

# Northeast Group Berhad (0325)

## Shining Bright

Bloomberg Ticker: NE MK | Investment Horizon: 12 Months

### Recommendation

We reiterate our BUY call with a higher target price of RM1.34 (from RM1.06), as we roll forward our valuation base to FY27F, applying an unchanged 23x PE, to reflect robust demand growth in the semiconductor sector.

### Results Review

Northeast's 1HFY26 core earnings of RM21.1mn came in above expectations, accounting for 62% of our full-year forecast and 68% of consensus estimates. The positive variance was driven by higher scrap income of RM3.4mn, as other income rose 223% QoQ, alongside better operational efficiency.

YoY, 1HFY26 earnings jumped 168% thanks to the increase in revenue and more favourable product mix skewed towards higher-margin photonic products, coupled with improved operational cost efficiency.

QoQ, 2QFY26 revenue improved by 5.4% on resilient demand. Gross margin improved by 2ppt and EBITDA margin increased by 12ppt to 43.2%, driven by a favourable product mix amid robust demand in the photonics and optical transceiver market, as well as higher scrap income of RM3.4mn recorded under other income, leading to a 36.6% QoQ increase in core earnings.

### 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.

We are also observing benefits from trade diversion, as customers relocate production to Southeast Asia. Channel checks suggest that one of its semiconductor customers is growing fast in Malaysia, with more orders being loaded to suppliers and increased activity at the customer's second plant in Penang.

The Group's expansion plans remain on schedule, with renovation works for Property II expected to be completed by 3Q2026, while construction of a new factory to accommodate additional CNC machines is slated to commence in 4Q2026 and be completed by 2H2029. Upon completion, together with the new factory and warehouse development on Property I, the Group is expected to enhance its storage and production capacity, thereby strengthening overall operational capability.

Property I comprises a 0.607-hectare leasehold land in Seberang Perai Tengah, Penang, earmarked for the new factory and warehouse development, while Property II consists of a 0.538-hectare leasehold land with an existing warehouse currently undergoing renovation. We expect this to help optimise storage efficiency and expand production capacity, enabling the Group to better serve customers and undertake higher value-added work.

### Forecast

We increase our FY26F–FY28F earnings forecasts by 10%–16% to reflect better production efficiency and a more favourable product mix

### Investment Risk to our Call

(i) Intense competitive environment, (ii) technology and capital investment risk, and (iii) labour dependency and regulatory exposure.

**Buy** ↔

Target Price: RM1.34 (+39%) ↑

Current Share Price: RM0.965

**Ace Market  
Industrial Products & Services**

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### Company Overview

Northeast is a precision engineering company specializing in high-quality, customised components for photonics, semiconductors, and electrical & electronics (E&E), supported by strong technical expertise and a loyal customer base.

### Stock Information

Market Cap (RM'mn)	714.1
Issued Shares (mn)	740.0
52W High (RM)	1.01
52W Low (RM)	0.39
Estimated Free Float (%)	26.0
Beta vs FBM KLCI	0.3
3-month Average Vol. (mn)	2.5
Shariah Compliant	Yes

Consensus	FY25A	FY26F	FY27F
EPS (sen)	2.8	4.2	4.6
TP (RM)	High	Mean	Low
	1.10	1.03	0.93
Ratings	Buy	Hold	Sell
	3	0	0

Category	Score	Materiality	Weighted Score
Environmental	15	30%	1.0
Social	30	35%	2.1
Governance	33	35%	2.3
Total	78	100%	5.3

## Results Summary

FYE 30 Sept (RMmn)	2QFY25	1QFY26	2QFY26	QoQ (%)	YoY (%)	1H FY25	1H FY26	YoY (%)
Revenue	27.5	36.6	38.6	5.4	40.6	51.6	75.3	45.8
Gross profit	9.1	12.9	14.4	11.3	58.1	15.2	27.3	79.3
EBITDA	9.4	11.4	16.7	45.8	78.0	13.5	28.1	>100
Depreciation	-2.0	-2.3	-2.3	3.9	16.9	-4.0	-4.6	15.4
EBIT	7.4	9.2	14.3	56.2	94.6	9.5	23.5	>100
Pretax Profit	7.2	9.0	14.2	57.1	97.5	12.7	23.2	83.1
Taxation	-1.12	-1.84	-1.84	0.0	64.6	-2.6	-3.7	39.2
Net Profit	6.1	7.2	12.3	71.7	>100	10.0	19.5	94.6
Core Net Profit	5.7	8.9	12.2	36.6	>100	7.9	21.1	>100
Margin (%)								
GP	33.1	35.3	37.3			29.5	36.3	
EBITDA	34.1	31.2	43.2			26.2	37.3	
Pretax	26.1	24.6	36.7			24.6	30.8	
Core Net Profit	20.7	24.3	31.5			15.3	28.0	

## Key Assumption

Revenue Growth	Actual			Unchanged		
	FY24	FY25	FY26F	FY27F	FY28F	
Photonics	37%	46%	52%	25%	10%	
E&E	23%	19%	15%	20%	10%	
Semiconductor	18%	38%	15%	15%	10%	
Telecommunication	14%	29%	2%	5%	5%	
Optoelectronics	6%	-2%	2%	5%	10%	

## Key Financial Metrics

FYE 30 Sept	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue (RM'mn)	90.1	119.6	157.2	180.5	197.8
EBITDA (RM'mn)	28.6	38.0	64.0	70.1	77.1
Pretax profit (RM'mn)	19.1	26.6	53.2	59.3	65.2
Net profit (RM'mn)	13.7	20.5	39.4	43.3	47.6
EPS (sen)	2.4	2.8	5.3	5.9	6.4
PER (x)	26.6	23.1	12.0	10.9	9.9
Core net profit (RM'mn)	13.7	22.9	39.4	43.3	47.6
Core EPS (sen)	2.4	3.1	5.3	5.9	6.4
Core EPS growth (%)	(3.0)	28.5	72.1	9.9	10.0
Core PER (x)	26.6	20.7	12.0	10.9	9.9
Net DPS (sen)	0	0	0	0	0
Dividend Yield (%)	0	0	0	0	0
ROE (%)	8.8	8.8	13.2	12.7	12.2
P/BV (x)	2.3	1.8	1.6	1.4	1.2

## Peer Comparison

Name	Last Price	Market Cap (RM'mn)	FYE	Earnings Growth		P/E (x)			Div. Yield	ROE
				1-yr Fwd	2-yr Fwd	Hist.	1-yr Fwd	2-yr Fwd	1-yr Fwd	Hist.
<b>Domestic Precision Engineering Peers</b>										
	<b>MYR</b>									
UMS INTEGRATION LTD	8.42	7478.4	12/2026	58.2	76.9	58.3	41.1	31.2	1.7	9.8
UWC BHD	5.89	6498.6	07/2026	94.5	146.0	119.7	67.7	43.0	0.1	11.3
SAM ENGINEERING & EQUIPMENT	4.73	3202.1	03/2026	51.5	80.4	49.2	62.2	40.1	0.3	4.7
CPE TECHNOLOGY BHD	0.86	577.3	06/2026	17.8	26.7	43.2	N.A	N.A	N.A	4.1
SFP TECH HOLDINGS BHD	0.23	540.0	12/2026	N.A	N.A	N.A	N.A	N.A	N.A	-0.6
CORAZA INTEGRATED TECHNOLOGY	0.94	464.5	12/2026	18.1	24.7	29.3	22.9	18.4	N.A	11.2
<b>Simple Avg</b>				48.0	70.9	59.9	48.5	33.2	0.7	6.8
NORTHEAST GROUP SDN BHD	0.965	714.1	09/2026	31.1	34.3	34.5	23.0	21.0	N/A	9.9

Source: Bloomberg estimates, Tradeview Research (As of 26<sup>th</sup> May 2026)

## Financial Exhibits

### Income Statement

FYE 30 Sept (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue	90.1	119.6	157.2	180.5	197.8
Operating expenses	(61.5)	(81.7)	(93.2)	(110.4)	(120.7)
<b>EBITDA</b>	<b>28.6</b>	<b>38.0</b>	<b>64.0</b>	<b>70.1</b>	<b>77.1</b>
Depreciation	(8.1)	(8.2)	(9.1)	(9.1)	(10.2)
<b>EBIT</b>	<b>20.6</b>	<b>29.8</b>	<b>54.9</b>	<b>61.0</b>	<b>66.8</b>
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
<b>Pretax profit</b>	<b>19.1</b>	<b>26.6</b>	<b>53.2</b>	<b>59.3</b>	<b>65.2</b>
Tax	(5.3)	(6.0)	(13.8)	(16.0)	(17.6)
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>13.7</b>	<b>20.5</b>	<b>39.4</b>	<b>43.3</b>	<b>47.6</b>
<b>Core PATAMI</b>	<b>13.7</b>	<b>22.9</b>	<b>39.4</b>	<b>43.3</b>	<b>47.6</b>

### Balance Sheet Statement

FYE 30 Sept (RM'mn)	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
<b>Total non-current assets</b>	<b>92.1</b>	<b>105.8</b>	<b>107.5</b>	<b>109.4</b>	<b>109.2</b>
Cash and equivalents	87.1	153.2	180.2	217.3	262.7
Inventories	2.6	3.8	4.1	4.9	5.3
Receivables	19.5	25.1	25.4	30.0	32.0
Other current assets	5.8	7.1	-	-	-
<b>Total current assets</b>	<b>114.9</b>	<b>189.2</b>	<b>209.8</b>	<b>252.2</b>	<b>300.0</b>
Payables	7.6	17.3	6.1	7.0	8.0
Short term borrowings	2.0	0.7	0.7	0.7	0.7
Other current liabilities	1.9	0.2	-	-	-
<b>Total current liabilities</b>	<b>11.5</b>	<b>18.1</b>	<b>6.8</b>	<b>7.6</b>	<b>8.7</b>
Long term borrowings	33.6	12.0	12.0	12.0	12.0
Other long term liabilities	5.5	5.7	-	-	-
<b>Total long term liabilities</b>	<b>39.0</b>	<b>17.7</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>
<b>Shareholders' Funds</b>	<b>156.5</b>	<b>259.1</b>	<b>298.5</b>	<b>341.8</b>	<b>389.4</b>
<b>Minority Interest</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### Cash Flow Statement

FYE 30 Sept (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Pretax Profit	19.1	26.6	53.2	59.3	65.2
Depreciation & amortisation	6.9	7.2	8.1	8.1	9.2
Working capital changes	(8.0)	2.2	(0.7)	(5.4)	(2.4)
Cash tax paid	(6.7)	(8.0)	(13.8)	(16.0)	(17.6)
Others	3.9	1.0	1.1	1.1	1.1
<b>C/F from operation</b>	<b>15.2</b>	<b>29.0</b>	<b>47.9</b>	<b>47.0</b>	<b>55.4</b>
Capex	(2.9)	(14.1)	(20.0)	(10.0)	(10.0)
Others	0.1	(7.2)	0.0	0.0	0.0
<b>C/F from investing</b>	<b>(2.8)</b>	<b>(21.3)</b>	<b>(20.0)</b>	<b>(10.0)</b>	<b>(10.0)</b>
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
<b>C/F from financing</b>	<b>(5.5)</b>	<b>57.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net change in cash flow</b>	<b>6.9</b>	<b>65.5</b>	<b>27.9</b>	<b>37.0</b>	<b>45.4</b>
<b>Free Cash Flow</b>	<b>12.2</b>	<b>14.9</b>	<b>27.9</b>	<b>37.0</b>	<b>45.4</b>



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#### 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

#### IPO Note:

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

NEUTRAL: Total stock return expected to below +15% over 12-month period