

COMPANY UPDATE

Riverstone Holdings (RSTON SP)

Strong Earnings Expected; Target Price Raised To S\$1.16

Despite a higher ROE and dividend yield, Riverstone is trading at an undemanding 17x 2025F PE vs peers' average of 47x. The rise in US FDA import alerts flagging quality issues with China medical gloves, compounded with the US tariff hike, is likely to benefit Malaysian glove makers like Riverstone. Though the group faced shipment delays, management sees it easing. Expansion plans remain on track and we anticipate better margins. Maintain BUY with a higher target price of S\$1.16.

WHAT'S NEW

- Quarterly record-high US FDA import alerts on China glove makers.** US Food and Drugs Administration (FDA) import alerts on China glove makers due to quality concerns have hit quarterly highs in 4Q23 and 1Q24, as seen in the RHS figure on the next page. This means that FDA has enough evidence for detention without physical examination (DWPE) of products that are in violation of its laws and regulations. If the manufacturer is unable to rebut the violation within 10 working days, the products will be issued with a refusal of admission and be destroyed or exported from the US within 90 days of refusal.
- Ripple effects from Red Sea Crisis.** The Red Sea has led to many shipping companies rerouting their ships on longer journeys and therefore, delays in shipment deliveries. This particularly impacts international shipments from Southeast Asia to the US and Europe. Management shared that it had faced some shipping delays due to port congestion and increased vessel waiting times since April, but observed slight easing in July.

STOCK IMPACT

- Potential trade diversion from China to Malaysia.** The FDA import alerts could be prolonged for Chinese producers as they have consistently been unable to achieve the standard of quality that Malaysia has since 2010 as seen in the RHS figure on the next page. Additionally, the US tariffs on China medical-grade gloves will be sharply raised from 7.5% to 25% effective 2026, reducing the price competitiveness of China glove makers. These factors point to possible demand recovery and market share growth for Malaysia players like Riverstone Holdings (Riverstone) in the coming quarters.
- Improving production efficiency on capacity expansion.** Management highlighted that its capacity expansion is on track, with three production lines to be completed by end-24 and another three lines by 2025. The added capacity will boost its total capacity from 10.5b to 11.2b gloves (+7%), producing higher-margin customised gloves. This translates to lower downtime, thereby improving efficiency and margins for the group.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	1,260	915	1,086	1,118	1,152
EBITDA	480	340	445	459	473
Operating profit	417	279	381	397	413
Net profit (rep./act.)	314	220	288	300	312
Net profit (adj.)	314	220	288	300	312
EPS (sen)	21.2	14.8	19.4	20.2	21.0
PE (x)	15.6	22.2	17.0	16.4	15.7
P/B (x)	2.6	2.9	3.0	3.1	3.3
EV/EBITDA (x)	8.4	11.8	9.0	8.8	8.5
Dividend yield (%)	10.3	6.8	7.3	7.9	8.5
Net margin (%)	25.0	24.1	26.5	26.8	27.0
Net debt/(cash) to equity (%)	(57.5)	(52.1)	(53.4)	(54.8)	(55.4)
Interest cover (x)	20,865.5	9,994.5	8,908.9	n.a.	9,458.1
ROE (%)	15.0	12.5	17.4	18.6	20.2
Consensus net profit	-	-	299	319	342
UOBKH/Consensus (x)	-	-	0.96	0.94	0.91

Source: Riverstone, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.950
Target Price	S\$1.16
Upside	+22.1%
(Previous TP)	S\$1.12)

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):	1,408.1
Market cap (US\$m):	1,046.7
3-mth avg daily t'over (US\$m):	2.2

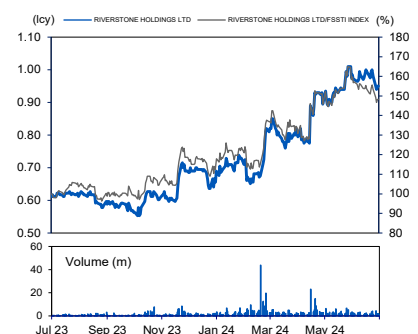
Price Performance (%)

52-week high/low	S\$1.01/S\$0.553			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(5.9)	15.9	42.7	56.5	37.6

Major Shareholders

	%
Wong Teek Son	51.3
Lee Wai Keong	8.8
FY24 NAV/Share (RM)	1.10
FY24 Net Cash/Share (RM)	0.59

PRICE CHART



Source: Bloomberg

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- **Riverstone offers the most attractive valuation in the glove industry with a 40% discount in terms of PE multiple and 7x higher dividend yield vs peers.** Riverstone's 2025F PE of 17x is at a 40% discount vs peers' average of 47x and it offers a way more attractive dividend yield of 7.3% vs peers' average of 0.5%. 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.
- **Strong balance sheet supports higher payout ratio.** Backed by its healthy 1Q24 cash balance of RM947.6m (about 20% of market cap) and operating cash flow, we expect 2024-26 payout ratio to exceed 100% to reward shareholders (2023: 151%; 2022: 116%). This translates to an attractive dividend yield of 7.3% for 2024.

### EARNINGS REVISION/RISK

- **We raise our 2024-26 earnings by 3-6%**, projecting a three-year net profit CAGR of 12% in 2023-26. We factor in 1-2ppt higher gross margin assumptions of 36-38% to account for potential cost efficiencies upon capacity expansion, partially offset by more healthcare sales in the product mix from the US.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a 4% higher PE-based target price of S\$1.16 (S\$1.12 previously)**, pegged to 20x 2025F PE, or 1.5SD above the long-term historical mean. Riverstone is trading at a deep 40% discount to its Malaysian peers' trading multiple of 47x 2025F PE despite the group's higher margins and ROE vs peers.

### SHARE PRICE CATALYST

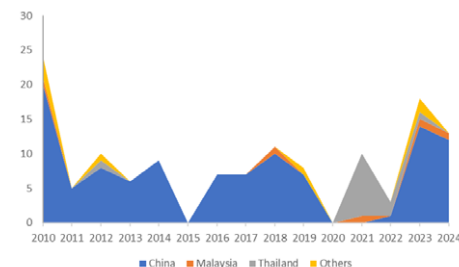
- Capacity expansion-driven growth.
- Higher demand from the US for cleanroom and healthcare gloves.
- Higher dividend payouts.

### PEER COMPARISON

Company	Ticker	Price @ 24 Jul 24 (1cy)	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	3.39	2,476	n.a.	55.6	36.8	28.7	2.4	0.9	4.0	(29.2)
Kossan Rubber	KRI MK	2.42	1,321	465.4	41.7	29.5	15.2	1.6	1.0	3.7	(53.4)
Supermax	SUCB MK	0.91	498	n.a.	n.a.	70.0	17.8	0.5	0.0	(0.6)	(30.5)
Top Glove	TOPG MK	1.21	2,074	n.a.	n.a.	50.4	46.1	2.0	0.0	(2.9)	(8.4)
<b>Average</b>				<b>465.4</b>	<b>48.6</b>	<b>46.7</b>	<b>27.0</b>	<b>1.6</b>	<b>0.5</b>	<b>1.0</b>	<b>(30.4)</b>
Riverstone	RSTON SP	0.95	1,047	22.2	18.0	16.9	9.3	3.0	7.3	16.5	(53.9)

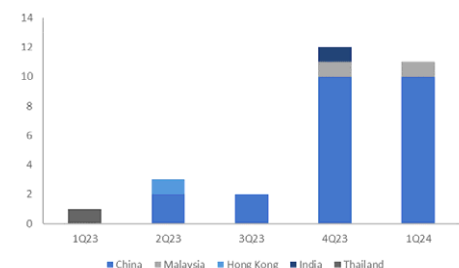
Source: Riverstone, Bloomberg, UOB Kay Hian

### ANNUAL US FDA IMPORT ALERTS ON GLOVES BY COUNTRY (2010-24)



Source: USAID Global Health Supply Chain Program, UOB Kay Hian

### QUARTERLY US FDA IMPORT ALERTS ON GLOVES BY COUNTRY (1Q23-1Q24)



Source: USAID Global Health Supply Chain Program, 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	1,086.3	1,117.7	1,152.5
EBITDA	339.8	445.4	459.0	472.9
Deprec. & amort.	60.4	64.1	62.1	60.2
EBIT	279.4	381.3	396.9	412.7
Net interest income/(expense)	(0.0)	(0.1)	0.0	(0.1)
<b>Pre-tax profit</b>	<b>279.4</b>	<b>381.3</b>	<b>396.9</b>	<b>412.6</b>
Tax	(59.0)	(93.4)	(97.2)	(101.1)
Minorities	(0.0)	0.0	0.0	0.0
<b>Net profit</b>	<b>220.4</b>	<b>287.9</b>	<b>299.7</b>	<b>311.5</b>
Net profit (adj.)	220.4	287.9	299.7	311.5

### CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>253.3</b>	<b>372.1</b>	<b>388.7</b>	<b>394.0</b>
Pre-tax profit	279.4	381.3	396.9	412.6
Tax	(59.0)	(93.4)	(97.2)	(101.1)
Deprec. & amort.	60.4	64.1	62.1	60.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	(17.4)	20.1	27.0	22.3
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>(1.0)</b>	<b>(8.6)</b>	<b>(31.0)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,066.1</b>	<b>875.4</b>	<b>874.4</b>	<b>865.8</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>874.4</b>	<b>865.8</b>	<b>834.7</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	874.4	865.8	834.7
Other current assets	222.7	210.7	185.2	174.5
<b>Total assets</b>	<b>1,825.3</b>	<b>1,788.1</b>	<b>1,731.9</b>	<b>1,670.0</b>
ST debt	0.0	1.0	0.0	1.0
Other current liabilities	84.6	92.7	94.2	105.8
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	1,635.3	1,578.6	1,504.1
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>1,825.3</b>	<b>1,788.1</b>	<b>1,731.9</b>	<b>1,670.0</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	37.1	41.0	41.1	41.0
Pre-tax margin	30.5	35.1	35.5	35.8
Net margin	24.1	26.5	26.8	27.0
ROA	11.5	15.9	17.0	18.3
ROE	12.5	17.4	18.6	20.2
<b>Growth</b>				
Turnover	(27.4)	18.7	2.9	3.1
EBITDA	(29.2)	31.1	3.0	3.0
Pre-tax profit	(33.0)	36.5	4.1	4.0
Net profit	(29.9)	30.6	4.1	4.0
Net profit (adj.)	(29.9)	30.6	4.1	4.0
EPS	(29.9)	30.6	4.1	4.0
<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)	(53.4)	(54.8)	(55.4)
Interest cover (x)	9,994.5	8,908.9	n.a.	9,458.1

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