

COMPANY RESULTS

Riverstone Holdings (RSTON SP)

1Q22: Positive Signs That The Worst Is Over

RSTON released its 1Q22 update, showing sharp yoy falls in revenue and net profit, largely in line with expectations. Healthcare glove ASPs appear to be reaching a plateau which could help support earnings as raw material costs start moderating. Cleanroom gloves, a key driver for future earnings growth, saw 1Q22 ASPs and sales volumes remaining steady from strong secular demand. Maintain HOLD with a slightly lower target price of S\$0.80.

1Q22 RESULTS

Year to 31 Dec (RMm)	1Q22	1Q21	yoy% chg	1Q22	4Q21	qoq% chg
Revenue	402.3	1,032.3	(61.0)	402.3	410.2	(1.9)
Gross Profit	154.5	708.3	(78.2)	154.5	154.4	0.1
Profit Before Tax	144.0	683.9	(78.4)	144.0	149.0	(3.4)
Net Profit to Equity Holders	108.7	522.7	(79.1)	108.7	110.7	(1.8)

Source: Riverstone Holdings, Bloomberg, UOB Kay Hian

RESULTS

- Sharp yoy falls as ASPs normalise.** For 1Q22, Riverstone Holdings (RSTON) reported revenue and net profit of RM402.3m (-61.0% yoy, -1.9% qoq) and RM108.7m (-79.2% yoy, -1.8% qoq) respectively, forming 22.1% and 25.2% of our full-year 2022 forecasts and largely in line with our expectations. The sharp yoy fall in revenue is largely due to the normalisation of healthcare gloves ASPs from pandemic highs. Gross profit fell 78.2% yoy as margins contracted due to shrinking ASPs, forming 24.9% of our full-year forecasts and in line with expectations. However, 1Q22 gross margins improved qoq to 38.4ppt from 37.7ppt in 4Q21, driven by a drop in raw material costs for healthcare gloves and robust sales volume from the higher-margin cleanroom gloves segment.
- Healthcare segment reaching a plateau.** On a qoq basis, 1Q22 revenue and net profit only softened 1.9% and 1.8% respectively. This is largely due to healthcare gloves sales volume increasing 21% qoq despite ASPs (around US\$30/000pcs in 1Q22) falling in the same quarter. Furthermore, raw material costs also softened from US\$29/000pcs to US\$24/000pcs in 1Q22, supporting gross margins. Healthcare gloves formed 80%/58%/40% of RSTON's 1Q22 overall sales volume/revenue/gross profit respectively. Moving forward, management has noted that demand, ASPs and raw material costs have stabilised going into 2Q22.
- Cleanroom gloves steady and resilient.** For the cleanroom glove segment, ASPs and sales volumes were similar as of the preceding quarter, backed by strong global semiconductor and electronics demand. Current ASPs are at US\$100-110/000pcs, holding steady as greater demand for higher specifications of customisable cleanroom gloves has led to RSTON holding ASPs or increasing them slightly. Also, pharmaceutical customers now contribute 15% of cleanroom gloves revenue, a potential new growth driver that RSTON is planning to increase market share in. As of 1Q22, RSTON commands roughly 40% of global market share within its respective product classifications. Management expects volumes for the cleanroom glove segment to increase slightly moving forward due to resilient global demand.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,830	3,082	1,823	1,932	2,121
EBITDA	894	1,915	619	649	681
Operating profit	842	1,859	557	583	612
Net profit (rep./act.)	647	1,418	420	441	468
Net profit (adj.)	647	1,418	420	441	468
EPS (sen)	43.7	95.7	28.3	29.8	31.6
PE (x)	5.5	2.5	8.4	8.0	7.6
P/B (x)	2.6	1.5	1.6	1.5	1.3
EV/EBITDA (x)	2.3	1.1	3.4	3.2	3.1
Dividend yield (%)	9.2	15.9	6.3	6.7	8.0
Net margin (%)	35.4	46.0	23.1	22.8	22.1
Net debt/(cash) to equity (%)	(47.2)	(69.1)	(66.4)	(67.3)	(68.3)
Interest cover (x)	2,519.1	12,763.5	n.a.	6,490.0	6,809.0
ROE (%)	60.3	76.8	18.6	19.2	18.5
Consensus net profit	-	-	354	361	341
UOBKH/Consensus (x)	-	-	1.19	1.22	1.37

Source: Riverstone, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.755
Target Price	S\$0.80
Upside	+6.0%
(Previous TP)	S\$0.82

COMPANY DESCRIPTION

Riverstone Holdings produces, sells and distributes cleanroom products for use in highly-controlled and critical environments. Products include nitrite and natural rubber gloves, cleanroom packaging materials and finger cots, as well as face masks, face pouches, hoods, caps, jumpsuits and swabs.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	RSTON SP
Shares issued (m):	1,482.2
Market cap (S\$m):	1,119.0
Market cap (US\$m):	808.1
3-mth avg daily t'over (US\$m):	4.6

Price Performance (%)

52-week high/low S\$1.44/S\$0.578

1mth	3mth	6mth	1yr	YTD
(21.8)	5.2	1.8	(40.6)	12.0

Major Shareholders

Shareholder	%
Wong Teek Son	51.3
Lee Wai Keong	8.8

FY22 NAV/Share (S\$) 1.48

FY22 Net Cash/Share (S\$) 0.98

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Phase 7 capacity expansion close to completion; phase 8 about to start.** New capacity of 1.5b pcs from phase 7 expansion is expected to be completed by end-22, expanding total capacity to 12.0b pcs/year. Management has also guided that plans for phase 8 are about to start, with an additional 1.5bpcs/year to RSTON's total capacity by end-23. Current utilisation rates are at 80% but are expected to increase as Malaysia has reopened its international borders, allowing workers to return back to Malaysia.

EARNINGS REVISION/RISK

- **We lower our 2022-24 net earnings by 2.6%/2.3%/1.3% respectively**, after accounting for higher operating costs caused by higher wages and ongoing inflation.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower PE-based target price of S\$0.80 (S\$0.82 previously)**, pegged to the same 9.2x 2022F PE. We base our valuation at -1SD of RSTON's long-term forward PE.
- RSTON's supernormal earnings have normalised sharply from the peak in 2021, with healthcare glove ASPs starting to stem its sharp decline and expected to stabilise at current levels. Coupled with robust earnings from the cleanroom segment, we now reckon that there is limited downside to earnings given that most countries are still undergoing Omicron outbreaks and facing the emergence of new Omicron sub-variants. However, trading slightly below -1SD of its long-term forward PE, we opine that there are no strong catalysts to justify RSTON trading at higher valuations.

SHARE PRICE CATALYST

- Emergence of a deadly COVID-19 variant.
- Better-than-expected ASP hike and operating leverage.

PEER COMPARISON

Company	Ticker	Rec	Price @ 11 May 22 (lcy)	Target Price (lcy)	Upside to TP (%)	Market Cap (US\$m)	PE			EV/EBITDA 2022 (x)	P/B 2022 (x)	Yield 2022 (%)	ROE 2022 (%)	Net Gearing (%)
							2021 (x)	2022 (x)	2023 (x)					
Hartalega	HART MK	HOLD	4.35	4.60	5.7	3,397	4.6	4.6	26.3	2.6	2.9	12.1	64.1	(47.7)
Kossan Rubber	KRI MK	HOLD	1.85	1.90	2.7	1,079	1.7	14.7	14.5	4.5	1.1	2.4	7.8	(56.2)
Supermax	SUCB MK	HOLD	1.03	1.20	16.5	627	0.7	3.7	13.3	(0.2)	0.5	8.4	15.0	(62.4)
Top Glove	TOPG MK	HOLD	1.53	1.50	(2.0)	2,799	1.6	27.7	14.9	12.1	2.0	2.6	7.3	(12.7)
Average							2.1	12.7	17.3	4.7	1.6	6.4	23.6	(44.7)
Riverstone	RSTON SP	HOLD	0.76	0.80	6.0	808	2.5	8.4	8.0	3.4	1.6	6.3	18.6	(66.4)

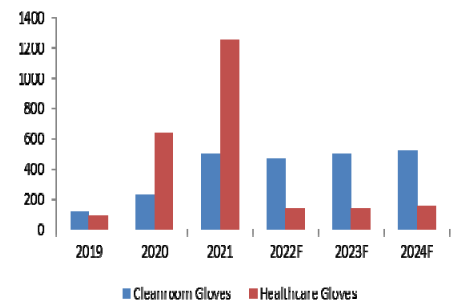
Source: Riverstone, Bloomberg, UOB Kay Hian

FORWARD FIVE-YEAR PE BAND



Source: Bloomberg, UOB Kay Hian

SEGMENTAL GROSS PROFIT (MYRM)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	3,082.4	1,822.8	1,932.0	2,120.7
EBITDA	1,914.5	619.4	649.0	680.9
Deprec. & amort.	55.8	62.9	66.2	69.2
EBIT	1,858.7	556.5	582.8	611.7
Net interest income/(expense)	(0.2)	0.0	(0.1)	(0.1)
Pre-tax profit	1,858.6	556.5	582.7	611.6
Tax	(440.7)	(136.4)	(141.6)	(143.7)
Minorities	0.0	0.0	0.0	0.0
Net profit	1,417.9	420.2	441.1	467.8
Net profit (adj.)	1,417.9	420.2	441.1	467.8

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	691.2	728.3	762.1	792.9
Other LT assets	0.8	0.8	0.8	0.8
Cash/ST investment	1,612.9	1,454.9	1,622.5	1,804.4
Other current assets	394.7	382.9	396.3	413.5
Total assets	2,699.6	2,566.9	2,781.7	3,011.6
ST debt	1.6	0.0	1.0	1.0
Other current liabilities	310.4	322.4	316.4	315.6
LT debt	0.0	0.0	1.0	1.0
Other LT liabilities	55.1	55.1	55.1	55.1
Shareholders' equity	2,332.5	2,189.4	2,408.2	2,638.9
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	2,699.6	2,566.9	2,781.7	3,011.6

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	1,569.8	506.7	487.9	519.0
Pre-tax profit	1,858.6	556.5	582.7	611.6
Tax	(440.7)	(136.4)	(141.6)	(143.7)
Deprec. & amort.	55.8	62.9	66.2	69.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	28.1	23.7	(19.4)	(18.0)
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	68.2	0.0	0.0	0.0
Investing	(155.9)	(100.0)	(100.0)	(100.0)
Capex (growth)	(156.3)	(100.0)	(100.0)	(100.0)
Proceeds from sale of assets	0.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(451.2)	(564.8)	(220.3)	(237.1)
Dividend payments	(444.7)	(563.2)	(222.3)	(237.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(6.5)	(1.6)	2.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	962.7	(158.1)	167.6	181.9
Beginning cash & cash equivalent	648.9	1,612.9	1,454.9	1,622.5
Changes due to forex impact	1.3	0.0	0.0	0.0
Ending cash & cash equivalent	1,612.9	1,454.9	1,622.5	1,804.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	62.1	34.0	33.6	32.1
Pre-tax margin	60.3	30.5	30.2	28.8
Net margin	46.0	23.1	22.8	22.1
ROA	64.6	16.0	16.5	16.2
ROE	76.8	18.6	19.2	18.5
Growth				
Turnover	68.5	(40.9)	6.0	9.8
EBITDA	114.1	(67.6)	4.8	4.9
Pre-tax profit	120.9	(70.1)	4.7	5.0
Net profit	119.1	(70.4)	5.0	6.1
Net profit (adj.)	119.1	(70.4)	5.0	6.1
EPS	119.1	(70.4)	5.0	6.1
Leverage				
Debt to total capital	0.1	0.0	0.1	0.1
Debt to equity	0.1	0.0	0.1	0.1
Net debt/(cash) to equity	(69.1)	(66.4)	(67.3)	(68.3)
Interest cover (x)	12,763.5	n.a.	6,490.0	6,809.0

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