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Hi-P reports S$33.8 million net profit for 3Q2018

- The Group is aggressively pursuing business development initiatives to expand the Group's customer base in Europe and Asia while exploring opportunities to enlarge its manufacturing footprint to new geographic regions through organic growth and mergers & acquisitions
- Board of Directors recommends an interim dividend of 1.0 Sing cent to reward shareholders

Singapore – 7 November 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 third quarter ended 30 September 2018 ("3Q2018").

Financial Highlights

(S$'000)	3Q2018	3Q2017	Change (%)	9M2018	9M2017	Change (%)
Revenue	377,118	411,336	(8.3)	960,220	935,048	2.7
Gross Profit	58,280	68,069	(14.4)	125,776	135,698	(7.3)
Gross Profit Margin (%)	15.5	16.5	(1.0) pts	13.1	14.5	(1.4) pts
Profit After Tax	33,795	38,368	(11.9)	56,148	61,865	(9.2)
Net Profit Margin (%)	9.0	9.3	(0.3) pts	5.8	6.6	(0.8) pts
Earnings per Share (Sing Cents)	4.19	4.76	(12.0)	6.97	7.67	(9.1)
Net Asset Value per Share (Sing Cents)	65.92	59.68	10.5	65.92	59.68	10.5

The Group's revenue decreased 8.3% year-on-year ("yoy") to S$377.1 million for 3Q2018 mainly due to less high component content projects, a decline in market demand resulting from economic uncertainty and a slower ramp up for certain new products in 3Q2018. Similarly, gross profit decreased 14.4% yoy to S$58.3 million while gross profit margin declined 1.0 percentage point to 15.5%. This decline was attributed to more competitive pricing and lower manufacturing yield from certain new products during the initial ramp up phase.

Despite the margin decline, the Group remains committed to increasing the automation of its processes in order to improve profitability margins while focusing on improving operational efficiency and manufacturing yield, enhancing capacity utilization and tightening cost controls.

During the quarter, the Group reported a net gain of S$2.7 million as a result of net foreign exchange gains partially offset by losses on hedging contracts resulting from the appreciation of USD against the RMB.

Total selling, distribution and administrative expenses increased 14.4% yoy to S$22.0 million for 3Q2018 due to higher staff costs stemming from employee share award expenses and annual salary increments.

The Group recorded an income tax expense of S$7.4 million for 3Q2018, representing an effective tax rate of 17.9% (3Q2017: 17.6%).

As a result of the above factors, the Group reported a net profit of S$33.8 million for 3Q2018.

The Group's robust core business operations continued to generate positive operating cash flows amounting to S$36.8 million for 3Q2018. This contributed to a strong financial position as cash and cash equivalents and restricted bank deposits amounted to S$236.7 million as at 30 September 2018. After accounting for total borrowings, the Group remained in a net cash position of S$63.5 million (31 December 2017: S$77.6 million).

"The ongoing trade war has led to a decline in demand from some customers. US customers who are currently procuring supplies from China would be affected. We are exploring ways to boost our domestic China and non-US business and optimize our other existing manufacturing sites based in different countries.

Our revenue for 3Q2018 was also impacted by lower manufacturing yield during the initial ramp up stage for certain new products and from the postponement in billing of certain production tools, which will be invoiced in 4Q2018.

In anticipation of the increasing sophistication of customers' projects, we will continue to strengthen our expertise to boost our competitiveness.

In light of the turbulent market situation, the management team is taking proactive measures to cope with the challenges, including diversifying our business into different regions and market sectors as well as undertaking mergers & acquisitions projects to extend footprint outside China."

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 1.45 billion units shipped in 2018, down 0.7% from the 1.47 billion units shipped in 2017. From there, shipments will reach 1.65 billion units in 2022, resulting in a compound annual growth rate ("CAGR") of 2.4%[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 CAGR of 13.6% over the 2017-2022 forecast period and reach $1.2 trillion in 2022[2]. Within the wearables market, double-digit growth will return in 2019 as smartwatches and new form factors gain acceptance. In 2022, IDC expects total shipment volumes will reach 190.4 million units, resulting in a CAGR of 11.6% over the five-year forecast[3].

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[1] IDC, Worldwide Smartphone Forecast Update, 2018–2022, September 2018
[2] IDC Forecasts Worldwide Technology Spending on the Internet of Things to Reach $1.2 Trillion in 2022, June 2018
[3] IDC, IDC Forecasts Slower Growth for Wearables in 2018 Before Ramping Up Again Through 2022, September 2018

Considering 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
- Enhancing capacity utilization, increasing automation and manufacturing yield improvements
- Tightening cost controls
- Exploring opportunities for mergers & acquisitions that are synergistic to the Group's operations
- Exploring opportunities to expand the Group's manufacturing footprint to other geographical regions

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 lower revenue and profit for 4Q2018 as compared to 4Q2017
- The Group expects higher revenue and profit for 2H2018 as compared to 1H2018
- The Group expects lower revenue and 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 one-stop solutions 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 six 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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