Northeast Group Berhad (0325)

Bullish Outlook Backed by Strong Demand

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BUY ⇔

TP: RM0.97 (+38%) ⇔

Current Share Price: RM0.705

Valuation

Our target price is based on:

FY26F PE of 23x, which is slightly below the peers' average forward PE of 26x, given a smaller market cap and the gradual recovery in semiconductor industry.

Results Report | **Growth** | **Investment Horizon : 12 months**

Results Review

Northeast posted FY25 core earnings of RM22.9mn, which came in on the spot with our expectation at 100% but 9% above consensus forecast. QoQ, 4QFY25 revenue grew 15%, supported by stronger sales from the semiconductor and photonics industries, likely driven by trade diversion and new product innovations that commanded higher average selling prices from existing customers. However, core earnings dipped slightly by 4% due to higher administrative costs and a higher effective tax rate of 27%, compared to 10% in 3QFY25.

Outlook

We remain optimistic about the group's outlook, supported by (i) resilient demand from the photonics segment, (ii) a gradual recovery in the semiconductor sector, and (iii) additional capacity from the new factory and warehouse to meet strong demand. Photonics demand remains robust, driven by growth in telecom, data centres, and AI. This trend is in line with our expectations, as the group continues to secure more orders from both existing and new customers, supported by increased new product innovation. We also observe benefits from trade diversion, as customers relocate production to Southeast Asia. The construction of the new factory is targeted to begin in 4QCY26, with completion expected in 2HCY29. We maintain our forecasts and introduce FY28F projections. We reiterate our BUY call with an unchanged target price of RM0.97, based on FY26F PE of 23x.

Key Assumption

	Before			After		
Revenue growth	FY2026F	FY2027F	FY2028F	FY2026F	FY2027F	FY2028F
Photonics	52%	25%	New	52%	25%	10%
E&E	15%	20%	New	15%	20%	10%
Semiconductor	15%	15%	New	15%	15%	10%
Telecommunication	2%	5%	New	2%	5%	5%
Optoelectronics	2%	5%	New	2%	5%	10%

Results Summary

FYE 30 Sept (RMmn)	4QFY24	3QFY25	4QFY25	QoQ (%)	YoY (%)	FY24	FY25	YoY (%)
Revenue	21.5	31.7	36.3	*14.6*	*68.7*	90.1	119.6	*32.7*
Gross profit	8.9	10.7	14.4	*34.0*	*61.4*	34.7	40.3	*16.3*
EBITDA	4.2	10.1	11.9	*17.8*	*>100*	28.6	35.6	*24.5*
Depreciation	-2.0	-2.1	-2.1	*1.5*	*7.5*	-8.0	-8.2	*1.7*
EBIT	2.3	8.1	9.8	*21.9*	*>100*	20.6	27.4	*33.4*
Pretax Profit	1.9	7.9	9.7	*22.4*	*>100*	6.2	30.3	*>100*
Taxation	-1.1	-0.8	-2.6	*-219.2*	*-131.8*	-5.3	-6.0	*-13.4*
Net Profit	0.8	7.1	7.1	*-0.1*	*>100*	13.7	24.2	*76.3*
Core Net Profit	4.2	7.6	7.3	*-3.8*	*75.0*	16.5	22.9	*38.6*
Margin (%)								
GP	41.4	33.9	39.6			38.5	33.7	
EBITDA	19.6	32.0	32.9			31.7	29.7	
Pretax	8.7	25.0	26.6			6.9	25.3	
Core Net Profit	19.5	24.1	20.2			18.3	19.1	

Financial Exhibits

FYE 30 Sept	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue (RMmn)	90.1	119.6	150.7	180.5	197.8
EBITDA (RMmn)	28.6	38.0	53.7	62.1	71.1
Pretax profit (RMmn)	19.1	26.6	43.0	51.2	59.3
Net profit (RMmn)	13.7	20.5	31.3	37.4	43.3
EPS (sen)	2.4	2.8	4.2	5.1	5.9
PER (x)	30.3	26.3	17.3	14.4	12.5
Core net profit (RMmn)	13.7	22.9	31.3	37.4	43.3
Core EPS (sen)	2.4	3.1	4.2	5.1	5.9
Core EPS growth (%)	(3.0)	28.5	36.7	19.6	15.8
Core PER (x)	30.3	23.6	17.3	14.4	12.5
Net DPS (sen)	0	0	0	0	0
Dividend Yield (%)	0	0	0	0	0
ROE (%)	8.8	8.8	10.8	11.4	11.7
P/BV (x)	2.7	2.1	1.9	1.6	1.5

Financial Exhibits

Income Statement

FYE 30 Sept (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue	90.1	119.6	150.7	180.5	197.8
Operating expenses	(61.5)	(81.7)	(97.0)	(118.4)	(126.7)
EBITDA	**28.6**	**38.0**	**53.7**	**62.1**	**71.1**
Depreciation	(8.1)	(8.2)	(9.1)	(9.1)	(10.2)
EBIT	**20.6**	**29.8**	**44.6**	**53.0**	**60.9**
Net int income/(expense)	(1.5)	(0.8)	(1.6)	(1.7)	(1.6)
Exceptional gains / (losses)	0.0	(2.4)	0.0	0.0	0.0
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Pretax profit	**19.1**	**26.6**	**43.0**	**51.2**	**59.3**
Tax	(5.3)	(6.0)	(11.7)	(13.8)	(16.0)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	**13.7**	**20.5**	**31.3**	**37.4**	**43.3**
Core net profit	**13.7**	**22.9**	**31.3**	**37.4**	**43.3**

Balance Sheet Statement

FYE 30 Sept (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Fixed assets	70.6	80.8	89.6	91.5	92.4
Other long term assets	21.4	25.0	17.9	17.9	16.9
Total non-current assets	**92.1**	**105.8**	**107.5**	**109.4**	**109.2**
Cash and equivalents	87.1	153.2	173.2	203.2	244.4
Inventories	2.6	3.8	4.1	5.0	5.3
Receivables	19.5	25.1	24.4	30.0	32.0
Other current assets	5.8	7.1	-	-	-
Total current assets	**114.9**	**189.2**	**201.7**	**238.2**	**281.7**
Payables	7.6	17.3	6.1	7.1	8.0
Short term borrowings	2.0	0.7	0.7	0.7	0.7
Other current liabilities	1.9	0.2	-	-	-
Total current liabilities	**11.5**	**18.1**	**6.8**	**7.8**	**8.7**
Long term borrowings	33.6	12.0	12.0	12.0	12.0
Other long term liabilities	5.5	5.7	-	-	-
Total long term liab.	**39.0**	**17.7**	**12.0**	**12.0**	**12.0**
Shareholders' Funds	**156.5**	**259.1**	**290.4**	**327.8**	**371.1**
Minority Interest	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Cash Flow Statement

FYE 30 Sept (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Pretax Profit	19.1	26.6	43.0	51.2	59.3
Depreciation & amortisation	6.9	7.2	8.1	8.1	9.2
Working capital changes	(8.0)	2.2	0.4	(6.5)	(2.3)
Cash tax paid	(6.7)	(8.0)	(11.7)	(13.8)	(16.0)
Others	3.9	1.0	1.1	1.1	1.1
C/F from operation	**15.2**	**29.0**	**40.8**	**40.0**	**51.2**
Capex	(2.9)	(14.1)	(20.0)	(10.0)	(10.0)
Others	0.1	(7.2)	0.0	0.0	0.0
C/F from investing	**(2.8)**	**(21.3)**	**(20.0)**	**(10.0)**	**(10.0)**
Debt raised/(repaid)	(3.5)	(22.9)	0.0	0.0	0.0
Dividends paid	(2.0)	0.0	0.0	0.0	0.0
Others	(0.0)	80.8	0.0	0.0	0.0
C/F from financing	**(5.5)**	**57.9**	**0.0**	**0.0**	**0.0**
Net change in cash flow	**6.9**	**65.5**	**20.8**	**30.0**	**41.2**
Free Cash Flow	**12.2**	**14.9**	**20.8**	**30.0**	**41.2**

Investment Risk

1. Intense competitive environment. The precision engineering and components manufacturing industry is highly competitive, both regionally and globally. Competitors from lower-cost countries may undercut pricing, impacting margins and market share.

2. Technology and Capital Investment Risk. Continuous investment is required to keep up with rapid technological changes in precision engineering and automation. Failure to invest in advanced machinery, process innovation, or digitalization could lead to obsolescence and loss of competitiveness.

3. Labour Dependency and Regulatory Exposure. The Group relies heavily on skilled and semi-skilled labour, including foreign workers. Changes in government policies regarding foreign labour quotas, work permits, or minimum wages could disrupt operations or increase labour costs

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Tradeview Research Investment Rating System

Equity:

BUY: Total stock return expected to exceed +15% over 12-month period

HOLD: Total stock return to be between -15% and +15% over a 12-month period

SELL: Total stock return expected to below -15% over a 12-month period

TRADING BUY: Total stock return expected to exceed +10% over 6-month period

TRADING SELL: Total stock return expected to below -10% over a 6-month period