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Ratings

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# Temasek Holdings (Private) Limited

**August 28, 2023**

## Credit Highlights

**Overview**

| Key strengths | Key risks |
|---|---|
| Sizable and well-diversified portfolio of quality assets. | Increased exposure to unlisted assets with weak or limited visibility on their credit quality. |
| Consistent record of prudent investment and active asset rotation. | Infrequent, albeit improving, information disclosure. |
| Very strong liquidity and funding access. | |
| Minimal leverage and track record of net cash at the parent level. | |
| Extremely high likelihood of strong and timely support from the Singapore government. | |


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**A large and well-diversified portfolio will enable Temasek Holdings (Private) Limited to withstand volatile financial markets.**

The company's highly diversified portfolio across asset classes, sectors and geographies has partially tempered its exposure to the financial market volatility. Stable dividend yield, distribution from private funds, and proceeds from periodic asset divestments have also helped Temasek to earn steady returns through economic cycles. We believe the trend will continue over the forecast period. We estimate dividend income for fiscal 2024 (year ending March 31, 2024) will moderate to Singapore dollar (S$) 8 billion-S$9 billion and comfortably cover its annual interest and operating expenses. In a highly unlikely scenario where Temasek has zero cash inflow, it has the ability to divest a portion of its sub-20% listed investments (assets in which it has a stake of less than 20%), in under two weeks as simulated by Temasek, to cover its outstanding debt.

**Temasek's high proportion of unlisted investments is eroding the credit quality of its investment portfolio, in our view.**

The Singapore-headquartered investment holding company's proportion of unlisted investments reached a historical high of 53% (reported basis) of its total portfolio as of March 31, 2023, a marginal increase from 52% as of March 31, 2022. The company's portfolio asset liquidity and credit quality could come under pressure if Temasek further increases its exposure to investments with weaker credit profiles, or to private funds that provide limited visibility of their underlying investment quality. However, Temasek's substantial liquid assets, including its high-quality listed sub-20% investments that account for about 16% of its overall portfolio, and a steady reduction in the portfolio concentration of key assets have so far tempered such risks.

**Disciplined investments and consistent divestments resulted in an improved cash buffer in fiscal 2023.**

Temasek invested S$31 billion in fiscal 2023, almost half of the S$61 billion in fiscal 2022. This reflected a challenging macroeconomic and geopolitical environment. Against this, the company divested S$27 billion, slightly less than the S$37 billion in fiscal 2022. This contributed to increased cash and cash equivalents and short-term investments of S$43.7 billion as of March 31, 2023, up from S$38.4 billion a year ago. Sustained net investments could further reduce Temasek's loan-to-value ratio (LTV) buffer over time. Temasek’s adjusted LTV ratio was well within the 10% threshold as of March 31, 2023.

# Outlook

The stable outlook on Temasek reflects our opinion that the company's close relationship with, and therefore 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 expect Temasek's portfolio to retain investment grade credit quality and stay highly diversified even as the company continually expands its portfolio.

## Downside scenario

We will 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 will 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 average credit quality of the company's assets to below 'bbb-'. This could happen if there is an overall higher exposure to a combination of early-stage companies, investments with a weaker credit profile or to those with limited visibility. We could also lower the SACP on Temasek if the company's asset diversity decreases.

Negative pressure could also increase on the SACP if Temasek's loan-to-value ratio rose 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 undertook large net debt-funded additions to its portfolio--including commitments to substantial investments--or provided financial support to its investee companies such that it could no longer distance itself from their operating and financial risks. We could also reconsider our assessment of Temasek's strategic investment capability if we believed the rise in the loan-to-value ratio reflected 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 to continue to align its investment activities to 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 –Forecast Summary***

| Bil. S$ | 2021a | 2022a | 2023a | 2024e |
|---|---|---|---|---|
| Portfolio value | 381 | 403 | 382 | 370-410 |
| Weight of listed assets as (%) of total portfolio (reported) | 55 | 48 | 47 | 40-50 |
| Adjusted Loan-to-value ratio (%) | Less than 10% | Less than 10% | Less than 10% | Less than 10% |

*All figures adjusted by S&P Global Ratings. A—Actual. E—Estimate.
Loan-to-value is defined as: {gross debt + investment commitments - cash and cash equivalents, and short-term investments} divided by [ (net portfolio + investment commitments) + (gross debt +investment commitments – cash and cash equivalents, and short-term investments) ].
Reported values as of fiscal year end, March 31, 2023: Gross debt--Singapore dollar (S$) 21.7 billion. Net portfolio--S$382 billion. Cash and cash equivalents, and short-term investments--S$43.7 billion.

# Company Description

Temasek was established in 1974 to assume ownership of a diversified portfolio of companies from the Singapore government. The portfolio was valued at S$354 million at that time and expanded to S$382 billion as of March 31, 2023. The company has diversified investments across 14 sectors. It operates on commercial principles. The Minister for Finance, a body corporate under the Singapore Minister for Finance (Incorporation) Act 1959, 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. Its portfolio scale of S$382 billion is also much larger than other rated investment holding companies globally.

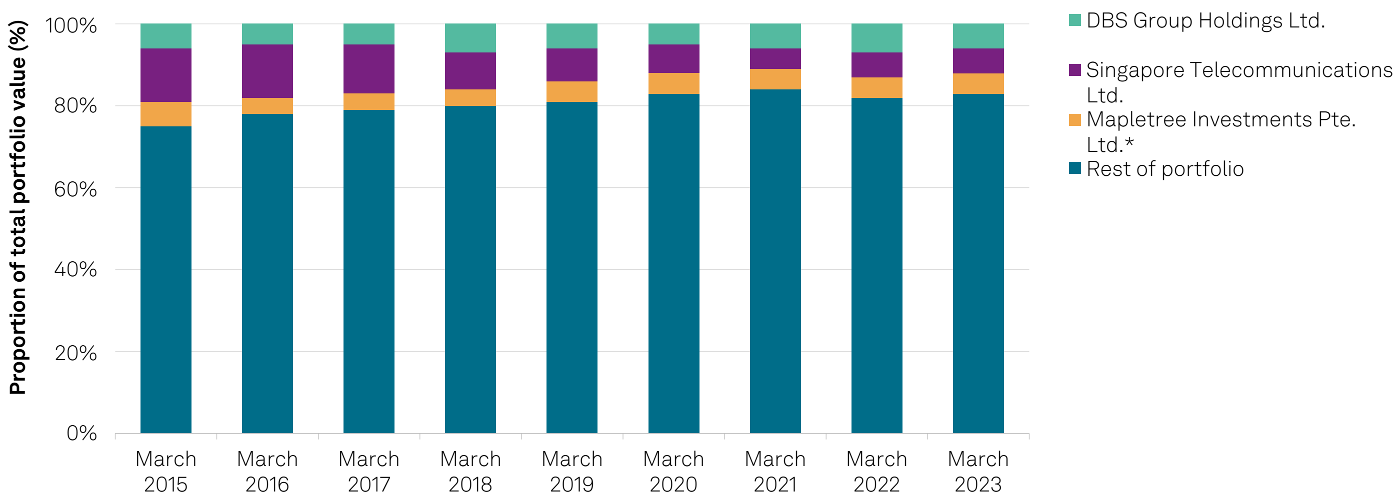
Temasek's portfolio diversity has been improving, which, in our view, reduces concentration risk and volatility in overall portfolio valuation. The concentration of key assets has reduced over the past few years, underpinned by an expanding portfolio base. The share of the top three assets decreased substantially to 17% in fiscal 2023 and 18% in fiscal 2022, from 25% eight years ago.

Temasek's portfolio continues to cover a broad range of geographies and industry sectors such as transportation and industrials (23%), financial services (21%), telecommunications, media, and technology (17%), consumer and real estate (16%), life sciences and agri-food (9%), and multi-sector funds and others (including credit, 14%). Notably, its exposure to emerging countries and financial services could result in some portfolio volatility.

Temasek continues to look for opportunities in emerging economies, including India and Southeast Asia. The company has announced plans to potentially invest up to US$10 billion over the next three years in India.

**Temasek's Improving Portfolio Diversity Reduces Volatility**

Concentration of the three largest assets has reduced over time




*Between 2015 and 2018, China Construction Bank Corp. was the third-largest holding, with 4%-6% of the portfolio. Source: S&P Global Ratings.

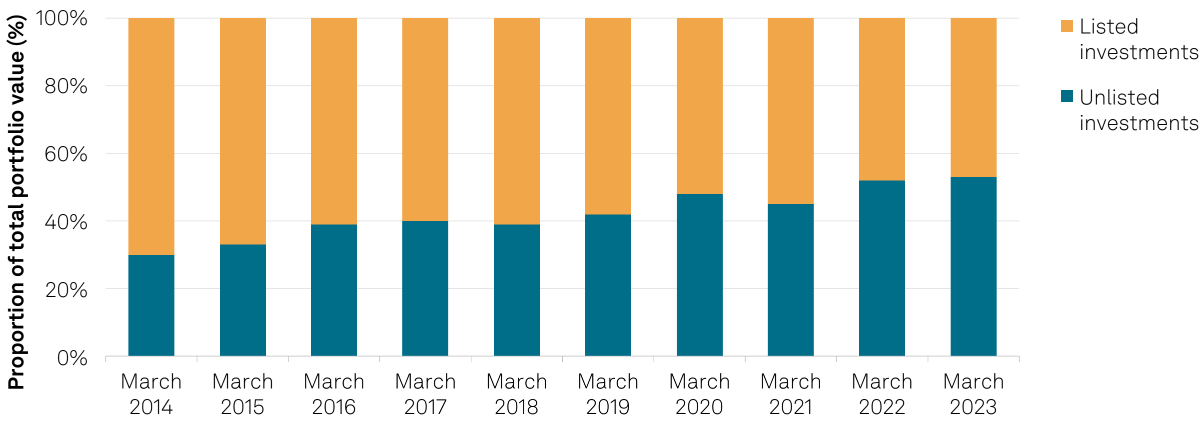

We believe Temasek's portfolio continues to exhibit investment grade characteristics. Slightly over 50.0% of its investments (in terms of value) are of investment grade quality.

However, Temasek's increasing proportion of unlisted assets, including early-stage companies, could erode its portfolio characteristics over time. This is because we view quoted investments as easier to liquidate and typically more creditworthy than unlisted investments. This is even though a number of unlisted companies have high creditworthiness, such as Singapore's power distributor Singapore Power Ltd. (AA+/Stable/--), international health and beauty retailer A.S. Watson Holdings Ltd. (unrated) and port operator PSA International Pte. Ltd. (unrated). We typically view early-stage companies to be of weaker credit quality, especially those in the cash-burn stage.

As of the end of March 2023, Temasek's exposure to unlisted assets increased to about 53% of the S$382 billion net portfolio. This was due to volatility in listed asset values and continued investments in unlisted assets including early-stage companies (capped at 6% of the overall portfolio as part of its risk management framework) and private asset management firms and private equity funds. The rising proportion of investments in private equity and credit funds and private asset managers reduces the visibility on the credit quality of these unlisted assets.

We believe Temasek will continue to invest in unlisted investments to generate better returns. Over the past two decades, Temasek's unlisted portfolio generated returns of over 14% per annum as compared with its portfolio average return of 10% per annum. We estimate the value of unlisted assets has increased nearly 3.5 times since March 31, 2013, from S$58 billion to S$202 billion as of March 31, 2023. In comparison, Temasek's net portfolio value and total debt almost doubled over the same period, to S$382 billion and S$21.7 billion respectively, as of March, 31 2023.

**Temasek's Consistent Increase In Proportion Of Unlisted Assets Could Erode Portfolio Credit Quality**




Source: S&P Global Ratings.


In addition, the liquidity of Temasek's large Singapore-incorporated holdings may be lower than their listed nature suggests. That's 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 its mandatory convertible bond (MCB) issues in 2020 and 2021.

Within Temasek's listed assets (excluding cash and cash equivalents and short-term investments), we view its portfolio of sub-20% listed assets as the most liquid. Its sub-20% listed assets accounted for about 16% of its total portfolio value as of March 31, 2023. This covered outstanding debt of S$21.7 billion as of March 31, 2023 by more than 2.5 times.

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. Over the past eight years, the company has invested S$34 billion and divested S$27 billion annually on average.

# Financial Risk

Temasek's sustained track record of limited debt and strong cash flow adequacy anchors our assessment of its capital structure. We anticipate the company will sustain its adjusted loan-to-value ratio well within the 10% threshold over the next 12-24 months.

While Temasek's cumulative net investments over 2014-2023 amounted to S$78 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 before the 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.

# Liquidity

We view Temasek's liquidity as exceptional. We expect the company's sources of funds to cover uses by about 2.7x over the 24 months to end-March 2025. Even in a hypothetical scenario of unexpected external shocks, which reduces the company's dividend inflow to 50% of our base case estimate, 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 19 years as of March 31, 2023. In addition, Temasek has well-established and solid relationships with banks, and a high standing in credit markets.

### Principal liquidity sources

- Cash and cash equivalents and short-term investments of S$43.7 billion, exceeding total debt of S$21.7 billion as of March 31, 2023.
- Our forecast of investment income, including dividends and interest income from portfolio companies, of about S$10 billion per year.
- Our forecast fund distribution of S$6.0 billion per year.

### Principal liquidity uses

- Short-term debt maturities of S$1.8 billion due in the 12 months to March 31, 2024.
- Operating costs and tax expenses.
- Interest expenses of S$500 million-S$600 million annually.
- Our expectation of acquisitions of S$14.0 billion-S$16.0 billion annually.
- Some net return to its shareholder.

## Environmental, Social, And Governance

Environmental risk factors are neutral for Temasek. Temasek has achieved carbon neutrality for itself since fiscal 2020. It aims to reduce net emissions attributable to its portfolio to half of 2010 levels by 2030 and achieve net zero by 2050. According to Temasek, the estimated net carbon emissions of its portfolio increased to 30 million tons carbon dioxide equivalent ($CO_2e$) in fiscal 2021, 26 million tons $CO_2e$ in fiscal 2022 and 27 million tons $CO_2e$ in fiscal 2023, from 22 million tons of $CO_2e$ in 2011.

It has embedded sustainability in its investment decision-making process and monitoring framework. In 2022, Temasek raised its internal carbon price from US$42 per ton to US$50 per ton of $CO_2e$ for the purposes of its investment evaluation process. It expects to increase the price progressively to US$100 per ton by end of the decade. We believe Temasek has the ability to influence the environmental, social, and governance policies of key investee companies to achieve its net carbon emission target.

Despite Temasek's diversified portfolio, certain sectors in the financial services, transportation, and consumer, were 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 the impact was not material to Temasek's credit quality.

We regard governance risks as neutral for Temasek and its 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, portfolio performance and characteristics as well as of key individual investments.

## 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 shareholdings 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. The benefit of the extremely high likelihood of extraordinary government support would materialize if we lowered 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

## Capital structure

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.

# Rating Component Scores

| **Foreign currency issuer credit rating** | **AAA/Stable/A-1+** |
|---|---|
| **Local currency 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** |
| 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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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 24, 2023)*

| | |
|---|---|
| **Temasek Holdings (Private) Ltd.** | |
| 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+ |

## Ratings Detail (as of August 24, 2023)*

| | |
|---|---|
| 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.