



**Company:** First Pacific Company Limited

**Conference Title:** First Pacific Company Limited FY18 Results teleconference with investors

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Sara Cheung: Good day, everyone. And thank you for joining us today to discuss First Pacific's 2018 Full Year Financial and Operating Results. The results presentation is now available on First Pacific's website, [www.firstpacific.com](http://www.firstpacific.com). For media on this call, Q&A session is open only for our investors and analysts.

If you'd like to raise questions, please contact us when the call is finished. For today's call, we have with us Mr Manuel Pangilinan, our Managing Director and CEO; Mr Chris Young, our Executive Director and CFO, and other senior executives. At this point, I would like to turn to Mr John Ryan from the Group Corporate Communications for his presentation. John, please.

John Ryan: Thank you, Sara. For reference, I am reading from the information summary for investors posted to our website this afternoon. If we open it up to page two, we've got the familiar list of our major investments. And on the facing page three, most of the people you see on this page are here in this room to help you during the Q&A after my brief opening remarks.

We turn to page four where there's an illustration of our gross asset value as at the end of February with one fine print item. As you can see we've changed the value of Goodman Fielder to the value we expect to get from it in our transaction with Wilmar as we sell our half of that company to its other owner in a transaction expected to close before the year end.



Questions on that can be addressed by Stanley Yang who's our Corporate Development Executive or Manny Pangilinan as the time comes. So, page five is the familiar snapshot of the total value of many of the assets we are invested in. Some of the large unlisted assets such as Maynilad, the water company and MPTC, the toll road company both in the Philippines are not in this pie chart.

Now the renewed focus on core assets on page six will form the core of Manny's summary when we finish the Q&A. So, let's jump now to page seven for a brief rundown of the financial and operational performance of First Pacific and our companies in 2018. Let's begin with the chart on the top right of the page.

The free cash flow is rather similar to what we saw in 2017. Although the net interest expense is a little bit down, the distribution paid dividend is exactly the same. And as you can see there's been almost no change in borrowings one way or another. And there has been a reduction in our corporate overhead, with the result that our closing cash is very close to what the opening free cash was. Now the recurring profit chart underneath that really gives you a snapshot of what has happened with our operating companies, and their contribution to First Pacific in 2018. As you can see, we would have seen an increase in recurring profit except for the sharp declines we observed in the Indonesian rupiah and the Philippine peso.

They contributed almost \$21 million of negative contribution to our recurring profit. Philex suffered from poor metal grades and lower volumes at its Padcal Mine. Goodman Fielder had difficulties in some of its major markets owing to adverse movements in commodity prices. Indofood itself, the last decline in contribution, that is almost entirely due to the



currency effect I mentioned as well as low prices for the palm oil which forms the bulk of the sales of its plantations division which is itself about 17% of Indofood's overall sales.

Head office, as I alluded in the cash flow remarks saw a sharp increase in what will cost \$60 million there. MPIC saw volume growth in most of its major investments, and made great progress towards resolving many of those tariff issues it had been facing with regulators, e.g., water and toll roads. The negative contribution from the PLP declined with a sharp increase in its revenues. A similar change from First Pacific Natural Resources, which is focused on our small sugar investment in the Philippines.

And then as you can see notwithstanding the currency effect, the positive increase in contribution from PLDT which I'll address in a moment. Now up here at head office turnover rose 6% notwithstanding a decline at Indofood, sharp increases in sales at MPIC and PLP, the power company in the Philippines.

The contribution, again down 6% largely because of the currency difference. And the recurring profit decline was smaller owing to lower head office cost. Net profit was up 9% on lower nonrecurring losses. And we have folks from our finance department led by Chris Young, the CFO, who can speak to that in the Q&A if you require.

Now let's look forward, past page eight which will be a useful page for you to bookmark. It's a snapshot of all those group companies. On page 9 now we've got our interest bill being cut following the tender and new bond issues that were done in 2018. Let's focus for a moment on the Head Office debt column chart at the bottom left of this page.



On these first two columns on the left-hand side, the 2019 borrowings which come due in June. That's a 6% seven-year bond. It will be fully taken care of with bank financing we have already lined up in hand. And we plan for the 2020 bond. That's our last secured borrowing and our most expensive borrowing at 6 and 3/8<sup>th</sup>.

When that matures at the end of September 2020, we expect to take care of that with proceeds from the sale of Goldman Fielder which we expect will close well ahead of year end 2019. And as you can see, the bullet points up above here, our blended interest cost is well under 5%. Albeit the floating share of all our borrowings is now at about 39%.

Let's see how interest rates move going forward. But there does seem to be a suggestion that central bankers are turning a bit dovish now. And there are some ratios here. We've got our gearing, our debt cover and so on. The most important figure there is the cash interest cover which is two-and-a-half times. Our dividend income is two-and-a-half times the interest bill.

Now let us turn to page 11. And I'll speak briefly about Indofood. The story of Indofood is in a nutshell described in that change in sales column chart at the bottom of the page where you can see low CPO prices at the plantation division are the biggest decline in contribution there. But the rest of the businesses albeit a small decline in distribution showed very good increases indeed.

The noodle business, they've got an enormous market share of over 70% domestically, saw greater prices, greater volumes leading to greater sales there. And the flour business because of higher wheat prices was able to pass on much of that increase to its customers and thereby saw its own sales increase as well.



Now the dairy business increase there, it's only IDR 479 billion. But it's worth noting that in just the past few years, the share of high margin dairy products has greatly increased in the total volume of what they sell. A few years ago, sweetened condensed milk, the lowest margin dairy product was about half of all sales.

In 2018, it was down to about 40%. Now let's flip a couple of pages forward to the company going through some very exciting developments. Let's look at page 15 which portrays some of the results of enormous Capex spending at PLDT, the biggest phone company in the Philippines over the past few years.

Since I believe about 2015 annual Capex bill has been over a \$1 billion. And the results now are portrayed on this page. They have got far and away the strongest network in the Philippines. Capex in 2019 is budgeted at about 78 billion pesos which is give or take \$1.5 billion. And that will solidify the leadership position of PLDT in crucial areas.

The wireless network where it has as you can see the best latency, the best video experience, the best upload speed and the best download speeds. All of these metrics are going to improve. And I expect the next time we speak to you at the end of August with our half year numbers, we will show that 4G availability is no longer a draw but a clear win for the wireless networks.

What does this mean for the bottom line? There has been extremely strong growth in two of the main businesses over the past couple of years. I speak of enterprise which provides data services to business, and the home business which provides fixed line products like Wi-Fi and television over the phone line to residences. Those have been



growing at a double-digit rate in the past couple of years. We see that continuing in 2019. And this year, they are being joined by the wireless business which PLDT calls the individual segment. That is growing very, very strongly as subscriber numbers are increasing quite sharply after several years of decline. And we're beginning to see signs of solidifying increases in Average Revenue Per User after all of that Capex spend of over \$5 billion over the past few years is delivering a network capable of delivering vast volumes of data going from mobile phones out to the world of PLDT. Now, let's turn to page 17, and have a quick look at MPIC which is the premier holding company for infrastructure investments in the Philippines.

Let us look to the contribution page. As you can see, nearly all of their businesses showed strong increases in contribution at MPIC with the exception of logistics which is still in start-up phase. As you can see, the electricity business partly because of greater ownership stakes obtained in the second half of 2017 saw a sharp increase in contribution, as did the toll roads and the water and the rail and so on. Essentially with the strong economic growth in the Philippines, consumers are spending more from their larger wallets. They're driving more on the roads. They're consuming more water even as investment makes that system more efficient, and they're using more electricity keeping their homes perhaps a degree cooler, although it must be pointed out that the growth in electricity consumption has been from factories and businesses.

Now, I'll wind up with a brief word about Philex Mining on page 20 which is now entering a period of transformation. As the Padcal mine after over half a century of production delivered in 2018 lower volumes at poorer grades as that company gears up to begin development of its giant Silangan Project down in the south of the company, which is the future of Philex Mining Corporation going forward.



Now we can move to the Q&A now. You folks can ask your questions to all of our executives here. And at the end of it, our CEO Manny Pangilinan whom I must admit is a little bit delayed coming back from an investor conference. Hopefully he will be in time for the winding up. Thank you, Sara.

Sara Cheung: Operator, we are now ready for questions.

Operator: Thank you, Sara. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions. Ladies and gentlemen, once again if you would like to ask a question, please press star one on your telephone keypad at this time. We have one question from Aras Poon. Your line is open. Please go ahead.

Aras Poon: Hi, this is Aras from Citigroup. Thanks for taking my question. I guess my question is more about the long-term strategies of the Head Office. With now that you are disposing Goodman Fielder, most of your investments at the Head Office is now a listed company. So, I just want to get a sense, in the long term, when you see new investment opportunities would you use the Head Office to invest directly or you will just let your list of subsidiaries to invest in the opportunities and making First Pacific as a pure investment holdings of your listed investment?

Chris Young: This is Chris young. I think you are correct. The plan is to focus on the three core investments, big investments of the group plus Philex and PXP going forward. So, there will be disposal activity over the next twelve to eighteen months or so. Going forward, I



think, yes, it would be true that we will have most of our focus on supporting the operational companies.

But there is a lot to do there. Mr Pangilinan remains the CEO of PLDT and closely involved in the turnaround there. The First Pacific side, I think as you know there are initiatives to not only continue to build the toll road business, both in the Philippines and outside, but also to sell down certain assets, and I think we will be closely involved with that.

On the Philex side, we're moving from Padcal to Silangan which is a major project. And that is one that we're working very closely with the management there to develop over the next twelve to eighteen months or so, to move it from effectively the relative feasibility stage to a fully-functioning mine within two to three years.

And Indofood, again, that's mainly run from the Indonesian side. But, obviously, there is quite a bit of expansion going on there as well. And lastly PXP which we have an investment in directly, and also through Philex has some potentially significant opportunities to develop in terms of its service contracts, both in the Philippines and also overseas.

So, yes, I think it's true to say that most of the initiatives will be through operating companies. But I think the Head Office will be very closely involved in the various initiatives that are underway there as well as the continued slimming down of the Head Office and focus on the major operating entities.

Aras Poon: Okay. Thank you very much.



Operator: Once again, if you would like to ask a question, please press star one on your telephone keypad. We'll take our next question from the line of the Vivek Thawan from Value Square. Your line is open. Please, go ahead.

Vivek Thawan: Hi, good afternoon. So, just maybe the first question on the sale of Goodman Fielder. Because until last year, I think Goodman Fielder was not precisely one of the assets that was one of the first in the list to be sold. And then when we compare it with the price at which it is sold, could you explain us a bit what was the rationale behind and how do you look at the price at which it is sold?

Stanley Chang: Sure, and this is Stan. On the sale of Goodman, when we looked at the portfolio of assets, because we determined that Goodman was not a long-term holding for the group and because there was a window to sell it, we explored our options. That included sounding out the market. However, recognising that in terms of our holding, we were a 50% shareholder in the non-controlling position, and so that had some impact in terms of the breadth of buyers that we were able to reach out to. In terms of the value to your question, the performance started to struggle in 2018. You may have seen the results where core net income fell to AUD 62.7 million from AUD 80.1 million in 2017. A large part was due to the impact of raw materials, particularly on the wheat prices as that impacts the baking and flour businesses of the group. But also that has continued in terms of the challenging environment in 2019. Coupled with that, we also saw some challenges in terms of the operations of the business by way of various efficiency initiatives, automation projects, and network transformation that has just taken a longer time to get through.



And so, for us, when we looked at the sale price and also coupled with the increased level of debt that this business has taken on, then we concluded that the price offered by Wilmar when we look at the sale multiple relative to EBITDA was in line with comparable transactions of – within the Australian market for the business of this nature. And so, that's how we got to the conclusion in terms of the selling price.

Vivek Thawan: Okay. And maybe if there is an update on the sale of other non-core assets? Is there some tangible progress in that or are you still not seeing very good interest in the sale of those other non-core assets? And the follow up would then on share repurchases?

Speaker: I think in terms of the other businesses we'd identified I think was principally the small sugar business in the Philippines, Roxas. We did get very far with the transaction there which would have been attractive. Unfortunately, in the middle of February, that transaction was blocked by the Philippine Competition Commission. So, we are having to restart the initiatives there. There are a number underway. But I think it will take a few months before you see any significant developments there. PLP is the other major business which is the power generation company in Singapore. Again, we are working on multiple fronts there. And we would expect that there would be some developments there probably before the end of the year.

It's unlikely that we will be able to get a complete sale out of PLP immediately. But we think we could play an active role in the consolidation process in Singapore which could then lead to an eventual exit. But on both of these companies, there are indicated initiatives underway which we would expect to see some developments on by the end of this financial year.



Vivek Thawan: All right, thank you.

Operator: Once again, if you would like to ask a question, please press star one on your telephone keypad at this time. It appears there are no further questions. I beg your pardon. We have our next question from Jon Galligan from CLSA. Your line is open. Please go ahead.

Jon Galligan: Yeah, good afternoon. Good afternoon, guys. Just a quick one. Can you give an update on the tariff situation at Metro Pacific as well and just take us through kind of where we're at in that process and what are the next steps there?

Manuel Pangilinan: Hello, Jon. This is Manny Pangilinan. I just walked in, having come from that Credit Suisse Investors Conference. Yeah, on the tollway side, we have gotten final approval from the Toll Regulatory Board. And the new tariff schedule has been published. And I think at midnight, one particular day last week. So, midnight of that day, we implemented the toll rate increase. The impact on the tollways group would be in the order of half a billion, 500 million pesos this year and increasing to something like 700 million to 800 million peso incremental revenue from the tollways increase next year when we see the full impact of the tollways tariff increase.

And, of course, we will be opening three road segments. Within the year, we inaugurated the largest one which is the first part of the connector road about two weeks ago with the president. On the water side, we in addition to being allowed to increase our tariffs from time to time as a consequence of any foreign currency adjustments, not that we have any – and the inflation, we've been allowed to raise tariffs on the water side after the election. So, starting in June, we should be able to



implement the relevant tariff increases for the water, Maynilad water. I don't have the numbers readily with me, but it's not what we had applied for. But it is close enough to it for both the tollways and the water tariffs.

On the tollways, we were granted a relief for the 2014 to – from the 2012, I'm sorry, 2012 to 2014, and the Toll Regulatory Board have said they will approve in the coming months the increase applicable to 2015 and 2016.

Now on Meralco, the fifth regulatory period will end on 30<sup>th</sup> June. And so, we are in discussions already with the Energy Regulatory Commission in respect of the fifth regulatory period, which will start in July of this year. Now, our own view is that the relevant formal steps, which starts with a memo to be issued by the ERC to us to Meralco has not been done. So, we start the informal discussions, informal channels we are using to convey our view of what the target should be for the fifth RP. So, it's unlikely that any tariff will be determined by the ERC within this year and probably at the earliest the first half of 2020. So, it is likely that the temporary tariff applicable to fourth RP of 1.38 peso, which is the headline tariff, would apply for the July to December period 2019. So, in many respects, the impact on Meralco will not -- there will be no impact on Meralco's tariff structure for the entire year 2019.

Jon Galligan: That's great. Thank you, Manny. I appreciate that.

Manuel Pangilinan: Thank you.

Operator: It appears we have no further questions. I will hand over the call back to Sara. Please go ahead.



Speaker: Thank you.

John Ryan: And now a few words from Manny Pangilinan for bringing up our meeting with you.

Manuel Pangilinan: I think in terms of the disposal of assets, that was asked when I came in, right. So quite apart from Goodman Fielder, we are actively seeking a solution to the Singapore power plant. We sort of got held back because as you know Anthoni Salim was trying to get into Hyflux, and that's looking less and less likely, right. And so, Anthoni was here and we have agreed on a way forward most likely without Hyflux and most likely with somebody else, the consolidator of the power market or the power company – generation companies in Singapore. And we would hope to accomplish that within this year as Chris indicated.

The same is true for the sugar business in the Philippines. There are at least two groups talking to us about buying the sugar mill in Batangas in the southern part of Manila as well as other pieces of the RHI Group that may be available for sale to other groups mainly the sugar mills or the ethanol plants located in the Island.

So, what else? For Philex – we have. Quite likely end of life for Padcal will be sometime middle of 2022. So, in terms of any cash requirement for First Pacific moving forward, we think that they would be self-sustaining in terms of supporting their own Opex, the remaining maintenance Capex required for the mine in Padcal, and building enough cash to pay down the debts of \$41 million, and the fund required by government to close down the mine and maintain the mine post-closing so that Philex is focusing its operations precisely to achieve those objectives and to ensure that First



Pacific will not be called upon to contribute any cash prior to its close down in the middle of 2022.

Now, I think quite soon, perhaps in April or May, the Board of Philex Mining will have to determine whether the Silangan mine in Northern Mindanao will indeed be pursued, will be prosecuted. And I think my sense is that it is likely to be. Now in that case, our approach would be to look for a strategic partner. And the idea is for First Pacific not to be called upon to contribute any cash for the development of the mine, because effectively Philex is in any event funded the development costs of Silangan mine to the tune of a little over \$300 million already. So, this built-in equity that has been contributed by Philex Mining in respect of the Silangan mine.

We think the project costs for the Silangan would be in the area of \$700 million which majority of the funding costs will be by way of project financing. So, it's the last point. I see, yeah, in respect of subsidiaries particularly Metro Pacific, I think you can assume that PLDT will be self-sustaining despite the high Capex of 78 billion pesos or \$1.4 billion this year. Meralco will be as well able to fund the Capex and dividend requirements moving forward given its significant cash balance and its continued EBITDA growth.

So, the issue has always been Metro Pacific. And this afternoon, the board has decided, and with the concurrence of the CEO and CFO, Metro Pacific will dispose of certain assets at their level to fund what may be needed for the next – for the immediate future of MPIC. So, in due course within the year definitely MPIC should make announcements in relation to the divestment or sell down of certain assets within its overall investment portfolio. So, within the year, there would be no capital



call on First Pacific and need no equity raising for Metro Pacific for 2019. That should complete the picture, right, in terms of fundraising.

Sara Cheung: Thanks, Manny. For the results also, John and Chris will be in Europe in April and in the North America in May. If you would like to have a meeting with them, please get in touch with John or Sara. And thanks again for joining today's call. Operator, please can you provide the replay information?

Operator: Thank you, Sara. Ladies and gentlemen, this concludes First Pacific's 2018 Full Year Results Conference Call. If you would like to listen to a replay of today's call, for Hong Kong please dial +85230080334, for Singapore 8001012009, for UK 08081011153, and for US 8882031112. The passcode for replay is 5780119. Thank you for your participation. You may now disconnect.