Company: First Pacific Company Limited

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Sara: Thank you. Good day everyone and thank you for joining us today to discuss First Pacific 2019 First Half Financial and Operating Results. The results presentation is available on First Pacific's website, www.firstpacific.com. And for media on this call, please note question and answer session is open for investors and analyst only. And if you would like to ask questions please contact us when the call is finished.

For today's call, we have with us Mr. Chris Young, Executive Director and Chief Financial Officer, Mr. Joseph Ng, Mr. John Ryan, our Associate Director, and other Senior Executives. At this point, I would like to turn to Mr. Ryan for his presentation.

John Ryan: Thank Sara. Good afternoon everyone. We will be using the Investor presentation that we uploaded on the website this afternoon. We won't be going through every page and we will just be hitting the highlights of it as we've tended to do in the past.

Now the focus here is our turnover is up quite powerfully, 6% driven, by growth at MPIC and Indofood. Indofood has delivered a truly astonishing performance in the first half of the year. Our three core holdings, which you all know is MPIC, PLDT and Indofood, so their contribution rise 3%. However, the overall contribution from Operations, as you can see on page seven, is down 8% to a bit less than $200 million. Recurring profit was down 12% to $142 million.

Now, as far as the net number goes, we announced in March with the disposal of Goodman Fielder to it's another owner Wilmar International, that we would be taking a non-cash, nonrecurring write-down in the value of that investment. And that's been declared in our P&L statement for the first half of 2019, and that's why we've got a net loss of $148.3 million in the first half of the year. It's the first loss we've recorded in almost two decades, and with luck we won't be doing it again anytime soon.

Now, there are further details going on through the statement. We've got – if you're looking at our free cash flow chart, we've got dividend and fee income of about $68.4 million. Our opening cash and closing free cash are not terribly far apart from each other, going down by $9 million to $80.5 million.

Now the breakdown on the recurring profit, as you can in the contribution column chart underneath that, Goodman Fielder is the biggest decliner all the way going down. And as mentioned, we've got an impressive increase in contributions from Indofood and a slightly smaller one from MPIC, which has faced higher interest expenses.

Now page eight of this presentation is an extremely useful page, packed as it is, so full of data. It shows you first half earnings numbers for I think just about every company in the First Pacific Group, as well as a snapshot of their debt and cash positions.

Turning to page nine, we can see that there are no more debt repayments to be made in 2019. You've got, in the column chart at the bottom of that page on the left-hand side, our most expensive borrowing, a 6⅜ bond maturing September next year. The proceeds from the Goodman fielder's sale, which we expect to be about $275 million coming to us before year-end, will be devoted towards paying off that bond when it matures.

And as you can see, the following borrowings going forward are all either unsecured bonds or unsecured bank loans. Our blended interest cost is currently about 4.5%. Once that bond is paid off in about a year's time, our borrowing costs will be rather lower, and I think our maturity might push out more a little bit too.

As you can see with these bonds falling away, we've got a higher proportion of floating rate borrowings now going forward. It's about 53% to 47% if you're looking at the pie charts on the right-hand side of page nine.

Now, a brief mention of sustainability matters on page 10 please. Over the past 10 or 11 months, we've managed to push our ISS Governance QualityScore down to 4 – which is rather better than the average in Hong Kong – from 8, which was a pretty rough score late last year. Hopefully, going forward, we will be gradually able to continue the improvement in those ESG snapshots that these various rating agencies give us.

Now let's move to some operating results, Indofood on page 11. 7% increase in revenues and as you can see, that is led by noodles and Bogasari, the flour and pasta division. And that has trickled down to a bottom line of a 22% increase in the core profit to IDR2.4 trillion; a truly wonderful performance. Now, you see there is – in the change-in-sales column chart, there's the biggest red line is the decline in distribution. And that is simply because we've seen some revenues recorded in the distribution business move over to CBP business with the buying out of the other partner in a joint venture last year. So that's more of an optical rather than a real decline in the revenues. As you can see, it moved to Food Seasonings, which saw a mostly corresponding increase in their sales.

Now as you can see also the price of palm oil has hampered sales at the plantations business. And as you know, when you're looking at Indofood, you do have that commodity element in their P&L. Broadly speaking as we look over the past two years and looking ahead in the short to medium term, Indofood has got terrific prospects going forward. There are more details about its operating subsidiaries, CBP and IndoAgri, on the next couple of pages.

But let's move over to page 14 to the biggest phone company in the Philippines, PLDT, which really is producing some astonishing growth in take-up of data services, particularly in the first half of this year with the individual segment, which you can think of as people using their mobile phones. So we've got a strong growth in service revenues, not too different from what Indofood saw; 15% increase in EBITDA. But Telco core was flat at ₱13.2 billion pesos because of higher non-cash expenses in net financing cost and so on.

Now the CAPEX at PLDT is remaining high this year at around ₱78 billion, and that really is delivering some impressive results. Let's skip a page to page 16, and you can see these bar charts at the bottom of the page showing the source of the improvement of PLDT's earnings in 2019. The cellular speed in the fixed line speed are head and shoulders in front of the competitor, download speeds are much better, and same with the upload speeds.

PLDT is now confidently predicting a 10% increase in their Telco core in 2019 for the full year to ₱26.4 billion, and I think it's not unreasonable to expect continuing earnings growth at PLDT moving forward.

Now let's have a look at MPIC. Page 17 gives you the familiar schematic of what is made up inside the Metro Pacific holding company. No big changes there from the last time we spoke back in March. Let's have a look at the financial highlights and the outlook.

The big change you've got here from the 2018 full year is there's a bigger interest bill. And that's kept their contribution to First Pacific rather flattish, and their core income growth is the same, held at 1%. It's well known that there is investor interest in its hospitals' business. And if they are able to sell off part of that business to an outside investor, they're very likely to get the enormous valuations of hospital businesses that we've seen elsewhere in the region.

Metro Pacific will use any proceeds from that for mostly paying down its borrowings, as it's had to increase its borrowings to finance capital expenditures in its various growing infrastructure projects, particularly in the roads business. Now, all in all, volume growth as the main infrastructure businesses at Metro Pacific will continue to be strong for the rest of the year and looking ahead. And by these, I mean the roads, the electricity and the water businesses.

So that's a look at those core holdings that we have, which we're really focused on driving forward. But I can't end this narrative without a word or two about Philex, which, as we all know, has been operating the Padcal mine for about a half a century, and in the past few weeks has finished a definitive feasibility study for the first phase of its Silangan project down in Mindanao, the big southern island in the Philippines.

There are some details about this on page 21 of this presentation. Essentially, now the project has started with a search for an equity partner and project finance for the $750 million CAPEX program for the first phase of this project. And that will really transform Phliex mining from the business it is now, a mine that's been going for a very long time with rather relatively low grade, to a new project with very, very rich resources as described in that table in the blue bar down below.

Now, with regard to other companies in the group, we have been working on what to do with PLP, the power plant in Singapore. And we announced in March the sale of our half of Goodman Fielder to the other partner, the other owner of that company, and we can speak to those details in the Q&A which is about to follow. And I think we're probably ready for that now.

Sara: Yes, operator, we're now ready for questions.

Operator: Yes, thank you. Ladies and gentlemen, if you would like signal to enter into the queue for a question, please press star one on your telephone keypad. We can now take our first Kedar Wagle, Maybank Asset Management. Please go ahead.

Kedar Wagle: Thank you. I have a couple of questions. You mentioned about your plans to sell out of disposal of PacificLight. Can you just give us some data on that? And if I look at the numbers for PLP, they seem to be – to remain pretty weak. So would we need to inject more equity into the business this year?

And second, your investments in the first half were $42.5 million. This is from the cash flow statement. Can you give us a breakup of that between the different businesses? Thank you.

John Ryan: Hi, it's John, nice to hear from you – will be answered by Stanley Yang, who's in charge of our corporate development. And then on the cash flow, Associate Director Joseph Ng will answer that.

Stanley Yang: Good afternoon. On the PacificLight, for us, this is a asset that does continue to sit in a very difficult market with the power prices, both retail and [inaudible], remaining at very low levels. The source of this is the over-capacity – there's too much generation capacity, which has existed for a number of years now, but also it's a result of the oversupply of gas. There were a number of gas contracts, particularly on the LNG side, that were signed up to long-term contracts, 10-year contracts, which brought the market demand and supply balance out of sync.

And so it was because of that that the losses – not just at PacificLight, but across all the generating companies within the Singapore market continue to struggle. We've looked at options both whether a sale – an outright sale could – would be feasible. I think the reality is in this market, though, that's a difficult one in terms of generating the best value for shareholders. And so the transactions that we are reviewing is the possibility of consolidation in the market. And by combining with one or other generating firms in Singapore, then there could be the takeout of old inefficient capacity. And that could also help in terms of setting off and improving the balance on the supply side as well as fixing some of the challenges around the gas supply.

And so that's the path that we see. We've been in discussions for a number of months now, which are progressing. I think beyond just exploratory talks, we are advancing it into a point where the due diligence and reviewing – the possible structure of the combination would be reviewed. And so this is something that we are pressing ahead, but at this point there is no announcement yet. This is an opportunity that's in review and in discussions, but still ongoing.

Kedar Wagle: Is there a timeline?

Stanley Yang: I think the objective would be to have, if we can, a transaction announced within this year. Now there would have to be due diligence. There would have to be consultation in terms of if it is consolidation, what's the regulatory approval because EMA, the Singapore power regulator, would be looking at market concentration levels, and so there would have to be some work around that.

There, of course, would have to be agreements among the lending banks of the participating parties to come up with a refinancing proposal for any merged entity. And so these are the elements that we'll take some time to finalize and flush out. But the objective would be if as a target, we would try to have something signed up within this calendar year, if possible.

Joseph Ng: And referring to your question – this is Joseph here – referring to your question about the investment of $42 million we put[?] into the units[?], as explained by Stanley earlier, in the early part of this year, the shareholders in PLP still need to provide a little bit of funding support to PLP to ensure that the company could meet all the obligations as well as the relevant covenants at the PLP level.

So all the three shareholders – ourselves, MGen, and Petronas – are putting a little bit more money into the PLP, and that's before the serious exploration of looking for an industry consolidation solution at the PLP level. So in the first half of 2019, I think of the $42 million, roughly 50% of that is actually – probably $21 million we put down into PLP to achieve that purpose. And we also put in a little bit money into Goodman Fielder again before we sign up the binding[?] sale and purchase agreement with Fielder[?] to dispose of the 50% in Goodman Fielder.

So before that, in the first quarter of 2019, we also put in roughly 30% of the $42 million, just over $10 million into Goodman Fielder. So these two items had together over 80% of the $42 million, basically the bulk off that $42.5 million investment in the first half of 2019.

Now, looking forward in the second half 2019, one, we already signed Goodman Fielder – signed the binding sale and purchase agreement for Goodman Fielder, so it's just a matter of cleaning up all the CPs[?] so as to close the transaction before the end of the year, and collect the $275 million proceeds from that transaction.

And for PLP, again, we're getting into the final phase of discussion about some industry consolidation solution. So we would not see that level of capital injection into PLP in second half of 2019.

Operator: Okay, thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad.

We can now take our next question from Jon Galligan, CLSA. Please go ahead.

Jon Galligan: Hi guys, thanks for the call. I had a question about the dividends. I know it's just an interim dividend, but it looks like you have reduced the dividend payment quite substantially, which is not something you've done at the interim for quite some time. Can you talk a little bit about the strategy around the payout ratio and whether anything here has changed? I would also note in the prepared remarks you talk about potentially trying to reduce your borrowings and incorporate a meaningful share repurchase program. And just in light of the changes on the dividend policy, are you guys now placing a greater priority on share buybacks over dividends? Thank you.

John Ryan: The short answer to that, John, is no. We're essentially, with that reduction, bringing a balance between the twice-a-year pay-outs that we're giving to our shareholders. For historical reasons, many years ago, there was a special dividend paid at the interim, which bumped it up, and that never got rebalanced so that the interim in the final more resemble each other. And that's all we're doing with this exercise, is we're making them resemble each other more. We were quite clear in our press release that the intention is to keep going with our ten years of minimum payout of 25%, and I think we also point to a pay-out of $0.135 a share this year, as we had last year.

Now, as far as capital allocation goes, debt reduction and share repurchases remain paramount to us. I think, however, we do need to push our debt down a little bit from this level before we can announce a repurchase program. And our intent, when doing so, would be to have the funds and/or cash flow in hand to ensure that it could be sustainable for, say, four years or a bit more. Joseph, anything to add?

Joseph Ng: It's more realignment of the committed 25% with the so-called recurring profit that we had just reported, $142 million recurring profit, and then we key[?] off the 25% payout for that. And as John mentioned, it is more the timing difference, realigning the pay-out more with the level of recurring profit that we're achieving. If you look back, I mean, in the past, we are paying – John, we are paying $0.08 for the interim and $0.055 for the final, a total of $0.135.

So it's actually 60% for the interim and 40% for the final. It doesn't really tie to the pattern of the first half versus the second half profit. And in this year, I think we just need to be aligned there a little bit and then stake with the 25% for the first half and then to the full year – we just heard from John saying that basically it's the same pay-out rate for the full year. So it's a little bit timing difference here.

So it's not that well. We're not committing to a minimum 25% payout, so we're still staking[?] a bit.

Jon Galligan: Okay, great, thank you guys.

Operator: Ladies and gentlemen, please signal by pressing star one on your telephone keypad if you would like to ask a question.

We can now take our next question from Vivek Dhawan from Value Square. Please go ahead.

Vivek Dhawan: Hi, good afternoon. Thanks for taking my question. Just a follow-up on the comments for PLP consolidation or proceeds. Could you comment a bit on what are your expectations on the sale [inaudible]? Because at the books, it's still carried at a $230 million. So just your expectation on the sales receipt[?] if something is materialized? Thank you.

John Ryan: Sure. In terms of the consolidation and the expectation on what value can be created, I think one thing is clear is that at the current market before any consolidation, the profits of all the industry players are down and they have been down for some time, certainly since 2014 when additional capacity came into the market. With the planned reduction of capacity, which would take place through industry consolidation, we think that's the basis for the margins, what we call the non-fuel margin or the spark spread, to improve. And by that, this would allow the return of improvement in the cash flows and underpin the value.

Now in terms of what our share in the merged company would be and what the equity value of that would be is a function of what the recovery of the merger and the business would entail. And you would have to evaluate off of the future improvements resulting from any consolidation.

At this point, we can't comment on what the level would be when – but what we can say is that, it is our view that through the consolidation, that would be the best option for returning value to the to the industry, to the profits, and ultimately to the shareholders. And further details would be provided at the appropriate junction.

Vivek Dhawan: Right, thank you.

Operator: Another reminder, ladies and gentlemen, you can signal by pressing star one on your telephone keypad.

Hello speakers, we have no further questions at this time.

Sara: Thank you. As there are no more questions, may I invite Mr. Young to give his closing remarks please?

Chris Young: Thanks Sara. I think in terms of closing remarks, I would just refer you back to page six of the presentation because I think that is directing us during the second half of this year. So in terms of the core assets, we remain quite positive. As John indicated, we had a strong start of the year and I think we anticipate that continuing into the second half.

PLDT, again, John showed – talked through the numbers. We anticipate continued strong growth on our data business, and enterprise and home continue to do well. So we're actually anticipating quite strong growth in the Telco core in the second half of the year.

In terms of Metro Pacific, the underlying businesses are all doing well. The issue again, as John highlighted, is that growth is been mitigated to quite a large extent by an increase in the interest bill. That's why the hospital transaction is important, as they're pursuing it, and we would expect in terms of timeframe, by the end of the year to have a positive announcement there.

On the businesses identified as a non-core, GFA[?], I think you know the position. In terms of outstanding CPs, it's really the approvals at various country level. We have – the three that we're concerned about, Australia, Ukraine and New Zealand, we have two in hand already so there's only one outstanding. And we expect that to complete by year-end and the transaction to be consummated.

Stanley has described in some considerable detail what's happening with PLP. Again, with a tailwind[?], we would expect that transaction – an announcement, a positive announcement by the end of the year. The Silangan search for a strategic partner is underway, and again, second half is – as we would expect, to make again by the end of the year in the second half some positive announcements there.

So overall, I think it's going to be a busy second half with core businesses looking very positive, but a lot of work to be done on the non-core side. There were some discussions last [inaudible] about some changes at the board level, the appointment of additional independent director. I think just to reconfirm for some of those on the line, that process is underway. A search company has been appointed and we would expect again that there would be some announcements there towards the end of the year.

So I think that's it. That's what we will be working on, during the second half and we look forward – well, thank you first of all for attending this call, and we look forward for you joining us again early in the next year when we report on the full year results. Thank you.

Sara: Operator, please can you provide the replay details?

Operator: Yes ma'am. Ladies and gentlemen, this concludes First Pacific's 2019 First Half Results Conference Call. If you would like to listen to a replay of today's call, for Hong Kong, please dial to +85230080334; for Singapore, 8001012009; for UK, 08081011153; and for the US 8882031112. The replay passcode for the recording is 3015876. Thank you.