My Review of the 2.7% T2023-S$ Temasek Bonds

Description

I wasn't going to write about the latest Temasek bonds offering, but have been receiving so many PMs from friends and readers alike about it so I thought I'll just pop in here to share my thoughts really quickly on this.

You can read the full details of the offering here yourself – I shall skip on breaking it down this time because simply put, *I'm just not interested in this product offering.* The last bond I bought into was the Astrea-IV bonds, which offered me a much higher yield of above 4%; while the last few equities I bought into gave me more than 7% yield, so these Temasek bonds simply can't match up.

Key Details:
– The bond is launched by Temasek Financial (IV) Private Limited
– 2.70% interest, paid bi-annually
– A 5-year bond (T2023-S$ Temasek Bond) which matures in 2023
– S$200 million worth of retail bonds available for public subscription
– "AAA" credit rating
– Applications **close at 12 noon on 23 October 2018**

Why this bond doesn't appeal to me

When considering what to invest in, I always look at other options available to me as well as that of opportunity costs.

At this moment, 2.7% of bond coupon interest rates is hardly attractive at all, considering other options available such as:

- 5% to 9% yield on REITs like Soilbuild, Sabana or OUE *(these are NOT stock recommendations!)*
- 4.35% on the Astrea IV bonds that I bought pretty recently (review here)

- 2.02% with a shorter lock-in period of 2 – 3 years via short-term insurance endowment plans (like this one by FWD, and others by Great Eastern, Prudential, NTUC Income, etc)
- 2.2% to 3% on high-yield bank saving accounts like the DBS Multiplier, Bank of China SmartSaver, UOB One, Citi MaxiGain, OCBC 360, etc.
- 2.22% on the Singapore Savings Bonds (SSBs)
- 2.3% on the Singapore Government Securities (SGS)

Given the other options which have higher liquidity and comparable yields, a 2.7% payment with a 5-year lockup just doesn't quite cut it for me.

You could argue that these bonds are much safer and can be sold anytime as well, but try selling bonds in the Singapore market and you'll know how hard it can be because the bond market just isn't thriving with active trades as much…yet. Even for the Astrea IV bonds, the sellers-to-buyers ratio generally stands at 8:1 (8 sellers for every 1 buyer) when I was monitoring it last week.

What investors ought to know before buying these Temasek bonds

1. Will you be needing the money anytime soon?

If you have excess cash and none of the above alternative options I mentioned appeal to you, then perhaps this might not be too bad an instrument to park your money in for the next 5 years. After all, I'm pretty sure Temasek is going to redeem these bonds in 2023 so you're then very likely to walk away with your capital intact and a 2.7% interest that was already paid to you over the 5 years of holding their bonds. If this was issued by another corporate firm (see how I wasn't a fan of other bonds before) I'll be more wary, but hey, this is Temasek we're talking about.

2. Are you prepared to take the risk of selling at a lower bond price and making a capital loss?

If you don't think you can hold until the full 5 years, then this bond may not be for you because its price could fluctuate in the open bond market after listing, which means you could suffer a slight loss in capital if you end up selling at lower than its issued bond price.

But then again, it could also work the other way – if we suddenly sink into an economic recession, bonds generally tend to perform better as investors flock to it for safety, so the price could go up and you could then sell for a profit.

Whether the price will move up or down is anyone's guess. I don't have a crystal ball to look into the future, as much as I'd love to.

3. Have you already considered all other options?

Seriously, I'd much rather pick one of the above options that I've mentioned over these bonds, but that's just me because I have limited cash and too many investment opportunities calling out.

Given my young(er) age, I also tend to take a little bit more risks with my money. I've mentioned before that my bond portfolio is minimal and consists of my CPF and the Astrea-IV bonds at this stage. If I were to add a third bond, I'd much rather go for the Nikko AM Corporate Bond ETF (3+% yield) instead of this Temasek one.

With the state of the market now, I have other stocks and investments that I'm eyeing instead, so this bond with its (relatively) low yield and long lockup period simply doesn't appeal to me. But I guess if you're super risk adverse or flush with surplus cash like Tony Stark, then this could be a decent investment tool to consider.

With love,
Budget Babe

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