TA SECURITIES
A MEMBER OF THE TA GROUP
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RESULTS UPDATE
Friday, February 27, 2015
FBM KLCI: 1,820.87
Sector: Healthcare

Karex Berhad

Just the Beginning

TP: RM4.60 Ex: RM2.80

Last traded: RM4.05 Ex: RM2.45

BUY

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Review

- Karex reported 1HFY15 net profit of RM27.5mn (+14.5% QoQ, +28.5% YoY). This was within ours and consensus estimates at 45.3% and 43.6% respectively.
- In the first half, revenue decreased 0.3% YoY to RM147.1mn. Total capacity now stands at 4.0bn condoms/annum vs. 3.0bn condoms/annum in 1HFY14. Average utilisation rate stood high at 76.4%. The slight drop in revenue was attributed to a price reduction for government tenders – to compensate for lower material costs. Nevertheless, margins remained robust, expanding 5.0%-points to 24.2%. Improvements were underpinned by the sales of higher margin novelty products, softer ringgit and low material prices.
- Sequentially, with approximately 90% of sales conducted in USD, performance benefitted from a higher USD/MYR rate (+5.6% QoQ). Also, the quarter included sales and PAT contributions from Global Protection totalling RM6.7mn and RM320k respectively. Cost efficiency and operational rationalisation exercises have not been implemented as of date.
- Elsewhere, the group announced a: 1) Proposed private placement of up to 40.5mn new ordinary shares (10% of issued share capital) and 2) Proposed one-for-two bonus issue (to be conducted after proposed private placement). Estimated proceeds from the private placement of RM149.0mn, will be utilised for: 1) Development & business expansion of Karex (RM110.0mn); 2) Working capital (RM35.5mn) and 3) Estimated expenses in relation to proposals (RM3.5mn).

Impact

- Make the following changes to our estimates:
  1) Increase USD/MYR forecast to RM3.50.
  2) Lower average ASPs by 10%.
  3) Revise CAPEX assumption for FY15/FY16/FY17 to RM30.0mn/RM80.0mn/RM20.0mn.
  4) Adjust for proposed private placement and bonus issue.
- Change our FY15/FY16/FY17 estimates by +4.0%/+11.3%/+18.8% to RM63.2mn/RM77.6mn/RM92.6mn.

Outlook

- Completion of the Pontian plant has been delayed to end 2015. This is to redesign certain parts for the accommodation of new polyisoprene dipping lines. To buffer against the delay, it will expand facilities in Hatyai Yai by an additional 1.0bn condoms/annum (on schedule for completion by April 2015). Machines will be sourced from the closure of a factory in Spain. Putting the changes together, it now expects capacity to expand to 7.0bn condoms/annum by 2017.

Share Information

Bloomberg Code	KAREX MK
Stock Code	5247
Listing	Main Market
Share Cap (mn)	405.0
Market Cap (RMmn)	1,640.3
Par Value	0.25
52-wk Hi/Lo (RM)	4.24/2.64
12-mth Avg Daily Vol ('000 shrs)	657.3
Estimated Free Float (%)	30.6
Beta	na
Major Shareholders (%)	
	Goh Family - 63.3

Forecast Revision

	FY15	FY16
Forecast Revision (%)	4.0	11.3
Net profit (RMm)	63.2	77.6
Consensus	63.1	77.7
TA's / Consensus (%)	100.2	99.8
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY15	FY16
Net gearing (x)	-0.5	-0.4
CFPS (RM)	0.1	0.1
P/CFPS (x)	40.3	28.3
ROAA (%)	15.6	13.9
ROAE (%)	19.7	17.4
NTA/Share (RM)	0.6	0.7
Price/ NTA (x)	4.3	3.7

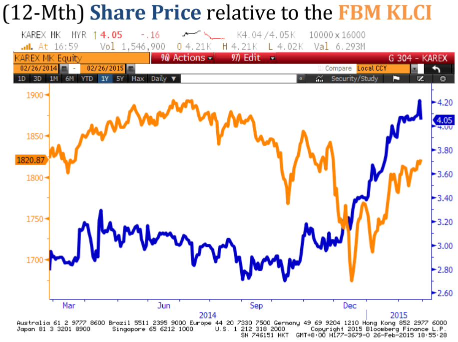
Scorecard

	% of FY	
vs TA	45.3	Within
vs Consensus	43.6	Within

Share Performance (%)

Price Change	KAREX	FBM KLCI
1 mth	1.3	2.2
3 mth	33.2	0.0
6 mth	44.6	-2.4
12 mth	39.7	-0.8

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

- The acquisition of Global Protection Corp (GP) will help strengthen its OBM division. GP is the owner of the ONE brand condom, which is the 4th bestselling brand in the US. It will also have the ability to tap on GP's wide reaching distribution arm to introduce products to other parts of the world. Introduction of the ONE brand in Malaysia and Singapore is on track for June 2015.
- Plans are in place to launch its polyisoprene condom by early next year. This will make it the third manufacturer in the world to supply the product. Noting its popularity, the product will be a key driver in developed markets. Priced at an estimated 3 to 8 times more than latex condoms, the product will play a part in aiding margins.

Valuation

- Increase our TP for Karex to RM4.60/share (Ex: RM2.80/share). This is based on a PE multiple of 22x and CY16 EPS of 12.7sen. Near term prospects remains bright with the completion of expansion plans in Hat Yai on schedule. Coupled with the weaker ringgit, this should help drive earnings in the second half. Our **BUY** recommendation remains unchanged.

Table 1: Earnings Summary (RMmn)

FYE Jun	FY13	FY14	FY15F	FY16F	FY17F
Revenue	231.4	285.3	328.2	410.9	485.5
EBITDA	44.4	60.4	86.1	109.0	130.6
Depreciation & amortisation	-5.9	-5.1	-8.7	-12.7	-15.9
Net finance cost	-2.4	-0.8	2.0	1.6	2.2
EI	0.0	0.0	0.0	0.0	0.0
PBT	36.1	54.4	79.4	97.9	117.0
Taxation	-7.1	-9.3	-15.9	-19.6	-23.4
MI	0.0	0.0	-0.3	-0.8	-0.9
Net profit	29.0	45.2	63.2	77.6	92.6
Core net profit	29.0	45.2	63.2	77.6	92.6
EPS (sen)	4.3	6.8	9.5	11.6	13.9
DPS (sen)	0.0	2.5	2.4	2.9	3.5

Table 2: 1HFY15 Results Analysis (RMmn)

FYE June	2QFY14	1QFY15	2QFY15	QoQ	YoY	1HFY14	1HFY15	YoY
Revenue	82.2	70.1	77.0	9.8	-6.3	147.6	147.1	-0.3
Result from operating activities	15.2	16.1	19.4	20.2	27.4	28.2	35.6	25.9
PBT	14.9	16.4	19.4	18.6	29.9	27.4	35.8	30.7
PAT	11.3	12.8	14.7	14.5	30.1	21.4	27.5	28.5
EPS (sen)	2.8	3.2	3.6	14.5	30.1	5.3	6.8	28.5
				%	%			%
Operating margin (%)	18.5	23.0	25.2	2.2	6.7	19.1	24.2	5.0
PBT margin (%)	18.2	23.3	25.2	1.9	7.0	18.5	24.3	5.8
Tax rate (%)	24.4	21.6	24.3	2.7	-0.1	21.7	23.1	1.3
Net profit margin (%)	13.7	18.3	19.1	0.8	5.3	14.5	18.7	4.2

Estimated Consolidated Results

for TA SECURITIES HOLDINGS BERHAD(14948-M)

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