

Northern Solar (NORTHERN MK)

Wins Another LSS5 EPCC Award; Underpins Earnings Visibility

Highlights

- Northern Solar has secured an additional RM34m utility-scale EPCC contract under the LSS5 programme, underpinning earnings visibility over FY27-28. NS also recently completed its transfer to Bursa's Main Board on 6 Oct 26.
- Blue-sky scenario: Winning a sizeable CRESS project will lift valuation by RM320m (20x PER; RM18m net profit based on 80% equity stake). This suggests a blue-sky fair value of RM2.20/share within a three-year time frame.
- We maintain our BUY call on the stock with a higher PE-based target price of RM1.40/share, based on 15x PE versus sector average 19x PE. The sector will continue to benefit from strong orderbook with the CRESS accelerated programme and LSS6.

Analysis

- Another LSS5 contract win...** Northern Solar (NS) has secured another utility-scale engineering, procurement, construction and commissioning (EPCC) contract under the LSS5 programme valued at RM34m. This marks the group's second utility-scale project win in the span of a year. The 9.5MWac project is slated for commissioning by 1 May 27, with the bulk of contributions expected to be recognised in FY27 (~80% of contract value). We expect a healthy net margin of 7-9% for the above project.
- ...lifting orderbook to a record RM223m.** NS commands a record orderbook of RM223m, primarily anchored by its two LSS5 ECC and EPCC contracts (64%), with more contributions from rooftop solar photovoltaic (PV) projects across the commercial and industrial (C&I) (27%) and residential (15%) segments. Moving ahead, the company aims to achieve a steady top-line run rate of: a) RM100m p.a. for C&I solar installation; b) RM60-80m p.a. for the residential segment; and c) 5-10% annual revenue mix from its standalone and bundled battery energy storage system (BESS) projects.
- Strong earnings visibility.** With the inclusion of this second LSS5 contract win, we expect NS to deliver a robust full-year FY27 net profit growth of 50% yoy. FY27 revenue is expected to double on the back of: a) RM120m + RM34m LSS5 project execution, 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.

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	33.0	30.1	20.4	12.2	8.8
P/B	6.8	5.5	4.4	3.2	2.3
EV/EBITDA	22.3	17.7	12.2	6.9	4.8
Dividend yield	-	-	-	-	-
Net margin	16.4	13.5	10.0	9.4	8.7
Net debt/(cash) to equity	(62.0)	(42.2)	(39.8)	(46.2)	(41.4)
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	RM1.16
Target Price	RM1.40
Upside	+20.7%
Previous TP	RM1.00

Stock Data

Sector	Industrials
Bloomberg ticker	NORTHERN MK
Shares issued (m)	395.6
Market cap (RMm)	458.9
Market cap (US\$m)	112.3
3-mth avg daily t'over (US\$m)	0.7

Price Performance (%)

52-week high/low			RM1.36/RM0.445	
1mth	3mth	6mth	1yr	YTD
69.3	68.1	85.6	53.6	82.7

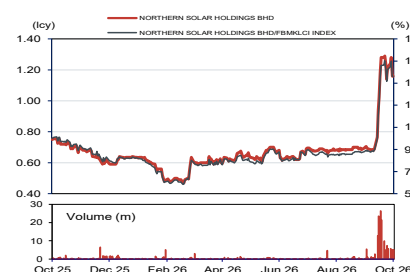
Major Shareholders (%)

Lew Shoon Kai	23.7
Chew Win Hoe	23.7
Areca Capital	3.9

Balance Sheet Metrics

FY27F NAV/Share (RM)	0.27
FY27F Net Debt/Share (RM)	0.10

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: A 170MW CRESS project win.** Based on our estimates, a 170MW CRESS win will provide solid recurring income base of RM20m annually (based on 100% ownership). Assuming an 80% equity stake, winning a CRESS project will lift NS's net profit by RM18m, or 34% of FY29's net profit forecast. Importantly, equity value from winning the CRESS is RM320m (20x PER, RM18m net profit), potentially lifting our fair value from RM1.50 to RM2.20 in FY20 when the project crystallises.

Valuation/Recommendation

- **We reiterate our BUY rating with a higher PE-based target price of RM1.40.** Our target price is pegged to 15x FY28F EPS. Sector trades at an average PE of 19x and the valuation is adjusted to reflect market capitalisation and liquidity. The previous RM1.00 target price was pegged to 11x FY28F EPS (-1SD from company's mean PE). NS currently trades at an attractive 12x FY28 PE with a three-year earnings CAGR of 51% over FY26-FY29.
- **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, and c) reinstatement of Shariah status after the biannual Shariah compliance review in Nov 26.

Earnings Revision/Risk

- No changes to earnings forecast.

Share Price Catalyst

- **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.
- **Main Board transfer completed; Shariah status reinstatement in Nov 26.** NS recently announced that it has successfully completed its transfer to the Main Market, effective 6 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, catalysing a further re-rating of the stock.

Environment, Social, Governance (ESG) Updates

Environmental

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

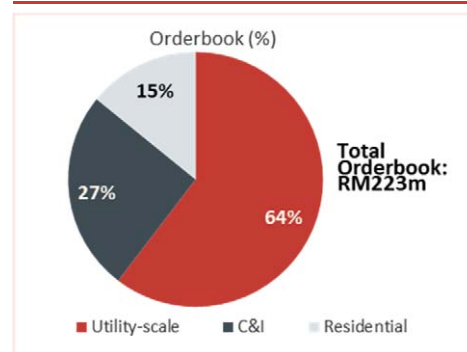
Social

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

Governance

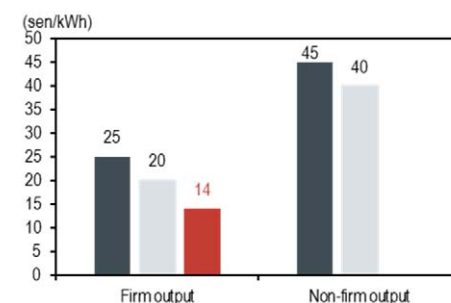
- The Board of Directors consists of four independent non-executive directors and two non-independent executive directors. Women comprise of 33% of the Board.

Current Orderbook



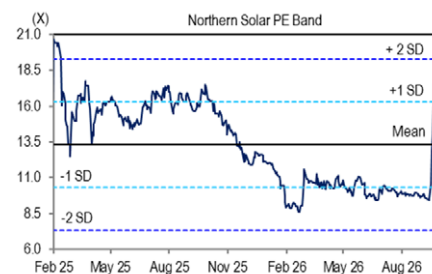
Source: Northern Solar, UOB Kay Hian

SAC Revision



Source: PETRA, UOB Kay Hian

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
Net interest income/(expense)	(0.6)	(0.6)	(0.6)	(0.7)
Pre-tax profit	21.8	32.1	53.9	74.7
Tax	(6.6)	(9.6)	(16.2)	(22.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	15.3	22.5	37.7	52.3
Net profit (adj.)	15.3	22.5	37.7	52.3

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

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

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	14.9	15.2	14.1	13.0
Pre-tax margin	14.1	14.3	13.4	12.4
Net margin	9.9	10.0	9.4	8.7
ROA	15.7	15.3	19.4	20.1
ROE	23.1	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

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