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Hi-P reports S$12.3 million net profit for 2Q2018; enters into production ramp-up phase for a seasonally stronger second half

- Higher sales volume drives an 8.0% yoy increase in revenue to S$302.0 million
- Gross profit margin declines from 12.2% to 9.8% due to a change in product mix and more competitive pricing
- Underpinned by a strong net cash position of S$62.4 million, the Group is actively exploring opportunities for mergers and acquisitions along with aggressive new business initiatives to further diversify its customer base and capture prevailing market trends

Singapore – 1 August 2018, 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 second quarter ("2Q2018") ended 30 June 2018.

Financial Highlights

(S$'000)	2Q2018	2Q2017	YoY % Change	1Q2018	QoQ % Change
Revenue	302,006	279,522	8.0	281,096	7.4
Gross Profit	29,701	34,185	(13.1)	37,795	(21.4)
Gross Profit Margin (%)	9.8	12.2	(2.4) pts	13.4	(3.6) pts
Profit After Tax	12,279	15,097	(18.7)	10,074	21.9
Net Profit Margin (%)	4.1	5.4	(1.3) pts	3.6	0.5 pts
Earnings per Share (Sing Cents)	1.52	1.87	(18.7)	1.25	21.6
Net Asset Value per Share (Sing Cents)	64.34	73.44	(12.4)	68.12	(5.5)

Driven by higher sales volume, the Group's revenue increased 8.0% year-on-year ("yoy") to S$302.0 million for 2Q2018. The Group's gross profit decreased 13.1% yoy to S$29.7 million. The Group's gross profit margin declined 2.4 percentage points to 9.8%. This decline was attributed to a change in product mix and more competitive pricing.

The Group remains committed to increasing the automation of its processes while focusing on improving operational efficiency and manufacturing yield, enhancing capacity utilization and tightening cost controls.

The Group's other income increased by S$2.5 million to S$4.8 million for 2Q2018. This was mainly due to higher government incentives granted to the Group's subsidiaries in China.

During the quarter, the Group reported a net gain of S$1.7 million as a result of net foreign exchange gains partially offset by fair value loss on hedging contracts resulting from the appreciation of USD against the RMB and SGD. This led to the Group recording other income amounting to S$1.0 million as opposed to an expense.

Total selling, distribution and administrative expenses increased 12.2% yoy to S$19.6 million for 2Q2018 due to higher staff costs stemming from annual salary increments and an increase in social security contributions imposed by local authorities.

The Group recorded an income tax expense of S$3.8 million for 2Q2018, representing an effective tax rate of 23.5% (2Q2017: 15.0%). The higher rate for 2Q2018 was mainly due to withholding tax paid on dividends declared by subsidiaries in China to the Company in 2Q2018.

Consequently, the Group reported a net profit of S$12.3 million for 2Q2018.

The Group's robust core business operations continued to generate positive operating cash flows amounting to S$53.5 million for 1H2018. This contributed to a strong financial position as cash and cash equivalents and restricted bank deposits amounted to S$257.8 million as at 30 June 2018. As a result, the Group remained in a net cash position of S$62.4 million (31 December 2017: S$77.6 million).

"The market sentiment towards trade war has led to a more challenging business environment and difficult business conditions. In addition, we face rising competition, especially from emerging competitors in China.

While disruptive market trends such as IoT should benefit Hi-P, this advantage has been eroded by the adverse market sentiment.

As a result of current market sentiment and rising competition, we continue to face pricing pressure from customers.

We continue to develop new customers in different industries and regions to diversify our customer base while increasing our allocations from existing customers. Moreover, we are actively pursuing Mergers & Acquisitions within the automotive and medical industries to mitigate the impact of seasonality and to expand our global footprint.

Together with our competitive strengths, strategies for growth and Hi-P's fighting spirit, we are ready to overcome the challenges."

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

Outlook

According to the International Data Corporation ("IDC"), the worldwide smartphone market will reach a total of 1.46 billion units shipped in 2018, down 0.2% from the units shipped in 2017. From there, shipments will reach 1.65 billion units in 2022, the final year of the IDC's forecast period, resulting in a CAGR of 2.5%[1].

Within the IoT segment which the Group has identified as a key avenue for growth, the IDC expects spending on IoT related products to experience a compound annual growth rate (CAGR) of 13.6% over the 2017-2022 forecast period and reach $1.2 trillion in 2022[2].

[1] IDC, Worldwide Smartphone Forecast Update, 2018–2022, June 2018
[2] IDC Forecasts Worldwide Technology Spending on the Internet of Things to Reach $1.2 Trillion in 2022, June 2018

Taking into account the industry outlook for the smartphone, IoT and consumer electronics markets and to overcome industry challenges, the Group will focus its efforts on:

- Developing new customers and products through targeted business development initiatives
- Increasing allocation from existing customers
- Exploring inorganic growth opportunities in automotive and medical industries
- Adopting a prudent approach to managing capital expenditure and tightening cost controls
- Enhancing capacity utilization, increasing automation and manufacturing yield improvements

The Group continues to strive for sustainable growth and be one of the top contract manufacturers in Asia, by providing a one-stop dedicated solution 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 performance as follows:

- The Group expects higher revenue but similar profit for 3Q2018 as compared to 3Q2017
- The Group expects higher revenue and profit in 2H2018 as compared to 1H2018
- The Group expects similar revenue but lower profit for FY2018 as compared to FY2017

-- The End --

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 a one stop solution to customers in various industries, including telecommunications, consumer electronics, computing & peripherals, lifestyle, medical and industrial devices from design, electro-mechanical parts, modules to complete product manufacturing services.

The Group has 12 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 and the USA.

The Group's customers include many of the world's biggest names in mobile phones, tablets, household & personal care appliances, computing & peripherals, lifestyle, 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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