

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.	Steady increase in unlisted investments.
Robust 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's credit quality remains unchanged even as an increasing portion of investments are unlisted.

Singapore-headquartered investment holding company Temasek Holdings (Private) Limited's increasing tilt toward unlisted investments weakens the asset liquidity of the company's portfolio. However, this is tempered by the increased asset diversity of its portfolio and steady reduction in the portfolio concentration of key assets, stemming from an expanding portfolio size.

Temasek's continued strong affiliation with the government of Singapore. We maintain our view that there is 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.

Outlook

The stable outlook on Temasek's rating reflects our opinion that Temasek's close relationship with, and the likelihood of extraordinary and timely support from, the government will remain intact over the next 24 months. We also expect the portfolio concentration of key assets to improve or remain at current level as Temasek continuously expands its portfolio.

Downside scenario

We would lower the rating on Temasek if we lower the sovereign rating 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 standalone credit profile (SACP) deteriorates to below 'aa-'.

We would lower the SACP on Temasek if we saw a deterioration in assets' weighted credit quality to below 'bbb-'. This could happen if Temasek substantially increased its exposure to start-up projects, unlisted assets or generally to companies with weaker credit profile. We would also lower the SACP on Temasek if asset diversity dropped, or if the proportion of unlisted portfolio continued to increase beyond 50%.

In a remote scenario, negative rating pressure could also escalate on the company's SACP if its loan-to-value ratio rose 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 undertook large net debt-funded additions to its portfolio 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 in that case, if we believed it reflected 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			
<ul style="list-style-type: none"> • Temasek continues to be guided by its four investment themes, namely transforming economies, a rising middle class, deepening comparative advantages, and emerging champions. In addition, the themes are supplemented by six structural trends: longer lifespans, rising affluence, sustainable living, smarter systems, more connected world, and a sharing economy. These guidelines leave the company with substantial flexibility when it comes to investing across countries and industries, and in its investment horizon. • There could be sustained asset rotation, as Temasek regularly buys and sell shares based on its return considerations. 	2019A	2020E	2021E	
	Loan-to-value (%)	(10.3)	< 0	< 0
	Cash flow adequacy (x)	> 0.7	> 0.7	> 0.7
<p>A--Actual. E--Estimate. Loan-to-value (LTV) 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, 2019: Gross debt: Singapore dollar (S\$) 15.1 billion (US\$11.1 billion). Net portfolio: S\$313 billion. Cash and cash equivalents, and short-term investments: S\$44.2 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.</p>				

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), 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 the Singapore Constitution identifies as a key institution of the country.

Business Risk

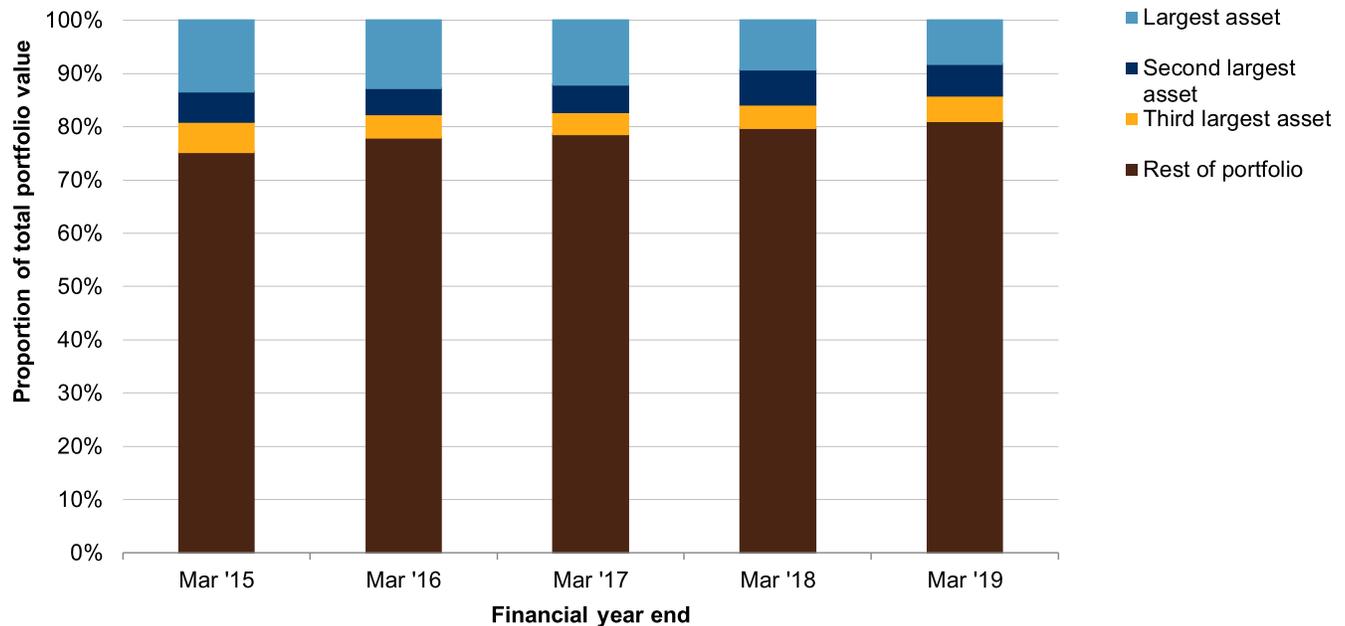
Temasek's strong assets portfolio characteristics and above-average investment capabilities continue to underpin its credit quality. We anticipate that Temasek will continue to prudently and actively manage its investments.

Temasek's portfolio diversity has been improving, which in our view reduces concentration risk and overall portfolio valuation volatility. The concentration of key assets have reduced over the past few years, underpinned by an expanding portfolio base. The proportion of top three assets have decreased substantially to 19% in fiscal 2019, from 25% five years ago.

Chart 1

Improving Portfolio Diversity Reduces Volatility

Reduced concentration of key assets



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

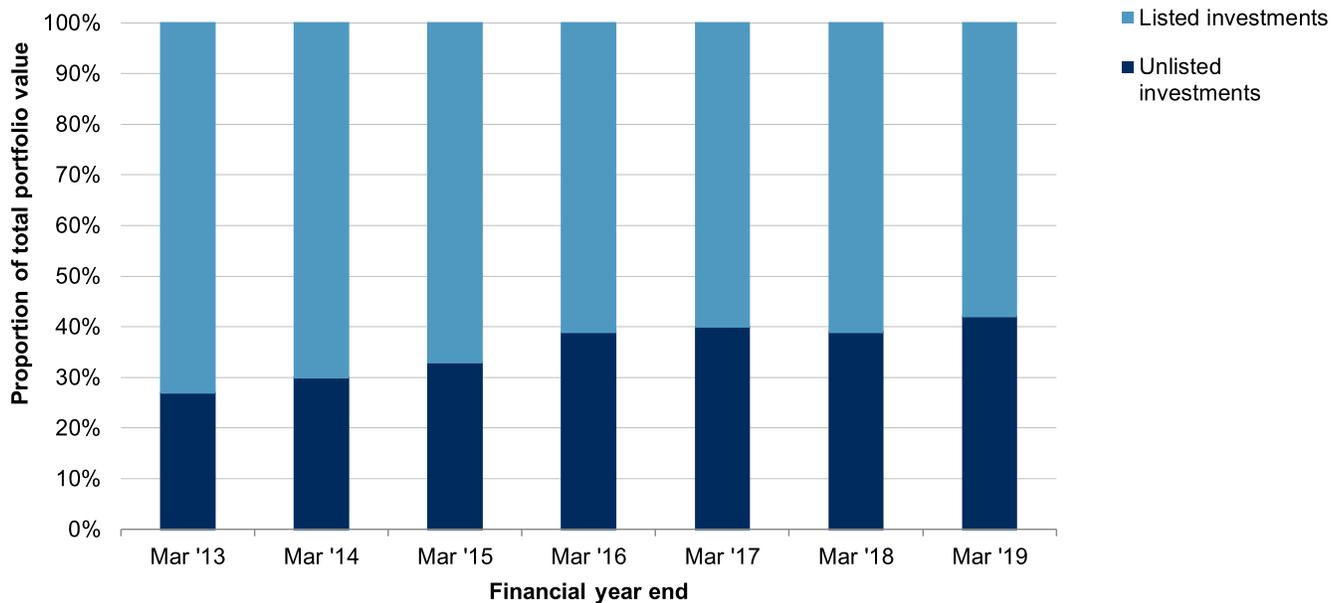
However, Temasek's increasing proportion of unlisted assets weigh on its portfolio characteristics. This is because we view quoted investments as easier to liquidate and more creditworthy than unlisted investments--though a number of unlisted companies have high creditworthiness, such as Singapore's port operator PSA International Pte. Ltd. (AA/Stable/--) and power distributor Singapore Power Ltd. (AA/Stable/--). As of end March 2019, unlisted assets accounted for about 42% of the S\$313 billion net portfolio, the highest ever.

We believe there will be a continued rebalancing of its portfolio mix toward unlisted investments to generate better returns. Based on S&P's estimates, unlisted assets have more than doubled in value to S\$131 billion from S\$53 billion as of March 31, 2012.

Chart 2

Portfolio Liquidity Hit By Increasing Investments In Unlisted Space

Increasing proportion of unlisted investments



Source: S&P Global Ratings.

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In addition, the actual liquidity of Temasek's large Singapore-incorporated holdings may be more limited than what their listed nature suggests.

Temasek's net portfolio value of S\$313 billion on March 31, 2019--continues to cover a broad range of geographies and industry sectors such as financial services (25% of total), telecommunications, media & technology (20%), Consumer & real estate (17%), transportation & industrials (16%), life sciences & agribusiness (7%) and others (15%). Notably, its exposure to growth regions(39%) and the financial services sector could result in some portfolio volatility.

In our view, Temasek will continue to exhibit above-average strategic investment capability. 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\$25 billion and divested S\$19 billion annually on average, i.e. 9% and 7% of its average portfolio in the period.

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) over the next 24 months at least. While Temasek's net investments over 2013-2019 amounted to S\$41 billion, borrowings remained stable and consistently accounted for less than half of liquidity balances. This is 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. This expectation is underpinned by our opinion of Temasek's strategic influence on a number of subsidiaries' operations, and of their generous dividend policy, which is reinforced by Temasek's controlling stakes in the entities. It would take a 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.

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 as we expect the company's sources of funds to cover its uses by about 3x over the next 24 months to end-Mar 2021. 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 10 years as of March 31, 2019. 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\$44.2 billion, exceeding total debt of S\$15.1 billion by almost three times. Forecast annual interest income and income from investments of about S\$500 million-S\$800 million. Our forecast of dividends to be received from portfolio companies of close to S\$7.2 billion-S\$7.4 billion per annum. 	<ul style="list-style-type: none"> Short-term debt maturities of S\$4.3 billion coming due in the subsequent 12 months to March 31, 2020. Operating costs and tax expenses. Interest expenses of up to S\$500 million 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 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 Pte. Ltd. and Singapore Power Ltd. 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.

Rating List

Ratings affirmed on the following issue rating:

Temasek Financial (I) Limited

Senior Unsecured AAA

Temasek Financial (II) Private Limited

Commercial Paper A-1+

Temasek Financial (IV) Limited

Senior Unsecured AAA

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

- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings Detail (As Of September 23, 2019)*	
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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