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Hi-P reports a 5.8% yoy rise in net profit to S$10.7 million for 1Q2019

- Despite challenging market conditions, revenue rises 2.0% yoy to S$286.8 million
- Gross profit margin declines 0.8 percentage points to 12.6% due to price pressure and a change in product mix
- Strong positive operating cash flow generation of S$67.6 million contributes to balance sheet strength as net cash position improves to S$169.4 million as at 31 March 2019 (31 December 2018: S$120.2 million)

Singapore – 2 May 2019, 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 quarter ("1Q2019") ended 31 March 2019.

Financial Highlights

(S$'000)	1Q2019	1Q2018	Change (%)
Revenue	286,775	281,096	2.0
Gross Profit	36,180	37,795	(4.3)
Gross Profit Margin (%)	12.6	13.4	(0.8) pts
Profit After Tax	10,660	10,074	5.8
Net Profit Margin (%)	3.7	3.6	0.1 pts
Earnings per Share (Sing Cents)	1.33	1.25	6.4
Net Asset Value per Share (Sing Cents)	72.86	68.12	7.0

Despite challenging market conditions, the Group's revenue increased 2.0% yoy to S$286.8 million for 1Q2019. Conversely, the Group's gross profit declined 4.3% yoy to S$36.2 million while gross profit margin declined 0.8 percentage points to 12.6%. This decline was attributable to price pressure and a change in product mix with the production of more low-margin high component content assembly products in 1Q2019 as compared to 1Q2018.

The Group's other income increased 39.2% yoy to S$2.2 million, consisting primarily of government incentives, rental income from the lease of factories and investment properties, and gains from the sale of scrap materials.

Other expenses declined 70.9% yoy to S$3.3 million mainly due to a S$7.9 million yoy decrease in net losses arising from foreign exchange and fair value on hedging contracts. Conversely, total selling, distribution and administrative expenses increased 16.9% yoy to S$19.6 million mainly due to higher bonus reversals in 1Q2018.

The Group recorded an income tax expense of S$3.3 million for 1Q2019, representing an effective tax rate of 23.6% (1Q2018: 16.8%). The higher effective tax rate for 1Q2019 was mainly the result of taxes imposed on profitable entities, and certain deferred tax assets not being recognized for unutilized tax losses.

As a result, the Group's net profit after tax increased 5.8% to S$10.7 million for 1Q2019.

The Group continued to generate strong positive operating cash flows amounting to S$67.6 million for 1Q2019. This contributed to a strengthening balance sheet as cash and cash equivalents and restricted bank deposits stood at S$276.6 million as at 31 March 2019. Consequently, the Group's net cash position improved to S$169.4 million (31 December 2018: S$120.2 million).

"Seasonally, our loading is generally lower for the first half of the year. Business competition has intensified and impacted our margin. However, with our control systems in place and continuing effort of everyone at Hi-P, we should achieve reasonably good results.

Market remains challenging but we are endeavouring to turnaround situation by penetrating different product fields through organic or inorganic ways. To this end, we have expanded our sales force in the United States and Europe and working on strengthening our sales force in Asia.

While manufacturing industry gears up for Industry 4.0, we are working relentlessly on automation and computerisation with artificial intelligence aided to enhance system flows. By doing so, we plan to reduce reliance on labour force and eliminate unnecessary paperwork.

Human resources are invaluable strategic assets of Hi-P. Presently, we have a ready pool of talented staff and this has enabled all departments to function well. I will continue to develop talented staff in our management. In addition, we will continue to recruit and groom talents through our management training programme to support our group's growth ambition.

Although trade war has yet to reach an end, we will continue with the implementation of our formulated corporate strategies to turn such impact into opportunities as I mentioned in the results press release for last quarter."

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

Outlook

According to the International Data Corporation ("IDC"), worldwide smartphone volumes are forecast to fall by 0.8% in 2019 with volumes dipping to 1.39 billion. However, the smartphone market will begin to pick up momentum with yoy growth of 2.3% expected in the second half of the year. Over the long term, smartphone shipments are forecast to reach 1.54 billion units in 2023[1].

Within the smart home devices segment, the IDC expects the market to grow 26.9% yoy in 2019 to 832.7 million shipments[2]. Similarly, the worldwide market for wearable devices is forecast to grow 15.3% over the previous year to 198.5 million units by the end of 2019[3].

[1] IDC, Smartphone Shipments Expected to Drop for the Third Consecutive Year in 2019, 6 March 2019
[2] IDC, Double-Digit Growth Expected in the Smart Home Market, 29 March 2019
[3] IDC, IDC Forecasts Steady Double-Digit Growth for Wearables as New Capabilities and Use Cases Expand the Market Opportunities, 18 March 2019

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:

- 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 other geographical regions
- Enhancing capacity utilization, increasing automation and manufacturing yield improvements
- Tightening cost controls

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 lower revenue but similar profit for 2Q2019 as compared to 2Q2018
- The Group expects higher revenue and profit for 2H2019 as compared to 1H2019
- The Group expects similar revenue and profit for FY2019 as compared to FY2018

-- 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 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 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, 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 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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