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Cypark a good proxy to renewable energy sector

KUALA LUMPUR: CIMB Equities Research continues to like Cypark Resources Bhd for its cheap valuation and has raised its sum-of-parts based target price to RM2.95 as it rolled over its valuation to financial year 2019 (FY19).

The research house said that at only 8.3 times forecast FY18 price-to-earnings (P/E) currently, the stock is the cheapest utility stock under its coverage.

"It is also a good proxy for investors seeking exposure to the Malaysian renewable energy sector.

"Key downside risks to our 'add' call are weaker-than-expected earnings from its environmental engineering division and waste-to-energy (WTE) plant in FY18," it said.

CIMB Research said Cypark's FY17 core net profit met its expectations, rising 14% year-on-year (y-o-

y) on strong revenue growth of 7% and lower-than-expected operating costs.

The steady sales growth was mainly attributed to the environmental engineering (EE) division due to contributions from its Ladang Taman Merah and new projects.

The tax rate was higher y-o-y after additional tax provision was made for non-tax exempted projects during the current financial year.

Revenue for fourth quarter FY17 declined marginally by 5% y-o-y, as the weaker sales in the EE division (-17% y-o-y) more than offset the higher revenue in landscaping and infrastructure, maintenance and renewable energy divisions.

Nonetheless, earnings before interest and tax (EBIT) and core earnings were higher due to stronger profitability across the board.

Its major EBIT contributor – the EE division (64% of FY17 EBIT) – recorded 35% y-o-y growth, lifted by newly secured projects and cost savings achieved through value engineering.

The research house also said Cypark secured a contract in November from the Energy Commission to build a large-scale solar PV plant of 30 MW at Empangan Terip, Negri Sembilan.

This project is not expected to have any material impact on Cypark's FY18 earnings but is projected to contribute positively to its FY19 earnings.

"According to our estimate, the 30 MW solar plant will likely generate revenue of RM20mil per annum.

"We expect Cypark's earnings to jump significantly in FY18, as Phase 1 of its WTE project should commence operations in the first quarter of calendar year 2018," it said.



Latest contract: Cypark's renewable energy park in Nilai. Cypark has secured a contract in November from the Energy Commission to build a large-scale solar PV plant at Empangan Terip, Negri Sembilan.