

7 August 2024

Consumer Cyclical | Rubber Products

Riverstone (RSTON SP)

Buy (Maintained)

Results In Line with Expectation; Maintain BUY

Target Price (Return):	SGD1.05 (16.7%)
Price (Market Cap):	SGD0.90 (USD1,000m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (SGD/USD)	2.94m/2.18m

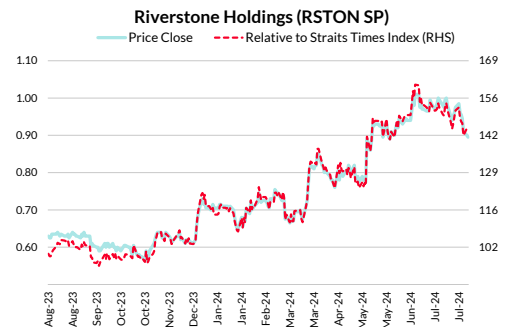
- **Keep BUY, with unchanged DCF-derived SGD1.05 TP, 17% upside.** Riverstone's 2Q24 core earnings grew 59% YoY to MYR72.4m, bringing its 1H24 numbers to account for 47% of both ours and Street's expectations. We deem the results to be in line, predicated by solid demand recovery for both healthcare and cleanroom gloves. Moving forward, we continue to like the company for its unique exposure in the cleanroom segment, above-industry margin profile, and consistent dividend payouts.
- **Results overview.** Rston's 1H24 core earnings came in in line with our expectations underpinned by higher ASP and robust demand recovery for cleanroom and healthcare gloves. Gross margin expanded 11.3ppt YoY on the back of a better product mix (ie higher sales from cleanroom and healthcare specialty gloves). On a sequential basis, revenue contracted 1% QoQ due to port congestion arising from the Red Sea disruption. Gross margin improved 1.1ppt QoQ – likely attributed to the easing of fuel prices. Core profit margin edged up higher by 3.6ppt QoQ to 29.3%. The group declared a second interim dividend of 4 sen (MYR), representing a payout ratio of 82%.
- **Outlook.** The onset of the recovery in global semiconductor sales continues to bode well for the outlook for the demand of cleanroom gloves. This is after the SIA (Semiconductor Industry Association) reported global semiconductor sales of USD49.1bn during May (+19.3% YoY, +4.1% MoM). The continuation of robust semiconductor sales indicates that the global semiconductor industry is experiencing a secular recovery trend fuelled by a series of tech companies' regional expansion, growth in demand of chips for AI computing, and the increasing adoption of cleanroom gloves beyond the traditional life-science industry. Under its healthcare segment, we expect Rston to move to diversify its product offerings towards specialty gloves to yield better margin, given that specialty products typically command higher ASPs than healthcare examination gloves. As the healthcare glove industry demand-supply inches towards equilibrium, we expect this to have a positive spillover effect for Rston following a period of consolidation.
- **Earnings adjustment.** We make no change to our earnings estimate pending post-result briefing today.
- **Maintain NEUTRAL.** Our DCF-derived-TP implies 16.7x FY24F P/E, which is 0.45D above its pre-COVID-19 5-year historical mean of 14.8x. Our TP incorporates 0% ESG premium as Rston's ESG score is on par with the country median.
- **Key risks:** Lower-than-expected sales volume, weaker-than-expected USD against MYR, and higher-than-expected raw material prices.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	27.0	(9.1)	13.3	20.1	42.1
Relative	28.3	(2.9)	16.5	17.8	45.0
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	1,256	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)	14.29	20.35	14.62	13.73	12.48
P/B (x)	2.4	2.7	2.6	2.5	2.4
P/CF (x)	11.82	17.96	12.42	11.53	10.55
Dividend Yield (%)	17.9	9.3	5.5	5.8	6.4
EV/EBITDA (x)	7.10	10.59	7.69	7.15	6.45
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

Riverstone has set a goal for energy use reduction up until 2025. Riverstone aims to reduce energy use/1000 pieces of gloves by 2% each year for the next 3 years. By 2025, the company aims to decrease its energy intensity by at least 10% from 2020 levels.

S: GOOD

The group conducted regular third-party audits 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 provide dormitory facilities in Taiping equipped with various amenities, providing greater wellbeing 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 group 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	0.21	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)	14.29	20.35	14.62	13.73	12.48
	P/B (x)	2.4	2.7	2.6	2.5	2.4
	FCF Yield (%)	5.5	4.4	5.8	6.4	7.2
	Dividend Yield (%)	17.9	9.3	5.5	5.8	6.4
	EV/EBITDA (x)	7.10	10.59	7.69	7.15	6.45
	EV/EBIT (x)	8.17	12.88	8.90	8.29	7.46
	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: 1H24 results snapshot

FYE 31 Dec (MYR m)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Revenue	224.2	249.5	246.9	(1.0)	10.1	462.2	496.4	7.4	1H24 revenue grew 7.4 % YoY due to improved sales volume and better product mix
EBITDA	69.6	100.1	101.1	1.0	45.3	255.2	201.3	(21.1)	
EBITDA margin (%)	31.1	40.1	41.0	2.1	31.9	55.2	40.5		
Depreciation	(15.1)	(15.9)	(15.9)	(0.1)	5.1	80.9	(31.8)	(139.4)	
EBIT	54.5	84.2	85.2	1.2	56.5	174.3	169.4	(2.8)	
EBIT margin (%)	24.3	33.7	34.5	2.3	42.0	37.7	34.1		
PBT	61.6	91.7	92.0	0.3	49.3	171.5	183.7	7.2	
Pretax margin (%)	27.5	36.8	37.3			37.1	37.0		
Tax	(14.8)	(19.5)	(19.5)	(0.3)	31.9	(51.1)	(39.0)	(23.7)	
Effective tax rate (%)	(24.0)	(21.3)	(21.2)			(29.8)	(21.2)		
Non-controlling interest	(0.0)	0.0	0.0			(3.7)	0.0		
PATAMI	46.9	72.2	72.5	0.4	54.7	116.6	144.7	24.1	
Net margin (%)	20.9	28.9	29.4			25.2	29.2		
Core profit	45.4	70.6	72.4	2.5	59.4	141.4	143.0	1.1	1H24 earnings accounted for 47%/47%, in line with ours and consensus expectations
Core NP margin (%)	20.3	28.3	29.3	3.6	44.8	30.6	28.8		

Source: Company data, RHB

Figure 2: DCF Valuation

FYE 31 Dec (MYR m)	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 (MYR m)	4,904										
Cash	646										
- Debt	(2)										
Equity Value (MYR m)	5,549										
No of shares (m)	1,482										
Fair Value (MYR)	3.74										
SGDMYR	3.50										
Fair Value (SGD)	1.05										
ESG discount/premium	0.00										
Target price (SGD)	1.05										

Source: RHB

Emissions And ESG

Trend analysis

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

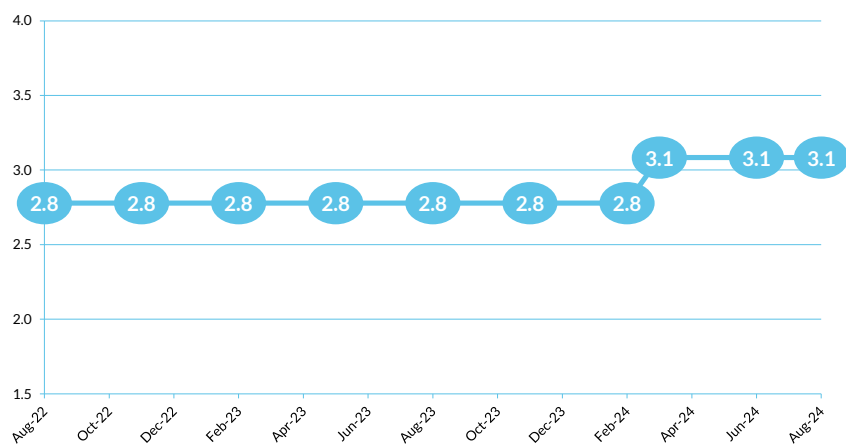
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	159,010	112,388	76,514
Scope 2	63,033	52,236	55,478
Scope 3	-	-	na
Total emissions	222,043	164,624	131,992

Source: Company data, RHB

Latest ESG-Related Developments

- The Group received various recognition (ie BSCI, ISO 45001:2018, and Responsible Business Alliance) in upholding stringent labour rights policy.

ESG Rating History



Source: RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
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

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
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Analyst	Company
-	-

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