

7 October 2024

Consumer Cyclical | Rubber Products

Riverstone (RSTON SP)

Buy (Maintained)

Positive Outlook Amidst Short-Term Challenges; BUY

Target Price (Return):	SGD1.02 (+14%)
Price (Market Cap):	SGD0.90 (USD1,018m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (SGD/USD)	2.47m/1.88m

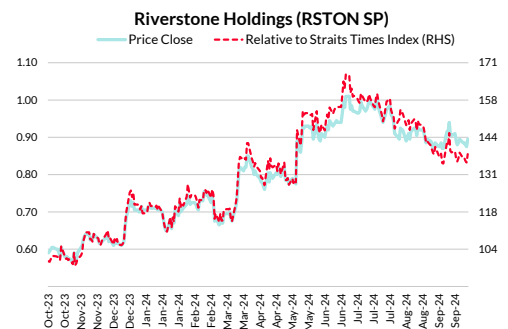
- Maintain BUY, with new DCF-derived TP of SGD1.02 from SGD1.04, 14% upside and c.6% FY25F yield.** We remain positive on Riverstone's 2H24F outlook premised on the recovery of global semiconductor sales (July [semiconductor sales](#) spiked 19% YoY) as well as improving market dynamics within the healthcare gloves industry. The company may benefit from the potential trade diversion with the latest revision of higher import tariff by the US on China glove makers.
- Industry dynamics remain positive.** Current industry operating dynamics remain in favour of the local gloves manufacturers as customers are more receptive to the ASP increase. That said, industry blended ASP is set to improve further to USD21-22/1,000 pieces (pcs) by 4QCY24 as Malaysian glove makers are in the discussion stage to raise prices to translate the effect of the weakening USD to customers. China glove makers' ASPs now range at USD18-19/1,000 pcs from USD17-18 in the previous quarter. In terms of demand, Malaysia's gloves export volume surged 66% MoM and 105% YoY in August, outpacing the growth in July (+12% MoM; +43% YoY). The latest export volume is even 34% higher compare to the pre-pandemic's 2-year monthly average number, indicating that the recovery momentum of global gloves demand remains healthy. Meanwhile, prospects in the global semiconductor industry are expected to be driven by the increasing demand for generative artificial intelligence (AI), high-performance computing (HPC), and rapid advancement of the AI industry.
- US tariff on China.** To recap, The Office of the United States Trade Representative (USTR) announced the final modifications concerning the statutory review of tariff actions on China, entailing a new set tariff rate on medical/surgical gloves, which will be revised to 50% and 100% (effective 2025 and 2026) from 25% effective 2026 as proposed in May. We expect RSTON to benefit from the potential trade diversion given >55% of its revenue is contributed by the healthcare gloves segment.
- Earnings revision and valuation.** We lower our FY24F-26F earnings by 3%, 8% and 8%, largely reflecting the impact of the weakening USD against the MYR. Our USD/MYR assumptions for FY24-26 are lowered to 4.50, 4.00 and 4.10. For every 5% change in USD/MYR, the impact to RSTON's FY25F-26F net earnings is at 8% and 8%. Nevertheless, we believe the impact could be mitigated by the company raising ASP to offset against the weakening USD (currently it is in discussion with customers to raise prices by at least USD1) which in turn should sustain our base case long-term margin outlook. RSTON's valuation remains compelling, trading at +0.25SD from its pre-COVID-19 historical mean. Post earnings adjustment, we derived our new TP of SGD1.02, representing +0.75SD from its pre-COVID-19 historical mean. Our TP incorporates a 0% ESG premium as RSTON's ESG score of 3.1 is on par with the country median.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	27.0	2.9	(10.1)	10.5	49.2
Relative	16.2	(1.4)	(14.4)	(0.4)	35.2
52-wk Price low/high (SGD)				0.57	-1.01



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	1,260	915	1,145	1,204	1,254
Recurring net profit (MYRm)	313	220	293	295	323
Recurring net profit growth (%)	(78.0)	(29.8)	33.3	0.8	9.4
Recurring P/E (x)	13.73	19.55	14.67	14.55	13.31
P/B (x)	2.3	2.6	2.5	2.4	2.3
P/CF (x)	11.36	17.25	11.92	12.06	11.00
Dividend Yield (%)	18.6	9.7	5.5	5.5	6.0
EV/EBITDA (x)	6.73	10.07	7.56	7.38	6.71
Return on average equity (%)	14.8	12.3	17.1	16.7	17.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD

Riverstone has set a goal for energy use reduction up until 2025. It aims to reduce energy use/1000 pieces of gloves by 2% each year for the next three years. By 2025, the company aims to decrease its energy intensity by at least 10% from 2020 levels.

S: GOOD

Riverstone conducts regular third-party audit in all of its plants to assess areas such as including signs of forced labour or child labour, employee health and safety, business ethics, and management system. The company also provides dormitory facilities at Taiping equipped with various amenities, providing greater well-being and quality living standards for employees.

G: EXCELLENT

Riverstone has seven directors, out of which three are independent. According to the Singapore Institute of Directors, non-executive directors should comprise at least a majority of the Board. The company provides timely announcements of material matters to the SGX.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.21	0.15	0.20	0.20	0.22
Consumer Cyclical	DPS	0.54	0.28	0.16	0.16	0.17
Riverstone	BVPS	1.25	1.13	1.17	1.21	1.26
RSTON SP	Return on average equity (%)	14.8	12.3	17.1	16.7	17.6
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	13.73	19.55	14.67	14.55	13.31
	P/B (x)	2.3	2.6	2.5	2.4	2.3
	FCF Yield (%)	5.7	4.6	6.1	6.0	6.8
	Dividend Yield (%)	18.6	9.7	5.5	5.5	6.0
	EV/EBITDA (x)	6.73	10.07	7.56	7.38	6.71
	EV/EBIT (x)	7.75	12.25	8.81	8.69	7.87
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	1,260	915	1,145	1,204	1,254
	Gross profit	450	296	427	433	472
	EBITDA	480	340	449	457	499
	Depreciation and amortisation	(63)	(60)	(63)	(69)	(74)
	Operating profit	417	279	385	389	425
	Net interest	(0)	(0)	0	0	0
	Pre-tax profit	412	277	385	389	425
	Taxation	(103)	(59)	(93)	(93)	(102)
	Reported net profit	309	218	293	295	323
	Recurring net profit	313	220	293	295	323
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	116	(24)	4	(7)	(6)
	Cash flow from operations	378	249	361	356	391
	Capex	(133)	(52)	(100)	(100)	(100)
	Cash flow from investing activities	(133)	(51)	(100)	(100)	(100)
	Dividends paid	(800)	(415)	(234)	(236)	(258)
	Cash flow from financing activities	(792)	(390)	(234)	(236)	(258)
	Cash at beginning of period	1,613	1,066	875	902	922
	Net change in cash	(546)	(192)	26	20	33
	Ending balance cash	1,076	901	902	922	955
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,066	875	902	922	955
	Tangible fixed assets	742	726	763	794	820
	Total assets	2,020	1,825	1,903	1,969	2,035
	Total liabilities	167	144	163	169	171
	Total equity	1,853	1,682	1,740	1,799	1,864
	Total liabilities & equity	2,020	1,825	1,903	1,969	2,035
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(59.1)	(27.4)	25.2	5.1	4.1
	Recurrent EPS growth (%)	(78.0)	(29.8)	33.3	0.8	9.4
	Gross margin (%)	35.8	32.3	37.3	35.9	37.6
	Operating EBITDA margin (%)	38.1	37.1	39.2	38.0	39.8
	Net profit margin (%)	24.5	23.8	25.6	24.5	25.8
	Dividend payout ratio (%)	258.9	190.6	80.0	80.0	80.0
	Capex/sales (%)	10.6	5.7	8.7	8.3	8.0
	Interest cover (x)	18,132	8,217			

Source: Company data, RHB

Figure 1: DCF valuation

FYE Mar (MYRm)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal
NOPAT	293	296	324	337	379	403	427	452	479	506	
+ D&A	63	69	74	79	84	89	94	99	104	109	
- Change in NWC	4	(8)	(6)	(7)	(21)	(10)	(10)	(10)	(10)	(11)	
- CAPEX	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	
Free cash flow to firm (FCFF)	261	257	292	308	342	382	411	441	472	504	6,254
Discount factor	0.97	0.88	0.80	0.72	0.66	0.60	0.54	0.49	0.44	0.40	0.40
PV of FCFF	252	226	233	223	224	227	222	216	210	203	2,522
Risk-free	3%										
WACC	10%										
Terminal growth	2%										
Enterprise Value (MYR m)	4,758										
Cash	667										
- Debt	(2)										
Equity Value (MYR m)	5,424										
No of shares (m)	1,482										
Fair Value (MYR)	3.66										
SGDMYR	3.50										
Fair Value (SGD)	1.02										
ESG discount/premium	0.00										
Target price (SGD)	1.02										

Source: RHB

Emissions And ESG

Trend analysis

The company's renewable energy intensity (GJ/1,000 pieces) is in a decreasing trend as Riverstone installed more solar panels to increase its biomass sourced energy.

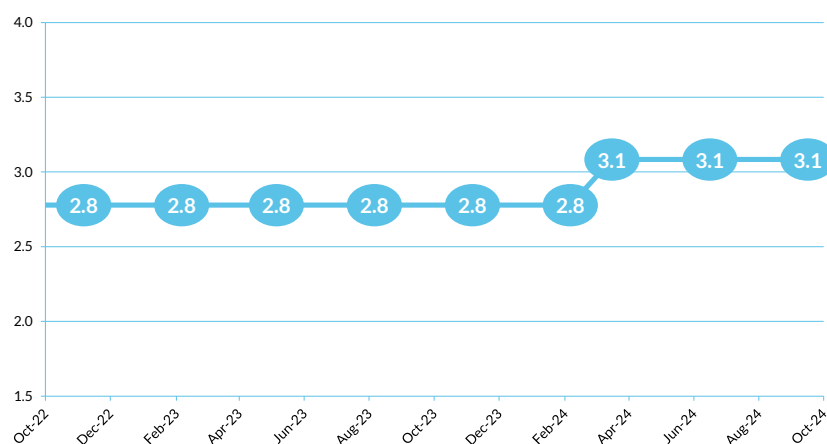
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	159,010	112,388	76,514
Scope 2	63,033	52,236	55,478
Scope 3	-	-	na
Total emissions	222,043	164,624	131,992

Source: Company data, RHB

Latest ESG-Related Developments

- The company has received various recognition (ie BSCI, ISO 45001:2018, Responsible Business Alliance) in upholding stringent Labour Rights policy.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-08	Buy	1.04	0.92
2024-05-13	Buy	1.05	0.86
2024-03-20	Buy	0.93	0.77
2022-02-23	Neutral	0.74	0.83
2021-11-10	Sell	0.65	0.79
2021-09-27	Neutral	0.95	0.91
2021-06-28	Neutral	1.30	1.27
2021-05-11	Buy	1.85	1.32
2021-02-26	Buy	1.85	1.36
2020-11-10	Buy	2.73	1.63
2020-10-28	Buy	5.45	1.82

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Sell:	Share price may fall by more than 10% over the next 12 months
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