

### COMPANY RESULTS

## Riverstone Holdings (RSTON SP)

2023: Earnings Above Expectations; Attractive 2024 Yield Of Around 10%

Riverstone's 4Q23 earnings rose 60.7% yoy, with 2023 earnings of RM220.4m beating our forecast by 4%. The 2.1% qoq sequential growth of 4Q23 revenue was driven by higher demand for Riverstone's customised healthcare gloves and a slight recovery in the cleanroom gloves segment. With semiconductor recovery and new clients, we anticipate higher volumes to drive top-line growth. Maintain BUY with a 7% higher target price of S\$0.88. We like Riverstone for its attractive 2024 dividend yield of 10%.

### 2023 RESULTS

Year to 31 Dec (RMm)	2023	2022	yoy % chg	4Q23	yoy % chg	qoq % chg
Revenue	914.8	1,259.4	(27.4)	229.8	(2.3)	+3.1
Gross profit	295.5	450.3	(34.4)	91.0	+28.4	+17.0
Gross profit margin (%)	32.3	32.0	+0.3ppt	39.6	+9.5ppt	+4.7ppt
Profit before tax	279.4	417.0	(33.0)	84.6	+45.1	+15.1
Net profit	220.4	314.4	(29.9)	67.5	+60.7	+13.8
Net profit margin (%)	24.1	25.0	(0.9ppt)	29.4	+11.5ppt	+2.8ppt

Source: Riverstone Holdings, Bloomberg, UOB Kay Hian

### RESULTS

- Results above expectations; sequential growth qoq.** Riverstone Holdings (Riverstone) reported 4Q23 earnings of RM67.5m (+13.8% qoq, +60.7% yoy), bringing 2023 earnings to RM220.4m (-33% yoy) to form 104% of our full-year forecast. Though 2023 revenue declined 27.4% yoy, we note that 4Q23 revenue grew 2.1% qoq on improved demand for customised healthcare gloves and a slight recovery in the cleanroom gloves segment. Gross profit for the quarter also increased substantially by 17% qoq, leading to gross profit margin expansion of 4.7ppt qoq from the appreciation of the US dollar relative to ringgit and a stronger product mix.
- Special interim dividend and final dividend declared; strong balance sheet enables higher payout ratio moving forward.** Pending approval, Riverstone declared a special interim dividend of 5.0 sen and a final dividend of 7.5 sen. Together with the first two interim dividends of 10.0 sen, 2023 total dividend totals to 22.5 sen (vs 34.0 sen in 2022). This is above our expectation of 18.0 sen, implying a payout ratio of 151.3% and dividend yield of 9% for 2023. Backed by its healthy cash balance of RM875.4m (about 25% of market cap) and operating cash flow, we expect 2024-26 payout ratio to be maintained at 140% to reward shareholders. This translates to an attractive dividend yield of 10% for 2024.

### 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	407	428	451
Operating profit	417	279	343	366	391
Net profit (rep./act.)	314	220	259	277	295
Net profit (adj.)	314	220	259	277	295
EPS (sen)	21.2	14.8	17.4	18.6	19.9
PE (x)	11.2	16.0	13.7	12.8	12.0
P/B (x)	1.9	2.1	2.2	2.3	2.5
EV/EBITDA (x)	5.6	7.9	6.6	6.3	5.9
Dividend yield (%)	14.3	9.4	10.1	10.9	11.8
Net margin (%)	25.0	24.1	24.8	24.8	24.7
Net debt/(cash) to equity (%)	(57.5)	(52.1)	(52.9)	(53.3)	(53.2)
Interest cover (x)	20,865.5	9,994.5	8,138.5	n.a.	9,028.8
ROE (%)	15.0	12.5	15.7	17.7	19.9
Consensus net profit	-	-	259	290	-
UOBKH/Consensus (x)	-	-	1.00	0.95	-

Source: Riverstone, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$0.675
Target Price	S\$0.880
Upside	+30.4%
(Previous TP)	S\$0.820)

### 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):	1,000.5
Market cap (US\$m):	744.3
3-mth avg daily t'over (US\$m):	1.1

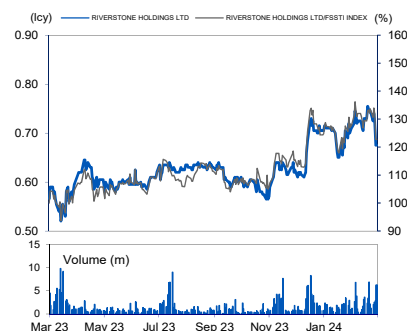
### Price Performance (%)

52-week high/low	S\$0.755/S\$0.520			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.6)	8.9	7.1	15.3	(4.3)

### Major Shareholders

	%
Wong Teek Son	51.3
Lee Wai Keong	8.8
FY24 NAV/Share (RM)	1.08
FY24 Net Cash/Share (RM)	0.57

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **ASPs may face pressure by stiffer competition; higher volumes to offset impact.** The glove industry remains highly competitive, with some players from Malaysia, Thailand and China ramping up operations. To deter competition, management may take some preventive actions like price adjustments. As of 4Q23, cleanroom glove and healthcare glove ASPs are at US\$90/'000 pcs and US\$28.5/'000 pcs respectively. However, we note that demand for cleanroom gloves is likely to recover in 2024 from semiconductor recovery. The higher volumes from both Riverstone's semiconductor customers and new clients will likely offset any fall in ASPs, pointing to bottom line growth for the cleanroom glove segment in 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. Previously, the company had planned to add more production lines to increase capacity by 1.5b gloves to 12b gloves by 1H23. However, with oversupply in the industry and overall utilisation rate averaging 60% in 2023, Riverstone has put a pause on the expansion plans. Instead, old production lines for generic gloves are being replaced with newer lines that can produce customised glove offerings. The new production lines will commence operations in 2H24, and allow Riverstone to effectively capture further demand for higher-margin customised gloves.

### EARNINGS REVISION/RISK

- We have raised our 2024/25 earnings by 5% and 4% respectively while adding 2026 forecasts, after accounting for improving sales volume for customised healthcare gloves and cleanroom gloves. We forecast 2024-26 PATMI at RM258.8m (RM246.3m previously), RM276.6m (RM267.4m previously) and RM295.3m respectively.
- ASPs for cleanroom gloves were around US\$91/'000 pcs, and we expect it to decline in 2024-26 to US\$90/'000 pcs, US\$89/'000 pcs and US\$89/'000 pcs respectively.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher PE-based target price of S\$0.88 (S\$0.82 previously),** pegged to 17.6x 2024F PE, or 1SD above the long-term historical mean. We think that Riverstone stands to benefit from its higher-margin customised glove offerings and the improving healthcare glove demand-supply dynamics.

### SHARE PRICE CATALYST

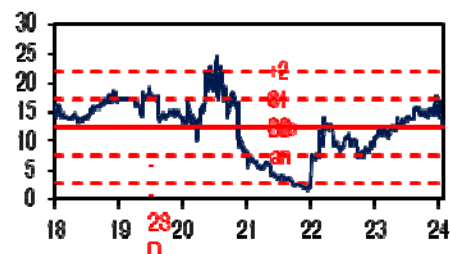
- Higher-than-expected demand for cleanroom and healthcare gloves.
- Higher dividend payouts.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 29-Feb-24 (lcy)	Target Price (lcy)	Upside to TP (%)	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	HOLD	2.51	2.65	n.a.	1,803	209.2	51.2	27.0	21.6	1.8	1.2	3.7	(30.8)
Kossan Rubber	KRI MK	HOLD	1.88	1.82	n.a.	1,010	335.7	35.5	25.8	10.4	1.2	1.1	3.9	(53.6)
Supermax	SUCB MK	N.A.	0.83	n.a.	n.a.	450	n.a.	415.0	43.7	9.2	0.5	0.5	0.1	(33.0)
Top Glove	TOPG MK	HOLD	0.805	0.87	n.a.	1,357	n.a.	n.a.	38.3	20.0	1.3	0.0	(1.5)	(7.2)
<b>Average</b>							<b>272.4</b>	<b>167.2</b>	<b>33.7</b>	<b>15.3</b>	<b>1.2</b>	<b>0.7</b>	<b>1.5</b>	<b>(31.1)</b>
Riverstone	RSTON SP	BUY	0.675	0.88	n.a.	744	16.0	13.5	12.1	n.a.	1.8	5.3	14.1	(54.0)

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
<b>Net turnover</b>	<b>914.8</b>	<b>1,045.2</b>	<b>1,117.1</b>	<b>1,195.3</b>
EBITDA	339.8	406.9	428.5	451.4
Deprec. & amort.	60.4	64.1	62.1	60.2
EBIT	279.4	342.8	366.4	391.2
Net interest income/(expense)	(0.0)	(0.1)	0.0	(0.1)
<b>Pre-tax profit</b>	<b>279.4</b>	<b>342.7</b>	<b>366.4</b>	<b>391.2</b>
Tax	(59.0)	(84.0)	(89.8)	(95.8)
Minorities	(0.0)	0.0	0.0	0.0
<b>Net profit</b>	<b>220.4</b>	<b>258.8</b>	<b>276.6</b>	<b>295.3</b>
Net profit (adj.)	220.4	258.8	276.6	295.3

### CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>253.3</b>	<b>348.0</b>	<b>361.1</b>	<b>375.4</b>
Pre-tax profit	279.4	342.7	366.4	391.2
Tax	(59.0)	(84.0)	(89.8)	(95.8)
Deprec. & amort.	60.4	64.1	62.1	60.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	(17.4)	25.1	22.4	19.9
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	(10.0)	0.0	0.0	0.0
<b>Investing</b>	<b>(51.5)</b>	<b>(40.0)</b>	<b>(40.0)</b>	<b>(40.0)</b>
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
<b>Financing</b>	<b>(415.6)</b>	<b>(333.1)</b>	<b>(357.4)</b>	<b>(385.1)</b>
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
<b>Net cash inflow (outflow)</b>	<b>(213.7)</b>	<b>(25.1)</b>	<b>(36.2)</b>	<b>(49.6)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,066.1</b>	<b>875.4</b>	<b>850.4</b>	<b>814.1</b>
Changes due to forex impact	23.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>875.4</b>	<b>850.4</b>	<b>814.1</b>	<b>764.5</b>

### 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	850.4	814.1	764.5
Other current assets	222.7	205.5	187.8	183.4
<b>Total assets</b>	<b>1,825.3</b>	<b>1,758.9</b>	<b>1,682.9</b>	<b>1,608.6</b>
ST debt	0.0	1.0	0.0	1.0
Other current liabilities	84.6	92.6	97.3	112.7
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	1,606.2	1,526.5	1,435.8
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>1,825.3</b>	<b>1,758.9</b>	<b>1,682.9</b>	<b>1,608.6</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	37.1	38.9	38.4	37.8
Pre-tax margin	30.5	32.8	32.8	32.7
Net margin	24.1	24.8	24.8	24.7
ROA	11.5	14.4	16.1	17.9
ROE	12.5	15.7	17.7	19.9
<b>Growth</b>				
Turnover	(27.4)	14.3	6.9	7.0
EBITDA	(29.2)	19.7	5.3	5.4
Pre-tax profit	(33.0)	22.7	6.9	6.8
Net profit	(29.9)	17.4	6.9	6.8
Net profit (adj.)	(29.9)	17.4	6.9	6.8
EPS	(29.9)	17.4	6.9	6.8
<b>Leverage</b>				
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)	(52.9)	(53.3)	(53.2)
Interest cover (x)	9,994.5	8,138.5	n.a.	9,028.8

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