

26 February 2026

KAREX

External Headwinds Bite

By Cheow Ming Liang | cheowml@kenanga.com

KAREX's 1HFY26 results came in below expectations, mainly due to external headwinds. Looking ahead, we expect earnings recovery to be gradual, with commercial and synthetic condom growth continuing to support revenue, while margin normalisation will depend on the effectiveness of repricing initiatives and operational recovery. Reflecting the weaker margin outlook and lower tender market assumptions, we cut our FY26/FY27 net profit forecasts by 65%/33% after lowering our gross margin assumptions. Accordingly, we reduce our TP by 33% to RM0.58, based on an unchanged FY27F PER of 25x, and downgrade the stock to MARKET PERFORM.

KAREX's 1HFY26 net profit of RM2.9m missed expectations, accounting for 12% of our, and consensus full-year forecast. The shortfall was mainly due to a weaker-than-expected gross profit margin, weighed down by sustained unfavourable forex movements; management previously guided that every 0.10 depreciation in USD/MYR would shave roughly 1.4 pts off the GP margin. Besides, the full-quarter impact of US tariffs (at c.USD0.8m) and operational/logistics disruption from flooding in Hat Yai during November 2025 also hit earnings.

YoY, 1HFY26 revenue rose 6% to RM256m, driven mainly by stronger sales in the commercial segment, including contributions from its synthetic condoms (c.USD8m). Despite the improved topline, the operating environment remained challenging due to unfavourable FX movements and the implementation of tariffs on exports to the US, which led to PAT declining 38% to RM2.9m.

QoQ, revenue fell 8% to RM123m, mainly due to lower contributions from the tender market (-63% as funding cuts on humanitarian aid spending by United Nation) for both condoms and personal lubricants. Profitability was further pressured by the continued weakness of the USD against the MYR and THB, higher costs from US export tariffs, and flood-related disruptions in Hat Yai, Thailand. These external headwinds pressured the group's GP margin to soften to below the 30% threshold resulting in a net loss of RM1.7m.

Outlook. Karex's near-term outlook remains cautious, in our view, as the earnings recovery is likely to be gradual despite ongoing support from the commercial segment, including synthetic condom. The group continues to operate in a challenging environment, with unfavourable FX movements, US export tariffs, and residual disruptions from the recent Hat Yai flooding (including impacts on output, logistics and fulfilment timing) expected to weigh on earnings in the near term. While a stronger commercial mix and rising synthetic condom contribution should continue to support revenue, the pace of margin recovery will depend on the effectiveness of repricing (where management is targeting 15%-20% price hike across most customers) efforts and the gradual normalisation of operations. Overall, earnings visibility remains mixed pending clearer signs of margin stabilisation.

Forecasts. We cut our FY26/FY27 net profit forecasts by 65%/33% to RM8m/RM24m after lowering our tender market revenue assumptions and factoring in ongoing operational headwinds (i.e. FX movements, US tariffs, and recent flood-related disruptions in Hat Yai) by lowering our gross margin assumptions to 28.6%/29.8% (from 30.1%/30.7% previously) to reflect the more challenging operating environment.

Valuations. Correspondingly, we lower our target price by 33% to RM0.58, based on unchanged FY27F PER of 25x. Our targeted PER represents a 20% premium to the 5-year average forward PER of its

MARKET PERFORM

Price : RM0.585
Target Price : RM0.580

Share Price Performance



KLCI 1,747.81
YTD KLCI chg 4.0%
YTD stock price chg -17.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KAREX MK EQUITY
Market Cap (RM m)	616.3
Shares Outstanding	1,053.5
52-week range (H)	1.05
52-week range (L)	0.57
3-mth avg. daily vol	494,870
Free Float	39%
Beta	0.8

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	480	512
EBIT	8	14	35
PBT	0	5	25
Core Net Profit	8	8	24
Consensus	-	24	43
Earnings Revision	-	-65%	-33%
EPS (sen)	0.8	0.8	2.3
EPS Growth (%)	-66	6	185
NDPS (sen)	1.0	1.0	1.5
BVPS (RM)	0.44	0.44	0.45
Core PER (x)	76.9	72.6	25.4
Price/BV (x)	1.3	1.3	1.3
Net Gearing (x)	0.3	0.2	0.3
Net Div. Yield (%)	1.7	1.7	2.6

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international peers, to reflect its dominant market position and decent 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 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. Downgrade to **MARKET PERFORM**

Risks to our call include: (i) reduced birth control spending by governments around the world, (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)	2Q26	1Q26	QoQ Chg	2Q25	YoY Chg	6M26	6M25	YoY Chg
Turnover	122.7	133.0	-7.7%	107.0	14.7%	255.7	241.9	5.7%
Gross Profit	35.1	40.5	-13.4%	31.0	13.3%	75.6	74.0	2.3%
EBIT	(3.2)	6.9	-146.4%	4.0	-180.8%	3.7	10.4	-64.3%
Interest Exp.	(2.2)	(2.2)	-0.6%	(1.8)	18.9%	(4.3)	(3.6)	21.0%
PBT/(LPT)	(5.4)	4.8	-212.8%	2.2	-347.3%	(0.6)	6.8	-108.9%
Taxation	3.6	(0.2)	-2398.7%	1.0	257.1%	3.5	(2.2)	-255.6%
Net Profit	(1.7)	4.6	-137.6%	3.2	-154.3%	2.9	4.6	-37.5%
Core NP	(1.7)	4.6	-137.6%	3.2	-154.3%	2.9	4.6	-37.5%
EPS (sen)	(0.2)	0.4	-137.6%	0.3	-154.3%	0.3	0.4	-37.5%
DPS (sen)	0.0	0.5	NA	0.0	NA	0.5	0.0	NA
Gross Margin	28.6%	30.5%		29.0%		29.6%	30.6%	
EBIT Margin	-2.6%	5.2%		3.7%		1.4%	4.3%	
PBT Margin	-4.4%	3.6%		2.0%		-0.2%	2.8%	
NP Margin	-1.4%	3.5%		3.0%		1.1%	1.9%	
Tax Rate	-67.7%	-3.3%		46.9%		-572.3%	-32.8%	

Source: Company

Segmental Revenue Breakdown

Revenue (RM m)	2Q26	1Q26	QoQ Chg	2Q25	YoY Chg	6M26	6M25	YoY Chg
Sexual Wellness	112.0	122.3	-8%	95.2	18%	234.3	218.0	7%
Medical	6.7	7.1	-5%	8.8	-23%	13.9	17.6	-21%
Others	4.0	3.6	11%	2.9	37%	7.5	6.4	18%
Total	122.7	133.0	-8%	107.0	15%	255.7	241.9	6%

Source: Company

Segmental Revenue Breakdown

Revenue (RM m)	2Q26	1Q26	QoQ Chg	2Q25	YoY Chg	6M26	6M25	YoY Chg
Commercial	94.3	96.1	-2%	73.9	28%	190.4	168.4	13%
Tender	4.1	11.2	-63%	14.3	-71%	15.3	34.5	-56%
OBM	24.3	25.7	-5%	18.7	30%	50.0	38.9	28%
Total	122.7	133.0	-8%	107.0	15%	255.7	241.9	6%

Source: Company

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Peer Table Comparison

Name	Rating	Last Price @ 25 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	OP	1.33	1.40	5.3%	1,867.3	Y	12/2025	9.2	10.3	-14.7%	13.0%	14.5	12.9	0.9	6.5%	5.0	3.8%
FARM FRESH BHD	MP	2.78	2.70	-2.9%	5,238.2	Y	03/2026	7.5	9.0	29.2%	20.4%	37.2	30.9	6.4	18.2%	3.0	1.1%
FRASER & NEAVE HOLDINGS BHD	OP	33.68	37.70	11.9%	12,353.1	Y	09/2026	144.2	160.7	3.6%	11.4%	23.4	21.0	3.0	13.2%	70.0	2.1%
MR D.I.Y. GROUP (M) BHD	MP	1.84	1.95	6.0%	17,438.6	Y	12/2026	7.5	8.2	11.6%	9.0%	24.5	22.5	8.6	35.3%	8.0	4.3%
NESTLE (MALAYSIA) BHD	MP	110.50	106.00	-4.1%	25,912.3	Y	12/2026	256.9	284.7	20.2%	10.8%	43.0	38.8	44.6	104.1%	255.0	2.3%
PADINI HOLDINGS BHD	OP	2.01	2.35	16.9%	1,983.6	Y	06/2026	17.4	18.2	6.0%	4.5%	11.5	11.0	1.6	14.0%	9.1	4.5%
POWER ROOT BHD	MP	1.19	1.08	-9.2%	501.1	Y	03/2026	5.6	7.2	-21.5%	28.3%	21.2	16.5	1.7	7.5%	5.0	4.2%
QL RESOURCES BHD	MP	3.99	4.26	6.8%	14,564.5	Y	03/2026	12.2	13.4	-2.0%	9.5%	32.6	29.8	4.1	14.1%	5.0	1.3%
KAREX BHD	MP	0.585	0.580	-0.9%	616.3	Y	06/2026	1.0	2.3	5250.0%	126.2%	57.6	25.5	1.3	2.3%	1.5	2.6%
SECTOR AGGREGATE					80,474.9					8.1%	11.0%	29.1	26.2	5.3	18.3%		2.9%

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

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