KAREX Berhad

It Pays to Play Safe

By Cheow Ming Liang ***l*** ***Cheowml@kenanga.com.my***

KAREX is riding on the strong growth in the condom industry, focusing on high-margin products which will take its profitability to a higher level. It is penetrating high-growth markets with premium offerings backed by innovation and strict compliance with international standards. We project its earnings to double in FY24, followed by another 88% surge in FY25. We initial coverage on KAREX with an OUTPERFORM rating and a TP of RM1.00.

Robust condom industry outlook. The global condom market is on an impressive growth trajectory, projected to nearly double from USD8-9b in 2022 to USD19-23b by 2032, with a robust CAGR of 8%-9%. This surge is fuelled by heightened consumer awareness, a diverse array of products catering to varied preferences, and global initiatives to curb sexually transmitted diseases (STDs) and sexually transmitted infections (STIs). KAREX, being the world largest condom manufacturer with a 20% market share and produce up to 5.5b pieces annually, is well-equipped to ride rising industry demand.

Strategic earnings growth prospect. Amid a decade marked by stiff competition and the impact of the pandemic, KAREX has successfully shifted its focus to high-margin products and segments, especially in its commercial and Original Brand Manufacturing (OBM) segments. This strategic redirection has substantially boosted the company's profitability, with these segments yielding gross profit margins significantly higher than the tender market, at 20%-25% and over 50% compared to 7%-10%. In 1QFY24, despite a slight reduction in revenue, KAREX achieved impressive increases in both gross profit and operating profit margins, underlining the company's resilience and the effectiveness of its strategy in targeting more profitable segments.

Advantageous business climate. KAREX excels in the industry with its commanding market presence, cutting-edge R&D efforts, compliance with rigorous international standards, and agility in responding to post-pandemic shifts in consumer preferences, particularly towards superior quality condoms in growing markets like China. KAREX's strategic focus on premium and top-quality products is well-aligned with the current evolution of market trends. Besides, the stabilization of raw material prices and freight costs are poised to contribute to the consistency and stability of KAREX's future earnings.

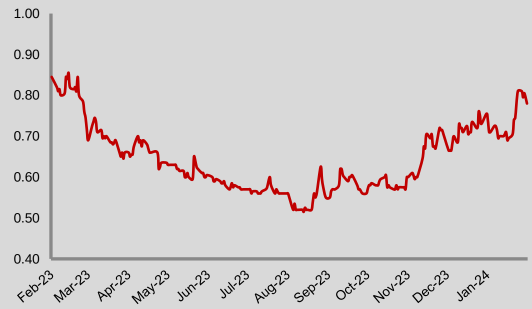
Stronger financial performance ahead. We expect KAREX to achieve a significant 24% annual revenue growth in FY24 and FY25, spurred by increased activity in its commercial, OBM, and tender segments. The company's profit margins are likely to see an uplift due to an advantageous product and segment mix, along with stable costs for raw materials and freight. This is expected to lead to a substantial net profit increase, with projection of a 113% rise to RM22m in FY24, and a further 88% growth to RM42m in FY25.

Valuations. We value KAREX at RM1.00 based on 25x FY25F PER, at a 20% premium to the average historical 5-year forward PER of its international peer to reflect its dominant market position and stronger growth prospects.

OUTPERFORM

Price:	**RM0.780**
Target Price:	**RM1.00**

Share Price Performance



KLCI	1,516.58
YTD KLCI chg	4.3%
YTD stock price chg	6.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KAREX MK EQUITY
Market Cap (RM m)	821.7
Shares Outstanding	1,053.5
52-week range (H)	0.86
52-week range (L)	0.51
3-mth avg daily vol:	1,866,178
Free Float	25%
Beta	0.8

Major Shareholders

Karex One Ltd	17.5%
Bnp Paribas	16.9%
Maryen Holdings Limi	11.5%

Summary Earnings Table

FY Mar (RM m)	2023A	2024F	2025F
Turnover	532	662	823
EBIT	22	39	66
PBT	15	30	57
Net Profit	10	22	42
Consensus	-	-	-
Earnings Revision	-	NEW	NEW
EPS (sen)	1.0	2.1	4.0
EPS growth (%)	269	113	88
NDPS (sen)	0.5	0.5	0.9
BVPS (RM)	0.45	0.47	0.50
Core PER (x)	78.4	36.7	19.6
Price/BV (x)	1.7	1.7	1.6
Net Gearing (x)	-0.3	-0.2	-0.2
Net Div. Yield (%)	0.6	0.6	1.2

Favourable Industry Outlook

The worldwide condom market, which stood at about USD8-9b in 2022, is expected to grow to nearly USD19-23b by 2032, with a projected compound annual growth rate (CAGR) of nearly 8%-9% over the next ten years, as reported by several reputable international market research organisations. The escalation in global demand for condoms is attributed to three primary factors; (i) greater consumer awareness, (ii) a broad spectrum of available products to suit different preferences, and (iii) concerted efforts to mitigate the spread of sexually transmitted infections (STIs) and HIV. A notable example of government involvement in this trend is the Indian Ministry of Health & Family Welfare, which distributed over 3.8b condoms at no cost in 2020.

Growing awareness through government initiatives and comprehensive sex education programs to reduce the prevalence of sexually transmitted diseases are driving the market's growth worldwide. Beyond education and disease prevention, the market is further propelled by the introduction of innovative condom designs, unique packaging styles, intensified marketing efforts, and promotional activities. Additionally, economic growth and rising disposable incomes in emerging markets are expected to enhance condom sales, as individuals gain greater financial means and purchasing power for preventives.

Condom manufacturers are consistently innovating, focusing on new designs, materials, and features that enhance comfort and pleasure during sexual activities. Consumers, on the other hand, are increasingly seeking products that not only provide protection but also enhance the experience, prioritizing comfort and minimal interference during intercourse. As a result, industry players are dedicating efforts to refine both the design and quality of materials used in condoms.

A prime example of this innovation is Durex's introduction of their first non-latex condom line, the Durex Real Feel, in March 2023. These condoms are crafted from polyisoprene, a material known for being softer than traditional latex rubber. This choice of material is aimed at providing a more natural and intimate sensation, akin to skin-on-skin contact, thereby enhancing the overall experience for users.

Exhibit 1: Global statistics – Condom Market

Source: Global Market Insights, Kenanga Research

Exhibit 2: Global condom market

Source: Extrapolate, Kenanga Research

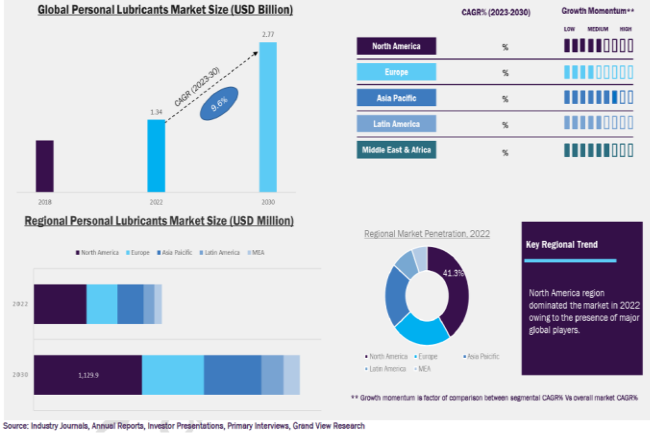
Personal Lubricants

The global personal lubricants market, with a valuation of USD1.3b in 2022, is projected to grow at a 10-year CAGR of 9.65% during 2023 to 2030 period, as per Grand View Research. This growth is largely attributed to an escalating demand for these products, driven by rising instances of vaginal dryness, erectile dysfunction, and an increased focus on enhancing sexual experiences. Personal lubricants, designed to alleviate vaginal dryness and provide additional lubrication, are seeing heightened interest, especially among the middle-aged demographic. A 2020 survey by the North American Menopause Society revealed that 48% of U.S. women experience vaginal discomfort, primarily dryness and pain during sexual activity, indicating a substantial market for these products.

Research And Markets, another leading global research firm, echoes a similar outlook for the personal lubricants market. They project growth from USD1.3b in 2022 to USD2.2b by 2028, indicating a CAGR of 8.7%. In addition to the drivers previously mentioned, this firm also highlights the growing influence of the internet, particularly e-commerce, and the increasing use of dating apps in the Asia-Pacific region as key factors that could further stimulate the demand for personal lubricants in the coming years.

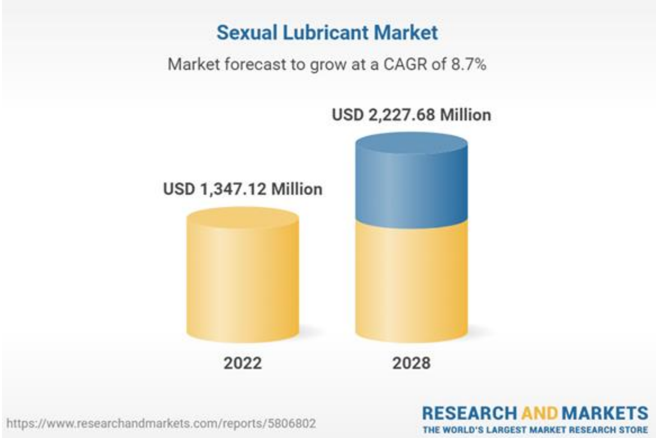
The personal lubricants market can be categorized into silicone-based, water-based, and oil-based lubricants, with water-based lubricants leading in 2022, accounting for over 52.25% of total revenue, according to Grand View Research. Their popularity stems from their effectiveness in preventing vaginal dryness and minimizing discomfort. Additionally, the introduction of specialized products like fertility lubricants is poised to further stimulate market growth. The silicone-based lubricants segment is expected to experience the most rapid expansion during the forecast period, aided by their increasing availability in retail pharmacies and supermarkets, which enhances consumer accessibility to various brands.

Exhibit 3: Global personal lubricants market



Source: Grand View Research, Kenanga Research

Exhibit 4: Global personal lubricant market



Source: Research And Markets, Kenanga Research

Riding the Increasing Industry Demand

Over the past decade, KAREX has faced a series of challenges and an unfavourable business environment. The key difficulties encountered include: (i) increased competition, particularly from Chinese manufacturers which flooded the market with lower-priced, lower-quality condoms, (ii) elevated distribution and administrative costs, stemming from changes in foreign labour policies and the increase in minimum wages in Malaysia, and (iii) the impact of the COVID-19 pandemic, which led to customers adopting more cautious approaches and slowing down their condom inventory purchases. All these factors collectively posed significant hurdles for KAREX in maintaining and growing its market position over the decade.

The COVID-19 pandemic significantly altered the landscape of various industries, including condoms and personal lubricants. During this period, smaller industry players, particularly those in China, encountered severe challenges. The widespread adoption of physical distancing and stay-at-home orders fundamentally changed social interactions, leading to a slowdown in condom demand. Additionally, many countries heightened their import regulations for medical-grade devices, including condoms, posing further entry barriers for smaller manufacturers. The combination of these challenging conditions, along with the inability to achieve economies of scale and comply with strict medical device regulations, led to many of these smaller businesses shutting down during the period, altering the competitive dynamics in these industries.

Nevertheless, the industry business landscape has improved significantly in year 2023 with economic re-opening worldwide and the resumption of regular social interactions. Moreover, heightened awareness about the prevalence of sexually transmitted infections coupled with economic recovery across nations, are enhancing consumer willingness and purchasing power. This trend is particularly notable in China, where there's a growing preference for high-quality condom products, signalling a shift towards more premium offerings in the market. In addition, the pandemic-induced slowdown in purchasing has led to a unique market opportunity. Distributors which had previously reduced their inventory purchases, are now facing the necessity of restocking, especially considering the nearing expiration of existing stocks (given the typical five-year shelf life of condoms).

In response to social compliance concerns regarding migrant workers, KAREX has made a strategic decision to stop hiring new migrant workers since 2019, with an aim of no foreign workers by 2024. This move is intended to ensure KAREX's adherence to international labour practice standards and to meet the requirements of future social audits.

The combined effect of renewed social activities, increased health awareness, stronger consumer spending power, and the urgent need for inventory replenishment is setting the stage for a significant upswing in condom demand and thus providing a pleasant outlook for KAREX moving forward. This trend is expected to not only continue but also potentially accelerate, making the outlook for the condom industry promising in the near future.

Competitive advantages

Since its inception in 1988, KAREX has built a strong reputation and a proven track record as a condom manufacturer. As the world's largest manufacturer of condoms, with an annual production capacity of around 5.5b pieces, the group holds approximately 20% of the global market share in the condom industry. Its robust in-house Research and Development (R&D) capabilities, encompassing product development, machine re-engineering and customization, the creation of new packaging concepts, and leveraging economies of scale from its large-scale manufacturing, continue to propel innovation and enhance cost efficiency.

Furthermore, KAREX has attained various rigorous international standards and certifications, such as ISO 4074, WHO specifications, FDA 510(k), and CMDCAS, among others. These accreditations not only meet diverse customer requirements (in terms of shapes, sizes, colours, textures/surfaces and flavours/fragrances) but also enable KAREX to manufacture condoms for over 200 OEM brands and export to more than 140 countries, reflecting its comprehensive global reach and adaptability.

The group currently has operation in two of the top rubber-producing countries, Malaysia and Thailand with combined workforce of 3,400 workers.

Exhibit 5: KAREX's manufacturing facilities and sales & distribution offices

Manufacturing Facilities

Pontian, Malaysia
Annual manufacturing capacity: 2.0 billion pieces
Workforce: 1,300 workers

Senai, Malaysia
Annual manufacturing capacity: 0.2 billion pieces
Workforce: 200 workers

Port Klang, Malaysia
Annual manufacturing capacity: 0.8 billion pieces
Workforce: 400 workers

Hat Yai, Thailand
Annual manufacturing capacity: 2.5 billion pieces
Workforce: 1,500 workers

Sales & Distribution Offices

Boston, USA
Primary areas serviced: North and South America

Brighton, United Kingdom
Primary areas serviced: Europe and Middle East

Source: KAREX, Kenanga Research

Exhibit 6: Competitive advantages

Source: KAREX, Kenanga Research

Exhibit 7: KAREX brand differentiation

Mass Segment	Healthcare Segment	Premium Segment
carex	Pasante	ONE
iNNO	TRUSTEX	My ONE
fantasy		
ESP		
ATLAS		

Source: KAREX, Kenanga Research

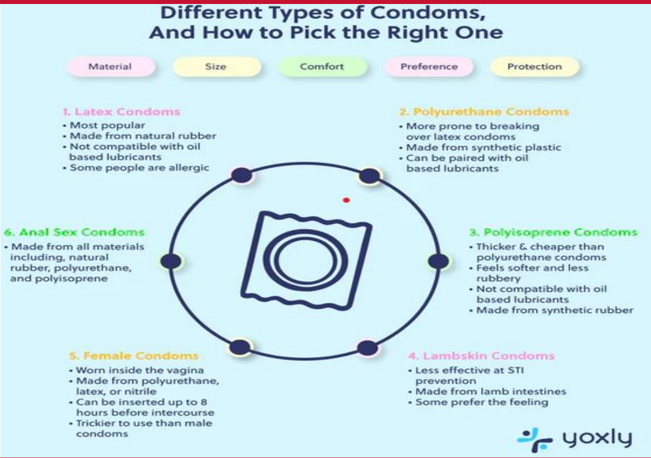
Types of Condom

Condom generally can be categorised into two categories, namely the (i) natural condom, and (ii) synthetic condom.

A natural condom refers to a contraceptive device made from non-synthetic materials, such as latex or lambskin, designed to provide a barrier during sexual intercourse to prevent sexually transmitted infections (STIs) and unintended pregnancies. Latex is the most commonly used condom materials. It's durable, effective, and affordable. Latex is derived from natural rubber harvested from trees and can stretch up to 800% before breaking. However, latex condoms can become damaged when used with oil-based lubricants, and some people have an allergy to latex that prevents usage. A lambskin condom, on the other hand, is a type of contraceptive barrier made from the intestine of a lamb. It provides protection against pregnancy but does not protect against STIs due to its porous nature.

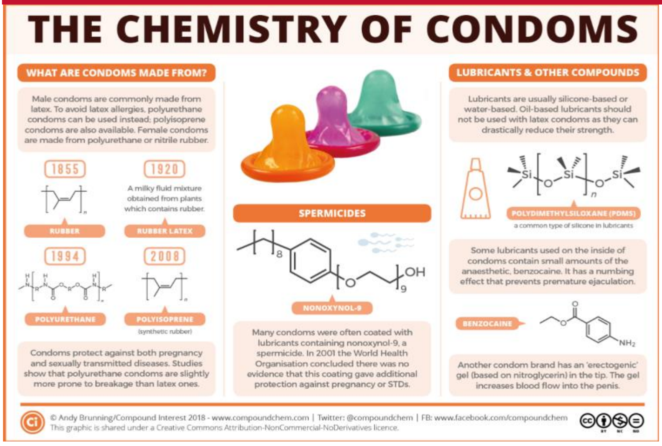
Synthetic condom, meanwhile, is a type of barrier contraceptive made from man-made materials, such as polyurethane and polyisoprene and nitrile. Polyurethane is a synthetically created non-allergenic plastic and is safe to use with all types of lubricants. Polyurethane is also thinner than nature latex, and users find that it conducts body head better. Polyurethane condoms do not have the same stretchability as latex condoms, so may be more prone to breaking or slipping during intercourse. Meanwhile, polyisoprene is another alternative for those with latex allergy. They are made from 'man-made' rubber and fit and stretch in much the same way as natural latex condoms but without the same allergens. Although polyisoprene condoms are thicker than polyurethane, many users prefer them because the material is softer, feels less rubbery, and less expensive than polyurethane condoms.

Exhibit 8: Types of condoms



Source: Yoxly, Kenanga Research

Exhibit 9: The chemistry of condoms



Source: Compoundchem.com, Kenanga Research

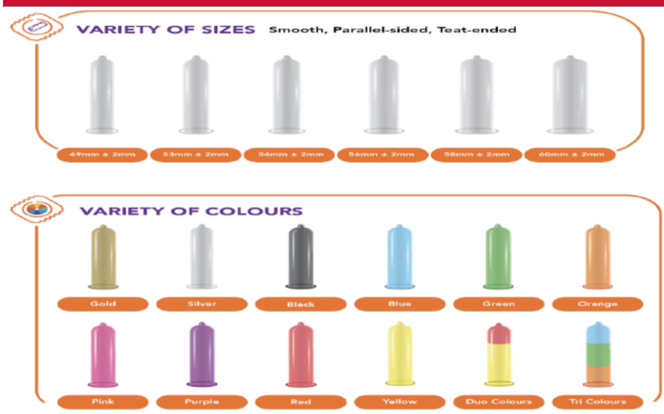
KAREX operates three factories in Malaysia and one in Hat Yai, Thailand. The company manufactures condoms not only under its own brands but also services over 200 OEM clients, including well-known brands like Durex and Lifestyles, KAREX's diverse portfolio comprises 13 house brands, namely "Carex", "ONE","Custom Condoms", "Trustex", "NuVo", "Fantasy", "Night Light", "Satin Dams", "MyONE","Inno", "Atlas", "Pasante", and "Adore" as of end-CY23. KAREX has tailored its branding to specific markets, with ONE brand catering to the premium markets, Pasante is aimed at UK customers while Carex is positioned for affordability in the Middle East retail market. This targeted strategy allows for customized market appeal and regional brand resonance. In the American market, Church & Dwight's Trojan, KAREX's ONE, Reckitt Benckiser's Durex and LifeStyles' SKYN are among the top popular condom brands.

As of end FY23, the group has recorded RM532m (26% YoY growth) turnover, of which 41% or RM218m was contributed by the Americas region, followed by Asia (26%), Europe (18%) and Africa (15%).

Exhibit 10: KAREX's house brands

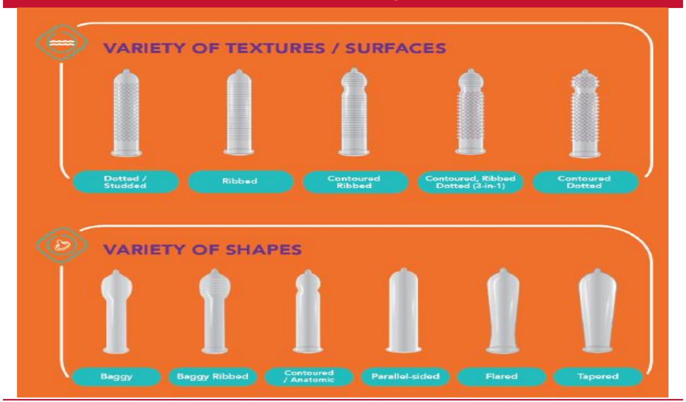
Source: KAREX, Kenanga Research

Exhibit 11: KAREX OEM: Variety of sizes & colours



Source: KAREX, Kenanga Research

Exhibit 12: KAREX's OEM: Variety of textures & shapes



Source: KAREX, Kenanga Research

Exhibit 13: KAREX OEM: Variety of flavours/fragrances

Source: KAREX, Kenanga Research

Type of personal lubricants

In today's market, personal lubricants come in three primary types: (i) water-based, (ii) silicone-based, and (iii) oil-based, each catering to specific needs. Water-based lubricants are adaptable, similar to natural lubrication, and are generally safe for use with many types of condoms. They are also easy to clean but might need more frequent application. Silicone-based lubricants are ideal for longer-lasting use. Oil-based lubricants, meanwhile, are generally less preferred because they can weaken latex condoms and may increase the risk of vaginal irritation or infection.

KAREX has been performing well in the personal lubricant segment, particularly in the US market, where it offers both water-based and silicone-based lubricants under its own brands. Personal lubricants contribute to roughly 10% of KAREX's revenue in FY23, with significant growth primarily in the U.S. market. This growth is influenced by new FDA regulations that now classify personal lubricants as medical devices, a shift from their previous categorization under cosmetics. KAREX's positive outlook for its lubricant business is supported by its strong presence in both its own brands and commercial markets, including major U.S. and European chains like Walmart and Tesco. We understand that KAREX is strategically targeting the personal lubricants sector to eventually match the revenue contribution of its condom business in the long term.

Exhibit 14: KAREX personal lubricants

Source: KAREX, Kenanga Research

Exhibit 15: KAREXcondom + lubricant set

Source: KAREX, Kenanga Research

Exhibit 16: Personal Lubricants: Features, Types and Packing

Source: KAREX, Kenanga Research

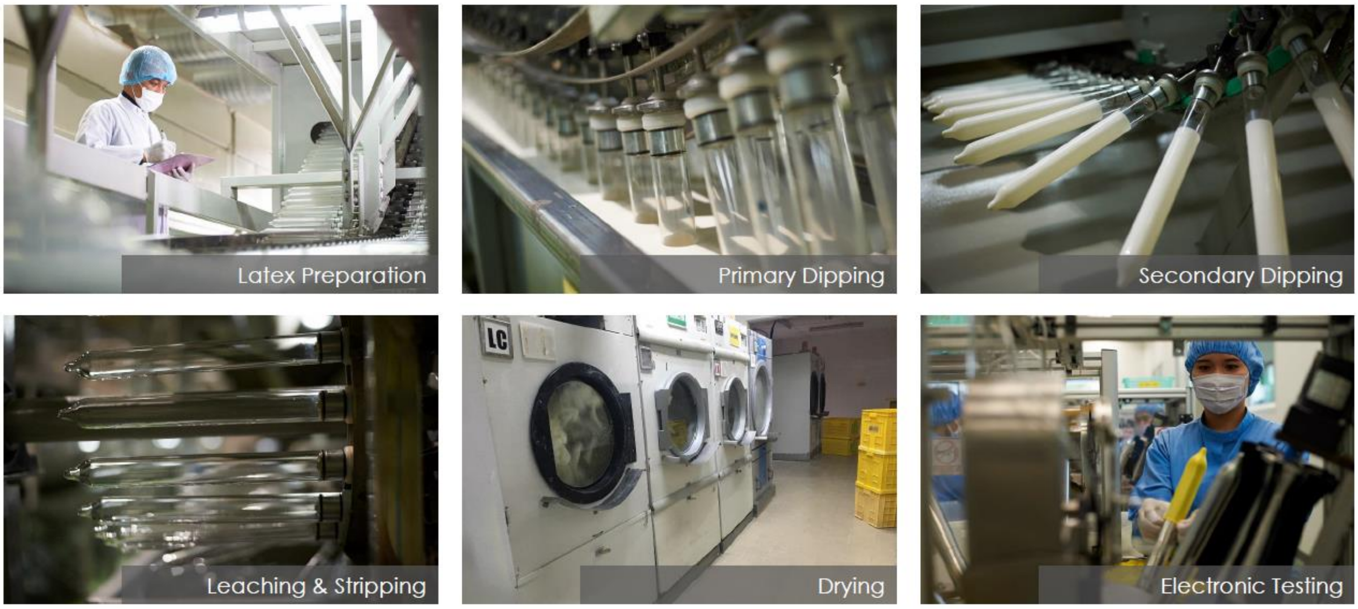
Exhibit 17: Personal lubricants: Flavours

Source: KAREX, Kenanga Research

Condom manufacturing process

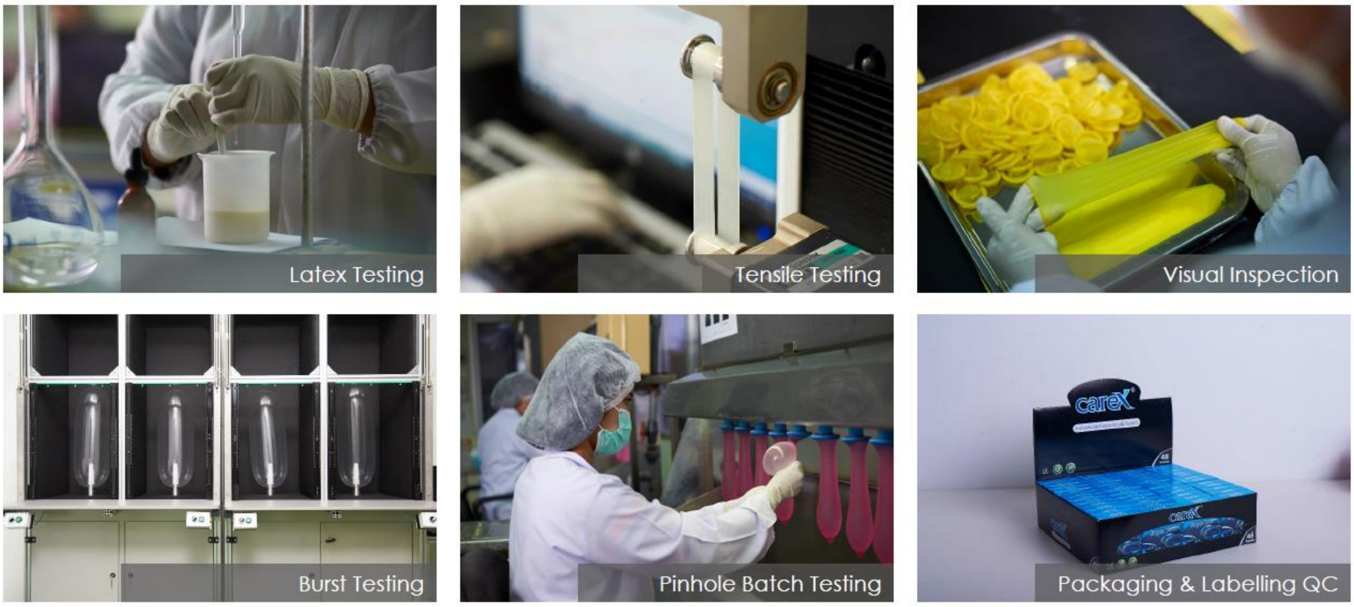
KAREX's condom manufacturing process is divided into three main stages: (i) primary production, (ii) quality control, and (iii) secondary production. The primary stage involves latex dipping and forming condoms on formers, followed by electronic testing for defects. The quality control stage is extensive, incorporating latex, tensile, visual, burst, and pinhole batch testing against international standards, ensuring utmost safety and reliability. Finally, in secondary production, condoms that pass these tests are lubricated and packaged according to customer specifications, ensuring that the final products are not only safe but also tailored to specific market needs. This multi-stage process ensures that the condoms produced are safe and reliable.

Exhibit 18: Condom manfuacturing process – Primary Production



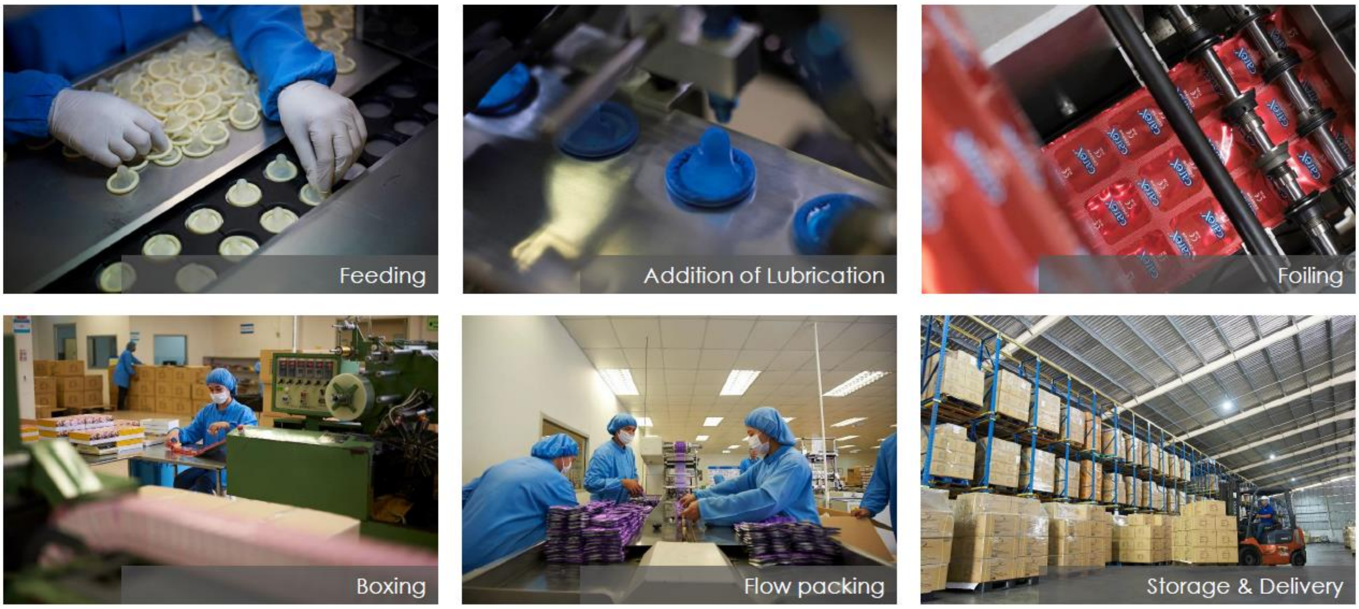
Source: KAREX, Kenanga Research

Exhibit 19: Condom manfuacturingprocess – Quality Control



Source: KAREX, Kenanga Research

Exhibit 20: Condom manfuacturingprocess – Secondary Production



Source: KAREX, Kenanga Research

Historical Financial Performance

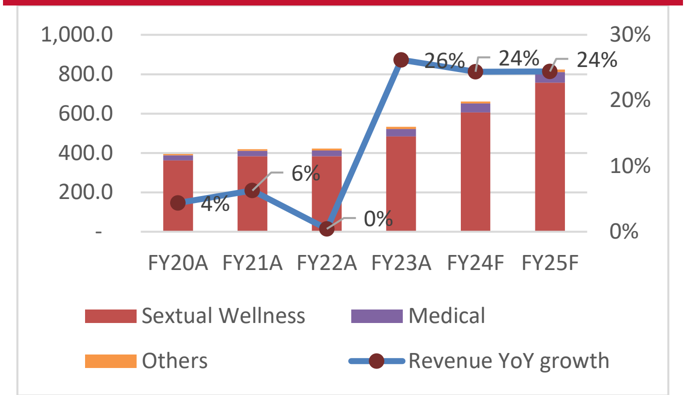
During FY20-FY21, KAREX's turnover was affected by COVID-19, leading to a consolidation phase with supply disruption during global lockdowns. However, the group still saw a 6% YoY turnover growth in FY21, thanks to expansion into new market and strategic price adjustments. FY22 growth was flat, influenced by inflation and supply chain disruptions, along with geopolitical tensions from the Russia-Ukraine conflict. FY23 marked a significant turnaround, with record sales of RM532m, driven by market recovery and opportunities arising from the exit of smaller competitors, particularly from China, allowing KAREX to explore new markets and product solutions. Besides, KAREX's inclusion in the FTSE4Good Index since year 2020 and its high ESG score (4.2 out of 5) have significantly aided its market expansion, particularly in Europe and America, where there's a heightened focus on ESG concerns. This achievement highlights KAREX's commitment to environmental, social, and governance factors, making it a more attractive partner for new markets and big retail clients (i.e. Walmart, Tesco and etc.) in these regions.

- **Commercial and OBM pivot in FY21**
  In FY21, KAREX strategically pivoted towards the commercial and OBM segments with higher gross profit margins of 20%-25% and over 50%, respectively, compared to the lower-margin tender market (7%-10%). This shift led to an improved gross profit margin of 23%, up from 22%. However, FY22 saw challenges due to supply chain disruptions and higher freight rates from the geopolitical tensions, resulting in a reduced gross profit margin of 22%. By FY23, with the stabilization of logistics and normalization of raw material costs, KAREX's gross profit margin significantly improved, surpassing the 25% threshold.

- **Increasing automation in FY23**
  While KAREX saw an increase in gross profit margins during FY20-22, its operating and net profit margins trailed behind, impacted by rising minimum wages and social compliance costs for foreign labour. In response, the company accelerated automation in its manufacturing processes. This not only improved efficiency, particularly in condom testing, but also strategically reduced labour dependence. This transition, particularly reducing its foreign labour gradually, which is likely to see KAREX achieving a zero foreign labour milestone by FY24, demonstrates a significant shift in its labour management strategy. These efforts, combined with normalized raw material costs and stabilized logistics, paid off in FY23, with marked improvements in operating and net profit margins to 6.0% and 3.4%, respectively, compared to -0.2% and -1.5% a year ago
  .

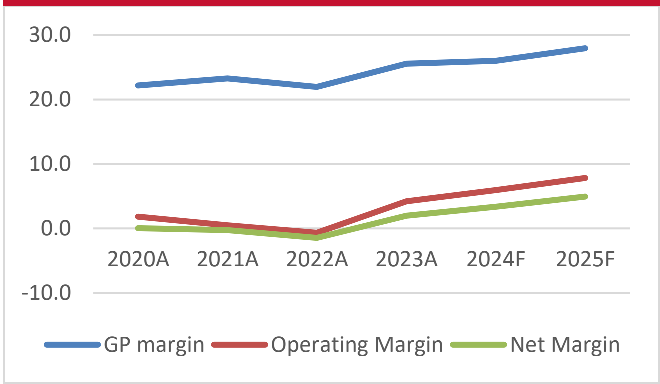
- **Shift to higher margin products in FY24**
  In its latest 1QFY24 report card, KAREX's revenue stood at RM130m, showing an 11% YoY reduction from RM145m a year ago. However, a strategic shift towards higher-margin products and segments, underscored by strong sales in the commercial condom market and the expanding personal lubricant segment, resulted in an improved GP margin of 30.7%, a significant rise from 23.7% in the previous year. This focus on more profitable areas, along with stabilized costs for raw materials and freight, led to a notable boost in profitability. The group's PBT and net profit for the quarter were RM7.2m and RM5.3m, achieving substantial YoY growth of 154% and 129%, respectively.

Exhibit 21: KAREX's turnover and growth rate



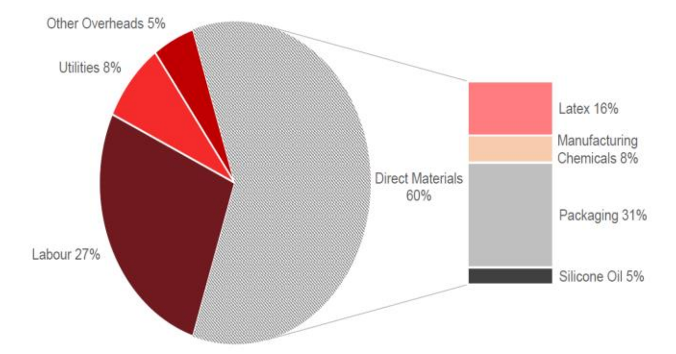
Source: KAREX, Kenanga Research

Exhibit 22: KAREX's GP, OP and NP Margins



Source: KAREX, Kenanga Research

Exhibit 23: KAREX's FY23 direct cost breakdown



Source: KAREX, Kenanga Research

Exhibit 24: KAREX ESG sustainability

Source: KAREX, Kenanga Research

Outlook and forecasts

Moving forward, we expect KAREX to be well-positioned to capitalise on the rising global condom demand that is set to grow with a CAGR of 8%-9% over the next 10 years. We anticipate a robust 24% annual growth in KAREX's total revenue for both FY24 and FY25, driven by heightened demand of its sexual wellness and medical products across its commercial, OBM, and tender segments. The commercial segment is poised for significant growth, particularly with the upcoming launching of innovative synthetic condoms that are thinner, heat-sensitive, and cost-efficient. The OBM segment is also expected to expand, fuelled by the rising demand for premium products such as the ONE brand in the Americas and Asia. Additionally, the tender market is likely to see growth due to a renewed global emphasis on HIV/AIDS prevention in the post-pandemic era. These elements collectively set the stage for a strong revenue trajectory for KAREX.

We expect the commercial, OBM and tender segments to account for 60%/18%/22%, respectively, to the group's total turnover in FY24 as compared to 59%/17%/24% a year ago. This ongoing strategic shift towards higher-margin segments is expected to continue into FY25. For that year, we forecast the commercial, OBM, and tender segments to make up an even larger portion of the total turnover, at 63%, 21%, and 18%, respectively.

Margins-wise, we expect KAREX's gross profit margin to grow to 26% in FY24, up from 25.5% previously, and further to 28% in FY25. This improvement is largely due to a more profitable mix of segments, with increased sales in the commercial and OBM segments. The group's operating profit margin is also expected to rise, benefiting from lower administrative and distribution costs (as a percentage of sales), thanks to the higher economies of scale. As a result, KAREX's net profit is projected to jump by 113% to RM22m in FY24, followed by a further 88% YoY increase to RM42m in FY25. This is expected to result in net profit margins of 3.4% in FY24 and 5.1% in FY25.

Balance sheet-wise, KAREX maintained a low net gearing ratio of 0.33x in FY23, slightly up from 0.27x in FY22. This indicates potential for future financial leveraging if needed. The group's annual capital expenditure is projected to be between the RM20m to RM30m range, which includes potential capacity expansions. Currently, we understand that there are no mergers and acquisitions (M&A) opportunities being pursued.

The group's quick ratio stood at 0.95x in FY23 and is anticipated to rise to 1.09x in FY24, supported by ongoing improvements in earnings. Its ROE, meanwhile, is expected to show significant improvement, increasing from 1.8% in FY23 to 4.3% in FY24, and further to 8.0% in the subsequent year. This enhancement in ROE is attributed to a combination of higher operating profit margins, improved asset turnover, and a better equity multiplier.

Valuations

OUTPERFORM rating with FV of RM1.00. We value KAREX at RM1.00 based on 25x FY25F PER, at a 20% premium to the average historical 5-year forward PER of its international peers (such as Thai Nippon Rubber, Reckitt Benckiser, Church & Dwight, and Okamoto Industries) to reflect its dominant market position and stronger growth prospects. There is no change to our TP based on ESG given 3.5-star rating as appraised by us (see Page 14).

Exhibit 25: Peers' Valuations

Company	Historical Forward PER* (x)
Thai Nippon Rubber Industry	23.7
Reckitt Benckiser Group Plc	18.7
Church & Dwight Co Inc	29.9
Okamoto Industries Inc	12.5
Simple Average	**21.2**

**CY2019-CY2023*

Source: Bloomberg, Kenanga Research

Investment case. We like KAREX for: (i) its leading market position and global reach in the rapidly growing condom industry, (ii) its strong R&D and product innovation; (iii) its adherence to international standards and certifications, (iv) its strategic shift in moving up higher the value chain, and (v) post-pandemic market recovery and changing consumer preferences, especially in markets like China, and growing preference for high quality innovative condom products.

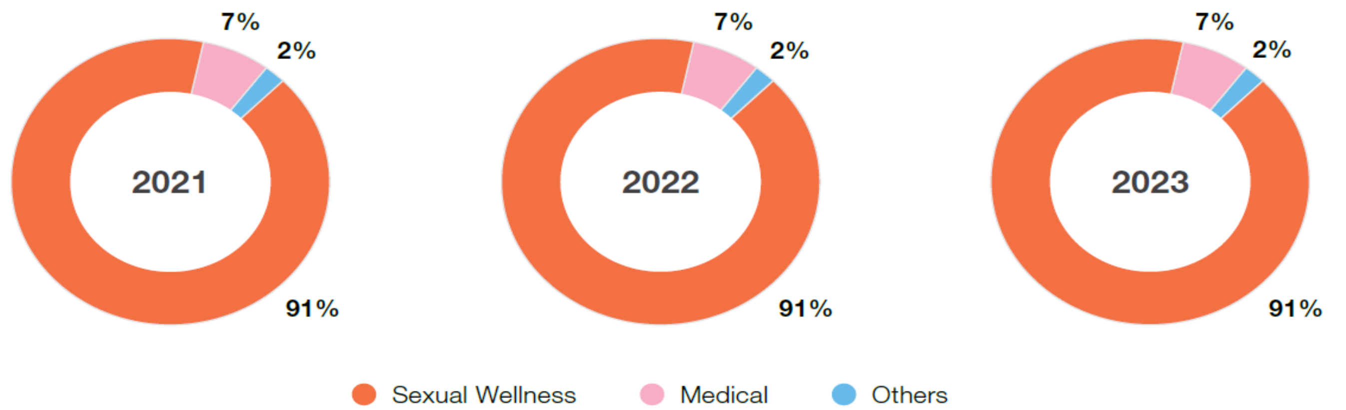
Risks to our call include: (i) slower-than-expected volume growth, (ii) lower acceptance rate for its new synthetic rubber condoms, (iii) less favourable product mix, and (iv) inability to raise prices to safeguard profit margin.

Appendices

Revenue Breakdown – By Product Divisions

KAREX's sexual wellness division remains the primary revenue driver, with significant turnover from condom and lubricant sales, of which lubricants showed a remarkable 25% YoY growth in FY23 and accounted for about 10% to the segment's revenue. The medical division, led by catheter sales, also reported substantial 25% YoY growth and contributed notably to the turnover. This growth was largely propelled by evolving medical device regulations globally, with more comprehensive manufacturer audits being implemented by regulators. The other segment, including distributor products like probe covers, had a smaller turnover impact. Glove production, meanwhile, faced challenges due to certification delays and unfavourable market conditions, resulting in minimal output for FY23.

Exhibit 26: KAREX's Revenue Breakdown – By Product Divisions



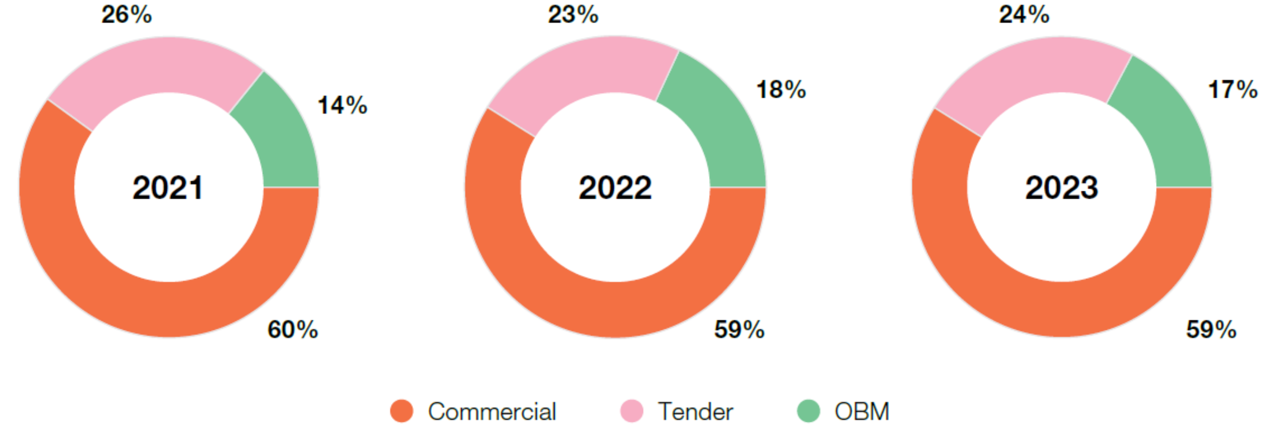
Source: KAREX, Kenanga Research

Revenue Breakdown – By Market Segments

The commercial segment, underpinned by KAREX's manufacturing reputation, continued to be a key sales driver and accounted for a lion's share of around 60% to its overall turnover. The segment, which manufacture to over 200 brands globally, continued to grow and benefiting from the company's quality, cost efficiency, and design capabilities.

The tender market, comprising about a quarter of KAREX's turnover in recent years, shows prospects for further expansion. This growth trajectory is driven by global NGOs increasingly focusing on HIV/AIDS prevention through the distribution of condoms and personal lubricants to high-risk populations, including sex workers and the MSM community. This indicates not only rising demand but also potential for continued growth in KAREX's tender segment. In parallel, the Own Branded Manufacturing (OBM) segment is experiencing a positive trend, especially with ONE Condoms in Asia. The growth of other healthcare brands like Pasante and Trustex is also expected to be augmented by the increasing adoption of e-commerce platforms, indicating a broader market reach and enhanced sales opportunities.

Exhibit 27: KAREX's Revenue Breakdown – By Market Segments



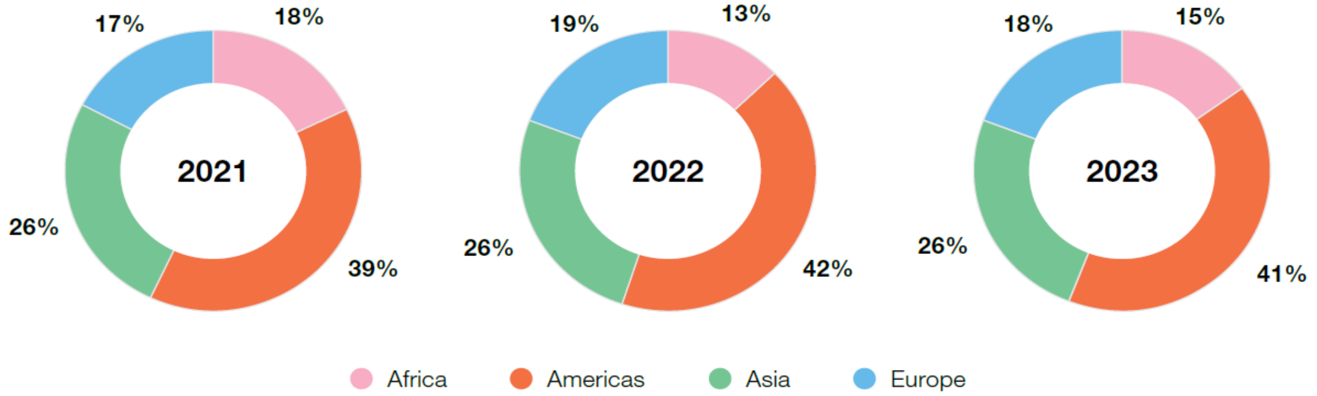
Source: KAREX, Kenanga Research

Revenue breakdown – by geographical regions

As social activities resumed, sales to the Americas region that was driven by the ONE condom brand, continued to drive the growth and accounted over 40% to the group's total turnover. Public sector channels sales were the highest ever in FY23, as healthcare and education providers were able to expand sexual health education programs following the pandemic. Notably, the group has managed to add more than 400 new customers in the US public sector channel in FY23. This region is expected to represent a very diversified stream of revenue with sales from all market segments showing growth potential.

KAREX's sales in Asia, a mix of physical and online platforms, accounted for a notable 26% of their total revenue. The revival of international tourism post the pandemic and reopening of China's economy are expected to continue driving the sales growth in this region. Meanwhile, sales from the Europe region, particularly from the UK market, continued to contribute a decent share of slightly less than 20% to the group's total turnover. In Africa, KAREX's recovery was initially slow due to supply chain issues but later saw significant growth in the region, primarily through tender sales.

Exhibit 28: KAREX's Revenue Breakdown – By Geographical Regions



Source: KAREX, Kenanga Research

Income Statement

FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	420	422	532	662	823
EBITDA	25	20	47	65	94
Depreciation	23	23	25	26	28
Operating Profit	2	-3	22	39	66
Interest Expense	5	4	6	6	10
Interest Income	2	4	7	9	9
Associate	0	0	0	0	0
Exceptional Items	1	2	3	4	5
PBT	-1	-6	15	30	57
Taxation	-1	-0	5	8	15
Minority Interest	-1	0	0	0	0
Net Profit	-1	-6	10	22	42
Core Net Profit	-1	-6	10	22	42

Balance Sheet

FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	255	267	271	268	266
Intangible Assets	95.5	97.2	98.8	97.8	96.8
Other FA	31	27	27	27	27
Inventories	131	152	158	150	182
Receivables	105	118	128	159	198
Other CA	4	7	7	10	16
Cash	54	22	32	66	54
Total Assets	675	691	722	778	840
Payables	89	95	72	89	107
ST Borrowings	67	55	86	104	104
Other ST Liability	1	12	14	16	22
LT Borrowings	48	69	70	70	70
Other LT Liability	3	3	3	6	10
Minorities Int.	-	-	-	-	-
Net Assets	**466**	**458**	**477**	**494**	**526**
Share Capital	324	324	324	324	324
Reserves	142	134	152	169	202
Equity	**466**	**458**	**477**	**494**	**526**

Cashflow Statement

FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	186	1	7	43	22
Investing CF	2	-35	-22	-21	-25
Financing CF	-106	2	22	12	-9
Change In Cash	82	-32	8	34	-12
Free CF	131	-34	-15	22	-3

Financial Data & Ratios

FY Jun	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Turnover	6.3	0.4	26.2	24.4	24.4
EBITDA	-10.9	-19.7	134.5	38.4	44.4
Operating Profit	-72.9	-247.3	883.3	75.9	67.8
PBT	-110.3	1115.0	333.2	100.1	87.3
Net Profit	-547.4	506.7	269.3	113.4	87.8
Profitability (%)					
EBITDA Margin	5.9	4.8	8.8	9.8	11.4
Operating Margin	0.5	-0.7	4.2	6.0	8.0
PBT Margin	-0.1	-1.5	2.8	4.6	6.9
Core Net Margin	-0.2	-1.5	2.0	3.4	5.1
Effective Tax Rate	127.3	4.6	30.8	26.2	26.0
ROA	-0.9	1.5	2.9	5.0	5.3
ROE	-0.2	-1.4	2.2	4.5	8.0
DuPont Analysis					
Net Margin (%)	-0.2%	-1.5%	2.0%	3.4%	5.1%
Assets Turnover (x)	0.6x	0.6x	0.7x	0.9x	1.0x
Leverage Factor (x)	1.4x	1.5x	1.5x	1.6x	1.6x
ROE (%)	-0.2	-1.4	2.2	4.5	8.0
Leverage					
Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.2	0.3	0.3	0.4	0.3
Net Cash/(Debt)	-62	-102	-125	-108	-120
Net Debt/Equity (x)	-0.1	-0.2	-0.3	-0.2	-0.2
Valuations					
EPS (sen)	-0.1	-0.6	1.0	2.1	4.0
NDPS (sen)	0.0	0.0	0.5	0.5	0.9
BV/Share (RM)	0.44	0.43	0.45	0.47	0.50
PER (x)	-805.2	-132.7	78.4	36.7	19.6
Net Div. Yield (%)	0.0%	0.0%	0.6%	0.6%	1.2%
P/NTA (x)	1.8	1.8	1.7	1.7	1.6
EV/EBITDA (x)	30.4	35.9	14.8	11.0	7.5

Source: Kenanga Research

.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	UP	1.14	0.920	-19.3%	1,600.6	Y	12/2023	7.5	7.6	-4.5%	0.9%	15.1	15.0	0.9	5.8%	4.0	3.5%
DUTCH LADY MILK INDUSTRIES BHD	OP	23.98	26.00	8.4%	1,534.7	Y	12/2023	104.7	118.8	-14.1%	13.4%	22.9	20.2	3.7	16.5%	75.0	3.1%
FRASER & NEAVE HOLDINGS BHD	OP	28.22	33.80	19.8%	10,350.5	Y	09/2024	150.2	155.7	13.8%	3.6%	18.8	18.1	2.9	16.0%	77.0	2.7%
MR D.I.Y.	OP	1.42	1.78	25.4%	13,412.6	Y	12/2023	6.1	7.1	19.9%	16.4%	23.2	20.0	7.9	36.9%	3.0	2.1%
NESTLE (MALAYSIA) BHD	UP	119.60	115.00	-3.8%	28,046.2	Y	12/2023	296.8	305.8	12.3%	3.0%	40.3	39.1	43.7	109.8%	290.0	2.4%
PADINI HOLDINGS BHD	UP	3.55	3.20	-9.9%	2,335.6	Y	06/2024	23.1	26.6	-31.8%	15.1%	15.4	13.3	2.1	14.0%	10.0	2.8%
POWER ROOT BHD	MP	1.70	1.95	14.7%	785.3	Y	03/2024	11.8	12.8	-13.6%	7.8%	14.4	13.3	2.4	17.2%	9.0	5.3%
QL RESOURCES BHD	MP	5.80	6.25	7.8%	14,115.2	Y	03/2024	17.8	19.5	24.9%	9.7%	32.7	29.8	4.9	16.9%	9.0	1.6%
KAREX BHD	OP	0.780	1.00	28.2%	821.7	Y	06/2024	2.1	4.0	120.0%	90.9%	37.3	19.6	1.7	4.5%	50.0	64.1%
Sector Aggregate					73,002.4					10.0%	8.8%	27.5	25.2	5.6	20.3%		9.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	ESG Framework & Policies	★	★	★	★	
	Earnings Sustainability & Quality	★	★	★	★	
	Balance Sheet	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★	☆	
	Effluent & Waste Management	★	★	★	☆	
	Digitalisation & Innovation	★	★	★	☆	
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★			
	OVERALL	★	★	★	☆	

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my