



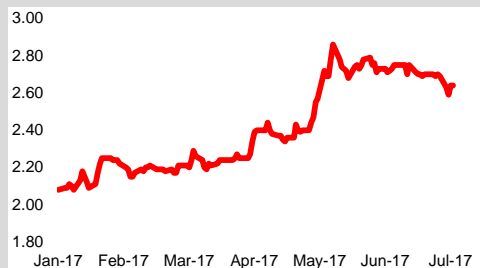
DESCRIPTION

Malaysia's leader in environmental assessment and remediation works, sustainable waste management, and integrated renewable energy.

12-Month Target Price RM2.62
Current Price RM2.64
Expected Return -0.8%

Market Main
Sector Trading/Services
Bursa Code 5184
Bloomberg Ticker CYP MK
Shariah-compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 1.93 - 2.88
3-Month Average Vol ('000) 1,069.2

SHARE PRICE PERFORMANCE

Table with 4 columns: Metric, 1M, 3M, 6M. Rows: Absolute Returns, Relative Returns.

KEY STOCK DATA

Table with 2 columns: Metric, Value. Rows: Market Capitalisation (RM m), No. of Shares (m).

MAJOR SHAREHOLDERS

Table with 2 columns: Shareholder Name, %. Rows: Tan Sri Razali Ismail, Dato' Daud Ahmad, EPF.

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Expanding RE Segment

Cypark's future growth prospects will be underpinned by (i) earnings from sale of electricity from its new 20MW biomass and 5MW biogas facilities by early-2018 onwards, (ii) tipping fees from maintaining the sanitary landfill in Ladang Tanah Merah (LTM), and (iii) more construction-related contracts secured in the coming years. We are lowering our earnings for FY17F-19F however, by an average of 13.3%. We include the one-off ESOS expenses in FY17 estimates and increase our amortisation cost on the waste-to-energy (WTE) project. The resultant effect of these changes is a slight lowering of our SOP-based target price to RM2.62 (previously RM2.64), yielding only a potential return of 1% from the current price. With limited upside, we downgrade our call on Cypark to Neutral. Re-rating catalysts could however come from new solar projects and a potential second WTE plant in LTM within the next 3 to 4 years' time.

Expanding RE contributions. To recap, Cypark's WTE project in Ladang Tanah Merah, Negeri Sembilan (LTM) is expected to be completed by end-CY17. Hence, we are expecting earnings contributions from its renewable energy (RE) segment to improve in CY 2018 onwards, through the sale of electricity from its 20MW biomass and 5MW biogas facilities. This is expected to generate about RM65m additional revenue per year from the biomass plant, translating to profits of about RM15m which we had already previously accounted for. In addition, there are also tipping fees collected from maintaining the sanitary landfill site in LTM which will be paid by the government. We estimate the tipping fees at around RM30/tonne for every tonne of municipal solid waste (MSW) received. We reckon LTM received about c.500 tonnes of MSW in FY16 due to it being in the early stages. Nevertheless, the waste-related growth is expected to increase going forward due to ongoing and future township developments within the proximity of LTM. The company currently targets to receive about 1,000 tonnes of MSW per day.

In addition, we understand that Cypark is submitting tenders for the second bidding of the Large Scale Solar (LSS) programme under purview of the Energy Commission (EC), which is expected to be commissioned in 2019-2020. As the EC has allocated a higher target aggregate capacity of 360MW of solar development in Peninsular (compared to 200MW in the first competitive bidding last year), we believe Cypark stands a good chance due to its pioneering status and possessing technical expertise as solar developer and operator. Cypark's RE segment contributed c.16.5% of total revenue in FY16, and is expected to increase to more than 30% by 2018 onwards. Management targets more than RM300m of recurring revenue under the RE segment by year 2020.

Environmental Engineering (EE) segment involves landfill closure and restoration, waste management and operation, development of solar plants and other waste-related projects. The current main contributor in EE is the construction of the WTE project. With the completion of the WTE project by this year-end, Cypark has managed to secure few other contracts to replenish its segmental orderbook. To recap, it secured a 15-month landfill closure contract in Pajam at a contract value of RM15.2m in January 2017. It also received a contract for leachate treatment operations for three landfills in Negeri Sembilan and Pahang at a contract value of RM28.5m in March 2017. Besides, Cypark also recently secured a project to develop large scale solar (LSS) plant of c.15MW (dc) with a contract value RM75m. However, we make no adjustments to our earnings estimate as it forms part of our

replenishment assumption of more than RM100m per annum for the coming years.

§ **1HFY17 performance.** Revenue for 1HFY17 increased by 11.9% YoY to RM162.4m, driven by higher EE-related contributions (+36.9%) which was mainly contributed by higher construction revenue in WTE. Its landscaping and infrastructure segment contracted 42.7% YoY to RM18.5m due to completion of certain projects and lower work activities for new projects which were at early stages. Meanwhile 1HFY17 net profit declined by 9.9% to RM22.9m. Excluding one-off ESOS expenses of RM5.2m incurred in 2QFY17, core net profit was RM28.2m (+10.5% YoY). The results were below our expectation, but in-line with consensus full year estimates, accounting for 45.5% and 50.4% respectively.

§ **Valuation.** We lower our earnings estimates by an average of 13.3% for FY17F-19F to account for one-off ESOS expenses in FY17 and higher amortisation costs from the WTE project. We also adjust our PE multiple for the non-RE which is mostly construction-related to 9x (previously 6x), which is the average multiple for other construction companies (i.e. between 9x-10x). As a result, our new SOP-based target price is lowered slightly to RM2.62 (previously RM2.64), yielding a potential return of only 1% from the current price. With limited upside, we downgrade our call on Cypark to **Neutral**. Re-rating catalysts could however come from new solar projects and a potential second WTE plant in LTM within the next 3 to 4 years' time.

KEY FORECAST TABLE

FYE Oct (RM m)	2015A	2016A	2017F	2018F	2019F	CAGR
Revenue	251.9	282.9	295.8	371.2	391.6	11.7%
Operating Profit	63.9	71.5	90.7	112.1	112.1	15.1%
Pre-tax Profit	50.9	58.7	66.5	90.9	94.1	16.6%
Net Profit	43.5	50.7	54.9	79.4	83.2	17.6%
EPS (Sen)	20.7	20.0	21.7	31.4	32.9	12.2%
P/E (x)	12.7	13.2	12.2	8.4	8.0	
DPS (Sen)	5.0	5.0	6.5	9.4	9.9	
Dividend Yield (%)	1.9	1.9	2.5	3.6	3.7	

Source: Company, PublicInvest Research estimates

Figure 1: Sum-Of-Parts Valuation

		RM m
Renewable Energy	DCF	333.6
Non-RE Businesses	9x FY18 PE	329.1
Total		662.7
Share capital		252.9
Fair value/share		2.62

Source: PublicInvest Research estimates

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Oct (RM m)	2015A	2016A	2017F	2018F	2019F
Revenue	251.9	282.9	295.8	371.2	391.6
Cost of Sales	-185.7	-210.4	-201.5	-253.9	-274.0
Gross Profit	66.2	72.6	94.3	117.2	117.6
Operating Income	63.9	71.5	90.7	112.1	112.1
Pre-tax Profit	50.9	58.7	66.5	90.9	94.1
Income Tax	-7.4	-8.0	-11.7	-11.5	-11.0
Effective Tax Rate (%)	14.5	13.7	17.5	12.7	11.7
Net Profit	43.5	50.7	54.9	79.4	83.2
Growth					
Revenue	5%	12%	5%	25%	6%
Gross Profit	9%	10%	30%	24%	0%
Net Profit	9%	16%	8%	45%	5%

Source: Company, PublicInvest Research estimates
 *Forecast excludes forex gains/losses

BALANCE SHEET DATA

FYE Oct (RM m)	2015A	2016A	2017F	2018F	2019F
Property, Plant & Equipment	252.2	240.6	227.1	215.6	204.0
Cash and Cash Equivalents	101.5	113.4	19.3	30.0	56.2
Trade and Other Receivables	162.8	191.2	199.9	250.8	264.6
Other Assets	375.8	548.0	673.0	652.0	626.8
Total Assets	892.3	1,093.1	1,119.3	1,148.4	1,151.6
Trade and Other Payables	161.5	146.9	153.6	192.7	203.3
Borrowings	318.4	443.1	424.1	358.5	292.9
Deferred tax	0.0	0.0	0.0	0.0	0.0
Other Liabilities	18.8	63.9	63.9	63.9	63.9
Total Liabilities	498.8	653.9	641.6	615.1	560.1
Shareholders' Equity	393.5	439.3	477.7	533.3	591.5
Total Equity and Liabilities	892.3	1,093.1	1,119.3	1,148.4	1,151.6

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Oct	2015A	2016A	2017F	2018F	2019F
Book Value Per Share	1.9	1.7	1.9	2.1	2.3
NTA Per Share	0.1	-0.4	-0.7	-0.4	-0.1
EPS (Sen)	20.7	20.0	21.7	31.4	32.9
DPS (Sen)	5.0	5.0	6.5	9.4	9.9
Payout Ratio (%)	24.1	25.0	30.0	30.0	30.0
ROA (%)	4.9	4.6	4.9	6.9	7.2
ROE (%)	11.1	11.5	11.5	14.9	14.1

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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