

WINKY FOODS CORPORATION (WFC)
CIBI Credit Scan Report
August 1998

Non-Financial and Financial Risk Considerations

<i>Particulars</i>	<i>Score</i>	<i>Remarks</i>
A. Non-Financial Risks		
Industry Growth	Vulnerable	<p>The recent economic crisis resulted in a decline in purchasing power of consumers, the effect of which is more pronounced among WFC's market (i.e. CDE socio-economic class). It is expected that expenditures on non-essential items such as snack foods by this customer group will be lessened.</p> <p>Among the many variants of package snacks out in the market, extruded flour (the segment of the industry where the company operates) were purchased least by consumers. Biscuits, cookies, potato chips, and corn chips were by far more popular with consumers. <i>Source: UAP</i></p>
Market Position	Vulnerable	<p>The snack foods industry is highly competitive. A number of big companies like Universal Robina Corp. (URC), Nabisco, and General Milling Corp. are into the business of manufacturing snack foods. Compared with these companies, WFC is a relatively small player.</p> <p>Also in the fast food service business; operates hamburger joints which can be considered a far second to Burger Machine.</p>
Management	Adequate	<p>Closely-held family company with family members occupying key positions.</p> <p>Company has been operating for more than 10 years now.</p>

B. Financial Risks		
Revenue Trend	Vulnerable	Revenues went down by 9% in 1997 and is expected to further decline in 1998
Profit Margins	Vulnerable	<p>Operating Margin is at 5.37% in 1997. This makes them vulnerable to competitors, particularly if pricing is a major factor in the market.</p> <p>With its margins, the company will not be in a position to compete price-wise with other players in the market</p> <p>Profitability likewise suffered because of the company's high debt-burden. Interest expense for both 1996 and 1997 were higher than operating profit. Without high non-recurring gains, the company would have incurred losses during the period.</p>
Foreign Exchange Risk	Very Vulnerable	Exposure to foreign exchange risk is high. Around 40% of the raw material requirements for its packaged snack business and 80% for its hamburger joint business are imported. However, only 5% of the company's revenues is accounted for by export sales.
Interest Service Coverage	Adequate	The company barely covered its interest expense in the past 2 years.
Current Ratio	Very Vulnerable	Current assets cannot cover all current liabilities in 1996 and 1997.
Debt to Equity Ratio	Very Vulnerable	Very aggressive in availing of borrowings.
Debt to Capital	Very vulnerable	Debt accounts for close to 70% of the company's total capital in 1997.
Funds From Operations / Total Debt	Very Vulnerable	Funds from operations (FFO) did not account for more than 9% of its total interest bearing debts in 1996 and 1997.
Free Operating Cash Flow / Total Debt	Very Vulnerable	<p>At negative levels in 1996 and 1997.</p> <p>Continuous increase in working capital, particularly accounts receivable, as well as advances to related parties further compound cash flow problems as these tie up needed cash.</p>

CREDIT SCAN CONCLUSION: VERY VULNERABLE

This considers the company's weak financial and non-financial risk profiles. Much of the company's woes stem from its very aggressive stance in availing of loans to finance its operations. The very high proportion of debt in its capitalization structure has led to high interest expense, which in turn ate up company profits. Thus, profitability and coverage ratios are very low. Most likely, these will continue in 1998. It may be hard for the company to improve operations at this time given current economic and business conditions. Furthermore, its exposure to currency fluctuations arising from its importation of raw materials makes WFC vulnerable to cost increases. These cannot effectively be passed on to consumers whose purchasing power is declining. Competition, on the other hand, is expected to heighten as players try to compete for demand that is weakened by the crisis.

WINKY FOODS CORPORATION**Financial Highlights:***Amounts in P'000*

<i>Particulars</i>	<i>1996</i>	<i>1997</i>
Net Sales	810,589	739,386
Gross Profit	297,331	279,412
Operating Income	17,817	39,681
Interest Expense	32,196	42,413
Net Income	2,214	619
Current Assets	196,207	223,014
Total Assets	531,839	731,010
Current Liabilities	398,160	250,358
Total Liabilities	474,486	528,320
Stockholders' Equity	57,353	202,690
Interest Bearing Debts	369,995	437,113
Funds From Operations (FFO)	29,558	29,633
Free Operating Cash Flow (FOCF)	(117,676)	(54,855)
Operating Profit Margin (%)	2.20	5.37
Net Profit Margin (%)	0.27	0.08
Interest Service Coverage Ratio (x)	1.09	1.02
Debt Service Coverage Ratio (x)	0.19	0.35
Current Ratio (x)	0.49	0.89
Funds From Operation / Total Debt (%)	7.99	6.78
Free Operating Cash Flow / Total debt (%)	(31.80)	(12.55)
Debt to Equity Ratio (x)	8.27	2.61
Total Debt / Capitalization (%)	86.58	68.32