

COMPANY UPDATE

Riverstone Holdings (RSTON SP)

Beneficiary Of US Tariff Hike And Glovemaker With The Most Attractive Valuation; Raise Target Price By 12%

Riverstone is set to benefit from the higher US tariffs on China's gloves as it will ease the competition in the healthcare glove and lower-tier cleanroom glove industries. The US market's contribution to Riverstone's total revenue, which was 18% in 2023, could rise when the tariff starts. Riverstone's 2025 PE of 16.6x is at a 60% discount vs peers' average of 40.7x and offers a way higher dividend yield of 8% vs peers' average of 1%. We raise our target price by 12% to S\$1.12. Maintain BUY.

WHAT'S NEW

- **Higher US tariffs on China's medical and surgical gloves from 2026.** US President Joe Biden announced new tariffs on US\$18b worth of Chinese imports, including rubber medical and surgical gloves, among others, on Tuesday. The current 7.5% tariff on China's glove exports will more than triple to a steep 25% and will take effect from 2026.
- **Anticipating a shift in business landscape.** Malaysian glove manufacturers like Riverstone are seeing stiff competition from China peers like Intco Medical and Blue Sail, which ramped up production capacities while lowering production costs to effectively capture market share since the pandemic. China glove makers currently have competitive ASPs of around US\$17/000 pcs and operate at >90% utilisation rate, as compared to Malaysia glove makers' higher ASPs of >US\$20/000 pcs and 40-70% utilisation rate. For Riverstone, the emergence of China players has impacted the demand for its healthcare gloves and the lower tiers of its cleanroom gloves.
- **Riverstone to benefit from potential higher US demand.** When the new tariffs kick in, China-made gloves will be more expensive. As Chinese glove makers lose their price competitiveness, Malaysian glove makers like Riverstone will have an opportunity to increase their exports to the US and regain their market share. To recap, the US contributed RM205.3m or 18.1% of Riverstone's 2023 revenue. This is 32.5% lower yoy from RM304.1m or 24.1% of revenue in 2022. Additionally, in 1Q24, Riverstone shared that they saw more demand from US buyers in the healthcare gloves segment, likely for inventory restocking purposes. Leveraging on its newly added capacities from newer production lines that will be operational by end-24, we anticipate higher utilisation for Riverstone's manufacturing facilities moving forward.
- **Riverstone offers the most attractive valuation in the glove industry with a 60% discount in terms of PE multiple and 8x higher dividend yield vs peers.** Riverstone's 2025 PE of 16.6x is at a 60% discount vs peers' average of 40.7x and it offers a way more attractive dividend yield of 8% vs peers' average of 1%. We think Riverstone is a good proxy to the recovery in the healthcare glove industry while offering downside protection given its dominant position in the cleanroom glove sector.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	1,260	915	1,045	1,117	1,195
EBITDA	480	340	424	446	471
Operating profit	417	279	360	384	411
Net profit (rep./act.)	314	220	272	290	310
Net profit (adj.)	314	220	272	290	310
EPS (sen)	21.2	14.8	18.3	19.5	20.9
PE (x)	15.3	21.9	17.7	16.6	15.5
P/B (x)	2.6	2.9	3.0	3.1	3.3
EV/EBITDA (x)	8.2	11.6	9.3	8.8	8.4
Dividend yield (%)	10.5	6.9	7.4	8.0	8.6
Net margin (%)	25.0	24.1	26.0	26.0	26.0
Net debt/(cash) to equity (%)	(57.5)	(52.1)	(53.2)	(54.1)	(54.4)
Interest cover (x)	20,865.5	9,994.5	8,476.2	n.a.	9,421.8
ROE (%)	15.0	12.5	16.5	18.3	20.5
Consensus net profit	-	-	299	319	342
UOBKH/Consensus (x)	-	-	0.91	0.91	0.91

Source: Riverstone, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.930
Target Price	S\$1.12
Upside	+20.4%
(Previous TP)	S\$1.00

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):	1,378.4
Market cap (US\$m):	1,022.2
3-mth avg daily t'over (US\$m):	2.5

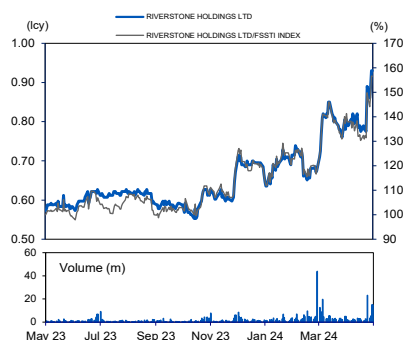
Price Performance (%)

52-week high/low	S\$0.930/S\$0.553			
1mth	3mth	6mth	1yr	YTD
15.5	34.7	50.8	63.8	34.7

Major Shareholders

	%
Wong Teek Son	50.8
Lee Wai Keong	8.8
FY24 NAV/Share (RM)	1.09
FY24 Net Cash/Share (RM)	0.58

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
johncheong@uobkayhian.com
+65 6590 6623

Heidi Mo
heidimo@uobkayhian.com
+65 6590 6630

STOCK IMPACT

- **Strong balance sheet supports higher payout ratio.** Riverstone declared an interim dividend of 4.0 sen in 1Q24 (1Q23: nil), implying a payout ratio of 82.1%. In 2022 and 2023, Riverstone's full-year dividends translated to payout ratios of 116% and 151% respectively. Backed by its healthy cash balance of RM947.6m (about 21% of market cap) and operating cash flow, we expect 2024-26 payout ratio to exceed 100% to reward shareholders. This translates to an attractive dividend yield of 7.7% for 2024.
- **Newer production lines by end-24 allow for better inventory management and higher margins.** To recap, Riverstone has six manufacturing facilities across Malaysia, Thailand and China with a total annual production capacity of 10.5b gloves. Several production lines for generic gloves are being replaced with newer lines that can produce customised glove offerings and are expected to commence operations progressively from Aug 24 and be fully operational by end-24. This will allow Riverstone to effectively capture further demand for higher-margin customised gloves.

EARNINGS REVISION/RISK

- **We maintain our forecasts.**

VALUATION/RECOMMENDATION

- **Maintain BUY with a 12% higher PE-based target price of S\$1.12 (S\$1.00 previously),** pegged to 20x 2025F PE, or 1.5SD above the long-term historical mean. This is up from 1SD previously, still at a significant 50% discount to its Malaysian peers' trading multiple of 40.7x 2025F PE. This is to capture the potential valuation re-rating and positive earnings surprises from the reduced competition from the Chinese glove makers.

SHARE PRICE CATALYST

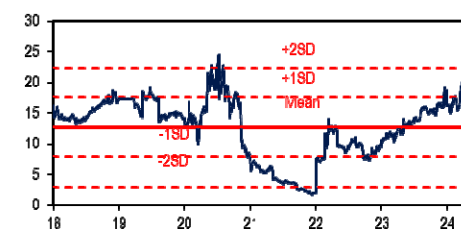
- Higher-than-expected demand for cleanroom and healthcare gloves.
- Higher dividend payouts.

PEER COMPARISON

Company	Ticker	Price @ 15 May 24 (lcy)	Market Cap (US\$m)	PE			EV/EBITDA 2024 (x)	P/B 2024 (x)	Yield 2024 (%)	ROE 2024 (%)	Net Gearing (%)
				2023 (x)	2024 (x)	2025 (x)					
Hartalega	HART MK	3.82	2,771	272.9	189.4	47.5	45.3	2.8	0.3	1.5	(30.8)
Kossan Rubber	KRI MK	2.74	1,486	n.a.	37.0	32.0	18.4	1.8	0.9	4.8	(53.8)
Supermax	SUCB MK	1.08	589	n.a.	n.a.	56.8	16.1	0.6	0.9	0.3	(33.0)
Top Glove	TOPG MK	1.26	2,144	n.a.	n.a.	26.6	60.1	2.2	n.a.	(2.5)	(6.5)
Average				272.9	113.2	40.7	35.0	1.8	0.7	1.0	(31.0)
Riverstone	RSTON SP	0.93	1,022	21.8	17.7	16.6	9.3	3.0	7.4	16.5	(52.1)

Source: Riverstone, Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	914.8	1,045.2	1,117.1	1,195.3
EBITDA	339.8	423.8	446.3	471.1
Deprec. & amort.	60.4	64.1	62.1	60.2
EBIT	279.4	359.7	384.2	410.9
Net interest income/(expense)	(0.0)	(0.1)	0.0	(0.1)
Pre-tax profit	279.4	359.6	384.2	410.8
Tax	(59.0)	(88.1)	(94.1)	(100.7)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	220.4	271.5	290.1	310.2
Net profit (adj.)	220.4	271.5	290.1	310.2

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	253.3	360.5	374.6	390.0
Pre-tax profit	279.4	359.6	384.2	410.8
Tax	(59.0)	(88.1)	(94.1)	(100.7)
Deprec. & amort.	60.4	64.1	62.1	60.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	(17.4)	24.8	22.4	19.6
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	(10.0)	0.0	0.0	0.0
Investing	(51.5)	(40.0)	(40.0)	(40.0)
Capex (growth)	(51.7)	(40.0)	(40.0)	(40.0)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(415.6)	(333.1)	(357.4)	(385.1)
Dividend payments	(415.0)	(334.1)	(356.4)	(386.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	1.0
Loan repayment	(0.6)	1.0	(1.0)	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	(213.7)	(12.6)	(22.8)	(35.1)
Beginning cash & cash equivalent	1,066.1	875.4	862.8	840.0
Changes due to forex impact	23.1	0.0	0.0	0.0
Ending cash & cash equivalent	875.4	862.8	840.0	804.9

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	726.0	701.9	679.8	659.6
Other LT assets	1.1	1.1	1.1	1.1
Cash/ST investment	875.4	862.8	840.0	804.9
Other current assets	222.7	203.9	186.0	181.4
Total assets	1,825.3	1,769.7	1,707.0	1,647.1
ST debt	0.0	1.0	0.0	1.0
Other current liabilities	84.6	90.6	95.2	110.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	59.1	59.1	59.1	59.1
Shareholders' equity	1,681.6	1,619.0	1,552.7	1,476.8
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,825.3	1,769.7	1,707.0	1,647.1

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	37.1	40.5	40.0	39.4
Pre-tax margin	30.5	34.4	34.4	34.4
Net margin	24.1	26.0	26.0	26.0
ROA	11.5	15.1	16.7	18.5
ROE	12.5	16.5	18.3	20.5
Growth				
Turnover	(27.4)	14.3	6.9	7.0
EBITDA	(29.2)	24.7	5.3	5.6
Pre-tax profit	(33.0)	28.7	6.8	6.9
Net profit	(29.9)	23.2	6.8	6.9
Net profit (adj.)	(29.9)	23.2	6.8	6.9
EPS	(29.9)	23.2	6.8	6.9
Leverage				
Debt to total capital	0.0	0.1	0.0	0.1
Debt to equity	0.0	0.1	0.0	0.1
Net debt/(cash) to equity	(52.1)	(53.2)	(54.1)	(54.4)
Interest cover (x)	9,994.5	8,476.2	n.a.	9,421.8

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