Coca-Cola heads for tricky AB InBev deal

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Picture: Reuters/Jacky Naegelen

The Coca-Cola Company's decision to acquire additional African bottlers from Anheuser-Busch InBev will make the multibillion-dollar transaction considerably more complicated than the one that was originally announced in October 2016.

Competition analysts believe it will involve another year of detailed engagements with competition regulators in many African countries.

Within hours of AB InBev announcing the completion of its $104bn acquisition of SABMiller in October, Coca-Cola Co announced it was exercising a change of control option relating to a portion of its African bottling operations.

The option allowed Coca-Cola Co to take over the 57% stake in its bottling and distribution operations owned by SABMiller. The stake is held in Coca-Cola Beverages Africa (CCBA).

AB InBev (formerly SABMiller) holds 57% of CCBA, the Gutsche Family Investments (a private entity) holds 31.7% and Coca-Cola Co holds 11%.

Coca-Cola Co will be paying a slightly lower than expected $3.4bn for the 57% stake.

CCBA, which was formed last year after a drawn-out merger process, has Coca-Cola bottling operations in SA, Namibia, Kenya, Uganda, Tanzania, Ethiopia, Mozambique, Ghana, Mayotte and Comoros.

The plan originally announced in October was restricted to these countries. However, in a joint statement issued in late December, Coca-Cola Co and AB InBev said they had agreed to include all of AB InBev's sub-Saharan African-based Coca-Cola bottling operations as well as those in El Salvador and Honduras in Latin America.

Bottling operations in Zambia, Zimbabwe, Botswana, Swaziland and Lesotho had been excluded from CCBA because they involved beer as well as soft drinks.

SABMiller had intended to include these countries in phase two of the CCBA deal. That phase was expected to be completed 12 to 18 months after completion of phase one. However, the AB InBev bid for SABMiller stymied this plan.

Trevor Stirling of Bernstein Research said he was not surprised by the inclusion of the additional countries but said it would make the transaction more challenging.

"Many of Coca-Cola's bottlers are also brewers, but Coca-Cola Co doesn't like having them together," said Stirling.

This means new facilities will have to be built, and in countries such as Zambia there is no obvious partner to run the process.

In its end-December announcement, Coca-Cola Co said it planned to hold all of the countries temporarily until they could be refranchised to other partners. "We will move forward with our long-term strategic plan in these important growth markets. We are continuing negotiations with a number of parties who are highly qualified and interested in these bottling territories and look forward to refranchising these territories as soon as practical following regulatory approval," said Muhtar Kent, outgoing CEO of Coca-Cola Co.

Analysts say Coca-Cola Co has little choice but to acquire the African and Central American assets given AB InBev's close ties with major rival Pepsi in South America. Speculation continues that AB InBev will make a bid for Coca-Cola Co.

"Clearly it won't happen in the short term but a bid for Coca-Cola is a possibility one day," said Stirling.

The acquisition of the African operations is expected to see Coca-Cola Co and its partners spending several more months in front of competition authorities across the continent.

Phase one of the CCBA transaction took 18 months as the regulators, particularly those in SA, sought to implement competition safeguards.

African competition regulators flexing their relatively new muscles appear particularly concerned about the power of big global brands such as Coca-Cola and Pepsi, and their ability to block new entrants who do not have established brands or distribution networks.

Apart from the regulators, another party watching proceedings closely is the Food and Allied Workers' Union. Its general secretary, Katishi Masemola, who has spent much of the past 24 months ensuring the interests of his members are not compromised by the continuing corporate actions, said he would be following the deal closely.

"The company has said it only expects to conclude the transaction in a year's time, so it is still early days, but I imagine this will be another busy year."

He would be meeting with the head of CCBA later this week, Masemola said.

Source: Business Day