



## Karex Berhad

Back on Track

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**TP: RM4.00 (+25.4%)**

Last traded: RM3.22

**BUY**

### Review

- Karex released its FY15 results of RM60.0mn (+14.2% QoQ, +32.7% YoY). This was within ours (98.4%) and consensus (99.6%) expectations.
- Compared to FY14, revenue and PBT for FY15 grew to RM297.4mn (4.2% YoY) and RM73.9mn (+35.8% YoY) respectively. PBT margins have widened by 5.8p.p. to 24.8%. This expansion was due to, 1) sale of higher margin products, 2) stronger USD/RM (+17.4% YoY) and 3) low raw material costs. As a reference, local latex prices in FY15 have been relatively subdued, averaging at RM4.12/kg, compared to FY14 at RM5.11/kg.
- Sequentially, 4QFY15 revenue increased by 10.5% QoQ to RM78.9mn. This was attributed to the higher volume of condoms sold. Operating margin have improved by 1.4p.p. to 24.7%. This was also due to the sale of higher margin products, and favourable USD/Ringgit and raw material costs.

### Outlook

- Moving forward, Karex would see an additional capacity of 3.0bn condoms p.a. coming from its new plants in Hat Yai, Thailand (+1.0bn) and Pontian, Johor (+2.0bn). These would bring total capacity to 7.0bn condoms p.a. The Hat Yai plant is slated for commissioning in September 2015 while the Pontian plant will be in December 2016. From our recent company visit, management shared that it has plans to expand its catheter segment, possibly doubling its existing capacity of 8.0mn, which is running at almost full capacity.
- In line with its strategy to grow its OBM segment, Karex had recently entered into a conditional share purchase agreement to purchase Medical-Latex (DUA) S/B, a local condom manufacturer based in Senai, Johor. This acquisition which is expected to be completed by early October 2015, would allow Karex to expand its existing array of brands. Besides this, come October 2015, Karex will be launching its ONE brand condoms in Malaysia and Singapore.

### Impact

- We make no changes to our estimates pending an Analysts' Briefing later today.

### Valuation

- Increase our TP for Karex to RM4.00/share (from RM3.60/share previously). This is based on a higher PE multiple of 29x. We are upbeat on 1) the potential synergies to be extracted from imminent M&A activities, 2) its strategy of increasing contributions from the higher margin OBM segment and 3) high ROE. Maintain our **BUY** recommendation on the stock.

### Share Information

Bloomberg Code	KAREX MK
Stock Code	5247
Listing	Main Market
Share Cap (mn)	668.3
Market Cap (RMmn)	2,151.8
Par Value	0.25
52-wk Hi/Lo (RM)	3.68/1.76
12-mth Avg Daily Vol ('000 shrs)	1099.0
Estimated Free Float (%)	34.4
Beta	1.0

### Major Shareholders (%)

Karex One Ltd	- 31.8
Lam Yiu Pang Albert	- 6.4

### Forecast Revision

	FY16	FY17
Forecast Revision (%)	-	-
Net profit (RMmn)	80.6	103.1
Consensus	84.7	104.2
TA's / Consensus (%)	95.1	98.9
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY16	FY17
Net gearing (x)	Net cash	Net Cash
CFPS (RM)	0.1	0.1
P/CFPS (x)	34.5	23.8
ROAA (%)	14.6	15.7
ROAE (%)	17.6	19.6
NTA/Share (RM)	0.7	0.8
Price/ NTA (x)	4.6	3.9

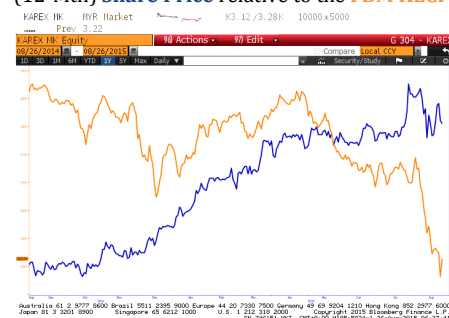
### Scorecard

	% of FY	
vs TA	98.4	Within
vs Consensus	99.6	Within

### Share Performance (%)

Price Change	KAREX	FBM KLCI
1 mth	-0.3	-9.1
3 mth	6.6	-11.5
6 mth	14.7	-13.9
12 mth	64.3	-16.0

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



Source: Bloomberg

**Table 1: Earnings Summary (RMmn)**

FYE Jun 30	FY14*	FY15	FY16F	FY17F	FY18F
Revenue	285.3	297.4	407.3	492.1	581.0
EBITDA	na	71.7	116.1	147.1	156.1
Depreciation & amortisation	na	0.0	-15.1	-18.7	-18.8
EBIT	55.2	71.7	100.9	128.4	156.1
Net finance cost	-0.8	2.2	0.9	1.7	2.7
EI	0.0	0.0	0.0	0.0	0.0
PBT	54.4	73.9	101.8	130.1	158.8
Taxation	-9.3	-13.8	-20.4	-26.0	-31.8
MI	0.0	-0.1	-0.8	-1.0	-1.3
Net profit	45.2	60.0	80.6	103.1	125.8
Core net profit	45.2	60.0	80.6	103.1	125.8
EPS (sen)	6.8	9.0	12.1	15.4	18.8
EPS growth (%)	55.6	32.7	34.5	27.8	22.0
DPS (sen)	2.5	2.3	3.0	3.9	4.7
Dividend yield (%)	0.8	0.7	0.9	1.2	1.5
PER (x)	47.6	35.9	26.7	20.9	17.1

\*estimated consolidated results

**Table 2: FY15 Results Analysis (RMmn)**

FYE June	4Q14	3Q15	4Q15	% QoQ	% YoY	FY14	FY15	% YoY
Revenue	63.1	71.4	78.9	10.5	25.0	285.3	297.4	4.2
Result from operating activities	13.8	16.7	19.5	17.0	41.9	55.2	71.7	29.9
PBT	13.6	17.3	20.8	20.3	53.1	54.4	73.9	35.8
PAT	12.2	15.2	17.3	13.4	41.7	45.2	60.1	33.0
MI	0.0	0.0	0.1	-	-	0.0	-0.1	-
Profit attributable to owners	12.2	15.2	17.4	14.2	42.3	45.2	60.0	32.7
EPS (sen)	1.8	2.3	2.6	13.4	41.7	6.8	9.0	33.0
<b>Margins</b>				<b>%</b>	<b>%</b>			<b>%</b>
Operating margin (%)	21.8	23.4	24.7	1.4	2.9	19.4	24.1	4.8
PBT margin (%)	21.5	24.2	26.4	2.1	4.8	19.1	24.8	5.8
Tax rate (%)	10.3	11.9	16.9	5.0	6.7	17.0	18.7	1.7
PAT margin (%)	19.3	21.4	21.9	0.6	2.6	15.8	20.2	4.4

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