

COMPANY UPDATE

Riverstone Holdings (RSTON SP)

Semiconductor Industry Recovery Will Benefit Cleanroom Glove Segment

Riverstone's cleanroom gloves, which contribute about 80% of earnings, are expected to see a recovery in demand, driven by new clients onboarded in the preceding year and improvement in the semiconductor industry in 2024. On the healthcare gloves front, sustained product customisation efforts with new production lines are yielding results, as seen from increased demand for higher-margin customised healthcare gloves. We upgrade Riverstone to BUY with a 22% higher target price of S\$0.82.

WHAT'S NEW

- **Demand for cleanroom gloves likely to improve on semiconductor recovery.** As Riverstone's customers are major manufacturers in the semiconductor and hard disk drive industries, the slowdown in the electronics and semiconductor sectors have led to softer cleanroom glove demand from 2022. Despite the challenging semiconductor market conditions in 2023, according to International Data Corporation (IDC), the semiconductor sales market is expected to recover with a 20% growth rate in 2024. This is also supported by the SEMI World Fab Forecast reporting 42 new projects in 2024, up from 11 in 2023. Management therefore expects demand for cleanroom gloves to recover in 2024. While management has shared that ASPs will be lowered to pass on cost savings from raw materials, they have also announced successful client acquisitions from the pharmaceutical sector. The impact of lower ASPs will likely be offset by higher volumes from both Riverstone's semiconductor customers and new clients, pointing to top-line growth for the cleanroom glove segment in 2024.
- **Recent 3Q23 results signal potential turnaround in 2024.** Riverstone Holdings (Riverstone) reported a 3Q23 net profit of RM59.3m (+26.5% qoq, -6.6% yoy), with 9M23 net profit falling 43.9% yoy to RM152.9m. While the glove industry faced a slowdown from pandemic-induced oversupply and less-than-optimal utilisation in 2023, we note that 3Q23 gross profit margin improved 6ppt qoq and 1.1ppt yoy. This significant expansion was driven by a stronger product mix, with more customised healthcare gloves delivered, and lower raw material costs during the period.
- **97% dividend payout ratio as of 9M23 show a strong vote of confidence; strong balance sheet enables higher payout ratio above 100%, translating into an attractive dividend yield of 8.5% for 2024.** Riverstone declared an interim dividend of 5.0 sen, taking total 9M23 dividends to 10.0 sen/share (9M22: 16.0 sen/share), implying a 97% dividend payout ratio. Given that Riverstone has a strong balance sheet with net cash balance of RM951m as of 9M23, which is equivalent to S\$0.18/share (around 30% of market cap), a payout ratio above 100% is highly likely.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,082	1,260	964	1,037	1,112
EBITDA	1,915	480	370	417	463
Operating profit	1,859	417	280	326	371
Net profit (rep./fact.)	1,418	314	212	246	267
Net profit (adj.)	1,418	314	212	246	267
EPS (sen)	95.7	21.2	14.3	16.6	18.0
PE (x)	2.5	11.2	16.6	14.3	13.1
P/B (x)	1.5	1.9	2.0	2.0	2.0
EV/EBITDA (x)	1.3	5.3	6.9	6.1	5.5
Dividend yield (%)	16.1	14.5	7.8	8.5	9.0
Net margin (%)	46.0	25.0	22.0	23.7	24.1
Net debt/(cash) to equity (%)	(69.1)	(57.5)	(55.8)	(54.3)	(52.6)
Interest cover (x)	12,763.5	20,865.5	3,697.4	4,167.9	n.a.
ROE (%)	76.8	15.0	11.6	13.8	15.2
Consensus net profit	-	-	216	266	302
UOBKH/Consensus (x)	-	-	0.98	0.93	0.89

Source: Riverstone, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$0.67
Target Price	S\$0.82
Upside	+22.4%
(Previous TP)	S\$0.67

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):	993.1
Market cap (US\$m):	741.2
3-mth avg daily t'over (US\$m):	0.9

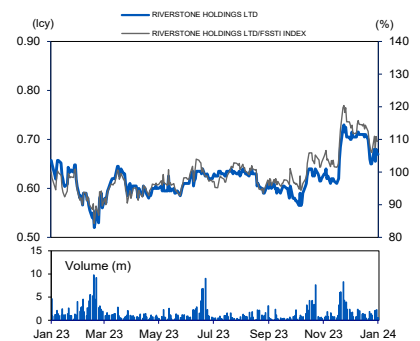
Price Performance (%)

52-week high/low	S\$0.730/S\$0.520				
1mth	3mth	6mth	1yr	YTD	
(5.0)	15.5	8.1	7.4	(5.0)	

Major Shareholders

	%
Wong Teek Son	51.3
Lee Wai Keong	8.8
FY24 NAV/Share (RM)	1.20
FY24 Net Cash/Share (RM)	0.65

PRICE CHART



Source: Bloomberg

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- Benefitting from higher-margin customised healthcare gloves.** Besides being the leading global supplier for cleanroom and healthcare gloves, Riverstone offers products such as finger cots, cleanroom packaging bags and face masks. With more than 30 years of expertise, Riverstone's cleanroom products under own brand RS have a unique competitive advantage. As for its healthcare gloves, Riverstone is in the midst of demolishing its 10-year-old production lines to build newer lines for customised products. This has allowed it to expand its gross margin substantially, as customised gloves fetch approximately 30% gross profit margin, around six times that of generic gloves. Moving forward, increased demand for customised healthcare gloves will drive higher margins for Riverstone.

STOCK IMPACT

- Newer production lines by 2Q24 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 are expected to be completed by 2Q24, and will give Riverstone the flexibility to better manage inventory requirements and effectively capture further demand for higher-margin customised gloves.

EARNINGS REVISION/RISK

- We have updated our 2023-24 forecasts** after accounting for lower cleanroom glove ASPs and sales volumes assumptions and add 2025 forecasts. Our 2023-25 revenue estimates are RM964.0m, RM1,037.2m and RM1,111.6m respectively, while 2023-25 PATMI estimates are RM212.0m, RM246.3m and RM267.4m respectively.
- ASPs for cleanroom gloves were around US\$92/'000 pcs, and we expect it to decline in 2023-2025 to US\$91/'000 pcs, US\$90/'000 pcs and US\$90/'000 pcs respectively.

VALUATION/RECOMMENDATION

- Upgrade to BUY with a 22% higher target price of S\$0.82**, pegged to 17.3x 2024F PE, or 1SD above the five-year historical mean. This is up from -1SD previously, to capture better earnings recovery in the glove industry. We have also rolled over our valuations to 2024. While glove companies continue to face underutilisation, we believe that Riverstone may outperform its peers with its higher-margin customised glove offerings.

SHARE PRICE CATALYST

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

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	1,259.5	964.0	1,037.2	1,111.6
EBITDA	479.9	369.7	416.8	462.7
Deprec. & amort.	62.9	89.5	90.5	91.3
EBIT	417.0	280.2	326.3	371.4
Net interest income/(expense)	(0.0)	(0.1)	(0.1)	0.0
Pre-tax profit	417.0	280.1	326.2	371.4
Tax	(102.6)	(68.1)	(79.9)	(104.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	314.4	212.0	246.3	267.4
Net profit (adj.)	314.4	212.0	246.3	267.4

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	741.6	752.0	761.6	770.2
Other LT assets	1.2	1.2	1.2	1.2
Cash/ST investment	1,066.1	1,005.8	964.0	916.8
Other current assets	210.9	204.7	205.3	235.1
Total assets	2,019.8	1,963.8	1,932.1	1,923.4
ST debt	0.0	1.0	1.0	0.0
Other current liabilities	106.1	103.4	97.1	120.0
LT debt	0.0	1.0	1.0	0.0
Other LT liabilities	60.7	60.7	60.7	60.7
Shareholders' equity	1,852.9	1,797.7	1,772.3	1,742.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	2,019.8	1,963.8	1,932.1	1,923.4

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	381.8	305.1	329.9	351.8
Pre-tax profit	417.0	280.1	326.2	371.4
Tax	(102.6)	(68.1)	(79.9)	(104.0)
Deprec. & amort.	62.9	89.5	90.5	91.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	130.1	3.5	(6.9)	(6.9)
Non-cash items	(0.0)	0.0	0.0	0.0
Other operating cashflows	(125.6)	0.0	0.0	0.0
Investing	(133.2)	(100.0)	(100.0)	(100.0)
Capex (growth)	(133.4)	(100.0)	(100.0)	(100.0)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(801.9)	(265.3)	(271.7)	(299.0)
Dividend payments	(800.4)	(267.3)	(271.7)	(297.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	2.0	0.0	0.0
Loan repayment	(1.6)	0.0	0.0	(2.0)
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	(553.3)	(60.2)	(41.9)	(47.1)
Beginning cash & cash equivalent	1,612.9	1,066.1	1,005.8	964.0
Changes due to forex impact	6.5	0.0	0.0	0.0
Ending cash & cash equivalent	1,066.1	1,005.8	964.0	916.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	38.1	38.4	40.2	41.6
Pre-tax margin	33.1	29.1	31.5	33.4
Net margin	25.0	22.0	23.7	24.1
ROA	13.3	10.6	12.6	13.9
ROE	15.0	11.6	13.8	15.2
Growth				
Turnover	(59.1)	(23.5)	7.6	7.2
EBITDA	(74.9)	(23.0)	12.7	11.0
Pre-tax profit	(77.6)	(32.8)	16.5	13.8
Net profit	(77.8)	(32.6)	16.2	8.6
Net profit (adj.)	(77.8)	(32.6)	16.2	8.6
EPS	(77.9)	(32.6)	16.2	8.6
Leverage				
Debt to total capital	0.0	0.1	0.1	0.0
Debt to equity	0.0	0.1	0.1	0.0
Net debt/(cash) to equity	(57.5)	(55.8)	(54.3)	(52.6)
Interest cover (x)	20,865.5	3,697.4	4,167.9	n.a.

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