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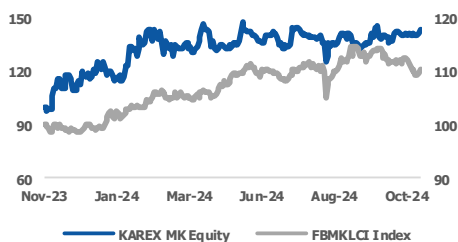
<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 0.86</b>
<b>Previous Target Price:</b>	<b>RM 1.10</b>
<b>Target Price:</b>	<b>RM 1.04</b>
<b>Upside/Downside:</b>	<b>21.6%</b>

**Stock information**

Board	MAIN
Sector	Consumer
Bursa / Bloomberg Code	5247 / KAREX MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	1,053.5
Market Cap (RM' m)	900.7
52-Week Price Range (RM)	0.905-0.595
Beta (x)	1.0
Free float (%)	24.5
3M Average Volume (m)	0.8
3M Average Value (RM' m)	0.7

<b>Top 3 Shareholders</b>	<b>(%)</b>
Karex One Ltd	17.5
Bnp Paribas	16.9
Maryen Holdings Limited	11.5

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	5.6	13.2	42.5
Relative (%)	6.4	7.6	27.8

## Karex Berhad

### Site visit to Hat Yai

#### Summary

- We took a trip to Karex’s plant in Thailand located in the heart of Rubber City, at Hat Yai’s Special Economic Zone with an annual capacity of 2.65 bn condoms and came away feeling slightly upbeat with the new synthetic condom contribution will kick in from 2QFY25.
- Synthetic condom being developed in collaboration with Durex is set to launch in early Dec 24, could command GP margin of up to c.50%, as the ASP is expected to be 3-4x higher than latex condoms.
- Maintain BUY recommendation on Karex, but with a slightly lower target price of RM1.04 by pegging revised FY26F EPS of RM0.04 to 26x after adjusting for the revision of minimum wages that will offset the 5-year tax exemption from new projects and expansions.

#### Company Update

- **Located in the heart of Rubber City, at Hat Yai’s Special Economic Zone.** Special Economic Zones (SEZs) in Thailand span 10 provinces including Tak, Mukdahan, and Songkhla. The strategic location leverage on local resources to boost trade and economic connectivity with neighboring countries. Rubber City is located in Southern Thailand, and benefits from its proximity to numerous latex plantations and has the necessary infrastructure for exports. The Central Rubber Market in Hat Yai is also one of the largest rubber-growing regions globally. It accounts for c.60% of Thailand’s natural rubber production. As one of Thailand’s SEZ provinces, Songkhla provides investors with significant tax incentives, such as corporate tax exemptions for up to 8 years, as well as deductions for different operational expenditures and import duty exemptions.
- **Rise in customer demand for non-latex condoms.** We gather that the non-latex condom market is expected to be boosted by rising awareness of latex allergies and the demand for alternatives like polyurethane (PU) and polyisoprene (PI). Growth will be driven by increasing rates of STIs and improved awareness on sexual health. PI condoms are gaining popularity for its elasticity and comfort, while PU is valued for its strength and thinness. Karex’s collaboration with Durex revolves around the production of nitrile rubber condom, which offers a cost-effective alternative with similar benefits to PU and PI materials.
- **Cost efficiency with a better margin.** Intensity synthetic condom will be the first nitrile male condom in the world. It is slated to launch in early December. Nitrile is cheaper than PU and PI; nitrile costs less than USD1/kg; PU and PI are c.USD 15/kg. Nitrile has been in the industry since 1990s, but is only used for female condoms. This new type of condom could provide GP margins of up to c.50%, as the ASP is expected to be 3-4x higher than latex condoms.
- **Sufficient capacity to meet market demand.** Karex currently has 5.50bn annual capacity. By July 2025, Karex will operates 6 synthetic condom lines, translating to 5.65bn annual capacity, comprising 2.65bn capacity from Hat Yai plant. Karex is also looking for another plot of land close to its Hat Yai plant, as the

Group aims to construct another manufacturing plant, should demand for the synthetic condom garners strong response.

- **Revision of Malaysia's labour minimum wage impact.** In the Budget 2025, the minimum monthly wage in Malaysia is set to rise from RM1,500 to RM1,700. The upward revision is expected to negatively impact Karex that employs c.1,500 Malaysian employees in the Malaysia operations. Increase in minimum wage is projected to bump up in personnel costs by RM1.0m/quarter. Consequently, we are tweaking our administrative expenses forecasts to account for 14.2% of total revenue (from 12%) for FY25F/FY26F.
- **Impact from MYR strengthening.** USD has depreciated by c.6% against the MYR year-to-date. Karex expects the trend to negatively impact its bottomline, given that c.90-95% of total revenue are denominated in USD. On a brighter note, the Group's borrowings are also denominated in USD, which provides some cushion. For every 10% rise in MYR, we gather that Karex's bottomline will be impacted by around c.16%. However, the Group's ability to adopt the cost-pass-through mechanism may mitigate most of the impact of forex fluctuation. Our assumptions for the USD/MYR exchange rate for FY25F and FY26F are both set at 1.00/4.30. We expect subsequent quarters will may see some qoq weakness before potentially stabilising in 2QFY25F, after USD appreciated in Oct 2024.
- **Introducing a revolutionary personal lubricant.** In FY24, we saw that the personal lubricant revenue contributes c.16.5% of the total revenue (from c.3.4% in FY19) representing a c.46% 5-year CAGR. This highlights demand for the personal lubricant is gathering pace. In the tender market, government authorities are buying more personal lubricants as World Health Organisation is attempting to bring down the number of HIV cases by encouraging the practice of condoms usage. Two major contributing factors of HIV cases include (i) humans at risk (female sex workers), and (ii) MSM (men have sex with men)—describe an act. These high-risk categories population may require to use condoms and lube as part of the protection. In the past, WHO prescribed 100m condoms purchased with c.10% personal lube, which has now grown to c.30%. The move bodes well for Karex personal lubricant segment. Looking ahead, most players may increase the ratio to 1 condom per 1 personal lube. This aligns with our personal lubricant's market forecast of c.10% growth each year (FY24 recorded c.39.2% growth).
- **Valuation.** We trimmed our core net earnings for FY25F to RM29.4m (from RM37.3m) and FY26F to RM36.4m (from RM44.3m) to account for the revision of minimum wage that will negatively impact onto Karex's bottom line as well as the tax rate reduction from 22% to 20% in FY26F lifted by the 5-year tax exemption from new projects and expansions. We believe the synthetic condom contribution will start kicking in the 2QFY25F, while stronger growth trend will be noticeable from FY26F.
- **Recommendation.** We maintain our **BUY** recommendation on Karex with a target price of RM1.04 by pegging revised FY26F EPS of RM0.04.
- **Risk.** Decline in global government spending on birth control, (ii) Slow uptake of new synthetic rubber condoms, (iii) Less favorable product mix, and (iv) Challenges in raising prices to maintain profit margins.

**Financial Highlights**
**Income Statement**

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
<b>Revenue</b>	<b>421.6</b>	<b>532.1</b>	<b>507.8</b>	<b>513.5</b>	<b>563.8</b>
<b>Gross Profit</b>	<b>92.6</b>	<b>135.9</b>	<b>171.3</b>	<b>174.6</b>	<b>194.5</b>
<b>EBITDA</b>	<b>20.6</b>	<b>49.2</b>	<b>65.0</b>	<b>74.6</b>	<b>90.8</b>
Depreciation & Amortisation	-23.4	-26.8	-25.5	-29.4	-31.6
<b>EBIT</b>	<b>-2.9</b>	<b>22.4</b>	<b>39.5</b>	<b>45.2</b>	<b>59.2</b>
Net Finance Income/ (Cost)	-3.6	-7.3	-8.5	-7.5	-6.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>-6.5</b>	<b>15.1</b>	<b>31.0</b>	<b>37.7</b>	<b>52.5</b>
Tax	0.3	-4.7	-7.6	-8.3	-10.5
<b>Profit After Tax</b>	<b>-6.2</b>	<b>10.5</b>	<b>23.4</b>	<b>29.4</b>	<b>42.0</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>-6.2</b>	<b>10.5</b>	<b>23.4</b>	<b>29.4</b>	<b>42.0</b>
Exceptionals	-2.0	0.6	-9.1	0.0	0.0
<b>Core Net Profit</b>	<b>-4.1</b>	<b>9.8</b>	<b>32.5</b>	<b>29.4</b>	<b>42.0</b>

**Key Ratios**

FYE Jun	FY22	FY23	FY24	FY25F	FY26F
P/E (x)	N/A	916	27.7	30.6	215
EBITDA margin (%)	4.9%	9.3%	12.8%	14.5%	16.1%
EBIT margin (%)	-0.7%	4.2%	7.8%	8.8%	10.5%
PBT margin (%)	-15%	2.8%	6.1%	7.3%	9.3%
PAT margin (%)	-15%	2.0%	4.6%	5.7%	7.4%
NP margin (%)	-15%	2.0%	4.6%	5.7%	7.4%
Core NP margin (%)	-15%	2.0%	4.6%	5.7%	7.4%
ROE (%)	-0.9%	2.1%	6.8%	6.0%	8.2%
ROA (%)	-0.6%	14%	4.5%	4.1%	5.7%
Net gearing (%)	17.9%	218%	16.8%	9.8%	8.4%

**Key Assumptions**

FYE Jun	FY22	FY23	FY24	FY25F	FY26F
Production (lines)	60.0	60.0	60.0	67.0	73.0
Utilisation rate (%)	80.0%	90.0%	90.0%	90.0%	910%
Production (m pcs)	5500.0	5500.0	5500.0	5500.0	5775.0
Blended ASP (RM/pcs)	0.08	0.09	0.08	0.08	0.08

**Valuations FY26F**

Core EPS (RM)	0.040
P/E multiple (x)	26.0
<b>Fair Value (RM)</b>	<b>1.04</b>

Source: Company, Apex Securities Berhad

**Balance Sheet**

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	219	318	39.0	63.5	613
Receivables	118.2	128.1	124.2	129.0	142.8
Inventories	152.4	157.7	155.2	142.0	161.5
Other current assets	3.8	2.7	2.5	2.6	2.8
<b>Total Current Assets</b>	<b>296.3</b>	<b>320.3</b>	<b>320.8</b>	<b>337.1</b>	<b>368.5</b>
Fixed Assets	267.3	271.0	258.7	255.1	252.4
Intangibles	97.2	98.8	100.2	100.2	100.2
Other non-current assets	29.9	31.6	29.1	25.6	22.6
<b>Total Non-current assets</b>	<b>394.4</b>	<b>401.4</b>	<b>388.0</b>	<b>380.9</b>	<b>375.2</b>
Short-term Debt	50.9	82.4	77.2	67.6	63.2
Payables	94.6	71.7	62.5	67.8	73.9
Other Current Liabilities	15.4	17.7	21.8	15.4	16.8
<b>Total Current Liabilities</b>	<b>161.0</b>	<b>171.8</b>	<b>161.5</b>	<b>150.8</b>	<b>153.8</b>
Long-term Debt	52.9	53.3	43.1	45.0	42.1
Other non-current liabilities	18.9	20.0	21.3	21.6	21.9
<b>Total Non-current Liabilities</b>	<b>71.9</b>	<b>73.3</b>	<b>64.4</b>	<b>66.6</b>	<b>64.0</b>
Shareholder's equity	457.8	476.6	482.9	500.6	525.8
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Equity</b>	<b>457.8</b>	<b>476.6</b>	<b>482.9</b>	<b>500.6</b>	<b>525.8</b>

**Cash Flow**

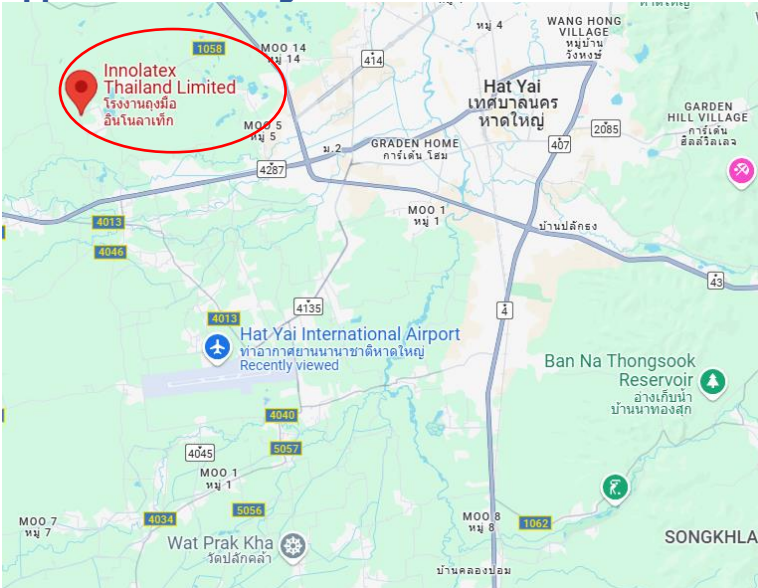
FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
<b>Pre-tax profit</b>	<b>-6.5</b>	<b>15.1</b>	<b>31.0</b>	<b>37.7</b>	<b>52.5</b>
Depreciation & amortisation	23.4	26.8	25.5	29.4	31.6
Changes in working capital	-23.2	-46.9	2.1	8.3	-26.3
Others	6.8	11.9	12.5	-0.8	-3.8
<b>Operating cash flow</b>	<b>0.6</b>	<b>7.0</b>	<b>71.1</b>	<b>74.6</b>	<b>54.0</b>
Net capex	-35.6	-18.7	-20.7	-23.1	-25.4
Others	0.8	0.8	14	0.4	0.4
<b>Investing cash flow</b>	<b>-34.8</b>	<b>-17.9</b>	<b>-19.3</b>	<b>-22.8</b>	<b>-25.0</b>
Dividends paid	0.0	0.0	-15.8	-11.8	-16.8
Others	1.7	17.6	-26.2	-15.5	-14.4
<b>Financing cash flow</b>	<b>1.7</b>	<b>17.6</b>	<b>-42.0</b>	<b>-27.3</b>	<b>-31.2</b>
<b>Net cash flow</b>	<b>-32.5</b>	<b>6.7</b>	<b>9.8</b>	<b>24.5</b>	<b>-2.2</b>
Forex	0.1	0.5	15	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	52.7	20.4	27.6	39.0	63.5
<b>Ending cash</b>	<b>20.4</b>	<b>27.6</b>	<b>39.0</b>	<b>63.5</b>	<b>61.3</b>

**Appendix 1: Located in the Rubber City and surrounded by Rubber Estate**



Source: Karex, Google map

**Appendix 2: Strategic location**



Source: Karex, Google map



**Appendix 3: Site Visits**  
**Karex's Polymers plant**



**Karex's Innolatex manufacturing plant**



**2500 tonnes for latex storage container**



**150 tonnes for latex storage container**



**Condom Dipping line**



**Condom Dipping line checking station**



**Automated condom checking line**



**Finished goods upon machine checking**



**Manual shaping Catheters**



**Catheters wrapping process**





**Finished goods upon all manual and machines QC**



**Foiled in aluminium foil**



**One of the distribution centres**



**Condom leaching tank**



Source: Karex, Apex Securities

**Appendix 4: Production facilities and sales & distribution offices**

**Manufacturing Facilities**



**Pontian, Malaysia**  
Annual manufacturing capacity: 2.0 billion pieces  
Workforce: 1,300 workers



**Senai, Malaysia**  
Annual manufacturing capacity: 0.2 billion pieces  
Workforce: 200 workers



**Port Klang, Malaysia**  
Annual manufacturing capacity: 0.8 billion pieces  
Workforce: 400 workers



**Hat Yai, Thailand**  
Annual manufacturing capacity: 2.5 billion pieces (+0.15 billion pieces)  
Workforce: 1,500 workers

**Sales & Distribution Offices**



**Boston, USA**  
Primary areas: North and South America

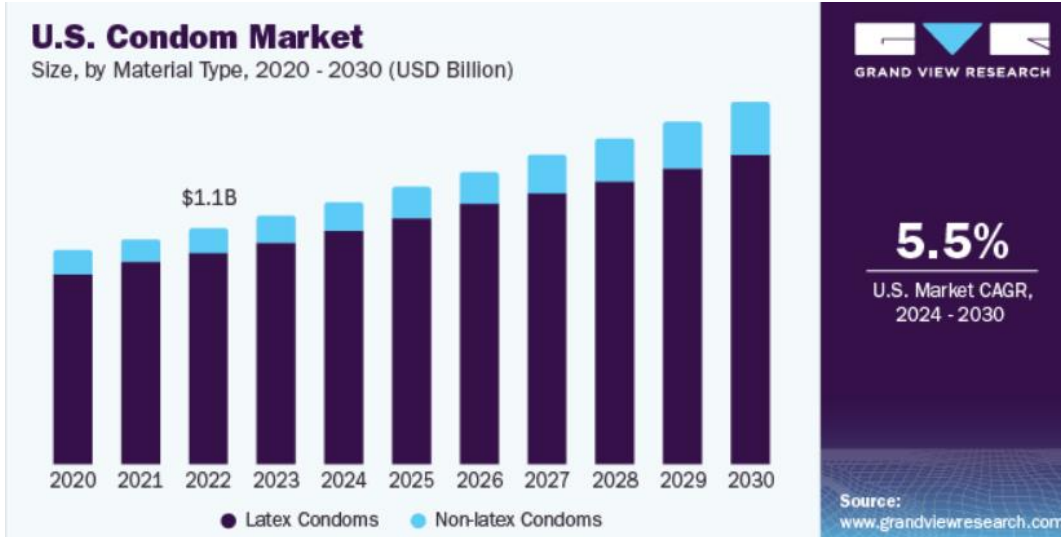


**Brighton, United Kingdom**  
Primary areas: Europe and Middle East

Source: Karex, Apex Securities Berhad

\*Note: With incorporation of 6 synthetic condom lines, Hat Yai plant will operate 2.65bn annual capacity

**Appendix 5: The US Condom market trend**



Source: Grand View Research

**Appendix 6: Forex sensitivity**

	FY24	
Revenue	507.847	
% denominated in USD	90%	95%
	457.06	482.45
every 10%	411.36	434.21
% to total revenue	81%	86%
Variance	19.00%	14.50%
Average	16.75%	

Source: Apex Securities Berhad



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**APEX SECURITIES BHD**

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**RESEARCH RECOMMENDATION FRAMEWORK**

**STOCK RECOMMENDATIONS**

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.

**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.

**SELL:** Total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.

\*Capital gain

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.

**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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