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HONG KONG F&B INDUSTRY: WHAT'S TRENDING AND SHIFTING

Prepared by Nielsen
August 2019

AGENDA

(1) MACRO & FMCG OVERVIEW

(2) BEVERAGE

(3) FOOD

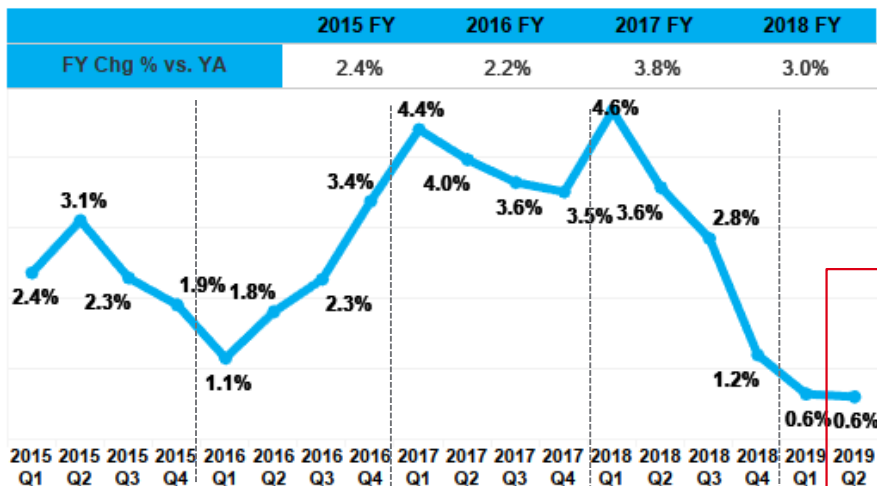
(4) E-COMMERCE

(5) SUMMARY

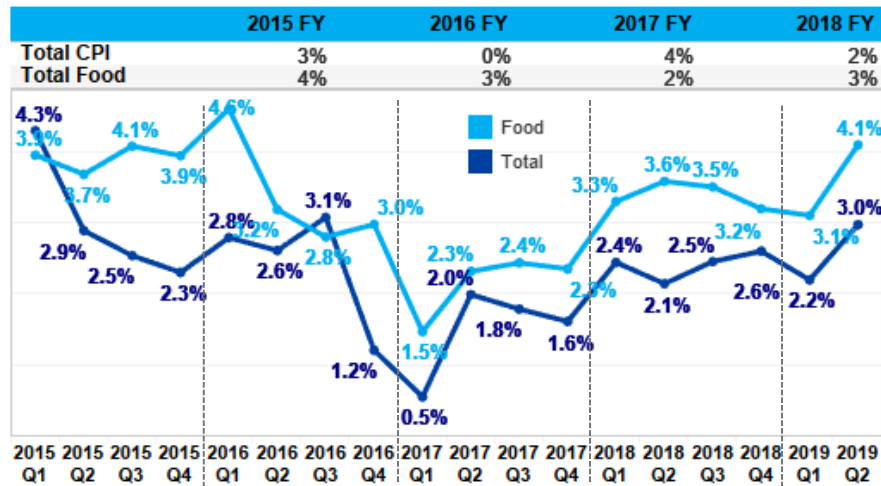
MACRO LANDSCAPE

GDP GROWTH HAS YET TO SEE IMPROVEMENT, FACED WITH CONTINUED DROP IN CONFIDENCE & DECLINING RETAIL SALES IN FIRST HALF

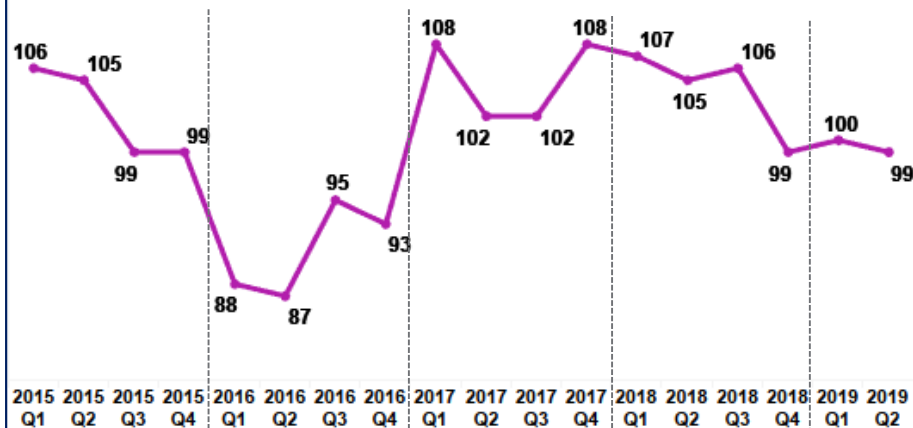
GDP Growth



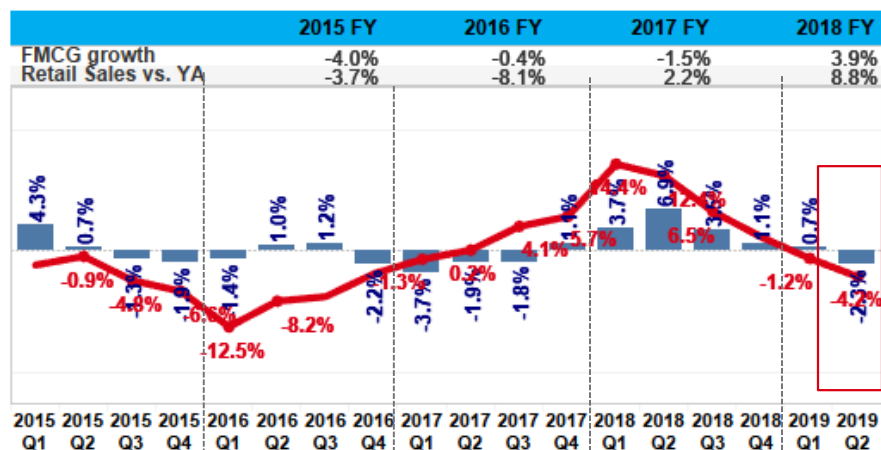
Consumer Price Index



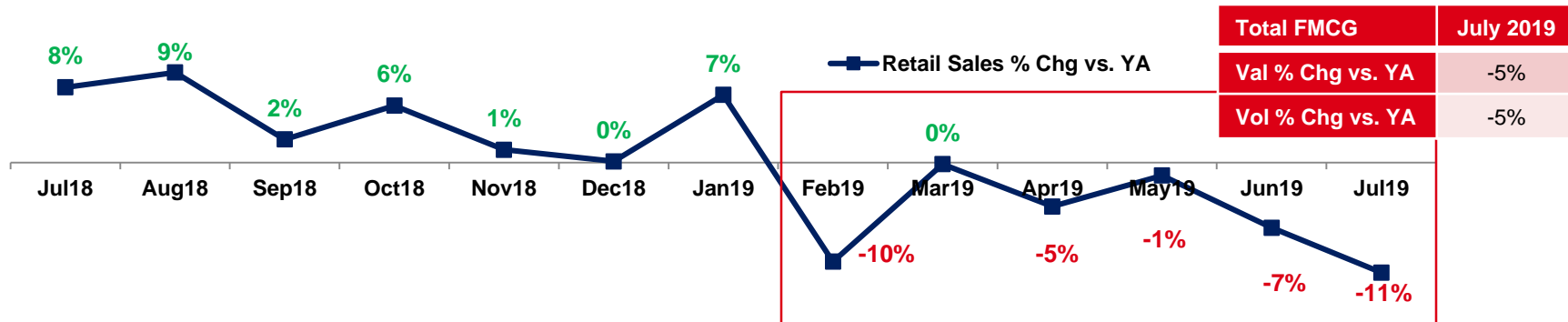
Consumer Confidence Index



Retail Sales vs. FMCG Sales Growth (%)



WITH RETAIL SALES TAKING FURTHER HIT IN JULY 2019 ADMIST POLITICAL UNREST, FOLLOWING SUFFERING SALES WITH NEW ECOM LAW & TRADE WAR PRESSURES FROM FIRST HALF



“US-China trade war continues to bite as Hong Kong retail and tourism sectors take a hit”

“Mainland’s new e-commerce law which came into force on Jan 1 will also affect the “daigou” market”

“The Hang Seng Index fell 1.7% at the close, with local property developers among the biggest losers.”



<https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3012628/us-china-trade-war-continues-bite-hong-kong-retail>

Source (retail sales): HK Census & Statistics Department



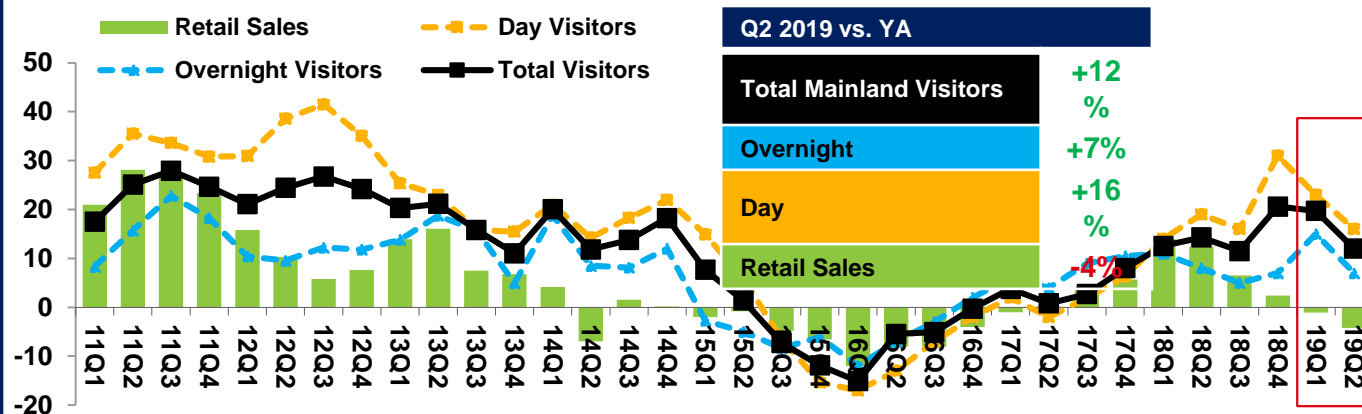
<http://www.thestandard.com.hk/breaking-news.php?id=121165&sid=2>



<https://www.straitstimes.com/asia/east-asia/hong-kong-protests-send-stocks-lower-spark-scramble-for-cash>

DOWNTURNING TREND IN ARRIVALS, WITH JULY SUFFERING FURTHER IN TOTAL RETAIL. CONSUMER DURABLES / BIG TICKET ITEMS / DEPARTMENT SAW WORST DECLINE IN RETAIL

Retail Sales & Mainland Visitor Arrivals (Day & Overnight) - % Change vs. YA

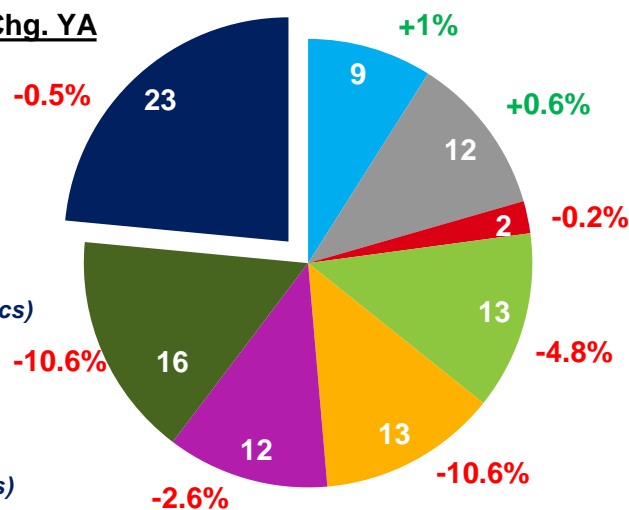


Retail Sales & Arrivals JUL 2019 vs. YA

Mainland Visitors	-6%
Overnight	-5%
Day	-6%
Retail Sales	-11%

HK Retail Sales Breakdown – Q2 2019 and Val % Chg. YA

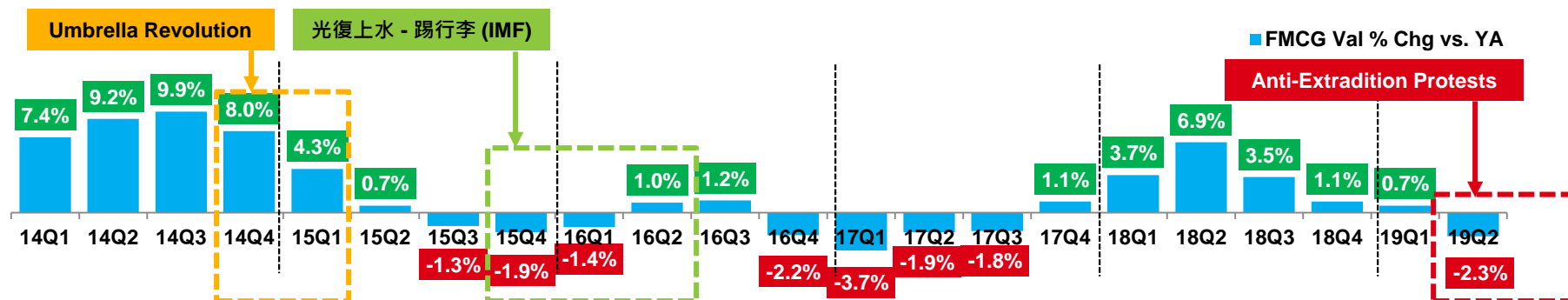
- Food, Alcoholic Drinks and Tobacco
- Supermarkets (*SMKT + CVS*)
- Fuels
- Clothing & Footwear
- Consumer Durable Goods (*Motor, Furniture, Electronics*)
- Department Stores
- Jewellery, Watches, Valuable gifts
- Other Consumer Goods (*Books, Chinese medicine, Optical, Medicine & Cosmetics*)











Val % Chg: JUL 2019 vs. YA

Food / Alcoholic	-2%
Supermarkets	+1%
Fuels	-0%
Clothing / Foot	-13%
Consumer Durable	-13%
Department	-10%
Jewellery // watch	-24%
Other Goods	-10%
- Med & Cosmetics	-16%

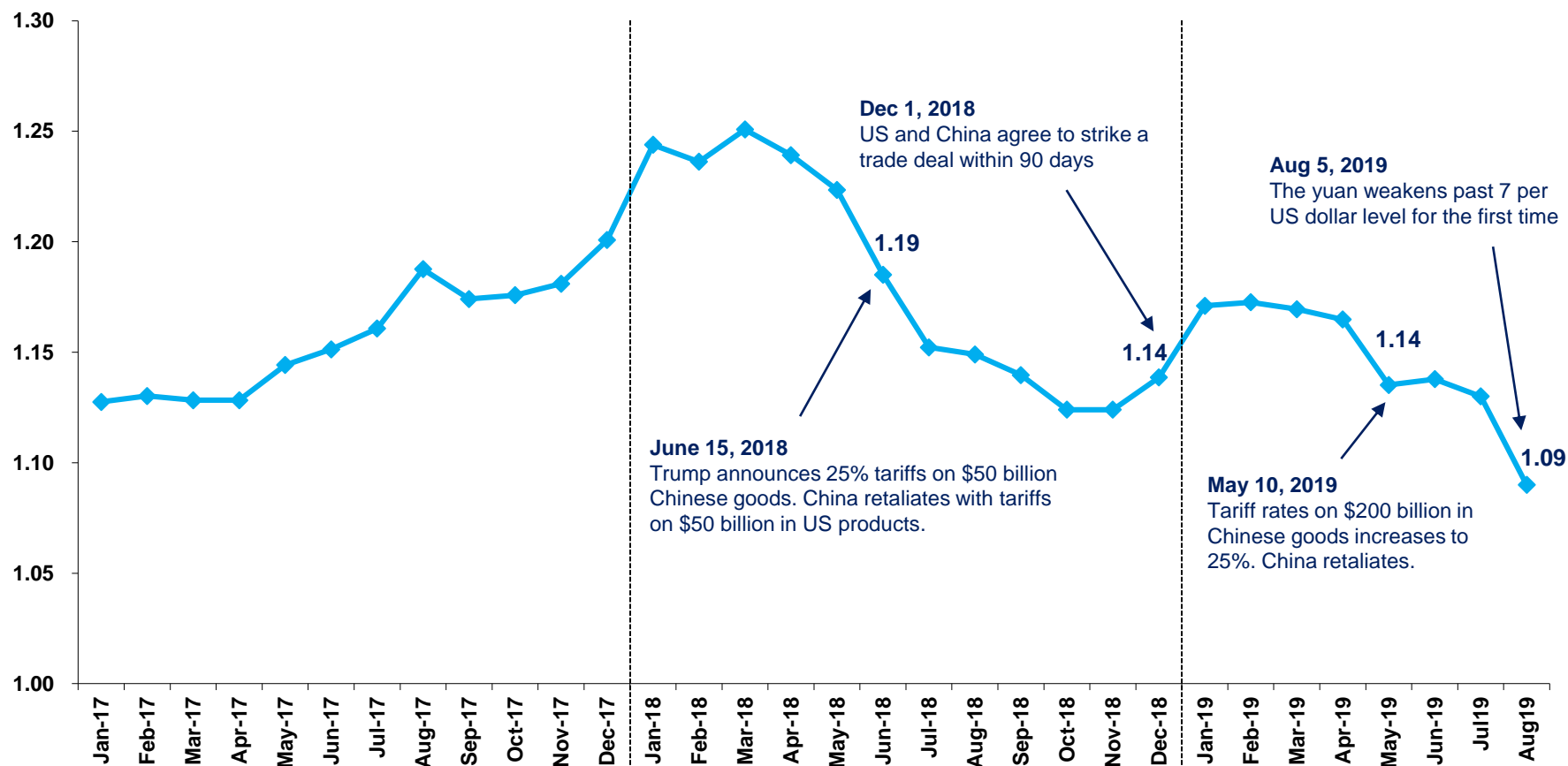
COMPARED TO 2014 REVOLUTION, JULY PROTESTS HIT MARKET DEEPER ON ALL ASPECTS GIVEN SCALE & NATURE OF PROTESTS, REBOUND LESS LIKELY TO OCCUR AS QUICKLY THIS TIME AS PREVIOUS EVENTS



Major macro indicators		Umbrella Revolution Oct 2014 – Dec 2014	Anti-Extradition Protests May 2019 – July 2019
	GDP growth rate / forecast	+2.6	-0.6% (Q3 2019 forecast)
	Total Retail Sales – vs. YA	+0.2%	-6%
	Mainland Tourist Arrivals – vs. YA	+18%	+9%
	Exchange Rate (CN/HKD)	1.24 (ending Dec 2014)	1.13 (ending July 2019)
	Hong Kong CCI	107 (Q4 2019 for reference)	99 (Q2 2019 for reference)
	FMCG Index – Value % Chg vs. YA	+7.5%	-3.7%
	Fastest growing - Val % Chg vs. YA	Cleansing mask // Facial Mask	Frozen Meat // Frozen Seafood
	Fastest declining – Val % Chg vs. YA	Lighting Device // Energy & Sports Drink	Cleansing mask // Infant Diapers // IMF

TRADE WAR ACTIVITIES ALSO AFFECTED EXCHANGE RATE UNFAVORABLY, EVIDENTLY SHRINKING TOURIST SALES

Exchange Rate (CN/HKD)- Monthly



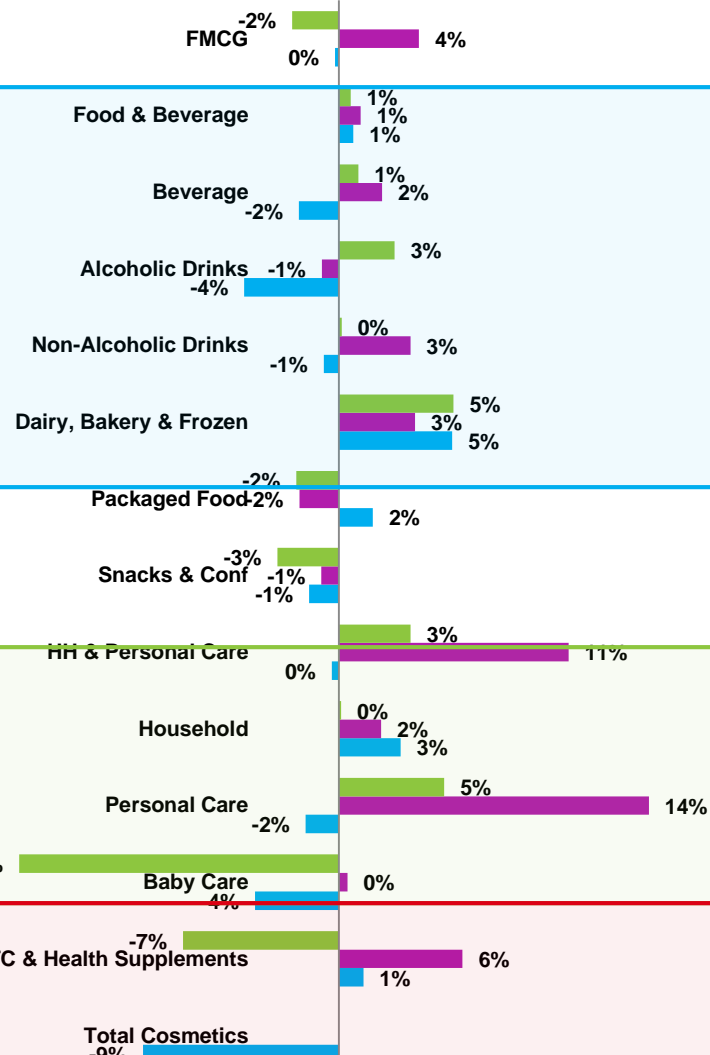
<https://www.cnbc.com/2019/08/16/rmb-how-the-chinese-yuan-might-perform-in-us-china-trade-war.html>

Source: Census & Statistics Department, China

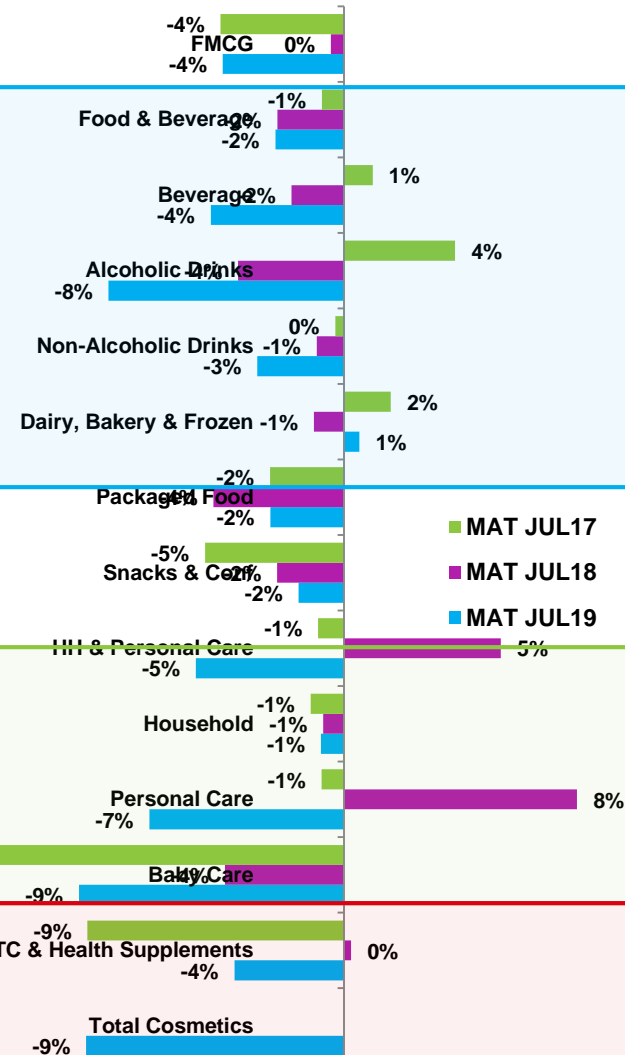
<https://cn.investing.com/currencies/cny-hkd-historical-data>

FMCG INDEX (MAT JUL 2019)

Value % Change vs. YA



Volume % Change vs. YA



*Total Cosmetics is not included in FMCG

BEVERAGE

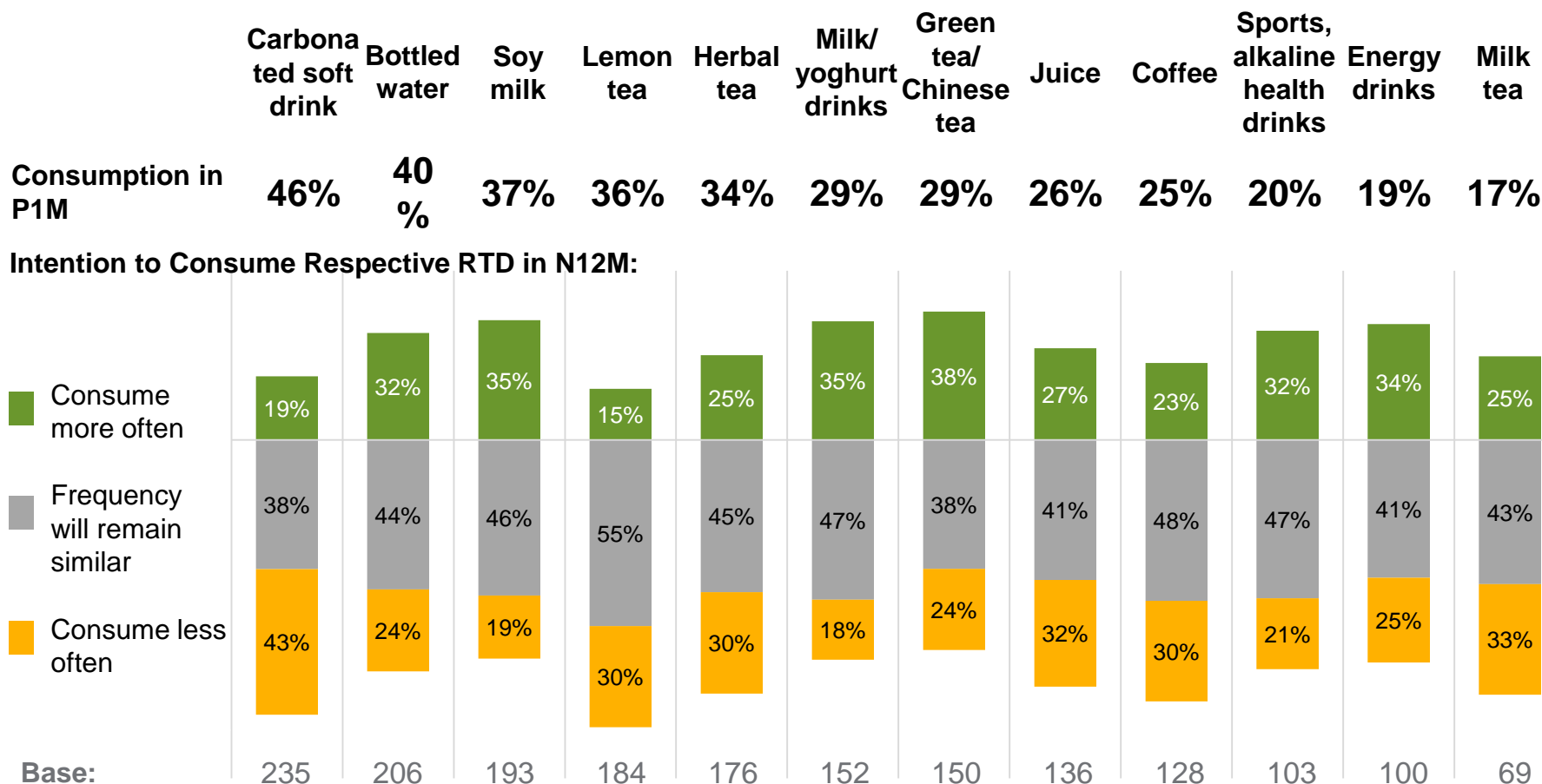
PACKAGED WATER, EHS, & SOYA DRINK SHOWED SALES INCREASE ACROSS 2 PERIODS

Prolonged and consistent weekly demonstrations across Hong Kong resulted in sharp sales surges

	Jun-Jul19 vs YA % chg	Jul19 vs LM % chg
TOTAL BEVERAGE	-7.3% ↓	8.3% ↑
TOTAL Non-Alcoholic Beverage	-4.7% ↓	14.5% ↑
Carbonated Soft Drink	-9.8%	8.4%
Energy & Sports Drink	2.6% ↑	33.0% ↑
Flavoured Water	-83.4%	-15.8%
Instant Coffee	16.7%	-11.6%
Juice	-5.3%	8.0%
Juice Drink	-17.7%	8.2%
Packaged Water	0.1% ↑	11.1% ↑
Ready To Drink Coffee	-2.5%	31.0%
Ready To Drink Malt Drink	36.1%	-0.5%
Ready To Drink Tea	-8.5%	12.3%
Soya Drink	11.6% ↑	4.4% ↑
Tea	4.1%	-17.7%
Wellness Drink	-7.2%	34.3%
Yoghurt Drinks	-11.5%	6.0%
TOTAL Alcoholic Beverage	-13.5% ↓	-7.0% ↓
Beer	-7.7%	6.9%
Brandy	-14.1%	-15.4%
RTD Alcoholic Drinks	-35.3%	5.9%
Total Wine	-6.8%	-9.6%

CARBONATED SOFT DRINK IS THE HIGHEST-CONSUMING READY-TO-DRINK BEVERAGE HOWEVER IT IS EXPECTED TO HAVE A DECLINING TREND. CONSUMERS CONSIDER HEALTHIER AND LIGHTER OPTIONS SUCH AS SOY MILK, YOGURT DRINKS AND TEA.

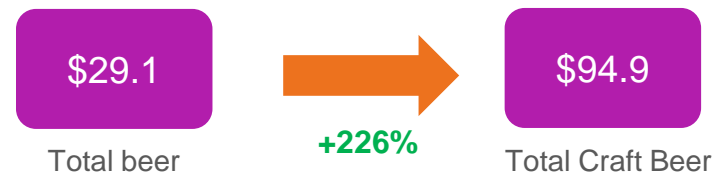
READY-TO-DRINK BEVERAGE



WAYS OF WINNING: BEVERAGE

Premium: brewed in small batches

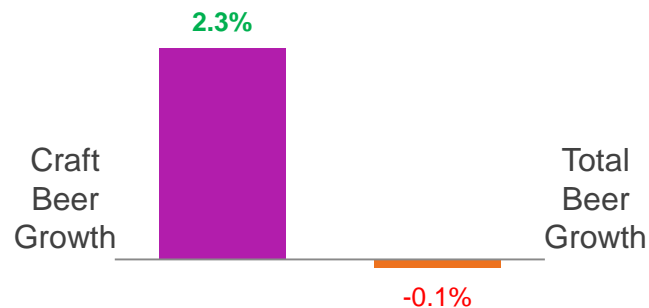
Price premium



Total Craft Beer: +2% vs YA
Gwei-lo: +137% vs YA
Hong Kong Beer: +405% vs YA

Premiumization by tapping into consumers looking for a more unique beer w/ a modern & stylish “look & feel”

% Value Chg vs YA



WAYS OF WINNING: BEVERAGE

Innovation:
Zero sugar + Fibre



Total Softdrink: -3% vs YA
Total Coke Plus: +209% vs YA

Innovation with premiumization by
tapping into health conscious
consumer market

Pack type:
larger to smaller can



Total Energy: +6% vs YA
Total Monster 355ml: +23% vs YA

Downsizing from 473ml to 355ml
while maintaining stable avg \$/L

WAYS OF WINNING: BEVERAGE

Packaging design: Fun & Nostalgic/ Interactive/ Relevant

Local



“Hong Kong theme” is a popular trend welcomed by consumers.
Giving a feeling of “fun” & “nostalgia”

Interactive packaging using technology (VR/ QR code) while cooperating with non FMCG industries

International

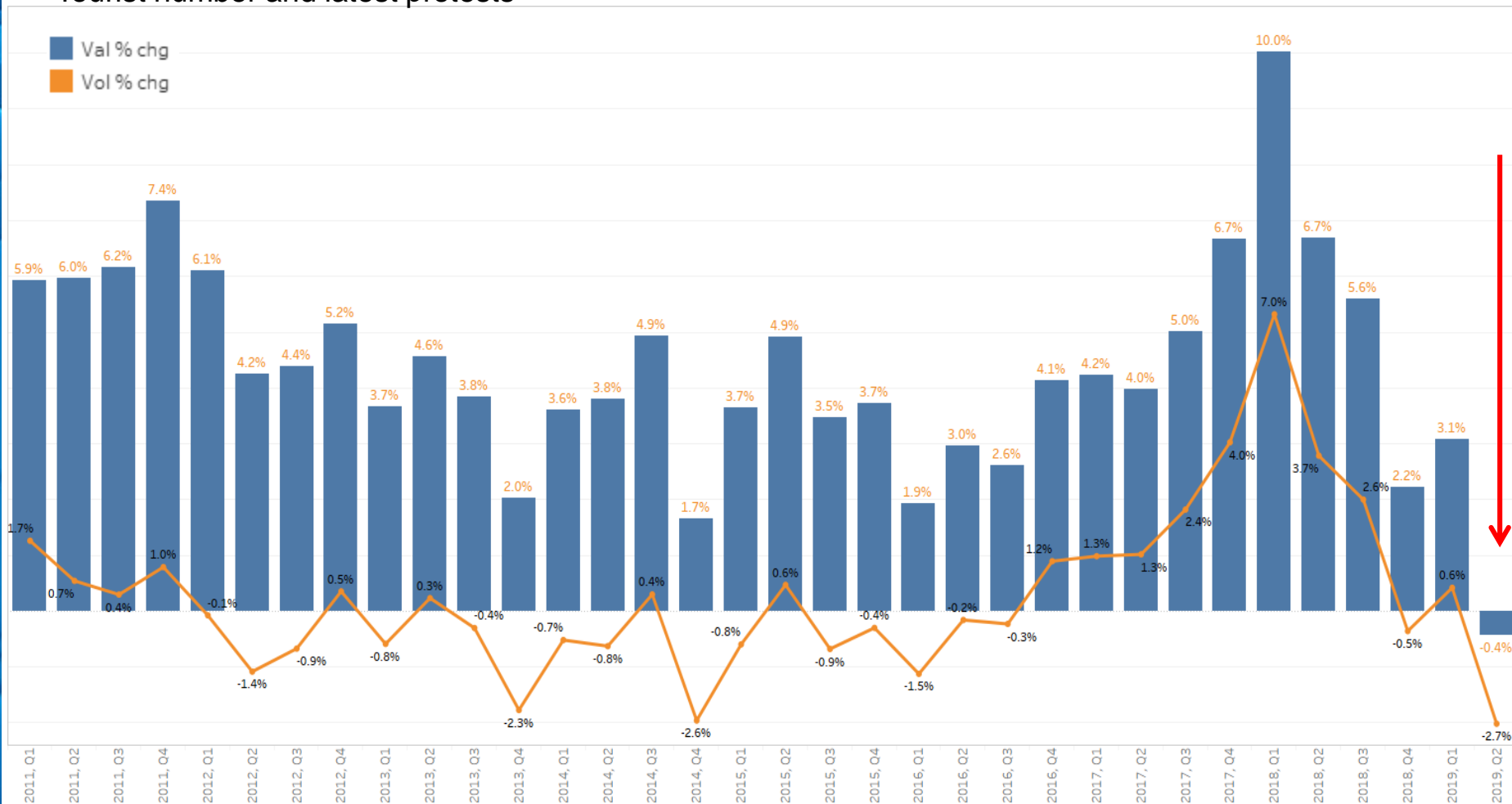


Designs related to big events: sports or festive season

FOOD

FIRST DECLINE ON TOTAL RESTAURANT RECEIPTS VALUE IN PAST 10 YEARS

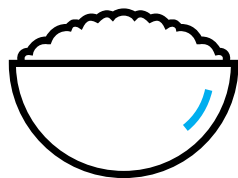
Impacted by economic downturn since mid-2018, and further dragged by reduction in Mainlander Tourist number and latest protests



Source: Distribution and Services Statistics Section, Census & Statistics Department, HKSAR

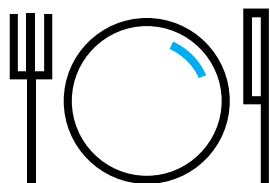
http://www.censtatd.gov.hk/products_and_services/products/publications/statistical_report/commerce_and_industry/index_cd_B1080002_dt_latest.jsp

SHIFTING TOWARDS MORE CONVENIENT AND COST-EFFECTIVE OPTIONS



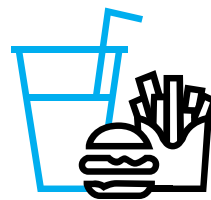
CHINESE RESTAURANT

Value: -2.1%
Volume: -4.4%



NON-CHINESE RESTAURANT

Value: -1.7%
Volume: -3.7%



FAST FOOD

Value: +3.1%
Volume: +1.9%



BAR

Value: -4.4%
Volume: -5.5%

Latest Release: 06/08/2019

WHILE PEOPLE ARE DINING AT HOME, IT DOESN'T TOTALLY TRANSLATE TO IN-HOME COOKING

Usage of Delivery Service via Restaurant vs. Aggregators

Usage of Aggregators



68%

Ordering Delivery via
Restaurant



50%

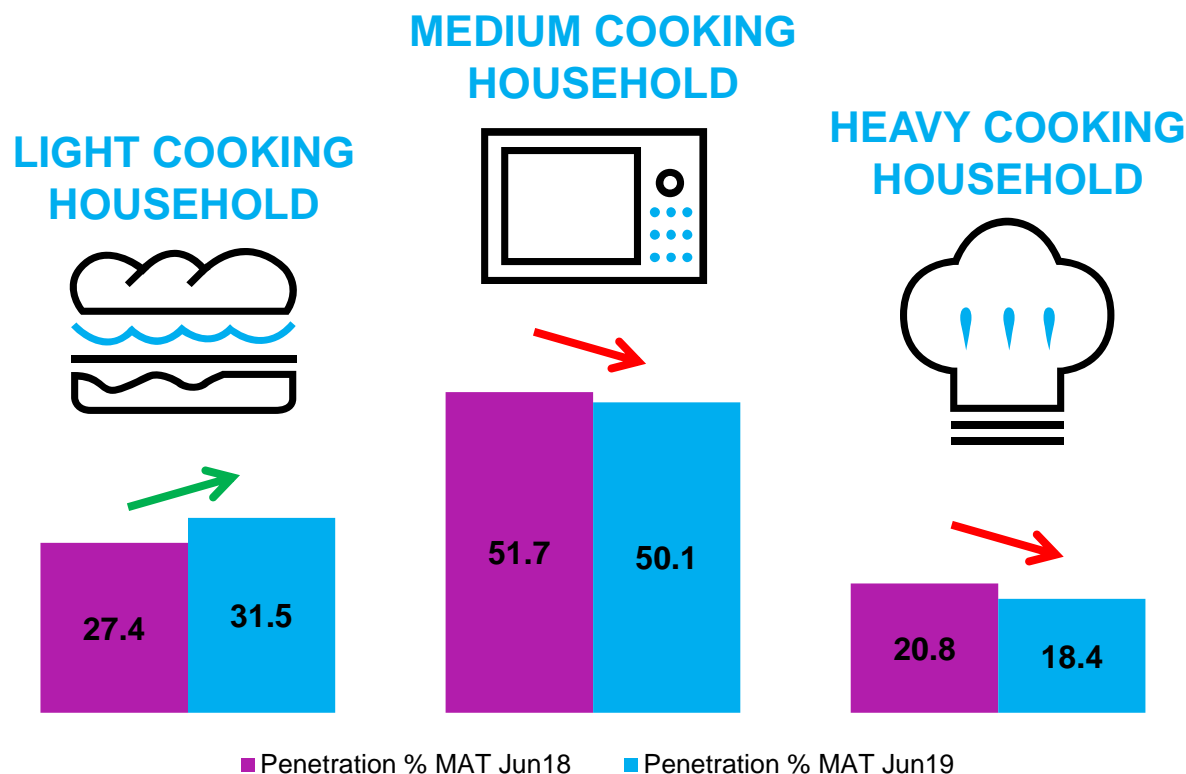
Ordering Delivery via
Aggregators



Base: All respondents (2019: n=515)

Source: 2019 Catering Study, (Q31a) Current incidence of ordering through restaurants/ aggregators; (Q32) Ever usage of aggregators

MEANWHILE, FOR THOSE STILL DINING AT HOME, ALSO SHIFTING TOWARDS LIGHT COOKING WITH REDUCED COOKING FREQUENCY

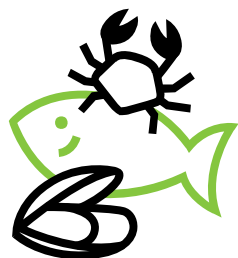


Light Cooking HH: Household that purchase Fresh/Frozen Food less than once a week

Medium Cooking HH: Household that purchase Fresh/Frozen Food more than once but less than 4 times a week

Heavy Cooking HH: Household that purchase Fresh/Frozen Food more 4 times a week

SIGNIFICANT MOMENTUM GAIN ON FOOD CATEGORIES THAT FACILITATE QUICK AND LIGHT COOKING



FROZEN SEAFOOD

19 vs 18: +10%

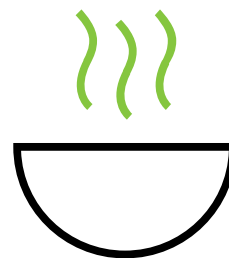
18 vs 17: +1%



FROZEN MEAT

19 vs 18: +14%

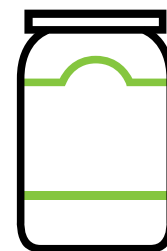
18 vs 17: +2%



PRE-PACKED SOUP

19 vs 18: +7%

18 vs 17: -4%



PASTA & PASTA SAUCE

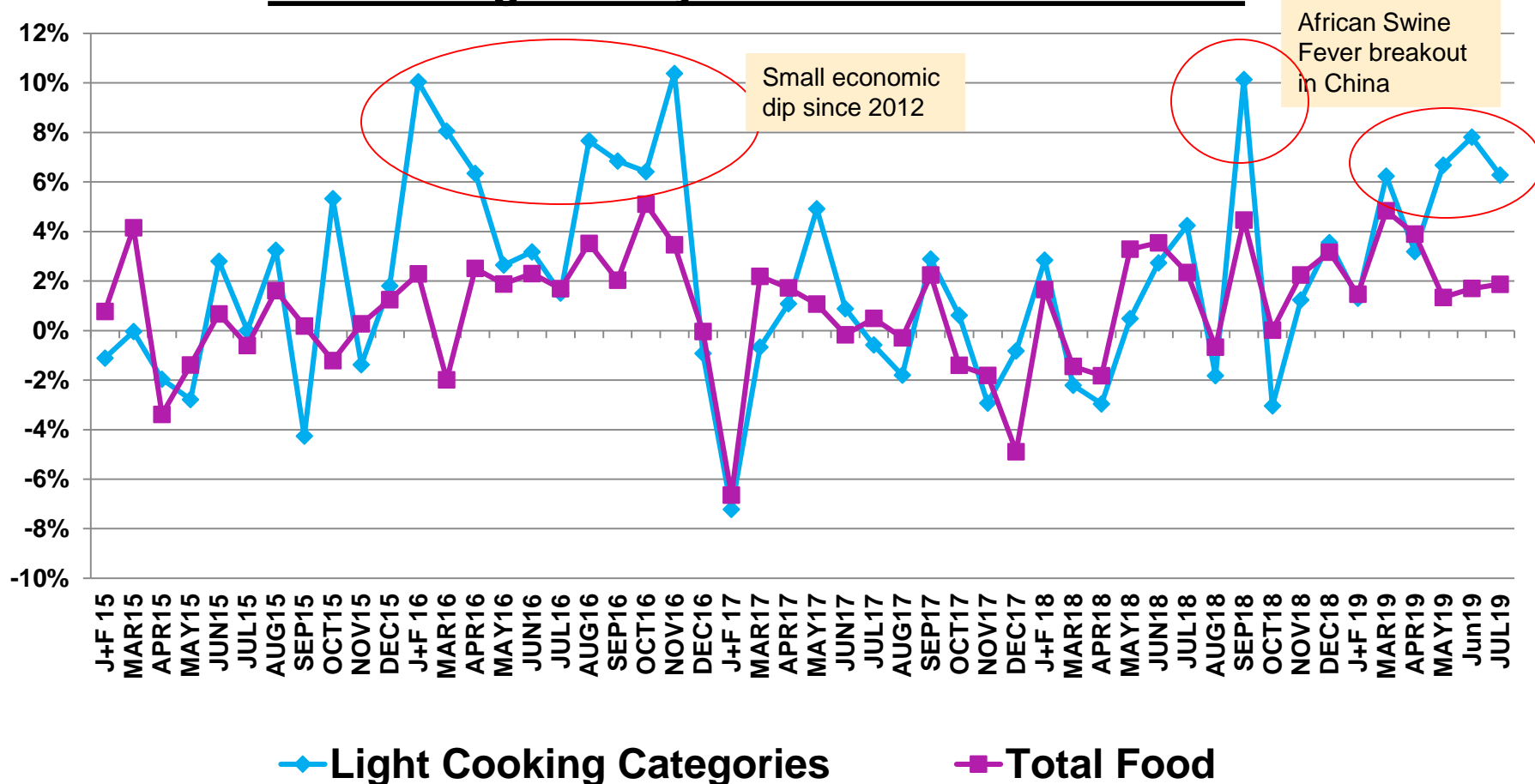
19 vs 18: +3%

18 vs 17: -7%

RELATIONSHIP BETWEEN LIGHT COOKING GROWTH AND WEAK ECONOMY ALSO SHOWN IN 2016

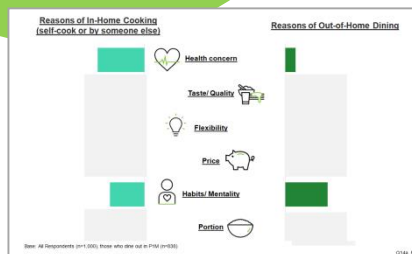
Meanwhile, Jun-Jul protest did not have much impact on Light Cooking Categories, but on Total Food

Food Categories By-Month YOY Growth Rate

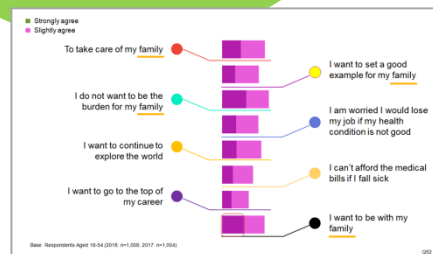


GROWTH OPPORTUNITY IN PREMIUMIZATION AND INNOVATION WITH PRODUCTS PROMISING HEALTH FOR FAMILY REASONS

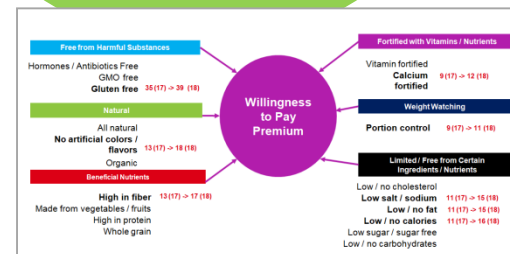
Health & Price
are No.1 in home
cooking driver



Top 3 health
motivators are all
family-related
(i.e. stay health to
be able to take
care for family)



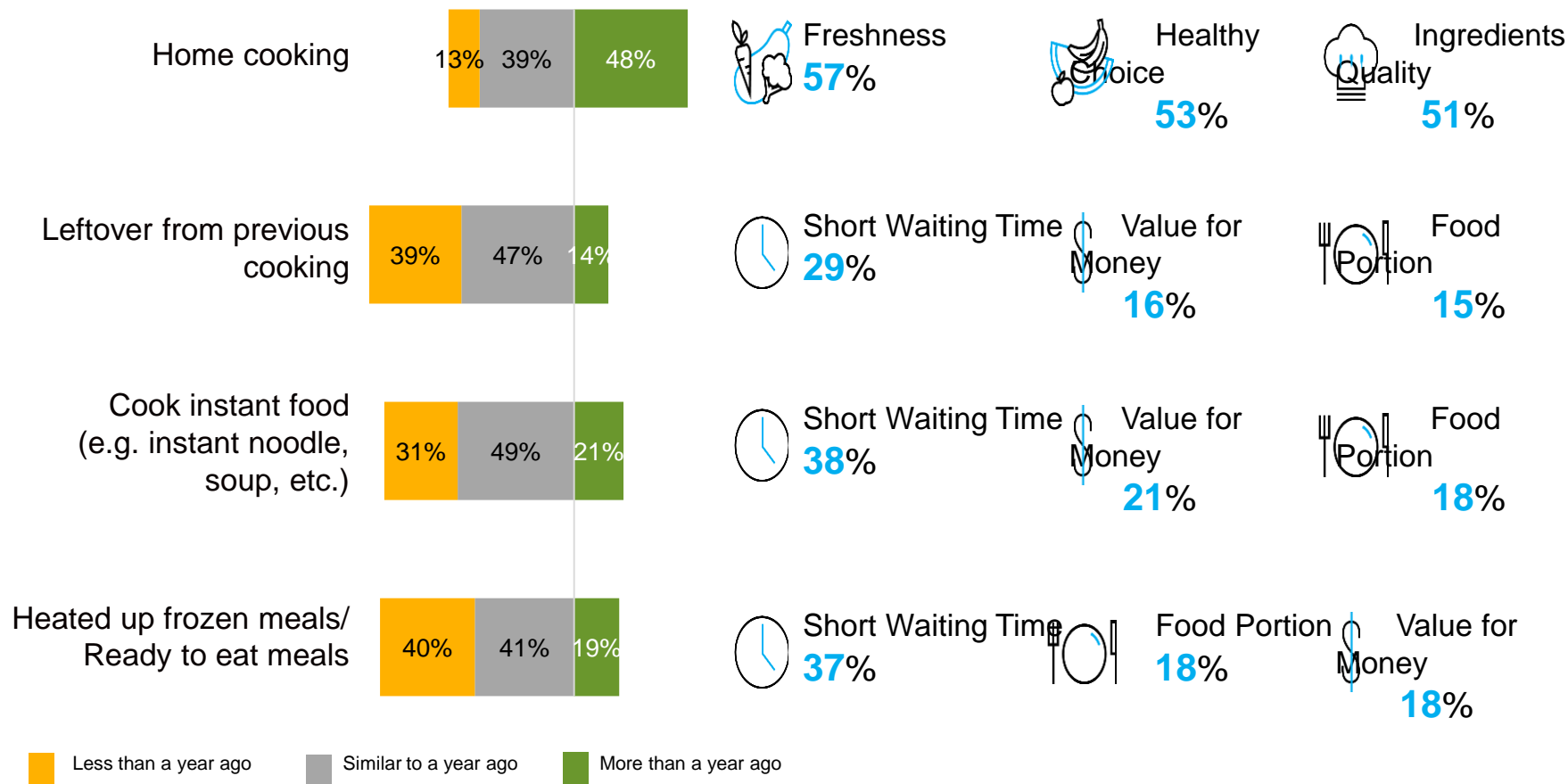
Consumers
showing high
willingness to **pay**
premium for
products with
health claims



Consumers are more likely to make proper meals at home. Home cooking is perceived as fresh and healthy – consumers try to compensate for their less healthy options while dining out with healthier home cooked meals even if it requires more preparation and time.



HOME COOKING



WAYS OF WINNING IN TAKE-HOME CONSUMPTION

CVS Multi-buy promotions boosting home consumption

Total Category: +7% vs YA
Impulse Size @ CVS: +21% vs YA

Penetration gain on Impulse Size
 Share of Trade shifting towards CVS

Premiumization supported with ingredient upgrade

Total Water Dumpling: +8% vs YA
Premium Line (\$95+/kg): +38% vs YA

Quick and healthy: Ready-to-serve Chinese Soup

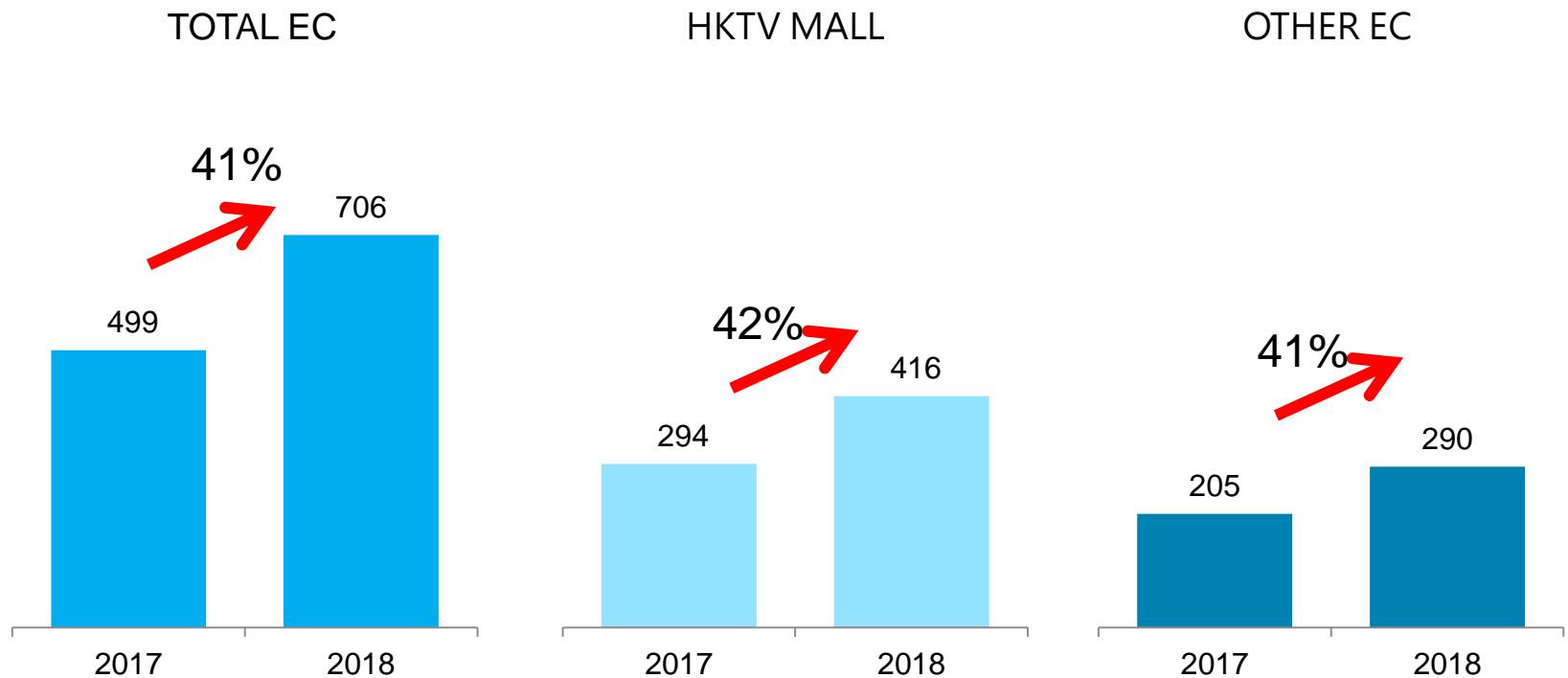
Total Pre-packed Soup: +0% vs YA
 Ready-to-serve: +3% vs YA
Ready-to-serve Chinese: +14% vs YA

E-COMMERCE

HKTVMALL SALES LANDSCAPE

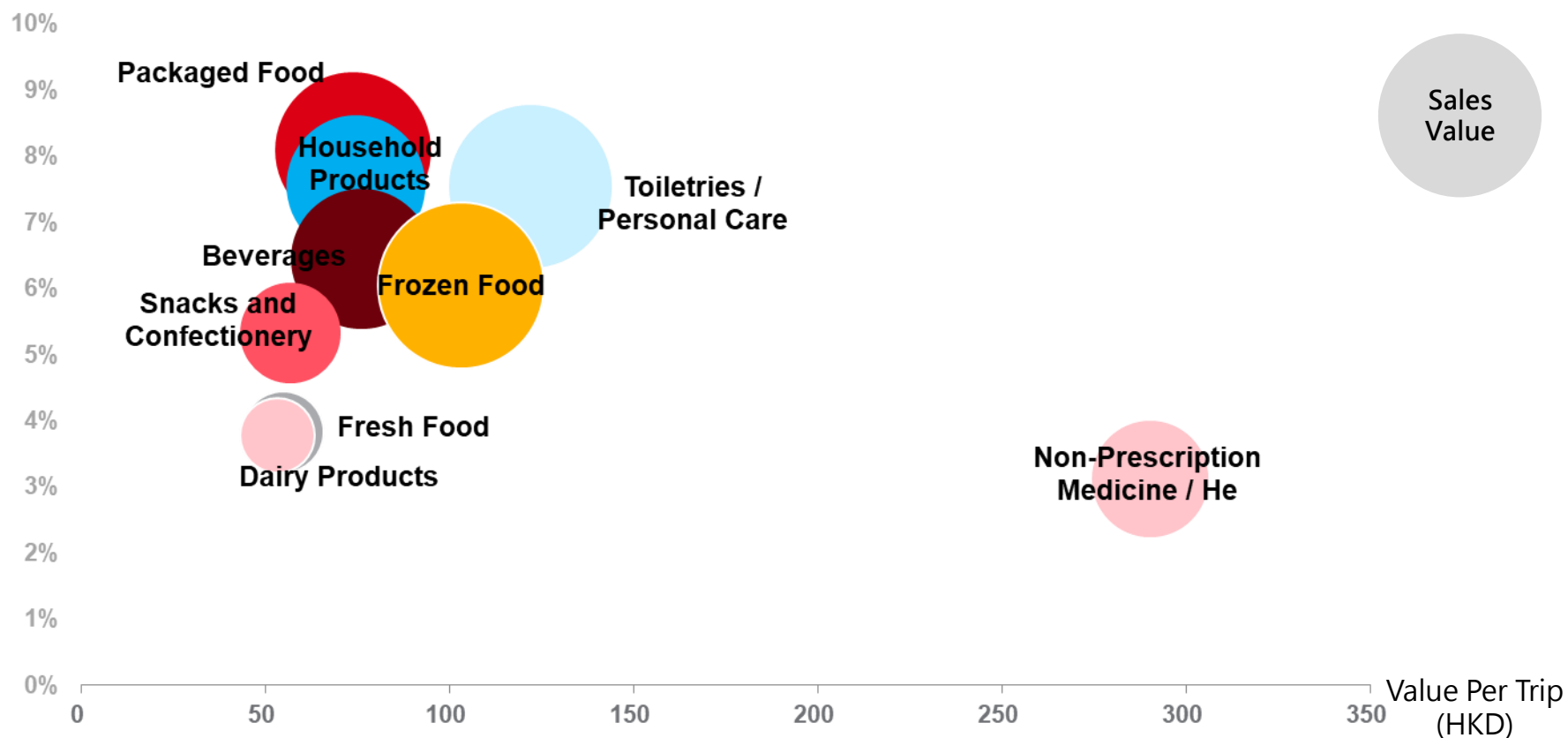
HKTVMall accounted for 59% of EC sales and reported 42% growth in 2018

Total EC Sales | FMCG | (HKD million\$)



SUPER-CATEGORY OVERVIEW

Penetration (%) **HKTV mall | Super Categories Performance (2018)**



KEY TRENDS IN SUMMARY



PREMIUM

Crossover
Innovation



HEALTH

Less
sugar/salt
Fresh
Ingredients



IN HOME COOKING

Quick & Easy
Value for money



E-COMMERCE

Convenience
Price & Promotion

THANK YOU