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# Cypark's earnings seen to improve in FY18 to FY20

CGS-CIMB Research / The Edge Financial Daily  
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## Cypark Resources Bhd (Oct 26, RM2.62)

Maintain add with an unchanged target price (TP) of RM2.72. Last Thursday, Cypark Resources Bhd announced a one-for-two bonus issue of up to 157.2 million shares to be issued at a date to be announced later. The proposed bonus issue will not be implemented on a staggered basis and will be capitalised from Cypark's share premium account and retained profits. The rationale for the exercise is to reward existing shareholders and boost liquidity, the company said.

Assuming the full exercise of the outstanding employee share option scheme (Eso), the bonus issue will raise Cypark's share capital from 314.3 million shares to 471.5 million shares. We believe that the deal will improve the liquidity and enhance the marketability of the company's shares.

The bonus issue will not have an impact on our earnings forecast. However, our earnings per share forecasts for the 2019 and 2020 financial years will be reduced by 36% after the shares go ex. With the enlarged share base and proceeds from Eso, our ex-bonus sum-of-parts based TP will be RM1.80.

While the deal will not impact our earnings forecasts, we think the bonus issue will be viewed positively by some shareholders and investors as a form of reward, which could spur short-term interest in the counter.

The recently announced initiatives for the renewable energy (RE) industry, such as the upcoming large-scale solar auction 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 believe Cypark's earnings should continue to improve in its 2018 to 2020 financial years, supported by the upcoming waste-to-energy (WTE) plant next year. We expect the WTE plant to generate stable revenues of about RM50 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.

The commissioning of the WTE plant by next year is the key potential re-rating catalyst. Key downside risks to our "add" call include weaker-than-expected earnings from its environmental engineering division and the WTE plant. — CGS-CIMB Research, Oct 25

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