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Headline: Temasek's China Bank Gains Offset by Euro Crisis: Southeast Asia

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By Sanat Vallikappen

Temasek Holdings Pte's sale of Chinese bank shares probably helped Singapore's state-owned investment company weather losses from the European debt crisis in the past year.

The company sold shares in China Construction Bank Corp. (939) and Bank of China Ltd. in the year ended March, profiting from stakes held since their initial stock sales. Temasek, whose assets rose 3.8 percent to a record S$193 billion ($153 billion) as of March 2011, usually releases its annual report in July.

A Temasek Holdings Pte employee walks past the company's signage in their office in Singapore. Photographer: Munshi Ahmed/Bloomberg

Temasek probably struggled to boost its total shareholder return beyond the 4.6 percent in the previous year as Europe's turmoil and the lackluster U.S. economic recovery roiled markets, said Melvyn Teo, director of BNP Paribas Hedge Fund Centre at the Singapore Management University. Market volatility reached the highest level since the 2008-2009 global financial crisis, pushing the MSCI Asia-Pacific excluding Japan Index 9.6 percent lower in the year ended March for a region where Temasek has about three-quarters of its assets.

"Returns won't be earth-shattering," Teo said. "The long-only guys are having a tough time because the equity markets haven't been doing well. It was a year focused on downside risk and people were getting more risk averse."

Temasek's total shareholder return, which includes changes in the value of its assets and dividends, averaged 17 percent since its inception in 1974, according to its website. The company had a negative shareholder return of 30 percent in the year ended March 2009, then posted a 42 percent increase the following year.

Rivaling 2008

Chief Investment Officer Tan Chong Lee said in a June 11 interview the turmoil in Europe may result in a market slump rivaling the 2008 global financial crisis. The company also expects smaller returns for the asset management industry on anticipation the outlook will be difficult for years, Gregory Curl, its president and head of the Americas, said in a speech in Hong Kong on June 21.

"That was managing expectations," said Victoria Barbary, senior researcher at the sovereign investment lab at Milan's Bocconi University, referring to Curl's comments. "Temasek has been pretty clear that they expect returns to be lower," she said in a phone interview from London.

Curl, once a candidate for chief executive officer of Bank of America Corp. (BAC), is one of Temasek's four presidents. The company named Lee Theng Kiat, head of its Singapore Technologies Telemedia Pte unit, as president and general counsel on April 1. Boon Sim, former global head of mergers and acquisitions at Credit Suisse Group AG, joined as president for North America on June 1. In January, it hired John Cryan, the former chief financial officer of UBS AG, as president for Europe.

Management Changes

The state investor has faced changes at the top since the middle of 2009, when it parted ways with former BHP Billiton Ltd. head Charles "Chip" Goodyear, who was going to replace Ho Ching as CEO over differences in strategy. Simon Israel, also a former Temasek executive director and president, retired from his executive and board roles in July 2011, while former President Hsieh Fu Hua stepped down in October.

Temasek is ranked ninth among sovereign investors by the SWF Institute, trailing behind funds including those in the United Arab Emirates, Norway and China. The U.S. researcher estimates Temasek's assets at $157.2 billion.

Temasek's returns compare with mixed performances among the world's biggest companies with investments in various industries. Shares of General Electric Co. gained 0.1 percent in the year ended March, while Berkshire Hathaway Inc. (BRK/A), controlled by Warren Buffett, the world's third-richest man, fell 2.7 percent. In Asia, Hong Kong billionaire Li Ka-shing's Hutchison Whampoa Ltd. (13), with investments in ports to real estate, slumped 16 percent.

Overseas Holdings

Some of the biggest declines probably came from Temasek's overseas holdings, which range from consumer products to energy companies. Hong Kong-based Li & Fung Ltd. (494), the world's largest supplier of clothes and toys to retailers, lost 11 percent in the year ended March, while Chesapeake Energy Corp., the second- largest U.S. gas producer, plunged 31 percent.

Barbary said she doesn't expect Temasek to book any losses when it releases its annual report. It raised $3.63 billion selling stakes in the two Chinese banks in July 2011, after shares of Construction Bank more than doubled and those of Bank of China gained more than 30 percent since their initial stock offerings more than five years before the transactions.

About two months later, Temasek paid $37 million for more shares in Bank of China and $2.8 billion for Construction Bank stock. That was followed by a further $2.2 billion purchase of Construction Bank shares in November, based on Bloomberg calculations.

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'Portfolio Rebalancing'

Temasek said the buying and selling of the banking stakes reflect its "portfolio rebalancing." After the fiscal year, the company sold $2.48 billion in Construction Bank and Bank of China in May, less than a month after paying $2.3 billion for shares in Industrial & Commercial Bank of China (601398) Ltd., the world's largest lender by market value.

"Although they have several high-profile trades that have netted them handsome returns, in terms of emerging markets, it's been a difficult period," said Song Seng Wun, an economist at CIMB Research Pte, a unit of Malaysia's second-largest bank. "Overall, one side may net off the other and it might just be flat numbers."

Singapore Assets

In Singapore, where Temasek has 32 percent of its assets, the benchmark Straits Times Index (FSSTI) declined 3.1 percent in the year ended March. The firm holds controlling stakes in half of the 10 biggest companies by market value, including DBS Group Holdings Ltd. (DBS) and Singapore Telecommunications Ltd. (ST) The phone company, Southeast Asia's biggest, was the only one among the five that posted gains in the past fiscal year.

Temasek is also embarking on its biggest transaction in more than a decade, selling its 67 percent stake in PT Bank Danamon Indonesia (BDMN) to DBS. The Singapore bank proposed in April to pay for the holdings with about $4.8 billion of new stock, which will boost Temasek's stake in DBS to 40.4 percent from 29.5 percent. Approval for that sale is pending as Indonesia decides on new rules for foreign ownership of banks.

"Chances of the deal going through is quite high despite the occasional noise" from Indonesia, CIMB's Song said.

Temasek also started a property venture in June with Khazanah Nasional Bhd., Malaysia's state-owned investment company, where the two will jointly develop about $9.8 billion of real estate projects including hotels, apartments and offices in southern Malaysia and Singapore.

Sizable Transactions

The Singapore firm expects Europe's crisis to create opportunities for acquisitions, Chief Investment Officer Tan said. The company, which has a net-cash position, has the flexibility to undertake "sizable" transactions including those exceeding S$1 billion, he said.

Bocconi University's 2011 sovereign wealth funds report showed state-backed investment companies completed a record 237 publicly reported, direct investments worth $80.9 billion, 72 percent higher than the $47.1 billion in 2010.

"The kind of investments they're making are harder to book value on," Barbary said of Temasek, citing deals in real estate, commodities and Chinese banks that have been "volatile." "They're not investing for annual returns. They're investing for returns 5, 10, 20 years down the line."