

HLIB Research

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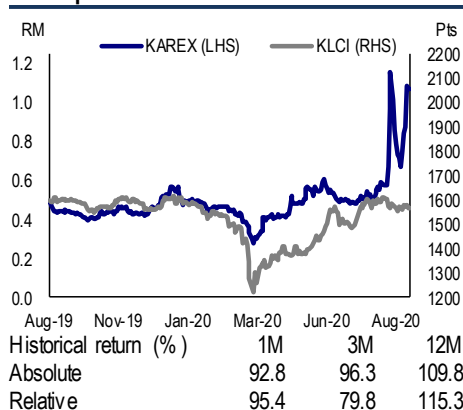
BUY (Maintain)

Target Price: **RM1.20**
Previously: **RM0.59**
Current Price: **RM1.07**

Capital upside	11.9%
Dividend yield	0.3%
Expected total return	12.2%

Sector coverage: Rubber products

Company description: Karex is the largest condom producer by volume in the world.

Share price

Stock information

Bloomberg ticker	KAREXMK
Bursa code	5247
Issued shares (m)	1,002
Market capitalisation (RM m)	1,073
3-mth average volume ('000)	15,402
SC Shariah compliant	No

Major shareholders

Karex One Ltd	18.4%
Goh Yin	7.8%
Goh Yen Yen	7.2%

Earnings summary

	FY20	FY21f	FY22f
FYE (June)			
PATMI - core (RM m)	1.4	5.7	9.0
EPS - core (sen)	0.1	0.6	0.9
P/E (x)	1070.0	187.2	118.6

Karex

Turned profitable in FY20, venturing into gloves

Karex's 4QFY20 core PATMI RM5m brought FY20 core PATMI to RM1.4m. The results came in above ours and consensus expectations. The deviation was due to higher than expected other income. FY20's revenue improved on the back of completion of final social audits. FY21 is expected to perform better, driven by increasing trend of ASPs, aided by smaller competition. Karex announced its decision to venture into gloves. The planned new glove facility, will be in Thailand with a total of 2.5bn pieces of capacity once fully completed. We increase our FY21-22 earnings by +70%/+33% to reflect in higher estimated revenue contribution and other income. In view of the positive results surprise (which is a return to black) and promising FY21 outlook driven by improving ASPs, coupled with the likely positive sentiment associated with their foray into gloves, we raise our PB target from 1.2x to 2.4x (-0.25SD below 5 year mean). Post earnings adjustments, our TP increase to RM1.20 (from RM0.59). We maintain BUY. Our TP is a function of 2.4x FY21 BVPS of 49.5 sen.

Above expectations. 4QFY20 core PATMI of RM5.0m (vs. -RM4.3m QoQ, -RM1.6m YoY) brought FY20 core PATMI of RM1.4m (-51.5% YoY). Core PATMI was derived after adjusting for net EIs of -RM1.2m on unrealised foreign exchange gain (RM2.2m) and provision on receivables (-RM3.3m). The results came in above ours and consensus expectations at 144% and 197% respectively. The deviation was due to higher-than-expected other income (+79% YoY).

Dividend. No dividend was declared.

QoQ. Revenue fell to RM91.1m (-8.1% QoQ) mainly due to lower contributions from all 3 segments; Sexual Wellness (-5.7%), Medical (-32.7%) and Others (-27.3%) segments. Overall, the decrease was due to the impact of limitations on operating capacity from the extension of the MCO. Production volume, export capabilities and other supply chain disruptions compounded a challenging quarter for manufacturing operations. PBT improved to RM4.3m (+>100% QoQ) mainly due to increase in other income (+>100%) which includes complimentary goods for sexual health products (i.e. toys, feminine hygiene wash). Core PATMI improved to RM5.0m (vs. -RM4.3m 3QFY20) despite higher tax expense (+>100% QoQ).

YoY. Revenue improved slightly (+2.2% YoY) backed by increased contribution from Sexual Wellness (+4.9%) and Others segment (+3.6%), however this was offset by lower contribution by Medical segment (-30.5%). PBT increase to RM4.3m (vs. -RM0.5m 4QFY19) aided by the increase in other income (+>100%). Core PATMI improved to RM5.0m (vs. -RM1.6m 4QFY19) despite higher tax expense (+>100% YoY).

FY20. Revenue of RM395.1m saw an increase (+4% YoY) that was mainly supported by the Sexual Wellness segment (+4.6%) and Others segment (+21%), however this was offset by lower contribution from Medical segment (-7.3%). This was partly credited to the completion of the final social audits, which allowed customers to place orders to replenish previously depleted stocks. PBT improved (+48.4% YoY) due to higher other income (+79.5%) and lower other expenses (-92.9%). Hence, Karex recorded a core PATMI of RM1.4m (-51.5% YoY) with a higher tax expense (+>100% YoY).

Venturing into gloves. Karex announced it has decided to venture into manufacturing and sale of gloves. Karex plans to establish a new manufacturing facility to supplement its existing operations at Innolates (Thailand) Limited in Hat Yai, Thailand. Karex plans to start with 2 production lines by Jun 2021 with an estimated

yearly production capacity of 500m pieces. The total planned capacity would be 2.5bn pieces per annum, and the production lines will be gradually set up over the course of the next 48 months.

Outlook. Karex is optimistic for a better FY21 supported by the increasing ASPs trend mostly thanks to reduction in condom suppliers affected from Covid-19. The new gloves manufacturing facility would be positive for Karex, however it is still too early to make any assumptions on contributions.

Forecast. We increase our FY21-22 earnings by +70%/+33% (amid a low base) to reflect in higher expected revenue contribution and other income.

Maintain BUY, TP: RM1.20. In view of the positive results surprise (which is a return to black) and promising FY21 outlook driven by improving ASPs, coupled with the likely positive sentiment associated with their foray into gloves, we raise our PB target from 1.2x to 2.4x (-0.25SD below 5 year mean). Post earnings adjustments, our TP increases to RM1.20 (from RM0.59). Our TP is a function of 2.4x FY21 BVPS of 49.5 sen. Maintain BUY.

Figure #1 Quarterly results comparison

FYE June (RM m)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	89.1	99.2	91.1	-8.1	2.2	379.9	395.1	4.0
EBITDA	4.0	4.8	8.6	79.9	>100	20.0	24.2	20.8
EBIT	-0.5	0.6	4.8	>100	NM	4.2	7.5	77.3
PBT	-0.5	0.0	4.3	>100	NM	3.8	5.6	48.4
PAT	-1.0	-0.4	2.6	NM	NM	3.1	3.3	8.6
Reported PATMI	-1.6	-1.1	1.4	NM	NM	2.5	0.2	-91.0
Core PATMI	-1.6	-4.3	5.0	NM	NM	2.8	1.4	-51.5
Core EPS (sen)	-0.2	-0.4	0.5	NM	NM	0.3	0.1	-51.5
EBITDA margin (%)	4.5	4.8	9.4			5.3	6.1	
EBIT margin (%)	-0.5	0.6	5.3			1.1	1.9	
PATMI margin (%)	-1.8	-4.3	5.5			0.7	0.3	

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Figure #2 Financial forecast summary

FYE June (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	408.0	379.9	395.1	444.6	453.5
EBITDA	28.1	20.0	24.2	29.2	34.5
EBIT	14.0	4.2	7.5	10.7	15.4
PBT	14.3	3.8	5.6	8.9	13.7
PAT	10.2	3.1	3.3	6.3	9.6
PATMI – Reported	10.1	2.5	0.2	5.7	9.0
PATMI – Core	16.1	2.8	1.4	5.7	9.0
% change YoY – Core PATMI	-37.8	-84.5	-51.5	>100	+57.9
Core EPS (sen)	1.6	0.3	0.1	0.6	0.9
P/E (x)	66.9	356.7	1070.0	187.2	118.6
EV/EBITDA (x)	24.0	23.3	19.5	36.2	30.8
DPS (sen)	0.7	0.2	0.3	0.3	0.5
Yield (%)	0.7	0.2	0.3	0.3	0.4
BVPS (RM/share)	48.2	49.0	48.6	49.5	50.1
P/B (x)	2.2	2.2	2.2	2.2	2.1
ROE (%)	3.2	0.5	0.3	1.2	1.8
Net Gearing (%)	N Cash	N Cash	N Cash	N Cash	N Cash

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HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
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