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Karex Weathers Rubber Glove Sell-Off, Shares Bounce Back



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KUALA LUMPUR: Shares of Karex Bhd, the world's largest condom manufacturer, have resumed their upward momentum after the stock found itself caught in the crossfire of the recent panic selling in glove stocks.

Karex shares were spooked by a knee-jerk reaction to news of Hartalega Holdings Bhd's dismal outlook early last week, despite the former's minimal involvement in rubber glove production.

More than 90 per cent of Karex's revenue comes from the group's sexual wellness segment, with the medical and other segments contributing around 6.5 per cent and 2.5 per cent, respectively, according to its latest quarterly financial report.

Still, shares of the condom maker dropped by 4.67 per cent to RM1.02 during last Tuesday's rubber glove market sell-off, before sliding further to 98 sen the following day.

The stock, however, swiftly rebounded to the RM1 mark last Thursday and ended the week in positive territory at RM1.03 per share, up three per cent or three sen from its prior close of RM1. This put the company's market capitalisation at RM1.05 billion.

Details of Karex's recent venture into rubber glove manufacturing are scarce, but the new revenue stream is expected to contribute to the medical segment.

Meanwhile, shares of the condom maker had climbed to levels not seen in over four years, hitting RM1.07 per share last Monday, just two sen shy of their near-record high of RM1.09 since the Covid-19 pandemic in 2020.

The stock crossed the RM1 mark for the first time in years on February 10, trading 4.98 million shares — its highest volume in at least six months.

This follows analysts' positive reviews of the group's successful commercialisation of synthetic condoms, which AmInvestment Bank analyst Liew Jin Sheng said could "disrupt the current condom market."

"The new product could disrupt the current condom market, as the product is made from synthetic rubber, which is soft and stretchy but thinner than most of the existing products," Liew said in a recent research note.

"The company will also generate better margins, as the new product commands a higher gross margin than latex condoms," the analyst added.

Echoing this view, Kenanga Research noted that Karex's entry into the synthetic condom market, coupled with a strategic partnership with a globally known original equipment manufacturer of condoms, is expected to boost future earnings and growth prospects.

Karex plans to ramp up synthetic condom production at its Hatyai plant in Thailand to 16 production lines by the end of 2025, or a total annual capacity of 400 million pieces.

Synthetic condoms currently comprise less than five per cent of the company's total production but will reach 6.7 per cent of total production by the end of 2025, the research firm said.

Karex has one "Strong Buy" call and one "Buy" recommendation with a consensus target price of RM1.27, representing an upside potential of 22.98 per cent, according to Bursa Marketplace.

In its financial year ended June 30, 2022 (FY22) annual report, Karex noted that the commercial production of its rubber gloves was scheduled to begin in FY23, following setbacks in FY22.

The group has a glove manufacturing facility in Hatyai with a production capacity of 2.5 billion pieces, but it remains unclear whether operations have commenced.

Last week, the Business Times reported that a staggering RM5.23 billion was wiped from the collective market capitalisation of Bursa Malaysia's "Big Four" glovemakers in a single day due to panic selling triggered by Hartalega.

This followed news of Hartalega's bleak outlook for the remainder of the year, reportedly shared during an earnings conference call, pushing the share prices of the Big Four down between 7.96 per cent and 23.2 per cent.

Except for Top Glove Corp Bhd, the group remained in the red, with Hartalega down by one sen or 0.4 per cent at RM2.48, Kossan Rubber Industries Bhd by four sen or 2.05 per cent at RM1.91, and Supermax Corp Bhd by one sen or 0.97 per cent at RM1.02.

Top Glove closed the week slightly higher at 96 sen, rising by half a sen or 0.52 per cent.