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Recommendation:	SELL
Current Price:	RM0.97
Previous Target Price:	RM1.04
Target Price:	↓ RM0.42
Capital Upside/Downside:	-56.7%
Dividend Yield (%):	10.3%
Total Upside/Downside:	-46.4%

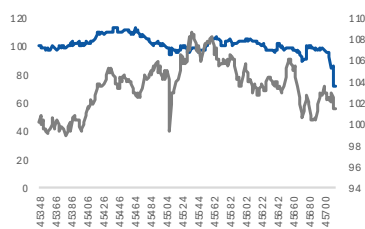
Stock information

Board	MAIN
Sector	Consumer
Bursa/ Bloomberg Code	5247/ KAREXMK
Syariah Compliant	Yes
ESGRating	★★★
Shares issued (m)	1,053.5
Market Cap (RM' m)	1,021.9
52-Week Price Range (RM)	1.09-0.72
Beta (x)	0.9
Free float (%)	26.0
3M Average Volume (m)	1.2
3M Average Value (RM' m)	1.1

Top 3 Shareholders (%)

Karex One Ltd	17.5
Bnp Paribas	16.9
Maryen Holdings Limited	11.5

Share Price Performance



	1M	3M	12M
Absolute (%)	4.9	10.9	23.6
Relative (%)	2.9	11.4	20.8

Karex Berhad

Sluggish performance due to tender market disruptions

Executive Summary

- Karex 2QFY25 reported a core net loss of RM2.9m, bringing the 6MFY25 CNP to only RM3.6m, which was below ours and consensus expectations at 12.7% and 7.0% respectively, due to the absence of sales in the international tender market and branded sales to public health markets in North America contributed to Karex's 1HFY25 performance missing expectations.
- Looking ahead, Karex aims to capture more high-value orders for condoms and personal lubricants by leveraging its strong reputation and unique product portfolio. However, revenue from synthetic condoms is expected to remain small next quarter, as Durex holds an exclusive two-year contract for the product in each market, restricting Karex's growth in this segment over the near term.
- Downgrade to SELL recommendation with a revised TP of RM0.42 (from RM1.04), pegged to 26.0x PE multiple on revised FY26F EPS of 1.6 sen, ascribed with three-star ESG rating.

Missed expectations. Karex's 6MFY25 core net profit (CNP) reached RM3.6m, missing both our and market's expectations, reaching only 12% and 7% respectively.

YoY. Excluding extraordinary items such as forex gains (RM8.9m) and derivative losses (RM2.9m), 2QFY25 reported a core net loss of RM2.9m. This loss was primarily due to weaker sales of condoms and personal lubricants, particularly in international tender markets. The absence of sales in the international tender market and branded sales to public health markets in North America attributed to Karex's 6MFY25 underperformance.

YTD. On the 6MFY25 basis, CNP at RM3.6m was a sharp decline (-67.8% yoy) due to unfavourable sales particularly from the latest quarter.

QoQ. The results for this quarter showed a core net loss of RM2.9m vs. CNP of RM6.4m recorded in 1QFY25, as explained above. Top-line revenue decreased by 20.8% qoq, reaching only RM107.0m, the lowest over the past 9 quarters.

Outlook. Looking ahead, Karex plans to capture more high-value orders for condoms and personal lubricants by leveraging its strong industry reputation and offering a unique product portfolio backed by regulatory expertise. Moreover, contribution from synthetic condoms will remain small in the next quarter, as the product primarily serves Durex, which holds an exclusive two-year contract for synthetic condoms in each market. This limits Karex to further grow in this product segment for the near term.

Earnings Revision. Due to the subpar performance this quarter, we have slashed FY25 and FY26 earnings down by 76.2% and 59.5%, respectively. The earnings downgrade is primarily due to: (i) a lower utilisation rate (a 10.0% reduction) for both natural rubber and synthetic condoms due to decreased sales, (ii) slower growth in personal lubricants, and (iii) a lower gross profit (GP) margin, which now stands at 30.5%. We have revised the margin forecast to a range of 28.0%-29.0%, down from 35.0%. We also introduce FY27 earnings forecast of RM22.5m.

Valuation. We downgrade to SELL (from BUY) with a revised target price of RM0.42 (from RM1.04), based on a 26.0x PE multiple applied to the FY26F EPS of 1.6 sen. The target price also reflects a 0% ESG premium/discount, in line with the company's three-star ESG rating. The assigned PE multiple is based on the range of Karex's 2-year forward PE and the +1 standard deviation PE band. We believe a potential re-rating may not be on the cards over the near term, especially given the disruptions in the tender market caused by the Trump 2.0 administration, which has created a challenging environment for the condom industry.

Risk. (i) Tender market disruption (ii) Decline in global government spending on birth control, (iii) Slow uptake of new synthetic rubber condoms, (iv) Less favourable product mix, and (iv) Challenges in raising prices to maintain profit margins.

Earnings Summary

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	532.1	507.8	488.5	560.4	585.8
EBITDA	49.2	65.0	47.0	59.5	64.6
Pre-tax profit	15.1	31.0	10.3	21.3	28.9
Net profit	10.5	23.4	8.0	17.0	22.5
Core net profit	13.0	28.9	7.0	17.0	22.5
Core EPS (sen)	1.3	2.9	0.7	1.7	2.3
P/E (x)	78.6	35.4	146.2	60.1	45.4
P/B (x)	2.1	2.1	2.1	2.1	2.0
EV/EBITDA (x)	22.9	17.0	22.9	18.7	16.5
Dividend Yield (%)	0.5%	1.5%	0.3%	0.7%	0.9%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Apex Securities

Graph 1: Karex's 2-years PE band



Source: Bloomberg, Apex Securities

Results Note

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Results Comparison

FYE Jun (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
Revenue	107.0	127.4	(16.0)	135.0	(20.8)	241.9	256.9	(5.8)	Impacted by weaker sales
EBITDA	9.7	18.3	(47.0)	12.1	(19.6)	21.8	33.1	(34.3)	
Pre-tax profit	2.2	10.2	(78.7)	4.6	(53.3)	6.8	17.4	(60.7)	
Net profit	3.2	7.3	(56.5)	1.4	(27.7)	4.6	12.6	(63.6)	
Core net profit	(2.9)	6.2	nm	6.4	nm	3.6	11.1	(67.8)	
Core EPS (sen)	(0.3)	0.6	nm	0.6	nm	0.3	1.1	(67.8)	
DPS (sen)	-	0.5	(100.0)	-	-	-	0.5	(100.0)	
EBITDA margin (%)	9.1	14.4		8.9		9.0	12.9		
PBT margin (%)	2.0	8.0		3.4		2.8	6.8		
Core PATMI margin (%)	(2.7)	4.9		4.8		1.5	4.3		

Source: Company, Apex Securities

Segmental Breakdown

FYE Jun (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
Segment revenue									
Sexual Wellness	95.2	115.4	(17.5)	122.8	(22.4)	218.0	233.5	(6.6)	
Medical	8.8	8.7	12	8.8	0.7	17.6	17.0	3.4	
Others	2.9	3.3	(11.1)	3.5	(15.9)	6.4	6.4	(0.3)	
Total	107.0	127.4		135.0		241.9	256.9		
Segment profit/(loss)									
Sexual Wellness	0.5	10.2	(94.9)	10.8	(95.2)	11.3	20.8	(45.7)	
Medical	(1.3)	4.6	nm	4.6	nm	3.3	3.1	4.3	
Others	0.2	0.3	(45.3)	0.5	(66.9)	0.7	0.5	32.6	
Total	8.8	8.7	12	8.8	0.7	17.6	17.0	3.4	

Source: Company, Apex Securities

Results Note

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Financial Highlights

Income Statement

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	532.1	507.8	488.5	560.4	585.8
Gross Profit	135.9	171.3	140.8	162.5	175.7
EBITDA	49.2	65.0	47.0	59.5	64.6
Depreciation & Amortisation	-26.8	-25.5	-29.3	-31.5	-29.4
EBIT	22.4	39.5	17.7	28.0	35.1
Net Finance Income/(Cost)	-7.3	-8.5	-7.5	-6.8	-6.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	15.1	31.0	10.3	21.3	28.9
Tax	-4.7	-7.6	-2.3	-4.3	-6.4
Profit After Tax	10.5	23.4	8.0	17.0	22.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	10.5	23.4	8.0	17.0	22.5
Exceptionals	-2.5	-5.4	1.0	0.0	0.0
Core Net Profit	13.0	28.9	7.0	17.0	22.5

Key Ratios

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
P/E (x)	78.6	35.4	146.2	60.1	45.4
EPS (sen)	1.2	2.7	0.7	1.6	2.1
P/B (x)	2.1	2.1	2.1	2.1	2.0
EV/EBITDA (x)	22.9	17.0	22.9	18.7	16.5
DPS (sen)	0.5	1.5	0.3	0.6	0.9
Dividend Yield (%)	0.5%	1.5%	0.3%	0.7%	0.9%
EBITDA margin	9.3%	12.8%	9.6%	10.6%	11.0%
EBIT margin	4.2%	7.8%	3.6%	5.0%	6.0%
PBT margin	2.8%	6.1%	2.1%	3.8%	4.9%
PAT margin	2.0%	4.6%	1.6%	3.0%	3.8%
NP margin	2.0%	4.6%	1.6%	3.0%	3.8%
Core NP margin	2.4%	5.7%	1.4%	3.0%	3.8%
ROE	2.2%	4.9%	1.6%	3.4%	4.4%
ROA	1.5%	3.3%	1.1%	2.4%	3.1%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Jun (RM m)	FY25F	FY26F	FY27F
Natural rubber condom			
Utilisation rate	85.0%	91.0%	91.0%
Blended ASP (USD/pcs)	0.02	0.02	0.02
Lines	60.0	60.0	60.0
Synthetic condom			
Utilisation rate	30.0%	35.0%	35.0%
Blended ASP (USD/pcs)	0.06	0.07	0.07
Lines	7.0	13.0	16.0

Valuations

	FY26F
Core EPS (RM)	0.02
P/E multiple (x)	26.0
Equity Value (RM)	0.42
ESG premium/discount	0.0%
Fair Value	0.42

Source: Company, Apex Securities

Balance Sheet

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	31.8	39.0	59.0	15.3	50.5
Receivables	128.1	124.2	116.7	153.5	135.3
Inventories	157.7	155.2	149.6	177.4	170.9
Other current assets	2.7	2.5	2.4	2.8	2.9
Total Current Assets	320.3	320.8	327.7	349.0	359.7
Fixed Assets	298.4	285.1	277.0	271.4	268.7
Intangibles	98.8	100.2	100.2	100.2	100.2
Other non-current assets	4.2	2.7	2.7	2.7	2.7
Total Non-current assets	401.4	388.0	379.9	374.3	371.6
Short-term Debt	82.4	77.2	67.8	63.4	58.1
Payables	71.7	62.5	69.5	79.6	82.0
Other Current Liabilities	17.7	21.8	15.8	18.1	18.7
Total Current Liabilities	171.8	161.5	153.2	161.1	158.8
Long-term Debt	53.3	43.1	45.2	42.3	38.8
Other non-current liabilities	20.0	21.3	21.6	21.9	22.3
Total Non-current Liabilities	73.3	64.4	66.8	64.2	61.0
Shareholder's equity	476.6	482.9	487.7	497.9	511.4
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	476.6	482.9	487.7	497.9	511.4

Cash Flow

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	15.1	31.0	10.3	21.3	28.9
Depreciation & amortisation	26.6	25.2	29.3	31.5	29.4
Changes in working capital	-46.9	2.1	15.2	-52.9	27.5
Others	12.2	12.7	5.2	2.5	-0.1
Operating cash flow	7.0	71.1	60.0	2.4	85.7
Net capex	-18.2	-19.9	-22.0	-25.2	-26.4
Others	0.3	0.6	0.4	0.4	0.4
Investing cash flow	-17.9	-19.3	-21.6	-24.9	-26.0
Dividends paid	0.0	-15.8	-3.2	-6.8	-9.0
Others	17.6	-128.5	27.5	28.9	30.3
Financing cash flow	17.6	-144.3	24.3	22.1	21.3
Net cash flow	6.7	-92.5	62.6	-0.4	81.1
Forex	0.5	1.5	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	20.4	27.6	39.0	59.0	15.3
Ending cash	27.6	-63.3	101.6	58.6	96.3

Results Note

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ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★★	combined Scope 1 and Scope 2 emissions were reduced by 206 tCO ₂ e in comparison to Karex's 2021 baseline.
Waste & Effluent	★★★★	Karex converted 255 metric tonnes of dry rubber waste into high quality crepe rubber sheets.
Energy	★★★★	Reduced 11.0% energy consumption in condom facilities in FY2024.
Water	★★	Increase of 2.1% compared to the previous year due to the higher production of textured and synthetic products during the year.
Compliance	★★	Continued participate on the ISO Technical Committee 157 – Non-systemic Contraceptives and STI Barrier Prophylactics.

Social

Diversity	★★★★	Zero incidences of complaints, reports and whistleblowing for workplace discrimination across all facilities.
Human Rights	★★★	59.8% yoy reduced in participating training on human rights and ethical in FY24.
Occupational Safety and Health	★★★	Maintain ISO 45001 (Occupational Health & Safety Management System) certifications with each site undergoing independent third-party audits and inspections
Labour Practices	★★★★	Uphold suspension on the hiring of migrant labour.

Governance

CSR Strategy	★★★	maintained our status as a constituent of the FTSE4Good Index
Management	★★	37.5% female and 62.5% male in the BoD.
Stakeholders	★★★	1x AGM per annum and 2/4 analyst briefings.

Overall ESG Scoring: ★★★

Recommendation Framework:

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.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.