

# Singapore Company Update Riverstone Holdings

Bloomberg: RSTON SP | Reuters: RVHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Nov 2020

**HOLD** (downgrade from BUY)

Last Traded Price (9 Nov 2020): S\$1.96 (STI : 2,705.00)

Price Target 12-mth: S\$2.03 (3% upside) (Prev S\$2.76)

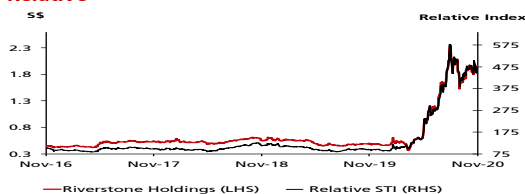
## Analyst

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## What's New

- Downgrade to HOLD as we believe the positives are mostly priced in; expect ASP trend to stabilise in FY21F and decline in FY22F
- 3Q20 results above expectations on strong demand and high ASP
- Expect a strong 4Q20; raised FY20F/FY21F earnings forecast by 70%/62% on strong ASP surge
- TP of S\$2.03, pegged to average 5-year PE, in line with our valuation peg for peers.

## Price Relative



## Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	989	1,948	2,105	1,742
EBITDA	206	956	993	631
Pre-tax Profit	157	860	887	543
Net Profit	130	671	701	429
Net Pft (Pre Ex.)	130	671	701	429
Net Pft Gth (Pre-ex) (%)	0.6	414.3	4.4	(38.8)
EPS (S cts)	2.88	14.8	15.4	9.45
EPS Pre Ex. (S cts)	2.88	14.8	15.4	9.45
EPS Gth Pre Ex (%)	1	414	4	(39)
Diluted EPS (S cts)	2.88	14.8	15.4	9.45
Net DPS (S cts)	2.42	5.91	6.18	3.78
BV Per Share (S cts)	17.4	26.3	35.5	41.2
PE (X)	68.2	13.3	12.7	20.7
PE Pre Ex. (X)	68.2	13.3	12.7	20.7
P/Cash Flow (X)	53.0	17.0	11.5	15.1
EV/EBITDA (X)	42.6	9.0	8.3	12.5
Net Div Yield (%)	1.2	3.0	3.1	1.9
P/Book Value (X)	11.3	7.5	5.5	4.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	17.4	67.7	50.0	24.6
Earnings Rev (%):		0	0	0
Consensus EPS (S cts):		20.4	29.7	21.8
Other Broker Recs:		B: 4	S: 0	H: 1

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



## Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

## Time to take a breather

### Investment Thesis:

**Downgrade to HOLD, time to take a breather after the strong surge of c.400% in share price YTD.** We believe that Riverstone Holdings' (RSTON) steep share price increase is nearing its end, especially with more positive news of COVID-19 vaccines coming onstream.

**Expect rising ASP trend to moderate.** The company's average selling price (ASP) continues to sky-rocket on strong demand and tight supply due to the COVID-19 pandemic. 4Q20 results are expected to be strong. Beyond FY20F, we expect the ASP trend to stabilise in FY21F and decline in FY22F, though demand is still expected to be firm. We have imputed an average of 70% y-o-y increase in ASPs in FY20F, flat in FY21F and decline of 20% to 30% in FY22F. The surge in ASP has led to the abnormally high margins and profits which are not likely to be sustainable in the longer term.

**Potential catalysts:** Further capacity expansion, higher ASP and inorganic growth.

### Valuation:

**Downgrade to HOLD, TP S\$2.03.** Earnings estimates for FY20F/FY21F are raised by 70%/62% on higher ASP and margins. Target price (TP) is cut to S\$2.03, as we pegged it to average 5-year price-to-earnings (PE), in line with our valuation methodology for RSTON's peers.

### Where we differ:

We are more cautious going forward and expect the ASP trend to stabilise in FY21F and decline in FY22F. Though demand could still be firm in FY21F, we prefer to adopt a more cautious stance and cut our recommendation to HOLD as RSTON's share price tends to move ahead of fundamentals. Most of the positives are already priced in, in our view.

### Key Risks to Our View:

**Global economic slowdown.** While margins for cleanroom (CR) 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 (\$m/US\$m)	1,453 / 1,078
Major Shareholders (%)	
Ringlet Investment Ltd	50.8
Lee Wai Keong	8.8
Employees Provident Fund Board	6.0
Free Float (%)	34.4
3m Avg. Daily Val (US\$m)	11.3

GIC Industry : Health Care / Health Care Equipment & Services



Live more, Bank less

## WHAT'S NEW

### 3Q20 results above expectations on strong demand and high ASP

**3Q20 results above expectations on strong demand and high ASP.** 3Q20 earnings jumped 4-fold y-o-y to RM178.6m (+96.4% q-o-q) on the back of the almost doubling of revenue to RM482.3m (+38.9% q-o-q). Demand for gloves remained strong amid the COVID-19 pandemic while ASP has maintained its upward momentum since June 2020.

On a 9-month basis, revenue and net profit accounted for 73% and 80% of our FY20F forecasts respectively, above expectations as we are expecting a stronger 4Q20.

**Strong ASP surge to continue at least until 1Q21.** ASP for both healthcare (HC) and CR gloves has increased about 10% m-o-m on average for the last few months. The increase in November and December has been even steeper at about 15% m-o-m. The rising ASP trend could continue in 1Q21, but the magnitude would depend on raw material prices as demand is still expected to be strong.

**Record-high margins.** The strong upward momentum for ASP led to a record-high gross margin 52.2% in 3Q20, up from 37.6% in 2Q20 and 20.5% in 3Q19. On a 9-month basis, its gross margin is 40.5%.

#### Summary of 3Q20 results

(RMm)	1Q20	2Q20	3Q20	9M20
Revenue	279.4	347.3	482.3	1,109.0
Gross profit	67.1	130.6	251.6	449.3
Gross margin (%)	24.0	37.6	52.2	40.5
Net profit	46.6	90.9	178.6	316.1
Net margin (%)	16.7	26.2	37.0	28.5
<b>y-o-y growth (%)</b>				
Revenue	16	45	92	52
Gross profit	44	171	390	207
Net profit	54	180	402	221
<b>q-o-q growth (%)</b>				
Revenue	9	24	39	
Gross profit	28	95	93	
Net profit	45	95	96	

Source: Company; DBS Bank

**Order visibility until June 2021.** The resurgence of high COVID-19 cases and second or even third wave of infections in some countries have led to glove demand staying high. Due to the strong demand for both HC and CR gloves, the group's current order book is full until the first half of 2021.

However, ASPs are not locked it yet as price negotiations are typically on a quarterly basis for CR and monthly basis for HC gloves.

**Even stronger balance sheet.** Cash and cash equivalents amounted to RM427.3m as at 30 September 2020, up 228% from RM130.4m as at end 4Q19. The group remains well-positioned to execute its expansion plans for future growth, and weather the macroeconomic headwinds associated with the COVID-19 pandemic.

**New capacity from phase 7 for 1.5 billion pieces in 2021 fully taken up.** Phase 6 of the group's expansion plans is on track to raise total production capacity by 1.5 billion pieces to 10.5 billion pieces of gloves annually by the end of 2020. Construction of the group's latest production facility for phase 7 of its expansion plans is currently ongoing. With phase 7, the group will add seven production lines in 2021, with the first line of this new phase ready in April 2021. This is expected to add up to 1.5 billion pieces of gloves to bring total annual production capacity by up to 12.0 billion pieces by 4Q2021. At this early stage, all of the new capacity coming online for phase 7 has already been taken up by the group's customers.

**Adding another 1.5 billion pieces by end FY2023.** Beyond Phase 7, RSTON intends to increase its production capacity by up to 1.5 billion pieces of gloves annually for a total of up to 15.0 billion pieces by end-FY2023, representing approximately 59% growth from the expected capacity of 10.5 billion gloves at the end of FY2020.

**Windfall tax speculation ends.** In Malaysia's Budget 2021, the government announced that there will be a combined RM400m contribution from the four major glove companies (Top Glove, Hartalega, Supermax and Kossan Rubber) to combat COVID-19, ending the speculation of a potential windfall tax for glove manufacturers. This should remove some of the overhang for the glove stocks.

**Sustainable demand post-COVID with hygiene still a key concern, but news of vaccine likely to cap share price performance.** Demand for gloves is still expected to sustain as hygiene will still be a key concern. Even if a COVID-19 vaccine is developed, demand will not taper off immediately as the timeline for sufficient access to vaccines to contain the global pandemic is still uncertain. The announcement by

Pfizer of a highly successful interim result of 90% effectiveness for its COVID-19 vaccine could affect market sentiment for glove manufacturers. Going forward, more news of vaccine discovery and mass production will likely cap RSTON's share price performance.

**Beyond FY21F, cleanroom to provide earnings resiliency for sustainable growth.** RSTON's CR gloves segment contributes c. 25% to 30% to total revenue and c.50% to gross profit. Even if demand for the more volatile HC gloves tapers off, demand for CR gloves should be more stable. The CR glove segment has also experienced growth in demand from the technology and manufacturing industries such as lenses, batteries and semiconductors. As the market leader in the high-end CR glove space, RSTON is poised to benefit from the diversified income streams which allow the group to ensure earnings resiliency for sustainable growth over the longer term.

**Raised FY20F/FY21F earnings forecast by 70%/62% on the strong ASP surge.** As the ASP momentum should still be intact at least until 1Q21, we have raised our FY20F/FY21F earnings estimates by 70%/62%. 4Q20 is expected to be another strong quarter, as the ASP increase for November and December has been even stronger at an average of 15% m-o-m (vs average of 10% m-o-m in the last few months).

**TP of S\$2.03, pegged to average 5-year PE, in line with our valuation peg for peers.** We have pegged our TP to 13x average PE over the last 5 years, in line with our valuation methodology for its peers in our coverage. As such, our TP

works out to S\$2.03 (adjusted for 1-for-1 bonus issue), vs S\$2.76 previously, which was pegged to +2SD of its 5-year average PE. On the back of the supernormal earnings, we have applied a lower valuation peg. In terms of PE valuation, RSTON is still trading at a discount of c.40% to peers.

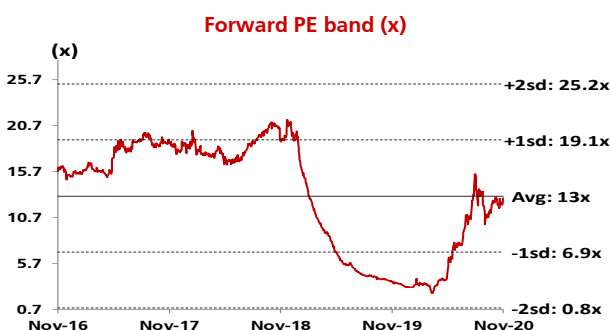
**Downgrade to HOLD; expect ASP trend to stabilise in FY21F and decline in FY22F.** RSTON's share price has surged c.400% YTD, ahead of the strong fundamentals on the back of strong demand and surge in ASP, leading to the company's supernormal profits in FY20F. For FY21F, we expect ASP for the CR glove segment to hold up better than the HC glove segment. Overall, we are projecting ASP to be flat in FY21F vs FY20F. For FY22F, we have factored in a 20% to 30% y-o-y decline in ASP.

Looking beyond the supernormal earnings in FY20F, FY21F earnings are expected to register a slight growth of 4%, followed by a 39% decline in FY22F. We believe that the steep rise in ASP is nearing the end and price should be more stable in FY21F, and to decline in FY22F. Most of the positives are also already priced in, in our view, hence we downgrade our call to HOLD.

### 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.

### Historical PE and PB bands



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

**Key Assumptions**

FY Dec	2018A	2019A	2020F	2021F	2022F
Capital Expenditure (RM\$m)	126	76.7	100	100	100
Production Capacity (m)	7,590	8,280	9,215	9,880	11,210
Cleanroom Gloves (m gloves)	1,609	1,242	1,382	1,581	1,794
Healthcare Gloves (m gloves)	5,981	7,038	7,833	8,299	9,416
Operating Margins (%)	16.5	16.0	44.2	42.2	31.2

**Segmental Breakdown**

FY Dec	2018A	2019A	2020F	2021F	2022F
<b>Revenues (RMm)</b>					
Nitrile Gloves	870	935	1,841	1,989	1,646
Natural Latex Gloves	26.7	28.7	56.5	61.0	50.5
Other Non-Gloves	23.9	25.7	50.6	54.7	45.3
<b>Total</b>	<b>921</b>	<b>989</b>	<b>1,948</b>	<b>2,105</b>	<b>1,742</b>

**Income Statement (RMm)**

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	921	989	1,948	2,105	1,742
Cost of Goods Sold	(731)	(790)	(993)	(1,115)	(1,115)
<b>Gross Profit</b>	<b>190</b>	<b>199</b>	<b>954</b>	<b>989</b>	<b>627</b>
Other Opg (Exp)/Inc	(38.0)	(40.8)	(93.9)	(102)	(83.6)
<b>Operating Profit</b>	<b>152</b>	<b>158</b>	<b>860</b>	<b>887</b>	<b>544</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	(0.9)	(0.7)	(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>157</b>	<b>860</b>	<b>887</b>	<b>543</b>
Tax	(21.4)	(27.0)	(189)	(186)	(114)
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>130</b>	<b>130</b>	<b>671</b>	<b>701</b>	<b>429</b>
Net Profit before Except.	130	130	671	701	429
EBITDA	193	206	956	993	631
<b>Growth</b>					
Revenue Gth (%)	12.7	7.4	96.9	8.1	(17.2)
EBITDA Gth (%)	3.7	6.6	363.9	3.8	(36.5)
Opg Profit Gth (%)	0.1	4.0	444.3	3.1	(38.8)
Net Profit Gth (Pre-ex) (%)	0.3	0.6	414.3	4.4	(38.8)
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	20.6	20.1	49.0	47.0	36.0
Opg Profit Margin (%)	16.5	16.0	44.2	42.2	31.2
Net Profit Margin (%)	14.1	13.2	34.4	33.3	24.6
ROAE (%)	19.3	17.4	67.7	50.0	24.6
ROA (%)	15.7	14.4	59.3	45.3	22.7
ROCE (%)	18.3	16.7	66.1	49.1	24.3
Div Payout Ratio (%)	77.3	84.3	40.0	40.0	40.0
Net Interest Cover (x)	160.7	235.6	1,282.4	1,322.5	810.0

Source: Company, DBS Bank

**Interim Income Statement (RMm)**

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	424	497	480	509	627
Cost of Goods Sold	(329)	(402)	(385)	(405)	(429)
<b>Gross Profit</b>	<b>95.1</b>	<b>94.9</b>	<b>94.9</b>	<b>104</b>	<b>198</b>
Other Oper. (Exp)/Inc	(19.7)	(18.3)	(20.4)	(20.4)	(22.3)
<b>Operating Profit</b>	<b>75.4</b>	<b>76.6</b>	<b>74.5</b>	<b>83.5</b>	<b>175</b>
Other Non Op (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	(0.5)	(0.4)	(0.4)	(0.3)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>74.9</b>	<b>76.1</b>	<b>74.2</b>	<b>83.3</b>	<b>175</b>
Tax	(10.3)	(11.1)	(11.4)	(15.6)	(37.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>64.6</b>	<b>65.0</b>	<b>62.7</b>	<b>67.7</b>	<b>138</b>
Net Profit bef Except.	64.6	65.0	62.7	67.7	138
EBITDA	95.6	97.7	98.0	108	201

**Growth**

Revenue Gth (%)	6.4	17.2	(3.4)	5.9	23.2
EBITDA Gth (%)	(2.9)	2.1	0.3	10.3	86.0
Opq Profit Gth (%)	(6.3)	1.5	(2.7)	12.1	110.0
Net Profit Gth (%)	(5.7)	0.6	(3.6)	7.9	103.2

**Margins**

Gross Margins (%)	22.4	19.1	19.8	20.4	31.6
Opq Profit Margins (%)	17.8	15.4	15.5	16.4	28.0
Net Profit Margins (%)	15.2	13.1	13.1	13.3	21.9

**Balance Sheet (RMm)**

FY Dec	2018A	2019A	2020F	2021F	2022E
Net Fixed Assets	484	511	515	510	523
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	28.6	30.7	30.7	30.7	30.7
Cash & ST Invts	97.0	130	285	680	997
Inventory	83.6	97.3	98.4	111	113
Debtors	158	155	390	421	348
Other Current Assets	20.9	8.91	8.91	8.91	8.91
<b>Total Assets</b>	<b>873</b>	<b>933</b>	<b>1,328</b>	<b>1,761</b>	<b>2,021</b>
ST Debt	7.00	6.00	6.00	6.00	6.00
Creditor	126	113	106	119	121
Other Current Liab	6.88	7.24	7.24	7.24	7.24
LT Debt	13.0	7.00	7.00	7.00	7.00
Other LT Liabilities	11.0	10.1	10.1	10.1	10.1
Shareholder's Equity	709	789	1,192	1,612	1,869
Minority Interests	0.01	0.01	0.01	0.01	0.01
<b>Total Cap. &amp; Liab.</b>	<b>873</b>	<b>933</b>	<b>1,328</b>	<b>1,761</b>	<b>2,021</b>
Non-Cash Wkg. Capital	130	141	384	414	342
Net Cash/(Debt)	77.0	117	272	667	984
Debtors Turn (avg days)	60.1	57.7	51.0	70.3	80.6
Creditors Turn (avg days)	60.3	58.7	44.4	40.6	42.6
Inventory Turn (avg days)	41.0	44.5	39.8	37.8	39.7
Asset Turnover (x)	1.1	1.1	1.7	1.4	0.9
Current Ratio (x)	2.6	3.1	6.6	9.2	10.9
Quick Ratio (x)	1.8	2.3	5.7	8.3	10.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	630.1	590.2	769.2	769.2	769.2
Z-Score (X)	30.8	34.9	38.7	36.6	36.6

Source: Company, DBS Bank

## Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	151	157	860	887	543
Dep. & Amort.	41.3	48.0	95.4	105	87.1
Tax Paid	(23.4)	(26.7)	(189)	(186)	(114)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(2.8)	(10.2)	(243)	(30.4)	72.7
Other Operating CF	1.03	(0.6)	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>167</b>	<b>168</b>	<b>523</b>	<b>775</b>	<b>589</b>
Capital Exp.(net)	(126)	(76.7)	(100.0)	(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>(126)</b>	<b>(76.7)</b>	<b>(100.0)</b>	<b>(100.0)</b>	<b>(100.0)</b>
Div Paid	(51.9)	(51.9)	(268)	(280)	(172)
Chg in Gross Debt	(5.0)	(7.0)	0.0	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>(56.9)</b>	<b>(58.9)</b>	<b>(268)</b>	<b>(280)</b>	<b>(172)</b>
Currency Adjustments	(1.6)	1.16	0.0	0.0	0.0
Chg in Cash	(17.2)	33.4	155	395	317
Opg CFPS (\$ cts)	3.75	3.93	16.9	17.8	11.4
Free CFPS (\$ cts)	0.91	2.01	9.32	14.9	10.8

Source: Company, DBS Bank

## Target Price &amp; Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Feb 20	0.53	0.67	BUY
2:	27 Feb 20	0.52	0.67	BUY
3:	12 May 20	0.81	1.10	BUY
4:	03 Jun 20	1.08	1.54	BUY
5:	15 Jul 20	1.54	1.95	BUY
6:	06 Aug 20	2.27	2.76	BUY

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: 10 Nov 2020 18:47:26 (SGT)

Dissemination Date: 10 Nov 2020 18:51:11 (SGT)

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

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