

Riverstone Holdings (RSTON SP)

Share Price: SGD2.09

Target Price: SGD2.36 (+13%)

MCap (USD): 552M

ADTV (USD): 0.3M

Singapore

Industrials

BUY

(Unchanged)

Beat on strong margins

- 3Q15 core earnings beat on higher margins, forming 29% of our FY15F. Gross margin was 3ppt higher than anticipated due to favourable currency and material prices.
- Expect good results to continue from contributions of new capacity and currency benefits. Raise FY15-17 EPS by 6-8%.
- Maintain BUY, TP raised to SGD2.36 from SGD2.12 after raising our EPS and our P/E target to 20x, up from 19x. Catalysts from possible actions to boost stock liquidity.

Earnings beat on favourable currency & input costs

3Q15 core earnings grew 85% YoY, on better than expected gross margin due to favourable currency and material prices. Similarly, operating cash flows were impressive, growing 158% YoY. New capacity of 1b glove pa contributed more than last year, due to earlier commencement of production. In FY15, additional 1b gloves pa commenced full production in Oct, while in FY14, the additional capacity only commenced full production in Dec. Based on our estimation, the new capacity of 1b gloves pa in phase 2 expansion will contribute for four months in FY15, compared to two months in FY14, under phase 1 expansion.

Strong earnings to persist; Maintain BUY

We expect strong earnings to continue moving forward from strong USD/MYR, low material prices and contributions from new capacity. Furthermore, in 4Q15, we expect Riverstone to realise tax benefits of c.MYR3m, for capex spent on phase 2 expansion. We raise our FY15-17 EPS by 6-8% after raising our gross margin.

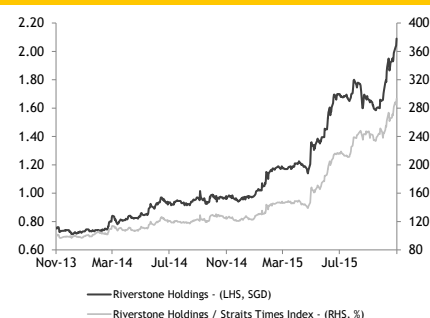
Maintain BUY. TP raised to SGD2.36 from SGD2.12 after raising EPS and our P/E target to 20x, up from 19x to account for strong earnings momentum and to remove Riverstone's size discount. Riverstone is trading at a 15% discount vs its peers' average, despite having the best ROE and growth profile. Catalysts from possible actions to boost stock liquidity.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	357.9	399.3	583.9	675.6	776.6
EBITDA	91.0	99.7	162.9	184.2	205.7
Core net profit	55.5	68.0	114.4	131.5	147.7
Core EPS (sen)	14.9	18.3	30.8	35.4	39.8
Core EPS growth (%)	24.8	22.5	68.2	15.0	12.3
Net DPS (sen)	6.8	6.9	12.3	14.2	15.9
Core P/E (x)	42.7	34.8	20.7	18.0	16.0
P/BV (x)	7.3	6.4	5.4	4.6	3.9
Net dividend yield (%)	1.1	1.1	1.9	2.2	2.5
ROAE (%)	19.2	19.6	28.2	27.4	26.2
ROAA (%)	15.9	16.6	23.8	23.3	22.4
EV/EBITDA (x)	6.2	8.8	14.0	12.3	10.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Key Data

52w high/low (SGD)	2.09/0.94
3m avg turnover (USDm)	0.3
Free float (%)	28.4
Issued shares (m)	371
Market capitalization	SGD775.9M
Major shareholders:	
-Wong Teek Son	50.7%
-Lee Wai Keong	11.6%
-Wong Teck Choon	4.0%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	26.3	16.4	113.3
Relative to index (%)	19.1	22.9	131.9

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	5	1	0
	Maybank Consensus		% +/-
Target Price (SGD)	2.36	2.14	10.6
'15 PATMI (MYRm)	114	117	(1.8)
'16 PATMI (MYRm)	132	130	1.1

Source: FactSet; Maybank

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Figure 1: 3Q15 results

FYE Dec	3Q15	2Q15	3Q14	Change		Comments
	(MYR m)	(MYR m)	(MYR m)	(QoQ %)	(YoY %)	
Revenue	150.6	129.0	102.7	16.8	46.7	New capacity of nearly 2b gloves pa, from 3.2b in 3Q14, contributed. Full production started in Oct-15 Last year, additional 1b gloves pa. only started full production in Dec-15.
Cost of sales	(102.6)	(90.2)	(76.2)	13.7	34.7	
Gross Profit	48.0	38.8	26.5	23.8	81.3	Boosted by strong USD/MYR and weaker material prices.
Other income	0.4	0.3	0.4	27.8	20.0	
Distribution & marketing exp	(4.1)	(3.0)	(2.6)	33.2	53.3	
Admin expense	(8.1)	(5.2)	(4.6)	56.6	76.4	
Other expenses	(1.0)	(0.8)	0.2	23.9	(745.8)	Stripping out forex gains of: <ul style="list-style-type: none"> ▪ MYR4.8m in 3Q15 ▪ MYR2.1m in 2Q15 ▪ MYR1.1m in 3Q14
Income from operations	35.3	30.1	19.8	17.2	78.5	
Finance costs	-	-	-	na	na	
Profit Before Tax	35.3	30.1	19.8	17.2	78.5	
Taxation	(4.8)	(5.2)	(3.2)	(8.3)	46.7	
Recurring net profit	30.5	24.9	16.5	22.6	84.8	
Net Profit after Tax	35.3	27.0	16.5	30.9	114.0	
Recurring EPS (cts)	8.2	6.7	4.4	22.6	84.8	
EPS (cts)	9.5	7.3	4.4	30.9	114.0	
DPS (cts)	-	2.40	-	na	na	
				Change (ppt)		
Gross margin	31.9	30.1	25.8	1.8	6.1	Better due to strong USD/MYR and weaker material prices.
PBT margin	23.4	23.3	19.2	0.1	4.2	
Net margin	20.3	19.3	16.1	1.0	4.2	

Figure 2: 9M15 results

FYE Dec	9M15	9M14	Change	Old MBKE	YTD as a % of	Comments
	(MYR m)	(MYR m)	(YoY %)	FY15E	FY forecast	
Revenue	406.7	287.3	41.5	583.9	69.7	New capacity of nearly 2b gloves pa, from 3.2b in 3Q14, contributed. Full production started in Oct-15 Last year, additional 1b gloves pa. only commenced full production in Dec-15.
Cost of sales	(279.8)	(208.1)	34.5	(419.9)	66.6	
Gross Profit	126.9	79.3	60.1	164.0	77.4	
Other income	1.1	1.8	(39.1)	1.5	73.2	
Distribution & marketing exp	(10.4)	(7.5)	38.4	(14.0)	73.9	
Admin expense	(19.4)	(13.1)	47.9	(24.5)	78.9	
Other expenses	(2.8)	(2.6)	7.4	(2.0)	140.2	Stripping out forex gains of: <ul style="list-style-type: none"> ▪ MYR9.6m in 9M15 ▪ (MYR0.8m) in 9M14
Income from operations	95.5	57.9	65.0	125.0	76.4	
Finance costs			na	-	na	
Profit Before Tax	95.5	57.9	65.0	125.0	76.4	
Taxation	(15.8)	(10.1)	56.4	(18.7)	84.4	
Recurring net profit	79.7	47.8	66.8	106.2	75.0	Above expectations as new capacity of 1b gloves pa. is expected to contribute 3 months in 4Q15, up from 2 months in 4Q14. Tax benefits of c.MYR3m should kick in as well.
Net Profit after Tax	89.3	48.6	83.8	106.2	84.0	
Recurring EPS (cts)	21.5	12.9	66.8	28.6	75.0	
EPS (cts)	24.1	13.1	83.8	28.6	84.0	
DPS (cts)	2.40	2.35	2.1	11.4	21.1	
			Change (ppt)			
Gross margin	31.2	27.6	3.6	28.1		
PBT margin	23.5	20.1	3.3	21.4		
Net margin	22.0	16.9	5.0	18.2		

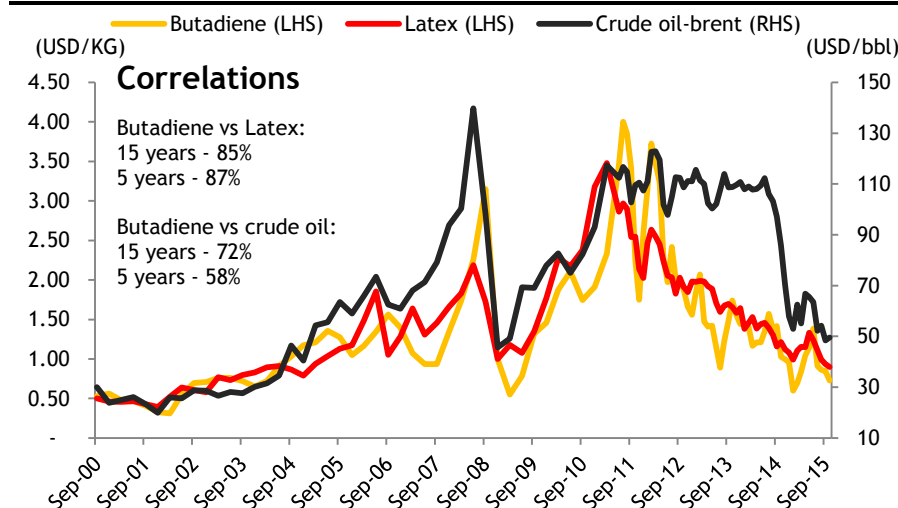
Source: Company, Maybank KE

Figure 3: USD/MYR has spiked to almost 6-year high
Riverstone has 3-6% net earnings exposure to USD



Source: Bloomberg

Figure 5: Input prices remain in check
Butadiene and latex prices falling again after a temporary spike in 2Q15.



Source: Bloomberg

Figure 6: Valuation methodologies for peers vs Riverstone
Riverstone has the best growth profile in FY15 and second best in FY16, after Hartalega

	Target P/E	Basis	FY15E EPS growth (%)	FY16E EPS growth (%)
Riverstone	20.0x	In line with P/E target for peers, excluding Supermax and UG	50.2	15.5
Peers				
Hartalega	22.0x	Based on CY16E P/E. 1 SD above its long-term mean	31.6*	18.2**
Kossan Rubber	20.0x	Based on FY16E P/E. 10% below P/E target for Hartalega	43.9	11.0
Top Glove	19.0x	Based on CY16E P/E. 15% below P/E target for Hartalega	23.3	6.5
UG Healthcare	14.0x	30% discount to peers' target (excluding Supermax), for smaller size and shorter listing track record	38.0	45.3
Supermax [#]	12.2x	Not Rated	7.5	31.0

*FY3/16E, **FY3/17E

[#]Consensus numbers

Source: Companies, Maybank KE

70-80% of its revenue - about 50% hedged - vs 40-50% of its cost of sales - is denominated in USD.

Figure 4: Maybank's FX USD/MYR forecasts
Expected to average 4.01 in FY15, up 22% YoY

Forecast	1Q15	2Q15	3Q15E	4Q15E	1Q16E	2Q16E
USD/MYR	3.62	3.65	4.41	4.35	4.40	4.20

Source: Bloomberg, Maybank FX Monthly (Sep 2015)

90% of Riverstone's gloves are made from nitrile. Its main raw material, butadiene, is a substitute for latex & a by-product of crude oil/natural gas.

Butadiene price rose in 2Q15 due to temporary shortage for plant maintenance. It has reduced in Jul 15.

We estimate 0.3% EPS sensitivity to every 1% change in its raw-material prices.

Figure 7: Valuation comparisons

Riverstone offers better EPS growth prospects and ROE at lower P/E and EV/EBITDA valuations

	Rec	Curr	Share price* (LC)	Target price (LC)	Market cap (USD m)	P/E (x)		EBITDA margin (%)	3Y EPS CAGR (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)		Div yield (%)
						FY15E	FY16E					FY15E	FY16E	
Riverstone	BUY	SGD	2.09	2.36	553	21	18	28	30	14	5.4	28	27	1.9
Malaysia's top four														
Hartalega	HOLD	MYR	5.22	4.25	1,986	31	25	29	19	20	6.1	20	21	1.5
Kossan Rubber	BUY	MYR	8.38	8.30	1,243	26	23	20	20	16	6.0	22	23	1.3
Top Glove	BUY	MYR	9.5	10.80	1,368	17	16	20	12	10	3.5	20	20	2.9
UG Healthcare	BUY	SGD	0.335	0.41	45	12	8	12	42	7	1.6	14	18	1.8
Supermax	NR	MYR	2.23	na	347	14	11	13	7	10	1.4	11	10	2.4
Average excl Supermax and UG*						25	21	23	17	15	5.2	21	21	1.9
Competitors														
Ansell Ltd	NR	AUD	19.63	na	2,154	17	16	17	4	9	2.5	14	14	3.1
Kimberly Clark	NR	USD	119.86	na	43,509	21	19	22	4	13	78.2	343	609	2.9
Average						19	18	20	4	11	40.4	179	312	3.0

* To derive our industry average, we exclude Supermax, which has been trading at undemanding valuations due to political factors.

As of market close on 05 Nov 2015

Source: Bloomberg, Maybank KE

Figure 8: New revenue, gross-profit and cost assumptions

FYE Dec	Revised					Original		
	2013	2014	2015E	2016E	2017E	2015E	2016E	2017E
Volume produced pa (m gloves)								
Healthcare	1,804	1,956	2,980	3,780	4,570	2,980	3,780	4,570
Cleanroom	800	999	1,100	1,200	1,310	1,100	1,200	1,310
Cleanroom composition (%)	30.7	33.8	27.0	24.1	22.3	27.0	24.1	22.3
Total volume	2,604	2,955	4,080	4,980	5,880	4,080	4,980	5,880
Changes from old (%)			-	-	-			
ASP per piece of glove (MYR)								
Healthcare	0.094	0.090	0.099	0.090	0.090	0.099	0.090	0.090
Cleanroom	0.221	0.223	0.252	0.270	0.270	0.252	0.270	0.270
Blended	0.133	0.135	0.140	0.133	0.130	0.140	0.133	0.130
Changes from old (%)			-	-	-			
Revenue (MYR m)								
Healthcare gloves	169.6	175.5	295.0	340.2	411.3	295.0	340.2	411.3
Cleanroom gloves	176.8	222.7	277.5	323.9	353.6	277.5	323.9	353.6
Other cleanroom products	11.2	11.3	11.4	11.5	11.6	11.4	11.5	11.6
Cleanroom composition (%)	52.5	58.6	47.5	47.9	45.5	47.5	47.9	45.5
Total revenue	357.5	409.5	583.9	675.6	776.6	583.9	675.6	776.6
Changes from old (%)			-	-	-			
Gross margins (%)								
Healthcare	19.0	17.0	19.0	19.0	19.0	19.0	19.0	19.0
Cleanroom	35.0	35.0	43.0	42.0	42.0	38.5	38.5	38.5
Blended	27.3	27.3	30.2	29.9	29.3	28.1	28.2	27.7
Changes from old (ppt)			2.1	1.7	1.6			
Gross profit (MYR m)								
Healthcare gloves	32.2	29.8	56.1	64.6	78.1	56.1	64.6	78.1
Cleanroom gloves	61.9	78.0	119.3	136.1	148.5	106.8	124.7	136.1
Other cleanroom products	3.9	1.1	1.1	1.2	1.2	1.1	1.2	1.2
Cleanroom composition (%)	67.3	72.6	67.6	67.4	65.2	65.1	65.5	63.2
Total gross profit	98.0	108.9	176.5	201.8	227.8	164.0	190.5	215.5
Change from old (%)			7.6	5.9	5.7			
Distribution & admin costs								
	(26.6)	(29.2)	(41.5)	(46.6)	(53.6)	(38.5)	(44.6)	(51.3)
Change from old (%)			7.8	4.5	4.5			
Core earnings	55.5	68.0	114.4	131.5	147.7	106.2	123.6	139.1
Change from old (%)			7.7	6.4	6.2			

Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	39.8	33.4	20.7	18.0	16.0
Core P/E (x)	42.7	34.8	20.7	18.0	16.0
P/BV (x)	7.3	6.4	5.4	4.6	3.9
P/NTA (x)	7.3	6.4	5.4	4.6	3.9
Net dividend yield (%)	1.1	1.1	1.9	2.2	2.5
FCF yield (%)	1.7	nm	2.5	3.0	4.4
EV/EBITDA (x)	6.2	8.8	14.0	12.3	10.8
EV/EBIT (x)	7.9	10.9	17.0	14.6	12.8

INCOME STATEMENT (MYR m)

Revenue	357.9	399.3	583.9	675.6	776.6
Gross profit	97.8	108.9	176.5	201.8	227.8
EBITDA	91.0	99.7	162.9	184.2	205.7
Depreciation	(19.0)	(19.4)	(28.8)	(30.0)	(32.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	72.0	80.4	134.1	154.2	173.0
Net interest income / (exp)	0.7	0.8	0.5	0.6	0.8
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	72.6	81.1	134.6	154.7	173.8
Income tax	(14.6)	(10.2)	(20.2)	(23.2)	(26.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	58.0	71.0	114.4	131.5	147.7
Core net profit	55.5	68.0	114.4	131.5	147.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	114.0	79.4	93.5	111.9	156.2
Accounts receivable	62.5	86.7	102.4	118.5	136.2
Inventory	35.7	42.1	63.6	74.0	85.7
Property, Plant & Equip (net)	153.4	227.6	258.8	303.8	331.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	14.9	4.9	2.1	2.1	2.1
Total assets	380.5	440.8	520.5	610.3	711.2
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	39.3	50.4	67.0	77.9	90.2
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	19.0	19.0	13.0	13.0	13.0
Total Liabilities	57.8	69.2	80.3	91.2	103.5
Shareholders Equity	322.7	371.6	440.2	519.1	607.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	322.7	371.6	440.2	519.1	607.7
Total liabilities and equity	380.5	440.8	520.5	610.3	711.2

CASH FLOW (MYR m)

Pretax profit	72.6	81.1	134.6	154.7	173.8
Depreciation & amortisation	19.0	19.4	28.8	30.0	32.7
Change in working capital	(2.1)	(25.2)	(20.7)	(15.5)	(17.1)
Cash taxes paid	(10.3)	(14.8)	(20.2)	(23.2)	(26.1)
Other operating cash flow	0.3	1.6	(3.1)	(0.6)	(0.8)
Cash flow from operations	80.2	62.8	119.8	146.0	163.4
Capex	(40.0)	(75.6)	(60.0)	(75.0)	(60.0)
Free cash flow	40.3	(12.6)	59.8	71.0	103.4
Dividends paid	(22.5)	(25.4)	(45.8)	(52.6)	(59.1)
Equity raised / (purchased)	31.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(40.7)	(74.4)	(60.0)	(75.0)	(60.0)
Effect of exch rate changes	1.9	2.4	0.0	0.0	0.0
Net cash flow	50.0	(34.6)	14.1	18.4	44.3

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	15.5	11.6	46.2	15.7	14.9
EBITDA growth	41.8	9.6	63.3	13.1	11.7
EBIT growth	49.9	11.7	66.9	15.0	12.2
Pretax growth	50.3	11.7	65.9	15.0	12.3
Reported net profit growth	46.2	22.4	61.2	15.0	12.3
Core net profit growth	42.2	22.5	68.2	15.0	12.3
Profitability ratios (%)					
EBITDA margin	25.4	25.0	27.9	27.3	26.5
EBIT margin	20.1	20.1	23.0	22.8	22.3
Pretax profit margin	20.3	20.3	23.0	22.9	22.4
Payout ratio	42.4	36.1	40.0	40.0	40.0
DuPont analysis					
Net profit margin (%)	16.2	17.8	19.6	19.5	19.0
Revenue/Assets (x)	0.9	0.9	1.1	1.1	1.1
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	19.2	19.6	28.2	27.4	26.2
ROAA (%)	15.9	16.6	23.8	23.3	22.4
Liquidity & Efficiency					
Cash conversion cycle	46.0	59.9	53.1	56.1	56.3
Days receivable outstanding	60.6	67.3	58.3	58.8	59.0
Days inventory outstanding	45.7	48.2	46.7	52.3	52.4
Days payables outstanding	60.3	55.6	51.9	55.0	55.1
Dividend cover (x)	2.4	2.8	2.5	2.5	2.5
Current ratio (x)	4.8	3.7	3.7	3.8	4.1
Leverage & Expense Analysis					
Asset/Liability (x)	6.6	6.4	6.5	6.7	6.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	11.2	18.9	10.3	11.1	7.7
Net debt/ (net cash)	(114.0)	(79.4)	(93.5)	(111.9)	(156.2)

Source: Company; Maybank

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