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Cypark expects robust 2018 despite headwinds

Cypark's integrated renewable energy park in Pajam, Negeri Sembilan

Waste-to-energy plant to begin operations this quarter; confident of winning tenders for green projects

by Ho Chung Tang

CYPARK Resources Bhd, a green energy and engineering solutions provider, is expected to fare better once its waste-to-energy (WTE) plant in Ladang Tanah Merah, Negeri Sembilan, begins operations this quarter.

Its general manager Achmat Nadhrain Ibrahim says the company expects a robust growth in financials next year, backed by other planned green energy projects and revenue from its WTE plant.

"Besides the secured projects, we have participated actively in tenders and direct negotiations with the relevant parties in order to secure more projects locally and overseas," Achmat tells ***FocusM***.

On Jan 24, Cypark announced it was awarded a RM15.19 mil landfill remediation project in Pajam, Negeri Sembilan, by the National Solid Waste Management Department.

The renewable energy (RE) sector faces increasing competition and lower feed-in-tariff (FiT) rates but analysts and market observers remain optimistic of Cypark's prospects.

According to iFAST Capital Sdn Bhd senior analyst Lee Tien Xiang, the RE industry has the potential to grow further, given that the country's production of RE-based sources stood at only about 2% as of end-2015.

The government is ramping up its efforts to generate power from renewable sources, as the country is still far from achieving its RE target.

According to Sustainable Energy Development Authority of Malaysia (Seda), the country managed to achieve only 400MW of its 2015 target of producing 985MW of RE. The government has set a target of 2,080MW by 2020.

"It is likely that more players will enter the industry as the demand for RE grows. In contrast to a mature industry, where players will be fighting for market share, it is more likely that RE players will be jointly growing the pie of this relatively small industry," Lee explains.

Lee agrees that the market lacks understanding of RE companies

Achmat says those who can see how interesting the WTE business is stand to gain more by investing early

He adds that RE companies can defend their margin levels and remain competitive by reducing production cost.

"Cost reduction can be achieved through mass production. Since most of the RE technologies operate through assembly lines, economies of scale can be obtained by scaling up their production volumes," Lee says.

He adds that another way to retain the profit margin is to innovate through research and development.

"Continual progress of technology innovation can provide them with a technical edge, be it in production efficiency or significant operational cost reduction, allowing RE companies to defend their profit margin levels over the long term," he says.

According to The Boston Consulting Group (BCG) partner and managing director Asheesh Sastry, RE companies need to continuously make new bets and develop new projects or increase capacity to manage the decline in revenue.

He adds that the industry is getting more cost competitive with prices of solar panels and wind turbines coming down faster than most industry predictions and consequently the demand has picked up rapidly.

Landfill venture

For the fourth quarter ended Oct 31, 2016, Cypark's net profit rose by 45.32% to RM11.9 mil from RM8.18 mil in the previous corresponding quarter. The company attributes the improved profit to the new tipping fees from its landfill operation and also the increase in income from the environment engineering project at Ladang Tanah Merah.

For FY16, Cypark's net profit rose to RM50.7 mil from RM43.5 mil in the previous year while revenue was higher at RM282.9 mil against RM251.8 mil.

While earnings from WTE will boost its financials only next year, Achmat expects the company's current business segments – solar, environment engineering and solutions, and construction – to continue to generate sustainable income this year.

"We have long-term recurring revenue contribution of more than RM60 mil from sales of green energy and operation and maintenance services. We are also optimistic of the tendered projects,

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Financial performance of listed renewable energy companies

Company	Revenue Latest quarter (RM'000)	Revenue Corresponding quarter last year (RM'000)	Earnings Latest quarter (RM'000)	Earnings Corresponding quarter last year (RM'000)	Share price as of Jan 23 (RM)	Market capitalisation as of Jan 23 (RM'mil)	Share price year-to-date (%)
Cypark Resources Bhd	67,599	55,740	11,901	8,189	2.11	531.17	1.44
Amcorp Properties Bhd	52,923	41,113	1,826	16,484	0.79	468.54	0.64
VSolar Bhd	571	423	(707)	(733)	0.08	25.01	-16.67

Source: **Company's quarterly report, Bloomberg**

Incentives for RE players

VSOLAR Bhd and Amcorp Properties Bhd are among companies in the renewable energy (RE) sector.

Last year, four utility companies – Tenaga Nasional Bhd (TNB), Malakoff Corp Bhd, Mudajaya Group Bhd and Integrated Logistics Bhd – were given the green light by the Energy Commission (EC) to develop large-scale solar photovoltaic plants.

According to The Boston Consulting Group (BCG) partner and managing director Asheesh Sastry, the industry is still evolving and more players are expected to enter the fray.

"Existing players need to focus on the following priorities to stay competitive. First, they need to be relentlessly on top of the latest developments in their part of the RE value chain to improve their cost competitiveness," says Asheesh.

"Second, they need to take calculated bets to develop new projects and build scale and assume forward-looking cost improvements.

"Finally, they need to create an innovation culture and be plugged into the broader RE technology ecosystem to take advantage of new developments."

However, some RE players are facing challenges as reflected in their results.

Amcorp Properties saw an 18.14% decline in revenue from its renewable energy and contracting division to RM19.4 mil for the second quarter ended Sept 30, 2016 from RM23.7 mil a year ago.

However, VSolar managed to reduce its net loss to RM707,000 for the first quarter ended Sept 30, 2016 from RM733,000 a year earlier. It attributed the loss to higher administrative expenses arising from professional fees incurred for the preceding year.

At the same time, there are other companies eyeing the RE sector but have yet to take off. One is Comintel Corp Bhd which had entered into an RE power purchase agreement with TNB in November 2013. However, it could not meet the scheduled feed-in-tariff (FiT) commencement date and sought an extension from Sustainable Energy Development Authority of Malaysia (Seda).

While there are financial incentives in place for industry players and interested parties, iFAST Capital Sdn Bhd senior research analyst Lee Tien Xiang says most stakeholders might not be aware of them.

"Aside from that, support for research and development expenditures, either from the finance or technology perspective, should also be provided from time to time, to promote technology advancements that will bring down the entry cost for potential players," Lee tells ***FocusM***.

He also says Seda should educate the public on the advantages of RE as this might prompt traditional energy users to switch to RE. This would in turn create greater opportunities for RE providers.

New players a testimony to good prospects in RE industry

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some of which are at an advanced stage of negotiations and will likely be secured this year," Achmat adds.

For its construction division, he says the company's PR1MA project is expected to contribute significantly to revenue this year. Last February, Perbadanan PR1MA Malaysia issued a letter of intent to purchase 562 units of PR1MA homes in Sungai Long, Selangor, from Cypark.

Despite the better Q4 results and news of the WTE plant, Cypark's share price has remained muted. The counter closed at RM2.09 on Jan 23, up one sen from its closing price of RM2.08 on Dec 30. It is still lower than its year-high of RM2.25 on Oct 28 last year.

Achmat believes the lack of investor participation stems mainly from the lack of understanding of the industry.

As such, he says Cypark will continue to educate and provide more information to potential investors.

"We believe those who understand how interesting our WTE business prospects are stand to gain more by investing early," Achmat adds.

He says the RE industry, which recently attracted new players, is a testament of Cypark's successful business strategies. "Our success has made Cypark a preferred partner for many world-renowned green technology providers such as Hitachi (Japan), TESCO (Japan) and Ciel Terre (France)," he says.

"Our early vision and efforts have gained us a good position as the pioneer or first mover. We will continue to focus and enhance our strength in innovation and research and development to ensure better offerings and competitive pricing," Achmat explains.

Cypark is also involved in landfill remediation and waste management services

iFAST's Lee concurs that the market lacks understanding of RE companies as RE technologies are relatively new compared to traditional energy industries.

"It is understandable that investors might have less exposure to them and may not have sufficient information and knowledge about these RE companies," he adds.

Lee says the most convincing way for an RE company to demonstrate its attractiveness is through its financial results. "Companies that could generate sustainable earnings that have decent growth over the long term tend to be preferable to those that cannot do so," he adds.

However, for new or early-stage RE companies, they may still incur losses due to the huge expenditure costs at the initial stage.

Lee says such companies could showcase the more established RE peers in foreign countries, allowing investors to have a sense of how RE companies perform in the early stage and how they progress at a later stage.

He also expects RE to gain market share against other sources, mainly due to environmental considerations as well as its economic viability.

Despite the cost of RE generation being relatively higher than fossil fuel, Lee says the industry has made significant progress in recent years in terms of technological advancements. This has resulted in the cost of production being much lower compared to five years ago.

The poor sentiments on Cypark are also due to the lower FiT fees proposed by Seda.

Seda had said the FiT rates for all renewable resources, except for small hydropower, will decrease with time according to their respective annual degression rates.

Degression occurs at the start of each new calendar year from 2013.

"The degressed or reduced FiT rate for each RE installation is determined by the applicable rate at the date of commencement. Thus RE installations that are completed in later years will have a lower FiT rate. However, the rate will not be reduced any further once the FiT commencement date has been achieved.

"The basis of the degression rate is that the costs of the RE technologies, just like any other technology, are expected to drop as the technologies mature," Seda said in a report.

"The degression rate therefore reflects the maturity and the existing cost reduction potential of all renewable resources (except for small hydropower)," Seda

CYPARK RESOURCES BHD

KEY BOARD MEMBERS AND MANAGEMENT

TAN SRI RAZALI ISMAIL (chairman)
DATUK DAUD AHMAD (group CEO)
ACHMAT NADHRAIN IBRAHIM (general manager)

MAJOR SHAREHOLDERS

Tan Sri Razali Ismail	18.69%
Datuk Daud Ahmad	16.01%
Lembaga Tabung Haji	10.1%

MARKET CAP (Jan 24)	RM546.34m
SHARE PRICE (Jan 24)	RM2.17
52-WEEK HIGH (Oct 28, 2016)	RM2.25
52-WEEK LOW (Feb 29, 2016)	RM1.61

FINANCIAL RESULTS (Q4FY16 ended Oct 31)

REVENUE	RM67.59m
NET PROFIT	RM11.9m