Northern Solar (NORTHERN MK)

All Cylinders Fired Up

Highlights

- We believe the group may be close to capturing a sizeable RM800m CRESS project. This will lift NS' orderbook to RM1b – a substantial enhancement to both earnings and orderbook visibility into the near future.
- We like the group for its undemanding valuation (single digit PER) and three-year earnings CAGR of 51% (FY26-29). The group is currently working on a main board listing transfer and Shariah status reinstatement by end-26.
- Maintain BUY with a target price of RM1.00, based on 11x FY28F EPS.

Analysis

- **All cylinders fired up...** We believe Northern Solar (NS) is well positioned to capture substantial orderbook within the solar sector as the group actively pursues Corporate Renewable Energy Supply Scheme (CRESS) projects worth RM800m – 3x its current market capitalisation of RM273m. Trading at undemanding 12x and 7x FY27 and FY28 EPS, we believe NS is a compelling stock to accumulate. NS is on track to be transferred to the main board by end-26.
- **....as the sector is set to re-rate.** The Ministry of Energy Transition and Water Transformation (PETRA) has introduced a new CRESS Acceleration Package and reduced the system access charge (SAC) by 30% to 14 sen/kwh for firm output with battery storage. With this, CRESS project IRRs improved to 10-12% – a bankable outcome. This is a key re-rating catalyst for solar EPCC players – as we expect new CRESS wins in the next three months, so as to fulfil the stipulated commercial operation date by 31 Dec 28.
- **Robust three-year earnings CAGR of 51% (FY26-29).** Despite a slow start in 1QFY27 (seasonally weaker quarter for solar players), we expect NS to meet our full-year FY27 net profit growth of 50% yoy. FY27 revenue is expected to double on the back of: a) a RM120m large scale solar 5 (LSS5) project win in Mar 26, b) improving commercial and industrial (C&I) demand as businesses seek to mitigate rising electricity costs, and c) a recovery in residential rooftop solar installations supported by a RM3,000 SuRIA Home rebate. NS derived 85% of its revenue from the C&I segment. With the inclusion of the LSS5 contract win, we expect FY27 net profit margin to ease to 10% (FY26: 13.5%). The projected LSS5 project revenue recognised in FY27 is estimated to account for one-third of the group's revenue at RM75m (63% of total LSS5 EPCC contract value).

Key Financials

Year to 31 Mar (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	84.9	113.0	224.3	402.3	600.4
EBITDA	18.7	24.0	34.1	56.5	78.0
Operating profit	17.8	22.4	32.7	54.5	75.4
Net profit (rep./act.)	11.4	15.3	22.5	37.7	52.3
Net profit (adj.)	13.9	15.3	22.5	37.7	52.3
EPS	3.5	3.9	5.7	9.5	13.2
PE	19.6	17.9	12.1	7.2	5.2
P/B	4.0	3.3	2.6	1.9	1.4
EV/EBITDA	12.3	9.9	7.0	3.8	2.5
Dividend yield	-	-	-	-	-
Net margin	16.4	13.5	10.0	9.4	8.7
Net debt/(cash) to equity	(62.0)	(42.2)	(33.6)	(41.7)	(38.0)
Interest cover	22.4	35.5	58.6	86.8	102.9
ROE (%)	20.6	18.4	21.3	26.4	26.8
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Northern Solar, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM0.69
Target Price	RM1.00
Upside	+44.9%

Stock Data

Sector	Industrials
Bloomberg ticker	NORTHERN MK
Shares issued (m)	395.6
Market cap (RMm)	273.0
Market cap (US$m)	66.9
3-mth avg daily t'over (US$m)	0.1

Price Performance (%)

52-week high/low: RM0.81/RM0.445

1mth	3mth	6mth	1yr	YTD
1.5	9.5	15.0	(2.8)	8.7

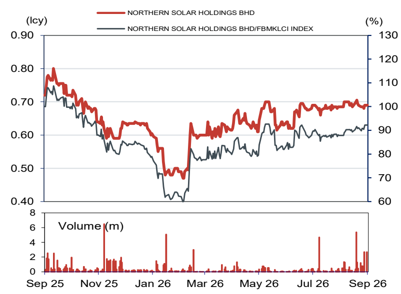
Major Shareholders (%)

Lew Shoong Kai	29.3
Chew Win Hoe	29.3
Areca Capital	3.92

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.27
FY26 Net Debt/Share (RM)	0.11

Price Chart



Source: Bloomberg

Company Description

Northern Solar operates as an investment holding company. Through its subsidiaries, it specialises in the engineering, procurement, construction, and commissioning of solar PV systems and generation of renewable energy, as well as the operation and maintenance of solar PV equipment and systems. Northern Solar serves customers in Malaysia.

- **Blue-sky orderbook of RM1b.** Current orderbook stands at RM189m, anchored by the LSS5 contract win (58%) and higher contribution from rooftop solar photovoltaic (PV) projects across the C&I (27%) and residential (15%) segments (see RHS orderbook breakdown). A potential CRESS project win – as early as next month – may lift orderbook to well over RM1b – a substantial milestone for NS. We believe a RM800m CRESS win may consist of 150-200MW of solar installation works together with battery storage to provide firm output to the DC offtaker.
- **A CRESS project win can lift market cap by 55%.** Given the magnitude of the CRESS project, NS is likely to partner with reputable partners to partly offset balance sheet and execution risk. Our sensitivity analysis suggests every 50MW CRESS project win will lift NS' market cap by a hefty 55%, or an estimated equity value of RM150m.
- **Solidifying its recurring earnings base.** A CRESS project will enhance NS' renewable asset portfolio and recurring income – as the group aims to achieve a 30% revenue earnings base in the near term. By end-FY27, NS will have 35MW of renewable energy (RE) assets under the self-consumption programme. The 35MW of RE assets are projected to generate RM4m in net profit, or 11% of group net profit. A CRESS project win will lift NS' recurring earnings base meaningfully.

Valuation/Recommendation

- **We reiterate our BUY rating with a PE-based target price of RM1.00.** Our target price is pegged to 11x FY28F EPS. NS is currently trading at an attractive 7x FY28 PE (sector average PE: 19x) with a three-year earnings CAGR of 51% over FY26-29. We believe a favourable CRESS project win can drive share price to our blue-sky fair value of RM1.35 (based on 13x mean PE).
- **Key re-rating catalysts** include: a) award of utility-scale EPCC contracts under CRESS and LSS6, b) venturing into utility-scale asset ownership under CRESS, c) a transfer to the main board listing by 4Q26, and d) reinstatement of Shariah status after the biannual Shariah compliance review in Nov 26.

Earnings Revision/Risk

- No changes to earnings forecasts.

Share Price Catalyst

- **Main board listing and Shariah status reinstatement by 4Q26.** NS announced that it has secured approval from the Securities Commission Malaysia and submitted its application to Bursa Malaysia for its proposed transfer to the Main Market, which is expected to materialise by Oct 26. In addition, the group remains confident of regaining its Shariah-compliant status following the biannual Shariah compliance review in Nov 26. We believe these corporate developments will enhance the stock's attractiveness to a broader investor base, prompting us to revise our target price to our blue-sky fair value.

Environment, Social, Governance (ESG) Updates

Environmental

- NS has successfully installed over 2,900 solar PV systems countrywide for its customers since 2019.

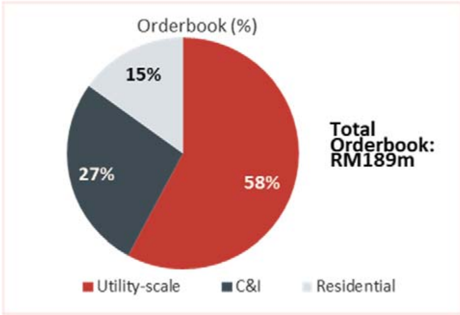
Social

- In FY26, the group allocated RM58,662, benefitting 13 community beneficiaries consisting of local schools, residents' associations, and industry partners.

Governance

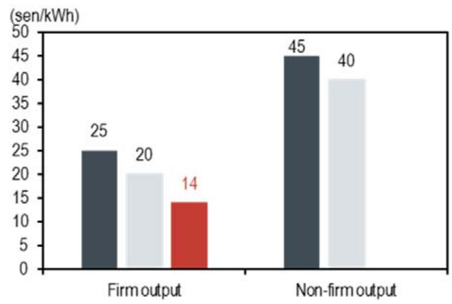
- The Board of Directors consists of four independent non-executive directors and two non-independent executive directors. Women comprise of 33% of the Board.

Current Orderbook



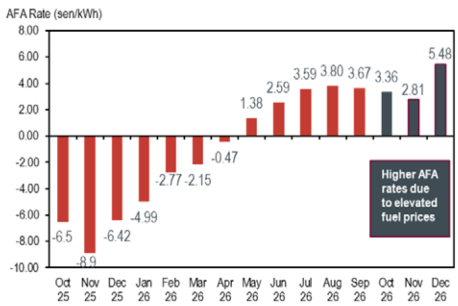
Source: Northern Solar, UOB Kay Hian

SAC Revision



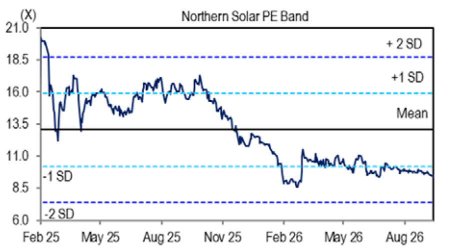
Source: PETRA, UOB Kay Hian

AFA Rate Forecast



Source: TNB, UOB Kay Hian

PE Band



Source: Bloomberg, UOB Kay Hian

Profit & loss

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Net turnover	113.0	224.3	402.3	600.4
EBITDA	24.0	34.1	56.5	78.0
Deprec. & amort.	(1.6)	(1.4)	(2.0)	(2.6)
EBIT	22.4	32.7	54.5	75.4
Total other non-op. income	(0.6)	(0.6)	(0.6)	(0.7)
Associate contributions	21.8	32.1	53.9	74.7
Net interest income/(expense)	(6.6)	(9.6)	(16.2)	(22.4)
Pre-tax profit	0.0	0.0	0.0	0.0
Tax	15.3	22.5	37.7	52.3
Minorities	15.3	22.5	37.7	52.3
Net profit	113.0	224.3	402.3	600.4
Net profit (adj.)	24.0	34.1	56.5	78.0

Balance Sheet

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Fixed assets	21.1	26.7	37.8	49.9
Other LT assets	2.6	2.6	2.6	2.6
Cash/ST investment	45.3	46.5	72.7	89.4
Other current assets	54.9	70.8	81.6	118.4
Total assets	123.9	153.1	201.2	266.9
ST debt	4.3	4.3	4.3	4.3
Other current liabilities	26.7	32.7	41.1	52.5
LT debt	6.0	6.8	8.8	10.8
Other LT liabilities	3.5	3.5	3.5	3.5
Shareholders' equity	82.9	105.4	143.1	195.4
Minority interest	0.5	0.5	0.4	0.4
Total liabilities & equity	123.9	153.1	201.2	266.9

Cash flow

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Operating	2.4	13.9	37.3	29.4
Pre-tax profit	21.8	32.1	53.9	74.7
Tax	(5.4)	(9.6)	(16.2)	(22.4)
Deprec. & amort.	1.6	1.4	2.0	2.6
Associates	(0.0)	-	-	-
Working capital changes	(13.2)	(9.9)	(2.4)	(25.5)
Other operating cashflows	(2.3)	-	-	-
Investing	(14.9)	(7.0)	(13.2)	(14.7)
Capex	(9.9)	(7.0)	(13.2)	(14.7)
Interest Income	-	-	-	-
Others	(5.0)	-	-	-
Financing	(0.9)	0.8	1.9	2.1
Dividend payments	-	-	-	-
Issue/(Redemption) of shares	-	-	-	-
Proceeds from borrowings	(0.4)	0.8	1.9	2.1
Others	(0.5)	-	-	-
Net cash inflow (outflow)	(13.4)	7.7	26.1	16.8
Beginning cash & cash equivalent	50.7	37.3	45.0	71.1
Changes due to forex impact	(0.0)	-	-	-
Ending cash & cash equivalent	37.3	45.0	71.1	87.9

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	21.2	15.2	14.1	13.0
Pre-tax margin	19.3	14.3	13.4	12.4
Net margin	13.5	10.0	9.4	8.7
ROA	12.3	15.3	19.4	20.1
ROE	18.4	21.3	26.4	26.8
Growth (% yoy)				
Turnover	33.1	98.5	79.4	49.2
EBITDA	28.0	42.0	66.0	38.0
Pre-tax profit	27.7	47.3	68.0	38.5
Net profit	34.0	47.0	68.0	38.5
Net profit (adj.)	9.6	47.2	68.0	38.5
EPS	9.6	47.2	68.0	38.5
Leverage				
Debt to total capital	0.1	0.1	0.1	0.1
Debt to equity	0.1	0.1	0.1	0.1
Net debt/(cash) to equity	(0.4)	(0.3)	(0.4)	(0.4)
Interest cover (x)	35.5	58.6	86.8	102.9