

KAREX

(KAREX MK EQUITY, KAREX.MK)

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Narrative is turning into reality

BUY

(Maintained)

Paul Yap Ee Xing, CFA

paul.ee-xing@ambankgroup.com

+603 2036 2281

Rationale for report: Company Result

Price	RM0.76
Target Price	RM1.05
52-week High/Low	RM1.09/RM0.68

Key Changes

Target Price	↔
EPS	↔

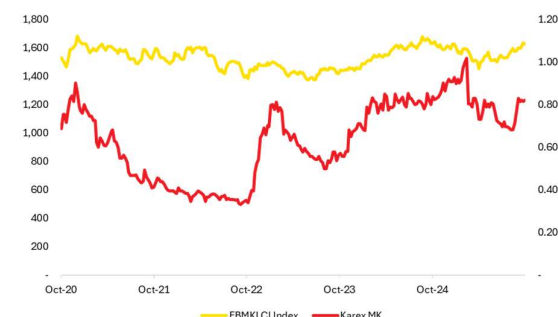
YE to Jun	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	498.4	546.0	673.1	736.1
Core net profit (RM mil)	9.9	20.7	41.8	52.8
FD Core EPS (sen)	0.9	2.0	4.0	5.0
FD Core EPS growth (%)	(66.9)	108.5	102.1	26.2
Consensus Net Profit (RM mil)	-	30.0	51.7	79.4
DPS (sen)	1.0	1.0	2.0	2.5
PE (x)	80.1	38.4	19.0	15.1
EV/EBITDA (x)	27.3	13.3	9.9	8.5
Div yield (%)	1.3	1.3	2.6	3.3
ROE (%)	-	4.4	8.6	10.3
Net Gearing (%)	26.0	19.8	22.5	19.6

Stock and Financial Data

Shares Outstanding (million)	1,053.5
Market Cap (RMmil)	795.4
Book Value (RM/Share)	0.44
P/BV (x)	1.7
ROE (%)	-
Net Gearing (%)	26.0

Major Shareholders	Karex One Ltd (17.5%) BNP Paribas (16.9%) Mayen Holdings Limited (11.5%)
Free Float	39.1
Avg Daily Value (RMmil)	1.0

Price performance	3mth	6mth	12mth
Absolute (%)	11.0	(5.6)	(17.0)
Relative (%)	10.4	(10.1)	(17.8)



Investment Highlights

The narrative is turning into reality. Karex's synthetic condom segment has become a meaningful profit contributor, accounting for 13% of revenue and 20–25% of gross profit. 1Q26 core earnings fell 38% YoY due to forex volatility, U.S. tariff headwinds, and weak tender sales. While near-term headwinds persist, the nitrile condom expansion plan—10 new lines by mid-2026—remains on track, setting the foundation for a structural growth phase. We reiterate **BUY** on Karex with a TP of RM1.05, based on a target PE of 23x CY27 EPS, supported by strong growth prospects from synthetic rubber condoms.

- **Reiterate BUY, TP RM1.05.** We maintain our BUY call on Karex with a target price (TP) of RM1.05, based on a target PE of 23x applied to CY27 EPS. The target PE is consistent with the stock's median forward PE since IPO and peers' 5-year mean PE. The valuation remains justified given its stronger growth prospects, underpinned by the development of new products such as synthetic rubber condoms, which are expected to capture incremental market share.
- **Core earnings in line.** 1Q26 core net profit fell 38% YoY to RM4.0mil, broadly in line at 19% of our forecast but below consensus at 13% of estimates. We expect sequential improvement in the coming quarters as nitrile condom contribution ramps up and tender sales normalise, given their inherently lumpy nature.
- **Synthetic condom delivered to partially offset unfavourable tailwinds.** 1Q26 was hit by a triple whammy of 1) unfavorable forex movements, 2) tariff impact on exports to the U.S. (approximately RM2.1mil), and 3) a 41% revenue decline in condom and personal lubricant sales to the tender market due to reductions in donor funding. Nevertheless, the impact was partially mitigated by the contribution of synthetic condom.
- **New growth engine remains on track.** Synthetic condom revenue rose to RM18mil during the quarter (+40% QoQ) while gross margin remained robust at 50%. Our back-of-the-envelope calculations suggest synthetic rubber condoms contributed 13% of revenue and 20–25% of gross profit during the quarter. We expect a gradual improvement for synthetic condom sales in coming quarters as utilisation rate picks up and expansion remains on track with 10 new lines scheduled to be completed by Mid-2026.

EXHIBIT 1: 1QFY26 EARNINGS SUMMARY

FYE June (RM mil)	1Q25	4Q25	1Q26	QoQ (%)	YoY (%)
Revenue	135.0	120.8	133.0	10.1	(1.5)
Gross profit	43.0	38.8	40.5	4.6	(5.7)
EBITDA	12.1	(4.3)	13.4	(415.5)	11.0
D&A	5.7	6.6	6.5	(2.1)	14.4
EBIT	6.4	(10.9)	6.9	(163.6)	8.0
Finance cost	(1.9)	(2.3)	(2.2)	(3.3)	18.4
Pretax profit	4.6	(13.1)	4.8	(136.2)	2.3
Taxation	(3.3)	3.7	(0.2)	(104.3)	(95.1)
PATAMI	1.4	(9.5)	4.6	(148.6)	228.7
Adjust	5.0	12.9	(0.6)	(104.9)	(112.7)
Core PATAMI	6.4	3.5	4.0	13.7	(38.3)
Core EPS (sen)	0.6	0.3	0.4	13.7	-38.3
Core DPS (sen)	-	0.5	-	nm	nm
Margins (%)					
GP margin (%)	31.9	32.1	30.5	-1.6ppt	-1.4ppt
EBITDA margin (%)	8.9	-3.5	10.1	13.6ppt	1.1ppt
Pretax margin (%)	3.4	-10.9	3.6	14.4ppt	0.1ppt
Effective tax rate (%)	69.9	28.0	3.3	-24.6ppt	-66.6ppt
Core net profit margin (%)	4.8	2.9	3.0	0.1ppt	-1.8ppt
Operating metrics					
Commercial	94.5	85.8	95.7	11.7	1.3
OBM	20.2	24.2	25.3	4.6	24.8
Tender	20.2	10.9	12.0	10.1	(40.9)

Source: Company

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 methodology

Our target price is RM1.05, based on a target PE of 23x and CY27 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:

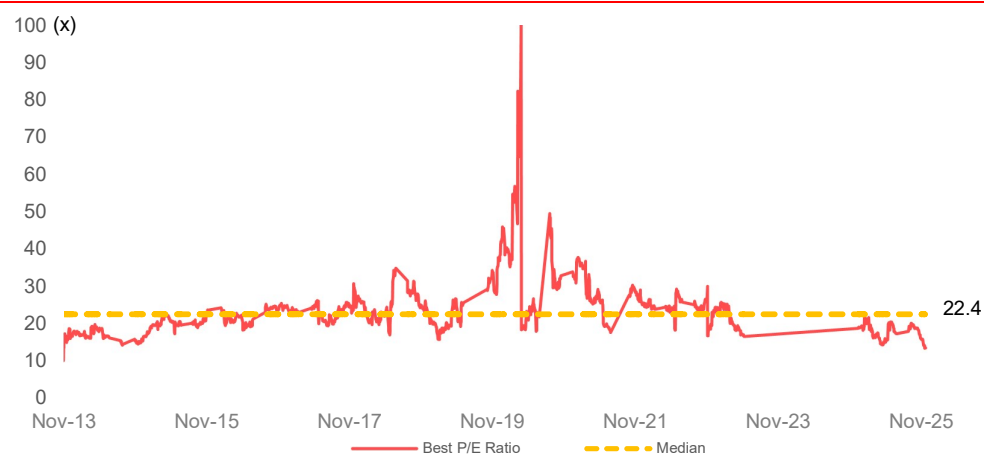
- 1) lower-than-expected acceptance rate for the new synthetic condoms;
- 2) slower-than-expected volume growth;
- 3) lower-than-expected average selling price for the new product; and
- 4) weaker-than-expected USD against the MYR.

EXHIBIT 2: VALUATIONS

Target PE (x)	23x
CY27 EPS	4.49
12-month target price	RM1.05

Source: AmlInvestment Bank Bhd

EXHIBIT 3: KAREX MEDIAN SINCE IPO



Source: Bloomberg

EXHIBIT 4: ESG RATING

No	ESG	Parameters	Weightage	Rating					Rationale
Environmental assessment									
1	GHG emissions	Scope 1 and 2 emissions	25%	*	*	*			Declining trend. Emissions of 27.3k tCO2e Scope 2 emissions in 2024 down from 30.4k tCO2e in 2023.
2	Waste management	Amount of rubber recycled	25%	*	*	*			Amount of rubber crepe produced from recycled rubber and sold to customers increased to 255MT in 2024 from 138MT in 2023 (+84.7% YoY).
3	Water management	Total water withdrawal	25%	*	*	*			Total water withdrawal across all production facilities increased from 439,213m3 in 2023 to 448,281m3 in 2024.
4	Energy consumption	Megajoules	25%	*	*	*			Energy consumption fell from 209mil MJ in 2023 to 186mil MJ in 2024.
Weighted score for environmental assessment			100%	*	*	*			
Social assessment									
1	Health and safety	Loss time incident frequency rate	25%	*	*				Loss time incident per mil work-hours rose from 0.09 to 0.15 in 2024.
2	Employee training	No of training hours	25%	*	*	*			Total formal training hours rose from 2,812 to 4,167 in 2024.
3	Women in workforce	% of total workforce	25%	*	*	*	*		60% of the workforce is female.
4	Contribution to the community	CSR initiative	25%	*	*	*			Donated a total of RM456,000 in cash and over 500,000 condoms to charitable causes.
Weighted score for social assessment			100%	*	*	*			
Governance assessment									
1	Board age diversity	% under 60 years old	15%	*	*				12.5% of the board age below 60.
2	Board women representation	% of total board directors	15%	*	*	*			37.5% of the directors are female.
3	Directors with tenure below 6 ye	% of below 6 years category	15%	*	*				25%.
4	Independent board directors	% of total board directors	15%	*	*	*			50%
5	Remuneration to directors	% of total staff costs	20%	*	*	*			3% of total staff cost
6	Corruption investigations	confirmed incidents	20%	*	*	*			No incidences over the past 3 financial years.
Weighted score for governance assessment			100%	*	*	*			
	Environmental score		40%	*	*	*			
	Social score		30%	*	*	*			
	Governance score		30%	*	*	*			
Overall ESG Score			100%	*	*	*			

Source: AmlInvestment Bank Bhd

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	507.8	498.4	546.0	673.1	736.1
EBITDA	65.0	33.6	66.6	92.1	105.3
Depreciation/Amortisation	(25.5)	(25.7)	(30.1)	(29.5)	(29.0)
Operating income (EBIT)	39.5	7.9	36.5	62.6	76.3
Other income & associates	-	-	-	-	-
Net interest	(8.5)	(7.6)	(10.3)	(10.3)	(10.3)
Exceptional items	6.5	9.7	-	-	-
Pretax profit	31.0	0.3	26.2	52.3	66.0
Taxation	(7.6)	(0.1)	(5.5)	(10.5)	(13.2)
Minorities/pref dividends	-	-	-	-	-
Net profit	23.4	0.2	20.7	41.8	52.8
Core net profit	30.0	9.9	20.7	41.8	52.8
Balance Sheet (RMmil, YE 30 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	258.7	269.9	267.8	265.9	264.1
Intangible assets	100.2	107.1	107.4	107.6	107.8
Other long-term assets	29.1	69.4	65.6	62.4	59.5
Total non-current assets	388.0	446.4	440.8	435.8	431.4
Cash & equivalent	39.0	33.2	60.2	42.4	51.7
Stock	155.2	158.7	154.3	182.8	196.7
Trade debtors	124.2	121.9	131.6	162.3	177.5
Other current assets	2.5	3.6	3.6	3.6	3.6
Total current assets	320.8	317.4	349.7	391.1	429.5
Trade creditors	62.5	67.3	83.7	99.2	106.7
Short-term borrowings	77.2	123.1	123.1	123.1	123.1
Other current liabilities	21.8	17.8	17.8	17.8	17.8
Total current liabilities	161.5	208.3	224.6	240.1	247.6
Long-term borrowings	43.1	31.2	31.2	31.2	31.2
Other long-term liabilities	21.3	58.8	58.8	58.8	58.8
Total long-term liabilities	64.4	89.9	89.9	89.9	89.9
Shareholders' funds	482.9	465.6	475.9	496.9	523.3
Minority interests	-	-	-	-	-
BV/share (RM)	0.46	0.44	0.45	0.47	0.50
Cash Flow (RMmil, YE 30 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	31.0	0.3	26.2	52.3	66.0
Depreciation/Amortisation	25.5	25.7	30.1	29.5	29.0
Net change in working capital	2.1	3.6	11.1	(43.7)	(21.5)
Others	12.5	(7.6)	4.8	(0.2)	(2.9)
Cash flow from operations	71.1	21.9	72.2	37.9	70.5
Capital expenditure	(19.9)	(42.2)	(24.0)	(24.0)	(24.0)
Net investments & sale of fixed assets	1.1	0.7	-	-	-
Others	(0.5)	(0.1)	(0.5)	(0.5)	(0.5)
Cash flow from investing	(19.3)	(41.6)	(24.5)	(24.5)	(24.5)
Debt raised/(repaid)	(16.8)	19.6	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(15.8)	(10.5)	(10.3)	(20.9)	(26.4)
Others	(9.4)	(1.2)	(10.3)	(10.3)	(10.3)
Cash flow from financing	(42.0)	7.9	(20.7)	(31.2)	(36.7)
Net cash flow	9.8	(11.9)	27.0	(17.8)	9.3
Net cash/(debt) b/f	27.6	32.2	33.2	60.2	42.4
Net cash/(debt) c/f	39.0	19.6	60.2	42.4	51.7
Key Ratios (YE 30 Jun)	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(4.6)	(1.9)	9.5	23.3	9.4
EBITDA growth (%)	32.0	(48.4)	98.6	38.2	14.3
Pretax margin (%)	6.1	0.1	4.8	7.8	9.0
Net profit margin (%)	4.6	-	3.8	6.2	7.2
Interest cover (x)	4.7	1.0	3.5	6.1	7.4
Effective tax rate (%)	24.4	30.9	21.0	20.0	20.0
Dividend payout (%)	67.4	5,064.7	50.0	50.0	50.0
Debtors turnover (days)	91	90	85	80	84
Stock turnover (days)	170	167	155	141	148
Creditors turnover (days)	73	69	75	77	80

Source: Company, AmlInvestment Bank Bhd estimates

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