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INCLUDES 5-YEAR FORECASTS TO 2014

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VIETNAM FOOD & DRINK REPORT Q4 2010

INCLUDING 5-YEAR INDUSTRY FORECASTS BY BMI

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BMI Industry View

*The Vietnamese economy appears to be solidly on the road to recovery, with **BMI** now forecasting real GDP growth of 6.0%, in light of faster-than-expected growth in H110, although we continue to warn of the risks of overheating. Vietnam's real GDP growth in Q210 came in at 6.4% y-o-y, and while a breakdown of growth by expenditure is unavailable, we believe that private consumption is booming and is set to bolster domestic demand in H210 as confidence continues to improve. The country's food and drink sector is certain to benefit from this positive outlook. In particular, the MGR sector is forecast to experience strong growth as it continues to attract considerable attention from international retailers, despite the challenges involved in doing business in Vietnam. Given that it has one of the highest MGR growth forecasts in the Asia Pacific region, it is not hard to see why.*

Headline Industry Data

- 2010 food consumption growth = +11.2%; forecast to 2014 = +64.9%
- 2010 alcoholic drink sales = +5.7%; forecast to 2014 = +36.6%
- 2010 beer volume sales = +2.9%; forecast to 2014 = +31.7%
- 2010 mass grocery retail sales = +12.3%; forecast to 2014 = +71%

Key Company Trends

Expansions in the Dairy Sector – In May, Dutch dairy cooperative **Royal FrieslandCampina** announced plans to invest US$12mn in the expansion of production capacity at a factory in Vietnam in order to meet the growing demand for dairy products with its Dutch Lady, YoMost and Friso brands. The factory in Binh Duong is scheduled to be fully operational by the end of 2012. Vietnamese dairy consumption growth will remain solid over our forecast period, as strong economic growth will filter through to rising disposable incomes. This will push up demand for non-essential food products.

Confectionery Consolidation – Also in May, Vietnamese confectioner **Kinh Do Corp** announced plans to acquire two smaller local players. Kinh Do Corp will take 100% ownership of **North Kinh Do Food Joint Stock Company** in a deal worth VND726bn (US$38.3mn), while it will also acquire the 72% interest it does not already hold in **Ki Do Joint Stock Company** for around VND239bn (US$12.6mn) - both estimates based on the company's last closing share price of VND53,000. Kinh Do's expansion plans are timely as we expect an increase in sector competition along with strong growth forecasts. Kinh Do's acquisition-led enlargement should significantly improve its competitiveness, giving it access to a larger product pipeline, a wider distribution network and improved economies of scale in terms of procurement and manufacturing.

Key Risks to Outlook

Rising Inflation – Falling food prices are temporarily keeping consumer price inflation in check, but we are increasingly worried that a potential pick-up in food prices in the coming months may destabilise inflation expectations and could have a negative impact on food and drink spending.

Infrastructure Upgrades Desperately Needed – The success of government initiatives to promote alternative sources of growth will be heavily dependent on Vietnam's infrastructure developments over the coming years. Despite witnessing relatively strong real GDP growth of 5.3% in 2009, chronic power shortages and congested roads are evidence that the economy faces risks of overheating, as well as operational bottlenecks for businesses. Most importantly, we are increasingly concerned that the government's failure to make infrastructure investments in time due to its growing debt could greatly limit the economy's potential for growth going forward.

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

Vietnam Drink Industry SWOT	
Strengths	▪ Vietnamese consumers, particularly the young and affluent, are interested in brands, and, accordingly, renowned Western products backed by investment in marketing and promotions tend to have highly successful launches. ▪ The wealthy urban centres of Hanoi and Ho Chi Minh City now provide highly receptive consumer audiences. ▪ Alcoholic drinks are widely consumed and have gained popularity in recent years. ▪ Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.6% annually between 2000 and 2009
Weaknesses	▪ There are wide income disparities between urban and rural areas, and local consumption patterns vary significantly according to income. ▪ The drinks industry remains largely fragmented except for a few key sectors, such as alcoholic and soft drinks. ▪ Vietnam's infrastructure is still weak. Roads, railways and ports are inadequate to cope with the country's economic growth and links with the outside world.
Opportunities	▪ Accession to the WTO, in January 2007, will continue to benefit Vietnamese exporters, with the gradual removal of market barriers and trade restrictions set to increase competition. ▪ Vietnam's large domestic market, growing export opportunities and low labour costs, as well as the prospect of acquiring newly privatised drink companies, offer further investment opportunities. ▪ A growing tourism sector is fuelling interest in convenience categories, in addition to sub-sectors such as soft and alcoholic drinks. ▪ In line with consumers' rising disposable incomes, there are opportunities for premium-branded products in the soft and alcoholic drinks sub-sectors. ▪ The global trend towards health-consciousness provides an opportunity for drinks manufacturers to diversify into perceived healthier options.
Threats	▪ Vietnam's WTO membership may result in smaller companies unable to cope with the increased competition being forced out of business. ▪ Rising raw-material costs threaten profitability in this competitive market in which higher prices cannot easily be passed on to consumers. ▪ Prolonged macroeconomic instability could prompt the authorities to put reforms on hold, as they struggle to stabilise the economy, making the market less attractive for international investors.

Vietnam Mass Grocery Retail Industry SWOT

Strengths

- The potential size of the MGR market makes it an attractive target for foreign retailers once improved market terms are granted. Further growth is expected, especially in the supermarket format.
- Hypermarkets, supermarkets and convenience stores have all proved popular in Vietnam, catering to different types of consumers and different shopping occasions.
- A growing multinational presence in the retail sector has aided the acceptance of modern retail best-practices in Vietnam, particularly things like added-value in-store services.
- Vietnamese economic growth has averaged 7.6% annually since the turn of the century, fuelling a steady middle class emergence and a growing appetite for consumerism.
- 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.
- The strong price advantage of market leader Saigon Co-op makes life difficult for smaller firms that lack the scale to offer low prices.

Opportunities

- The hypermarket concept is still in its infancy and, as familiarity with modern retailing grows, this format will represent an immense growth opportunity.
- Modern retail is currently focused on the major urban centres of the north and south, which still boast space for new entrants, and central Vietnam and the provinces provide further opportunities still.
- Modern retail concepts, such as discounting and private labelling, should prove popular with price-conscious Vietnamese consumers as familiarity with modern retailing builds.
- Rapid urbanisation and the development of new housing complexes provide ideal locations for the rolling out of modern retail outlets with a large and receptive audience.

Threats

- Were industry majors Tesco, Carrefour and Wal-Mart all to enter Vietnam, the window of opportunity for other entrants would rapidly close.
- Vietnam's WTO membership may eventually result in smaller operators and traditional stores going out of business.
- 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.
- Inflation and deficit concerns have caused some investors to re-assess their hitherto upbeat view of Vietnam. If the government focuses too much on stimulating growth and fails to root out inflationary pressure, it risks prolonging macroeconomic instability, which could lead to a potential crisis.

Business Environment

BMI's Core Global Industry Views

BMI's expectations for food and drink (F&D) industry growth in the short term are in keeping with our global macro views: weak US and eurozone growth and a post-stimulus cooling of the Chinese economy will prevent a robust demand recovery. Fiscal austerity further cools the picture for discretionary spending – the impact of this is likely to be felt over more than just the short term. As we flagged in early 2010, economic and industry data might have hinted at signs of a recovery, but this is not THE recovery; employment and consumer confidence remain too weak, a factor that has only been further exposed as the tailwinds of consumer-oriented government stimulus packages have died out.

The extent of the challenge facing F&D companies can be seen in the table below. Yes, food is an essential good and is thus more resilient to economic downturns than pure discretionary goods (evident in the outperformance of food company sales relative to total consumer goods sales). However, gone is the myth that the industry is fairly recession-proof. Having spent the months and years in the run up to late 2008's financial crisis focusing on trading consumers up – even emerging market (EM) consumers – to ever higher-value, more premium goods, that route to growth has now been suspended, hitting the industry hard.

Of course, even within this weak demand story, there is scope for outperformance. **BMI**'s F&D core views list highlights a number of these areas, as well as flagging what we perceive to be the key short-term risks to growth, in order to identify and define strategies that will help F&D firms cushion the impact of a secondary demand downturn, while also securing medium-and-long-term paths to growth. In terms of identifying likely outperformance, this relates to both industry sub-sectors (discount retail over convenience and off-trade alcohol drinks sales over on-trade), and to markets – private consumption-led economies to outperform export-oriented economies. A key point to note, however, is that long term, the EM consumer means that the F&D sector remains a hugely exciting, high-growth and dynamic area.

Table: BMI Food & Drink Core Views

Short-term Outlook
Consumer demand remains too weak to support a strong rebound in sector growth
Even in emerging markets, employment has lagged what remains a fairly benign recovery, weighing on demand growth
Commodity price volatility will continue to affect producer earnings; even as grains prices remain subdued, softs will remain volatile
Premiumisation will remain on hold
Private labels and off-trade alcohol drinks will outperform their respective sectors
Discount grocery retailers will continue to gain market share
Government fiscal policy – austerity – will be unsupportive of industry growth
Government monetary policy – the reduced likelihood of further rate hikes – will help limit demand destruction
Having scaled back capex in 2009, investment will return as producers look to secure future growth
Consolidation will continue as producers seek greater efficiencies
We continue to favour private consumption-led economies, over export-oriented states for consumer goods investment
Long-term Outlook
Companies with strong emerging market exposure will continue to outperform
Tension between producers and retailers will remain
Investment in innovation will increase as producers seek differentiation; emphasis will be placed on protecting innovations
Brand builders will continue to leave sectors under threat from private labels
Emerging market multinationals will increasingly pursue frontier market investments
Government legislation will play an increasing role in marginalising unhealthy food and beverage products; notably alcohol
Demand for convenience in retail and food will continue to grow
Functional foods will be the highest growth sector in developed markets
Beverage companies will continue to invest in diversification away from carbonated beverages and into healthier sub-sectors

Source: BMI

Asia Pacific Food & Drink Risk/Reward Ratings

With significant trade links to the global economy, a number of Asian markets entered recession in 2009 as global demand plummeted. Trade-dependent economies, including Hong Kong, Japan, Malaysia, Singapore, Thailand and Taiwan were worst affected and while food sales remained recession-resilient because of their essential nature, the year did prove that they are certainly not recession-proof.

A regional recovery in economic and industry growth has been evident to date in 2010 and while we remain cautious about the prospects for global demand – not least because of fears for the US and eurozone consumer and the risk of Chinese cooling – we have seen the robust return of regional industry investment. The return of capital expenditure to the region has not surprised us. Cost-cutting was the order of the day in 2009, as sales plummeted, and yet corporates are now returning their focus to investing for long-term growth. With the Asian emerging market consumer one of our favourite growth stories, a return of capital to the region was inevitable.

That said, the need to invest to secure long-term growth, but to balance this against increasingly mixed short- and medium-term demand prospects does necessitate a relative look at regional investment opportunities.

Medium-Term Growth Prospects

Unsurprisingly, among the most exciting medium-term growth opportunities in the region are two of the BRICs, India and China. However, those features that mark them out as attractive for investment are markedly different:

China already enjoys reasonably high food and beverage consumption levels, while also affording investors opportunities for long-term growth

The downsides of a tough regulatory environment and an industry blighted by repeated safety and hygiene scandals is offset to some degree by China's healthy fiscal position and gradually improving infrastructure (this translates as fewer country risks)

India cannot offer investors the same existing spending levels, yet it arguably provides even stronger long-term growth prospects, while better industry regulations also mean fewer industry-specific investment risks.

Other bright medium-term investment prospects, which continue to enjoy mid-table positions in our regional Risk/Reward ratings, include Thailand and Indonesia.

Indonesia suffers from low existing spending levels, a large Muslim population – meaning limited alcoholic drink consumption (one of the contributors to our Rewards score) – and a challenging business environment, thanks to perceived bureaucracy and corruption. These factors prevent a higher-placed rating.

However, Indonesia is without question an attractive investment prospect, largely due to an exciting demographic profile and strong medium- to long-term economic growth forecasts that will translate into increased consumer spending.

Thailand forms another market worthy of mention. Political risk has left an indelible blot on the business environment and yet – without excelling in either category – the country does still offer investors that the highly sought after combination of reasonably high existing spending levels and reasonably strong growth prospects. Another trait in Thailand's favour is its popularity among high-spending tourists. This will continue to appeal to consumer goods investors who want to balance sales of mass-market items with opportunities to offload more high-end goods.

Looking Long-Term

Looking beyond our current five-year forecast period, markets such as China, India and Indonesia will certainly retain their appeal to investors. While they have all – especially China – attracted enormous amounts of domestic and international attention to date, they remain unsaturated. Furthermore, healthy economic growth forecasts and huge populations (particularly as-yet untapped rural populations) will prove long-term stimulants to demand.

Vietnam represents another market beginning to attract greater investment attention due to its long-term growth potential is Vietnam. To date, very low per capita incomes and food spending levels and a weak business environment have prevented Vietnam from enjoying the status of many of its regional peers. Huge income disparities are another limiting factor, as they restrict medium-term spending growth in spite of the evident emergence of a growing middle class. Nonetheless, the market's long-term potential cannot be ignored. A strong economic growth forecast and a vast, youthful population mean that Vietnam will turn the heads of a growing number of investors, particularly as the food and drink industry in other South East Asian markets matures and multinationals are forced to consider higher-risk investments in search of sustained rewards.

Looking Less Rosy

Less attractive for industry investment are the region's developed markets. Although Australia, Japan, South Korea and Taiwan are all well-placed in our risk/reward ratings, this is largely due to high existing spending levels and relatively risk-free business environments. Of course, low risk and this willingness to spend and susceptibility to higher value food and beverage items are attractive to investors. However, fierce market competition, limited growth prospects and generally unfavourable population demographics impede just how attractive these economies are to medium- and long-term investors as opposed to those solely seeking a short-term sales fillip.

One exception to this rule is South Korea. Sitting on the fence in terms of its emerging or developed market status, South Korea does afford investors growth opportunities while also boasting an attractive business environment. Of course this does come at a price – namely slightly lower existing spending levels and a high degree of industry competition. Nonetheless, it is worth differentiating it from the above list since our industry growth forecasts generally indicate South Korean outperformance relative to the other mature economies in our ratings.

Table: Asia Pacific Food & Drink Risk/Reward Ratings

	Rewards			Risks			
	Industry Rewards	Country Rewards	Rewards	Industry Risks	Country Risks	Risks	Total Rating
China	60	67	63	55	74	67	64.3
Australia	56	62	59	60	72	67	61.4
Thailand	57	59	58	60	70	66	60.5
Japan	53	55	54	75	76	76	60.4
South Korea	50	58	54	70	76	74	60.0
Taiwan	54	49	52	75	75	75	58.7
India	50	68	59	60	53	56	58.2
Indonesia	52	64	58	65	53	58	58.0
Hong Kong	50	45	47	70	76	74	55.3
Vietnam	**47**	**59**	**53**	**70**	**48**	**57**	**54.2**
Malaysia	38	56	47	70	71	71	54.0
Singapore	34	47	40	75	77	76	51.1
Philippines	30	55	42	70	55	61	47.9
Pakistan	27	57	42	30	43	38	40.9

Scores out of 100, with 100 highest. The Food & Drink Business Environment Rating is the principal rating. It is comprised of two sub-ratings Limits of Potential Returns and Risks to Realisation of Returns, which have a 70% and 30% weighting respectively. In turn, the 'Limits' Rating is comprised of Food & Drink Opportunities and Country Opportunities, which have equal weighting and are based upon growth/size of food/alcohol and soft drinks industry (Industry) and the broader economic/socio-demographic environment (Country). The 'Risks' rating is comprised of Industry Risks and Country Risks which have a 40% and 60% weighting respectively and are based on a subjective evaluation of industry regulatory and competitive issues (Industry) and the industry's broader Country Risk exposure (Country), which is based on BMI's proprietary Country Risk Ratings. Source: BMI

Vietnam Food & Drink Business Environment Rating

Vietnam continues to hold 10th position in **BMI**'s updated Food & Drink Risk/Rewards Ratings for the Asia Pacific region. The country continues to perform better in terms of Risk than it does for Rewards, with both scores nothing to boast about.

Vietnam receives a score of 53 on our Rewards indicator, placing it in the bottom half of the region. Holding the country back are the limitations of its food and drink market. On the positive side, Vietnam benefits from a highly appealing food and drink trade balance. However, this is undermined by highly unattractive levels of per capita food and drink consumption, largely as a result of the country's majority rural population. Huge income disparities continue to restrict medium-term spending growth, despite the evident emergence of a growing middle class. However, a moderate food consumption growth forecast offers some optimism. Vietnam's Country Structure score reflects the immaturity of the market, coupled with a large population go some way to offsetting the low level of GDP per capita.

We see the country's risk outlook to be slightly better than that pertaining to rewards. Yet receiving a score of 57, Vietnam places above only India and Pakistan in the region. On the positive side, food and drink producers face few barriers to entry and a reasonably relaxed regulatory environment. Yet the country's risk profile disappoints, let down by high levels of bureaucracy and poor labour and distribution infrastructure. To this end, the government has recognised the importance of investing in infrastructure and is making headway to improve this by starting construction on a number of ports, power plants and road projects. It should be noted that despite the risks and currently unattractive rewards associated with operating in Vietnam, multinational investment continues to pour into the country, with the number of investors interested in the country expected in increase in coming years.

Macroeconomic Outlook

Headwinds To Continued Economic Recovery

BMI View: *The 5.8% y-o-y GDP expansion in Q110 indicates that an economic slowdown is underway after the stimulus-driven strong growth rates of H209. With exports still sluggish and domestic demand likely to suffer from higher lending rates and double-digit inflation, we maintain our 4.4% real GDP growth forecast for 2010.*

Estimates from the General Statistics Office have put real GDP growth at 5.8% y-o-y in Q110, with the service sector continuing to be the main contributor to growth (2.8 percentage points). This is in line with our view that Vietnam is still dependent on its stimulus-driven domestic demand to bolster growth amid still sluggish exports (-1.6% y-o-y in Q110).

The service sector expanded by 6.6% y-o-y in Q110, buoyed by strong growth in the hotel and restaurant (7.1%) and finance, banking and insurance (7.9%) categories. The industrial sector expanded by 5.4% y-o-y, with growth particular strong in the utilities sector (10.4%). The manufacturing sub-component expanded by 5.9% y-o-y, but we see this as largely due to a weak base in Q109, rather than as evidence of any sustained momentum in the sector. Indeed, industrial output growth, at 14.0% y-o-y in March, has not risen in tandem with inflation in recent months, indicative that real output growth is slowing. The construction industry expanded by a healthy 7.1% y-o-y, but looks set to suffer in coming quarters from rapidly increasing prices for steel and other construction materials.

We see the 5.8% y-o-y overall GDP expansion as a relatively weak reading, considering the low base established in Q109, when GDP growth clocked 3.1% y-o-y, the lowest quarterly expansion on record, and the 6.9% y-o-y expansion recorded in Q409. Strong seasonal difference between Q4 and Q1 GDP data, mainly due to the extended holidays taken around the Tet Lunar New Year in January and February and the tendency of government statisticians to lump in economic activity in the second half of the year, make quarter-on-quarter comparison difficult (the quarterly data series does not go far back enough to allow a meaningful seasonal adjustment). Nonetheless, the 33.4% q-o-q drop in output between Q409 and Q110 is sharper than that recorded in previous years, indicating that an economic slowdown is underway.

The GDP figures dovetail with anecdotal evidence that a shortage of US dollars (vital for imports) and uncertainty surrounding the value of the dong were disruptive of economic activity in Q110. While the supply of US dollars has improved following the devaluation of the dong on February 11, corporates are now having to refinance at considerably higher rates than last year following the removal of the interest rate cap on medium and-long-term loans in early March (*see 'More Tightening Needed Despite Credit Squeeze', March 24 2010*). With lending rates now in the region of 18-19% annually, many corporates are now struggling to break even.

We expect the tighter monetary conditions to result in a loss of momentum in domestic-demand driven growth, primarily in the service sector, with corporates and consumers alike feeling the pinch of recent hikes in electricity and fuel prices. Consumer price inflation ticked up to a 12-month high of 9.5% y-o-y in March and looks set to break into double digits in Q210, further eroding disposable incomes and real private consumption growth. We thus maintain our 4.4% real GDP growth forecast for 2010, considerably lower than the government's 6.5% growth target.

Risks To Outlook

The Communist Party of Vietnam's 11th National Congress in January 2011, which is taking place to decide on key appointments and policies for 2011-2016, gives policymakers an incentive to stimulate real GDP growth in order to bolster their track record. However, we expect the need to dampen double-digit inflation and to curb the widening trade deficit (US$3.5bn in Q110 vs a surplus of US$1.6bn in Q109) to dictate the agenda over the coming year.

Table: Vietnam - Economic Activity

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Nominal GDP, VND bn [2]	974266.2	1144014.6	1478695.0	1645481.0	1843741.4	2074296.3	2311999.7	2589237.5	2885435.9
Nominal GDP, US$bn [2]	60.9	71.1	89.8	91.8	94.6	106.4	115.6	129.5	144.3
Real GDP growth, % change y-o-y [2]	8.2	8.5	6.2	5.3	4.4	5.5	6.0	6.8	6.9
GDP per capita, US$ [2]	724	835	1035	1043	1060	1177	1262	1394	1533
Popul-ation, mn [3]	84.4	85.6	86.8	88.0	89.2	90.4	91.6	92.8	94.1
Industrial production index, % y-o-y, ave [1,4]	16.8	16.7	14.6	7.6	10.0	12.0	14.0	14.0	14.0
Unemploy ment, % of labour force, eop [4]	4.8	4.6	5.0	5.5	5.5	5.0	4.5	4.0	4.0

Notes: [e] BMI estimates. [f] BMI forecasts. [1] at 1994 prices; Sources: [2] IMF (General Statistics Office). [3] IMF; [4] General Statistics Office

Industry Forecast Scenario

Consumer Outlook

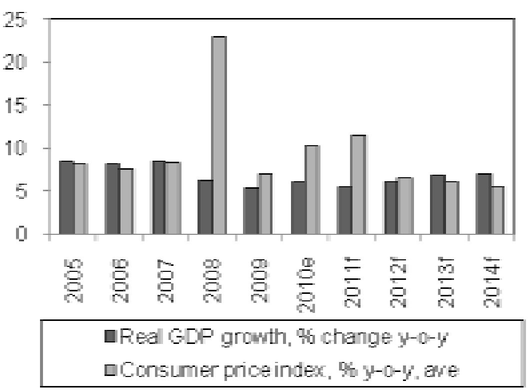
Vietnam's consumer outlook appears relatively positive over our five year forecast period as confidence will be regained on the back of an economic recovery. Vietnam's real GDP growth in Q210 came in at 6.4% y-o-y, and while a breakdown of growth by expenditure is unavailable, we believe that private consumption is booming and is set to bolster domestic demand in H210 as confidence continues to improve going forward and interest rates remain accommodative. **BMI** is now forecasting real GDP growth of 6.0% in light of faster-than-expected growth in H110. However, we continue to warn of the risks of overheating. While falling food prices are keeping consumer price inflation in check for now, we are increasingly worried that a potential pick-up in food prices in the coming months may have a negative impact on food and drink spending.

Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.6% annually between 2000 and 2009. This economic boom has lifted many Vietnamese out of poverty, with the official poverty rate in the country falling from 58% in 1993 to 20% in 2004. It has also led a growth boom in the retail sector, with a far wider variety of products now available to consumers. In recent years processed food and drink products and modern retail outlets have been rapidly gaining popularity. Vietnamese consumers, particularly the young, urban and affluent, are interested in brands, and, accordingly, renowned Western products backed by investment in marketing and promotions tended to be very successful.

Economic growth and consumer confidence both took a hit during the economic downturn, with low consumer confidence and inflation effecting retail sales. This drop in confidence and slowdown of demand was felt in the food and drink sector, with companies reporting losses and a slowdown of growth, with inflationary pressures adding to difficulties. However, looking forward, the outlook is considerably brighter.

Macroeconomic Indicators

2005 - 2014



e/f = BMI estimate/forecast. Source: IMF (General Statistics Office)

According to data released in June by the General Statistics Office Of Vietnam we see evidence of a strong pick up in private consumption in the coming months. Retail sales rose 26.7% y-o-y in June, underlining the effervescent state of consumer confidence in the economy and strong domestic demand.

In June, Vietnam's consumer price inflation came in at 8.7% y-o-y as food prices continued to fall. The drop in inflation from a 10-month high of 9.5% in March has, in our view, given the false impression that inflationary pressures in the economy are under control. We expect inflation to come in at an average of 10.2% in 2010 as subdued food prices offset upside pressures in other price categories.

Our long-term outlook for Vietnam’s retail sector remains bullish. Urbanisation will continue to be a long-term growth driver, with the UN forecasting the urban population to rise from 29% of the population to more than 50% by the early 2040s. A major driver behind our strong long-term outlook is the increasing amount of foreign investment we expect Vietnam to receive in the retail sector in coming years. The country has been very successful in attracting multinational investment in spite of its often-restrictive foreign investment policies and underdeveloped infrastructure. This investment has led to job creation, which in turn has led to the emergence of a new consumer class in the country – in major urban centres at least – which has an interest and can afford to participate in modern consumption methods.

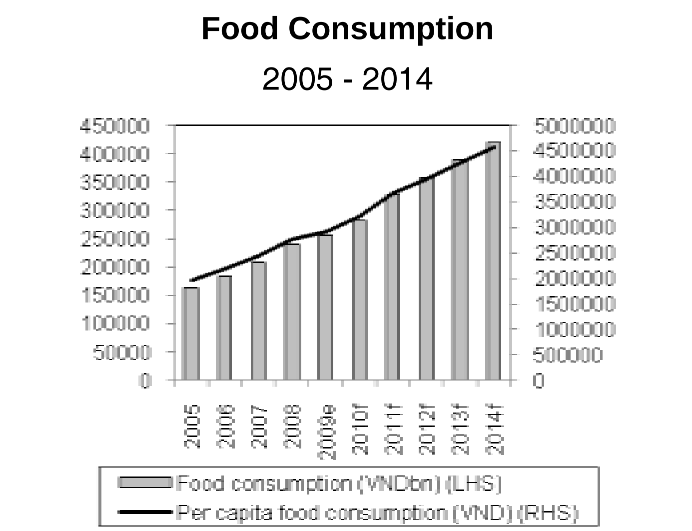
Risks to Outlook

While we remain optimistic on Vietnam's long-term economic growth, we note that the success of government initiatives to promote alternative sources of growth will be heavily dependent on Vietnam's infrastructure developments over the coming years. Despite witnessing relatively strong real GDP growth of 5.3% in 2009, chronic power shortages and congested roads are evidence that the economy faces risks of overheating as well as operational bottlenecks for businesses. In particular, businesses that are reliant on a stable supply of electricity and smooth logistics (such as the MGR industry) may struggle to maintain efficient and stay competitive in the coming years. Most importantly, we are increasingly concerned that the government's failure to make infrastructure investments in time due to its growing debt could greatly limit the economy's potential for growth going forward. We believe infrastructure development in Vietnam remains pertinent in raising the country's productivity and keeping inflationary pressures in check going forward.

Falling food prices are temporarily keeping consumer price inflation in check, but we are increasingly worried that a potential pick-up in food prices in the coming months may destabilise inflation expectations and could have a negative impact on food and drink spending.

Food

Food Consumption



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

Food consumption in Vietnam is forecast to experience strong growth of 64.9% in local currency terms between 2009 and 2014, when consumption is expected to reach VND420,767bn. Meanwhile, per capita consumption is also forecast to grow by 56.5% over the same time period, reaching a fairly modest VND4,575,936pa by 2014. Food consumption as a percentage of GDP is expected to decrease slightly from an estimated 15.5% in 2009 to 14.4% in 2014, reflecting the fact that while incomes are growing, the pace of this growth in Vietnam is slow relative to some of its regional peers. Over time, the continued investments in the country's food, beverage and retail industries will ultimately stimulate food consumption growth. However, in the short term, food prices are expected to remain low, with modern retail remaining beyond the reach of the average Vietnamese consumers, who continue to live in rural areas and can only afford essential food and drink items.

Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.6% annually between 2000 and 2009. This economic boom has lifted many Vietnamese out of poverty, with the official poverty rate in the country falling from 58% in 1993 to 20% in 2004, while also fuelling the growth of a middle glass and a growing appetite for consumerism. However, unsurprisingly, the local economy has not escaped the global downturn, with consumer confidence taking a hit. For 2010 **BMI** is now forecasting real GDP growth of 6.0% in light of faster-than-expected growth in H110, although we continue to warn of the risks of overheating. A return to a more familiar growth trajectory in 2011 and beyond, supported by favourable population demographics (Vietnam has a young and high-growth population), should guarantee a receptive and growing audience for branded food and beverage products in the medium term.

Beyond 2014, investment in the agricultural sector should help improve living standards outside of the major cities. Investment in agriculture is an area in which Vietnam's government can take much credit, and the improvements in agricultural output seen in recent years is a major reason why Vietnam has been second only to China within the region in terms of year-on-year (y-o-y) GDP growth. However, domestic processing is an area that could be considerably improved to help the agricultural sector realise its full potential. This would take pressure off the need to import luxury goods like chocolate, while giving the Vietnamese economy a chance to ease its current-account deficit.

The ongoing expansion of the mass grocery retail (MGR) 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. **BMI** upwardly revised its food consumption figures for Vietnam in Q208 following the release of segmented household expenditure figures by the General Statistics Office of Vietnam (GSO). These figures reflect reported food and beverage spending; however, **BMI** would urge some caution when viewing the figures, owing to the potential for under-reporting of far lower consumption levels among some rural groups. We will continue to benchmark GSO data against other available sources to provide the most accurate assessment of the food consumption outlook.

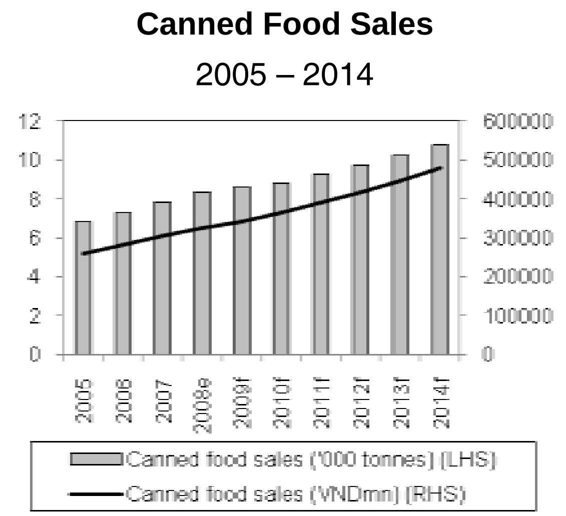
Table: Food Consumption Indicators - Historical Data & Forecasts

	2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Food consumption (US$bn)	11.23073	12.74571	14.60456	14.35484	14.77652	16.61623	18.08096	20.16961	22.44092
Food consumption (VNDbn)	184534.3	209427.4	239970.5	255243.5	283709.2	328170.6	357098.9	388265	420767.2
Per capita food consumption (US$)	133.0639	148.8985	168.2553	164.4568	167.2271	186.1317	200.5145	221.4824	244.0499
Per capita food consumption (VND)	2186400	2446582	2764637	2924207	3210760	3676101	3960161	4263536	4575936
Total food consumption growth (y-o-y)	13.1151	13.48965	14.58411	6.364515	11.15238	15.67145	8.815046	8.72758	8.371118
Per capita food consumption growth (y-o-y)	11.50551	11.9	13	5.771815	9.799353	14.49317	7.727196	7.660678	7.327244
Food consumption as % GDP	18.94085	18.30636	16.22853	15.51178	15.17565	15.60229	15.23112	14.7861	14.37785

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

Canned Food

BMI is forecasting volume growth of 25.4% and value sales growth of 40.4% in Vietnam's canned food industry. The main demand for canned foods continues to come from the country's urban centers where modern lifestyles are fuelling the demand for convenient foods.

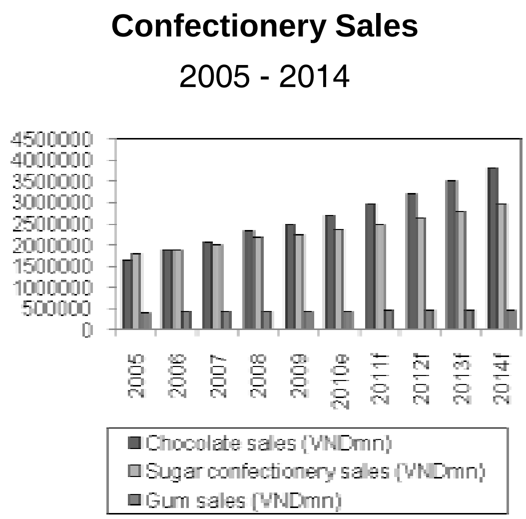


e/f = BMI estimate/forecast. Source: General Statistics Office, Company information, Trade press, BMI

Vietnamese consumers are experiencing a growing awareness of hygiene concerns and food origin as their living standards improve and numerous health scares beg their greater caution. This will further encourage consumers to purchase processed foods over fresh produce, while strong investment (both internal and external) in this sector should also 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. To this extent, canned and processed foods are up to 20-30% cheaper than fresh ingredients. According to retailer **Saigon Co-op**, processed food saw a growth rate of 60% in the first half of 2008.

Confectionery

Vietnam's confectionery industry has enormous potential, and is forecast to experience strong growth to 2014. During this year, we forecast growth of 16.7% in volume sales and 40.2% in value sales in local currency terms. While annual confectionery sales growth slowed to an estimated 4.9% in 2009, as demand for discretionary items abated amid economic uncertainty and likely also due to the fillip the sector typically receives from the tourism industry which had a weak year, to 2014, we expect robust demand growth to return, thanks to rising incomes, a large youthful population and ongoing urbanisation.



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

Rising disposable incomes will encourage the consumption of these non-essential goods, while continued exposure to Western brands and consumption habits will also contribute to the growth of the industry. The latter driver will in particular be responsible for value sales growth, since it should lead to the emergence of new premium and added-value brands, which carry higher sales prices. Companies such as South Korea's **Orion Confectionery** and **Lotte Confectionery**, which are planning investments for the industry, should ensure that it continues to grow at a rapid rate through product innovation and ongoing marketing and promotional initiatives.

Meanwhile, Vietnam is investing heavily in its cocoa industry, which should help the confectionery sector. With many countries in the region experiencing moderate-to-high GDP growth, the appetite for luxury goods has increased exponentially. However, cocoa production within the region is nowhere near high enough to meet this demand, resulting in the need to import cocoa and value-added derivatives from further afield. The existence of a strong cocoa industry in the area would not only benefit Vietnamese cocoa farmers, it would also give rise to the opportunity for investing in cocoa processing and value addition. Moreover, neighbouring countries will have access to a supply of value-added cocoa at a relatively cheap price. Not only would this feed the growing demand for luxury goods, resulting from strong economic performances, it could also improve trade relations in the region, thus leading to further investment.

Table: Value/Volume Sales of Selected Food Sub-Sectors - Historical Data & Forecasts

	2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Canned food sales ('000 tonnes)	7.32	7.83	8.37	8.59	8.78	9.23	9.72	10.23	10.77
Canned food sales (VNDmn)	281,592	303,833	326,608	341,895	364,132	390,604	416,610	447,510	479,880
Canned food sales (US$mn)	17.14	18.49	19.88	19.23	18.97	19.78	21.09	23.25	25.59
Confectionery sales ('000 tonnes)	89.9	94.0	97.0	99.1	101.2	104.1	107.8	111.6	115.7
Confectionery sales growth, tonne, (y-o-y)	4.41	4.56	3.23	2.16	2.10	2.88	3.49	3.58	3.66
Chocolate sales (VNDmn)	1,868,188	2,051,194	2,339,833	2,492,883	2,711,985	2,965,174	3,221,934	3,514,227	3,820,326
Sugar confectionery sales (VNDmn)	1,885,027	1,997,694	2,169,213	2,253,956	2,366,529	2,491,701	2,640,093	2,801,697	2,970,989
Gum sales (VNDmn)	417,024	422,042	429,336	433,373	438,404	449,795	456,281	462,945	469,879
Confectionery sales (VNDmn)	4,170,239	4,470,930	4,938,382	5,180,212	5,516,918	5,906,671	6,318,307	6,778,869	7,261,194
Confectionery sales growth, VND, (y-o-y)	8.32	7.21	10.46	4.90	6.50	7.06	6.97	7.29	7.12
Chocolate sales (US$mn)	113.7	124.8	142.4	140.2	141.2	150.1	163.1	182.6	203.8

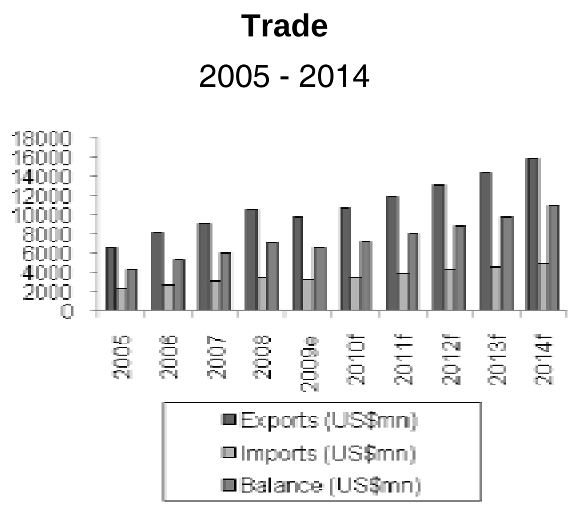
Table: Value/Volume Sales of Selected Food Sub-Sectors - Historical Data & Forecasts

	2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Sugar confectionery sales (US$mn)	114.7	121.6	132.0	126.8	123.3	126.2	133.7	145.5	158.5
Gum sales (US$mn)	25.38	25.69	26.13	24.37	22.83	22.77	23.10	24.05	25.06
Confectionery sales (US$mn)	253.8	272.1	300.5	291.3	287.3	299.1	319.9	352.1	387.3

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

Trade

BMI expects that Vietnam will maintain a healthy and growing trade balance for food, drink and tobacco to 2014. Exports are forecast to grow by 64.2%, to reach a value of US$15,932mn in 2014. Growth had been forecast to be higher owing to sustained government efforts to improve local food production and agricultural industries, which will boost output and make more produce available for export, as well as improving the quality competitiveness of local exports. However, the global financial crisis is now forecast to affect demand for Vietnamese exports in the short term, as weak growth in G3 markets will weigh on exports and prevent a marked improvement in net exports in spite of the devaluation of the dong.



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

Meanwhile, imports are forecast to grow by 56.2% to reach a value of US$5,008mn in 2014. The net effect of this growth in imports and exports will be the increasing positivity of the trade balance, which will grow by 68.1% between 2009 and 2014. In the long term, increased urbanisation and continued exposure to Western influences are expected to result in growing import demand, while 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 2014, the government will be hopeful that its investments, and its 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.

In September 2008, Ugandan President Yoweri Museveni announced that the African country is looking to increase production of robusta coffee, with the aim of overtaking Vietnam and Colombia and becoming the leading supplier of the commodity. However, **BMI** opines that Vietnam's preferential access to virtually the same export markets as Uganda, together with the former's comparative advantage in coffee production, means that Uganda's efforts to compete on export volumes alone would be fruitless.

In the coming year, we expect upward pressure on rice prices, as we see a possibility that India, which has in recent years alternated with Vietnam as the second-largest rice exporter in the world after Thailand, will have to import rice for the first time in 21 years after a dismal monsoon. Adverse weather is also hurting domestic production in the Philippines, the largest rice importer in the world, with these developments having an impact on Vietnam's trade balance. With strong demand on the export market for Vietnam's rice, due to the poor outlook for India's 2010 rice crop and threats of drought in Indonesia, prices may rise rapidly and this should mean an increase in export revenues in 2010.

Table: Vietnam Food & Drink Trade Indicators - Historical Data & Forecasts

	2005	2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Exports (US$mn)	6,566	8,097	9,074	10,585	9,706	10,731	11,851	13,060	14,415	15,932
Imports (US$mn)	2,314	2,693	3,065	3,479	3,206	3,544	3,881	4,232	4,601	5,008
Balance (US$mn)	4,252	5,404	6,010	7,106	6,500	7,187	7,970	8,828	9,813	10,924

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

Drink

Alcoholic Drinks

Vietnam's alcoholic drinks industry continues to attract the interest of foreign investors, with Japan's **Sapporo** the latest brewer to enter the market. This is thanks to the industry's bright outlook, due to rising domestic consumption fuelled by economic expansion, and a fast-growing tourist industry. Currently we are forecast an increase of 32.6% in volume sales between 2009 and 2014, while value sales are forecast strong growth of 36.6%, as consumers will trade up to higher value drinks along with rising disposable incomes. Beer will continue to dominate the alcoholic drinks sector, accounting for the vast majority of volume sales, and will be the main contributor to value sales.

Due to the strong interest the beer sector has been attracting from both local and international brewers, beer volumes are also set to experience the strongest growth over the forecast period – 31.7% to 2014. Vietnam is an attractive market for beer producers owing to its high economic growth and its population's increasing disposable personal incomes. Meanwhile, growing tourism and a large expatriate population are also having a strong impact.

Despite rising input costs, and the exertion by the government of tighter monetary policy to control inflation, beer production rose by 14% in H108, according to the Vietnam Alcohol, Beer and Beverage Association. Although prices rose by as much as 10-20% in H108, the number of visitors to restaurants and pubs still continues to grow. The association expects per capita consumption to increase from the current level of 18 litres per person to 28 litres by 2010.

However, volume sales growth in the wine and spirits industry will also be strong over the forecast period to 2014, albeit developing from much smaller bases. Both are fairly immature industries, which have been held back by an absence of multinational investment and their relatively higher price tags. However, both these factors are expected to decline in importance over the forecast period, as alcoholic drinks manufacturers in Vietnam diversify away from beer and into less mature, higher-growth categories, and as rising consumer incomes begin to erode consumer price sensitivity.

Table: Drinks Indicators

	2007	2008e	2009f	2010f	2011f	2012f	2013f	2014f
Alcoholic drinks sales (VND mn)	24,843,977	26,831,495	28,055,193	29,651,876	31,568,865	33,543,809	35,874,410	38,316,385
Alcoholic sales growth, VND, (y-o-y)	8.00	8.00	4.56	5.69	6.46	6.26	6.95	6.81
Alcoholic drinks sales (US$mn)	1,512	1,633	1,578	1,544	1,598	1,698	1,864	2,044
Alcoholic drinks sales (mn litres)	1,795	1,885	1,946	2,002	2,124	2,260	2,405	2,560
Alcoholic sales growth, litres, (y-o-y)	7.15	5.07	3.20	2.89	6.08	6.39	6.43	6.46
Beer sales (mn litres)	1,780	1,871	1,931	1,987	2,108	2,244	2,389	2,544
Spirits sales (mn litres)	14.50	14.72	14.90	14.96	15.30	15.68	16.15	16.65
Per capita beer consumption (litres)	19.44	20.60	22.12	22.49	23.62	24.88	26.23	27.66

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

Coffee

The world's second-largest producer, behind only Brazil, Vietnam is well known for its coffee output; yet industry growth has to date been dominated by exports, with internal consumption confined to the realms of affluent urban consumers only. However, fuelled by industry efforts to add more internal value to this profitable commodity, domestic consumption is climbing and is forecast to reach 10% of total output in the 2009 harvest year. These healthy global coffee prices have translated into immense opportunities for Vietnamese coffee growers and exporters, and contributed to output climbing by 42% between 2004 and 2008. Over the same period, domestic consumption increased almost three-fold. However, at just 7% of total output in 2008, domestic consumption levels leave coffee farmers export-dependent, while changing global coffee industry dynamics – not to mention recognition of the wealth of internal opportunities available – have underlined the need for producers' associations to take steps to rectify this imbalance.

That Vietnam represents a strong growth opportunity for domestic producers is not in doubt. Strong GDP growth is fuelling demand for aspirational food and beverage products, with the availability of coffee in the local market only serving to further this. Furthermore, Vietnam has a young population, for whom visiting cafés and drinking coffee is a growing lifestyle choice. Over our forecast period, we expect the sale of hot drinks (both coffee and tea combined) to increase by 65.6% in value terms as these drinks become increasingly popular, fuelled by advertising and marketing campaigns.

Tapping into this immense opportunity is not, however, the only concern; exporters have been forced to contend with growing demand for higher-quality arabica coffee beans among leading importers as global wealth increases. Of course, still-restrictive disposable income levels in emerging markets mean that the substitution of robusta for arabica is not an immediate one, yet an increased demand for quality has led to the marginalisation of robusta beans in some blends.

Table: Drinks Indicators

	2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Hot drink sales (VNDmn)	4,051,248	4,622,400	5,296,536	5,659,305	6,300,715	7,277,891	7,932,358	8,635,856	9,369,688
Hot drink sales (US$mn)	246.6	281.3	322.3	318.3	328.2	368.5	401.6	448.6	499.7

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

Soft Drinks

Vietnam continues to be one of the most promising soft drinks markets in the region. While accurate figures for soft drinks sales in Vietnam are not available, we would expect that soft drink consumption will experience strong growth, similar to that seen in the alcoholic drinks industry. The same drivers are at play here: economic growth, urbanisation, external investment and rising tourism numbers. Although Vietnamese consumers will retain an interest in healthy living, even as Western influences pervade consumption habits, we would expect carbonated soft beverages to be the highest-growth sub-sector of the soft drinks industry to 2014, owing to their popularity among aspirational young Vietnamese consumers, and their relative affordability when compared with energy drinks and premium fruit juices. There has also been a boom in bottled green tea, with the traditional beverage competing with bottled water and brands such as Pepsi, owing in part to their perceived healthiness comparative to other beverages, which encourages consumers to pay the extra price – around VND1,000-2,000 (US$0.06-US$0.12) – over other soft drinks. Retailer **Maximark** claims that bottled green tea sales have increased by 30-40% over the last year. The **Tan Hiep Phat Group** became the first company to sell bottled green tea in 2006, after investing US$20mn in production equipment and launching the O Degree brand. Meanwhile, **URC Vietnam** spent US$14.5mn launching its market-leading C2 brand.

Mass Grocery Retail

Vietnam continues to be one of the most promising markets for MGR in the Asia Pacific region, as we are continuing to forecast very strong growth rates in what is considered one of the retail industry's brightest new prospects. Between 2009 and 2014 **BMI** is forecasting that the value of sales through modern retail outlets in Vietnam will increase by over 71%, with all modern formats present in the country – supermarkets, hypermarkets and convenience stores – contributing to this development.

There are two primary drivers of this growth forecast. One is Vietnam's economic development. The country has proved successful at attracting multinational investment, in spite of its often-restrictive foreign investment policies and underdeveloped infrastructure. This investment has led to job creation, which in turn has led to the emergence of a new consumer class in the country – in major urban centres at least – which has an interest and can afford to participate in modern consumption methods such as mass grocery retailing. With Vietnam increasingly becoming one of South East Asia's top attractions, the country's high tourism levels will also assist the emergence of modern retail, particularly in the convenience sector. Recognising the importance of investing in infrastructure, the government is making headway in improving its dilapidated infrastructure with construction on a number of ports, power plants and road projects commenced in 2009.

However, Vietnam's MGR sector is still dominated by independent stores, although smaller players are being pressured by the growing presence of multinationals. Traditionally, multinational penetration was restricted by legislation prohibiting foreign investors from holding shares in local retail entities. However, the government is now prioritising foreign direct investment (FDI) inflows and WTO-membership trading opportunities over the livelihood of traditional retail operators.

However, while multinationals pose a serious threat to local enterprises operating in the attractive urban centres of Hanoi and Ho Chi Minh City, secondary and tertiary towns and cities in outlying provinces could actually reap considerable benefits from multinational investment. Thai Binh province is an excellent example of this. Growing affluence is resulting in consumers in the province increasingly looking to trade up to modern retail outlets and away from traditional, independent formats; rapid industrialisation and urbanisation are only accelerating this process. Multinational sector involvement will lead to rapid crowding in Vietnam's major urban centres, forcing retailers to turn to unexplored regions in search of growth. Public sector retail investment, which will stimulate increased consumer demand and accelerate the establishment of industry best practices, could see provinces like Thai Bihn become a beneficiary of this crowding.

Sales through the convenience store format are forecast to experience the slowest growth rate, at 57.5% to 2014. The main reason behind this relatively modest growth in the format's low starting point, with the concept still very much in its infancy. Accordingly, the demand for convenience, with the pay-off of higher prices, is not yet on the agenda for most consumers – they are still familiarising themselves with the modern format in general. Nevertheless, this subsector can be expected to attract growing interest from retailers, with Japanese convenience retailer **FamilyMart** having recently opened its first outlet in Ho Chi Minh City and with plans to have 300 stores in five years, as it looks to capitalise on the city's young and increasingly busy population.

Vietnamese consumers are most familiar with the standard supermarket format, as well as with hypermarkets, owing to its popular combination of both food and non-food items. Therefore, these two formats are set to witness the strongest levels of growth at 73.6% and almost 76% respectively. In addition, the supermarket and hypermarket formats are set to receive the most attention from new retail investors, owing to their greater per-store profitability levels, which will be of vital importance in a market where foreign investment in store openings is still limited. Regardless of these limitations, it is this investment that is set to be the second key driver of industry growth. In line with its WTO accession requirements, the government has started to liberalise many of its key industry sectors – retail being one such industry. The country has acknowledged the need for foreign investment if it is to get in line with industry best practices and accordingly it has started granting licences to international operators to establish store networks within the country. Hong Kong's **Dairy Farm** and South Korea's **Lotte Shopping** are two such recent examples. Investment of this nature and the ability of these companies to offer low prices owing to their purchasing power will further stimulate interest in modern retail. This will be particularly true among those price-sensitive consumers, who are still wary of the concept.

If there can be a downside in the case of such an impressive retail growth forecast, it comes in the form of Vietnam's majority rural population, which drags down food consumption levels in the market to enormously 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 support modern retail development at present. Even the low prices offered by discounters would be unlikely to attract buyers in rural communities, for whom self-sufficiency and wet markets remain the sole methods of consumption. This point is, however, still a long way off and retailers will invest in Vietnam in line with their own need to expand, confident of the country's economic development growing consumer base.

Table: Vietnam MGR Indicators - Value Sales by Format - Historical Data & Forecasts

	2005	2006	2007	2008e	2009f	2010f	2011f	2012f	2013f	2014f
Supermarkets (VNDbn)	1,150	1,397	1,660	2,021	2,187	2,473	2,822	3,115	3,447	3,795
Hypermarkets (VNDbn)	411	526	657	822	899	1,012	1,147	1,282	1,429	1,582
Convenience (VNDbn)	477	542	608	690	738	808	891	971	1,064	1,163
Total mass grocery retail sector (VNDbn)	2,037	2,465	2,925	3,533	3,824	4,293	4,861	5,368	5,941	6,540
Total mass grocery retail sector growth, VND, (y-o-y)	13.76	20.97	18.67	20.79	8.24	12.27	13.22	10.44	10.66	10.08
Supermarkets (US$bn)	0.0700	0.0850	0.1010	0.1230	0.1230	0.1288	0.1429	0.1577	0.1791	0.2024
Hypermarkets (US$bn)	0.0250	0.0320	0.0400	0.0500	0.0506	0.0527	0.0581	0.0649	0.0742	0.0844
Convenience (US$bn)	0.0290	0.0330	0.0370	0.0420	0.0415	0.0421	0.0451	0.0491	0.0553	0.0620
Total mass grocery retail sector (US$bn)	0.1240	0.1500	0.1780	0.2150	0.2151	0.2236	0.2461	0.2718	0.3086	0.3488

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

Grocery Retail Sales by Format – Historical Data & Forecasts (%)

	2008	2018f
Organised/MGR	6	22
Non-organised/Independent	94	78

f = BMI forecast; Source: BMI

Food

Industry Developments

- In early July 2010, members of the Vietnam Food Association were instructed by the Vietnamese government to purchase 1mn tonnes of unhusked rice, under a government-backed rice stockpiling scheme, between July 15 and September 15 2010. This comes as part of the government's ambition to support rice prices during 2010. The government is to provide interest free loans to companies for buying rice from July 15 2010 to November 15 2010. Vietnam rice production contracted in 2008/09 and we forecast a further modest contraction of 0.5% in 2009/10. However, these falls should be viewed in the context of an excellent 2007/08 harvest; in fact compared to previous historic levels, output in 2008/09 and forecast output in 2009/10 looks strong. Compared to many of its agricultural sub-sectors, Vietnamese rice is in fact highly competitive relative to many of its regional peers, and it is thus well positioned to benefit from both regional and global demand growth.

- Also in July 2010 it was announced that Philippine canned tuna firm **Alliance Tuna International** (ATI) is to acquire a majority stake in Vietnamese fisheries firm **Hiep Thanh Seafood Joint Stock Company** (HTS) for a reported US$13.1mn. ATI is looking to exploit growing European and North American fish and seafood demand, and this acquisition, which could triple ATI's existing revenues, will also give the firm much-needed product diversification. If, on completion of due diligence, ATI does acquire a 50%-plus-one-share interest in HTS then the company would be able to diversify its fish and feed operations. An interest in HTS would add the increasingly popular white fish pangasius to its portfolio, as well as growing its feed arm - the latter being crucial in giving ATI greater control over its supply chain and input costs. Over the medium-to-long-term, HTS could play a vital role in boosting ATI's sales and profitability. However, with consumer confidence in Europe and the US - the key export markets for Vietnamese seafood - looking increasingly vulnerable amid fears of a second economic slump, ATI might initially find it difficult to realise the benefits of its planned purchase. With ATI and HTS reliant on exports to the West, late 2010 and 2011 could be challenging for both companies, even if the future for Asian fish and seafood exporters is bright in the long term.

- In late June 2010, Reuters reports that Vietnam and Thailand-based mills have entered into contracts to import feed wheat from the Black Sea region. The deal, one of the first new-crop bulk deals to South East Asia, poses a direct challenge to corn shipments from South America and the US. Traders are expecting more such deals in the region as a result of aggressive offers made by exporters from Ukraine and Russia. According to a trading manager with an international trading firm, wheat is preferred as animal feed over corn due to cheap prices.

- In June 2010, Vietnam’s agriculture ministry-run newspaper Nong Nghiep Vietnam reported that the country’s rice exports are likely to post 20.5% y-o-y growth to 700,000 tonnes during June 2010.

June rice exports could bring the total export volume to 3.35mn tonnes, down by 8% y-o-y, during H110. Vietnam Food Association Chairman Truong Thanh Phong stated that the country has a stockpile of 7mn tonnes of rice available for exports for the whole of 2010.

- Also in June 2010, just-food.com reported that Singapore's **Fraser & Neave** has decided to sell a dairy unit based in Vietnam. The company has said that it is looking to streamline its food and beverage unit, and therefore reached a deal to sell **F&N Vietnam Foods Co**. for US$3.8m to an unnamed buyer.

- In May 2010, it was announced that Dutch dairy cooperative **Royal FrieslandCampina** is to invest US$12mn in the expansion of production capacity at a factory in Vietnam. The company hopes to meet the growing demand for dairy products with its Dutch Lady, YoMost and Friso brands. The factory in Binh Duong is scheduled to be fully operational by the end of 2012. Vietnamese dairy consumption growth will remain strong over our forecast period, as strong economic growth will filter through to rising disposable incomes, which will push up demand for non-essential food products. Increased urbanisation, rising ownership of white goods and the ongoing spread of modern, organised retail will all support strong dairy consumption growth, even if the higher global dairy prices forecast limit the growth outlook to some extent.

- In mid-May 2010 Vietnamese confectioner **Kinh Do Corp** announced plans to acquire two smaller local players. It will take 100% ownership of **North Kinh Do Food Joint Stock Company** in a deal worth VND726bn (US$38.3mn), while it will also acquire the 72% interest it does not already hold in **Ki Do Joint Stock Company** for around VND239bn (US$12.6mn) - both estimates based on the company's last closing share price of VND53,000. Kinh Do's expansion plans are timely. Not only are we forecasting an uptick in confectionery sales growth in 2010 and beyond, we also - not unrelatedly - expect an increase in sector competition. Kinh Do has benefited from its distribution deal with UK major **Cadbury** in Vietnam. While no formal news is available on the future of that partnership, with Cadbury acquirer **Kraft** also present in Vietnam, it is probable that Kinh Do could find itself competing against the products it once distributed. Kinh Do's acquisition-led enlargement should significantly improve its competitiveness, giving it access to a larger product pipeline, a wider distribution network and improved economies of scale in terms of procurement and manufacturing.

- In March 2010, **Hanoi Milk Joint Stock Company** posted financial results for FY09. Revenue fell 20% to VND275bn for the year, while net profit reached VND12.9bn, compared to a loss of VND37.7bn in FY08. The company announced that it was expecting revenue of between VND300-360bn for FY10, helped by sales of new products labelled IZZI.

- In February 2010, Cuba announced it is planning to purchase 11% less rice from Vietnam in 2010, reports Thoi Bao Kinh Te Saigon Online. Deputy Chairman Pham Van Bay of the Vietnam Food

Association (VFA) stated that Cuba will buy 400,000 tonnes of rice from **Vietnam Northern Food Corporation** (Vinafood 1) in 2010 through regular purchases with payment deferred for 1.5 years. Cuba's rice imports from Vietnam were at 449,950 tonnes in 2009.

- In early February 2010, Hoang Kim Giao, head of the Ministry of Agriculture and Rural Development's Animal Husbandry Department, announced that the Vietnamese government is planning to review and restructure its animal husbandry and poultry sectors in order to meet domestic and overseas demand. He added that the country would raise livestock production from the existing 30% of total agricultural output to 38% by 2015, and 42% by 2020. He further stated that the country would modernise its animal husbandry and poultry sectors to serve increased food demand. Despite going through hard times over recent years with disease outbreaks, soaring input costs and competition from cheap imports, we expect Vietnam's livestock production to see strong growth over the medium term. Rising incomes will stimulate domestic meat consumption growth, and production will increase to keep pace. The news is likely to benefit the livestock industry in the long run.

- In late January 2010, Vietnamese Seafood Company, Nam Viet Corporation posted financial results for Q409 and FY09. For the year, revenue fell 44% y-o-y to VND1.86trn and the company reported a loss of VND176.3bn compared with a net profit of VND97.7bn in FY08. For the quarter, the company made a loss of VND100.8bn and reported revenue of VND436.1bn.

- In January 2010, the Vietnamese government announced its intensions to raise agricultural exports by US$1bn year-on-year (y-o-y) in 2010 to US$16bn, despite drought conditions that will contribute towards y-o-y output contractions in the country's main cash crops – coffee and rice. The prices of domestic agricultural products increased slightly at the start of the year due to rising import demand, yet according to the Ministry of Agriculture and Rural Development (MARD), are still below the levels recorded during the massive global food spikes of 2008. Notwithstanding the likelihood of higher import buying, as a host of the world's producers seem certain to reduce growing areas and hold back grain exports to protect local consumption, **BMI** feels that this represents a good opportunity for Vietnamese exports to benefit from heightened consumer sentiment.

- In December 2009, Japanese curry, seasonings and spice producer **House Foods** acquired a 1.85% stake in the Vietnamese **Masan Group** for VND360bn (US$19.5mn). The acquisition is an important step for House Foods in extending its geographic reach, providing a foothold in the high-growth, but low-spending Vietnamese sauces and instant foods markets. By taking a stake in Masan, House Foods will be able to benefit from Vietnam's fast emerging consumerism without having to commit substantial funds to supply chain infrastructure and distribution networks. Masan has also been a key local player in terms of Vietnam's transition from non-branded to branded foodstuffs and its recognised brand names and products offer another benefit that House Foods could not achieve alone. House Foods' acquisition of a stake in Masan values the total company at approximately VND19.5trn (US$1.06bn).

- According to a late October 2009 report from the Wall Street Journal, US private equity (PE) firm **Texas Pacific Group** (TPG) is to invest US$35mn in Vietnamese food and financial services company **Masan Group** as part of an overarching strategy of seeking a foothold in high-growth regional consumer goods markets. TPG's reported investment for an undisclosed stake in Masan has coincided with Danish asset management firm **BankInvest**'s decision to invest a further US$15mn in the company; BankInvest previously acquired an 8% interest in Masan's food arm in November 2008. It is currently unclear whether the two investors will contribute both to Masan's food operations and its **Techcombank** financial services division, and yet the outlook for the local food industry is certainly supportive of increased investment in this business area. Masan’s food sales grew by 15.8% y-o-y in 2007, and shot up to 191% y-o-y in 2008 thanks to new product launches and an ever-widening distribution network. In 2009, despite growing competition from local firms and multinational investors, not to mention the challenge of consumer confidence uncertainty, Masan expects sales to increase by 134% to US$250mn, while net income climbs by 52% y-o-y to reach US$32mn.

- In early October 2009, according to the Saigon Economic Times, Nguyen Tho Tri, deputy chairperson of Vietnam Food Association, said that Vietnam’s future rice exports could survive tough competition from neighbouring countries through a rice venture with Cambodia. He added that Vietnamese rice would face challenges from Cambodian rice exports if other countries invested in the Cambodian rice sector first. In August 2009, officials from both countries met to form a state-owned joint venture rice mill project to boost Cambodian rice exports, which was criticised by Vietnamese farmers. After reaching 3.46mn tonnes in the first half of the year, Vietnam’s rice exports were on course for a record year in 2009, hitting a 5.5mn tonnes for the full year, the highest levels ever seen.

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. As a result, Vietnam’s agricultural sector has become one of its most important industries, contributing around 22% to total GDP, and serving as a major employment provider, particularly in rural areas. To this extent, the industry is thought to account for around 60% of the total labour force.

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 now meet domestic demand in most areas. In fact, some agricultural subsectors 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 also, owing to their potential profitability, the areas that have attracted most private investment in recent years,. Vietnam is also now the world's seventh-largest tea producer, harvesting some 142,300 tonnes of tea in 2006. The country's ranking is even higher in export terms. With domestic consumption marginal in relative terms, the vast majority of tea grown in Vietnam is destined for the export market, and this makes the country the world's fifth-largest tea exporter in volume terms.

However, despite improvements over the review period, Vietnam's agricultural industry still has some way to go if it is to become globally competitive and prove a real stimulant to the country's economy. To help meet this aim, the country is to receive a combined loan of US$110mn from the World Bank and the Asian Development Bank (ADB). This will enable Vietnam to start producing and exporting more processed agricultural goods, rather than selling them in their basic form. 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 a review of harvesting techniques will also be needed if the industry is to fulfil its vast potential.

An example of inefficiency is evident in the milk industry. The Ministry of Agriculture and Rural Development (MARD) has said that at present around 130,000 dairy cattle have met a mere 20% of domestic milk demand, leaving considerable scope for development in this area. The MARD hopes to be able to meet 40% of domestic demand by 2010, although this will require extensive investment in many areas and, in the short to medium term, this hope may be dampened by global inflation and economic uncertainty. One thing is for certain: Vietnam has a large-enough agricultural base to achieve far greater levels of milk sufficiency.

Food Processing

Vietnam's food-processing industry comprises around 260 seafood-processing plants (the country is a major exporter), with an annual production capacity of 250,000 tonnes, 24 slaughter houses and meat-processing plants, 160 beverage plants, 65 fruit- and vegetable-processing plants, 27 plants manufacturing instant noodles and 23 confectionery manufacturers. Despite a significant proportion of processed food being imported, consumption of imported produce remains fairly low in the country – although it has increased in the main population centres of Ho Chi Minh City and Hanoi.

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

Food Consumption

In terms of consumption trends, the expansion of modern lifestyles and the rise in disposable incomes – which have accompanied Vietnam's economic growth, particularly in major urban centres – have increased consumer demand for snacks, convenience foods and premium and luxury food items. Domestic food manufacturers are beginning to respond to this trend, albeit slowly, and increase 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. Domestic consumption is now estimated at 14kg per person annually, compared to 6.5kg in 2000 and 9kg in 2005. Huge multinational companies have managed to sway consumer preference, owing to their considerable advertising and promotional power, and domestic firms have to work hard to secure brand loyalty, given an absence in Vietnam of the type of patriotism prevalent in some other markets in the region.

Drink

Industry Developments

- In July 2010, the Ministry of Industry and Trade's Competition Control Department revealed that many of the milk drinks sold in Vietnam as 'fresh' are actually produced from powdered milk. According to department estimates, up to 60% of the milk drinks in the market are actually produced with milk powder. The department noted the massive discrepancy between the quantities of fresh milk produced by domestic dairy cows, which is 262mn litres, and the almost 453mn litres of drinks sold in the market as fresh milk. According to Vietnamese laws, flavoured milk drinks must clearly state whether they were made from fresh or powdered milk, with producers facing fines or criminal prosecution if they fail to accurately label their products.

- In late May 2010, the Vietnamese General Statistics Office said coffee exports grew by 3.3% year-on-year in the month to an estimated 95,000 tonnes, or 1.58mn 60kg bags. Reuters reports that the data for May brings exports for the first eight months of the crop year, which ends in September 2010, to 840,600 tonnes, or 14.01mn bags, down by 5.3% y-o-y.

- In the same month, Reuters reported that traders have said coffee prices in Vietnam fell on May 18 2010. The drop in prices was attributed to losses on international markets and the sluggish implementation of a government-backed plan to stockpile beans. The traders said Vietnamese coffee exports in May 2010 would decline as a result of the uncertainties surrounding the stockpiling programme.

- In April 2010, Reuters reported that the Vietnamese government said coffee exports from the country increased by 4.8% year-on-year in April 2010 to an estimated 130,000 tonnes (2.17mn 60kg bags). However, according to a report by the General Statistics Office, coffee exports for the first seven months of the crop year (which ends in September 2010) totaled 752,600 tonnes, or 12.54mn bags, down by 5.4% y-o-y.

- In mid-April 2010, **Saigon Beer Alcohol and Beverage** (Sabeco) announced that it plans to build a VND680bn (US$36mn) Saigon-Ninh Thuan beer factory in south-central province of Ninh Thuan. It is anticipated that the new factory will produce 50mn litres of beer annually. Earlier in the year the brewer announced that for FY09 it made a pre-tax profit of VND1.48trn and saw revenue reach VND15.4trn. These results exceed earlier forecasts. Chairman Nguyen Ba Thi had originally stated that full-year sales were expected to rise an impressive 45% to VND13.5trn (US$757.9mn) from VND9.3trn (US$543.4mn) in FY08, while net income was expected to increase around 8% to VND1.3trn (US$73.0mn) from VND1.2trn (US$67.4mn) the previous year.

- In other Sabeco news, in March 2010 Just-drinks reported that Japan's **Asahi** Breweries was moving nearer to acquiring a stake in Sabeco. The news comes nearly two years after rumours linking the two first started circulating in April 2008. Sabeco is also rumoured to be discussing a stake sale with **Anheuser-Busch InBev**, **Heineken** and **ThaiBev**.

- In early April 2010, Reuters reported that buying agents, who sold forward stocks to exporters at low prices, are facing pressure from farmers over balance repayments after coffee prices in Vietnam registered more than 5% growth during the fourth week of March 2010. Exporters postponed or defaulted on shipments amounting to 200,000 tonnes as London prices dropped faster than Vietnamese prices, according to traders and state media.

- In March 2010, **Saigon Beverages Joint Stock Company** gave earnings guidance for FY10 saying that it may suffer a loss of VND57bn for the period. The company plans to continue to re-arrange its sales and marketing efforts and to seek more partners in order to make a profit again in FY12.

- In March 2010, **Outspan Vietnam Coffee Company,** under Singapore's **Olam Group,** opened an instant coffee plant in Vietnam's Mekong Delta province. The plant required a total investment of US$50mn and will initially have an annual capacity of 4000 tonnes, before rising to 7,000 tonnes after two years. It is expected that most of the plant's output will be exported to Japan, the EU and the US.

- In late January 2010, Vietnamese brewing company **Hanoi Beer, Alcohol and Beverage Corporation** (Habeco) started the construction of its Hanoi-Hong Ha Beer plant in Phu Tho province. The VND186bn (US$9.3mn) plant will enable the company to increase annual production capacity by 25mn litres. Habeco forecasts revenues to reach VND165bn (US$9.2mn) in 2010. The new plant can be viewed as an effort by the company to lift its competitiveness in preparation for the forecast increase in beer sales in Vietnam.

- In late December 2009, Japanese brewer **Sapporo** acquired a 65% stake in **Kronenbourg Vietnam**, the **Carlsberg** and **Vietnam National Tobacco Corporation** (Vinataba) 50:50 joint venture (JV). The US$25.4mn deal will see Sapporo take full ownership of Carlsberg's stake and 15% of Vinataba's interest. On completing the acquisition, Sapporo is set to rename the enterprise **Sapporo Vietnam** and the brewer has already confirmed that construction of a new brewery will be among its first priorities. This investment in capacity expansion will be important if Sapporo is to compete effectively in Vietnam. Bearing in mind the competitive business environment, Sapporo has been moderate in its market share aims, with the new JV targeting just 3% of the market by 2019, and yet even this will require significant financial support given the sums its rivals are also pumping in to local growth. As well as capacity expansion, Sapporo and Vinataba are likely to need to address the issue of portfolio diversification, balancing premium international brands that appeal to tourists and aspirational, affluent Vietnamese consumers, with the mass-market and economy products that continue to dominate domestic beer sales.

- In December 2009, it was announced that coffee consumption in Vietnam increased to 10% of output in 2009, up from the 7% recorded in 2008. However, Agriculture Ministry Deputy Director Doan Xuan Hoa said that coffee consumption in the country was low compared with countries such as the US and Brazil. Vietnam will keep 1.5mn-1.67mn 60kg bags of coffee to meet domestic consumption during 2009, the International Coffee Organization (ICO) estimates. Hoa said that coffee consumption will rise to 15-20% of output by 2015 as Vietnam is making efforts to develop more high quality roasted products.

- According to a November 2009 Reuters report, industry officials announced that leading Vietnamese coffee exporters will sell more cargoes at outright prices to help prevent losses. This will lead to a drop in number of cargoes sold for forward shipment and priced at discounts to London futures contracts. Vietnamese coffee exporters usually sell coffee on a forward basis at prices lower than futures price, although spot prices in Vietnam tend to match with London robusta coffee futures prices.

- In November 2009, Danish brewing giant **Carlsberg** announced plans to acquire the remaining 50% stake in Central Vietnam's **Hue Brewery** as part of its objective to strengthen its position in the Vietnam beer market. Hue Brewery has two production sites and an annual capacity of 2mn hl, and is the market leader in central Vietnam with its Huda brand; Carlsberg did not disclose the financial details for the deal. Carlsberg purchased a 50% stake in the Vietnamese brewery in 1994 through a preliminary agreement with Hue People's Hue Committee. As Vietnam's beer market grows, in line with the country's rapid economic development, a nationwide presence is becoming an essential requirement for the leading players. Demand is no longer coming out of the two major urban centres of Hanoi and Ho Chi Minh City, as incomes and tourism levels are rising in city centres across the country. If a brewer is to fully exploit country's attractive beer market, it must have access to more than two or three profitable cities, hence this move by Carlsberg.

- In October 2009, Vietnam’s deputy minister of agriculture and rural development stated that despite the many government incentives in place, the country’s tea sector had not developed to its full potential, highlighting the limited investment in the area. He was speaking at a conference in Hanoi where government officials and investors discussed how to attract more capital to the tea sector and promote Vietnamese tea products to the global market. It is thought that with more investment the sector will be able to produce better quality tea varieties, modernise processing technology and increase exports.

- In late September 2009, Danish brewer Carlsberg announced it is to withdraw from its Vietnam brewing joint venture with **Vietnam National Tobacco Corp** (Vinataba), a state-owned wine and tobacco company. The company took the decision as it felt that the partnership no longer made business sense. Both companies had developed a 50-50 joint venture after Carlsberg acquired the Vietnamese business of UK brewer **Scottish & Newcastle** (S&N) in 2008. Carlsberg is planning to take over the distribution of S&N’s Kronenbourg beer brand in Vietnam, currently operated by Vinataba. Carlsberg’s decision can be viewed as an effort to lift its competitiveness for a forecast increase in beer sales in Vietnam.

- In other Carlsberg news, in early September 2009, the brewer upped its 16.07% stake in Vietnamese brewer Habeco to 30%. Reflecting the Danish firm’s growing desire to expand its footprint in South East Asia’s high-growth beer markets, the deal also hints at a change of strategy for Habeco which has to date focused on economy brands in order to ward off the threat of international competition. Extending their existing partnership, the two brewers expect to exceed market growth over the next few years; to 2013, **BMI** expects volume sales of beer in Vietnam to increase by 24.2% annually. Carlsberg’s decision to increase its stake in Habeco can be viewed in light of two factors. First, competition in the sector continues to intensify as multinationals seek to eek out the few truly explosive growth opportunities that remain in the regional beer market. While increasing competition has made it important for Carlsberg to expand, simple capacity expansions are not the most viable choice. Vietnam’s beer market has grown at a rapid pace, supported by economic growth, rising tourism and favourable age demographics. However, and second, 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, unable to participate in the proliferating consumer goods industries even at the economy end. The risk of oversupply (huge capacity expansion projects are already underway) makes Carlsberg’s stake purchase a wise choice for pursuing sales growth.

- In early September 2009, US soft drinks behemoth **The Coca Cola Company** (TCCC) announced plans to invest US$200mn in Vietnam over the next three years. Benefiting from strong economic growth, rapid population growth, urbanisation and an increasingly dynamic tourism industry, Vietnam’s soft drinks sector is attracting ever-greater attention and this latest investment will help TCCC to offset renewed threats to its market share from both multinationals and local players. Organic expansion will be the focus of the US$200mn investment, increasing producing capacity and lifting marketing efforts initial priorities. However, the company may also consider acquisitions and has not ruled out further increasing its investment over the next three-year period from 2012.

Market Overview

Soft Drinks

Per capita consumption of soft drinks in Vietnam is low, at around nine litres per annum – compared with 70 litres in the Philippines and 15 litres in China – but it is growing. The soft drinks sector is dominated by multinationals **The Coca-Cola Company** and **PepsiCo**, which jointly command an 88% share of the market. The major focus of the multinationals is on carbonated soft beverages, with small local drinks firms producing other types of drinks and fighting it out for the remaining market share. The largest of the other players is **Saigon Beverages Joint Stock Company** (Tribeco), with an approximate 6% share. Tribeco produces a range of soft drinks and is the country's leading producer of soymilk, with an estimated 85% share of the market segment.

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

The country's largest and second-largest coffee manufacturers – respectively **Vinacafe Bienhoa Joint Stock Company** and **Thai Hoa Coffee Corporation –** are leading the investment activity in the coffee sector at present. Thai Hoa Coffee is to invest US$34mn in a processing plant with the capacity to produce 65,000 tonnes of fresh coffee, 100,000 tonnes of dry coffee and 2,000 tonnes of soluble coffee annually. Meanwhile, Vinacafe Bienhoa is in the process of constructing a plant capable of supplying 3,200 tonnes of exportable instant coffee by 2009. With interest from the Brazilian coffee association to build a US$15mn soluble-coffee plant in Vietnam, there is huge potential for employment opportunities for locals. Singapore's Jayangti Pte has also joined the investment activity in the coffee sector, investing US$16.5mn in a factory with the capacity to produce 6,000 tonnes of instant coffee by mid-2011. Coffee giant **Trung Nguyen Corporation** is starting work on a US$40mn instant coffee plant, which is expected to have an annual capacity of 60,000 tonnes. Most recently **Outspan Vietnam Coffee Company** under Singapore's **Olam Group** invested US$50mn opening a coffee plant with an initial annual capacity of 4,000 tonnes before rising to 7,000 tonnes after two years.

Alcoholic Drinks

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

A number of foreign players have invested in the Vietnamese market, including the Danish major **Carlsberg** (operating both alone and via a stake in **Habeco**), UK spirits giant **Diageo** (partnering **Halico**), the Philippines' **San Miguel Corporation**, which recently announced plans to boost beer production in Vietnam to 1mn hectolitres (hl), Anglo-South African brewing giant **SABMiller** (which recently bought out local partner **Vinamilk**), UK-based **Scottish & Newcastle** (S&N), with 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 JV 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**, which is majority-owned by the Dutch brewing major and its regional affiliate APB. The group's Vietnamese partner is **Saigon Trading Corporation** (Satra). Government privatisations of state-owned brewing companies have given foreign players a chance to increase their market share in Vietnam and this process is likely to be ongoing in the coming years.

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

Mass Grocery Retail

Industry Developments

- In late July 2010, French retailer **Casino** announced that its first-half operating profit rose by 12% y-o-y, as reported by Just-foods.com. With operating profit up to EUR541mn (US$714.3mn) in H110, compared to EUR483mn the year before, profits were boosted by international operations, which were up by 34.5% on a reported basis to EUR194mn (US$256.1mn), with margin improvements in Vietnam, Thailand and Columbia key to this growth.

- In late March 2010, Germany's **Metro Cash & Carry** started work on a self-service outlet in the Mekong Delta. The new store required an investment of US$17mn and will open this year to serve business customers in the Mekong Delta. The store will stock more than 25,000 food and non-food items and will create 400 jobs for local people. In other Metro news from last quarter, in January the retailer announced that it would build its 12th wholesale centre in 2010. The new wholesale centre will be located in the central province of Binh Dinh's town of Quy Nhon, and will have 6,000m2 of selling space, and is an investment of US$15mn.

- In March 2010, Vietnam's leading supermarket operator, **Saigon Co-op** announced plans to build its first ever supermarket in Cambodia, this is the retailer's first target overseas market. Nguyen Ngoc Hoa, Chairman of Saigon Co-op, said the project would not only expand its retail market but would also help promote domestic goods in Cambodia. The retailer also confirmed that it is continuing to expand nationwide announcing plans to increase its supermarket network to at least 52 by the end of the year, and to increase the number of food stores from the current eight to 20. By 2015, it is hoping to up the number of supermarkets to 100 in addition to opening a further 12 more convenience food stores in Ho Chi Minh City. In addition Saigon Co-op is seeking to expand its scale beyond supermarkets by investing in a huge shopping mall project with Singapore's **Maple Tree and Saigon Transportation Mechanical Corp.** (Samco).

- In early February 2010, Just-food reported that Japanese convenience retailer **FamilyMart** is planning to focus on its Asian operations outside of Japan. President Junji Ueda stated that the company would develop its Chinese and Vietnamese businesses as it is experiencing stagnant growth in its domestic market. The company, which operates one outlet in Vietnam, is aiming to launch five more stores in Ho Chi Minh City in 2010 and expand its Vietnamese network by opening a total of 300 outlets in five years.

- In mid-January 2010 the 10th **Big C** supermarket was opened in the country, located in Hanoi's Tu Liem district, making it the second Big C outlet in Hanoi, with an investment of US$3mn. The new outlet covers 3,700m^2 and will be located in the Garden Trade Centre in the Manor Me Tri deluxe apartment zone, and hence will be called The Big C Garden. The newest outlet is a joint venture (JV) between France's Casino Group and **GTC One-member Ltd. Co**, a tourism, services and import-export company based in Hanoi.

- In early January 2010, Saigon Co-op announced the opening of a new Co-op Mart in the southern province of Dong Nai, bringing its total outlets to 43. The newest outlet, located in Tan Bien, features 4,000m^2 of retail space and represents an investment of VND35bn (US$1.8mn). This was followed by an announcement in late January 2010 that Saigon Co-op and the Quang Tri Commercial One Member Company had begun construction on the Dong Ha Co-op Mart Supermarket. This will be the second Co-op Mart in the northern part of the central provinces and represents an investment of VND50bn (US$2.7mn); the new outlet is expected to be operations by the end of the year.

- In December 2009, FamilyMart opened its first Vietnamese outlet in Ho Chi Minh City in partnership with local distribution company **Phu Thai**. The joint venture, in which Phu Thai will hold the majority stake, will look to capitalise on the growing spending power of Vietnam's young population. More importantly for FamilyMart, however, the partnership represents another opportunity to reduce its dependency on the mature Japanese market, as it looks increasingly to overseas markets for growth. FamilyMart will focus its efforts on affluent and major urban centres, such as Ho Chi Minh City, Hanoi and Da Nang, hopeful of establishing a strong footprint for the time when convenience retail demand really takes off in the country.

- In October 2009, VNBusinessNews reported that Dairy provider **Dutch Lady Vietnam** had refused to help Big C supermarkets in Ho Chi Minh City with a promotion campaign, saying it is a dumping exercise in disguise. The supermarket was due to run a promotional campaign offering 180-milliliter Dutch Lady boxes, at VND16,200 (US$0.91) instead of the normal VND16,800 (US$0.94) and giving an extra 110ml box to customers who buy two cases or more. However, at the last minute the provider refused to provide the product saying that the supermarket was under-pricing its product by giving the extra milk box.

- In early October 2009, Metro Cash and Carry Vietnam, the local subsidiary of German wholesale giant Metro AG announced it is to open five new stores in the country. Adding to its network of nine stores, Metro wants to expand into new regions in order to address the growing needs of small and medium-sized enterprises in these un-penetrated areas. The retailer has secured a EUR47mn (US$69mn) loan from the European Investment Bank to support its expansion. Of Metro's five planned openings, three will be southern Vietnam and two will be in the central provinces. However, Vietnam's wealth demographics will continue to restrict expansion opportunities for large-scale store operators for some time to come.

- In early October 2009, Saigon Co-op opened a supermarket in the southern province of Long An. This is the eighth Co-op Mart in the Mekong Delta and the 40th nationwide. The supermarket required an investment of VND85bn (US$4.7mn) and covers 11,000 square metres of land. Over 90% of the goods on sale at the supermarket are made in Vietnam. This is the first Co-op Mart supermarket to build S-parking, a computerised car park to increase security.

Market Overview

Over the past five years, an increasing presence of supermarkets and shopping centres have 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. According to **BMI** estimates, there were around 165 supermarkets, 14 hypermarkets and 255 convenience stores in Vietnam at year-end 2008. The vast majority of these outlets are to be found in and around the main urban centres of Hanoi and Ho Chi Minh City, although modern retail outlets are increasingly appearing in smaller central towns and cities.

Convenience stores in Vietnam are generally larger than those in Western Europe or the US and stock a wider range of goods, in order to fully cater for areas that do not have the scale to warrant a large supermarket outlet. In rural areas of the country, open-air markets continue to dominate, although this can be expected to change, as modern retail formats become more commonplace and this acceptance spreads to the provinces. For now, however, traditional retail still accounts for around 94% of grocery retail sales.

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, albeit with socialist characteristics. 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 on this open policy slightly. In line with the country's WTO accession, the Vietnamese government now looks set to have to walk the fine line between allowing 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 currently focus more on non-food items than similar stores in the Western world. Daily food items are still, for the most part, purchased from markets. Accordingly, for the time being, stores are better off giving more floor space to profitable non-food items. If they are to effectively erode the market share of traditional retail, however, this focus will have to change and they will need to compete directly in terms of stocking the sorts of foods available in markets – namely fresh food produce – at low prices.

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

France's Casino is already present with its **Big C** chain, and has been present in the Vietnamese market for over 10 years, having opened its first hypermarket in Dong Nai in 1998, and has now established outlets in Ha Noi, Hai Phong, Hue, Da Nang, Bien Hoa, and Ho Chi Minh City. The company recently opened its 10th outlet in the country, with its second Hanoi-based supermarket which opened in January 2010. 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

	2002	2003	2004	2005	2006	2007	2008
Supermarkets	67	74	88	100	115	130	165
Hypermarkets	2	3	4	7	8	10	14
Convenience stores	48	52	62	75	120	180	255
Total MGR outlets	117	129	154	182	243	320	434

Source: General Statistics Office, Company figures, BMI

Table: Structure of Vietnam's Mass Grocery Retail Market - Sales Value by Format (US$mn)

	2002	2003	2004	2005	2006	2007	2008
Supermarkets	42	55	64	70	85	101	123
Hypermarkets	16	20	20	25	32	40	50
Convenience stores	19	22	25	29	33	37	42
Total MGR sales	77	97	109	124	150	178	215

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

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

	2002	2003	2004	2005	2006	2007	2008
Supermarkets	690	904	1,052	1,150	1,397	1,660	2,021
Hypermarkets	263	329	329	411	526	657	822
Convenience stores	312	361	411	477	542	608	690
Total MGR sales	1,265	1,594	1,791	2,037	2,465	2,925	3,533

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

Table: Average Sales per Outlet by Format – 2008

	US$mn	VNDbn
Supermarket	0.75	12.25
Hypermarket	3.57	58.68
Convenience store	0.16	2.71
Total MGR	0.50	8.14

Source: BMI

Competitive Landscape

Table: Key Players in Vietnam's Food & Drink Sector – 2009

Company	Sub-sector	Sales (VNDtrn)	Sales (US$mn)	Employees	Year Established
Sabeco	Beverages - Alcoholic	15.4	815.5	na	na
Vinamilk	Beverages - Dairy	10.6	561.3	3,000	1976
Unilever Vietnam	Food and beverages	na	350.0e*	5500	1995
Nestle Vietnam	Food and beverages	na	210.0e*	na	1995
Habeco	Beverages - Alcoholic	4.15***	237.9	na	na
Vietnam Brewery Ltd	Beverages - Alcoholic	na	125.0e*	500	1991
Coca-Cola Vietnam	Beverages - Soft drinks	na	125.0e*	1,182	1994
Vissan Import Export Corporation	Food - Meat	na	121.1**	2,500	1974
Trung Nguyen Corp	Beverages - Coffee	na	120.0e*	na	1996
Pepsi-IBC Vietnam	Beverages - Soft drinks	na	110.0e*	na	1991
Masan Food	Food - Instant noodles, sauces	3.96	209.6	5079	1996
San Miguel Purefoods Vietnam	Food and beverages - Miscellaneous	na	70.0e*	na	na
Saigon Beverages Joint Stock Company (Tribeco)	Beverages - Soft drinks	0.47***	27.6	1,074	1992
Hanoi Milk Joint Stock Company	Food and beverages - Dairy	0.275	14.6	na	2001
Vinacafe Bienhoa Joint Stock Company	Beverages - hot drinks	na	na	na	1969
Nam Viet Corporation	Food - Sea food	1.86	98.5	na	1993
Tan Hiep Phat Group	Beverages - Alcoholic & Soft drinks	na	na	2000	1994

*e = estimate, na = not available,***2008 sales, **2006 sales, *2007 sales. Source: BMI, Trade press, Company corporate data*

Table: Key Players in Vietnam's Mass Grocery Retail Sector - 2009							
Parent Company	**Country of Origin**	**Sales VNDtrn**	**Sales US$mn**	**Fascias**	**Format**	**Outlets**	**Established**
Saigon Co-op	Vietnam	8.57	453.8				1989
				Co-op Mart	Supermarkets	43	
				Co-op	Convenience stores	70	
				Co-op Food	Convenience stores	8	
Metro Cash & Carry Vietnam	Germany/ Vietnam	na	140e*	Metro	Cash & Carry	11	2002
CP Group	Thailand/ Vietnam	na	60e*				na
				FreshMart	Convenience stores	120	
Groupe Bourbon	France/ Vietnam	na	35e*	Big C	Hypermarkets	9	1998
Hanoi Commerce General Company	Vietnam	na	25e*				na
				Hapro	Supermarkets	15	
				Hapro	Convenience stores	10	
Vietnam National Textile And Garment Group	Vietnam	na	20e*	Vinatexmart	Supermarkets	17	na
Saigon Trading Corporation	Vietnam	na	13e*	Saigon	Supermarkets	12	1995
Dairy Farm**	Vietnam	37.1**	1957.8**	Wellcome/Citimart	Supermarkets	***	na
Intimex Hanoi	Vietnam	na	9e*	Intimex	Supermarkets	5	1979
An Phong Company	Vietnam	na	3e*	Maximark	Supermarkets	5	na
Seiyu	Japan/ Vietnam	na	2e*	Seiyu	Supermarkets	1	na

*na = not available, e = estimate, ** East Asia regional sales, *** Dairy Farm acquired the right to lease Citimart's stores in 2006; information about how many Citimart stores Dairy Farm has yet transferred to its Wellcome banner is unavailable, *2007 sales. Source: Official statistics, Trade press, BMI*

Company Analysis

Food

Masan Food

Strengths	▪ A nationwide distribution network gives Masan rare access to both of the country's high-spending urban centres and the rural, low-spending population. ▪ Established strong brands are a significant advantage in the current regional environment of food hygiene and safety scares. ▪ An increasingly diversified product portfolio which caters specifically to local tastes. ▪ Masan has experienced very strong sales growth in recent years thanks to new product launches and an ever-widening distribution network.
Weaknesses	▪ Despite having an established nationwide distribution network, the movement of goods remains a problem given the country's underdeveloped infrastructure. ▪ Global economic uncertainty has impacted consumer confidence and in turn demand for non-essential consumer goods. ▪ Local consumers generally do not exhibit strong brand loyalty or a preference for Vietnamese products
Opportunities	▪ A young and fast-growing population represents a receptive audience for branded foods. ▪ Further product development in perceived healthy, and innovative product channels is a long-term opportunity, even if the audience for such goods is currently small. ▪ Masan has received investments from a number of multinationals, providing funds for future expansions, product launches and marketing campaigns.
Threats	▪ The arrival of multinationals, with an emphasis on branded food sales, will jeopardise Masan's market share. ▪ The return of higher input costs could threaten margins, these difficult to pass on to consumers in what remains a price sensitive environment. ▪ The return of inflationary pressures could reduce discretionary spending, with branded food and beverages to suffer.

Company Overview	Masan Food is part of conglomerate Masan Group, a company that is also 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.

Strategy	Having attracted investment from both international and domestic private equity firms, Masan will look to continue to exploit rising demand for branded food and beverage products via investment in marketing and brand-building initiatives and the ongoing expansion of its existing nationwide distribution network. Masan has been a key local player in terms of Vietnam's transition from non-branded to branded foodstuffs, and having achieved strong sales and profit growth in 2008, Masan set ambitious growth targets for 2009 and if it is to retain these sort of 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 and yet the company does have the advantage of an existing distribution reach and an established domestic name. In May 2010 Massan announced that it reached an agreement with **International Finance Corporation** (IFC), a member of the World Bank Group, with IFC investing approximately US$40mn VND equivalent through a six year loan. These funds will be used for growth and the pursuit of new business opportunities.
Company Data	▪ 2009 Sales: VND3.96trn (US$209.6mn), +105.9% y-o-y ▪ 2009 Net Profit: VND669bn (US$35.4mn), +67.3% y-o-y

Vietnam Dairy Products Joint Stock Company (Vinamilk)

Strengths	▪ A market leading dairy brand name, which dominates sales in this high-growth channel. ▪ A diverse product range and a large export division allow Vinamilk to offset downturns in one category with an improved performance elsewhere. ▪ Benefiting from soaring demand for both primary and processed dairy products in the fast-growing local economy. ▪ The company has reported very strong financial results in recent months, despite the negative impact the economic downturn has had on consumer confidence.
Weaknesses	▪ Competition from international investors is intense, with the government actively encouraging investment to boost output. ▪ Weak distribution infrastructure reduces sales opportunities for perishable, high-value dairy products. ▪ The low-income majority rural population also restricts the audience size of fresh dairy. ▪ There are still many parts of the country where white good ownership is very limited ▪ The company still faces raw material shortages, importing over 70% of its raw material from abroad
Opportunities	▪ In urban centres, processed dairy products represent a high-value, high-margin channel. ▪ Dairy consumption at the mass-market level is experiencing high single-digit growth annually. ▪ Experience in the emerging Vietnamese market should increase the chance 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 other food and drink subsectors. ▪ A second stock exchange listing should lift capital available for investment in expansion.
Threats	▪ Vinamilk considers itself disadvantaged by the strength of international brand names and their prevalence will only increase going forwards. ▪ Rising commodity costs threaten profitability, particularly with regard to mass-market primary products; the company had revised down its 2009 net profit target in light of this.

Company Overview

Vinamilk is the market leader in Vietnam's dairy industry. It produces over 200 dairy products for both 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.

Strategy

Vinamilk will continue to boost production capacity to meet government milk-production targets and shore up its market share. In recent years, the company has found itself competing with international dairy brands and it believes that local firms are actually disadvantaged, owing to the branding power of multinationals. To compensate, Vinamilk plans to continue to launch new products, in addition to conducting health seminars with mothers and hospitals, to position itself as an expert and gain more exposure for its brands. Increasing export sales will also remain a focus. Vinamilk's 50:50 joint venture with Anglo-South African brewing major SABMiller came to an end in March 2009, when SABMiller bought out Vinamilk. This leaves Vinamilk free to focus on its dairy and healthy beverage businesses in order to enhance its position of strength. However, the company recently launched its instant coffee following an investment of almost US$20mn building a factory designed to supply 1,500 tonnes of instant coffee products annually. Vinamilk is rumoured to be considered a listing on the Singapore Stock Exchange.

Company Data	▪ H110 sales of VND7.24trn (US$379.2mn), growth of 52.6% ▪ 2009 sales: VND10.6trn (US$561.3mn), growth of 29% ▪ 2009 net profit: VND2.37trn (US$125.5mn), growth of 90% ▪ 2010 sales growth target: 30%

San Miguel Purefoods Vietnam Co Ltd

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

- Regional food hygiene scares have served to undermine consumer confidence in local meat producers.
- Questions have been raised about Purefoods' ability to balance meat farming, feeds and branded food operations, with product focus tending to be the industry buzzword during this period of high operating costs.

Opportunities

- High feed prices should help to supplement Purefoods' profits for as long as grain demand from the alternative energy sector remains strong.
- Branded consumer food products represent an important long-term growth channel for the company.
- Processed meat products, which meet the emerging demand for convenience, should prove the next logical step for Purefoods.

Threats

- Growing competition from international food manufacturers could undermine any competitive advantage Purefoods holds from being a regional player.
- Just as higher animal feed costs will benefit Purefoods in its feed division, they could make life more challenging in the company's meat-farming sector.
- The company is listed as one of the worst polluters in the province of Binh Duong and the bad press associated with this could serve to damage the company's reputation.

Company Overview

Purefoods is a leading Vietnamese food and beverage company and part of the Philippines-based San Miguel Corporation which owns 97% of the company. In 2003, Purefoods acquired a pig-farming and feeding-mill facility from Taiwan Tea Corporation. It was the food division's first acquisition and feeds now contribute 15% to group revenue.

Strategy

The company is focused on increasing revenues and improving profit margins by boosting operating efficiencies across all divisions. Accordingly, it embraces and attempts to use the most up-to-date technologies in its business activities. In terms of specific strategies, the company intends to increase the size of its hog farm by 19%, after the division contributed particularly significantly to profits throughout 2006. 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 Purefoods in order to finance its diversification into other sectors.

Company Data

- 2007 sales (BMI estimate): US$70mn

Drink

Saigon Beer Alcohol and Beverage Corporation (Sabeco)

Strengths	▪ The leader in what is perceived as one of the world's highest-potential beer markets. ▪ Strong economy beer brands Saigon Beer and Beer 333 are very popular in the south. ▪ Its economy-heavy portfolio means that Sabeco brands tend to perform well even during periods of low consumer confidence
Weaknesses	▪ A disappointing IPO, although not attributable to the perceived attractiveness of Sabeco itself, is reflective of tough market conditions. ▪ A predominantly economy portfolio reduces Sabeco's competitiveness in wealthy urban centres and its ability to exploit the tourist dollar.
Opportunities	▪ A potential MNC 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 to enter the premium branded segment. ▪ Regional diversity allows for easy expansion in what remains an immature market despite investment levels. ▪ Beer, which accounts for the vast majority of alcoholic drinks sales, is forecast to experience very strong growth with little competition from wine or spirits.
Threats	▪ Rising raw material costs threaten profitability in this competitive market in which higher prices cannot easily be passed on to consumers. ▪ Significant expansion plans from APB, Habeco and Scottish & Newcastle could threaten Sabeco's market share.

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 a 89.5% stake in Sabeco.
Strategy	Sabeco's IPO was meant to raise funds to support continued expansion; a vital requirement if it is to continue to dominate amid intense local and international competition. Although short of initial targets, IPO funds are likely to drive further expansion, with regional diversity thought to be a particular priority. Ultimately, Sabeco is looking to double its beer output to 1bn litres annually by the end of 2010, and the opening of the 200mn-litres-per-annum Cu Chi brewery in March 2008 and the construction of a 50mn-litres-per-annum factory in south-central province of Ninh Thuan in 2010 should further support this aim. Brand diversification will also remain 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. Following its IPO in 2008, Sabeco recently announced that it would submit a listing application to the State Securities Commission and the Ho Chi Minh Stock Exchange in Q409.
Company Data	▪ 2009 sales: VND15.4trn (US$815.5mn) ▪ 2009 Pre-tax profit: VND1.48trn (US$80mn) ▪ 2010 sales growth target: 15%

Carlsberg

Strengths

- Financially powerful multinational not requiring immediate returns on investment.
- Famous Carlsberg brand should prove popular with young, brand-oriented consumers.
- Early pursuit of a diverse regional presence has given Carlsberg a head-start.
- Carlsberg acquired Scottish & Newcastle's Vietnamese business. S&N had itself been expansionary in Vietnam thus significantly lifting Carlsberg's output.

Weaknesses

- Distribution infrastructure remains problematic, with separate brewing facilities in separate regions the best way to overcome this, despite the obvious expense.
- Carlsberg lacks a presence in the economy end of the market, and in such a price-sensitive market, these brands remain the most popular. Brand strength is determined by region, a trend that is hard to break.
- 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.

Opportunities

- Economic growth should lift sales of Carlsberg's premium, international brands.
- Small-scale brewers, struggling with increased competition, could represent handy market share building acquisition targets.

Threats

- In line with market liberalisation, the beer market will receive a flood of investment in the coming years dramatically ramping up competition levels.
- Rising commodity costs threaten brewers in a market where higher costs cannot be passed on to consumers.

Company Overview

Carlsberg entered Vietnam in 1993 via the acquisition of a 60% stake in South East Asia Brewery in northern Vietnam. It has since expanded, acquiring 30% of Halong Brewery in the north east of the country in early 2007 and 50% of Central Vietnam's Hue Brewery in 1994, followed by an announcement in late 2009 that it would acquire the remaining 50%. Also in early 2007, Carlsberg acquired a 10% stake in state-owned Habeco, followed by a 16% stake in April 2008, then in September 2009 it further upped its stake to 30%, making it Habeco's largest single strategic investor. The Danish company now has a market share of around 10% in Vietnam, which will increase following the completion of the Hue Brewery acquisition, and is the country's second-largest international player behind Heineken-backed Asia Pacific Breweries. Carlsberg estimates that together, it and Habeco control 33% of Vietnam's beer market, putting them on level pegging with market leader Sabeco.

Strategy

One of Carlsberg's key objectives in Vietnam is to improve its regional presence. To this end, it has formed a joint venture – Hanoi Vung Tau Joint Stock Company – with Habeco for a brewery construction in southern Vietnam, thus complementing its northern, northeastern and central facilities. Carlsberg's focus remains 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 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.

Company Data

- 2009 market share (including Habeco): 33%
- Employees: 686

Mass Grocery Retail

Metro Cash & Carry

Strengths	▪ A financially powerful parent company that has continued to invest in Vietnam without short-term 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.
Weaknesses	▪ Distribution remains a problem for Metro, particularly with regard to the sale of perishables, as Vietnam's infrastructure is still weak with roads, railways and ports that are inadequate to cope with the country's growthMetro will have to continue to invest heavily in expansions and distribution networks, with little short-term returns.
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 in 2009, will erode an element of Metro's competitive differentiation. ▪ Rising operating costs threaten profit margins with these hard to pass on to buyers on such a price-sensitive independent sector.

Company Overview

Germany's Metro Group has been the pioneer of the cash-and-carry format in Vietnam. It operates 11 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.

Strategy

Metro plans to pursue a reasonably moderate expansion strategy in Vietnam, investing US$120mn in opening five more stores over the next two years – subject to the receipt of further licences for new store openings – with Hanoi, Ho Chi Minh City, Nha Trang and Dong Nai the targets. Metro is also intent on building its relationship with suppliers, with a view to ultimately adding Vietnamese produce to its global network. To date, this has focused on non-food items, although growing demand for Vietnamese seafood, fruit and vegetables has prompted Metro to establish another sourcing office in the country. A recent loan from the European Investment Bank will assist Metro both in financing store openings and in enabling Metro to invest in supplier training. The fact that Metro is present only in the wholesale sector necessitates a relatively modest approach to growth, although the company will be wary of the effect of greater competition following sector liberalisation in 2009.

Company Data

- 2007 sales (BMI Estimate): US$140mn
- Employees: 3,000
- Average registered customers per Vietnamese store: 90,000

Saigon Co-op

Strengths	▪ Aware of future liberalisation, Saigon Co-op has got a good head-start on its rivals ▪ 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
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
Threats	▪ The imminent arrival of international retailers poses a real threat to Saigon Co-op's market leadership, with it being 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
Company Overview	Saigon Co-op is Vietnam's leading retailer. The firm has 70 convenience stores and 43 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. In 2007 alone, Saigon Co-op invested US$30mn in nine new store openings, with several more openings currently under way
Strategy	The company 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 should help it in the face of multinational competition. The firm has joined the trend towards private-label goods, recently developing its Co-op Mart brand for frozen and dried goods and its SGC brand for clothing. It has also recently launched a chain of small-scale convenience stores, Co-op Food and has ambitions of expanding this to 120 outlets by 2012. Bringing convenience to residential areas of Ho Chi Minh City, along with further supermarket openings, is part of the company's strategy for preparing for the likely arrival of multinational competition. The retailer recently announced plans to build its first ever overseas supermarket in Cambodia.

Company Data

- 2009 sales: VND8.57trn (US$453.8mn), growth of 35%
- 2008 sales: VND6.35trn (US$372)mn; growth of 48.9%
- 2009 sales target: VND9trn (US$52.mn)
- 2010 sales target: VND11.5trn (US$609.1mn), growth of 34%

BMI Food & Drink Methodology

Risk/Reward Ratings Methodology

BMI's approach in assessing the risk/reward balance for food and drink industry investors globally is fourfold. 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. Third, where possible we attempt to identify objective indicators that may serve as proxies for issues/trends to avoid subjectivity. Finally, we use **BMI's** proprietary Country Risk Ratings (CRR) in a nuanced manner to ensure that only the aspects most relevant to the food and drink industry are incorporated. Overall, the system offers an industry-leading, comparative insight into the opportunities/risks for companies across the globe.

Ratings System

Conceptually, the ratings system divides into two distinct areas:

Rewards: evaluation of sector's size and growth potential in each country, and also broader industry/state characteristics that may inhibit its development.

Risks: evaluation of industry-specific dangers 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. Overall, the ratings use three subjectively measured indicators, and 41separate indicators/datasets.

Table: Returns

Industry returns	
Food and drink consumption per capita, US$	Indicator denotes overall breadth of market. Large markets score higher than smaller ones.
Soft drink consumption per capita, US$	Indicator denotes overall breadth of market. Large markets score higher than smaller ones.
Alcoholic drink consumption per capita, litres	Indicator denotes overall breadth of market. Large markets score higher than smaller ones.
Per-capita food consumption growth, five-year % growth	Indicator denotes sector dynamism. Scores based on total growth over our five-year forecast period.
Food and drink trade balance	Indicator denotes market's natural resources and dependency on imports for food and raw ingredient supply.
Country returns	
Economic structure	Rating from BMI's CRR. Evaluates structural balance of economy; evaluating issues such as over-reliance on single sectors/markets as well as past economic volatility.
Population size	Proxy for potential market size. Large countries considered more attractive.
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.
Market entry potential/maturity	Subjective rating based on level of industry development and level and strength of industry competition in a market. Mature and/or competitive markets get low scores.

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

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

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

Weighting

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

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

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

BMI Food & Drink Industry Glossary

Food & Drink

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

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

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

BMI Food & Drink Forecasting & 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 coefficients are significant (normally t-test and/or P-value);
- All results are assessed to alleviate issues related to auto-correlation and multi-collinearity.

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 Co-operation and Development (OECD).