Industry outlook 2016

27 November 2015

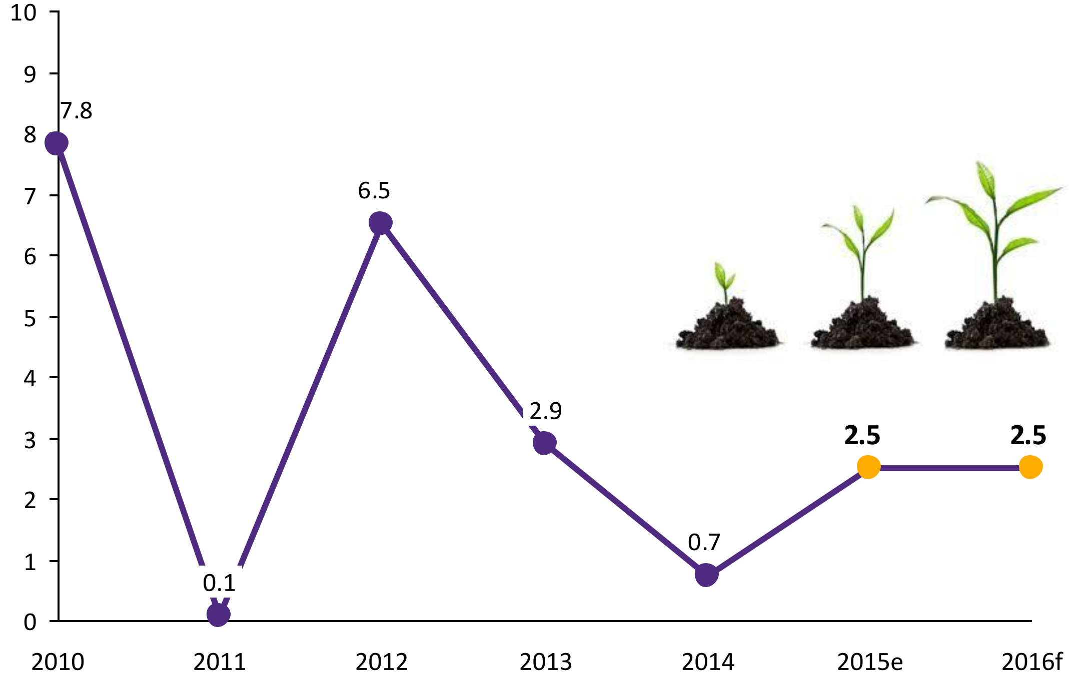
Agenda

- **Overall food and beverage**
- **Canned tuna**
- **Canned fruits and vegetables**

Domestic food and beverage consumption is expected to grow in line with gradual economic recovery and rising disposable income

Thailand's GDP growth

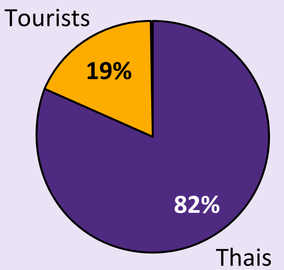
Unit: %YOY



Positive drivers:

- *Economy -- Stabilized and recovery phrase*
- *Stabilized political situation*
- *Rising numbers of foreign tourists*

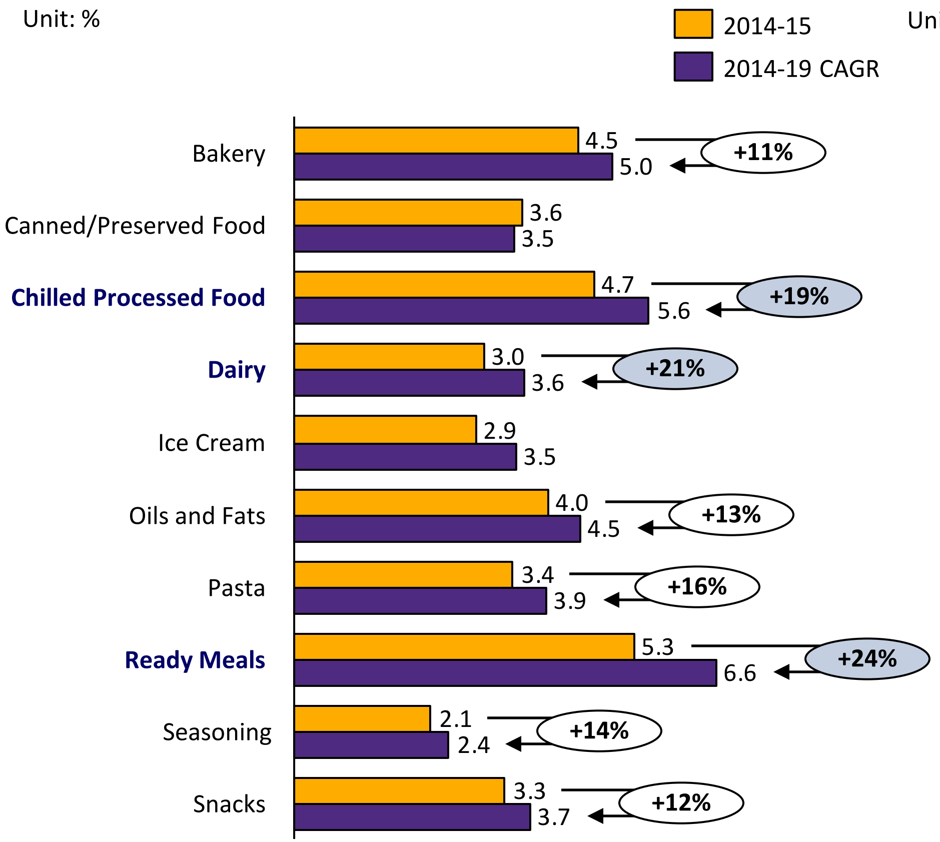
F&B expenditure in Thailand



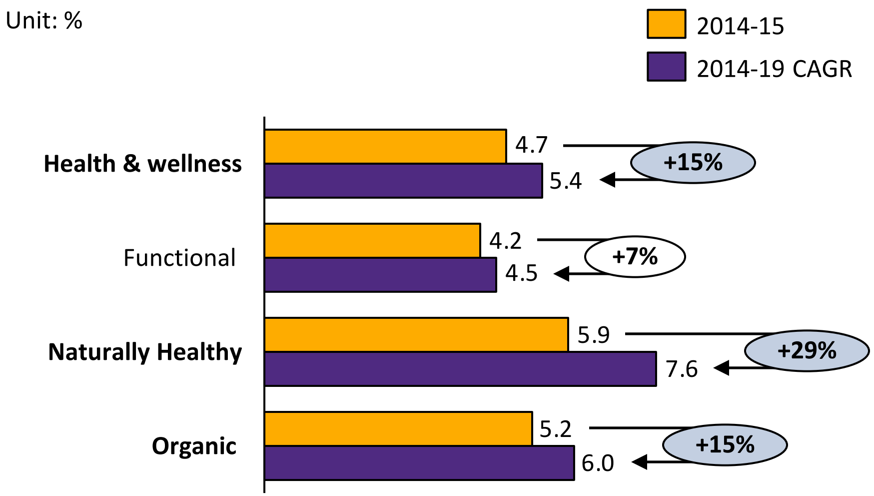
Source: EIC analysis based on data from BOT

Rising urbanization and middle class will drive stronger demand for processed food, RTE, RTD and health & wellness food in Thailand

Growth of packaged food sales in Thailand



Growth of health & wellness food sales in Thailand

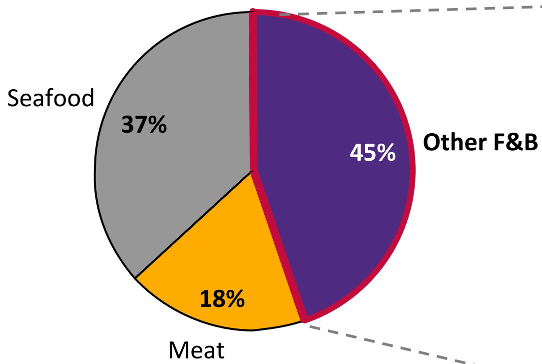


Source: EIC analysis based on data from Euromonitor

At present, "ASEAN" represents Thailand's largest food export destination, accounting for about 22% of total shipments, followed by Japan and China

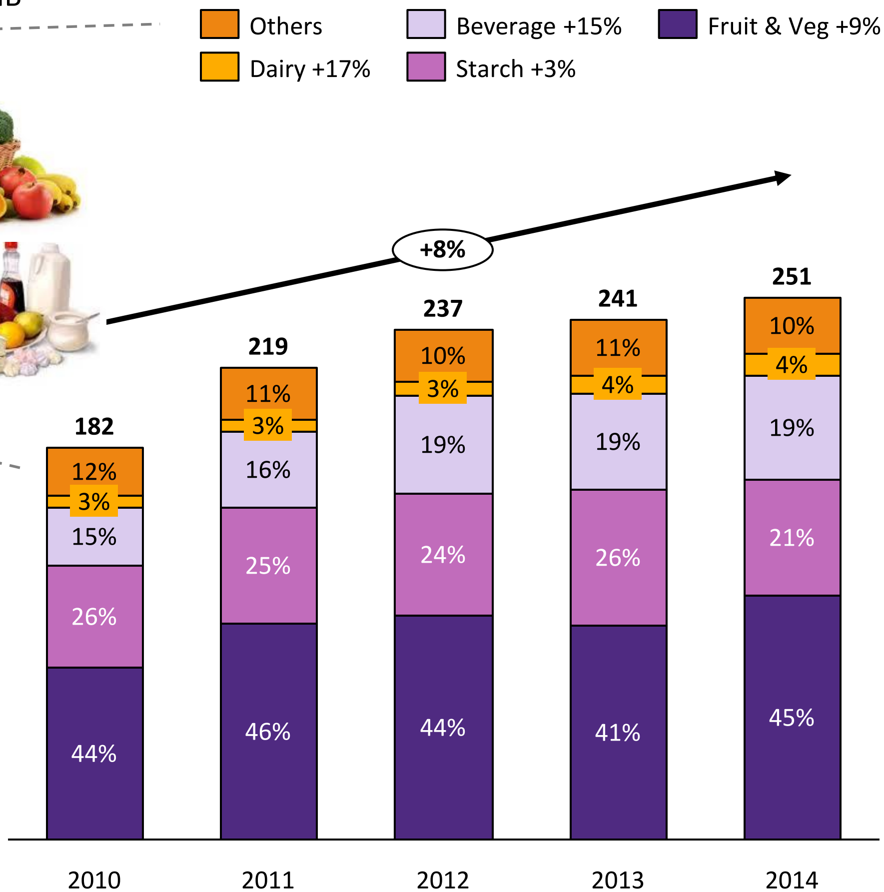
Thailand's food export by main category

Unit: %



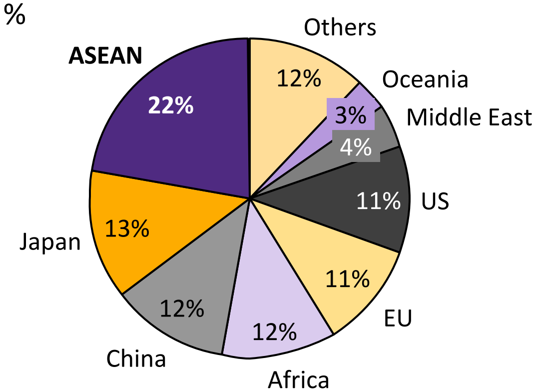
Other F&B export value

Unit: billion THB



Thai food importer

Unit: %



Source: EIC analysis based on data from NFI

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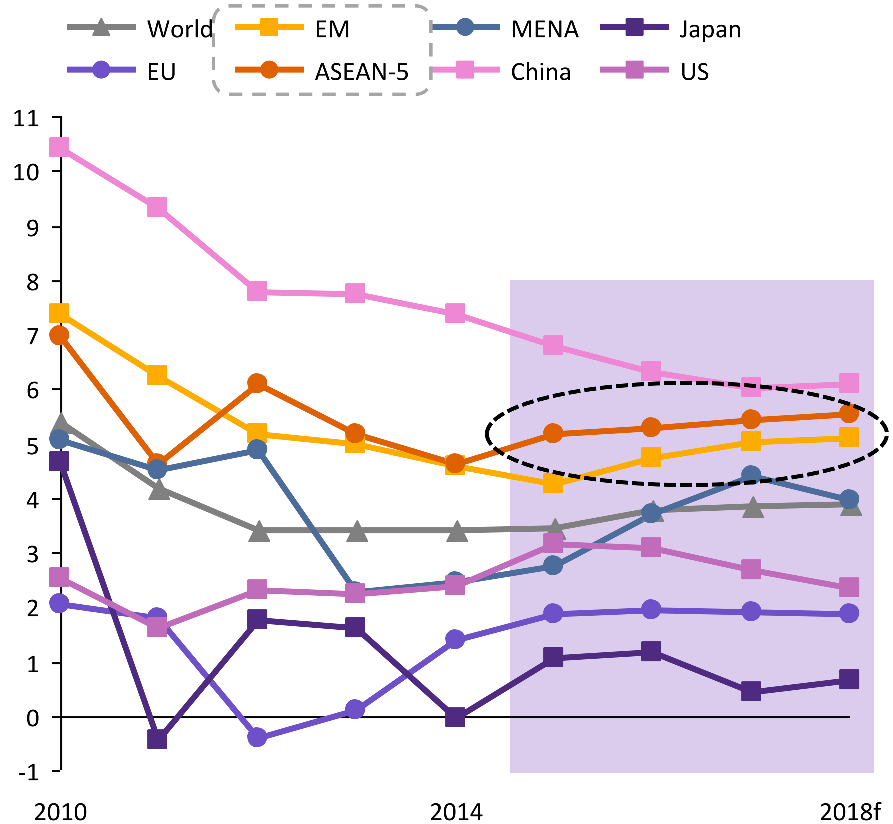
Not surprisingly, attention has turned to emerging markets as this region is still relatively underfed and is poised for rapid economic growth

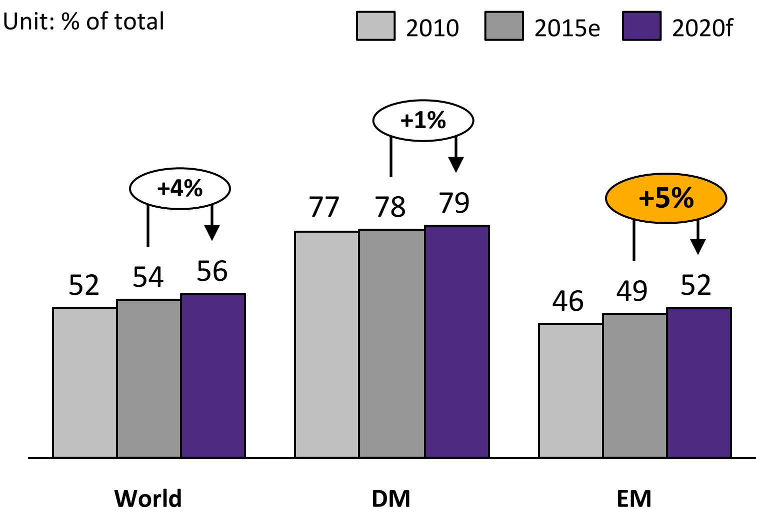
GDP growth forecast

Unit: %YOY



Urban population

Unit: % of total



- *Emerging markets (EM) will add nearly 3 billion people---more than 40% of total's population--- to the middle class by 2050*
- *This means a lot of people who will be entering the consumer economy and spending more money on food and beverage*

Source: EIC analysis based on data from IMF and UN

* Poverty line = Income below USD 1.25 /day

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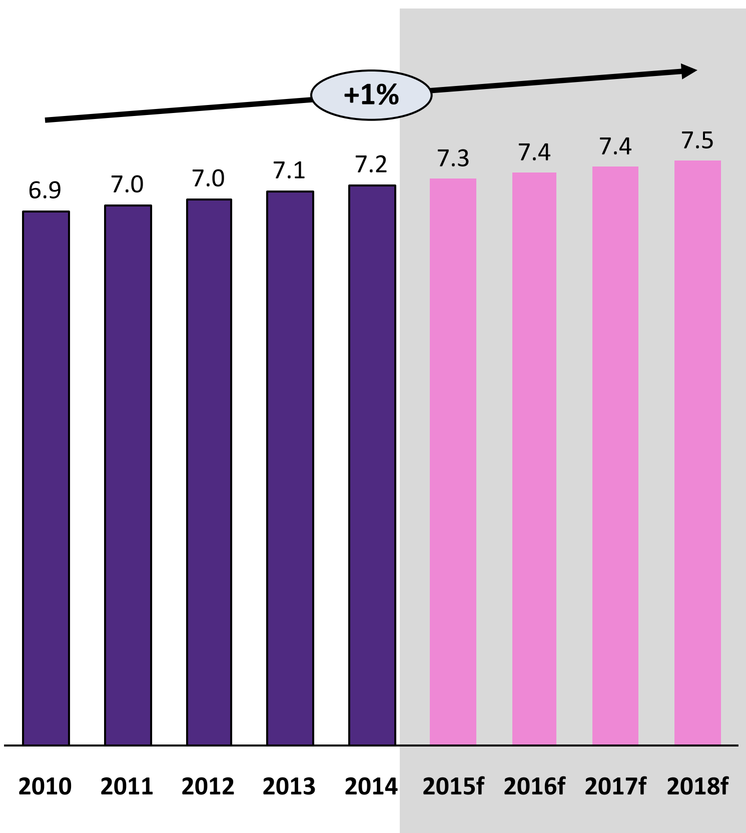
Food serving Aging and Muslim population sees expanding opportunities and bigger room to grow in the future

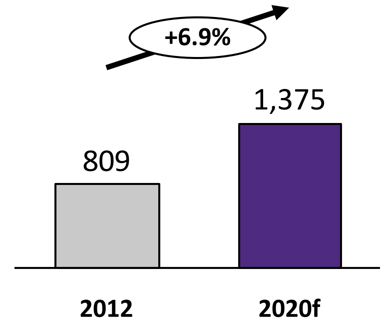
World population

Unit: Billion persons



Aging population

Unit: Million persons

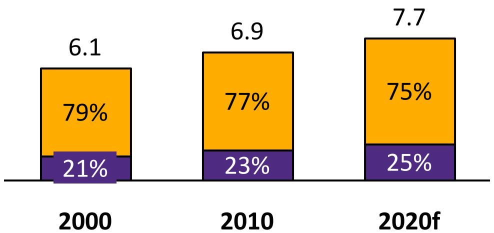


Muslim population

Unit: Million persons

Non-muslim +1.0% Muslim +1.9%

***Halal food**, an area deemed to have high attention as this specialty sector is expanding very rapidly*



Source: EIC analysis based on data from NFI, IMF, Trademap, UN and World Halal Summit Report

Medical food is another emerging specialty sector, reflecting the vibrancy of the Thai food industry

Medical food *consists of products specially formulated for the dietary management of diseases with distinctive nutritional needs that cannot be met by a normal diet*

MeadJohnson Nutrition

NOVARTIS

Abbott A Promise for Life

Otsuka Thai Otsuka Pharmaceutical Co.,Ltd.

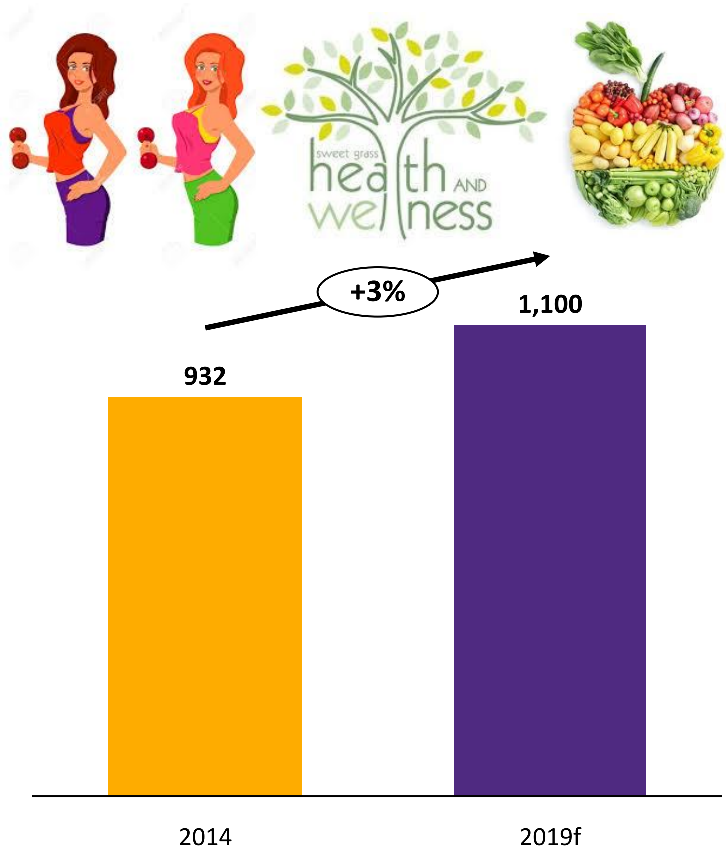
- Many leading medical food manufacturers are establishing facilities in Thailand, attracted by the country's rich agricultural raw materials, skilled and affordable labor, high quality control standard, cost-effective manufacturing, strategic location in the Asia-Pacific market and attractive incentives
- Business in this sector also benefit from the world-class reputation of Thailand's medical services industry (health tourism), which attracts about 2 million foreign patients annually

Source: EIC analysis based on data from BOI

Rising health awareness amongst consumers will contribute stronger sales for health and wellness F&B products, esp. in the developed economies

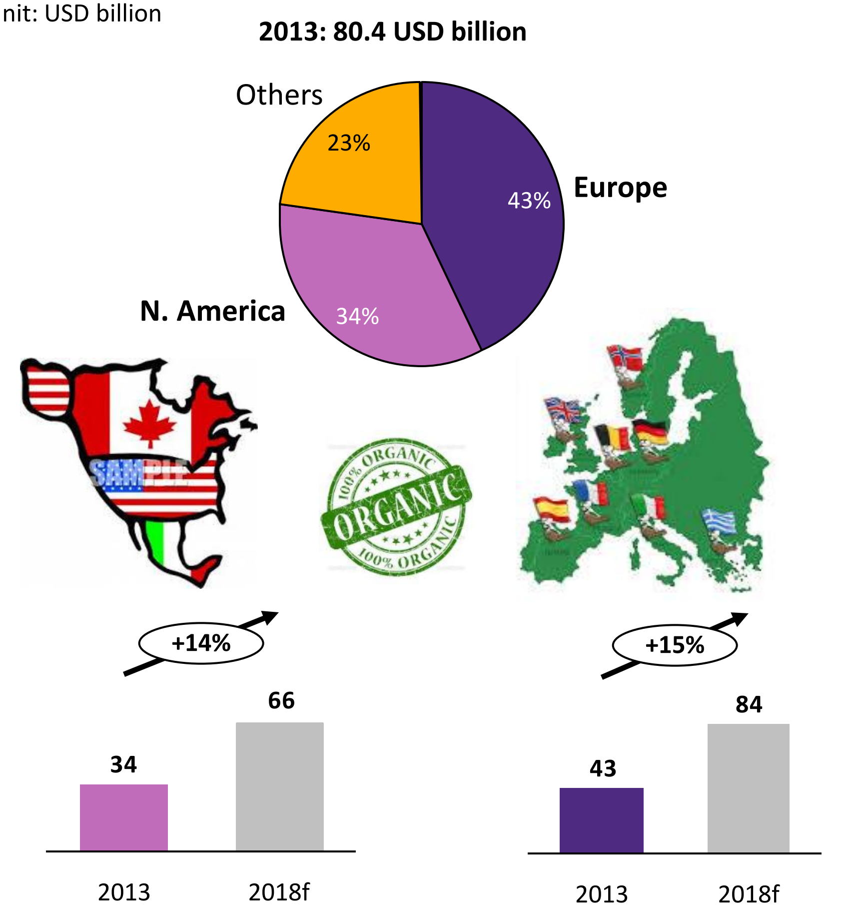
Global H&W food market

Unit: USD billion



Global organic F&B market

Unit: USD billion

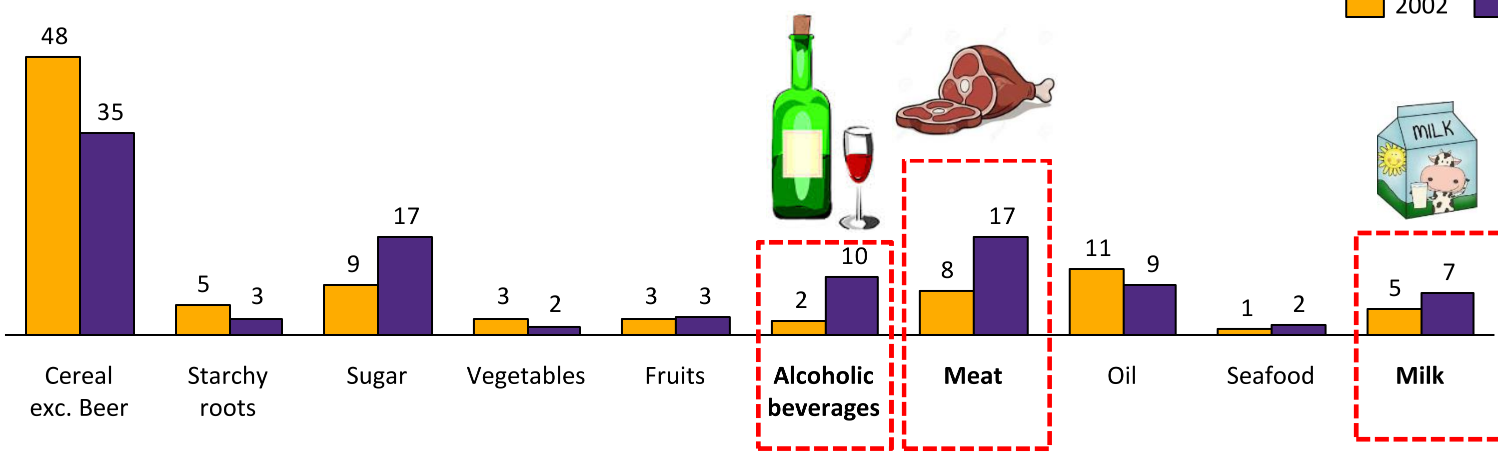


Source: EIC analysis based on data from Merrill Lynch, Euromonitor, BCC Research and Agrarmarkt Austria Marketing

Growing protein intake will enhance global demand for meat, seafood and dairy products

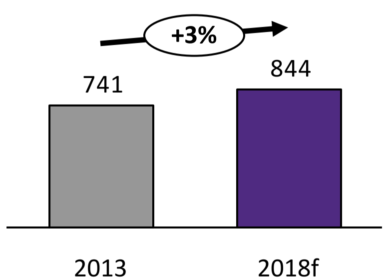
Share of global dietary energy supply

Unit: % of total



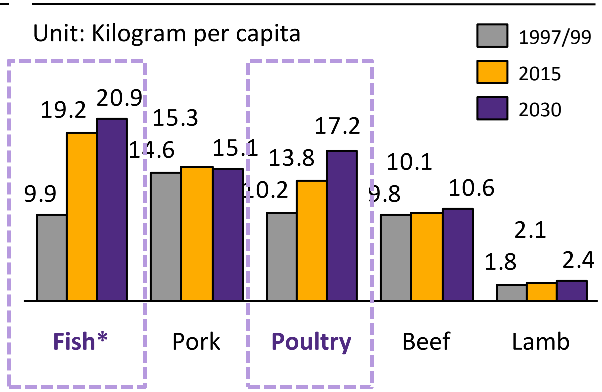
Global meat and seafood market

Unit: USD billion



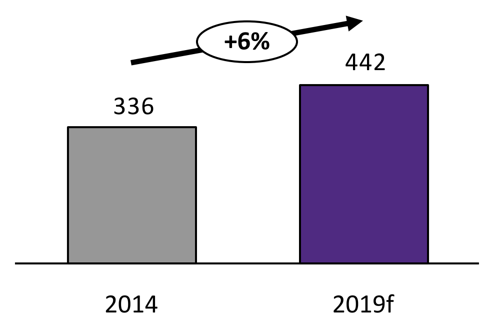
Meat consumption by type

Unit: Kilogram per capita



Global dairy market

Unit: USD billion

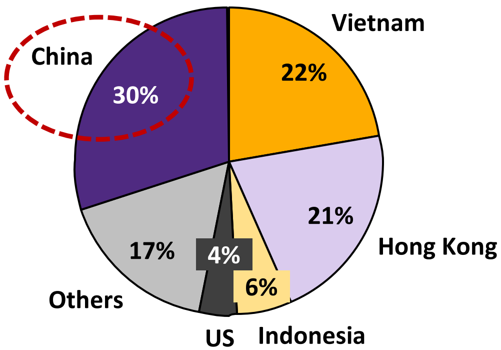


Source: EIC analysis based on data from Merrill Lynch

Chinese demand for Thai fruits will continue to rise steadily over the forecasted period

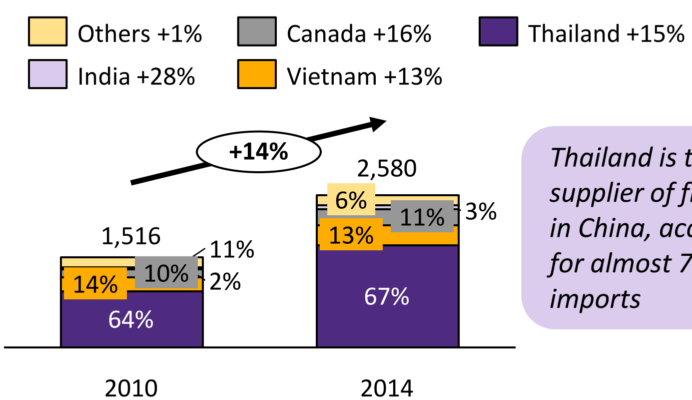
Major destination of Thai fruits export, 2014

Unit: % of total



China fruit imports, by supplying country

Unit: USD million



Thailand is the main supplier of fresh fruits in China, accounting for almost 70% of total imports

Source: EIC analysis based on data from Trademap

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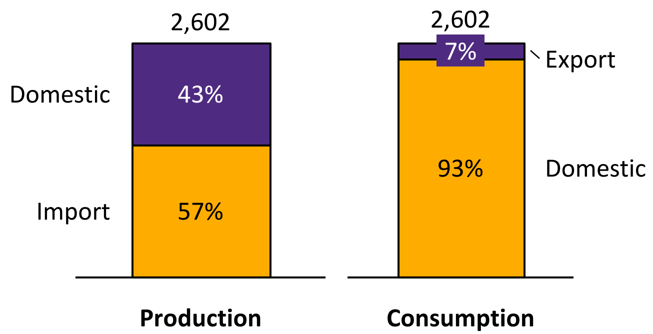
Likewise, demand for Thai dairy products is also expected to grow steadily, particularly among our neighboring countries

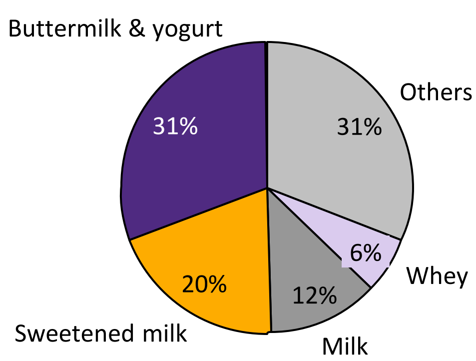
Thai dairy industry, 2014

Unit: '000 ton



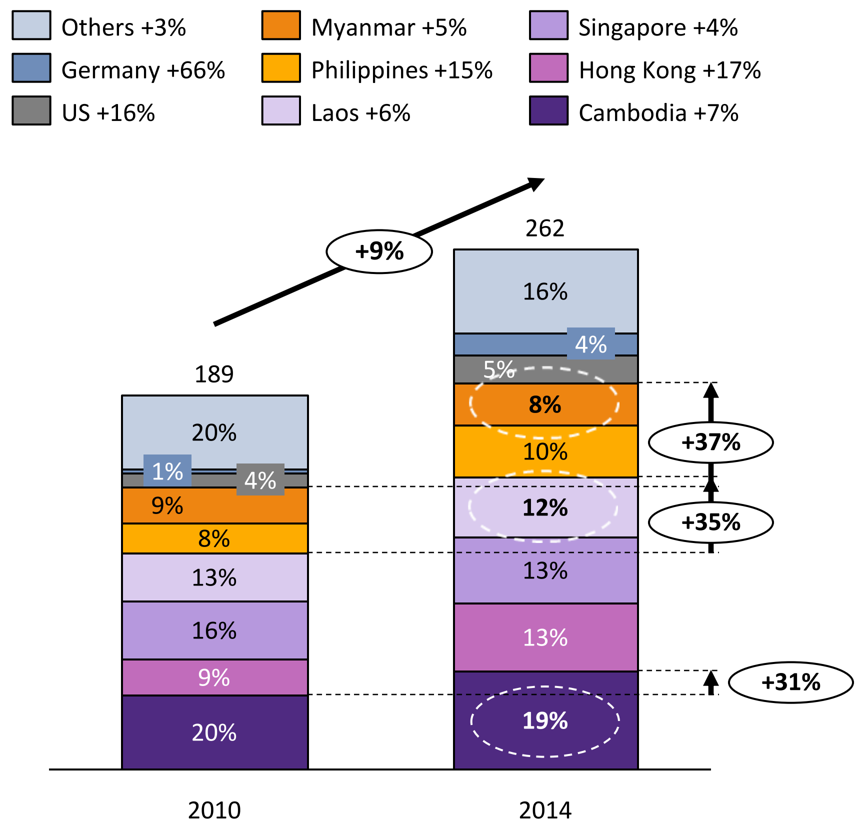
Thai dairy export products, 2014

Unit: %



Major destination of Thai dairy products

Unit: USD million

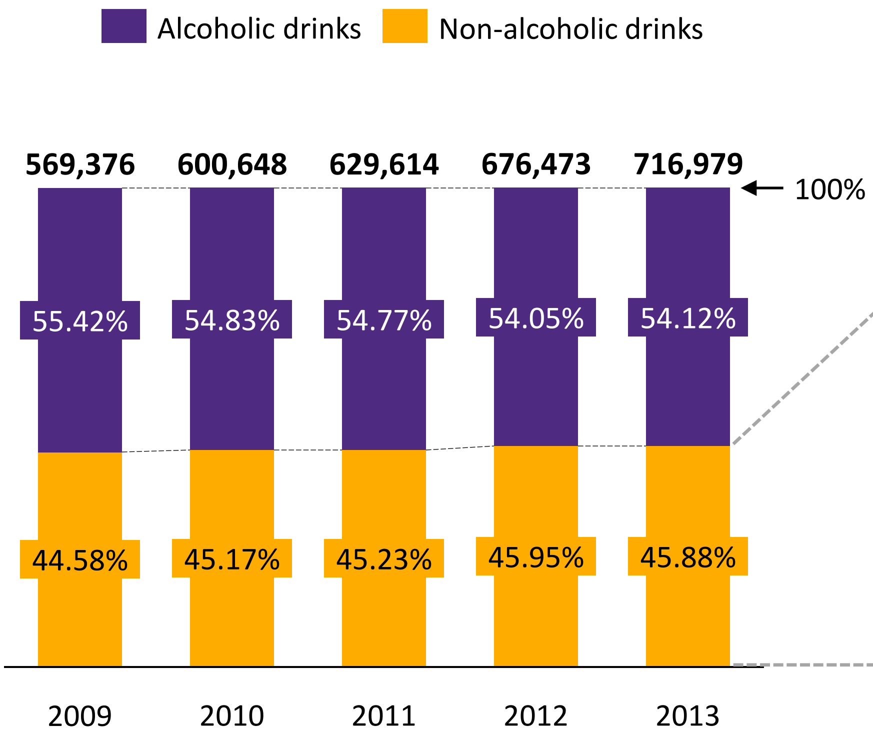


Source: EIC analysis based on data from Trademap

Growth of alcoholic drinks in Thailand is lagging, but non-alcoholic drinks are gradually picking up the slack

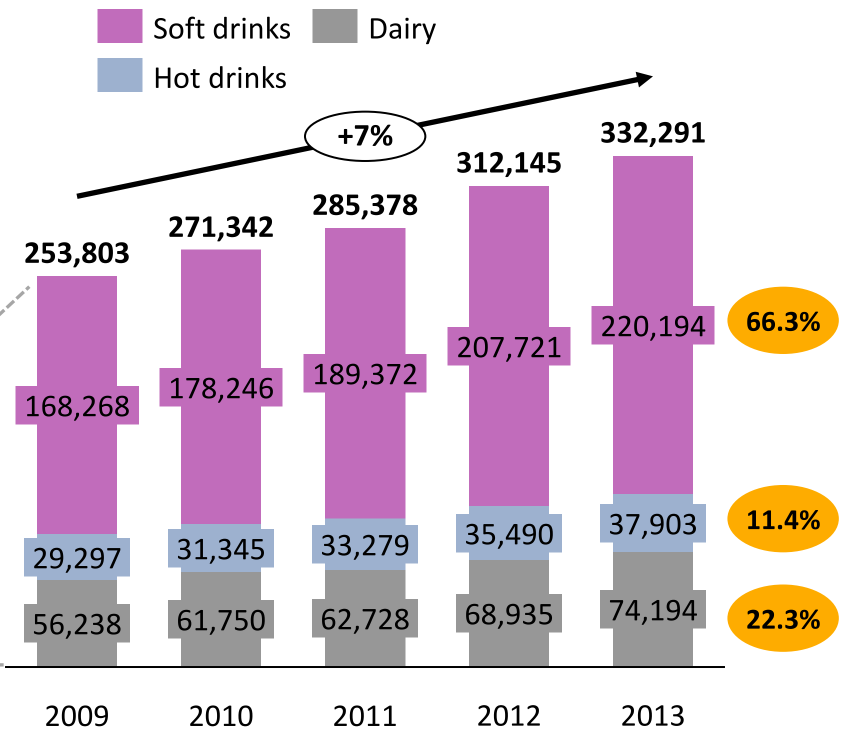
Market share of beverage industry in Thailand

Unit: THB million



Market size of non-alcoholic drinks in Thailand

Unit: THB million



Remark: Hot drinks = coffee, tea and other hot drinks

Soft drinks = carbonates, fruit and vegetable juice, bottled water, functional drinks, concentrates, RTD tea/coffee, concentrates and Asian specialty drinks

Source: EIC analysis based on data from Euromonitor

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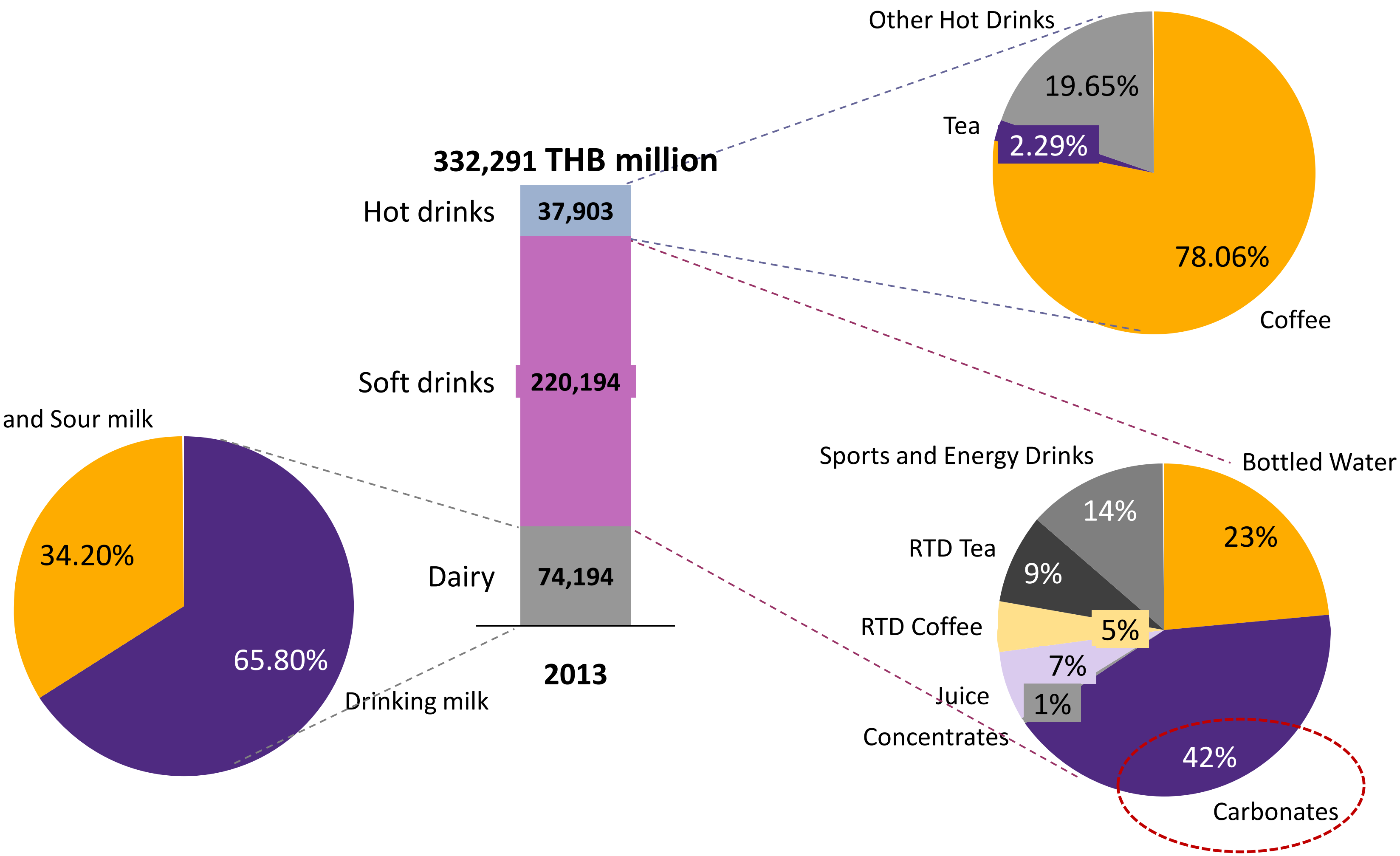
Carbonates are the most popular non-alcoholic drink in Thailand

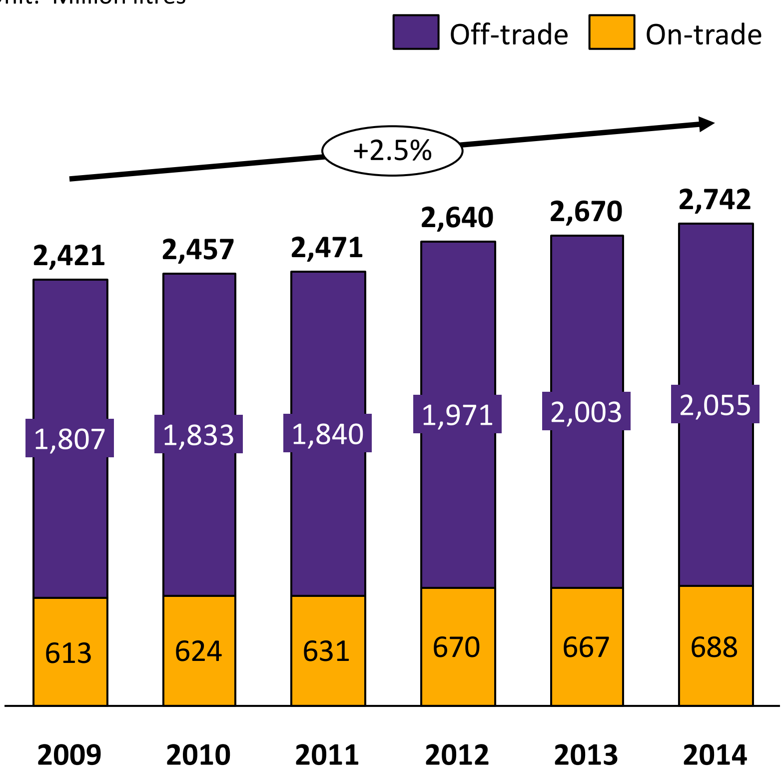


Source: EIC analysis based on data from Euromonitor

In 2014, carbonates continued to grow continuously in terms of both volume and value sales

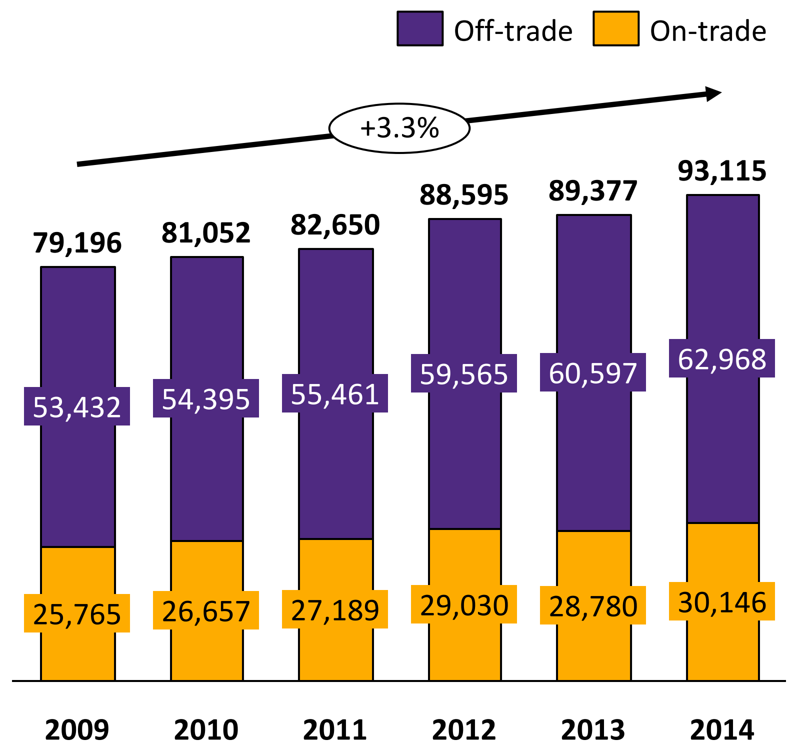
Off-trade vs On-trade sales of carbonates (volume)

Unit: Million litres



Off-trade vs On-trade sales of carbonates (value)

Unit: THB million

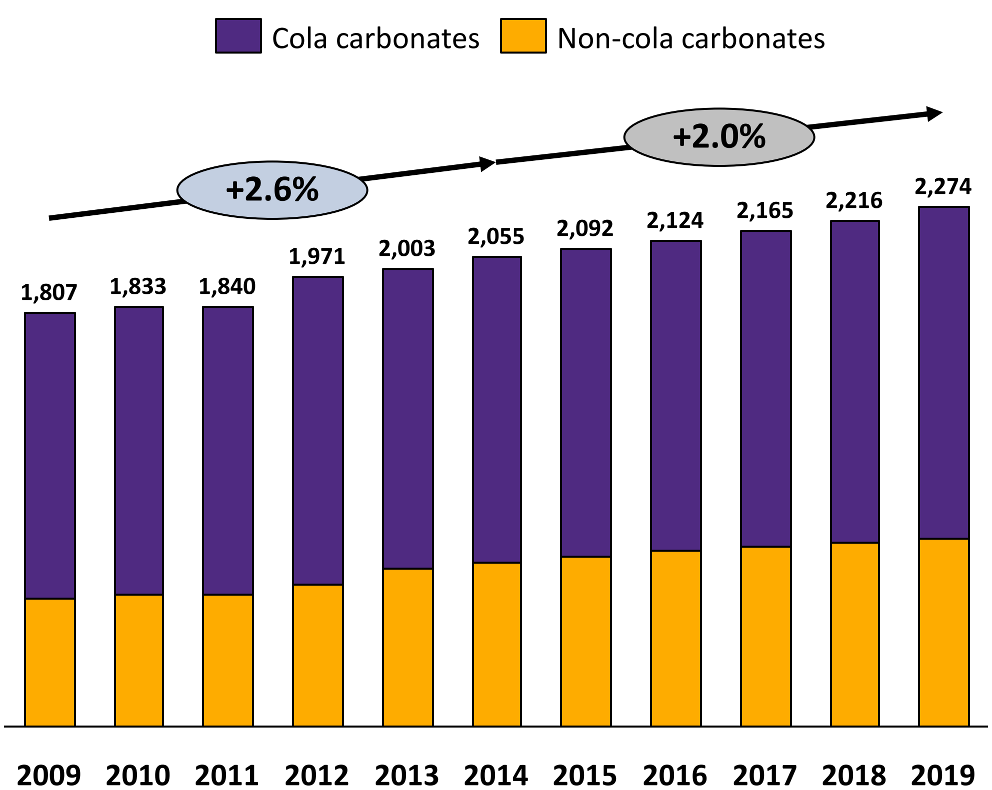


Source: EIC analysis based on data from Euromonitor

However, with recent strong competition in soft drinks, especially healthy drinks, carbonate's growth tended to slow over the forecast period

Off-trade sales of carbonates by category (volume)

Unit: Million litres



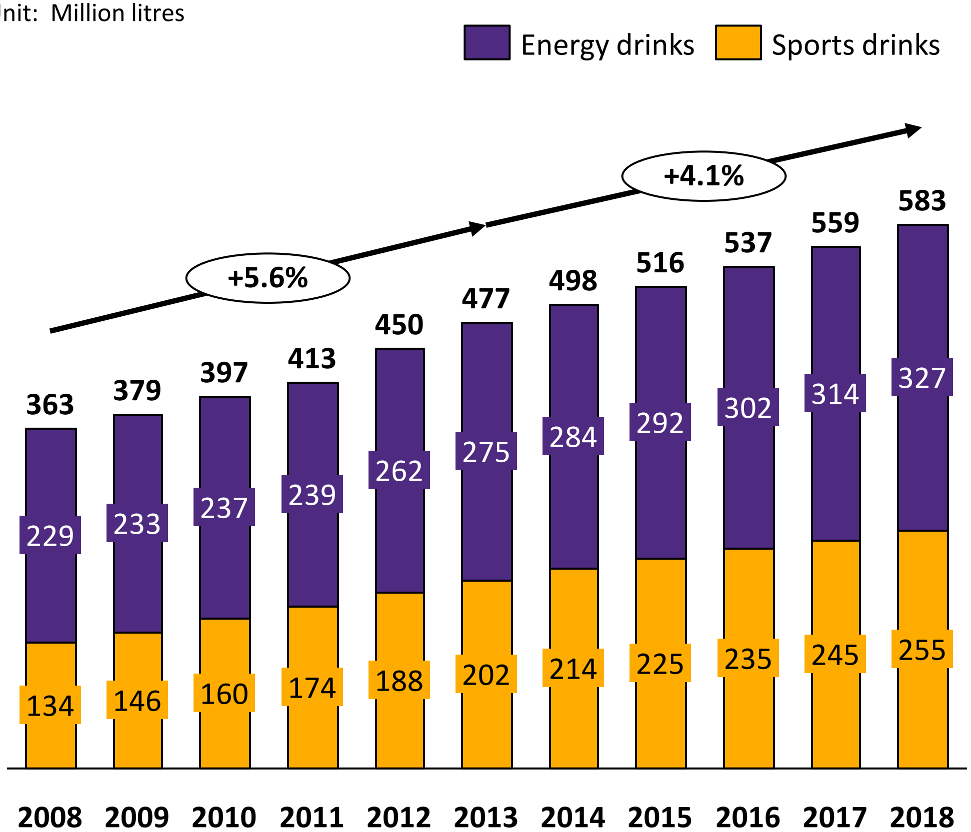
- **Rising health awareness**: Carbonates' players were required to develop ***innovative drinks*** which created a perception of reduced sugar content and healthy attributes, such as no sugar added, low calories or flavors, in order to drive sales and stimulate consumer interest
- ***Packaging redesign*** is another major strategic moves of key domestic players
  - ✓ Personalize packaging to give as a gift: Coca-Cola (Thailand) Ltd. Created name printing on its bottles
  - ✓ Pepsi-Cola (Thai) Trading Co. Ltd. Developed its bottle and can packaging to be slimmer and easier to carry, and provided a variety of sizes of selection

Source: EIC analysis based on data from Euromonitor

Sports and energy drinks in Thailand is expected to continue recording moderate growth over the forecast period

Off-trade sales of sports and energy drinks by category

Unit: Million litres



Energy drinks:

- The consumer perception of these products has changed as white-collar workers are responding positively to energy drinks
- While blue-collar workers remained loyalty to energy drinks
- Some students opt for energy drinks to help them stay awake longer to study harder for final exams

Sport drinks:

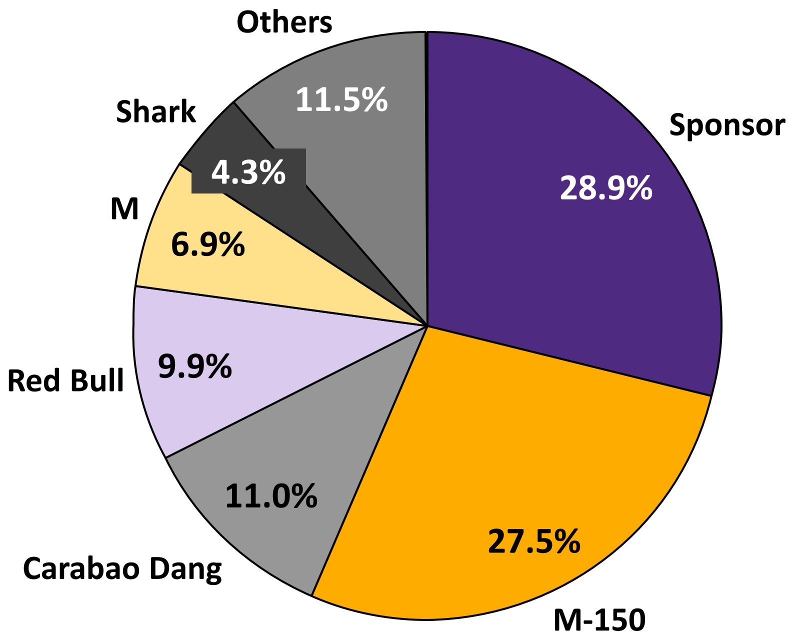
- Growing popularity of outdoor activities
  - ✓ Badminton and tennis
  - ✓ Riding a bike
  - ✓ Golfing
- Sports drinks are perceived as necessary choice to prevent dehydration
- New brands and innovative products with added vitamins and minerals helped promote stronger sales

Source: EIC analysis based on data from Euromonitor

The market is dominated by a few key players, which are very powerful within the beverages industry

Brand shares of Off-trade sports and energy drinks

Unit: % Off-trade volume



Competitive landscape:

- It is unlikely that small or medium-sized players will enter into this category
- Instead, it is expected that existing players will be active in promoting their products portfolios

Expected strategic moves:

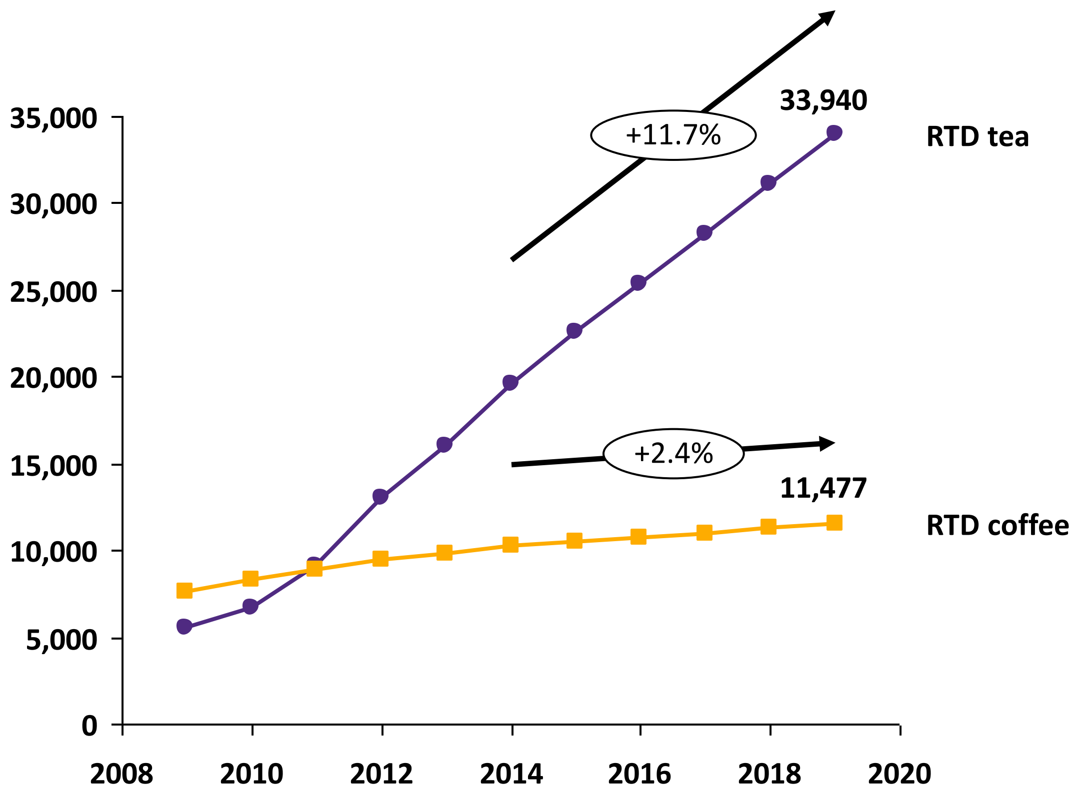
- New, innovative products serving females, urban dwellers and young professionals …
    - ✓ Mixed berry and mixed fruits

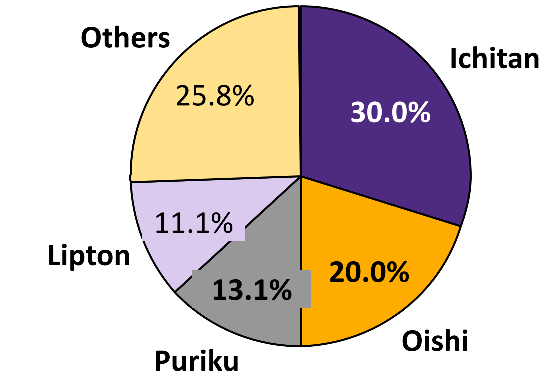
Source: EIC analysis based on data from Euromonitor

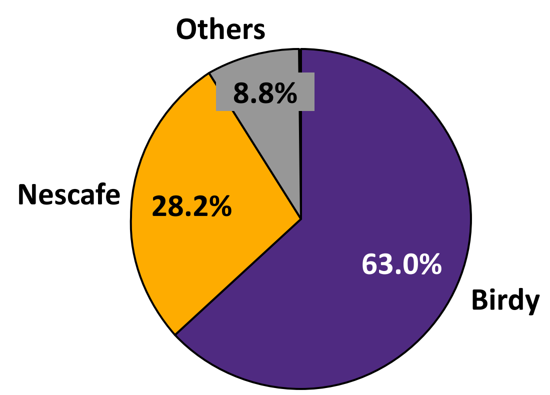
Another eye-catching segment is RTD tea and coffee, which recorded impressive growth in the recent years

Off-trade sales of RTD tea and coffee in Thailand

Unit: THB million







Source: EIC analysis based on data from Euromonitor

EIC views that domestic demand for RTD tea and coffee is expected to be promising over the forecast period

Key driving factors:

RTD tea

- **Healthier lifestyles** among Thai consumers
  - ✓ RTD tea is a great choice for health-conscious consumers
- **Intense efforts by manufacturers to boost sales**
  - ✓ A wide selection of product varieties
  - ✓ Attractive promotional support and various campaigns
  - ✓ Product innovation – new flavors, low-sugar RTD tea and sugar-free RTD tea

RTD coffee

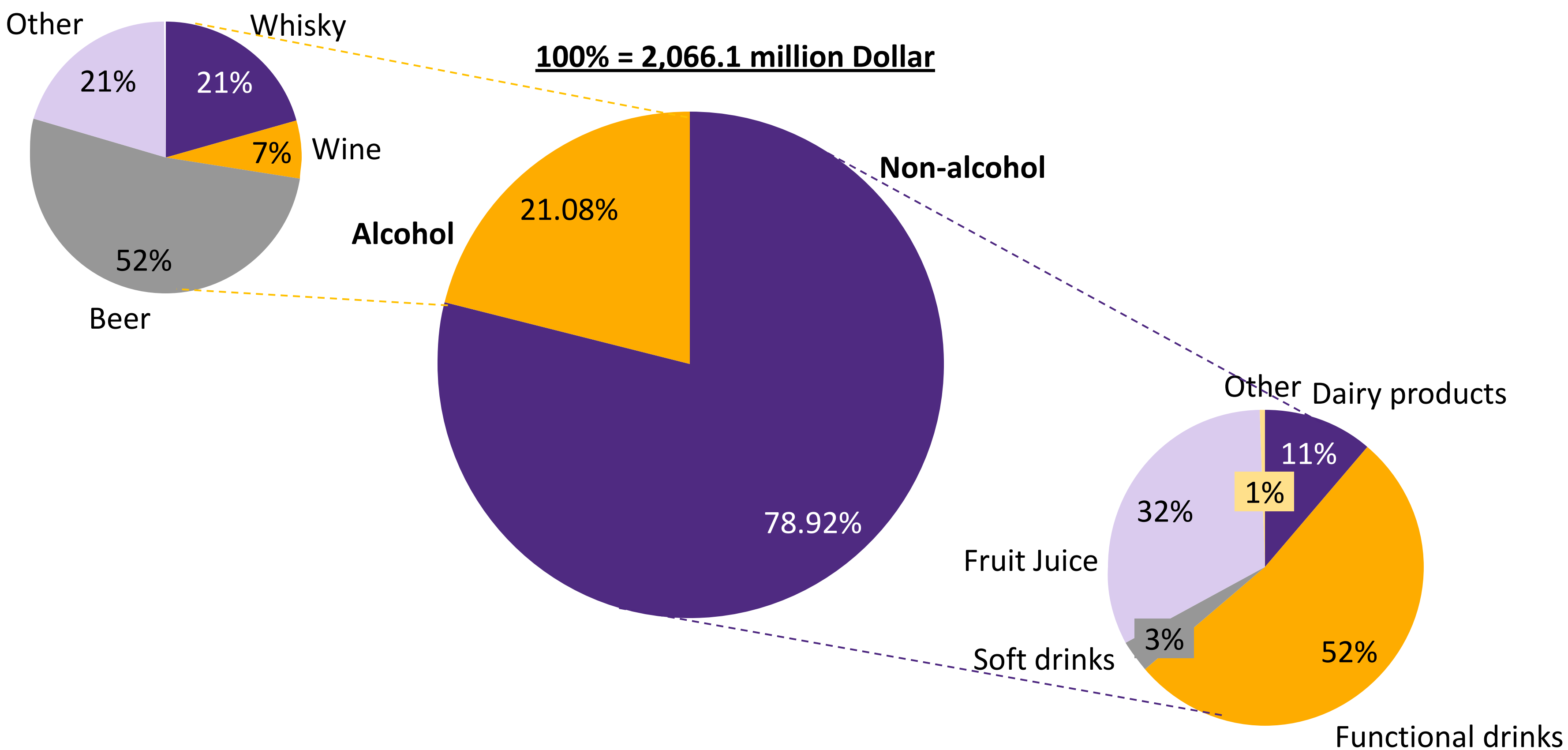
- Growing number of **coffee lovers** in Thai society in the coming years
  - ✓ Demand for RTD coffee will also benefit from this trend
- **Urbanized and busier lifestyles**
- The expansion of **modern grocery retailing**
- **More premium products** being developed targeted a growing niche of young urban consumers

Source: EIC analysis based on data from Euromonitor

Global health and wellness trend is the key driver of the non-alcoholic drinks market

Export drinks in 2014

Unit: USD million



Source: analyzed by EIC using information from Ministry of Commerce

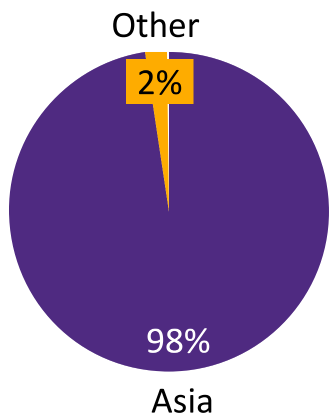
SCB Economic Intelligence Center

Asia was the biggest market for every categories of drinks, except fruit juice which exported to North America the most

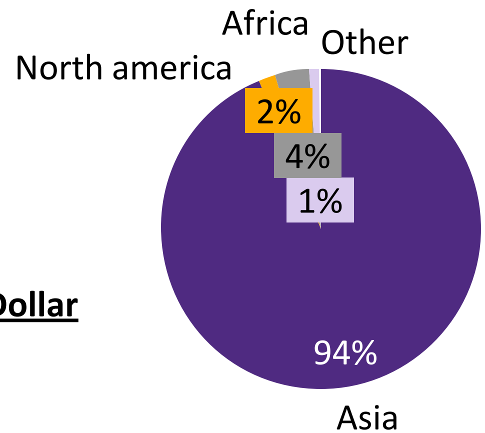
Export markets of beverage in 2014 (by region)

Unit: USD million

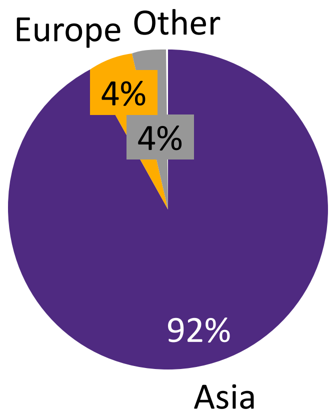
Dairy
100% = 183.7million Dollar



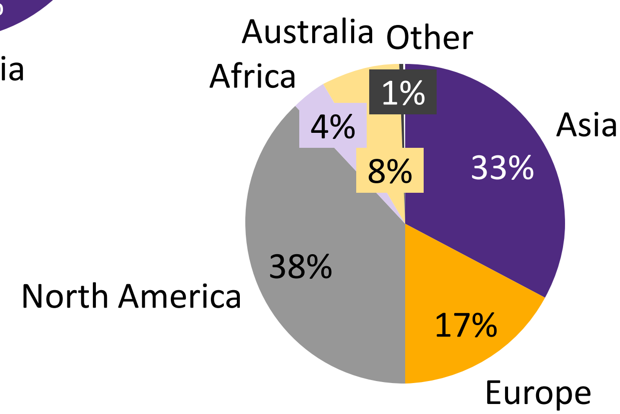
Energy drinks
100% = 853.2million Dollar



Soft drinks
100% = 56.3million Dollar



Fruit juice
100% = 527million Dollar



Source: analyzed by EIC using information from Ministry of Commerce

AEC integration will create new opportunities and challenges for Thai producers

Import non-alcohol drinks value

Unit: Million Dollar

Country	2013	2014
Vietnam	3.65	3.22
Singapore	1.85	2.19
Indonesia	0.61	0.62

Export non-alcohol drinks value

Unit: Million Dollar

Country	2013	2014
Vietnam	212.45	257.18
Cambodia	147.86	183.28
Myanmar	140.10	62.88

- AEC allow free movement of goods and over 600 million people between ASEAN member states.
- It will be much easier for manufactures to export their brands to other ASEAN countries.
- However, it also means that brands from other ASEAN countries can easily come to Thailand.

- From the table, it can be seen that import volume from Singapore and Indonesia increased from 2013.
- However, export volume to Vietnam and Cambodia also increased.
- So after AEC, the import/export volume will definitely increase. The competition will be more intense.

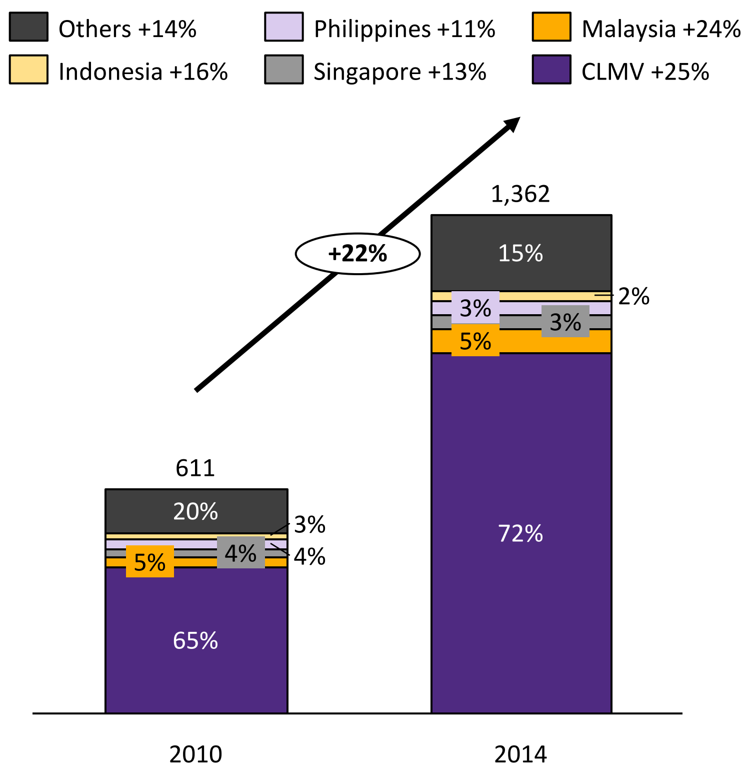
- Moreover, AEC will bring more advanced production technologies to Thailand and attract more investment in marketing activities.

Source: analyzed by EIC using information from Ministry of Commerce and Euromonitor

Demand for Thai beverage, especially non-alcoholic beverages, in CLMV is rising strongly in line with their economic expansion

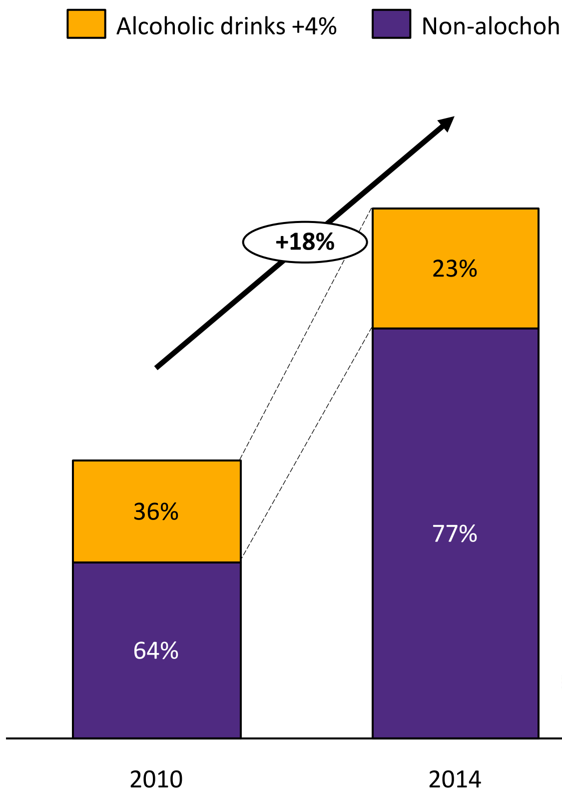
Major destination of Thai beverage export

Unit: THB million



Thai beverage export to CLMV market, by category

Unit: THB million



Source: EIC analysis based on data from Trademap

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EIC view that strong fundamentals all the way around will sustain the growth and prosperity of Thailand's ample food industry

Segment	Key drivers	2016 Outlook	MT Outlook
Domestic & Import	• Population growth • Economic recovery • Higher disposable income • Rising of middle-income class • Rising urbanization	G **Positive**	G **Positive**
Export	• Macro trend ✓ Economic change ✓ Demographic change ✓ Demand change • Demand for Thai fruits in China • Demand for Thai beverage in CLMV • Demand for Thai dairy products from Asian countries	G **Positive**	G **Positive**

Source: EIC analysis

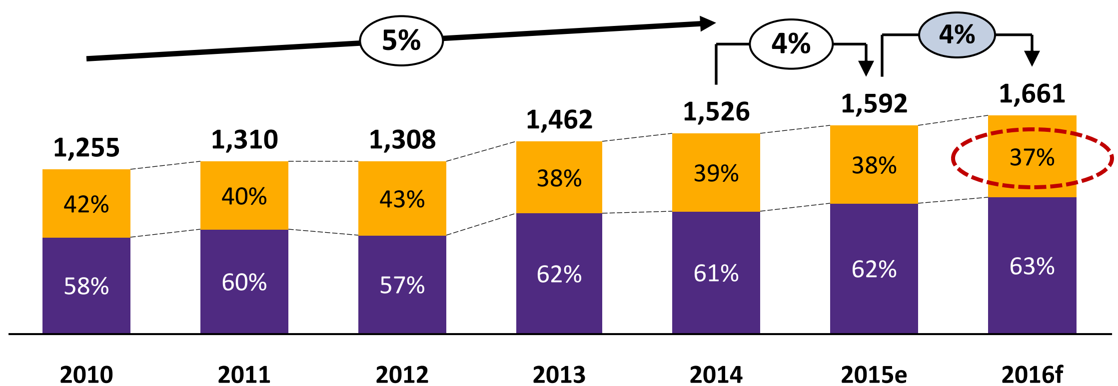
Agenda

- Overall food and beverage
- Canned tuna
- Canned fruits and vegetables

Global demand for canned tuna is expected to grow steadily at around 4% in 2016 in line with population growth and gradual economic recovery

Global canned tuna import volume

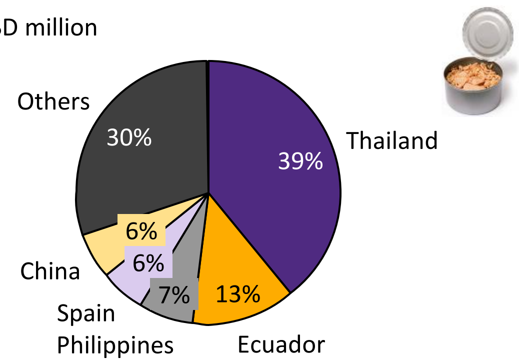
Unit: ‘000 ton



However, market share of Thailand’s canned tuna export is expected to continue its declining trend due to higher labor cost and the loss of GSP privilege from the EU market

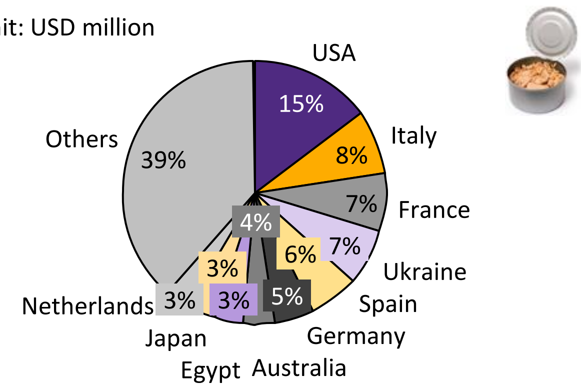
Global canned tuna exporter, 2014

Unit: USD million



Global canned tuna importer, 2014

Unit: USD million



Source: EIC analysis based on data from Trademap

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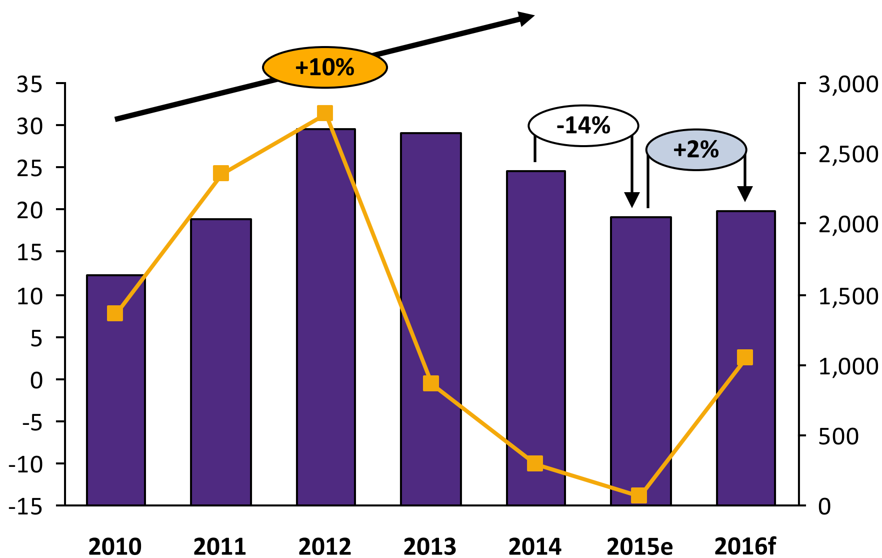
While Thailand's canned tuna export value is expected to grow marginally from this year but still much lower than the average growth in the past

Thailand's canned tuna export value

Unit: USD million

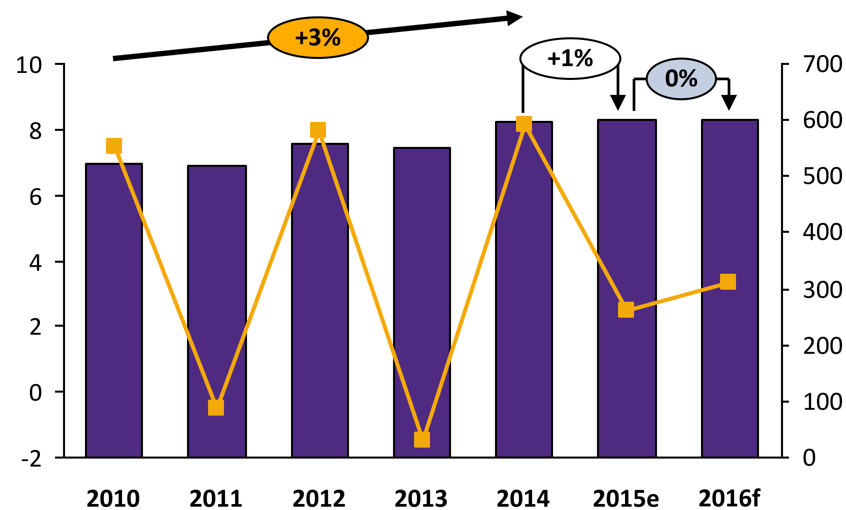


Driver

- Mild tuna price recovery

Thailand's canned tuna export volume

Unit: '000 ton



Driver

- Falling demand from the key trading partner (U.S)
- Higher competition from Ecuador and the Philippines, which still receive GSP privilege

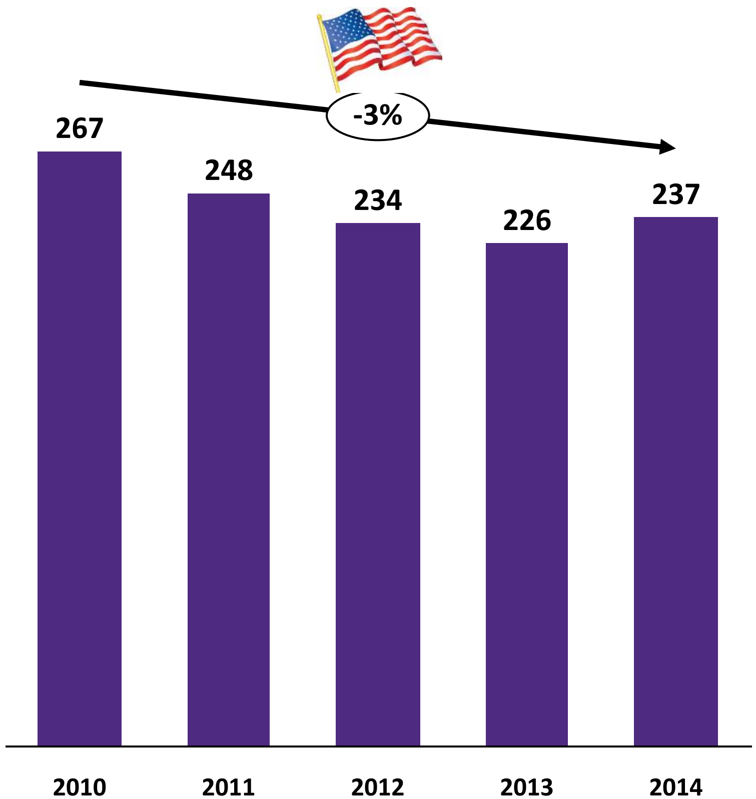
Source: EIC analysis based on data from MOC

American, our key trading partner, fell out of love with canned tuna!

This shift of preference is due to growing interest in fresh and organic foods among U.S. consumers

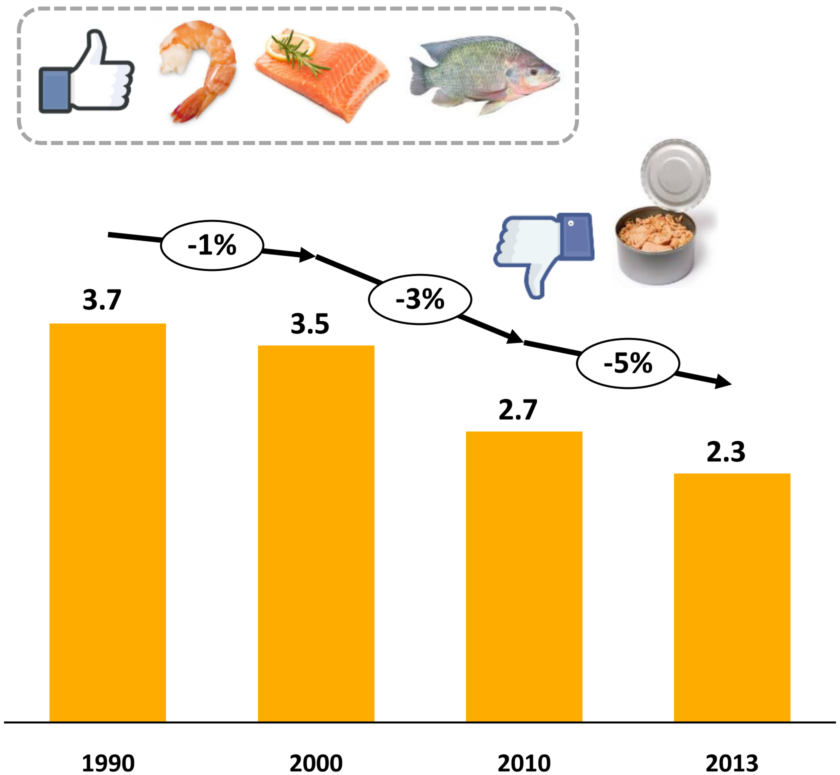
U.S. canned tuna import volume

Unit: '000 ton



U.S. annual per capita consumption of canned tuna

Unit: lbs per person

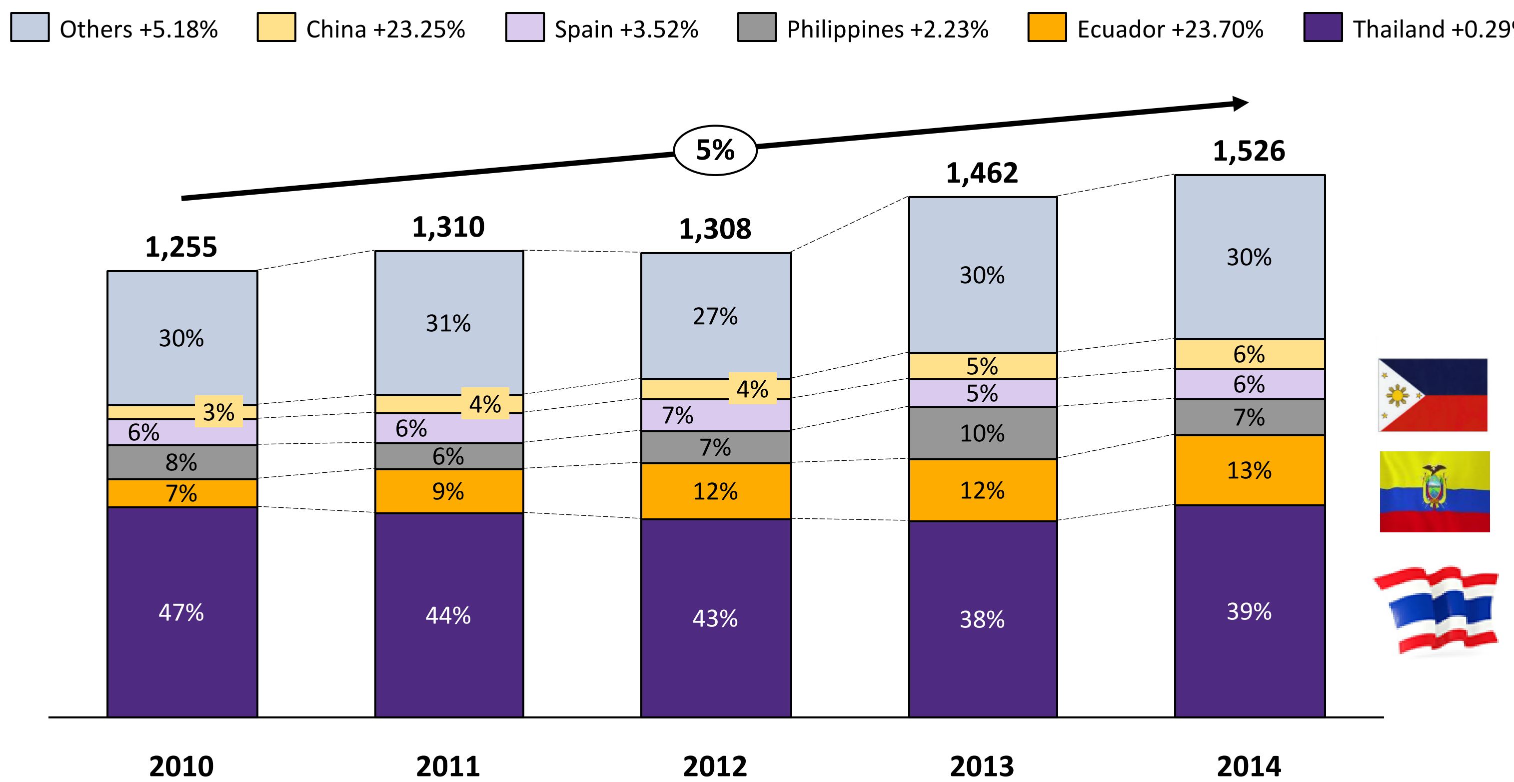


Source: EIC analysis based on data from Trademap and Merrill Lynch

At the same time, global competition in canned tuna market will become even more intensify, reflecting by a gradual decline of our market share

Global canned tuna exporter

Unit: ‘000 ton

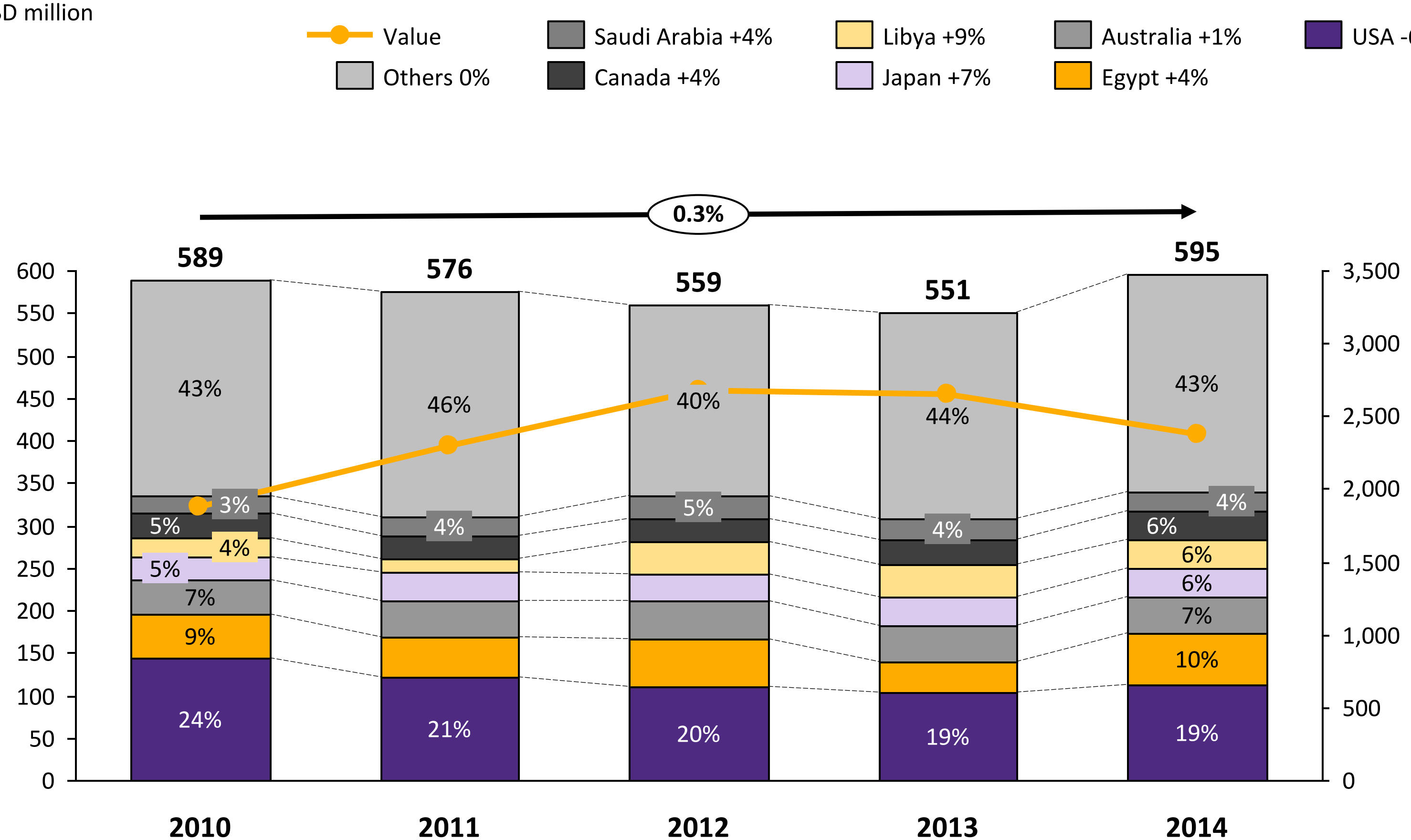


Source: EIC analysis based on data from Trademap

However, demand from emerging markets has increased steadily over the years, in contrast to slower demand from the traditional markets

Thailand's canned tuna importer

Unit: USD million



Source: EIC analysis based on data from Trademap

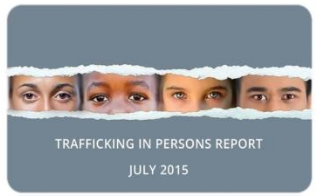
SCB Economic Intelligence Center

Recent developments and key challenges in Thai seafood industry:

1 **Relocation of production base**

- *Supply chain strengthening – vertical integration*
- *Product and geographic diversification*
- *Inventory management efficiency*
- *Enhance cost competitiveness through EOS*
- *To counter trade barriers*

2 **Tier-3**



- *Thailand remains at "Tier-3" on 2015 U.S. TIP report*
- *Reasons: labor abuses in seafood industry*
- *However, at the moment, no trade sanction has been imposed on Thailand*

3 **IUU threat**

- *On April 2015, the EU issue an official warning or "Yellow Card" on Thai seafood industry, citing concerns over IUU fishing in Thailand and by Thai vessels*
- *If problems not solved in an effective manner within specific timeframe, trade sanctions will be imposed*

4 **The GSP cut**

- *Thailand loses EU export preferences (GSP) in 2015*
- *Over 6,200 Thai products including seafood will be removed from the GSP benefit*
- *This will likely cause Thailand to lose a competitive edge to other trade rivals who still receive the GSP*

5 **Labor shortage**

- *Thai fishing industry faces labor shortage (particularly crew members) as neighboring (CLM) economies grow*
- *Seafood industry depend heavily on migrant workers*
- *Labor shortage is expected to worsen: 1) birthrate is declining 2) Thais seek higher education opportunities*

Source: EIC analysis

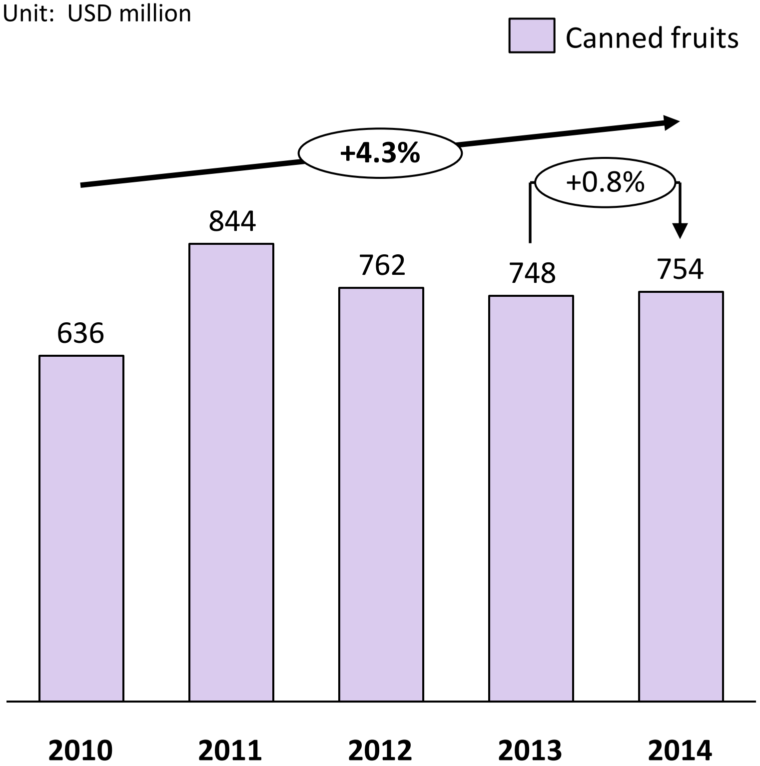
Agenda

- Overall food and beverage
- Canned tuna
- Canned fruits and vegetables

Thailand's canned fruits exports reached USD 754 million in 2014 with CAGR of 4.3% during 2010-2014

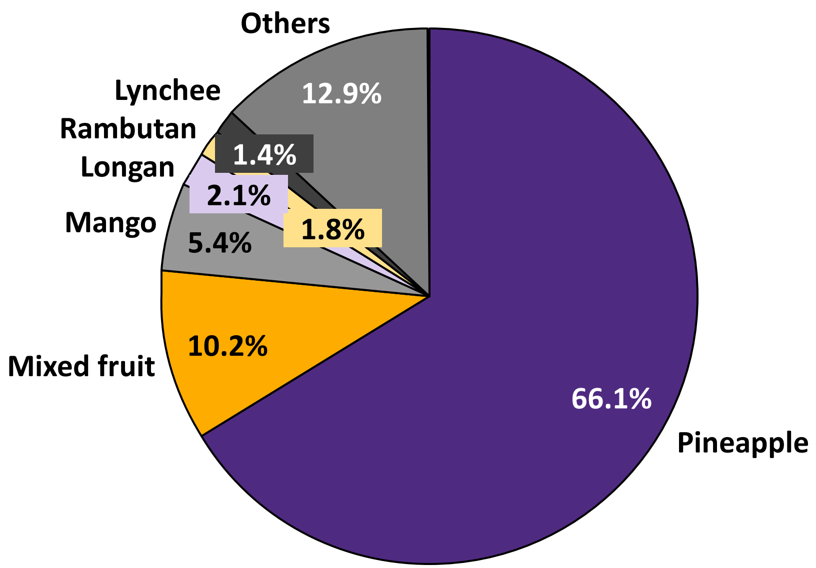
Thailand's canned fruits export value

Unit: USD million



Canned fruits export by type of fruits

Unit: USD million



Source: EIC analysis based on data from MOC

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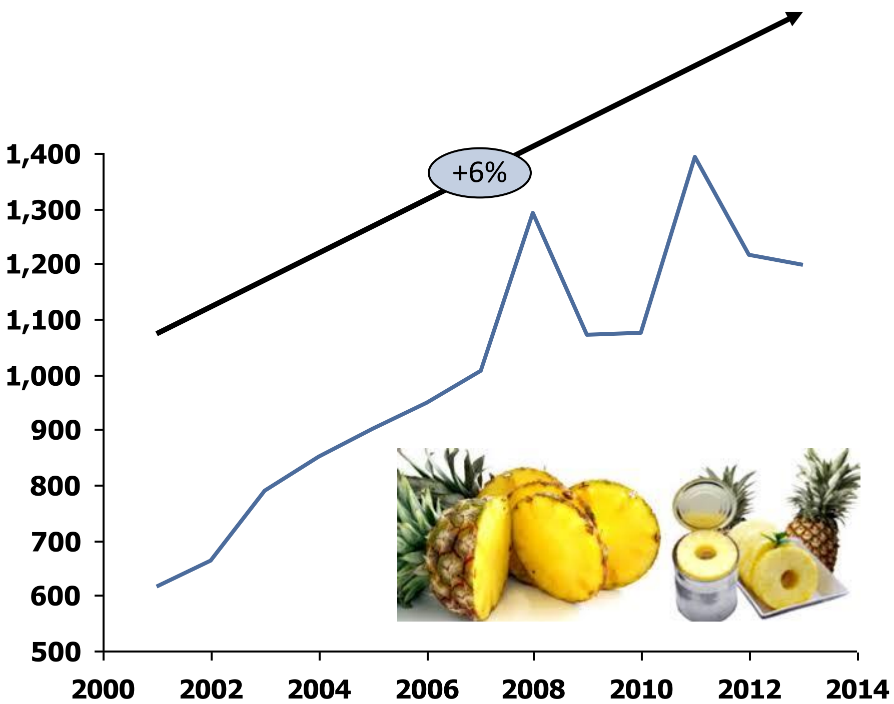
The global market for canned pineapple witnessed growth in recent years due to rising demand for convenience food

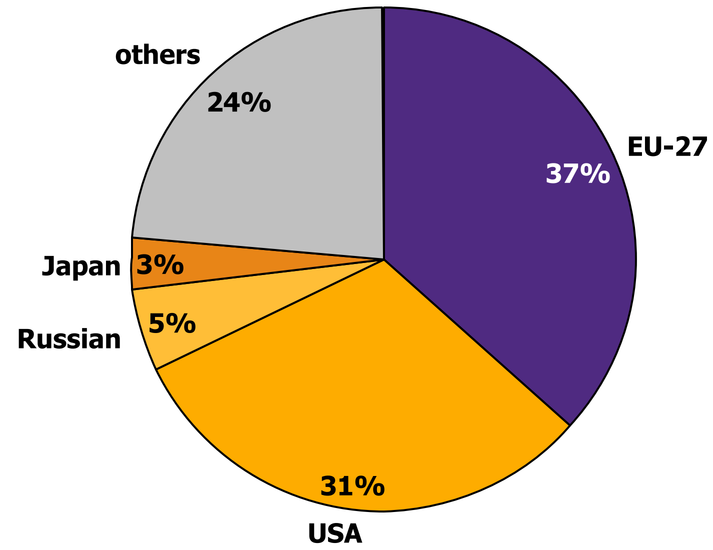
Global imports of canned pineapple

Unit: USD million



Major importers of canned pineapple

Unit: % of total import value



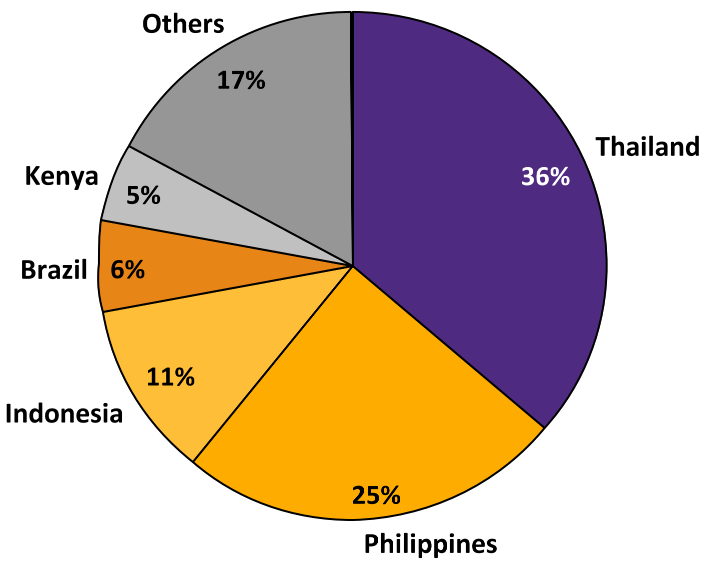
ที่มา : การวิเคราะห์โดย EIC จากข้อมูลของ Trademap

Thailand's the world's largest producer and exporter of canned pineapple

Major producer of canned pineapple

Unit: % of total production

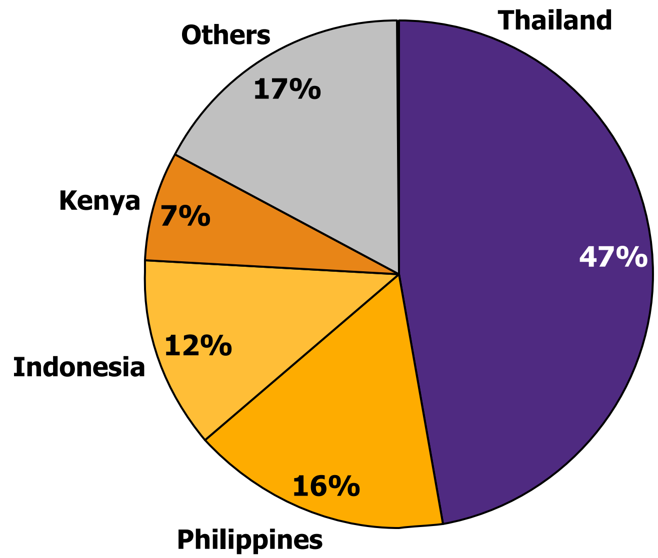
100% = 3,341,179.8 ton



Major exporter of canned pineapple

Unit: % of total export value

100% = USD 1,081 million



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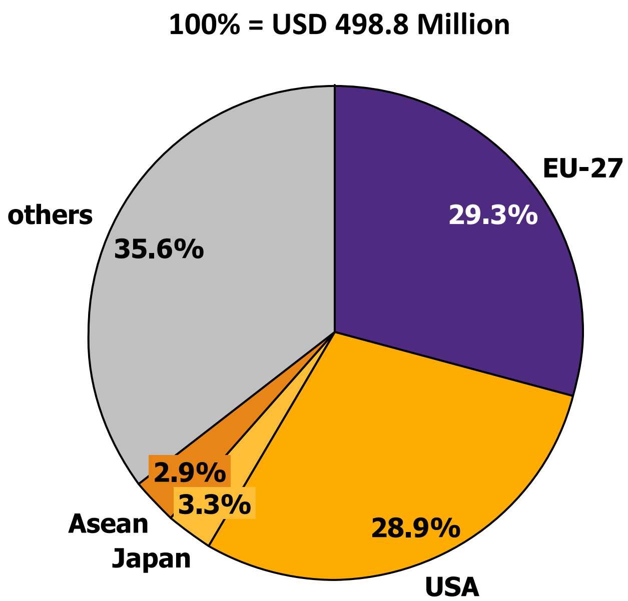
Our main export markets are EU and USA, which totally accounted for almost 60% of total export

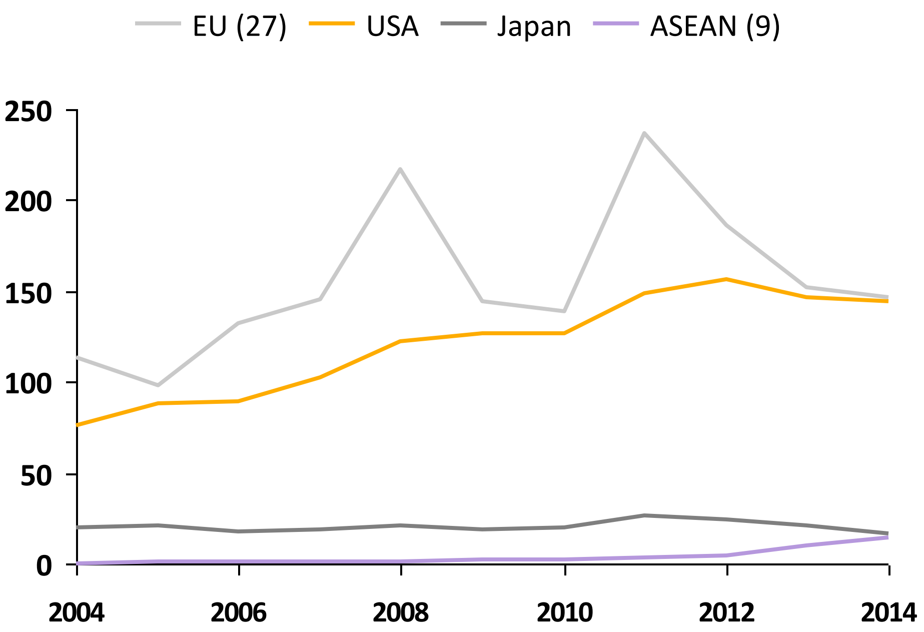
Structure of Thailand's canned pineapples export

Unit: % of total export value



Thailand's canned pineapples export value

Unit: USD million



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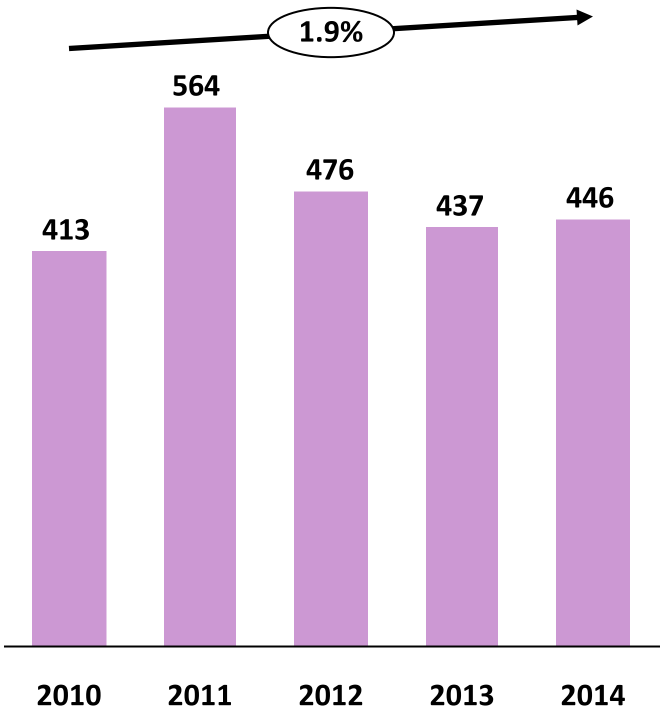
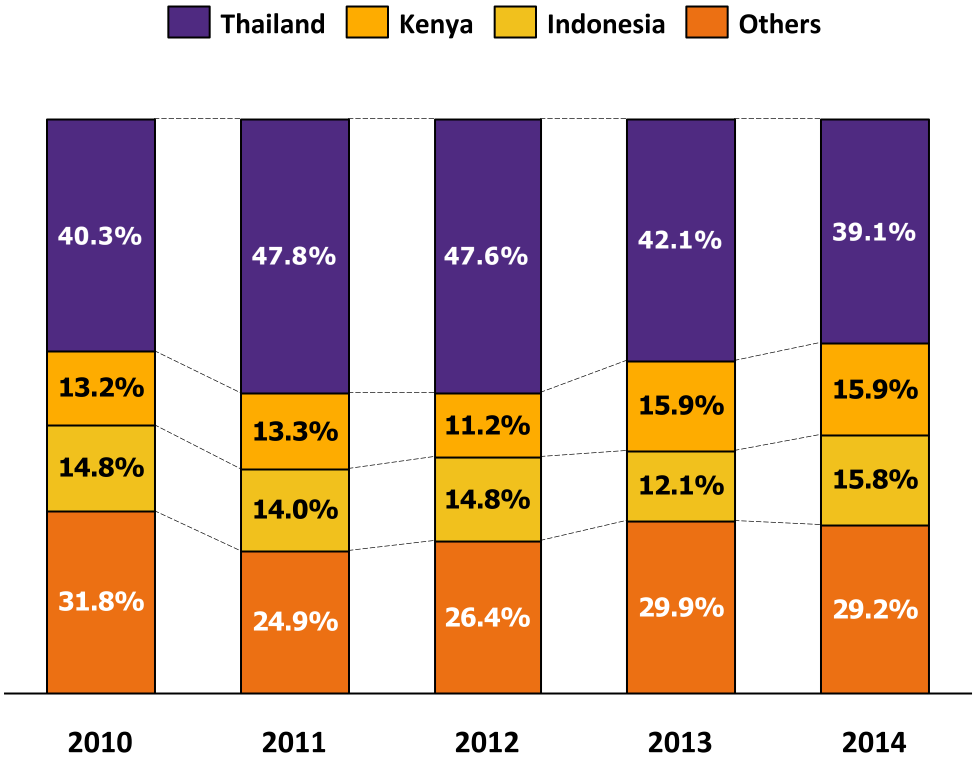
Our competitiveness in the EU is expected to continue its declining trend over the coming years

EU's import value of canned pineapple

Unit: USD million





ที่มา : การวิเคราะห์โดย EIC จากข้อมูลของ Trademap

Key challenge for exporting to the EU market is the GSP cut which will have negative impact on price competitiveness against our rivals

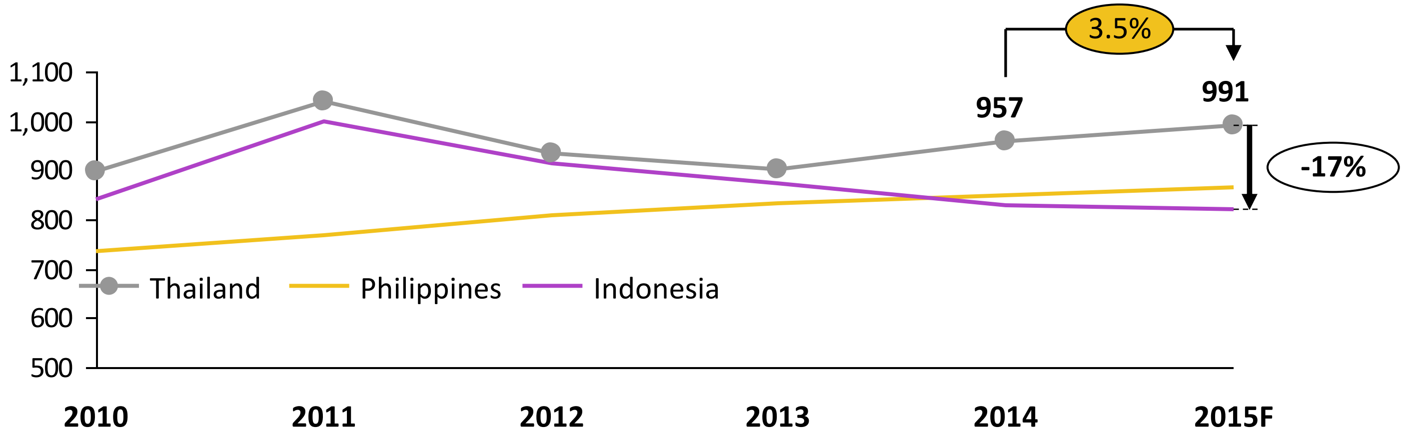
Average pineapple export to EU 2009-2013 (THB mil)	5,359.06
Average GSP utilization rate	88.32%
New Tax rate	**25.6%**
Old GSP Tax rate	22.1%
Amount effected (THB mil)	**165.7**

3.5%

Major competitors in canned pineapple market	
Indonesia	*Still receive GSP privilege*
Philippines	*Still receive GSP privilege*

Export unit value of major exporters of canned pineapple

Unit: USD/ton

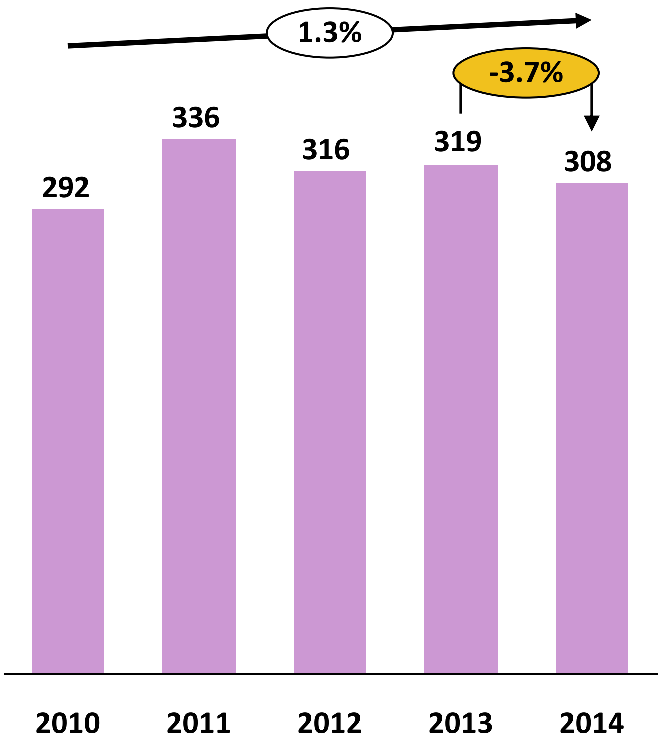


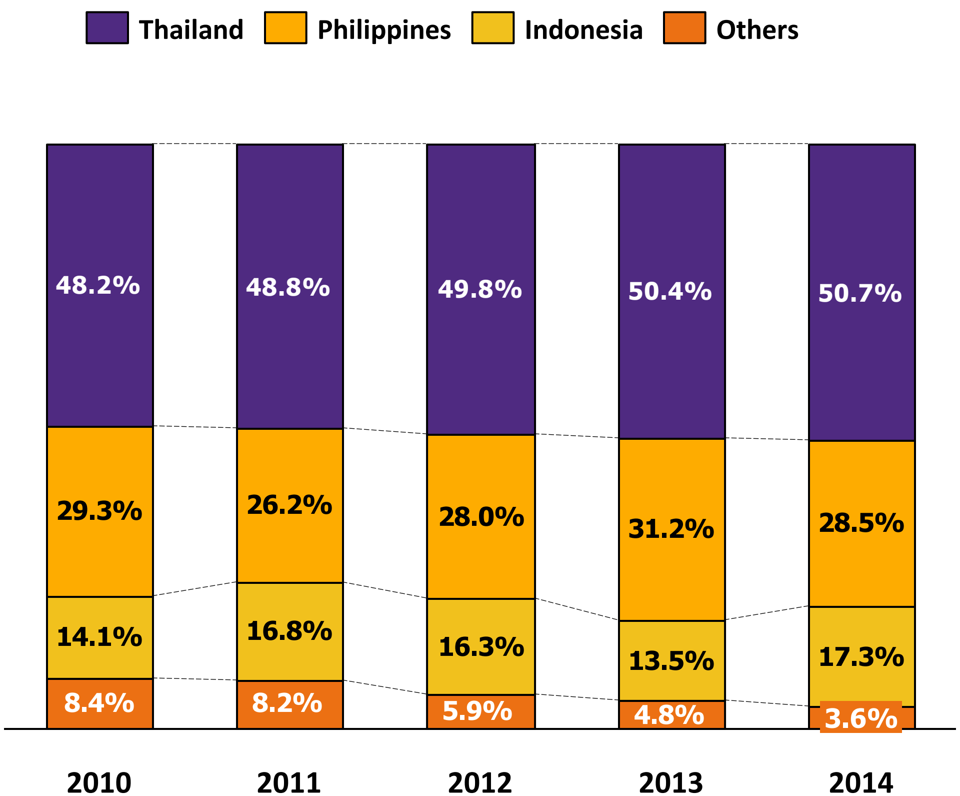
ที่มา : การวิเคราะห์โดย EIC จากข้อมูลของ Trademap

While our positioning in the U.S. market remains strong

U.S. import value of canned pineapple

Unit: USD million



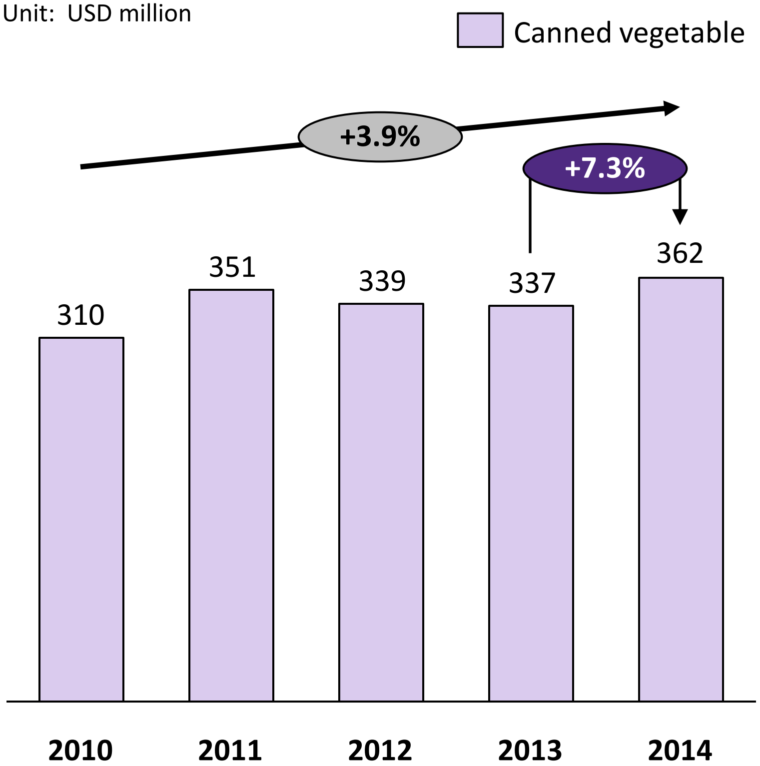


ที่มา : การวิเคราะห์โดย EIC จากข้อมูลของ Trademap

Between 2010-2014, Thailand's canned vegetable exports grow steadily at CAGR 3.9%, of which sweet corn accounted for the largest share

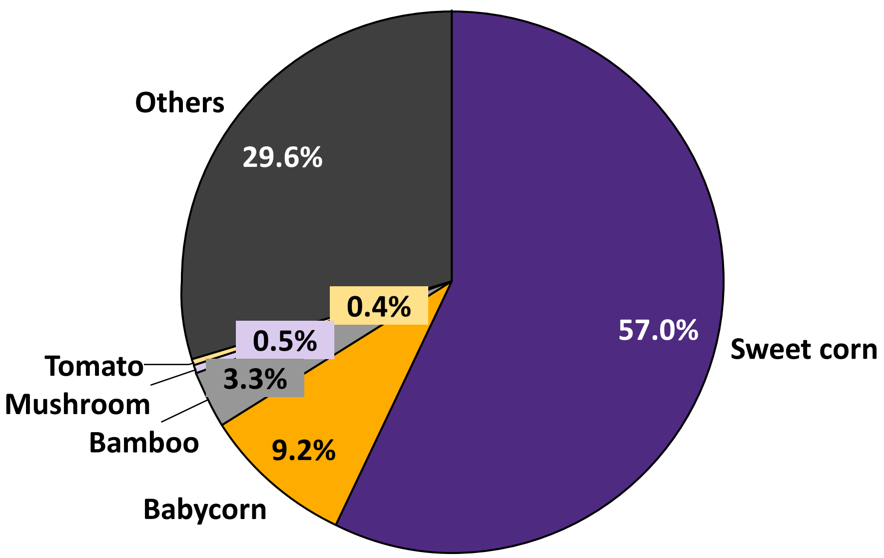
Thailand's prepared, canned vegetables export

Unit: USD million



Canned vegetables export by type

Unit: USD million



Source: EIC analysis based on data from MOC

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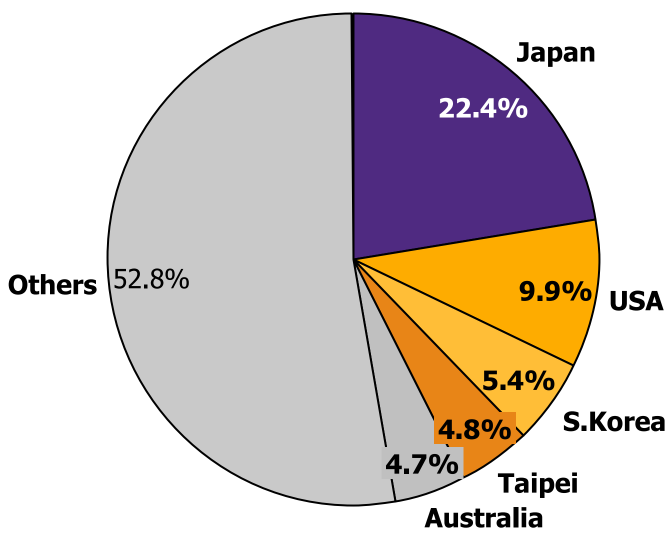
Japan is our main export destination for both canned vegetables and canned sweet corn

Thailand's export of canned vegetables by country

Unit: % of total export value

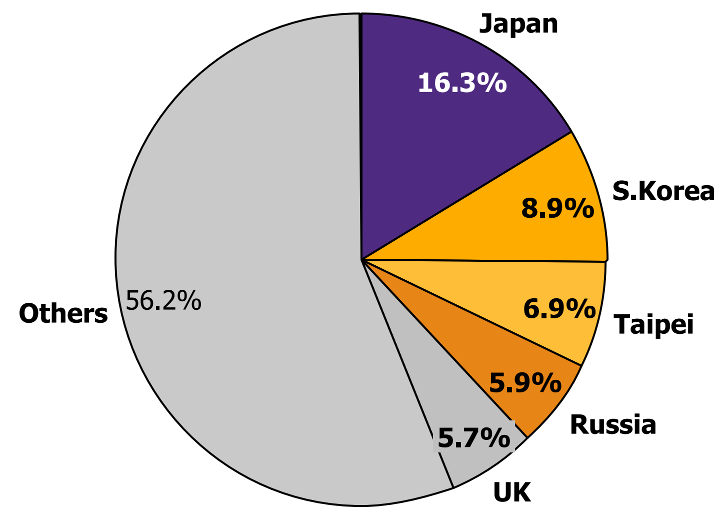
100% = USD 361.7 Million



Thailand's export of canned sweet corn by country

Unit: % of total export value

100% = USD 206.4 Million



Source: EIC analysis based on data from MOC

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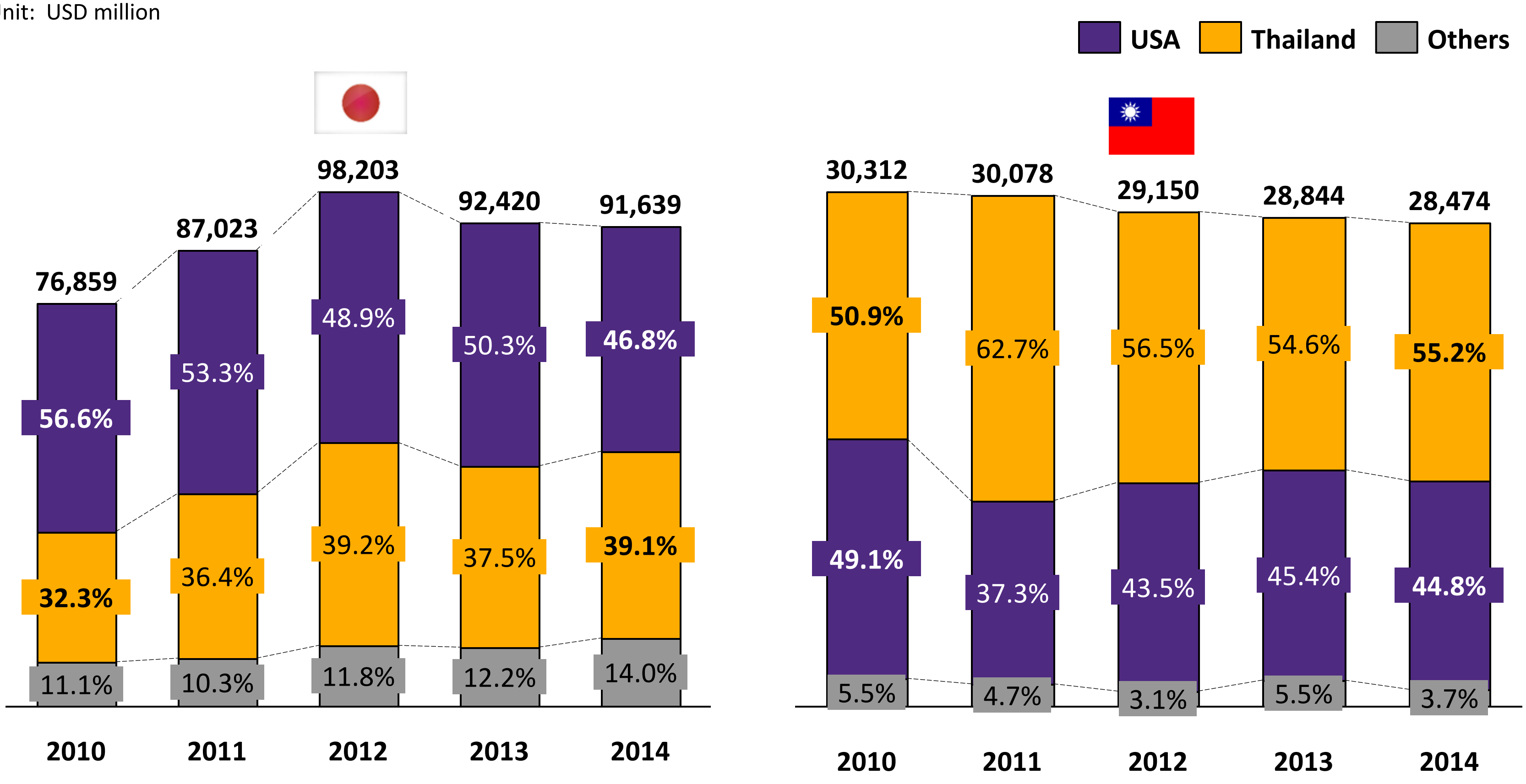
Thai canned sweet corn is driving out U.S. competition

Thailand continues to push the U.S. out of the market for canned sweet corn as both countries compete in the same markets and U.S. sweet corn is more expensive

Canned sweet corn (prepared or preserved) imported by Japan and Taipei, Chinese

Unit: USD million



Source: EIC analysis based on data from Trademap

Global demand for canned fruits and vegetables still looks promising

<u>Key driving factors:</u>

1

Rapid urbanization, rising income levels, changing food habits and growing preference for convenience food are some of the prominent factors that stimulate the global canned fruits market

- ***North America and Europe*** *dominate the global canned fruits market owing to a fast lifestyle, concern over food safety and high demand for convenience*
- ***Asia Pacific*** *will be the dominant player in the forecasting horizon*

2

Demand for steel and aluminum from the canned fruit industry is fuelled by their non-toxic and recyclable properties, which in turn lead to effective waste management

End of document

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