

13 May 2024

Consumer Cyclical | Rubber Products

Riverstone (RSTON SP)

Buy (Maintained)

Let The Good Times Roll; Keep BUY

Target Price (Return): SGD1.05 (17.5%)
 Price (Market Cap): SGD0.89 (USD975m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 3.15m/2.34m

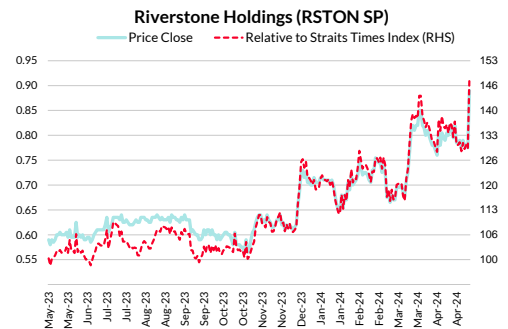
- **Keep BUY with higher DCF-derived SGD1.05 TP from SGD0.93, 18% upside and 5% yield.** Riverstone should be poised to benefit from the global semiconductor sales recovery and improving market dynamics within the healthcare gloves industry. We continue to like RSTON for its unique exposure in the cleanroom segment, above-industry margins profile, and consistent dividend payout. Our TP incorporates a 0% ESG premium/discount, as its 3.1 ESG score is on par with the country median.
- **Key operating metrics.** To recap, RSTON saw ASPs across its businesses post stabilised QoQ trends in 1Q24, with cleanroom and healthcare ASPs recorded at USD90 and USD28/1,000 pieces, ie largely unchanged vs 4Q23's numbers. Despite its healthcare generic products selling within the USD19-19.50 range – largely in line with the Big 4's ASPs – the group has been able to differentiate itself from its competitors via its healthcare specialty products, which command higher ASPs. Sales volumes for cleanroom products were said to improve 5% QoQ in 1Q24 (4Q23: +5% QoQ) and management is expecting the growth momentum for such products to continue in the coming quarters – underpinned by the semiconductor industry's recovery.
- **Margins.** During 1Q23, the cleanroom and healthcare segments posted gross margins of 55% and 24.5% vs 4Q23's 60% and 20.5%. Margins contraction at the cleanroom unit could be due to minor pricing competition from lower-grade products. This was offset against an improved margins performance from the healthcare segment as a result of a better product mix. We expect RSTON's margins to improve in 2Q24 on the back of an improving cost pass-through mechanism and a stabilised cost outlook.
- **Outlook.** Moving forward, management intends to: i) Expand the specialty healthcare gloves segment (giving less focus towards the generic segment, given less-attractive margins) and ii) place greater emphasis on growing the Class 100 cleanroom gloves business (there is price competition in lower-grade cleanroom gloves but RSTON still enjoys pricing power here).
- **Earnings adjustment.** After the results briefing, we raise our FY24F-25F earnings by 12% and 11%, taking into account of the better-than-expected sales volume. We also raise our dividend payout assumption to 80% (aligning with management's guidance) from 50% with an indicative FY24F yield of 5% based on last Friday's closing price. Our new DCF-derived-TP is now SGD1.05, which implies an unchanged 18x FY24F P/E, ie 0.7SD above its pre-COVID-19 5-year historical mean of 14.8x.
- **Key risks:** Lower-than-expected sales volume, weaker-than-expected USD against the MYR, and higher-than-expected raw material prices.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	26.2	14.1	22.8	39.1	48.3
Relative	24.6	12.5	17.9	33.2	46.8
52-wk Price low/high (SGD)				0.57	-0.89



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	1,260	915	1,256	1,309	1,377
Recurring net profit (MYRm)	313	220	306	326	358
Recurring net profit growth (%)	(78.0)	(29.8)	39.2	6.5	10.0
Recurring P/E (x)	14.75	21.01	15.10	14.17	12.89
P/B (x)	2.5	2.7	2.7	2.6	2.5
P/CF (x)	12.21	18.54	12.82	11.90	10.90
Dividend Yield (%)	17.3	9.0	5.3	5.6	6.2
EV/EBITDA (x)	7.40	11.02	8.00	7.44	6.72
Return on average equity (%)	14.8	12.3	17.9	18.4	19.4
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

RSTON has set a goal for energy use reduction up until 2025. The group aims to reduce energy use per 1,000 pieces of gloves by 2% each year for the next three years. By 2025, RSTON aims to decrease its energy intensity by at least 10% from 2020 levels.

S: GOOD

The group conducted regular third-party audits on all of its plants to assess areas like signs of forced or child labour, employee health & safety, business ethics, and management systems. In 2022, RSTON reported zero fatality and permanent disability incidents, as the group has placed greater emphasis on occupational health & safety training.

G: EXCELLENT

RSTON has five directors, 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 group provides timely announcements of material matters to the SGX.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.21	0.15	0.21	0.22	0.24
Consumer Cyclical	DPS	0.54	0.28	0.17	0.18	0.19
Riverstone	BVPS	1.25	1.13	1.18	1.22	1.27
RSTON SP	Return on average equity (%)	14.8	12.3	17.9	18.4	19.4
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	14.75	21.01	15.10	14.17	12.89
	P/B (x)	2.5	2.7	2.7	2.6	2.5
	FCF Yield (%)	5.3	4.3	5.6	6.2	7.0
	Dividend Yield (%)	17.3	9.0	5.3	5.6	6.2
	EV/EBITDA (x)	7.40	11.02	8.00	7.44	6.72
	EV/EBIT (x)	8.52	13.40	9.26	8.63	7.77
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	1,260	915	1,256	1,309	1,377
	Gross profit	450	296	451	480	526
	EBITDA	480	340	466	497	545
	Depreciation and amortisation	(63)	(60)	(63)	(69)	(74)
	Operating profit	417	279	403	429	472
	Net interest	(0)	(0)	0	0	0
	Pre-tax profit	412	277	403	429	472
	Taxation	(103)	(59)	(97)	(103)	(113)
	Reported net profit	309	218	306	326	358
	Recurring net profit	313	220	306	326	358
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	116	(24)	(9)	(6)	(8)
	Cash flow from operations	378	249	360	388	424
	Capex	(133)	(52)	(100)	(100)	(100)
	Cash flow from investing activities	(133)	(51)	(100)	(100)	(100)
	Dividends paid	(800)	(415)	(245)	(261)	(287)
	Cash flow from financing activities	(792)	(390)	(245)	(261)	(287)
	Cash at beginning of period	1,613	1,066	875	891	919
	Net change in cash	(546)	(192)	16	28	38
	Ending balance cash	1,076	901	891	919	956
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,066	875	891	919	956
	Tangible fixed assets	742	726	763	794	820
	Total assets	2,020	1,825	1,916	1,985	2,059
	Total liabilities	167	144	174	177	179
	Total equity	1,853	1,682	1,743	1,808	1,880
	Total liabilities & equity	2,020	1,825	1,916	1,985	2,059
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(59.1)	(27.4)	37.3	4.3	5.2
	Recurrent EPS growth (%)	(78.0)	(29.8)	39.2	6.5	10.0
	Gross margin (%)	35.8	32.3	35.9	36.6	38.2
	Operating EBITDA margin (%)	38.1	37.1	37.1	38.0	39.6
	Net profit margin (%)	24.5	23.8	24.4	24.9	26.0
	Dividend payout ratio (%)	258.9	190.6	80.0	80.0	80.0
	Capex/sales (%)	10.6	5.7	8.0	7.6	7.3
	Interest cover (x)	18,132	8,217			

Source: Company data, RHB

Figure 1: DCF valuation

FYE 31 Mar (MYRm)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal
NOPAT	306	326	358	368	384	408	433	458	485	512	
+ D&A	63	69	74	79	84	89	94	99	104	109	
- Change in NWC	(9)	(6)	(8)	(8)	(8)	(10)	(10)	(10)	(10)	(11)	
- CAPEX	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	
Free cash flow to firm (FCFF)	260	288	324	339	360	387	417	447	478	510	6,494
Discount factor	0.95	0.86	0.78	0.71	0.65	0.59	0.53	0.48	0.44	0.40	0.40
PV of FCFF	246	248	253	241	233	227	222	217	211	204	2,601
Risk-free	3%										
WACC	10%										
Terminal growth	2%										
Enterprise value (MYRm)	4,904										
Cash	646										
- Debt	(2)										
Equity value (MYRm)	5,549										
Number of shares (m)	1,482										
FV (MYR)	3.74										
SGDMYR	3.50										
FV (SGD)	1.05										
ESG discount/premium	0.00										
TP (SGD)	1.05										

Source: RHB

Emissions And ESG

Trend analysis

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

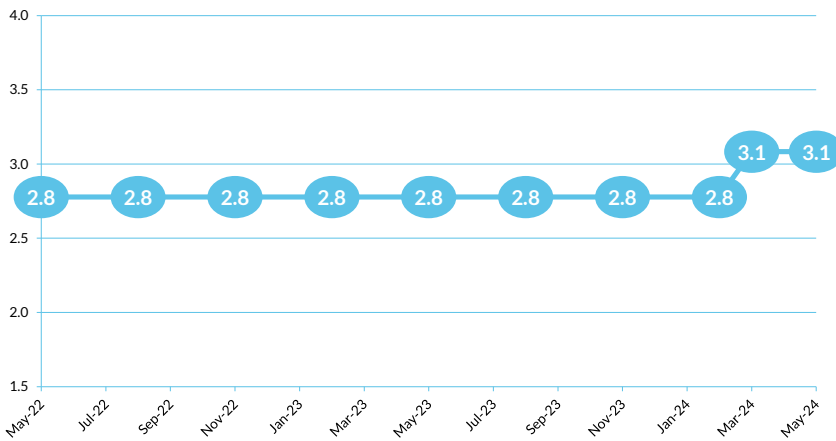
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	159,010	112,388	76,514
Scope 2	63,033	52,236	55,478
Scope 3	-	-	na
Total emissions	222,043	164,624	131,992

Source: Company data, RHB

Latest ESG-Related Developments

- The group received various recognitions (eg BSCI, ISO 45001:2018, and Responsible Business Alliance) in upholding stringent labour rights policies.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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