S&P Global Ratings

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Summary:

Temasek Holdings (Private) Limited

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Summary:

Temasek Holdings (Private) Limited

Issuer Credit Rating	AAA/Stable/A-1+

Rationale

Business Risk	Financial Risk
• Sizeable and diversified portfolio of quality assets. • Consistent record of prudent investment policy and active assets rotation. • Steady increase in unlisted investments. • Significant exposure to volatile financial services and emerging economies.	• Track record of net cash at the parent level. • Robust cash flow adequacy. • Infrequent and limited, albeit improving, information disclosure.

Outlook

The stable rating outlook on Singapore-headquartered investment holding company Temasek Holdings (Private) Limited reflects our opinion that Temasek's close relationship with, and hence, the likelihood of extraordinary and timely support from, the government will remain intact over the next 24 months.

Downside scenario

We would lower the rating on Temasek if we lower the sovereign rating and our 'AAA' transfer and convertibility assessment on Singapore, or 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 its stand-alone credit profile (SACP) deteriorates to below 'aa-'.

We would lower the SACP on Temasek if we view the company assets' liquidity or quality as declining, in the absence of an improvement in its assets diversity. This could happen if Temasek steadily increases its exposure to start-up projects, unlisted assets, and companies with weak credit profiles, so that unlisted assets account for more than 40% of its portfolio, or the assets' weighted credit quality deteriorates to below 'bbb-'.

In a remote scenario, negative rating pressure could also escalate on the company's SACP if its loan-to-value ratio rises above 10% on a sustained basis, prompting us to reconsider our view of Temasek's very conservative capital structure. This could occur if the company 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 in that case, if we believe it reflects a structural and permanent shift to a more aggressive financial policy from its current stance of having limited debt.

Our Base-Case Scenario

Assumptions	Key Metrics
• Temasek will continue to be guided by its four investment themes, namely transforming economies, growing middle-income populations, deepening comparative advantages, and emerging champions. These guidelines leave the company with substantial flexibility when it comes to investments across countries and industries, and investment horizon. • There could be sustained asset rotation, as Temasek regularly buys and sells shares based on its return considerations.	See table and notes below

	2018A	2019E	2020E
Loan-to-value (%)	(7.1)	<0	<0
Cash flow adequacy (x)	>0.7	>0.7	>0.7

The fiscal year ending is March 31. Loan to value (LTV) defined as {gross debt [Singapore dollars (S$) 12.8 billion on March 31, 2018] - cash and cash equivalents, and short-term investments (S$33.2 billion)} divided by [net portfolio (S$308 billion) + gross debt - cash and cash equivalents, and short-term investments].

Cash flow adequacy 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 LTV and cash flow adequacy ratios.

Company Description

Temasek was established in 1974 to assume ownership of a diversified portfolio of 35 companies from the Singapore government (valued at S$354 million at that time), and 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 is designated a Fifth Schedule Company under the Singapore Constitution, as a key institution in the country.

Business Risk

We anticipate Temasek will continue managing prudently and actively its investments. Given the sheer size of the company's net portfolio, we do not anticipate any meaningful change in its assets diversity or credit quality in the next 24 months. In parallel, the proportion of unlisted investments could continue to increase, potentially constraining the company's intrinsic credit quality.

We assume Temasek's management will extend its sound record of rotating assets, cautious risk management, and disciplined investment practices. In the past seven years, the company has invested S$24 billion and divested S$17 billion annually on average, i.e. 10% and 7% of its average portfolio in the period. This supports our view of its above-average strategic investment capability.

Temasek's net portfolio value of S$308 billion on March 31, 2018, covers a broad range of geographies and includes a wide range of industry sectors such as financial services (26% of total), life sciences, consumer goods and real estate (22% combined), telecommunications and technology (21%), transportation and industrials (16%), and others (15%). The top three largest companies (Singapore Telecommunications Ltd., DBS Group Holdings, and China Construction Bank Corp.) account for 20% of assets.

We estimate the weighted credit quality of Temasek's portfolio to be investment grade. Our ratings on close to 40% of the investments (in terms of value) are 'A-' and above.

We see the risk that a rising share of unlisted assets in Temasek's investments could ultimately weigh on the portfolio's liquidity and credit quality (though a number of unlisted companies have high creditworthiness, such as Singapore's port operator PSA International Pte. Ltd. (PSA) and power distributor Singapore Power Ltd. [SingPower]). Unlisted assets have been steadily increasing to almost 40% of the portfolio as of March 31, 2018. In the past seven years, the compounded annual growth rate (CAGR) of unlisted assets was 14.4%, meaning they more than doubled in value to S$120 billion, from S$53 billion on March 31, 2012. At the same time, liquid and listed assets' CAGR was 4.5%, growing to S$188 billion from S$145 billion in the period. The faster growth of Temasek's unlisted assets demonstrates the gradual rebalancing of the company's net portfolio mix toward unlisted investments.

The actual liquidity of Temasek's large Singapore-incorporated holdings may be more limited than what their listed nature suggests. S&P Global Ratings believes the companies are strategic to Singapore and that potential lack of immediate market liquidity could limit realization, given the large stakes owned by Temasek.

Its portfolio is also exposed to potential volatility, particularly from growth regions (44% of assets on March 31, 2018, including 26% to China) and the financial services sector.

Financial Risk

Temasek's sustainable track record of limited debt and robust cash flow adequacy anchors our capital structure assessment.

We anticipate the company will sustain its net cash position (defined as debt less cash and cash equivalent and short-term investments) in the next 24 months at least. While Temasek's net investments over 2012-2018 amounted to S$52 billion, borrowings remained stable and consistently accounted for less than half of liquidity balances, owing to the company's strong cash flow adequacy 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 also believe the company will keep enjoying solid cash returns from its portfolio, underpinned by our opinion of Temasek's strategic influence on a number of subsidiaries' operations and dividend policy, supported by controlling stakes. It would take a severe reduction in cash dividend income for the company's cash flow adequacy to fall below 1.0x, i.e., the point at which Temasek would have to use its cash to pay interest, tax and operating expenses.

Temasek's disclosure of financial information is not on par with 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.

Liquidity

We view Temasek's liquidity as exceptional, because we expect the company's sources of funds to cover its uses by more than 2x over the 24 months to end-March 2020. 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 long dated debt maturities. The weighted average outstanding maturity of debt was about 11 years as of March 31, 2018. In addition, Temasek has well-established and solid relationships with banks, and a high standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate total liquidity sources as of March 31, 2018, include: • Cash and cash equivalents and short-term investments of S$33.2 billion, exceeding total debt of S$12.8 billion by more than two times. • Annual interest income and income from investments of about S$0.3 billion. • Our forecast of dividends to be received from portfolio companies of close to S$7.0 billion per annum.	We estimate Temasek's liquidity uses in the next two years include: • Short-term debt maturities of S$1.4 billion, with S$3.0 billion coming due in the subsequent 12 months to March 31, 2020. • Operating costs and tax expenses. • Interest expenses of up to S$0.5 billion annually. • Our expectation that acquisitions could exceed disposals. • Some net return to its shareholder.

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 a critical importance to the Singapore government due to the company's shareholding in some sectors, which 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 corporate credit rating is 'AAA' by its own merits. Accordingly, the benefit from this extremely high likelihood of extraordinary government support would materialize if we lower the SACP for Temasek.

In our view, the company benefits from its ownership by the Singapore Minister for Finance on an ongoing basis as well, with a number of domestic, blue-chip companies in its portfolio, such as PSA and SingPower. 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.

Ratings Score Snapshot

Issuer Credit Rating: AAA/Stable/A-1+

Business risk: Excellent

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

Financial risk: Minimal

- Leverage/Cash flow: 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

- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009