

Singapore

ADD (previously HOLD)

Consensus ratings*: Buy 0 Hold 2 Sell 0

Current price:	S\$0.605
Target price:	S\$0.75
Previous target:	S\$0.60
Up/downside:	24.0%
CGS-CIMB / Consensus:	23.0%
Reuters:	RVHL.SI
Bloomberg:	RSTON SP
Market cap:	US\$661.2m
	S\$896.7m
Average daily turnover:	US\$0.33m
	S\$0.46m
Current shares o/s:	1,482m
Free float:	32.6%

*Source: Bloomberg

Key changes in this note

- FY23-25F EPS raised by 16.4-19.4% on higher healthcare segment ASP and GPM assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.8	-4	6.1
Relative (%)	0.6	-0.6	4.5

Major shareholders	% held
Ringlet Investment Limited	50.8
Lee Wai Keong	10.9
Wong Teck Choon	3.2

Analyst(s)



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Riverstone Holdings

Emerging stronger

- 3Q23 net profit of RM59m (+26% qoq) was a beat as GPM rose 6% pts qoq as its focus on customised gloves pays off with higher prices and margins.
- RSTON has observed slight demand improvement in the cleanroom segment since 4Q23F and is upbeat on further recovery in FY24F.
- Upgrade to Add with a TP of S\$0.75 as we like RSTON's nimble execution and expect it to emerge stronger from the industry downcycle vs. peers.

3Q23 a beat on stronger GPM

Riverstone Holding's (RSTON) 3Q23 net profit of RM59m (+26% qoq, -7% yoy) was above expectations, with 9M23 net profit forming 85% of our FY23F. While 3Q23 revenue was flattish qoq, GPM expanded 6% pts qoq, driven by: 1) a stronger product mix, with higher proportion of customised healthcare gloves sold, 2) lower raw material price, and 3) weaker RM against US\$. RSTON declared a 5 sen DPS in 3Q23, bringing YTD payout to 10 sen DPS (4.8% dividend yield), which translates into a 97% dividend payout ratio.

Strategy to focus on customised gloves pays off

While selling prices for generic healthcare gloves remained flattish qoq in 3Q23, RSTON was able to lift its segment ASP and GPM via its emphasis on growing its customised glove offerings. Catered to laboratory use or corrosion-resistant applications, such products can command GPM of up to c.30% (compared to <5% for generic gloves). RSTON notes that there is limited competition for this niche market currently, and it was able to capture this opportunity as its dipping lines was designed to cater to more flexible manufacturing originally intended for cleanroom glove production. RSTON is currently reconfiguring one of its plants (previously decommissioned) to cater to production of customised gloves and expects new capacity to come onstream from 2Q24F onwards.

Cleanroom segment hopeful for a better FY24F

While cleanroom glove demand remained weak in 3Q23, RSTON has observed a slight demand improvement in 4Q23F and expects further recovery in FY24F, with stronger demand by existing customers and new customer wins in the pharma industry. RSTON lowered selling prices for its lower-end cleanroom offerings by c.3% in 4Q23F but believes that the negative revenue impact can be more than offset by stronger volumes.

Upgrade to Add

We upgrade RSTON from Hold to Add as we believe that the glove industry is showing early signs of recovery. We think RSTON can emerge stronger from the industry downcycle vs. peers with its nimble execution, as it prioritises higher-margin customised products and its unique cleanroom offerings. Our higher TP of S\$0.75 is based on 14.5x CY25F P/E (1 s.d. below RSTON's 5-year pre-Covid historical mean) as we lift our EPS forecasts and roll over our valuation base year. Re-rating catalysts include higher dividend payout and stronger improvement in glove demand outlook with distributors' inventory levels normalising. Downside risks include weaker-than-expected cleanroom demand amid a still sluggish semiconductor sector, which could pressure RSTON's ASPs and margins.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (RMm)	3,082	1,260	917	950	1,040
Operating EBITDA (RMm)	1,898	457	289	343	372
Net Profit (RMm)	1,418	314	210	245	262
Core EPS (RM)	0.96	0.21	0.14	0.17	0.18
Core EPS Growth	119%	(78%)	(33%)	17%	7%
FD Core P/E (x)	2.21	9.95	14.90	12.77	11.93
DPS (RM)	0.48	0.34	0.14	0.15	0.14
Dividend Yield	22.8%	16.1%	6.6%	7.1%	6.6%
EV/EBITDA (x)	0.80	4.51	7.59	6.48	6.06
P/FCFE (x)	2.22	12.63	20.24	17.54	16.65
Net Gearing	(69.1%)	(57.5%)	(52.6%)	(49.9%)	(47.0%)
P/BV (x)	1.34	1.69	1.76	1.72	1.69
ROE	76.8%	15.0%	11.6%	13.6%	14.3%
% Change In Core EPS Estimates			16.4%	19.4%	16.4%
EPS/Consensus EPS (x)			1.01	1.03	0.96

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Emerging stronger

Figure 1: Results comparison

FYE Dec (RM)	3QFY23	3QFY22	yoy % chg	2QFY23	qoq % chg	9MFY23	9MFY22	yoy % chg	Prev. FY23F	Comments
Revenue	222.8	270.0	(17.5)	224.2	(0.6)	685.0	1,024.3	(33.1)	979.7	
COGS	(145.0)	(178.8)	(18.9)	(159.4)	(9.0)	(480.4)	(644.8)	(25.5)	(712.7)	
Gross profit	77.8	91.2	(14.7)	64.8	20.1	204.6	379.5	(46.1)	267.1	
<i>Gross margin</i>	<i>34.9%</i>	<i>33.8%</i>		<i>28.9%</i>		<i>29.9%</i>	<i>37.0%</i>		<i>27.3%</i>	
Pretax profit	73.5	87.9	(16.4)	61.6	19.3	194.8	358.8	(45.7)	234.1	
<i>PBT margin</i>	<i>33.0%</i>	<i>32.6%</i>		<i>27.5%</i>		<i>28.4%</i>	<i>35.0%</i>		<i>23.9%</i>	
Net profit	59.3	63.5	(6.6)	46.9	26.4	152.9	272.4	(43.9)	180.2	9M23 made up 85% of our FY23F estimates
<i>NPAT margin</i>	<i>26.6%</i>	<i>23.5%</i>		<i>20.9%</i>		<i>22.3%</i>	<i>26.6%</i>		<i>18.4%</i>	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revision

Earnings revision (RMm)	FY23F			FY24F			FY25F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	980	917	-6.4%	1,184	950	-19.8%	1,298	1,040	-19.9%
EBITDA	256	289	13.0%	307	343	11.8%	341	372	9.2%
Net profit	180	210	16.4%	205	245	19.4%	225	262	16.4%
Core net profit	180	210	16.4%	205	245	19.4%	225	262	16.4%
Core EPS (RM cents)	12.2	14.2	16.4%	13.8	16.5	19.4%	15.2	17.7	16.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Other downside risks to RSTON include inability to pass on higher raw material costs to customers, which could negatively impact margins, or a faster-than-expected appreciation of RM against US\$.



Figure 3: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY23F	P/E (x) CY24F	3-year EPS CAGR (%)	P/BV (x) CY23F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
Riverstone Holdings	RSTON SP	Add	0.61	0.75	661	14.9	12.8	-8.1%	1.76	12.0%	6.6%
Malaysia glovemakers											
Hartalega Holdings	HART MK	Not Rated	2.07	na	1,576	nm	54.5	-28.9%	1.58	-0.5%	6.8%
Kossan Rubber Industries	KRI MK	Not Rated	1.34	na	754	nm	44.7	-6.7%	0.91	-1.4%	0.4%
Supermax Corp	SUCB MK	Not Rated	0.79	na	453	nm	43.6	-29.0%	0.46	-1.2%	2.5%
Top Glove Corporation	TOPG MK	Not Rated	0.74	na	1,313	nm	23.2	na	1.08	-9.9%	0.1%
Simple Average (Malaysia)						na	41.5	-21.5%	1.01	-3.3%	2.4%

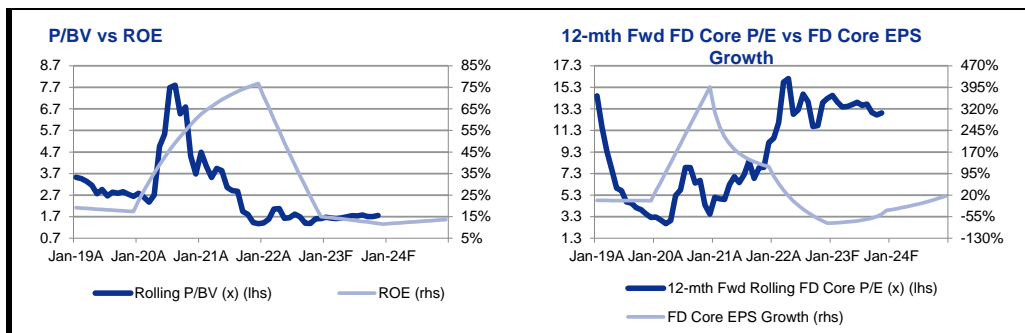
DATA AS AT 6 NOV 2023

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Note: Estimates for Not Rated companies are based on Bloomberg consensus

 <div style="float: right;"> Refinitiv ESG Scores  </div>	
<p>ESG in a nutshell</p> <p>Within the glove industry, we believe Riverstone (RSTON) has performed better vs. peers in ESG-related matters. Its commitment towards ensuring the rights of all workers are respected in accordance with national and international laws has been recognised, with the awarding of the Business Social Compliance Initiative (BSCI) for being compliant with the BSCI Code of Conduct. We think such a recognition is important, especially when multiple peers within the industry have been hit by forced labour scandals. RSTON has set a medium-term target to reduce its energy intensity by at least 10% from its 2020 levels (by 2025), and water intensity by c.25% over the same period.</p>	
<p>Keep your eye on</p> <p>Migrant worker and labour rights activist and researcher Andy Hall has filed petitions to the U.S. Customs and Border Protection with allegations of forced labour by three of the four Malaysian-listed glove companies under our coverage. Singapore-listed RSTON has recorded no incident of non-compliance with the relevant laws and regulations related to fair employment practices.</p>	<p>Implications</p> <p>RSTON has a total workforce of 3,010 as of Dec 2022, of which 34% are foreign workers. In terms of ESG, glove companies face the biggest risk in terms of social compliance issues.</p>
<p>ESG highlights</p> <p>RSTON is committed to ensuring that the rights of all workers are respected according to national and international laws, and its commitment is evident with the BSCI award for being compliant with the BSCI Code of Conduct.</p> <p>The group is well equipped with facilities for employees' convenience, such as an in-house clinic with full-time paramedics, 24-hour canteens, hostel accommodation, gymnasium, laundry, grocery shops and indoor sports arena, while its hostel management service is outsourced to a facilities management specialist to ensure that hostel facilities are well maintained at all times so that workers have good living conditions and their well-being is taken care of.</p>	<p>Implications</p> <p>We view RSTON's policies positively as an indication of its commitment to social compliance.</p>
<p>Trends</p> <p>RSTON has been making strides in environmental protection management. Its principal operating plant is in compliance with ISO 14001:2015 Environmental Management.</p> <p>RSTON has set a medium-term target to reduce its energy intensity by at least 10% from its 2020 levels (by 2025), and water intensity by c.25% over the same period.</p>	<p>Implications</p> <p>We are positive on RSTON's efforts to manage its environmental waste and resource usage, which have shown improvement over FY20-22, according to its Sustainability Report.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	3,082	1,260	917	950	1,040
Gross Profit	1,907	450	296	348	373
Operating EBITDA	1,898	457	289	343	372
Depreciation And Amortisation	(56)	(63)	(41)	(43)	(47)
Operating EBIT	1,843	394	248	300	325
Financial Income/(Expense)	16	23	25	18	15
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	1,859	417	273	318	340
Exceptional Items	0	0	0	0	0
Pre-tax Profit	1,859	417	273	318	340
Taxation	(441)	(103)	(63)	(73)	(78)
Exceptional Income - post-tax					
Profit After Tax	1,418	314	210	245	262
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,418	314	210	245	262
Recurring Net Profit	1,418	314	210	245	262
Fully Diluted Recurring Net Profit	1,418	314	210	245	262

Cash Flow

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	1,898	457	289	343	372
Cash Flow from Inv. & Assoc.	0	0	0	0	0
Change In Working Capital	28	130	(7)	(6)	(14)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2	1	0	0	0
Net Interest (Paid)/Received	16	23	25	18	15
Tax Paid	(374)	(229)	(63)	(73)	(78)
Cashflow From Operations	1,570	382	244	281	295
Capex	(156)	(133)	(89)	(103)	(107)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	0	0	0	0	0
Cash Flow From Investing	(156)	(133)	(89)	(103)	(107)
Debt Raised/(repaid)	(6)	(1)	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	(445)	(800)	(286)	(208)	(222)
Preferred Dividends					
Other Financing Cashflow	(1)	(1)	0	0	0
Cash Flow From Financing	(451)	(802)	(286)	(208)	(222)
Total Cash Generated	963	(553)	(132)	(29)	(35)
Free Cashflow To Equity	1,408	248	155	178	188
Free Cashflow To Firm	1,414	249	155	178	188

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	1,613	1,066	935	905	871
Total Debtors	232	118	151	156	171
Inventories	153	82	85	82	91
Total Other Current Assets	10	10	8	8	9
Total Current Assets	2,008	1,277	1,178	1,152	1,142
Fixed Assets	691	742	790	850	911
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	1	1	1	1	1
Total Non-current Assets	692	743	791	851	912
Short-term Debt	2	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	153	85	110	107	117
Other Current Liabilities	158	21	21	21	21
Total Current Liabilities	312	106	131	128	139
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1	1	1	1	1
Total Non-current Liabilities	1	1	1	1	1
Total Provisions	55	60	60	60	60
Total Liabilities	367	167	192	189	199
Shareholders' Equity	2,332	1,853	1,777	1,814	1,854
Minority Interests	0	0	0	0	0
Total Equity	2,332	1,853	1,777	1,814	1,854

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	68.5%	(59.1%)	(27.2%)	3.6%	9.4%
Operating EBITDA Growth	113%	(76%)	(37%)	19%	9%
Operating EBITDA Margin	61.6%	36.3%	31.5%	36.1%	35.8%
Net Cash Per Share (RM)	1.09	0.72	0.63	0.61	0.59
BVPS (RM)	1.57	1.25	1.20	1.22	1.25
Gross Interest Cover	12,284	N/A	N/A	N/A	N/A
Effective Tax Rate	23.7%	24.6%	23.0%	23.0%	23.0%
Net Dividend Payout Ratio	50%	160%	99%	91%	79%
Accounts Receivables Days	32.67	50.75	53.52	59.11	57.42
Inventory Days	42.69	53.09	49.19	50.94	47.59
Accounts Payables Days	49.56	53.61	57.24	65.93	61.43
ROIC (%)	241%	51%	29%	33%	34%
ROCE (%)	97.8%	19.4%	14.5%	17.1%	18.0%
Return On Average Assets	63.9%	12.4%	9.3%	11.4%	12.2%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Healthcare glove ASP (USD/carton)	83.9	28.0	26.0	27.0	27.0
Cleanroom glove ASP (USD/carton)	111.9	96.0	90.0	79.0	77.5
Healthcare segment GPM (%)	63.5%	18.7%	10.8%	18.6%	18.6%
Cleanroom segment GPM (%)	56.9%	55.8%	54.3%	56.7%	55.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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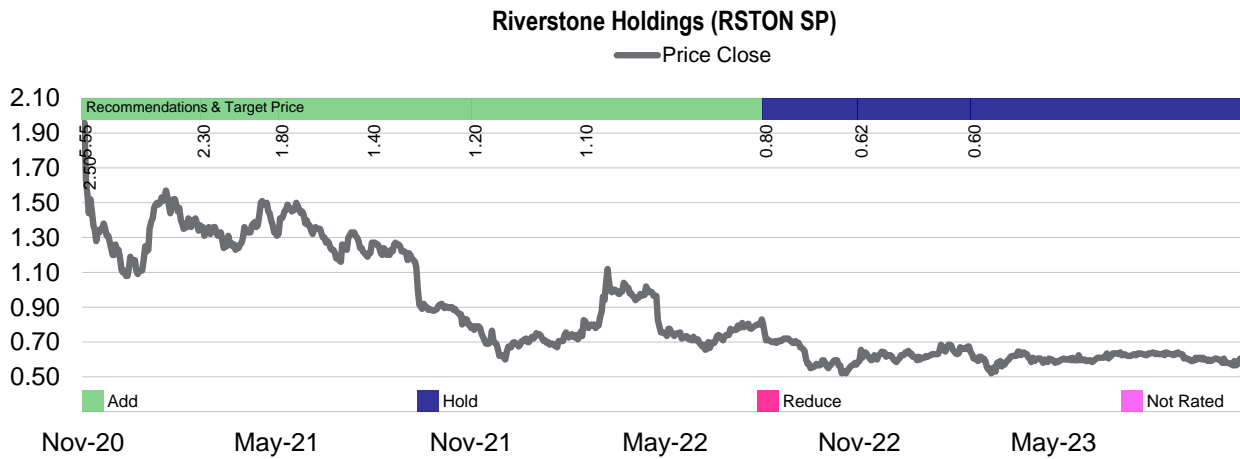
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634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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