Company: **First Pacific Company Limited**

Conference Title: **1H18 Results Teleconference**

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Conference Time: **5:00 PM (UTC+08:00)**

Operator: Ladies and gentlemen, for your information, today's conference is being recorded. Please go ahead.

Sarah Cheung: Good day everyone and thank you for joining us today to discuss First Pacific 2018 First Half Financial and Operating Results. The results presentation is available on First Pacific website, www.firstpacific.com. For media on this call, please note the Q&A session is open for the investors and analysts only. If you would like to raise questions, please contact us when the call finished. For today's conference call, we have with us Mr Manuel Pangilinan, our Managing Director and CEO; Mr Robert Nicholson, our Executive Director; Mr Chris Young, Executive Director and CFO; Mr Edward Tortorici, our Advisor; and other Senior Executives. At this point I would like to turn to Mr John Ryan from Group Public Communication for his presentation.

John Ryan: Thank you Sarah, sorry we're late folks. We had line trouble. The presentation, I hope you've downloaded from our website and I'll go ahead and begin. Moving on to page three with the overview of the main assets that we hold. There has not been any kind of significant change in our ownership stake in the companies, which form our GAV.

On page four, there are photographs of – most of the people on this page, are sitting around this table for this presentation and the following Q&A.

Page five shows us some end June figures for gearing and cash and gross and net debt, as well as turnover, EBITDA and profit numbers for that six month period as well, for the companies of the

First Pacific Group. Please note that the very bottom line, First Pacific Head Office, those are solely Head Office numbers. You'll see in the numbers we report, we recorded a far higher turnover. In fact, the highest yet that we've ever had for the first half of the year.

Now on page six, this pie chart represents the gross asset value of what we own, cash and borrowings are not included here. We've got our three core assets of MPIC, Indofood and PLDT, and the other assets which you're also familiar with. The investment objectives and criteria have remained unchanged since the last time we spoke.

Now turning to page seven, we see at the end of the period the value of assets controlled by First Pacific, was just over $30 billion. It does not count some unlisted assets, some key among them Maynilad, which we control through MPIC, the biggest [inaudible] company in the Philippines, and the hospitals who are also under MPIC, both of those are privately held. And off to the right of this very large pie chart, we've got some numbers for the group totals in the first half of the year.

Now finally on page eight we are turning to First Pacific results. As you can see our recurring profit is down a bit from last year. There was, as I'm sure you expected, a foreign currency affect there with weaker Rupiah and Peso in particular, affecting the US dollar value of contributions from our Philippine and Indonesian companies. Now if you look at the red squares going down from last year's results, going – moving to the green and up to the $161 million of recurring profit this year, you can see that PLDT is still seeing a drop off in some of its mobile revenues, particularly SMS and voice, as well as the international long distance for both the wireless and wire-line networks. Offsetting to a great extent the surging growth in broadband and data usage in both of those sectors, the cellular and the fixed line – we'll turn to that in just a moment. As you can see in the pie chart on the right-hand side of this page, those three core holdings deliver the core – pardon me, I've misread my own chart. We've broken it up into the sectors that we cover, and as you can see, the three main sectors that we focus on are delivering the great core of the contribution, natural resources only at 2% of the total.

Now cash flow is an important metric for our investors to look at, and we've got that on page nine, where you can see that our dividend income for the period was $67.5 million. And next to that, we've already paid one distribution this year.

Our interest expense, you'll see both in accounting and cash terms is down from a year earlier. We have some slight net new borrowings. Frankly as our rolling liability management programme had a very strong milestone in May when we bought back some bonds and issued a new one, reducing our overall borrowing cost and pushing out our maturities. Now I'm afraid the, 'Source Of Dividends' pie chart on the side is the 2017 shape, but I would imagine that the 2018 end year figure won't be terribly different from that.

Now on page ten, we've got the shape of our debt profile, following the liability management exercise conducted by our Head of Treasury, Joseph Ng, right at the end of May. Essentially he's pushed out the maturity. You can see on the bottom left hand side of this page, there's a $175 million bond timed frankly quite well ahead of the turnaround in the direction of interest rates. And above this box, you've got a table of the four bonds we've got currently outstanding.

Now I imagine later in this call Joseph will address for you what we're doing about the 2019 bond; as you can see it's $215 million maturing next June. Currently we've got most of our borrowings unsecured and a bit more than half three-fifths are at fixed interest rate, [inaudible] bonds. And the bullet points above here, they give you a few key numbers for you to consider what our balance sheet is looking like at the moment.

Now page 11 is a new introduction to our hand-out and our presentation, because as I'm sure as you've all seen, ESG is growing ever more important, particularly among our European shareholders. We've now issued two ESG reports in 2016 and then covering 2017. The 2017 report would add more depth and breadth than the previous year's report, and that's a trend we are hopeful of continuing as we move into the 2018 report and beyond. ESG for the First Pacific Group, really drills down and focuses on the plantations business, where the Chief Executive of IndoAgri, Mark Wakeford, has been doing a very solid job of moving IndoAgri to the forefront of CPO plantation companies who are palatable for investors who are increasingly using ESG factors in their investment decisions. And I'm hopeful, as we move forward, he will help educate us and improve the overall ESG reporting and standards of the wider group.

Now let's finally move on to the operating companies. On page 12, we have a snapshot of PLDT showing a change in service revenues chart, which doesn't look a lot different from what we've seen, particularly accelerating in 2017. Service revenues are up. And that frankly is driven by data services, which I think are about overall half of all the service revenues that we're getting at PLDT. Now there, thinking that the full year core income will be up by one or two billion Pesos, not including Voyager. Our Managing Director, Manuel Pangilinan, who is Chairman of PLDT, can address the PLDT matters in the Q&A.

If you look over to page 13, you can see what the high spending on CAPEX in recent years, we expect it will be PHP58 billion for the full year of 2018, has brought to PLDT.

It's known to all of you, particularly those focus hard on Telco, the Globe has been gaining market share in recent years and Smart has been having to catch up. To my personal great delight, I think if you're looking at network quality, overall Smart has now got a clear lead, open signal and independent agency that compares telephone networks globally. Just a day or two ago, issued a new report covering the Philippines. There is a link at the bottom of this page. And following that, I spoke with PLDT's CTO about what the future might hold, and his goal is for all of the red symbols there to be on the top line within the next year or so, with Smart having a quality network well ahead of Globe and help that – boosting the transformation of its fortunes there.

Page 14 we've got some updated data here on the shape of Metro Pacific in the Philippines – the hospital's business in red, is growing like topsy[?]. They're looking to do 5,000 beds total in the next few years and we've got the other assets, which are well known to you. And as usual, their earnings in the first half of the year, were quite strong. Contribution had double-digit growth, core income up and extremely positive stories all these numbers show you, but there has been for the longest time, the overhang of regulatory question marks over tariffs on the various road and water industries, and even electricity. There's been some recent developments in this area, and Mannie, who's the Chairman also of Metro Pacific, can address those to you and we're feeling fairly positive about the outlook for these long, enduring painful difficulties there.

Now let's move over to Indofood. I must request your forgiveness, if you downloaded this presentation before half an hour ago, you'll see the headline was wrong on that slide. The first half earnings were held back by the plantation business. Palm oil prices were lower in this period than they were earlier. And a timing question of when palm oil sales were made, also held back the agri-business, which as you can see in the sales pie chart, is about 20% of the total. Bogasari had to cope with higher wheat prices. The growth in consumer spending isn't as fast as all of these fast moving consumer goods food producers would like to see. Still, for the full year, we're looking to see the top line growth very strongly. However, the bottom line, the core profit over at Indofood, will still suffer some pressures like the ones I've just described. And also, now they own 100% of their beverages business. That is still not profitable, it's got negative margins. So they're taking that in higher loss into their P & L and that's going to hit the bottom line for the full year.

Nevertheless, the food business there, the consumer branded products, is performing very strongly and the medium-term outlook remains unchanged.

Turning to Goodman Fielder, we've got strong growth in the first half numbers, strongly led by the international business. Our Executive Director, Robert Nicolson, can speak about this company in the Q&A to follow this presentation.

Last of the major companies that I'll cover for you today is Philex. Philex had slightly worse grades of ore and then slightly worse recoveries. That means that the stronger metal prices that we saw in the first half of the year, particularly for copper, weren't enough to offset the lower volumes that they were able to produce in the first half of the year, with the consequences, their earnings were down. The Silangan project down on the South, which represents the future of this company, has had to turn to the possibility of mining underground, following a ban on open-pit mining made with the arrival of the new administration of Duterte.

Now the following slides are some appendices for you to review, to help you in the Q&A.

Sarah Cheung: Thanks John. Now I invite our Managing Director and CEO, Mr Pangilinan, to say a few words on the results.

Manuel Pangilinan: Yeah, good afternoon to all of you. I just have four points to make by way of summation. The first is what John noted earlier, the company's ongoing liability management programme is being successfully managed by Joseph here, lengthening the maturities of our debts all the way out to 2025 and bringing down the cost of borrowing of First Pacific company.

The second part relates to our NAV discount, which we regard to be unjustified and of course merits all of our attention, but knowing about the company's prospects, and about the performance particularly of the core operating units, [inaudible] Indofood and Metro Pacific, we feel that when the performance results are out by yearend, some degree of optimism is justified in terms of the discount. I think we can talk about some of the developments in each of these units later on in the Q&A.

In terms of our ESG initiatives, just to amplify what John indicated, we continue to intensify our initiatives in this regard to ensure First Pacific and the constituent companies of the group, follow best practises. And finally Management have identified assets not meeting our return targets with the prospect of divestments of disposal with proceeds to be applied towards debt reduction and share repurchase to signal confidence in our prospects for the future. So that ends the summation, Sarah.

Sarah Cheung: Thank you Mr Pangilinan. Operator, we are now ready for question.

Operator: Thank you, if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you were using a speaker phone, please make sure your mute function is turned off, to allow your signal to reach our equipment. Again, please press star one if you would like to ask a question at this time. We will pause for just a moment to give everyone the opportunity to signal. We will now take our first question from Kedar Wagle of May Bank.

Kedar Wagle: Thank you. Thank you so much for the call. I had a question on Pacific Light, if you could just talk about what the outlook for Pacific Light is in the next couple of years? Also, you had talked about divesting that asset, if you can update us what the status of that is? And third on Pacific Light, I see that you've invested more in the first half in Pacific Light, so if you can talk about what the debt situation for Pacific Light is and will you need to invest more in the coming years? Thank you.

Robin Nicholson: It's Robin here. Let me try and address those questions. I mean, as you know, the Singapore power market remains challenging. There are structural issues, there's too much capacity and there's an oversupply of gas. And that has driven in the prices in the retail and the wholesale market down. I think currently at the moment, no one actually makes a profit out of these, in general terms. That said, demand for electricity has been a bit higher than expected and a certain rationality has entered how the participants are operating. So performance has improved a little bit over the last six months and is expected to improve again over the balance of the year. The company's cash flow is positive and it's generating reduced losses. In terms of debt, we put a little bit of money in earlier on to ensure that we are in full compliance with certain covenants, and we're currently in advanced discussions with the banks, to turn out our existing debt.

As part of those arrangements, we'll put a little bit of capital into the company, but the hope is that the final arrangements would see the debt turned out for eight years. There seems to be no particular issue with that debt refinancing and we expect that that will be in place before the end of the year. An important component of course, is that there would be no principal repayments for the next three years. So the company's position is improving slightly and is stable and the debt restructuring or refinancing would ensure that over and above the small amount of capital we put in as part of the refinancing exercise, we then expect to have any further cash calls. That said, in order to improve the position long term, it's our view that a consolidation in the industry is necessary and that's certainly something that we would be keen to participate in if the opportunity arises and we're in discussions with a number of parties along those lines.

The sale process, it is ongoing. It may find that it's final outcome in participating and a consolidation, or it might its outcome in an actual sale. It's got to be said that these are challenging times to sell a power company in Singapore and we're very reluctant to release it for a very low price. So although we're realistic about what we might achieve on a sale process, we're certainly not just going to give the company away. And so it may be that a consolidation and our participation in that, is the best solution. But we certainly expect to have some outcome within the next three months and we're pressed today actually by our board, to give them some assurances, but we'll have that thing sorted out one way or the other by the end of the year. And that's our objective.

Kedar Wagle: Okay, thanks for that. Just one follow-up question. The additional capital you would need to put in as part of the debt restructuring, I know you probably can't share the exact numbers, but in ballpark terms, is the magnitude similar to what you put in, in the first half?

Robert Nicholson: Very similar.

Kedar Wagle: Okay. Okay, thank you so much.

Operator: Once again, if you would like to ask a question, please press star one on your telephone keypad. We will now take our next question from Jon Galligan of CLSA. Please go ahead.

Jon Galligan: Yeah, good afternoon guys. Two questions from me. First of all, can you give some update on the regulatory challenges you're having at the Metro Pacific Group? I know John, you alluded that in your prepared remarks, but it would be good to kind of understand a little bit more about the timing of the process and what you guys think the resolution might be? And whether or not you're going to change your strategy in light of what's happened with the government?

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And then secondly, we've heard a lot about the potential for asset divestments now for a while, and I can fully appreciate it's important to get a good price. But is that the only thing that's holding this up or are there other issues when it comes to kind of the disposal of non-core assets that we should be aware of?

Manuel Pangilinan: Well John, hey?

Speaker: Yes John.

Manuel Pangilinan: Yeah John, Manuel Pangilinan here. In respect of the regulatory developments affecting Metro Pacific, let me deal with the tollways first, no? I think we have a bit of good news. We've been in regular touch with the Toll Regulatory Board, which is the regulator that sets and approves the tariffs for all tollways, no? And yesterday there was a board meeting of the TRB, Toll Regulatory Board, and we are told that the board has approved tariff increases relating to both our tollways in the North, mainly the NLEX system and the Subic-Clark tollway system.

And the approved tariffs account for about 80% of what we have petitioned to be approved. So effectively what they have approved are for the three years, 2012, 2013 and 2014. Outstanding are two items for the tariff adjustments. One relates to the South tollway, which is the CAVITEX system, and number two is the extension of the concession by three years.

We understand that these two matters will be taken up in the next TRB board, which is the third week of September, and we expect the board to approve the CAVITEX, the south tollways tariffs in that board meeting for implementation sometime in October/November timeframe. So the impact on the tollways group will be felt[?] mainly next year or be it, that the tariff adjustments for the

North system will take effect, we expect, if we get a copy of the TRB resolution, say within the week or next week, subject to public publication of such resolution. Within the next week or two, we should be able to implement the tariff adjustments on the North system, effective October. And the Southern system, if we're fortunate, to be implement towards the end of the year.

Now the impact of both, if they were approved within the month of September, would be a significant increase in the revenues of the tollways, probably north of PHP1 billion a year, which will impact the tollways, both the top line and the bottom line, mainly in 2019. So I understand that – I was told that we had a board meeting that – I was told, Secretary Tugade, who is the Secretary for Transportation, has alluded to the approval by the TRB board of the tariff adjustments for the northern tollways.

We think that for the water side, we are obviously as well in touch with the regulator, and the matter of – the discussion – the last element of the discussion revolves on the amount or the quantum of tariff adjustments that the administrator of MWSS, the Metropolitan Waterworks, are prepared to give to us. Where they are, it's about PHP4 – it is PHP4 per cubic metre and our petition relates to about PHP4.20 per cubic metre as well.

Now I think just move things forward for the water side, we're prepared – we're inclined to agree to the proposal of MWSS to PHP4 per cubic metre. And the impact on Maynilad, should we finally come to terms with the regulator, maybe towards the end of the year, would be something north of – around PHP2 billion a year on the revenue, know? So in a way the tollways agreement creates a precedent for the water agreement and we're all striving to achieve closure before yearend on both the tollways and the water concession and the tariff petition.

Of course, the petition – the requirement of government is that once these things are agreed with them, that they will withdraw. The arbitration case is relevant to both the tollways and the water.

Robert Nicholson: Right, turning to asset sales, [inaudible] Robert Nicholson. Okay, I'll start by saying that we have not changed our plans and that we propose to dispose of non-core assets and to utilise the proceeds at Head Office to reduce debt and perhaps implement a sharing purchase programme underlying the fact that we believe our share price is currently very significantly undervalued, given the prospects for our business. So there's no change whatsoever in our plan or our policy.

I think I talked a little bit earlier about Pacific Light. We're in discussion at the moment with a number of parties. We're maintaining parallel tracks, because we want to achieve the best possible outcome. So we're pursuing a debt restructuring, which will stabilise the company, limit any exposure we have at Head Office to further capital commitments. We're looking to bring about a consolidation of the industry, and we're also pursuing a possibility of a dispose of cash.

Which of those outcomes is the best, will partly depend on where we end up with the discussions. But we certainly hope that we'll have a visibility, final visibility on how best to proceed by the end of the year.

In relation to other initiatives, we set out, as you know, to sell out or sell down out of our sugar investment at RHI. That transaction has resulted in an agreement to dispose of one of the sugar refineries at RHI to a Philippine party. That will result in a significant injection of cash into RHI, stabilise that company and give it working capital. We're currently waiting for some Philippine regulatory content to fall in – the documentation's been signed – but we don't envisage any particular problem.

That leaves initiatives relating to Goodman Fielder. Again, it's a complex series of transactions, but we're pursuing parallel tracks in respect both of our interests in Goodman Fielder and also in relation to asset disposals. Goodman Fielder, again designed both to ensure that that company has adequate capital for its requirements and also to try and ensure we have cash back at Head Office.

I really can't say much more than that. These discussions are continuing and again, we're under a lot of pressure from our own board, as well as the shareholders, to ensure that we have an outcome or a final part of the closure by the end of the year, and that's what we intend to do.

Operator: Once again, to ask a telephone question, please press star one. We will now take our next question from Oliver Mashinda of City of London Investment Management. Please go ahead.

Mark: No, actually it's Mark [unintelligible]. Thanks for the presentation and the update. So obviously we've been hearing for some time now about these disposals of non-core assets. And it's disappointing to see that there hasn't really been much, except it seems that there's been net new money going into a couple of these investments over the most recent period.

So is it time now for the board to consider more radical action to fund the debt repayment, which is going to be significant over the next couple of years? And also the buy-back and time to consider rotating some of the investments – some of the core investments down, which is something that hasn't previously been addressed.

Robert Nicholson: No, I think at the moment we're committed to our core investments. I think what is becoming apparent, and where we've had very firm direction from the board today, is that we're going to have to be realistic about pricing on some of these disposals. It's not that there isn't interest. There's interest at the PLP level and there's very significant interest across the range of options at Goodman Fielder. It's the desire on the part of Management to maximise the return to First Pacific that is slowing these transactions down, or at least has ensured that we explore every opportunity before finally deciding on the best way to go.

It's easy enough to sell the assets if you give them away – we're not going to do that, we have to make sure that we've explored every opportunity and all the various options to maximise value to First Pacific.

What we've had, in firm instructions today, that we need to bring the various opportunities to head and close out or at least finalise a disposal in respect of both PLP and the Goodman Fielder options during the course of this year. And that is way we're going to go, and at the moment we don't see any need to step beyond the list of investments that we have currently said we are selling.

Mark: In terms of liability management fees[?]?

Manuel Pangilinan: Well on the – exclusive here on the liability management side, we are launched the first part of the liability management exercise in May and we tender and bought back 220 million bonds in May. That's part of the overall 690 million 2019 and 2020 bonds that would come due in the next 30 months or so.

So as part of the exercise, we tender back 220 and we put in place the new bond 175 and [inaudible] facilities, banking facilities, medium term to pay it down 220 in May. And in the past couple of weeks, we also – we sign up banking facility as well as we could reuse some of the [inaudible] facilities in May.

So we, as of today, have committed funding facility – fully funded facility from banks, sufficient to [inaudible] remaining 250 million bonds due in next June. So as far as 2019 is concerned, we are fully funded for the upcoming bonds due in June 2019 and we are all good for 2019.

The next piece of that coming up to you, will be the remaining 250 million bonds due in September 2020, which is just over two years away from today. So I think we are fine. And then as explained by Robert and other members, I think we are actively pursuing all the asset disposal opportunities and make sure that we could raise sufficient money to pay down the debt, in particular debt coming up until September 2020, the 251 million bond.

John Ryan: Mark, it's John here. You'll be seeing Chris Young and me next week I believe.

Mark: Yeah, no. Will look forward to that, thanks.

John Ryan: Cheers.

Operator: We have no further telephone questions at this time.

Sarah Cheung: Thank you. As there are no more questions, I would like to invite Mr Pangilinan to give his closing remark.

Manuel Pangilinan: Thank you for joining us this afternoon and [inaudible] conference call for the third quarter results?

Robert Nicholson: No, because it's just an operating company.

Manuel Pangilinan: Well, the – as – just to repeat what Robert said, we have firm instructions from the board today, to close out this disposal programme and the target is to do so by year end. So, we would hope we could report the result of that effort on or before the yearend and give you continuing news, parts of the news on the current developments out there in the Philippines, which could help the Metro Pacific performance and the Metro Pacific share price. While PLP continued to be optimistic that the results will improve, the second half compared to the first half, and for the full year 2018, and continuing positive prospects for the year and beyond.

Sarah Cheung: Thank you Mr Pangilinan. [Inaudible] also John and Mr Christian, our Executive Director and CFO, will be in London next week. And in early October, John and Mr Robert Nicholson, our Executive Director, will be in the US. So if you would like to meet with the First Pacific team, please get in touch with John or Sarah. Thank you. Thanks again for joining today's call. Operator, can you please provide the replay information?

Operator: Ladies and gentlemen, this concludes First Pacific's 2018 First Half Results Conference Call. If you would like to listen to a replay of today's call for Hong Kong, please dial +852 3008 0334. For Singapore, 800 101 2009. For the UK, 0808 101 1153 and for the US, 888 203 1112. The pass code for the replay is 9650089. Thank you for your participation. You may now disconnect.