

Research Update:

# First Pacific Co. Ltd. 'BBB-' Rating Affirmed, Outlook Stable; No Impact From Proposed Metro Pacific Delisting

September 26, 2023

## Rating Action Overview

- First Pacific Co. Ltd.'s portfolio characteristics have changed following Metro Pacific Investments Corp.'s (MPIC) proposed delisting and a moderation in portfolio asset quality.
- Its strong recurring dividend income stream, inherent portfolio strength, and the financial flexibility from the Manila Electric Co. (Meralco) stake held by MPIC, tempers the moderation in other portfolio characteristics.
- On Sept. 26, 2023, S&P Global Ratings affirmed its 'BBB-' long-term issuer credit rating on First Pacific.
- The stable outlook reflects our view that the company will prudently manage its investments and debt such that its loan-to-value (LTV) ratio remains below 30% through market cycles. We also expect First Pacific to proactively manage its debt maturities and cash outlay to maintain adequate liquidity.

### PRIMARY CREDIT ANALYST

**Simon Wong**  
Singapore  
(65) 6239-6336  
simon.wong  
@spglobal.com

### SECONDARY CONTACT

**Pauline Tang**  
Singapore  
+ 6562396390  
pauline.tang  
@spglobal.com

## Rating Action Rationale

**Delisting of Metro Pacific Investments Corp. (MPIC) reduces the asset liquidity in First Pacific's portfolio.** The proposed delisting of MPIC will lower the proportion of listed assets in First Pacific's investment portfolio to approximately 65% from about 90%. This will result in lower asset liquidity. We therefore revised our assessment of First Pacific's business risk profile to fair, from satisfactory.

In general, we believe listed assets are easier to liquidate on a timely basis to repay debt if an investment holding company cannot refinance maturing debt. MPIC is among First Pacific's top three investees by value. Therefore, the proposed delisting represents a slight weakening on First Pacific's asset liquidity. First Pacific will remain the single largest shareholder of MPIC, based on the enlarged ownership of 48.2% following the voluntary delisting, which is expected by the end of October.

Although MPIC will be viewed as an unlisted asset after being delisted, it holds a 47.5% stake in Meralco (BBB-/Stable/--), which is publicly listed. We do not adopt a look-through approach on MPIC's investment in Meralco. This is because MPIC has material outstanding debt at the parent level and a substantial disposal of its stakes in Meralco will be subject to other shareholders' approval. We believe the financial flexibility provided by MPIC ownership in the listed Meralco compensates somewhat for the weaker asset liquidity at the First Pacific level.

**Stronger dividend stream tempers the modest decline in portfolio asset quality.** We expect First Pacific's dividend income to reach a multi-year high in 2023, resulting in a cash flow adequacy ratio of 3.4x-3.6x for the full year. The investment holding company recorded dividend income of US\$143 million for first-half 2023, representing a twofold increase over the same period last year. The increase is mainly driven by PacificLight Power Pte. Ltd., a subsidiary of FPM Power Holdings, which commenced dividend payout this year. PacificLight's credit quality has improved, since its restructuring and recapitalization in 2020, with good cash flow generation and low leverage.

By our estimate, the weighted-average credit quality of First Pacific's portfolio has moderated to 'bb+' from 'bbb-'. This was due to the downgrade of one of its key investees, PLDT Inc., to 'BBB' from 'BBB+' earlier this year. In addition, PLDT's share price has declined by about 39% since April 2022, contributing to the lower weighted-average credit quality of the portfolio. However, we do not believe the lower asset quality has a materially negative impact on First Pacific's overall credit quality.

**We view First Pacific to be stronger than most other rated investment holding company peers with a fair business risk profile.** This is largely due to the recurring and growing dividend streams from its key investees, supported by their leading market positions and ability to generate strong cash flow. The portfolio also benefits from a moderate level of industry diversity with a relatively low degree of correlation. First Pacific's largest asset, Indofood Sukses Makmur Tbk., operates in a relatively resilient industry and has a track record of steady dividend generation through different business cycles.

Based on our estimate, First Pacific's attributable equity value of Meralco (net of outstanding debt at MPIC parent level) is about US\$900 million, which is equivalent to about 22% and 70% of First Pacific's net asset value and outstanding net debt, respectively, as of June 30, 2023.

## 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 one or more of the following occurs:

- 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.

- Proportion of listed assets declines further to below 60%.
- First Pacific's asset creditworthiness deteriorates because of substantial debt-funded discretionary spending at the investee level, or if the assets' competitive position deteriorates.

## **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:

- First Pacific formally adjusts its leverage threshold to below 20%; or
- The credit quality of the company's investment portfolio substantially improves, while current leverage and portfolio quality are maintained.

## **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 MPIC. 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.

## **Our Base-Case Scenario**

### **Assumptions**

- First Pacific's continued prudent investment policy and proactive management actions are aimed at maintaining its LTV below 30% (between 26%-28%) through market cycles.
- Cash dividend and interest income of US\$310 million-US\$330 million in the 12 months ending Dec. 31, 2023, and US\$300 million-US\$320 million in the 12 months ending Dec. 31, 2024.
- 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.

### **Key metrics**

Table 1

**First Pacific Co. Ltd.--Key Metrics\***

	--Fiscal year ended Dec. 31--				
	2019a	2020a	2021a	2022a	2023e
LTV	27%	25%	25%	30%	26%-28%
Cash flow adequacy	1.8x	2.5x	3.0x	3.1x	3.4x-3.6x

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

**Ratings Score Snapshot**

Issuer Credit Rating	BBB-/Stable/--
Business risk:	Fair
Country risk	Moderately high
Industry risk	Intermediate
Investment position	Fair
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb+
Modifiers:	
Liquidity	Adequate (No impact)
Management and governance	Satisfactory (No impact)
Comparable rating analysis	Positive (+1 notch)
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
- 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

## Ratings List

### Ratings Affirmed

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#### First Pacific Co. Ltd.

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Issuer Credit Rating BBB-/Stable/--

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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