

Milk and Honey: China's Mengniu Dairy Bids to Acquire Bellamy's

By Joshua Fernandez

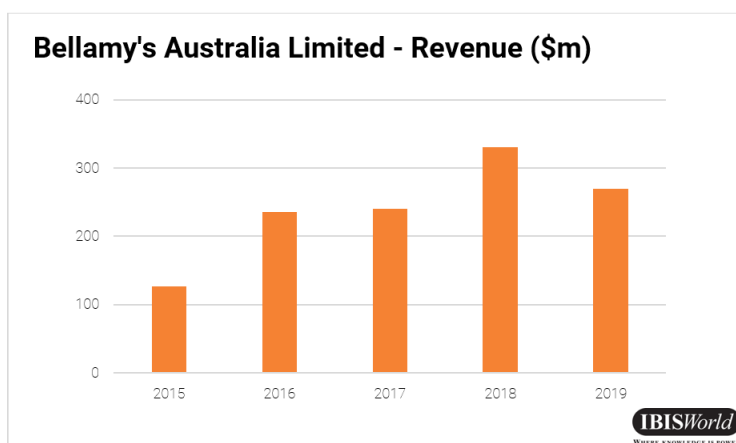
The proposed acquisition of Bellamy's by China's Mengniu Dairy exemplifies China's rising demand for foreign-sourced staples.

The proposed takeover will likely be heavily scrutinised by both policy makers and the public

The proposed takeover of Bellamy's Australia Limited by China Mengniu Dairy Company Limited, announced in September 2019, comes as the Australian company's focus on baby formula exports to China begins to bear fruit after several setbacks over the past five years. The takeover values the company at approximately \$1.5 billion, with the offer placing a 59% premium on the company's share price at the time of the bid. With Bellamy's share price increasing by 35% on the day of the announcement, the market has placed its confidence in the food manufacturer and wholesaler's future, pending FIRB approval.

With revenue rising at an annualised 40.5% over the five years through 2018-

19, Bellamy's profile has grown substantially over the same period. With very strong demand for foreign-made infant formula from China, the company's performance has depended on its ability to obtain export rights to the country, which have been both granted and revoked throughout its history. Bellamy's has relied on informal exporters that would purchase formula in bulk to bring into China, while also aiming to receive accreditation to export and sell directly to Chinese consumers. The company's share price has reflected decisions by the Chinese Food and Drug Administration to either grant, postpone or revoke its import license into China, citing operational changes by Bellamy's for its decision.



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Mengniu Dairy is a publicly traded company on the Hong Kong Stock Exchange, and counts the state-owned China Oil and Food Corporation (COFCO) as one its major shareholders. With the Chinese market having a short history with consuming dairy products as a staple, China's Dairy Product Production industry is nevertheless recording strong growth. Industry revenue is expected to increase by 7.9% in 2019. Mengniu Dairy's revenue is anticipated to rise by 14.3% in the current year, having recorded growth of 17.0% in 2018.

Although Mengniu Dairy has grown rapidly over the past five years, the firm was one of 22 companies that was found to have contaminated its powdered milk with melamine in 2008. These companies placed melamine in powdered milk to falsify higher

protein content in the product, which led to over 50,000 babies being hospitalised. The incident caused a loss of trust in locally made infant formula, which led to rapid growth in demand for foreign-sourced formula by Chinese consumers.

With the takeover bid being assessed by the FIRB, it remains to be seen if the bid will be successful. The trend of foreign entities acquiring locally owned food producers has been in the political limelight for several years. As a result, major acquisitions by foreign companies, such as the proposed Bellamy's takeover, will be heavily scrutinised by both policy makers and the public.

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