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Multinationals work up a thirst for Vietnam's beer

Heineken, Carlsberg and others eye Hanoi's sale of stakes in Habeco and Sabeco

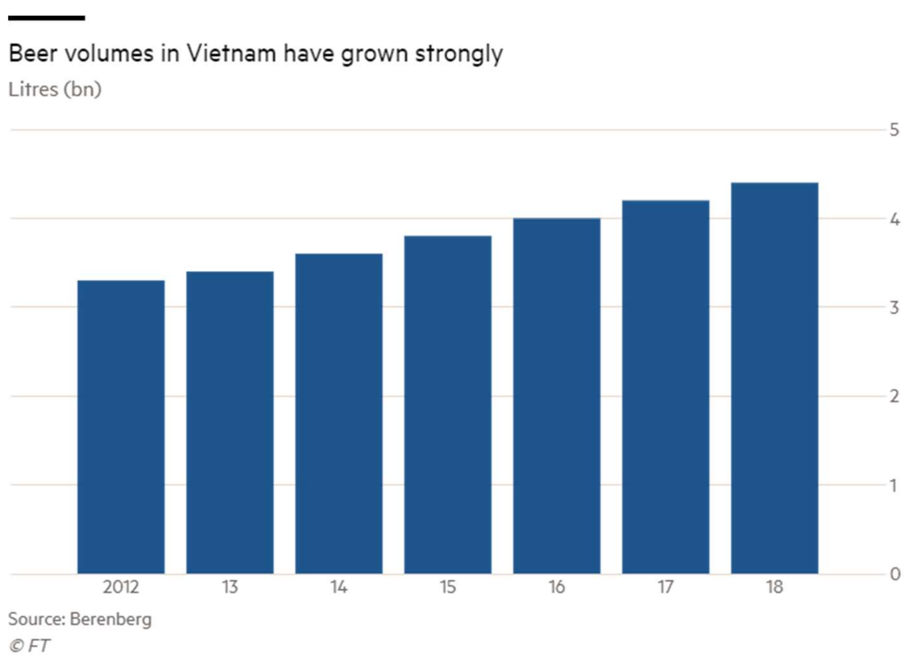
John Reed in Hanoi and Scheherazade Daneshkhu in London

Every evening, large crowds quaff lager and munch on snacks at the 1B Bac Son beer garden next to Hanoi's Ho Chi Minh museum — one of many around Vietnam, a nation of avid beer drinkers.

"It's our culture," says Nguyen Long, 40, the owner of a skincare business, hoisting a mug of draft Hanoi Beer, made by local brewer Hanoi Alcohol Beer and Beverages Corporation, or Habeco. "Maybe it's because I live in Hanoi, but I think this one tastes best."

Multinational brewers are now angling for a piece of the action as stakes in Habeco and its bigger southern rival Sabeco, based in Ho Chi Minh City, are sold by Vietnam's government, which is divesting shares in some state-owned companies.

The sell-off is hotly anticipated in the world of beer, where Sabeco and Habeco are regarded as trophy assets. According to industry analysts, international drinks executives and industry participants in Vietnam, Anheuser-Busch InBev, Heineken and Carlsberg are all keen to expand their presence in the country, as are Asian brewers ThaiBev, Asahi and Kirin.



"These are some of the most attractive beer assets globally that are not already controlled by major international brewers," says Trevor Stirling, an analyst at Bernstein. He values the government's stakes in Sabeco and Habeco at $5.3bn and $1.1bn respectively.

Vietnam's 92m people drink a lot of beer — 4.1bn litres a year — and their thirst for it is rising in tandem with an economy growing at nearly 7 per cent. Berenberg says that in per capita terms, Vietnam is the fifth largest beer consumer in Asia. According to research group Nielsen, the market for canned and bottled beer — not including draft — is worth $2bn a year, accounting for 23 per cent of Vietnam's total fast-moving consumer goods market, and growing in double digits.

"We call it a superstar category," says Cao Thi Thuy Linh, a senior executive at Nielsen.

Javier González Lastra, analyst at Berenberg, says Vietnam is "a brewer's paradise", adding. "It is one of the largest and fastest-growing beer markets globally and beer is culturally entrenched, yet per capita consumption still offers significant room for upside."

Sabeco is the most prized asset, with a market share of about 40 per cent by volume.

Heineken, which owns a 5 per cent stake in the company, has enjoyed explosive growth in Vietnam, and is the country's second-biggest brewer by sales in its own right. The Dutch group's Tiger beer and eponymous brands have benefited hugely from Vietnam's growing thirst for premium brews, helping it increase market share from 17 per cent in 2009 to 23 per cent in 2015, according to Canadean and Bernstein.

Andrew Holland, analyst at Société Générale, estimates Vietnam accounts for 10 per cent of Heineken's profits, and is its second-biggest generator of earnings after Mexico.

Habeco, in which Denmark's Carlsberg owns a 17 per cent stake, is Vietnam's third-largest beer company by sales.

The bidding process is likely to be intense, and the sale is unlikely to be completed this year as previously promised by the Vietnamese government, according to industry officials who believe it will go ahead in 2018.

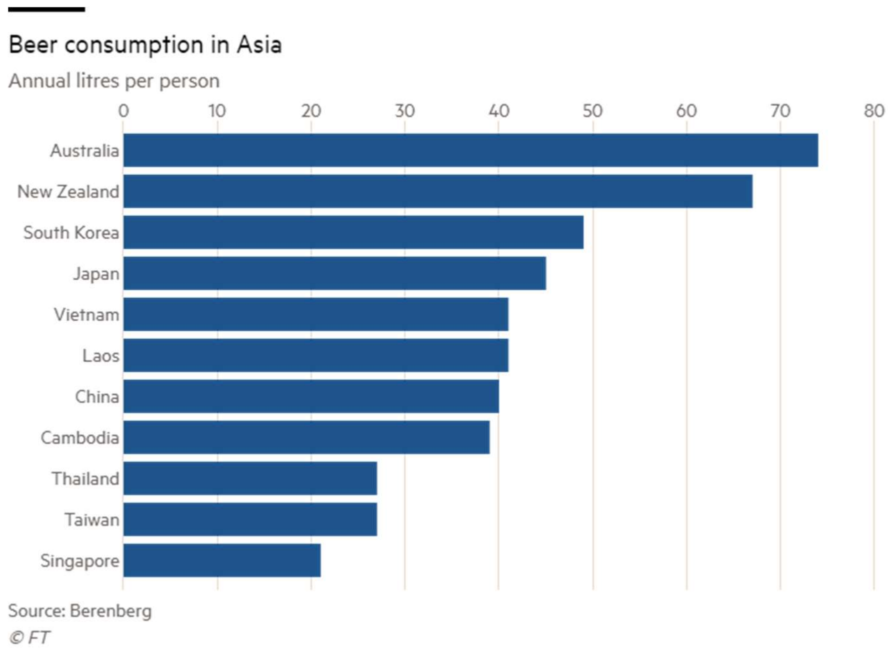
In September Sabeco's chief executive Le Hong Xanh said seven brewers had registered an interest in the sell-off of shares in the Saigon-based company.

Control will be an issue, as Vietnam's government has said it wants to hold on to about a third of shares. Industry officials say the government wants to keep some say in the business.

"The government wants to keep about 36 per cent to retain veto rights," says Phan Dang Tuat, chairman of the Vietnam Association for Supporting Industry, a think-tank, and a former chairman of Sabeco. "It's only the first phase of the sale; in the long term, they will sell it all."

Vietnam's ministry of industry and trade, which is overseeing the sale, did not respond to a request for an interview.

Carlsberg is seen as being in pole position for Habeco because of its existing stake. However, talks over the price of a controlling stake in the brewer are likely to be complex and fraught, as the Danish company has say over the entry of any new investor under the agreement through which it bought its strategic holding.



As for Heineken, competition concerns may prevent it from increasing its stake in Sabeco. The state's holding in Sabeco could, however, prove an opportunity for AB InBev, its much larger rival, to increase its presence in Vietnam, especially in the premium segment which Heineken has so far dominated.

Despite the appeal of the Vietnamese market to global brewers, industry analysts say there are downsides. SocGen's Mr Holland says: "Given how strong the growth in the beer market has been in recent years, inevitably it will have to slow as per capita consumption grows."

For Mr González Lastra, "the most obvious risk is increased regulation once the government has disposed of its interests in the industry".