

# First Pacific Company Ltd.

April 25, 2022

## Credit Highlights

### Overview

#### Key strengths

High-quality and liquid investment portfolio.

Stable dividend income stream.

Long investment track record and prudent investment strategy.

#### Key risks

Small scale and high portfolio concentration.

Limited recent record of asset rotation.

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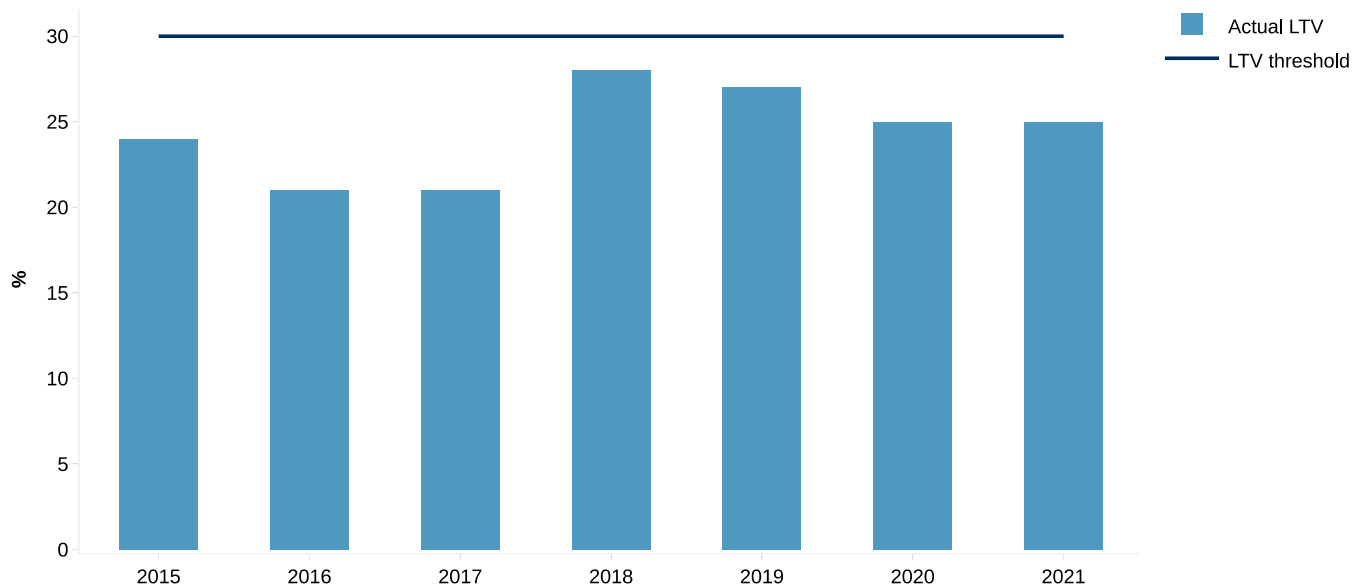
#### SECONDARY CONTACT

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**First Pacific has a portfolio of liquid, high quality assets with a moderate level of industry diversity.** The company owns controlling or material stakes in several listed companies in the Philippines and Indonesia, which have leading market positions and generate strong cash flows. We estimate the weighted average credit quality of the portfolio to be 'bbb-'. The dividend stream from First Pacific's investment portfolio was stable through the COVID-19 pandemic, largely reflecting the resilient business of PLDT and Indofood. Its small scale and high portfolio concentration partly temper its strengths. As a result of the concentration, the valuation of First Pacific's portfolio is dependent on the inherent cycles of the local capital markets. The long-term nature of First Pacific's investments also means limited asset rotation.

**We expect First Pacific to take proactive action to maintain its LTV ratio below 30%, even during market turmoil.** The company intends to maintain the ratio around 25% during stable market conditions and not higher than 30% during market volatility. First Pacific's LTV ratio averaged about 22% over the past 10 years. The ratio was 25% as of Dec. 31, 2021, and 26% as of March 31, 2022. The ratio provides some headroom to accommodate volatility in asset values, which is an intrinsic risk for investment holding companies. The valuation of First Pacific's portfolio depends on the inherent cycles of the local capital markets. Ongoing geopolitical tensions and the potential for a deterioration of economic conditions due to increasing inflation and supply chain disruptions could hit overall equity valuations over the next 12 months. First Pacific has a record of reducing debt using divestment proceeds. The LTV ratio declined in 2016 and 2019, following the partial divestment of Metro Pacific and the divestment of Goodman Fielder, respectively.

### First Pacific Company Ltd.--LTV Evolution



Source: S&P Global Ratings.

**First Pacific will likely maintain its clear and prudent investment strategy.** We believe the company's investment discipline and risk management capabilities, built over four decades, are comparable with peers. It has clear investment criteria of investing in companies with a strong or dominant market position that operate mainly in fast-growing economies in Asia-Pacific. It focuses on four key sectors: consumer food products, telecommunications, infrastructure, and natural resources. By securing board control or having significant board influence, we believe First Pacific has better strategic insight over investee companies' business strategies, performance and ability to shape their dividend policy. First Pacific aims to deliver long-term value through capital appreciation and dividend return to its investors.

First Pacific's investment evaluation criteria, including environmental, social, and governance (ESG) considerations, are well documented. New investments are subject to approval by the board and the finance committee, which mainly comprises independent non-executive directors (INEDs). Connected-party transactions are reviewed by committees comprising INEDs, and substantial connected party transactions require majority approval by non-connected shareholders (for example, Indofood's acquisition of Pinehill Co. Ltd. in 2020). First Pacific addresses ESG risk as part of its risk management framework and sustainable development.

## Outlook

The stable outlook on First Pacific over the next 24 months stems from our view that the company will prudently manage its investments and debt such that its LTV ratio remains below 30% through market cycles. We also expect First Pacific to proactively manage its debt maturities and cash outlay to keep adequate liquidity.

## Downside scenario

We would lower the rating if:

## First Pacific Company Ltd.

- First Pacific deviates from its prudent financial management or allows its LTV ratio to rise above 30% irrespective of market conditions. This could happen if the company takes on excessive debt or fails to take the necessary steps to protect its balance sheet in the context of declining equity markets; or
- The creditworthiness of First Pacific's assets deteriorates because of substantial debt-funded discretionary spending at the investee level, or if their competitive position deteriorates. Clear credit deterioration in any key investees or a decline in the weightage of PLDT in the portfolio could indicate a weakening in credit quality.

## Upside scenario

Rating upside is limited over the next two to three years due to the high portfolio concentration. However, we could consider a positive rating action if: (1) First Pacific formally adjusts its leverage threshold to below 20%; or (2) the asset diversity of the company's investment portfolio substantially improves, while current leverage and portfolio quality are maintained.

## Our Base-Case Scenario

### Assumptions

- First Pacific's continued prudent investment policy and proactive management actions are aimed at maintaining its LTV at 25%-27%.
- Cash dividend and interest income of US\$200 million-US\$220 million in 12 months ending Dec. 31, 2022.
- No material increase in operating costs, which we expect will be about US\$20 million per year.
- Interest payment of US\$55.0 million-US\$60.0 million in 2022.
- Dividend payment to shareholders of US\$85 million-US\$95 million over the period.
- Share buyback of approximately US\$30 million over the period.

## Key metrics

### Company Name--Key Metrics\*

Mil. \$	2018a	2019a	2020a	2021a	2022f
LTV	28%	27%	25%	25%	25% -27%
Cash flow adequacy	2.0 x	1.8 x	2.5 x	3.0x	2.8x-3.2x

\*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

## Company Description

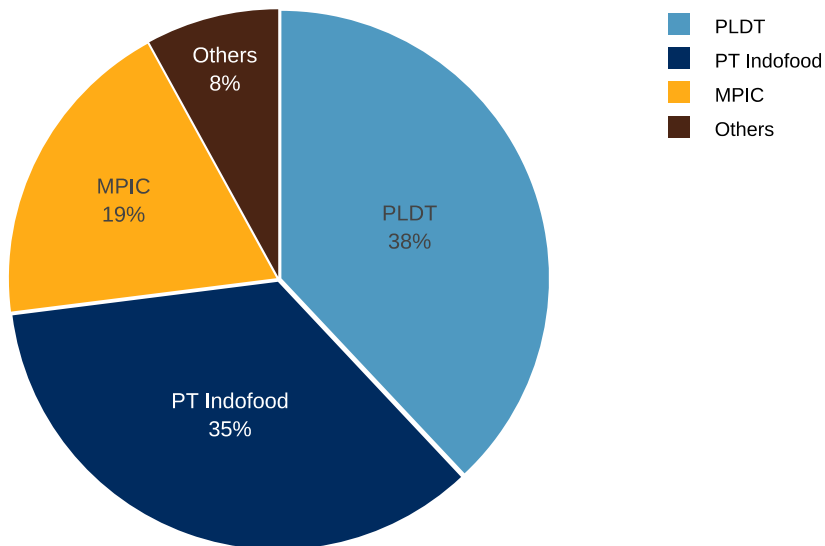
First Pacific is a Hong Kong-based investment holding company that was established in 1981 and listed on the Hong Kong Stock Exchange in 1988. First Pacific's investment assets are located mainly in the Philippines and Indonesia, with focus on four key industries: consumer food products, telecommunications, infrastructure, and natural resources.

First Pacific's key investee companies include Indofood, PLDT, and Metro Pacific. Other investments include Philex Mining Corp., PacificLight Power Pte Ltd., and PXP Energy Corp.

## First Pacific Company Ltd.

Mr. Anthony Salim is the largest shareholder of First Pacific with 45.1% interest. First Pacific had a market capitalization of approximately US\$1.7 billion as of April 14, 2022.

### Portfolio Breakdown As Of March 31, 2022



Source: S&P Global Ratings.

PT Indofood - PT Indofood Sukses Makmur Tbk., PLDT - PLDT Inc., MPIC - Metro Pacific Investments Corp.

## Peer Comparison

First Pacific's portfolio is among the smallest of the investment holding companies in our 'BBB' rating category. The top three holdings account for 92% of the portfolio--is also among the most concentrated. This is balanced by its highest weight of listed assets at 98%. It also benefits from strong average portfolio credit quality of 'BBB-', which provides some comfort against its high portfolio concentration. Other than BevCo and Exor, First Pacific's portfolio quality is higher than its key peers.

We believe First Pacific's business risk profile to be better than BevCo and Fosun. BevCo's portfolio exhibits one of the highest single asset concentrations and pledges a material portion of the shares in its portfolio companies as part of its secured financing, which reduces asset liquidity. Fosun's portfolio is relatively illiquid, with listed assets accounting for about 50% of portfolio value, while its sizable stakes in some of its largest assets potentially reduce willingness to divest shares in those assets.

First Pacific's LTV as of end 2021 is higher than other 'BBB' rating category peers.

## Peer Comparison

### Peer Comparison Table

	First Pacific Co. Ltd.	JAB Holding Co. S.a r.l.	EXOR N.V.	BevCo Lux Sarl (BBB/Stable/--)	Fosun International Ltd. BB/Stable/--
<b>Rating as of April 21, 2022</b>	BBB-/Stable/--	BBB+/Stable	BBB+/Stable/A-2	(BBB/Stable/--)	BB/Stable/--
Business profile	Satisfactory	Satisfactory	Satisfactory	Fair	Fair
Portfolio data as of	Mar. 31, 2022	July. 31, 2021	Dec. 31, 2021	June 30, 2021	June. 30, 2021
Portfolio size (adjusted; mil. \$)	5,179	32,000-33,000	33,226	9,066	46,801
Weight of listed assets (%)	98	71	85	97	52
Largest asset (% of portfolio)	38	38	35	78	24
Three largest assets (% of potfolio)	92	68	80	94	41
Financial risk profile	Intermediate	Intermediate	Modest	Modest	Significant
Loan to value ceiling (%)	30	25	20	20	45
Loan to value (%)	26	<25	11	15	30

## Business Risk

**First Pacific's portfolio has an average credit quality of 'bbb-'**. The company owns controlling or material stakes in several high-quality investments listed companies in the Philippines and Indonesia--for example, 50.1% in PT Indofood Sukses Makmur Tbk. (Indofood), 25.6% in PLDT Inc. (BBB+/Stable/--) and 44.6% in Metro Pacific Investments Corp. These three companies accounted for about 92% of First Pacific's US\$5.2 billion portfolio as of March 31, 2022, and contributed 98% of its dividend income in 2021. Key investee companies have leading market positions and strong operating cash flows, and reflect First Pacific's investment criteria.

**Stable dividend income stream.** The dividend stream from First Pacific's investment portfolio was stable through the COVID-19 pandemic, largely reflecting the resilient business of PLDT and Indofood. We expect dividend payout ratio of PLDT and Indofood to remain stable over the next one to two years.

**The company's portfolio has a very high proportion of listed investments.** A total of 98% of First Pacific's portfolio by value are listed companies and are highly liquid. These investments and the dividends thereof are not subject to encumbrance as intermediate holding companies do not have any external debt. Furthermore, legacy covenants regarding PLDT's share disposal and the use of disposal proceeds are suspended as long as First Pacific maintains an investment-grade rating.

**First Pacific's small scale and high portfolio concentration tempers its strengths.** First Pacific's portfolio is among the smallest of the investment holding companies in our 'BBB' rating category, and its investee companies operate mainly in the Philippines and Indonesia. The top three holdings account for 92% of the portfolio--this share is high relative to that of other investment holding companies. However, the strong credit quality of its top three investees, stable operating performance through the pandemic, and good investment return provide some comfort. Cumulative dividends received from its top three investees have covered the cost of its existing portfolio. The portfolio also has a moderate level of industry diversity with relatively low degree of correlation. Nevertheless, the high concentration constrains upside to our asset diversification assessment, absent any meaningful portfolio rotation.

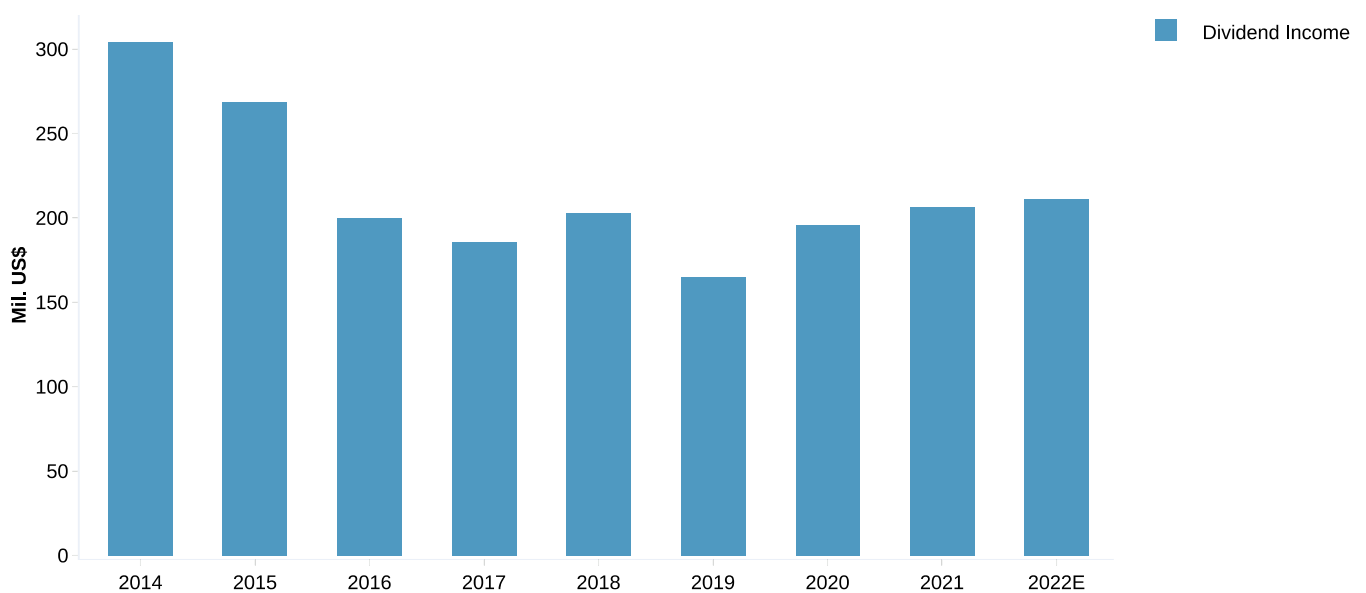
The investment performance beyond the top-three investee companies is mixed. FPM Power Holding's subsidiary PacificLight Power Pte Ltd. faced multi-year losses and ultimately required restructuring and recapitalization in 2019. However, PacificLight's operations have turned around since the restructuring, supporting the management's acumen. We see an investment holding company's willingness to financially support investees as an exception, rather than the norm.

**The long-term nature of First Pacific's investments also means limited asset rotation.** The company has invested in PLDT and Indofood for over two decades, and we believe First Pacific will likely hold on to these investments, considering their potential for good cash flow generation. The company's last divestment was in 2019 when it sold its 50% stake in Goodman Fielder. We believe the company will sell or part dispose any of its investments in the event of unforeseen circumstances or adverse market events to satisfy its financial obligations. We expect the quantum of potential new investments to be small and largely met by its internal resources at the head office level.

## Financial Risk

Thanks to effective control or material influence of its assets, we believe First Pacific can generate a steady flow of dividend income, which will support its cash flow adequacy. We anticipate First Pacific will sustain a strong cash flow adequacy ratio of 2.8x-3.2x over the next two years. The ratio improved to 3x in 2021, from 1.8x in 2019, because of higher dividend income and lower interest costs. We forecast the company will have stable cash returns from its portfolio. This stems from our expectation that First Pacific, as the controlling or largest single shareholder, has strong influence on investees' business strategy and dividend policy.

First Pacific Company Ltd.--Dividend Income



Source: S&P Global Ratings.

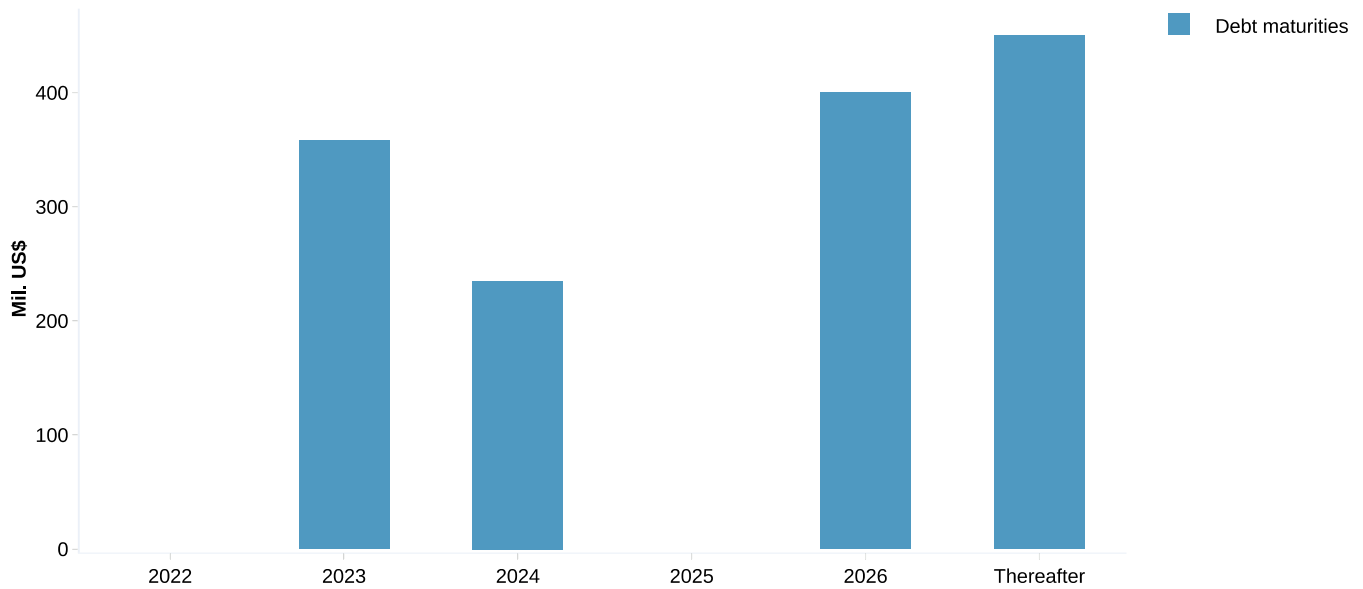
**Proactive risk management.** First Pacific's exposure to rising interest costs over the next two years is limited because 65% of its debt has fixed interest rates. The company also proactively manages its foreign currency exposure. All its interest-servicing obligations are denominated in U.S. dollars, while dividend income is denominated in Philippines pesos or Indonesia rupiah. The company hedges all foreign currency-denominated dividend income upon dividend declaration by the investee companies.

First Pacific will likely continue its conservative dividend policy of 25% of annual recurring profit. We expect the company to maintain flexibility in its share-buyback program to ensure future shareholder returns do not drain excessive cash from reinvestment opportunities.

The risk assessment committee maintains a risk matrix with reference to the probability and potential consequences of major risks identified. The board reviews the matrix on a semi-annual basis. First Pacific also conducted various scenario analysis to assess any potential impacts of adverse foreign exchange movements and earnings volatility on First Pacific's liquidity during the COVID-19 pandemic.

## Debt maturities

First Pacific Company Ltd.--Debt Maturity Profile As Of Dec. 31, 2021



Source: S&P Global Ratings.  
No maturities are due in 2022 and 2025

## Liquidity

We view First Pacific's liquidity as adequate. We estimate the company's liquidity sources will exceed its needs by about 1.4x for the 12 months ending March 31, 2023.

We believe First Pacific has good standing in the debt capital markets and maintains sound banking relationships with various local and regional banks. These factors will continue to support the company's liquidity. The management also has a history of proactively managing its debt maturity profile.

First Pacific will likely absorb a high-impact, low-probability event over the next six to 12 months with limited need for refinancing. Such a scenario would likely be a severe correction of market values for listed shares, as was seen during the COVID-19 pandemic.





Indofood has a record of past and ongoing material related-party transactions, including the Pinehill acquisition from the Salim family in 2020. These risks are balanced by First Pacific's effective board, with 50% independent non-executive directors, corporate governance committee comprising INEDs, who provide oversight on related-party transactions, and good disclosures and transparency. First Pacific also has a professional management and comprehensive risk management policy.

## Rating Component Score

### Ratings Score Snapshot

<b>Confidential Issuer Credit Rating</b>	<b>BBB-/Stable/--</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Moderately High
Industry risk	Intermediate
Investment position	Satisfactory
<b>Financial risk</b>	<b>Intermediate</b>
Cash flow/Leverage	Intermediate
<b>Anchor</b>	<b>bbb-</b>
Modifiers	
Liquidity	Adequate (No impact)
Management and governance	Satisfactory (No impact)
Comparable rating analysis	Neutral (No impact)
<b>Stand-alone credit profile</b>	<b>bbb-</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

First Pacific Co. Ltd. – Research update as of April 19, 2022

**Ratings Detail (as of April 25, 2022)\***

**First Pacific Co. Ltd.**

Issuer Credit Rating BBB-/Stable/--

**Issuer Credit Ratings History**

19-Apr-2022 BBB-/Stable/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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