Coke eyes record China deal
Robin Kwong and Jonathan Birchall

Coca-Cola has offered $2.4bn in cash to buy China Huiyuan Juice Group, in what would be the biggest takeover by a foreign company in China.

The deal would help the US-based company's expand in the world's most populous nation and allow it to diversify its drinks portfolio at a time when growth in the carbonated drinks market in China is slowing.

Muhtar Kent, Coke's chief executive, said the acquisition would "provide a unique opportunity to strengthen our business in China, especially since the juice segment is so dynamic and fast growing [there]".

Coke's efforts to expand beyond carbonated drinks have included buying Multon, Russia's second-largest juice company, three years ago, and its $4.1bn acquisition of Glacéau, maker of vitamin water, in 2007.

Consumers in China, as in Europe and America, have increasingly turned to juices, water and other non-carbonated drinks in recent years. Last year, sales volume of fruit juices in China surpassed that of carbonated drinks for the first time, according to Michelle Huang, an analyst at Euromonitor International.

Ms Huang said China's fruit and vegetable juice market was worth $10.6bn at the end of last year and is growing at an annual rate of 18 per cent.

Coke said it had agreed to buy a 23 per cent stake in Huiyuan, China's biggest juice-maker,from France's Danone and another 6.8 per cent from Warburg Pincus, the private equity group.

While Coke has already secured commitments for 66 per cent of Huiyuan's shares - from Danone, Warburg Pincus and Zhu Xinli, Huiyuan's chairman -the deal still needs the approval of the Chinese authorities.

Danone said it decided to sell its stake because "the price is good, it's three times the market price and reflects a [price/earnings] ratio of 50." Danone also said it was not in a position to take over Huiyuan fully as it was focusing on the natural water segment of the drinks market.

Coke is offering to pay HK$12.20 a share in cash, which is nearly three times Huiyuan's latest closing price of HK$4.14 on Friday.

Huiyuan's shares, which had fallen by half since the beginning of the year, yesterday closed up 164 per cent at HK$10.94.

Coke was advised by RBS and Huiyuan by Goldman Sachs.

Read more:

Coke to squeeze more from China
Robin Kwong and Tom Mitchell

The soft drinks group plans to plug a product gap, say Robin Kwong and Tom Mitchell.

Coca-Cola's 47 products in China range from its trademark Coke to Ice Dew bottled water, and nearly everything in between.

Yet Muhtar Kent, the company's new chief executive and president, still saw a gap in the array of products Coke is offering in its fourth-biggest market.

He is now trying to fill it by making a $2.4bn offer for China Huiyuan Juice Group, the country's biggest juice-maker.

The acquisition would more than double Coke's market share in China's fruit juices market to about 20 per cent, far ahead of its next closest rival, according to market research firm Euromonitor International.

The move is part of Coca-Cola's global drive to expand its portfolio of beverages beyond fizzy drinks, Coke's traditional strength, a strategy that has included buying Russia's second largest juice maker, Multon, three years ago.

China's non-alcoholic drinks market has grown by 82 per cent in the past five years to $32.7bn at the end of last year, but of that fruit juice sales have grown by 160 per cent over the same period.

"Especially in the past two years, Chinese consumers are increasingly choosing healthy drinks such as juice or tea," says Michelle Huang, a Shanghai-based analyst at Euromonitor. Carbonated drinks account for about three-quarters of Coke's China business and are managed through a network of provincial bottling companies.

The bottlers, which source concentrate from a Coke plant in Shanghai, are responsible for production, sales and marketing. Coke's two main China bottling partners are Swire, the Hong Kong-based conglomerate, and Cofco, a state-owned grains and oils giant.

Two years ago, Coke agreed to acquire its third major China bottler, Kerry Beverages, from Robert Kuok, the Chinese-Malaysian tycoon.

But as in other parts of the world, Chinese consumers are increasingly turning to the company's non-carbonated drink products, including the best-selling Minute-maid.

This side of the business also encompasses tea, water, milk, coffee and sports drinks.

"It's a good move for Coke," one person close to the company said of its move on Huiyuan.

"They can't turn 1.3 bn Chinese into US-style Coke drinkers because they are very keen adapters of international trends."

Yet Coke's efforts with Huiyuan could still come to nothing if Beijing vetoes the deal.

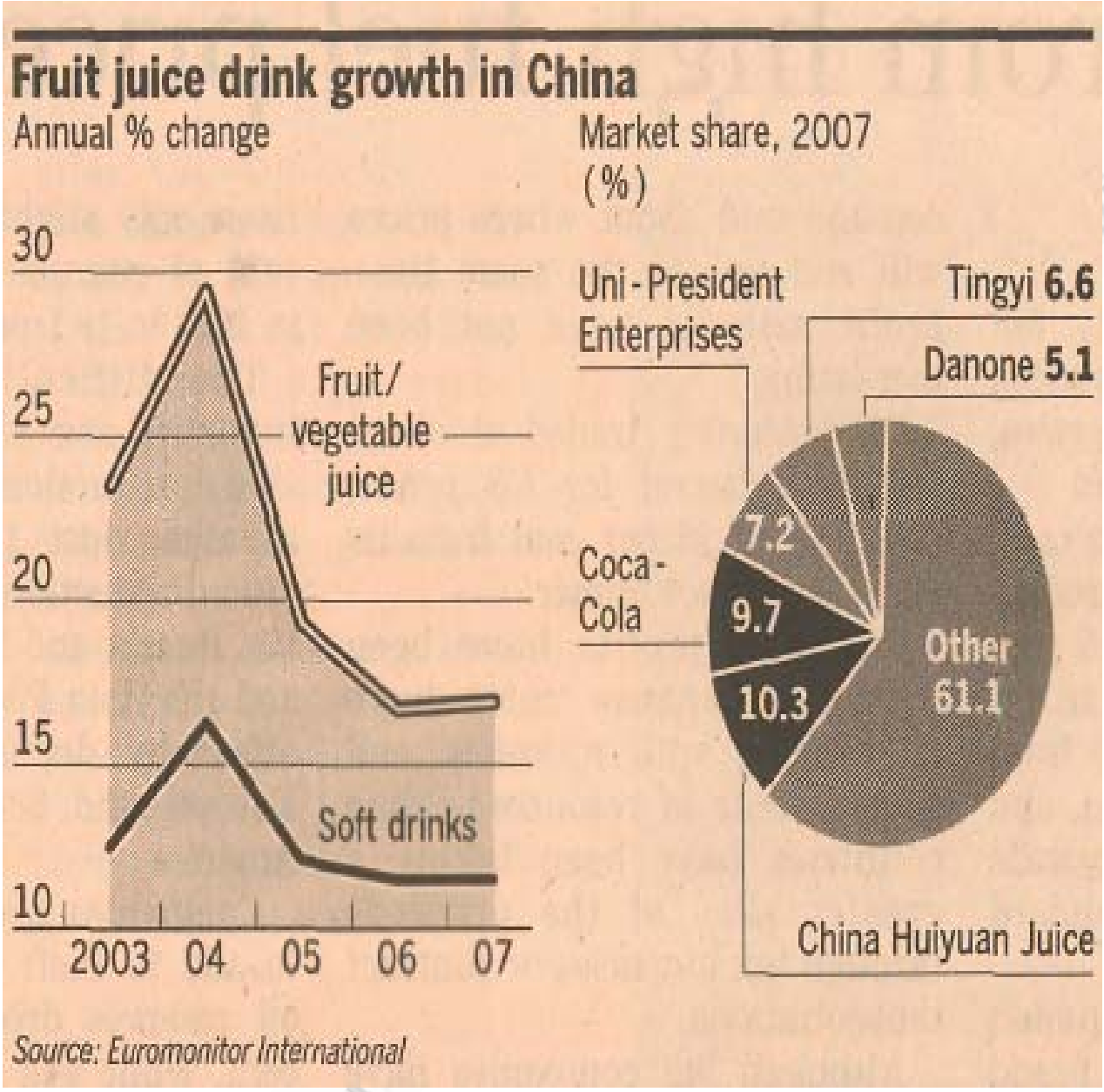
While food and beverages companies are not as strategically sensitive as the steel sector, where China has frequently scuttled deals, not all Chinese welcome the foreign takeover of a successful home-grown brand.

The deal would also be the first major test of China's new anti-competition policy, enacted last month.

An online poll conducted by internet portal sina.com, yesterday, showed 82 per cent of 52,000 respondents opposed the deal, saying it would be an example of foreign capital destroying a "cultural pillar".

"It's still a long way to go," said one person involved in the transaction.

"We take these [approval] processes very seriously and there's not a lot of precedents for them."



Fonte: Financial Times, London, September 4 2008. Companies & Markets, p. 13-14.