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CREDIT OPINION
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Update

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# Clifford Capital Pte Ltd

Update to credit analysis

## Summary


We assign Prime-1 (P-1) foreign and local currency short-term secured debt ratings to Singapore-based Clifford Capital Pte Ltd's (Clifford Capital) $500 million guaranteed euro-commercial paper programme (CP programme).

To assess the credit risks associated with the debt issued by Clifford Capital under the CP programme, investors must understand the risks associated with the credit profile of the Government of Singapore (Aaa, stable). This understanding is necessary because the P-1 ratings assigned to Clifford Capital are based on (1) the full, unconditional and irrevocable guarantee (the Guarantee) provided by the Singapore government as legal guarantor; (2) the company's 40.5% indirect ownership by the Singapore government; and (3) the company's policy role.


## Credit strengths

» The CP programme rating is supported by the Singapore government's guarantee.

» The company is 40.5% indirectly owned by the Singapore government.

» The company plays a policy role.

## Credit challenges

» Credit challenges for the rating on the CP programme are related to the credit challenges faced by the Singapore government (as detailed on its issuer page)

## Outlook

The short-term ratings carry no outlook.

## Factors that could lead to an upgrade

Because the P-1 short-term ratings assigned to the CP programme are the highest possible under our short-term rating scale, there is no possibility of a rating upgrade.

## Factors that could lead to a downgrade

The guaranteed short-term debt ratings are linked to the Moody's-assigned rating for the Singapore government. Only a multi-notch downgrade of the sovereign's rating would lead to a downgrade of CP programme ratings.

## Profile

Clifford Capital was established in 2012 as a finance company. The company has a public policy mandate that requires it to support Singapore-based companies in their overseas ventures, specifically in the infrastructure and offshore marine sectors. Clifford Capital also acts as an export facilitator for the Singapore shipyards in the offshore marine sector. Despite the Guarantee from the government, the company is run on a commercial basis.

## Detailed credit considerations

### CP programme ratings are supported by Singapore government's guarantee

The ratings assigned to the CP programme are based on Singapore's Aaa credit strength. In our opinion, the terms and conditions of the Guarantee are adequate for credit substitution, especially when considered in conjunction with Clifford Capital's 40.5% indirect ownership by the government, and the company's public policy mandate.

The Guarantee covers Clifford Capital's debt obligations of up to $2.3 billion, in respect of the principal amount, on a revolving basis, and an additional $1.6 billion in respect of interest. The Guarantee also covers Clifford Capital's repayments under the CP programme.

The terms of the Guarantee are generally consistent with our core principles of guarantees for credit substitution, which were identified in a Special Comment titled Moody's Identifies Core Principles of Guarantees for Credit Substitution, published in November 2010. These core principles as they relate to Clifford Capital's planned CP programme are detailed below:

1. The Guarantee is structured to unconditionally and irrevocably pay in full any unpaid principal and interest under the CP programme.
2. The Guarantee covers any amounts avoided or clawed back as a result of insolvency, bankruptcy or similar proceedings brought against Clifford Capital.
3. The term of the Guarantee extends for as long as the term of the CP programme, i.e., the guarantee is effective for any debt issued up until 30 September 2032.
4. The Guarantee is enforceable against the Guarantor in Singapore courts, based on our review of a third-party legal opinion and other transaction documents.

Some aspects of the Guarantee differ from what we consider ideal legal features required for credit substitution. These aspects primarily relate to (1) the timeliness of payments, and (2) defence waivers, and are detailed below:

1. From a strictly legal point of view, the Guarantee grants the government a period of 15 days to repay creditors after payments are due. In practice, however, we concluded that there are sufficiently strong incentives for the government to effectively pay without delay, in the event the guarantee is triggered. In particular, Clifford Capital's policy role, its ownership structure and the fact that the Guarantor is the government (rather than a third-party commercial entity offering a product for a fee), all establish strong links with the government's own obligation and interest to provide for a timely payment. Furthermore, various internal contingency planning mechanisms provide evidence that the government has planned a number of measures to ensure that it will be provided with adequate information and sufficient notice to avoid any delay in the debt repayment of Clifford Capital.
2. Under the terms of the Guarantee, the Guarantor does not explicitly waive its defences to claim sovereign or similar immunity against its payments under the Guarantee. This introduces the risk that, should the Guarantor wish to raise such defences, creditors might be engaged in litigation with the Guarantor. This could delay, decrease or void the payment to creditors from the Guarantor. In our opinion, this risk is mitigated by the Guarantor's high incentive to pay without resorting to legal defences because of reputational issues, Clifford Capital's ownership structure and its policy role.

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### The Singapore government's 40.5% indirect ownership of Clifford Capital

Clifford Capital's ownership structure, whereby the government is the company's largest indirect shareholder, is positive for its credit profile. In our opinion, this ownership structure increases the likelihood of ongoing and extraordinary support for the company's operations and debt serviceability, in case of need.

Clifford Capital is an independent, for-profit organisation with six shareholding groups. Temasek Holdings (Private) Limited (Aaa stable) holds 40.5% of the total shares, through one of its investment holding vehicles, Kovan Investments Pte Ltd. Temasek Holdings (Private) Limited is 100%-owned by the Singapore government through the Ministry of Finance. Temasek Holdings (Private) Limited is designated a Fifth Schedule Company under the Singapore constitution. Other Fifth Schedule entities include companies such as GIC Pte Ltd, and statutory boards such as the Monetary Authority of Singapore, which manage the country's critical assets.

The remainder of the shareholding is held by five institutional investors including banks, with minority participations. Clifford Capital's board of directors includes representatives of the company's shareholders and independent directors.

### Recent developments

Despite Clifford Capital's relatively small size (total assets of $1,720 million as of 31 December 2018) and its brief history of operations, it has already engaged in a number of important transactions in Singapore and other countries, in line with its mandate to support the competitiveness of the country's export-oriented companies.

As of 31 December 2018, the company's asset portfolio consisted of a limited number of loans and investments (for a total amount of $1,630 million).

Total commitments (funded and unfunded) of around $1.9 billion, as of year-end 2018, were well diversified geographically, with 39% located in Asia, 19% in Europe, 16% in South America.

As of year-end 2018, 53% of the company's funded exposures were related to infrastructure, 26% to the offshore marine sector, 15% to shipping and 6% to natural resources.

Clifford Capital's growth plans should be facilitated by capital support from shareholders and borrowings, which amounted to $1.38 billion at the end of 2018. Borrowings included $1.19 billion in guaranteed bonds from a $1.35 billion Medium-Term Note (MTN) programme, $59 million short-term commercial papers, and $127 million bank loans. All of these borrowings are guaranteed.

Clifford Capital is well capitalised, with tangible common equity/managed assets of 18.0% as of year-end 2018. The firm is profitable, and posted a $33 million net income for 2018, higher than $25 million on 2017.

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## Ratings

Exhibit 1

| Category | Moody's Rating |
|---|---|
| **CLIFFORD CAPITAL PTE. LTD.** | |
| Bkd Commercial Paper | P-1 |

*Source: Moody's Investors Service*

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