



The Acquisition of Harbin Brewery by Anheuser-Bush

On May 2004 Anheuser-Bush, the giant US Beer company announced that it controlled 36% of Harbin Brewery, the fourth largest Chinese brewer after the purchase of 6.% of shares from a US Fund. Harbin Brewery, being listed on the Hong Kong Stock Exchange, Anheuser Brewery would have to bid for the remaining shares. The price paid at 0.72 US\$ /share puts a total value of 720 Million US\$ for the entire company. This acquisition marked the end of a bidding war between the US giant and SABMiller, the South African brewer.

The China Beer Market.

With a consumption of 24.3 Billion litres of beer, China became the largest beer market in volume in the world overtaking the US. While the consumption per capita is still modest (12 litres/cap) as compared to 38 L/Cap in Korea, 51L/Cap in Japan, 90L/Cap in the US and 100L/cap in the UK. With an average growth rate of 6% a year the market is expected to reach 40 Billions litres by 2012. With still 400 producers and 700 local brands, the industry is fragmented but is consolidating rapidly through mergers and acquisitions. Tsingtao, the leading brand has acquired more than 40 local brewers from 1997 to 2004, followed by SABMiller. The competitive rivalry is intense due to several factors: first the fragmentation of market and the entry of many foreigners attracted by the growth and volume of the market. Second the lack of national brand recognition and the low purchasing power of the masses of Chinese consumers who put their preference on cheap local brands means that most foreigners have lost money in the China market. Foster from Australia sold all breweries that it had in China. However strong players are emerging: some are local such as Tsingtao, Yanjing or Harbin some are multinational such as SABMiller, Interbrew and Anheuser-Bush

Anheuser-Bush in China

Anheuser-Bush's entry into China was in 1993 through 5% participation to the capital of Tsingtao brewery, the internationally renowned Chinese brewer based on the East coast, and then later in February 1995 through a \$140 Million acquisition of 80% stake in Zhongde Brewery, a large brewery in Wuhan, in Hubei province, eastern China. The Company produced its global brand "Budweiser" in Wuhan and launched a massive advertising campaign to build the name as a premium brand all over China. The results were not as expected due to the fragmented nature of the market, the severe competitive rivalry in the crowded premium segments and the difficult logistical problems in transportation, warehousing and distribution. The market share of Anheuser-Bush in China in 2003 was around 1%.



Harbin Brewery

Listed on the Hong Kong Stock Exchange, Harbin Brewery was in 2004 the fourth largest brewer in China (Exhibit 1) with a market share of 4%. It was implanted primarily in the Northeastern part of China where the beer consumption per capita was 36 liters, twice the national average. In its home city, Harbin it held 76% of market and 43% in the Heilongjiang province. After its listing in 2002, 41% percent of its shares were in the hand of the public, the remaining part being shared by Harbin municipality (29.1%) and an Irish Investment Fund (29.4%). For Anheuser Bush an acquisition of Harbin would give an opportunity to gain scale and geographical expansion in a high consuming region.

(See Exhibit 2 for financial information on Harbin Brewery)

SAB Miller

SAB, a South African company became the third largest global brewer after its acquisition Miller in the USA. SAB through a minority joint venture with China Resource Enterprise developed a very successful China strategy based on an initial concentration in the North Eastern province of Liaoning (Dalian and Shenyang), the use of local brand names and a positioning of “quality beer at affordable price” contrasting with the premium brand strategy adopted by other foreigners. SAB was the only foreign company making profit in the China beer market and its strategy was to expand nationally through acquisitions. Harbin brewery would be a natural extension of SAB strong presence in the North East part of China.

The Battle for Harbin

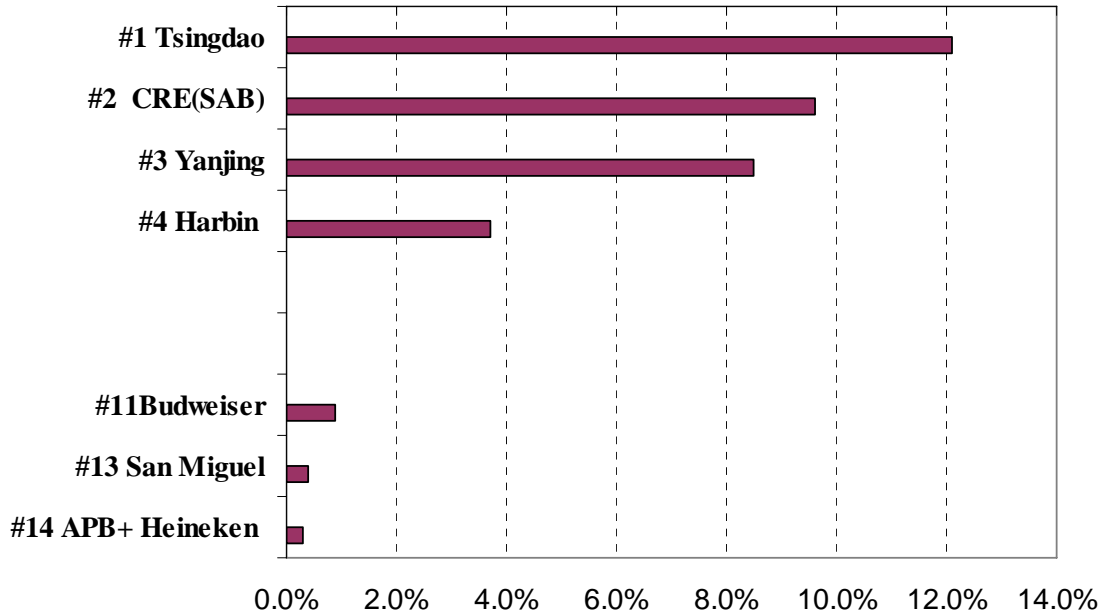
The battle started when in June 2003 the Irish fund sold its 29.4% to SABMiller for 86.77 Million US\$. All observers thought that SAB Miller was going to complete its move and acquire the remaining 29%. But in March Harbin municipal government sold its 29.1% shares to a Hong Kong Fund. Two months later the 29.1% shares were sold to Anheuser-Bush for 139 Million US\$. That left the two prospective buyers each with 29%, a non-controlling position. Then a bidding war started. On May 24 SAB Miller made an offer of 4.30 HKdollars (0.48 US\$) a share for the remaining part putting the total value of Harbin at 475 Million US\$. One week later Anheuser Bush proposed 5.58 HKD (0.72US\$) putting the total value at 720 Million US\$. SAB Miller retreated from the bid. (See exhibit 3 for financial information on Anheuser-Bush)

QUESTIONS:

- 1) What is the value of Harbin Brewery?
- 2) How do you compare the value with the price paid by Anheuser-Bush?
- 3) Why Anheuser-Bush is willing to pay the proposed price?
- 4) What issues do you anticipate during the post acquisition phase?



Exhibit 1
Market Shares of Beer Companies in China (2003)



Source:Euromonitor 2004



**Exhibit 2
Harbin Brewery Financial Summary**

<i>Million HongKong Dollars (HKD)</i>	<u>2002</u>	<u>2003</u>	<u>2004 F</u>
Current Assets - Current liabilities	14	97	58
Fixed Assets	1,386	1630	1834
Intangible and others	218	158	150
Total Net Assets	1618	1885	2042
Long Term Liabilities	811	848	860
Shareholders Equity	807	1037	1182
Total LT debts and Shareholders Equity	1,618	1,885	2,042
Sales	1120	1400	1470
EBITDA	353	315	381
Taxes	34	15	42
Interests	49	46	31
Depreciation and Amortization	108	110	114
Capital Expenditures	172	80	70
Bank Loan Repayments	71	310	124
Increase in Working Capital requirement	60	-86	39
Number of Shares (Millions)	1000		
Share Price in April 2004 (HKD)	3.22		
Exchange rate: 1US\$=HKD	7.78		

Source: Reconstituted from Zhigang Tao, "Anheuser-Bush versus SABMILLER: Bidding War in China's Beer Industry", Asia case Research Centre and Fudan University, Case HKU411, 2004



Exhibit 3
Anheuser Bush Financial Summary

Financial Summary — Balance Sheet and Other Information

Anheuser-Busch Companies and Subsidiaries

Year ended December 31 (in millions, except per share)	2004	2003	2002
Balance Sheet Information:			
Working capital (deficit)	\$ (150.6)	\$ (226.9)	\$ (283.0)
Current ratio	0.9	0.9	0.8
Debt	\$ 8,278.6	\$ 7,285.4	\$ 6,603.2
Shareholders equity	\$ 2,668.1	\$ 2,711.7	\$ 3,052.3
Return on shareholders equity	83.3%	72.0%	54.4%
Book value per share	\$ 3.40	\$ 3.33	\$ 3.61
Total assets	\$16,173.4	\$14,689.5	\$14,119.5
Other Information:			
Operating cash flow before change in working capital	\$ 3,121.9	\$ 2,938.3	\$ 2,624.3
Capital expenditures	\$ 1,089.6	\$ 993.0	\$ 834.7
Operating cash flow after capital expenditures (Anheuser-Busch free cash flow)	\$ 1,850.7	\$ 1,977.9	\$ 1,930.5
Common dividends paid	\$ 742.8	\$ 685.4	\$ 649.5
Per share	\$.93	\$.83	\$.75
Price/earnings ratio	18.3	21.2	22.0
High and low closing price of common stock	\$54.29-\$49.45	\$53.69-\$45.92	\$54.97-\$44.00

Source: Anheuser- Bush Financial Overview 2004 available at <http://www.anheuser-busch.com/AnnualReports.html>