Company: First Pacific Company Limited

Conference Title: First Pacific Company Limited FY19 Results teleconference with investors

Date: Tuesday, 24 March 2020

Conference Time: 17:00 (UTC+08:00)

Operator: Good day, and welcome to the First Pacific Company Limited Full Year 2019 Results Teleconference with Investors. Today's conference is being recorded. At this time, I'd like to turn the conference over to Sara Cheung. Please go ahead.

Sara Cheung: Thank you. Good day everyone and thank you for joining us today to discuss First Pacific 2019 Full Year Financial and Operating Results. The result presentation is available on First Pacific website www.firstpacific.com.

For media on this call, please note, the Q&A is open for investors and analyst only. If you would like to raise questions, please contact us when the call is finished. For today's call, we have with us Mr Chris Young, our Executive Director and CFO, Mr Joseph NG and Mr John Ryan, both our Associate Directors and other Senior Executives. At this point, I would like to turn to Mr John Ryan for his presentation.

John Ryan: Thank you, Sara. Everyone thank you very much for dialing in. I hope this will be usefully – useful times spent for you. We have posted to the stock exchange earlier today our audited results. It's a 39-page document full of numbers.

We've posted our press release to our website as well as a presentation of our FY2019 results and some discussion therein in all of these documents about how we're dealing with the current crisis with the COVID-19 pandemic. Now, normally twice a year we narrate the P&L of First Pacific and the contribution of the operating companies to our earnings walking right through that document down to the bottom. And this time around, as you can see it's quite different. We're beginning our press release and our narrative today with COVID-19 how are companies are responding to it, and how we expect it might affect their results and ours during the course of 2020.

Now, for the 2019 full year, you'll see that we've posted our first net loss in almost two decades, and it's a fair good size. It's over a quarter of a billion dollars. But I would imagine there is very little in that number that is surprising to you. It consists mostly of a loss on disposal for our stake in Goodman Fielder, which you all heard about when we posted our half year 2019 numbers last August. It also contains – and I'm sure there's no surprise here – some loss attributing to PLP, a decline in value of that asset, the power plant in Singapore.

Now, once you put that number aside and you look at what's going on on a recurring basis, you can see that the core assets – Indofood, PLDT and MPIC – towards which we have been turning our focus for the past few years now delivered pretty good results for the full year of 2019. Their contribution jointly is up about 9%.

Now in a world without this dreadful pandemic, we would have a very rosy outlook for 2020. All three of those companies were reporting – were giving us expectations of continuing strong demand growth for their products and services. And, in fact, as you might infer from some of the Manny's comments in our press release – we're hopeful he'll be able to join this call in a few minutes by the way – our CEO talks about the potential for a share repurchase program. Of course, under current circumstances that's put back on the shelf for at least a little while. Now, looking through the numbers, those three core holdings contribution up about 9%. What turned the recurring profit towards a flat number was less of a contribution from the less core assets. And if you're looking at our presentation on page eight, all of that is pretty much spelled out for you.

Also, important to I think all of you on this call is our cash flow and our liquidity. We take pains in our press release to detail that for any borrowings coming due this year, and, frankly, there's just one described on page 10 of our investor handout, a secured bond or last remaining secured bond in our single-most expensive borrowing falling due this September, it's a six and three-eights coupon bond, and can see there are some details of it on that page. We have end-year cash of USD325 million, plenty of money in hand to take care of that borrowing.

Joseph NG, my colleague who is Head of Treasury will be happy to speak during the Q&A to his plans for taking care of debt obligations coming due in the following year, such as next year we've got 170 million following falling due, those are bank borrowings and he will speak to you more about that. They're falling due in March in May of next year if you're keeping it on your calendar.

So, as things stand, we have stress-tested our likely cash flows during the course of 2020, considering potential strong declines in the exchange rates of our key currencies, the rupiah and the peso, and the potential for reduced dividend inflow from those three core companies that are really the bulk of First Pacific Group. And looking at those stress tests, we feel that we were confident enough to keep our full year dividend for 2019 unchanged. And in fact with the rebalancing of the half year and full year payments that Joseph initiated six months ago, there was actually a lift in the final dividend payment to $0.07.

So, while we don't know what the immediate future holds for us as this pandemic expands into the wealthier economies of the world, as far as we can tell at the current snapshot of the situation among our group companies, we feel it looks pretty much okay.

Now if you drill down into them, you can see that Indofood and MPIC and PLDT are all offering core services or products that are very resilient in a downturn. People still need to eat. They still need water. They still need electricity.

Now when you turn to the toll roads, there has been quite a drop in traffic in the toll road is controlled by MPIC in Luzon, but we expect those numbers will begin to turn back up as the Philippines begins easing the total shutdown in Greater Manila that was imposed a few days ago. PLDT is seeing a big uptick in use of home WiFi, no surprise there, and they have begun responding to the changing shape of demand by helping people pay for greater use of data by offering bulk discounts to prepaid cellular users for their use of data and some free data to those who are using fixed line data services for their WiFi at home.

Indofood throughout its long history has a long, great record of helping the government deal with natural disasters. And during the course of this pandemic, they will be turning to their tried and tested response system as well. Remember that the core products that Indofood sells to consumers in Indonesia are very widely used both in cities and countryside all over the country.

So, that's essentially where we stand at the minute. Like the operating companies, PLDT is unable to give you a shape of what their full year numbers will look like. The same is true of MPIC and Indofood as well.

Again, we've stress-tested what we're likely to see during the course of 2020, and I'm hopeful that the Hong Kong Stock Market sanguine response to our earnings report at lunchtime, I think we closed flat on heavy volume, indicates that our shareholders in the wider investor community sees that we're adequately handling what's going on in the world around us. And as much as anyone can be optimistic in these difficult times, we feel that 2020 is a year for which we're as well prepared as pretty much anyone else. That I think is a summation of what you need to hear at the moment. You'll probably want some further details, and so I think we can move towards some Q&A now.

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

Manuel Pangilinan: John, I have just joined the conference.

John Ryan: Thank you very much Manny. Following the Q&A, I'll do a very brief summary and then you can end it all with your own summary of how things appear to you sitting in Manila, if that's all right, but now we're going to Q&A.

Operator: Thank you. We have a question now from Kedar Wagle from Maybank Asset Management. Please go ahead.

Kedar Wagle: Thank you, and thanks for the call. I had two questions. First, can you update us on the status of FPM Power and where what the status of the restructuring is, and is there any possibility of the company needing to inject more money into that business?

Second, in the presentation and press release, you allude to a share buyback, but my takeaway was that you would look at that option only once this COVID improves. Is that what you're thinking right now or would you look at doing a share buyback even at this point? Thank you.

John Ryan: Kedar, given the uncertainty over the next several weeks, our feeling now is to hold on to the resources we've got at the minute regarding potential repurchases. We don't anticipate circumstances compelling us to drawdown that money, but as you know circumstances are changing drastically so we can't commit to something that we consider we might have to give up on.

Remember, our aim with share repurchases is a multi-year program, and under current circumstances, we regard it is irresponsible at the moment to commit to it, notwithstanding the fact that we feel we've got the potential cash flow in hand to take care of it. Now your first answer requires a longer answer, and that's going to come from Stanley Yang, who's been our point man dealing with PLP.

Stanley Yang: Hi, good afternoon. With respect to PacificLight, the objective for us in PLP is still to seek a consolidation of the industry. And to that effect, and your question that you have raised, a debt refinancing. We are in discussions with this is PacificLight with the banks and creditors to explore a refinancing and debt restructuring.

The fact is that the power market continues to suffer. It has suffered for a long time, but in light of what has happened this year and the impact of COVID-19, it is fair to say that the outlook continues to look very challenging, and conditions could continue to be tougher, and so it is imperative to get a debt refinancing done. I will stress that the debt at PLP is on a non-recourse basis to FP. The intention of the shareholders is not to put further equity into the business. I think the difficulty of any business with respect to the PacificLight, we believe that the only solution is going to happen in terms of improving the prospects through a market consolidation.

And so, our plans would be to first agree with creditors on a broader refinancing and restructuring of the debt. We have also approached the gas supplier of the company given the difficulties in the market and what can be improved from that. And as part of that, with a view that once the refinancing is completed, that the business would then be able to continue exploring its options on a sale or a consolidation, a merger of sort.

You may have noted that in the market, recently, there was a announcement by YTL PowerSeraya in terms of the acquisition of Tuaspring, the asset that was in receivership stemming from Hyflux. Whilst some consolidation will help, our view is that it is not nearly enough to improve the prospects of the Singapore Power generation business, and further consolidation must happen because at this moment where the pool prices are and what this means in terms of the non-fuel margins and profitability, we do not see the uptick in the near term or even medium term unless further consolidation happens. And the key for that is a move by the industry players to pursue this. And it is also contingent on the support from the regulators, in this case being EMA, to support that further consolidation which we hope will unfold once refinancing of PLP be achieved. And so, that is the plan with respect to our investment in FPM Power and the broader PLP investment.

Kedar Wagle: Okay, thank you.

Operator: Thank you. We will go to our next question now from Jon Galligan from CLSA. Please go ahead.

Jon Galligan: Yeah, thanks guys. I wanted to ask some questions around the balance sheet, and John, take you up on your offer to dig into some of those refinancing questions beyond 2020. Just a couple of questions here. Number one, do you guys have any debt covenants that we need to be aware of, anything, liquidity ratios or interest rate covers that must be maintained?

Also, could you speak a little bit more about how you are thinking about refinancing or paying back debt that's due beyond this year?

And then third, I have a bit of a housekeeping question, but can you give us the final price receipt for the Goodman Fielder transaction? Thank you very much.

John Ryan: I'm Joseph NG, Head of Treasury, will answer your first two questions then our CFO, Chris Young will deal with your third one Jonathan.

Joseph NG: It's Joseph here. Hi Jon. In respect of the covenants, yes, we do have some covenants that we need to comply it with, not a lot. They're basically two tranches of that at the headquarters level. One is the one applicable for the bonds, but a few actually at least two unsecured bonds I would say. And there's only one covenant applicable to the bonds. It's not comprised[?] mainly so-called debt incurrence[?] covenant. It's actually interest coverage ratio. So, if our interest coverage ratio is not more than 2.5 times, then we're not allowed to incur any debt.

Now at the end of December 2019, I think we are a little bit above of 2, let's say 2 times. So, yes, we are not about the 2.5 times and there's no plan for us to take on any new borrowing. So, we are fine on that. Now, as far as the bank[?] debt, we also have interest coverage ratio above a certain level. We are well over that at 2 times. I think the minimum requirement of our interest coverage ratio for the bank loan is much lower than the 2 times cover that we require. So, we are very comfortable about that threshold. So, I think this is the main covenant we need to observe, and then we satisfy all these covenant requirements comfortably as at the end of December 2019.

Now, as far as the refinancing stand is concerned, you hear loud and clear from John, Ryan that we're sitting on quite a bit of cash mainly as a result of the [inaudible] transaction [inaudible] we are sitting on. So, we have over 300 million something, and that' well covered the 252 million coming due in September.

Now the next tranche of so-called bank loans coming due in the first half of 2021 is roughly around 170 million, and we are in discussion with some international banks to handle that. It's still over 12 months away but we have initiated the discussions with some international banks on that, and then they have provided us with some indicative terms, and then they are quite attractive set of terms that we are looking into.

And, of course, I'm not saying that they're fully committed as of today yet because like yourself we're seeing to all these numbers that we just put up in the public space in respect of the fiscal year 2019, but we have line up the discussion. We see some indicative terms. I think we are in good shape about getting into the next step of talking to them and incurring[?] with the credit application process, and then we are very comfortable to put that in place before the end of 2020. So, still 12 months ahead of that, so – but, we received very, very favorable signals somehow, very supportive bankers, yeah.

So, as far as the questions you raised, I think that's a [inaudible] transaction, right.

Chris Young: John, the transaction completed on 16th December and the proceeds we got for was USD275 million.

Jon Galligan: Perfect, thank you very much.

Operator: Thank you. As a reminder, ladies and gentlemen, if you do wish to ask a question please signal by pressing star one on your telephone keypad. That's star one to ask a question. It appears we have no further questions at this time. Pardon me. We do have a follow-up question now from Jon Galligan.

Jon Galligan: Yeah guys, I mean just maybe one more for me. As we kind of look at the three core underlying businesses, this is obviously a difficult as you guys point out. But can you talk a little bit, I mean, it looks like you've largely kept dividends flat across the board for the underlying companies signaling some confidence. MPIC's bought back some stocks signaling some confidence. Are you guys scaling back any investment on Capex or things like that or, broadly, do you think you guys are in a decent enough position to attack this where you guys can still continue to maybe tread water and then go back to growing these businesses, or are there broader plans to scale back some of the investment in Capex in some of the underlying businesses? I know that's kind of a broad question, but it would be helpful to kind of understand the approach to capital allocation on some of these underlying businesses in light of what's going on? Thank you.

John Ryan: Jon, at PLDT, which historically in recent years has had very high Capex, their budget for this year I think is 83 billion pesos, which even today is quite a lot of money. They will be refocusing that Capex for the changing shape of demand for their services. So, you'll see they've already spent some money in the past week or so on international connectivity.

I think they increased their capacity to Hong Kong, Singapore to get to the rest of the world for example. So, they have not announced any reduction in capital spending, but you will definitely see a shifting in their spending. And over the MPIC Group of Companies, I think you will see that with the country rather shutting down to a great extent, there will de facto be less spending on tollway expansion or improvement.

The hospital's business as you can imagine is getting absolutely slammed. So, I think Capex there is probably entirely stopped and they will be directing cash flows toward securing the supplies that they need for this pandemic.

And over at Indofood, I quite honestly don't know their Capex at the end of the year. Spending can look sometimes a little different from what their budget was 12 months earlier. Historically, there's been a lot on the plantation business. In recent years, that's been devoted towards not plantation expansion, replanting of existing hectares with more productive types of trees, mostly palm of course. I don't think Indofood will do anything unexpected to you there.

Manuel Pangilinan: I think John, if I may add, to deal[?] with this as a practical matter given the lockdown particularly in the island of Luzon that the government has imposed on the other companies in the Philippines and individuals. It's very difficult to deploy manpower to be able to prosecute your Capex program. So, there's a dearth of technical and skilled personnel that will be able to go out and do your Capex programs, so that plus the fact that we – our sense is that this quarantine will likely be extended by one more month. It's supposed to expire in 12th April, but I think it will be extended by at least one more month, may be all the way up to June.

So, we are highly concerned about our cash flows. So, we have asked all the operating companies to postpone their Capex expenditures and to postpone as well any new investments in the period of this quarantine even if it were extended. There may be some exceptions, for example, the project of the tollways that links the LX[?] the northern tollways to the harbor, the government talked to us. It is 93% complete, and we should be able to finish it in the next two to three weeks. Now, the reason why they talk to us is because it connects the northern roadway to the harbor. It's very important that we complete it because then the trucks and the cargo vehicles can traverse because if that's not completed, it will just simply add to the congestion in the harbor, and they want to unlock the cargo traffic between the north and the south, between the north and harbor area.

The other bid is the Subbu bridge which we have committed to the government to be finished by next year being the 500 years of discovery of the Philippines. That's an important national event, so we don't know whether the government will ask us to complete it as scheduled or we would wish that it would be postponed as well.

So, cash is paramount to us in this stage of the quarantine. And as I said, all relevant Capex and new investments will be curtailed as much as possible.

Jon Galligan: Perfect, thank you. That's very helpful.

John Ryan: Thank you Manny. Jon, back to Indonesia for a moment. I spoke really only about one smaller division of Indofood. There is an enormous amount of Capex which has been focused on expanding food production, and that's in the consumer branded product space and Bogasari, the flour space.

Jon Galligan: Okay got it, thank you.

Operator: Thank you. We will now go to our next question from Vivek Dhawan from Value Square. Please go ahead.

Vivek Dhawan: Hi. Good afternoon gentlemen. Thanks for taking my question. Just a couple from me. Well, I see that the head office expenses have reduced quite a bit, I would say. Could you maybe tell us what steps did you take or what led to that?

And then I have a follow-up on the covenants. It was mostly clear, but I was just wondering if you could also tell me, is there any covenant which do you think that can be a bit difficult to meet or it's more on the sidelines?

And, finally, just linked to that would be on the dividend whilst the current yield is quite high, and maybe you already addressed this in the call earlier, but it would also help to understand looking forward where the dividend yield is right now, how do you look at the dividend payouts. So, that's basically my questions. Thanks.

Manuel Pangilinan: I will try on the first one, which is the overhead, which is actually, principally, it relates headcount reductions here at the head office.

John Ryan: And now regarding your third question, you're asking about scenarios going forward for reducing our dividend payments, is that right Vivek?

Vivek Dhawan: Yeah, that's more or less what I wanted to understand.

John Ryan: Well we've stress-tested many different scenarios, and I don't want to lead you anywhere. But our base case is that we will have no change to a dividend policy, which is giving our shareholders a quarter of recurring profit for ten years now. But of course, if this pandemic is going to wreak absolute havoc in much wealthier economies, I'm hopeful that one of the takeaways you all will have after this call is that after our last full year report 12 months ago, we've sold off Goodman Fielder. We've all but resolved the PacificLight investment in Singapore. It's on our books I think with an equity value zero if you look at data page that we've got on page nine of that handout. We've established a finance committee to oversee capital allocation at head office and across the group. We've strengthened the dividend flow from our core holdings and, until the pandemic came along, they looked fantastic. And we had ourselves in a position, pole position placed for ready to press the button on the multi-year share repurchase program.

The pandemic has changed everything. We are fortunate at First Pacific to have this come at a time when we're best positioned than we've been in many years to deal with whatever the consequences of this that might come along. There are no forecasts on our dividend because we simply don't know what's going to happen. I think we probably have more certainty over in Hong Kong than in other places. Now I think Joseph NG is going to talk about your question regarding the covenants.

Joseph NG: Well, on the covenant, there's only well one covenant applicable to us at the head office level principally, that's the interest coverage ratio at the head office level covering mainly the so-called operating cash flow at headquarters meaning the dividend income less[?] the overhead that we need to sustain. And that I think against the net interest servicing that we need to pay to service all the borrowings at the headquarters level again.

So, we don't guarantee the debt of the units[?], so there's no cross default or any recourse to as far as the units debt is concerned. So, debt interest coverage ratio is the main covenant applicable to us at the headquarters level. And then as I said earlier, it's the 2.5 times for the debt incurrence for the bonds, and a much lower level for the bank loans. And at the end of December 2019, we are at 2 times; and then we will cover the one required under the bank debt, but we have not met the 2.5, but that's okay. There's no plan to incur more debt, so we are fine with that. I think that's the covenant position that we have.

Vivek Dhawan: Okay, great. That sounds good. Maybe just one last if I am allowed for that. On Indofood, is there any update on the planned acquisition of Pinehill? Maybe there is, which I missed, so I was wondering if you could update me on that?

John Ryan: No, at the moment, we don't have anything further to say on that. But I imagine Indofood will be speaking to this sometime in the next several weeks.

Vivek Dhawan: Okay, I understand, thank you.

Operator: Thank you. We have a follow-up question now from Kedar Wagle from Maybank Asset Management. Please go ahead.

Kedar Wagle: Thank you. I was wondering if Manny could share his thoughts on the regulatory risk, the regulatory regime risk in the Philippines. After what has happened with the water companies, do you see that spreading to the other businesses, which Metro Pacific runs and what does it means for future capital allocation for the group in the Philippines? Thank you.

Manuel Pangilinan: Well, addressing the Manila regulatory situation first, the government has set up a taskforce composed of six cabinet ministers to handle the situation in respect of the discussion with both water concessionaires with us and with the Ayala Group. So, we're dealing with – each of us is dealing with separately with this taskforce.

And on our part, we have identified six key provisions that seem to be of concern to the President. And most frankly, most of these provisions are non-commercial, non-monetary, non-financial in nature, but for example non-interference which the President didn't like at all because we suggested to him that the government cannot do anything when it comes to tariff setting, events like the that.

So, we will have to modify the language of that particular provision or otherwise delete it from the concession agreement. So, most of the – not all of the six points deal with non-monetary points. We have committed, however, with the government that we will not – we have agreed to maintain the existing tariffs all the way up to 2022, which is at the time that the President steps down.

The only question is whether we will be allowed and that subject of discussion with the taskforce to increase our tariffs in relation to inflation and to any forex adjustment if we have any foreign loans, so that's something is to be discussed.

Will it infect[?] the other company? So far no. And given the current environment here, where everybody, especially the government, is preoccupied with the virus, I don't think there's any regulatory threat in the horizon in the next few months. And so far, the President limited his attention to the to the water concessionaires.

Kedar Wagle: Okay. And what does all of this mean for future capital allocation? Would the group focus less on these kind of projects where you're dependent on the government for returns?

Manuel Pangilinan: Well, I think the flavor is that we have reached the limit of our investment in regulated industries, right. So, I don't think there's any – at least, locally, there's any appetite for investing in new regulated businesses. That's why we have opted out of the airport, the international airport project here with six other business groups. We have withdrawn voluntarily from the line three of the light rail system, and one or two other government projects, because we don't want to load up on further regulated industries. In terms of the Capex within each of the companies, they're basically self-sustained. We're spending in accordance with our own cash means. So even for the water, we're spending within the EBITDA limits of Manila[?] water.

Of course, we have to socialize this particular approach with the regulator because it would mean a calibration for example of the prosecution of the water treatment plants.

We will probably cannot spend more than what we originally programmed for. So, that's part of the discussion with the taskforce.

Kedar Wagle: Okay, thank you.

Operator: Thank you. We have no further questions at this time.

John Ryan: Thank you very much everyone for dialing in. Again, this crisis has come to a First Pacific which is rather a new look from the company that you saw the last time we reported our full year earnings. From tomorrow, we've expanded our board of directors by over 20%. We have a new independent director. We've got a total of five now, and we've got a new non-executive director as well, and let's see how we move ahead Going forward.

I've summed up some changes that we've had in the past 12 months. Our Chief Executive Manny Pangilinan is in Manila. We cannot travel between our two cities or to Jakarta. We can't travel really at all, but Manny's at the pointy end of things and I'd turn it over now to him for closing remarks.

Manuel Pangilinan: Thank you John, and thank you to all of you who have joined this call. In many respects, we glad the 2019 is over. We could look forward to a brand-new year, and hopefully a brand-new performance level for the group.

Let me just say this; for the first quarter, I think the performance of the operating companies in the Philippines have been quite good. I think without exception, they have been ahead of the first quarter performance last year 2019. So, the effect of the quarantine is only in respect of the last two weeks of March, so – but on the whole, the quarter performance should be better than it was last year.

I think the issue is really the second quarter this year, and we could already feel the growing deceleration of economic activity or business activities in the country. And I think it's going to get worse particularly in April. What did [inaudible] say? April is the cruelest month. And so, my sense is that April, I mean, second quarter is going to be tough for the group, and it could mean that performance could slowdown. So, hopefully, by the second half, we'd be free of this virus and the quarantine that we should be able to recover.

The thing is we are contingently focused on running the business, keeping it as a growing concern with particular focus on our cash flows, and looking forward to the lifting of this quarantine, and being able to recover what might be lost in the second quarter. Because, as I told the board of First Pacific this morning, it is important from the First Pacific perspective, that we are able to deliver the dividends that the First Pacific expects from the Philippines. And indeed, on 3rd April, PLDT will pay what it's scheduled dividends to First Pacific, and to all other shareholders of course as scheduled, and we are sticking to the policy of 60% for example. And so, it's important for First Pacific that does receive the cash dividends from the Philippines, and at the same time perform in accordance with the budgeted P&L. That I think will be a challenging task this year because of this second quarter situation.

So, we are all locked down here and doing our best. We are – actually on the middle of a digital dialogue with more than 700 lockdown employees of PLDT, and so thank you. Thank you to all of you.

Sara Cheung: Thanks Manny. Thanks again for joining today's call.

Manuel Pangilinan: Thank you.

Sara Cheung: Operator, can you just provide replay information?

Operator: Thank you. This concludes today's conference call. A replay for this conference will be available shortly. To listen to the replay, for Hong Kong, please dial the number +852-5808-3200. That number again is +852-5808-3200, and enter the code 3219917 followed by the hash key.

Or if you're dialing from Singapore, dial +65-3158-1054. That number again is +65-3158-1054 and enter the confirmation code 3219917 followed by the hash key. Thank you for your participation. Ladies and gentlemen, you may now disconnect.