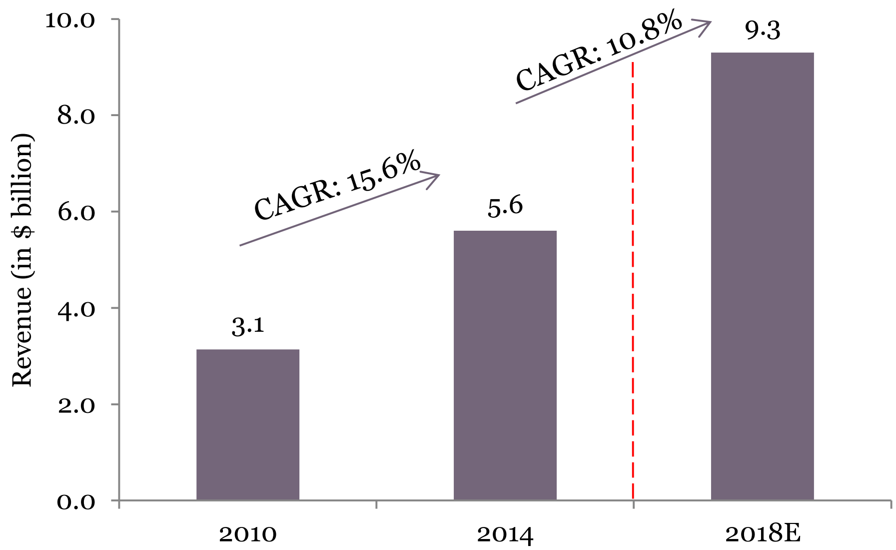
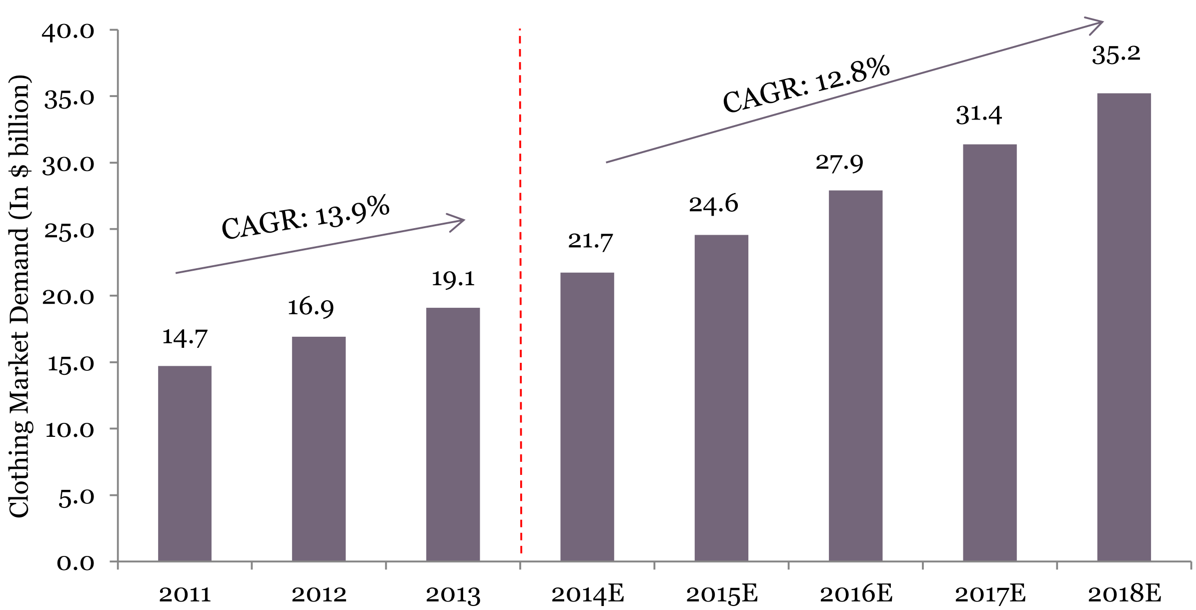
Market Overview

Vietnam's retail market is characterized as one of the most dynamic markets in the region with high annual growth rates. The Vietnamese retail apparel industry had total revenues of $5.6 billion in 2014, representing a CAGR of 15.6% between 2010 and 2014. Going forward, the performance of the Vietnamese retail apparel industry is expected to decelerate with an anticipated CAGR of 10.8% and grow to $9.3 billion by the end of 2019.



Source: Marketline

The Vietnamese clothing retail market demand grew from $14.7 billion in 2011 to $19.1 billion in 2013 at a CAGR of 13.9%. The clothing retail market demand is further expected to grow to $35.2 billion by the end of 2018, at a CAGR of 12.8%.

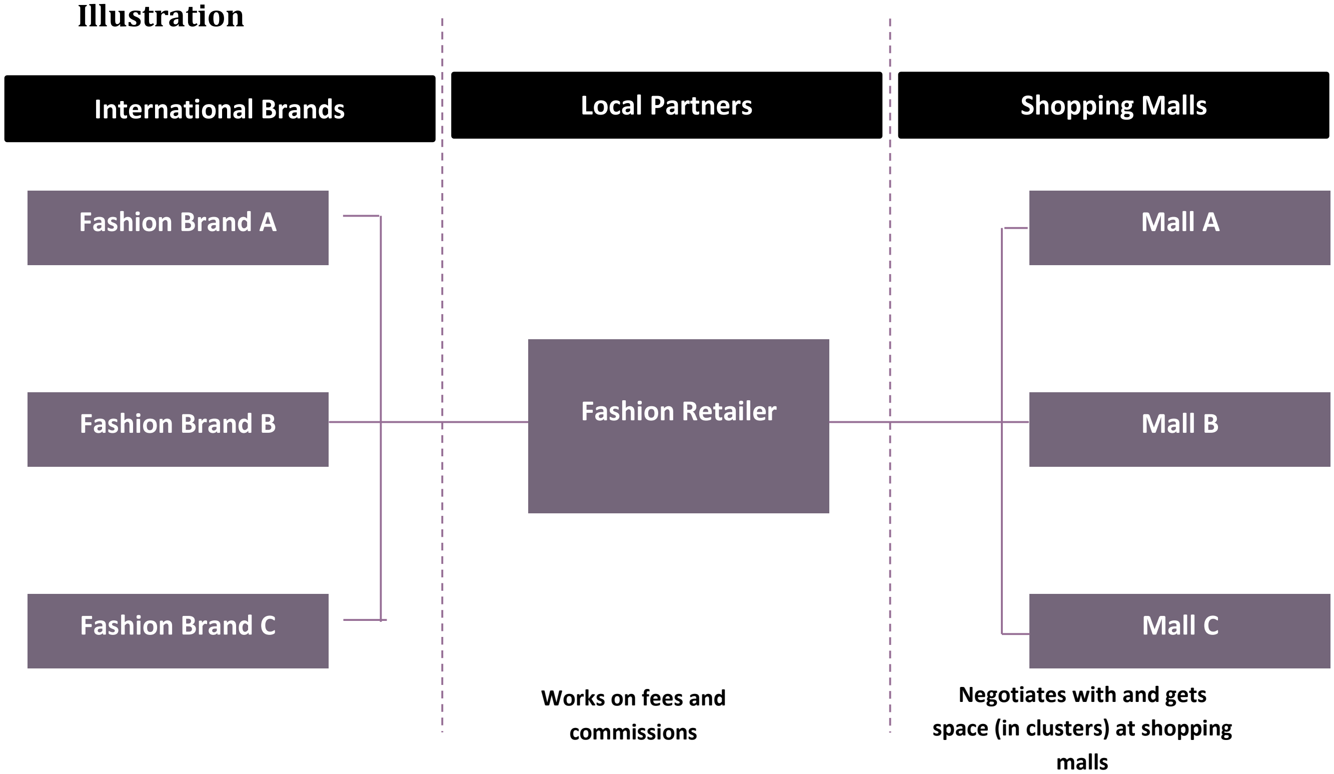


Source: Economist Intelligence Unit

Industry Dynamics

- A large number of international brands enter Vietnam through a local partner, who are responsible for the distribution of the products in Vietnam
- In emerging and mature markets such as Vietnam, it is common to rent prime retail space to brands in clusters, according to the local partner or the multinational group to which they belong. Moreover, it's usual to rent a whole retail complex to just a couple of local partners or multinational groups.
- For eg: Majority of the brands found at Icon68, are controlled by just one local Vietnamese partner, Maison JSC

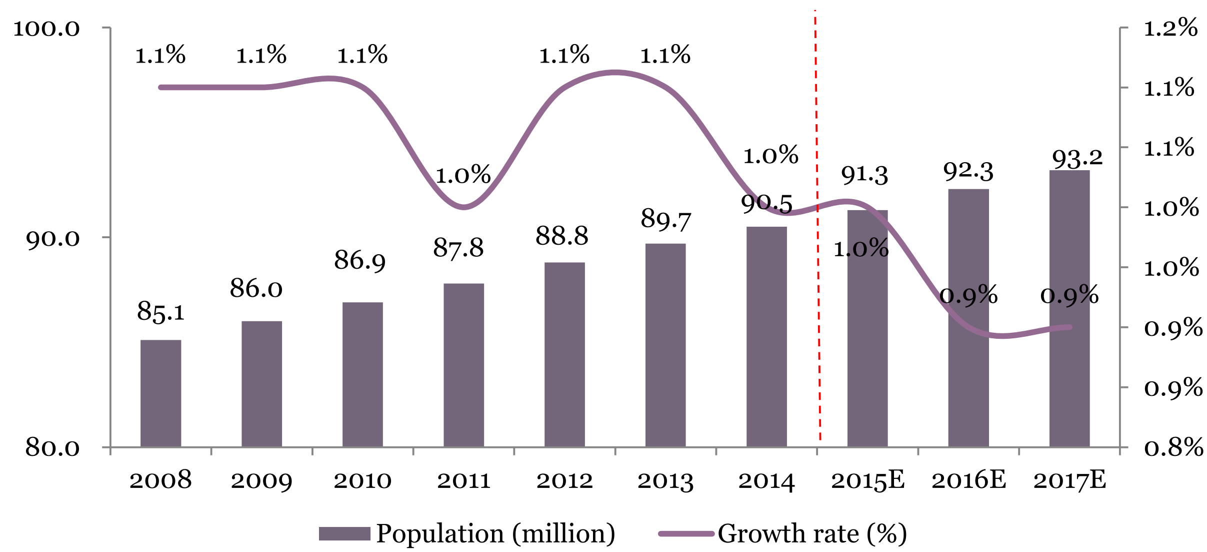
Illustration



Growth Drivers

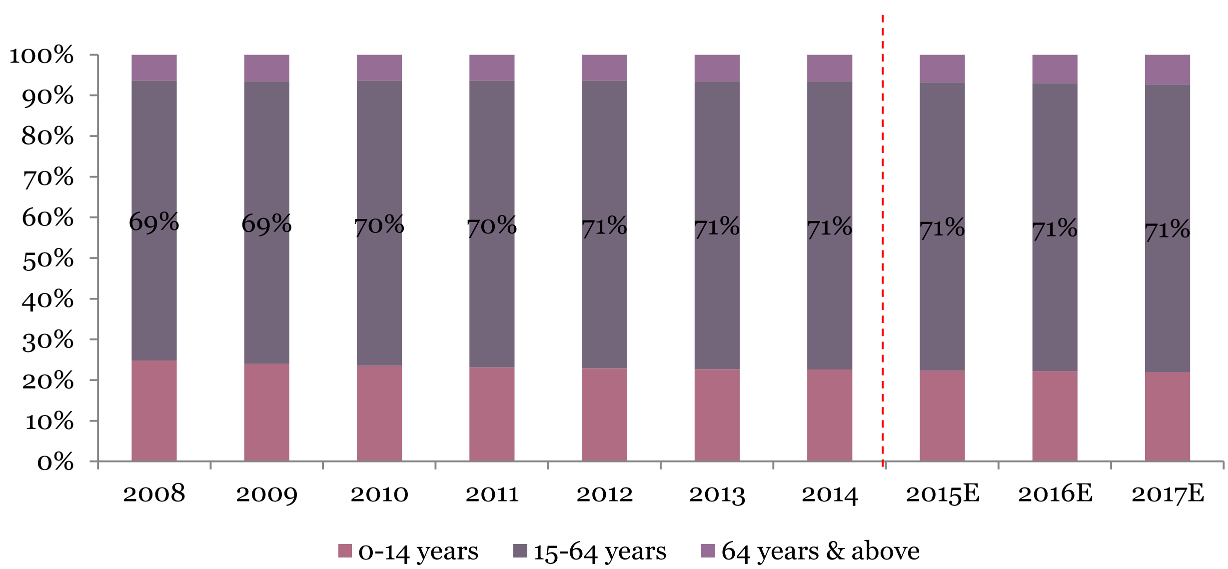
1. Population and Demographics

The population of Vietnam was approximately 90.5 million in 2014 and is expected to grow year on year at a rate of around 1.0% to approximately 93.2 million by 2017. Approximately 70.0% of the Vietnamese population comprises of young customers, which makes Vietnam a target market in the retail fashion market. The rising population is the main growth drivers for the retail fashion market.



Source: Economist Intelligence Unit

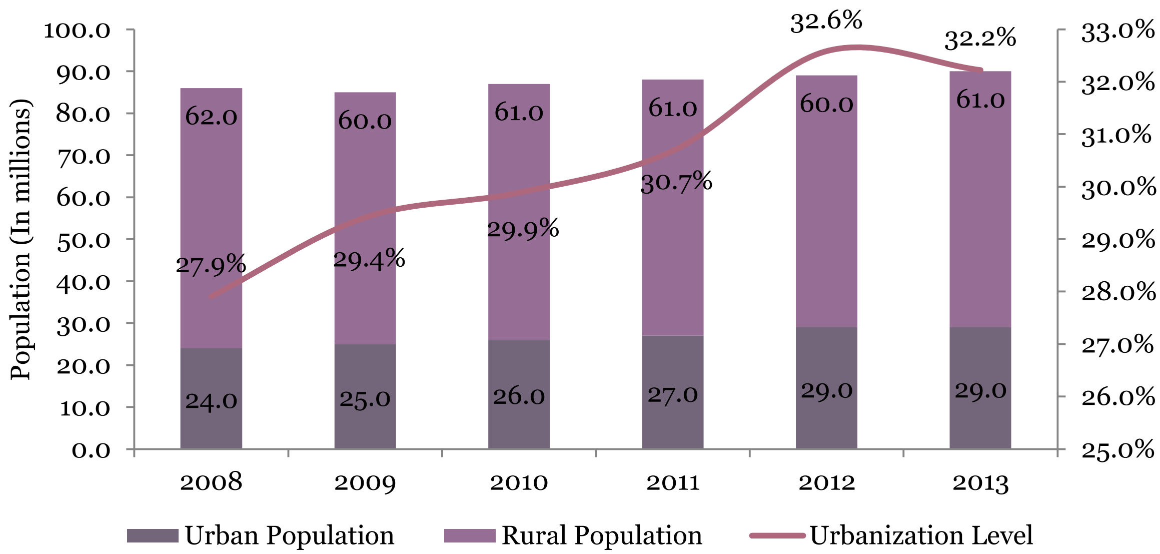
Currently, 70.8% of the population is aged between 15 and 64 years, and this will continue to rise till 2017. Increase in a younger population will spur the demand for greater choices in product and brand categories. Younger population is a growth driver of the Vietnamese retail fashion market.



Source: Economist Intelligence Unit

2. Urbanization

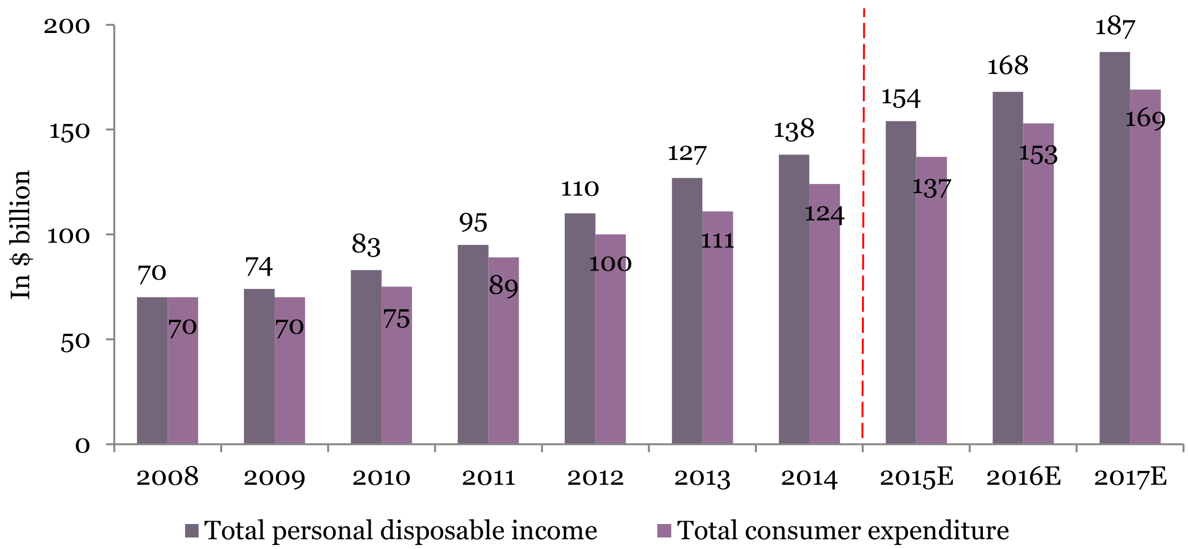
In 2013, 32.2% of Vietnam's population was concentrated in cities. This represented an increase of approximately 5.0 million (CAGR of 3.9%) since 2008. According to a draft national urban development program proposed by the Ministry of Construction, Vietnam is expected to achieve an urbanization rate of 38.0% with 870 urban areas by 2015. This is expected to increase to 45.0% with nearly 940 urban areas by 2020. Most modern trade players focus initially on setting up in urban areas, such as in and around Hanoi and Ho Chi Minh City, making access to such modern retail formats easier for the urban population than for their rural counterparts. With increasing urbanization, the modern retailer will soon have greater opportunities to extend its reach into previously untapped markets.



Source: Vietnam General Statistics Office

3. Disposable Income

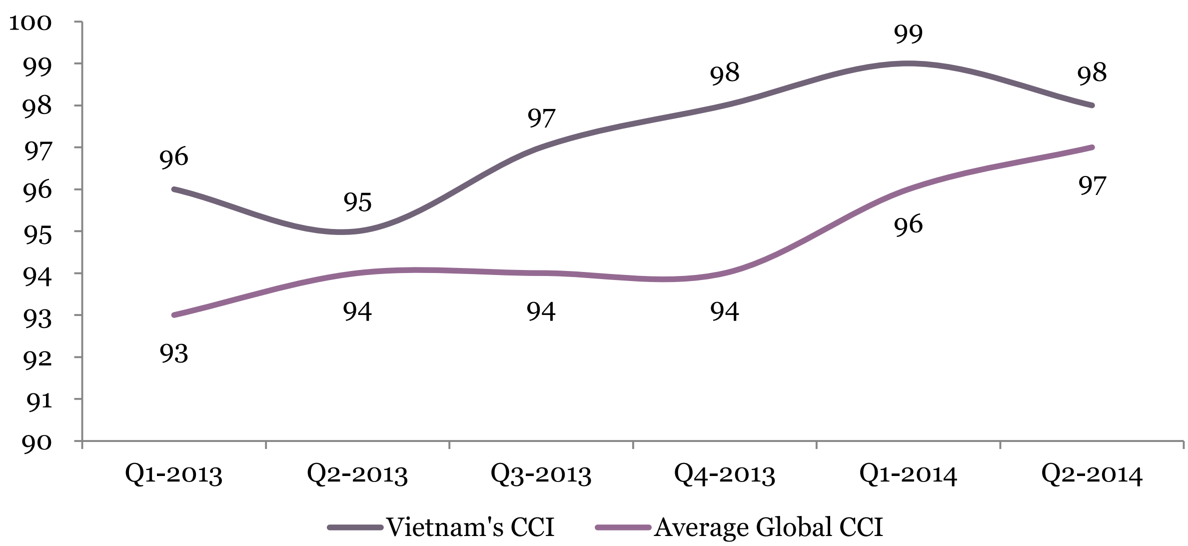
Disposable income in Vietnam has increased significantly in the last decade, and is expected to continue to grow, on the back of the government's reform policy to open the Vietnamese market to foreign investment. Since then, Vietnam has evolved into a middle-income country with a total personal disposable income of $138.0 billion and total consumer expenditures of US$124.0 billion in 2014. This increase in income will lead to a subsequent rise in purchasing power and growth in consumer retail spending. Euromonitor estimates that over the past five years ending 2012, the number of affluent households in Vietnam (those with annual disposable incomes of over $75,000) had more than doubled from 36,600 in 2007 to 81,300 in 2012. The number was projected to reach nearly 100,000 by the end of 2013.



Source: SEIKOIDEAS

4. Consumer Confidence

Vietnam's Consumer Confidence Index (CCI) improved gradually after the recession, reaching 98 points in the fourth quarter of 2013 – its highest level in the last two years. For the first two quarters of 2014, Vietnam's CCI remained well above the average global consumer confidence level, despite dropping one point in Q2 2014 from Q1 2014. Relative to neighboring countries, Vietnam recorded an index rise in the last two quarters of 2013, second only to Indonesia, while other regional peers experienced a reduction over the same period. Despite the positive outlook, Vietnamese consumers remain prudent with their spending. 85.0% of consumers have changed their spending habits to save on household expenses. In particular, spending on new clothes and entertainment outside the home are the first items to be foregone, followed by more careful use of gas and electricity.



Source: SEIKOIDEAS

5. Foreign Investments in Mall's

With the rising population and fewer barriers to trade, encouraged foreign investors are looking to invest in Vietnam to grab the opportunity. Many of the global giants in the retail sector are planning on increasing their number of shopping malls and distribution centers in Vietnam.

- Vingroup wants to open 25 new shopping malls in Vietnam in 2015
- Central Group (Thailand) plans to open 2 shopping centers in Vietnam in the coming years
- AEON (Japan) plans to open 20 shopping centers and supermarkets in Vietnam by 2020

The increasing number of shopping malls in Vietnam will help the retail industry in Vietnam to grow.

Policies in Support of Retail Development

World Trade Agreement

- Foreign investors have been allowed to own 49.0% of capital in joint ventures since 2008
- In early 2009, fully foreign-owned companies could also be established and were allowed to operate in the market independently, leading to the entrance of many foreign retail outlets
- In addition, under the WTO agreement, Vietnam will allow foreign retailers to set up businesses with 100% foreign capital from January 2015
- With their rich experience, abundant capital and structured modern operating methods, international retail groups have gained increasing popularity in the market and brought on intense competition for the domestic retailers, pressuring the latter to modernize in order to contend with the new players

Trans-Pacific Partnership

- The TPP agreement contains measures to lower trade barriers such as tariffs, and establish an investor-state dispute settlement mechanism
- The TPP agreement will help enhance trade and investment among the TPP partner countries, to promote innovation, economic growth and development, and to support the creation and retention of jobs
- Vietnam is currently undergoing negotiation to participate in the Trans-Pacific Partnership (TPP).
- If Vietnam does participate, competition between domestic and foreign retailers will likely take place on a more equal footing
- In addition, Vietnam is expected to experience an influx of retailers from Japan, South Korea and Thailand
- Large developers, such as AEON Mall, Central Group, and CJ Group, have expressed great interest and have gradually begun expanding their presence and announcing long-term plans for the market

Free-Trade Agreements (FTA's)

- Vietnam has participated in a number of FTAs such as:
  - ASEAN-China Free Trade Agreement
  - ASEAN-Korea Free Trade Agreement
  - ASEAN-Japan Comprehensive Economic Partners
  - ASEAN-Australia-New Zealand Free Trade Agreement
  - Vietnam-Japan Economic Partner Agreement
- The above listed FTA's may impact the Vietnamese retail market due to tariff commitments, for example, when companies are allowed to take advantage of lower or zero tariff rates
- This arrangement allows companies to manufacture goods in Vietnam and export them to neighboring countries where manufacturing costs would have been higher
- This helps boost export sales of Vietnam

Economic Needs Test (ENT)

- Currently, a foreign retailer must obtain a business licence, which entitles it to open a single retail outlet
- Opening additional outlets will subject it to the ENT. During the ENT process, the licencing authority will examine the compatibility of the project with the population density, number of retail outlets and market stability in the district, as well as the district's Master Plan and scale
- However, as of June 2013, a provision was made to provide ENT exemption for foreign investors looking to establish additional retail outlets of 500 square meters or less in an approved area and completed infrastructure. Whilst foreign investors are still required to obtain a business license for additional retail outlets, provision provides great improvement in the process and a significant development in attracting foreign investors