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Cypark poised to benefit from a favourable industry outlook

Cypark Resources Bhd
(Dec 19, RM1.62)

Maintain add with an unchanged target price (TP) of RM1.80: Cypark Resources Bhd's (Cypark) one-for-two bonus issue went ex on Tuesday.

The bonus issue raises Cypark's share capital from 299.8 million shares to 458 million shares. Ex-bonus issue, our TP is adjusted to RM1.80.

We believe the bonus issue will improve Cypark's trading liquidity and enhance the marketability of the company's shares, although it does not change the group's underlying fundamentals.

Assuming the full exercise of the outstanding employee share option scheme (ESOS), the bonus issue will raise Cypark's share capital from 314.3 million shares to 471.5 million shares.

We believe Cypark is poised to benefit from a favourable industry outlook as the government aims to raise the nation's renewable energy (RE) capacity from 2% to 20% by 2025.

Based on its projects on hand, Cypark expects its total RE capacity to jump four-folds to more than 120mw by 2020.

Cypark's win in the recent large-scale solar auctions two (LSS2) is also likely to enhance its credibility and strengthen its position in the industry, which should help it win future bids.

Recently announced initiatives for the nation's RE industry, such as the upcoming LSS3 and revised Net Energy Metering, are positive

for RE players, especially Cypark.

The stock is also a good proxy for investors seeking exposure to the Malaysian RE sector, in our view.

We maintain our "add" call with a TP of RM1.80.

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We believe Cypark's earnings should continue to improve in financial year 2018 to 2020 forecast (FY18-20F), supported by its upcoming waste-to-energy (WTE) plant in calendar year 2019 (CY19).

We expect the WTE plant to generate stable revenues of around RM80 million per annum over its 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.

The commissioning of the WTE plant by CY19 is the stock's key potential re-rating catalyst, in our view.

Key downside risks to our "add" call include weaker-than-expected earnings from its environmental engineering division and WTE plant. —
CGSCIMB Research, Dec 18