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Northeast eyes factory expansion from IPO proceeds

BY INTAN FARHANA ZAINUL

Penang-based Northeast Group Bhd is expected to make its public debut on Tuesday, Oct 15, the 30th company to list on the ACE Market of Bursa Malaysia this year.

The precision component manufacturer's initial public offering (IPO) received an oversubscription of 73.42 times for the 37 million new shares offered to the Malaysian public as it received 29,702 applications for 2.75 billion shares worth RM1.38 billion.

The IPO consisted of an issuance of new shares and offer for sale shares, bringing the total to 220.79 million shares, representing about 29.84% of its enlarged issued share capital.

About 168.99 million new shares were issued at 50 sen apiece, raising RM84.5 million in proceeds. The public issue comprised 37 million shares open to the public, 29.6 million shares for eligible persons, 61.69 million shares through private placement to selected investors and 40.7 million shares through private placement to identified bumiputera investors.

A separate tranche of 51.8 million existing shares representing 7% of the enlarged issued share capital, worth RM25 million, would go entirely to the selling shareholders, including managing director Ng Chay Chin and his brother Ng Chai Hee, who is senior operations director. Executive director Chong Ewe Hean, senior business and sales director Yin Thien Hee, along with two other shareholders Ng Meng Hang and Tang Ah Lek had also put up their shares for sale.

Affin Hwang Investment Bank is the principal adviser, sponsor, sole placement agent and sole underwriter for the IPO.

The bulk of the RM84.5 million in proceeds or 47.34% from the public issue will be allocated for the construction of a new factory that is expected to have a production floor space of about 79,020 sq ft. Northeast has also earmarked 23.67% of the proceeds to repay bank borrowings and 14.65% for the purchase of new machines to increase its estimated annual operating capacity, while 7.81% will be allocated for listing expenses and the remaining 6.53% for working capital.

A 20-year track record

Northeast was founded in 2004 and specialises in the manufacturing of precision engineering components used in various industries, including in photonics, electrical and electronics, semiconductor, telecommunications and optoelectronics. The company also provides surface finishing, sheet metal fabrication and mechanical sub-assembly.

The company currently operates three factories in Juru and Bukit Minyak, Penang. All the factories are operating at full capacity, according to its prospectus.

At 50 sen per share, Northeast's IPO was valued at a price-earnings ratio (PER) of 20.16 times based on earnings per share of 2.48 sen for the financial year ended May 31, 2023 (FY2023). When the company is listed on Tuesday, it will have a market capitalisation of RM370 million.

Among its listed peers on Bursa are UWC Bhd (KL:UWC), CPE Technology Bhd (KL:CPE-TECH), SFP Tech Holdings Bhd (KL:SFPTECH), YBS International Bhd (KL:YBS), Coraza Integrated Technology Bhd (KL:CORAZA) and Wong Engineering Corp Bhd (KL:WONG).

For FY2024, Northeast posted an 11.3% decrease in net profit to RM12.36 million from RM13.94 million a year earlier, on the back of a 5.4% decline in revenue to RM62.21 million from RM65.75 million previously. The company's profit after tax (PAT) margin

IPO details

Issue price	50 sen
IPO market capitalisation	RM370 million
IPO valuation (Price-earnings ratio)	20.16 times
Controlling shareholders	69.58%
Subscription rate (public portion)	73.42 times
Fair value	62 sen (RHB Research); 76 sen (Malacca Securities)
Market	ACE
Listing date	Oct 15

Financial snapshot

YEAR	FYE2021	FYE2022	FYE2023	FYE2024
Revenue (RM mil)	113.21	144.52	65.75	62.21
Profit after tax (RM mil)	19.82	38.07	13.94	12.36
EPS (sen)	0.47	0.99	1.23	1.5
Dividend (RM mil)	NA	1.02	NA	NA

FYE: ended Sept 30

FPE: financial period ended May 31

SOURCE: BURSA MALAYSIA

stood at 19.9% in FY2024 and 21.2% in FY2023. Its overseas business accounted for the lion's share of revenue, contributing 71.5% in FY2024, mainly from the US and UK markets.

RHB Research estimates Northeast to be fairly valued at 62 sen, based on 21 times PER for forecast FY2025 earnings, or 24% higher than its IPO price. The research house says the PER is benchmarked against other precision engineering players and it projects a three-year earnings compound annual growth rate (CAGR) of 15.1%, driven by an anticipated recovery in the semiconductor industry which is expected to boost the company's utilisation rates.

"Our target PER is derived by applying a 25% discount to the FY2025 forecast average trading PER of its larger peers UWC and SFP

Tech, which traded at 28 times, considering Northeast's smaller market capitalisation and revenue base," it says in an Oct 3 report.

"Northeast remains at a premium to Coraza on its stronger net margin of 18% to 26% compared to the latter's 6% to 12%. We believe these margins are sustainable, supported by Northeast's strategic focus on undertaking more complex, high-precision and high-mix manufacturing."

Northeast says it does not maintain an order book as the company has long-term contracts with its customers and its sales are based on confirmed purchase orders on an ongoing basis.

Malacca Securities Sdn Bhd accorded Northeast a higher fair value of 76 sen per share, or a 52% upside to its IPO price. Its val-

uation is based on a PER of 25 times, pegged to the mid FY2026 forecast earnings per share of 30.4 sen as the company operates in the industrial products and technology sector, which has a long-term PER of 24.8 to 32.2 times.

Malacca Securities has projected for Northeast to generate a CAGR of 14.9% over the next three years with core PAT expected to reach RM17.8 million to RM24.2 million over the period, supported by the expansion of operational facilities and sustainable growth in the local and global semiconductor and telecommunications sectors.

"Northeast has a strong 20-year track record in the industry. Over 70% of its revenue is generated from exports, with a key strength being its ability to meet stringent internal QA/QC standards and internationally recognised certifications. This has enabled Northeast to build longstanding relationships with its customers," it said.

"Additionally, the group has consistently improved its PAT margins, rising from 17.5% in FY2021 to 19.7% in FY2023, and standing at 19.9% in FY2024."



IPO performance on Bursa Malaysia in 2024

COMPANY	LISTING DATE	IPO PRICE (RM)	FIRST-DAY CLOSING PRICE (RM)	FIRST-DAY SHARE PRICE PERFORMANCE (%)	CLOSING PRICE ON OCT 10 (RM)	PRICE CHANGE SINCE IPO (%)	PER AT IPO (TIMES)	MARKET CAPITALISATION (RM MIL)
MAIN MARKET								
Prolintas Infra Business Trust	March 25	0.950	0.970	2.10	0.955	0.53	4.06	1,050.50
Keyfield International Bhd	April 22	0.900	1.930	114.44	2.170	141.11	14.80	1,742.78
MKH Oil Palm (East Kalimantan) Bhd	April 30	0.620	0.615	-0.81	0.620	0.00	20.30	632.28
Feytech Holdings Bhd	May 21	0.800	1.100	37.50	0.875	9.38	15.37	737.80
Johor Plantations Group Bhd	July 7	0.840	0.900	7.14	1.030	22.62	12.50	2,575.00
Well Chip Group Bhd	July 23	1.150	1.720	49.57	1.430	24.35	19.54	858.00
99 Speed Mart Retail Holdings Bhd	Sept 9	1.650	1.880	13.94	2.450	48.48	34.70	20,580.00
ACE MARKET								
KITS Group Bhd	Jan 26	0.270	0.500	85.19	0.655	142.59	26.00	450.64
Master Tec Group Bhd	Jan 29	0.390	0.360	-7.69	1.080	176.92	20.31	1,101.60
HE Group Bhd	Jan 30	0.28	0.325	16.07	0.580	107.14	20.00	255.20
TSA Group Bhd	Feb 2	0.55	0.575	4.55	0.810	47.27	4.23	250.53
Wentel Engineering Holdings Bhd	Feb 6	0.260	0.280	7.69	0.295	13.46	14.61	339.25
AGX Group Bhd	Feb 7	0.350	0.360	2.86	0.525	50.00	11.18	227.25
Alpha IVF Group Bhd	March 22	0.320	0.320	0.00	0.350	9.38	29.20	1,701.00
Zantier Holdings Bhd	March 27	0.250	0.375	50.00	0.355	42.00	12.90	99.40
SBH Marine Holdings Bhd	April 8	0.220	0.255	15.91	0.260	18.18	14.97	230.88
Topmix Bhd	April 23	0.310	0.420	35.48	0.490	58.06	14.29	192.99
Farm Price Holdings Bhd	May 14	0.240	0.410	70.83	0.545	127.08	12.44	245.25
Sin-Kung Logistics Bhd	May 15	0.130	0.140	7.69	0.200	53.85	24.30	240.00
Smart Asia Chemical Bhd	May 28	0.400	0.460	15.00	0.305	-23.75	16.67	112.80
Kawan Remergy Bhd	May 29	0.300	0.465	55.00	0.600	100.00	12.40	330.00
KTL Landmark Bhd	June 19	0.300	0.285	-5.00	0.285	-5.00	17.40	228.00
Agricole CS Holdings Bhd	June 21	0.500	0.875	75.00	0.505	1.00	14.90	102.41
UUE Holdings Bhd	July 2	0.240	0.695	189.58	0.665	177.08	10.30	404.51
Go Hub Capital Bhd	July 3	0.350	0.950	171.43	1.150	228.57	19.77	460.00
Ocean Fresh Bhd	July 4	0.280	0.770	175.00	0.305	8.93	8.47	64.09
BWVS Group Bhd	July 22	0.220	0.350	59.09	0.240	9.09	12.90	246.05
Kucingko Bhd	July 26	0.300	0.570	90.00	0.325	8.33	17.95	162.50
Sik Cheong Bhd	Aug 13	0.270	0.360	33.33	0.215	-20.37	11.35	57.19
Elridge Energy Holdings Bhd	Aug 22	0.290	0.400	37.93	0.385	32.76	12.89	770.00
EPB Group Bhd	Aug 23	0.560	0.620	10.71	0.590	5.36	14.62	219.48
Vetece Holdings Bhd	Aug 28	0.250	0.405	62.00	0.360	44.00	14.93	141.12
Steel Hawk Bhd	Sept 5	0.150	0.345	130.00	0.310	106.67	10.00	124.00
Solar District Cooling Group Bhd	Sept 19	0.380	0.470	23.68	0.495	30.26	25.38	209.79
KHPT Holdings Bhd	Oct 8	0.200	0.215	7.50	0.205	2.50	14.54	82.49
Crest Group Bhd	Oct 9	0.350	0.350	0.00	0.355	1.43	16.60	307.29