

03 July 2024

# KAREX

## A Euro 2024 Win with Synthetic Condom

By *Cheow Ming Liang* | [cheowml@kenanga.com.my](mailto:cheowml@kenanga.com.my)

We understand that KAREX has received CE certification for its new synthetic condoms which allows it to market the product in Europe. The latest development has significantly enhanced KAREX's growth potential, though large orders are more likely to come through in FY26 and beyond. We maintain our forecasts, TP of RM1.10 and OUTPERFORM call.

**CE certification in the bag.** We understand that KAREX has received CE certification for its new synthetic condoms. As the product is now certified in conformity with EU health, safety, and environmental protection standards, it can now be marketed across the European Economic Area comprising EU, Norway, Iceland, and Liechtenstein.

The latest development has significantly enhanced KAREX's growth potential, although we acknowledged that it takes time for its OEM clients to assess the market's response to the product before they start to place larger orders, which is more likely to happen in FY26 and beyond.

**FDA approval on the horizon.** Meanwhile, recall that KAREX is currently also awaiting the FDA approval that will allow it to market the product in the US. We understand that the key difference between CE certification and US FDA approval lies in the regulatory scopes and processes. While both require adherence to quality management standards, CE certification typically follows ISO 13485, whereas FDA approval adheres to the FDA's Quality System Regulation (QSR). We understand that the FDA approval could come by 4QCY24. KAREX first applied for FDA approval for its products in 2007.

**A growing synthetic condom market.** The global condom market was valued at USD8b in 2022. Natural latex condoms dominated the market, accounting for 82.4% of the market share. The remaining 17.6%, valued at about USD1.4b, consisted of synthetic condoms. Durex holds a dominant position in the condom industry with a 35.6% market share, according to Osum market research. The demand for synthetic condoms (made from materials like polyisoprene, polyurethane, and nitrile) has experienced strong growth particularly in North America, Europe and Latin America, where the populations are more prone to latex allergies. Popular synthetic condoms include Durex Avanti Bare, SKYN, Trojan Supra, Okamoto Zero One.

**Strategic OEM partnerships.** KAREX plans to collaborate with its key OEM clients to launch synthetic condoms in 2HFY25. Recall, it manufactures for over 200 OEM clients, including major brands like Durex and Lifestyles.

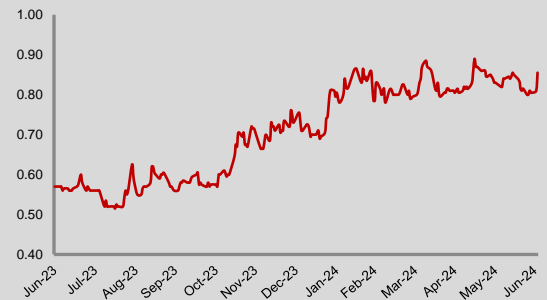
**Forecasts.** Maintained. To be prudent, we for now do not reflect any contribution from the product within our forecast period.

**Valuations.** We maintain our TP of RM1.10 based on an unchanged FY25F targeted PER of 25x, at a 20% premium to the average historical 5-year forward PER of its international peers to reflect its dominant market position and strong growth prospect. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

# OUTPERFORM ↔

**Price:** RM0.855  
**Target Price:** RM1.10 ↔

### Share Price Performance



KLCI	1,597.96
YTD KLCI chg	9.9%
YTD stock price chg	17.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KAREX MK EQUITY
Market Cap (RM m)	900.7
Shares Outstanding	1,053.5
52-week Range (H)	0.91
52-week Range (L)	0.51
3-mth Avg. Daily Vol.:	1,491,570
Free Float	25%
Beta	1.0

### Major Shareholders

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

### Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Turnover	532	512	560
EBIT	22	43	71
PBT	15	34	62
<b>Net Profit</b>	10	25	46
Consensus	-	25	46
Earnings Revision	-	-	-
EPS (sen)	1.0	2.4	4.4
EPS Growth (%)	269	138	85
NDPS (sen)	0.5	1.0	1.1
BVPS (RM)	0.45	0.47	0.50
Core PER (x)	85.9	36.2	19.5
Price/BV (x)	1.9	1.8	1.7
Net Gearing (x)	-0.3	-0.2	-0.2
Net Div. Yield (%)	0.6	1.2	1.3

03 July 2024

**Investment case.** We continue to like KAREX for: (i) its leading market position and global reach in the rapidly growing condom industry, projected by industry experts at a CAGR of 8% to 9% over the immediate term, (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. Maintain **OUTPERFORM**.

**Risks to our call include:** (i) reduced spending by governments around the world on birth control, (ii) lower acceptance rate for its new synthetic rubber condoms, (iii) less favourable product mix, and (iv) inability to raise prices to safeguard profit margins.



03 July 2024

## Peer Comparison

Name	Rating	Last Price at 2-Jul (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>CONSUMER</b>																	
AEON CO. (M) BHD	MP	1.38	1.21	-12.3%	1,937.5	Y	12/2024	8.7	8.9	6.9%	2.1%	15.8	15.5	1.0	6.5%	4.0	2.9%
FRASER & NEAVE HOLDINGS BHD	OP	31.90	38.25	19.9%	11,700.2	Y	09/2024	167.6	176.4	26.9%	5.3%	19.0	18.1	3.2	17.7%	85.0	2.7%
MR D.I.Y. GROUP (M) BHD	MP	1.94	1.97	1.5%	18,336.4	Y	12/2024	7.0	7.9	18.2%	12.6%	27.7	24.6	9.2	35.4%	4.0	2.1%
NESTLE (MALAYSIA) BHD	UP	122.40	115.00	-6.0%	28,702.8	Y	12/2024	292.3	306.0	3.8%	4.7%	41.9	40.0	43.7	102.9%	300.0	2.5%
PADINI HOLDINGS BHD	MP	3.70	3.63	-1.9%	2,434.3	Y	06/2024	23.5	26.9	-30.4%	14.2%	15.7	13.8	2.2	14.3%	12.0	3.2%
POWER ROOT BHD	UP	1.57	1.40	-10.8%	721.9	Y	03/2025	9.1	9.8	2.6%	7.3%	17.2	16.1	2.1	12.2%	7.0	4.5%
QL RESOURCES BHD	MP	6.45	6.25	-3.1%	15,697.1	Y	03/2025	19.5	20.8	8.7%	6.2%	33.0	31.1	4.9	16.4%	9.0	1.4%
KAREX BHD	OP	0.855	1.10	28.7%	900.7	Y	06/2024	2.4	4.4	137.1%	85.1%	36.2	19.5	1.8	5.1%	1.0	1.2%
<b>SECTOR AGGREGATE</b>					<b>80,430.9</b>					<b>9.9%</b>	<b>8.1%</b>	<b>28.9</b>	<b>26.7</b>	<b>6.0</b>	<b>20.7%</b>		<b>2.5%</b>

Source: Bloomberg, Kenanga Research  
\*Under Review

03 July 2024

**Stock ESG Ratings:**

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

☆ 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

