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Cypark's LLS 2 win likely to help in future bids

Cypark Resources Bhd (July 2, RM2.35)

Maintain add with a target price (TP) of RM2.88: Cypark Resources Bhd's first half of financial year 2018 (1HFY18) core earnings were within our expectations at 49% of our full-year forecast but below the *Bloomberg* consensus at 43%. Its 1HFY18 core net profit jumped 43% year-on-year (y-o-y), lifted by higher revenue and the absence of employee stock option accounting expenses (RM5.2 million cost in the second quarter of FY17 [2QFY17]). Its 1HFY18 profit before tax (PBT) increased by 35% y-o-y, mainly supported by a 38% y-o-y PBT growth of the environmental engineering (EE) division.

Revenue in 1HFY18 rose 13% y-o-y, driven by higher sales of all divisions: the EE division (+13% y-o-y) due to continuous work progress in the new large-scale solar (LSS) projects; the maintenance division (RM3.3 million in 1HFY18 versus RM900,000 in 1HFY17) due to specialist maintenance works on leachate treatment plants secured since 3QFY17; the green tech and renewable energy (RE) division (+7.5% y-o-y) from increased electricity generation; and the landscaping and infrastructure division (+2.4% y-o-y).

We expect Cypark's experience and expertise in providing EE solutions to help it secure more waste water treatment, sanitary landfills, waste management facilities and closure of dump site projects. To date, its experienced team has successfully completed more than 600 acres (242.81ha)

Cypark Resources Bhd

FYE OCT (RM MIL)	2016A	2017A	2018F	2019F	2020F
Revenue	282.9	301.7	464.2	517.2	536.0
Operating ebitda	82.6	90.5	103.8	118.0	121.0
Net profit	52.04	57.60	63.23	80.29	82.54
Core EPS (RM)	0.20	0.22	0.24	0.31	0.32
Core EPS growth (%)	(11.0)	9.7	11.3	27.0	2.8
FD core PER (x)	11.90	10.84	9.73	7.66	7.45
DPS (RM)	0.052	0.052	0.052	0.052	0.052
Dividend yield (%)	2.27	2.27	2.27	2.27	2.27
EV/Ebitda (x)	10.92	11.60	8.00	5.83	4.68
P/FCFE (x)	26.22	NA	5.10	3.94	4.57
Net gearing (%)	74.9	90.5	41.7	14.4	(4.5)
P/BV (x)	1.30	1.16	1.07	0.96	0.86
ROE (%)	11.9	11.8	11.9	13.6	12.5
CIMB/consensus EPS (x)			0.89	0.95	0.92

Sources: CIMB Research, company reports

of remediation and restoration works on contaminated ground spanning over 20 landfill projects across the country. The EE division contributed about 75% of FY17 revenue and about 65% of FY17 operating profit.

Cypark expects its total RE capacity to jump fourfold to more than 120mw 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 in future bids.

We believe Cypark's earnings should continue to improve in FY18 forecast (FY18F) to FY19F as Phase 1 of its waste-to-energy (WTE) project should commence operations in the second half of calendar year 2018. We expect the WTE plant to

generate stable revenue of about RM80 million per annum over the 25-year concession.

Given the in-line results, we leave our numbers untouched. We maintain our "add" call with a sum-of-parts-based TP of RM2.88. At only 7.5 times FY19F price-earnings ratio currently, the stock is the cheapest utilities stock under our coverage. It is also a good proxy for investors seeking exposure to the Malaysian RE sector, in our view. The commissioning of the WTE plant by FY18 is a key potential re-rating catalyst. Key downside risks to our call include weaker-than-expected earnings from its EE division and the WTE plant. — *CGSCIMB Research, July 2*