

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

11 Jan 2021

BUY (Upgrade from HOLD)

Last Traded Price (8 Jan 2021): S\$1.35 (STI : 2,993.19)

Price Target 12-mth: S\$1.85 (37% upside) (Prev S\$2.03)

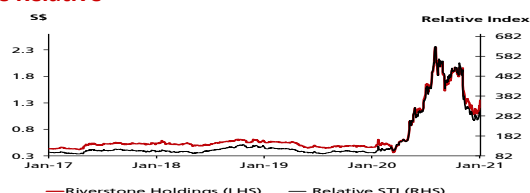
Analyst

Lee Keng LING +65 6682 3703 leekeng@dbs.com

What's New

- Upgrade to BUY as valuation becomes attractive again after share price correction on vaccine news
- Firm ASP and demand trend in FY21F; order visibility extends till December 2021
- Mass availability of vaccines will take time; new COVID-19 strain raises risk
- FY20F/21F/22F earnings adjusted by -16%/+19%/+4% on revision to ASP assumptions

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	989	1,855	2,788	1,824
EBITDA	206	816	1,199	658
Pre-tax Profit	157	725	1,059	566
Net Profit	130	565	837	448
Net Pft (Pre Ex.)	130	565	837	448
Net Pft Gth (Pre-ex) (%)	0.6	333.4	48.1	(46.5)
EPS (S cts)	2.89	12.5	18.5	9.91
EPS Pre Ex. (S cts)	2.89	12.5	18.5	9.91
EPS Gth Pre Ex (%)	1	333	48	(47)
Diluted EPS (S cts)	2.89	12.5	18.5	9.91
Net DPS (S cts)	2.43	5.01	7.42	3.97
BV Per Share (S cts)	17.5	25.0	36.1	42.1
PE (X)	46.7	10.8	7.3	13.6
PE Pre Ex. (X)	46.7	10.8	7.3	13.6
P/Cash Flow (X)	36.3	14.1	7.7	8.4
EV/EBITDA (X)	29.0	7.2	4.6	7.7
Net Div Yield (%)	1.8	3.7	5.5	2.9
P/Book Value (X)	7.7	5.4	3.7	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	17.4	58.9	60.7	25.4
Earnings Rev (%):		(16)	19	4
Consensus EPS (S cts):		12.6	21.0	12.0
Other Broker Recs:		B: 4	S: 0	H: 2

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.

Valuations turning attractive

Investment Thesis:

Upgrade to BUY; valuation attractive after correction. Share price has corrected by close to 50% post our downgrade in November last year. Riverstone is now trading at an attractive 7.3x FY21F PE, which is near -1SD of its 5-year PE average. Furthermore, we also expect a bumper dividend for FY20F.

Expect firm ASP and demand in FY21F; extension of order visibility. Average selling price (ASP) for FY21F is expected to be firm on the back of strong demand and tight supply. The ASP increase for January and February is about 5% to 10% m-o-m. Order visibility has further extended to December 2021.

Sustainable glove demand post-COVID. Even with the availability of a COVID-19 vaccine, demand is not expected to taper off immediately as hygiene is still a key concern.

Valuation:

Upgrade to BUY, TP S\$1.85. Earnings estimates for FY20F/FY21F/FY22F are adjusted by -16%/+19%/+4% on revision to ASP assumptions. However, we have cut our target price (TP) to S\$1.85 (prev S\$2.03), still pegged to average 5-year price-to-earnings (PE) of 12.8x, but rolled forward to blended FY21F/FY22F earnings to capture the post COVID-19 impact.

Where we differ:

Our TP is lower than consensus as we have pegged it to blended FY21F/FY22F earnings to capture the post COVID-19 impact. FY21F and FY22F earnings is also below consensus as we adopt a more cautious stance.

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)	1,482
Mkt. Cap (S\$m/US\$m)	2,001 / 1,510
Major Shareholders (%)	
Ringle Investment Ltd	50.8
Lee Wai Keong	8.8
Employees Provident Fund Board	7.0
Free Float (%)	33.4
3m Avg. Daily Val (US\$m)	5.5

GIC Industry : Health Care / Health Care Equipment & Services



Live more, Bank less

Riverstone Holdings

WHAT'S NEW

Upgrade to BUY; valuations turning attractive after correction on vaccine news

Upgrade to BUY, new TP of S\$1.85

We upgrade Riverstone to BUY from HOLD, with a new TP of S\$1.85. Our view is premised on:

- 1) Valuations turning more attractive
- 2) Firm ASP and demand trend; extension of order visibility
- 3) Mass availability of vaccines will take time

Valuations turning more attractive

Current PE at -1SD of its 5-year average. We had downgraded Riverstone to HOLD in November 2020 when the share price was near S\$2. Since then the share price has corrected by close to 50%. At current level, PE valuation for Riverstone is becoming more attractive, trading at 7.3x FY21F earnings, which is near -1SD of its 5-year PE average.

Bumper dividend expected. Riverstone could declare a bumper dividend on the back of exceptionally high profits driven by strong demand and high ASP in year 2020. DPS could more than double to 5Scts in FY20F, based on 40% payout ratio, as compared to 2.42 Scts in FY19. Based on our projections, dividend yield works out to c.4%.

Firm ASP and demand trend; order visibility extends till December 2021

Firm ASP and demand trend. ASP and demand trend have been firm despite the positive developments on the vaccines for COVID-19. The ASP for both healthcare (HC) and cleanroom (CR) gloves has increased by about 10% m-o-m on average since April 2020. The increase in November and December was even steeper at about 15% m-o-m. For January and February 2021, the increase in ASP is about 5% to 10%, based on our channel checks. Going forward, ASP could remain firm, barring any steep increase in raw material prices, as demand is still expected to be strong.

Order visibility extends till December 2021. Riverstone's order visibility has further extended to till December 2021, from our last update in November of till June 2021. Prices for HC gloves are negotiated monthly, hence prices are not fixed. For CR, prices are now negotiated every two months or quarterly, vs every six months to a year before the pandemic.

Mass availability of vaccines will take time; new COVID-19 strain raises risk

Positive vaccines development negative for "COVID beneficiaries". The world has cheered the positive vaccines development over the last few months. In contrast, share prices of "COVID beneficiaries" like Riverstone were hammered. Riverstone's share price plummeted from a high of S\$2.45 in August 2020 to a low at close to S\$1 in December.

Low vaccine acceptance rates; new COVID-19 strain raises risk. While the availability of COVID-19 vaccines is good news, it would still take time for life to return to near normal. Low vaccine acceptance rates or distribution delays due to production or logistical difficulties could delay the return to normalcy. Vaccine acceptance appears significantly lower in the US with only c.47% of people surveyed by the Associated Press planning to get the vaccine and 27% being unsure. The emergence of a new COVID-19 strain in the UK that is "70% more transmittable" also raises the risk of a resurgence in COVID-19 community transmission. Several countries have imposed new lockdown measures arising from the surge in in new COVID virus cases and virus mutation.

Sustainable glove demand post-COVID with hygiene still a key concern. Hence, the demand for gloves is expected to sustain as hygiene will still be a key concern. Even if a COVID-19 vaccine is developed, we do not expect demand to taper off immediately.

Beyond FY21F, cleanroom to provide earnings resiliency for sustainable growth. Riverstone'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, Riverstone is poised to benefit from the diversified income streams which allow the group to ensure earnings resiliency for sustainable growth over the longer term.

Riverstone Holdings

Earnings and Recommendation

Expect ASP in FY21F to rise by an average of 35% y-o-y, vs our flat assumption previously. We have adjusted our ASP assumptions, expecting ASP for both HC and CR in FY20F to increase at an average of 60% y-o-y, vs our previous assumption of +70%. For FY21F, given that demand is still expected to be strong while supply remains tight, and the ASP for January and February are still on a rising trend, we now project ASP to increase 35% y-o-y, vs our previous flat assumption. For FY23F, ASP could decline by 35% y-o-y.

-16%/+19%/+4% earnings adjustment for FY20F/FY21F/FY22F. On the back of the ASP adjustment, coupled with slightly lower margins on higher raw materials, we have adjusted our earnings for FY20F/FY21F/FY22F by -16%/+19%/+4%. Our target price is still pegged to 12.8x, the average PE over the last 5 years, in line with our valuation methodology for peers in our coverage. However, we have

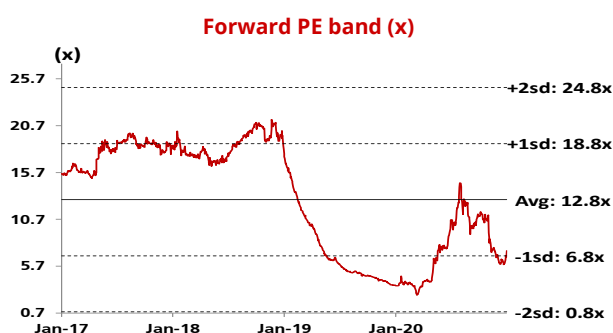
rolled forward our valuation base to blended FY21F/FY22F earnings to capture the post COVID-19 impact. As such, our new TP works out to S\$1.85 (prev S\$1.96), which offers potential upside of 37%. Upgrade to BUY.

In terms of share price performance, Riverstone's share price has moved in tandem with peers Hartalega and Kossan Rubber but underperformed Top Glove, Supermax and UG Healthcare (refer to charts on relative performance)

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 band [Pls always check if PE/ PB band is correctly represented]



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



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

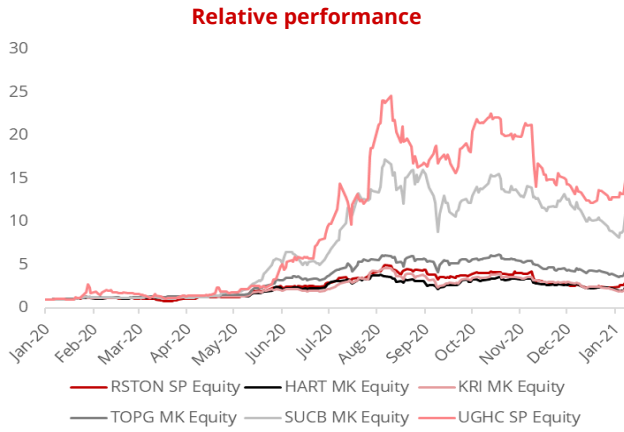
Peer comparison table

Name	BB Code	Price (RM)	Mkt Cap (RMm)	FY	Revenue (RM)	Net Profit (RM)	Hist PE (x)	Curr Yr PE (x)	Next Yr PE (x)	P/B (x)	ROE (%)	Gr Mgn (%)	Op Mgn (%)	Net Mgn (%)
Riverstone	RSTON SP	S\$1.35	S\$2,000.9	12/2019	2,000.9	130.4	29.7	10.6	6.4	6.9	25.4	20.1	15.9	13.2
Hartalega	HART MK	12.50	42,845.1	03/2020	42,845.1	433.6	42.4	16.6	11.9	12.7	34.8	25.4	19.4	14.8
Kossan Rubber	KRI MK	4.50	11,489.0	12/2019	11,489.0	224.7	19.0	10.8	4.9	6.0	36.3	40.1	13.0	10.1
Top Glove	TOPG MK	6.50	52,146.9	08/2020	52,146.9	1,778.2	12.9	5.1	12.5	7.6	85.5	39.4	30.1	24.6
Supermax	SUCB MK	7.30	19,168.3	06/2020	19,168.3	524.8	15.0	6.1	9.5	8.7	77.2	52.1	31.9	24.6
UG Healthcare (\$\$)	UGHC SP	0.67	412.9	06/2020	412.9	13.4	29.4	4.0	5.0	7.5	28.3	29.5	12.9	9.3
Average							24.7	8.9	8.4	8.2	47.9	34.4	20.5	16.1

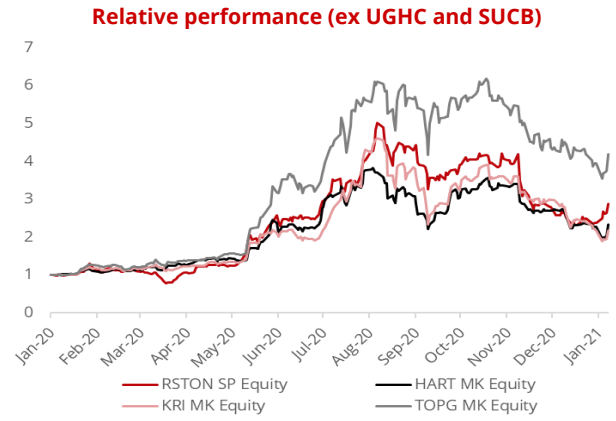
Source: Bloomberg Finance L.P., DBS Bank

Riverstone Holdings

Relative performance to peers



Source: Bloomberg Finance L.P., DBS Bank



Source: Bloomberg Finance L.P., DBS Bank

Riverstone Holdings

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Capital Expenditure (RM\$m)	126	76.7	100	100	100
Production Capacity (m gloves)	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	39.1	38.0	31.1

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (RMm)					
Nitrile Gloves	870	935	1,753	2,634	1,724
Natural Latex Gloves	26.7	28.7	53.8	80.8	52.9
Other Non-Gloves	23.9	25.7	48.2	72.5	47.4
Total	921	989	1,855	2,788	1,824

Income Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	921	989	1,855	2,788	1,824
Cost of Goods Sold	(731)	(790)	(1,039)	(1,589)	(1,167)
Gross Profit	190	199	816	1,199	657
Other Opng (Exp)/Inc	(38.0)	(40.8)	(91.1)	(139)	(89.5)
Operating Profit	152	158	725	1,060	567
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
Pre-tax Profit	151	157	725	1,059	566
Tax	(21.4)	(27.0)	(159)	(222)	(119)
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	130	130	565	837	448
Net Profit before Except.	130	130	565	837	448
EBITDA	193	206	816	1,199	658
Growth					
Revenue Gth (%)	12.7	7.4	87.6	50.2	(34.6)
EBITDA Gth (%)	3.7	6.6	296.1	46.9	(45.1)
Opg Profit Gth (%)	0.1	4.0	358.8	46.1	(46.5)
Net Profit Gth (Pre-ex) (%)	0.3	0.6	333.4	48.1	(46.5)
Margins & Ratio					
Gross Margins (%)	20.6	20.1	44.0	43.0	36.0
Opg Profit Margin (%)	16.5	16.0	39.1	38.0	31.1
Net Profit Margin (%)	14.1	13.2	30.5	30.0	24.5
ROAE (%)	19.3	17.4	58.9	60.7	25.4
ROA (%)	15.7	14.4	51.3	53.9	23.0
ROCE (%)	18.3	16.7	57.5	59.6	25.0
Div Payout Ratio (%)	77.3	84.3	40.0	40.0	40.0
Net Interest Cover (x)	160.7	235.6	1,080.9	1,579.6	845.2

Source: Company, DBS Bank

Riverstone Holdings

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)
Gross Profit	95.1	94.9	94.9	104	198
Other Oper. (Exp)/Inc	(19.7)	(18.3)	(20.4)	(20.4)	(22.3)
Operating Profit	75.4	76.6	74.5	83.5	175
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
Pre-tax Profit	74.9	76.1	74.2	83.3	175
Tax	(10.3)	(11.1)	(11.4)	(15.6)	(37.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	64.6	65.0	62.7	67.7	138
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
Opp 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
Opp 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	2022F
Net Fixed Assets	484	511	520	481	489
Invt 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 Invt	97.0	130	236	595	1,045
Inventory	83.6	97.3	104	159	118
Debtors	158	155	371	558	365
Other Current Assets	20.9	8.91	8.91	8.91	8.91
Total Assets	873	933	1,271	1,832	2,056
ST Debt	7.00	6.00	6.00	6.00	6.00
Creditor	126	113	112	171	127
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	1,129	1,631	1,899
Minority Interests	0.01	0.01	0.01	0.01	0.01
Total Cap. & Liab.	873	933	1,271	1,832	2,056
Non-Cash Wkg. Capital	130	141	365	547	358
Net Cash/(Debt)	77.0	117	223	582	1,032
Debtors Turn (avg days)	60.1	57.7	51.7	60.8	92.3
Creditors Turn (avg days)	60.3	58.7	43.2	35.6	50.5
Inventory Turn (avg days)	41.0	44.5	38.7	33.1	46.9
Asset Turnover (x)	1.1	1.1	1.7	1.8	0.9
Current Ratio (x)	2.6	3.1	5.8	7.2	11.0
Quick Ratio (x)	1.8	2.3	4.9	6.3	10.1
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

Riverstone Holdings

Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	151	157	725	1,059	566
Dep. & Amort.	41.3	48.0	90.9	139	91.2
Tax Paid	(23.4)	(26.7)	(159)	(222)	(119)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(2.8)	(10.2)	(224)	(182)	190
Other Operating CF	1.03	(0.6)	0.0	0.0	0.0
Net Operating CF	167	168	432	794	728
Capital Exp.(net)	(126)	(76.7)	(100.0)	(100.0)	(100.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs 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	(126)	(76.7)	(100.0)	(100.0)	(100.0)
Div Paid	(51.9)	(51.9)	(226)	(335)	(179)
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
Net Financing CF	(56.9)	(58.9)	(226)	(335)	(179)
Currency Adjustments	(1.6)	1.16	0.0	0.0	0.0
Chg in Cash	(17.2)	33.4	106	359	449
Opg CFPS (S cts)	3.77	3.95	14.5	21.6	11.9
Free CFPS (S cts)	0.91	2.02	7.35	15.4	13.9

Source: Company, DBS Bank

Target Price & 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
7:	10 Nov 20	1.63	2.03	HOLD

Source: DBS Bank

Analyst: Lee Keng LING

Riverstone Holdings

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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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
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
Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

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

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: indonesiaresearch@dbs.com