

Singapore Company Guide

Riverstone Holdings

Version 20 | Bloomberg: RSTON SP | Reuters: RVHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2020

BUY

Last Traded Price (14 Jul 2020): S\$3.10 (STI : 2,620.19)

Price Target 12-mth: S\$3.90 (26% upside) (Prev S\$3.09)

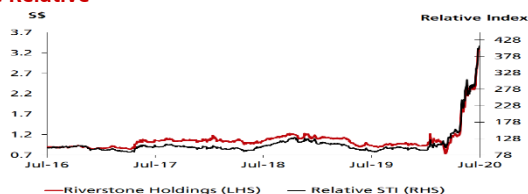
Analyst

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What's New

- Orderbook full till next year, thanks to COVID-19
- Expect ASP increase of 45% y-o-y for healthcare and 10% for cleanroom in FY20F; flat in FY21F
- Higher margins, as the ASP hikes more than offset the slight increase in costs
- Maintain BUY with higher TP of S\$3.90

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	921	989	1,490	1,560
EBITDA	193	206	524	550
Pre-tax Profit	151	157	450	471
Net Profit	130	130	360	381
Net Pft (Pre Ex.)	130	130	360	381
Net Pft Gth (Pre-ex) (%)	0.3	0.6	176.0	6.0
EPS (S cts)	5.69	5.72	15.8	16.7
EPS Pre Ex. (S cts)	5.69	5.72	15.8	16.7
EPS Gth Pre Ex (%)	0	1	176	6
Diluted EPS (S cts)	5.69	5.72	15.8	16.7
Net DPS (S cts)	2.20	2.41	6.32	6.70
BV Per Share (S cts)	31.1	34.7	44.1	54.2
PE (X)	54.4	54.1	19.6	18.5
PE Pre Ex. (X)	54.4	54.1	19.6	18.5
P/Cash Flow (X)	42.2	42.0	25.1	15.8
EV/EBITDA (X)	36.1	33.7	13.2	12.2
Net Div Yield (%)	0.7	0.8	2.0	2.2
P/Book Value (X)	10.0	8.9	7.0	5.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	19.3	17.4	40.1	34.1
Earnings Rev (%):			46	48
Consensus EPS (S cts):			12.5	13.3
Other Broker Recs:		B: 4	S: 0	H: 0

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

All gloved up and ready to go!

Strong demand + tight supply = Higher ASP and margins. The number of COVID-19 cases has escalated in recent weeks. A second wave of infections could see glove demand sustained at high levels. Riverstone's orderbook is fully locked in till June 2021. Average selling price (ASP) and margins sky-rocketed to new territory amidst this pandemic outbreak. ASP has been on a rising trend since May 2020, due to the strong demand and tight supply. We expect this rising trend to continue at least till September. Beyond that, ASP could stabilise, and the rate of increase is expected to plateau. Depending on the pandemic situation, ASP could gradually normalise in 2022. We have imputed a 45% y-o-y increase in ASPs for healthcare gloves and 10% for the cleanroom segment in FY20F, and flat in FY21F. Gross margin is raised to 35% for FY20F and FY21F, from 27.5%, as the ASP hikes more than offset the slight increase in costs.

At current price-to-earnings (PE) of 21.0x and 19.8x on FY20F and FY21F earnings respectively, Riverstone is trading at a c.40% 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, higher ASP and inorganic growth.

Valuation:

Maintain BUY call with higher TP of S\$3.90. Earnings for FY20F/FY21F are raised by 46%/48% on higher ASP and margins. Our TP is pegged to 24x FY20F earnings, +2SD of its 5-year mean forward PE. We have switched our valuation methodology from relative valuation to peers, in order to be consistent with our valuation methodology for the rest of the glove manufacturers.

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)	2,297 / 1,649
Major Shareholders (%)	
Ringlet Investment Ltd	50.8
Lee Wai Keong	10.9
Free Float (%)	38.3
3m Avg. Daily Val (US\$m)	6.3

GIC Industry : Health Care / Health Care Equipment & Services



Live more, Bank less

Riverstone Holdings

WHAT'S NEW

Strong demand + tight supply = Higher ASP and margins

Orderbook full till next year, thanks to COVID-19. The number of COVID-19 cases has escalated in recent weeks, as the world gradually emerges from lockdowns. The surge in the number of cases has led to some countries implementing a second round of shutdowns. A second wave of COVID-19 infections could see glove demand sustained at high levels. Riverstone's business is thriving. Its ASP and margins have sky-rocketed to new territory amidst this pandemic outbreak. The group is running at full capacity of c.95% utilisation currently. Its orderbook is fully locked in till June 2021.

Capacity expansion plans. The Phase 6 expansion plan to increase production capacity by 1.4bn (+15.6%) to 10.4bn pieces of gloves per annum is expected to be completed by November 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 a new plant. This should expand its capacity to close to 12bn gloves per annum by end-2021.

Continued surge in ASP. ASP has been on a rising trend since around May 2020, due to the strong demand and tight supply. The quantum of increase varies among the different players in the industry, and also among customers. Based on our channel checks, the Riverstone's ASP has increased by about 10-20% m-o-m since May 2020 for its Class 1 customers, comprising mainly regulars. For Class 2 customers, which include new customers, e.g. the hospitals, the increase ranges from 20-40% per month. Meanwhile, Class 3 customers are charged based on spot prices, which could see >50% increase in ASP. Class 1 customers account for c.45% of total sales volume, Class 2 make up c.40%, while the balance of 15% is from Class 3.

Expect further volatility in ASP. The ASP is still very volatile, changing every few weeks, especially for spot prices. We continue to expect the ASP to rise further, at least till September. Beyond that, ASP could stabilise, and the rate of increase is expected to plateau.

2H20 to fully reflect the increase in ASP and margins. We expect 2H20 results to be much stronger than 1H20 as the full impact of the ASP increase and margin improvement are fully reflected. Beyond 2020, ASP could still remain high at least in 1H21 as orderbook is full till June 2021. Depending

on the current pandemic situation, ASP could gradually normalise in 2022.

Higher margins, as the increase in ASP more than offset the slight increase in costs. On the back of the strong demand, there is a shortage of nitrile latex which has led to c.5% price increase in July as compared to June, though the prices of butadiene, which is the key raw material, remain relatively stable. Labour costs are also higher, up about 10% per annum.

ASP increase of 45% for healthcare and 10% for cleanroom in FY20F; flat in FY21F. For the ASPs, we project an overall increase of 45% from FY19 for the healthcare segment, and 10% increase for the cleanroom gloves as the prices are locked in for about six months, vs a cost-plus model for the healthcare gloves. We expect prices to remain firm in FY21F. Overall, margins for FY20F and FY21F are projected to be much higher than in FY19 as the increase in ASP has more than offset the higher raw material and labour costs. Overall, we project a gross margin of 35% for both FY20F and FY21F, up from our previous estimate of 27.5%.

Raised FY20F/FY21F earnings by 46%/48%. As such, earnings for FY20F and FY21F are raised by 46% and 48% respectively. On the back of the higher earnings, our TP is revised up to S\$3.90 (previously S\$3.09), or PE of 24x, which is pegged to +2SD of its 5-year mean forward PE. We have switched our valuation methodology from relative valuation to peers, in order to be consistent with our valuation methodology for the rest of the glove manufacturers.

At the current level, Riverstone is trading at c.40% discount to peers. Share price has surged c.50% since our last update in early June. Maintain BUY.

Demand expected to be strong post COVID-19. In the longer term, 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, new technologies like 5G, Artificial Intelligence, and Internet of Things should continue to drive demand for cleanroom gloves.

Riverstone Holdings

CRITICAL DATA POINTS TO WATCH

Critical Factors

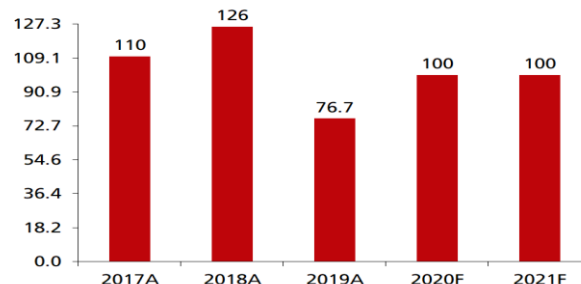
Growth in global demand for gloves; beneficiary of shift in demand to nitrile gloves. Malaysian Rubber Glove Manufacturers Association (MARGMA) expects Malaysia's rubber glove exports to surge c.20% in 2020 vs 2019. We project a ramp-up in Riverstone's glove production at 6% CAGR in FY19-21F. The global 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.64% in YTD. This should help to improve margins.

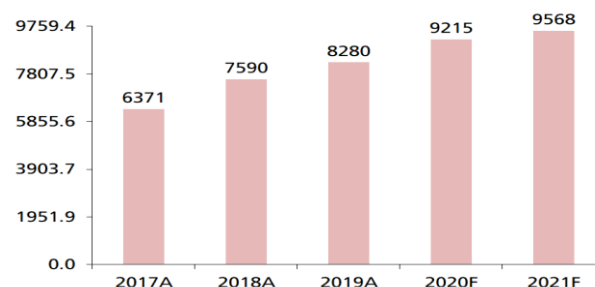
Capacity expansion to underpin growth. To capitalise on the favourable demand growth, Riverstone is expanding its manufacturing capacity to 10.4bn gloves. Out of a total of seven lines, two are already in production and the remaining lines are expected to be ready by November 2020. We expect Riverstone's new production capacity to gradually propel top-line growth at a CAGR of 19% 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. Riverstone intends to construct a new plant there. This should expand its capacity to close to 12bn gloves per annum by end-2021.

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. 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.

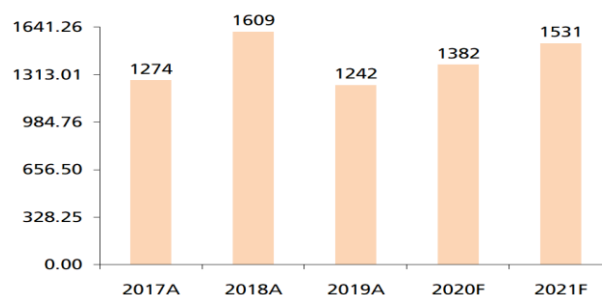
Capital Expenditure (RM\$m)



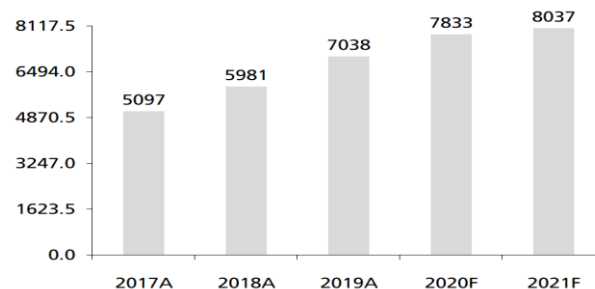
Production Capacity (m gloves)



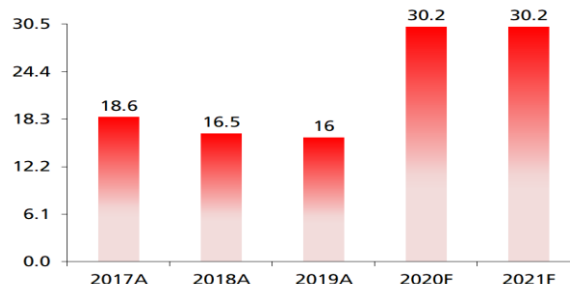
Cleanroom Gloves (m gloves)



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:

Sustainable high ASP. ASPs have sky-rocketed since May 2020. A sustainable high ASP would boost margins and earnings further.

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.

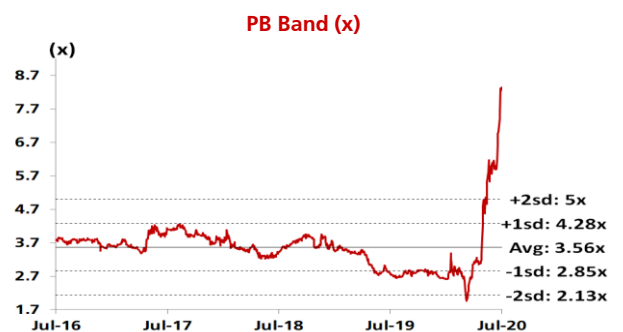
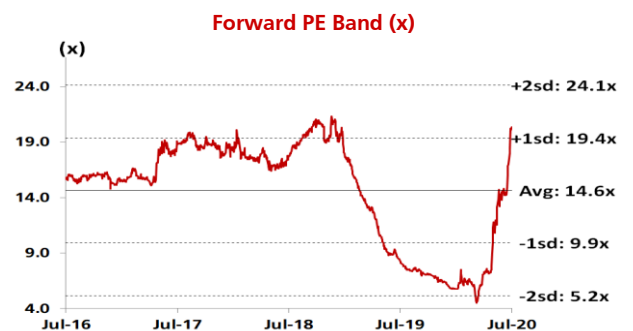
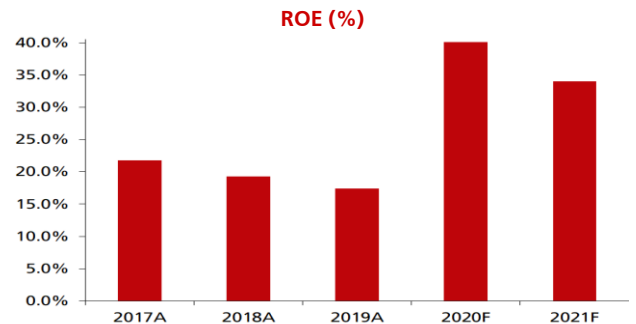
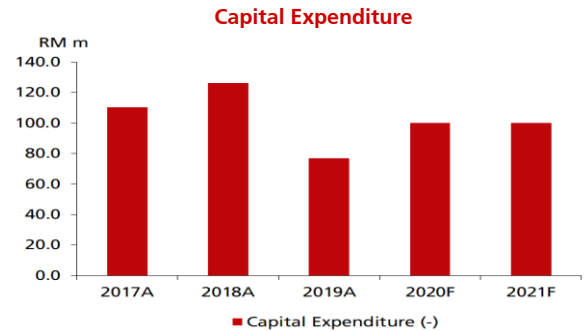
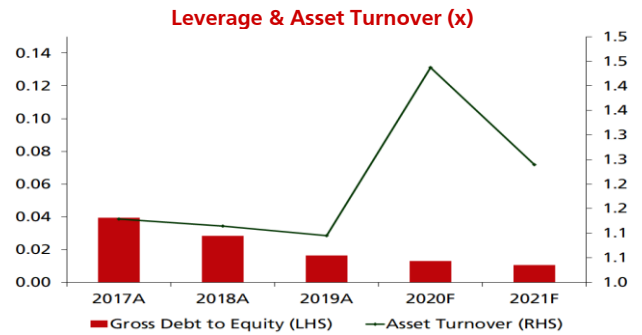
Key Risks:

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	30.2	30.2

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (RMm)					
Nitrile Gloves	772	870	935	1,408	1,474
Natural Latex Gloves	23.7	26.7	28.7	43.2	45.2
Other Non-Gloves	21.3	23.9	25.7	38.7	40.6
Total	817	921	989	1,490	1,560

Income Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	817	921	989	1,490	1,560
Cost of Goods Sold	(620)	(731)	(790)	(969)	(1,014)
Gross Profit	198	190	199	522	546
Other Opng (Exp)/Inc	(45.9)	(38.0)	(40.8)	(70.9)	(74.4)
Operating Profit	152	152	158	451	472
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	450	471
Tax	(21.5)	(21.4)	(27.0)	(90.0)	(89.5)
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	360	381
Net Profit before Except.	129	130	130	360	381
EBITDA	186	193	206	524	550
Growth					
Revenue Gth (%)	24.8	12.7	7.4	50.7	4.7
EBITDA Gth (%)	10.5	3.7	6.6	154.2	4.9
Opg Profit Gth (%)	9.4	0.1	4.0	185.1	4.6
Net Profit Gth (Pre-ex) (%)	7.4	0.3	0.6	176.0	6.0
Margins & Ratio					
Gross Margins (%)	24.2	20.6	20.1	35.0	35.0
Opg Profit Margin (%)	18.6	16.5	16.0	30.2	30.2
Net Profit Margin (%)	15.8	14.1	13.2	24.2	24.4
ROAE (%)	21.8	19.3	17.4	40.1	34.1
ROA (%)	17.9	15.7	14.4	34.7	30.3
ROCE (%)	20.7	18.3	16.7	39.0	33.3
Div Payout Ratio (%)	40.2	38.6	42.1	40.0	40.0
Net Interest Cover (x)	148.4	160.7	235.6	671.6	702.8

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	538	560
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	168	361
Inventory	71.1	83.6	97.3	98.2	103
Debtors	145	158	155	298	312
Other Current Assets	20.9	20.9	8.91	8.91	8.91
Total Assets	781	873	933	1,141	1,375
ST Debt	6.00	7.00	6.00	6.00	6.00
Creditor	102	126	113	106	110
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	1,005	1,234
Minority Interests	0.01	0.01	0.01	0.01	0.01
Total Cap. & Liab.	781	873	933	1,141	1,375
Non-Cash Wkg. Capital	127	130	141	292	306
Net Cash/(Debt)	89.3	77.0	117	155	348
Debtors Turn (avg days)	63.7	60.1	57.7	55.4	71.4
Creditors Turn (avg days)	60.0	60.3	58.7	44.5	42.1
Inventory Turn (avg days)	43.1	41.0	44.5	39.8	39.1
Asset Turnover (x)	1.1	1.1	1.1	1.4	1.2
Current Ratio (x)	3.0	2.6	3.1	4.8	6.4
Quick Ratio (x)	2.2	1.8	2.3	3.9	5.4
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)	26.9	22.1	25.0	26.9	26.2

Source: Company, DBS Bank

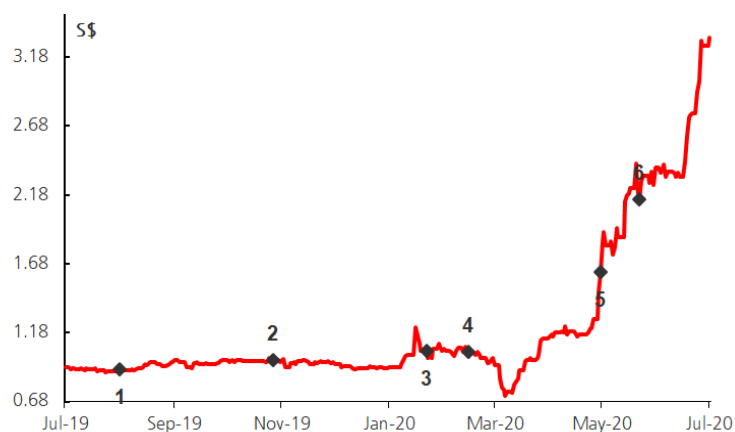
Riverstone Holdings

Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	151	151	157	450	471
Dep. & Amort.	34.5	41.3	48.0	73.0	78.0
Tax Paid	(21.3)	(23.4)	(26.7)	(90.0)	(89.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(11.6)	(2.8)	(10.2)	(152)	(13.6)
Other Operating CF	(6.8)	1.03	(0.6)	0.0	0.0
Net Operating CF	146	167	168	281	446
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)	(144)	(153)
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)	(144)	(153)
Currency Adjustments	(1.3)	(1.6)	1.16	0.0	0.0
Chg in Cash	11.1	(17.2)	33.4	37.2	193
Opg CFPS (S cts)	6.91	7.46	7.82	19.0	20.2
Free CFPS (S cts)	1.55	1.81	4.00	7.96	15.2

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
6:	03 Jun 20	2.15	3.09	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: 15 Jul 2020 07:55:32 (SGT)

Dissemination Date: 15 Jul 2020 08:02:15 (SGT)

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

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