

Rating Action: **Moody's affirms Temasek's Aaa ratings; outlook remains stable**

10 Aug 2021

Singapore, August 10, 2021 -- Moody's Investors Service has affirmed the Aaa long-term issuer rating of Temasek Holdings (Private) Limited (Temasek). At the same time, Moody's has affirmed the following ratings of borrowings and programs guaranteed by Temasek:

-- Temasek Financial (I) Limited, Aaa senior unsecured rating on bonds and (P)Aaa rating on the USD25 billion guaranteed senior unsecured global medium-term note (MTN) program

-- Temasek Financial (IV) Private Limited, Aaa senior unsecured rating on bonds and (P)Aaa rating on the SGD5 billion guaranteed senior unsecured MTN program;

-- Temasek Financial (II) Private Limited, P-1 short-term rating on its commercial paper.

Moody's also assigned Aaa rating to the proposed 50-year SGD denominated senior unsecured notes to be issued by Temasek Financial (I) Limited, a wholly owned financing subsidiary of Temasek Holdings (Private) Limited.

The outlook on all ratings remains stable.

"Temasek's Aaa rating reflects its strong fundamental credit quality as an investment company, supported by steady dividend income and a large and high-quality investment portfolio. In addition, Temasek's largest investee companies and major dividend contributors have strong investment-grade credit qualities," says Jacintha Poh, a Moody's Vice President and Senior Credit Officer.

"We expect the company to maintain a conservative financial profile over the next 12-18 months, with the net debt to market value of its portfolio assets (excluding cash) staying below 5% and funds from operations (FFO) interest coverage above 15x," says Poh, who is also Moody's Lead Analyst for Temasek.

The stable outlook reflects Moody's expectation that Temasek's credit metrics will remain strong and the company's management will retain its prudent and conservative approach to its investment and funding strategies.

RATINGS RATIONALE

Temasek is an investment company and does not guarantee the financial obligations of its portfolio companies. Moody's assesses Temasek's credit quality based on the combined financial position of Temasek and its wholly owned investment holding companies and financing vehicles. On this basis, Temasek continues to maintain a net cash position as of 31 March 2021.

Moody's does not view Temasek as a conglomerate despite its large stakes in several businesses. Hence, the Temasek Group's consolidated financial metrics do not affect Temasek's credit ratings. On a consolidated basis, Temasek Group's credit metrics weakened in the fiscal year ending 31 March 2021, primarily because earnings at operating portfolio companies were hurt by the coronavirus pandemic. FFO/net debt declined to 17.5% in fiscal 2021 from 25.3% in fiscal 2020.

While Temasek does not guarantee the financial obligations of any of its investee companies, Moody's believes that the companies benefit from their association with Temasek in terms of access to, and cost of, funds. From time to time, Temasek will increase its equity investment in these companies through measures such as underwritten rights offer, which Moody's believes are undertaken on the basis that the incremental investment will add value to its position in the longer term.

Temasek's own debts are not guaranteed by the Government of Singapore (Aaa stable). Nonetheless, it is wholly-owned by the Minister for Finance and it is designated a Fifth Schedule company under the Singapore Constitution. Temasek is not directed by the government but has a large exposure to Singapore -- half of its portfolio was denominated in Singapore dollars and 24% of the portfolio by underlying assets was in Singapore in fiscal 2021. As a result of this exposure, Moody's believes that the interests of the government and

Temasek are naturally aligned.

The Aaa rating also reflects Temasek's excellent liquidity. Moody's expects the company to maintain a sizeable reserve of cash and liquid securities, which provide for strong debt service coverage to mitigate potential volatility in cash flow and asset value. Moody's further expects Temasek's internal funds (cash, liquid investments, dividend and investment income, and divestment proceeds) to cover its committed cash requirements (principally, interest, current debt repayments and operating overheads), and dividends to the government over the next 12-18 months.

Temasek's Baseline Credit Assessment (BCA) -- the measure of its standalone credit quality -- is aaa, which does not incorporate any uplift from its 100% ownership by the Government of Singapore through the Minister for Finance.

In terms of environmental, social and governance (ESG) considerations, Temasek has indirect exposure to environmental risk through its investee companies. However, Temasek's portfolio largely consists of companies that have low exposure to environmental risk. Moody's notes that Temasek has little exposure to the energy and resources sector, which has a high or moderate exposure to environmental risk.

Despite Temasek having a single shareholder, the governance risk for the company is largely tempered by the oversight exercised by a board that consists of nine independent directors out of a total 11 of directors, and by Temasek's track record of maintaining an extremely conservative financial profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating is Aaa and cannot be upgraded.

Temasek has a BCA of aaa. Should the company's underlying credit fundamentals deteriorate, and its BCA is downgraded, Moody's Joint Default Analysis framework would become relevant to the rating analysis.

Temasek's BCA could be downgraded if (1) the company undertakes aggressive investments that materially worsen the credit quality of its investment portfolio; (2) the amount and quality of the company's cash and near-cash resources deteriorate significantly; or (3) there are indications of moral hazard behavior, such as providing funding support for nonperforming investee companies or channeling financial resources to its government shareholder, that could have an adverse impact on Temasek's financial position.

The methodologies used in these ratings were Investment Holding Companies and Conglomerates published in July 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1125855, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1186207. Please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

Temasek is an investment company based in Singapore and is 100%-owned by the Minister for Finance, a body corporate under the Singapore Minister for Finance (Incorporation) Act (Chapter 183).

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288435.

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