

Rating Action: Moody's assigns first-time Baa3 rating to First Pacific

19 Apr 2022

Hong Kong, April 19, 2022 -- Moody's Investors Service has assigned a Baa3 issuer rating to First Pacific Company Limited (First Pac). The outlook on the rating is stable.

This is the first time Moody's has assigned a rating to First Pac.

RATINGS RATIONALE

"First Pac's Baa3 issuer rating reflects the company's high quality portfolio with most of the group's businesses having leading positions in their respective markets, manageable debt levels and a track record of stable earnings," says Annalisa Di Chiara, a Moody's Senior Vice President.

First Pac has a long and successful operating history with its main businesses which operate in industries with countercyclical characteristics including telecommunications, consumer food products and infrastructure. It has held its main businesses for over 15 years.

The company's main businesses include a 50.1% interest in PT Indofood Sukses Makmur Tbk (INDF), one of the largest noodle makers in the world, through its 80.5%-owned subsidiary, Indofood CBP Sukses Makmur Tbk PT (ICBP, Baa3 stable), and a 25.6% interest in PLDT Inc. (Baa2 stable), a leading telecommunications operator in the Philippines. First Pac also has a 44.6% effective interest in Metro Pacific Investment Corporation (MPIC), one of the largest infrastructure investment and holding companies in the Philippines, which has diverse assets across the energy, toll roads and water distribution sectors.

The stable operating performance, good growth opportunities and competitive positions of INDF, PLDT and MPIC provide an anchor of business stability. Additionally, as the largest shareholder of each, First Pac has significant influence over their business strategies and financial management. Each has a well-articulated dividend policy which also provides a predictable dividend stream to First Pac.

"In addition, the rating recognizes that as a holding company, First Pacific relies on dividends from its subsidiaries and affiliates to service its debt and cash obligations. That said, we expect the group's main businesses to continue to generate stable earnings, translating into a steady dividend stream to First Pac over the next few years," says Di Chiara, who is also the lead analyst for First Pac.

INDF, PLDT and MPIC have contributed the majority of First Pac's dividends over the last several years, a trend that Moody's expects will continue. Based on the agency's operating performance outlook for these companies, First Pac will likely receive \$200 million to \$225 million annually in dividends over the next two years. This translates into an interest coverage – as measured by dividends less operating expenses to interest expense – of around 3.5x at the holding company.

The rating also recognizes some reliance by First Pac on the Indonesian (Baa2 stable) and Philippine (Baa2 stable) economies, which expose it to their macroeconomic conditions and regulatory changes. This is mitigated by the portfolio's diversified businesses, which have countercyclical characteristics and low correlation with one another, helping to reduce overall earnings volatility.

Finally, the rating considers the group's complexity, with cross shareholdings and related-party transactions between the various First Pac-related entities, as well as potential governance considerations, given the company's concentrated ownership (45.1%) by Anthoni Salim.

These risks are mitigated by the company's listed status (as well as the listing of all of its main businesses) which provide disclosure transparency, together with its track record of prudent financial management and the absence of significant cash leakage to shareholders.

Despite First Pac's holding company status, structural subordination is mitigated by the enhanced business and financial profiles of the broader group, which benefits from industry diversification, greater scale and stable cash flows. Moody's has also considered the total market value of the portfolio, which currently exceeds \$5 billion.

The stable ratings outlook reflects Moody's expectation that First Pac will maintain adequate liquidity and consistent coverage of interest and operating expenses, with a dividend income around 3.0x-3.5x. The rating also incorporates an expectation of stable operating performance across its core assets and that the company will execute its investment plans prudently, such that FFO/debt at the holding company remains above 10%.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of First Pac's rating could be considered if the company maintains a strong standalone financial position with excellent liquidity and further expands and further diversifies its stable dividend income stream.

Quantitatively, Moody's could upgrade the ratings if First Pac's dividend coverage, as defined by dividends less operating expenses to interest expense, rises above 4.0x, and its FFO to debt rises into the 25%-30% range, both on a sustained basis and at the holding company level.

A downgrade of First Pac could result from the downgrade of one or more of its rated subsidiaries or affiliates, or from a deterioration in First Pac's standalone financial position with protracted weakness in the group's businesses, resulting in lower dividend income than Moody's expects. Large debt-funded acquisitions or investments could also add downward ratings pressure.

Quantitatively, Moody's could downgrade the ratings if First Pac's dividend coverage falls below 3.0x, or its FFO to debt falls below 10%, both on a sustained basis and at the holding company level.

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in July 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1125855. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

First Pacific Company Limited is a Hong Kong-based investment management and holding company with operations in the Asia-Pacific. The company's principal investment relates to consumer food products, telecommunications, infrastructure and natural resources. First Pac's largest shareholder is Anthoni Salim, who directly and indirectly owned approximately 45.1% of the company's issued share capital as of the date of this report.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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