

## Noodles

**Ref. Code: 10457**  
**29 September 2007**  
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### Overview

According to the industrial production statistics of Taiwan's Ministry of Economic Affairs, the value of sales of Taiwan's noodles declined 3.95 percent to NT\$5.599 billion in the first half of 2007, while the value of output contacted 3.49 percent to NT\$5.771 billion. That is to say both values edged down despite a surge in prices of cereals, resulting in high operating costs. To avoid putting a damper on buying sentiment, operators kept prices unchanged, but sales volume of noodles declined in the first half of 2007 as a result of growing competition from frozen and fresh foods.

Table 1: Outputs and Sales of Noodles in Taiwan

Unit: NT\$ million; %

Item	2003	2004	2005	2006	2007H1
Sales Value	10,504	11,137	11,402	11,906	5,599
YoY	-2.33	6.03	2.38	4.41	-3.95
Output Value	10,752	11,014	11,150	11,820	5,771
YoY	-1.62	2.44	1.23	6.00	-3.49
Inventory Value	635	390	499	464	568
YoY	38.30	-38.64	27.94	-6.94	-24.68

Source: Industrial Production Statistics, Ministry of Economic Affairs

Arranged by Taiwan Industry Economics Services, September 2007

Noodles consist of noodle products and instant noodles. According to the industrial production statistics of the Ministry of Economic Affairs, the value of sales of noodle products rose at annual pace of 2.10 percent to NT\$1.575 billion in the first half of 2007. Although a persistent increase in prices of cereals in the world marketplace raised pressure on price of flour, operators kept the prices unchanged to prevent consumers from fleeing. Consequently, sales rose marginally.

On the other hand, an increase in prices of oil, flour, etc has adversely affected prices of instant noodles in recent years. To maintain profits, operators cannot but raise prices, helping bridge the price gap between instant noodles and other alternative foods. In the first half of 2007, the value of sales of instant noodles dropped 6.13 percent annually to a modest NT\$4.024 billion. Compared to the past, sales were weaker than expected.

Table 2: Sales Value of Noodle Products in Taiwan

Unit: NT\$ million; %

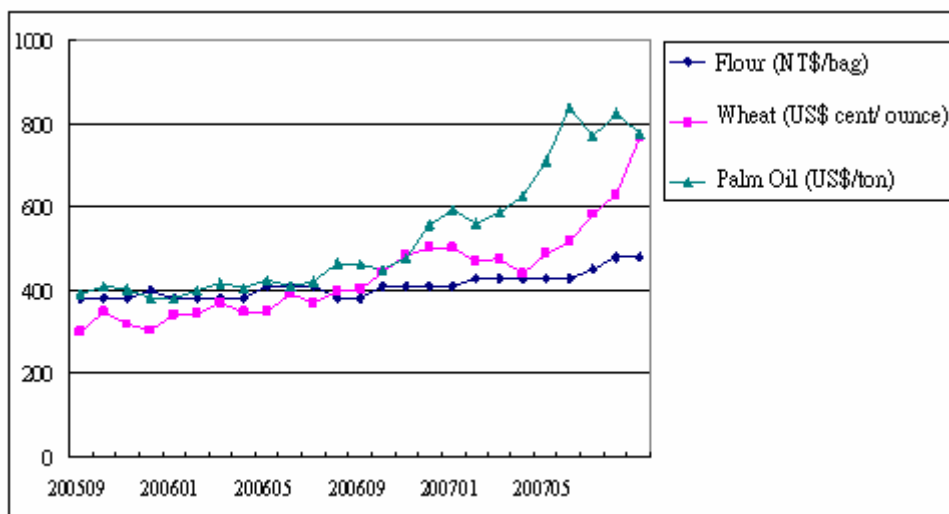
Item	2003	2004	2005	2006	2007H1
Noodle Products					
Sales Value	2,603	2,979	3,159	3,297	1,575
YoY	5.42	14.48	6.05	4.36	2.10
Instant Noodles					
Sales Value	7,901	8,158	8,243	8,608	4,024
YoY	-4.64	3.24	1.04	4.44	-6.13

Source: Industrial Production Statistics, Ministry of Economic Affairs

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Palm oil and flour are the main ingredients for noodles. But a sharp increase in prices of wheat adversely affects prices of flour. Demand for wheat continues to rise worldwide in 2007, fueled by climate change. In September 2007, prices of wheat reached an all-time record high of 835 US cent per ounce, ever seen in 30 years. Compared to the beginning of 2007, prices have jumped 78.61 percent. Taiwan mainly relies on imports of wheat to meet the domestic demand. A continuous increase in prices of wheat has prompted flour makers to raise prices accordingly.

According to Taiwan Economic Journal (TEJ), prices of flour soared 11.63 percent to NT\$480 in August from NT\$430 per bag in early 2007, and may continue to rise in the future, putting instant noodle makers under growing pressure. On the other hand, palm oil, another ingredient for instant noodle was affected by increase in prices of oil and growing applications of oil palm to the production of diesel oil. Moreover, China scrapped quota for imports of palm oil, increasing worldwide demand. Consequently, prices of palm oil advanced to US\$775 in August, up 38.39 percent from US\$560 at the beginning of 2007.



Source: Infowinner

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**Figure 1: Trends in Prices of Wheat, Flour and Palm Oil**

According to the Market Observation Post System, the revenues of noodle manufacturers rose in the first half of 2007 thanks to high acceptance of newly developed products and strong performance in China, with Uni-President recording the largest revenue growth. Although sales of instant noodles remained flat in Taiwan in the first half of 2007, strong demand in China boosted sales. Enjoying a competitive-edge in procurement, gross margin of Uni-President was higher than those of its competitors amid soaring prices of raw materials, and gross margin remained unchanged, boosting profit in the first half of 2007.

Table 3: Operating Performance of Major Noodle Firms in Taiwan, 2007H1

Unit: NT\$100 million; %

	Uni-President	Ve Wong Corporation	Lian Hwa Foods
Operating Revenue	1450.23	25.13	24.72
YoY	25.23	15.79	10.49
Gross Margin	27.26	17.93	1.49
Operating Income	56.60	0.31	-1.59
YoY	111.88	-27.57	—
Profit Before Tax	85.83	0.20	6.80
YoY	147.69	—	30.65

Source: Market Observation Post System

Arranged by Taiwan Industry Economics Services, September 2007

## Industry Development

In the past the market size of instant noodles exceeded NT\$10 billion yearly. But the market size now ranges from NT\$8 billion to NT\$9 billion due to increased demand for health food nationwide. Acquisitions and mergers are crucial in coping with growing competition, and operators have successfully upgraded technologies resulting in the development of non-oil noodles, attracting many consumers.

But a sharp increase in prices of ingredients and social changes have prompted instant food makers to increase prices accordingly in 2007, helping bridge the price gap between instant noodles and frozen food. However, a large number of instant noodle makers continue to relocate production offshore, in particular to China in 2007, triggered by fierce competition from alternative food, growing operating cost fuelled by high prices of raw materials and the domestic market reaching the maturity point. Moving the production base overseas will have a negative impact on the development of this industry in Taiwan.

A surge in prices of raw materials in 2007 erodes gross margin and represents real threat for food industry, prompting operators to control cost efficiently, to cut promotion activities and to keep passing prices onto consumers. The instant noodle market faces difficulty in operating, pushing some firms to adjust their operating strategies.

Uni-President, for example, aggressively invests in beverages in China and enhances agricultural distribution channels. In addition, Ve Wong Corporation takes advantage of its rich experience in purchasing agricultural produce to engage in the production of ethanol, while Lian Hwa Foods Corporation diversifies its core business and aggressively searches for new market niches, demonstrating that firms rely on investment diversification to cope with gradual market maturity of food industry.

## Industry Outlook

The needs for alternative energy have increased worldwide, fueled by all-time record oil prices. The production of agricultural produce fails to increase substantially in the second half of 2007, helping keep prices high. A surge in prices of raw materials is a blow to noodles, putting noodle makers under growing operating pressure. Freight rates and prices of cereals may remain high during the second half of 2007, which will prevent consumers from buying and prompt operators not to raise sales prices accordingly. In other words, profits are subject to growing challenges. Therefore, the industry may continue to make loss.



Noodles manufacturing is facing fierce competition domestically because of rapid development of alternative food. The instant noodle market is reaching maturity status, slowing growth. That is to say, operators have to develop new products to spur buying sentiment. To avoid competition, operators should build a sound brand image and reinforce marketing strategies and brands to increase sales. A large degree of overlap in noodle products should exhort firms to improve their abilities to control costs in order to ensure profits. Moreover, operators should also rely on joint purchases to deal with soaring prices of raw materials. First-tier firms may rely on parent companies' resources, while small and medium enterprises on joint-purchases to lower costs.