

# Riverstone Holdings (RSTON SP)

Consumer Non-cyclical - Rubber Products

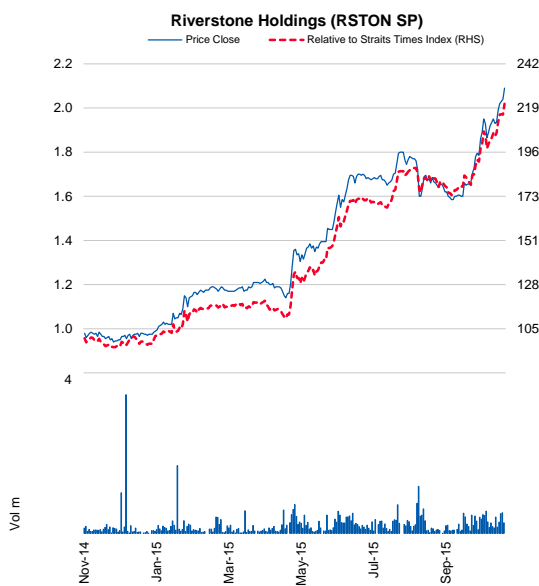
Market Cap: USD551m

**Buy** (Maintained)

 Target Price: **SGD2.35**

 Price: **SGD2.09**

## On Track For a Record Year

 Macro ◆◆◆  
 Risks ◆  
 Growth ◆◆  
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.40m/0.28m
Cons. Upside (%)	-21.1
Upside (%)	12.4
52-wk Price low/high (SGD)	0.94 - 2.09
Free float (%)	32
Share outstanding (m)	371
<b>Shareholders (%)</b>	
Wong Teek Son	50.8
Lee Wai Keong	13.0

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	114.0	26.3	16.4	62.6	113.0
Relative	125.0	20.3	21.7	75.5	121.0

Riverstone delivered a stellar set of results with PATMI surging 114% YoY to MYR35.3m on the back of MYR150.6m in revenue (+46.7% YoY) due to lower-than-expected opex. Maintain BUY with a higher SGD2.35 TP (from SGD2.25, 12% upside). Going forward, we expect the cleanroom wing to remain the profit driver. 4Q15 PATMI is expected to be 10% softer QoQ due to pricing pressure on its healthcare business.

- ◆ **3Q15 results beat expectations.** Riverstone delivered a stellar set of results with PATMI surging 114% YoY to MYR35.3m on the back of MYR150.6m in revenue (+46.7% YoY). The strong result was attributable to the lower-than-expected opex ie sales, general & administrative (SG&A) expenses, as the company managed to keep its costs in check despite its fast expansion.
- ◆ **Cleanroom to stay as the key profit driver.** As we have previously pointed out, what really sets Riverstone apart from its Malaysian healthcare gloves original equipment manufacturer (OEM) peers is its niche cleanroom business. Management expects this business to grow at 10% pa, as it chooses to only deal with customers that are reputable and with favourable credit terms, though this implies that the healthcare OEM business is likely to absorb the bulk of the new capacity, The cleanroom division can still surprise on the upside with better-than-expected demand, given that the production line is fungible. We expect Riverstone's cleanroom business to contribute 70% of profits and 30% of revenue.
- ◆ **Raising forecasts and TP.** We now expect Riverstone to report a slightly softer 4Q15 results with PATMI declining 10% QoQ. This is as its healthcare OEM business remains under ASP declining pressure. We lift our full-year earnings estimates for FY15 and FY16 by 3.4% and 3.2% respectively. Our new TP of SGD2.35 is based on a DCFE valuation (CoE: 8.0%, TG: 2%).

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	358	399	557	634	697
Reported net profit (MYRm)	58	71	121	134	144
Recurring net profit (MYRm)	58	71	121	134	144
Recurring net profit growth (%)	46.2	22.4	70.8	10.8	7.3
Recurring EPS (MYR)	0.16	0.19	0.33	0.36	0.39
DPS (MYR)	0.07	0.07	0.08	0.09	0.10
Recurring P/E (x)	39.9	33.4	19.5	17.7	16.5
P/B (x)	7.17	6.37	5.09	4.18	3.52
P/CF (x)	33.2	36.2	16.3	15.8	14.5
Dividend Yield (%)	1.1	1.1	1.2	1.3	1.5
EV/EBITDA (x)	24.6	23.3	13.9	12.2	11.2
Return on average equity (%)	20.1	20.4	29.0	26.0	23.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			12.8	6.3	10.5

Source: Company data, RHB

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## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	358	399	557	634	697
Cost of sales	(260)	(290)	(382)	(440)	(490)
<b>Gross profit</b>	<b>98</b>	<b>109</b>	<b>175</b>	<b>194</b>	<b>208</b>
Gen & admin expenses	(17)	(18)	(22)	(25)	(28)
Selling expenses	(9)	(11)	(13)	(15)	(17)
Other operating costs	(1)	(1)	(1)	(1)	(1)
<b>Operating profit</b>	<b>70</b>	<b>79</b>	<b>138</b>	<b>152</b>	<b>162</b>
Operating EBITDA	89	98	160	179	190
Depreciation of fixed assets	(19)	(19)	(22)	(26)	(28)
<b>Operating EBIT</b>	<b>70</b>	<b>79</b>	<b>138</b>	<b>152</b>	<b>162</b>
Interest income	2	2	4	6	8
<b>Pre-tax profit</b>	<b>73</b>	<b>81</b>	<b>143</b>	<b>158</b>	<b>170</b>
Taxation	(15)	(10)	(21)	(24)	(25)
<b>Profit after tax &amp; minorities</b>	<b>58</b>	<b>71</b>	<b>121</b>	<b>134</b>	<b>144</b>
<b>Reported net profit</b>	<b>58</b>	<b>71</b>	<b>121</b>	<b>134</b>	<b>144</b>
<b>Recurring net profit</b>	<b>58</b>	<b>71</b>	<b>121</b>	<b>134</b>	<b>144</b>

Source: Company data, RHB

<b>Cash flow (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>70</b>	<b>79</b>	<b>138</b>	<b>152</b>	<b>162</b>
<b>Depreciation &amp; amortisation</b>	<b>19</b>	<b>19</b>	<b>22</b>	<b>26</b>	<b>28</b>
<b>Change in working capital</b>	<b>(14)</b>	<b>(19)</b>	<b>2</b>	<b>(10)</b>	<b>(8)</b>
Other operating cash flow	4				
<b>Operating cash flow</b>	<b>79</b>	<b>79</b>	<b>162</b>	<b>169</b>	<b>182</b>
Interest received	1	1	4	6	8
Tax paid	(10)	(15)	(21)	(24)	(25)
<b>Cash flow from operations</b>	<b>70</b>	<b>65</b>	<b>145</b>	<b>151</b>	<b>164</b>
Capex	(29)	(74)	(50)	(80)	(50)
Other investing cash flow	0	0	0	0	-
<b>Cash flow from investing activities</b>	<b>(29)</b>	<b>(74)</b>	<b>(50)</b>	<b>(80)</b>	<b>(50)</b>
Dividends paid	(22)	(25)	(28)	(32)	(35)
Shares repurchased	(1)	-	-	-	-
Proceeds from issue of shares	31	-	-	-	-
<b>Cash flow from financing activities</b>	<b>8</b>	<b>(25)</b>	<b>(28)</b>	<b>(32)</b>	<b>(35)</b>
Cash at beginning of period	64	114	79	147	186
<b>Total cash generated</b>	<b>48</b>	<b>(34)</b>	<b>67</b>	<b>39</b>	<b>79</b>
Forex effects	2	(1)	-	-	-
<b>Implied cash at end of period</b>	<b>114</b>	<b>79</b>	<b>147</b>	<b>186</b>	<b>264</b>

Source: Company data, RHB

## Financial Exhibits

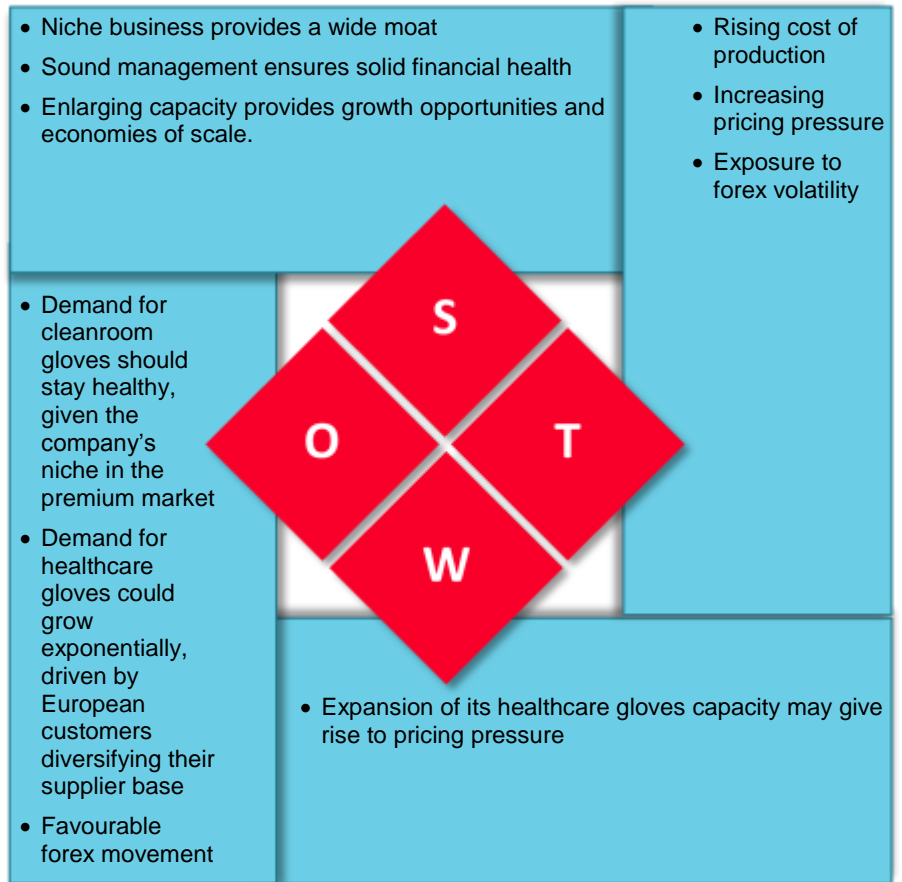
<b>Balance Sheet (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	114	79	147	186	264
Inventories	36	42	49	56	62
Accounts receivable	63	87	104	119	131
Other current assets	2	2	2	2	2
<b>Total current assets</b>	<b>215</b>	<b>210</b>	<b>302</b>	<b>362</b>	<b>459</b>
Tangible fixed assets	153	228	256	309	331
Total other assets	12	-	-	-	-
Total non-current assets	166	228	256	309	331
<b>Total assets</b>	<b>381</b>	<b>438</b>	<b>558</b>	<b>672</b>	<b>791</b>
Accounts payable	39	50	77	88	98
Other current liabilities	6	6	6	6	6
<b>Total current liabilities</b>	<b>45</b>	<b>56</b>	<b>83</b>	<b>94</b>	<b>104</b>
Other liabilities	13	10	10	10	10
<b>Total non-current liabilities</b>	<b>13</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Total liabilities</b>	<b>58</b>	<b>66</b>	<b>93</b>	<b>104</b>	<b>114</b>
Share capital	156	156	156	156	156
Retained earnings reserve	167	216	309	412	521
Other reserves	(1)	(1)	(1)	(1)	(1)
<b>Shareholders' equity</b>	<b>323</b>	<b>372</b>	<b>465</b>	<b>568</b>	<b>676</b>
Minority interests	0	-	-	-	-
Other equity	0	-	-	-	-
<b>Total equity</b>	<b>323</b>	<b>372</b>	<b>465</b>	<b>568</b>	<b>676</b>
<b>Total liabilities &amp; equity</b>	<b>381</b>	<b>438</b>	<b>558</b>	<b>672</b>	<b>791</b>

Source: Company data, RHB

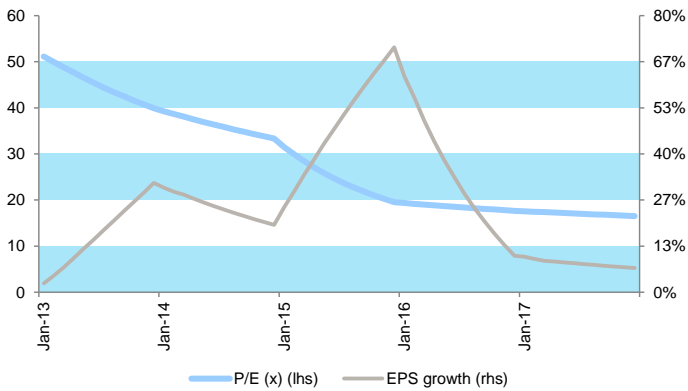
<b>Key Ratios (MYR)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	15.5	11.6	39.6	13.8	9.9
Operating profit growth (%)	48.7	11.8	75.5	10.3	6.0
Net profit growth (%)	46.2	22.4	70.8	10.8	7.3
EPS growth (%)	31.6	19.5	70.8	10.5	7.0
BVPS growth (%)	14.0	12.5	25.1	21.8	18.8
Operating margin (%)	19.7	19.7	24.8	24.0	23.2
Net profit margin (%)	16.2	17.8	21.7	21.2	20.7
Return on average assets (%)	16.6	17.3	24.4	21.9	19.7
Return on average equity (%)	20.1	20.4	29.0	26.0	23.2
Net debt to equity (%)	(35.3)	(21.4)	(31.5)	(32.7)	(39.1)
DPS	0.07	0.07	0.08	0.09	0.10
Recurrent cash flow per share	0.19	0.18	0.39	0.41	0.44

Source: Company data, RHB

# SWOT Analysis

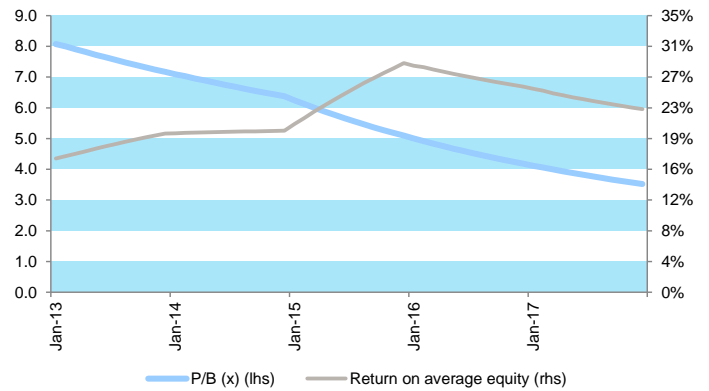


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Riverstone Holdings specialises in producing, selling nitrile gloves used for cleanroom manufacturing and the healthcare industry.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-11-02	Buy	2.25	2.02
2015-08-05	Buy	2.06	1.80
2015-05-05	Buy	1.54	1.29
2015-02-26	Buy	1.35	1.19
2014-11-05	Buy	1.15	0.98
2014-09-29	Buy	1.15	0.94
2014-05-07	Buy	1.15	0.86
2014-02-27	Buy	1.07	0.79
2013-11-04	Buy	1.05	0.75

Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**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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a) -

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