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CREDIT OPINION
25 April 2022

New Issue

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RATINGS

First Pacific Company Limited

Domicile	Hong Kong
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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First Pacific Company Limited

New issuer

Summary

First Pacific Company Limited's (First Pac) 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. The company has a good operating history with its main businesses across telecommunications, consumer food products and infrastructure. It has held its main businesses for over 15 years.

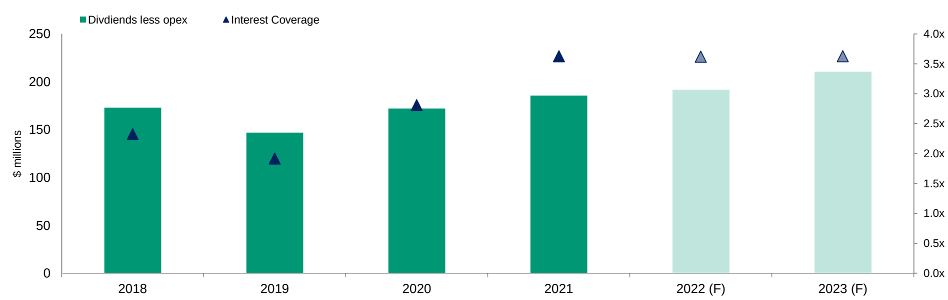
The rating also recognizes the company's reliance on the Indonesian (Baa2 stable) and Philippine (Baa2 stable) economies, which expose it to macroeconomic conditions and regulatory changes. Nonetheless, this risk is mitigated by the portfolio's diversified businesses, which have countercyclical characteristics and low correlation, helping to reduce overall earnings volatility.

In addition, the rating recognizes that as a holding company, First Pac relies on dividends from its subsidiaries and associates to service its debt and cash obligations. However, we expect the group's businesses to continue to generate stable earnings, translating into a steady dividend stream to First Pac over the next few years as shown in Exhibit 1.

Finally, the rating considers the group's complexity, with cross shareholdings and related-party transactions between the various group entities, as well as potential governance considerations, given First Pac'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 provides disclosure transparency, together with its track record of prudent financial management and the absence of significant cash leakage to shareholders.

Exhibit 1

Stable earnings of main businesses provides steady dividend income stream
We expect interest coverage (at the holding company) will remain around 3.5x



Forecasts do not include potential special dividends from main businesses. Interest coverage defined as dividend income less operating expenses to interest expense. Moody's projections are Moody's opinion and do not represent the views of the issuer.
Source: Company filings, Moody's Investors Service

Credit strengths

- » High-quality portfolio in industries with countercyclical characteristics
- » Leading market positions and stable earnings stream of its main businesses, which provides a steady stream of dividend income
- » Disciplined financial management and close supervision of group companies
- » Adequate liquidity and good interest coverage at the holding company level

Credit challenges

- » Some dependence on the Indonesian and Philippine economies
- » Reliance on dividends from subsidiaries and associated companies to service debt at the holding company
- » Governance considerations arising from concentrated ownership

Rating outlook

The stable ratings outlook reflects Moody's expectation that First Pac will maintain adequate liquidity and consistent coverage of interest and operating expenses (or interest coverage - as measured by dividend income less operating expenses to interest expense 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

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 interest coverage, as measured by dividend income 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.

Factors that could lead to a downgrade

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 interest coverage, as measured by dividend income less operating expenses to interest expense, falls below 3.0x, or its FFO to debt falls below 10%, both on a sustained basis and at the holding company level.

Key indicators

Exhibit 2

First Pac

Consolidated and Hold Co Standalone

Consolidated	Dec-18	Dec-19	Dec-20	Dec-21	
Revenue (USD million)	7,742	7,585	7,131	9,103	
EBITDA / Interest	3.5x	3.4x	3.0x	3.3x	
FFO / Debt	12%	13%	11%	11%	
HoldCo (standalone)	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22 (F) - Dec-23 (F)**
Dividend and fee income (USD million)	203	165	190	204	200-225
FFO / Debt	6%	4%	8%	9%	10%
Interest Coverage	2.3x	1.9x	2.8x	3.6x	3.5x

[1] Consolidated ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] Moody's projections are Moody's opinion and do not represent the views of the issuer. [3] HoldCo interest coverage defined as dividend income less operating expenses to interest expense.
Source: Company filings, Moody's estimates

Profile

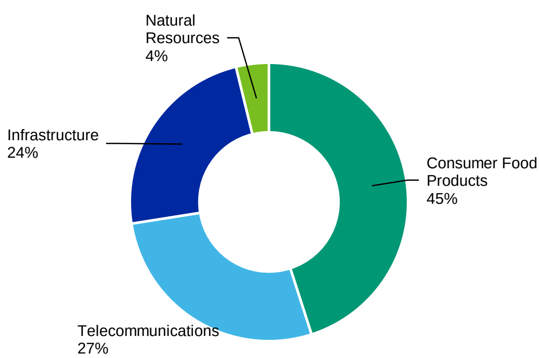
The group was founded in May 1981, and First Pacific Company Limited (First Pac) was incorporated in Bermuda in May 1988 as a limited liability company. First Pac is a Hong Kong SAR, China (Aa3 sable) based investment management and holding company with its principal business interests in Asia-Pacific relating to consumer food products, telecommunications, infrastructure and natural resources (see Exhibit 3 and Exhibit 4).

Listed on the Hong Kong Stock Exchange, First Pac is 45.1% owned by Anthoni Salim. As of 19 April 2022, the company had a market capitalization of around HKD 13.5 billion (US$ 1.7 billion).

Exhibit 3

Profit contribution by business segment in 2021

Total recurring profit of $426.5 million

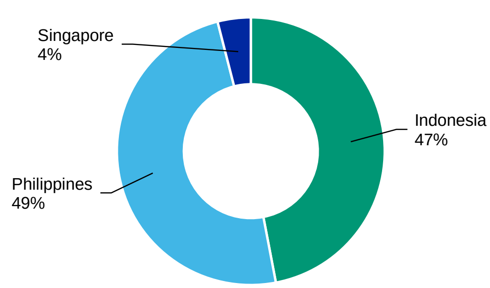


Based on First Pac's reported consolidated results at 31 December 2021.
Source: Company filings

Exhibit 4

Profit contribution by geography in 2021

Total recurring profit of $426.5 million



Based on First Pac's reported consolidated figures at 31 December 2021.
Source: Company filings

Detailed credit considerations

High-quality and diversified portfolio, with leading market positions

First Pac's principal businesses relate to consumer food products, telecommunications, infrastructure and natural resources. We positively view this diversification across industries because of the low correlation between them. Please refer to Appendix 1 for Moody's simplified organization chart. The company's principal businesses include the following:

» A direct 50.1% interest in Indofood (INDF), one of the largest instant noodle makers in the world. Its market leadership in instant noodles extends from Indonesia to Saudi Arabia, Egypt, Nigeria and Turkey, through its 80.5% interest in the listed Indofood CBP Sukses Makmur Tbk PT (ICBP, Baa3 stable). INDF is listed on the Indonesian Stock Exchange (IDX) and had a market value of around $3.8 billion as of 19 April 2022.

» A direct 25.6% interest in PLDT Inc. (PLDT, Baa2 stable), one of the leading telecommunications service providers in the fixed line, wireless and broadband markets in the Philippines with a subscriber share of around 45% and revenue share of 54% as of 31 December 2021. The company is listed on the Philippine Stock Exchange (PSE) and had a market value of around $7.8 billion as of 19 April 2022.

» An effective 44.6% interest in Metro Pacific Investments Corporation (MPIC), one of the largest infrastructure investment management and holding companies in the Philippines. MPIC holds a diverse set of assets with leading market positions — primarily across energy, toll roads and water distribution — and these assets are held through its main operating companies. MPIC is listed on the PSE and had a market value of around $2.2 billion as of around 19 April 2022.

» Finally, First Pac also has investments in natural resources, including a 31.2% direct interest in Philex Mining Corporation, one of the largest metal mining companies in the Philippines producing gold, copper and silver. Philex is listed on the PSE and had a market value of around $0.5 billion as of around 19 April 2022.

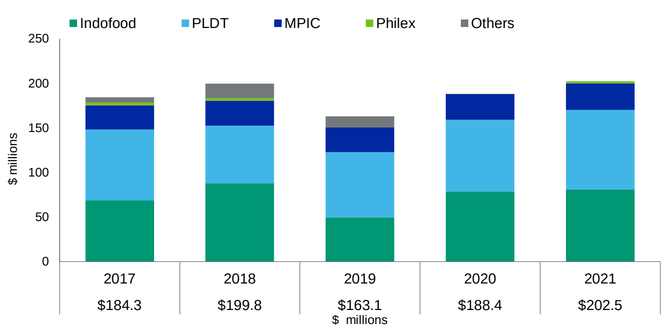
The group's main businesses (INDF, PLDT and MPIC) have leading market positions in their respective markets. Despite some dependence on the Indonesian and Philippine economies, which expose the companies to macroeconomic conditions and regulatory changes, these businesses are generally in defensive industries providing a stable level of cash flow through the macroeconomic cycle. INDF's and PLDT's business models also proved resilient through the pandemic reflecting higher demand for their for consumer staples like noodles and dairy and rising data consumption and broadband usage.

Stable earnings stream of main businesses provides steady stream of dividend income

INDF, PLDT and MPIC underpin our credit assessment of First Pac, reflecting their competitive positions, profitable operations and stable earnings. In addition, each has a well-articulated dividend policy, which provides a predictable dividend stream to First Pac. As the single largest shareholder, First Pac exercises significant influence over their business strategies and financial management, including divided policy. As Exhibit 5 and Exhibit 6 show, these three companies have accounted for over 90% of the company's annual dividend income each year since 2017.

Exhibit 5

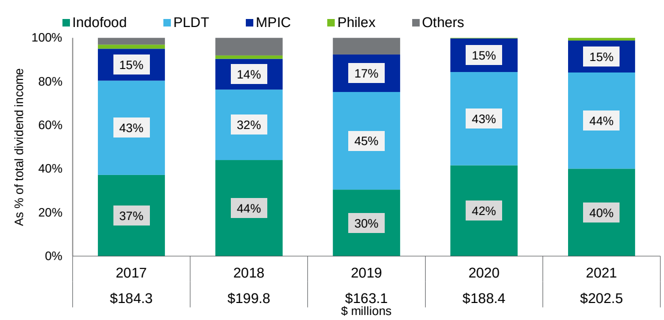
An average of around $190 million of dividend income annually since 2017



Source: Company filings

Exhibit 6

INDF, PLDT and MPIC accounted for nearly all of dividend income annually since 2017



Others includes primarily Philex and FPW Singapore Holdings.
Source: Company filings

First Pac has received around $3.6 billion in dividends from these companies since its initial date of investment in each (although nearly 70% was from PLDT alone). First Pac originally invested in PLDT in November 1998, INDF in September 1999 and MPIC in December 2006. We do not expect First Pac to reduce its shareholdings from current levels of 25.6%, 50.1% and 44.6% for PLDT, INDF and MPIC, respectively.

We expect the First Pac to receive over $210 million annually in dividends, with INDF and PLDT to account for the majority.

Moreover, on 19 April, PLDT Inc. announced that it has signed sale and purchase agreements for the sale of 5,907 telecom towers and related passive telecom infrastructure for a total cash consideration of PHP77 billion ($1.5 billion). While PLDT will use most of the cash proceeds to prepay debt and fund its operations, PLDT also plans to pay out a special dividend of up to PHP 9 billion. As a result, given its 25.6% interest, First Pac would be entitled to an additional estimated $44 million, boosting dividend income well above our base case expectations, a credit positive. (For more details see: *PLDT Inc: Tower sales will improve leverage and liquidity, a credit positive*, 21 April 2022).

Weighted average approach points to investment grade quality

While recognizing that First Pac describes itself as an investment holding company we believe it has some conglomerate-like characteristics primarily reflecting: (1) the absence of active portfolio rebalancing or recycling; (2) the long hold period (over 15 years) of its main businesses; and (3) the significant influence it has over their business and financial strategies.

The main businesses have well-articulated dividend policies which provide a predictable dividend stream to the holding company, which has been influenced by First Pac.

Our approach to First Pac's rating considers a balanced view of the credit risk of each main business segment and its overall contribution to the credit quality of the group. This is effectively a weighted sum of the parts approach, based on the combined financials of the company's main businesses.

INDF, PLDT and MPIC drive First Pac's weighted average outcome - on an EBITDA, dividend and asset basis - and support the portfolio's investment grade-like qualities. We expect the credit quality to be sustained over the next few years given their defendable leading market positions, stable earnings and manageable debt levels.

For example, we expect INDF's consolidated revenue to grow at a CAGR of around 10% through 2023 while maintaining an EBITDA margin in the 18% to 20% range. INDF's dividend policy is set at 25%-50% of net income attributable to owners. ICBP, INDF's largest subsidiary, drives INDF's credit quality as it contribute over 65% of EBITDA. Historically, nearly all of INDF's dividend payouts have been driven by ICBP.

For PLDT, we expect consolidated revenue to grow at a CAGR of around 7% through 2023 while maintaining its EBITDA margin around 50%. PLDT's dividend policy is set at 60% of core telecom profit.

As for MPIC, which is an investment holding company, we considered its three main businesses across power, water and toll ways. That said, given the contribution of Manila Electric Co. (Meralco) under our combined assessment, it becomes a main driver of First Pac's credit quality. Meralco has relatively low financial leverage and strong operating cash flow reflecting its robust operations offset by the delay in its rate setting exercise. Both companies have publicly articulated dividend policies. MPIC's is a fixed dividend per share (P0.1105 per annum). Meralco's is 50% of consolidated core net income (with a look back basis) and has historically been 60-80% of consolidated core net income.

Reliance on dividends from subsidiaries to service debt at the holding company

In our analysis, we also examine First Pac on a standalone basis, considering its holding company status as the company relies on dividend income from its main businesses to service its debt and other cash obligations. As previously outlined, INDF, PLDT and MPIC are the company's key dividend contributors.

First Pac has around $1.4 billion of debt at the holding company level, which has been used to invest in its portfolio assets, as well as $18 million to $20 million in operating expenses. There are no significant capital expenditure plans although we expect the company to continue to invest in its portfolio businesses or related group entities.

Based on our outlooks for First Pac's main businesses, we expect relatively stable dividend income annually over the next two years which supports interest coverage at the holding company — as measured by dividends less operating expenses to interest expense — of around 3.5x. At the same time, we expect FFO to debt at the holding company to remain over 10%. We use dividends less interest and tax as proxy for FFO.

We expect the company to manage its cash and cash flow in a prudent manner such that the company's quality and credit metrics do not deteriorate from our expectations, this includes share repurchases (which has $72 million left under its $100 million program to March 2024), dividends (25% of recurring profit) as well as further investments in its portfolio or group related companies.

ESG consideration

We assess environmental, social and governance (ESG) considerations primarily as related to the company's main business, although governance considerations reside also at the Holding company level.

Environmental risk considerations related its emissions/waste production and its own carbon footprint, factors which are inherent in the nature of the power sector. However, we view Meralco's shift towards embracing renewable energy as a large step in the right direction towards mitigating the environmental risks.

Social risk considerations include food safety as a key consideration for its consumer food products business. INDF has managed to maintain its leading market position with a good food safety track record. In addition, customers' demand for data privacy and cybersecurity, along with changes in demographic and societal trends, is also a key social risk for PLDT. This risk is mitigated by PLDT's ongoing investments in its network and cybersecurity. There have been no significant cases of data privacy and cybersecurity breaches in the past few years

At the same time, for the holding company itself, we also incorporate high governance risks arising from the group's complexity, with cross shareholdings and related-party transactions between the various First Pac-related entities and concentrated ownership by Anthoni Salim. However, the company's listed status; the listing of all of its main businesses, which provide disclosure transparency; and its track record of prudent financial management with the absence of significant cash leakage to shareholders mitigate potential governance risks.

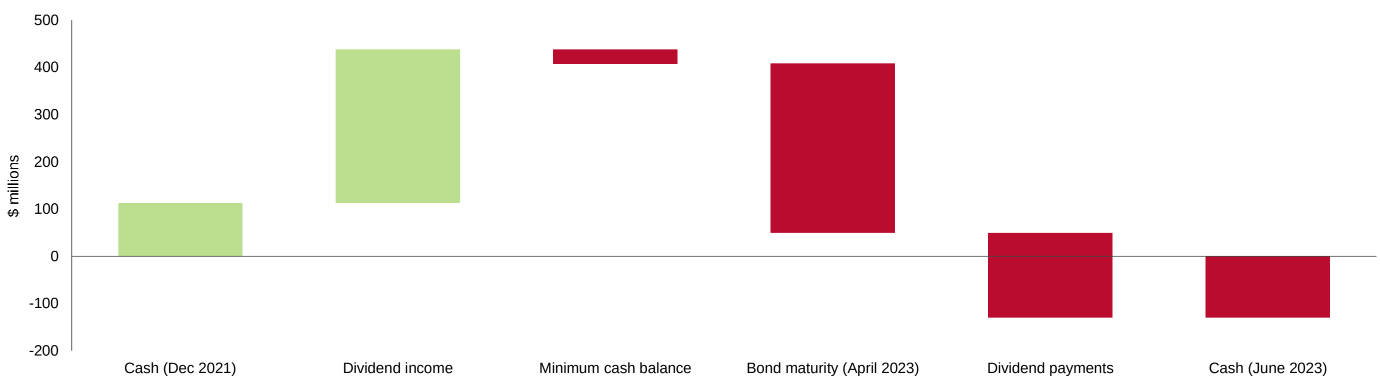
Liquidity analysis

As of 31 December 2021, the holding company's cash of around $113 million, together with our projected dividend income, will be insufficient to cover its cash outflows over the next 18 months, which include a $358 million bond due April 2023. However, we expect the company to address this maturity in a timely manner and strengthen its liquidity positon.

In addition, the company's portfolio of highly liquid listed assets provides additional liquidity sources should the need arise.

Exhibit 7

We expect First Pac to address its upcoming bond maturity in a timely manner to restore its liquidity position
The company's $358 million bond matures in April 2023



Moody's assumes a minimum cash balance of around $30 million for liquidity assessment purposes
Source: Company filings, Moody's Investors Service Estimates

Structural considerations

First Pac's Baa3 rating reflects our view that its creditors are not subject to significant structural subordination risks. This is because, despite First Pac's status as a holding company with majority of the group's claims at the operating subsidiary level, the group's diversified business profile with cash flow generation across four unrelated business sectors and industries with low correlation mitigates structural subordination risks. The company's portfolio of liquid and listed assets with a market valuation of over $5 billion as of 19 April 2022, providing additional liquidity sources should the need arise.

Methodology and scorecard

First Pac operates across several different industries. The principal methodology used to rate First Pac is our Investment Holding Companies and Conglomerates rating methodology, published in July 2018. We use the applicable industry rating methodology, as well as a comparison with relevant competitors, to gauge the credit quality of each of First Pac's four main businesses which are represented by PLDT, INDF, MPIC and Philex. The weighted average outcome (based on EBITDA) is Baa3.

For PLDT, we used our Telecommunications Service Providers rating methodology, published in January 2017. Please see the respective company page for the detailed rating considerations.

For INDF, which represents the consumer foods products business, we used our Consumer Packaged Goods Methodology, published in February 2020. The key credit drivers include INDF's leading market position, strong brand equity, diversified product lines, vertically integrated production chain to support a low-cost base which are counterbalanced by relatively high leverage, exposure to volatile palm oil and wheat prices, increasing stakeholder scrutiny over the ESG risks associated with palm oil production and the largely domestic business.

For MPIC, the company's infrastructure business, we consider Meralco to be the key driver of credit quality.For Meralco, we used our Regulated Electric and Gas Utilities rating methodology, published in June 2017. The key credit drivers include a strong market position, relatively low financial leverage and strong operating cash flow, counterbalanced by the evolving regulatory environment in the Philippines and the company's significant capital spending plans over the next few years.

To complete the MPIC assessment, we used our Privately Managed Toll Roads Methodology, published in December 2020, for Metro Pacific Tollways Corporation (MPTC). The key credit drivers include its market position, recovering traffics trends, ability to affect rate increases and exposure to the Philippines economy. We used our Regulated Water Utilities rating methodology, published in June 2018 for Maynilad Water Services, Inc. (Maynilad). The key credit drivers reflecting its leading market position, strong financail profile and some uncertainty around its tariff adjustments. These two businesses have little influence on the weighted sum of parts outcome.

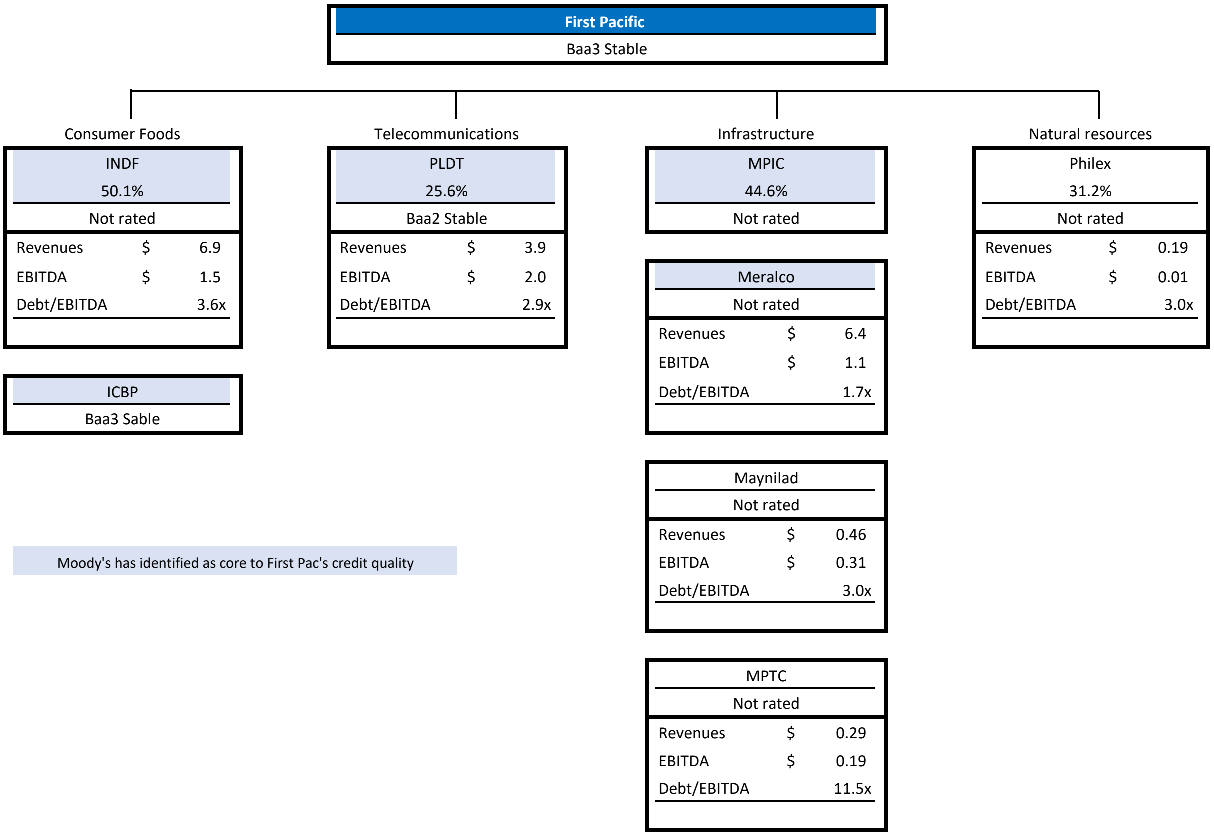
Finally, for Philex, we represents the company's natural resources segment, we used our Mining Rating Methodology, published in October 2021. The key credit drivers includes it exposure to commodity prices, single mine exposure, reliance on exploring and developing new mine reserves, and significant level of maturing debt for which a refinancing plan has not yet been announced. This business also has little influence on the weighted sum of parts outcome.

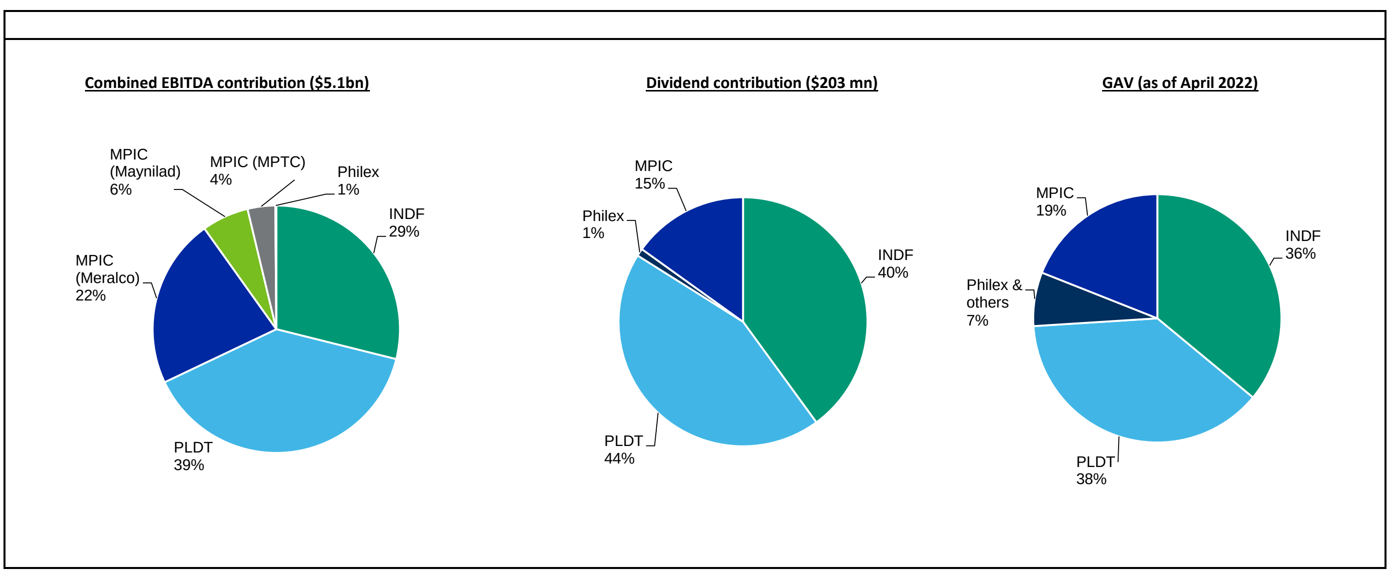
Appendix 1

Exhibit 8

First Pac's simplified organizational structure

Moody's simplified view of main businesses





Organization chart does not include all subsidiaries or associated companies. It provides Moody's simplified view of the company's main businesses only. Figures are based on individual company's results for 2021 except for Maynilad and MPTC which are based on 2020. Moody's combined assessment assumes 100% ownership of main businesses.

Source: Company filings, Moody's Investors Service, Moody's Financial Metrics

Ratings

Exhibit 9

Category	Moody's Rating
FIRST PACIFIC COMPANY LIMITED	
Outlook	Stable
Issuer Rating	Baa3

Source: Moody's Investors Service

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