



ALASKA MILK CORPORATION

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# Quarterly Update

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## FIRST HALF NET INCOME UP 25% Y-O-Y

**2Q02 Review.** Revenues in 2Q02 reached P1.033 billion, slightly higher than the P1.025 billion in revenues earned in 2Q01. Improved sales of powdered and UHT milk helped push revenues during the quarter, but weak sales of liquid canned milk impeded further revenue growth. Milk consumption in the second quarter remained sluggish as consumer spending was affected by the difficult economic conditions. Revenues in the second quarter of 2001 also partially reflected sales from the distribution of Nabisco products. Comparing revenues from the milk business alone, revenues in the quarter were up 3% from 2Q01 milk revenues. Cost of sales and operating expenses declined 7% to P915 million in 2Q02 from P985 million in 2Q01. The lower expenses pushed operating income 196% higher year-on-year to P118 million or 11.4% of net sales from P40 million or 3.9% of net sales in 2Q01. Interest and other income, net of other expenses, amounted close to P10 million, putting net income in 2Q02 at P92 million or 8.9% of net sales, 72% higher than net income in 2Q01 of P54 million or 5.2% of net sales.

**1H02 Review.** First half 2002 revenues were down 7% to P1.935 billion from P2.073 billion. Comparing milk revenues alone, however, revenues in the first half of this year would be flat from last year's milk revenues. Cost of sales and operating expenses fell 11% year-on-year to P1.756 billion from P1.967 billion. Operating income amounted to P179 million, up 70% from last year's levels. Operating margin improved to 9.3% from 5.1% as a direct result of lower skimmed milk powder (SMP) costs. Interest and other income, net of other expenses amounted to P25 million. Consequently, net income in the first half of the year grew 25% to P150 million from P121 million in the same period last year.

### UPDATES AND OUTLOOK

**Skimmed Milk Powder (SMP).** SMP prices continue to soften with international market prices hovering close to US\$1,300/MT. Export activity in the world market has reportedly been light whilst domestic supplies remained quite excessive, forcing leading producers to keep prices competitive. EU export subsidies for SMP were likewise increased to about US\$675 per ton.

### Summary of Results:

**Sales Volume.** As a result of the difficult economic environment, milk consumption in 2Q02, particularly of liquid canned milk, remained weak. Both liquid canned and powdered milk categories declined in the first six months of the year, albeit marginally. The decline in powdered milk, however, came primarily from the full cream segment. Powdered filled milk actually posted growth in the first six months of the year as consumers preferred this milk type for its affordability. Following the market's trends, sales volumes of Alaska milk across all product lines,

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## YTD June 2002 FINANCIAL HIGHLIGHTS

Values- in PMM	1H02	1H01	%Inc(Dec)
Net Sales	P 1,935	P 2,073	( 7 %)
Operating Income	179	105	70 %
Net Income	150	121	25 %
Total Assets	3,064	3,194	( 4 %)
Stockholders' Equity	2,115	2,206	(4 %)
Ratios:			
Earnings Per Share	P 0.17	P 0.13	
Operating Margin	9.3%	5.1%	
Return on Sales	7.8%	5.8%	
Current Ratio	2.6x	2.7x	
Debt to Equity Ratio	0.45x	0.45x	

### Updates & Outlook *...continued from page 1*

**Latest Launch.** The Frisian brand is back as Frisian Full Cream Evaporated Milk. Scheduled for launch this August, Frisian is Alaska's latest product offer that guarantees all the natural richness of pure cow's milk. Its nutritious and delicious formulation is ideal for creaming coffee, tea, cocoa and cereals. It can also be used for cooking, baking or may be taken as a straight drink chilled or with ice!



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save for UHT milk, posted single-digit declines in the first half of the year versus last year. UHT white milk Alaska Fresh and Alaska Slim sustained double-digit growth as the company focused on distribution in retail and institutional markets. Notwithstanding the sluggish market, market shares for evaporated milk remained stable while powdered milk market share showed an improvement compared to the first half of last year.

**Operating Costs:** Operating margin in 1H02 improved to 9.3% from 5.1% in 1H01. Lower SMP prices, and a slightly higher foreign exchange cost pushed SMP cost (in P/MT) 5% lower than 1H01. The decline in other raw material costs and the selling price increase in May 2001 also partly contributed to the improved margins.

**Interest Income:** Notwithstanding a higher average cash balance during the period, the consistent decline in domestic interest rates pushed interest income earned from placements down to P37 million in 1H02 from P50 million in 1H01. The average placement rate (net) was at 5.6% compared to 8.6% a year ago, while the average cash balance was at P1.34 billion versus P1.22 billion in the same period last year.

**Net Income:** Net income in 1H02 reached P150 million or 7.8% of net sales, 25% higher than net income in 1H01 of P121 million or 5.8% of net sales. EPS based on net income in the first six months of the year is equivalent to P0.17, from EPS in 1H01 of P0.13.