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Cypark seen to gain from favourable industry outlook

CGZCMB Research / The Edge Financial Daily
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Cypark Resources Bhd (Oct 1, RM2.39)

Maintain add with a target price (TP) of RM2.72: Cypark Resources Bhd's first nine months of the financial year ending Oct 31, 2018 (9MFY18) core net profit came in within our estimate at 79% of our full year forecast but slightly below the Bloomberg consensus at 70%. Its 9MFY18 core net profit increased 30% year-on-year (y-o-y), supported by stronger revenue (+9% y-o-y), a better gross margin (+1.6 percentage points y-o-y) and the absence of employee share option scheme accounting expenses (RM5.2 million cost in the second quarter of FY17 [2QFY17]). Its 9MFY18 profit before tax (PBT) rose 28% y-o-y, mainly driven by strong PBT growth in the environmental engineering (EE: +37% y-o-y) and maintenance (+80% y-o-y) divisions.

Its 9MFY18 revenue rose 8% y-o-y, supported by: i) a 10% y-o-y revenue growth in the EE segment due to continuous work progress of the new large-scale solar (LSS) projects; and ii) a better-performing maintenance division (+100% y-o-y) due to specialist maintenance works on leachate treatment plants secured. Sales of the green technology and renewable energy (RE) division were up marginally by 0.3% y-o-y, while revenue of its landscaping and infrastructure division was flat y-o-y.

We believe Cypark is poised to benefit from a favourable industry outlook as the government aims to raise RE capacity from 2% to 20% by 2025. Based on the projects on hand, Cypark expects its total RE capacity to jump fourfold to more than 100mw by 2020. Cypark's recent LSS 2 win is also likely to enhance its credibility and strengthen its position in the industry, which should help it win future bids.

We believe Cypark's earnings should continue to improve in FY18 to FY19 as Phase 1 of its waste-to-energy (WTE) project should commence operations by end-calendar year 2018 (CY18). We expect the WTE plant to generate stable revenue of about RM30 million per annum over the 25-year concession. The completion of the WTE plant will be a key milestone for the company as the plant is the single largest investment it has ever undertaken.

We leave our estimates unchanged as results were within expectations. We maintain our "add" call with a sum-of-parts-based TP of RM2.72. The stock is also a good proxy for investors seeking exposure to the Malaysian RE sector, in our view. The commissioning of the WTE plant by CY18 is a key potential rerating catalyst. Key downside risks to our "add" call include weaker-than-expected earnings from its EE division and WTE plant. — **CGZCMB Research**, Sept 25

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