

### COMPANY RESULTS

#### Riverstone Holdings (RSTON SP)

3Q22: Underperformance As Headwinds Persist; Ceasing Coverage

For 3Q22, net profit was below expectations, dragged by falling ASPs and moderating demand for healthcare gloves. The healthcare glove segment faces ongoing headwinds due to an unfavourable demand-supply imbalance. Cleanroom gloves remained resilient in 3Q22 with ASPs holding steady, although demand is expected to soften slightly in 4Q22 due to the ongoing zero-COVID policy in China. With no immediate catalysts, we will be ceasing coverage on Riverstone. The last call is HOLD. Target price: \$0.67.

#### 3Q22 RESULTS

Year to 31 Dec (RMm)	3Q22	yoy % chg	qoq % chg	9M22	yoy % chg
Revenue	270.0	(58.6)	(23.3)	1,024.3	(61.7)
Gross Profit	91.2	(74.5)	(31.8)	379.5	(78.3)
Profit Before Tax	87.9	(74.9)	(30.7)	358.8	(79.0)
Net Profit	63.5	(76.2)	(36.6)	272.4	(79.2)

Source: Riverstone Holdings, Bloomberg, UOB Kay Hian

#### RESULTS

- 3Q22: ASPs and demand fall.** Riverstone Holdings (Riverstone) reported sharp declines in both 3Q22 revenue (-58.6% yoy, -23.3% qoq) and PATMI (-76.2% yoy, -36.6% qoq) as ASPs and demand for healthcare gloves continued their downtrend. 9M22 revenue and PATMI formed 71.6% and 68.8% of our full-year forecasts, below our expectations. The underperformance in 3Q22 was led by the sharp normalisation in healthcare glove ASPs. To reward the group's shareholders, Riverstone declared an additional second interim dividend of 6.0 sen, taking total 9M22 ytd dividends to 16.0 sen, implying a ~87% dividend payout ratio.
- Healthcare gloves: Continued downtrend catalysed by stiff competition.** ASPs for healthcare gloves declined ~7% qoq to around US\$26/000pcs as demand for healthcare gloves normalised. Management has noted that 4Q22 ASPs are expected to stabilise, similar to 3Q22 ASPs. However, additional supply from China is expected to come online in 4Q22, which, coupled with falling demand, would create downward pressure on ASPs. Healthcare gloves formed 80%/15% of Riverstone's overall 3Q22 sales volume and gross profit. In our view, the healthcare segment is set to face ongoing headwinds till 2H23, caused by an unfavourable supply-demand imbalance.
- Cleanroom gloves: Softer demand due to zero-Covid policy in China.** For the cleanroom glove segment, 3Q22 ASPs (US\$100-110/000pcs) were similar to that in the preceding quarter. Management believes that ASPs should hold steady going into 4Q22 as demand for the higher quality cleanroom gloves that Riverstone specialises in remains robust. However, sporadic lockdowns in China may soften 4Q22 cleanroom glove demand. Management shared that the market and customers expects cleanroom gloves demand to recover in 1H23. 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	1,289	1,316	1,394
EBITDA	894	1,915	469	478	492
Operating profit	842	1,859	406	411	422
Net profit (rep./act.)	647	1,418	292	311	319
Net profit (adj.)	647	1,418	292	311	319
EPS (sen)	43.7	95.7	19.7	21.0	21.5
PE (x)	4.7	2.2	10.5	9.9	9.6
P/B (x)	2.3	1.3	1.5	1.5	1.5
EV/EBITDA (x)	1.9	0.9	3.6	3.5	3.4
Dividend yield (%)	10.6	18.3	12.5	8.7	7.7
Net margin (%)	35.4	46.0	22.7	23.7	22.9
Net debt/(cash) to equity (%)	(47.2)	(69.1)	(67.3)	(64.0)	(63.1)
Interest cover (x)	2,519.1	12,763.5	n.a.	4,775.2	4,915.4
ROE (%)	60.3	76.8	13.3	15.4	15.8
Consensus net profit	-	-	338	303	331
UOBKH/Consensus (x)	-	-	0.86	1.03	0.96

Source: Riverstone, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	S\$0.64
Target Price	S\$0.67
Upside	4.7%

#### 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):	948.6
Market cap (US\$m):	703.4
3-mth avg daily t'over (US\$m):	0.8

#### Price Performance (%)

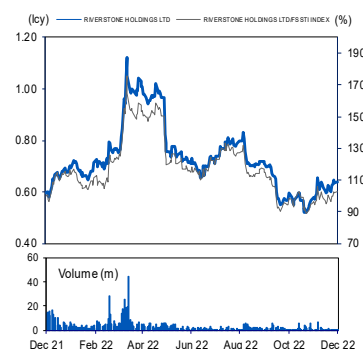
52-week high/low	S\$1.12/S\$0.520			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
12.3	(11.1)	(11.1)	0.7	(5.1)

#### Major Shareholders

	%
Wong Teek Son	51.3
Lee Wai Keong	8.8

FY22 NAV/Share (RM)	1.39
FY22 Net Cash/Share (RM)	0.94

#### 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 is set to drop to 65% in 4Q22.

**EARNINGS REVISION/RISK**

- **We lower our 2022-24 forecasts sharply,** after accounting for lower ASPs and sales volumes assumptions. Our 2022-24 revenue estimates are at RM1,289.0m (RM1,431.3m), RM1,316.0m (RM1,616.8m) and RM1,394.0m (RM1,862.0m) respectively. Our 2022-24 PATMI estimates are at RM292.2m (RM395.6m), RM311.3m (RM422.2m) and RM318.8m (RM456.5m) respectively.

**VALUATION/RECOMMENDATION**

- **We cease coverage on Riverstone with our last recommendation at HOLD and a PE-based target price of S\$0.67.** As we do not see any future catalysts, coupled with ongoing headwinds, we reckon share price performance would be depressed.

**SHARE PRICE CATALYST**

- Emergence of a deadly COVID-19 variant.

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	3,082.4	1,289.0	1,316.0	1,394.0
EBITDA	1,914.5	468.8	477.5	491.5
Deprec. & amort.	55.8	62.9	66.2	69.2
EBIT	1,858.7	405.9	411.3	422.3
Net interest income/(expense)	(0.2)	0.0	(0.1)	(0.1)
<b>Pre-tax profit</b>	<b>1,858.6</b>	<b>405.9</b>	<b>411.2</b>	<b>422.2</b>
Tax	(440.7)	(113.7)	(99.9)	(103.4)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>1,417.9</b>	<b>292.2</b>	<b>311.3</b>	<b>318.8</b>
Net profit (adj.)	1,417.9	292.2	311.3	318.8

### 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	1,387.9	1,274.2	1,288.9
Other current assets	394.7	273.4	272.4	274.3
<b>Total assets</b>	<b>2,699.6</b>	<b>2,390.5</b>	<b>2,309.6</b>	<b>2,356.9</b>
ST debt	1.6	0.0	1.0	1.0
Other current liabilities	310.4	273.8	265.1	260.4
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	2,061.5	1,987.4	2,039.4
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>2,699.6</b>	<b>2,390.5</b>	<b>2,309.6</b>	<b>2,356.9</b>

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>1,569.8</b>	<b>439.7</b>	<b>369.7</b>	<b>381.5</b>
Pre-tax profit	1,858.6	405.9	411.2	422.2
Tax	(440.7)	(113.7)	(99.9)	(103.4)
Deprec. & amort.	55.8	62.9	66.2	69.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	28.1	84.6	(7.8)	(6.5)
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	68.2	0.0	0.0	0.0
<b>Investing</b>	<b>(155.9)</b>	<b>(100.0)</b>	<b>(100.0)</b>	<b>(100.0)</b>
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
<b>Financing</b>	<b>(451.2)</b>	<b>(564.8)</b>	<b>(383.4)</b>	<b>(266.8)</b>
Dividend payments	(444.7)	(563.2)	(385.4)	(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
<b>Net cash inflow (outflow)</b>	<b>962.7</b>	<b>(225.1)</b>	<b>(113.7)</b>	<b>14.7</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>648.9</b>	<b>1,612.9</b>	<b>1,387.9</b>	<b>1,274.2</b>
Changes due to forex impact	1.3	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>1,612.9</b>	<b>1,387.9</b>	<b>1,274.2</b>	<b>1,288.9</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	62.1	36.4	36.3	35.3
Pre-tax margin	60.3	31.5	31.2	30.3
Net margin	46.0	22.7	23.7	22.9
ROA	64.6	11.5	13.2	13.7
ROE	76.8	13.3	15.4	15.8
<b>Growth</b>				
Turnover	68.5	(58.2)	2.1	5.9
EBITDA	114.1	(75.5)	1.9	2.9
Pre-tax profit	120.9	(78.2)	1.3	2.7
Net profit	119.1	(79.4)	6.5	2.4
Net profit (adj.)	119.1	(79.4)	6.5	2.4
EPS	119.1	(79.4)	6.5	2.4
<b>Leverage</b>				
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)	(67.3)	(64.0)	(63.1)
Interest cover (x)	12,763.5	n.a.	4,775.2	4,915.4

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