

27 January 2025

Karex

Shaping The Future

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Karex's OEM partner, which is preparing for a significant launch of a synthetic condom, has increased its orders, we learnt, in anticipation of strong consumer demand. Expansion of synthetic condom production at its Hat Yai plant offers considerable earnings potential, thanks to the high margins of this product. Additionally, the growing demand for medical-grade lubricants supports the group's positive outlook on sales volumes, but we revise FY25-26F earnings lower by 12-4% after recalibrating for forex translation impact. As we also roll forward our base year from CY25 to FY26 on unchanged PER of 25x, taken together, our target price is raised slightly to RM1.16 (from RM1.12), and we maintain our OUTPERFORM call.

We came away from a meeting with KAREX and continued to feel positive of its long-term prospects. The key takeaways are as follows:

Waiting for a big launch. Karex is awaiting a major launch from its OEM partner, a global market leader, which is preparing to introduce a new synthetic condom designed to significantly enhance body heat transfer. While this is not new information and this new condom has also yet to hit the shelves, we learnt that the partner wants to secure adequate inventory before launching. This resulted in Karex benefitting from increased orders, indicating the partner's strong confidence in robust consumer demand. The synthetic condom, made from lower-cost nitrile material, is expected to have a notable competitive advantage in pricing compared to natural condoms, which incur higher material costs by 30%-50%.

Ramping up synthetic condoms production. Karex is continuing to expand its synthetic condom production, with significant ramp-up plans underway. Currently, the group's Hat Yai plant operates three lines with a combined annual capacity of 75m pieces. However, the company plans to add approximately one new production line each month, reaching a total of six lines by June, which will increase annual production capacity to about 150m pieces (25m pieces per line). Looking further ahead, Karex intends to add an additional 10 lines, bringing the total number of lines to 16 by the end of 2025. This expansion will boost annual capacity to 400m pieces, representing around 6.7% of total production. Synthetic condoms are particularly lucrative for Karex, offering a high gross profit margin of over 50%, significantly surpassing the company's overall margin of 35%.

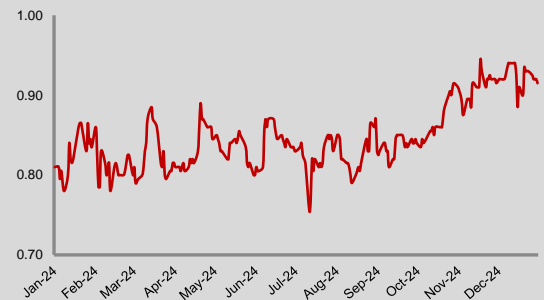
Rising demand for medical-grade lubricants. The group's lubricant segment is expected to continue contributing positively to Karex's growth, accounting for 17% of total sales in 1QFY25, up from 15% in FY24. This growth is primarily driven by an increase in private label orders, as awareness of the benefits of personal lubricant usage continues to rise. Additionally, as a manufacturer of medical-grade personal lubricants, Karex continues to benefit from the US FDA ruling, which reclassified personal lubricants as medical devices rather than cosmetic products. Furthermore, Karex plans to expand its product offerings to include synthetic, silicone, and hybrid lubricants, positioning itself to capitalize on a growing market with diverse consumer needs.

Moderate recovery in forex. Karex recorded an unrealised forex loss of RM4m in 1QFY25 due to significant fluctuations in exchange rates, as the MYR strengthened against the USD from RM4.715 to RM4.121 in end-September 2024. Although the MYR has since weakened, closing at RM4.468 by the end of CY24, the losses suffered in 1QFY25 is unlikely to be fully reversed. Moving forward, we expect MYR likely to stabilise at its

OUTPERFORM ↔

Price: **RM0.915**
Target Price: **RM1.16** ↑

Share Price Performance



KLCI	1,573.73
YTD KLCI chg	-4.2%
YTD stock price chg	-1.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KAREX MK EQUITY
Market Cap (RM m)	963.9
Shares Outstanding	1,053.5
52-week Range (H)	0.96
52-week Range (L)	0.72
3-mth avg. daily vol.	971,202
Free Float	26%
Beta	0.9

Major Shareholders

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

Summary Earnings Table

FY Jun (RM m)	2024A	2025F	2026F
Turnover	508	527	557
EBIT	39	60	73
PBT	31	53	66
Core Net Profit	28	38	49
Consensus	-	37	47
Earnings Revision	-	-12%	-4%
EPS (sen)	2.2	3.7	4.6
EPS Growth (%)	124	64	27
NDPS (sen)	1.5	2.0	3.0
BVPS (RM)	0.46	0.48	0.49
Core PER (x)	42.2	25.7	20.2
Price/BV (x)	2.0	2.0	1.9
Net Gearing (x)	0.2	0.2	0.2
Net Div. Yield (%)	1.6	2.1	3.2

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current level. Overseas profits denominated in USD are expected to translate into lower reported MYR earnings going forward versus our initial forex assumptions of RM4.70, against our latest assumption of RM4.50 for both the FY25 and FY26. This resulted in our earnings adjustment downward.

Outlook. Karex is well-positioned to secure high-value orders for condoms and personal lubricants, leveraging its strong industry reputation, diverse product range, and regulatory expertise. While the transition from tender to commercial markets may disrupt traditional sales channels in the short term, the Group sees promising medium-term growth opportunities. Furthermore, the increasing adoption of synthetic condoms in some markets presents a significant opportunity to expand its market share moving forward.

Forecasts. We lowered our FY25-26 net profit forecasts by 12-4%, following adjustments to our revenue and operating margin assumptions, which reflected a slower earnings growth from forex translation impact.

Valuations. We have raised our target price to RM1.16 (from RM1.12 previously), after rolling our valuation basis to FY26 (from CY25 previously), maintaining a targeted PER of 25x. This is at a 20% premium to the average historical 5-year forward PER of its international peers, reflecting Karex's dominant market position and strong growth prospects. No adjustments have been made to our target price based on ESG, given the company's 3-star rating as appraised by us (see Page 4).

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.

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Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2022A	2023A	2024A	2025F	2026F	FY Jun	2022A	2023A	2024A	2025F	2026F
Revenue	422	532	508	527	557	Growth (%)					
EBITDA	20	47	65	83	99	Turnover	0.4	26.2	-4.6	3.8	5.6
Depreciation	23	25	25	23	25	EBITDA	-19.7	134.5	37.3	29.3	18.3
Operating Profit	-3	22	39	60	73	Operating Profit	-247.3	883.3	76.1	52.1	22.2
Interest Expense	4	6	1	8	9	PBT	1115.0	333.2	104.9	70.4	25.1
Interest Income	4	7	8	7	7	Net Profit	506.7	269.3	163.8	39.3	27.0
Associate	0	0	0	0	0	Profitability (%)					
Exceptional Items	2	3	4	5	6	EBITDA Margin	4.8	8.8	12.7	15.8	17.7
PBT	-6	15	31	53	66	Operating Margin	-0.7	4.2	7.8	11.4	13.2
Taxation	-0	5	8	14	17	PBT Margin	-1.5	2.8	6.1	10.0	11.9
Minority Interest	0	0	0	0	0	Core Net Margin	-1.5	2.0	5.4	7.3	8.8
Net Profit	-6	10	23	38	49	Effective Tax Rate	4.6	30.8	24.4	27.1	26.0
Core Net Profit	-6	10	28	38	49	ROA	1.5	3.3	5.9	6.4	7.6
						ROE	-1.4	2.2	4.9	8.8	7.7
Balance Sheet						DuPont Analysis					
FY Jun (RM m)	2022A	2023A	2024A	2025F	2026F	Net Margin (%)	-1.5%	2.0%	5.4%	7.3%	8.8%
Fixed Assets	267	271	259	267	269	Assets Turnover (x)	0.6x	0.7x	0.7x	0.7x	0.7x
Intangible Assets	97	99	100	98	98	Leverage Factor (x)	1.5x	1.5x	1.5x	1.5x	1.5x
Other FA	27	27	25	25	25	ROE (%)	-1.4	2.2	4.9	7.7	9.4
Inventories	152	158	154	160	166	Leverage					
Receivables	118	128	124	129	136	Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Other CA	7	7	5	8	9	Debt/Equity (x)	0.3	0.3	0.3	0.3	0.3
Cash	22	32	39	61	66	Net Cash/(Debt)	-102	-125	-99	-92	-87
Total Assets	691	722	706	747	769	Net Debt/Equity (x)	0.2	0.3	0.2	0.2	0.2
Payables	95	72	67	70	73	Valuations					
ST Borrowings	55	86	80	83	83	EPS (sen)	-0.6	1.0	2.2	3.7	4.6
Other ST Liability	12	14	13	14	15	NDPS (sen)	0.0	0.5	1.5	2.0	3.0
LT Borrowings	69	70	58	70	70	BV/Share (RM)	0.43	0.45	0.46	0.48	0.49
Other LT Liability	3	3	5	9	11	PER (x)	-144.6	85.4	38.2	25.7	20.2
Minorities Int.	-	-	-	-	-	Net Div. Yield	0.0%	0.6%	1.8%	2.1%	3.2%
Net Assets	458	477	483	500	518	P/NTA (x)	2.0	1.9	1.9	2.0	1.9
Share Capital	324	324	324	324	324	EV/EBITDA (x)	39.6	16.4	12.3	10.8	9.2
Reserves	134	152	159	176	193						
Equity	458	477	483	500	518						
Cashflow Statement											
FY Jun (RM m)	2022A	2023A	2024A	2025F	2026F						
Operating CF	1	7	72	57	65						
Investing CF	-35	-22	-23	-29	-28						
Financing CF	2	22	-38	-6	-32						
Change In Cash	-32	8	11	22	6						
Free CF	-34	-15	49	28	37						

Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price at 24-Jan (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.
CONSUMER																	
AEON CO. (M) BHD	UP	1.49	1.35	-9.4%	2,092.0	Y	12/2024	8.8	9.0	8.0%	1.6%	16.9	16.6	1.1	6.6%	4.0	2.7%
FRASER & NEAVE HOLDINGS BHD	OP	25.54	36.30	42.1%	9,367.5	Y	09/2025	167.3	185.5	8.8%	10.9%	15.3	13.8	2.4	16.4%	75.0	2.9%
MR D.I.Y. GROUP (M) BHD	OP	1.69	2.20	30.2%	15,995.3	Y	12/2024	6.3	7.9	6.9%	24.0%	26.7	21.5	8.3	32.6%	4.0	2.4%
NESTLE (MALAYSIA) BHD	OP	90.98	111.65	22.7%	21,334.8	Y	12/2024	203.3	259.9	-27.8%	27.9%	44.8	35.0	30.7	69.6%	195.0	2.1%
PADINI HOLDINGS BHD	MP	2.05	2.25	9.8%	2,023.1	Y	06/2025	12.7	17.2	-14.6%	35.7%	16.1	11.9	1.8	10.3%	12.0	5.9%
POWER ROOT BHD	MP	1.49	1.30	-12.8%	638.0	Y	03/2025	7.5	8.5	-15.9%	13.7%	19.9	17.5	2.0	10.0%	6.0	4.0%
QL RESOURCES BHD	MP	4.63	4.60	-0.6%	16,900.9	Y	03/2025	13.3	14.2	10.8%	6.7%	34.8	32.7	5.1	16.9%	5.0	1.1%
KAREX BHD	OP	0.915	1.16	26.8%	963.9	Y	06/2025	3.7	4.6	64.5%	27.0%	25.0	19.7	1.9	7.8%	2.0	2.2%
SECTOR AGGREGATE					69,315.5					-2.0%	17.5%	27.7	23.6	5.0	18.2%		2.9%

Source: Bloomberg, 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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