Event: Carlsberg Q3 2016 Trading Statement

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Speakers: Cees 't Hart, Chief Executive Officer
Heine Dalsgaard, Group CFO

Operator

Ladies and gentlemen, welcome to the Q3 2016 Trading Statement Conference Call. Today, am pleased to present Carlsberg's President and CEO, Cees 't Hart; and Group CFO, Heine Dalsgaard.

For the first part of this call, all participants will be in a listen-only mode. And afterwards, there'll be a question-and-answer session. Just to remind you, the conference call is being recorded.

Speakers, please begin.

Cees 't Hart

Good morning, everybody, and welcome to Carlsberg's Q3 2016 conference call. My name is Cees 't Hart, and I have with me CFO, Heine Dalsgaard; and Vice President of Investor Relations, Peter Kondrup.

I will now run through the highlights of the Q3 as well as our progress on SAIL'22 and our preparations for the future. And Heine will talk you through the regions, the progress on Funding the Journey and the outlook.

Please turn to slide 2. We delivered solid performance for the quarter, and we are satisfied with the progress so far this year. Organic net revenue grew by 1%, driven by a 1% price/mix and flat volumes. Price/mix was lower in Q3 compared to the run rate for the first half year due to growth in license volumes in Western Europe and the expected lower price/mix in Eastern Europe in the second half of the year.

Total volumes were flat as the strong volumes growth in Eastern Europe was offset by the excepted lower volumes in Western Europe and Asia. We upgrade our earnings outlook for the year due to the uplift in volumes in Eastern Europe in Q3 and good traction behind our value management efforts. All in all, we are pleased with our results so far this year, and we are confident with the progress of Funding the Journey and SAIL'22.

Please turn to slide 3 and a few comments on our strategy implementation. Overall, SAIL'22 has got off to a good start. Funding the Journey is the main priority for this year and is progressing well, and we are on track with our plans. But also, for the other parts of the strategy, we start to see the priorities come to life in the plans for 2017. On delivering value for shareholders, we are on track, and today's adjustment of the earnings outlook supports this. I will go through the progress on strengthen the core and position for growth on the next slides.

Please turn to slide 4 and Strengthen the Core. As part of leverage our strongholds, we work on ensuring that the Golden Triangle is embedded across our markets. The Golden Triangle is about getting the optimal balance between volumes, GPaL margins, and EBIT. It is a mindset change but our local operators have picked it up fast, and it is working well.

Proof of this is the good price/mix development in Q3 across our markets. A lot of work is currently going on into developing and rolling out tools and principles to improve and renovate the brand fundamentals of our core brands and create stronger and more streamlined portfolios.

A key element of this priority is also to focus our resources, management as well as cash on fewer activities and doing it more impactful. Hence, we are working on reallocating A&P spend, and, as part of Funding the Journey, we have disposed non-core businesses and restructured activities. Danish Malting Group, Carlsberg Malawi and the UK logistic operations are good examples of such initiatives carried out this year.

Even though Russia only accounts for 16% of group operating profit, it is still our largest market and it is therefore singled out as a specific priority within the strengthen the core pillar. The focus in Russia this year has been to execute on a stronger commercial agenda and build further on this in the years to come.

In 2016, we have made a number of changes, including the repositioning of the Carlsberg brand, which has delivered very positive volume and value results so far, and we have intensified our focus on the growing segments and channels including the so-called DIOT.

In order to be successful with our more attractive and streamlined brand portfolios, there was also a need to step up our executions capabilities at point-of-sale as well as our digital capabilities. We have, this year, focused on building these capabilities, among others by hiring new people. In 2017, we will be able to communicate more firmly on the changes and how we have improved our execution.

As Heine will come back to Funding the Journey in a few minutes, I will now just confirm that we continue to see good traction behind the program.

Please turn to slide 5 and our growth priorities. As a result of our strategic evaluation, we have chosen three areas which we consider the most attractive growth drivers for Carlsberg Group. These are expanding our presence in the growing categories of craft, speciality and non-alcoholic beer; expanding outside of our current markets by selectively targeting big cities in new geographies; and continuing to grow our business in Asia.

Within Craft & Speciality , our ambition is to deliver great brands for the many and not for the few craft connoisseurs. In 2016, we have further strengthened our longstanding cooperation with Brooklyn. We opened up the E.C Dahls Brewery in Norway, which is a replica of the successful New Carnegie Brewery in Stockholm that some of you visited a few weeks ago. From January, we will be distributing Brooklyn in the UK. And finally, we are now brewing the brand under license in Europe.

With respect to our International Speciality Brands, we are increasing the availability of Grimbergen and 1664 Blanc. Grimbergen continues its strong performance both in existing markets but also in the new markets where the brand is launched, and it grew 11% year-to-date.

In the lower end of the Craft & Speciality price ladder, we are leveraging our strong local brands by launching crafty line extension, such as craft IPA in Finland and Carlsberg Brewmaster Collection in Denmark.

Within NAB, we believe that our strong R&DV capabilities which includes the largest and world-leading yeast library gives us a competitive edge. We already have a number of successful non-alcoholic liquids to build upon. Examples include Carlsberg Nordic which owns 43% of the NAB segment in Denmark and has driven a 33% category growth this year. Baltika 0 is a 60% market share of NAB in Russia, growing almost 20% this year and, finally, Tourtel Twist in France, which in only two years has obtained more than 1% of the total French beer market.

On big cities, we now have a dedicated team in place and based on detailed analysis, they are finalizing the plans for where and how to ender a selected few cities next year.

In Asia, we launched Tuborg in Vietnam and Cambodia earlier this year and we are building a new brewery in India to support our positive momentum in this market.

In China, we achieved value growth on the back of the ongoing premiumisation which particularly is a result of the growth of Tuborg and 1664 Blanc.

In Vietnam, we are involved in the current privatization process related to Habeco. As you may know, we've had an MOU in place since 2009 which grants us a first right of refusal. We're not able to be more concrete at this point in time but will of course comeback to you at the later point in time.

All in all, these activities are just examples to illustrate how we continue to drive growth in Asia.

In conclusion, we are pleased with the progress of the strategy. We see the priorities being reflected in the 2017 plans and we are on track to deliver on our financial commitments.

I would now like to hand over to Heine, who will comment on the regions, Funding the Journey progress and the 2016 outlook. Heine…

Heine Dalsgaard

Thank you, Cees ‘t, and good morning also from me. Slide 6, please, and a few comments on the Western European results in the quarter. We estimate that the overall beer market grew slightly. Our net revenue was down 4%, reflecting a total volume decline of 4%. The volume decline was as expected. As we indicated at the Q2 conference call, it was due to last year's reduction of margin-dilutive contracts in the UK, in Poland and in Finland, and further compounded by destocking in July after Euro Football Championship.

Price/mix was flat. The lower price/mix in the quarter versus the first six months was mainly due to strong performance of the Tuborg license business in Turkey, where we only include the license income in net revenue. Excluding this, price/mix in Q3 was 3% which is in line with the first half. All in all, we are pleased with the value management efforts in Western Europe and how the Golden Triangle is being adapted across all our markets.

In the Nordics, we saw slightly growing beer markets and we grew volumes by 1% in Scandinavia while volumes declined in Finland due to last year's withdrawal from a supply contract. We saw particularly good results with our premiumization efforts and craft and speciality continued to perform well.

In France, our volumes were flat as we were impacted by the destocking in July. Throughout the year, we've been gaining market share in the on-trade channel, while we have lost market share in the off-trade. The Tourtel, Grimbergen, Skøll and Brooklyn brands are delivering very good results and growing by double-digit percentages, whilst our mainstream brand, Kronenbourg, declined.

In Southeast Europe, our business in Bulgaria is delivering strong results, driven by growth of our local power brands.

The turnaround of the UK business is progressing well, and we have now announced the outsourcing of the porterage and logistics business. Volumes and market share were down due to last year's lost contract. But adjusting for this, our market share was flat. Price/mix developed very favorably at high-single digit percentages as a result of the reduction of low price volumes and also our premiumization efforts. From January, we will strengthen our UK portfolio with the addition of the Brooklyn brand.

In a flattish Polish market, we reduced our presence with promotionally priced big formats in the modern trade in the beginning of the year. This had a positive impact on price/mix, but a negative impact on volume. The market in Poland remains very promotional.

Slide 7, please, and Eastern Europe. We estimate that the Eastern European markets were flat for the quarter as they were positively impacted by very warm weather in Q3. Underlying, the markets remained challenged by the weak macroeconomic environment. Our net revenue grew organically by 16% as a result of 5% positive price/mix and 10% volume growth.

In Russia, our volume growth in the quarter was in the mid-teens as a result of improved commercial execution and consequent market share gain, also the warm weather and the sell-in of large-sized PET bottles. We will, in Q4, adapt to the new PET regulation, which means that we will phase out all PET bottles above 1.5 liters to be ready for the plus 1.5 liters ban effective from January 1.

Consequently, we shipped extra volumes in late Q3 to ensure availability at wholesalers and also retailers during the transition period in Q4.

Looking at our commercial results in Russia, we saw a positive performance of a number of key brands including Baltika 0, Zhigulevskoe and also Carlsberg. The price adjustment on Carlsberg which we did earlier this year has delivered very positive results, both in terms of volumes but also profitability.

Finally, we continued the further expansion into the DIOT channel. Our quarterly market share grew both sequentially and also year-on-year, reaching now 35%. Year-to-date, our share is still slightly down. The market share growth was mainly in the modern trade channel. In Ukraine, we grew our volumes in a declining market. We, thus, gained market share and this was driven by good performance of Lvivske and also Garage.

Slide 8 please and a few comments on Asia. The beer market development in Asia was mixed with continued growth in most markets while we estimate that the Chinese market was flat for the quarter. Our regional net revenue grew organically by 2% as a result of 4% price/mix as volumes were down by 1%.

Reported net revenue declined 6%, impacted by the negative currency impact and the disposal of Carlsberg Malawi. We achieved volume growth in India, in Nepal, in Laos and Myanmar while volumes were down in Malaysia and China, the latter as a result of the Eastern Asset brewery closures.

A few general remarks on China where the market value growth continues as the premium segments show a much better development than the discount and mainstream segments. We are in the process of de-emphasizing our discount offerings and also reallocating more support towards our premium portfolio. We have one of the strongest international premium portfolios in China with brands such as Carlsberg, 1664 Blanc and, most importantly, Tuborg. Last year, Tuborg reached an impressive milestone, becoming the second largest international brand in the country. For Q3, our premium brands grew by 8% and they now account for more than one third of our Chinese revenues. Tuborg grew by high-single digits, and 1664 almost doubled. This also supported a strong performance in price/mix, which in Q3 was 5%.

Outside China, our Asian business grew volumes by 4%. India continues to perform strongly and achieved 20% volume growth in spite of the alcohol ban in Bihar. Also here, Tuborg remains an important driver of the growth. We achieved a record high market share in India in Q3 of 19%. In Vietnam and also in Cambodia, we launched Tuborg earlier this year. So far, the results are encouraging.

Please turn to slide 9. Our Funding the Journey initiatives are on track, and we still anticipate to realize around a quarter of these benefits this year. We are especially pleased with the performance of our value management efforts and the focus on the golden triangle throughout the organization. Delivering on this bucket has turned out to be achieved slightly faster than originally anticipated. Within supply chain efficiency and OCM, our progress is exactly as expected.

In terms of right-sizing of our business, it has been a busy year as we have carried out a rather extensive restructuring plan. As a result of great work by our Chinese team, we have managed to close down 11 breweries in China and sell 5 sites. We have closed down production lines in Russia and in the UK. And in October, we made the final decision to outsource our porterage and secondary logistics business in the UK.

Finally, we have sold a number of non-core businesses in order to refocus the business on our strongholds. On top of the already mentioned disposals, we have recently sold our minority stake in Sejet, which is a Danish-based plant breeding company. We are still looking at a small handful of assets that potentially could be disposed.

In addition, and on a completely different note, I also want to briefly mention that we have £300 million bond that matures in November, which will be refinanced with cash.

Finally, please turn to slide 10, and the outlook.

2016 has been an important year for us as we are focused on realizing the benefits from Funding the Journey, and embedding and implementing SAIL'22. As mentioned earlier, we are progressing on both initiatives.

Mainly as a result of good performance in Eastern Europe in Q3 and supported by faster-than-expected results of our value management approach, we now expect to deliver an organic operating profit growth of around 5% compared to previously low single digit.

Based on the spot rates, as of November 7, we estimate that the full year translation impact from FX will be minus DKK 550 million compared to previously an estimate of minus DKK 600 million. The DKK 50 million improvement is mainly because of the stronger Russian ruble. All other assumptions in our outlook remains unchanged.

Cees, back to you.

Cees ‘t Hart

Thank you, Heine. Before I open for questions, let me summarize the third quarter in a few words. We delivered solid Q3 performance and saw a good traction on our changed approach to value management. The delivery of the Funding the Journey benefits and the implementation of SAIL'22 is on track. And finally, we are able to adjust the earnings outlook for the year.

With that, I would like to open up for questions.

Question & Answer Section

Operator

Thank you. [Operator Instructions] And our first question comes from the line of Simon Hales from Barclays. Please go ahead. Your line is now open.

Simon Hales

Thank you. Morning, gentlemen. A few questions, please. Firstly, just on Western Europe, in terms, obviously, the destocking you saw in July, can you talk a little bit the shape of the quarter from a volume perspective overall? How things, perhaps, improved underlying in terms of consumer off-trade through August and September?

Secondly, on Russia. Clearly, you've talked about the stock build at the end of Q3 ahead of the PET ban coming in, have you got any flavor as to how much of a benefit that had on volumes in the third quarter? And also, did you see any impact at all from the alcohol registry system changes to smaller outlets coming in in Q3 at all?

And then, finally, with regards to the outlook for 2017, there's some comments, I think, you've made on Bloomberg this morning about expectations for volumes down 4% to 5% in Russia next year, would you just give more detail as to your thinking behind that?

Cees ‘t Hart

Good morning, Simon. Thank you very much for your question. With regard to Western Europe, regarding the shape of the quarter, we had, indeed, a bit of a slow July as we commented on when we were discussing the first half year. Then August was a good month and September was an excellent month. So, in that respect, we saw a good, let's say, shape of the quarter after a bit of, if you like, dull July.

With regard to the stock build-up in Russia, we have the three days more stock in the trade, especially focused on the PET of about 1.5 liters. So, that's what basically improved a bit our volumes in the quarter as well. We don't see, to our delight, that much impact yet of the alcohol register system, the EGAIS system.

Talking to the Russian management, we might expect some black market over time because of this. But frankly, we do not see any negative so far. And with regard to the volumes expectations, the minus 4% or 5% is basically assuming that the overall decline in the market is bottoming out a bit. However, we do have the impact of the ban of the one and a half plus PET bottle. And that's what we factored in and came to that kind of assumption for next year.

Simon Hales

Perfect. Thank you very much.

Operator

Thank you. Our next question comes from the line of Jonas Guldborg from Carnegie. Please go ahead. Your line is now open.

Jonas Guldborg Hansen

Yeah. Good morning. Thanks for taking my questions. First of all, staying with Russia here, how much of the volume growth in the Eastern Europe is driven by this reposition of the Carlsberg brand?

Then also on Western Europe, is it – do I hear you correctly when – that the difference between the adjusted volume development of minus 1% for you and the plus 1% to 2% for the market that the difference between these two numbers is then the destocking? And then – yeah, that would be my questions. Thank you.

Cees ‘t Hart

Okay. I'm not sure we captured it very well, your second and third question.

With regard to the volume growth of Carlsberg, we will not be very specific on that one. However, we see that the volume development of Carlsberg is picked up by Nielsen already as well. So, we see a good share development in Nielsen, which is a delight for us, of course, that we repositioned the brand in terms of pricing and after having had years of Carlsberg being a very tiny brand, now, it is one of our successful brands in Russia.

Can you repeat, Jonas, your second question?

Jonas Hansen

Sure. I'll try again. You're right that in the quarter, your volumes adjusted for the low-margin contracts in UK, Finland and Poland are down 1%, while the market is up 1% to 2%. This loss of market share, is that only due to the destocking effect from the EURO2016?

Cees ‘t Hart

Well, it's a combination, of course. But basically, if we would correct our European figures for the contracts which were stopped, then we would increase our volumes by 2%. So, the impact of these three is 2%. When you talk about loss of market share, it's mainly in France, in the off-trade after, basically, a very big promotion of one of our competitors. However, in the on-trade, we're gaining market share. So, it's, in that respect, a mixed picture in France. In general, we feel that we are fine with regard to our balance between market share, GPaL and EBIT.

Jonas Hansen

Okay. Thank you.

Cees ‘t Hart

Thank you, Jonas.

Operator

Thank you. Our next question comes from the line of Michael Rasmussen from ABG. Please go ahead. Your line is now open.

Michael Vitfell-Rasmussen

Thank you very much. First of all, could you tell us a little bit about the volume impact from Turkey, i.e. how much did the Export & License volumes grow on the back of what you saw in the quarter? And is this something we should expect in the quarters to come?

On special items for the full year. As I understand it, the extra breweries sold in China will have a small impact. But can you give us a rough guidance on where we should be full year? I see the consensus average is for DKK 86 million in 2016.

And then finally on the UK in terms of outsourcing the logistics business. Can you give us kind of any size on the revenue EBIT and potentially invested capital impact from this outsourcing? Thank you very much.

Cees ‘t Hart

Okay. With regard to the volume in Turkey, Peter will come back to you. In general, it's a mix effect as we explained, but Peter will give you the details. And with regard to special items, I hand over to Heine.

Heine Dalsgaard

Clear. Good morning, Michael. So, you know how it works with special items. We do not give any specific guidance on special items. So, you're right. There are some minuses in there but definitely also pluses. So, in terms of how special items look for the full year, it's not something we guide on.

And then the last question in terms of the impact from the outsourcing of the UK business, it's relatively limited. It's not something we comment on specifically.

Michael Vitfell-Rasmussen

Okay.

Operator

Okay. Thank you. Our next question comes from the line of Sanjeet Aujla from Credit Suisse. Please go ahead. Your line is now open.

Sanjeet Aujla

Hi. A couple of questions, please. Firstly Cees, when you think about the minus 4% to 5% volume decline in Russia for next year, what assumption are you making on how much of the PET volumes in larger pack sizes migrate to other packaging types? And also, can you just remind us of the gross savings you've communicated, 25% or roughly 25%, this year, how much of that is reinvested in 2016, please? Thank you.

Cees ‘t Hart

Okay. With regard to your first question, the PET bottles, that has an impact for next year. Our assumption is that more or less 40%, 50% will come back to our volume and the rest of the volume will be, if you like, lost. That’s the assumption we made. As you know, it's very difficult, of course, to estimate but that's what we have in our plans. Heine, second question.

Heine Dalsgaard

In terms of the gross savings, you're absolutely right that what we've said is that out of DKK 1.5 billion to DKK 2 billion, we see approximately one quarter coming through this year. The reinvestment into SAIL'22 initiative this year is relatively limited the way we see it, for good reasons because we launched SAIL'22 earlier this year. So, we are mainly now working on the plans. They are some investment to the tune of below DKK 100 million.

Sanjeet Aujla

Understood. And sorry, just coming back to the assumption on PET for next year, should we anticipate a positive mix and margin benefit from exiting PET over one-and-a-half liters?

Cees ‘t Hart

Well, if you look at what our proposition is doing below the 1.5 liter, these have a higher margin. So, the consequence of that is that it will be good news that consumers will move to the lower-sized but higher-margin propositions. On the other hand, of course, we anticipate, more or less, 45% of the PET bottle market or segment is in 1.5 liter plus.

So, in that respect, we feel that there will, again, be some volume loss to the tune of 40%, 50%, but where it moved then to the other proposition is margin-enhancing, indeed.

Sanjeet Aujla

Understood. Thanks.

Operator

Thank you. Our next question comes from the line of Søren Samsøe from SEB. Please go ahead. Your line is now open.

Søren Samsøe

Yes. Good morning. Just a question regarding – you mentioned in the first bullet on slide 4 that golden triangle is translating into a margin improvement. But if you can maybe elaborate a little bit on how and where this works, I mean, give us some concrete samples of what has actually happened and also whether you see an equally big increase in cash flow.

Then second question relates to Russia and the market share gain you talked about. I mean, if you would tell us a little bit more, is this broadly based or is it mainly related to Carlsberg and Zhigulevskoe brands? I remember you mentioned that in Q2, that Baltika 3 and I think it was – there was one other brand that was not going well. If you could tell us whether this has improved. I think it was the Tuborg brand as well that was not going well in Q2. But is it more broadly based now than the market share gains you see? Thank you.

Cees ‘t Hart

Okay. Thank you very much. This is about this Golden Triangle. We have made decisions, for example, in Poland, as we communicated earlier, Poland and Finland, based on the Golden Triangle, and by that, we have less volume and higher margins.

One of my positive surprises in Carlsberg is that at the moment that we introduced the Golden Triangle, the operators were very quickly on their feet with implementing it. I've asked them to comment every month on their results, and specifically on the improvement on the Golden Triangle, and they do it month-after-month, and we see the consequences on that in our margins coming through. The first half year, as you'll recall, it was 140 basis points increase in margin.

So, I think we started well with that concept. Obviously, everywhere when you do continuous balancing in the Triangle, we should not move immediately now from volume towards only value. So, we are balancing that over, well, from month to month in our monthly performance review.

So, I can give you that example especially from Finland and Poland, which directly were the consequences of the Golden Triangle. The rest is basically, in each country, getting the balance, first, in the portfolio, but then later on, and that's what we roll out now, per brand, and as well for customer. So, it goes deeper than only let's say the overall picture of GPaL, market share, and the profit.

With regards to the Russian share gains, well, maybe first, to make you aware of what or to remind you towards Q2 2015 in Russia where in May we increased our prices by I think 14%. And that moment of time was not followed by our competitors, but we had a high price premium on the shelf in the modern trade. And our market share declined towards something like 33.5%.

And we have said earlier that modern trade was not very well represented in our business in terms of professionalism. We have changed the key account management in Baltika, much more focused on being more professional in approaching the modern trade. And by that, we see an improvement.

Carlsberg indeed has really contributed to that as well. We see it overall the portfolio. On Baltika 3 and the other was Baltika 7, we feel that we should do better. And for that, we have new plans for next year. Baltika 0 has worked very well for us in terms of the market share.

So, in general, we are happy with the market share, especially in the modern trade because that's the fastest-growing channel in Russia at this moment of time. And with regard to the overall performance of Baltika brand, it's a good performance but we want to do that even better next year.

Heine Dalsgaard

And just – perhaps, just a comment on the cash you also asked about, it's clear that the golden triangle is – it's a way of working. It's the way of working where we ensure the right balance between volume and value. And it's very clear that the positive impact we see on EBIT goes through to the cash flow as well. So, there's nothing in here sort of that doesn't translate into cash except for of course the difference between organic and reported. But in terms of the reported EBIT, we'll see the same benefit on cash.

Søren Samsøe

Okay. That's nice. Nice to get the confirmation on that. Thank you.

Operator

Thank you. Our next question comes from the line of Ed Mundy from Jefferies. Please go ahead. Your line is now open.

Edward Mundy

Hi. Good morning, everyone. Three questions, please. You mentioned that you're seeing the Russian market trying to bottom out if you back out the PET ban. Is this really a comment that consumer sentiments start to improve? Or do you feel that the per capita is falling to a level where you start seeing growth coming back?

Secondly, on your big city strategy, I was just wondering if you're able to comment as to whether you've got the sales teams in place? And have you found the right partners for the asset-light strategy?

And then, lastly, on Funding the Journey and phasing of the benefits. I think you mentioned that you are seeing the benefits come through slightly faster than initially anticipated. Can you remind us of the weighting for 2017 and 2018?

Cees ‘t Hart

Well, with regard to the Russian market, yeah, if you look at it from a longer-term perspective, the market quarter-after-quarter came down by double-digit decline percentages. And what we see now is that it's a single digit, the percentages. And even in the last quarter, 0.5 positive. So, in that respect, we feel that it's bottomed out. The consumer confidence has not improved, but we think that we are now at the level that was in equilibrium between the consumer confidence and, let's say, the consumption they have. Again, the 4-5% decline for next year is mainly in the shift of the PET bottle. That's a bit unknown. On the other side, in Russia, what we have seen over last couple of years is that the excise duties went up significantly. We now know that for 2017, there will be onl RUB 1 increase and then there's a kind of break as it seems now for another two years. So, in that respect, it's transparent what we can expect. The NAB excise threat is over for the coming three years. We know what the EGAIS system has done to us. That's not a lot of impact as I said earlier, and in that respect, the bigger slightly unknown is the PET volume downsizing. So, in that respect, if there are no other big, let's say, surprises in Russia that has an impact on the consumer confidence, we feel that this is more or less what we can expect for 2017.

With regard to the big cities, you will appreciate if we don't say too much at this moment of time. When we start to hit the markets or the cities, then we will update you immediately of course. We are in preparation. Yes, we have found a few partners which are excited by our plans. And we have, I think, a very good team that is really building fast – building faster plans. And I think by let's say June next year, we should be able to comment more on where we have landed our first operations.

Heine Dalsgaard

In terms of the phasing of Funding the Journey benefit, it's clear that this is not an exact science. So, what we see in terms of the DKK 1.5 billion to DKK 2 billion is approximately one quarter this year. More next year, let's say around half of the total benefits and then the remaining of it will come in 2018. It's important to say that this is of the DKK 1.5 billion to DKK 2 billion. The phasing of the net impact, so half of that, what goes to the bottom line is different because of the fact that it does take time to ramp up our SAIL'22 initiatives. So, half of the benefits will be invested into SAIL'22 that was launched earlier this year and simply the phasing of that is more towards the latter part of the period.

Edward Mundy

Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Carl Walton from UBS. Please go ahead. Your line is now open.

Carl Walton

Yeah. Thanks for taking the questions. Just a few from my side, one on Asia and can you give more color on Vietnam or Vietnam and Cambodia growth rates. Presumably, it was more in line with the kind of market growth rates in the third quarter, is that right given that we've – have we cycled the destocking that you're seeing the in the first half?

Second question, is just a follow up on the big cities. Clearly, you can't say which cities you're moving into before June, as you say. But if you are willing to share anything in terms of just – now that the plans are in place without specific cities, can you mention how you're thinking about specific targets on market share gains or how quickly you're expecting to really sort of execute on the roll out plan you have there.

And then the last one just on the news last month around Kirin's stake in Brooklyn. Obviously, a kind of competitor taking a stake in a partnership distribution agreement you have, is there anything you can comment on how you see that or whether you anticipate any sort of impact from that strategically with your partnership? Many thanks.

Cees ‘t Hart

Okay. Thank you very much. With regard to Asia and Vietnam and Cambodia. In Cambodia, we have gained share significantly over the past five years. We have lost some momentum in Q2/Q3 on the back of distributor reorganizations and increased price competition.

However, the Tuborg brand was successfully launched in Q3, so as we speak, and already achieved 40,000 hectoliter sales. The Q4 outlook is stronger as new distributors bet in and Tuborg expanded its distribution footprint. So, in total, on Cambodia, we're a bit disappointed about Q2/Q3 and we are excited about the first success of Tuborg brand and we'll pursue it further.

Volumes in Vietnam are flat in Q3. We held share in Q3. We were basically growing slower than some of our competitors as we are exposed to lower growth central provinces as you know so it is a footprint issue. However, we gained premium share with the successful launch of Tuborg that again after or together with Cambodia is an excitement development.

And we see rapid growth for Huda Gold in Da Nang, that's the third city in the heartland of one of our competitors. So, in that respect, let's say, a bit of mixed picture but with the Tuborg launch we are excited about the progress there.

With regard to big cities, again, we will not comment on that too much. Just to make sure that we manage your expectations, we said that earlier, it will be a bit of a slow burner. We're going to pilot four, five big cities across the globe in 2017. We will learn from that and then scale up. We will do that, indeed, asset light. But I think some of the other initiatives like NAB and craft and specialities, which are important part of our SAIL'22, will have a faster and a more significant impact on our plans in the coming two, three years than big cities. That's again, that's a bit of a slow burner in the direction of 2019, 2020.

Kirin's stake in Brooklyn. Yeah. Well, we have a very good relationship with Brooklyn. And with the kind of contexts and contracts that we have, we got what we want. We continue that. We even have expanded that in Europe, and we start now in the UK with license distribution of Brooklyn. So, in that aspect, we did not see a reason to make another approach towards Brooklyn then continuing and even enforcing the kind of contracts and context that we have.

Carl Walton

Very clear. Thanks.

Operator

Thank you. Our next question comes from the line of Trevor Stirling from Bernstein. Please go ahead. Your line is now open.

Trevor Stirling

Good morning, Cees and Heine. Two questions from my side, please. The first one is, you mentioned that there was a stock build towards the end of the Q3 in Russia. Should we be expecting further stock build in Q4 ahead of the PET transition?

And the second question, in terms of scope and net of acquisitions, there was roughly 1% drag at a group level from Asia, presumably from Malawi. Should we be expecting that to continue on to the next three quarters?

Cees 't Hart

Trevor, thank you. Good morning. With regard the stock level, no, we should not expect that for Q4 because we are not allowed to ship 1.5 liter-plus PET bottle anymore to the trade. And so, we should be dry, if you like, by the end of this quarter. So, no stock build on Q4 in that respect.

Heine Dalsgaard

And in terms of the effect from divestments in Asia, the approximately minus 1%. You're absolutely right that it comes from Malawi, and you're also right that you can expect that to continue for the next quarters as well.

Trevor Stirling

Thank you very much, gentlemen.

Operator

Thank you. Our next question comes from the line of Andrew Holland from Soc Gen. Please go ahead. Your line is now open.

Andrew Holland

Yeah. Thanks very much. A couple of questions. Actually, just picking up on that last answer from Trevor's question. You're saying you're not allowed to ship in Q4 1.5-liter-plus PET. Can you tell me what's behind that? Second one is, can you give us any clues on the timetable or possible timetable for the HABECO transaction if that transacts? And thirdly, simply because it's rather timely, can you tell us if you think you've got any likely impact from the Trump victory?

Cees 't Hart

Okay. Thank you, Andrew. Good morning. Maybe, I have not been clear enough, but it's not about that we're not allowed to ship in Q4, but we are not allowed to ship in Q1 next year anymore. So, everything that we want to bring to the market needs to be done in Q4 in terms of 1.5-liter-plus PET. That means that we should not have any stock by the end of this year in 1.5-liter-plus, otherwise, we cannot ship it to the market anymore. And basically, we'll have a problem there.

So, we are facing that out. And as we speak, we are not even producing the 1.5-liter-plus anymore in order to prevent that we have stocks that we then cannot ship anymore. So, it's a military action, if you like, in order to make sure that the pipeline dries up and that we get our new 1.4 liter propositions into the market by the end of this year.

Heine Dalsgaard

In terms of the question on HABECO, of course, you know that we never comment on ongoing negotiations. We are in a dialogue with HABECO. We signed the MoU, as you know, in 2009 and that MoU contains first right of refusal. We will come back to you when we have something more concrete, but we will not give any specific comments as for now, also not on timing.

Cees 't Hart

With regard to the outcome of the elections, although I fully understand your interest, we never comment on election results, and I will not make an exception today. The U.S. voters has spoken, and I guess we should all respect that.

Andrew Holland

Okay. Thank you. And just one follow-up. Just related to your UK logistics disposal. Just so I'm clear on that, that is your business that delivers direct to pubs. Is that what you sold?

Heine Dalsgaard

Yes, it is. And you know we sold this business as part of sort of the recovery and restructuring plan of UK. So, the main purpose of that was to go back into profitability and strengthen our position in terms of profitability in the UK. That's the purpose of it.

Andrew Holland

Okay. And whom have you sold that to?

Heine Dalsgaard

We sold it to DHL.

Andrew Holland

Okay. So, is that a trade team?

Heine Dalsgaard

Yeah.

Andrew Holland

All right. Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Tristan van Strien from Deutsche Bank. Please go ahead. Your line is now open.

Tristan van Strien

Good morning, gentlemen. Three questions if I may. Just the first one on Western Europe. These volumes that you've lost in Poland, UK and Finland, do you expect to get those back next year? And if you do, why would they not be margin dilutive? I mean, why would Tesco give you a better deal next year, basically, and such?

The second question, just a bit of clarity on your Russia stock build. So, if I heard you correct, you said it was a 3% increase in stock for the company. If I do my calculations, basically, that means all your growth in Russia, your mid-teen growth has come from the PET 1.5 liter and above. Is that correct? Or another way of saying it if excluding the 1.5 liters and up, what would your growth have been in Russia, basically?

And then the third one, just a follow up on HABECO. Besides the first right of refusal, do you also have a last right of refusal or once you got into the auction process and you did not – and things keep ratcheting up basically, it's an open auction? Thank you.

Cees ‘t Hart

Okay. Thank you very much. Well, except maybe from Tesco, who decided this for us. The other two contracts we decided on because of our lower margin, and, yes, we had. The name of the game is coming back there, but obviously not for the same kind of margin as we exited it on. So, we continuously talk with the three of them of course, and we want to improve our margin there. And otherwise, frankly we're not in business with them, following our Golden Triangle. So, it doesn't make sense to come back, it will be the same kind of trade terms as we had in the past. That's the answer on that front. With regard to – yeah. Sorry. Yeah?

Tristan van Strien

No, no, sir. Go ahead.

Cees 't Hart

Okay. Then, with regard to Russia, I said it's not 3% but three days of stock. We feel it's 1% to 2% of Q3 growth, so that's the impact of that. And with regard to HABECO?

Heine Dalsgaard

Yeah. With regards to HABECO, we do have – as we've said, continuously, we do have a first right of refusal. We cannot and we will not comment more specifically on the ongoing negotiations but we do have the first right of refusal.

Tristan van Strien

Okay. So, just to go back on the Russia. So, of that mid-teens growth in Russia, only 1% to 2%, are you saying, is coming out of the large-pack PET?

Cees 't Hart

Yes. We had 16% volume growth and 1% to 2% is part of the PET bottle.

Tristan van Strien

Okay. Thank you.

Cees 't Hart

I think we have time for a final question. Can we have the final question, please?

Operator

Okay. Sure. The final question comes from the line of Alicia Forry from Liberum. Please go ahead. Your line is now open.

Alicia Forry

Hi. Good morning. Just coming back to the low growth that we're seeing in Vietnam and Cambodia and, just generally, in some of your Asian markets outside of India. Can you give us some sense of what your outlook is for that over the near term for growth in those markets because with volumes growing 4% ex-China, and India up 20%, it must be pretty weak growth, I think, there. And you've touched on some the reasons for that. But if you could just give us a sense of what we might expect in the underlying growth over the near term from these markets, I think, that would be helpful.

And then, also, can you comment at all on the outlook for further brewery closures in China over the near term.

Cees 't Hart

Okay. Thank you very much, Alicia. With regard to Asia, we're still positive about Asia as you have seen in our results, and we continuously comment on. China might be under pressure with regard to volumes mainly due to the fact that we retrieved from Asian assets, but we see our value brands growing significantly which, of course, is good news for us in China.

India is moving well. And to your point, Vietnam and Cambodia is a bit less stellar. But there, we must admit that we didn't have much new commercial activities over the last couple of years. And we have therefore launched the guidance of SAIL'22, the Tuborg brand, and we have a lot of expectations from there. The penetration is already relatively high. We see the distribution developing very well. The repeat is good. So, in that respect, we expect from Vietnam and Cambodia more in the future.

Heine Dalsgaard

Yeah. In terms of the outlook for further brewery closures in China, as we've said, we are not done with the program yet. We still have a few breweries we're working on, but we're not going to be more specific, but we still have a few we're working on.

Cees 't Hart

So, it takes us through the end of the call. This was the final question for today. Thank you for listening in, and thank you for your questions. We are looking forward to meeting some of you during the coming days and weeks. Have a nice day. Bye-bye.

Operator

Thank you. This now concludes our conference call. Thank you, all, for attending. You may now disconnect your lines.