Temasek Assets Probably Reached Record on Stocks: Southeast Asia

By Klaus Wille - Jul 3, 2013 5:49 PM GMT+0800

Temasek Holdings Pte (TMSK)’s assets probably jumped to a record as Singapore’s state-owned investment company benefited from a rebound in global stocks.

The company, which will release its annual review tomorrow, may have increased the value of its holdings by at least 8.6 percent to S$215 billion ($170 billion) in the year to March 31, according to CIMB Research Pte, Tufts University and Institutional Investor’s Sovereign Wealth Center. Nine out of Temasek’s 10 biggest holdings gained during the 12 months, according to data compiled by Bloomberg.

A recovery in stocks around the world may have helped lift the value of Temasek’s holdings, of which more than 70 percent were in publicly traded assets as of March 2012. The MSCI World Index (MXWO) gained 9.3 percent in the year to March 31, while Singapore’s Straits Times Index (FSSTI), where Temasek is the biggest shareholder in about a third of its 30 members, increased 9.9 percent during the period.

“What they are going to present should be a fairly decent set of numbers,” Song Seng Wun, an economist at CIMB Research in Singapore, said. “The increase in the value of their portfolio will be in line with global stock market developments as they are mainly investing in equities. The bulk of their investments is still in Singapore and Asia, and those investments did well.”

Among its three biggest holdings by market value, Singapore Telecommunications Ltd (ST), in which Temasek has a 52 percent stake, rose 14 percent in the year. China Construction Bank Corp. (939), in which Temasek holds 7.4 percent of the shares traded in Hong Kong, added 5.7 percent, while Standard Chartered Plc, the U.K. lender with Temasek as the biggest shareholder, rose 9.2 percent.

Developments, Perspectives

“We will be releasing Temasek Review, our annual performance review, on Thursday,” Stephen Forshaw, a spokesman at Temasek, said in an e-mailed response to queries. “We
will take the opportunity to share developments and perspectives about the past year, and an outlook for the future, when we release the review on Thursday."

Temasek’s total shareholder return, which includes dividends, has averaged 17 percent since the investment company’s start in 1974, according to its website. The investment firm had a negative shareholder return of 30 percent in the year ended March 2009, then posted gains of 42 percent and 4.6 percent in the following years. The return in the year through March 2012 was 1.5 percent.

‘Hurdle Rate’

“Unlike the past year, they probably have beaten their hurdle rate of 8 percent and the global equity markets have helped them in that,” said Patrick Schena, a senior fellow who researches state investment firms at the Tufts University’s Sovereign Wealth Fund Initiative.

Assets managed by state funds have risen fourfold in the past decade, according to TheCityUK. The assets held by such investors will gain about 8 percent this year from $5.2 trillion at the end of 2012, according to the London-based group set up to promote U.K. financial services.

Still, the recent sell-off in global equities may have dented Temasek’s assets in the past three months, the first quarter of its new fiscal year, said CIMB’s Song.

The MSCI Emerging Markets Index (MXEF) lost as much as 18 percent and the MSCI Asia Pacific Index (MXAP) as much as 15 percent during the past three months after U.S. Federal Reserve Chairman Ben S. Bernanke mapped out a timetable for ending the central bank’s unprecedented bond-buying program in May.

Recent Losses

“The losses in Temasek’s first quarter may have erased some of last year’s gains,” Song said. “However, stock markets may recover in the second half of 2013 as companies will report better earnings.”

The Straits Times Index fell 1.4 percent at the close in Singapore today.

Among companies with holdings in various industries, Warren Buffett’s Berkshire Hathaway Inc. (BRK/A) surged 28 percent in the year to March 31, while Hong Kong billionaire Li Ka-shing’s Hutchison Whampoa Ltd. (13), with investments in ports, real estate, telecommunications and infrastructure, increased 4.3 percent.

Temasek’s wholly owned unit Fullerton Fund Management Co. was among 15 investors buying almost a third of PT Matahari Department Store (LPPF) from a group of private owners, led by CVC Capital Partners Ltd., a person with knowledge of the matter said in March. Shares in Matahari, Indonesia’s largest retailer by market capitalization, have almost tripled since.
The Singapore investment company raised its stake in copper producer Turquoise Hill Resources Ltd., a unit of Rio Tinto Group, to 3.7 percent in the third quarter of 2012, according to a Nov. 14 filing with the U.S. Securities and Exchange Commission.

**European Expansion**

Temasek, which is wholly owned by the Singapore Finance Ministry, has also been expanding its investments in Europe over the past few months, said Victoria Barbary, director at the London-based Institutional Investor’s Sovereign Wealth Center.

The investment firm paid 1 billion euros ($1.3 billion) for a 5.04 percent stake in Repsol SA (REP), the Spanish oil company said in March. The same month, Temasek said it agreed to buy a 4.6 percent stake in German chemical maker Evonik Industries AG (EVK).

The Singapore investment firm has also taken new initiatives. It’s planning to set up an office in Europe and another on the U.S. East Coast, the Straits Times newspaper reported last week. In February, it set up an enterprise development group to look at special investment opportunities, while in March it hired Seah Moon Ming, the former deputy chief executive officer at Singapore Technologies Engineering Ltd (STE), Southeast Asia’s biggest defense company, for liquefied natural gas investments.

**Key Challenges**

One of the key challenges for Temasek was the attack of Olam International Ltd (OLAM), which it partly owns, by short-seller Carson Block. In November, he questioned Olam’s debt, acquisitions and accounting, and likened the company to failed energy trader Enron Corp.

Temasek’s backing of the Singapore-based commodity trader made it its biggest shareholder after increasing its stake to 24 percent from 16 percent, according to data compiled by Bloomberg. Melvyn Teo, director at the BNP Paribas Hedge Fund Centre at Singapore Management University, said in April Temasek’s stake increase offered comfort to some investors.

Temasek also has shown interest in owning China’s largest state-controlled banks. In April 2012, it bought 3.55 billion shares in Industrial & Commercial Bank of China Ltd. from Goldman Sachs Group Inc. (GS) and added 83.7 million shares in the Chinese lender the following month.

The investment firm is in the process of selling its stake in PT Bank Danamon Indonesia (BDMN) to DBS Group Holdings Ltd., Southeast Asia’s biggest bank. The sale, announced more than a year ago, has met resistance from Indonesia’s central bank, which hasn’t granted DBS approval to take control of Danamon.

“Most of the past year has been very similar in strategy to the investments they have been undertaking previously, looking at commodities, a little bit of financials, as well as consumer goods and retailers, primarily in emerging markets,” said Sovereign Wealth Center’s Barbary. “Temasek aims to benefit from the needs of the growing middle class in those regions.”