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Hi-P reports S$24.2 million net profit for 1H2020

- Despite COVID-19 disruptions, revenue declined only 5.1% yoy to S$543.8 million for 1H2020
- Gross profit margin contracted from 13.3% for 1H2019 to 12.6% for 1H2020, due mainly to COVID-19 disruptions, partially offset by government subsidies granted and several cost control measures
- Healthy operating cash flow generation of S$40.6 million for 1H2020 contributed to balance sheet strength as the Group remains in a strong net cash position of S$196.9 million
- Group embarks on a holistic corporate transformation project to re-organize its management structure into two business units to sharpen competitive edge

Singapore – 29 July 2020, SGX Mainboard-listed Hi-P International Limited (Bloomberg Ticker: HIP SP, "Hi-P", "赫比国际有限公司" or "the Group"), a global contract manufacturer of smart phones, tablet computers and other consumer electronics, has announced its financial results for the first half ("1H2020") ended 30 June 2020.

Financial Highlights

(S$'000)	1H2020	1H2019	Change (%)
Revenue	543,758	573,220	(5.1)
Gross Profit	68,368	76,023	(10.1)
Gross Profit Margin (%)	12.6	13.3	(0.7) pts
Profit After Tax	24,201	25,037	(3.3)
Net Profit Margin (%)	4.5	4.4	0.1 pts
Earnings per Share (Sing Cents)	3.00	3.12	(3.8)
Net Asset Value per Share (Sing Cents)	76.88	69.06	11.3

The Group reported a 5.1% year-on-year ("yoy") decline in revenue to S$543.8 million for 1H2020, due primarily to the negative impact from COVID-19 disruptions in the first quarter ("1Q2020") ended 31 March 2020. This decline was cushioned by higher turnover for the second quarter ("2Q2020") ended 30 June 2020.

Gross profit declined 10.1% yoy to S$68.4 million for 1H2020, while gross profit margin contracted from 13.3% for 1H2019 to 12.6% for 1H2020. The decline was mainly due to lower revenue, losses resulting from COVID-19 disruptions for the Group's China operations in February 2020, inventory provision of S$1.9 million for 1H2020 compared to a reversal of S$3.4 million for 1H2019 and higher depreciation of property, plant & equipment. The decline was partially offset by government subsidies granted to the Group and several cost control measures.

Other income rose 61.4% yoy to S$7.6 million for 1H2020, attributable mainly to the various subsidies granted to the Group.

Total selling, distribution and administrative expenses increased 5.6% yoy to S$43.3 million for 1H2020, due mainly to the amortization of identifiable intangible assets arising from the acquisition of South East Asia Moulding Company Pte. Ltd, ("Seamco") in end October 2019 and higher employee share award expense.

The Group recorded an income tax expense of S$9.9 million for 1H2020, representing an effective tax rate of 29.0% (1H2019: 26.8%). The higher effective tax rate for 1H2020 was mainly the result of taxes imposed on profitable entities, and lesser deferred tax asset recognized on unutilized tax losses as compared to 1H2019.

Overall, the Group's net profit after tax declined marginally by 3.3% yoy to S$24.2 million for 1H2020.

The Group generated healthy operating cash flows amounted to S$40.6 million for 1H2020. This contributed to balance sheet strength as the Group remained in a net cash position of S$196.9 million as at 30 June 2020 (31 December 2019: S$210.6 million).

"The COVID-19 pandemic has caused considerable uncertainties for 1H2020. Specifically, our China operations were adversely impacted in 1Q2020 due to the COVID-19 lockdown. Our China operations have resumed production since the end of 1Q2020 and we have gained momentum quickly in 2Q2020 to compensate for the shortfall. Furthermore, governments' stimulus subsidies have helped us to alleviate the impact.

Although we faced some challenges during 1H2020, we have achieved reasonably good results with the team's collective effort. However, we remain vigilant in confronting future challenges and driving positive change across Hi-P.

We have initiated a business transformation campaign within Hi-P to sharpen our competitive edge. Notably, we have re-organized our management structure into two business units which are driven by two newly appointed Chief Operating Officers. This will enable us to better serve our customers and grow our businesses, and also part of our senior management development and leadership planning. Additionally, we are gathering momentum and continuously working on several initiatives including diversifying our production regions and customer base, ODM development, artificial intelligence aided system flows and automation, amongst others. All business functions and manufacturing sites have also initiated their own transformation plans as we embark on this holistic corporate transformation project.

While we remain cognizant of the potential second wave of COVID-19 and US-China trade war escalations, we will focus on harnessing our collective team effort and intelligence to work on our creative transformation. With these initiatives in place, we believe that we can bring Hi-P to greater heights in the coming years."

Mr. Yao Hsiao Tung (姚晓东), Executive Chairman & CEO

Outlook

According to the International Data Corporation ("IDC"), the worldwide smartphone market is forecasted to decline 11.9% yoy in 2020 with shipments totaling 1.2 billion units[1]. Smartphone shipments are expected to decline 18.2% in the first half of the year as the macroeconomic impact of the COVID-19 pandemic continues to affect consumer spending. Global smartphone shipments are not expected to return to growth until the first quarter of 2021.

As for the demand for notebook computers and tablets, initial feedback on the first quarter of 2020 across Europe suggests a spike of a third or so in yoy demand, as COVID-19 lockdowns have led companies to equip employees to work at home and students set themselves up to study remotely[2]. The current IDC forecast is that the personal computing devices sector will not suffer as much from the rapid contraction in economic performance as many other sectors, as it is key to productivity from home for so many workers.

Taking into account the industry outlook for smartphones, notebook computers and tablets, the Group will focus its efforts on the following to overcome industry challenges:

- Transformation into a business unit ("BU") organization
- Diversifying its customer base through the development of new customers and products
- Increasing allocation from existing customers
- Exploring opportunities for mergers and acquisitions that are synergistic to the Group's operations
- Exploring opportunities to expand the Group's manufacturing footprint to non-China regions
- Enhancing capacity utilization and manufacturing yield improvements
- Tightening cost controls
- Increasing automation and artificial intelligence aided processes across the Group
- Implementing effective motivation mechanisms for staff
- Talent development and succession planning

The Group continues to strive for sustainable growth in its journey to be one of the top contract manufacturers in Asia, by providing dedicated solutions to fulfill its customers' needs - from product development, component manufacturing to complete product assembly.

Barring any other unforeseen circumstances, the Group wishes to guide its financial performance as follows:

- The Group expects higher revenue and similar profit for 2H2020 as compared to 2H2019
- The Group expects higher revenue and profit for 2H2020 as compared to 1H2020
- The Group expects higher revenue and similar profit for FY2020 as compared to FY2019

-- The End --

[1] IDC, IDC Expects Worldwide Smartphone Shipments to Plummet 11.9% in 2020 Fueled by Ongoing COVID-19 Challenges, 3 June 2020
[2] IDC, Work-at-Home Causes One-Third Surge in Demand for Notebooks and Tablets Across Europe, says IDC, 9 April 2020

About Hi-P International Limited (Bloomberg Code: HIP.SP)

Hi-P started out in 1980 as a tooling specialist in Singapore and has since grown to become one of the region's largest and fastest-growing integrated contract manufacturers today.

The Group provides one-stop solutions to customers in various industries including wireless telecommunications, consumer electronics, computing and peripherals, the Internet of Things ("IoT"), medical devices and industrial devices from product development, component manufacturing to complete product assembly.

The Group has 13 manufacturing plants globally located across five locations in the People's Republic of China (Shanghai, Chengdu, Xiamen, Suzhou and Nantong), Poland, Singapore and Thailand. Hi-P has marketing and engineering support centres in PRC, Singapore, Taiwan, Germany and the USA.

The Group's customers include many of the world's biggest names in mobile phones, tablets, household and personal care appliances, computing and peripherals, the Internet of Things ("IoT"), medical devices and industrial devices.

For more information, please log on to www.hi-p.com

Issued for and on behalf of Hi-P International Limited by Financial PR

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