

COMPANY RESULTS

Riverstone Holdings (RSTON SP)

1H22: Results In Line, Although Headwinds Persist

For 1H22, PATMI was in line with expectations, dragged down by falling ASPs and moderating demand for healthcare gloves. The healthcare gloves segment faces ongoing headwinds as additional supply starts to come on stream. Cleanroom gloves remained resilient in 2Q22 with ASPs holding steady, although demand is expected to soften slightly in 3Q22 due to ongoing sporadic China lockdowns. With no immediate catalysts, maintain HOLD on Riverstone with a lower target price of S\$0.67.

1H22 RESULTS

Year to 31 Dec (RMm)	2Q22	2Q21	yoy % chg	qoq % chg	1H22	yoy % chg
Revenue	352.0	987.2	(62.6)	(12.5)	754.3	(62.6)
Gross Profit	133.8	686.9	(79.3)	(13.4)	288.3	(79.3)
Profit Before Tax	126.9	675.5	(80.1)	(11.9)	270.9	(80.1)
Net Profit to Equity Holders	100.2	518.0	(79.9)	(7.8)	208.9	(79.9)

Source: Riverstone Holdings, Bloomberg, UOB Kay Hian

RESULTS

- 1H22: ASPs and demand normalised.** Riverstone Holdings (Riverstone) reported sharp declines in both 2Q22 revenue (-62.6% yoy, -12.5% qoq) and PATMI (-79.9% yoy, -7.8% qoq) as ASPs and demand for healthcare gloves continued their downtrend. 1H22 revenue and PATMI formed 41.4% and 49.7% of our full-year forecasts, largely in line with expectations. The slight underperformance for revenue is due to lower-than-expected healthcare glove ASPs. 2Q22 was largely stable at 38.0% (1Q22: 38.4%) which we reckon was due to robust demand for the higher-margin cleanroom gloves. Riverstone declared a similar 1H22 interim dividend of 10.0 sen (10.0 sen in 1H21), implying a ~70% dividend payout ratio.
- Healthcare gloves: Continued downtrend.** ASPs for healthcare gloves declined ~10% qoq to around US\$28/000pcs as demand for healthcare gloves normalised. Management has noted that 3Q22 ASPs are expected to fall to pre-pandemic levels at US\$25/000pcs. Coupled with falling demand, additional supply from China is expected to come online in 3Q-4Q22, creating downward pressure on ASPs. For 2Q22, healthcare gloves formed 80%/57%/36% of RSTON's overall sales volume/revenue/gross profit respectively, almost similar to 1Q22. We reckon that the healthcare segment is set to bottom out in 2H22 as ASPs and demand stabilise near pre-pandemic levels.
- Cleanroom gloves: Softer demand due to China lockdowns.** For the cleanroom glove segment, 2Q22 ASPs (US\$100-110/000pcs) were similar to that in the preceding quarter. Management believes that ASPs should hold steady going into 3Q22 as demand for the higher quality cleanroom gloves that Riverstone specialises in remains robust. However, sporadic lockdowns in China are expected to soften 3Q22 cleanroom glove demand by ~10%. With a diversified portfolio of cleanroom glove clients, the impact of a global slowdown in semiconductors would have minimal impact on sales volumes. Riverstone has plans to convert existing double lines for healthcare gloves into single lines for cleanroom gloves.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,830	3,082	1,431	1,617	1,862
EBITDA	894	1,915	587	624	674
Operating profit	842	1,859	524	558	605
Net profit (rep./act.)	647	1,418	396	422	456
Net profit (adj.)	647	1,418	396	422	456
EPS (sen)	43.7	95.7	26.7	28.5	30.8
PE (x)	5.3	2.4	8.7	8.1	7.5
P/B (x)	2.5	1.5	1.6	1.5	1.4
EV/EBITDA (x)	2.2	1.0	3.3	3.1	2.9
Dividend yield (%)	9.5	16.4	8.6	7.8	6.9
Net margin (%)	35.4	46.0	27.6	26.1	24.5
Net debt/(cash) to equity (%)	(47.2)	(69.1)	(68.1)	(67.2)	(67.5)
Interest cover (x)	2,519.1	12,763.5	n.a.	6,239.7	6,739.7
ROE (%)	60.3	76.8	17.6	18.9	19.1
Consensus net profit	-	-	343	332	316
UOBKH/Consensus (x)	-	-	1.15	1.27	1.44

Source: Riverstone, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.715
Target Price	S\$0.67
Upside	-7.0%
(Previous TP)	S\$0.80

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):	1,059.8
Market cap (US\$m):	767.8
3-mth avg daily t'over (US\$m):	1.0

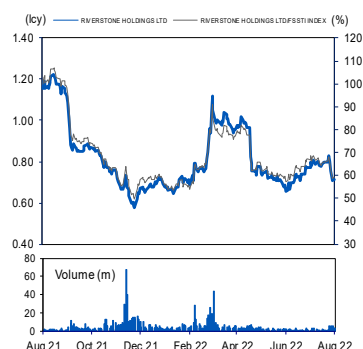
Price Performance (%)

52-week high/low	S\$1.22/S\$0.580			
1mth	3mth	6mth	1yr	YTD
(7.1)	(7.7)	0.3	(38.6)	6.1

Major Shareholders

	%
Wong Teek Son	51.3
Lee Wai Keong	8.8
FY22 NAV/Share (RM)	1.46
FY22 Net Cash/Share (RM)	0.99

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Phase 7 capacity expansion slightly delayed.** New capacity of 1.5b pcs from phase 7 expansion is expected to be completed by end-22, expanding total capacity to 12.0b pcs/year. 20% of the new additional 1.5b pcs capacity would be allocated to the cleanroom gloves segment. Riverstone had overall utilisation rates of 70% and 74% in 1H22 and 2Q22 respectively which are set to drop to 65% in 2H22.

EARNINGS REVISION/RISK

- **We have downgraded our 2022-24 forecasts**, after accounting for lower ASPs and sales volumes assumptions. Our 2022-24 revenue estimates are at RM1,431.3m (RM1,822.8m), RM1,616.8m (RM1,932.0m) and RM1,862.0m (RM2,120.7m) respectively. Our 2022-24 PATMI estimates are at RM395.6m (RM420.2m), RM422.2m (RM441.1m) and RM456.5m (RM467.8m) respectively.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower PE-based target price of S\$0.67 (S\$0.80 previously)**, pegged to a lower 8.0x 2022F PE. We base our valuation at -1SD of RSTON's long-term forward PE.
- RSTON's supernormal earnings have normalised sharply from the peak in 2021, with healthcare glove ASPs starting to reach pre-pandemic levels and expected to stabilise in 2H22. Coupled with resilient earnings from the cleanroom segment, we now reckon that there is limited downside to earnings given that most countries are still undergoing COVID-19 outbreaks from Omicron sub-variants. However, trading slightly above -1SD of its long-term forward PE, we opine that there are no strong catalysts to justify RSTON trading at higher valuations.

SHARE PRICE CATALYST

- Emergence of a deadly COVID-19 variant.
- Better-than-expected ASP hike and operating leverage.

PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Aug 22 (lcy)	Target Price (lcy)	Upside to TP (%)	Market Cap (US\$m)	PE			EV/EBITDA 2022 (x)	P/B 2022 (x)	Yield 2022 (%)	ROE 2022 (%)	Net Gearing (%)
							2021 (x)	2022 (x)	2023 (x)					
Hartalega	HART MK	SELL	1.86	2.25	21.1	1,426	2.0	1.9	28.7	1.0	1.2	28.4	64.1	(35.4)
Kossan Rubber	KRI MK	HOLD	0.985	1.30	32.3	564	0.9	13.4	13.3	3.8	0.6	2.6	4.6	(31.4)
Supermax	SUCB MK	HOLD	0.755	0.80	5.6	451	0.5	3.0	20.7	(0.6)	0.4	10.6	13.9	(55.2)
Top Glove	TOPG MK	HOLD	0.80	0.95	19.2	1,428	0.8	21.5	22.9	8.2	1.0	3.3	4.9	(7.9)
Average							1.1	9.9	21.4	3.1	0.8	11.2	21.9	(32.5)
Riverstone	RSTON SP	HOLD	0.715	0.67	(7.0)	768	2.4	8.7	8.1	3.3	1.6	8.6	17.6	(14.9)

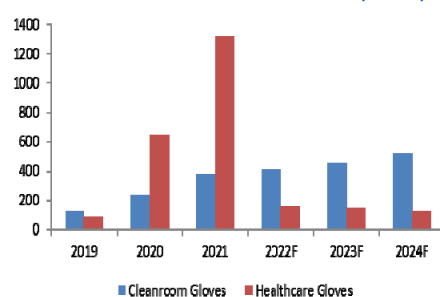
Source: Riverstone, Bloomberg, UOB Kay Hian

RIVERSTONE – HISTORICAL FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

RSTON'S SEGMENTAL GROSS PROFIT (MYRM)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	3,082.4	1,431.3	1,616.8	1,862.0
EBITDA	1,914.5	586.9	624.0	674.0
Deprec. & amort.	55.8	62.9	66.2	69.2
EBIT	1,858.7	524.0	557.8	604.7
Net interest income/(expense)	(0.2)	0.0	(0.1)	(0.1)
Pre-tax profit	1,858.6	524.0	557.7	604.6
Tax	(440.7)	(128.4)	(135.5)	(148.1)
Minorities	0.0	0.0	0.0	0.0
Net profit	1,417.9	395.6	422.2	456.5
Net profit (adj.)	1,417.9	395.6	422.2	456.5

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	1,569.8	525.8	462.0	500.4
Pre-tax profit	1,858.6	524.0	557.7	604.6
Tax	(440.7)	(128.4)	(135.5)	(148.1)
Deprec. & amort.	55.8	62.9	66.2	69.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	28.1	67.3	(26.3)	(25.3)
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	68.2	0.0	0.0	0.0
Investing	(155.9)	(100.0)	(100.0)	(100.0)
Capex (growth)	(156.3)	(100.0)	(100.0)	(100.0)
Proceeds from sale of assets	0.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(451.2)	(564.8)	(294.4)	(266.8)
Dividend payments	(444.7)	(563.2)	(296.4)	(266.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(6.5)	(1.6)	2.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	962.7	(139.0)	67.6	133.6
Beginning cash & cash equivalent	648.9	1,612.9	1,473.9	1,541.5
Changes due to forex impact	1.3	0.0	0.0	0.0
Ending cash & cash equivalent	1,612.9	1,473.9	1,541.5	1,675.1

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	691.2	728.3	762.1	792.9
Other LT assets	0.8	0.8	0.8	0.8
Cash/ST investment	1,612.9	1,473.9	1,541.5	1,675.1
Other current assets	394.7	292.5	325.7	358.6
Total assets	2,699.6	2,495.5	2,630.1	2,827.4
ST debt	1.6	0.0	1.0	1.0
Other current liabilities	310.4	275.5	282.4	290.0
LT debt	0.0	0.0	1.0	1.0
Other LT liabilities	55.1	55.1	55.1	55.1
Shareholders' equity	2,332.5	2,164.9	2,290.6	2,480.3
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	2,699.6	2,495.5	2,630.1	2,827.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	62.1	41.0	38.6	36.2
Pre-tax margin	60.3	36.6	34.5	32.5
Net margin	46.0	27.6	26.1	24.5
ROA	64.6	15.2	16.5	16.7
ROE	76.8	17.6	18.9	19.1
Growth				
Turnover	68.5	(53.6)	13.0	15.2
EBITDA	114.1	(69.3)	6.3	8.0
Pre-tax profit	120.9	(71.8)	6.4	8.4
Net profit	119.1	(72.1)	6.7	8.1
Net profit (adj.)	119.1	(72.1)	6.7	8.1
EPS	119.1	(72.1)	6.7	8.1
Leverage				
Debt to total capital	0.1	0.0	0.1	0.1
Debt to equity	0.1	0.0	0.1	0.1
Net debt/(cash) to equity	(69.1)	(68.1)	(67.2)	(67.5)
Interest cover (x)	12,763.5	n.a.	6,239.7	6,739.7

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