

# Riverstone Holdings Ltd

Growth engine fuelled by favourable FX and better margin

## SINGAPORE | CONSUMER | NON-RATED NOTE

Riverstone released their FY15 results after market closed on 24<sup>th</sup> Feb-16. We attended the Group's results briefing on 25<sup>th</sup> Feb-16 and these are the key takeaways.

4Q15 and FY15 earnings hit record high, lifted by better operational efficiency. Higher demand as well as the strengthening USD against MYR and stable raw material prices lifted top and bottom line. We are **Positive** that the accelerated expansion will provide the Group capacity in time to absorb the rising demand. Ability to customize according to clients' needs as well as its two-pronged approach in growing both cleanroom and healthcare gloves provide competitive edge to the Group.

### Results at a glance

Figure 1: FY15 Performance

(RM mn)	FY15	FY14	y-y (%)	Comments
Revenue	560.2	399.3	40.3%	Stronger gloves demand, supported by higher capacity
Gross profit	174.9	108.9	60.7%	Increased operating efficiency on higher level of automation, stronger USD against MYR and stable raw material prices
Profit before tax	144.4	81.1	78.0%	
PATMI	126.5	71.0	78.4%	Lower effective tax rate

Source: Company, PSR

Figure 2: 4Q15 Performance

(RM mn)	4Q15	4Q14	y-y (%)	3Q15	q-q (%)	Comments
Revenue	153.5	112.0	37.0%	150.6	1.9%	4Q15 revenue at record high, but muted qoq growth
Gross profit	48.0	29.6	62.1%	48.0	-0.1%	Economies of scale, but margin pressure qoq
Profit before tax	39.2	22.4	74.9%	40.1	-2.2%	Absence of monthly bonus provision, leading to lower expenses qoq
PATMI	37.2	22.4	66.4%	35.3	5.4%	

Source: Company, PSR

### Analyst briefing key takeaways

**Softer 4Q15 weighed on full year growth.** 4Q15 revenue qoq growth was flattish, mainly due to (i) lower raw material costs depressed average selling price ("ASP"), as well as (ii) tepid industry landscape across the board.

- ASP for cleanroom glove (CR) held up, but healthcare glove's (HC) is on a downward trend.** Nonetheless, top line was cushioned by favourable FX rate.
- Management shared that, **lead time was cut short** by 30 days as distributors are destocking and slowing down on orders.
- Average utilization rate in 4Q15 is at ~85%, lower than previous quarters' ~90%. This is mainly due to the new capacity introduced in 4Q15. Management sees signs of normalization in early FY16.

26 February 2016

### Non-rated

LAST TRADED PRICE	SGD 1.020
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

### COMPANY DATA

O/S SHARES (MN) :	741
MARKET CAP (USD mn / SGD mn) :	540 / 756
52 - WK HI/LO (SGD) :	13 / 0.56
3M Average Daily T/O (mn) :	0.70

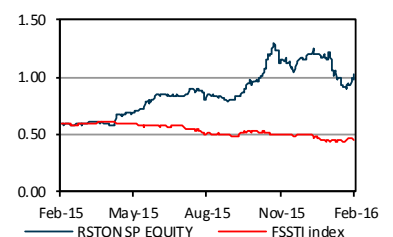
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(17.7)	(10.7)	714
STI RETURN	0.94	(9.57)	(21.68)

### PRICE VS. STI



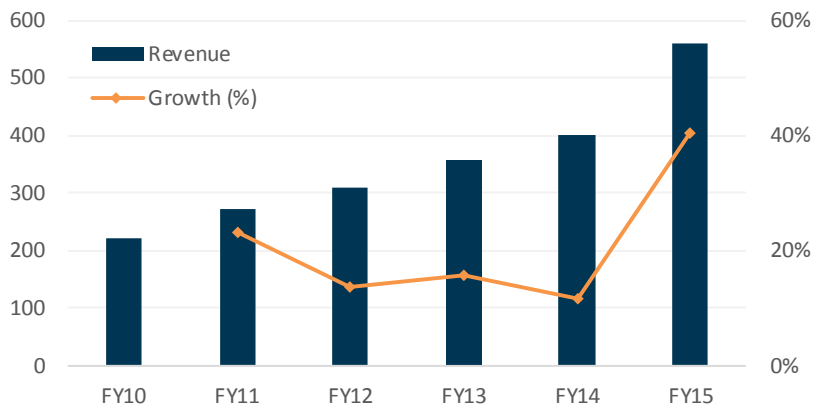
Source: Bloomberg, PSR

### KEY FINANCIALS

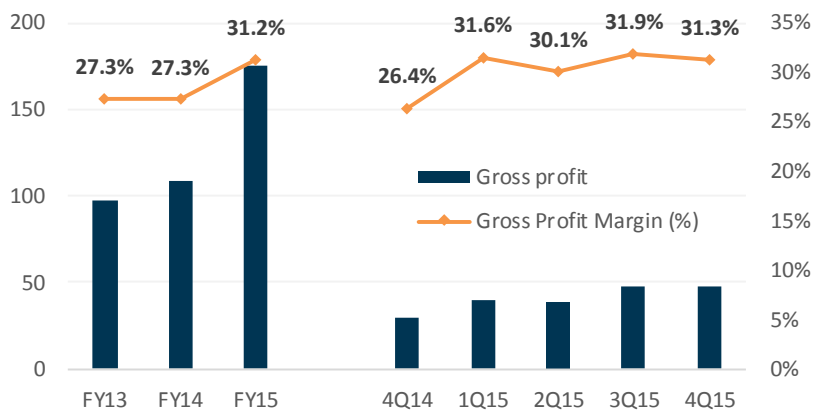
RM MN	FY 12	FY 13	FY 14	FY 15
Revenue	310	358	399	560
EBITDA	64	88	97	N/A
NPAT (adj.)	40	58	71	127
EPS (RM Cents)	0.06	0.08	0.10	0.17
PER, x (adj.)	9.2	11.8	13.5	214
P/BV, x	15	2.2	2.4	N/A
DPS (RM Cents)	0.03	0.03	0.03	N/A
ROE, %	16.6%	20.1%	19.7%	N/A

Source: Bloomberg

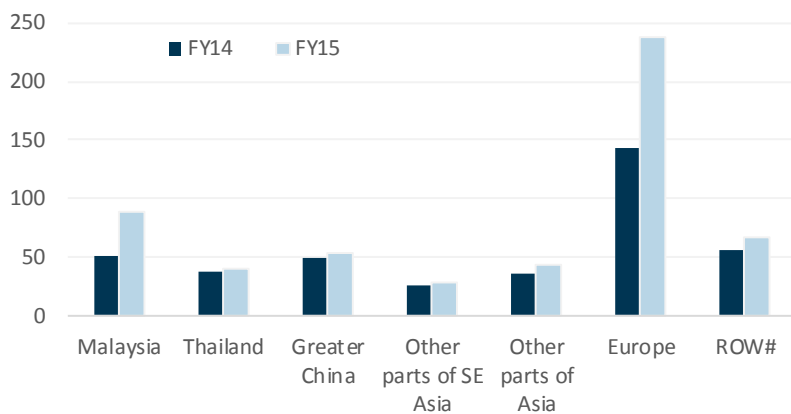
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**Figure 3: Revenue growth**

Source: Company, PSR

**Figure 4: Gross profit and margin**

Source: Company, PSR

**Figure 5: Revenue by Geography Segments (based on location of customers)**

# Rest of the world

Source: Company, PSR

### Demand, Supply and Prices dynamics

- Despite a competitive industry landscape, the optimistic management is still expecting a **10% yoy volume growth in FY16**, which should be achievable through newly acquired customers, particularly from the APAC region and in the non-HDD segment.
- HDD industry slows but tablets and mobile devices pick up slack.** Management shared that there are strong demand for cleanroom gloves from these two sub-sectors.
- Jan-Feb FY16 ASP fell** 3-5% qoq in USD terms, mainly driven by HC segment. This is due to (i) raw material costs decreased, (ii) recovery of MYR against USD, and (iii) competition pressure. However, management shared that, barring from further reduction in costs price and volatility in exchange rate, it is unlikely to see a price war or for ASP to reduce further, as other industry players are also concerned on sustaining their GPM.

### Costs pressures to build up

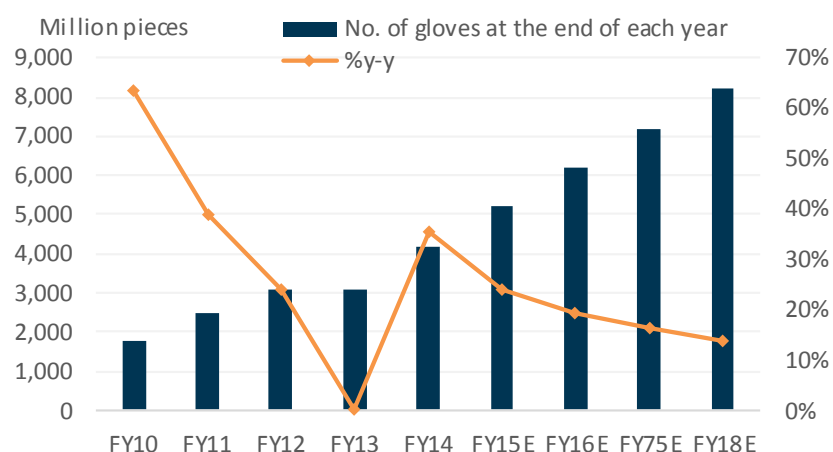
- Higher fuel costs.** The 17% gas tariff hike in early FY16, which would translate to ~1% increase in COGS, ceteris paribus, will erodes GPM. Nonetheless, the average natural gas tariff for the non-power sector in Malaysia will be reviewed every six months via the gas cost pass through (GCPT) mechanism.
- Rising labour costs.** Management shared that the Phase III expansion is unlikely to be impacted by the new foreign levy system, as the local labour market is not as tight. The additional 250 workers for the new Phase III facilities should mainly consist of locals.

**Higher tax incentive in FY16-19.** Riverstone Resources Sdn Bhd, one of its subsidiaries in Malaysia, is expected to enjoy tax incentive for 3 years starting from FY16 under the Reinvestment Allowance. The company intends to refurbish and automate some of its lines. The increasing level of automation could also enhance its GPM.

### Living up to expectation and committed to deliver on time

- Phase II expansion up and running in 4Q15**, as per schedule, bringing total production capacity to 5.2 bn gloves per annum at end-FY15.
- Phase III expansion** (consists of 3 single and 3 double lines) is underway and on track. The management expects it to start contributing to volume by Jul-16. The Group intends to start commissioning one single line each month over 3Q16 and one double line each month over 4Q16, bringing the total production capacity to 6.2 bn p.a. by end-FY16 (or 32% increase in capacity).

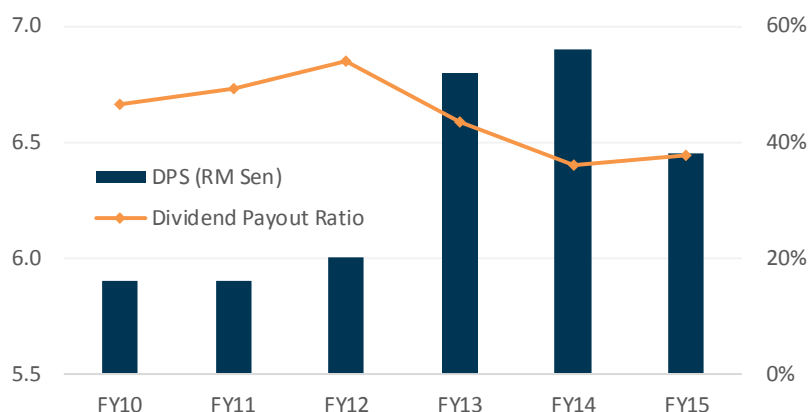
**Figure 6: No. of gloves at the end of the year**



Source: Company, PSR

**Net cash position** with cash and cash equivalent balance of MYR128.7 mn at end-FY15. Cash flow from operating activities almost doubled to MYR122.1 mn as of end-FY15. The **strong positive operating cash flows** reflects the Group's ability to fund projected CAPEX of MYR70-80 mn internally as well as to continue paying out dividends in FY16.

**Figure 7: Consistent dividends**



Source: Company, PSR

**Figure 8: Peers comparison**

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	Net D/E (%)	ROA (%)	ROE (%)	P/B
Riverstone Holdings Ltd	RSTON SP	755.9	711.6	13.1	10.7	9.4	18.0	16.0	14.1	Net Cash	22.3	27.5	5.0
<b>Singapore</b>													
UG Healthcare Corp Ltd	UGHC SP	57.3	61.1	13.4	7.2	5.9	18.2	10.5	8.2	Net Cash	6.9	9.5	1.6
<b>China</b>													
Blue Sail Medical Co Ltd	002382 CH	1,114.0	1,099.6	N/A	20.5	18.5	29.7	28.8	22.6	3.8	10.7	15.8	4.4
<b>Malaysia</b>													
Adventa Bhd	ADV MK	46.6	51.9	22.1	10.0	N/A	45.3	16.9	N/A	20.4	2.7	3.9	1.7
Comfort Glove Bhd	CG MK	164.7	160.1	15.0	N/A	N/A	20.6	N/A	N/A	Net Cash	14.6	18.6	3.3
Hartalega Holdings Bhd	HART MK	2,623.3	2,656.4	24.4	18.8	15.5	31.0	27.4	23.1	Net Cash	15.6	18.8	5.4
Kossan Rubber Industries	KRI MK	1,399.3	1,447.1	15.4	11.1	9.8	20.7	17.6	15.4	16.2	14.2	21.7	4.5
Rubberex Corp Bhd	RBRX MK	63.0	77.3	N/A	N/A	N/A	12.7	N/A	N/A	12.0	3.3	4.7	0.7
Supermax Corp Bhd	SUCB MK	668.5	762.8	N/A	11.4	9.5	18.8	15.5	14.0	23.4	6.9	10.8	1.9
Top Glove Corp Bhd	TOPG MK	2,389.8	2,270.5	10.0	10.6	10.2	19.7	17.2	16.5	Net Cash	14.7	22.5	4.1
<b>Average</b>				<b>17.4</b>	<b>12.4</b>	<b>11.2</b>	<b>24.1</b>	<b>18.9</b>	<b>17.3</b>	<b>18.0</b>	<b>10.3</b>	<b>14.4</b>	<b>3.1</b>
<b>Simple Average (Excl. RSTON)</b>				<b>16.7</b>	<b>12.8</b>	<b>11.6</b>	<b>24.1</b>	<b>19.1</b>	<b>16.6</b>	<b>15.2</b>	<b>9.9</b>	<b>14.0</b>	<b>3.1</b>

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

## Investment Actions

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

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