakistan, Thailand and the Philippines continues to frustrate distribution efforts for consumer goods companies, particularly in rural areas. In these markets, food and drink players have to invest substantially in developing their own distribution infrastructure to successfully entrench themselves and build brand awareness. Without a doubt, developed markets are viewed favourably on the indicator of physical infrastructure, with well-developed routes to market facilitating expansions of consumer-facing players.

Risk/Reward Balance Counts The Most

China, Pakistan & Philippines – Risk/Reward Ratings Breakdown



Scores out of 100, 100 being the highest. Source: BMI

While EMs generally score well on the aspect of investment rewards, and developed markets score highly in terms of investment risks, it is the balance of risks and rewards that matters the most. Thanks to its impressive balance of strong rewards and risks, China remains a regional outperformer. Lacking a healthy balance between risks and rewards, Pakistan and the Philippines remain stuck at the bottom of the pile.

Table: Asia Pacific Food & Drink Risk/Reward Ratings, Q113

	Industry Rewards	Country Rewards	Rewards	Industry Risks	Country Risks	Risks	Overall Score	Rank
China	66	52	59	60	60	60	59.4	1
Japan	28	63	45.7	80	74	77	58.2	2
South Korea	46	44	45.2	80	72	75.9	57.5	3
Singapore	34	41	37.7	80	88	84	56.2	4
Thailand	58	41	49.5	65	67	65.9	56.1	5
Taiwan	44	38	41	80	77	78.3	55.9	6
Australia	32	52	42.2	75	76	75.5	55.5	7
Indonesia	60	57	58.3	35	55	44.8	52.9	8
India	62	64	63	20	55	37.3	52.7	9
Malaysia	40	47	43.7	65	67	66.1	52.6	10
Hong Kong	36	35	35.5	75	77	76	51.7	11
Vietnam	**58**	**46**	**41.8**	**35**	**56**	**45.6**	**49.3**	**12**
Philippines	40	60	50.2	35	58	46.5	48.7	13
Pakistan	58	64	61	10	49	29.7	48.5	14

Source: BMI, The Food & Drink Risk/Reward Rating is the principal rating. It comprises two sub-ratings, 'reward' and 'risk', which have a 60% and 40% weighting respectively.

Vietnam Food & Drink Risk/Reward Ratings

Vietnam is again ranked 12th in **BMI**'s Q113 Food & Drink Risk/Reward ratings for the Asia Pacific region. Lacking a strong balance between investment risks and rewards, Vietnam still lags behind its regional peers in terms of its overall investment attractiveness. However, we are already witnessing a strong flurry of investment activity across the consumer-facing scenes in Vietnam, with hardy investors willing to overlook the country's near-term structural risks in search of massive untapped potential. As Vietnam addresses its structural shortcomings and climbs up the ranks of investment attractiveness, its consumer markets will clearly experience tremendous dynamism.

The potential rewards in the Vietnamese food and drink markets are borne out by its relatively high score of 5 out of 10 for the indicator of per capita food consumption, five-year compound annual growth rate. 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 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 find it relatively easy 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

Real GDP Growth Set To Pick Up In 2013

BMI View: *Vietnam's real GDP growth was expected to have remained subdued at 5.3% in 2012, in line with our view that external demand would continue to cool. However, the State Bank of Vietnam's decision to introduce its second policy rate cut in June 2012 will have a significant impact on gross fixed capital formation growth in 2013. Accordingly, we have revised our real GDP growth forecast upward from 6.5% to 7.0% for 2013.*

The State Bank of Vietnam (SBV) introduced its second rate cut of the year in June 2012, slashing its policy rate by 100 basis points (bps) to 10.00%. Although we have previously cautioned that downside risks to growth remain and that this could trigger further rate cuts by the central bank, the latest move was largely unexpected. From our perspective, it was a sign that the central bank was becoming increasingly concerned that real GDP growth would miss the government's target of 5.5-6.0% in 2012. Indeed, the rate cut came just days after economic data published by the General Statistics Office (GSO) showed that the economy expanded by 4.7% year-on-year (y-o-y) in Q212, missing the government's full-year target by a wide margin. The latest growth numbers were in line with our view that real GDP growth would remain subdued at 5.3% in 2012.

Private Consumption To Be Hit By Bankruptcies

According to estimates published by the Ministry of Planning and Investments, more than 18,000 small- and medium-sized enterprises in Vietnam filed for bankruptcy or suspended operations in the first four months of 2012. We see this as a healthy adjustment for the economy over the medium term. Indeed, inefficient companies that have previously managed to survive due to low lending rates and poor risk management practices in the commercial banking sector were allowed to fail and exit the industry. Stronger oversight over the banking sector is likely to result in better capital allocation across the economy over the longer term. Nonetheless, we expect the recent surge in bankruptcies to lead to an increase in the unemployment rate. This in turn is likely to result in a slowdown in private consumption growth. Until we begin to see an improvement in the outlook for the manufacturing sector, which continues to struggle with declining export orders, we believe that households will continue to cut back on spending.

Rate Cut A Boost To Real GDP Growth In 2013

With average lending rates elevated at around 13.00% as commercial banks tighten credit controls in response to a surge in bankruptcies and non-performing loans, we see the latest rate cut as an urgent response by the SBV to ease credit conditions and reignite economic growth. Concerns that aggressive monetary easing could undermine the SBV's previous efforts towards fighting inflation have also been tamed by the steady decline in headline consumer price inflation (CPI) in recent months. Headline CPI fell from its peak of 23% y-o-y in August 2011 to just 6.9% in June 2012, in line with our view that headline CPI would head lower towards 4.2% by the end of the year. Looking ahead, we expect the recent rate cuts by the SBV to have a significant impact on gross fixed capital formation growth in 2013. Accordingly, we have revised up our 2013 real GDP growth forecast for Vietnam from 6.5% to 7.0%.

Increased Public Spending To Provide Limited Support

The Vietnamese government approved a proposal by the Ministry of Planning and Investments to advance VND30trn (US$1.4bn) in capital expenditure originally allocated for 2013 to help accelerate progress on public investment projects in 2012. According to the proposal, approximately US$0.7bn will be sourced from the state budget while the remaining half will be financed by new sovereign bond issues. We believe that the planned increase in public spending very likely helped to support overall headline growth in 2012. However, given that government spending only makes up a small 6.6% share of Vietnam's GDP, we expect the impact on overall headline growth will be relatively limited.

Surprise Trade Surplus

Vietnam reported a surprise trade surplus of US$100mn in July 2012, supporting our view that aggressive initiatives undertaken by the government to address the country's trade deficits in 2011 will begin to pay off. The latest reading reinforces our view that cooling domestic demand will help to keep trade imports subdued in 2012. Although we do not envisage a strong pickup in exports due to growing evidence of a lacklustre recovery in global demand, we expect the trade deficit to narrow significantly as demand for imports continues to cool.

Vietnam's monthly trade balance averaged a mild US$21mn deficit in the first seven months of 2012, well below the average deficits of US$738mn and US$1.0bn in 2011 and 2010, respectively. Looking at the breakdown of exports, we are seeing encouraging evidence that Vietnam is becoming less reliant on refined crude imports (dominantly petroleum imports) and could soon become a net exporter of crude oil over the coming years. Not only has this been driven by cooling domestic demand for refined crude, we are also seeing a steady increase in the production of crude oil for export. Exports of crude oil reached US$960mn in July 2012, surpassing the peak of US$875mn recorded in April 2011.

In light of the stronger-than-expected trade figures in recent months, which are supportive of our view that Vietnam's macroeconomic fundamentals will continue to improve, we expect the trade deficit to have narrowed to 5.5% of GDP in 2012 (compared with our previous forecast of 6.4%). Over the longer term, we believe that continued efforts by the government to restructure the economy will help to boost investor confidence and long term economic growth.

Table: Economic Activity

	2011e	2012f	2013f	2014f	2015f	2016f
Nominal GDP, VNDbn [2]	2,487,746.4	2,835,012.3	3,179,481.9	3,597,041.4	4,052,241.5	4,568,752.7
Nominal GDP, US$bn [2]	120.5	134.8	152.9	174.9	199.3	227.3
Real GDP growth, % change y-o-y [2]	5.9	5.3	7.0	7.2	7.3	7.4
GDP per capita, US$ [2]	1,357	1,502	1,686	1,910	2,156	2,436
Population, mn [3]	88.8	89.7	90.7	91.6	92.4	93.3
Industrial production index, % y-o-y, ave [1,4]	10.9	8.0	12.0	14.0	13.0	12.0
Unemployment, % of labour force, eop [4]	4.5	5.0	4.8	4.7	4.6	4.5

Notes: [e] BMI estimates. [f] BMI forecasts. [1] at 1994 prices. Sources: [2] Asian Development Bank, General Statistics Office; [3] World Bank/UN/BMI; [4] General Statistics Office.

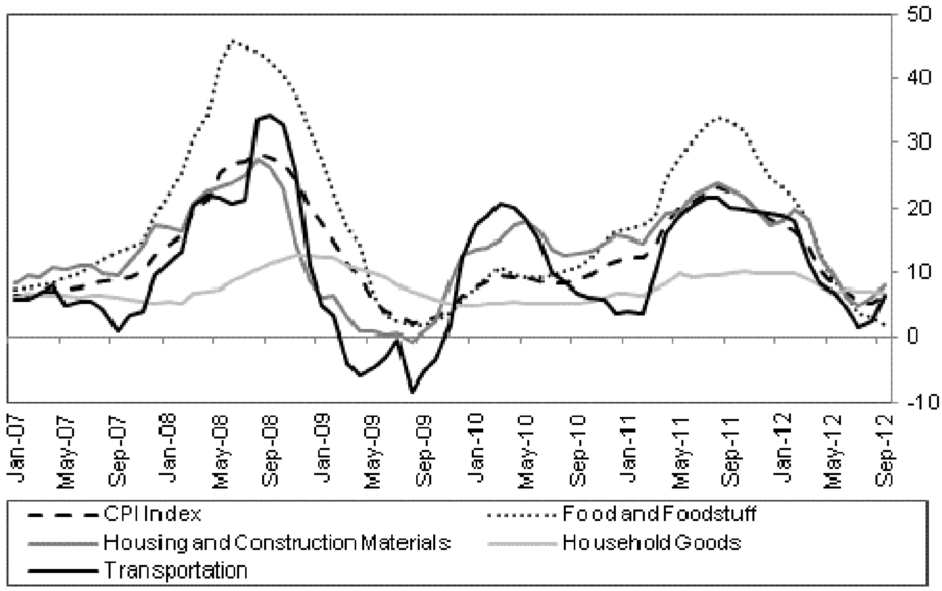
Industry Forecast Scenario

Consumer Outlook

Our near-term consumer outlook for Vietnam is looking increasingly worrying. Growing uncertainties over unemployment in the manufacturing sector and concerns of a macroeconomic slowdown are already taking their toll on consumer confidence. With consumers remaining largely cautious with their spending in the coming months, 2013 is likely to bring demand challenges for producers and retailers operators.

Bottoming Out

Headline Consumer Price Inflation & Components, % chg y-o-y

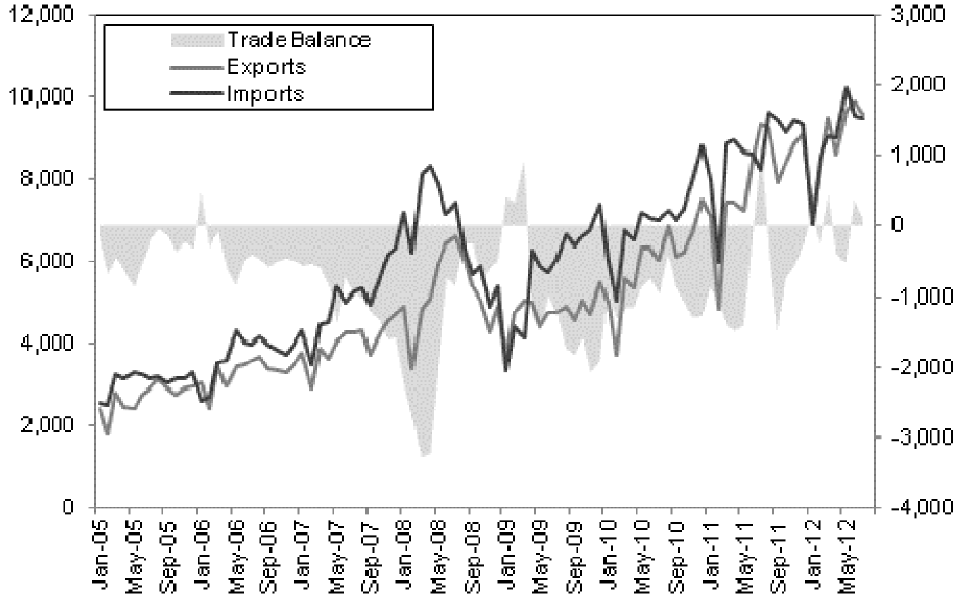


Source: BMI, General Statistics Office

On a positive note, steps to curb inflation and stabilise the economy, along with a steep decline in consumer price inflation (CPI) and high export turnover, have improved the socio-economic situation in Vietnam over the seven months to July 2012. CPI was -0.26% in June, similar to -0.29% in July, although headline CPI began to tick up since, climbing to 6.5% y-o-y in September (from 5.0% in August). Although rising global food prices are becoming an increasing risk to our outlook on monetary policy in the region, we believe that inflationary pressure in Vietnam will remain manageable over the medium term.

Improving Fundamentals

Goods Exports & Imports, US$mn (LHS) & Trade Balance, US$mn (RHS)



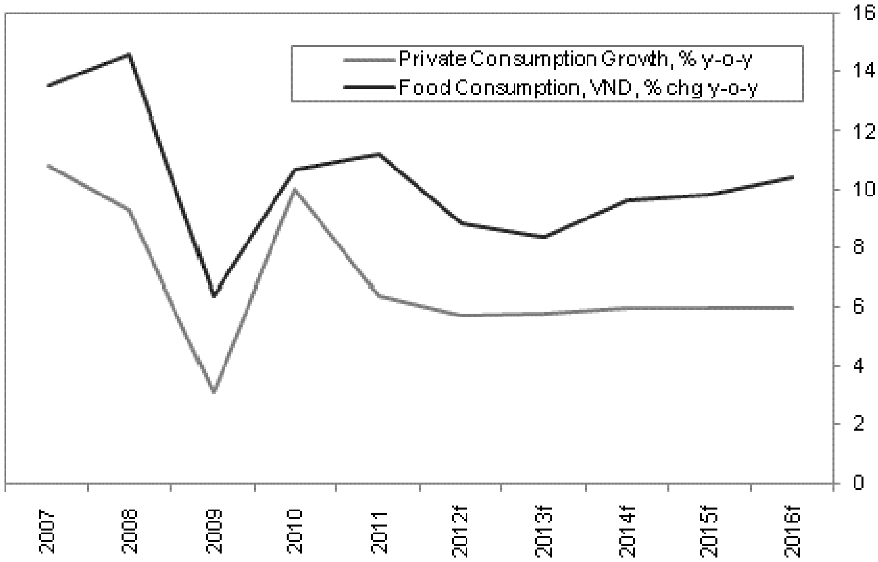
BMI, General Statistics Office

However, according to estimates published by the Ministry of Planning and Investments, more than 18,000 small- and medium-sized enterprises in Vietnam filed for bankruptcy or suspended operations in the first four months of 2012. We see this as a healthy adjustment for the economy over the medium term, as inefficient companies that have previously managed to survive due to low lending rates and poor risk management practices in the commercial banking sector were allowed to fail and exit the industry.

Nonetheless, we expect the recent surge in bankruptcies to lead to an increase in the unemployment rate. This in turn will result in a slowdown in private consumption growth over the coming months. Until we begin to see an improvement in the outlook for the manufacturing sector, which continues to struggle with declining export orders, we believe that households will continue to cut back on spending.

Softening Domestic Demand In 2012

Private Consumption & Food Consumption, % chg y-o-y

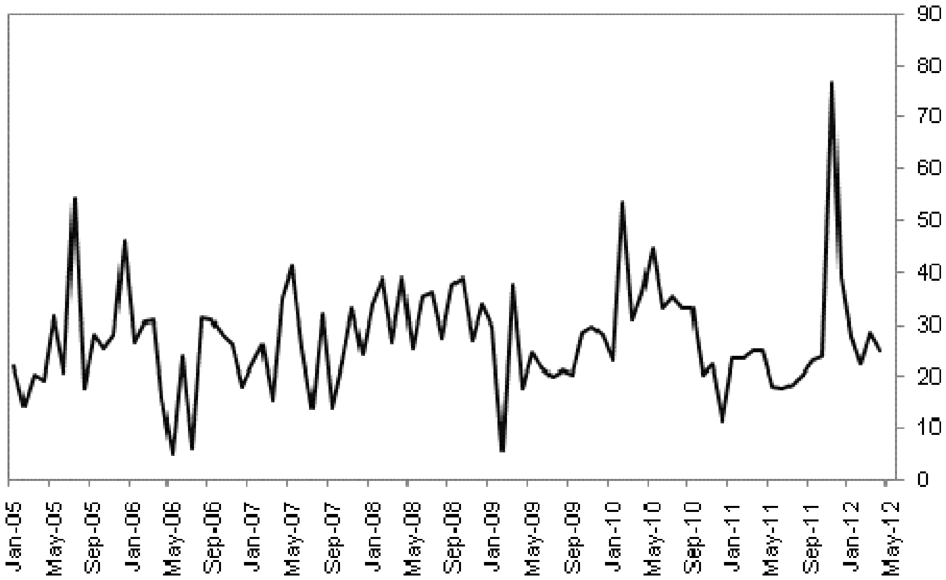


f = BMI forecast. Source: Asian Development Bank, General Statistics Office

A deteriorating macroeconomic picture is increasingly dampening consumer confidence. According to a recent Nielsen survey, Vietnam's consumer confidence has dipped to its lowest level in the first quarter since mid-2010, reflecting heightened price sensitivity among local consumers.

On The Slide

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



Source: Bloomberg

Indeed, nominal retail sales in Vietnam have embarked on a distinct downward trajectory in recent months. While waning price pressures are partly at play here, we believe slowing retail sales growth is largely indicative of softening domestic demand conditions. Anecdotal evidence supports this view. According to **Saigon Co-op**, the leading supermarket retailer in Vietnam, its overall revenues in Q112 declined by 10% y-o-y. According to local media Thanh Nien Daily, other domestic retailers are witnessing low sales as well.

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.

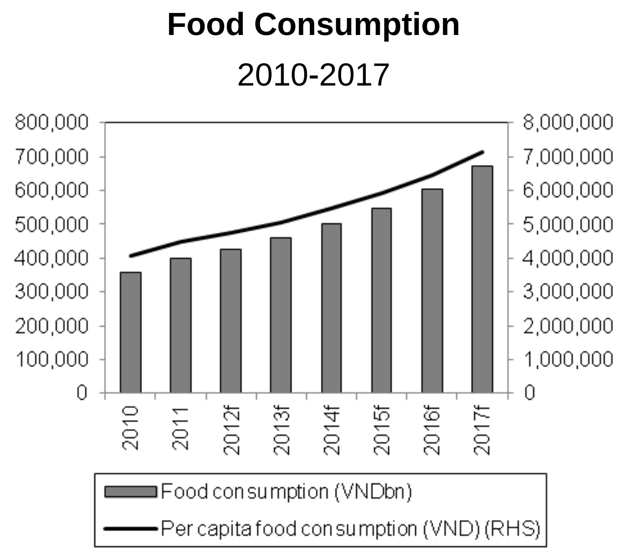
Most exciting though is the country's favourable demographic profile; 51.9% of the population is estimated to be younger than 30, implying potentially dynamic opportunities for consumer goods players targeting the mass-market segment in particular as this demographic group matures over time.

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. 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

- Total food consumption compound annual growth (CAGR), 2012 to 2017 (local currency): +9.43%.
- Per capita food consumption compound annual growth, 2012 to 2017 (local currency): +8.39%.



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

In the 2012-2017 period, we expect a local currency CAGR of 9.43% for overall food sales in Vietnam. This impressive level of growth in food consumption could be attributed to two key factors: rising affluence among Vietnamese consumers and an ongoing expansion of the mass grocery retail industry in the country, although rising prices will also play a part in the increase.

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 will very likely guarantee a receptive and growing audience for branded food and beverage products in the medium term.

This massive potential provided by the burgeoning 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 in early 2011 acquired a 10% stake in **Masan Consumer**, the largest producer of condiments including fish, soy and chili sauce and the second biggest producer of instant noodles in Vietnam. This 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**, the division'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.

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 had 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, 2010-2017

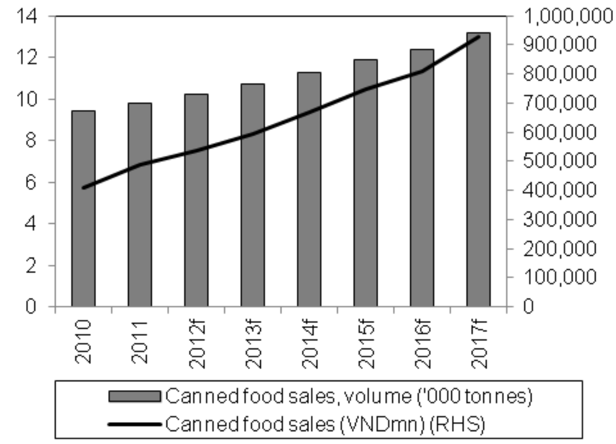
	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Food consumption (US$bn)	18.68	19.24	20.32	22.10	24.38	26.96	30.01	33.54
Food consumption (VNDbn)	357,450	397,448	427,521	459,753	501,310	548,052	603,125	670,767
Per capita food consumption (US$)	212.66	216.73	226.50	243.82	266.23	291.62	321.64	356.37
Per capita food consumption (VND)	4,068,937	4,476,174	4,764,507	5,071,369	5,475,044	5,928,568	6,464,879	7,127,403
Food consumption growth, VND (% chg y-o-y)	10.70	11.19	7.57	7.54	9.04	9.32	10.05	11.22

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

Canned Food

- Canned food volume sales CAGR, 2012 to 2017: +5.17%.
- Canned food value sales CAGR, 2012 to 2017: +11.52%.

Canned Food Sales
2010-2017



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

Buoyed by ongoing urbanisation and increasing affluence among Vietnamese consumers, **BMI** is currently forecasting canned food value sales growth of 11.52% in compound annual terms to 2017, significantly overshadowing 5.17% growth in 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 will very likely 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, 2010-2017

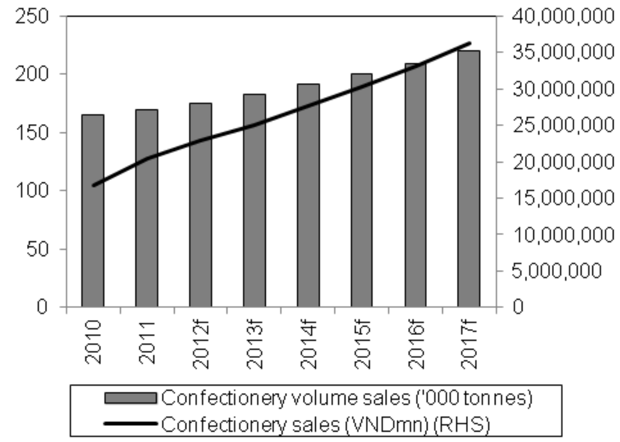
	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Canned food sales, volume ('000 tonnes)	9.44	9.80	10.22	10.72	11.28	11.87	12.36	13.16
Canned food sales (VNDmn)	408,035	488,249	539,086	594,605	667,210	747,433	808,019	929,732
Canned food sales (US$mn)	21.33	23.64	25.63	28.59	32.44	36.77	40.20	46.49

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

Confectionery

- Confectionery volume sales CAGR, 2012 to 2017: +4.65%.
- Confectionery value sales CAGR, 2012 to 2017: +9.53%.
- Chocolate volume sales CAGR, 2012 to 2017: +3.72%.
- Chocolate value sales CAGR, 2012 to 2017: +12.13%.
- Sugar confectionery volume sales CAGR, 2012 to 2017: +3.88%.

Confectionery Sales
2010-2017



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

- Sugar confectionery value sales CAGR, 2012 to 2017: +9.15%.
- Gum volume sales CAGR, 2012 to 2017: +0.24%.
- Gum value sales CAGR, 2012 to 2017: +5.32%.

The longer-term outlook for the Vietnamese confectionery market is positive. Factors such as rising purchasing power, favourable demographics, growing health awareness and continued investments in the sector will support confectionery demand, especially in regards to chocolate.

- **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 is likely to 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 will 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 is likely to 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 any time 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, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Confectionery volume sales (‘000 tonnes)	165.49	169.98	175.19	183.04	191.56	200.49	209.62	219.85
Chocolate volume sales (‘000 tonnes)	50.15	51.11	52.26	55.18	58.77	62.71	67.00	72.34
Sugar confectionery volume sales (‘000 tonnes)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gum volume sales (‘000 tonnes)	5.76	5.86	6.01	6.14	6.11	6.10	6.09	6.08
Confectionery volume sales (% chg y-o-y)	6.33	2.72	3.06	4.49	4.65	4.66	4.56	4.88
Confectionery sales (VNDmn)	16,817,686	20,526,589	22,966,067	25,110,583	27,625,987	30,243,593	33,060,216	36,195,401
Chocolate sales (VNDmn)	3,018,573	3,651,266	4,048,159	4,481,231	5,035,455	5,641,892	6,328,368	7,174,379
Sugar confectionery sales (VNDmn)	12,959,496	15,861,485	17,791,737	19,421,421	21,324,113	23,272,629	25,339,461	27,561,816
Gum sales (VNDmn)	839,617	1,013,838	1,126,171	1,207,931	1,266,419	1,329,071	1,392,387	1,459,206
Confectionery sales growth, VND (% chg y-o-y)	15.22	22.05	11.88	9.34	10.02	9.48	9.31	9.48
Confectionery sales (US$mn)	878.94	993.86	1,091.80	1,207.24	1,343.35	1,487.63	1,644.79	1,809.77
Chocolate sales (US$mn)	157.76	176.79	192.45	215.44	244.86	277.52	314.84	358.72

Table: Confectionery Value/Volume Sales – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Sugar confectionery sales (US$mn)	677.30	767.99	845.82	933.72	1,036.91	1,144.74	1,260.67	1,378.09
Gum sales (US$mn)	43.88	49.09	53.54	58.07	61.58	65.37	69.27	72.96

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

Pasta

The Vietnamese pasta market is underdeveloped, although the product has become more recognisable in view of westernisation of lifestyles, particularly in urban areas. Around half of the retail market is dominated by **Barilla**, with other prominent importers including **Italpasta** and **Pasta Zara**.

On the other hand, the market for instant noodles is well established, with the market supplied by a mixture of locally made (by companies such as **Masan Consumer** and **Acecook Vietnam JSC**) and imported products. Goods are receiving strong marketing and advertising support, especially as the more challenging economic times have prioritised non-discretionary spending. Instant noodles are expected to remain very popular, on account of their affordability, versatility as a cooking ingredient, wide-ranging availability and convenience.

Table: Pasta Volume Sales, Production & Trade – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Uncooked pasta production, tonnes	22,410	25,268	27,968	31,729	35,913	40,463	40,463	45,024
Uncooked pasta production, tonnes, % change y-o-y	15.96	12.75	10.69	13.45	13.19	12.67	0.00	11.27
Uncooked pasta sales, tonnes	14,829	18,303	21,699	26,135	30,988	36,209	36,883	42,121
Uncooked pasta sales, tonnes, % change y-o-y	36.27	23.42	18.56	20.44	18.57	16.85	1.86	14.20
Uncooked pasta sales, kg per capita	0.17	0.21	0.24	0.29	0.34	0.39	0.40	0.45
Uncooked pasta exports, tonnes	8,881	8,334	7,788	7,242	6,695	6,149	5,602	5,056

Table: Pasta Volume Sales, Production & Trade – Historical Data & Forecasts, 2010-2017								
	2010	**2011**	**2012f**	**2013f**	**2014f**	**2015f**	**2016f**	**2017f**
Uncooked pasta exports, tonnes, % change y-o-y	-5.80	-6.15	-6.56	-7.02	-7.54	-8.16	-8.89	-9.75
Uncooked pasta imports, tonnes	1,299	1,369	1,520	1,647	1,770	1,895	2,023	2,153
Uncooked pasta imports, tonnes, % change y-o-y	32.16	5.38	10.99	8.37	7.44	7.08	6.74	6.44
Uncooked pasta balance, tonnes	7,581	6,965	6,268	5,594	4,926	4,254	3,580	2,903
Uncooked pasta balance, tonnes, % change y-o-y	-10.22	-8.13	-10.00	-10.75	-11.96	-13.64	-15.85	-18.90
Prepared pasta production, tonnes	554,786	598,827	640,444	698,429	762,920	833,042	908,304	987,091
Prepared pasta production, tonnes, % change y-o-y	9.37	7.94	6.95	9.05	9.23	9.19	9.03	8.67
Prepared pasta sales, tonnes	503,063	544,398	584,753	640,993	703,738	772,034	845,392	922,249
Prepared pasta sales, tonnes, % change y-o-y	9.71	8.22	7.41	9.62	9.79	9.70	9.50	9.09
Prepared pasta sales, kg per capita	5.73	6.13	6.52	7.07	7.69	8.35	9.06	9.80
Prepared pasta exports, tonnes	54,059	56,815	58,187	60,023	61,859	63,775	65,772	67,797
Prepared pasta exports, tonnes, % change y-o-y	6.34	5.10	2.41	3.16	3.06	3.10	3.13	3.08
Prepared pasta imports, tonnes	2,336	2,387	2,496	2,588	2,677	2,768	2,860	2,955
Prepared pasta imports, tonnes, % change y-o-y	10.45	2.17	4.57	3.70	3.43	3.39	3.35	3.30
Prepared pasta balance, tonnes	51,723	54,429	55,691	57,436	59,183	61,008	62,912	64,843
Prepared pasta balance, tonnes, % change y-o-y	6.16	5.23	2.32	3.13	3.04	3.08	3.12	3.07

f = BMI forecast. Source: United Nations, BMI

Dairy

The Vietnamese dairy sector has experienced very strong growth in recent years. Key drivers of this growth have been increasing urbanisation and rising incomes, supported by a shift in consumer eating habits. Huge multinational companies have in particular managed to sway consumer preferences with their considerable advertising and promotional power. At the same time, the government is pouring investment in the dairy industry, with a view to produce 3.4bn litres of fresh milk by 2025, which would generate export revenues of some US$200mn.

The local demand for dairy products is met by a combination of locally produced goods, which accounts for 20% of consumption, according to the USDA, and imports from countries including New Zealand, the US and Australia. **Vietnam Dairy Products Co** (Vinamilk) is one of the key players in the sector. Other prominent dairy producers include **Dutch Lady**, **Hanoimilk** and **Anco**.

Table: Dairy Volume Sales, Production & Trade – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Processed liquid milk production, tonnes	294,440	353,866	386,944	433,032	484,292	540,026	599,846	662,468
Processed liquid milk production, tonnes, % change y-o-y	3.91	20.18	9.35	11.91	11.84	11.51	11.08	10.44
Processed liquid milk sales, tonnes	181,560	190,573	201,051	213,501	227,234	242,014	257,932	274,804
Processed liquid milk sales, tonnes, % change y-o-y	3.69	4.96	5.50	6.19	6.43	6.50	6.58	6.54
Processed liquid milk sales, kg per capita	2.07	2.15	2.24	2.36	2.48	2.62	2.76	2.92
Ice cream production, tonnes	22,931	25,419	27,770	31,045	34,689	38,650	42,902	47,353
Ice cream production, tonnes, % change y-o-y	13.27	10.85	9.25	11.80	11.74	11.42	11.00	10.37

f = BMI forecast. Source: United Nations, BMI

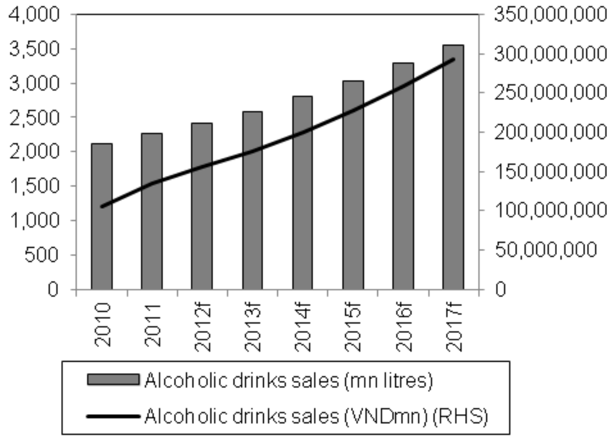
Drink

Alcoholic Drinks

- Alcoholic drinks volume sales CAGR, 2012 to 2017: +8.01%.
- Alcoholic drinks value sales CAGR, 2012 to 2017: +13.49%.
- Beer volume sales CAGR, 2012 to 2017: +8.00%.
- Beer value sales CAGR, 2012 to 2017: +13.48%.
- Wine volume sales CAGR, 2012 to 2017: +8.86%.

Alcoholic Drinks

2010-2017



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

- Wine value sales CAGR, 2012 to 2017: +14.38%.
- Spirits volume sales CAGR, 2012 to 2017: +8.27%.
- Spirits value sales CAGR, 2012 to 2017: +13.76%.

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.

Generally speaking, favourable demographic shifts, rising affluence, strong economic growth and a fast-growing tourist industry imply massive scope for alcoholic drinks consumption, in particular beer. We expect premiumisation to pick up momentum in the Vietnamese alcoholic drinks sector and for value sales growth to outpace that of volume sales growth through our forecast period to 2017. The emergence of a thriving tourist industry in Vietnam is also likely to bolster alcoholic drinks consumption going forward, given that tourists typically have a greater penchant for higher-value consumer products.

Beer will continue to dominate the alcoholic drinks sector, accounting for the vast majority of volume sales, and will thus also remain 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 a local currency CAGR of 8.0% to 2017. We also expect foreign brewers to take on a more prominent role in driving beer sales growth in Vietnam, as they seek to enter emerging markets. As foreign brewers strengthen their competitive position and as the local giants **Habeco** and **Sabeco** extend their presence beyond their regional strongholds, sector dynamism will intensify rapidly.

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.

Similarly, Japanese brewer **Sapporo** has announced that it intends to increase its beer production in Vietnam by five times in the period up to 2019. The company expects to produce 200,000 kilolitres of beer in the country by 2019, a fivefold increase from its expected 40,000 kilolitres in 2014.

Additionally, Japanese brewer **Asahi Group Holdings** has announced that it intends to extend its operations across Asia through a series of acquisitions. Asahi President Naoki Izumiya said that the company had already identified viable targets in Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Volume sales growth in the wine and spirits industry is also expected to be robust over our forecast period to 2017, albeit developing from much lower bases. Both are fairly immature industries, having 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 is likely to instill further dynamism to drive volume sales.

Table: Alcoholic Drinks Value/Volume Sales – Historical Data & Forecasts, 2010-2017

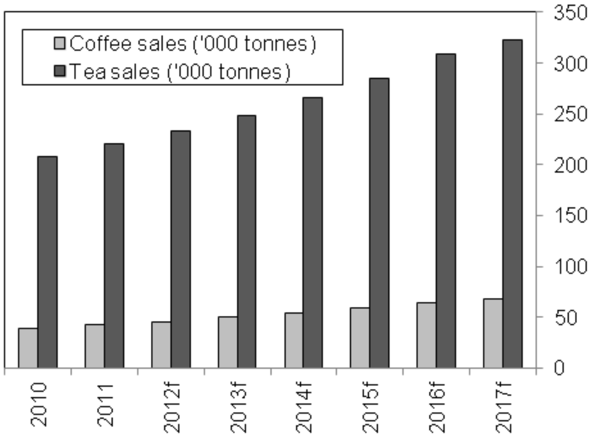
	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Alcoholic drinks sales (mn litres)	2,108.91	2,272.89	2,412.70	2,588.87	2,797.90	3,032.64	3,284.21	3,546.15
Beer sales (mn litres)	2,088.78	2,251.49	2,390.19	2,564.71	2,771.70	3,004.12	3,253.17	3,512.49
Spirits sales (mn litres)	16.54	17.52	18.46	19.77	21.43	23.33	25.37	27.47
Wine sales (mn litres)	3.60	3.88	4.05	4.39	4.77	5.19	5.66	6.19
Alcoholic sales growth, litres (% chg y-o-y)	8.18	7.78	6.15	7.30	8.07	8.39	8.30	7.98
Alcoholic drinks sales (VNDmn)	105,716,858	135,181,759	155,560,827	175,010,773	199,554,932	227,128,546	258,285,628	292,845,564
Beer sales (VNDmn)	102,960,982	131,710,794	151,598,859	170,557,309	194,460,706	221,305,004	251,635,085	285,277,582
Spirits sales (VNDmn)	2,507,587	3,152,614	3,602,049	4,044,385	4,625,491	5,287,869	6,036,950	6,863,324
Wine sales (VNDmn)	248,288	318,351	359,919	409,079	468,735	535,673	613,593	704,658
Alcoholic sales growth, VND (% chg y-o-y)	18.18	27.87	15.08	12.50	14.02	13.82	13.72	13.38
Alcoholic drinks sales (US$mn)	5,525	6,545	7,395	8,414	9,704	11,172	12,850	14,642

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

Hot Drinks

- Coffee volume sales CAGR, 2012 to 2017: +8.47%.
- Coffee value sales CAGR, 2012 to 2017: +13.96%.
- Tea volume sales CAGR, 2012 to 2017: +6.71%.
- Tea value sales CAGR, 2012 to 2017: +12.12%.

Hot Drinks
2010-2017



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

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. 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 acquired 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. Reflecting Vinacafe's strength in the Vietnamese coffee sector, the coffee producer recorded an impressive 30% CAGR 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.

Meanwhile, Philippine food major **Jollibee Foods Corporation** in early 2012 announced it was to acquire a 50% interest in **SuperFoods Group**, which will give it a 49% stake in **SF Vung Tau Joint**

Stock Company in Vietnam and a 60% share in **Blue Sky Holdings** in Hong Kong. The acquisition of a majority interest in the SuperFoods Group could expedite Jollibee's international push given the former's reach across the coffee markets of Macau, Hong Kong and Vietnam.

Table: Hot Drinks Volume Sales – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Coffee sales ('000 tonnes)	39.19	42.36	45.42	49.87	54.21	58.78	63.49	68.18
Tea sales ('000 tonnes)	208.40	220.38	233.24	248.69	266.03	284.81	308.73	322.73

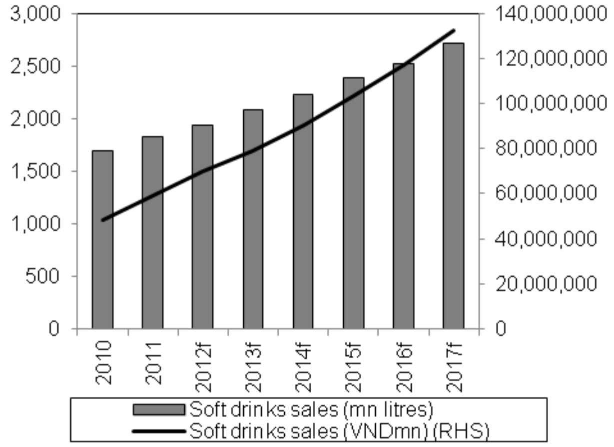
f = BMI forecast. Source: General Statistics Office, Company information, Trade press, BMI

Soft Drinks

- Soft drinks volume sales CAGR, 2012 to 2017: +6.96%.
- Soft drinks value sales CAGR, 2012 to 2017: +13.73%.
- Carbonated soft drinks sales volume CAGR, 2012 to 2017: +7.96%.
- Carbonated soft drinks sales value CAGR, 2012 to 2017: +13.43%.

Soft Drinks

2010-2017



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

We are witnessing a rapid emergence of competition in the Vietnamese soft drinks market. The opportunities provided by a rapid middle-class emergence in Vietnam are firmly within the sights of domestic drinks producers such as **PepsiCo Vietnam**, **Tan Hiep Phat** and **Coca-Cola Beverages Vietnam**, and the companies' aggressive initiatives in terms of product innovation, portfolio expansion and advertising will only instill greater dynamism into the sector.

The maturation of a massive youth population and rising consumer affluence are translating into a burgeoning appetite for soft drinks. As consumers move up the income ladder over the coming years, an accelerating premiumisation momentum in the sector means that value sales are expected to increase more dynamically over our forecast period.

An intensifying influx of sector investments will provide another major impetus to drive industry growth. In particular, we expect domestic soft drinks manufacturers to ramp up their initiatives in terms of product innovation, portfolio expansion and marketing. In the regard of portfolio expansion, local soft drink manufacturers are gradually calibrating their portfolio towards healthier and functional beverages such as fruit juices and ready-to-drink teas as they look to tap into a growing health awareness trend in the country.

Reflecting a shift of consumer preferences towards healthier beverages, PepsiCo Vietnam and Coca-Cola Beverages Vietnam have been losing market shares in recent years due to declining sales of carbonates, according to anecdotal reports. However, with the health awareness trend remaining well-entrenched over the coming years, we expect more domestic soft drinks manufacturers such as PepsiCo Vietnam and Coca-Cola Beverages Vietnam to expand their non-carbonates offerings going forward. As a case in point, **Big C** recently introduced its private label fruit juice range Casino Bio to cater to the burgeoning domestic demand for health and functional beverages.

As competition intensifies in the Vietnamese soft drinks market, domestic producers are also looking to differentiate themselves through branding and marketing initiatives. Coca-Cola Beverages Vietnam and Tan Hiep Phat have executed some of the biggest advertising campaigns in Vietnam through various formats such as print advertisements, television and the internet. These initiatives have not only bolstered consumer awareness of the different soft drinks brands but also encouraged greater soft drinks consumption in the country.

Moreover, domestic soft drinks manufacturers will continue to engage in product innovation by offering different bottle formats and sizes in an attempt to cater to the varying consumer tastes and preferences. For instance, Coca-Cola Beverages Vietnam and PepsiCo Vietnam produce their soft drinks in varying sizes, and this has facilitated their reach to the end-consumer market. As more companies hop on the product innovation bandwagon, this will bring about greater dynamism in the sector and further fuel sales growth.

Table: Soft Drinks Value/Volume Sales – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Soft drinks sales (mn litres)	1,694.54	1,820.11	1,937.14	2,087.21	2,226.31	2,382.92	2,523.34	2,712.36
Carbonated soft drink sales (mn litres)	846.38	905.34	948.96	1,026.30	1,111.06	1,201.26	1,295.74	1,391.62
Soft drink sales growth, litres (% chg y-o-y)	20.37	7.41	6.43	7.75	6.66	7.03	5.89	7.49
Soft drinks sales (VNDmn)	48,430,761	58,936,203	69,720,789	79,057,398	90,567,804	103,254,858	117,311,874	132,630,353
Carbonated soft drink sales (VNDmn)	7,102,612	9,016,364	10,246,674	11,619,255	13,270,648	15,065,525	17,062,862	19,241,779
Soft drink sales growth, VND (% chg y-o-y)	21.76	21.69	18.30	13.39	14.56	14.01	13.61	13.06
Soft drinks sales (US$mn)	2,531.14	2,853.60	3,314.51	3,800.84	4,403.98	5,078.94	5,836.41	6,631.52

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

Table: Carbonates Volume Sales, Production & Trade – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Carbonated soft drink production, litres mn	871.07	931.37	975.51	1,053.65	1,139.20	1,230.24	1,325.59	1,422.36
Carbonated soft drink production, litres mn, % change y-o-y	8.66	6.92	4.74	8.01	8.12	7.99	7.75	7.30
Carbonated soft drink sales, litres mn	846.38	905.34	948.96	1,026.30	1,111.06	1,201.26	1,295.74	1,391.62
Carbonated soft drink sales, litres mn, % change y-o-y	8.75	6.97	4.82	8.15	8.26	8.12	7.86	7.40
Carbonated soft drink sales, litres per capita	9.63	10.20	10.58	11.32	12.13	12.99	13.89	14.79
Carbonated soft drink exports, litres mn	39.17	40.59	41.30	42.25	43.20	44.19	45.22	46.27
Carbonated soft drink exports, litres mn, % change y-o-y	4.44	3.64	1.75	2.30	2.25	2.29	2.34	2.32

Table: Carbonates Volume Sales, Production & Trade – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Carbonated soft drink imports, litres mn	14.47	14.56	14.75	14.90	15.06	15.21	15.37	15.53
Carbonated soft drink imports, litres mn, % change y-o-y	2.68	0.60	1.28	1.07	1.02	1.03	1.04	1.05
Carbonated soft drink balance, litres mn	24.69	26.03	26.55	27.35	28.14	28.98	29.85	30.74
Carbonated soft drink balance, litres mn, % change y-o-y	5.51	5.42	2.01	2.98	2.92	2.97	3.02	2.97

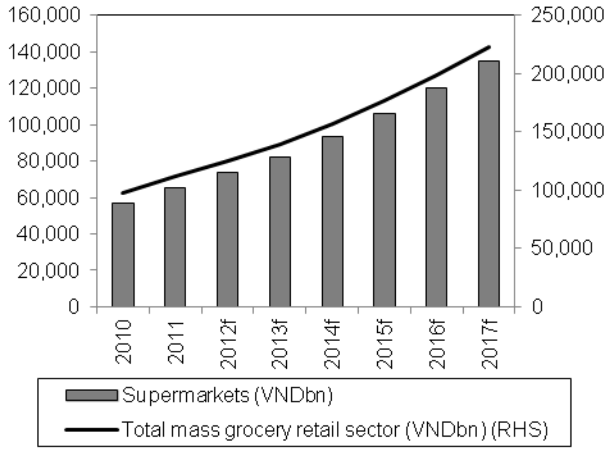
f = BMI forecast. Source: Company information, Trade press, BMI

Mass Grocery Retail

- MGR sales CAGR, 2012 to 2017: +12.26%.
- Supermarket sales CAGR, 2012 to 2017: +12.87%.
- Hypermarket sales CAGR, 2012 to 2017: +12.38%.
- Convenience store sales CAGR, 2012 to 2017: +9.86%.

Mass Grocery Retail Sales

2010-2017



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

We expect Vietnam's mass grocery retail (MGR) sales to have grown 12.2% in 2012, slowing from 13.9% growth in 2011. The Vietnamese consumer came under pressure in 2011 as elevated inflation and tight credit conditions dampened consumer purchasing power. However, with inflationary pressure continuing to wane and the State Bank of Vietnam loosening its monetary policy stance, this is likely to provide some reprieve to domestic demand.

Nonetheless, retail activity in 2012 was expected to have witnessed some moderation as the global headwinds of a potential hard landing in China, economic uncertainties in the US and sovereign debt concerns in the eurozone weighed on consumer confidence, already dented by rising unemployment in the manufacturing sector.

Reflecting the long-term potential of the Vietnamese MGR sector, we forecast a local currency CAGR of 12.26% for overall MGR sales between 2012 and 2017. This growth forecast marks Vietnam as one of the most attractive propositions in the Asia Pacific region, led by supermarkets and hypermarkets. Due to the higher profitability per store for supermarkets and hypermarkets, these store formats will continue to garner the bulk of investment attention. Vietnamese consumers are most familiar with the standard supermarket format and are increasingly showing a penchant for hypermarkets owing to their popular combination of food and non-food items.

Retail Fundamentals Remain Strong In Longer Term

Favourable demographics and robust economic growth largely underpin our optimism in the Vietnamese MGR growth story. According to our estimates, Vietnam's population is roughly 89mn and is forecast to grow at a healthy clip of 0.9% per annum to 2021. More importantly, Vietnam has a youthful demographic profile, implying attractive opportunities in the mass market.

Moreover, Vietnam's rapid economic development is likely to assist the emergence of a new consumer class – in major urban centres at least – that has an interest and can afford to participate in modern consumption methods such as mass grocery retailing. GDP per capita in Vietnam is forecast to more than double from an estimated level of US$1,502 in 2012 to US$4,348 by 2021. This rise in purchasing power will only trigger a swathe of consumer spending across the country's retail scene.

Vietnam Unlikely To Reach Full Retail Potential In Near Term

Although Vietnam is equipped with the aforementioned elements that are necessary to support strong growth in mass grocery retailing, the country is unlikely to reach the full potential of its retail growth story in the near future. Organised retail accounts for only 15% of overall grocery sales in Vietnam, highlighting the prevalence of mom-and-pop shops. The relative immaturity of the Vietnamese MGR sector can be partly attributed to the country's restrictive business climate. Vietnam remains a risky place to do business, with the lack of transparency of laws and regulations as well as restrictions on foreign investment deterring less-hardy retailers from setting up shop in the country. The lack of an established transport infrastructure further complicates distribution efforts for MGR operators.

Foreign Interest Picking Up

Despite the challenges, foreign interest in the Vietnamese MGR sector will very likely continue to grow steadily over the coming years given the sector's hugely untapped potential. We believe the bulk of multinational investment in the near future is likely to come from bigger retail names such as **Aeon** and

Groupe Casino, which are eager to expand their emerging market footprint and have the financial capacity to deploy the necessary distribution infrastructure in the sector. After receiving the regulatory permit from the Vietnamese government, Japanese retailer Aeon plans to develop around 20 retail and trade centres nationwide by 2020, which will house both local and foreign MGR operators.

Interest from less-hardy foreign investors will also pick up, in our view, although such investment will largely take the form of joint ventures as foreign retailers leverage on the local market expertise and financial strength of their local counterparts. As a case in point, South Korean MGR player **E-Mart** recently reached 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. Similarly, Singapore MGR operator **NTUC Fairprice** and Vietnam's **Saigon Union of Trading Co-operatives** are looking to establish a chain of hypermarkets in Vietnam through their local joint venture.

Supermarket And Hypermarket Sectors As The Outperformers

While the supermarket and hypermarket sub-sectors will feature most prominently on investors' radars, the convenience retail sector can be expected to increasingly attract interest from retailers. Accordingly, the demand for convenience with the pay-off of higher prices is not yet on the agenda for most consumers. However, with purchasing power on the rise, this will bring the concept of convenience retailing more within reach of the average consumer.

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 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. However, this point is 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 Sales By Format – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Supermarkets (VNDbn)	57,060	65,374	73,643	82,328	93,630	105,978	120,106	134,933
Hypermarkets (VNDbn)	22,804	26,270	29,714	33,238	37,494	42,126	47,368	53,256
Convenience Stores (VNDbn)	17,962	19,828	21,664	23,387	25,702	28,406	31,385	34,668
Total mass grocery retail sector (VNDbn)	97,826	111,472	125,022	138,953	156,825	176,509	198,860	222,858
Total mass grocery retail sector growth, VND, (y-o-y)	25.14	13.95	12.16	11.14	12.86	12.55	12.66	12.07
Supermarkets (US$bn)	2.98	3.17	3.50	3.96	4.55	5.21	5.98	6.75
Hypermarkets (US$bn)	1.19	1.27	1.41	1.60	1.82	2.07	2.36	2.66
Convenience Stores (US$bn)	0.94	0.96	1.03	1.12	1.25	1.40	1.56	1.73
Total mass grocery retail sector (US$bn)	5.11	5.40	5.94	6.68	7.63	8.68	9.89	11.14

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

Table: Grocery Retail Sales By Format (%)

	2012e	2022f
Organised/MGR	15	28
Non-organised/Independent	85	72

f = BMI forecast. Source: BMI Research

Trade

- Import value CAGR, 2012 to 2017 (US$): +10.42%.

- Export value CAGR, 2012 to 2017 (US$): +11.16%.

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 an imminent hard landing in China are placing increasing pressure on our export outlook for the Vietnamese food and drink sector. On the other hand, the Vietnamese consumer looks to be in a stronger shape than its regional peers to shoulder the burden of slower economic growth. As such, we expected import growth in 2012 to have outperformed that of export growth, coming in at 8.3% and 6.5%, respectively.

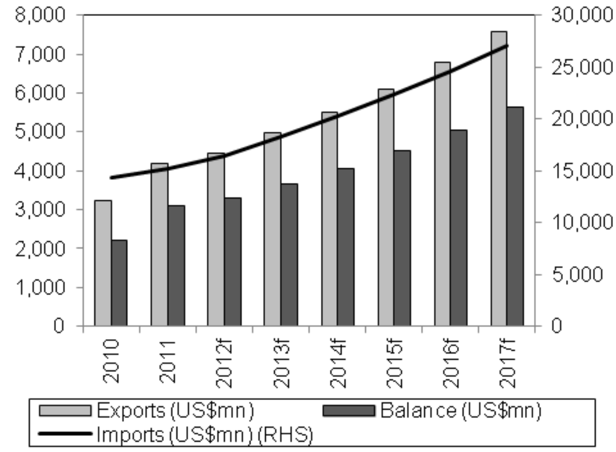
Over the five years to 2017, the outlook for Vietnam's food and drink trade balance is relatively stronger, as the country is forecast to maintain a healthy and growing trade balance. While exports are forecast to experience growth of 11.2% on a compound annual average growth basis between 2012 and 2017, imports are forecast to experience compound annual average growth of 10.4% 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 2017, 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.

Trade

2010-2017



f = BMI forecast. Source: UNCTAD, BMI

Table: Trade Indicators – Historical Data & Forecasts, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Exports (US$mn)	12,168.3	15,707.1	16,721.8	18,661.7	20,651.4	22,913.6	25,510.7	28,379.7
Imports (US$mn)	3,815.0	4,061.8	4,397.4	4,896.2	5,400.7	5,957.9	6,550.5	7,219.4
Balance (US$mn)	8,353.3	11,645.4	12,324.4	13,765.6	15,250.7	16,955.8	18,960.1	21,160.3

f = BMI forecast. Source: UNCTAD, BMI

Food

Key Industry Trends And Developments

Regional Players Expanding Footprint

Philippine food major **Jollibee Worldwide**, the wholly owned subsidiary of **Jollibee Foods**, in early 2012 acquired a 50% stake in **SuperFoods Group**. The stake will include a 49% share in **SF Vung Tau Joint Stock Company** in Vietnam and a 60% share in Hong Kong-based **Blue Sky Holdings**. Jollibee Worldwide has paid US$5mn in an advance payment to the SuperFoods Group and also invested US$25mn for 50% of the SuperFoods business and a US$35mn loan to its partner **Viet Thai International Joint Stock Company**.

Jollibee's ambition to establish a strong foothold in the international markets can be traced to its domestic market dominance and the relatively weaker prospects in the Philippine market. Despite the positives of favourable demographics and rising consumer affluence, the Philippines still fails to make the grade of its regional peers such as Indonesia and China in terms of our consumer investment favourites. Sector crowding and the presence of dominant industry players, which make market entry difficult for newcomers, are some factors deterring investors.

Additional factors are the country's low existing consumption levels, which are held back by still-low per capita income. Lacking considerable dynamism among its consumer-facing players, the Philippines unsurprisingly suffers in relative regional terms. Moreover, Jollibee is already the market leader in the Philippine fast-food market and clearly needs to look afield for stronger growth opportunities. Jollibee could potentially struggle to maintain its strong growth trajectory via a domestic footprint alone. Recognising this, Jollibee aims to increase the proportional contribution of its overseas revenues from a current 20% to 50% within a span of three years.

The acquisition of a majority interest in the SuperFoods Group could expedite Jollibee's international push given the former's reach across the coffee markets of Macau, Hong Kong and Vietnam. The Vietnamese coffee market is one of the most dynamic prospects in the Asia Pacific region, as drinking coffee is quickly emerging as a growing lifestyle choice, particularly among younger consumers. While Hong Kong and Macau do not share similarly exciting growth prospects as that of Vietnam, they nonetheless provide strong scope for premiumisation growth and could create a better-rounded portfolio for Jollibee.

More noteworthy is the potential synergies Jollibee could enjoy between its coffee portfolio and its fast-food offerings. Jollibee could serve its Highlands Coffee in its fast-food outlets, thereby offering consumers with a wider array of product choices. Additionally, SuperFoods has a Pho 24 Vietnamese restaurant chain, with outlets across Vietnam, Indonesia, the Philippines, Hong Kong, Cambodia and Japan, which could further enhance Jollibee's regional reach.

Similarly, Japanese confectioner **Ezaki Glico** announced in early 2012 that it would acquire a 10% stake in Vietnam-based sweets maker **Kinh Do Corp**, reports Reuters. The company will purchase 14mn newly issued shares in the sweets maker. The company aims to expand its business presence in South East Asia through the expansion.

Thai consumer food and agribusiness firm **Charoen Pokphand Foods** (CPF) in late 2011 acquired a 74.18% stake in Vietnam-based feed business and agribusiness services firm **CK Pokphand**. The stake purchase will help CPF to enhance its business in both China and Vietnam, according to president and CEO of CPF, Adirek Sripratak.

Foreign Brands Dominating Consumer Goods Industry

Foreign brands are making stronger headway than domestic brands in the Vietnamese consumer goods industry. Domestic brands have only a modest presence in Vietnam, which can be attributed to the distribution hurdles faced by local consumer goods players, the stronger brand appeal of foreign companies and the perceived better quality of foreign goods. In our view, local consumer goods investors would probably do best to improve their product quality and tailor their portfolio to meet the localised needs of the Vietnamese consumer.

- **Distribution Challenges:** While the majority of domestically produced consumer goods can be found in local supermarket stores such as **Saigon Co-op** and **Big C**, domestic consumer firms have a far less extensive reach than their foreign counterparts across the traditional retail channels such as wet markets and independent stores. Given that organised grocery retail remains a fledgling concept in Vietnam, traditional retail networks arguably provide the most effective and widespread reach to the end-consumer market, which explains the weaker presence of domestic brands in the country.

- **Perceived Better Quality Of Foreign Goods:** Foreign consumer goods are typically viewed among local consumers to be of better quality than domestically produced goods. As foreign consumer goods investors typically have a stronger financial clout, they are equipped with a greater capacity to invest in production infrastructure as well as research and development to improve product quality.

- **Stronger Brand Appeal Of Foreign Brands:** Foreign consumer firms typically enjoy stronger brand appeal than their domestic counterparts, which can be largely attributed to the aggressive branding initiatives employed by foreign firms. Foreign brands such as US coffee firm

> **Starbucks** are generally associated with social prestige, and as consumer affluence grows over the coming years, more consumers are likely to associate themselves with foreign brands rather than local brands.

With more multinationals setting foot in Vietnam as they look to ride on the country's dynamic consumer growth story, domestic companies are likely to find it more difficult to compete for market share gains. Indeed, Thai brewer **Singha**, Philippines-based fast-food chain Jollibee and Japanese retailer **Aeon** are looking to ramp up their expansion push into Vietnam, fuelling competitive pressure for domestic firms.

As competition heats up quickly in the Vietnamese consumer goods market, domestic firms would probably do best to tailor their product offerings to cater to the unique tastes of the Vietnamese consumer and improve their product quality to better compete against their foreign counterparts. Domestic companies typically have a stronger competitive advantage than foreign companies with regard to understanding local market needs and preferences, and they could leverage on this competitive edge to grow their market share. Although domestic firms have a weaker competitive advantage in terms of distribution reach, the ongoing proliferation of organised grocery retail is likely to ease distribution challenges for these companies.

Rural Market Potential Attracting Manufacturers

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 chili sauce and the second biggest producer of instant noodles in Vietnam, 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. As another example, Vietnamese spirits major **Halico**'s expansion 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 incomes, 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.

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. 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

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. However, an increasing number of consumer goods investors are setting up shop in Vietnam and we expect competitive pressures to heat up quickly. Philippine food major Jollibee Foods Corporation acquired a 50% interest in SuperFoods Group, which will give it a 49% stake in SF Vung Tau Joint Stock Company in Vietnam and a 60% share in Blue Sky Holdings in Hong Kong. Meanwhile, Thai consumer food and agribusiness firm Charoen Pokphand Foods (CPF) acquired a 74.18% stake in Vietnam-based feed business and agribusiness services firm CK Pokphand.

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

Spirits Major Diageo Acquires Additional Stake In Halico

In June 2012, UK drinks group **Diageo** acquired an additional 10.62% stake in Vietnamese spirits firm **Hanoi Liquor Joint Stock Company** (Halico), for some GBP14mn (US$22mn). The deal, which will raise Diageo's total equity stake in Halico to 45.52%, is in line with the firm's strategy to increase the proportion of its sales in emerging markets from 40% to 50% of its total sales. Diageo is seeking to capitalise on the robust growth of the branded spirits sector in Vietnam. Diageo has earmarked Vietnam due to its rising population, rapidly growing middle class and Halico's strong market standing in local premium spirits. Diageo previously increased its stake to Halico in August 2011, with the purchase of 5.07% of its stock for GBP6.4mn (US$10.5mn).

Diageo's strategy is focused on marketing and brand building, with enormous sums invested in effective brand communication. The firm has a highly focused and innovative marketing strategy, which has worked very well in the past. It acknowledges the strength of its eight 'global priority brands' in comparison to the rest of its portfolio and allocates disproportionate levels of marketing investment towards these brands. Similarly, it has a disproportionate, although slightly less so, marketing bias towards its 30 'local priority brands'.

SMB Eyeing Regional Growth

Philippine brewer **San Miguel Brewery** (SMB) has its sights set firmly on the demand potential in the markets of Cambodia, Laos and Vietnam. The brewer plans to set up three new breweries in these countries, with a planned investment of around US$100mn per plant. According to the chairman of SMB, Ramon Ang, each plant has the potential to add between US$200mn and US$300mn in annual revenues.

While the Philippine beer sector will remain a strong revenue contributor for SMB, at least in the near future, the relative maturity of the market and SMB's market dominance mean that there is realistically limited scope for growth domestically over the longer term. Acknowledging the need to look afield for more exciting opportunities, SMB's new brewing facilities in Cambodia, Laos and Vietnam will have a brewing capacity of 500,000 hectolitres each.

The attractiveness of the Vietnamese beer market is underpinned by strong consumer beer demand, rising tourist arrivals and continued sector dynamism. However, we acknowledge that the Vietnamese beer market is relatively crowded and mature compared with Cambodia and Laos. Therefore, SMB is likely to face considerable headwinds in expanding its presence across Vietnam, particularly amid the rapid emergence of sector competition as regional brewers, such as Thai **Singha Corporation Co Ltd**, ramp up their expansions across the market. The Vietnamese beer market is dominated by more established market players such as **Habeco** and **Sabeco**, and it will not be easy for SMB to entrench a strong foothold against the companies' market dominance.

Regional Brewers Spreading Their Wings Across Vietnam

Asia Pacific Breweries (APB) saw strong sales in Q212, with 12% sales growth in Vietnam and Thailand, Just Drinks reports. Despite a 5.6% drop in net profits, to revenue of US$98.8mn (SGD123mn), the owner of Tiger Beer saw a 9.7% rise in sales to US$625.24mn (SGD781.3mn) and a 27.7% increase in operating profits to US$134.04mn (SGD167.5mn). APB attributed the 12% drop in sales to challenging market conditions in New Zealand.

Dutch brewer **Heineken** recently secured full control of APB after the shareholders of **Fraser and Neave** (F&N) voted in favour of the firm's SGD5.6bn (US$4.5bn) bid. Heineken has been forced to pay a hefty premium for the business, at 17 times earnings before interest tax and amortisation. However, the firm's CEO has stressed that it was 'worth every dollar' owing to the firm's tremendous exposure to some of Asia's most promising beer markets.

Heineken previously held a 42.5% stake in APB, which it operated in partnership with F&N. However, a bid for F&N by **ThaiBev** put this position under jeopardy and forced Heineken to launch a takeover bid. It was able to seal full control of APB after reaching an agreement with ThaiBev and its partner **TCC Assets** (both linked to Thai billionaire Charoen Sirivadhanabhakdi).

Despite the near-term economic uncertainties in Vietnam, the country's long-term potential remains bright, and this explains the continued flurry of expansionary activity in its consumer sectors. Japanese brewer **Sapporo** has announced that it intends to significantly increase its beer production in Vietnam in the period up to 2019. The company expects to produce 200,000 kilolitres of beer in the country by 2019, a fivefold increase from its expected 40,000 kilolitres in 2014. The overseas expansion is intended to offset the effect of a declining Japanese population, which has hampered growth in the domestic beer market. Sapporo also has plans to open a second factory in Hanoi during 2014.

Japanese brewer **Asahi Group Holdings** has announced that it intends to extend its operations across Asia through a series of acquisitions. Asahi President Naoki Izumiya said that the company had already identified viable targets in Indonesia, Malaysia, the Philippines, Thailand and Vietnam. The Japanese beer market has stalled in recent years as its ageing population has stymied demand, but Asahi still only makes 6.6% of its sales from overseas, compared with rival brewer **Kirin Holdings**, which makes 23.4% of its sales overseas. Asahi has targeted an increase in annual sales by JPY100bn to JPY2trn-2.5trn by 2015, with 20-30% attained from overseas revenue.

Thai brewer Singha also has its eyes set on the tremendous potential on offer in the Indochina region. While Singha has previously been exporting its beer products to the Indochina region through local importers and distributors, the brewer now plans to establish sales offices across the region in a bid to consolidate a stronger presence in these markets. Given the relative maturity of the Thai beer market and the government's anti-alcohol initiatives, we have repeatedly stressed the importance for Thai brewers to pursue product and geographical diversification to create a better-rounded portfolio and lock in higher growth opportunities.

Singha's beer sales in the Indochina region currently stand at around 35mn-40mn litres per annum, and it expected to increase its sales in the region by 50-80% in 2012 through its aggressive expansion plans. While the fairly immature beer markets of Cambodia, Laos and Vietnam are likely to provide a stronger scope for growth, some markets are likely to serve up greater challenges for Singha. Although Vietnam represents a more exciting growth prospect than Thailand, thanks to strong consumer demand, rising tourist arrivals and continued sector investment, competition levels are quickly heating up, and Singha is likely to face stronger competitive headwinds in expanding in the market. Being a relative latecomer to the Vietnamese beer market, Singha will have to compete against more established market players.

Also looking to capitalise on the Vietnamese potential, in 2011, Danish brewer **Carlsberg** purchased the remaining 50% stake in Vietnamese brewer **Hue Brewery Company** in a deal worth US$93mn. Carlsberg now owns 100% of Hue, which includes two brewery facilities and the Huda Hue brand.

Spirits And Soft Drinks Potential Attracting Investors

US consumer goods packaging supplier **Crown Holdings** is to open its fourth manufacturing plant in Vietnam by mid-2013 in a bid to ramp up global production, reports Beverage Daily. The new facility will be opened in Danang and produce aluminium beverage cans, supporting Crown's existing sites in Hanoi and Ho Chi Minh City. The plant will offer an initial production capacity of 750mn two-piece 33 cubic litre cans per annum.

The Asian market is proving to be a very exciting prospect for multinational cognac producers. While China still accounts for the bulk of Asian cognac demand, foreign cognac players are shifting their sights to the other relatively immature cognac markets such as Vietnam, Malaysia, Cambodia and Laos. The leading four global cognac houses, **Hennessy**, **Rémy Cointreau**, **Martell** and **Courvoisier**, are all actively seeking out new markets to diversify their presence beyond China.

By diversifying their geographical presence, cognac producers will aim to mitigate demand declines in a market with an improved performance elsewhere in their portfolio. Emerging markets such as Vietnam, Malaysia, Cambodia and Laos are also equipped with the dynamics of rapidly growing consumer affluence and urbanisation, which will fuel a shift of consumption habits towards higher quality and higher priced cognacs. A big positive behind the appeal of these markets is their underdeveloped nature, underlining the potential still available.

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, in 2011 acquired a 50.1% stake, valued at around VND1.07trn (US$51mn), in the Vietnamese coffee producer **Vinacafe Bien Hoa Joint-Stock Company**. In September 2012, there were media reports that Vinacafe was planning to invest VND50mn per hectare (ha) in 10,000ha of coffee plantations in Myanmar. Vinacafe currently farms 25,000ha of coffee, of which 8,000ha of aging trees need to be replanted by 2015.

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.

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.

Ready-To-Drink Tea Attracts Investment

In September 2012, the Daily reported that **Tan Hiep Phat Group** – a prominent Vietnamese manufacturer of soft drinks – began construction of a new plant in northern Ha Nam province. The factory, which will have annual capacity of 600mn litres, is expected to mostly produce the Number One energy drink brand. The US$71mn project, the first phase of which is expected to be operational by the end of 2013, closely follows the opening of a US$91mn manufacturing facility in central Quang Nam province. Deputy director of Tan Hiep Phat Group, Tran Phuong Uyen, was quoted as saying that the new plants will produce soft drinks of natural origin, doubling the company's existing annual capacity of 1bn litres per year.

Tan Hiep Phat Group is reportedly the market leader in ready-to-drink tea. In 2011, its market share in the off-trade sector was in the region of 41%. The group's brands include Barley Lemon Green Tea, Zero Degree (green tea), Laser, Dr Thanh and Number One. Overall off-trade market for soft drinks reportedly grew 3.7% y-o-y in 2011, led by non-carbonates (up by 18%), with carbonates up by 12.2%.

Market Overview

Hot Drinks

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.

As such, we expect more regional players to get involved in the Vietnamese coffee market over the coming years. This is demonstrated by Masan Consumer's acquisition of a 50.1% 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.

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.

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.

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. PepsiCo opened its new US$45mn manufacturing plant in southern Dong Nai Province in March 2012. The plant has a capacity of 180mn litres a year and will produce carbonated and non-carbonated drinks including Pepsi, 7up, Mirinda, Twister, Sting and Aquafina.

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.

The expiration of a bottling agreement between US soft drinks giant The Coca-Cola Company and Singapore-based soft drinks producer F&N marks a fresh start for both companies. Upon the termination of this agreement, F&N can now expand freely into the other high-growth regional markets such as Thailand and Indonesia.

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.

Alcoholic Drinks

The government levies substantial duties on all imported alcoholic beverages, and there are consumption taxes. As a result, a substantial black market for smuggled products has developed, with the government estimating that a third of spirit sales come from smuggled goods.

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.

Western expatriates and tourists remain the biggest consumers of wines and spirits in Vietnam, although domestic drinking habits have also been changing in line with higher consumer incomes and greater exposure to Western cultures. Alcohol consumption habits of the Vietnamese consumer have traditionally largely centred on cheap beer and whiskies. However, we are witnessing a shift of consumption habits towards quality wines at reasonable prices. Wines are often perceived as a symbol of social prestige and as living standards improve, demand for wines should increase.

Beer

In the brewery sector, several multinational operators have established joint ventures (JVs) 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 APB. Heineken recently secured full control of APB after F&N shareholders voted in favour of the firm's SGD5.6bn (US$4.5bn) bid. Heineken previously held a 42.5% stake in APB, which it operated in partnership with F&N. However, a bid for F&N by ThaiBev put this position under jeopardy and forced Heineken to launch a takeover bid.

APB has brewing facilities in 13 different high growth markets – Singapore, Malaysia, China, India, Vietnam, Cambodia, Thailand, Sri Lanka, New Zealand, Papua New Guinea, New Caledonia, Mongolia and Laos. Its flagship product is its Tiger beer brand.

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; Anglo-South African brewing leader **SABMiller** (which 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 JV. Heineken's Vietnamese operation is controlled through **Vietnam Brewery**. The group's Vietnamese partner is **Saigon Trading Co**.

Despite the growing presence of multinationals in the market, local firms continue to dominate. The sector remains highly-regionalised, with Habeco (Hanoi Alcohol Beer and Beverage Company) dominating the north of the country and Sabeco (Saigon Beer Alcohol Beverage Corporation) being the key player in the south. Sabeco and Habeco – both state-backed brewers – control an impressive 34% and 19% of the local beer market respectively. It is not surprising, therefore, that domestic brands are continuing to lead overall sales in the Vietnamese beer market.

The market dominance of domestic brewers remains a major hurdle for foreign brewers to tap into the sector's potential. However, on the flip side, the dominance of domestic brewers in their respective regions underlines the less-competitive nature of the regional beer markets and partly explains the sector's higher-margin operating environment. With growing consumer awareness and receptiveness of foreign brands, there is certainly potential for foreign brewers to make big waves across the sector.

We are already witnessing increasingly fierce competition from foreign brewers as they seek to strengthen their market foothold in the sector, particularly in the premium beer segment. Japanese brewer Sapporo announced that it intends to increase its beer production in Vietnam by five times in the period up to 2019, while compatriot Asahi plans to pursue acquisitional growth across a number of South East Asian markets, including Vietnam. As it looks to further stretch its regional presence, APB plans to invest SGD90mn in expanding production at its Ho Chi Minh brewing JV with Saigon Trading by 50%.

Similarly, Thai brewer Singha clearly has its eyes set on the tremendous potential on offer in the Indochina region. While Singha has previously been exporting its beer products to the Indochina region through local importers and distributors, the brewer now plans to establish sales offices across the region in a bid to consolidate a stronger presence in these markets.

Mass Grocery Retail

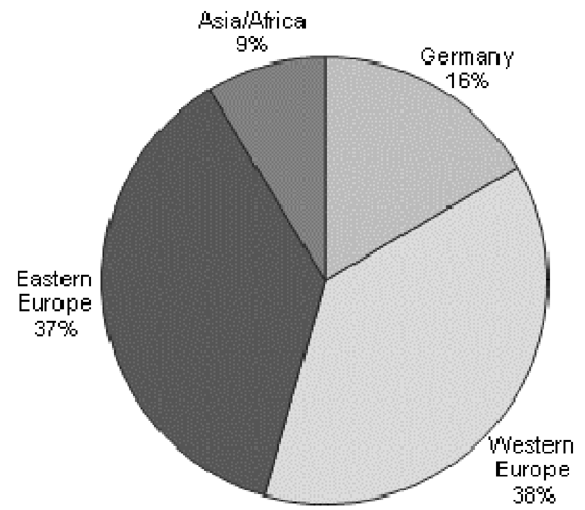
Key Industry Trends And Developments

Metro Moving Forward In Vietnam

In our view, Germany-based cash-and-carry retailer **Metro Group** needs to ramp up its exposure in emerging markets (EMs), which present much more exciting opportunities than its developed European markets. Vietnam, in particular, remains an attractive market for Metro, and its EM ambitions are likely to support the expansionary plans of its local subsidiary **Metro Cash & Carry Vietnam**. However, the fact that Metro Cash & Carry Vietnam is present only in the wholesale sector means it faces a major threat of declining sales opportunities from the ongoing proliferation of organised retail. This raises questions about its future strategic direction in the country, although we stress that this remains a long-term play.

Reliant On Europe

Metro FY2011 Revenue Breakdown By Geographic Region



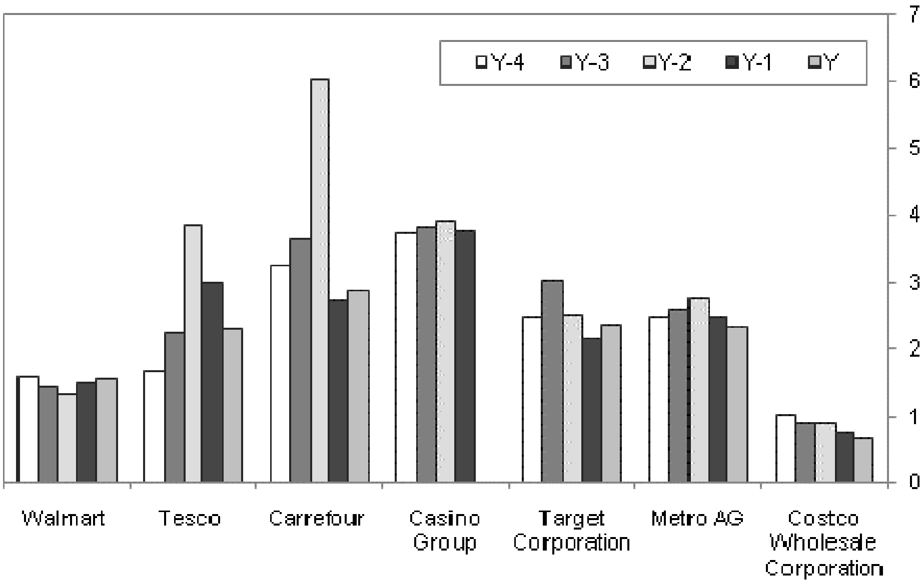
Source: Company financials, investor relations

Metro had a particularly weak showing in Western Europe and Germany in FY2011. Metro recorded declines of 2.8% and 0.9% in its Germany and Western Europe sales respectively for the year ending December 2011. As reflected in its results, the traditional perception of food retailing and general wholesale retailing as largely non-cyclical and defensive has clearly been challenged by the ongoing unwinding of the sovereign debt crisis in the eurozone and the ensuing effect this is having on consumer confidence. Moreover, while Metro shifts a lot of food, it also sells a lot of consumer electronics, which behave far more cyclically. With Western Europe, its biggest market, expected to remain essentially flat, it is important that Metro gets its EM strategy right. China and Russia, in particular, feature prominently on Metro's radar on this front. Metro planned to open at least 10 stores in China in 2012.

Vietnam is another key focus for Metro. Metro currently operates 16 outlets in Vietnam. With the nature of its operating model well suited to meet the needs of the retail sector in developing markets, Metro is expected to easily find a strong audience in EMs and in Vietnam. The concept of organised retail has yet to take off among Vietnamese consumers (organised retail makes up only 15% of overall grocery sales in the country) as the majority of people still carry out their shopping at informal retail stores such as mom-and-pop shops and open-air markets. The proprietors of these independent retail outlets represent the core customer base for Metro, implying strong opportunities that it could capitalise on. Metro's lower-value product offerings would also appeal strongly to the Vietnamese consumers, as the country remains an inherently price-sensitive market, with premium brands appealing to very few.

Metro Has A Healthy Balance Sheet

Selected Global Retailers – Debt-To-EBITDA Ratio



Y = last financial year, Y-1 = the previous financial year and so on. Source: Bloomberg

The financial backing of Metro is likely to support its expansion across Vietnam, enabling it to pour in significant capital investments without the need for immediate returns. Metro has a healthy fiscal position, implying a reasonably strong expansionary capacity. Metro plans to open four more stores by 2013.

However, as the Vietnamese mass grocery retail (MGR) sector gradually liberalises, Metro would face greater competitive headwinds and potentially witness slower growth opportunities. Favourable demographic shifts and rising consumer affluence will trigger a wave of consumer spending across the retail scene, fuelling foreign interest in the MGR sector. We expect organised retail to contribute 28% of overall grocery retail sales by 2022.

Given that Metro has not to date hinted at amending its strategy of expanding in the cash-and-carry format in Vietnam to incorporate organised grocery retailing, this is clearly a question mark regarding future prospects in the country. Nonetheless, this remains a very long-term play, and Metro will very likely continue to find exciting opportunities in the country, particularly in the under-retailed rural areas, which present massive untapped potential.

Vietnam A Stepping Stone To Achieve Regional Ambitions

Ramping up its presence in Vietnam, Japanese retailer **Aeon** is planning to build seven shopping centres in the country, with construction on its first shopping mall due to have started in 2012 and be completed by early 2014. Aeon’s announcement comes closely after the Vietnamese government gave its regulatory approval for it to establish a local subsidiary in the country. Under the regulatory permit, Aeon will be able to establish its own-branded supermarkets, shopping malls, department stores and specialised stores. The retailer also inaugurated a new national headquarters in Ho Chi Minh City in Vietnam in March 2012. The new unit will be responsible for the retailer’s convenience stores, shopping centres and supermarkets in the country. With tremendous opportunities on offer in the Vietnamese food retailing sector, we believe the spread of modern retail into the food sector will only accelerate in the years to come, and Aeon’s plan to expand its Vietnamese presence reinforces this view.

South Korean retailer **Lotte** also 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 MGR markets, Lotte plans to open more than 200 stores in the region by 2018.

Lotte is not alone in pursuing opportunities abroad. Domestic retailer **E-Mart**, which is owned by **Shinsegae**, agreed a deal 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.

Singapore MGR operator **NTUC Fairprice** also has concrete plans to expand in Vietnam and in 2010 formed 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 followed 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

Despite the rapid influx of foreign investment in the expansion of modern retail stores across Vietnam in recent years, the country's MGR sector remains relatively underdeveloped, with informal grocery stores accounting for an estimated 85% of overall food retail sales. Nevertheless, supermarket chains in Ho Chi Minh City are thriving. Indeed, many have seen good sales growth and a turnover of 15-25% each year at the expense of traditional markets in the city, which are experiencing a continued decline, reported Saigon GP in February 2012. Ho Chi Minh City now has more than 200 supermarkets, double the number in 2005, while the number of traditional markets has fallen from 300 in 2005 to 200 currently. The number of smaller supermarkets in the city has increased by four times compared to 2005. The success of supermarkets has been attributed to successful promotional campaigns and enticing prize offers.

Indeed, 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. One example is **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 are likely to 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 increasingly crowded big cities. 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.

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.

Indeed, Vietnamese supermarkets are facing strong competition from foreign competitors, according to Vu Vinh Pu, chairman of the Ha Noi Supermarkets Association, as reported by Viêt Nam News in August 2012. The increasing number of foreign retail outlets is compounding the economic hardships faced by domestic retailers, Pu said. Domestic retailers **FiviMart** and **Intimex** have reduced their number of outlets and saw profits fall 5-10% compared with H111; Pu attributed these losses to declining consumer purchasing power. Pu also cited the presence of international wholesaler Metro Cash & Carry, French-owned **Big C** and Malaysian department store **Parkson**.

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, 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 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; 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, 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

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Supermarkets	1,700	1,800	1,915	2,030	2,165	2,181	2,297	2,400	2,439
Hypermarkets	193	200	212	221	230	235	250	263	269
Convenience stores	920	930	955	989	1,038	1,050	1,137	1,165	1,184
Total MGR outlets	2,813	2,930	3,082	3,240	3,433	3,466	3,684	3,828	3,892

Source: General Statistics Office, Company figures, BMI

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Supermarkets	1.50	1.72	2.02	2.29	2.60	2.53	2.98	3.17	3.50
Hypermarkets	0.46	0.57	0.76	0.91	1.02	1.01	1.19	1.27	1.41

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Convenience stores	0.54	0.62	0.75	0.82	0.89	0.85	0.94	0.96	1.03
Total MGR sales	2.49	2.91	3.53	4.02	4.51	4.39	5.11	5.40	5.94

Source: General Statistics Office, BMI

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Supermarkets	23,579	27,203	32,260	36,865	42,714	44,972	57,060	65,374	73,643
Hypermarkets	7,191	9,008	12,145	14,600	16,835	18,021	22,804	26,270	29,714
Convenience stores	8,439	9,856	11,997	13,211	14,677	15,181	17,962	19,828	21,664
Total MGR sales	39,209	46,068	56,402	64,676	74,226	78,175	97,826	111,472	125,022

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

Table: Average Sales Per Outlet By Format – 2012

	US$mn	VNDbn
Supermarket	1.44	30.19
Hypermarket	5.25	110.46
Convenience store	0.87	18.30
Total MGR	1.53	32.12

Source: BMI

Competitive Landscape

Table: Key Players In Vietnam's Food Sector

	Sub-sector	Sales (VNDbn)	Sales (US$mn)	Year-Ending	Employees	Year Established
Bibica Corp	Food – Confectionery	1,000.3	48.4	Dec-11	1,305	1999
Halong Canned Food Joint Stock Company	Food – Canned seafood, meat, fruit & vegetables	827	40.0	Dec-11	1,070	1957
Hanoi Milk Joint Stock Company	Food and beverages – Dairy	282	13.5	Dec-11	na	2001
Masan Consumer	Food – Instant noodles, sauces	7,239	347.5	Dec-11	5,079	1996
Nam Viet Corporation	Food – Seafood	2,108^	100.2^	Dec-12	na	1993
Nestlé Vietnam	Food and beverages	CHF7.2bn**	7,826.4	Dec-11	na	1995
San Miguel Purefoods Vietnam	Food and beverages – Miscellaneous	na	105.0 (e)	2011	na	na
Sao Ta Foods Joint Stock Company	Food – Seafood	1,918	92.1	Dec-11	na	1996
Unilever Vietnam	Food and beverages	EUR18.9bn*	24,692.9	Dec-11	5,500	1995
Vietnam Dairy Products Co	Food – Dairy	21,821	1,040	Dec-11	na	na
Vissan Import Export Corporation	Food – Meat	na	130.0 (e)	2011	2,500	1974

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

Table: Key Players In Vietnam's Drink Sector

	Sub-sector	Sales (VNDbn)	Sales (US$mn)	Year-Ending	Employees	Year Established
Coca-Cola Vietnam	Beverages – Soft drinks	na	180.0 (e)	2011	1,182	1994
Habeco	Beverages – Alcoholic	3,416	165.4	Dec-11	na	na
Hanoi Milk Joint Stock Company	Food and beverages – Dairy	282	13.5	Dec-11	na	2001
Nestlé Vietnam	Food and beverages	827.1	40.0	Dec-11	na	1995
Pepsi-IBC Vietnam	Beverages – Soft drinks	na	145.0 (e)	2011	na	1991
Sabeco	Beverages – Alcoholic	24,332	1,178.1	Dec-11	na	na
Saigon Beverages Joint Stock Company (Tribeco)	Beverages – Soft drinks	742	35.9	Dec-11	1,250	1992
San Miguel Purefoods Vietnam	Food and beverages – Miscellaneous	na	105.0 (e)	2011	na	na
Tan Hiep Phat Group	Beverages – Alcoholic & Soft	na	25.8 (e)	2011	2,000+	1994
Trung Nguyen Corp	Beverages – Coffee	na	129.0 (e)	2011	na	1996
Unilever Vietnam	Food and beverages	EUR18.9bn*	24,692.9	Dec-11	5,500	1995
Vietnam Brewery Ltd	Beverages – Alcoholic	na	155.0 (e)	2011	500	1991
Vinacafe Bienhoa Joint Stock Company	Beverages – hot drinks	na	30.9 (e)	2011	na	1969
Vinamilk	Beverages – Dairy	21,821	1,068.7	Dec-11	3,000	1976

*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 (VNDbn)	Sales (US$mn)	Financial Year Ending	Fascias	Format	Outlets In Vietnam
Saigon Co-op	Vietnam	11,800(e)	560.97(e)	Dec-12	Co-op Mart	Supermarkets	50
					Co-op	Convenience stores	90
					Co-op Food	Convenience stores	17
Metro Cash & Carry Vietnam	Germany/ Vietnam	EUR2.7bn*	3,541	Dec-11	Metro	Cash & Carry	16
CP Group	Thailand/ Vietnam	THB749bn(e)	24,192(e)	2011	FreshMart	Convenience stores	120
Groupe Casino	France/ Vietnam	EUR15.6bn***	20,381	Dec-11	Big C	Hypermarkets	9
Hanoi Trade Corporation	Vietnam	6,780 (e)	326.3(e)	Dec-11	Hapro	Supermarkets	50
					Hapro	Convenience stores	700
Vietnam National Textile And Garment Group	Vietnam	na	22(e)	2011	Vinatexmart	Supermarkets	58
Saigon Trading Corporation	Vietnam	na	14(e)	2011	Saigon	Supermarkets	12
Dairy Farm International Holdings	Vietnam	na	2,788**	Dec-11	Wellcome	Supermarkets	2
					Giant	Hypermarkets	1
Intimex Hanoi	Vietnam	na	30(e)	2011	Intimex	Supermarkets	14
An Phong Company	Vietnam	na	4(e)	2011	Maximark	Supermarkets	11
Seiyu	Japan/ Vietnam	na	2(e)	2011	Seiyu	Supermarkets	1

*na = not available, e = estimate, *Asia/Africa sales ** East Asia regional sales (Vietnam, Malaysia, Brunei and Indonesia), ***International Sales, Source: Company financials, Trade press, BMI*

Company Monitor

Food

Kinh Do

Company Overview	Kinh Do is one of the largest food producers in Vietnam. Kinh Do is primarily engaged in the production of confectionery products such as cakes and candies, dairy products such as milk and ice cream, as well as beverages such as purified water and fruit juices. While food production is its core business (revenues from the foodstuff division make up more than 90% of Kinh Do's overall sales), Kinh Do is also involved in financial services, real estate, mass grocery retailing and the retailing of bakery products. Currently, Kinh Do operates a chain of Kinh Do Bakery and K-Do Bakery & Café stores in Vietnam.
Strengths	• Kinh Do will continue to reap economies of scale and cost savings synergies from its recentlyexpanded domestic scale as a result of its acquisitions. • An ongoing push towards higher-value products is likely to prove earnings supportive. • Kinh Do's healthy balance sheet leaves it poised to pursue acquisitional growth. • Kinh Do's ambition of expanding through mergers and acquisitions should greatly facilitate its expansions across the country.
Weaknesses	• An over-reliance on Vietnam leaves it particularly vulnerable to demand fluctuations in the market. • Acquisitions, while providing an avenue of rapid expansions, are costly and may come at the expense of lower profitability for Kinh Do should it choose to pursue acquisitions aggressively. • Being primarily engaged in the food business, Kinh Do is susceptible to commodity price inflation.
Opportunities	• Growing purchasing power among Vietnamese consumers translates into a burgeoning appetite for higher-value food products such as confectionery, and Kinh Do's expansions in this direction could prove supportive of its future prospects. • Emerging markets provide the strongest growth opportunities in the longer term, with Indonesia, Thailand and Cambodia representing some of the high-growth potential markets Kinh Do could expand across.
Threats	• Intensifying competition from sector players such as Masan Food, Nestlé Vietnam and Unilever Vietnam could threaten Kinh Do's competitive position and market share. • Kinh Do's profitability was largely squeezed by commodity price inflation in 2011. • Commodity prices remain particularly volatile, and the return of higher raw material costs will be difficult to pass on to consumers in a price-sensitive environment. • Rising operating costs such as labour costs and rental rates could weigh on Kinh Do's overall profitability as well.

Strategy

Vietnamese food producer Kinh Do Corporation is likely to witness slower domestic demand in the coming quarters as global headwinds begin to weigh on consumer sentiment and prompt more local consumers to place a greater emphasis on price. However, we see cause for optimism in Kinh Do's near-term earnings prospects as it continues to reap fruits from its premiumisation push and greater economies of scale as a result of its recent acquisitions. With its strategy centred on brand building, product innovation and overseas expansions, Kinh Do's longer-term future certainly looks bright, in our view.

While we believe that the Vietnamese consumer is in a better shape than its regional peers to weather the growing external headwinds, we caution that domestic demand conditions are nonetheless likely to moderate, albeit gradually, over the coming quarters. The global headwinds of 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 and are likely to dampen consumer confidence among Vietnamese consumers. That said, we acknowledge that waning price pressure and tight labour market conditions could lend some support to near-term domestic demand. Nonetheless, against the backdrop of heightened consumer price sensitivity, Kinh Do is likely to witness some consumer downtrading and, accordingly, slower demand growth for its higher-value products such as ice cream and fruit juices (*see chart*).

Food Price Pressure To Wane

Commodity Price Forecasts

	2008	2009	2010	2011	2012f	2013f
Cocoa price, GBP/tonne, ave	1,425.75	1,869.00	2,165.00	1,863.00	1,450.00	1,275.00
Coffee price (Arabica), Usc/lb, ave	132.0	132.0	161.8	253.1	200.0	180.0
Sugar #11 price, Usc/lb, ave	12.10	19.17	21.97	27.10	22.50	21.50
Milk price, US$/cwt, ave	17.46	11.31	14.22	18.02	17.00	16.50
Palm oil, MYR/tonne	2,842	2,272	2,760	3,245	3,200	3,100
Wheat price, Usc/bushel, ave	795	582	576	709	575	560
Soybean price, Usc/bushel, ave	1,233	968	1,039	1,317	1,150	1,100
Corn price, USc/bushel, ave	527	403	422	680	600	575
Rice price, US$/cwt, ave	15.34	13.65	12.46	15.12	14.50	14.00
Barley price, EUR/tonne, ave	219.2	150.1	164.4	255.7	240.0	230.0

f = BMI forecast. Source: Bloomberg

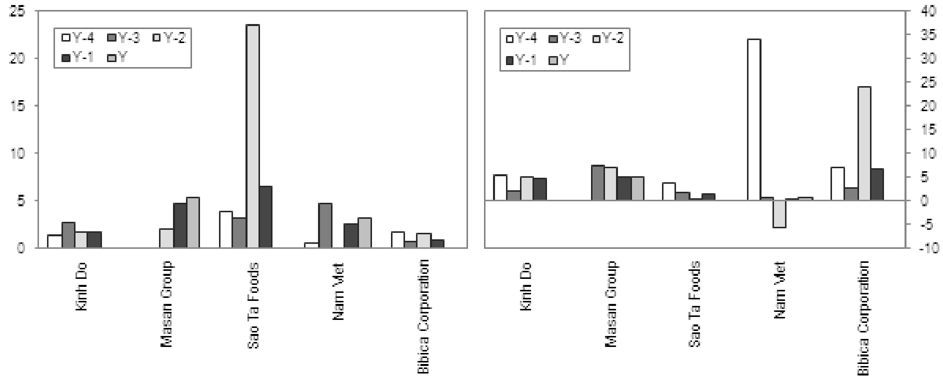
According to its latest financial results, Kinh Do's operating margin declined from 31.8% to 8.1% for the year ending December 2011. Given that food inflation has peaked in 2011 on the back of well-supplied commodity markets, this will clearly pose less of a threat to Kinh Do's profitability in FY2012 (*see table*).

Our optimism in Kinh Do's near-term earnings prospects is further strengthened by its product diversification towards higher-value products and greater economies of scale as a result of its recent acquisitions. Following the integration of its acquired confectionery businesses North Kinh Do Food and Ki Do, Kinh Do enjoyed improved economies of scale and stronger bargaining power with suppliers (over price and quality terms), retailers (over payment and display spaces terms) and banks (for financial support). With the ongoing integration and merger of its acquisitions and subsidiaries such as Vinabico and Binh Duong Kinh Do, Kinh Do could accelerate the realisation of synergies such as operational efficiencies, and potentially mitigate the impact of a demand slowdown on its bottom line.

Looking towards the longer term, Kinh Do will continue to consolidate its domestic position through product innovation, brand building, strengthening distribution capabilities as well as mergers and acquisitions (M&As), which will leave it increasingly well placed to deal with the rapid emergence of competition in the market.

Kinh Do Has A Healthy Acquisition Appetite

Selected Vietnamese Companies – Debt-To-EBITDA Ratio (LHS) & Interest Coverage Ratio (RHS)



Y = last financial year, Y-1 = the previous financial year and so on. Source: Bloomberg

M&A, in particular, will remain at the heart of Kinh Do's growth strategy. M&As bring a host of benefits such as instant scale and stronger bargaining power, and a strategy of inorganic growth could greatly facilitate Kinh Do's expansions across Vietnam. With an estimated debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) ratio of 1.7 and interest coverage ratio at around 4.6, which compares well with its domestic food producing peers, Kinh Do certainly looks primed to snap up acquisition assets should the opportunity present itself.

While there are potential downsides of engaging in M&As, such as problems of integration due to clash of cultures, Kinh Do's successful history of integrating its recent acquisitions provides a strong cause for optimism in its inorganic growth prospects. As a case in point, following their merger with Kinh Do, Kido's revenues increased by 40% while North Kinh Do Food's revenues grew by 30%.

While Vietnam will remain hugely relevant to Kinh Do's revenues in the near-to-medium term, we stress that it is strategically important for it to expand its overseas footprint to achieve a better-rounded geographic portfolio. The high-growth markets of Cambodia, Indonesia and Thailand could serve as attractive propositions for Kinh Do on this front.

Company Financials

For the year ending December:

- FY2011 Revenues: VND4.3trn, growth of 119.6%

- FY2011 Operating Income: VND344.2bn, decline of 44.3%
- FY2011 Net Income: VND299.9bn, decline of 48.2%
- FY2010 Revenues: VND1.9trn
- FY2009 Revenues: VND1.5trn

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 with 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

- While not a problem for non-perishable personal care items, food expansion may necessitate further supply chain investment owing 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 incomes, 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.

Asia, Africa and Central & Eastern Europe Revenue:

- 2011: EUR18.9bn
- 2010: EUR17.7bn
- 2009: EUR14.9bn
- 2008: EUR14.5bn
- 2007: EUR13.4bn

Asia, Africa and Central & Eastern Europe Operating Income:

- 2011: EUR2.2bn
- 2010: EUR2.3bn
- 2009: EUR1.9bn
- 2008: EUR1.7bn
- 2007: EUR1.7bn

Nestlé Vietnam

Company Overview

Nestlé Vietnam is a wholly owned subsidiary of Swiss food and beverage major Nestlé. The subsidiary 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. 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 propositions will appeal to emerging consumers.
- Health and wellness commitment will very likely 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.
- Non-organised retailers account for the majority of grocery sales.

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 could 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 'Asia, Oceania and Africa' operating region, under the 'Other Asian Markets' division.

Other Asian Markets Revenue:

- 2011: CHF7.2bn
- 2010: CHF7.8bn
- 2009: CHF6.9bn
- 2008: CHF6.6bn

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 the country's high-spending urban centres and the rural, low-spending population.
- Established, strong brands are a significant advantage in the current environment of regional food hygiene and safety scares.
- Investment from a leading private equity fund is likely to 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 a 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 investment 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 to 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.
- Volatile 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 suffering as a result.

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's 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 acquired a 50.1% stake, valued at around VND1.07trn (US$51mn), in the Vietnamese coffee producer Vinacafe Bien Hoa Joint-Stock Company.

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 into 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) will most likely continue to prove very supportive of Masan's expansion plans beyond the processed food sectors into other consumer goods products. 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 is likely to leave Masan increasingly well placed to reap the attractive rewards on offer in Vietnam.

Company Data

For the year ending December:

- 2011 Net Sales: VND7,239bn, growth of 27.2%
- 2011 Operating Income: VND2,492.8bn, decline of 3.3%
- 2011 Net Income: VND2,505.3bn, decline of 4.7%
- 2010 Net Sales: VND5,586.3bn, growth of 41.1%
- 2010 Operating Income: VND2,577.3bn, growth of 274.0%
- 2010 Net Income: VND2,629.2bn, growth of 286.9%
- 2009 Net Sales: VND3,957.8bn, growth of 105.9%
- 2009 Operating Income: VND698.1bn, growth of 54.7%
- 2009 Net Income: VND679.6bn, growth of 69.8%

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 that 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 is likely to 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 sub-sectors.
- 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.
- Volatile commodity costs threaten profitability, particularly with regard to mass-market primary products.

Strategy

Three fundamental factors underpin our favourable view of the company: its focus on the Vietnamese market, its investment in supply chain and its sound financial position. This is further bolstered by the company's investment in its production capacities.

We favour Vinamilk's strategy to develop mainly on the domestic market, as local demand has significant growth potential in the long term. Indeed, we forecast the country's dairy consumption to significantly increase over our forecast period, albeit from a low starting point. Finally, increased urbanisation, Westernization and the ongoing spread of modern, organised retail networks will prove supportive of strong dairy consumption growth, especially in the light of continued economic development.

In this context, Vinamilk has been the main player on the market to take advantage of this demand. Indeed, the company invested significantly in its Vietnamese production capacities as well as in supply chain enhancement and infrastructure. It has also made investments in major foreign dairy export markets in order to increase supply to the Vietnamese market. For example, Vinamilk invested NZD121 million in the Miraka production capabilities in New Zealand in order to process and export dairy products back to Vietnam.

This has resulted in very strong revenues and profit growth for Vinamilk. The company has significantly outperformed its peers since 2006, and its average revenues and profit have been higher than those of Megmilk**,** Mengniu or Namyang in recent years. Estimates for 2012 revenues and profit growth show that this trend is expected to continue in the medium term.

Moreover, we are positive about Vinamilk's will to watch margins closely. This is aimed at increasing Vinamilk's products competitiveness relative to cheap imports. In fact, the company has doubled operational efficiency margins and is outperforming its peers' margins.

Finally, the company's focus on maintaining a very strong financial position means it is very well positioned to grow through investments. It has low debt/EBITDA compared with its peers and generates enough earnings to cover its interest expenses. We believe this will enable it to invest in new production capacities or target companies in the long term.

Competition with both regional and international players on the domestic market could prevent the company from taking advantage of the dairy market's full growth potential. Indeed, for products with high quality sensitivity, such as baby food products, international brands such as Nestlé are dominating domestic sales. Also, even though Vinamilk purchases 60% of total fresh milk production in the country, other local companies, such as HanoiMilk, could increase their purchasing power if they manage to have access to better funding and expand their distribution networks.

The reliance on the Vietnamese market for sales and imports of raw materials to process products in the country can be a threat to the company in the long term. First, the reliance on the Vietnamese market exposes the company to specific economic risks and trends. Second, the dependence on raw material imports exposes Vinamilk to the volatility of commodity prices on international markets. For example, local companies such as TH Milk have challenged Vinamilk by importing cows to Vietnam in order to boost local fluid milk production instead of relying on imports.

Finally, the 48% ownership of Vinamilk by the government could be a weakness for the company in the future if the government blocks competition and investment in the sector. This could discourage Vinamilk from increasing efficiency and improving products, and hurt the company in the future when competition is reintroduced. Also, the government's recent move to privatise state-owned companies could force Vinamilk to find more international investors, for which competition is fierce.

Company Data

For financial year ending December:

- 2011 Net Sales: VND21,821.4bn, growth of 37.7%
- 2010 Net Sales: VND15,752.9bn, growth of 48.4%
- 2009 Sales: VND10,613.8bn, growth of 29.3%
- 2008 Sales: VND8,209.0bn, growth of 25.6%
- 2007 Sales: VND6,538.0bn

- 2011 Net Profit: VND4,167bn, growth of 15.9%
- 2010 Net Profit: VND3,616bn, growth of 52.2%
- 2009 Net Profit: VND2,376.1bn, growth of 90.3%
- 2008 Net Profit: VND1,250.1bn, growth of 29.7%
- 2007 Net Profit: VND963.5bn

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, feed manufacture and branded food operations, with product focus tending to be the industry buzzword during periods 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 are likely to help to supplement Pure Foods' profits 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, will very likely 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%, as the division has 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. 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; a renewed focus, triggered by a new partner, could be beneficial.

Company Data

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

- 2012 Vietnam revenue estimate: US$105mn
- 2011 Vietnam revenue estimate: US$103mn
- 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 has since increased its holding to 16%, making it Habeco's largest single strategic investor. Carlsberg has access to a number of popular Western beer brands, and Habeco could look to bring in these brands to bolster its premium portfolio and to ramp up its presence beyond its northern stronghold. For the time being, however, the firm has focused on economy brands, which has helped the firm to 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 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

- 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.
- Relationship with Carlsberg is likely to facilitate wider distribution and synergies.

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.

Strategy

Vietnamese brewer Hanoi Alcohol Beer and Beverage Company (Habeco) has big ambitions for its domestic market. While it has a sizeable presence in the northern region of Vietnam, Habeco will have to work on improving its reach in the higher-spending southern region and the higher-end beer segments to establish a strong competitive foothold. On this front, Habeco could leverage on the financial backing of its expansion-oriented shareholder Carlsberg and facilitate its expansions across the market.

While Habeco already has a sturdy foothold in the southern region of Vietnam, we stress the strategic importance of the northern region. The Vietnamese beer market has previously been regionalised, with Habeco dominating the north and Sabeco the south. However, the rapid influx of investments from regional brewers such as Asia Pacific Breweries and Carlsberg has seen competition intensify. Currently, it is estimated that Carlsberg and Habeco together control around 33% of Vietnam's beer market, putting them even with Sabeco. However, the brewer's relatively weaker dominance in the more affluent southern part of Vietnam limits its potential for stronger revenue growth. Given the rapidly growing ranks of middle-class consumers across Vietnam, Habeco will need to put itself in the best possible position to ride on the emerging wave of consumer spending across the country, and expansions into the higher-spending northern region will very likely provide greater opportunities in this direction.

Habeco's focus on the economy segment could also prove an impediment to growth as incomes increase and fuel the premiumisation trend. The brewer's expansionary efforts are primarily focused on the low-margin but high-volume Bia Hoi draft beer segment. The unique distribution challenges of Bia Hoi – it is sold in the Hanoi area's street cafés – means that Habeco is largely catering to the lower-income crowd. As Habeco builds a nationwide presence across Vietnam, it is also important for it to calibrate its product portfolio towards the higher-end and position itself to better capture the increasingly sophisticated tastes of the Vietnamese consumer.

Company Data

- 2011 Revenue: VND3,416bn
- 2011 Volume Sales: 415.66mn litres, +2.9% y-o-y
- 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 initial public offering, 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.
- 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.
- Sabeco's 2011 performance was substantially stronger than Habeco's, providing the company with an impetus to continue in a similar vein.

Threats

- Fluctuating 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 initial public offering (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

For the year ending December:

- 2011 Revenue: VND24,332bn, +13% y-o-y
- 2011 Volume sales: 1.2mn litres
- 2010 Revenue: VND16,714bn, +8.5% y-o-y
- 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%. In early 2007, Carlsberg acquired a 10% stake in Habeco and has since increased its holding to 16%, making it Habeco's largest single strategic investor. The Danish company now has a market share of around 10% in Vietnam, which increased 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 level 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 will very likely 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&N)'s Vietnamese business. S&N had itself been expansionary in Vietnam, thus significantly lifting Carlsberg's output.

Weaknesses

- Distribution infrastructure remains problematic; separate brewing facilities in separate regions is 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, economy brands remain the most popular.
- Non-organised retailers account for the bulk of the grocery market.
- 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 will very likely lift sales of Carlsberg's premium, international brands.
- Small-scale brewers, struggling with increased competition, could represent handy market-share-building acquisition targets.

Threats

- In line with market liberalisation, the beer market is expected to receive a flood of investment in the coming years, dramatically ramping up competition levels.
- Fluctuating 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 (JV) – Hanoi Vung Tau Joint Stock Company – with Habeco for a brewery construction in southern Vietnam, thus complementing its northern, north-eastern and central facilities.

In 1994, Carlsberg formed a JV with the Thua Thien-Hue Province Peoples Committee for the construction of the Hue Brewery. The brewery is now 100%-owned by Carlsberg, which acquired a 50% stake from its partner in 2011.

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:

- 2011 Revenue: DKK6.8mn, growth of 21.8%
- 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 16 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.
- Fluctuating operating costs threaten profit margins, with these hard to pass on to buyers in such a price-sensitive independent sector.
- Proliferation of organised retail threatens future sales opportunities for Metro.

Strategy

Germany-based cash-and-carry retailer Metro Group needs a lot more work in ramping up its exposure in emerging markets (EMs), which present much more exciting opportunities than its developed European markets. Vietnam, in particular, remains an attractive market for Metro, and its EM ambitions are likely to support the expansionary plans of its local subsidiary Metro Cash & Carry Vietnam. However, the fact that Metro Cash & Carry Vietnam is present only in the wholesale sector means it faces a major threat of declining sales opportunities from the ongoing proliferation of organised retail. This raises questions about its future strategic direction in the country, although we stress that this remains a long-term play.

Metro had a particularly weak showing in Western Europe and Germany in FY2011. Metro recorded declines of 2.8% and 0.9% in its Germany and Western Europe sales respectively for the year ending December 2011. As reflected in its results, the traditional perception of food retailing and general wholesale retailing as largely non-cyclical and defensive has clearly been challenged by the ongoing unwinding of the sovereign debt crisis in the eurozone and the ensuing effect this is having on consumer confidence. Moreover, while Metro shifts a lot of food, it also sells a lot of consumer electronics, which behave far more cyclically. With Western Europe, its biggest market, expected to remain essentially flat, it is important that Metro gets its EM strategy right. China and Russia, in particular, feature prominently on Metro's radar on this front. Metro planned to open at least 10 stores in China in 2012.

Vietnam is another key focus for Metro, and it operates 16 outlets in Vietnam. With the nature of its operating model well suited to meet the needs of the retail sector in developing markets, Metro is likely to easily find a strong audience in EMs and in Vietnam. The concept of organised retail has yet to take off among Vietnamese consumers (organised retail makes up only 15% of overall grocery sales in Vietnam) as the majority of people still carry out their shopping at informal retail stores such as mom-and-pop shops and open-air markets. The proprietors of these independent retail outlets represent the core customer base for Metro, implying strong opportunities that it could capitalise on. Metro's lower-value product offerings would also appeal strongly to Vietnamese consumers, as the country remains an inherently price-sensitive market, with premium brands appealing to very few.

The financial backing of Metro is likely to support its expansions across Vietnam, enabling it to pour in significant capital investments without the need for immediate returns. Metro has a healthy fiscal position, implying a reasonably strong expansionary capacity, and plans to open four more stores by 2013.

However, as the Vietnamese MGR sector gradually liberalises, Metro would face greater competitive headwinds and potentially witness slower growth opportunities. Favourable demographic shifts and rising consumer affluence will trigger a wave of consumer spending across the retail scene, fuelling foreign interest in the MGR sector.

Given that Metro has not to date hinted at amending its strategy of expanding in the cash-and-carry format in Vietnam to incorporate organised grocery retailing, this is clearly a question mark over its future prospects in the country. Nonetheless, this remains a very long-term play and Metro will very likely continue to find exciting opportunities in the country, particularly in the under- retailed rural areas, which present massive untapped potential.

Company Data

Metro Group does not publish country-specific financial data.

- 2011 Asia/Africa Revenue: EUR2.70bn
- 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 mark-up 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 mark-up is likely to 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 launched a chain of small-scale convenience stores, Co-op Food. 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 will 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.

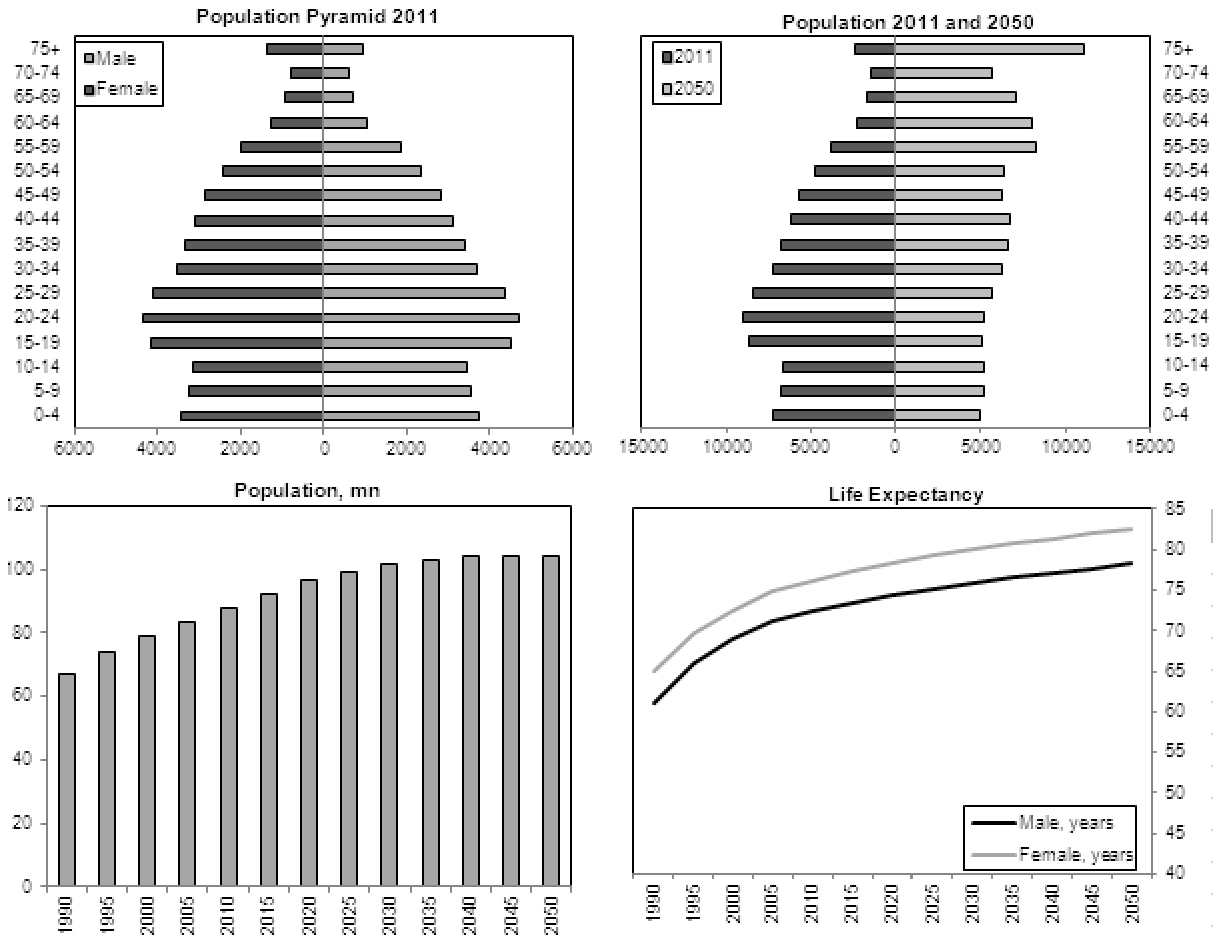
Company Data

- 2011 Revenue: VND11.8trn (BMI estimate)
- 2010 Revenue: VND11.2trn
- 2009 Revenue: VND8.6trn, growth of 35%
- 2008 Revenue: VND6.4trn; growth of 48.9%

Demographic Outlook

Demographic analysis is a key pillar of **BMI**'s macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is key to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail Vietnam's population pyramid for 2011, the change in the structure of the population between 2011 and 2050 and the total population between 1990 and 2050, as well as life expectancy. The tables show key data points from all of these charts, in addition to important metrics including the dependency ratio and the urban/rural split.



Source: World Bank, UN, BMI

Table: Vietnam's Population By Age Group, 1990-2020 ('000)

	1990	1995	2000	2005	2010	2012f	2015f	2020f
Total	67,102	74,008	78,758	83,161	87,848	89,730	92,443	96,355
0-4 years	9,340	9,212	7,002	6,776	7,186	7,186	7,026	6,529
5-9 years	8,685	9,193	9,124	6,921	6,703	6,885	7,143	6,982
10-14 years	7,504	8,604	9,142	9,038	6,844	6,539	6,668	7,104
15-19 years	7,127	7,408	8,535	9,064	8,963	8,161	6,806	6,628
20-24 years	6,492	7,003	7,305	8,420	8,954	9,115	8,892	6,745
25-29 years	5,893	6,361	6,879	7,167	8,284	8,602	8,862	8,803
30-34 years	4,884	5,779	6,250	6,765	7,058	7,475	8,202	8,779
35-39 years	3,965	4,794	5,688	6,163	6,677	6,770	6,991	8,131
40-44 years	2,420	3,884	4,710	5,614	6,086	6,304	6,609	6,925
45-49 years	2,039	2,358	3,802	4,653	5,548	5,761	6,012	6,536
50-54 years	1,933	1,968	2,287	3,739	4,580	4,936	5,449	5,914
55-59 years	1,946	1,843	1,887	2,201	3,617	4,001	4,446	5,305
60-64 years	1,544	1,822	1,737	1,767	2,076	2,573	3,455	4,268
65-69 years	1,283	1,391	1,659	1,582	1,621	1,649	1,927	3,233
70-74 years	919	1,084	1,194	1,439	1,389	1,384	1,438	1,729
75+ years	1,127	1,305	1,559	1,852	2,264	2,388	2,516	2,743

f = BMI forecast. Source: World Bank, UN, BMI

Table: Vietnam's Population By Age Group, 1990-2020 (% of total)

	1990	1995	2000	2005	2010	2012f	2015f	2020f
0-4 years	13.92	12.45	8.89	8.15	8.18	8.01	7.60	6.78
5-9 years	12.94	12.42	11.58	8.32	7.63	7.67	7.73	7.25
10-14 years	11.18	11.63	11.61	10.87	7.79	7.29	7.21	7.37
15-19 years	10.62	10.01	10.84	10.90	10.20	9.10	7.36	6.88
20-24 years	9.68	9.46	9.27	10.13	10.19	10.16	9.62	7.00
25-29 years	8.78	8.60	8.73	8.62	9.43	9.59	9.59	9.14
30-34 years	7.28	7.81	7.94	8.14	8.03	8.33	8.87	9.11
35-39 years	5.91	6.48	7.22	7.41	7.60	7.55	7.56	8.44
40-44 years	3.61	5.25	5.98	6.75	6.93	7.03	7.15	7.19
45-49 years	3.04	3.19	4.83	5.59	6.32	6.42	6.50	6.78
50-54 years	2.88	2.66	2.90	4.50	5.21	5.50	5.89	6.14
55-59 years	2.90	2.49	2.40	2.65	4.12	4.46	4.81	5.51
60-64 years	2.30	2.46	2.21	2.12	2.36	2.87	3.74	4.43
65-69 years	1.91	1.88	2.11	1.90	1.85	1.84	2.08	3.36
70-74 years	1.37	1.46	1.52	1.73	1.58	1.54	1.56	1.79
75+ years	1.68	1.76	1.98	2.23	2.58	2.66	2.72	2.85

f = BMI forecast. Source: World Bank, UN, BMI

Table: Vietnam's Key Population Ratios, 1990-2020

	1990	1995	2000	2005	2010	2012f	2015f	2020f
Dependent ratio, % of total working age [1]	75.5	71.2	60.5	49.7	42.1	40.9	40.6	41.6
Dependent population, total, '000 [2]	28,859	30,790	29,679	27,609	26,006	26,031	26,717	28,321
Active population, % of total [3]	57.0	58.4	62.3	66.8	70.4	71.0	71.1	70.6
Active population, total, '000 [4]	38,243	43,218	49,079	55,552	61,842	63,699	65,725	68,034
Youth population, % of total working age [5]	66.8	62.5	51.5	40.9	33.5	32.4	31.7	30.3
Youth population, total, '000 [6]	25,529	27,009	25,268	22,735	20,732	20,610	20,837	20,615
Pensionable population, % of total working age [7]	8.7	8.7	9.0	8.8	8.5	8.5	8.9	11.3
Pensionable population, '000 [8]	3,330	3,780	4,411	4,874	5,274	5,421	5,881	7,706

f = BMI forecast; [1] 0>15 plus 65+, as % of total working age population; [2] 0>15 plus 65+; [3] 15-64, as % of total population; [4] 15-64; [5] 0>15, % of total working age population; [6] 0>15; [7] 65+, % of total working age population; [8] 65+. Source: World Bank, UN, BMI

Table: Vietnam's Rural And Urban Population, 1990-2020

	1990	1995	2000	2005	2010	2012f	2015f	2020f
Urban population, % of total	20.3	22.2	24.3	26.4	28.7	29.7	31.2	33.9
Rural population, % of total	79.7	77.8	75.7	73.6	71.3	70.3	68.8	66.1
Urban population, '000	13,438.6	16,201.6	18,865.4	21,940.1	25,212.5	26,649.9	28,842.1	32,664.4
Rural population, '000	52,761.4	56,778.4	58,770.0	61,166.2	62,635.9	63,080.4	63,600.5	63,690.7

f = BMI forecast. Source: World Bank, UN, BMI

Risk/Reward Ratings Methodology

BMI's approach in assessing the risk/reward balance for food and drink industry investors globally is twofold. First, we identify factors, in terms of current industry/country trends and forecast industry/country growth, which represent opportunities to would-be investors. Second, we identify country and industry-specific traits that pose or could pose operational risks to would-be investors.

Ratings System

Conceptually, the ratings system divides into two distinct areas:

Rewards: evaluation of sector's size and growth potential in each country. This section also includes a strong demographic aspect with a focus on both the size and age distribution (younger being better) of populations.

Risks: evaluation of industry-specific risks and those emanating from the country'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.

Table: Rewards

Industry Rewards	
Food and drink consumption per capita, US$	Indicator denotes overall breadth of market. Wealthier markets score higher.
Per-capita food consumption growth, five-year compound annual growth %	Lead Food & Drink growth indicator. Scores based on compound annual growth over our five-year forecast period.
Market Fragmentation	Subjective score reflecting how relatively developed the industry is. Higher score reflects a more fragmented industry.
Country Rewards	
Population size (mn)	Indicator denotes size of market.
GDP per capita, US$	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.
Youth Population (%)	0>15%, % of total working age population. Younger populations are generally considered to be more desirable.

NB See Business Environment section for regional and country-specific ratings explanations. Source: BMI

Table: Risks	
Industry risks	
Mass Grocery Retail (MGR) Penetration, %	The proportional contribution of the organised food retailing sector, higher scores reflect better developed routes to consumers and more efficient internal trade systems.
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.
Income Distribution	Middle 60% of population, % of total spending. Higher score is an indicator of incomes being spread more equitably.
Lack of Bureaucracy	From CRR. It evaluates the risks to business posed by official bureaucracy, the broader legal framework and corruption.
Market orientation	Subjective rating from CRR to denote predictability of openness to foreign investment and trade.
Physical infrastructure	From CRR. Poor power/water/transport infrastructure act as bottlenecks to sector development.

NB See Business Environment section for regional and country-specific ratings explanations. Source: BMI

Weighting

Table: Weighting

Component	Weighting
Rewards	60%
- Industry Rewards	30%
- Country Rewards	30%
Risks	40%
- Industry Risks	20%
- Country Risks	20%

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.

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.

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.

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, operate more like normal supermarkets, and are thus classified as such within **BMI**'s reports

BMI Food & Drink Forecasting & Sourcing

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 coefficients
- Hypothesis testing to ensure co-efficients are significant (normally t-test and/or P-value)
- 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 foreign direct investment.

Example of Food Consumption Model:

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

Sourcing

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 Organization (WTO), the World Health Organization (WHO), the United Nations Food and Agricultural Organization (FAO) and the Organisation for Economic Cooperation and Development (OECD).