

Singapore Company Guide

Riverstone Holdings

Version 18 | Bloomberg: RSTON SP | Reuters: RVHLSI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 May 2020

BUY

Last Traded Price (11 May 2020): S\$1.47 (STI : 2,611.31)
Price Target 12-mth: S\$2.20 (50% upside) (Prev S\$1.34)

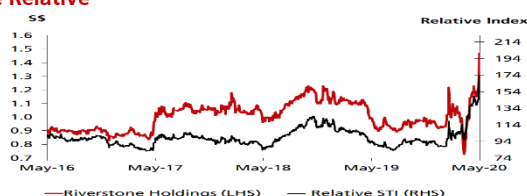
Analyst

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What's New

- Stellar 1Q20 performance, above expectations
- Benefitting from COVID-19, expect remaining three quarters to be strong on higher ASP and robust demand
- Raise earnings for FY20F/FY21F by 27%/19% to account for higher ASP and margins
- Maintain BUY with higher TP of S\$2.20

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	921	989	1,164	1,205
EBITDA	193	206	293	285
Pre-tax Profit	151	157	236	226
Net Profit	130	130	189	183
Net Pft (Pre Ex.)	130	130	189	183
Net Pft Gth (Pre-ex) (%)	0.3	0.6	44.7	(3.0)
EPS (S cts)	5.71	5.74	8.31	8.06
EPS Pre Ex. (S cts)	5.71	5.74	8.31	8.06
EPS Gth Pre Ex (%)	0	1	45	(3)
Diluted EPS (S cts)	5.71	5.74	8.31	8.06
Net DPS (S cts)	2.21	2.42	3.32	3.22
BV Per Share (S cts)	31.2	34.8	39.8	44.6
PE (X)	25.8	25.7	17.7	18.3
PE Pre Ex. (X)	25.8	25.7	17.7	18.3
P/Cash Flow (X)	20.0	19.9	21.2	14.3
EV/EBITDA (X)	16.9	15.7	11.1	11.2
Net Div Yield (%)	1.5	1.6	2.3	2.2
P/Book Value (X)	4.7	4.2	3.7	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	19.3	17.4	22.3	19.1
Earnings Rev (%):			27	19
Consensus EPS (S cts):			6.80	7.40
Other Broker Recs:		B: 4	S: 0	H: 0

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

Benefitting from COVID-19

Maintain BUY with higher TP of S\$2.20; expect better quarters ahead on higher ASP and robust demand. Riverstone has been witnessing an uptick in orders from both new and existing customers in the cleanroom and healthcare segments. ASP for healthcare gloves is also on a rising trend, due to the strong demand and tight supply. Riverstone is running at full capacity now at c.95% utilisation rate. Any increase in volume can only come from the capacity expansion, which is expected to increase by 1.4bn (+15.6%) in FY20.

At current price-to-earnings (PE) of 17.7x and 18.3x on FY20F and FY21F earnings respectively, Riverstone is trading at a c.42% discount to peers. This is unjustifiable, in our view, given its leadership position in the cleanroom segment. We see value in Riverstone's hard-to-replicate cleanroom business that sets it apart from its competitors.

Where we differ: We are optimistic that Riverstone can continue to generate above-industry margins given its strong market share in cleanroom gloves.

Potential catalysts: Further capacity expansion, sustained increase in cleanroom glove mix (and thus margins), higher ASP and inorganic growth are potential catalysts.

Valuation:

Maintain BUY call with higher TP of S\$2.20. Earnings for FY20F/FY21F are raised by 27%/19% on higher ASP and margins. Our TP is pegged to 26x FY20F earnings. This is equivalent to a c.30% discount to its bigger peers.

Key Risks to Our View:

Global economic slowdown. While margins for cleanroom gloves are higher, demand for these gloves could be threatened by a global economic slowdown.

At A Glance

Issued Capital (m shrs)	741
Mkt. Cap (S\$m/US\$m)	1,089 / 771
Major Shareholders (%)	
Ringlet Investment Ltd	50.8
Lee Wai Keong	10.9
Free Float (%)	38.3
3m Avg. Daily Val (US\$m)	0.85
GIC Industry : Health Care / Health Care Equipment & Services	



Live more, Bank less

Riverstone Holdings

WHAT'S NEW

Stellar 1Q20 performance, above expectations

Stronger growth for the healthcare segment. Group revenue gained 16.2% y-o-y to RM279.4m. Both the cleanroom and healthcare glove segments continued to record robust sales volume growth. The healthcare segment registered stronger growth due to surging worldwide demand amid the COVID-19 pandemic.

The average selling price (ASP) increase for the healthcare segment only comes in May, thus 1Q did not benefit from any ASP rise. The cleanroom segment is less affected by the volatility in ASP as it is locked in via contracts.

Margin improvement. Riverstone has benefitted from the downtrending prices of Butadiene, a key raw material used in the production of its nitrile-based gloves. Butadiene price, which tends to move in tandem with oil prices, is down c.33% in 1Q20. Bolstered by the tailwinds of lower raw material costs, the Group's gross profit margin strengthened by 4.6ppts y-o-y to 24.0% in 1Q20. Net profit surged 54.3% y-o-y to RM46.6m, beating our expectations as it accounts for 31% of our FY20F forecast.

Summary of 1Q20 results

(RM m)	1Q20	1Q19	4Q19	Y-o-Y (%)	Q-o-Q (%)
Revenue	279.4	240.5	257.4	16.2	8.5
Gross Profit	67.1	46.6	52.6	44.0	27.6
Pretax Profit	58.0	35.6	41.5	62.9	39.8
Net Profit	46.6	30.2	32.1	54.3	45.3
Margins (%)					
Gross margin	24.0	19.4	20.4		
Pretax margin	20.8	14.8	16.1		
Net margin	16.7	12.6	12.5		

Source: Company, DBS Bank

Strong balance sheet. Supported by strong operating cash flows, the Group's balance sheet is even stronger now as its cash balance increased 31% from 4Q19 to RM170.7m as at 1Q20.

Capacity expansion plan on track for 15.6% increase in 2020 to meet higher demand.

Phase 6 of the Group's expansion plan is on track to lift capacity by up to 1.4bn to a total of 10.4bn pieces of gloves per annum, representing a growth rate of 15.6%, to cater to the increasing demand. Out of a total of seven lines, two are already in production and the remaining lines are expected to be ready by end-2020.

Moving beyond phase 6, plans are already underway following the group's acquisition of a 3.8-acre land bank in Taiping where Riverstone intends to construct its new facility and expand capacity further.

Benefitting from COVID-19, expect remaining three quarters to be strong on higher ASP and robust demand.

Due to the surge in worldwide demand for products such as examination gloves and facemasks, the Group has been witnessing an uptick in orders from both new and existing customers during this period. New customers, mainly from hospitals, account for 40-50% of total sales.

ASP is also on a rising trend, due to the strong demand and tight supply. The 10-20% increase in ASP is effective in May/June 2020 onwards. Riverstone is running at full capacity now at c.95% utilisation rate. Any increase in volume can only come from the capacity expansion.

Raise earnings for FY20F/FY21F by 27%/19%. We have raised our earnings forecasts for FY20F/FY21F by 27%/19%, to account for the higher ASP for the healthcare segment, and also higher margins. On the back of the higher earnings, TP is revised up to S\$2.20, or PE of 26x on FY20F earnings, which is at a 30% discount to peers. Riverstone remains our top pick in the Glove Manufacturing sector, on relative valuations. Maintain BUY.

Riverstone Holdings

CRITICAL DATA POINTS TO WATCH

Critical Factors

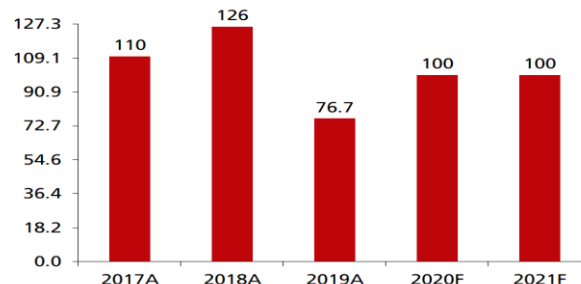
Growth in global demand for gloves; beneficiary of shift in demand to nitrile gloves. Malaysian Rubber Glove Manufacturers Association (MARGMA) expects Malaysia's rubber glove exports to surge c.20% in 2020 vs 2019. We project a ramp-up in Riverstone's glove production at 6% CAGR in FY19-21F. The global demand ratio of natural rubber and synthetic (nitrile) rubber gloves is also shifting in synthetic's favour, due to rising awareness about latex allergies in emerging economies and synthetic's low cost. Riverstone could be a long-term beneficiary of the switch from rubber gloves and PVC gloves (especially for the cleanroom segment) to nitrile gloves, as the company is principally engaged in the production of the latter. More than 90% of the group's total revenue is generated from nitrile gloves.

Raw material prices. Prices for butadiene, the key raw material for nitrile gloves accounting for c.50% of total costs, were down c.33% in 1Q20. This should help to improve margins.

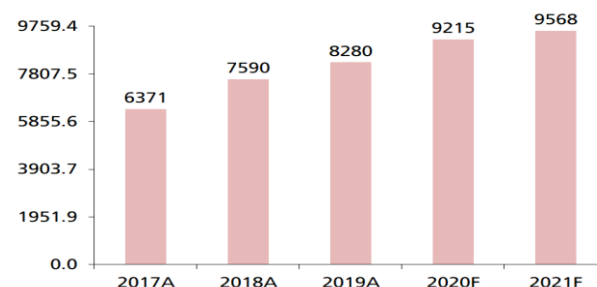
Capacity expansion to underpin growth. To capitalise on the favourable demand growth, Riverstone is expanding its manufacturing capacity to 10.4bn gloves. Out of a total of seven lines, two are already in production and the remaining lines are expected to be ready by end-2020. We expect Riverstone's new production capacity to gradually propel top-line growth at a CAGR of 8% between FY18 and FY21F. For longer-term growth, Riverstone has acquired a 3.80-acre (165,692 sqft) parcel of industrial land in Malaysia, for RM4.2m.

Margin improvement via higher proportion of cleanroom gloves and operational efficiency. As Riverstone's glove production lines can be used interchangeably for both healthcare and higher-margin cleanroom glove production, priority is typically given to cleanroom glove orders. Given the current competitive landscape within the healthcare glove space, a higher and more sustained cleanroom glove production could help Riverstone defend margins vs its peers, (which are predominantly focused on the production of healthcare gloves). Furthermore, we continue to expect automation efforts and Riverstone's growing economies of scale to help defend against margin pressure.

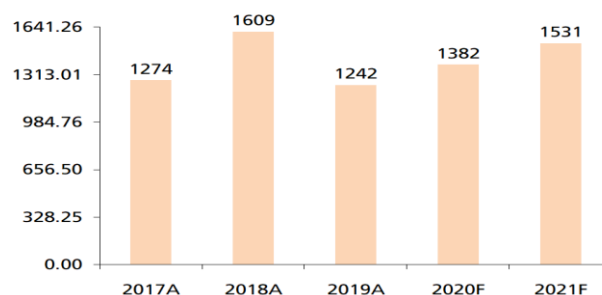
Capital Expenditure (RM\$m)



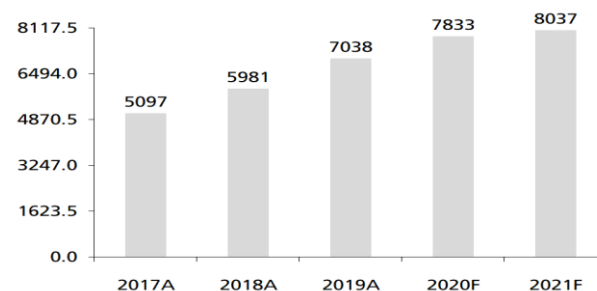
Production Capacity (m gloves)



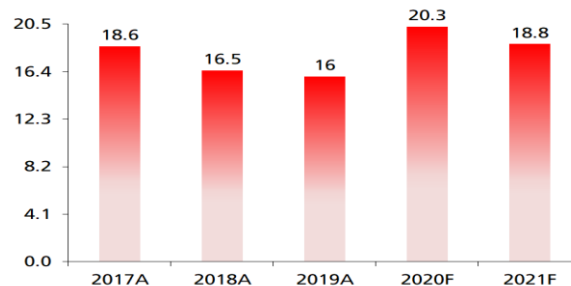
Cleanroom Gloves (m gloves)



Healthcare Gloves (m gloves)



Operating Margins (%)



Source: Company, DBS Bank

Riverstone Holdings

Balance Sheet:

Healthy balance sheet. Supported by strong operating cashflow, Riverstone had a healthy cash position of RM170.7m as at end-1Q20.

Share Price Drivers:

Higher proportion of cleanroom (vs healthcare) products to drive margins. Cleanroom products deliver much higher margins compared to healthcare gloves. The ability to secure more orders for cleanroom products should boost earnings.

Acceleration of capacity expansion plans beyond the current 10.4bn gloves could drive a further re-rating of Riverstone's share price.

Opportunities for inorganic growth. Due to the stringent requirements for the establishment of cleanroom facilities, Riverstone does not rule out the possibility of acquiring quality cleanroom glove manufacturing companies in the future.

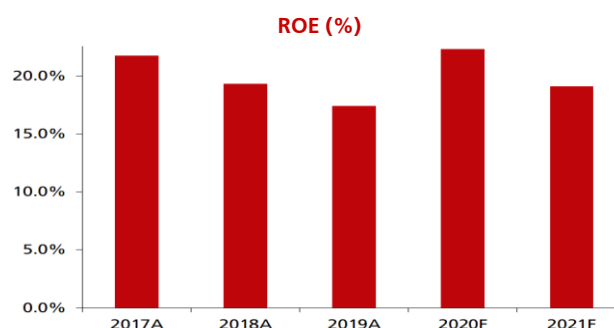
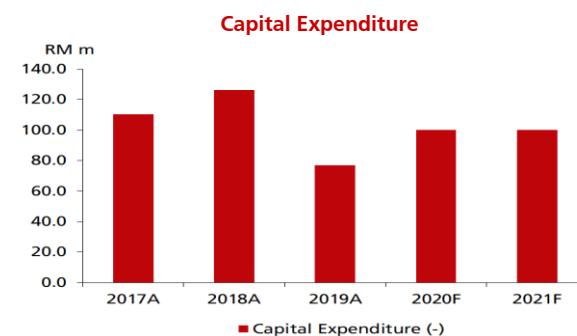
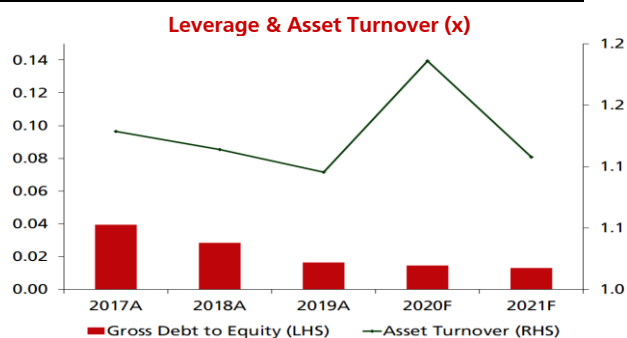
Key Risks:

Global economic slowdown could impact cleanroom sales. A slowdown in the general economy could lead to declines in discretionary spending and manufacturing activity in the hard disk drive (HDD) industry. Although Riverstone has been gradually reducing its exposure to the HDD and semiconductor industries (down from historical highs of up to 70%), they still make up almost 40% of the company's cleanroom portfolio today.

Intensifying competition could erode profitability. Rising competition from budding glove manufacturing regions such as Thailand and China could threaten Riverstone's market share and pricing advantages, if it fails to advance on the technological front.

Company Background

Riverstone Holdings (Riverstone SP) is a natural rubber and nitrile (synthetic rubber) glove manufacturer specialising in cleanroom and healthcare gloves. It is also engaged in the manufacturing and distribution of other ancillary products such as finger cots, packaging bags and face masks.



Source: Company, DBS Bank

Riverstone Holdings

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Capital Expenditure (RM\$m)	110	126	76.7	100	100
Production Capacity (m gloves)	6,371	7,590	8,280	9,215	9,568
Cleanroom Gloves (m gloves)	1,274	1,609	1,242	1,382	1,531
Healthcare Gloves (m gloves)	5,097	5,981	7,038	7,833	8,037
Operating Margins (%)	18.6	16.5	16.0	20.3	18.8

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (RMm)					
Nitrile Gloves	772	870	935	1,100	1,138
Natural Latex Gloves	23.7	26.7	28.7	33.8	34.9
Other Non-Gloves	21.3	23.9	25.7	30.3	31.3
Total	817	921	989	1,164	1,205

Income Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	817	921	989	1,164	1,205
Cost of Goods Sold	(620)	(731)	(790)	(879)	(927)
Gross Profit	198	190	199	285	277
Other Opng (Exp)/Inc	(45.9)	(38.0)	(40.8)	(48.7)	(50.5)
Operating Profit	152	152	158	236	227
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.0)	(0.9)	(0.7)	(0.7)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	151	151	157	236	226
Tax	(21.5)	(21.4)	(27.0)	(47.2)	(42.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	129	130	130	189	183
Net Profit before Except.	129	130	130	189	183
EBITDA	186	193	206	293	285
Growth					
Revenue Gth (%)	24.8	12.7	7.4	17.7	3.5
EBITDA Gth (%)	10.5	3.7	6.6	42.2	(2.7)
Opg Profit Gth (%)	9.4	0.1	4.0	49.6	(4.2)
Net Profit Gth (Pre-ex) (%)	7.4	0.3	0.6	44.7	(3.0)
Margins & Ratio					
Gross Margins (%)	24.2	20.6	20.1	24.5	23.0
Opg Profit Margin (%)	18.6	16.5	16.0	20.3	18.8
Net Profit Margin (%)	15.8	14.1	13.2	16.2	15.2
ROAE (%)	21.8	19.3	17.4	22.3	19.1
ROA (%)	17.9	15.7	14.4	19.2	16.8
ROCE (%)	20.7	18.3	16.7	21.6	18.6
Div Payout Ratio (%)	40.2	38.6	42.1	40.0	40.0
Net Interest Cover (x)	148.4	160.7	235.6	352.4	337.6

Source: Company, DBS Bank

Riverstone Holdings

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	257	241	240	251	257
Cost of Goods Sold	(209)	(194)	(191)	(200)	(205)
Gross Profit	48.7	46.6	48.3	51.4	52.6
Other Oper. (Exp)/Inc	(9.7)	(10.8)	(9.5)	(9.5)	(11.0)
Operating Profit	39.0	35.8	38.8	41.9	41.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	38.8	35.6	38.6	41.8	41.5
Tax	(5.9)	(5.4)	(6.1)	(6.1)	(9.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	32.9	30.2	32.5	35.6	32.1
Net profit bef Except.	32.9	30.2	32.5	35.6	32.1
EBITDA	49.9	47.4	50.5	54.0	54.1

Growth

Revenue Gth (%)	7.5	(6.6)	(0.3)	4.8	2.5
EBITDA Gth (%)	4.5	(4.9)	6.5	6.9	0.1
Opg Profit Gth (%)	3.8	(8.3)	8.3	8.1	(0.6)
Net Profit Gth (Pre-ex) (%)	2.5	(8.2)	7.6	9.5	(9.9)

Margins

Gross Margins (%)	18.9	19.4	20.1	20.5	20.4
Opg Profit Margins (%)	15.2	14.9	16.2	16.7	16.2
Net Profit Margins (%)	12.8	12.6	13.6	14.2	12.5

Balance Sheet (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	420	484	511	554	596
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	9.74	28.6	30.7	30.7	30.7
Cash & ST Invts	114	97.0	130	113	173
Inventory	71.1	83.6	97.3	90.1	95.2
Debtors	145	158	155	233	241
Other Current Assets	20.9	20.9	8.91	8.91	8.91
Total Assets	781	873	933	1,030	1,145
ST Debt	6.00	7.00	6.00	6.00	6.00
Creditor	102	126	113	96.9	102
Other Current Liab	8.45	6.88	7.24	7.24	7.24
LT Debt	19.0	13.0	7.00	7.00	7.00
Other LT Liabilities	11.2	11.0	10.1	10.1	10.1
Shareholder's Equity	634	709	789	903	1,012
Minority Interests	0.01	0.01	0.01	0.01	0.01
Total Cap. & Liab.	781	873	933	1,030	1,145
Non-Cash Wkg. Capital	127	130	141	228	235
Net Cash/(Debt)	89.3	77.0	117	99.9	160
Debtors Turn (avg days)	63.7	60.1	57.7	60.7	71.8
Creditors Turn (avg days)	60.0	60.3	58.7	46.6	41.8
Inventory Turn (avg days)	43.1	41.0	44.5	41.6	38.9
Asset Turnover (x)	1.1	1.1	1.1	1.2	1.1
Current Ratio (x)	3.0	2.6	3.1	4.0	4.5
Quick Ratio (x)	2.2	1.8	2.3	3.1	3.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	441.1	630.1	590.2	769.2	769.2
Z-Score (X)	15.8	12.7	14.2	15.8	15.3

Source: Company, DBS Bank

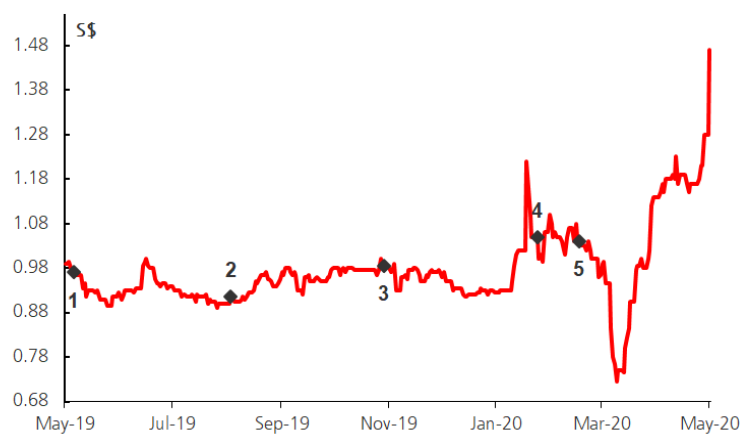
Riverstone Holdings

Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	151	151	157	236	226
Dep. & Amort.	34.5	41.3	48.0	56.4	58.4
Tax Paid	(21.3)	(23.4)	(26.7)	(47.2)	(42.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(11.6)	(2.8)	(10.2)	(87.1)	(7.7)
Other Operating CF	(6.8)	1.03	(0.6)	0.0	0.0
Net Operating CF	146	167	168	158	234
Capital Exp.(net)	(110)	(126)	(76.7)	(100.0)	(100.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(110)	(126)	(76.7)	(100.0)	(100.0)
Div Paid	(48.1)	(51.9)	(51.9)	(75.5)	(73.2)
Chg in Gross Debt	25.0	(5.0)	(7.0)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(23.1)	(56.9)	(58.9)	(75.5)	(73.2)
Currency Adjustments	(1.3)	(1.6)	1.16	0.0	0.0
Chg in Cash	11.1	(17.2)	33.4	(17.5)	60.4
Opg CFPS (S cts)	6.93	7.49	7.84	10.8	10.6
Free CFPS (S cts)	1.56	1.82	4.01	2.55	5.88

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 May 19	0.97	1.03	HOLD
2:	13 Aug 19	0.92	1.16	BUY
3:	08 Nov 19	0.99	1.16	BUY
4:	03 Feb 20	1.05	1.34	BUY
5:	27 Feb 20	1.04	1.34	BUY

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

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 12 May 2020 17:28:03 (SGT)

Dissemination Date: 12 May 2020 17:55:39 (SGT)

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

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