Singapore

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity 9 May 2018

Riverstone Holdings (RSTON SP) : BUY

Mkt. Cap: US$540m I **3m Avg. Daily Val:** US$0.17m

Last Traded Price (8 May 2018): S$0.99

Price Target 12-mth: S$1.27 (29% upside)

Company Guide

Summary of our point of view, and highlights the relevant data points, which are actively tracked

Riverstone Holdings- iBanking Login

Riverstone Holdings - Institution Login

Analyst

Carmen Tay +65 6682 3719; carmentay@dbs.com

Forex weakness priced in, capacity to drive growth

- 1Q18 profits of RM31.1m within expectations as forex was the key earnings drag
- Industry headwinds persist, but Riverstone can outperform peers as it ramps up on new cleanroom capacity from 2H18, which carries higher margins
- Trading at attractive valuations, Riverstone could be a prime acquisition target given its enviable cleanroom portfolio
- Reiterate BUY and TP of S$1.27

Forecasts and Valuation

FY Dec (RMm)	2016A	2017A	2018F	2019F
Revenue	655	817	934	1,055
EBITDA	169	186	230	260
Pre-tax Profit	139	151	178	199
Net Profit	120	129	154	173
Net Pft (Pre Ex.)	120	129	154	173
Net Pft Gth (Pre-ex) (%)	(4.9)	7.4	19.5	11.9
EPS (S cts)	5.44	5.85	6.98	7.81
EPS Pre Ex. (S cts)	5.44	5.85	6.98	7.81
EPS Gth Pre Ex (%)	(5)	7	19	12
Diluted EPS (S cts)	5.44	5.85	6.98	7.81
Net DPS (S cts)	2.18	2.35	2.81	3.14
BV Per Share (S cts)	25.1	28.7	32.9	37.5
PE (X)	17.9	16.7	14.0	12.5
PE Pre Ex. (X)	17.9	16.7	14.0	12.5
P/Cash Flow (X)	18.2	14.8	15.7	10.4
EV/EBITDA (X)	12.2	11.1	9.0	7.7
Net Div Yield (%)	2.2	2.4	2.9	3.2
P/Book Value (X)	3.9	3.4	3.0	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.2	21.8	22.7	22.2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

What's New

1Q18 results largely within expectations; forex was key earnings drag. Riverstone's 1Q18 sales held steady at RM209.8m (+2% y-o-y) but earnings fell 7.6% y-o-y to RM31.1m, mainly on negative forex impact and higher raw material costs. To recap, the group generates a surplus in USD as it typically receives over 85% of its revenues in USD but reports in RM and majority of the group's expenses are in RM as well.

While ASPs (in USD) for both healthcare and cleanroom glove types have stabilised over the past year as the supply-demand gap narrowed, the group's 1Q performance was dragged after the USD weakened >12% y-o-y:

	1Q17 Average	1Q18 Average	%Chg
USD/MYR	4.446	3.907	-12.1%

Source: Thomson Reuters, DBS Bank

The revised foreign worker levy and natural gas price hike in Malaysia which came into force in January also contributed to the lower gross margin of 22.3% vs 24.4%/25.2% in 4Q17/1Q17, respectively. Barring the forex impact, we believe that revenue and gross profit would have been c.10% and c.16% higher, which translates to a higher gross margin of c.23.6%.

DBS Research estimates that the USD/MYR will appreciate to 4.20 by end-CY18F, vs 3.948 currently, which bodes well for export plays such as Riverstone.

Persistent industry headwinds, but incoming cleanroom capacities to drive growth. Similar to previous quarters, we continue to expect industry headwinds – fluctuations in USD/MYR, volatile raw material prices and operating costs – to remain a bane for the glove industry at large. All else

equal, underpinned by a c.33% increase in cleanroom capacity to at least 2 bn gloves p.a. by end-2Q18 (with production likely to commence from 3Q onwards), Riverstone is set to see stronger growth ahead.

Full contribution from these incoming cleanroom capacities will likely only come in from FY19F as the group ramps up on production progressively, which would provide an added boost to the group's margins.

Positive start to 2018 for Malaysian rubber glove industry. In Apr 2018, the Malaysian Rubber Glove Manufacturers Association (MARGMA) – which represents c.90% of Malaysian glove manufacturers - expressed optimism over demand for rubber glove exports.

Benefiting from a surge in end-demand, rubber glove shipments grew c.12% y-o-y for the first two months of 2018, which are seasonally weaker months for the glove manufacturing industry. Given the positive start, MARGMA expects rubber glove exports to achieve at least 10% growth to RM18 bn in 2018.

Reiterating BUY call and TP of S$1.27; attractive valuations and acquisition target. While 1Q18 earnings declined y-o-y, we believe the forex weakness has already been widely anticipated and thus priced in. As a market leader in niche Class 10 and Class 100 cleanroom gloves, we believe Riverstone can outperform peers amid industry headwinds as it ramps up on cleanroom glove capacity.

While larger peers are currently trading above +1SD on average, Riverstone's strengths remain underappreciated as it continues to trade below its historical forward PE valuations. Underpinned by capacity growth at c.17% CAGR (vs larger peers' average of c.15%) over FY17-19F and higher quality earnings growth supported by more resilient margins from the cleanroom segment, we believe that Riverstone deserves to at least trade at its historical average valuation of 16x FY19F PE (vs larger peers' average of c.29x). Better-than-expected execution on these incoming capacities could spark a further re-rating to 18x FY19F PE (+1SD), in line with peers.

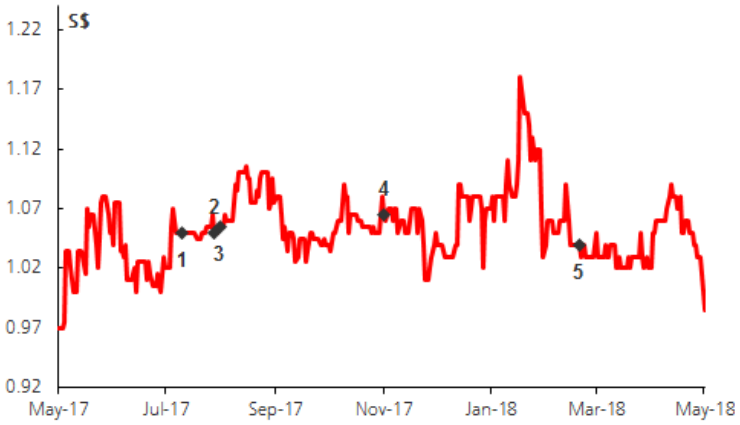
Given current attractive valuations, hard-to-replicate cleanroom expertise and robust end-demand, Riverstone could also be an attractive acquisition target for the bigger boys with ambitions to break into the lucrative cleanroom business. Maintain BUY.

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	206	211	210	2.0	(0.4)
Cost of Goods Sold	(154)	(159)	(163)	5.9	2.4
Gross Profit	**51.8**	**51.5**	**46.9**	**(9.5)**	**(9.0)**
Other Oper. (Exp)/Inc	(12.4)	(11.0)	(10.9)	(11.8)	(0.3)
Operating Profit	**39.4**	**40.5**	**35.9**	**(8.8)**	**(11.3)**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.2)	(0.3)	(0.3)	(42.1)	4.9
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	**39.2**	**40.3**	**35.7**	**(9.0)**	**(11.4)**
Tax	(5.6)	(6.0)	(4.6)	(17.5)	(23.9)
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	**33.6**	**34.2**	**31.1**	**(7.6)**	**(9.2)**
Net profit bef Except.	33.6	34.2	31.1	(7.6)	(9.2)
EBITDA	47.6	49.9	46.0	(3.5)	(8.0)
Margins (%)					
Gross Margins	25.2	24.4	22.3		
Opg Profit Margins	19.1	19.2	17.1		
Net Profit Margins	16.3	16.2	14.8		

Source of all data: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Jul 17	1.05	1.07	BUY
2:	04 Aug 17	1.05	1.07	BUY
3:	07 Aug 17	1.06	1.09	HOLD
4:	08 Nov 17	1.07	1.09	HOLD
5:	26 Feb 18	1.04	1.27	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Carmen Tay

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 9 May 2018 08:33:06 (SGT)
Dissemination Date: 9 May 2018 09:13:33 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER
This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.
Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), DBSV HK or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 30 Mar 2018.
2. Neither DBS Bank Ltd, DBS HK nor DBSV HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946. DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. DBSVS is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Vickers Hong Kong Limited, a licensed corporation licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). For any query regarding the materials herein, please contact Paul Yong (CE. No. ASE988) at equityresearch@dbs.com.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.

United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS Vickers (Hong Kong) Ltd
Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand