KAREX BHD

(KAREX MK EQUITY, KAREX.MK)

BURSA RISE+
Brought to you by Bursa Malaysia
Supported by Capital Market Development Fund

BUY

(MAINTAINED)

Price: RM0.41
Target Price (% return): RM0.60 (+50%)
52-week High/Low: RM0.95/RM0.39

Manufacturing
Rationale for report: Company Update

Pricing reset

We remain constructive on Karex's FY27 outlook, as pricing adjustments take effect and synthetic capacity ramps up. Most customer price increases were implemented from July 2026, while rubber costs are largely hedged through end-FY27. Synthetic capacity should rise from nine lines currently to 19 by June 2027. With tender demand showing tentative signs of recovery and manufacturing costs falling, we see FY27 as a year of earnings and margin recovery. We maintain BUY and our RM0.60 TP, with earnings estimates unchanged.

- **Valuation underpinned by earnings recovery**. Our TP of RM0.60/share remains based on a 23x target PE applied to average FY28/29 EPS of 2.64 sen. We believe the multiple remains justified by Karex's improving earnings trajectory, supported by pricing recovery, higher-margin synthetic condoms and a gradual tender recovery.
- **Pricing actions should support FY27 margins.** The group has implemented significant price adjustments across most customers, with the bulk taking effect from July 2026. While the quantum and timing can vary, it was previously reported that prices were broadly raised by 20-30%. With rubber largely hedged through end-FY27 and other raw material prices stable, the pricing benefits should increasingly flow through earnings.
- **Synthetic condom growth is broadening.** Synthetic condom sales doubled YoY to US$12m in FY26, with capacity set to more than double from nine lines currently to 19 by June 2027. We forecast sales to grow +60% YoY in FY27, driven by expansion into new markets, including India, Latin America and China. Synthetic condoms contributed 17% of FY26 gross profit, and we expect this to rise to 21%/29%/34% in FY27/28/29, underscoring their growing importance to the earnings mix.
- **Tender recovery and cost optimisation offer further upside.** Tender demand remains soft, but management is seeing early signs of recovery as agencies replenish inventories, although we expect this to be gradual. Meanwhile, shifting

YE to Jun	FY26	FY27F	FY28F	FY29F
Revenue (RM mil)	462.4	509.5	562.7	604.1
Core net profit (RM mil)	3.5	16.4	24.6	30.9
FD Core EPS (sen)	0.3	1.6	2.3	2.9
FD Core EPS growth (%)	(72.1)	365.7	50.5	25.8
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	-	0.8	1.2	1.5
PE (x)	118.5	25.4	16.9	13.4
EV/EBITDA (x)	14.8	8.4	7.3	6.5
Div yield (%)	-	1.6	2.4	3.1
ROE (%)	0.1	3.6	5.3	6.5
Net Gearing (%)	29.4	23.1	22.7	20.7

Source: Karex Bhd, AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	⇔
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	1,053.5
Market Cap (RMmil)	416.1
Book Value (RM/Share)	0.42
P/BV (x)	0.9
ROE (%)	0.1
Net Gearing (%)	29.4
Free Float	39.1
Avg Daily Value (RMmil)	0.1

Major Shareholders

Karex One Ltd	(17.5%)
BNP Paribas	(16.9%)
Maryen Holdings Limited	(11.5%)

Price performance	3mth	6mth	12mth
Absolute(%)	(21.8)	(29.5)	(56.6)
Relative(%)	(16.9)	(24.9)	(56.4)

Source: Karex Bhd, AmInvestment Bank Bhd.

Price Chart

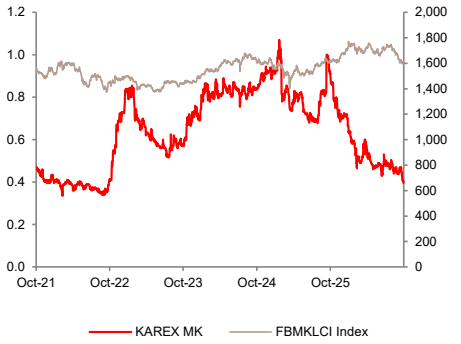
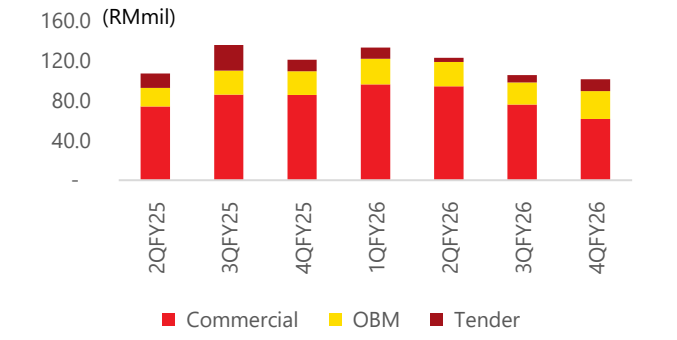
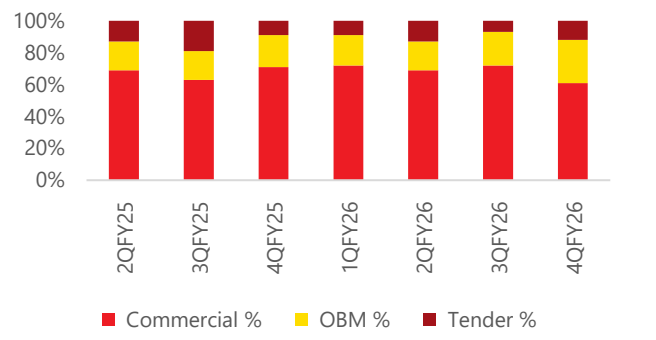


EXHIBIT 1. Revenue breakdown



Source: Company, AmInvestment Bank Bhd.

EXHIBIT 2. Revenue contribution breakdown



Source: Company, AmInvestment Bank Bhd.

EXHIBIT 3. Valuations

Target PE (x)	23.0x
Avg FY28/29 EPS	2.64sen
Target price	RM0.60

Source: AmInvestment Bank Bhd.

Company profile

Karex is the world's largest condom maker with the capacity to produce over 5 bil condoms annually. The company also manufacturers other product such as personal lubricants, probe covers and foley balloon catheters. The firm is in compliant with various management systems such as ISO13485, ISO 14001, US FDA 21 CFR Part 820, Brazil RDC 16/2013 and GMP. With the necessary management systems in place, the group is able to export its products to over 130 countries globally.

Investment thesis and catalysts

We have a BUY recommendation on Karex to be driven by successful commercialisation of synthetic condoms which command higher gross margin than latex condoms and it will serve as an alternative to other non-latex condoms in the market with softer material and thinner than most of the existing non-latex condoms.

Valuation

Our target price is RM0.60, based on a target PE of 23x and Avg FY28/29 EPS. Target PE is in line with its median forward PE of 22.4x since listing and its peers' 5 years historical mean PE of 23.6x. The valuation is justified by its stronger growth prospect with the introduction of the new product that is expected to gain market share.

Risk factors

The key investment risks for the company are:

1) lower-than-expected acceptance rate for the new synthetic condoms;
2) slower-than-expected volume growth;
3) lower-than-expected average selling price for the new product; and
4) weaker-than-expected USD against the MYR.

Income Statement (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Revenue	498.4	462.4	509.5	562.7	604.1
EBITDA	36.0	37.0	62.2	71.8	79.1
Depreciation/Amortisation	(28.1)	(28.3)	(30.5)	(29.8)	(29.2)
Operating income (EBIT)	7.9	8.7	31.8	41.9	49.8
Other income & associates	-	-	-	-	-
Net interest	(7.6)	(8.4)	(11.3)	(11.2)	(11.2)
Exceptional items	12.4	3.2	-	-	-
Pretax profit	**0.3**	**0.4**	**20.4**	**30.8**	**38.7**
Taxation	(0.1)	(0.1)	(4.1)	(6.2)	(7.7)
Minorities/pref dividends	-	-	-	-	-
Net profit	**0.2**	**0.3**	**16.4**	**24.6**	**30.9**
Core net profit	12.6	3.5	16.4	24.6	30.9

Balance Sheet (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Fixed assets	269.9	271.1	268.9	266.9	265.0
Intangible assets	107.1	105.9	106.1	106.3	106.6
Other long-term assets	69.4	73.3	69.3	65.8	62.7
Total non-current assets	**446.4**	**450.3**	**444.4**	**439.1**	**434.3**
Cash & equivalent	33.2	37.9	64.1	63.2	69.1
Stock	158.7	191.1	144.9	157.2	166.7
Trade debtors	121.9	88.2	122.8	135.7	145.6
Other current assets	3.6	6.0	6.0	6.0	6.0
Total current assets	**317.4**	**323.2**	**337.9**	**362.1**	**387.5**
Trade creditors	67.3	78.1	78.6	85.3	90.5
Short-term borrowings	123.1	134.8	134.8	134.8	134.8
Other current liabilities	17.8	20.7	20.7	20.7	20.7
Total current liabilities	**208.3**	**233.5**	**234.1**	**240.7**	**245.9**
Long-term borrowings	31.2	34.2	34.2	34.2	34.2
Other long-term liabilities	58.8	59.7	59.7	59.7	59.7
Total long-term liabilities	**89.9**	**93.9**	**93.9**	**93.9**	**93.9**
Shareholders' funds	**465.6**	**446.1**	**454.2**	**466.5**	**482.0**
Minority interests	-	-	-	-	-
BV/share (RM)	0.44	0.42	0.43	0.44	0.46

Cash Flow (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Pretax profit	0.3	0.4	20.4	30.8	38.7
Depreciation/Amortisation	28.1	28.3	30.5	29.8	29.2
Net change in working capital	3.6	12.1	12.0	(18.4)	(14.3)
Others	(3.4)	9.3	7.2	5.0	3.4
Cash flow from operations	**28.6**	**50.1**	**70.2**	**47.2**	**57.0**
Capital expenditure	(41.8)	(36.9)	(24.0)	(24.0)	(24.0)
Net investments & sale of fixed assets	-	2.0	-	-	-
Others	(1.3)	(1.3)	(0.5)	(0.5)	(0.5)
Cash flow from investing	**(43.1)**	**(36.2)**	**(24.5)**	**(24.5)**	**(24.5)**
Debt raised/(repaid)	16.7	5.5	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(10.5)	(10.5)	(8.2)	(12.3)	(15.5)
Others	(1.2)	1.2	(11.3)	(11.2)	(11.2)
Cash flow from financing	**4.9**	**(3.8)**	**(19.5)**	**(23.5)**	**(26.6)**
Net cash flow	**(9.6)**	**10.0**	**26.2**	**(0.8)**	**5.9**
Net cash/(debt) b/f	**32.3**	**24.7**	**37.9**	**64.1**	**63.2**
Net cash/(debt) c/f	**19.8**	**34.3**	**64.1**	**63.2**	**69.1**

Key Ratios

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Revenue growth (%)	(1.9)	(7.2)	10.2	10.4	7.4
EBITDA growth (%)	(44.5)	2.8	67.9	15.3	10.2
Pretax margin (%)	0.1	0.1	4.0	5.5	6.4
Net profit margin (%)	-	0.1	3.2	4.4	5.1
Interest cover (x)	1.0	1.0	2.8	3.7	4.5
Effective tax rate (%)	30.9	21.1	20.0	20.0	20.0
Dividend payout (%)	5,064.7	50.0	50.0	50.0	50.0

Debtors turnover (days)	90	83	76	84	85
Stock turnover (days)	167	200	177	147	149
Creditors turnover (days)	69	83	83	80	81

Source: Company, AmInvestment Bank Bhd.

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