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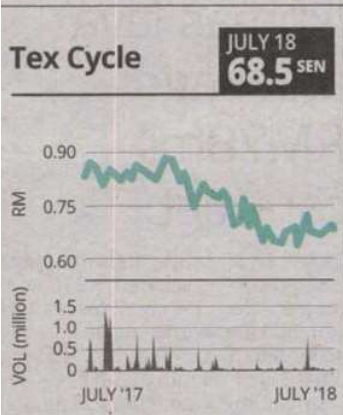


TEX CYCLE TECHNOLOGY (M) BHD

By UOB Kay Hian
Not rated
Target price: 70 sen

THE research house sees good growth potential for Tex Cycle, backed by its bread-and-butter waste management division.

"Tex Cycle's waste management business has been growing from strength to strength. In 2014, it shifted its operations to Teluk Gong from Puchong (44,013 sq ft) with a



total land size of 343,433 sq ft.

The total waste tonnage allocated to Tex Cycle to handle is 284,400 tonnes per year (utilisation rate: 15% to 20%).

Currently, it has over 5,300 registered customers, with the number steadily rising from 2,800 since 2013."

UOB Kay Hian noted that the company chalked a four-year revenue with a compounded annual growth rate of 26% from 2013 to 2017.

"In 2017, it bought another parcel of land at Teluk Gong for future expansion purposes."

To further integrate vertically, UOB Kay Hian said Tex Cycle has ventured into the waste-to-energy plant business, which is a by-product of its waste division.

"The agreement is to supply two megawatts (MW) of electricity to Tenaga Nasional Nhd (TNB) at a levelised tariff of RM0.4766 per kWh for 16 years.

"Operation is expected to commence by the first half of 2019 (supposedly by Aug 18).

"The delay was due to switchgear installation hiccups, pending specification approval by TNB.

"It is anticipated to generate RM7mil of annual revenue (assuming 68% efficiency rate) and RM2.5mil of earnings (based on 35% net margin), implying an internal rate of return of 11.5%, which could help lift overall bottom line by 27%."

Despite being able to manufacture superior and competitively priced tactical military camouflage products, UOB Kay Hian said Tex Cycle's military business has been in a drought since 2009.

"We believe Tex Cycle was favoured by Barisan Nasional but now with Pakatan Harapan in power, we understand management has started to receive tender invitation for its defence-related supplies.

"If all bodes well, there is a chance of a business revival in this sphere."