

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

12 May 2022

HOLD (Downgrade from BUY)

Last Traded Price (11 May 2022): S\$0.755 (STI : 3,226.07)

Price Target 12-mth: S\$0.82 (8% upside) (Prev S\$0.97)

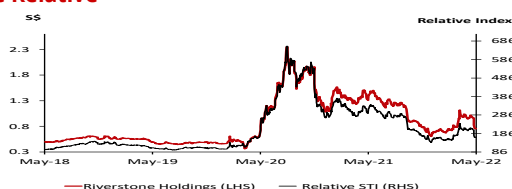
Analyst

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What's New

- 1Q22 in line; weaker margins y-o-y due to normalisation of demand and ASPs
- Margin pressure expected, going forward, owing to rising raw materials, labour, utilities costs
- Remain positive in the medium to long term, as cleanroom segment to provide earnings resiliency for sustainable growth
- But given lack of near-term catalysts, we cut to HOLD with a lower TP of S\$0.82

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2020A	2021A	2022F	2023F
Revenue	1,830	3,082	1,592	1,738
EBITDA	894	1,915	657	702
Pre-tax Profit	841	1,859	578	615
Net Profit	647	1,418	387	473
Net Pft (Pre Ex.)	647	1,418	387	473
Net Pft Gth (Pre-ex) (%)	396.3	119.1	(72.7)	22.3
EPS (S cts)	13.9	30.3	8.28	10.1
EPS Pre Ex. (S cts)	13.9	30.3	8.28	10.1
EPS Gth Pre Ex (%)	396	119	(73)	22
Diluted EPS (S cts)	13.9	30.3	8.28	10.1
Net DPS (S cts)	6.99	15.3	3.31	4.05
BV Per Share (S cts)	29.1	49.9	54.9	61.0
PE (X)	5.5	2.5	9.1	7.5
PE Pre Ex. (X)	5.5	2.5	9.1	7.5
P/Cash Flow (X)	5.0	2.2	6.3	6.4
EV/EBITDA (X)	3.2	1.0	2.5	1.9
Net Div Yield (%)	9.3	20.2	4.4	5.4
P/Book Value (X)	2.6	1.5	1.4	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	60.3	76.8	15.8	17.5
Earnings Rev (%):			0	0
Consensus EPS (S cts):			7.6	7.8
Other Broker Recs:		B: 2	S: 0	H: 3

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

Lacking near-term catalysts

Investment Thesis:

Downgrade to HOLD due to lack of near-term catalysts and margin pressures, suspending coverage due to reallocation of internal resources. With a lack of catalysts in the near term after the recent payment of the 38 sen (c.12.2Scts) special and final DPS, coupled with margin pressure, we downgrade the stock to HOLD. We do not expect a repeat of the high dividend payment, given a normalised demand and average selling price (ASP) environment. Demand and ASP for healthcare gloves (HC), which accounts for the bulk of revenue, are normalising from its high amid COVID, though cleanroom (CR) is still firm. Furthermore, we expect to see margin pressure from rising raw material, labour, and utility costs and have penciled in a lower net margin of 24.3% in FY22F, vs. 27% in 1Q22.

Remain positive in the medium to long term. We remain positive about Riverstone in the long term. The group stands out among its peers as the market leader in the high-end cleanroom space. CR gloves currently account for c.20% in terms of production volume in FY21 and about 25% out of total revenue and earnings. Going forward, we expect the CR segment to contribute about 60% to total earnings. The CR segment is expected to provide earnings resiliency for sustainable growth.

Valuation:

Cut to HOLD with a lower TP of S\$0.82. Our TP is reduced to S\$0.82 (previously S\$0.97), pegged to its four-year average PE of 8.5x (previously 10x) on blended FY22F and FY23F earnings to reflect a more normalised environment.

Where we differ:

We are cautious about margins, given the inflationary pressure on raw materials, energy costs, and also higher labour costs.

Key Risks to Our View:

A steeper-than-expected reduction in the ASP and/or oversupply of gloves.

At A Glance

Issued Capital (m shrs)	1,482
Mkt. Cap (S\$m/US\$m)	1,119 / 805
Major Shareholders (%)	
Ringlet Investment Ltd	50.8
Lee Wai Keong	8.8
Free Float (%)	40.4
3m Avg. Daily Val (US\$m)	4.5
GIC Industry : Health Care / Health Care Equipment & Services	



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Riverstone Holdings

WHAT'S NEW

1Q22 in line; weaker margins due to normalisation of demand and ASP trends

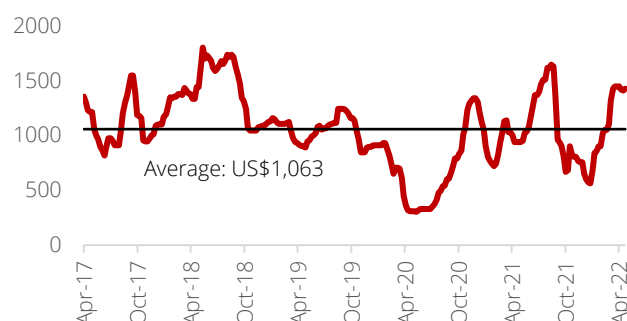
1Q22 results in line; weaker margins on the back of normalised demand and lower ASP, especially for healthcare gloves. Riverstone registered 1Q22 revenue of RM402.3m (-61.0% y-o-y, -1.9% q-o-q). The erosion of ASP for HC gloves has led to a decrease in gross profit to RM154.5m (-78.2% y-o-y, +0.1% q-o-q) in 1Q22 and a decrease in the blended gross profit margin to 38.4% from 68.6% in 1Q21. Net profit, as a result, decreased to RM108.7m (-79.2% y-o-y, -1.8% q-o-q). Revenue and net profit account for 25% and 28% of our full-year forecasts, in line.

Demand for HC gloves normalising from high amid COVID; CR still firm. With the majority of the world adopting an endemic approach to COVID-19, demand for HC gloves has normalised – a trend that was evident since 4Q21. Moreover, HC gloves ASP is far from the historic highs seen in 1Q21. Demand for CR gloves remains firm, on the back of keen demand from the technology, pharmaceutical, and manufacturing industries such as for lenses, batteries, and semiconductors.

ASP for HC nearing bottom; CR stable. The ASP for HC gloves eased further from about US\$37-38 per 1,000 pieces in 4Q21 to about US\$25-30 in 1Q22. Average ASP is expected to stabilise at around the US\$25 level. We project an ASP of US\$24 per 1,000 pieces for FY22F and US\$22 for FY23F as more capacity comes online. For the CR segment, prices are expected to remain firm, at slightly above the US\$100 level.

Margin pressure from rising raw material prices, labour, utilities. Though ASPs are expected to stabilise, we expect lower margins going forward, mainly due to rising inflationary pressure. Though 1Q22 reflected a reduction in raw material prices, mainly due to competition among suppliers – a trend that could last for another one to two months – we would not rule out an increase in prices in 2H22. The price of butadiene, which accounts for the bulk of the raw material costs for nitrile gloves, has surged about 150% to c.US\$1,400-1,500/metric tonne, from c.US\$600 as at end-2021, on the back of rising oil prices. It is now above the five-year average of slightly over US\$1,000.

Butadiene prices (US\$/metric tonne)



Source: DBS Bank; Bloomberg Finance L.P.

Labour costs, which account for c.15% of total cost, are also on the rise, especially with the implementation of the minimum wage of RMB1,500 in Malaysia from 1 May. The group's Malaysia manufacturing plant has about 3,000 workers, with the majority of them earning about RMB1,400 to RMB1,500 a month. Though the impact can be mitigated by automation for processes such as glove stripping and packing to increase productivity and reduce manpower, in the near term, we could still expect some pressure on the margin.

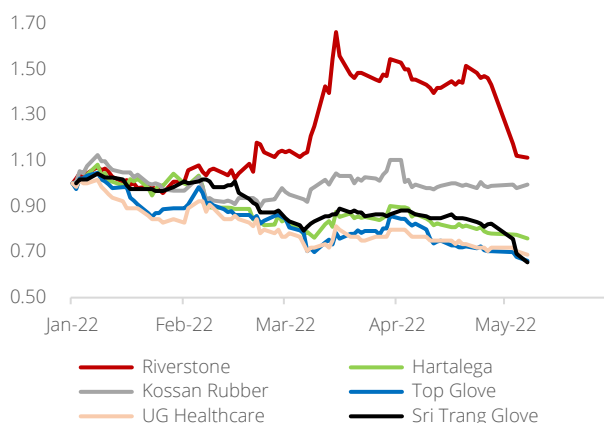
Utility costs, which account for another c.15% of total cost, are also trending higher on the back of the high oil prices.

Overall, we have penciled in a lower net margin of 24.3% in FY22F, vs. 27% in 1Q22.

Riverstone Holdings

Outperformed peers YTD. Riverstone's share price has done well YTD, surging to a high of S\$1.13 in March, before the payment of the final and special DPS of 38 sen (c.12.2Scts), and surpassed our TP of S\$0.97.

Share price relative performance



Source: DBS Bank; Bloomberg Finance L.P.

Downgrade to HOLD due to lack of near-term catalysts, margin pressure. With a lack of catalysts in the near term after the recent payment of the 38 sen (c.12.2Scts) special and final DPS, coupled with margin pressure, we

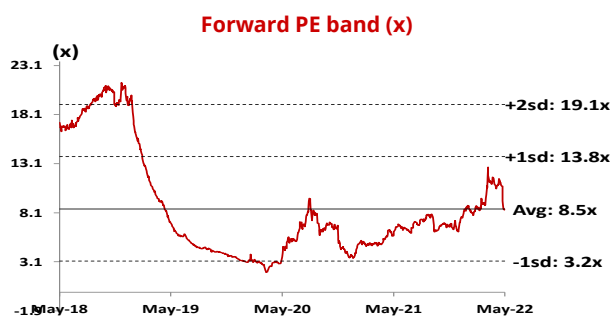
downgrade the stock to HOLD. We do not expect a repeat of the high dividend payment, given a normalised demand and ASP environment. No change to earnings forecasts. Our TP is reduced to S\$0.82 (previously S\$0.97), pegged to its four-year average PE of 8.5x (previously 10x) on blended FY22F and FY23F earnings to reflect a more normalised environment.

Remain positive in the medium to long term. We remain positive about Riverstone in the longer term. The group stands out among its peers as the market leader in the high-end cleanroom space. CR gloves currently account for c.20% in terms of production volume in FY21 and about 25% out of total revenue and earnings. Going forward, we expect the CR segment to contribute about 60% to total earnings. The CR segment is expected to provide earnings resiliency for sustainable growth.

Company Background

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

Historical PE and PB band



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



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

Riverstone Holdings

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Capital Expenditure	76.7	99.2	156	100	100
Production Capacity (m)	8,280	9,215	8,840	9,360	10,710
Cleanroom Gloves (m)	1,242	1,382	1,768	1,966	2,356
Healthcare Gloves (m)	7,038	7,833	7,072	7,394	8,354
Operating Margins (%)	16.0	46.0	60.3	36.3	35.4

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMm)					
Nitrile Gloves	935	1,729	2,878	1,505	1,642
Natural Latex Gloves	28.7	53.1	88.3	46.2	50.4
Other Non-Gloves	25.7	47.6	116	41.4	45.2
Total	989	1,830	3,082	1,592	1,738

Income Statement (RMm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	989	1,830	3,082	1,592	1,738
Cost of Goods Sold	(790)	(932)	(1,176)	(1,003)	(1,112)
Gross Profit	199	898	1,907	589	626
Other Opg (Exp)/Inc	(40.8)	(55.9)	(48.1)	(11.3)	(10.6)
Operating Profit	158	842	1,859	578	615
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	(0.7)	(0.4)	(0.2)	(0.2)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	157	841	1,859	578	615
Tax	(27.0)	(194)	(441)	(191)	(141)
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	647	1,418	387	473
Net Profit before Except.	130	647	1,418	387	473
EBITDA	206	894	1,915	657	702
Growth					
Revenue Gth (%)	7.4	85.0	68.5	(48.3)	9.1
EBITDA Gth (%)	6.6	334.0	114.1	(65.7)	6.8
Opg Profit Gth (%)	4.0	432.4	120.8	(68.9)	6.4
Net Profit Gth (Pre-ex) (%)	0.6	396.3	119.1	(72.7)	22.3
Margins & Ratio					
Gross Margins (%)	20.1	49.1	61.9	37.0	36.0
Opg Profit Margin (%)	16.0	46.0	60.3	36.3	35.4
Net Profit Margin (%)	13.2	35.4	46.0	24.3	27.2
ROAE (%)	17.4	60.3	76.8	15.8	17.5
ROA (%)	14.4	49.4	64.6	14.0	15.9
ROCE (%)	16.7	58.2	74.5	15.4	17.1
Div Payout Ratio (%)	42.1	50.5	50.3	40.0	40.0
Net Interest Cover (x)	235.6	2,371.0	12,391.6	3,852.0	4,100.2

Source: Company, DBS Bank

Riverstone Holdings

Interim Income Statement (RMm)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	509	627	1,203	2,019	1,063
Cost of Goods Sold	(405)	(429)	(503)	(624)	(551)
Gross Profit	104	198	700	1,395	512
Other Oper. (Exp)/Inc	(20.4)	(22.3)	(33.6)	(35.7)	(12.4)
Operating Profit	83.5	175	666	1,359	499
Other Non Opp (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	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	83.3	175	666	1,359	499
Tax	(15.6)	(37.7)	(156)	(319)	(122)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	67.7	138	510	1,041	377
Net profit bef Except.	67.7	138	510	1,041	377
EBITDA	108	201	693	1,387	527

Growth

Revenue Gth (%)	5.9	23.2	92.0	67.8	(47.4)
EBITDA Gth (%)	10.3	86.0	244.9	100.1	(62.0)
Opp Profit Gth (%)	12.1	110.0	279.8	104.0	(63.3)
Net Profit Gth (%)	7.9	103.2	270.6	104.2	(63.8)

Margins

Gross Margins (%)	20.4	31.6	58.2	69.1	48.1
Opp Profit Margins (%)	16.4	28.0	55.4	67.3	47.0
Net Profit Margins (%)	13.3	21.9	42.4	51.5	35.5

Balance Sheet (RMm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	511	587	691	712	725
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	30.7	0.57	0.82	0.82	0.82
Cash & ST Invts	130	649	1,613	1,921	2,180
Inventory	97.3	122	153	41.2	45.7
Debtors	155	320	232	143	156
Other Current Assets	8.91	9.25	9.64	9.64	9.64
Total Assets	933	1,688	2,700	2,827	3,116
ST Debt	6.00	6.52	7.77	7.77	7.77
Creditor	113	166	153	47.8	53.1
Other Current Liab	7.24	109	151	151	151
LT Debt	7.00	1.54	0.0	0.0	0.0
Other LT Liabilities	10.1	46.2	55.1	55.1	55.1
Shareholder's Equity	789	1,358	2,332	2,565	2,849
Minority Interests	0.01	0.01	0.01	0.01	0.01
Total Cap. & Liab.	933	1,688	2,700	2,827	3,116
Non-Cash Wkg. Capital	141	176	90.4	(5.9)	6.41
Net Cash/(Debt)	117	641	1,605	1,913	2,172
Debtors Turn (avg days)	57.7	47.3	32.7	42.9	31.3
Creditors Turn (avg days)	58.7	57.9	52.0	39.7	18.0
Inventory Turn (avg days)	44.5	45.5	44.8	38.4	15.5
Asset Turnover (x)	1.1	1.4	1.4	0.6	0.6
Current Ratio (x)	3.1	3.9	6.4	10.2	11.3
Quick Ratio (x)	2.3	3.4	5.9	10.0	11.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	590.2	1,231.2	2,007.9	1,287.8	1,287.8
Z-Score (X)	34.9	38.7	36.6	36.6	36.6

Source: Company, DBS Bank

Riverstone Holdings

Cash Flow Statement (RMm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	157	841	1,859	578	615
Dep. & Amort.	48.0	52.6	55.8	79.6	86.9
Tax Paid	(26.7)	(62.1)	(441)	(191)	(141)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(10.2)	(127)	28.1	96.3	(12.3)
Other Operating CF	(0.6)	(2.1)	68.0	0.0	0.0
Net Operating CF	168	703	1,570	563	548
Capital Exp.(net)	(76.7)	(99.2)	(156)	(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	(76.7)	(99.2)	(156)	(100.0)	(100.0)
Div Paid	(51.9)	(73.0)	(445)	(155)	(189)
Chg in Gross Debt	(7.0)	(6.5)	(6.5)	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	(58.9)	(79.5)	(451)	(155)	(189)
Currency Adjustments	1.16	(5.5)	1.27	0.0	0.0
Chg in Cash	33.4	519	964	308	259
Opg CFPS (S cts)	3.81	17.8	33.0	9.99	12.0
Free CFPS (S cts)	1.95	12.9	30.3	9.91	9.59

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:	11 May 21	1.32	1.86	BUY
2:	10 Aug 21	1.27	1.77	BUY
3:	04 Oct 21	0.88	1.28	BUY
4:	10 Nov 21	0.79	1.20	BUY
5:	24 Feb 22	0.82	0.97	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

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

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