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# The sun shines on Cypark

Company stands to gain from renewable energy drive

## Salient points:

- Transition from short-term contracts to concession-related contracts
- Ladang Tanah Merah power plant to see earnings contribution in the first quarter of 2019

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FOR a company that is heavily loaded with debts due to the nature of its business, Cypark Resources Bhd is starting to see some upside since its transition from short-term contracts to concession-related activities.

This, according to analysts, will be mostly driven by the company's Ladang Tanah Merah waste-to-energy (LTM WTE) 25 MW power plant in Negeri Sembilan and large scale solar (LSS) contract wins.

With the Government's plan to boost the country's electricity generation capacity through renewable sources, Cypark, which is the largest company in the industry, stands to gain despite intense competition, says an analyst with a brokerage firm.

As at August 2016, RM2.07bil worth of renewable energy (RE) investments have been made in the country, surpassing the RM1.37bil recorded in 2015.

And targets are set to develop RE projects in the country to 2,080 MW by 2020 and 21,000 MW by 2050, as demand for WTE plants are expected to rise.

Cypark general manager Achmat Nadhrain Ibrahim is optimistic that opportunities in solar, especially from the LSS, will grow significantly as the cost of development is projected to go down.

"That being said, we will continue to bid for LSS projects.

"To date, the government has conducted two rounds of LSS bids where the result of the recent bid is expected to be announced in the fourth quarter of 2017," he reveals.

In the first round of bidding, the Energy Commission awarded 450MW, while the second round, it is expected to award 460MW.

On Cypark's LTM WTE 25MW power plant, Achmat says the construction of the largest integrated WTE plant in Malaysia, which consist of 20MW biomass and 5MW biogas, is progressing well. This is slated for completion in the first half of 2018.

"We expect to see earnings contribution from LTM WTE in the first quarter of 2019," he says, adding that this falls under the company's Green Technology and Renewable Energy (GTRE) segment.

With the ongoing developments in solar and WTE projects in the country, the GTRE segment contribution is projected to rise in access of 10% in 2017, he reveals.

For the financial year 2016 (FY16), Cypark's GTRE division contributed RM46mil or 16% of total revenue.

Being the single largest investment that Cypark has ever ventured into, reports say Cypark expects its LTM WTE power plant to contribute a little over RM80mil in revenue per annum once it starts operations.

Shedding some light into Cypark's income stream, Achmat says about 86% of its income comes from the Environmental Engineering & Solution (EES), and GTRE business.

In terms of revenue, in FY16, EES contributed RM195mil or 69% of Cypark's total revenue, followed by infrastructure and landscaping at RM39mil, or 14%.

Essentially within the EES division, Achmat says Cypark aims to secure more government contracts for landfill closures and new sanitary landfill projects.

Cypark recently bagged a landfill closure and restoration contract in Bukit Palong, Negeri Sembilan, valued at RM17mil.

The contract is for a 60-week period and is expected to be completed by Nov 14, 2018.

Earning wise, for the second quarter ended April 30, 2017, Cypark posted a 24% drop in net profit at RM11.61mil from RM15.27mil, against a higher revenue of RM83.93mil from RM76.37mil.

As at April 30, Cypark's borrowings and cash and cash equivalents stood at RM454.5mil and RM94.4mil, respectively. The company has a 25% dividend policy payout.

The group attributed the lower profits to recognition of accounting expenses on the grant of equity-settled share options to employees in accordance to Accounting Standard MFRS 2.

The company's EES project at LTM and several newly secured projects had contributed to higher revenue during the quarter.

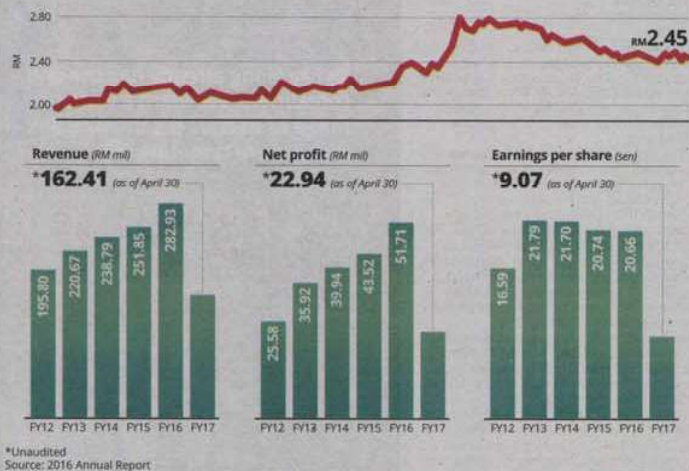
Commenting on Cypark's muted share price, Achmat says this is not reflective of Cypark's value as the company prospects is bright.

"The muted share price is due to the market condition and not investor confidence," he affirms.

## Growth prospects

Meanwhile, UOB Kay Hian Research reckons Cypark has growth prospects now that it has transitioned from short-term con-

## Cypark Resources financial highlights



tracts that are susceptible to economic cycles to concession-related activities, which are more resilient to economic fluctuation.

"In FY16, concession income accounted for 30% of group operating profit.

"This was driven by Cypark's 30MW solar Renewable Energy Power Purchase Agreement (REPPA)," UOB Kay Hian says.

Valuation wise, the house says the stock currently trades at about 8 times FY18 forecast price-earnings (PE), based on Bloomberg consensus earnings per share of 30.5 sen.

"Tenaga Nasional Bhd (TNB) trades at 10.7 times FY18 forecast PE, while independent power producers such as YTL Power are trading between 15.4 times and Malakoff 18 times FY18 forecast PE.

"Cypark currently trades at 12.1 times in the absence of earnings

stream from LTM WTE and LSS contract wins," says UOB Kay Hian's report.

In the meantime, the house notes that Cypark's earnings have also doubled from FY12 to FY16.

The group reported core net profit of RM49.3mil for FY16, from FY12's RM25.5mil, mainly due to profit contribution from LTM sanitary landfill construction and WTE plant, landfill restoration works nationwide, and 30 MW solar REPPA signed with TNB.

On a segmental basis, UOBKayHian said the inclusion of renewable energy income from solar REPPAs has lifted profit after tax margin from 13% in FY12 to 17.4% in FY16.

Bloomberg consensus estimates expect Cypark to book in a relatively flat net profit of RM50.4mil in FY17.

Net profit is expected to surge

53% year-on-year to RM77.1mil in FY18, driven by its maiden income from tipping fees at LTM and LTM WTE's 25-year concession income.

"Importantly, net margin is expected to inch up to 20% with the inclusion of concession income from the LTM WTE.

Meanwhile, another analyst views the emergence of Employees Provident Fund as one of the substantial shareholders in August 2016 as not surprising.

The retirement fund has been accumulating the stock since May and as at Sept 6, its portion stood at 26.78 million shares, or 10.27% direct interest.

"It's not surprising that the Employees Provident Fund made its entry as one of the major shareholders in Cypark in August last year since the prospects for RE looks bright in the near future," the analyst concedes.



**Growth prospects:** UOB Kay Hian Research reckons Cypark has growth prospects now that it has transitioned from short-term contracts that are susceptible to economic cycles to concession-related activities.