

Wine
Australia
providing market
insights for
Australian
Wine

Market update:
Vietnam
October 2021

Foreword

The purpose of this report is to provide data and insights on the Vietnam market for Australian wine exporters.

About Wine Australia

Wine Australia supports a competitive wine sector by investing in research, development and adoption (RDA), growing domestic and international markets, and protecting the reputation of Australian wine.

Wine Australia is an Australian Commonwealth Government statutory authority, established under the Wine Australia Act 2013, and funded by grape growers and winemakers through levies and user-pays charges and the Australian Government, which provides matching funding for RDA investments.

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Urban and middle class populations are expanding

In 2020, the population of Vietnam was estimated to reach 97.58 million, an increase of over a million people from the previous year. Vietnam is among the most populated countries in the ASEAN region and 15th in the world.

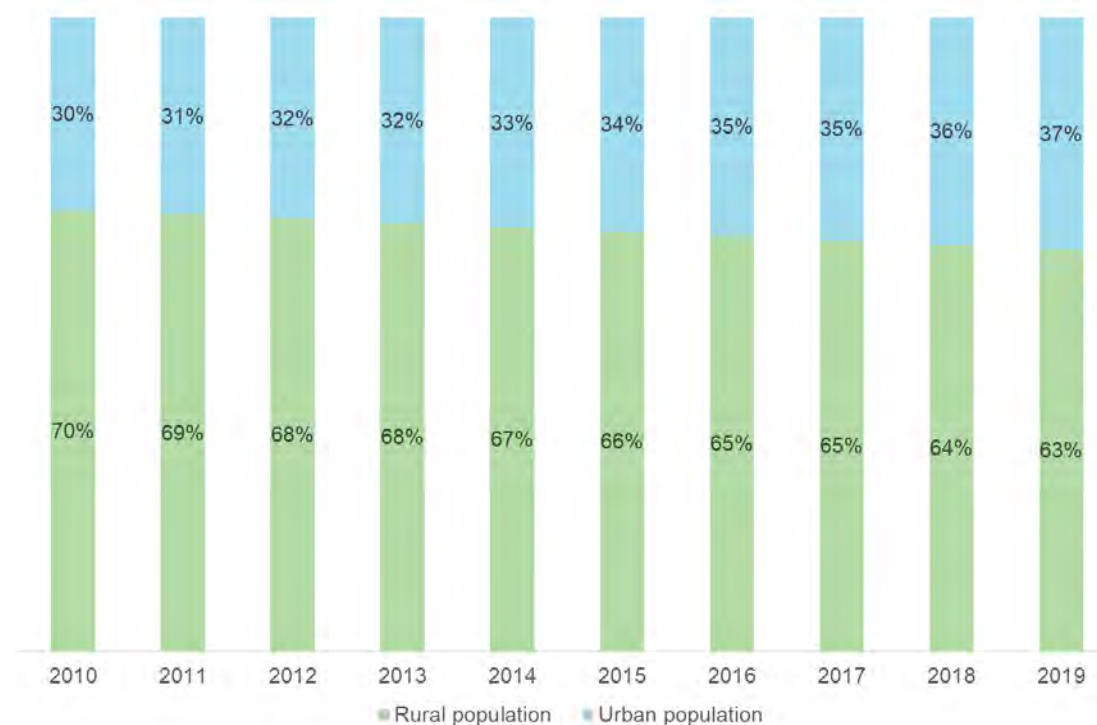
Vietnam's urbanization rate was at 37 percent in 2019. It is forecasted that the share of urban population will surpass the rural population by 2050. The urban population is rapidly increasing due to the number of immigrants and economic reforms as well as higher living standards. For example, the under-five child mortality rate is twice as high in rural areas. Nevertheless, about 27 percent of urban population lived in slums.

Vietnam has one of the world's lowest unemployment rates at just 1.8 percent in 2018. The population is relatively young, with the median age expected to reach 32.5 years by 2020.

The pool of potential wine drinkers is expanding in Vietnam with one million new consumers reaching legal drinking age every year.

Furthermore, Vietnam's middle class is expected to reach 95 million by 2030 – the fastest growth rate in South East Asia according to market research firm Nielsen.

Share of Vietnam population – urban v rural



Source: Statista

GDP per capita is low but rising

GDP per capita is an indicator of the economic strength of a country and a positive change is an indicator of economic growth. In 2019, GDP per capita in Vietnam was \$US3,415.

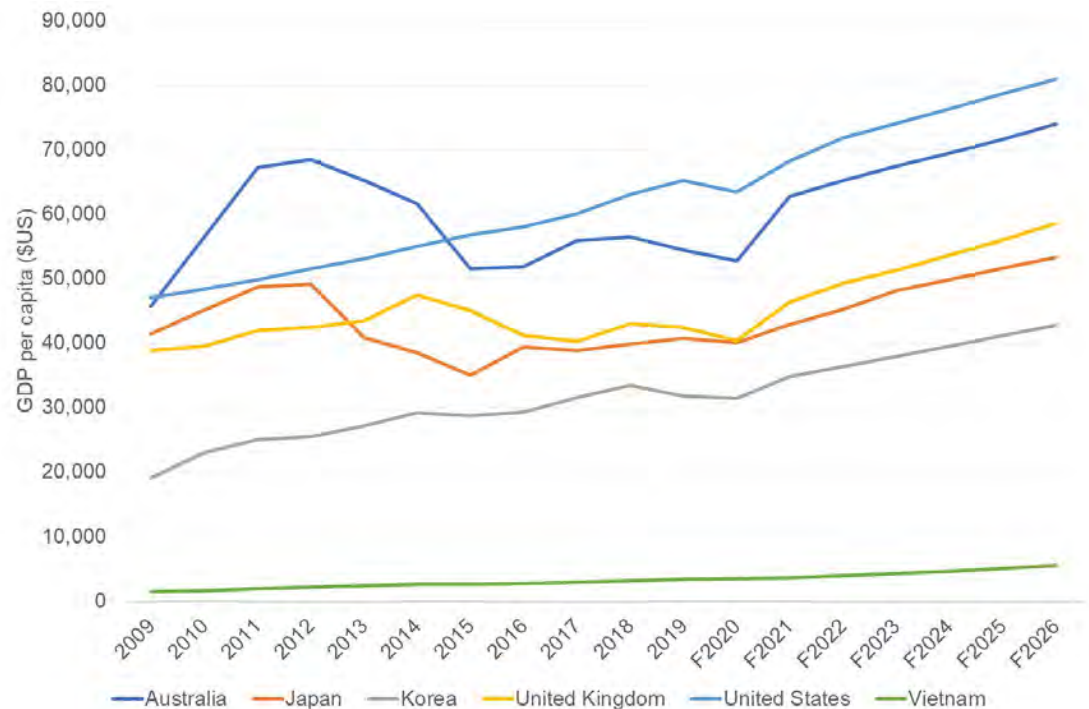
GDP per capita in Vietnam is very low compared to other developed economies such as Australia (\$US55,000) and the USA (\$US66,000). However, over the last decade GDP per capita in Vietnam has grown at 9 per cent per annum compared to 2 per cent in Australia and 3 per cent in the USA.

The Vietnamese economy has experienced consistent economic growth, fuelled by its exports of natural resources and agricultural products, though since 2008 its information technology hardware exports have risen substantially. Vietnam's agriculture and service sectors generate over 56 percent of Vietnam's gross domestic product.

Despite the effects of lockdowns, business closures and the absence of tourists during the pandemic, Vietnam had one of the highest GDP growth rates in the world in 2020, expanding by 2.9 per cent.

The return of international visitors to Vietnam will be crucial to the pace of economic recovery.

GDP per capita – Vietnam v key markets



Source: IMF

COVID-19 has escalated in Vietnam

The beverage alcohol market has suffered the effects of lockdowns, business closures and the absence of tourists during the pandemic as elsewhere. The industry was also affected by the government's enactment of a zero-tolerance drink-driving law at the beginning of the year.

An escalation in Covid-19 cases and deaths over July-August saw a strict lockdown across the country that will undermine Vietnam's previously strong recovery from the pandemic shock and may temporarily set back positive economic growth.

The Vietnamese authorities had succeeded in keeping the number of Covid-19 cases low prior to the latest outbreak. The economy expanded by 5.6 per cent yoy in 1H21, accelerating from 2.2 per cent in 1H20, but restrictions to control the spread of the disease will weigh on activity in 3Q21 and could persist if the outbreak is not under control.

Fitch Ratings still expect Vietnam's GDP performance over 2020-2021 to be the strongest among Fitch-rated sovereigns in ASEAN. Some lost growth momentum may also be made up in subsequent quarters as output and social activity normalise, although the risk of further outbreaks will linger as Vietnam's vaccination rates remain low.

Daily Covid-19 Deaths per Million Population, 2021

(7-day rolling average)



Source: Fitch Ratings, Our World in Data, COVID-19 Data Repository by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University.

FitchRatings

Beer is the largest alcohol category by volume

Beer dominates the alcohol beverages category in Vietnam with a 99 per cent volume share.

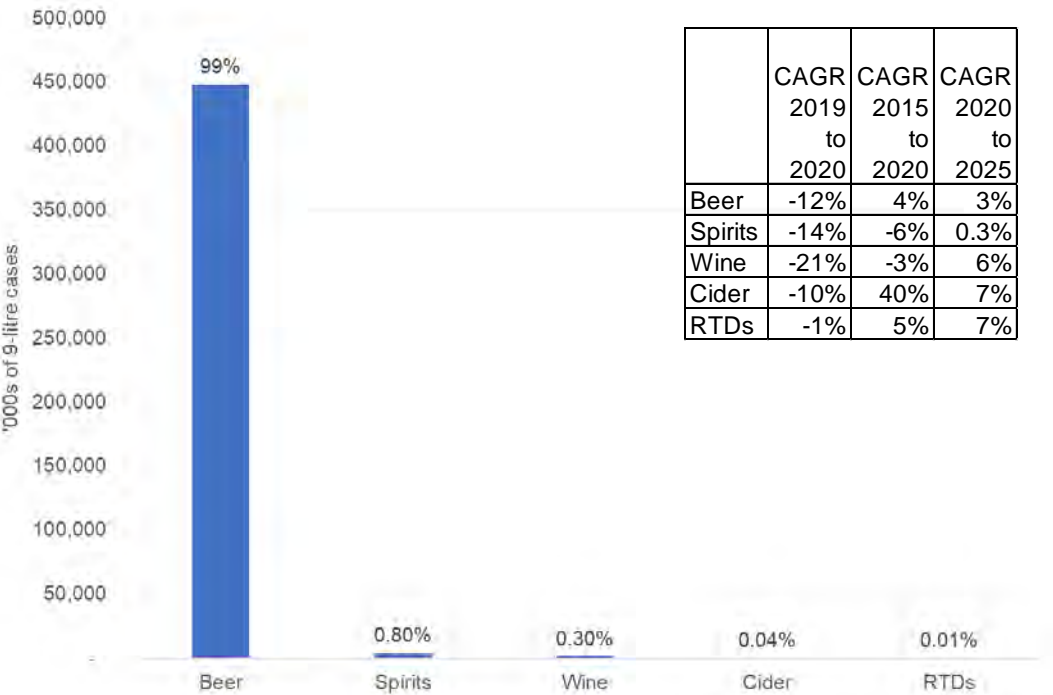
All categories were impacted by the pandemic in 2020 but wine was hardest hit in percentage terms. However, the wine category is set to recover with the IWSR forecasting strong growth out to 2025.

Beer will remain the major category with solid growth also expected in the forecast period. However, it will show more moderate recovery than previously estimated due to the drink-drive policy and the slow vaccination rollout, meaning many on-premise outlets will be affected by continuing restrictions.

There is also a ban on the commercial promotion of drinks above 15 per cent ABV, handing an advantage to beer and RTDs, which face no such restrictions.

Most people choose to drink beer during gatherings, meals or parties, whilst wine is less consumed on such occasions. Beer is also considered more suitable for drinking with Vietnamese cuisines than wine. Wine is typically consumed on special occasions such as New Year, for birthdays or at weddings. However, many such occasions were cancelled in 2020 due to COVID-19 restrictions, which also hampered the growth of the category. Consumers were also more price-conscious as a result of the economic impact of the pandemic, which contributed to the decline, as many consumers preferred to drink beer, which is cheaper, leading wine to see a stronger decline than beer.

Alcohol beverage market in Vietnam, 2020



Source: IWSR

Long-term growth in wine sales halted by COVID-19

Wine is very much an emerging alcohol category in Vietnam. Per capita consumption of still wine is very low at 0.1 litres per head.

Wine sales in Vietnam in 2020 totalled 1.3 million cases valued at US\$171 million.

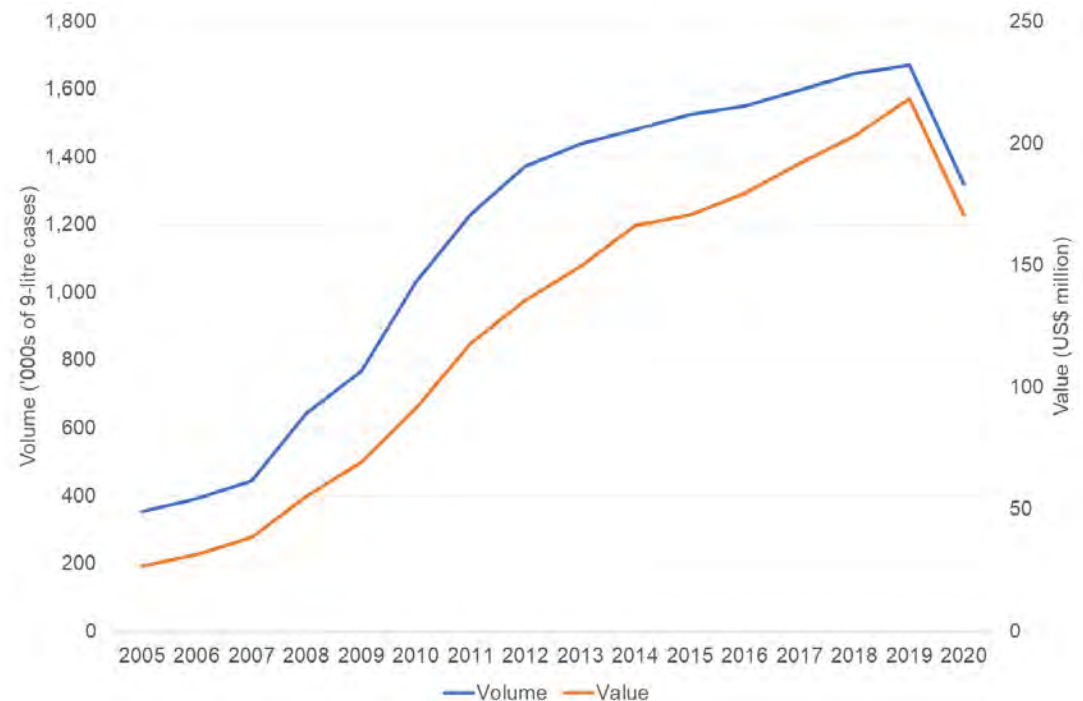
This makes Vietnam the world's 46th biggest wine market and ninth biggest within the Asian region. It is similar in size to the Philippines, India and Singapore.

After growing by an average annual rate of 12 per cent in volume and 16 per cent in value between 2005 and 2019, wine sales were hit by the pandemic in 2020, with volume declining by 21 per cent and value by 22 per cent.

The new drink driving law has led some consumers to stop their consumption of wine in on-trade outlets. Together with the new law, the COVID-19 pandemic had a huge negative impact on the on-trade, which led to a decline in the consumption of wine. Even after re-opening, there were capacity restrictions and fear of infection among some consumers. Furthermore, as wine is usually served in high-end Western restaurants targeted towards foreigners, the lack of tourist arrivals throughout the year due to COVID-19 travel restrictions also contributed to a decrease in on-trade volume sales of wine.

The key cities for wine are Ho Chi Minh City in the South and Hanoi in the North.

Wine market in Vietnam over time



Source: IWSR

Market is heavily weighted to commercial/value wines

Currently, Vietnam is a very price conscious market owing to the economic factors but also lack of individual brand recognition.

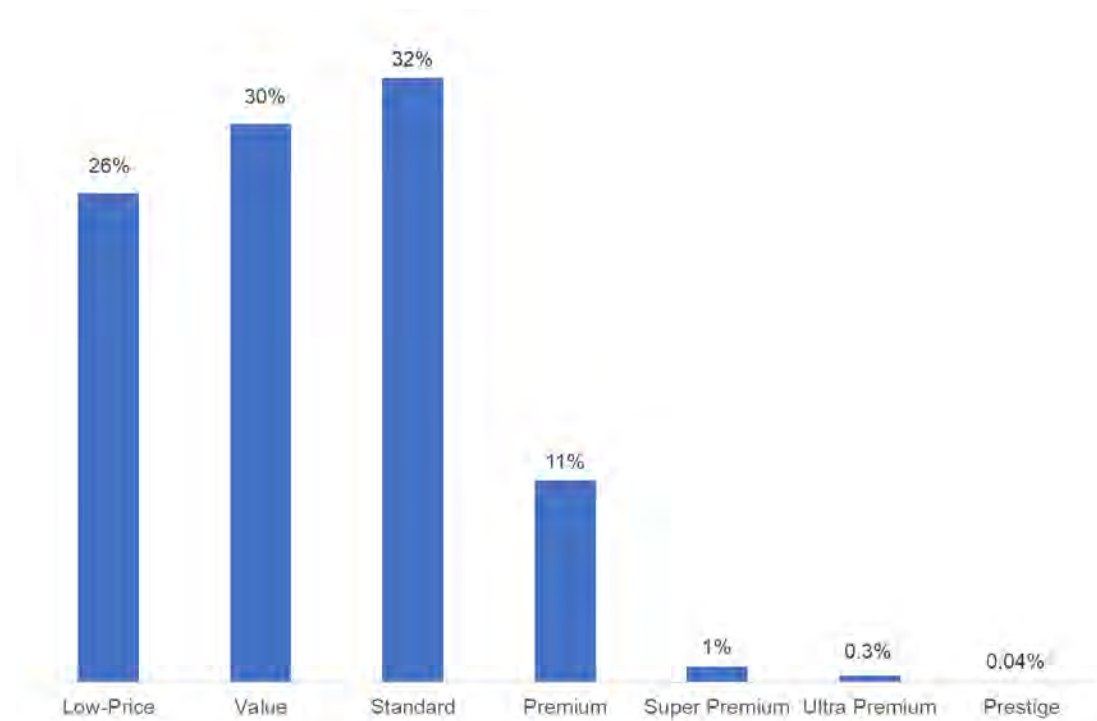
In 2020, 88 per cent of still wine sales in Vietnam were commercial/value wines at prices less than US\$10 per bottle.

The heavy weighting to the low end is not surprising given that Vietnam is a new emerging market where wine is still a relatively new and unknown beverage, but showing potential. The growing urban and middle class population and rising incomes are the key to this potential.

The pandemic impacted the commercial/value (low price, value and standard) and premium and above segments relatively equally, with commercial/value sales down 20 per cent and premium and above sales falling by 22 per cent.

The IWSR forecasts similar growth rates in both segments out to 2025, with commercial/value sales predicted to grow by 6 per cent per annum and premium and above sales to grow by 7 per cent.

Still wine market in Vietnam by price point volume share, 2020



Source: IWSR

On-premise has been the major channel for wine

The on-premise was the major channel for wine up until 2020, accounting for around 60 per cent of the volume of sales.

However, sales through the on-premise in 2020 were badly affected by the closure of bars and restaurants due to the pandemic. The new drink driving laws also had a negative impact. Consequently, the on-premise share of sales fell to 42 per cent.

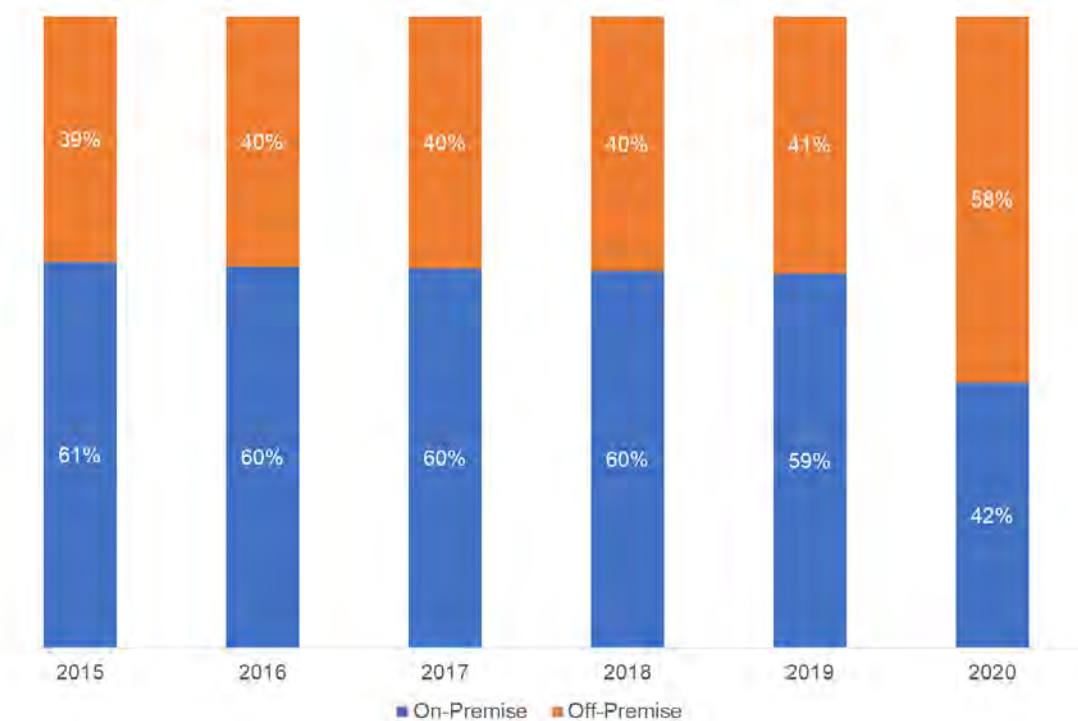
Even with a strong focus on retail, the off-premise market was not able to offset the declines in the on-premise.

The proliferation of wine stores and products throughout the cities will continue to expose consumers to the still wine category.

Traditional grocery retailers continued to account for the majority of off-premise volume sales in 2020, with modern grocery retailers also accounting for a notable share.

From a low base, the share of e-commerce increased strongly in the retail distribution of wine in 2020. Some consumers were reluctant to leave their homes to shop for fear of contracting COVID-19, and therefore turned to e-commerce instead. Providing they have had a positive experience, people who used e-commerce during the pandemic are likely to continue to use this channel in the future due to its convenience.

Still wine market in Vietnam by channel, volume share



Source: IWSR

Australia is the third biggest import category

Locally produced still wines are the major country of origin category in Vietnam with a 26 per cent volume share but these wines are sold at very low prices.

Chilean wines are the leading imported wine category with a 25 per cent share ahead of French wines (19 per cent) and Australian wine (7 per cent).

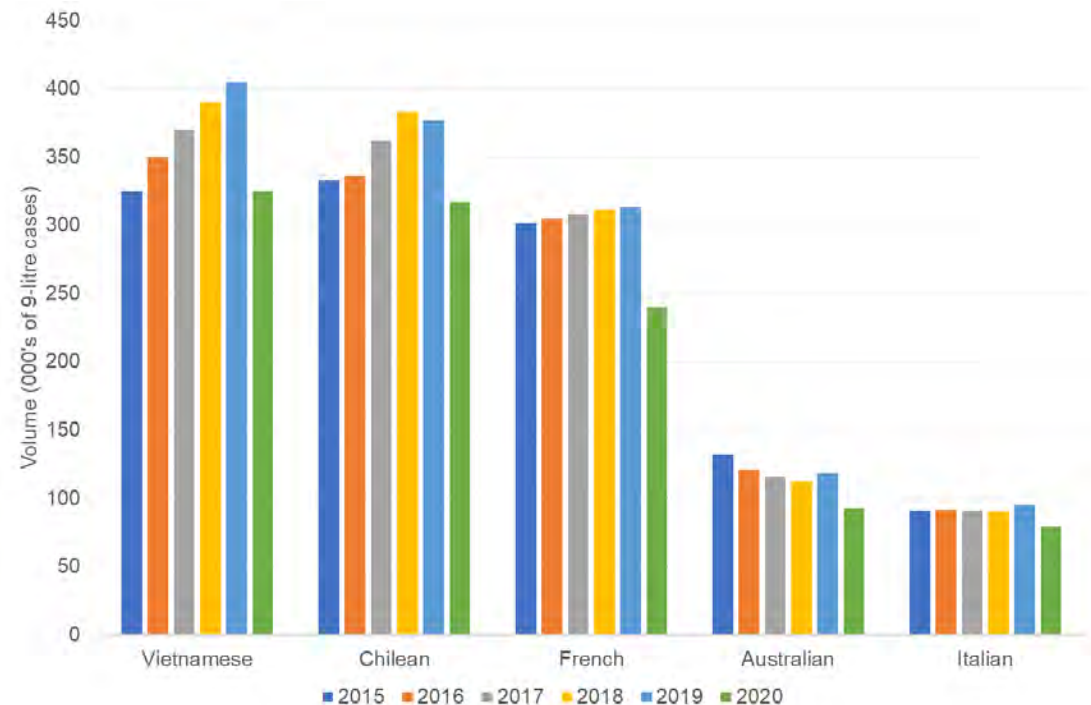
All of the major country of origin categories declined in 2020. French wines were hardest hit, down by 23 per cent and Chilean wines not impacted as much, down by 16 per cent.

Australian wine has a greater proportion of its sales in the premium and above segments compared to Chilean and French wines with a 30 per cent share compared to 14 per cent for Chilean and French wines.

Vietnam has recently concluded a free trade agreement with the EU. EU wines will continue to face an import tariff rate of 48-55 per cent but will be tariff free in 2027.

In comparison, under the Comprehensive and Progressive Agreement for Trans-Pacific-Partnership (CPTPP), Australian wines will not be tariff-free until 2029. However, under the ASEAN-Australia-New Zealand Free Trade Agreement (AANFTA), from 2022 Australia's rate will fall to 20 per cent, thus giving Australian wines a lower rate for the 5 year period between 2022 and 2027.

Still wine market in Vietnam by origin



Source: IWSR

Vietnam ranks sixth for Australian wine in SE Asia

Vietnam is Australia's 28th biggest destination for wine exports by value and 6th biggest destination within the South East Asia region, behind Singapore, Malaysia, Thailand, Indonesia and the Philippines.

In the financial year 2021, Australia exported 69,000 cases of wine to Vietnam at a value of \$4.9 million with an average value of \$8 per litre (compared to \$3.69 per litre to all destinations).

There were 60 Australian companies exporting to the country during the year, with 22 exporting there for the first time.

While volume declined by 11 per cent in 2021, value increased by 8 per cent, driven by a 20 per cent increase in average value.

Reflecting the emerging nature of the market, Australian exports to Vietnam have been relatively volatile over the last decade, with value hovering between A\$3-A\$9 million.

There is no direct shipping from Australia to Vietnam and wine is directed via one of the main Asia trading hubs in Singapore or Malaysia. Arrival times vary between Haiphong in the North (24 to 29 days) and Ho Chi Minh City (19 to 27 days). There is significant delays in shipping at present due to demand outstripping capacity as well as COVID-19 impacting on port workforce numbers.

Australian wine exports to Vietnam over time



Source: Wine Australia

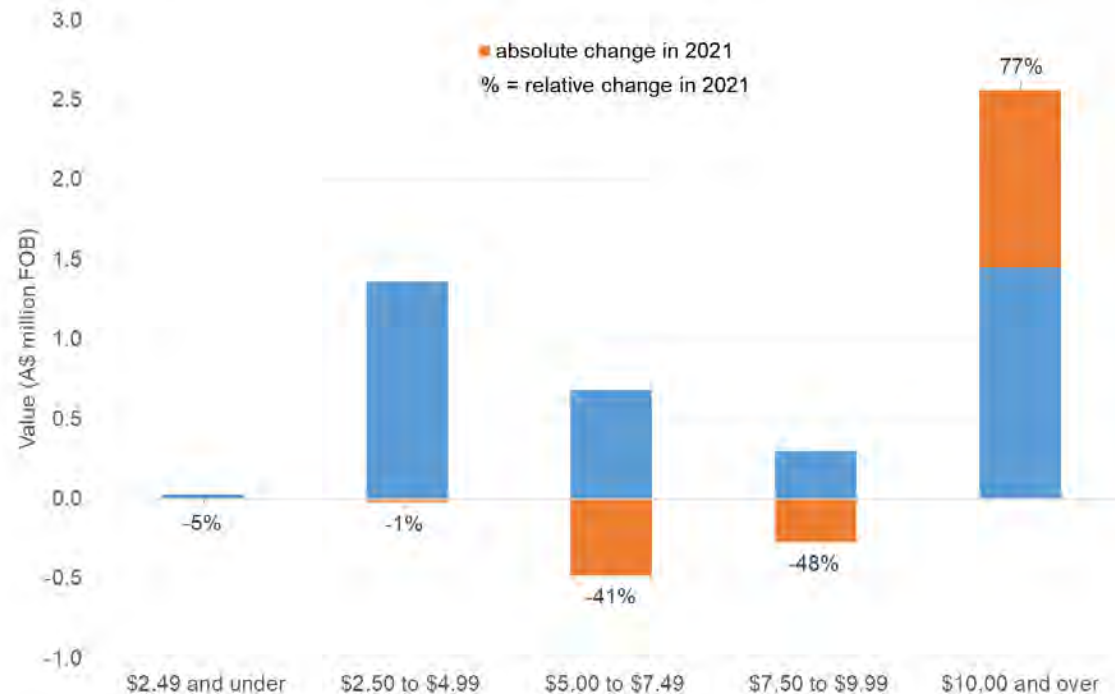
A\$10/L or more is driving value growth for Australia

In financial year 2021, all price segments declined for Australian wine exports to Vietnam, with the notable exception of A\$10 per litre or more, which increased in value by 77 per cent. This segment accounted for just over half the value of exports to the country during the year.

At \$2.6 million, this was the highest value shipped at A\$10 per litre or more to Vietnam since financial year 2017 but is well below the record financial year result of \$6.9 million achieved in 2015. This suggests that there is further scope for further growth in this price segment once the market starts to recover from the impacts of the pandemic.

The growth in the A\$10 per litre segment reflects Australia's strong premium profile in the Vietnam market. This places Australia in a good position to grow with the market as the increasing middle class population starts to spend more on premium wines.

Australian wine exports by price segment by value, FY2020 v FY2021



Source: Wine Australia

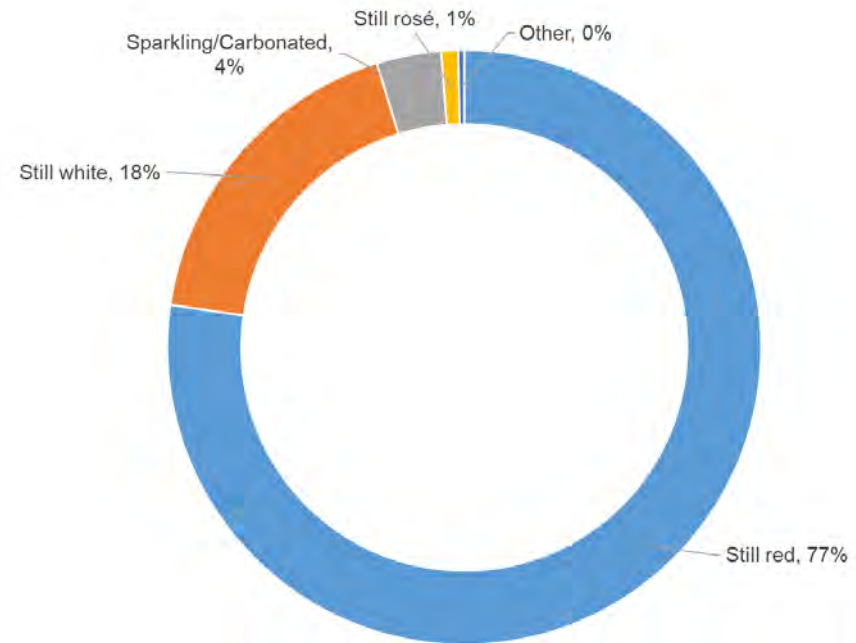
Red wine is the major wine style and driving growth

For Australian wine exports, red wine is by far the dominant wine style exported to Vietnam, with a more than three-quarter value share.

Red wine is driving export growth, with the value up by 15 per cent in FY2021. In comparison, white wine exports fell by 23 per cent and sparkling/carbonated exports by 1 per cent.

Red wine is also the dominant category in the overall market. Euromonitor International reports that still red wine accounted for 74 per cent of grape wine sales in Vietnam in 2020. In the four years prior to the pandemic, the value of red wine sales in Vietnam had been growing at an average annual rate of 11 per cent. Off a much smaller base, white wine sales grew at the same rate.

Australian wine exports by wine style, value share in FY2021



Source: Wine Australia

Shiraz, Cabernet and Chardonnay lead exports

Four of the top five Australian varietals exported to Vietnam were reds. Shiraz is number one with an almost third share of value.

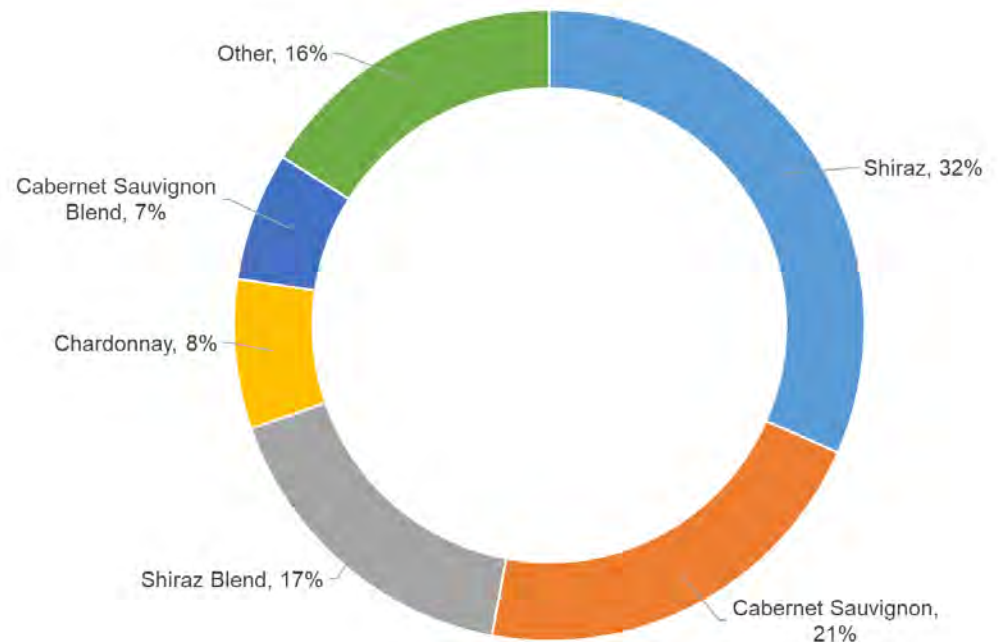
Cabernet Sauvignon is second followed by Shiraz Blends.

Chardonnay is the number one white varietal exported and fourth overall.

By average value, the red varietals achieve a much higher average value per litre:

- Shiraz - A\$9.33
- Cabernet Sauvignon – A\$8.18
- Shiraz Blend – A\$11.49
- Chardonnay – A\$5.55
- Cabernet Sauvignon Blend – A\$10.11

Top five Australian varietals exported to Vietnam by value, FY2021



Source: Wine Australia

Lack of tourists impacting on market attractiveness

According to the latest Global Compass report produced by Wine Intelligence, Vietnam is ranked number 46 in wine market attractiveness, based on general economic and wine market indicators. Vietnam has fallen three spots in the rankings compared to the 2020 report principally due to fewer tourists consuming wine.

After seeing a strong decline in 2020, the expectation is that while wine will return to growth, the rate of recovery is likely to be slow initially, due to the impact of the pandemic on the Vietnamese economy and tourism.

When the economy sees a better performance and as tourist arrivals resume, the rate of recovery is set to accelerate. Furthermore, with increasing Western influence, consumers are likely to get more used to drinking wine for special events or occasions.

Food and wine matching is in its infancy in Vietnam. Quality, fruit driven, easy drinking styles sourced from fresh and safe growing environments resonate with the Vietnamese consumer. Australian wine is well regarded in these factors. They equate quality to the look and weight of the bottle (heavier the better), the depth of the punt and the degree of alcohol (stronger the better). Italian wines have been doing well recently by focusing packaging on these areas. Putting accolades on labels and having a strong social platform presence will also assist in attracting consumers.

While not without its share of challenges, it is one of the most promising ASEAN countries for the Australian wine category.

Top markets by 'market attractiveness'

	Market (1 to 25)	Score (1 to 10)	Tracking 2020 - 2021	
			Rank difference	Score difference
27	Colombia	5.21	↑ 12	0.17
28	Czech Republic	5.20	↓ -6	-0.41
29	Hungary	5.17	↓ -8	-0.49
30	Hong Kong	5.12	↑ 3	-0.08
31	Mexico	5.06	↓ -3	-0.33
32	Portugal	4.98	↓ -7	-0.51
33	Slovakia	4.95	↑ 2	-0.17
34	Turkey	4.84	↑ 4	-0.22
35	Argentina	4.82	↑ 12	0.31
36	Taiwan	4.79	=	-0.32
37	Chile	4.63	↑ 5	-0.39
38	Slovenia	4.51	↑ 6	-0.45
39	Nigeria	4.33	↑ 9	0.03
40	Malaysia	4.23	=	-0.80
41	Peru	4.22	↑ 5	-0.46
42	Greece	4.20	↓ -5	-0.86
43	Philippines	4.16	↓ -14	-1.16
44	United Arab Emirates	4.03	↑ 1	-0.74
45	Thailand	3.99	↓ -11	-1.14
46	Vietnam	3.97	↓ -3	-1.04
47	India	3.88	↓ -6	-1.14
48	Indonesia	3.75	↓ -21	-1.73
49	South Africa	3.40	=	-0.70
50	Angola	3.17	=	-0.58

Source: Wine Intelligence