

21 March 2024

Consumer Cyclical | Rubber Products

Riverstone (RSTON SP)

Buy (from Neutral)

In a Sweet Spot; Upgrade To BUY

Target Price (Return): SGD0.93 (+27%)
 Price (Market Cap): SGD0.73 (USD801m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 2.28m/1.01m

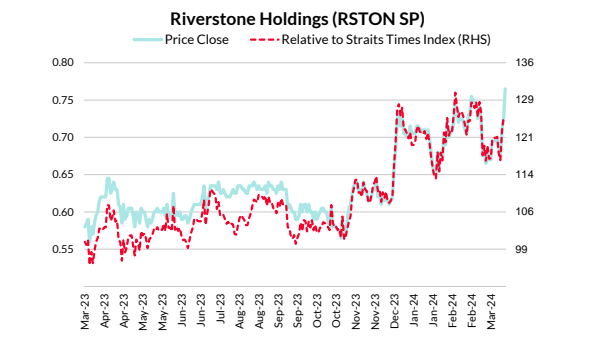
- **Upgrade to BUY from Neutral, with new DCF-derived SGD0.93 TP from SGD0.74, 27% upside and c.3% yield.** We are resuming coverage on Riverstone following the re-allocation of internal resources. We believe it is in a sweet spot to capitalise on the recovery of global semiconductor sales. On healthcare gloves, management intends to focus on high specialty products following the completion of revamping its generic production line to a customised production line. We like the company for its unique exposure to the cleanroom segment, above-industry margin profile, and consistent dividend payout.
- **Riding on the structural recovery in global semiconductor sales.** [Global semiconductor](#) industry sales chalked up USD47.6bn during the month of January, an increase of 15% YoY according to The Semiconductor Industry Association (SIA). The outlook for 2024 is expected to be poised for a [recovery](#) (estimated 2024 growth of 13%) following a 9% contraction in 2023. As such, Riverstone is expecting its cleanroom gloves ASP to hold up steadily at USD90 /1,000 pieces driven by solid customer demand from various technology industries such as hard disk drive, sensor, chip manufacturing, among others.
- **Demand picking up in the healthcare segment.** As inventory de-stocking approaches its tail end, we expect the demand supply dynamics to reach equilibrium by 2H24. Positively, customers' orders for healthcare gloves have been picking up (for April and May) mainly driven by the increased demand for specialty healthcare gloves (ie de-contamination use). More so, the company successfully raised its healthcare gloves ASP to USD28.5 from USD26.5 in 4Q23. Moving forward, it intends to prioritise its specialty products after decommissioning 13 old and inefficient lines in 4Q22.
- **Outlook.** Riverstone is expected to replenish its production capacity by 1bn (primarily for cleanroom gloves) by end-2024. Moving forward, we expect the company to chart a 23% core profit growth in 2024, underpinned by the robust recovery of global semiconductor sales and better demand visibility for healthcare gloves by 2H24. Positively, Riverstone is the only Malaysian glove maker that is still posting double-digit core profit margin while continuing its consistent dividend payout.
- **Earnings adjustment.** We raise our FY24F-25F earnings by 14-24% to account for improving sales volume with a better product mix, ie customised healthcare gloves and cleanroom gloves which should sustain its ASP moving forward. We upgrade Riverstone to BUY, with a DCF-derived a TP of SGD0.93. Our DCF derived-TP implies 18x FY24F P/E which is +0.7SD from its pre-COVID-19 5-year historical mean of 14.8x. Our TP incorporates a 0% ESG premium after we raised its ESG to 3.1 from 2.8 predicated on the company's proactive measures to switch towards sustainable energy (resulting in the increasing trend of renewable energy intensity consumption YoY).

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.5	1.3	7.0	29.7	44.3
Relative	10.6	3.5	4.9	31.8	43.2
52-wk Price low/high (SGD)				0.56	-0.77



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	1,260	915	1,165	1,223	1,279
Recurring net profit (MYRm)	313	220	271	294	323
Recurring net profit growth (%)	(78.0)	(29.8)	23.4	8.2	9.9
Recurring P/E (x)	12.84	18.28	14.82	13.69	12.45
P/B (x)	2.2	2.4	2.2	2.0	1.9
P/CF (x)	10.62	16.13	13.17	10.88	9.89
Dividend Yield (%)	19.9	10.3	3.4	3.7	4.0
EV/EBITDA (x)	6.15	9.25	7.20	6.43	5.65
Return on average equity (%)	14.8	12.3	15.5	15.5	15.8
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 per 1000 pieces of gloves by 2% each year over 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 audits at all of its plants to assess areas including signs of forced labour or child labour, employee health and safety, business ethics, and management system. In 2022, it reported zero fatality and permanent disability incidents, placing a greater emphasis on Occupational Health and Safety training.

G: EXCELLENT

Riverstone has five 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.

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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	0.18	0.20	0.22
Consumer Cyclical	DPS	0.54	0.28	0.09	0.10	0.11
Riverstone	BVPS	1.25	1.13	1.23	1.33	1.43
RSTON SP	Return on average equity (%)	14.8	12.3	15.5	15.5	15.8
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DCF	Recurring P/E (x)	12.84	18.28	14.82	13.69	12.45
	P/B (x)	2.2	2.4	2.2	2.0	1.9
	FCF Yield (%)	6.1	4.9	3.9	6.0	6.8
	Dividend Yield (%)	19.9	10.3	3.4	3.7	4.0
Key drivers	EV/EBITDA (x)	6.15	9.25	7.20	6.43	5.65
i. ASP/sales volume for cleanroom and healthcare gloves;	EV/EBIT (x)	7.08	11.25	8.75	7.85	6.87
ii. Operating costs.						
Key risks	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Lower than expected ASP/sales volume	Total turnover	1,260	915	1,165	1,223	1,279
	Gross profit	450	296	386	418	456
	EBITDA	480	340	434	471	517
	Depreciation and amortisation	(63)	(60)	(77)	(85)	(92)
	Operating profit	417	279	357	386	425
	Net interest	(0)	(0)	0	0	0
	Pre-tax profit	412	277	357	386	425
	Taxation	(103)	(59)	(86)	(93)	(102)
	Reported net profit	309	218	271	294	323
	Recurring net profit	313	220	271	294	323
Company Profile	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Riverstone is a nitrile gloves producer which specialises in cleanroom and healthcare gloves production. It is mainly a nitrile gloves manufacturer with 95% concentration on nitrile gloves.	Change in working capital	116	(24)	(43)	(9)	(8)
	Cash flow from operations	378	249	305	369	406
	Capex	(133)	(52)	(150)	(130)	(131)
	Cash flow from investing activities	(133)	(51)	(150)	(130)	(131)
	Dividends paid	(800)	(415)	(136)	(147)	(161)
	Cash flow from financing activities	(792)	(390)	(136)	(147)	(161)
	Cash at beginning of period	1,613	1,066	875	895	988
	Net change in cash	(546)	(192)	20	93	114
	Ending balance cash	1,076	901	895	988	1,102
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,066	875	895	988	1,102
	Tangible fixed assets	742	726	799	844	884
	Total assets	2,020	1,825	1,979	2,129	2,292
	Total liabilities	167	144	162	165	167
	Total equity	1,853	1,682	1,817	1,964	2,125
	Total liabilities & equity	2,020	1,825	1,979	2,129	2,292
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(59.1)	(27.4)	27.3	5.0	4.6
	Recurrent EPS growth (%)	(78.0)	(29.8)	23.4	8.2	9.9
	Gross margin (%)	35.8	32.3	33.2	34.2	35.6
	Operating EBITDA margin (%)	38.1	37.1	37.3	38.5	40.4
	Net profit margin (%)	24.5	23.8	23.3	24.0	25.2
	Dividend payout ratio (%)	258.9	190.6	50.0	50.0	50.0
	Capex/sales (%)	10.6	5.7	12.9	10.6	10.3
	Interest cover (x)	18,132	8,217			

Source: Company data, RHB

Eyeing For a Meaningful Recovery In 2024

A stellar sets of results. Riverstone ended 2023 with a strong sets of results, after posting a core net profit of MYR218m, slightly above consensus estimates of MYR215m. The solid performance was driven by a sequential recovery in customised healthcare gloves (overall healthcare volume growth was slightly weaker in 4Q23), a pick-up in cleanroom glove orders as well as better product mix (cleanroom/healthcare mix: 45%/55%).

The company declared a special interim dividend of 5 sen on top of a final dividend of 7.5 sen, bringing its 2023 full year dividend to 12.5 sen. The total dividend payout for 2023 represent a 5% yield, based on the closing price of SGD0.725. Moving forward, it intends to maintain rewarding its shareholders via dividends (despite not having a dividend policy).

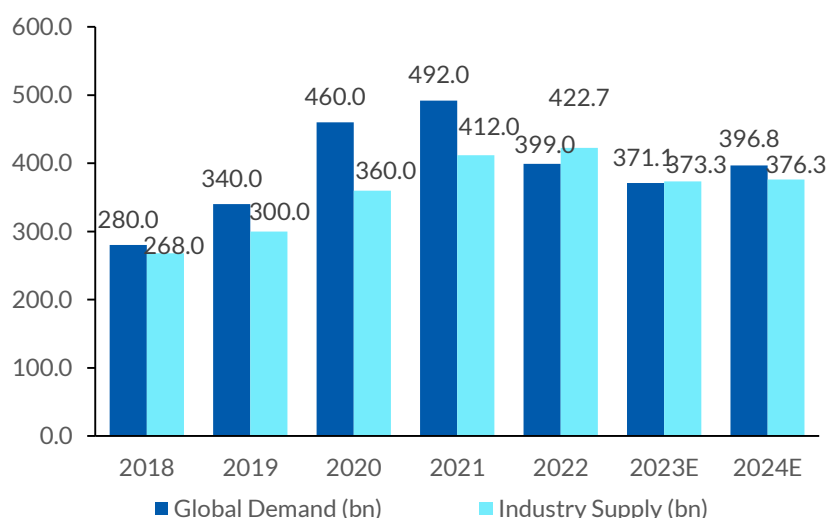
Industry dynamics turning favourable by 2H24. We reiterate that the demand for gloves will pick up gradually in the coming quarters as client inventory levels deplete, while glove inventories (stockpiled since 2020) approach their expiration dates (typical shelf life for gloves is 3-5 years). We also expect the risk of price competition from Chinese peers to gradually subside, premised on: i) Rising quality concerns resulting in a higher rejection rate from the US Food & Drug Administration, and ii) Chinese players' pivoting stance towards sustainability. Moving forward, we expect ASPs to trend higher tracking higher raw material and utility costs incurred in the previous quarters.

That said, Malaysia's January export data has started to point towards a clear sign of recovery after posting 6% MoM and 6% YoY growth. This was further affirmed by other industry peers on the basis of better pick-up of orders (in April and May) as well as improving plant utilisation rate.

Above-industry average margin profile. Riverstone's unique exposure in the cleanroom gloves segment kept the company out of the "glove oversupply saga" in 2021-2022. Unlike healthcare gloves (demand was solely driven by excessive buying during the pandemic), demand for cleanroom gloves has been more sustainable over the years. Given the high precision and strict industry requirement, there have been very few competitors (ie Clean Q Grip, Kossan Rubber (KRI MK, BUY, TP: MYR2.20), CE Technology (CETECH MK, NR) in the market able to replicate Riverstone's success. In view to that, it has also managed to sustain double-digit net profit margin even during the through period of 2022-2023 vs other glove makers that fell into the red in 2023.

Riverstone's product differentiation strategy (from generic products to highly customisable products) has also yielded an above-industry margin profile as it offers a wider range of usability ranging from hospitals disinfection, pharmaceutical industry, semiconductor, digital storage devices and etc. Its customers' origins (both healthcare and cleanroom) are mainly from Europe and the US (accounting for 23% and 24% of its 2022 revenue).

Figure 1: Global demand & supply overview



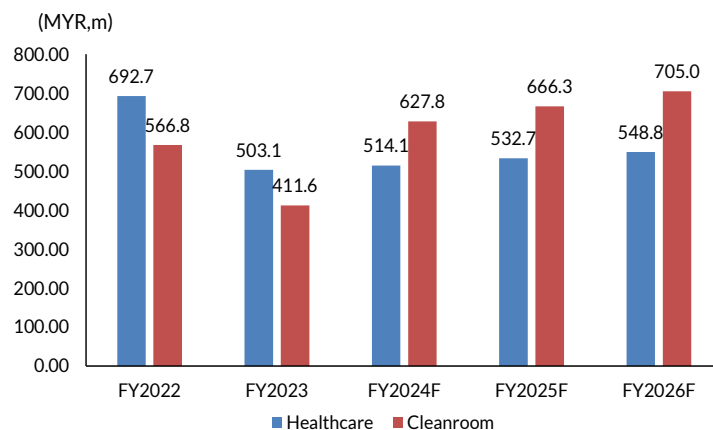
Source: Malaysian Rubber Glove Manufacturers Association, RHB

Figure 2: Key assumptions

	FY24F		FY25F		FY26F	
	Before	After	Before	After	Before	After
Cleanroom (ASP, USD per 1,000)	63.0	90.0	61.0	91.0	61.0	92.0
Healthcare (ASP, USD per 1,000)	23.0	28.0	23.0	28.2	23.0	28.3
Total production (per m pieces)	11,780.0	5,630.0	12,502.0	5,957.0	13,186.0	6,292.0
Utilisation	76%	54%	76%	56%	76%	58%

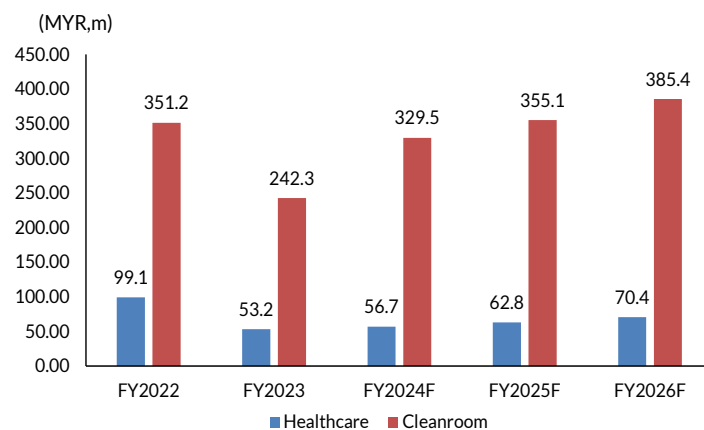
Source: RHB

Figure 3: Sales breakdown



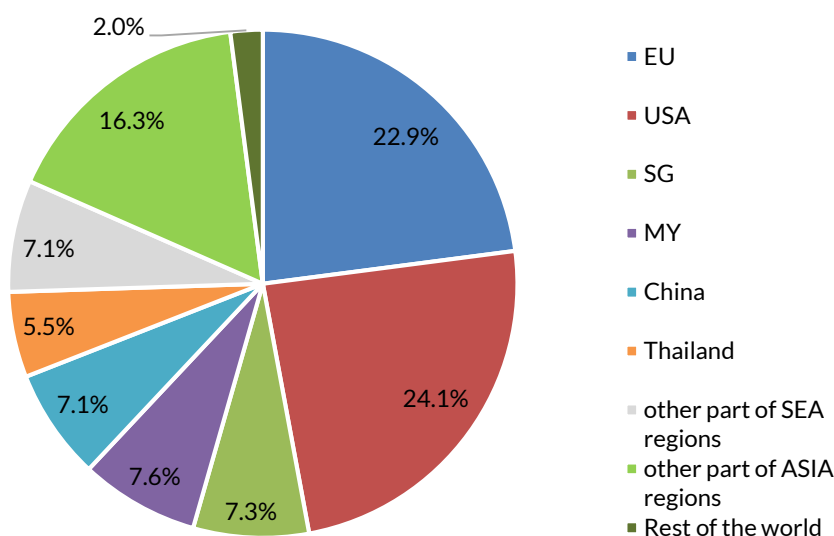
Source: Company data, RHB

Figure 4: Gross profit breakdown



Source: Company data, RHB

Figure 5: Geographical breakdown (FY22 sales)



Source: Company data, RHB

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Figure 6: Peer comparison table

Company	BBG Ticker	FYE	Mkt Cap (USDm)	Price	Actual	P/E (x)		Div. Yld (%)	ROE (%)	NP Margin (%)	
				19-Mar-24 (Local Currency)		1 Yr Fwd	2 Yr Fwd	1 Yr Fwd	1 Yr Fwd	1 Yr Fwd	2 Yr Fwd
Riverstone Holdings	RSTON SP	12/2024	800.7	0.73	18.3	14.8	13.7	3.4	15.5	23.3	24.0
Top Glove Corp	TOPG MK	08/2024	1,344.0	0.80	n.m.	n.m.	n.m.	0.0	-2.7	-5.0	0.1
Hartalega Holdings	HART MK	03/2024	1,823.0	2.53	n.m.	41.9	25.8	0.0	1.5	3.2	8.5
Kossan Rubber Industries	KRI MK	12/2024	1,023.4	1.90	n.m.	30.0	25.0	1.0	4.1	7.5	8.4
Supermax Corp	SUCB MK	06/2024	445.9	0.82	n.m.	28.0	18.8	0.1	0.3	1.1	5.4
Mkt. Cap Weighted Avg.			1,375.2		2.7	24.2	16.9	0.7	2.9	4.8	8.5
Simple Avg.			1,159.1		18.3	28.7	20.8	0.9	3.7	6.0	9.3

Source: Bloomberg, RHB

Figure 7: DCF valuation

FYE Dec (MYRm)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal
NOPAT	271	294	323	348	373	399	427	456	486	518	
+ D&A	77	85	92	99	107	114	122	129	137	145	
- Change in NWC	(43)	(9)	(8)	(12)	(12)	(12)	(13)	(13)	(13)	(14)	
- CAPEX	(150)	(130)	(131)	(133)	(134)	(135)	(137)	(138)	(139)	(141)	
Free cash flow to firm (FCFF)	155	240	275	302	333	366	399	434	471	508	5,982
Discount factor	0.93	0.84	0.76	0.69	0.62	0.56	0.51	0.46	0.42	0.38	0.38
PV of FCFF	144	201	209	208	207	205	203	200	196	191	2,249
Risk-free	4%										
WACC	11%										
Terminal growth	2%										
Enterprise Value (MYRm)	4,212										
Cash	760										
- Debt	(2)										
Equity Value (MYR m)	4,970										
No of shares (m)	1,482										
Fair Value (MYR)	3.35										
SGDMYR	3.50										
Fair Value (SGD)	0.93										
ESG discount/premium	0.00										
Target price (SGD)	0.93										

Source: RHB

Emissions And ESG

Trend analysis

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

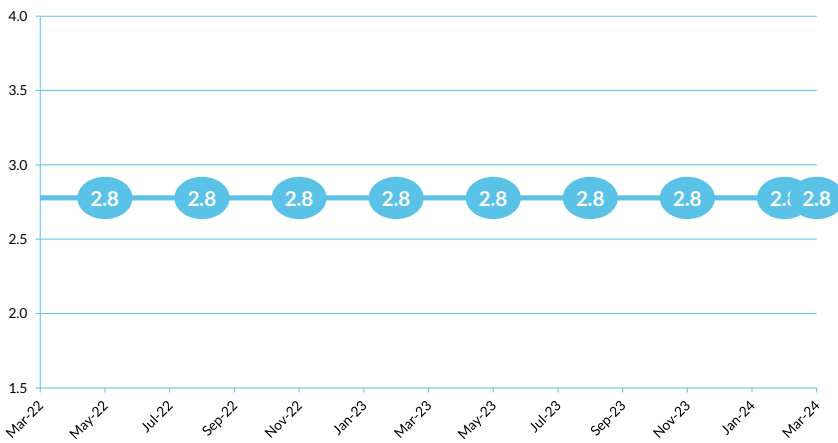
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	159,010	112,388	na
Scope 2	63,033	52,236	na
Scope 3	-	-	na
Total emissions	222,043	164,624	na

Source: Company data, RHB

Latest ESG-Related Developments

- Riverstone 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
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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