

NEW MARKETS





NEW MARKETS

INDONESIA, MYANMAR, THAILAND (SOFT DRINK) AND VIETNAM

New Markets FY2018 performance across geographies were mixed, with each market remaining challenging and volatile, characterised by acceleration of competition, ongoing price discounting and currency risks. Despite that, the focus on the Southeast Asia (“SEA”) region remains a key part of F&N’s march toward becoming a leading F&B player in ASEAN. Since 2015 when the Group outlined its Vision 2020 business plan, F&N has identified Indonesia, Myanmar, Thailand and Vietnam as its key new markets. It has also identified core brands to capture clearly defined market opportunities in these new markets to establish presence. F&N believes that the consumer fundamentals in these markets are promising as SEA’s population of over 500m with an emerging middle-class presents a sizeable potential.

Our strategy in New Markets is to operate across categories, focusing on the highest growth categories and consumer opportunities most relevant to our core brands. We will combine organic growth with selective acquisitions that complement our strategy.

(A) INDONESIA

Indonesia, SEA’s largest economy, is the most populous country in SEA. Its 267m people, relatively young and

F&N’S
STAKE IN
VINAMILK
20.01%



fast-urbanising, represent both a sizeable workforce and pool of consumers. This is complemented by the country’s steady economic growth of 5.1% in 2017, and 5.1-5.5% expected for 2018. These strong fundamentals make Indonesia one of F&N’s most attractive investment locations.

PERFORMANCE

F&N’s investment in YFI has boosted the Group’s capacity to deepen its presence in Indonesia. Following the YFI acquisition, F&N now directly manages the distribution of *100PLUS*, *F&N* Sparkling Drinks, *F&N* canned milk, *F&N SEASONS* drinks range and *DAYDAY* Asian Soft Drinks via our direct local distribution network in 15 cities such as Jakarta, Medan, Palembang and Riau Islands, giving the Group direct access to the vast Indonesian market.

This year, we grew our direct-managed business by 32% (sell-out volume to trade), driven by a positive Lebaran performance and supported by more on-ground marketing activities, key channel penetration and improvements in the supply chain planning. Both *100PLUS* and *F&N* Sparkling Drinks grew in volume by 16% and 32% respectively.

The Indonesian team also focused on elevating brand visibility and consumer communication in key cities and channels. We conducted consumer trials, sampling and engagement activities, and have also piloted in-store marketing initiatives such as the display of *100PLUS*’s branded shelf device.

Moving forward, F&N will continue to build our Indonesia business in key geographies, channels and brands, supported by our strengthened local commercial team and an efficient supply chain management.

(B) MYANMAR

Myanmar, the last frontier in SEA, remains one of our key focus markets. While pace of reform has been slow, plagued by rising inflation and ethnic conflict, Myanmar remains committed to creating the right set of conditions to attract and facilitate foreign investment to spur economic development.

CEO BUSINESS REVIEW

NEW MARKETS

This year, Myanmar's economy experienced a broad-based increase in real GDP growth, up from 5.9% in 2016/17 to 6.4% in 2017/18, with a favourable growth outlook of 6.8% in 2018/19. Coupled with the country's growing middle-class population, Myanmar will continue to present immense opportunities for the Group.

Since its entry into Myanmar, F&N has been introducing products that are of the highest growth categories and consumer opportunities. *100PLUS*, *TEAPOT* and *F&N Sparkling Drinks* have grown from strength to strength in the competitive beverage landscape of this emerging market.

PERFORMANCE

Consumer and brand building remain the key priority for this market. This year, F&N expanded its beverage offering and executed aggressive on-ground activations in Myanmar which saw sales volume surge 20% over last year. Despite intense competition in the isotonic space, *100PLUS* recorded marginal volume growth and successfully defended its leading market position in our core beverage categories.

During the year, the Group partnered Shwe Kan Kaw, a popular tea shop operator in Yangon, to be *TEAPOT*'s exclusive canned milk provider for its 49 tea shops in Yangon. This partnership with Shwe Kan Kaw successfully raised *TEAPOT*'s brand visibility and increased sales.

(C) THAILAND (SOFT DRINK)

The FMCG industry in Thailand continued to experience sluggish growth across all macro-categories, as consumers remain cautious about spending. Recovery in the FMCG sector is expected in the New Year as investments from the public sector look to boost consumer sentiment and confidence. However, the FMCG sector is also expected to remain highly competitive with new brands and new variants entering the market with higher media spend.

F&N operates in the Thai soft drink market through its licensee Thai Drinks, a subsidiary of Thai Beverage Public Company Limited, for the manufacture, marketing and distribution of *100PLUS* in Thailand.

PERFORMANCE

Since its launch in 2015, *100PLUS*'s strong brand equity as the healthier choice refreshment for Thai consumers leading active lifestyles remains uncontested. This year, *100PLUS* rode on positive momentum and strengthened its brand proposition as the healthier carbonated beverage. It launched an online thematic communication engaging TOON BODYSLAM, Thailand's No.1 Superstar, as the presenter to widen the brand's consumption occasions beyond sports and to reinforce health benefits.

On the back of *100PLUS*'s successful summer campaign – *100PLUS ADVENTURES IN ICELAND* – F&N, through its appointed licensee, launched the all new *100PLUS* Grape Berry. To induce trial and maximise volume impact, the brand undertook marketing initiatives through the summer, including television and online commercials, print, in-store sampling, events and sponsorships. In addition, *100PLUS* extended its pack size offerings as it rolled out its HERO pack in March. This convenient new pack size was launched at a strategic price point to improve *100PLUS*'s competitiveness and further drive trial.

Boosted by strong consumer interest and feedback, not only has *100PLUS* Grape Berry attained the No.2 ranking in the Isotonic portfolio with minimal cannibalisation, it also recorded strong volume growth in both super/hypermart chains





and convenience stores during its five-month launch period. *100PLUS* also continued to successfully build on its health image, outperforming diet carbonated soft drinks in all brand health indicators.

This year, *100PLUS* supported running and cycling events in Thailand and conducted a nationwide tour of university campuses. *100PLUS* has become the preferred beverage partner of event organisers, successfully reinforcing its position as the drink-of-choice for those who lead active lifestyles. In the new financial year, *100PLUS* will continue to strengthen its brand position of being the healthier soft drink of choice, and broaden consumption opportunities beyond sports to everyday occasions.

(D) VIETNAM

F&N operates in Vietnam through:

1. its investment in Vietnam Dairy Products Joint Stock Company ("Vinamilk") and
2. its wholly-owned subsidiary, F&N Vietnam Limited Company.

Vietnam is F&N's most profitable region, accounting for 40% of the F&B PBIT.

The Vietnam beverage market remains attractive due to increasing purchasing power and favourable demographics, with its real GDP projected to expand by 6.8% this year, before moderating to 6.6% in 2019 and 6.5% in 2020. The sound economic conditions are expected to drive another period of sustained growth in the Vietnamese FMCG market.

To lay the commercial foundation for business expansion in Vietnam, the Group incorporated F&N Vietnam Limited Liability Company in August 2016, to extend its operations beyond the functions of a representative office (set up in June 2015). F&N Vietnam currently distributes, markets and conducts trading of non-alcoholic beverages in the country. This operation is in addition to the Group's investment in Vinamilk.

(i) Vietnam Dairy Products Joint Stock Company

F&N's investments in Vietnam date back to Feb 2005, when it first took an approximately 5% stake in Vinamilk. In December 2016, the Group completed its acquisition of additional shares representing approximately 5.4% interest in Vinamilk through a competitive bid process.

Thereafter, through further purchases from the market, the Group continued to increase its stake in Vinamilk. On account of the Group's shareholding in Vinamilk and its appointment of a second representative to its board, the Group was deemed to have a significant influence over Vinamilk for accounting purposes in accordance with the Singapore Financial Reporting Standards. Consequently, effective 16 April 2017, the Group started to equity account for its share of Vinamilk's profit under the equity accounting method.

As at 30 September 2018, the Group's shareholding in Vinamilk has risen to 20.01%.

Vinamilk, one of the top listed companies by market value on the Ho Chi Minh Stock Exchange, is Vietnam's largest dairy company, primarily involved in the production, supply and distribution of dairy products including powdered, liquid and condensed milk and yoghurt, as well as beverages including soy milk, fruit juice and tea. It operates 13 dairy factories and owns 10 cow farms. It is the leader in Vietnam's dairy market and has 240,000 retailers as exclusive distributors.

Vinamilk also has presence in over 40 countries.

PERFORMANCE

Vinamilk's vision is to be the fastest growing sustainable business in dairy and food industry. The company has been strengthening its position in its domestic market, and expanding abroad.

Overall, F&N's Dairies earnings was boosted by

Vinamilk's \$95m earnings contribution. The Group has benefitted from an additional 6.5-month contribution from Vinamilk as profit recognition under equity method started from 16 April 2017.

(ii) F&N Vietnam Limited Company ("FNV")

FY2018 was a year of organisational improvements, staff rationalisation and consolidation. Since its establishment, FNV's priority has been on go-to-market execution. In-store and online presence are areas where the team is aiming for higher standards in order to grow our brand equity.

To capture extra summer sales, the sales team embarked on mobile selling on weekends and public holidays, covering theme parks, seaside F&B outlets and selected sports facilities. The team also reached out to more sports clubs covering tennis, football, basketball, gyms/fitness centers and extended its presence in multiple e-marketplaces to drive sales.

100PLUS has become the preferred beverage partner of event organisers, successfully reinforcing its position as the drink-of-choice for those who lead active lifestyles. This year, the brand continued to support many sports and lifestyle events which included TECHCOMBANK HO CHI MINH INTERNATIONAL MARATHON 2017, HCMC MARATHON 2018, ĐÀ LẠT ULTRA TRAIL 2018, TIEN PHONG MARATHON, RMIT – THOM MUSIC FESTIVAL and RUN TO FUTURE 2018.