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Ratings

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First Pacific Company Ltd.

April 24, 2023

Credit Highlights

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Overview

Key strengths	Key risks
High-quality and liquid investment portfolio.	Small scale and high portfolio concentration, with the three largest assets forming 89% of the portfolio value as of March 31, 2023.
Stable dividend income stream.	Loan-to-value (LTV) buffer could be eroded by equity market volatility.
Long investment track record and prudent investment strategy. Limited recent record of asset rotation.	

First Pacific's (BBB-/Stable/--) recurring and growing dividend income will continue to support its portfolio credit quality. In our view, the resilient business of the company's key investees underpins the group's high-quality and recurring dividend stream. The company owns controlling or material stakes in several listed companies in the Philippines and Indonesia. These have leading market positions and generate strong cash flow. Despite our recent downgrade of one of its key investees, Philippine Long Distance Telephone Co. (PLDT) to 'BBB' from 'BBB+', we estimate the weighted average credit quality of the portfolio is largely stable at 'bbb-'.

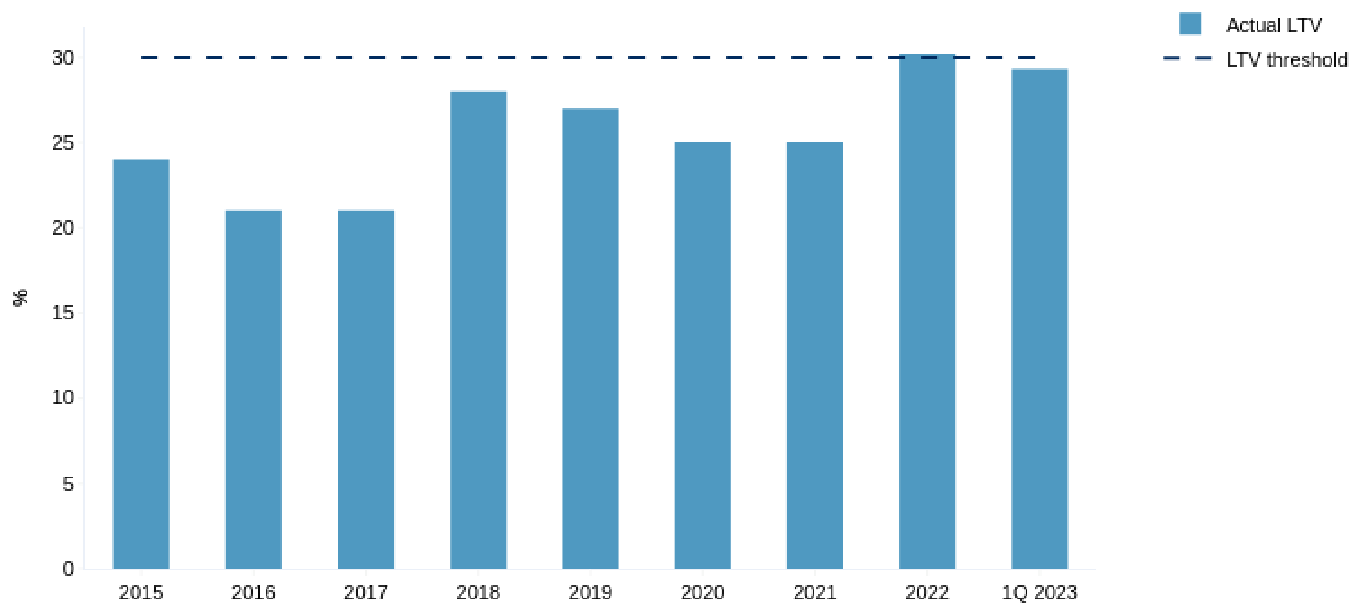
We expect First Pacific to maintain its LTV ratio below our downside threshold of 30%, even during market turmoil. The company intends to maintain the ratio at about 25% during stable market conditions and not higher than 30% during market volatility. It had an average LTV ratio of about 25% in the past eight years. The ratio increased to 30% as of Dec. 31, 2022, and 29% as of March 31, 2023, from about 25% as of Dec. 31, 2021.

Even though the current LTV ratio provides little headroom to accommodate volatility in asset values, which is an intrinsic risk for investment holding companies, we expect the LTV buffer to improve modestly over the next 12 months. This is due to cumulative cash from our expected increase in dividend inflow and limited discretionary payments.

The valuation of First Pacific's portfolio depends on the inherent cycles of local capital markets. Ongoing geopolitical tensions and potentially weak global economic conditions could hit overall equity valuations over the next 12 months.

First Pacific has a record of reducing debt using divestment proceeds. The company's LTV ratio declined in 2016 and 2019, following its partial divestment of Metro Pacific Investments Corp. and divestment of Goodman Fielder Pty. Ltd., respectively.

We expect LTV to decline modestly over the next 12 months



LTV--Loan to value. 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 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 27%-29%.
- Cash dividend and interest income of US$290 million-US$310 million in the 12 months ending Dec. 31, 2023.
- Operating costs of about US$20 million per year (no material increases).
- Interest payment of US$73.0 million-US$78.0 million in 2023.
- Dividend payment to shareholders of US$115 million-US$125 million in 2023.
- No share buybacks.

Key metrics

First Pacific Co. Ltd.--Key Metrics*

Mil. $	2019a	2020a	2021a	2022a	2023e
LTV	27%	25%	25%	30%	27% -29%
Cash flow adequacy	1.8 x	2.5 x	3.0x	3.1x	3.0x-3.3x

*All figures adjusted by S&P Global Ratings. LTV--Loan to value. a--Actual. e--Estimate.

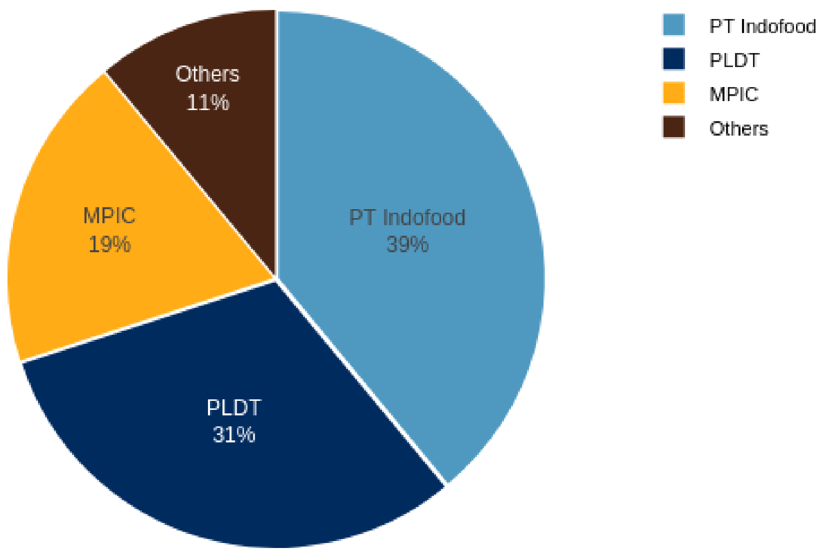
Company Description

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 a focus on four key industries: consumer food products, telecommunications, infrastructure, and natural resources.

First Pacific's key investee companies include Indofood Sukses Makmur Tbk. PT, PLDT, and Metro Pacific. Other listed investments include Philex Mining Corp., PXP Energy Corp., and Roxas Holdings Inc. Unlisted investments include FPM Power Holdings Ltd.

Mr. Anthoni Salim is the largest shareholder of First Pacific, with a 45.4% interest.

Portfolio Breakdown As Of March 31, 2023



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 about 89% of the portfolio--which is also among the most concentrated. This is balanced by its high weightage of listed assets at 93.8%. First Pacific also benefits from a strong average portfolio credit quality of 'bbb-', which provides some comfort against its high portfolio concentration. Other than BevCo Lux Sarl, 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 International Ltd. BevCo's portfolio exhibits one of the highest single asset concentrations. BevCo also 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 41% 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-2022 was higher than that of peers in the 'BBB' rating category.

First Pacific Company Limited--Peer Comparisons

	First Pacific Co. Ltd.	JAB Holding Co. S.a r.l.	BevCo Lux Sarl	Fosun International Ltd.
Rating as of April 17, 2023	BBB-/Stable/--	BBB+/Stable	BBB/Stable/--	BB-/Negative/--

Business profile	Satisfactory	Satisfactory	Fair	Fair
Portfolio data as of	Mar. 31, 2023	June. 30, 2022	June. 30, 2022	June. 30, 2022
Portfolio size (adjusted; mil. $)	4,670	31,936	7,314	40,406
Weight of listed assets (%)	93.8	69.9	97.6	41.3
Largest asset (% of portfolio)	39	39.5	75.8	16
Three largest assets (% of portfolio)	89.2	71.7	94.5	32.8
Financial risk profile	Intermediate	Intermediate	Modest	Significant
Loan to value ceiling (%)	30	25	20	45
Loan to value (%)	29	19	15	39

Business Risk

First Pacific's portfolio has an average credit quality of 'bbb-'. The company owns controlling or material stakes in several high-quality listed companies in the Philippines and Indonesia--for example, 50.1% in Indofood Sukses Makmur Tbk. PT (Indofood), 25.6% in PLDT (BBB/Stable/--) and 44.6% in Metro Pacific. These three companies accounted for about 89% of First Pacific's US$4.6 billion portfolio as of March 31, 2023, and contributed 99% of its dividend income in 2022. Key investee companies have leading market positions and strong operating cash flow 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 (excluding special dividend) 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 93.8% 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 temper 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 89% 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.

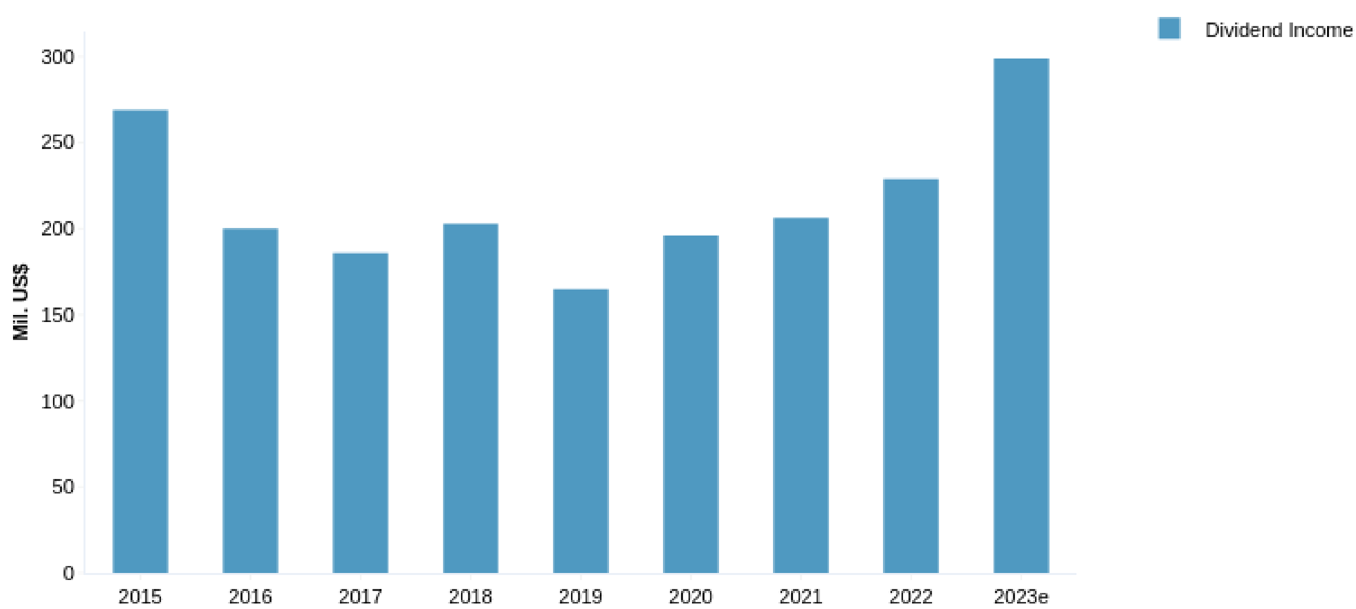
The investment performance beyond the top-three investee companies is mixed. FPM Power Holding's subsidiary PacificLight Power Pte. Ltd. faced multi-year losses and ultimately required restructuring and recapitalization in 2019. However, PacificLight's operations have turned around since the restructuring, 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 3.0x-3.3x over the next two years. This is despite higher interest expenses. The ratio improved to 3.1x in 2022 from 1.8x in 2019, mainly because of higher dividend income. 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.

We expect dividend income to rise in 2023



e--Estimate. Source: S&P Global Ratings.

First Pacific proactively manages its foreign currency exposure. All the company's interest-servicing obligations are denominated in U.S. dollar. Dividend income is denominated in the Philippine peso or Indonesia rupiah. The company hedges all foreign currency-denominated dividend income upon dividend declaration by the investee companies.

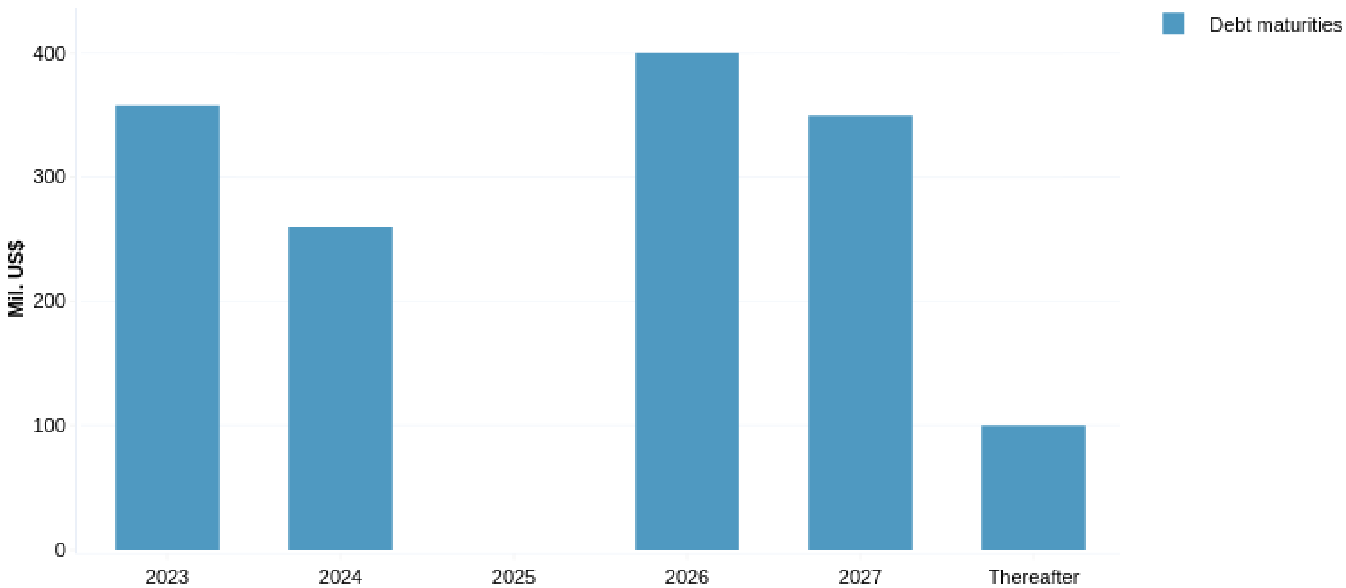
The company uses interest rate swaps and fixed rate debt to manage its interest rate exposure. That said, the company's exposure to floating rate debt has increased following the recent refinancing of its U.S. dollar-denominated fixed rate debt due April 2023. As a result, First Pacific interest cost will likely rise in 2023 and 2024 but remain manageable due to potentially higher dividend income. The proportion of fixed rate debt has declined to about 50% from 64% as of end-2022.

First Pacific will likely maintain its conservative dividend policy of 25% of annual recurring profit. We expect the company to remain flexible 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 impact 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, 2022



Source: S&P Global Ratings.
Debt due in April 2023 has been refinanced by committed long-term bank facilities. No maturities are due in 2025.

Liquidity

We view First Pacific's liquidity as adequate. We estimate the company's liquidity sources will cover its needs by about 1.5x for the 12 months ending March 31, 2024.

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.

Principal liquidity sources

- Cash and cash equivalents that we estimate at US$110.0 million as of March 31, 2023.
- Undrawn committed facilities of US$420 million as of March 31, 2023.
- Dividends from portfolio companies and interest income of US$260 million-US$280 million for the 12 months ending March 31, 2024, after assuming a 10% haircut from our base-case estimate.

Principal liquidity uses

- Debt maturities of US$357.8 million due in April 2023.
- Operating and tax expense of US$20 million in the period.
- No committed spending for business acquisitions and addition of new investments over the period.
- Gross interest payment of US$73.0 million-US$78.0 million in the 12 months ending March 31, 2024.
- Dividend payment to shareholders of US$115 million-US$125 million during the period.
- No share buyback over the period.

Covenant Analysis

Requirements

First Pacific has incurrence-based financial covenants for its indebtedness. For example, the company cannot incur additional debt if its interest coverage ratio is less than 2.5x. First Pacific's interest coverage ratio was 4.0x as at end-2022.

Compliance expectations

We expect First Pacific's interest coverage ratio to remain at about 4.0x in fiscal 2023.

Environmental, Social, And Governance

ESG Credit Indicators

E-1 **E-2** E-3 E-4 E-5	S-1 **S-2** S-3 S-4 S-5	G-1 **G-2** G-3 G-4 G-5
		- Governance structure - Risk management, culture and oversight

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We believe ESG credit factors have no material influence on our rating analysis on First Pacific. The company's portfolio is mainly exposed to consumer food products, telecommunications, and infrastructure sectors (92% of portfolio), which we view as having neutral environmental and social risk. We do not expect First Pacific's exposure to upstream metals and mining (copper and gold), palm oil, as well as oil and gas as having a material impact on its credit quality. First Pacific addresses ESG risk as part of its investment and risk management framework as well as sustainable development.

Governance factors are an overall neutral consideration in our credit analysis of First Pacific. The company could be subject to the influence of the Salim family due to Mr. Anthoni Salim's 45.4% interest. Mr. Anthoni Salim is the non-executive chairman while his son Mr. Axton Salim is a non-executive director of the board. Mr. Anthoni Salim holds executive positions at key investee companies such as Indofood. Mr. Axton Salim also holds management positions at Indofood and its key subsidiary and is involved in day-to-day operations.

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 Scores

Rating Score Snapshot

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

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 | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

PLDT Downgraded To 'BBB' On Higher-For-Longer Leverage; Outlook Stable, March 31, 2023.

Ratings Detail (as of April 24, 2023)*

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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