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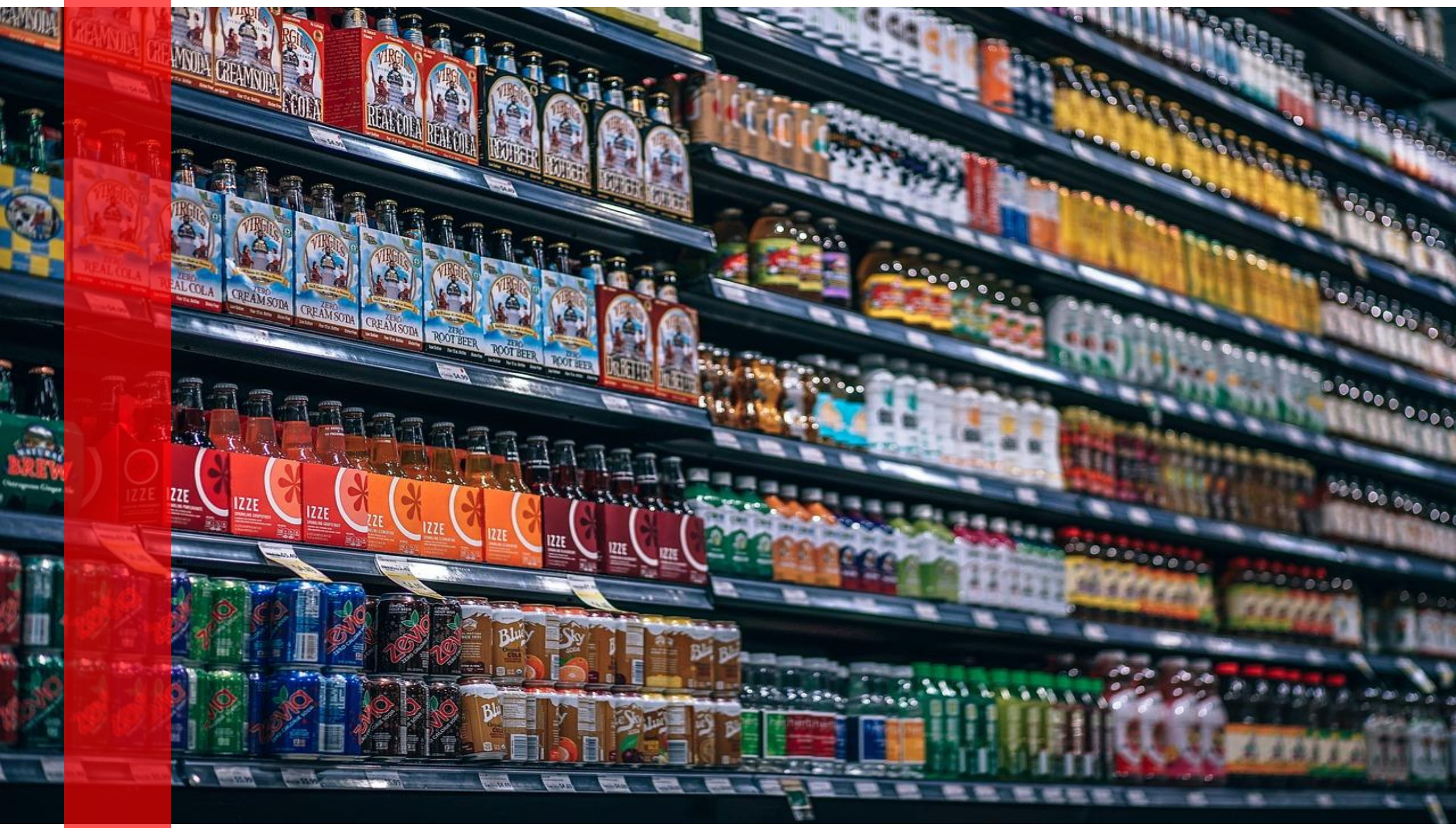

VIETNAM - 2019

DRINKS

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Overview

The Vietnamese drinks industry is currently experiencing a boost due to the country's rapid economic growth, favourable demographics, a significant rise in tourism and the emerging middle class. The outperforming categories in terms of growth are hot drinks such as coffee, as well as wine and spirits in the alcohol sector[1]. Vietnam's economy is currently forecast to grow by just under 7 per cent in 2019 and at a similar rate in 2020 and 2021[2], facilitating an increase in disposable income. It is forecast that consumer spending will escalate resulting in higher demand for drinks. Furthermore, the country benefits from a large young adult population along with a rapid rise in tourists, who are typically spending more on alcoholic, soft and hot drinks. This raises not only consumer economic spending but also the demand for more modern retail formats such as mass grocery retail[3].

Total alcoholic consumption is forecast to reach 4.9 billion litres in 2019. Total alcohol spending for the same year is expected spending to reach VND 44.3 billion, accounting for a 12.1 percent rise y-o-y. [4] Alcohol expenditure is forecast to increase by an average 11.8 per cent to 2022. The beer industry is believed to continue generating good growth and will dominate the alcoholic drinks sector with total beer consumption for 2019 expected to reach 4.8 billion litres. Per capita beer consumption is projected to increase from 64.9 litres in 2019 to 73 litres in 2022, growing at an average annual rate of 5.4 per cent. Wine and spirits consumption in 2019 is forecast to reach 16 litres and 61.3 litres, spotting a y-o-y growth rate of 8.3 per cent and 9.8 percent respectively. Volume sales in the wine & spirits sector are expected to grow by an average of 8.5 per cent and 10 per cent annually between 2018 and 2022 due to an increase in Vietnam's wealth and demand for high value alcohol.

Sales of non-alcoholic drinks are expected to grow 10.3 per cent y-o-y, reaching VND 28.8 trillion in 2019.[5] Carbonated soft drinks in particular will experience the strongest growth, with projected sales increasing 11.7 per cent y-o-y at VND 5.9 trillion, due to the influence of the growing youth demographic. Sales of coffee, teas and other hot drinks are forecast to reach VND 19.5 trillion with an average annual growth rate of 10.3 per cent between 2018 and 2022 [6].

[1] (FitchSolutions, 2019)
[2] (Trading Economics, 2019)
[3] (FitchSolutions, 2019)
[4] (FitchSolutions, 2019)
[5] (FitchSolutions, 2019)
[6] (FitchSolutions, 2019)

Hot drinks

Coffee is currently witnessing a major boost in demand in Vietnam, as seen in 2018 where it registered a retail volume growth of 2 per cent, reaching 50,800 tonnes and a current retail growth of 6 per cent to reach VND8.5 trillion[7]. Many of the players in the coffee industry are investing in improving packaging design to become more eye-catching, as typically Vietnamese consumers tend to make purchasing decisions based on attractiveness of the design. The common opinion amongst Vietnamese consumers is that attractive packaging implies a high-quality product and a trustworthy brand. Therefore, looking over the forecast period packaging design is expected to be the focus of most players in the coffee sector, which is currently led by Nestlé Vietnam Ltd[8].

Nestlé Vietnam Ltd remained the leader in the Vietnamese coffee industry in 2018, accounting for 36 per cent of retail sales. This is largely as a result of its popular brand Nescafé's instant coffee mixes combined with the company's successful marketing throughout 2018 by appearing on television screens, billboards and cinemas. Additionally, Nestlé Vietnam still benefits from its extensive distribution system where its products are easily found in small grocers, supermarkets, hypermarkets and convenience stores across Vietnam, leading the way for other players in the sector to follow suit[9]. The company also remained the sector's leader in product development by introducing Nescafé chocolate, Vietnam's first instant coffee containing chocolate, further expanding the consumer market for the company particularly towards a younger audience and women who don't typically drink coffee in Vietnam. This highlights that over the forecast period Nestlé Vietnam is expected to remain the leader in the Vietnamese coffee market due to its focused marketing strategies and extensive knowledge of local preferences.

Figure 1: Which coffee brands are the most prevalent in Vietnam

Source: VinaResearch (2018)

7 (Euromonitor International, 2019)
8 (Euromonitor International, 2019)
9 (Euromonitor International, 2019)

Soft drinks

Soft drink consumption per capita in Vietnam is still low but is growing quickly and becoming increasingly dynamic due to positive demographic trends along with rising consumer affluence. Almost 40 per cent of Vietnam's population is under 24 years old[10] and with soft drinks mostly targeted towards younger generations this means there is a positive future for sustainable growth in the soft drink sector. The sector growth is evident today, as between 2015 and 2019 Vietnam witnessed an average growth rate of 9.7 per cent in sales of soft drinks, with sales for 2019 expected to reach VND 9.3 trillion[11]. This industry growth is currently being driven by international firms such as Coca-Cola and PepsiCo, with Coca-Cola set to open a new US$300 million production facility in Hanoi, making it the firm's fourth factory in the country.. Additionally, in 2018 Coca-Cola launched 'Coke Plus Coffee' in Vietnam in a bid to cater for the rising demand for both coffee and soft drinks[12] highlighting that other firms must seek opportunities through innovation to keep up with the developing consumer market.

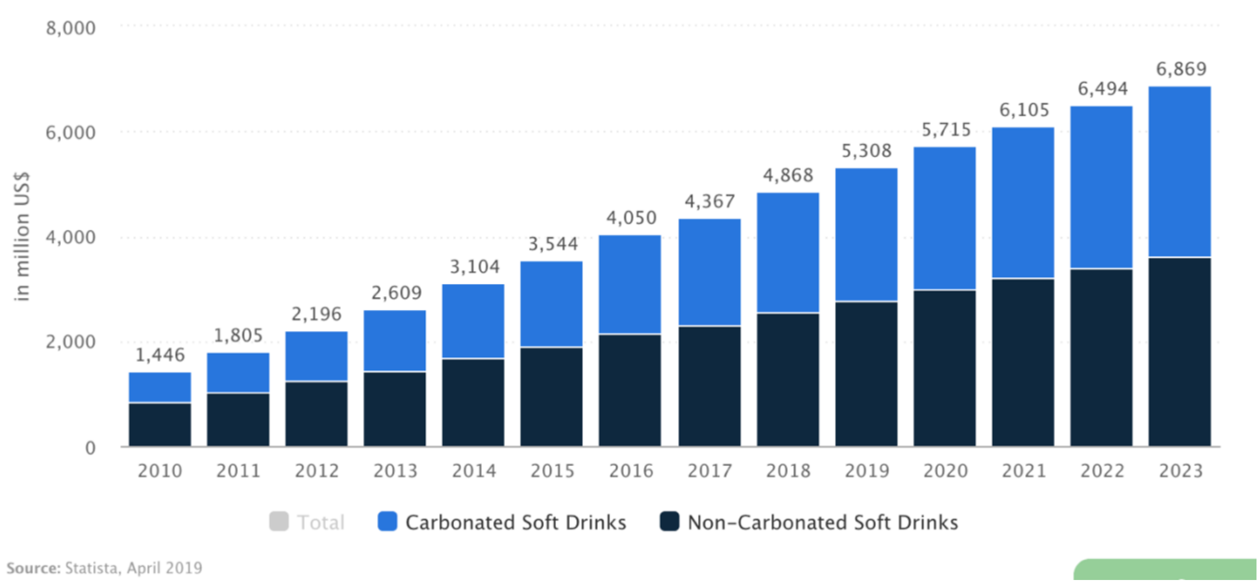


Figure 2: Revenue in million US$ in the soft drink sector in Vietnam

[10] (CIA, 2018)
[11] (FitchSolutions, 2019)
[12] (FitchSolutions, 2019)

In recent years Vietnamese people have become increasingly aware of health products following a significant rise in diabetes, high blood pressure and cancer, with 83 per cent of consumers making active dietary choices to prevent poor health[13]. As a result, there has been a shift towards more nutritious, healthier drinks with less sugar and caffeine, particularly with the emergence of the middle class within Vietnam as people become more willing to pay extra for healthier products[14]. This is clearly shown through the fall in revenue growth of carbonated soft drinks in Vietnam from 27.9 per cent in 2011 to 9.3 per cent in 2019 and is forecasted to further fall to 5.7 per cent by 2023[15]. This healthier trend is largely led by Vietnam's urban population who are increasingly becoming more educated and therefore beginning to understand health risks caused by their food and drink choices. As a result, soft drink manufacturers will have to adapt and market their products accordingly to meet consumer demands of the right combination of sugar, flavour and differentiation.

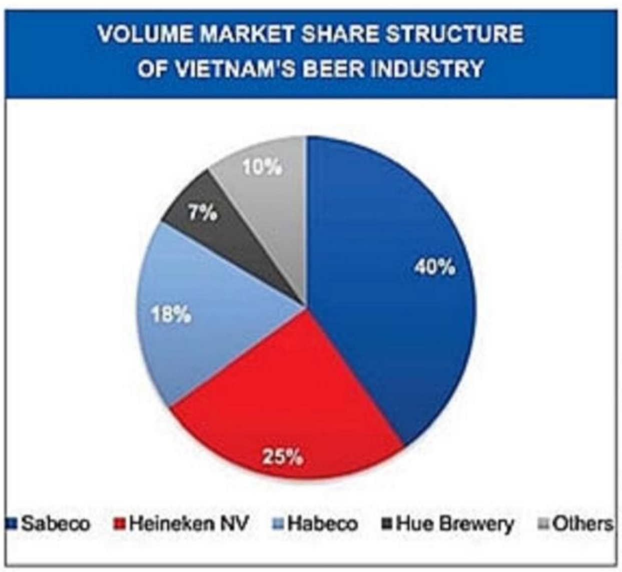
Furthermore, Vietnam's Ministry of Finance proposed a special consumption tax of 10 per cent on sugary drinks in order to combat obesity[16]. If this tax is approved, it will put pressure on soft drink corporations to differentiate their products in order to maintain levels of demand and consumption. TH Group, one of Vietnam's largest milk producers is currently riding these waves to market various supplementary fruit-based drinks, such as the new True Herbal superfood beverages. The production of beverages from fresh fruits using domestic materials and natural mineral water products are being encouraged by the MoIT as means to support local industries and ensure environmental protection as well as helping drive healthier drinking habits.

Alcoholic drinks

Vietnam's beer industry is a promising land for both foreign and local brewers. According to the country's beer industry development plan until 2020, Vietnam's beer production output will reach 4.1 billion litres by 2020, with this number rising to 4.6 billion in 2025 and to 5.5 billion in 2035[17]. Statistics from Euromonitor show that global beer consumption remains unchanged since last year, while beer consumption in Vietnam has soared. For instance, in 2008 Vietnam ranked eighth in Asia in terms of volume of beer consumed, however in just over 10 years Vietnam is now ranked in third position only behind China and Japan, with per capita beer consumption estimated to be 64.9 litres. This has resulted in several foreign investors casting covetous glances at Vietnam's local beer market[18]. This consumption growth, plus the nation's developing population of nearly 100 million combined with beer's 95 per cent share of alcohol consumption makes it an alluring market for brewers[19].

[13] (Food Navigator, 2018)
[14] (VietNamNet, 2018)
[15] (Statista, 2019)
[16] (VietNamNet, 2018)
[17] (Hanoi Times, 2018)
[18] (Hanoi Times, 2018)
[19] (Reuters, 2019)

Vietnam's Beverage Association (VBA) is further looking to increase the nation's export value of alcohol and soft drinks as a current priority. The Ministry of Industry and Trade (MoIT) has set targets for export turnover to hit US$450 million by 2020 and then double this to US$900 million by 2035[20]. The Ministry has said that its aim is to make Vietnam's beer industry a modern one with famous brand names in the market and high-quality goods to meet both domestic consumption and export demands. Nonetheless, chairman of the VBA, Nguyen Van Viet, said that to successfully utilise this growth,Vietnam's beverage industry needs long term and stable policies which must be practical to "avoid impact on the industry's business operations". He also adds that the industry developments would need to see a "balancing of production and consumption between regions nationwide in order to ensure there is a mutual benefit between the government, society and enterprises, as well as adopting advanced technologies and equipment to increase the quality and diversity of products to meet domestic consumption and export demand" [21].



Source: Company Disclosure & VCSC

FOREIGN BREWERS IN VIETNAM

Name of brewer (country)	Factories, capacity and investment
Carlsberg (Denmark)	17.23 per cent holding in Habeco Hue factory, 370 million litres a year Hanoi factory, 100 million litres a year
Heineken (Netherlands)	Factory in District 12, Ho Chi Minh City, 420 million litres a year Danang factory, 150 million litres a year Quang Nam factory, 25 million litres a year Tien Giang factory, 150 million litres a year Vung Tau factory, 610 million litres a year
AB InBev (Belgium)	Factory in Binh Duong 100 million litres a year, products sold in Vietnam and exported to other Asian countries
Sapporo (Japan)	Duc Hoa factory in Long An 150 million litres a year maximum, at the moment operating at 40 million litres a year
Singha (Thailand)	25 per cent holding in Masan Consumer Holdings, which runs the Masan Brewery Hau Giang factory in Hau Giang 100 million litres a year

Figure 3: Foreign giants control the Vietnamese beer market.
Source: VIR (2018)

Even though Vietnam's beer market currently has a huge potential to exploit, experts have warned that it is a strict playground and competition is brutal with not all brewers making money. Chairman of VBA, Nguyen Van Viet, has said that only the very efficient survive, pointing out that numerous 'beer clubs' have shut down soon after they emerged into the market. Data from market research firms has showed that the Vietnamese beer market is dominated by three large

[20] (Food Navigator, 2018)
[21] (Food Navigator, 2018)

companies – Sabeco, Heineken and Habeco which have a 40 per cent, 28 per cent and 18 per cent market share respectively[22]. However, according to Viet the only major brewers in the Vietnamese market which are currently prospering are Heineken and Sabeco, with Heineken's sales having jumped by double digit percentages in the last four years, making Vietnam its second largest source of profit after Mexico[23]. After it acquired full ownership of Asia Pacific Breweries in 2012, Heineken's growth has mainly been driven by the Singaporean produced Tiger beer, increasing its market share up from 20 per cent in 2013 at the expense of smaller brewers in the country. Furthermore, the Vietnamese beer market will remain attractive for years due to the sheer demand for products, thus enticing new players into the market, only making competition fiercer. The only way companies will succeed is by diversifying their products and popularising their brands in order to take on the Vietnamese beer giants.

Future outlook

Urbanisation and middle-class growth in Vietnam is significantly increasing the consumer base, generating a range of new opportunities for the drinks sector. However, in rural areas weak infrastructure frustrates the expansion efforts of consumer goods producers in the industry as currently just 20 per cent of Vietnam's national roads are paved. However, 44 PPP expressway projects have been announced with a total investment value worth up to US$120 billion in the road and power sectors[24]. This will facilitate companies successfully expanding their consumer base across the whole country and further increase the industry's market penetration rate, which is currently forecast to rise from 16.4 per cent in 2019 to 19.5 per cent in 2023.

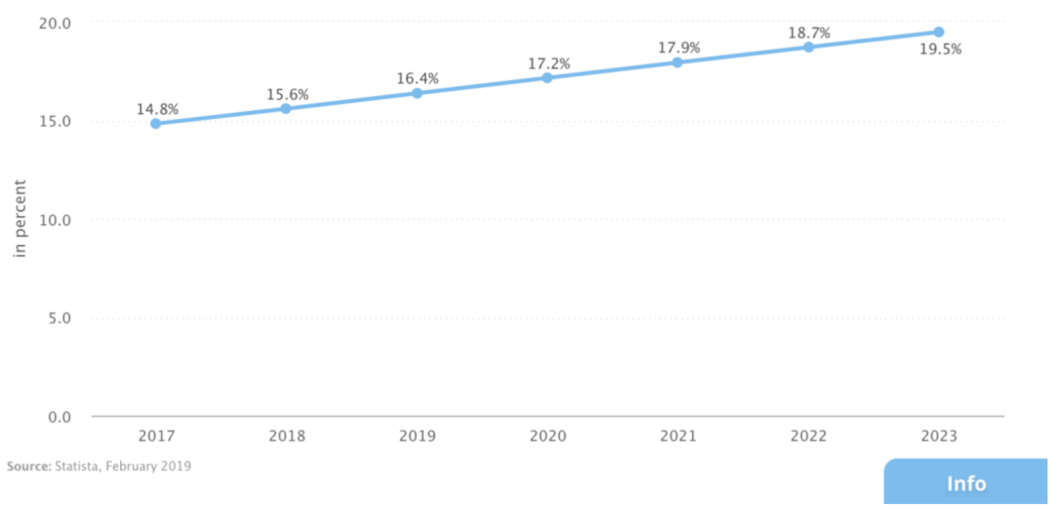


Figure 4: Penetration rate in Vietnam's food and beverages industry
Source: Statista (2019)

22 (Hanoi Times, 2018)
23 (Reuters, 2019)
24 (Infrastructure Vietnam, 2019)

To maintain successful growth in the industry there needs to be a focus on sustainable development. Heineken leads the way in this front as it was named for the second year in a row at the end of 2018, the most sustainable company in Vietnam, for its significant contribution towards the United Nations' Sustainable Development Goals (SDGs). Heineken targets six keys areas in particular and focuses on the implementation of 17 SDGs[25]. The firm does so by contributing to protecting the planet through using renewable energy, reducing water consumption and moving towards zero waste landfill in production. Heineken Vietnam's brewers are also the most water efficient across Heineken's Asia-Pacific region, with 99 per cent of its waste and by-products from production reused or recycled creating virtually zero waste from production[26]. As a result, the firm is now recognised as showing an excellent example of implementing innovative sustainability initiatives, enhancing competitiveness and providing long term socio-economic benefits in Vietnam[27]. The MoIT has supported this by setting targets to focus on sustainable development across the entire drinks industry and attaching a special importance to food and drink safety and protection of the ecological environment. This will be implemented through adopting modern technologies which not only improve product quality but also minimise consumption of raw materials and fuels.

The Vietnamese government also plans to reduce its stake in state-owned enterprises to stimulate increased economic growth in the country, supporting the positive outlook for Vietnam's beverage industry. This combined with Vietnam's membership of the World Trade Organisation and a number of free trade deals such as CPTPP and the EVFTA is increasingly attracting multi-national companies to invest in the drinks sector as well opening up opportunities for Vietnamese companies to expand their exports without facing heavy tariffs. As a result, looking into the future smaller local companies will struggle to cope with the increased competition if they do not look to innovate and diversify their products. Although, these local enterprises have the invaluable knowledge of local changing preferences and therefore can look to combine with larger firms to form partnerships in order to maximise economic sustainability and growth in the market. Partnerships are supported by the MoIT, who state the need to focus on building up Vietnamese brands, which can be done through improving cooperation with foreign large-scale companies, eventually leading to the replacement of imported products and supporting growth within the local Vietnamese drinks industry[28].

25 (VIR, 2018)

26 (VIR, 2018)

27 (VIR, 2018)

28 (Food Navigator, 2018)

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