

CREDIT OPINION

10 August 2021

Update

✓ Rate this Research

RATINGS

Temasek Holdings (Private) Limited

Domicile	Singapore
Long Term Rating	Aaa
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Temasek Holdings (Private) Limited

Update following rating affirmation of Aaa rating, outlook stable

Summary

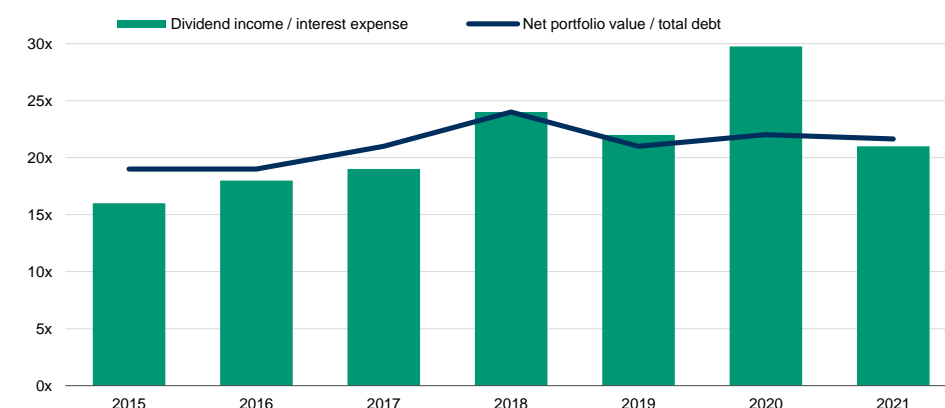
[Temasek Holdings \(Private\) Limited's](#) (Temasek) Aaa rating reflects its strong fundamental credit quality as an investment company, supported by steady dividend income and a large and high-quality investment portfolio. Temasek's largest investee companies and major dividend contributors have strong investment-grade credit qualities.

The rating incorporates Temasek's excellent liquidity. We expect the company to maintain a sizable reserve of cash and liquid securities, which will provide for strong debt service coverage to mitigate potential volatility in cash flow and asset value. We also expect Temasek's internal funds to cover its committed cash requirements and dividends to the government over the next 12-18 months¹.

Temasek's Baseline Credit Assessment (BCA) -- the measure of its standalone credit quality -- is aaa, which does not incorporate any uplift from its 100% ownership by the [Government of Singapore](#) (Aaa stable) through the Minister for Finance (MOF).

Exhibit 1

Temasek's interest coverage and leverage metrics have been consistently strong



Source: Adapted from Temasek Review 2021

Credit strengths

- » Disciplined management and investment strategy
- » High-quality investment portfolio
- » Strong financial profile
- » Excellent liquidity

Credit challenges

- » Exposure to volatility in the market prices of securities
- » Geographic concentration of its portfolio in Singapore and China

Rating outlook

The stable rating outlook reflects our expectation that Temasek's credit metrics will remain strong, and the company's management will maintain its prudent and conservative approach to its investment and funding strategies.

Factors that could lead to an upgrade

The rating is Aaa and cannot be upgraded.

Factors that could lead to a downgrade

Temasek has a BCA of aaa. Should the company's underlying credit fundamentals deteriorate, and its BCA is downgraded, our Joint Default Analysis framework would become relevant to the rating analysis.

Temasek's BCA could be downgraded if the company undertakes aggressive investments that significantly worsen the credit quality of its investment portfolio; the amount and quality of the company's cash and near-cash resources deteriorate significantly; or there are indications of moral hazard behavior, such as providing funding support for nonperforming investee companies or channeling financial resources to its government shareholder, which could weaken Temasek's financial position.

The possibility of a rating downgrade is remote as long as the Government of Singapore remains the sole shareholder and its rating remains at Aaa. Temasek's rating incorporates our view that it benefits from soft ongoing shareholder support, such as the dividend reinvestment arrangements; and its status as the government's investment company.

If Temasek's underlying credit fundamentals deteriorate and its BCA is downgraded, we would still expect Temasek's Aaa rating to be maintained because of the company's links with the government. Based on our view of very high support from, and dependence on, the government, Temasek's Aaa rating would only come under pressure if the rating of the Government of Singapore is downgraded.

Profile

Temasek Holdings (Private) Limited (Temasek) is an investment company headquartered in Singapore. The company was founded in 1974 to own and commercially manage the investments and assets acquired from the Government of Singapore. The company is an active investor and shareholder that aims to deliver sustainable value over the long term for its stakeholders.

Temasek's investment portfolio by underlying assets spans more than 20 countries and a variety of industries, including Financial Services; Telecommunications, Media & Technology; Transportation & Industrials; Consumer & Real Estate; and Life Sciences & Agri-food. In addition, Temasek also invests in multi-sector funds. The company's net portfolio value was SGD381 billion (\$283 billion) as of 31 March 2021.

Temasek is 100% owned by the Government of Singapore through the MOF, a body corporate under the Singapore Minister for Finance (Incorporation) Act (Chapter 183). The company is designated a Fifth Schedule company under the Singapore Constitution.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Other Fifth Schedule entities include companies such as GIC Pte Ltd (GIC), and statutory boards such as the Monetary Authority of Singapore, which manage the nation's critical assets.

Detailed credit considerations

Disciplined management and investment strategy

Temasek's investment strategy focuses on four investment themes: transforming economies, growing middle income populations, deepening comparative advantages and emerging champions. The investment themes are supplemented by structural trends: digitization, sustainable living, future of consumption and longer lifespans.

While these themes and structural trends serve as broad investment guidelines, they allow for a very flexible investment approach with regard to investment horizons, country of investments, industry concentration and so on. Fundamentally, Temasek adopts a bottom-up approach to its investment decisions.

In our view, Temasek is exposed to uncertainties or event risks associated with its future investments because many of these investments are likely to be opportunity driven. As the company diversifies, it may enter less stable markets or less predictable or unfamiliar industries. Temasek may also form partnerships in which it will not have a majority shareholding. Such actions could weaken the company's influence over its investee companies and, thus, the long-term predictability of its portfolio.

The company is cognizant of these risks. Each transaction is evaluated based on intrinsic value, long-term prospects and the risk-adjusted cost of capital. From 1 April 2021, Temasek added an illiquidity risk premium and a venture risk premium to its cost of capital for unlisted investments and early stage investments respectively.

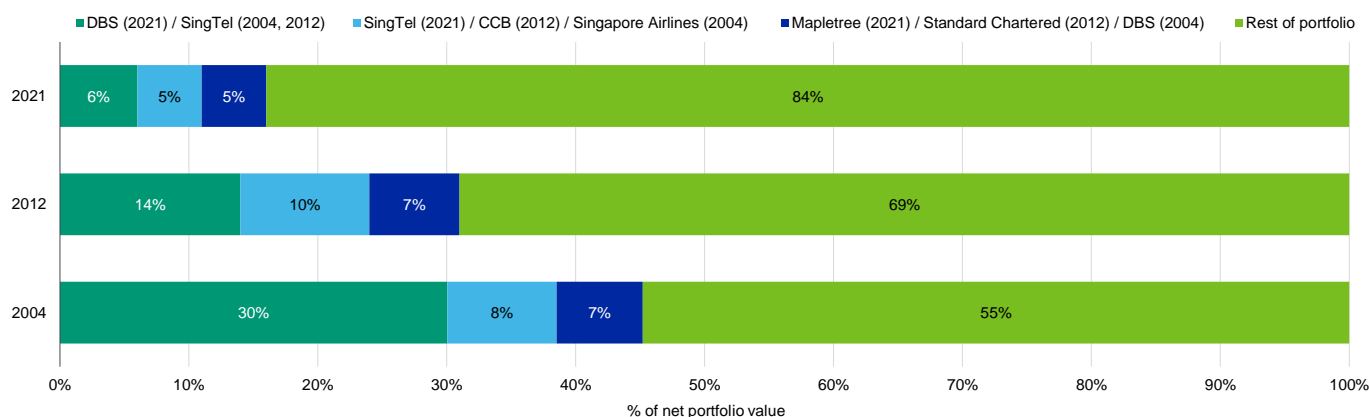
To align the interests of the management team and the company, management's remuneration includes a range of incentive payments based on the performance of investments over the short, medium and long terms. Oversight is provided by a board that has 11 directors. Most of the members of the board of directors are nonexecutive members. Changes at the senior management level are unlikely to affect the company's overall strategy or risk appetite.

High-quality investment portfolio

Temasek's investment portfolio is of strong asset quality. Based on our estimation, the top 10 investee companies and key cash flow contributors have strong investment-grade credit quality. As of 31 March 2021, the top three companies accounted for 16% of Temasek's portfolio value, down from 45% in 2004. [DBS Group Holdings Ltd](#) (Aa2 stable) accounted for 6% of the total net portfolio value. The next two largest holdings were [Singapore Telecommunications Ltd](#) (A1 stable) and Mapletree Investments Pte Ltd (Mapletree), accounting for 5% each.

Exhibit 2

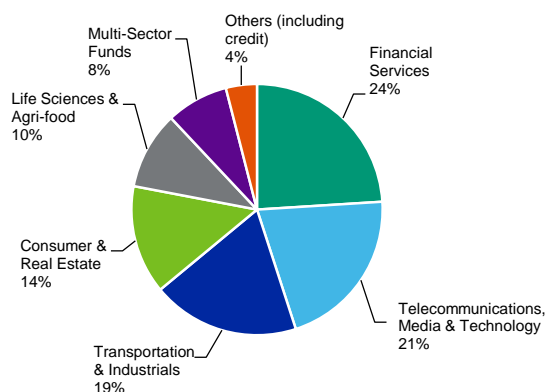
The top three companies accounted for 16% of Temasek's portfolio in 2021 compared with 31% in 2012 and 45% in 2004



Sources: Adapted from Temasek Review 2021; adapted and calculated from Temasek Review 2004 and 2012

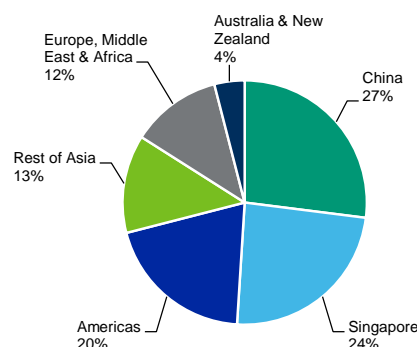
Temasek does not aim for any particular sector mix because investment themes, structural trends and intrinsic valuations drive the selection. Although there is some sector and geographic concentration, the company's overall portfolio is generally well diversified.

Exhibit 3

Temasek's portfolio is well diversified across sectors...

Distribution based on underlying assets.
Source: Adapted from Temasek Review 2021

Exhibit 4

...and regions

Distribution based on underlying assets.
Source: Adapted from Temasek Review 2021

While Temasek's exposure to growth regions, in terms of underlying assets, is relatively high at around 40%, the type of investments that Temasek has made to date, generally investments in domestic blue-chip companies, which mitigate growth region risk, are credit positive.

Overall, we expect the portfolio composition of Temasek to change only moderately during the rating horizon for a number of reasons:

- » The company sees its portfolio evolution as a mid- to long-term process.
- » The company is likely to retain its holdings in certain Singaporean companies.
- » The company will enter new markets or new industries gradually, with initial investments remaining modest as it builds up its cross-border and new industry expertise.
- » A significant portion of the company's investments is likely to remain in mature economies.
- » The company will maintain its strong financial discipline and sound professional management of any new investment.

Strong financial profile

We assess Temasek's financial strength based on the combined financial position of Temasek and its wholly owned investment holding companies and financing vehicles. The size and breadth of Temasek's portfolio also contributes to its financial strength and flexibility.

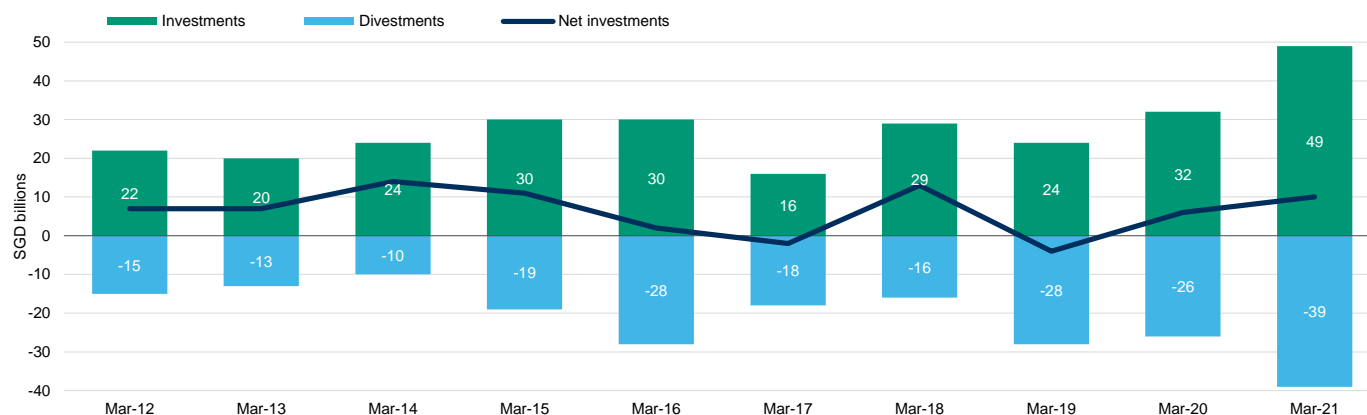
Temasek invests in common equity as well as preference shares, convertible bonds and redeemable equity-linked instruments. Therefore, the company's sources of funds include normal dividends, special dividends, interest income, distribution from funds and proceeds from the sale of investments. For the fiscal year that ended 31 March 2021 (fiscal 2021), Temasek's dividend income was SGD8.4 billion, providing 21x coverage for its interest expense. Most of the dividends are recurring in nature and are from companies that have high investment-grade credit quality.

Dividend income was also sufficient to cover other uses of funds, including repaying the company's short-term debt, paying taxes and meeting operating expenses. Temasek's dividend, paid to the MOF, is recommended by its board. Temasek's dividend policy balances the sustainable distribution of profit as dividends to its shareholder, with the retention of profit for reinvestment to generate future returns.

Portfolio disposals and additions typically represent the largest cash flow items, exceeding dividends received in most years. While the quantity and timing of these cash flow are less predictable than those of companies' dividends, Temasek has the ability to monetize investments and does so regularly. On an aggregate basis, Temasek's net investment over the last decade was SGD64 billion, without a significant increase in its borrowings.

Exhibit 5

Amount of investments and divestments over the last decade may be highest in 2021 but net investment was at SGD10 billion



Source: Adapted from Temasek Review 2021

We consider leverage based on estimated market value-based leverage, calculated by dividing the company's net debt by its estimated market value of portfolio assets (excluding cash). The value of Temasek's portfolio fluctuates over time, primarily reflecting the movement of the stock markets. The portfolio fell to a low value of SGD130 billion in March 2009, but rebounded to SGD186 billion in March 2010 and reached SGD381 billion as of 31 March 2021. Despite the volatility, these market values consistently and substantially covered the company's outstanding debt.

Temasek reported net cash in fiscal 2021, maintaining this position since March 2008. At the same time, the company has been making net investments over the past few years, with the exception of fiscal 2009, fiscal 2017 and fiscal 2019. Consequently, we expect surplus cash to be applied as and when market opportunities arise, and its net cash position to not be critical to the rating.

Because of the strong recurring cash flow compared with total debt and interest expense at the holding company level, Temasek's financial profile has remained consistent for a Aaa rating. We expect the company to maintain a conservative financial profile over the next 12-18 months, with the net debt to market value of its portfolio assets (excluding cash) remaining below 5% and funds from operations (FFO) interest coverage above 15x.

Changes in the market value of the portfolio do not have a major impact on the company's reported book equity. Investments with shareholdings more than 20% are stated at cost (minus impairment, if applicable) on the company's balance sheet, whereas investments with under 20% shareholdings are stated at fair value, with listed securities being marked to market. Since a large proportion of Temasek's investments comprise shareholdings more than 20%, which are stated at cost, and include investments held since the 1980s and 1990s, the corresponding book value is significantly below current market value.

Strong shareholder

Temasek's debt is not guaranteed by the Government of Singapore. Nevertheless, the company is wholly owned by the MOF and is designated a Fifth Schedule company under the Singapore Constitution. Temasek is not directed by the government, but half of its portfolio is denominated in Singapore dollars. As a result of this exposure, we believe that the interest of both the government and Temasek are naturally aligned.

In our view, the MOF takes a pragmatic view when allocating capital to Temasek. In most years, the MOF has generally reinvested its dividends, although sometimes with a timing difference. In our view, Temasek's financial arrangements with its shareholder are both highly accommodating and supportive.

ESG considerations

Temasek has indirect exposure to environmental risk through its investee companies. However, Temasek's portfolio largely consists of companies that have low exposure to environmental risk. The sustainability of returns is integral to Temasek's investment approach. Temasek has little exposure to the energy and resources sector, which has a high or moderate exposure to environmental risk.

Despite Temasek having a single shareholder, the governance risk for the company is largely tempered by the oversight exercised by a board that consists of nine independent directors out of a total 11 directors, and by Temasek's track record of maintaining an extremely conservative financial profile.

Liquidity analysis

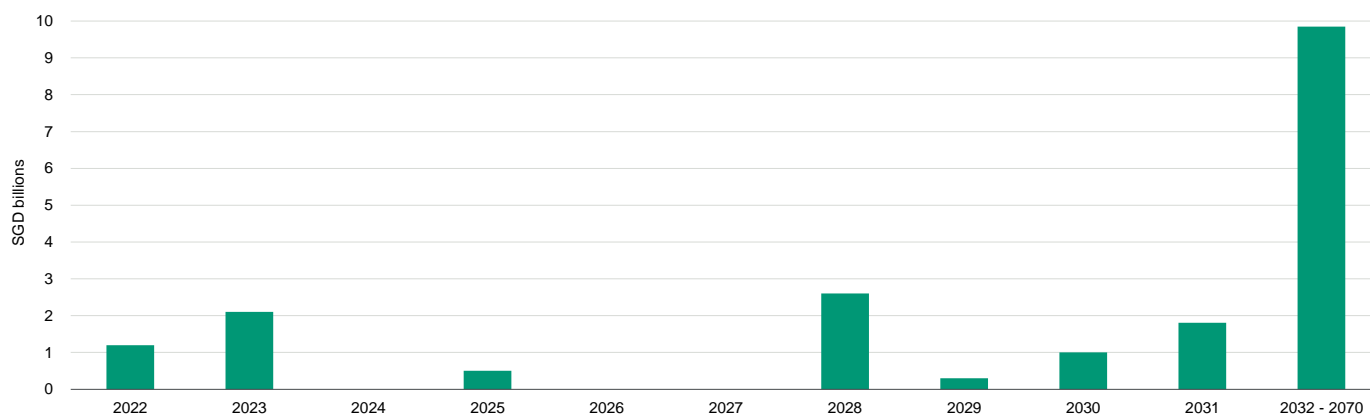
Temasek's liquidity at the holding company level has been consistently excellent. As of 31 March 2021, Temasek reported net cash, with a low amount of short-term debt or committed outflows over the next 12-18 months. As part of its liquidity management, the company also holds a liquid short-term investment portfolio. This portfolio consisted mainly of listed equities, and also includes both government and corporate bonds, as well as other liquid financial instruments. The total of cash and cash equivalents, along with short-term investments, was more than 5x the amount of debt maturing over the next 10 years.

The total net market value of the company's investment portfolio (55% in listed and liquid assets) more than covers the company's total debt and adds to its already-strong financial flexibility. This is in spite of Temasek's large Singapore-incorporated holdings, which in our view, the company might not want to sell and where immediate market liquidity could limit realization. In addition, Temasek had available unutilized standby and bilateral facilities from a number of banks as of 31 March 2021. These facilities could be used to backstop drawing on the company's \$5 billion Euro-commercial paper program, established in February 2011.

Exhibit 6

Temasek has a long dated debt maturity profile

Data as of 31 March 2021 and pro forma for new bonds priced in July 2021



Sources: Adapted from Temasek Review 2021 and Bloomberg

Other considerations

Temasek Group's consolidated credit metrics and relationship with investee companies

Temasek is not viewed as a conglomerate despite its large stakes in several businesses. Hence, the Temasek Group's consolidated financial metrics do not have an impact on Temasek's rating. On a consolidated basis, Temasek Group's credit metrics weakened in fiscal 2021, primarily because earnings at operating portfolio companies were hurt by the coronavirus pandemic. FFO/net debt declined to 17.5% in fiscal 2021 from 25.3% in fiscal 2020.

Also, on taking a bottom-up view of the portfolio, we find that the bulk of Temasek's investee companies, where rated, have Aa or A category ratings.

While Temasek does not guarantee the financial obligations of any of its investee companies, we believe that the companies benefit from association with Temasek in terms of both access to and cost of funds. From time to time, Temasek will increase its equity investment in these companies through measures such as underwritten rights offer, which we believe are undertaken on the basis that the incremental investment will add value to its position in the longer term.

Methodology and scorecard

When mapped to our [Investment Holding Companies and Conglomerates](#) rating methodology, the scorecard-indicated outcome for Temasek is Aa1 based on its financials for fiscal 2021 and our 12-18-month forward view (see Exhibit 7).

Exhibit 7

Rating factors

Temasek Holdings (Private) Limited

Investment Holding Companies Industry [1][2]	Current FYE 3/31/2021	Moody's 12-18 Month Forward View As of 7/23/2021 [3]
Factor 1 : Investment Strategy (10%)	Score	Score
a) Investment Strategy	Aa	Aa
Factor 2 : Asset Quality (40%)		
a) Asset Concentration	Aa	Aa
b) Geographic Diversity	Aa	Aa
c) Business Diversity	Aaa	Aaa
d) Investment Portfolio Transparency	Aa	Aa
Factor 3 : Financial Policy (10%)		
a) Financial Policy	Aaa	Aaa
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)		
a) Estimated Market Value-Based Leverage	Aaa	Aaa
Factor 5 : Debt Coverage and Liquidity (20%)		
a) (FFO + Interest Expense) / Interest Expense	Aaa	Aaa
b) Liquidity	Aaa	Aaa
Rating:		
a) Scorecard-Indicated Outcome	Aa1	Aa1
b) Actual Rating Assigned	Aaa	Aaa
Government-Related Issuer	Factor	
a) Baseline Credit Assessment	aaa	
b) Government Local Currency Rating	Aaa	
c) Default Dependence	Very High	
d) Support	Very High	
e) Final Rating Outcome	Aaa	

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] This represents Moody's forward view; not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

For the first factor — investment strategy — under the methodology, Temasek scores Aa for its investment strategy, which is the highest possible score.

For the second factor — asset quality — Temasek's asset concentration and geographic diversity have been improving but the scores remain in the Aa category. Temasek's portfolio is spread across more than 14 sectors, which supports its business diversity score of Aaa. As for investment portfolio transparency, the score remains at Aa because the proportion of unlisted investments in Temasek's portfolio remained broadly stable at 45% in fiscal 2021 compared with 48% in fiscal 2020 and 42% in fiscal 2019. More importantly, some of Temasek's unlisted investments hold listed assets, which make regular public disclosures. For example, Temasek held a 100% stake

in Mapletree as of fiscal 2021, which holds listed real estate investment trusts including [Mapletree Commercial Trust](#) (Baa1 stable), [Mapletree Logistics Trust](#) (Baa2 stable), [Mapletree North Asia Commercial Trust](#) (Baa3 negative) and Mapletree Industrial Trust.

For the remaining three factors, all scores are in the Aaa category because of Temasek's track record of very conservative financial profile, excellent liquidity and net cash position.

Nonetheless, Temasek's Aaa rating differs from that indicated by the methodology. The difference reflects Temasek's financial profile greatly exceeds what is required for a Aaa entity; the strong quality of Temasek's investee companies; and Temasek's track record of execution and excellent liquidity.

Ratings

Exhibit 8

Category	Moody's Rating
TEMASEK HOLDINGS (PRIVATE) LIMITED	
Outlook	Stable
Issuer Rating	Aaa
TEMASEK FINANCIAL (I) LIMITED	
Outlook	Stable
Bkd Senior Unsecured	Aaa
TEMASEK FINANCIAL (IV) PRIVATE LIMITED	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Aaa
TEMASEK FINANCIAL (II) PRIVATE LIMITED	
Outlook	Stable
Bkd Commercial Paper	P-1

Source: Moody's Investors Service

Endnotes

- 1 Internal funds are cash, liquid investments, dividend and investment income, and divestment proceeds while committed cash requirements are principally, interest, current debt repayments and operating overheads

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