KAREX

Reshaping Growth Amid Market Shifts

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OUTPERFORM ↔

Price : RM0.970
Target Price : RM1.07 ↓

KAREX's 1HFY25 results missed expectations, impacted by weaker tender market sales and margin compression. Looking ahead, tender market sales are expected to decline further due to reduced USAID funding, but the Group remains optimistic about medium-term opportunities, particularly in the growing synthetic condom segment. We cut our FY25-26F net profit by 46-8%, and lower our TP by 8% to RM1.07 but maintain our OUTPERFORM call.

KAREX's 1HFY25 net profit of RM4.6m fell short of expectations, accounting for only 12% of our forecast and 14% of consensus estimates. The earnings miss was primarily due to lower-than-expected sales, largely impacted by a weaker tender market, as well as margin compression. No dividend was declared for the quarter.

YoY, 1HFY25 revenue declined by 6% to RM242m, impacted by reduced tender market participation (-16% to RM35m) as well as weaker branded sales (-18% to RM39m). Additionally, heightened foreign exchange volatility, especially during the 1QFY25, further pressured margins, resulting GP margin weakening to 30.6% vs. 33% a year ago. Correspondingly, its PBT dipped 61% to RM6.8m, mainly due to lower turnover and weaker GP margin.

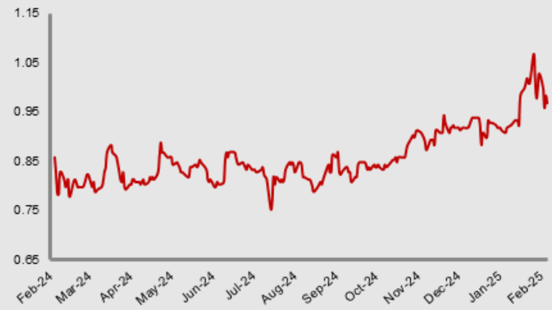
QoQ, its revenue declined by 21% to RM107m due to weaker condom sales in the tender market (-29% to RM14m) and timing differences in commercial market sales following record deliveries in the previous quarter. Despite the lower revenue, net profit surged 128% to RM3.2m, driven by the reversal of tax provisions following favourable forex movements. Notably, the Group completed its maiden synthetic condom delivery in 2QFY25, with capacity expansion plans progressing as scheduled—scaling up from the current three production lines to six by end-FY25 and 16 by FY26.

Outlook. Sales to the tender market are expected to decline further due to reduced funding for humanitarian aid agencies like USAID under the Trump administration. While this shift may disrupt traditional condom sales channels in the short term, the Group remains optimistic about medium-term growth opportunities. The rising consumer preference for synthetic condoms over natural latex in key markets presents a significant opportunity to capture a larger share of the global condom market, supporting the Group's long-term expansion strategy.

Forecasts. We lowered our FY25-26F net profit forecasts by 46% and 8% to RM21m and RM45m, respectively. This revision reflects the weaker-than-expected 1HFY25 performance, alongside adjustments to turnover (mainly due to lower tender market sales) and margin assumptions to align with prevailing trends.

Valuations. Correspondingly, we have lowered our TP by 8% to RM1.07 (from RM1.16 previously) with an unchanged targeted FY26 PER of 25x. This represents a 20% premium to the average historical 5-year forward PER of its international peers to reflect its dominant market position and strong growth prospects. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Share Price Performance



KLCI	1,586.60
YTD KLCI chg	-3.4%
YTD stock price chg	4.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KAREX MK EQUITY
Market Cap (RM m)	1,021.9
Shares Outstanding	1,053.5
52-week range (H)	1.09
52-week range (L)	0.72
3-mth avg. daily vol	1,159,616
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	479	492
EBIT	39	35	68
PBT	31	28	61
Core Net Profit	28	21	45
Consensus	-	33	52
Earnings Revision	-	-46%	-8%
EPS (sen)	2.2	2.0	4.3
EPS Growth (%)	124	-12	119
NDPS (sen)	1.5	1.0	2.5
BVPS (RM)	0.46	0.47	0.49
Core PER (x)	43.6	49.6	22.7
Price/BV (x)	2.1	2.1	2.0
Net Gearing (x)	0.2	0.2	0.2
Net Div. Yield (%)	1.5	1.0	2.6

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 government around the world on birth control, (ii) underwhelming response to its new synthetic rubber condoms, (iii) a less favourable product mix, and (iv) inability to raise prices to defend profit margins.

Results Highlights

FYE Jun (RM m)	2Q25	1Q25	QoQ Chg	2Q24	YoY Chg	1H25	1H24	YoY Chg
Turnover	107.0	135.0	-20.8%	127.4	-16.0%	241.9	256.9	-5.8%
Gross Profit	31.0	43.0	-27.9%	45.0	-31.1%	74.0	84.8	-12.7%
EBIT	4.0	6.4	-37.9%	12.5	-68.2%	10.4	21.7	-52.3%
Interest Exp.	(1.8)	(1.8)	3.1%	(2.3)	-22.2%	(3.6)	(4.4)	-18.9%
PBT/(LPT)	2.2	4.6	-53.3%	10.2	-78.7%	6.8	17.4	-60.7%
Taxation	1.0	(3.3)	-131.3%	(2.9)	-135.6%	(2.2)	(4.8)	-53.2%
Net Profit	3.2	1.4	127.7%	7.3	-56.5%	4.6	12.6	-63.6%
EPS (sen)	0.3	0.1	127.7%	0.7	-56.5%	0.4	1.2	-63.6%
DPS (sen)	0.0	0.0	NA	0.0	NA	0.0	0.5	-100.0%
Gross Margin	29.0%	31.9%		35.3%		30.6%	33.0%	
EBIT Margin	3.7%	4.7%		9.8%		4.3%	8.5%	
PBT Margin	2.0%	3.4%		8.0%		2.8%	6.8%	
NP Margin	3.0%	1.0%		5.8%		1.9%	4.9%	
Tax Rate	46.9%	-69.9%		-28.1%		-32.8%	-27.5%	

Source: Company

Segment Revenue Breakdown

Revenue (RM m)	2Q25	1Q25	QoQ Chg	2Q24	YoY Chg	1H25	1H24	YoY Chg
Sexual Wellness	95.2	122.8	-22%	115.4	-17%	218.0	233.5	-7%
Medical	8.8	8.8	1%	8.7	1%	17.6	17.0	3%
Others	2.9	3.5	-16%	3.3	-11%	6.4	6.4	0%
Total	**107.0**	**135.0**	**-21%**	**127.4**	**-16%**	**241.9**	**256.9**	**-6%**

Source: Company

Peer Table Comparison

Name	Rating	Last Price @ 27 Feb (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	MP	1.44	1.50	4.2%	2,021.8	Y	12/2025	10.2	11.1	-4.9%	8.9%	14.1	13.0	1.0	7.2%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	26.14	34.40	31.6%	9,587.6	Y	09/2025	158.5	172.6	3.0%	8.9%	16.5	15.1	2.5	15.6%	75.0	2.9%
MR D.I.Y. GROUP (M) BHD	OP	1.58	1.90	20.3%	14,955.3	Y	12/2024	7.0	7.8	14.5%	12.4%	22.7	20.2	7.2	33.6%	4.0	2.5%
NESTLE (MALAYSIA) BHD	MP	88.00	93.90	6.7%	20,636.0	Y	12/2025	197.8	231.6	16.0%	17.1%	44.5	38.0	30.0	68.2%	190.0	2.2%
PADINI HOLDINGS BHD	OP	1.91	2.10	9.9%	1,884.9	Y	06/2025	12.7	15.8	-15.1%	24.2%	15.0	12.1	1.7	10.8%	11.0	5.8%
POWER ROOT BHD	MP	1.43	1.30	-9.1%	609.7	Y	03/2025	7.5	8.5	-15.9%	13.7%	19.1	16.8	1.9	10.0%	6.0	4.2%
QL RESOURCES BHD	MP	4.72	4.60	-2.5%	17,229.5	Y	03/2025	13.3	14.2	10.8%	6.7%	35.5	33.3	5.2	16.9%	5.0	1.1%
KAREX BHD	OP	0.970	1.07	10.3%	1,021.9	Y	06/2025	2.0	4.3	-12.0%	118.9%	49.6	22.6	2.1	4.2%	1.0	1.0%
SECTOR AGGREGATE					**67,946.6**					**7.4%**	**12.6%**	**27.0**	**24.0**	**4.9**	**18.0%**		**2.8%**

Source: Kenanga Research

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

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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