

# Singapore Company Guide

# Riverstone Holdings

Version 19 | Bloomberg: RSTON SP | Reuters: RVHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jun 2020

## BUY

Last Traded Price ( 2 Jun 2020): S\$2.24 (STI : 2,611.63)  
Price Target 12-mth: S\$3.09 (38% upside) (Prev S\$2.20)

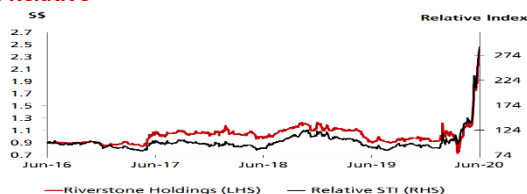
### Analyst

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### What's New

- Running at full capacity; orderbook fully locked in
- Margin improvement on higher ASP and lower raw material prices
- Demand expected to be strong post COVID-19
- Revised earnings up for FY20F/FY21F by 30%/41%; reiterate BUY with higher TP of S\$3.09

### Price Relative



### Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	921	989	1,323	1,367
EBITDA	193	206	372	384
Pre-tax Profit	151	157	307	317
Net Profit	130	130	246	257
Net Pft (Pre Ex.)	130	130	246	257
Net Pft Gth (Pre-ex) (%)	0.3	0.6	88.5	4.6
EPS (S cts)	5.72	5.75	10.8	11.3
EPS Pre Ex. (S cts)	5.72	5.75	10.8	11.3
EPS Gth Pre Ex (%)	0	1	88	5
Diluted EPS (S cts)	5.72	5.75	10.8	11.3
Net DPS (S cts)	2.21	2.42	4.34	4.54
BV Per Share (S cts)	31.3	34.8	41.3	48.1
PE (X)	39.0	38.7	20.6	19.7
PE Pre Ex. (X)	39.0	38.7	20.6	19.7
P/Cash Flow (X)	30.2	30.1	26.4	16.1
EV/EBITDA (X)	25.7	24.0	13.3	12.6
Net Div Yield (%)	1.0	1.1	1.9	2.0
P/Book Value (X)	7.1	6.4	5.4	4.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	19.3	17.4	28.5	25.4
Earnings Rev (%)			30	41
Consensus EPS (S cts):			9.5	9.6
Other Broker Recs:		B: 4	S: 0	H: 0

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

## Higher ASP and margins

**Positive demand and supply dynamics to drive ASP and margins higher.** Riverstone is running at full capacity now at c.95% utilisation rate. Any increase in volume can only come from the Phase 6 capacity expansion plan to increase capacity by 1.4bn gloves (+15.6%), which is expected to be completed by end of this year. Given the current strong demand and tight supply situation, ASP is on a rising trend. Besides higher ASP, Riverstone is also benefitting from a lower raw material price environment. Price for the key raw material, butadiene, has shed 66% YTD. Prices of other raw materials, like nitrile, are also trending down, though not as much as butadiene. Hence, a higher ASP and lower raw material prices would lead to further margin improvement. In 1Q20, which did not benefit much from ASP increase, gross margin had already improved by 4.6ppts y-o-y to 24.0%. We expect further margin improvement to 27.5% for FY20F.

At current price-to-earnings (PE) of 20.6x and 19.7x on FY20F and FY21F earnings respectively, Riverstone is trading at a c.50% discount to peers. This is unjustifiable, in our view, given its leadership position in the cleanroom segment.

**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.

### Valuation:

**Maintain BUY call with higher TP of S\$3.09.** Earnings for FY20F/FY21F are raised by 30%/41% on higher ASP and margins. Our TP is pegged to 28x 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)	1,660 / 1,179
Major Shareholders (%)	
Ringlet Investment Ltd	50.8
Lee Wai Keong	10.9
Free Float (%)	38.3
3m Avg. Daily Val (US\$m)	2.6

**GIC Industry :** Health Care / Health Care Equipment & Services



Live more, Bank less

## Riverstone Holdings

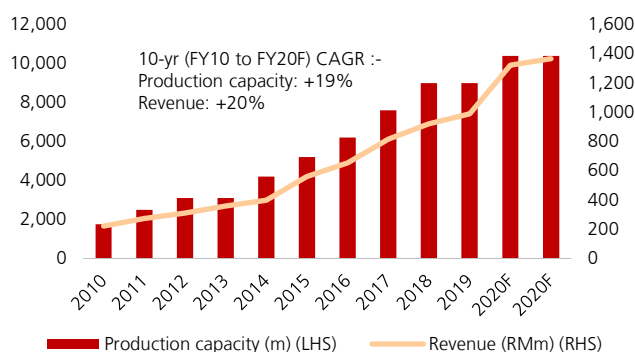
### WHAT'S NEW

#### Positive operating environment leading to higher ASP and margins

**Running at full capacity; orderbook fully locked in.** Due to the surge in worldwide demand for products such as examination gloves and facemasks, Riverstone has been witnessing an uptick in orders from both new and existing customers. New customers, mainly from hospitals, account for 40-50% of total sales. The group is running at full capacity of c.95% utilisation currently.

Orderbook is fully locked in and any new demand can only be fulfilled next year, likely in January or February, as the Phase 6 expansion to increase production capacity by 1.4bn (+15.6%) to 10.4bn pieces of gloves per annum is expected to be completed by end of this year. Currently, two out of seven lines are already in production. 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. Going forward, higher production capacity should help to drive revenue higher for the group.

#### Revenue moving in tandem with production capacity



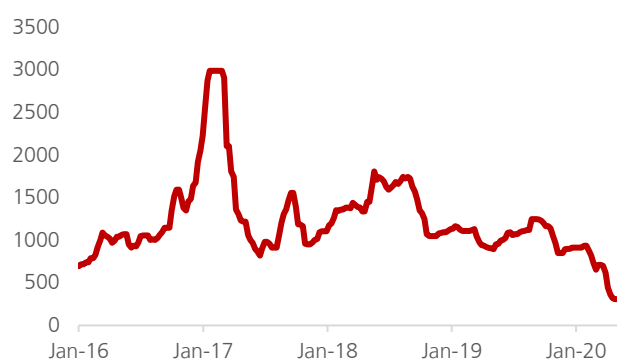
Source: DBS Bank, Company

**Higher ASP, in line with market trend.** Average selling price (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. We would not rule out further increase in ASP in 2H20. Other players like Top Glove, Hartalega and Kossan Rubber are also raising their ASPs.

**Margin improvement on higher ASP and lower raw material prices.** Besides higher ASP, Riverstone is also benefitting from a lower raw material price environment. The price of butadiene, a key raw material used in the production of its nitrile-based gloves and accounts for c.50% of total costs, has shed 66% YTD. The price of butadiene, a by-product of oil, tends to move in tandem with oil prices. Prices of other raw materials, like nitrile, are also trending down, though not

as much as butadiene. Hence, a higher ASP and lower raw material prices would lead to further margin improvement. In 1Q20, which did not benefit much from ASP increase, gross margin had already improved by 4.6ppts y-o-y to 24.0%. We expect further improvement in gross margin to 27.5% for FY20F.

#### Butadiene Prices (US\$/metric tonne)



Source: DBS Bank, Bloomberg Finance L.P.

**Positive demand and supply dynamics.** Malaysian Rubber Glove Manufacturers Association (MARGMA) has revised up its estimated export of gloves to c.220bn pieces in 2020, c.20% growth from 2019, amid the current situation. Malaysia is the world's largest rubber glove producer and contributes nearly 63% of global supply. The industry is in a tight supply situation, with almost all players running at full capacity.

**Demand expected to be strong post COVID-19.** Post the pandemic, we expect the demand for healthcare gloves to remain strong, as hygiene will still be a keen concern going forward. For the cleanroom segment, we continue to expect new technologies like 5G, Artificial Intelligence, and Internet of Things to drive demand for cleanroom gloves.

**Revised earnings up for FY20F/FY21F by 30%/41%.** We have raised earnings for FY20F/FY21F by 30%/41% on higher ASP and margins. The operating environment has been very favourable for glove manufacturers. The strong demand and tight supply have led to further increase in ASP while the lower raw material prices have further boosted margins. On the back of the higher earnings, our TP is revised up to S\$3.09 (previously S\$2.20), or PE of 28x (up from 26x, in line with the re-rating of peers) on FY20F earnings, which is at a 30% discount to peers.

## Riverstone Holdings

### CRITICAL DATA POINTS TO WATCH

#### Critical Factors

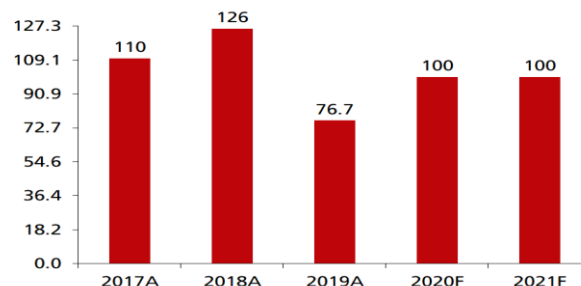
**Growth in global demand for gloves; beneficiary of shift in demand to nitrile gloves.** Malaysian Rubber Glove Manufacturers Association (MARGMA) expects Malaysia's rubber glove exports to surge c.20% in 2020 vs 2019. We project a ramp-up in Riverstone's glove production at 6% CAGR in FY19-21F. The 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.66% in 1Q20. This should help to improve margins.

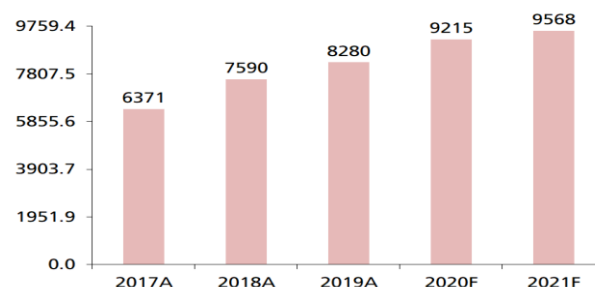
**Capacity expansion to underpin growth.** To capitalise on the favourable demand growth, Riverstone is expanding its manufacturing capacity to 10.4bn gloves. Out of a total of seven lines, two are already in production and the remaining lines are expected to be ready by end-2020. We expect Riverstone's new production capacity to gradually propel top-line growth at a CAGR of 14% 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.

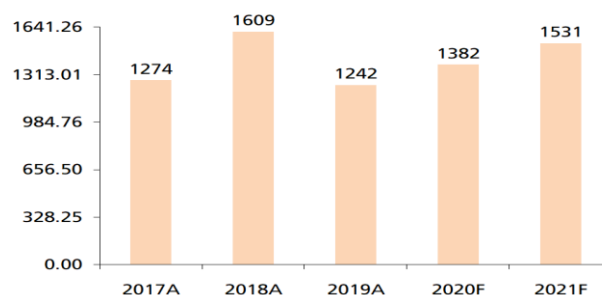
Capital Expenditure (RM\$m)



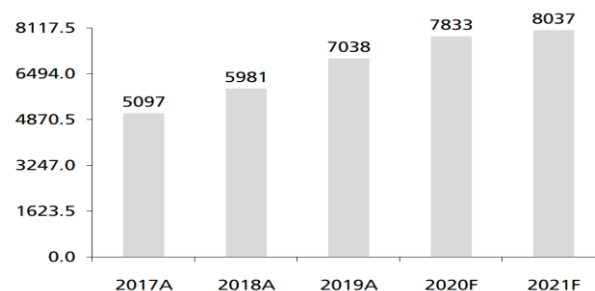
Production Capacity (m gloves)



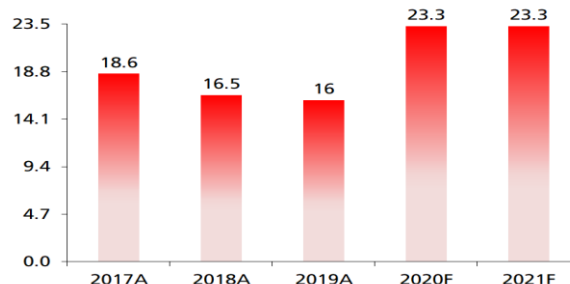
Cleanroom Gloves (m gloves)



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 in FY20F 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.

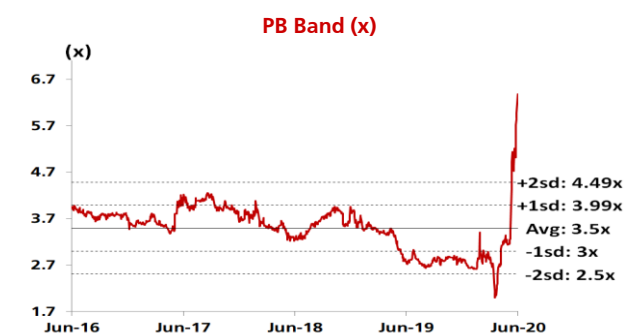
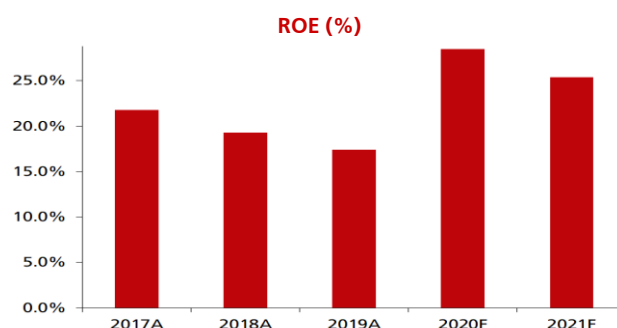
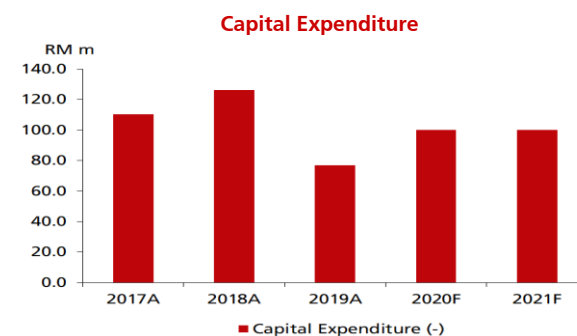
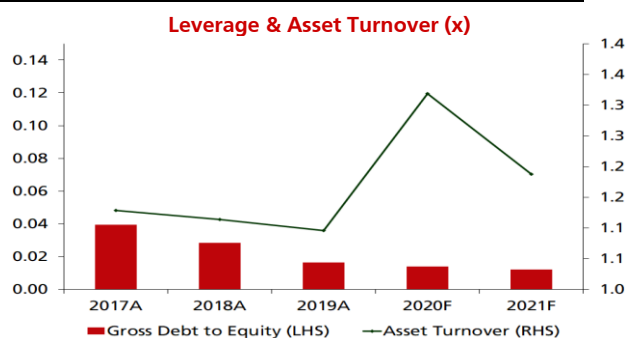
### Key Risks:

**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	110	126	76.7	100	100
Production Capacity (m)	6,371	7,590	8,280	9,215	9,568
Cleanroom Gloves (m)	1,274	1,609	1,242	1,382	1,531
Healthcare Gloves (m)	5,097	5,981	7,038	7,833	8,037
Operating Margins (%)	18.6	16.5	16.0	23.3	23.3

### Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
<b>Revenues (RMm)</b>					
Nitrile Gloves	772	870	935	1,250	1,292
Natural Latex Gloves	23.7	26.7	28.7	38.4	39.6
Other Non-Gloves	21.3	23.9	25.7	34.4	35.5
<b>Total</b>	<b>817</b>	<b>921</b>	<b>989</b>	<b>1,323</b>	<b>1,367</b>

### Income Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	817	921	989	1,323	1,367
Cost of Goods Sold	(620)	(731)	(790)	(959)	(991)
<b>Gross Profit</b>	<b>198</b>	<b>190</b>	<b>199</b>	<b>364</b>	<b>376</b>
Other Opng (Exp)/Inc	(45.9)	(38.0)	(40.8)	(55.8)	(57.8)
<b>Operating Profit</b>	<b>152</b>	<b>152</b>	<b>158</b>	<b>308</b>	<b>318</b>
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
<b>Pre-tax Profit</b>	<b>151</b>	<b>151</b>	<b>157</b>	<b>307</b>	<b>317</b>
Tax	(21.5)	(21.4)	(27.0)	(61.4)	(60.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>129</b>	<b>130</b>	<b>130</b>	<b>246</b>	<b>257</b>
Net Profit before Except.	129	130	130	246	257
EBITDA	186	193	206	372	384
<b>Growth</b>					
Revenue Gth (%)	24.8	12.7	7.4	33.7	3.4
EBITDA Gth (%)	10.5	3.7	6.6	80.6	3.3
Opg Profit Gth (%)	9.4	0.1	4.0	94.8	3.3
Net Profit Gth (Pre-ex) (%)	7.4	0.3	0.6	88.5	4.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	24.2	20.6	20.1	27.5	27.5
Opg Profit Margin (%)	18.6	16.5	16.0	23.3	23.3
Net Profit Margin (%)	15.8	14.1	13.2	18.6	18.8
ROAE (%)	21.8	19.3	17.4	28.5	25.4
ROA (%)	17.9	15.7	14.4	24.5	22.3
ROCE (%)	20.7	18.3	16.7	27.7	24.7
Div Payout Ratio (%)	40.2	38.6	42.1	40.0	40.0
Net Interest Cover (x)	148.4	160.7	235.6	458.8	474.1

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)
<b>Gross Profit</b>	<b>48.7</b>	<b>46.6</b>	<b>48.3</b>	<b>51.4</b>	<b>52.6</b>
Other Oper. (Exp)/Inc	(9.7)	(10.8)	(9.5)	(9.5)	(11.0)
<b>Operating Profit</b>	<b>39.0</b>	<b>35.8</b>	<b>38.8</b>	<b>41.9</b>	<b>41.6</b>
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
<b>Pre-tax Profit</b>	<b>38.8</b>	<b>35.6</b>	<b>38.6</b>	<b>41.8</b>	<b>41.5</b>
Tax	(5.9)	(5.4)	(6.1)	(6.1)	(9.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>32.9</b>	<b>30.2</b>	<b>32.5</b>	<b>35.6</b>	<b>32.1</b>
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	547	580
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	124	236
Inventory	71.1	83.6	97.3	98.1	101
Debtors	145	158	155	265	273
Other Current Assets	20.9	20.9	8.91	8.91	8.91
<b>Total Assets</b>	<b>781</b>	<b>873</b>	<b>933</b>	<b>1,073</b>	<b>1,230</b>
ST Debt	6.00	7.00	6.00	6.00	6.00
Creditor	102	126	113	105	109
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	937	1,091
Minority Interests	0.01	0.01	0.01	0.01	0.01
<b>Total Cap. &amp; Liab.</b>	<b>781</b>	<b>873</b>	<b>933</b>	<b>1,073</b>	<b>1,230</b>
Non-Cash Wkg. Capital	127	130	141	259	268
Net Cash/(Debt)	89.3	77.0	117	111	223
Debtors Turn (avg days)	63.7	60.1	57.7	57.8	71.8
Creditors Turn (avg days)	60.0	60.3	58.7	44.5	42.3
Inventory Turn (avg days)	43.1	41.0	44.5	39.8	39.3
Asset Turnover (x)	1.1	1.1	1.1	1.3	1.2
Current Ratio (x)	3.0	2.6	3.1	4.2	5.1
Quick Ratio (x)	2.2	1.8	2.3	3.3	4.2
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

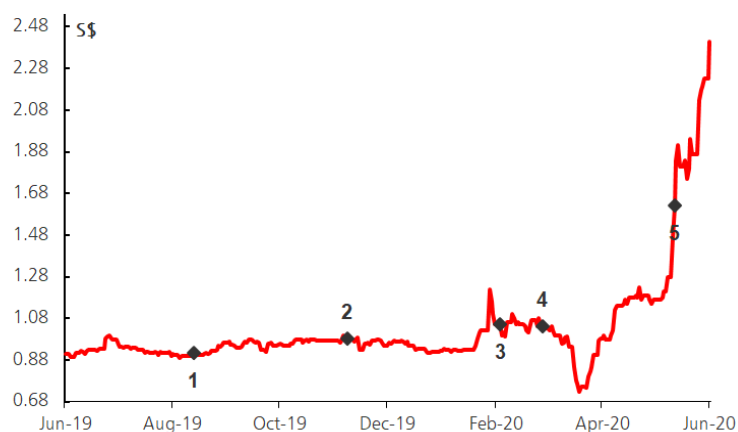
## Riverstone Holdings

### Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	151	151	157	307	317
Dep. & Amort.	34.5	41.3	48.0	64.1	66.3
Tax Paid	(21.3)	(23.4)	(26.7)	(61.4)	(60.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(11.6)	(2.8)	(10.2)	(118)	(8.7)
Other Operating CF	(6.8)	1.03	(0.6)	0.0	0.0
<b>Net Operating CF</b>	<b>146</b>	<b>167</b>	<b>168</b>	<b>192</b>	<b>315</b>
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
<b>Net Investing CF</b>	<b>(110)</b>	<b>(126)</b>	<b>(76.7)</b>	<b>(100.0)</b>	<b>(100.0)</b>
Div Paid	(48.1)	(51.9)	(51.9)	(98.3)	(103)
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
<b>Net Financing CF</b>	<b>(23.1)</b>	<b>(56.9)</b>	<b>(58.9)</b>	<b>(98.3)</b>	<b>(103)</b>
Currency Adjustments	(1.3)	(1.6)	1.16	0.0	0.0
Chg in Cash	11.1	(17.2)	33.4	(6.6)	112
Opg CFPS (S cts)	6.94	7.50	7.85	13.7	14.3
Free CFPS (S cts)	1.56	1.82	4.02	4.04	9.47

Source: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Aug 19	0.92	1.16	BUY
2:	08 Nov 19	0.99	1.16	BUY
3:	03 Feb 20	1.05	1.34	BUY
4:	27 Feb 20	1.04	1.34	BUY
5:	12 May 20	1.62	2.20	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*

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

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