

**Chelsea Chew**

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<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 0.91</b>
<b>Previous Target Price:</b>	<b>RM 1.04</b>
<b>Target Price:</b>	↔ <b>RM 1.04</b>
<b>Upside/Downside:</b>	<b>14.3%</b>

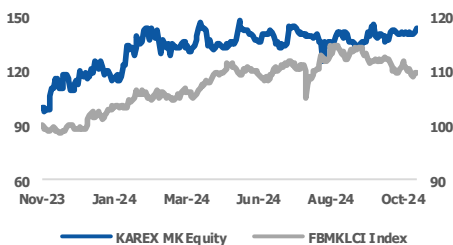
**Stock information**

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)	958.6
52-Week Price Range (RM)	0.92-0.65
Beta (x)	1.0
Free float (%)	26.0
3M Average Volume (m)	0.8
3M Average Value (RM' m)	0.7

**Top 3 Shareholders (%)**

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 (%)	8.3	7.7	34.8
Relative (%)	12.0	11.3	23.5

## Karex Berhad

### Record high sales

#### Summary

- **1QFY25 core net profit of RM7.3m (+38.3% yoy, +36.6% qoq), is deemed in line with our full-year expectations, but below consensus expectations of RM29.4m and RM40.5m respectively.**
- **Stronger CNP in coming quarters will be supported by expectations of gradual improvement in sexual wellness and medical products demand.**
- **Maintain our BUY recommendation on KAREX, with an unchanged target price of RM1.04 based on 26.0x pegged to FY26F EPS of 4.0 sen.**

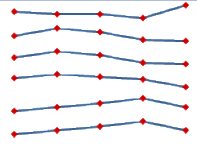





#### Results Review

- **Results review.** 1QFY25 core net profit climbed 38.3% yoy and 36.6% qoq, reaching RM7.3m (excluding forex loss and other exceptional items of RM5.9m). The result was driven by 4.2% yoy and 8.9% qoq increase in sales volume in condoms and personal lubricants. Sales to the commercial market were particularly robust, making up around 70% of total revenue. Meanwhile, GP margin expanded to 31.9% in 1QFY25, marking an improvement from 1QFY24 at 30.7%.
- Besides, this quarter's higher tax rate is due to non-tax-deductible foreign exchange losses from intercompany loans between Karex's holding company and its Thailand subsidiary. This leads to an effective tax rate of c.70% and reduces profit after tax to RM1.4m.
- **Results were deemed within expectations.** 3MFY25 core net profit of RM7.3m (+38.3% yoy) makes up to 24.9% of our expectations of RM29.4m, but only accounted to 18.1% of consensus expectations of RM40.5m. Better earnings were largely supported by improved sales in the US (+20% qoq) and Europe (+13% qoq), which mainly cater to the commercial market.
- **Operations Highlights.** KAREX has commenced operating 2 synthetic condoms line in Hat Yai plant in late-Sep 24. The product will be launched in 10 countries, with shipments set to begin in Nov 24, while distribution activities are expected to start in 1QCY25. Pricing is 3-4x higher than the average selling price (ASP) of natural rubber (NR ASP: USD 0.02/pcs for tender market, commercial price at USD 0.04-0.15/pcs vs synthetic ASP: USD 0.06-0.07/pcs), with GP margin ranging 50%-60%.
- **Industry Highlights.** We gather that nitrile raw material costs increased by c.5-6% qoq, while NR Latex costs rose by c.3% qoq. We foresee raw material prices to remaining elevated in the next quarter, due to rising material shipping costs and heavy rainfall elevating NR Latex prices. Supply issues persist in key Southeast Asian regions, especially Thailand, where adverse weather conditions like heavy rainfall and flooding have resulted in output constraint. Thailand, which accounts to one-third of world's rubber production, is expected to see 10%-15% decline in production in 2024. In contrast, raw nitrile material prices will soften due to Butadiene prices weakening as result of lower demand.
- Malaysia's glove export volume increased from RM11.8bn in CY23 to RM13.7bn in 11M24. This implies that the demand for gloves is on a recovery trend, which

alleviates the oversupply condition. KAREX is maintaining two glove production lines in Hat Yai, Thailand. The glove segment reported a loss of -RM10m in FY23, with idle costs projected at -RM2m per quarter in FY24. However, KAREX is not planning to exit the glove business, as the ASP for customised customers remains above USD 30/000 pcs.

- **Outlook.** We expect stronger CNP in the upcoming quarters, driven by the contribution from synthetic condom sales, which will kick in in early Dec 24. With the approval for CE & FDA certification, KAREX is able to sell in Europe and the US (KAREX's clients will be selling this product in up to 10 countries). In addition, By Mar 25, 6 additional lines will be added for synthetic rubber condom production. Depending on future demand, another 10 production lines will be set up in the existing warehouse next to the current factory. ASP for sexual wellness products is expected to maintain an upward trend with a c.10%-20% increase in certain regions.
- **Valuation.** No changes to our forecast, given that the reported results came in line with in-house expectations. Maintain our **BUY** recommendation on KAREX with an unchanged target price of RM1.04. This is based on a 26.0x PE multiple, which represents a 25% premium from the 2-year average forward PE pegged to FY25F EPS of 4.0 sen.
- **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.

Figure 1: Results Comparison

FYE Aug (RM m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	3MFY24	3MFY25	YoY (%)	5 Quarters Trend	Comments
Revenue	135.0	129.5	4.2	123.9	8.9	129.5	135.0	4.2		Highest sales over the past 7 quarters
EBITDA	12.1	14.8	(18.5)	12.6	(4.5)	14.8	12.1	(18.5)		
Pre-tax profit	4.6	7.2	(35.2)	5.3	(12.1)	7.2	4.6	(35.2)		
Net profit	1.4	5.3	(73.4)	4.8	(71.1)	5.3	1.4	(73.4)		Forex loss and higher COGS impacted the bottom line despite the highest sales
Core net profit	7.3	5.3	38.3	11.6	(36.6)	5.3	7.3	38.3		
Core EPS (sen)	0.7	0.5	38.3	1.1	(36.6)	0.5	0.7	38.3		
EBITDA margin (%)	8.9	11.4		10.2		11.4	8.9			
PBT margin (%)	3.4	5.5		4.3		5.5	3.4			
Core PATMI margin (%)	5.4	4.1		9.3		4.1	5.4			

Source: Company, Apex Securities

### 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	97.5	29.5	32.6	22.8
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 (%)	-1.5%	2.8%	6.1%	7.3%	9.3%
PAT margin (%)	-1.5%	2.0%	4.6%	5.7%	7.4%
NP margin (%)	-1.5%	2.0%	4.6%	5.7%	7.4%
Core NP margin (%)	-1.5%	2.0%	4.6%	5.7%	7.4%
ROE (%)	-0.9%	2.1%	6.8%	6.0%	8.2%
ROA (%)	-0.6%	1.4%	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%	91.0%
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

#### Balance Sheet

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	219	318	39.0	63.5	61.3
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	1.4	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>

**APEX SECURITIES BERHAD – CONTACT LIST**

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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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