

SEIKO IDEAS CORPORATION

# [Market Profile]

## Milk Industry 2014: A “Sweet” Year

Research & Consulting Division

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[The paper highlights the landmarks of the Vietnamese milk market in 2014 with the appearance of both foreign and local players as well as shows the foreign investment trend of the market.]

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### The industry with two-digit growth

As milk is one of the essential products, this sector remains the trend of two digit growths despite the year 2014's gloomy economic status. According to VPBS security company, this is one of the consumer goods industries with the highest growth (17% in 2013) in Vietnam. The transaction value of the milk sector is estimated to be VND62,200 billion with the growth speed of 20% and 23% in 2014 and 2015, respectively, according to Euromonitor International.

Besides, the milk industry is forecast to be highly potential in the next few years with the growth of consumption needs being estimated at 9% year on year, increasing to 27-28 litres of milk per year in 2020 from 18 litres of milk per year in 2013. The figure has been public by the Department of Livestock Production (under the Ministry of Agriculture and Rural Development).



This growth has been led by the two main sectors, including liquid milk and powdered milk, with the total market value of 74%.

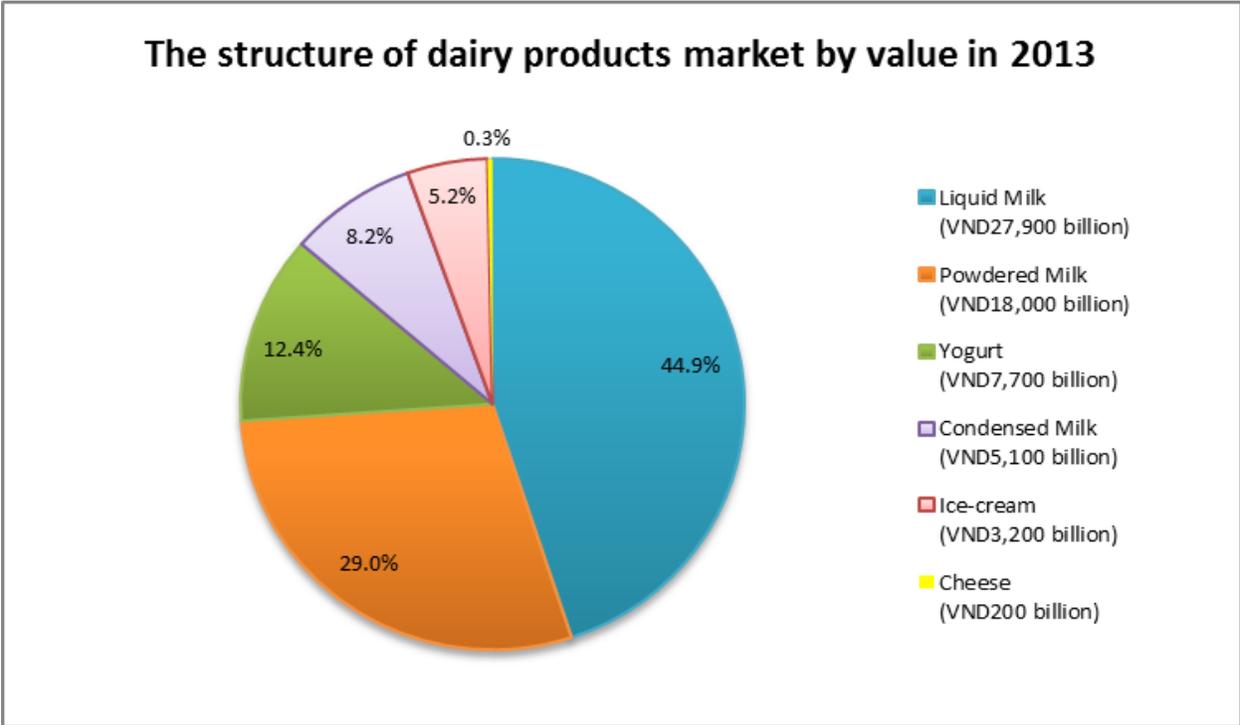
#### Powdered milk:

This kind of milk has been calculated to account for 45% of the total market value with the average speed growth standing at 10.1% in the period of 2010-2013. However, foreign players such as Abbott, Friesland Campina Vietnam and Mead Johnson still hold the big market shares.

The reason is that Vietnamese consumers are willing to pay more for foreign brands. Local players such as Vinamilk only have 25% market share.

**Liquid milk:**

Liquid milk accounts for 29% of the industry value with the cut-throat competition mainly between Vinamilk and Friesland Campina Vietnam (FCV). According VPBS, 49% market share of the liquid milk market has been hold by Vinamilk, following FCV with 26%. Beside these two veteran players, the competition also witnesses the participation of many other corporations such as TH Milk, Nutifood, IDP, Hanoi Milk, etc.



**Yogurt:**

This is the goods with high potential for growth in the near future. Its growth rate is calculated at 34.3% with the total value of VND7.7 thousand billion in 2013. Moreover, yogurt only accounts for 20% meanwhile this figure of drinking milk is 80%. Vinamilk is the leading brand in this sector, with the market share of 73%. This sector also witnesses the competition among Ba Vi Milk, TH Milk and other foreign yogurt brands.

**Condensed milk:**

With the increase of liquid milk and powdered milk, condensed milk has been getting near to its saturation point with the low growth rate of 2.5% and 3% in 2010 and 2013, respectively. Vinamilk (accounting for 80% market share) and FCV continue to be the market leaders of this sector with famous brands such as Sua Ong Tho (Ong Tho Milk), Ngoi sao Phuong Nam

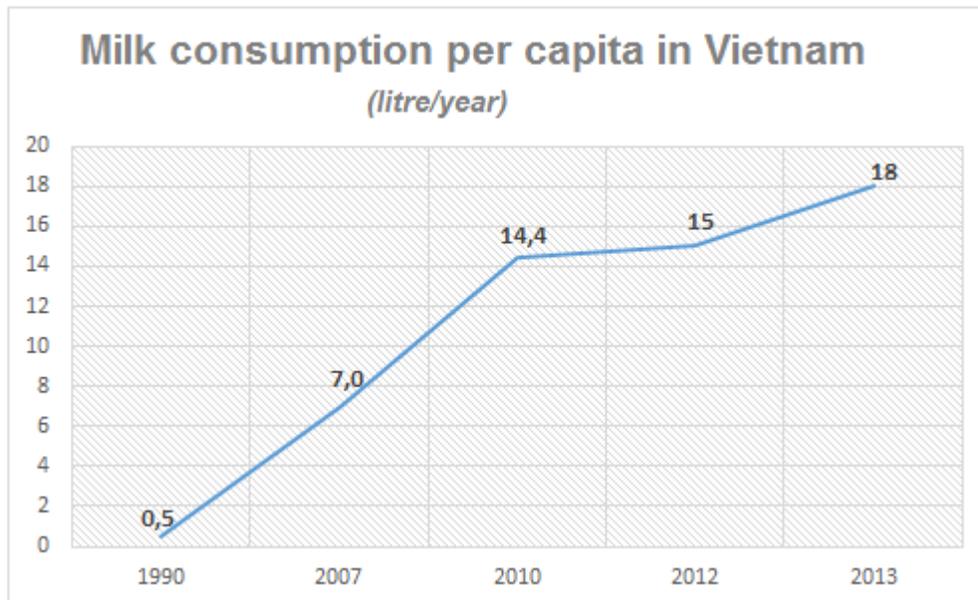
(Southern Star), Co gai Ha Lan (Dutch Lady) and Completa.

### Soy milk:

Vietnam continues to dominate soy milk consumption with the highest level of soy milk consumption in the world, which is estimated at 500 million litres in 2012. In 2013, the consumption kept rising with the growth rate of 17%, even higher than those of liquid milk and powdered milk. However, there are a few companies to enter this market, in which Quang Ngai Sugar accounts for 81.5% market share with two brands, including Fami and Vinasoy. The rest market share belongs to Vinamilk with the brand Goldsoy and Tan Hiep Phat with the brand Soya Number One.

## The race for the supply of raw milk

The year 2014 was a buoyant year of the race for the supply of raw milk. Although the milk industry was regarded as a potential industry, Vietnam's dairy cattle only provided 420,000 tons of raw milk, equivalent to 28% of the total need in 2013, according to the Department of Livestock Production (under the Ministry of Agriculture and Rural Development). That's why many big dairy producers boost their investment into cow breeding.



**As for local companies**, the big supplies of raw milk are:

### Vinamilk

Vinamilk has begun its investment into cow breeding since 2006 directly through building their own industrial dairy farms with the total capital of more than VND 500 billion at that time. The figure increased to VND 1,600 billion in 2013.

Up to now Vinamilk has had 05 dairy farms in Tuyen Quang, Thanh Hoa, Nghe An, Binh Dinh and Lam Dong province. In Vinamilk's plan for 2014-2015, 04 big dairy farms have been under construction in Thanh Hoa, Ha Tinh and Tay Ninh province. The total number of cows in the company's herd, including cows in Vinamilk's farms and cows of farmers who signed to sell milk to Vinamilk, is above 80,000 cows with approximately 550 ton of raw milk each day.

With the plan to develop new farms, the company intended to raise the number of cows in their herd as well as from farmers to about 100,000 cows in 2017 and 120,000-140,000 in 2020. This means that the planned volume of raw milk in 2020 will double, equivalent to 1,000-1,200 tons per day.

Moreover, in the beginning of September 2014, Vinamilk officially cooperated with Duc Long Gia Lai Group to invest VND 11,000 billion into farms with 80,000 dairy cows and 45,000 beef cows.

#### **TH True Milk:**

Currently, TH True Milk has 45,000 cows with the raw milk capacity of 400 tons per day.

#### **Nutifood – Hoang Anh Gia Lai:**

This joint venture was established in June 2014 with 03 players including Nutifood, Hoang Anh Gia Lai and Vissan. Nutifood would set up a plant processing raw milk in Gia Lai, using materials from dairy farms of Hoang Anh Gia Lai.

**As for foreign players, FCV** began to set up their dairy farms in Hanoi in the middle of July. **Dairy Milk** expressed their demands to invest \$40 million to set up their dairy farms in Tam Dao (Vinh Phuc) in the upcoming time.

## **Tightening the regulations on milk prices and advertisements**

According to inspection by the Ministry of Finance in 2013 and the first 03 months of 2014, most of dairy firms raised their prices of dairy products for infants under the age of 6 with the increasing level of 2.4-30.7%. This was resulted from the fact that firms' expenses on advertisements and promotion were too much, even higher than limits regulated in the Law on Enterprise Income Tax.

Therefore, since June 1st 2014, the Ministry of Finance issues the Decision on applying measures to stabilize price of dairy products for infants under the age of 6 and regulating the ceiling wholesale prices, applied to 25 dairy products. ***In details, Maximum retailing price shall be defined by the maximum wholesaling price plus other relevant costs, as instructed by competent price management authorities, which do not exceed 15% of maximum wholesaling price.***

In addition to applying the ceiling price, the Government also issued the Decree No.100/2014/ND-CP, ***strictly prohibit the advertising or breast milk substitutes for under-24-month infants***, complementary foods for under-6-month infants. The Decree will take effects since March 1st 2015.

## Foreign firms to invest into the Vietnamese milk industry

In the middle of August 2014, Thailand's F&N Group set aside VND 4,000 billion to purchase 15 million shares of Vinamilk from Dragon Capital. After the transaction, the group possessed 110 million Vinamilk shares, increasing F&N's Vinamilk holdings from 9.54% to 11.04%. Also in 2014, Vinamilk has been listed in ASEAN's top 100 enterprises by Standard and Poor (S&P).

Recently, in December 18th 2014, VinaCapital Vietnam Opportunity Fund and Japan's Daiwa PI Partners have invested approximately \$45m in **Vietnam's International Dairy Joint Stock Company (IDP)**, becoming IDP's biggest shareholders with ownership of 70%.

IDP's CEO Tran Bao Minh said, with this new investment, IDP's 5-year plan will be expanding its plant in Cu Chi, Ba Vi. Currently, IDP's chartered capital is VND460 billion, increasing from VND 250 billion.

*(Cafebiz)*

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**SEIKO IDEAS - 9<sup>th</sup> Anniversary**

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Our clients	Terumo, FPT, Crossindex, Toshiba, Showadenko, Hello-G, AOTS, Chiba Prefecture
Address	Floor 5 <sup>th</sup> – A Chau Building No.24 Linh Lang Str., Ba Dinh Dist., Hanoi, Vietnam
Telephone	+84-4-6275-5246 ; +84-4-6273-6989
Fax	+84-4-6273-6988
Email	<a href="mailto:newsletter@seiko-ideas.com">newsletter@seiko-ideas.com</a>
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