

Vietnam in View

Executive Summary



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Growth in Vietnam’s pay TV industry has levelled off, as the industry is buffeted by commercial and technological change. Key take-aways from our examination of the industry as of mid-2018 are:

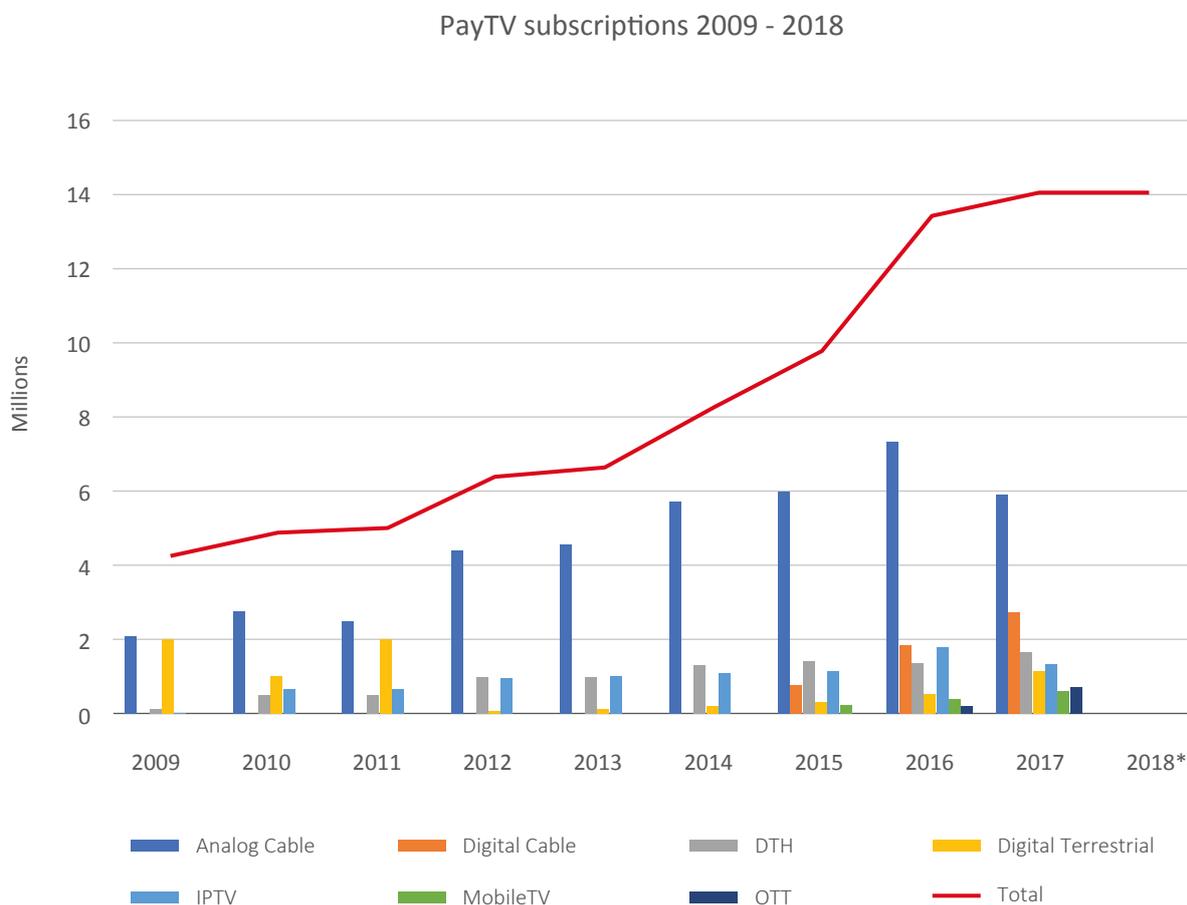
- In the last two years, the market has been badly affected by a “race to the bottom” on pricing. ARPUs have fallen sharply. The industry is deeply concerned about whether current revenues are adequate to sustain quality production.
- Nationwide, cable remains by far the mainstay of pay TV viewing, followed by DTH, and premium content (sports, movies and children’s programming) is the driver for subscriptions. Rising costs of premium content, coupled with falling consumer ARPUs, are creating severe tensions.
- Legitimate OTT services have yet to make strong inroads; domestic OTT operators have relatively thin legal offerings, without strong commercial cases. At the same time, international OTT services have only a tiny market share and face great regulatory uncertainty, with the government floating proposals for licensing, data localisation and censorship of international services.
- Pirate OTT services, on the other hand, seem to be growing rapidly. Most of the top-viewed local and foreign OTT services carry substantial amounts of pirated programming – up to 95% – in the views of industry observers. Local industry sources view pirate services as a much greater threat than foreign legitimate OTT.
- Although it’s losing market share to digital marketing, TV advertising is still by far the biggest expenditure and has been able to maintain modest growth since 2016, rising from under US\$1.8 billion that year to US\$1.82 billion in 2017 and projected to reach US\$1.85 billion in 2018.

I. Paying for high growth

With a population of 93.7 million and over 22 million TV households, Vietnam is a market to be reckoned with for the pay TV industry. Subscriptions were rising steadily through the

end of 2017, reaching over 14 million across a wide range of technologies and have remained roughly unchanged by the end of June 2018.

Figure 1: Pay TV subscription growth 2009 – 2017



Source: Ministry of Information and Communications (MIC); AVIA

*By end of June 2018. All other numbers are by end of year.

“IPTV” refers to “walled-garden” subscription/VOD services offered by telcos/ISPs only to customers who access content through their proprietary network. “OTT” refers to subscription/VOD services offered to customers over the open internet.

However, households with multiple subscriptions are common so the pay TV penetration rate hovers just above 47%, a significant jump from

29.54% reported in the previous Vietnam in View edition in 2014, but still well below the local industry's goal of 70% - 80% by 2020¹.

Table 1: Summary of Vietnam 2018 (as at December 2017)

	Penetration
Population	93,702,319
Number of Households	24,102,034
TV Households	22,465,506
TV penetration	93.21%
FTA - only TVHHs (including free DTT)	46.08%
Pay TV penetration	47.13%
Cable TV penetration (analog & digital)	24.53%
Satellite TV penetration	6.82%
IPTV penetration	5.50%
Digital terrestrial (Pay DTT)	4.71%
OTT	3.00%
Mobile TV	2.56%

Source: General Statistics Office, Ministry of Health, Vietnam Social Security, AVIA

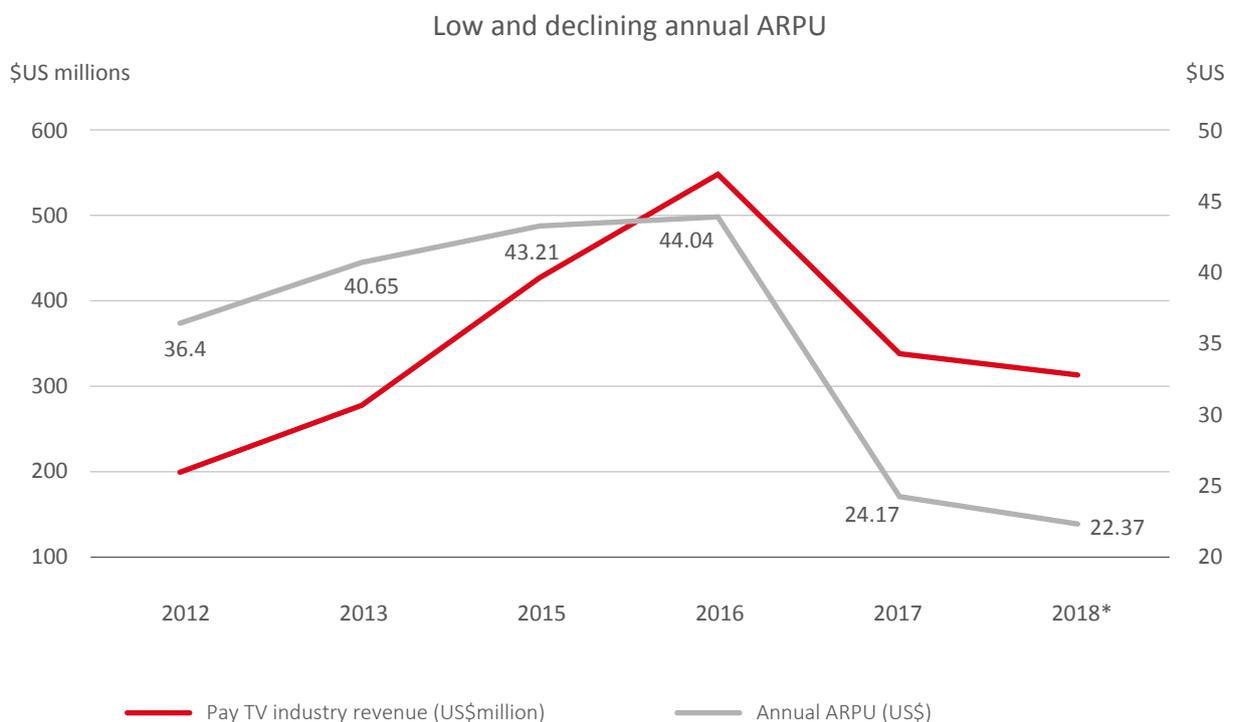
Penetration rate is platform subscriptions over number of households

1 In 2018, VTVcab sets a goal of providing pay TV service to 70% - 80% of households by 2020.

As subscriptions rose steadily between 2012 and 2016, so did total revenue and ARPU, although ARPU was very low and growing at a much lower rate. However, over the past two years since the end of 2016, operators have embarked upon what is dubbed a “race to the bottom” where every player has had to subsidise their subscription growth strategy. Total revenue peaked at US\$550 million with 12.5

million subscriptions in 2016 and then suddenly dropped by 38.5% to US\$338 million with 14 million subscriptions in 2017. The first half of 2018 saw no change in total subscriptions but a slight decrease in total revenue year on year. As a result, annual ARPU took a nose dive from US\$44.04 million in 2016 to US\$24.17 million in 2017 and slid further to US\$22.37 million in the first half of 2018.

Figure 2: ARPU trend



Source: MIC; AVIA.

Note: 2014 revenue not available.

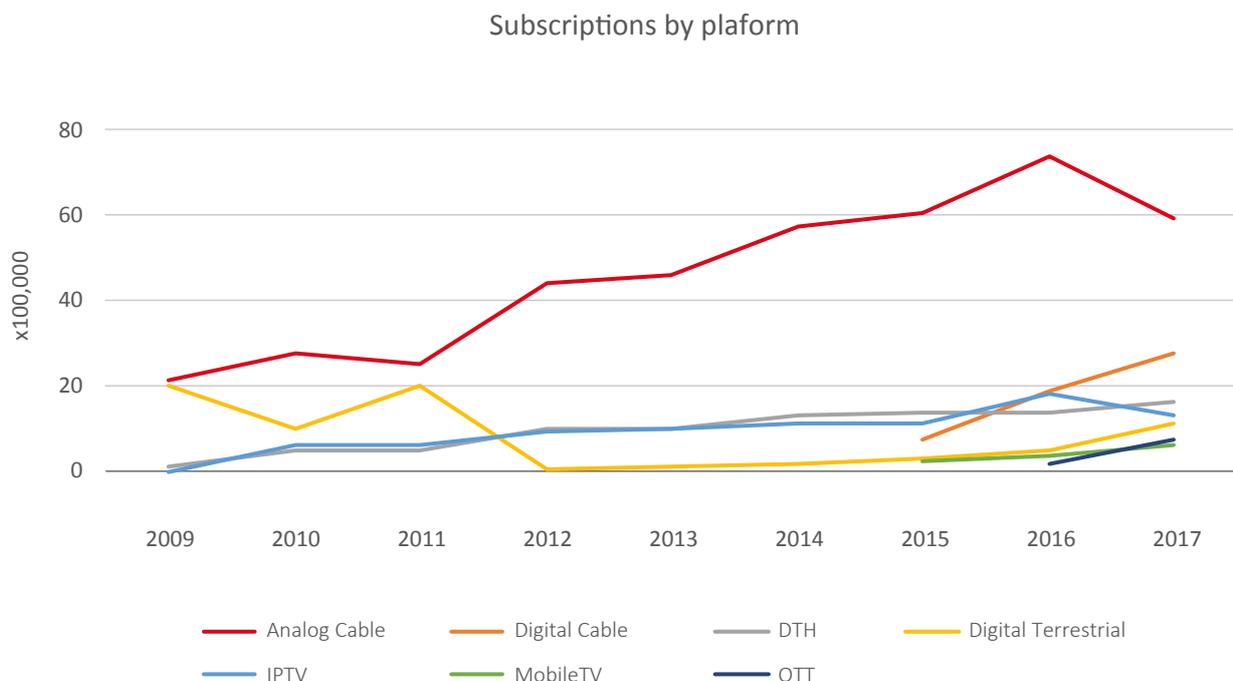
*Data updated as of end of June 2018

II. Technology choice: cable is still king but increasingly challenged by new technologies

The market has become a highly contested ground for a multitude of technologies, including analog cable, digital cable, IPTV, DTH, DTT, mobile TV and OTT. Although cable (both analog and digital combined) is still the dominant pay TV platform, accounting for over 61% of the TV households, its market share is increasingly being cannibalised by other platforms, including new technologies such as mobile TV and OTT. As Vietnam's digitisation unfolds, the analog cable market share is shrinking, down from its high of roughly 70% in 2014 to 42% by the end

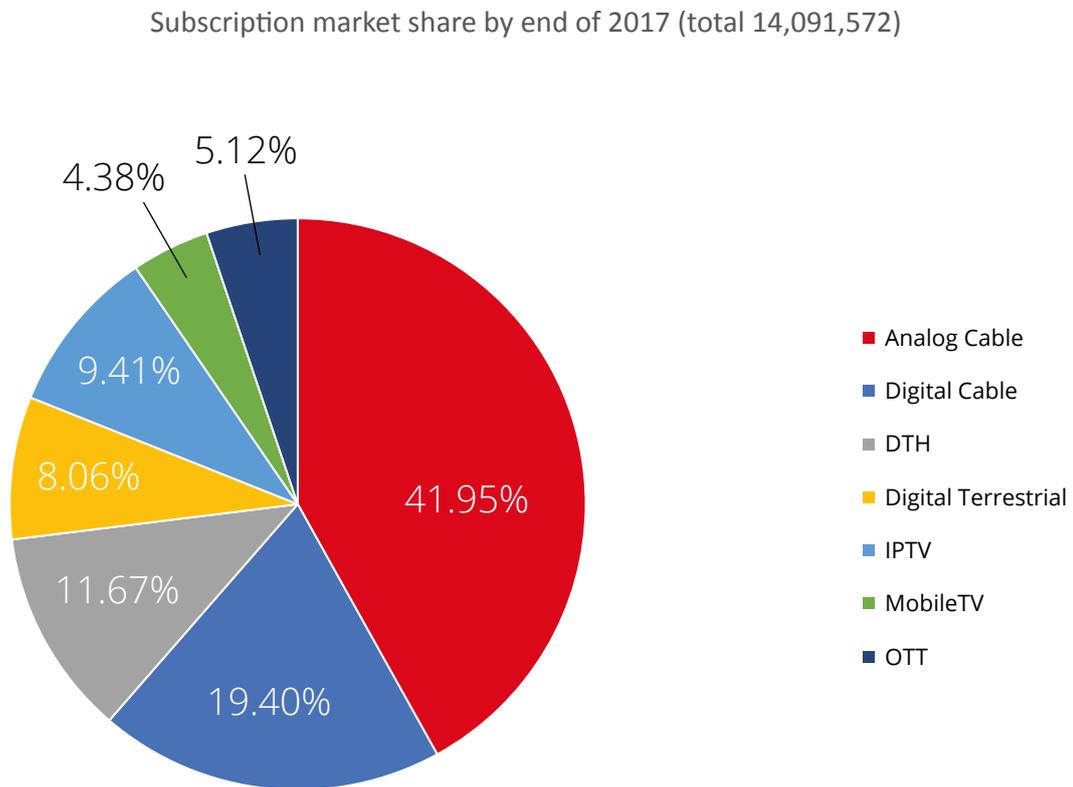
of 2017. All other platforms except IPTV have managed to grow their subscriptions over the past three years. Riding on the vast analog cable infrastructure, digital cable has enjoyed the fastest growth, accounting for 19% of the total market share, leaving DTH far behind in the third place with just barely 12%. IPTV did poorly in terms of subscriptions with just 9%, closely followed by DTT at 8%. Newcomers OTT and mobile TV, who only started to charge viewers in mid-2016, have managed to secure 5% and 4% of the market respectively by the end of 2017.

Figure 3: Pay TV subscription growth by platform



Source: MIC; AVIA

Figure 4: Subscription market share by platform



Source: MIC; AVIA

Consistent with its dominant subscription market share, cable (both digital and analog) accounted for 71% of total market revenue in 2017. In fact,

with low and declining ARPU, only cable services have managed to turn a profit. All other platforms have been reporting losses.

Figure 5: Revenue share by platform

Figure 5a: Pay TV revenue share 2013
(total US\$276.43 million)

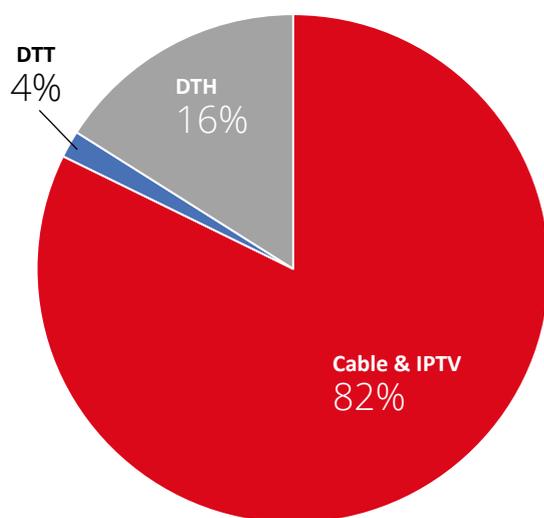
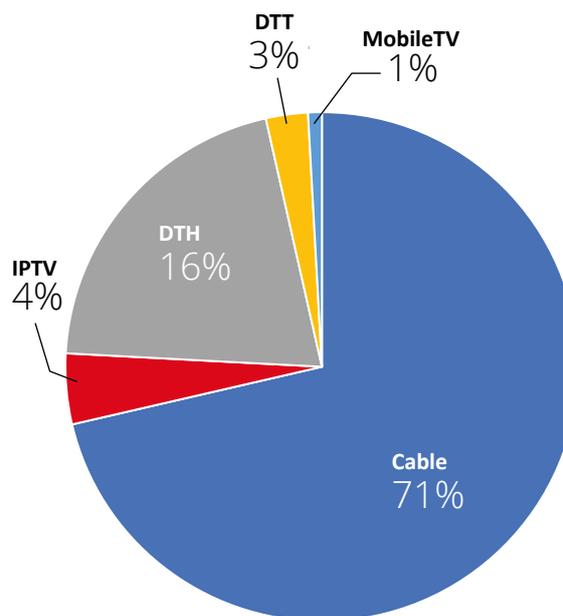


Figure 5b: PayTV revenue share 2017
(total US\$338.42 million)



Source: MIC; AVIA

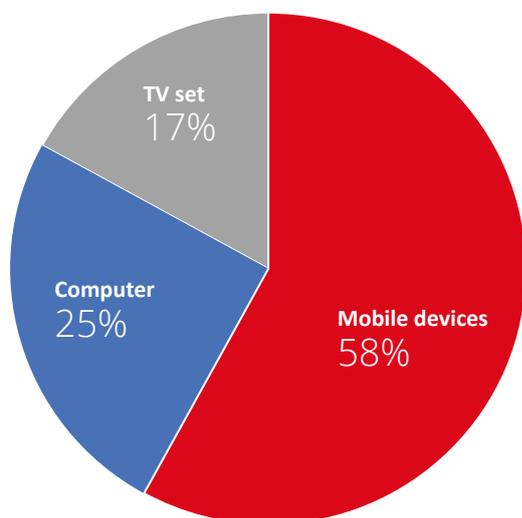
Note: No statistics for 2014 – 2016 available. Before 2014, MIC did not separate cable from IPTV (treating both as cable)

III. OTT and piracy

Vietnam is very open to new technologies. Just as IPTV was introduced 10 years ago and has now become a mainstream platform, the first OTT video service was provided on a free trial basis in 2013 by VTC. Other operators soon followed suit with their own free trial OTT services in subsequent years. By mid-2016, K+ was the first to collect a subscription fee for their myK+Now

(about US\$5.6/month). By 2017, SCTV, VTVcab and FPT also offered pay OTT subscriptions but at a heavily subsidised rate of US\$1 - US\$2.3 per account per month. However, the channel offering on these services is much more limited than on mainstream platforms (cable, IPTV, DTH and DTT). Viewers have to pay more for premium contents, such as foreign movie channels.

Figure 6: OTT viewing in Hanoi, HCMC, Da Nang and Can Tho



Source: Kantar Media, 2018

The viewing experience offered by Vietnamese OTT providers is not yet comparable to that of mainstream technologies. Most OTT users watch video via small screens (i.e. mobile devices) and only a tiny number (17%) use their TV set to access OTT contents.

Some offshore pay OTT services that offer a comparable, if not superior, viewing experience on large screens to mainstream technologies are available to viewers in Vietnam. These include Netflix, Amazon Prime Video and HBO, among

others. However, the market share of these services in Vietnam is statistically insignificant. The Ministry of Information and Communications (MIC) is drafting new legislation (expected to take effect in 2019) to regulate OTT services which proposes that (amongst other things) foreign pay OTT services be licensed in order to provide service in Vietnam.

At the time of writing, MIC has issued about 30 OTT licenses to local operators. Among the 27 licensed pay TV operators as of April 2018, only 15 of them have obtained an OTT license. However, except FPT Play, none of these services makes it to the top five most watched OTT services in key local pay TV markets. Except FPT Play, all the top five most watched OTT services are free, many of them known for offering pirated contents. In fact, according to a local industry source, 95% of contents on Vietnamese OTT services are pirated². Revenue for pirated OTT services comes from both pre-paid subscriptions and advertisements. While the Vietnam pay TV Association (VNPAYTV) plays up competition from foreign pay OTT services³, legitimate local pay TV services and production industry are actually more concerned about rampant piracy in the OTT space.

² Statement by BHD in June 2018

³ In May 2018, VNPAYTV proposed to MIC not to license foreign OTT services yet citing unfair competition reasons

Table 2: Leading OTT services in four major cities, 2018

Percent of respondents stating they watched the following services in four major cities, 2018

Services	All 4 cities	Hanoi	Da Nang	HCMC	Can Tho
YouTube	87.3%	86.5%	98.4%	86%	97.2%
Phimmoi.net	28.9%	30.7%	37%	29.1%	14.8%
Zing TV	26.4%	23.6%	14.5%	26.5%	45.5%
FPT Play	8.2%	8%	4.2%	7.3%	18.1%
Phim Bật Hủ	7%	10.9%	23.5%	3.9%	2.8%
HDViet	5.1%	4.4%	8%	5.5%	4.8%

Source: Kantar Media

IV. High demand for premium content on pay TV

Because of low ARPU, very few pay TV operators want to invest in acquisition of premium content. According to MIC, there are a total of over 200 domestic channels, about 80 of them licensed as pay TV channels. All domestic TV channels are ad-supported, including pay TV channels. MIC has licensed a total of 68 foreign channels, 63 of them pay TV channels, with the remaining five being non-commercial channels supported by foreign governments. To the extent that advertisement exists on foreign pay TV channels, there is a lot less of it than on domestic channels. Some foreign channels (such as Fox Movies and Cartoon Network) are very popular on the list of

pay TV channels, suggesting a high demand for premium content. In the first quarter of 2018, Cartoon Network, Fox Movies, HBO, Disney and Max were among the seven most watched pay TV channels in Hanoi, and Cartoon Network, Fox Movies and HBO among the seven most watched pay TV channels in HCMC.

But when VTVcab and NextTV/Viettel dropped 23 foreign pay TV channels including HBO, Max, Cartoon Network and Disney, from their platforms beginning on 1 April 2018⁴, Fox rose to number 2 in Q2 and number 1 in Q3 in Hanoi. Cartoon Network, although gone from the

⁴ VTVcab and NextTV/Viettel dropped these channels from their offering, citing a failure to acquire rights from the exclusive local distributor of the channels.

major pay TV platforms, still managed to stay at number 9 in Q2 and rise to number 8 in Q3 in Hanoi. In HCMC, after falling to numbers 11 and 14 respectively in Q2, Cartoon Network and Fox Movies have climbed back to their commanding positions of numbers 2 and 5 respectively in Q3 which is a similar standing to that in Q1. In Can Tho, Fox Movies, Cartoon Network and HBO are consistently among the top six most watched pay TV channels across all three quarters. In Da Nang, Fox Movies is on the top three most watched pay TV channels in all three quarters. Cartoon Network and HBO were among the top four channels in the Q1 but then were removed from major pay TV platforms.

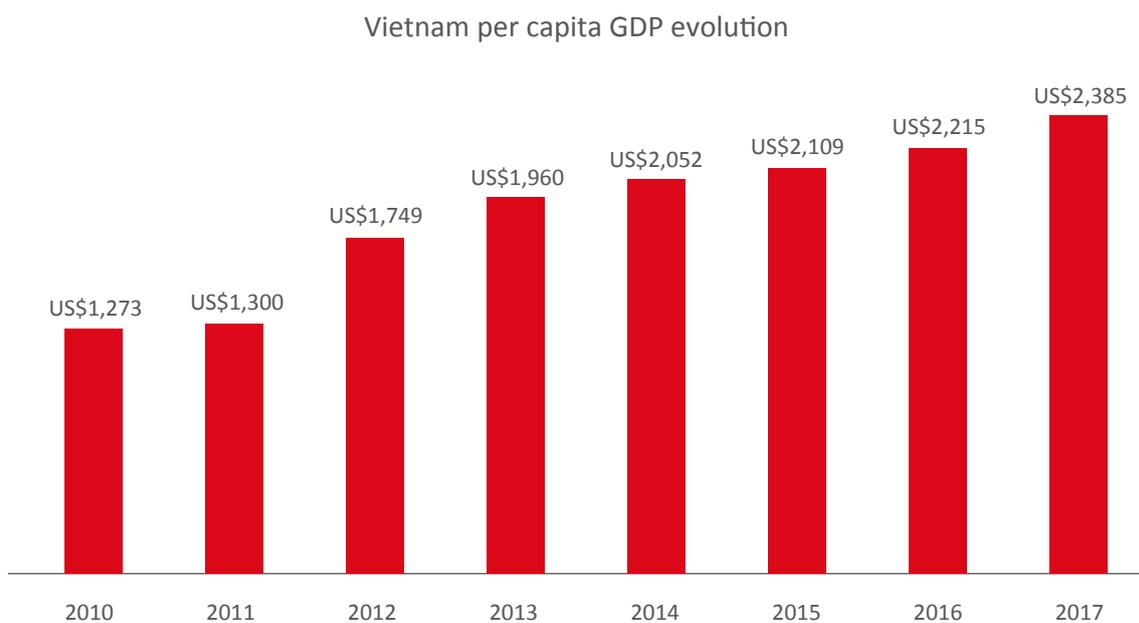
VTVcab and NextTV subscribers were furious when their favourite foreign channels were

removed and some of them have migrated to competing operators, such as MyTV, which still carry those channels. The new foreign channels that VTVcab and NextTV have introduced on their platforms will take some time to win viewership.

V. Consumer affluence and advertising

With a GDP of over US\$223 billion in 2017 and an annual growth rate of 6.5% - 6.7%, Vietnam has been one of the fastest growing economies in Southeast Asia for the past several years. As its population is soon approaching 100 million with per capita GDP at roughly US\$2,400 and rising, Vietnam presents huge opportunities for the pay TV industry.

Figure 7: GDP evolution

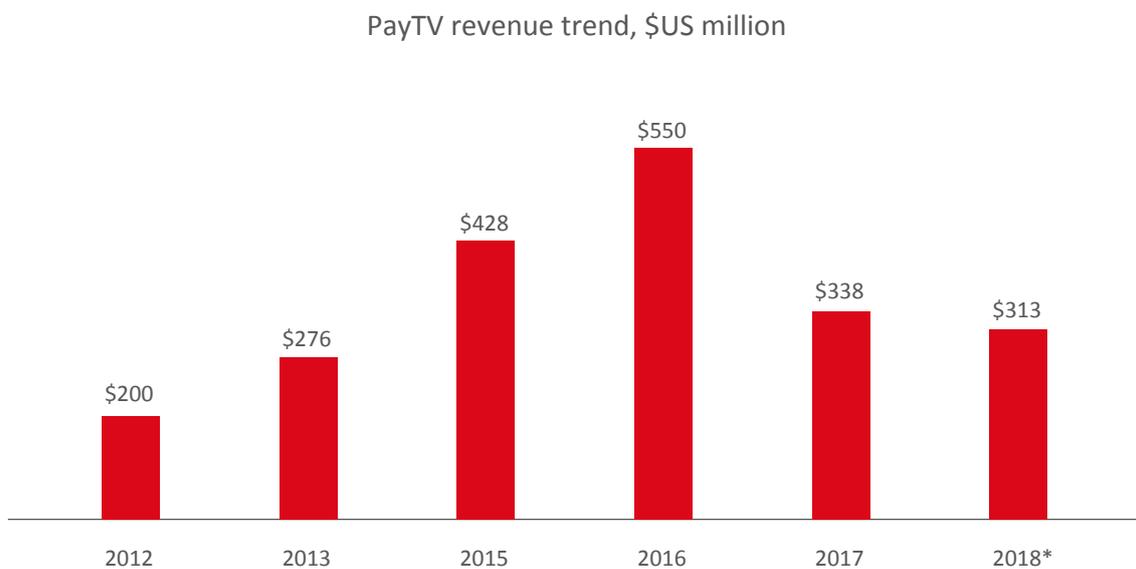


Source: GSO

Vietnam is still on the whole a TV nation, with watching TV and video among the most popular forms of home entertainment. Pay TV penetration is rising fast, especially on the

increasingly affordable cable and broadband internet infrastructure, reaching 94% in urban areas in 2016, of which cable and IPTV account for 84%.

Figure 8: Pay TV revenue trend



Source: MIC, AVIA. (2018 figure computed by doubling total revenue for the first 6 months of the year.)

Pay TV revenue rose steadily in sync with subscriptions up until 2016, with US\$550 million recorded for that year. However, with new accounting requirements enforced in 2017⁷, pay TV operators suddenly reported much lower numbers than the previous cycle, ending the year with a total of just US\$338 million. The US\$157 million of total pay TV revenue for the

first half of 2018 is about the same year on year. While the “race to the bottom” in price competition may have a role to play in the revenue drop, regulators and industry insiders believe the real number is actually much higher than reported. In fact, in their growth strategies, major local operators are banking on a market of US\$800 million to US\$1 billion by 2020.

5 95% of the population still watch TV on a daily basis in 2016, down from 98% in 2012 but still much higher than 59% for internet in 2016, according to Kantar Media

6 Kantar Media

7 According to MIC, before the new accounting requirements were enforced, the reported revenue number may not have had direct tax implications.

Pay TV operators so far have still mostly focused on major urban centres as their key markets. This is understandable, as average household income here is much higher than the rest of the country. The majority of

households in key local pay TV markets have an annual income of over US\$4,000. In Hanoi 87% of households earn US\$4,320 and more annually. That number is 76% in HCMC, 54% in Da Nang and 45% in Can Tho.

Figure 9: Household income in key markets, 2017

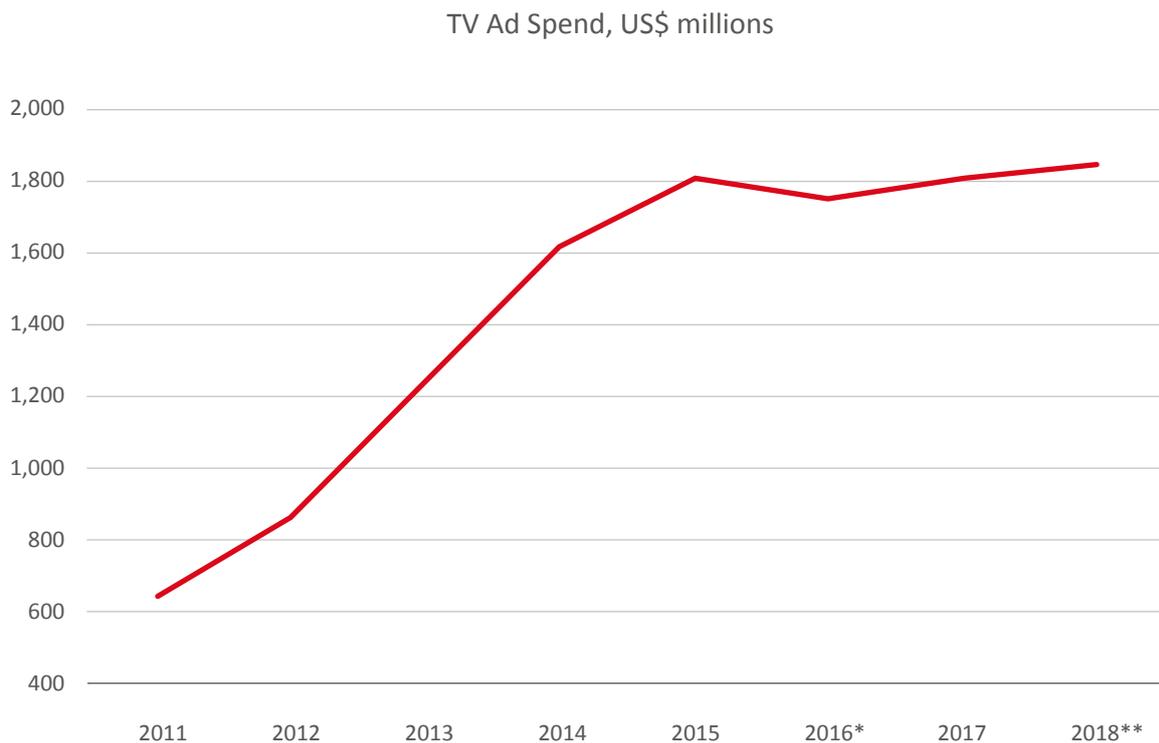


Source: VietnamTAM, Nielsen

According to MIC, despite competition from online advertising, TV advertising spending since 2016 has been able to maintain modest growth, rising from under US\$1.8 billion that year to US\$1.82 billion in 2017 and projected to reach US\$1.85 billion in 2018. While the TV split of the total ad revenue is declining due to the rise of digital advertising, the net growth of TV ad revenue is still expected to rise in the

next several years as total advertising spending continues to grow. Much of the TV ad revenue goes to domestic channels (including those that offer foreign content on them). The current rules mandate that all ads on foreign channels must be literally inserted in Vietnam. The government is proposing new legislation that would require that all foreign pay TV channels be ad-free.

Figure 10: TV Ad Spend



Source: 2011 - 2015 figures computed from Kantar Media data, quoted by K+ Advertising

2016 - 2018 figures provided by MIC

*2016 figure estimated from incomplete channel ad revenue reports submitted to MIC

**2018 figure projected as doubling total revenue for first 6 months of year

VI. Evolving regulatory environment

MIC/ABEI takes pride in adopting policies that help create an environment that spurs fast growth in the TV business in terms of subscriptions, coverage and consumer choice (i.e. number of channels and number of services). However, regulators admit that the low ARPU trend is not healthy and already hurting sustainable development. They are looking for ways to correct the situation. They have repeatedly turned down proposals by the Vietnam Pay TV Association to enforce floor prices. MIC/ABEI has recently also focused on fighting piracy, recognising that this is an important factor distorting the market and causing ARPU to remain low. They also pitch fighting piracy as a service offered to those foreign content providers that duly “register” with government agencies (i.e. MIC and tax authorities).

The advent of OTT video has posed new regulatory challenges for MIC/ABEI. At first, they took a light-touch approach and let the service be introduced on a trial basis. But now that OTT is on the way to fast becoming a mainstream platform, regulators are under pressure to “create a level playing field”, as they put it, between OTT and traditional platforms in terms of censorship requirements and tax obligations, among others. A draft decree to amend Decree 06 issued in 2016 on TV and Radio service was introduced in late July with a deadline for public comment by 23 September 2018. The draft decree proposes to

define OTT services and mandate that all OTT pay services have to obtain a license from Vietnam and operate through a locally incorporated entity. OTT video will be subject to the same censorship and advertising requirements as traditional channels and these requirements are proposed to be stricter. ABEI, however, states that this is just a first draft and they are open to industry inputs and recommendations because they want to create sustainable development for the video business in Vietnam.



About the Asia Video Industry Association

The Asia Video Industry Association (AVIA) is the trade association for the video industry and ecosystem in Asia Pacific. It serves to make the video industry stronger and healthier through promoting the common interests of its members. AVIA is the interlocutor for the industry with governments across the region, leads the fight against video piracy and provides insight into the video industry through reports and conferences aimed to support a vibrant video industry. AVIA evolved from Casbaa in 2018.

Hong Kong Executive Office

20/F Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong
Tel +852 2854 9913
avia@asiavia.org
www.asiavia.org

