

Riverstone Holdings Ltd

Cashing In Big On Strong USD

SINGAPORE | HEALTHCARE | NON-RATED NOTE

6 November 2015

Riverstone released their 3QFY2015 results after market closed on 5th November 2015. We attended the company's results briefing on 6th November 2015 and these are the key takeaways.

Internal and external factors continued to drive the company's top and bottom line growth. We are **Positive** that the company will continue to reap the benefit from higher demand alongside its timely-and-on-target-expansion. Favorable USD vs MYR trend remains a tailwind to the company. Nevertheless, we view its FY15 annualized PER of 20x as undemanding.

Results at a glance

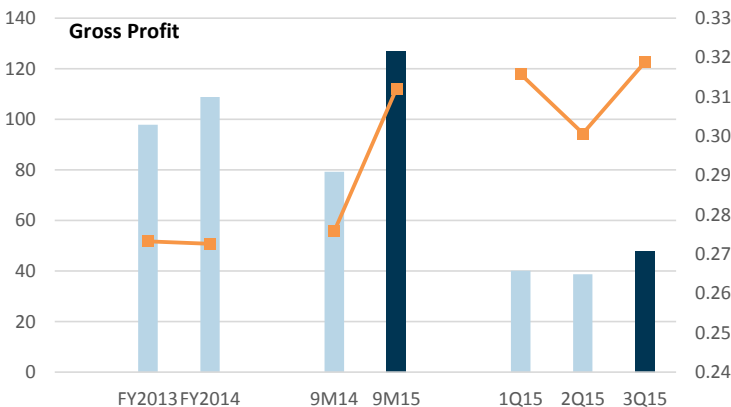
(RM mn)	3Q15	3Q14	y-y (%)	Comments
Revenue	150.6	102.7	46.7%	Stronger gloves demand
Gross profit	48.0	26.5	81.3%	Economies of scale, favorable FX and stable raw material prices
Profit before tax	40.1	19.8	103.0%	Higher operating costs offset by net FX gain
PATMI	35.3	16.5	114.0%	

Source: Company, Phillip Securities Research (Singapore)

Analyst briefing key takeaways:

- **Profit caught the stronger dollar strength tailwind** – Impressive quarter as net profit surged 114% y-y in 3QFY15
 - a. **Stronger USD against MYR** – Translate into higher revenue despite a relatively stable average selling price (in USD terms).
 - b. **Economies of scale** – Two single lines and two double lines were commissioned in 3Q15, enabling the Group to capture higher demand.
 - c. **Stable raw material prices** – In particular, nitrile prices (one of its main raw material costs) have been on a downward trend.

Figure 1: Heightened Gross Profit: 9M15 Gross Profit surpassing FY2014's



Source: Company, Phillip Securities Research (Singapore)

Non-rated

LAST TRADED PRICE	SGD 2.150
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

COMPANY DATA

O/S SHARES (MN) :	371
MARKET CAP (USD mn / SGD mn) :	563 / 793
52 - WK HI/LO (SGD) :	2.16 / 0.94
3M Average Daily T/O (mn) :	0.24

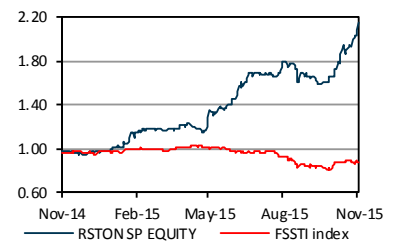
MAJOR SHAREHOLDERS (%)

Ringlet Investment Limited	50.75%
Wai Keong Lee	11.66%
Teck Choon Wong	3.98%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	26.3	17.0	117.5
STI RETURN	6.17	(4.49)	(4.92)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

RM MN	FY 11	FY 12	FY 13	FY 14
Revenue	273	310	358	399
EBITDA	55	64	88	97
NPAT (adj.)	39	40	58	71
EPS (RM Cents)	0.12	0.12	0.16	0.19
PER, x (adj.)	8.0	9.2	11.8	13.5
P/BV, x	14	15	2.2	2.4
DPS (RM Cents)	0.06	0.06	0.07	0.07
ROE, %	18.2%	16.6%	20.1%	19.7%

Source: Bloomberg

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Figure 2: MYR against USD

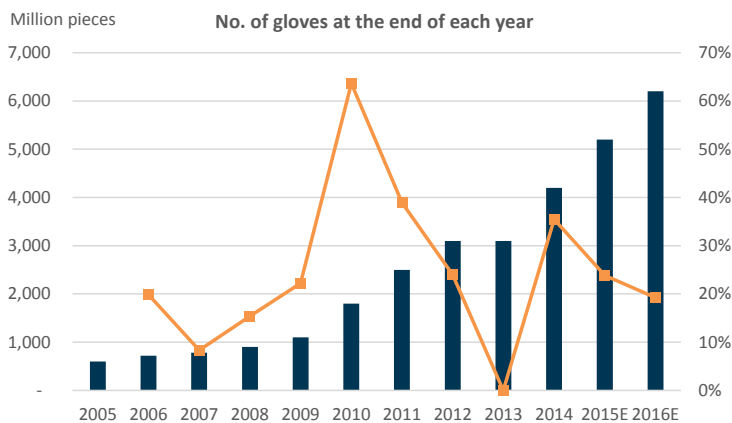


Source: Bloomberg, Phillip Securities Research (Singapore)

Expansion plans on the fast track

- Phase II:** The final two double lines will be up by end-Nov 2015, bringing the total production capacity to 5.2 bn pieces p.a. from end-2014's 4.2 bn pieces p.a.
- Phase III:** Expedite on Phase III commencement to meet increased demands from new and existing customers. Expect to be completed by 3Q16, bringing the total production capacity to 6.2 bn pieces p.a.

Figure 3: Ramping up production



Source: Company, Phillip Securities Research (Singapore)

- Growing mobile/tablet segment to pick up the slack from shrinking hard disk drive segment** – New product for cleanroom mobile/tablet could provide support to the top and bottom line.

What to expect?

- Keen competition, movement in commodity prices, and US currency fluctuation set a challenging environment for the glove industry, exerting downward pressure on average selling price.
- Notwithstanding a tougher outlook on gross profit, higher staff costs (to match the higher minimum wage for Malaysians starting 1 Jul 2016, as well as to compensate foreign workers on weaker MYR) would compress the bottom line.
- However, with additional production capacity to absorb higher demand, alongside a strong cash position, we think that Riverstone could take positive momentum into 2016.

Investment Actions

No stock rating or price target provided, as we do not have coverage on Riverstone Holdings Limited.

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