

COMPANY RESULTS

Riverstone Holdings (RSTON SP)

1H24: Results In Line; Robust Demand Drives Growth

Riverstone's 1H24 earnings were in line with expectations, lifted by higher ASPs and demand recovery for cleanroom and healthcare gloves. Healthcare gloves continued to see strong order flow, while cleanroom gloves have enjoyed improving qoq demand since end-23. As the global semiconductor market recovers while Riverstone's customer base grows, we expect demand for both glove segments to continue growing. Maintain BUY with an unchanged target price of S\$1.16.

2Q24/1H24 RESULTS

Year to 31 Dec (RMm)	2Q24	qoq% chg	yoy % chg	1H24	hoh % chg	yoy % chg
Revenue	246.9	(1.0)	+10.1	496.4	+9.7	+7.4
Gross profit	99.2	+1.8	+53.1	196.7	+16.6	+55.2
Gross profit margin (%)	40.2	+1.1ppt	+11.3ppt	39.6	+2.3ppt	+12.2ppt
Profit before tax	92.0	+0.3	+49.2	183.7	+16.2	+51.5
Net profit	72.5	+0.4	+54.7	144.7	+10.9	+54.6
Net profit margin (%)	29.4	+0.5ppt	+8.5ppt	29.2	+0.4ppt	+9.0ppt

Source: Riverstone Holdings, UOB Kay Hian

RESULTS

- Strong 2Q24 performance; higher 1H24 dividend.** Riverstone Holdings (Riverstone) reported robust growth in 1H24 revenue (+7% yoy, +10% hoh) and net profit (+55% yoy, +11% hoh), largely in line with expectations as sustained demand recovery for both cleanroom and healthcare gloves mirrors the improving demand in the global semiconductor market. For 2Q24, revenue (+10% yoy, -1% qoq) was flat qoq due to shipping delays from port congestions deferring roughly RM40m in revenue, excluding which would have led to a 15% qoq revenue growth. Management declared a second interim dividend of 4.0 sen, bringing total 1H24 dividend to 8.0 sen (vs 1H23: 5.0 sen).
- Cleanroom segment sees higher demand.** There was a 5% increase in sales volume of higher margin cleanroom gloves in 2Q24 (10% ytd), which we believe is attributable to higher demand from the technology component-manufacturing sector. Coupled with lower raw material costs, 1H24 gross margin expanded 12ppt yoy and 2ppt hoh. We expect continued pickup in demand in 2H24 as the global semiconductor manufacturing industry recovers.

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)	14.8	21.1	16.1	15.5	14.9
P/B (x)	2.5	2.8	2.8	2.9	3.1
EV/EBITDA (x)	7.8	11.1	8.5	8.2	8.0
Dividend yield (%)	10.9	7.2	7.7	8.3	8.9
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	-	-	303	322	343
UOBKH/Consensus (x)	-	-	0.95	0.93	0.91

Source: Riverstone, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.925
Target Price	S\$1.16
Upside	+25.4%

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):	1,371.0
Market cap (US\$m):	1,032.8
3-mth avg daily t'over (US\$m):	2.3

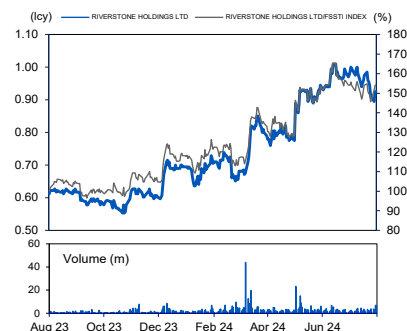
Price Performance (%)

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>
(6.1)	18.6	28.5	49.9	34.0

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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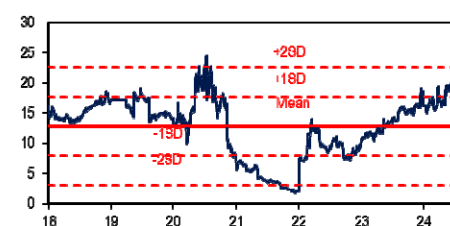
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- **ASP of healthcare gloves remains competitive.** While the ASP of cleanroom gloves remained largely unchanged, the healthcare glove segment remained competitive and registered a 3-5% qoq decrease in ASP in 2Q24 due to a higher mix of standard products.

### STOCK IMPACT

- **Boosting production capacity with firm demand.** Management highlighted that its capacity expansion is on track with 12 production lines to be built over the next two years. Six production lines are for cleanroom gloves and expected to be commissioned by end-24, while the other six are for customised healthcare gloves, three of which are expected to be commissioned by end-24 and the rest by 2025. This will boost the total capacity from 10.5b to 11.9b (+13%) gloves by 2025. As the new lines are for higher-margin gloves, there is likely room for gross margin expansion.
- **Potential downside to currency translation.** Exchange rate volatility may pressure profits, with a 2Q24 loss of RM3.4m vs a RM16.9m gain in 2Q23 as the RM/US\$ rate weakened from RM4.74 on 1 Apr 24 to RM4.49 on 1 Aug 24.
- **Riverstone offers the most attractive valuation in the glove industry with a >100% discount in terms of PE multiple and 8x higher dividend yield vs peers.** Riverstone's 2025F PE of 16x is at a >100% discount vs peers' average of 38x and it offers a way more attractive dividend yield of 7.7% 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 1H24 cash balance of RM761.2m (about 15% of market cap) and strong operating cash flow of RM139.8m (vs 1H23: RM97.8m), we expect 2024-26 payout ratio to exceed 100% to reward shareholders (2023: 151%; 2022: 116%). This translates to an attractive dividend yield of 7.7% for 2024.

### HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

### EARNINGS REVISION/RISK

- **Earnings revision:** None.

### VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged PE-based target price of S\$1.16,** pegged to 20x 2025F PE, or 1.5SD above the long-term historical mean. Riverstone is trading at a deep >100% discount to its Malaysian peers' trading multiple of 38x 2025F PE despite the group's higher margins and attractive 7.7% dividend yield vs peers.

### SHARE PRICE CATALYST

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

### PEER COMPARISON

Company	Ticker	Price @ 7 Aug 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	2.74	2,082	n.a.	n.a.	44.3	n.a.	2.0	0.2	(5.5)	(28.7)
Kossan Rubber	KRI MK	1.95	1,108	375.0	26.4	22.8	10.9	1.3	1.3	6.0	(53.4)
Supermax	SUCB MK	0.84	478	n.a.	n.a.	64.6	14.5	0.5	0.1	(0.6)	(30.5)
Top Glove	TOPG MK	0.935	1,667	n.a.	n.a.	18.4	61.7	1.6	n.a.	(2.9)	(8.4)
<b>Average</b>				<b>375.0</b>	<b>26.4</b>	<b>37.5</b>	<b>29.0</b>	<b>1.3</b>	<b>0.5</b>	<b>(0.7)</b>	<b>(30.2)</b>
Riverstone	RSTON SP	0.925	1,033	21.0	16.1	15.5	n.a.	2.8	7.7	16.5	(53.9)

Source: Riverstone, 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)
Pre-tax profit	279.4	381.3	396.9	412.6
Tax	(59.0)	(93.4)	(97.2)	(101.1)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	220.4	287.9	299.7	311.5
Net profit (adj.)	220.4	287.9	299.7	311.5

### CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	253.3	372.1	388.7	394.0
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
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)	(1.0)	(8.6)	(31.0)
Beginning cash & cash equivalent	1,066.1	875.4	874.4	865.8
Changes due to forex impact	23.1	0.0	0.0	0.0
Ending cash & cash equivalent	875.4	874.4	865.8	834.7

### 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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