Summary

Thailand and Vietnam are among the top-20 beer markets but are showing different growth trajectories. Vietnam remains one of the fastest-growing beer markets in the world and is rapidly evolving to tap into the growing demand for craft, while the Thai beer market continues to languish.

Two beer giants of South-East Asia

Two of the largest beer markets in South-East Asia showed divergent growth trends in the last few years. Vietnam continues its rampaging growth trend, driven by a favourable macro-economic environment. The Thailand beer market, with limited product innovation and restrictive policies for craft and micro brewing, has remained stagnant in comparison.

Vietnam: Môt, Hai, Ba...Dô! (One, two, three....cheers!)

In September 2016, the Vietnamese government released a target for the beer sector: to achieve a production volume of 4.1bn liters by 2020. With domestic production exceeding 4.0bn liters in 2017, the government achieved its target three years ahead of schedule. At its current pace, the beer sector is also set to achieve its 2025 target of producing 4.6bn liters significantly ahead of schedule.

Solid growth continues

It is worth noting that the 2017 growth rate was actually below that of the previous year, despite adding approximately 37m cases last year. There was, however, a remarkable acceleration in the last quarter of 2017 (up 14%) and this trend continued in the first quarter of 2018 (up 21%), owing to the start of the Tet festival (see Figure 1). Growing ahead of the overall market, the two leading players improved their market position. Government-controlled Hanoi Beer, on the other hand, lost volume and market share, and appears to be struggling with competition, even in its core markets in North Vietnam.

Figure 1: Vietnam quarterly beer production, 2016-2018

Source: Official statistics, company annual reports, 2018
**Growth driven by tailwinds for both supply and demand**

Industry sources highlight multiple demand and supply-side reasons for the strong performance. Domestic demand was buoyed by the strong domestic economy - fastest GDP growth rate in a decade – and a rather benign inflation environment. Increasing international tourist arrivals also helped to fuel demand.

On the supply side, SABECO continued to increase presence in North Vietnam, while Heineken benefited from a strong focus on trade marketing and distribution. Furthermore, the craft beer and microbrewery scene in Vietnam remained extremely exciting, with several new breweries opening in 2017. Increasing income levels, rising consumer awareness and the booming expat crowd will continue to drive the local craft beer scene. International brewers keen to establish a foothold in the Vietnamese craft market are closely watching the developments.

**Thai beer market: In recovery mode**

For the most part, Thai domestic beer consumption remained muted in 2017, due to the official year-long mourning period for the late king. A sluggish economy, which remains in recovery mode, did not help the matter. Overall, the market added approximately 7m cases in 2017, nearly twice the growth of 2016. However, the expectation that the end of the year-long period of mourning in October 2017 would help fuel recovery of demand to its previous level was belied. Official data indicates that Q4 2017 volumes were -6.7 percent on a year-on-year basis, and over 11m cases below over Q4 2015 (see Figure 2).

![Figure 2: Thailand quarterly beer consumption, 2016-2018](image)

**New excise tax regime may create a further drag...**

A new excise tax regime, replacing the current tax collection method, which is based on wholesale price, to one based on the retail price, was introduced in September 2017. This could potentially increase the beer price by approximately 5%, depending on whether brewers decide to pass on the cost or absorb it. Although the rise in itself was anticipated and is less substantial than increases of the past, beer demand is extremely sensitive to price increases, and will likely suffer.

**The upcoming World Cup should help bolster demand**

In the upcoming quarter (April-June), we expect domestic consumption to be buoyed on the back of upcoming festival (April) holidays. The upcoming world cup (June-July) will also boost the summer demand for beer.

Given the restricted policy on craft brewing, the demand for innovative flavours and premium quality is being met by imports and only to a limited extent by domestic suppliers. While imported beer remains a small portion of the overall market, it grew by 13% in 2017. Therefore, slowing consumption and rising competition will incentivise domestic brewers to invest in premium brands.