

Media Title : The Star
 Headline : Waste-to-energy plant seen as key re-rating catalyst for Cypark
 Date : 4 January 2017
 Page : 5
 Size : 13.6x16.4



Waste-to-energy plant seen as key re-rating catalyst for Cypark

PETALING JAYA: Completion of its waste-to-energy (WTE) plant by end-2017 is the key potential re-rating catalyst for Cypark Resources Bhd, says CIMB Research, which expects a strong performance from the integrated environmental engineering and technology provider from the financial year (FY) ending Oct 31, 2017, onwards.

According to the brokerage, the market at present has undervalued Cypark's WTE project.

"We believe that the market does not fully appreciate the potential of Cypark's WTE project due to lack of understanding of its earnings prospects. Management has shared scant details about the Ladang Tanah Merah (LTM) project to safeguard its competitive edge in tender exercises for future WTE projects," CIMB Research said in its report.

CIMB Research had raised its target price for Cypark to RM2.40 from RM2.30, with an unchanged "add" rating.

"Our sum-of-parts target price values Cypark's WTE project close to book value. Yet, our target suggests upside of 15%," CIMB Research said, noting that delay in completion of WTE project was the key downside risk to its target price and "add" recommendation.

Cypark expected its WTE project in Tanah Merah to be completed by end-2017.

According to CIMB Research, the management expected the plant to contribute no less than RM80mil in revenue per annum once it commenced full operations.

"The completion of the WTE plant would be a key milestone for the company as the plant is the single-largest investment that the company has ever undertaken," it said.

As at Oct 2016, the plant had a book value of around RM500mil, accounting for slightly

more than half of Cypark's total asset value.

"We project that Cypark's core earnings per share (EPS) will rise by 2% in FY17, driven mainly by stronger non-renewable energy earnings. The group's construction arm is a potential beneficiary of the government's initiative to construct more public housing in the country," CIMB Research said.

"Our FY17 forecast EPS growth of 2% is weaker than the 10% earnings growth that we project for FBM KLCI in 2017. However, we expect Cypark's EPS to jump by a substantial 50% in FY18, as the second phase of its WTE project commences operations," it added.

Excluding unrealised foreign exchange gain of RM200,000, Cypark's core net profit for the fourth quarter of FY2016 rose 26% year-on-year (y-o-y), driven by stronger environmental engineering (EE) and renewable energy (RE) earnings. EE pretax profit rose 17% y-o-y to RM11mil in 4Q16 due to increased work activities for the second phase of its WTE project in Tanah Merah, Negeri Sembilan. RE pretax profit rose 119% y-o-y to RM5.5mil in 4Q16 as the group only started to collect tipping fees from its landfill operations in Tanah Merah last year.

"While Cypark's core net profit in 4Q16 was 26% higher than in the same period last year, core net profit contracted 10% quarter-on-quarter (q-o-q). Three of its business divisions (EE, RE and landscaping) recorded pretax profit decline of between 1% and 16% q-o-q in 4Q16," CIMB Research explained.

"In our view, the weaker 4Q16 earnings are not a concern, as Cypark's earnings are typically softer in the last quarter of its financial year due to seasonality. In 4Q14 and 4Q15, Cypark's core net profit fell 47% q-o-q and 26% q-o-q, respectively," it added.