

Research Update:

# Temasek Holdings 'AAA/A-1+' Ratings Affirmed; Outlook Stable

February 5, 2024

## Rating Action Overview

- One or more of the credit ratings referenced within this article was assigned by deviating from S&P Global Ratings' published Investment Holding Companies Methodology (IHC Methodology) criteria.
- We believe Temasek Holdings (Pte) Ltd. (Temasek) has unique credit characteristics that temper risks arising from a growing proportion of unlisted assets in the company's investment portfolio.
- As a result, we have applied a criteria exception, and subject to certain conditions, our assessment of Temasek's business risk profile would not automatically be capped at fair should the proportion of listed assets fall below 40%.
- We are affirming our 'AAA' long-term and 'A-1+' short-term issuer credit ratings on Temasek. We are also affirming our 'AAA' long-term issue rating on the medium-term notes (MTN) program of Temasek Financial (I) Ltd. and Temasek Financial (IV) Pte Ltd., and on the notes issued under those programs. At the same time, we are affirming our 'A-1+' short-term rating on the euro commercial paper program of Temasek Financial (II) Pte Ltd. Temasek guarantees these programs and notes.
- The stable outlook on Temasek reflects that on our sovereign ratings on Singapore. It also reflects our opinion that the company's close relationship with, and likelihood of extraordinary and timely support from, the government will remain intact.

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## Rating Action Rationale

**We believe Temasek has sufficient credit strength to offset the asset liquidity risk should the proportion of listed assets in its portfolio fall below 40%.** The proportion of Temasek's portfolio that is listed has been falling. It was marginally above 40% as of March 31, 2023 (on an adjusted basis). Based on current stock prices and without considering additional investments and divestments, we believe the proportion of the listed portfolio could fall below that threshold. Under our IHC Methodology, when the proportion of listed assets falls below 40% of the portfolio,

the business risk profile is capped at fair (three levels below Temasek's current excellent business risk profile assessment). This is because unlisted assets tend to be less liquid, and we view asset liquidity as a highly significant component of the business risk profile.

However, we believe Temasek's unique credit characteristics mitigate the risks presented by a high proportion of unlisted assets. Therefore, under the criteria exception, the company's business risk profile will not be automatically affected should the proportion of listed assets fall below 40%. All else being equal, we will not revise the business risk profile assessment as long as the market value of "sub-20% listed assets" (equity holdings in which Temasek has a stake of less than 20%) covers adjusted debt (gross debt + investment commitments – cash and cash equivalents, and short-term investments) by more than 2.5x on a sustained basis. We believe this credit strength tempers the risk from the rising proportion of unlisted assets.

Unlike other investment holding companies we rate, and primarily due to Temasek's very conservative debt level, the likelihood that the company would have to rely on liquidating its unlisted assets for debt repayment is very remote. Temasek's cash and cash equivalents, and short-term investments, have exceeded its gross debt over the past decade.

In addition, we view Temasek's ability to quickly sell sufficient liquid assets to meet its debt obligations would remain sound even if asset liquidation is needed to repay debt. The market value of the sub-20% listed assets has consistently covered more than 3x Temasek's adjusted debt in the past five years. We believe the sub-20% listed assets portfolio is highly liquid and well-diversified.

**Temasek's high proportion of unlisted investments could still erode the credit quality of its portfolio, in our view.** This will happen if Temasek increases its exposure to investments with weaker credit profiles, or to private funds that provide limited visibility of their underlying investment quality. We estimate the value of unlisted assets in the Singapore-headquartered company's portfolio has increased nearly 3.5x since March 31, 2013, from Singapore dollar (S\$) 58 billion to S\$202 billion as of March 31, 2023.

**The rating on Temasek reflects the company's large and well-diversified portfolio.** The company's holdings across asset classes, sectors, and geographies partially temper its exposure to financial market volatility. Stable dividend yields, distributions 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 next 12-24 months.

**Disciplined investments and consistent divestments improved Temasek's cash buffer in fiscal 2023 (ended March 31, 2023).** The company invested S\$31 billion in fiscal 2023, almost half of the S\$61 billion invested in fiscal 2022. This reflected a challenging macroeconomic and geopolitical environment. Against this, Temasek divested S\$27 billion, less than the S\$37 billion divested in fiscal 2022. This contributed to an increase in cash and cash equivalents and short-term investments to S\$43.7 billion as of March 31, 2023, from S\$38.4 billion a year earlier. Temasek's adjusted loan-to-value ratio was well below 10% 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 Singapore 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-', from 'aaa'.

We would lower the SACP if the weighted average credit quality of Temasek's assets deteriorates to below 'bbb-'. This could happen due to a higher overall exposure to a combination of early-stage companies, or to investments with a weaker credit profile or limited visibility.

We could also lower the SACP if Temasek's asset diversity weakens, or the proportion of listed assets falls below 40% and the coverage of adjusted debt (gross debt + investment commitments – cash and cash equivalents, and short-term investments) with sub-20% listed assets declines below 2.5x on a sustained basis.

Negative pressure could also increase 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—including commitments to substantial investments—or financially supports 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.

## **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.

## **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

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Anchor	aaa
Modifiers:	
Liquidity	Exceptional (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	aaa
Related government rating	AAA/Stable/A-1+
Likelihood of government support	Extremely high (no impact)

## Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Ratings List

### Ratings Affirmed

#### Temasek Holdings (Private) Ltd.

Issuer Credit Rating	AAA/Stable/A-1+
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Ratings Affirmed

Temasek Financial (I) Ltd.

Senior Unsecured	AAA
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Temasek Financial (II) Private Ltd.

Commercial Paper	A-1+
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Temasek Financial (IV) Private Ltd.

Senior Unsecured	AAA
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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