

Temasek Holdings (Private) Limited

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Temasek Holdings (Private) Limited

Credit Highlights

Issuer Credit Rating

AAA/Stable/A-1+

Overview

Key strengths	Key risks
Sizable and well diversified portfolio of quality assets.	Significant exposure to volatile financial services and emerging economies.
Consistent record of prudent investment and active asset rotation.	Our view that the steady increase in unlisted investments over the years could erode the portfolio characteristics.
Strong cash flow adequacy.	Infrequent and limited, albeit improving, information disclosure.
Track record of net cash at the parent level.	
Our view of strong support from the Singapore government.	

Temasek Holdings (Private) Limited's high proportion of unlisted investments could erode the credit quality of its investment portfolio, in our view. The Singapore-headquartered investment holding company's relatively high proportion of unlisted investments, which accounted for 45% of its total portfolio as of March 31, 2021, could erode the asset liquidity and credit quality of the company's portfolio if Temasek increases its exposure to investments, including early-stage companies, with weaker credit profile. However, Temasek's substantial cash and cash equivalents and short-term investments, the increased asset diversity of its portfolio, and steady reduction in portfolio concentration of key assets have so far tempered the risk.

We believe Temasek's strong affiliation with the government of Singapore will stay. We maintain our view of an extremely high likelihood of extraordinary and timely support from the government of Singapore to Temasek, given the company's strategic role in the local economy.

A large and diversified portfolio will enable Temasek to withstand volatilities. The company's large and highly diversified portfolio, including substantial cash and cash equivalents and unlisted portfolio, has reduced its exposure to financial market volatility amid the COVID-19 pandemic. Nevertheless, we expect the company's dividend income for the fiscal year ending March 31, 2022, to remain below pre-pandemic levels.

Temasek's additional net investments could reduce its substantial cash buffer over time. We believe material investments, without corresponding divestments, could reduce Temasek's substantial cash buffer. During fiscal 2021, Temasek invested about Singapore dollar (S\$) 49 billion and divested S\$39 billion. Temasek's cash and cash equivalents and short-term investments remained robust at S\$50.8 billion as of March 31, 2021, despite a net investment outflow of S\$10 billion during the fiscal year.

Outlook

The stable outlook on Temasek reflects our opinion that the company's close relationship with, and hence, the likelihood of extraordinary and timely support from, the government will remain intact. Our stable outlook also reflects the stable outlook on our sovereign ratings on Singapore. In addition, we do not expect Temasek's concentration of key assets to increase even as the company continually expands its portfolio.

Downside scenario

We would lower the rating on Temasek if we lower the sovereign rating on Singapore, or if we believe the government's commitment to the company has reduced. Given our view of the extremely high likelihood of extraordinary support from the government of Singapore, we would downgrade Temasek if our assessment of its stand-alone credit profile (SACP) deteriorates to below 'aa-'.

We would lower the SACP on Temasek if we saw a deterioration in the weighted credit quality of the company's assets to below 'bbb-'. This could happen if the proportion of unlisted portfolio increases beyond 50%, or if there is an overall higher exposure to a combination of early-stage companies, or generally to investments with a weaker credit profile. We could also lower the SACP on Temasek if the company's asset diversity decreases.

In a remote scenario, negative pressure could also escalate on the SACP if Temasek's loan-to-value ratio rises above 10% on a sustained basis, prompting us to reconsider our view of the company's very conservative capital structure. This could occur if Temasek undertakes large net debt-funded additions to its portfolio or provides financial support to its investee companies, such that it can no longer distance itself from their operating and financial risks. We could also reconsider our assessment of Temasek's strategic investment capability if we believe the rise in the loan-to-value ratio reflects a structural and permanent shift to a more aggressive financial policy from the company's current stance of having limited debt.

Our Base-Case Scenario

Assumptions

- Temasek will continue to be guided by its four investment themes--transforming economies, growing middle-income population, deepening comparative advantages, and emerging champions. These themes are supplemented by four structural trends: digitization, sustainable living, future of consumption, and longer lifespans. These guidelines leave the company with substantial flexibility when it comes to investing across countries and industries, and in its investment horizon.
- Temasek to have sustained asset rotation as it regularly buys and sells shares based on return considerations.

Key metrics

Temasek Holdings (Private) Limited--Key Metrics*

(Bil. S\$)	--Fiscal year ended March 31--		
	2020a	2021a	2022e
Portfolio value	306	381	380-440
Weight of listed assets as (%) of total portfolio	52	55	Above 50
Loan-to-value ratio (%)	(12.2)	(9.5)	Less than 0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. S\$--Singapore dollar. Loan-to-value is defined as: {gross debt - cash and cash equivalents, and short-term investments} divided by [net portfolio + gross debt - cash and cash equivalents, and short-term investments]. Reported values as of fiscal year end, March 31, 2021: Gross debt--Singapore dollar (S\$) 17.6 billion. Net portfolio--S\$381 billion. Cash and cash equivalents, and short-term investments--S\$50.8 billion. Cash flow adequacy is defined as cash dividends, interest and fund distributions received divided by cash operating and tax expenses, and interest paid. Temasek only communicates on its net cash position and does not publicly disclose its cash flow adequacy ratio.

Company Description

Temasek was established in 1974 to assume ownership of a diversified portfolio of companies from the Singapore government (valued at S\$354 million at that time). It operates on commercial principles. The Minister for Finance, a body corporate under the Singapore Minister for Finance (Incorporation) Act (Chapter 183), holds 100% of Temasek, which the Singapore Constitution identifies as a key institution of the country.

Business Risk

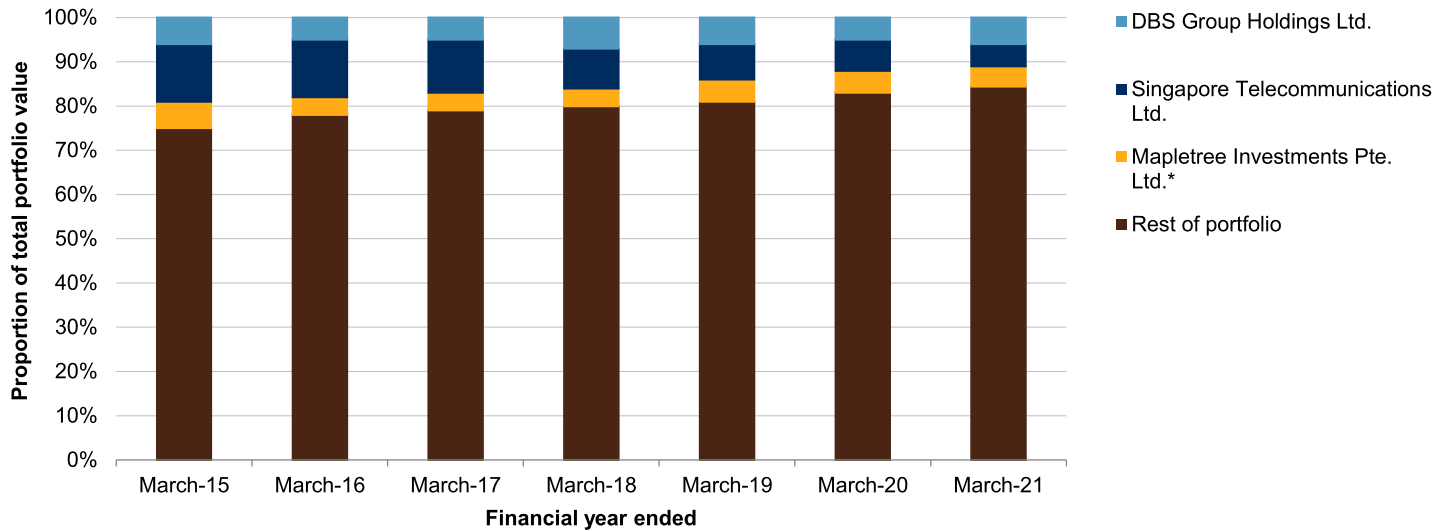
Temasek's strong portfolio characteristics and above-average investment capabilities continue to underpin its credit quality. We anticipate that Temasek will continue to prudently and actively manage its investments.

Temasek's portfolio diversity has been improving, which, in our view, reduces concentration risk and volatility in overall portfolio valuation. The concentration of key assets has reduced over the past few years, underpinned by an expanding portfolio base. The share of the top three assets decreased substantially to 16% in fiscal 2021, from 25% six years ago.

Chart 1

Temasek's Improving Portfolio Diversity Reduces Volatility

Concentration of three largest assets has reduced



*China Construction Bank Corporation was the third-largest single name of the portfolio values for 2015-2018 with proportion between 4%-6% of portfolio. Source: S&P Global Ratings.

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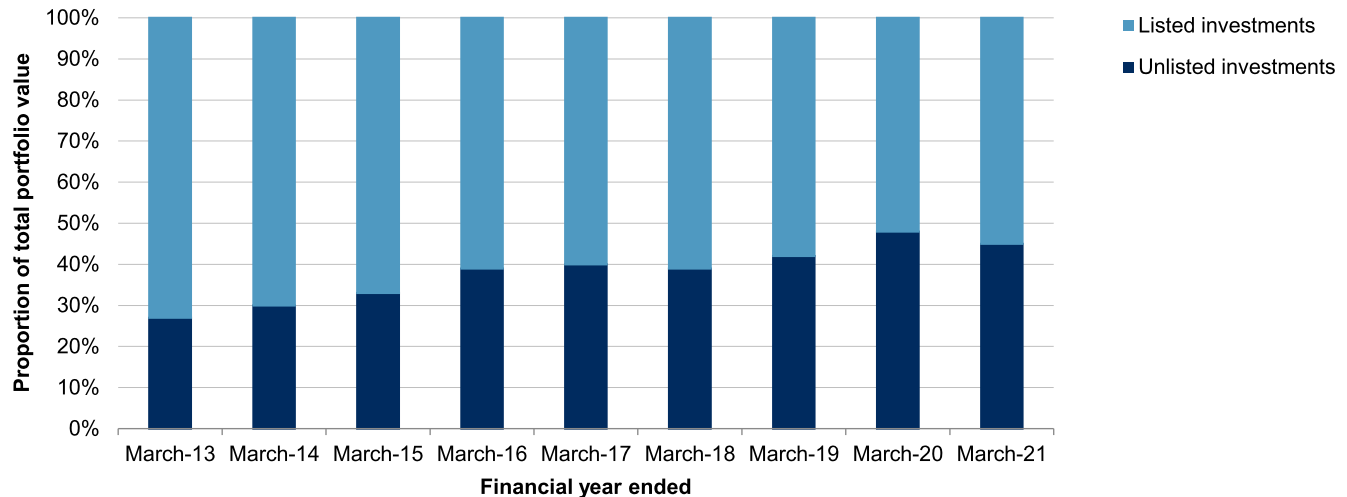
We believe Temasek's portfolio continues to exhibit strong credit quality. We estimate the weighted credit quality of the portfolio to be investment grade. Our ratings on close to 36.0% of the investments (in terms of value) are 'BBB-' and above.

However, Temasek's increasing proportion of unlisted assets, including early-stage companies, could weigh on its portfolio characteristics. This is because we view quoted investments as easier to liquidate and more creditworthy than unlisted investments. This is even though a number of unlisted companies have high creditworthiness, such as Singapore's port operator PSA International Pte. Ltd. (AA/Stable/--) and power distributor Singapore Power Ltd. (AA+/Stable/--). As of end March 2021, Temasek's exposure to unlisted assets declined to about 45% of the S\$381 billion net portfolio due to improved listed asset prices as well as a number of unlisted assets that became listed following initial public offerings. The proportion of unlisted assets a year ago was 48% partly due to the lower valuation of listed assets as a result of COVID-19-driven global financial markets volatility in March 2020.

We believe Temasek will continue to rebalance its portfolio mix toward unlisted investments to generate better returns. We estimate the value of unlisted assets has tripled to S\$171 billion as of March 31, 2021, from S\$53 billion as of March 31, 2012.

Chart 2

Temasek's Relatively High Proportion Of Unlisted Assets Could Erode Portfolio Credit Quality



Source: S&P Global Ratings.
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In addition, the liquidity of Temasek's large Singapore-incorporated holdings may be more limited than what their listed nature suggests because these are unlikely to be divested in our view. Temasek has also shown its willingness to further invest in Singapore-based companies in its portfolio during the COVID-19 outbreak, such as by underwriting Singapore Airlines Ltd.'s (SIA) rights issue in 2020 and mandatory convertible bond (MCB) issues in 2020 and 2021.

Temasek's portfolio as at March 31, 2021, continues to cover a broad range of geographies and industry sectors such as financial services (24% of total), telecommunications, media, and technology (21%), transportation and industrials (19%), consumer and real estate (14%), life sciences and agri-food (10%), and others (12%). Notably, its exposure to emerging countries and financial services could result in some portfolio volatility.

In our view, Temasek will continue to exhibit above-average strategic investment capability. We assume management will extend its sound record of rotating assets, cautious risk management, and disciplined investment practices. During fiscal 2021, Temasek invested about S\$49 billion and divested S\$39 billion. Over the past eight years, the company has invested S\$29 billion and divested S\$23 billion annually on average.

Financial Risk

Temasek's sustainable track record of limited debt and strong cash flow adequacy anchors our assessment of its capital structure. We anticipate the company will sustain its net cash position (defined as debt less cash and cash equivalent and short-term investments) over the next 24 months at least. While Temasek's cumulative net investments over 2014-2021 amounted to S\$50 billion, borrowings have increased at a more gradual pace and remained consistently below its cash and cash equivalents and short-term investments. This is owing to the company's strong cash flow

adequacy pre-COVID-19 pandemic and flexible net returns (dividend paid net of equity infusions) to the Minister for Finance. Temasek's liquidity balance has exceeded its debt since 2004.

We believe the company will continue to have solid cash returns from its portfolio. This expectation is underpinned by our opinion of Temasek's strategic influence on the operations of a number of subsidiaries, and their dividend policy, which is reinforced by Temasek's controlling stakes in the entities.

While we expect the COVID-19 pandemic will reduce dividend paid out by Temasek's investments, it would take a more severe reduction in cash dividend income for the company's cash flow adequacy to fall below 1.0x--the point at which Temasek would have to use its cash to pay interest, tax, and operating expenses.

Liquidity

We view Temasek's liquidity as exceptional. We expect the company's sources of funds to cover uses by about 3x over the 24 months to end-March 2023. Even in a hypothetical scenario of unexpected external shocks, which could restrict the company's inflow of dividends or proceeds from divestments, Temasek's sources of liquidity would comfortably cover its needs.

We note that the company has no covenants on its debt instruments and has long-dated debt maturities. The weighted average outstanding maturity of debt was around 16 years as of March 31, 2021. In addition, Temasek has well-established and solid relationships with banks, and a high standing in credit markets.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> • Cash and cash equivalents and short-term investments of S\$50.8 billion, exceeding total debt of S\$17.6 billion by more than 2x. • Our forecast of investment income, including dividends and interest income from portfolio companies, of S\$7.0 billion-S\$8.0 billion per year. 	<ul style="list-style-type: none"> • Short-term debt maturities of S\$2.4 billion due in the 12 months to March 31, 2022. • Operating costs and tax expenses. • Interest expenses of up to S\$400 million-S\$500 million annually. • Our expectation that net acquisitions of S\$6.0 billion-S\$8.0 billion annually. • Some net return to its shareholder.

Environmental, Social, And Governance

As a company, Temasek has embedded sustainability in its investment decision-making process and monitoring framework, while it still strives to deliver sustainable value over the long term to its stakeholders. Temasek encourages its portfolio companies to embrace sustainable ways of doing business, such as establishing an effective carbon emission plan, by sharing best practices such as measurement and disclosure.

Temasek achieved carbon neutrality for itself during fiscal 2020 and targets to reduce net emissions attributable to its portfolio to half of 2010 levels by 2030. The estimated net carbon emissions of its portfolio increased from 22 million tonnes CO₂e in 2011 to 30 million tonnes CO₂e in fiscal 2021.

We regard governance risks as neutral for Temasek and its key investee companies. We believe Temasek has better ability to influence the environmental, social, and governance policies of key investee companies.

As a private company, Temasek's disclosure of financial information is not on par with that of listed companies with similar ratings. As an unlisted company, Temasek discloses financial information only annually and on a consolidated basis. However, the content of information has been improving over the past years, with more public disclosure of unconsolidated financial information.

Despite Temasek's diversified portfolio, certain sectors in the financial services, transportation, and consumer, are exposed to risk in the social area, as evident during the COVID-19 outbreak. This has reduced earnings and ultimately dividend distribution at investee companies, although this was not a specific credit risk at the time of publication.

Government Influence

Our credit assessment on Temasek factors in our view of an extremely high likelihood of extraordinary support from the government of Singapore (unsolicited rating AAA/Stable/A-1+) since:

- Temasek has critical importance to the Singapore government due to the company's shareholding in some sectors that we believe are strategic for the country's economy.
- Temasek shows a very strong link with its sole owner, the Singapore government, which is very unlikely to dilute its ownership. Under the Singapore Constitution, Temasek is subject to the country's constitutional safeguards where Singapore's President has an obligation to protect the company's past reserves.

We assess Temasek's SACP as 'aaa', based on its strong assets, portfolio characteristics, above-average investment capabilities, and minimal leverage. Therefore, the issuer credit rating is 'AAA' by its own merits. Accordingly, the benefit of this extremely high likelihood of extraordinary government support would materialize if we lower the SACP for Temasek.

In our view, Temasek benefits from its ownership by Singapore's Minister for Finance on an ongoing basis as well, with a number of domestic, blue-chip companies in its portfolio, such as PSA International and Singapore Power. We also believe that the ongoing support from the government of Singapore gives an edge to Temasek when it comes to accessing investment opportunities. Likewise, we believe the Minister for Finance supports Temasek's conservative capital structure and investment firepower through recurring dividend reinvestment.

Issue Ratings - Subordination Risk Analysis

Temasek's senior notes are rated the same as the long-term issuer credit rating because we do not view the company's capital structure as having any material subordination risks. In our analysis of investment holding companies, we focus on the parent company and related financing vehicles' debt instruments, but do not take into account debt at investee companies.

Ratings Score Snapshot

Issuer credit rating: AAA/Stable/A-1+

Business risk: Excellent

- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Excellent

Financial risk: Minimal

- Cash flow/Leverage: Minimal
- Funding and capital structure: Neutral

Anchor: aaa

Modifiers

- Liquidity: Exceptional (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: aaa

- Sovereign rating: AAA/Stable/A-1+
- Likelihood of government support: Extremely high (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings Detail (As Of August 19, 2021)*

Temasek Holdings (Private) Limited

Issuer Credit Rating AAA/Stable/A-1+

Issuer Credit Ratings History

16-Feb-2011 AAA/Stable/A-1+

12-Oct-2004 AAA/Stable/--

Related Entities

Singapore

Issuer Credit Rating AAA/Stable/A-1+

Transfer & Convertibility Assessment AAA

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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