

17 January 2025

Energy | Renewable Energy

Northern Solar (NORTHERN MK)

Here Comes The Sun

- **MYR0.72 FV based on 15x FY26F P/E.** Northern Solar aims to raise MYR42.4m from its IPO, primarily to fund its working capital to expand its portfolio in the EPCC of solar photovoltaic (PV) systems. We project a 3-year earnings CAGR of 28.1%, driven by Malaysia's target of achieving a 70% renewable energy (RE) mix by 2050, which is expected to significantly boost solar adoption.
- **Business overview.** Northern Solar primarily engages in the EPCC of solar PV systems, RE generation, and operation & maintenance (O&M) of solar PV equipment and systems. The group mainly operates within the domestic solar PV industry. As of the latest practicable date (LPD), it has installed a total capacity of 71.9MWp across residential and commercial & industrial (C&I) buildings.
- **Expansion plans.** Northern Solar is allocating 68.8% of the IPO proceeds for working capital purposes, including the recruitment of engineering and business development personnel, and procurement of project materials. By utilising these funds to meet working capital needs associated with contract works, the group will enhance its capacity to tender for projects and expand its portfolio in the EPCC of solar PV systems segment, in our view.
- **Forecasts.** We forecast Northern Solar's revenue to grow at a 3-year CAGR of 26.7%, primarily driven by increasing orders from its C&I customers – in line with the country's commitment towards energy transition. As of 19 Nov 2024, the group's orderbook stood at MYR83.2m, which is expected to be recognised within 12 months. Northern Solar also has a strong tenderbook of MYR1.3bn. A potential upside lies in its partnership with Lagenda Properties, which has not yet been factored into the tenderbook and orderbook figures. We have also assumed a net margin of 17.1% for FY25, supported by strong gross profit margins – driven by declining panel prices. However, we expect net margins to moderate to 13.9% and 12.5% in FY26 and FY27, resulting in a 3-year earnings CAGR of 28.1%.
- **Valuation.** We ascribe a 15x P/E to the group's FY26F earnings to arrive at a FV of MYR0.72. Our selected peers are either involved in solar EPCC and/or RE generation. Excluding Mega First Corp (MFCB MK, NR), which is primarily an asset owner, companies involved in the solar EPCC space generally trade at a P/E range of 14-23x. Our target P/E is positioned at the lower end of this range, reflecting Northern Solar's smaller market cap and exclusive focus on C&I EPCC projects. While its earnings base is comparable to Samaiden Group (SAMAIKEN MK, BUY, TP: MYR1.62), the lower target P/E accounts for its lack of involvement in the utility-scale segment.
- **Key risks:** Slow replenishment of its orderbook, dependence on government policies on RE, and higher-than-expected project costs.

Fair Value (Return):	MYR0.72 (+14.7%)
IPO Price:	MYR0.63
Closing Application Date:	20 January 2025
Indicative Listing Date	6 February 2025

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Company Description

Northern Solar is principally involved in the EPCC of solar PV systems, generation of RE, and O&M of solar PV equipment and systems.

IPO Details

Public Issue of new shares (m)	67.3
Offer for sale of existing shares (m)	35.6
Shares outstanding (m)	395.6
Implied market cap	MYR249.2m

Major Shareholders (%)

Lew Shoong Kai	30.8
Chew Win Hoe	30.8
Lagenda Properties	12.5

Utilisation of IPO Proceeds

	MYRm
Working capital	29.2
Repayment of bank borrowings	5.5
Business expansion	3.2
Listing expenses	4.6

TOTAL 42.4

Additional Data

Listing Market	ACE
Bursa Code	0340

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Key Data	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover (MYRm)	44.7	78.0	89.7	129.4	158.7
Recurring net profit (MYRm)	6.1	10.1	15.4	19.1	21.2
Recurring net profit growth (%)	97.1	64.8	52.4	24.1	11.1
Recurring EPS (MYR)	0.02	0.03	0.04	0.05	0.05
Recurring P/E (x)	40.8	24.7	16.2	13.1	11.8
P/BV (x)	23.6	12.1	2.7	2.3	1.9
Dividend Yield (%)	0.0	2.0	0.0	0.0	0.0
EV/EBITDA (x)	31.1	17.9	8.4	8.1	6.8
ROE (%)	57.9	48.8	16.9	17.3	16.1
Net debt to equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

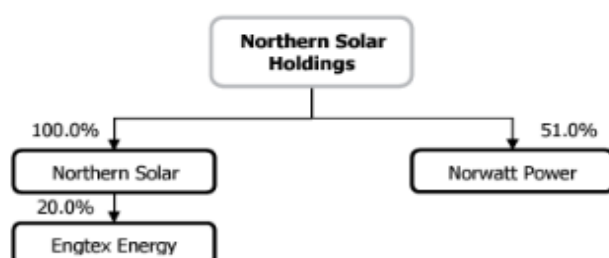
Source: Company data, RHB

Company Overview

Northern Solar primarily engages in the EPCC of solar PV systems, RE generation, and O&M of solar PV equipment and systems. The group mainly operates within Malaysia's solar PV industry. As at LPD, it has installed a total capacity of 71.9MWp across residential and C&I buildings. Its business segments can be categorised into:

- i. **EPCC of solar PV systems (98.8% of FY24 revenue).** The EPCC activities of solar PV systems involve the provision of engineering design and planning, procurement and supply, construction, installation, testing, and commissioning of solar PV systems for commercial, industrial, and residential buildings;
- ii. **Generation of RE (1.2% of FY24 revenue).** Northern Solar also owns, operates, and maintains rooftop solar PV systems that generate and sell electricity to Net Energy Metering (NEM) and Self-Consumption (SELCO) consumers in West Malaysia;
- iii. **O&M of solar PV equipment and systems.** The group's O&M services encompass the maintenance & operation of solar PV equipment and systems installed in commercial, industrial, and residential buildings. This segment is expected to start contributing from FY25 onwards.

Figure 1: Corporate structure



Company	Principal activities
Northern Solar Holdings	Investment holding
Subsidiaries	Principal activities
Northern Solar	Provision of EPCC services for solar PV systems, O&M of solar PV equipment and systems, as well as generation of electricity
Norwatt Power	Dormant. Intended activity is solar PV systems developer for public sector ⁽¹⁾
Associated company of Northern Solar	Principal activities
Engtex Energy	Specialist in solar PV industry, develop solar energy system and other renewable energy ⁽²⁾

Source: Company data

Collaborations and partnerships. On 15 Dec 2023, in conjunction with its entry as a shareholder of Northern Solar, Lagenda Properties granted the latter a Right of First Refusal and Right to Match concerning the installation of solar panels. This applies to premises fully owned or developed by the Lagenda Properties or for any residential or commercial development projects substantially controlled by the latter group.

As a reference for potential market size, Lagenda Properties reported in its 2023 annual report that it launched c.3,500 housing units with a total GDV of MYR722m.

Separately, Northern Solar collaborates with Engtex Group through Engtex Energy, a solar PV asset developer. This, in our view, presents further opportunities for the group to undertake the EPCC of solar PV projects secured by Engtex Energy. As of LPD, the latter is developing solar PV assets in Kuala Lumpur and Johor Bahru that it owns – Northern Solar is carrying out the EPCC works for these projects.

The group is led by a skilled management team, which includes Managing Director Lew Shoong Kai and Executive Director Chew Win Hoe – both bring over 13 years of experience each in the solar PV and engineering industries. Lew is responsible for crafting the group's business model, strategic planning of its corporate direction, as well as developing growth strategies. Chew is responsible for implementing business strategies and spearheading the group's business development activities.

Future Plans And Strategies

Scaling up operations with a new corporate office and engineering command centre. In line with its plans to scale up operations to meet the growing demand for EPCC and O&M services, and given that many customers are located in West Malaysia's central region – including Kuala Lumpur and Selangor – Northern Solar relocated to a new corporate office in Nov 2024. The previous head office was fully utilised and lacked sufficient space to support the planned expansion and increase in headcount.

The new corporate office, measuring 8,620sq ft, includes an engineering knowledge centre of approximately 1,000sq ft that features an enhanced command centre and engineering laboratory. This relocation, in our view, enables Northern Solar to centralise its business operations and improve its corporate image among customers, suppliers, employees, and other stakeholders.

Strengthen market presence throughout Malaysia. The group aims to expand its workforce to capitalise on business opportunities for EPCC and O&M of solar PV systems in Johor, thereby strengthening its market presence in West Malaysia's southern region. We believe this expansion will also target potential customers in Melaka, where there is significant growth potential for solar PV systems.

Additionally, Northern Solar plans to expand geographically into the northern region of West Malaysia – particularly in Penang, Perak, Kedah, and Perlis – by establishing a sales office to tap into the market potential for EPCC and O&M of solar PV systems in these areas.

Expand solar PV systems business to generate recurring revenue. Northern Solar intends to grow its solar PV systems business to generate recurring revenue. As of LPD, it owns, operates, and maintains 17 solar PV systems under its group, as well as four solar PV systems under Engtex Energy. This experience provides a solid platform for further expansion in the RE sector.

Moving forward, Northern Solar plans to adopt a model of developing, owning, and managing a portfolio of solar PV assets that sell electricity to NEM and SELCO consumers, creating a stable revenue stream and diversifying its income sources.

Increase market share within the domestic solar PV industry. The group is focused on increasing its market share within the Malaysian solar PV industry. To support this objective, MYR29.2m from the IPO proceeds has been allocated for working capital purposes, including the recruitment of engineering and business development personnel, as well as the procurement of project materials. By utilising these funds to meet working capital needs associated with contract works, we believe Northern Solar will enhance its capacity to tender for projects and expand its portfolio in the EPCC of solar PV systems segment.

Financial Overview And Valuation

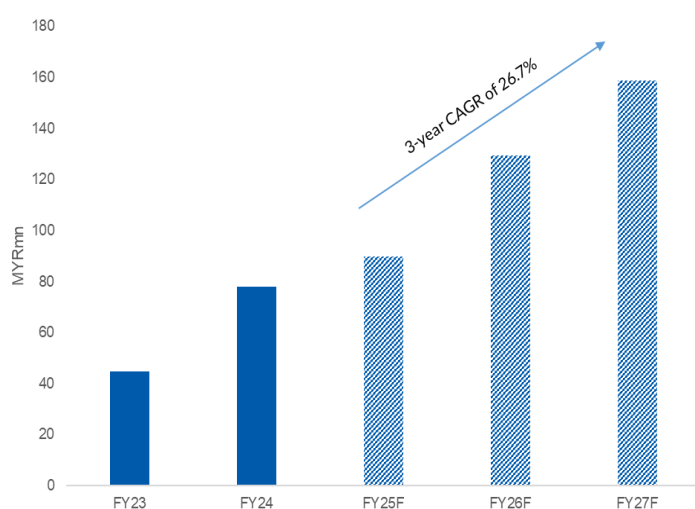
Financial overview. Northern Solar's revenue increased by 74.5% YoY to MYR78m in FY24, primarily driven by higher C&I EPCC contributions, which saw a 71.2% increase. Its RE generation segment also recorded a 125% YoY growth, increasing to MYR0.9m from FY23's MYR0.4m. The group's GPM improved to 27.7%, up from 25.3% in FY23, supported by higher-margin projects and declining solar panel prices. However, its NPM experienced a slight contraction, declining to 12.9% in FY24 from 13.7% in FY23, primarily due to a higher effective tax rate.

Despite this, Northern Solar recorded a net earnings CAGR of 80.2% from FY22-24, underpinned by robust topline growth. This performance reflects the strong momentum in solar adoption and the group's ability to capitalise on industry opportunities.

Forecasts. We forecast the group's revenue to grow at a 3-year CAGR of 26.7%, primarily driven by increasing orders from its C&I customers – in line with the country's commitment towards energy transition. As of 19 Nov 2024, its orderbook stood at MYR83.2m – expected to be recognised within 12 months – and it has a strong tenderbook of MYR1.3bn.

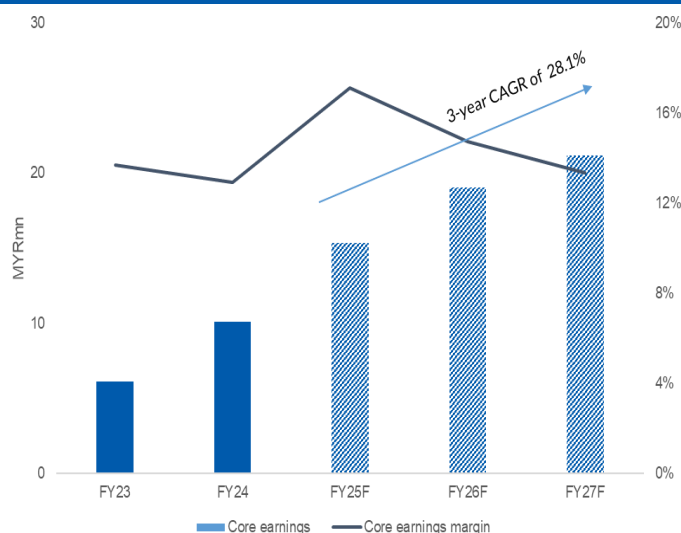
A potential upside lies with Northern Solar's partnership with Lagenda Properties, which has not yet been factored into the tenderbook and orderbook figures. We have also assumed a net margin of 17.1% for FY25, supported by strong GPMs – driven by declining panel prices. However, we expect net margins to moderate to 14.7% and 13.3% in FY26 and FY27, resulting in a 3-year earnings CAGR of 28.1%.

Figure 4: Revenue trends



Source: Company data, RHB

Figure 5: Core earnings trends



Source: Company data, RHB

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Valuation. We ascribe 15x P/E to the group's FY26F earnings to arrive at a FV of MYR0.72. Our selected peers are either involved in solar EPCC and/or RE generation. Excluding MFCB (primarily an asset owner), companies involved in the solar EPCC space generally trade at a P/E range of 14-23x.

Our target P/E is positioned at the lower end of this range, reflecting Northern Solar's smaller market cap and exclusive focus on C&I EPCC projects. While its earnings base is comparable to Samaiden, the lower target P/E accounts for the group's lack of involvement in the utility-scale segment.

Dividends. Northern Solar does not have a formal dividend policy and we do not anticipate one in the near future, given its continued focus on expansion and growth initiatives.

Figure 4: Peer comparison

Company Name	FYE	Price	Market cap	P/E (x)			P/BV (x)	EPS growth (%)		ROE (%)	EV/ EBITDA	Div. yield (%)
				FY24	FY25	FY26		FY25	FY26			
Northern Solar	Mar	0.63	249.2	24.7	16.2	13.1	2.7	52.4	24.1	16.9	8.4	na
Peers												
Mega First Corp	Dec	4.64	4,373.4	9.8	9.6	9.5	1.1	2.1	1.2	13.1	6.7	2.1
Solarvest Holdings	Mar	1.70	1,228.1	25.4	19.5	18.1	3.4	29.9	8.0	16.3	12.0	0.3
BM Greentech	Mar	1.72	1,183.0	25.3	21.0	19.8	2.8	20.6	6.1	12.2	14.4	1.3
Kinergy Advancement	Dec	0.35	717.2	na	na	na	na	na	na	na	na	na
Cypark Resources	Apr	0.86	707.6	na	86.0	22.6	0.5	110.9	280.0	4.4	13.2	0.0
Pekati Group	Dec	1.09	703.0	41.9	22.7	18.5	5.2	84.6	22.9	20.3	10.9	0.6
Samaiden Group	Jun	1.28	535.9	23.7	19.7	16.4	3.0	20.4	20.0	16.2	9.5	0.9
Sunview Group	Mar	0.44	249.8	24.4	16.9	14.2	na	44.4	19.2	na	9.2	na
Weighted average				15.7	18.8	13.3	1.8	23.7	26.0	12.1	8.8	1.2

Source: Bloomberg, RHB

IPO Details

Figure 9: Indicative IPO timeline

Opening of application	18 Dec 2024
Closing of application	20 Jan 2025
Balloting of applications	22 Jan 2025
Allotment of the IPO Shares to successful applicants	3 Feb 2025
Listing	6 Feb 2025

Source: Company data, RHB

Figure 10: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Working capital	Within 24 months	29.2	68.8
Repayment of bank borrowings	Within 12 months	5.5	13.0
Business expansion	Within 24 months	3.2	7.4
Listing expenses	Within one month	4.6	10.8
Total		42.4	100.0

Source: Company data, RHB

Figure 12: Offering structure

	Number of IPO shares	% of enlarged share base*
Public Issue of new shares:		
Malaysian public	19,780,000	5.0
Pink Form allocations	7,912,000	2.0
Bumiputera	39,560,000	10.0
	67,252,000	17.0
Offer for sale:		
Private placement to selected investors	35,604,000	9.0
Total	102,856,000	26.0

Note: Based on the enlarged issued share capital of 395,600,000 shares after IPO

Source: Company data, RHB

Key Risks:

- i. Slow replenishment of its orderbook;
- ii. Dependence on government policies on RE;
- iii. Cost overruns from delayed projects or the inability to complete them;
- iv. Higher-than-expected project costs;
- v. Risks of defects liability claims by customers.
- vi. Competition risks.

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Analyst	Company
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