KAREX

Clean Slate, FY26 Reset

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OUTPERFORM ↔

Price : RM0.695

Target Price : RM0.850 ↓

KAREX's FY25 was soft: core net profit of RM8.0m missed on higher opex (minimum wage hikes) and adverse FX, while a prudent full and more incisive impairment of the glove unit resulted in a 4Q LAT of RM9.5m. With the glove overhang now cleared, KAREX enters FY26 on a clean slate. Outlook is supported by >8% p.a. global condom growth and a pivot from tenders to commercial channels while synthetic condoms are expected to contribute USD15–20m in FY26 as capacity ramps to 16 lines and scale benefits accrue (now sold in 18 countries). We trim FY26F NP by 6% to RM36m and lower TP by 6% to RM0.85 (25x FY26F PER). Maintain OUTPERFORM.

KAREX's FY25 core net profit came in at RM8.0m, below expectations, weighed down by higher-than-anticipated opex following minimum wage hikes in Malaysia and Thailand, and adverse FX. The group also recognised an impairment on its glove business (net PAT impact of RM7.8m in 4Q), which drove a quarterly net loss of RM9.5m. This larger impairment would be viewed as more incisive as it lifts a market overhang, versus smaller and repeated impairments in the same business in the past. Even so, dividends met expectation with a dividend of 0.05 sen per share declared for the quarter, bringing FY25 DPS to 1.0 sen (vs. 1.5 sen in FY24).

YoY, FY25 revenue slipped 2% to RM498m due to a 26% decline in tender market sales to RM72m (softer humanitarian aid demand) and a 10% drop in branded revenue to RM87m, partly offset by an 8% rise in commercial sales to RM339m. In USD terms, revenue rose 7.2% to USD94.6m. Gross profit margin narrowed to 31.0% (FY24: 33.7%), pressured by FX volatility, especially in 1QFY25 when the USD slid 6.6% against the MYR. Management guided that every 0.10 drop in USD/MYR cuts GP margin by c.1.4 ppt. Pre-tax profit fell to RM0.3m, reflecting the softer top line, margin compression from higher opex (minimum wage effects), and a RM9.7m glove business impairment.

QoQ, revenue fell 11% to RM121m, mainly on softer tender market demand for condoms and personal lubricants following a large delivery in the prior quarter. A richer commercial mix lifted GP margin to 32.1% (from 30.8%) despite less favourable FX. However, an impairment on the glove operations pushed the quarter into the red, with LBT of RM13.1m and LAT of RM9.5m. Notably, synthetic condoms contributed USD3m in 4Q (vs. USD2m/USD1m in 2Q/1QFY25) with four of six installed lines running at full capacity. Its synthetic condoms are made available in 18 countries (mainly EU countries & the US) as of September 2025.

Outlook. Global condom demand is projected to grow >8% YoY over the next five years, led by HIV/AIDS prevention, non-pharma family planning and better sexual health education. Karex aims to capture more value as a technology partner to major brands—pivoting from aid tenders towards commercial channels—leveraging its product breadth and sustainability credentials. Near-term risks are FX volatility, higher operating costs and supply-chain disruptions; execution hinges on scaling smaller-format manufacturing beyond pure cost/volume leadership. Management guided USD15–20m synthetic condom revenue in FY26, with a progressive ramp-up to 16 lines and economic of scale to follow.

Forecasts. We lower our FY26F net profit forecasts by 6% to RM36m after tweaking the tender market revenue expectation and reduce our margin assumptions to align with the prevailing trends. We also take this opportunity to introduce our FY27 numbers.

Share Price Performance

KLCI	1,587.07
YTD KLCI chg	-3.4%
YTD stock price chg	-0.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KAREX MK EQUITY
Market Cap (RM m)	732.2
Shares Outstanding	1,053.5
52-week range (H)	1.09
52-week range (L)	0.68
3-mth avg. daily vol	288,776
Free Float	28%
Beta	1.2

Major Shareholders

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

Summary Earnings Table

FY Jun (RM m)	2025A	2026F	2027F
Turnover	498	515	533
EBIT	8	55	62
PBT	0	47	54
Core Net Profit	8	36	40
Consensus	-	30	35
Earnings Revision	-	-6%	NEW
EPS (sen)	0.8	3.4	3.8
EPS Growth (%)	-66	344	14
NDPS (sen)	1.0	1.5	1.5
BVPS (RM)	0.44	0.46	0.48
Core PER (x)	91.8	20.7	18.2
Price/BV (x)	1.6	1.5	1.4
Net Gearing (x)	0.3	0.6	0.6
Net Div. Yield (%)	1.4	2.1	2.1

Valuations. Correspondingly, we lower our TP by 6% to RM0.85 (from RM0.90 previously) with an unchanged targeted FY26F 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).

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) 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)	4Q25	3Q25	QoQ Chg	4Q24	YoY Chg	FY25	FY24	YoY Chg
Turnover	120.8	135.7	-11.0%	123.9	-2.5%	498.4	507.8	-1.9%
Gross Profit	38.8	41.8	-7.3%	43.7	-11.4%	154.5	171.3	-9.8%
EBIT	(10.9)	8.4	-229.5%	7.1	-253.4%	7.9	39.5	-80.0%
Interest Exp.	(2.3)	(1.8)	26.3%	(1.8)	25.3%	(7.6)	(8.5)	-10.5%
PBT/(LPT)	(13.1)	6.6	-298.5%	5.3	-348.3%	0.3	31.0	-99.0%
Taxation	3.7	(1.5)	-339.8%	(0.5)	-915.8%	(0.1)	(7.6)	-98.8%
Net Profit	(9.5)	5.1	-286.1%	4.8	-295.5%	0.2	23.4	-99.1%
Core NP	(1.7)	4.8	-134.3%	4.8	-134.3%	8.0	27.6	-71.0%
EPS (sen)	(0.9)	0.5	-286.1%	0.5	-295.5%	0.0	2.2	-99.1%
DPS (sen)	0.5	0.5	NA	0.5	NA	1.0	1.5	-33.3%
Gross Margin	32.1%	30.8%		35.3%		31.0%	33.7%	
EBIT Margin	-9.0%	6.2%		5.7%		1.6%	7.8%	
PBT Margin	-10.9%	4.9%		4.3%		0.1%	6.1%	
NP Margin	-7.8%	3.7%		3.9%		0.0%	4.6%	
Tax Rate	-28.0%	-23.1%		-8.5%		-30.9%	-24.4%	

Source: Company

Segmental Revenue Breakdown

Revenue (RM m)	4Q25	3Q25	QoQ Chg	4Q24	YoY Chg	FY25	FY24	YoY Chg
Sexual Wellness	109.8	123.2	-11%	113.0	-3%	451.0	463.1	-3%
Medical	6.9	9.0	-23%	6.9	1%	33.5	31.3	7%
Others	4.0	3.5	14%	4.0	1%	13.9	13.5	3%
Total	**120.8**	**135.7**	**-11%**	**123.9**	**-3%**	**498.4**	**507.8**	**-2%**

Source: Company

Segmental Revenue Breakdown

Revenue (RM m)	4Q25	3Q25	QoQ Chg	4Q24	YoY Chg	FY25	FY24	YoY Chg
Commercial	85.5	85.5	0%	79.1	8%	339.4	313.4	8%
Tender	11.5	25.8	-55%	20.9	-45%	71.8	97.6	-26%
OBM	23.8	24.4	-3%	23.9	0%	87.2	96.8	-10%
Total	**120.8**	**135.7**	**-11%**	**123.9**	**-3%**	**498.4**	**507.8**	**-2%**

Source: Company

Peer Table Comparison

Name	Rating	Last Price @ 28 Aug (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	OP	1.31	1.55	18.3%	1,839.2	Y	12/2025	10.7	11.5	-0.7%	8.0%	12.3	11.4	0.9	7.6%	5.0	3.8%
FARM FRESH BHD	OP	1.93	2.10	8.8%	3,622.1	Y	03/2026	7.5	8.5	29.2%	13.0%	25.8	22.8	4.4	18.2%	3.0	1.6%
FRASER & NEAVE HOLDINGS BHD	OP	26.98	30.70	13.8%	9,895.7	Y	09/2025	135.5	159.0	-11.9%	17.3%	19.9	17.0	2.6	13.4%	75.0	2.8%
MR D.I.Y. GROUP (M) BHD	OP	1.51	2.04	35.1%	14,304.4	Y	12/2025	7.0	7.8	14.5%	12.4%	21.7	19.3	6.9	33.6%	5.8	3.8%
NESTLE (MALAYSIA) BHD	MP	96.00	85.10	-11.4%	22,512.0	Y	12/2025	210.5	240.6	23.4%	14.3%	45.6	39.9	32.7	72.6%	205.0	2.1%
PADINI HOLDINGS BHD	OP	1.93	2.35	21.8%	1,904.7	Y	06/2026	17.4	18.2	6.0%	4.5%	11.1	10.6	1.5	14.0%	9.1	4.7%
POWER ROOT BHD	UP	1.27	1.20	-5.5%	539.1	Y	03/2026	7.7	8.2	6.9%	5.6%	16.4	15.6	1.9	11.5%	7.0	5.5%
QL RESOURCES BHD	MP	4.13	4.52	9.4%	1,570.4	Y	03/2026	13.3	14.5	6.7%	8.7%	31.0	28.5	4.2	15.4%	5.0	1.2%
KAREX BHD	OP	0.695	0.850	22.3%	732.2	Y	06/2026	3.4	3.8	17650.0%	13.8%	20.6	18.1	1.5	7.5%	1.5	2.2%
SECTOR AGGREGATE					**56,919.7**					**8.9%**	**12.2%**	**21.3**	**19.0**	**3.8**	**17.7%**		**3.1%**

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.

Published by:

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