

*"Venturing into rubber glove manufacturing"*

### Share price performance



	1M	3M	12M
Absolute (%)	92.8	96.3	109.8
Rel KLCI (%)	95.4	79.8	115.3

	BUY	HOLD	SELL
Consensus	1	-	5

Source: Bloomberg

### Stock Data

Sector	Rubber
Issued shares (m)	1,002.4
Mkt cap (RMm)/(US\$m)	1072.5/256.8
Avg daily vol - 6mth (m)	11.7
52-wk range (RM)	0.26-1.23
Est free float	38.8%
Stock Beta	1.08
Net cash/(debt)	(3.6)
ROE (FY21E)	2.4%
Derivatives	No
Shariah Compliant	No

### Key Shareholders

KAREX ONE LTD	18.4%
Goh Yin	7.8%
Goh Yen Yen	7.2%

Source: Affin Hwang, Bloomberg



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## Karex (KAREX MK)

### SELL (maintain)

Up/Downside: -53%

### Price Target: RM0.50

Previous Target (Rating): RM0.30 (SELL)

### Venturing into rubber glove manufacturing

- Although Karex turned profitable in 4QFY20, PATAMI for FY20 at RM0.23m (-91% yoy) still fell short of both our and consensus expectations, delivering only 31% and 55% of the respective forecasts
- To improve its profitability, Karex aims to spend around RM77m to increase its stake in Global Protection (OBM) and venture into the glove manufacturing business
- Although we have raised our earnings forecasts for FY21-22 by 28%-106% to factor in the new development, and raised our P/BV-based 12-month TP to RM0.50, we are still maintaining our SELL call

### Competition has started to ease, but volumes still contracting

Despite the 8.1% qoq decline in revenue for 4QFY20, Karex delivered PATAMI of RM1.43m, which is a significant improvement over the LATAMI of RM1.13m in 3QFY20. The improvement was driven by an increased contribution from its higher-margin OBM segment, and a higher ASP revision for its tender market. We believe that Karex's ability to raise ASPs for the tender market is a positive sign that competition has started to ease. But, the overall contribution is unlikely to revert to previous levels as the overall tender volume continues to decline since the cutback by NGOs. A volume recovery would be an upside risk to our forecast.

### Spending more to drive future profitability

Karex guided that it will acquire the remaining 30% stake in Global Protection, which is currently profitable, to boost the contribution of its OBM segment, for around RM37m, based on our estimates. Apart from that, Karex also guided that it will spend RM40m to venture into the glove manufacturing business by building a glove factory in Thailand with an initial total capacity of 500m pcs/year. Although Karex plans to produce medical grade latex (natural rubber and nitrile) gloves, the focus will be on the retail market rather than the healthcare segment, as it is dominated by existing players. We believe that any material contribution will only be in FY22.

### Maintain SELL with a higher TP of RM0.50

We raise our EPS forecasts for FY21-22 by 28%-106% to factor in the increased contribution from Global Protection, and introduce our FY23 forecasts. However, we raise our TP to RM0.50 from RM0.30 as we have changed our valuation method from DCF to P/BV. Despite raising our TP, based on 1x our FY21 BVPS estimate, we believe that the current share price has already fully reflected the latest development; hence we are keeping our SELL call.

### Earnings & Valuation Summary

FYE 30 June	2019	2020	2021E	2022E	2023E
Revenue (RMm)	379.9	395.1	433.6	457.3	482.2
EBITDA (RMm)	20.0	24.2	30.2	39.1	48.4
Pretax profit (RMm)	3.8	5.6	15.0	23.7	33.1
Net profit (RMm)	2.5	0.2	11.8	18.8	26.2
EPS (sen)	0.3	0.0	1.2	1.9	2.6
PER (x)	423.4	4,704.1	91.1	57.2	40.9
Core net profit (RMm)	2.5	0.2	11.8	18.8	26.2
Core EPS (sen)	0.3	0.0	1.2	1.9	2.6
Core EPS growth (%)	(74.9)	(91.0)	5,061.7	59.5	39.9
Core PER (x)	423.4	4,704.1	91.1	57.2	40.9
Net DPS (sen)	1.0	0.5	0.5	0.5	0.7
Dividend Yield (%)	0.9	0.5	0.5	0.5	0.6
EV/EBITDA (x)	52.1	44.5	33.8	26.1	20.9
Chg in EPS (%)			+106.2	+27.9	new
Affin/Consensus (x)			1.2	1.0	new

Source: Company, Affin Hwang estimates



Fig 1: Results Comparison

FYE June (RMm)	4Q FY19	3Q FY20	4Q FY20	QoQ % chg	YoY % chg	FY19	FY20	YoY % chg	Comments
Revenue	89.1	99.2	91.1	(8.1)	2.2	379.9	395.1	4.0	Decline in revenue qoq due to a lower sales volume
Op costs	(84.5)	(94.5)	(82.5)	(12.6)	(2.4)	(359.9)	(370.0)	2.8	
<b>EBITDA</b>	<b>4.6</b>	<b>4.8</b>	<b>8.6</b>	79.9	88.1	<b>20.0</b>	<b>25.1</b>	25.4	Improvement in EBITDA due to an improvement in margin
<i>EBITDA margin (%)</i>	<i>5.1</i>	<i>4.8</i>	<i>9.4</i>	<i>+4.6 ppts</i>	<i>+4.3 ppts</i>	<i>5.3</i>	<i>6.4</i>	<i>1.1</i>	There was an increase in contribution from the higher-margin OBM segment
Depn and amort	(4.4)	(4.2)	(3.8)	(9.7)	(15.4)	(15.8)	(17.6)	11.6	
<b>EBIT</b>	<b>0.1</b>	<b>0.6</b>	<b>4.8</b>	>100	>100	<b>4.2</b>	<b>7.5</b>	77.3	
<i>EBIT margin (%)</i>	<i>0.1</i>	<i>0.6</i>	<i>5.3</i>	<i>+4.7 ppts</i>	<i>+5.2 ppts</i>	<i>1.1</i>	<i>1.9</i>	<i>+0.8 ppts</i>	Flow-through from EBITDA
Int expense	(0.3)	(0.7)	(0.6)	(9.3)	98.0	(1.4)	(2.3)	64.0	
Int and other income	0.2	0.1	0.0	(52.9)	(83.9)	1.0	0.5	(49.2)	Due to declining net cash balances
EI	-	-	-	-	-	-	-	-	
<b>Pretax profit</b>	<b>0.1</b>	<b>0.0</b>	<b>4.3</b>	>100	>100	<b>3.8</b>	<b>5.6</b>	48.4	
Tax	(0.5)	(0.4)	(1.6)	324.9	224.6	(0.7)	(2.3)	211.6	
<i>Tax rate (%)</i>	<i>800.0</i>	<i>(1203.1)</i>	<i>38.4</i>	<i>-1,164.7 ppts</i>	<i>-761.6</i>	<i>19.6</i>	<i>41.2</i>	<i>+21.6 ppts</i>	Taxes were paid as some of its subsidiaries were profitable
MI	(0.6)	(0.8)	(1.2)	53.4	112.0	(0.5)	(3.1)	489.9	
<b>Net profit</b>	<b>(1.0)</b>	<b>(1.1)</b>	<b>1.4</b>	na	na	<b>2.5</b>	<b>0.2</b>	(91.0)	
EPS (sen)	(0.1)	(0.1)	0.1	na	na	0.3	0.0	(91.0)	
<b>Core net profit</b>	<b>(1.0)</b>	<b>(1.1)</b>	<b>1.4</b>	na	na	<b>2.5</b>	<b>0.2</b>	(91.0)	Results missed our and consensus expectations

Source: Affin Hwang, Company



## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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