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Hi-P reports S$80.3 million net profit for FY2019

- Despite trade war tensions and a challenging business environment, revenue declines only marginally to S$1.37 billion
- Strong operating cash flow generation of S$250.8 million bolsters balance sheet strength to a net cash position of S$210.6 million as at 31 December 2019 (31 December 2018: S$120.2 million)
- Board of Directors recommends a final dividend of 2.0 Singapore cents bringing total dividends for FY2019 to 2.8 Sing cents

Singapore – 13 February 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 full year (“FY2019”) ended 31 December 2019.

Financial Highlights

(S$’000)	FY2019	FY2018	Change (%)
Revenue	1,367,669	1,402,117	(2.5)
Gross Profit	187,852	204,194	(8.0)
Gross Profit Margin (%)	13.7	14.6	(0.9) pts
Profit After Tax	80,310	100,922	(20.4)
Net Profit Margin (%)	5.9	7.2	(1.3) pts
Earnings per Share (Sing Cents)	10.00	12.54	(20.3)
Net Asset Value per Share (Sing Cents)	73.80	70.44	4.8

Despite challenging market conditions, trade war tensions and subdued global growth, the Group’s revenue declined only marginally, 2.5% year-on-year (“yoy”) to S$1.37 billion for FY2019. The decline was mainly due to price pressure and absence of revenue contribution from our flexible printed circuit board (“FPCB”) business unit upon the dilution of interest in Hi-Flex (Suzhou) Electronics Co., Ltd. in late 2018. The decrease was partially offset by the increase in overall sales volume during the year.

Gross profit declined 8.0% yoy to S$187.9 million while gross profit margin declined 0.9 percentage points to 13.7%. This was attributed mainly to price pressure, partially offset by the impact from dilution of loss from FPCB business unit.

Other income declined 39.0% yoy to S$10.7 million. The higher other income for FY2018 was mainly due to a one-off gain of S$6.1 million derived from the dilution of interest in Hi-Flex (Suzhou) Electronics Co., Ltd. from a subsidiary to an associate.

Total selling, distribution and administrative expenses increased 8.9% yoy to S$91.3 million due to higher employee share award expenses and annual salary increments. Conversely, other expenses generated an income of S$0.8 million for FY2019, as compared to an expense of S$13.9 million for FY2018. The improvement was mainly due to a S$7.6 million yoy decline in impairment losses on property, plant and equipment and a S$7.2 million yoy decline in net losses arising from foreign exchange differences and hedging contracts.

The Group recorded an income tax expense of S$23.8 million for FY2019, representing an effective tax rate of 22.8% (FY2018: 18.9%). The lower effective tax rate for FY2018 was mainly due to a one-off gain was tax exempted, while the higher effective tax rate for FY2019 was mainly due to deferred tax liabilities recognized on temporary differences.

Consequently, the Group's net profit after tax declined 20.4% yoy to S$80.3 million for FY2019.

The Group continued to generate strong positive operating cash flows amounting to S$250.8 million for FY2019. This contributed to a strengthening financial position as cash and cash equivalents and restricted bank deposits increased to S$332.7 million as at 31 December 2019. As a result, the Group's net cash position improved to S$210.6 million (31 December 2018: S$120.2 million).

To reward shareholders for their continued support, the Board of Directors recommends a final dividend of 2.0 Sing cents, bringing total dividends for FY2019 to 2.8 Sing cents.

"While an initial trade deal has been signed between the US and China and led to softening trade war tensions, the fundamental conflict has yet to be resolved. The US-China trade war tensions will continue. Under these adverse market conditions, we achieved acceptable results.

Several key factors continue to weigh on our operations. Firstly, as a result of the trade war, certain customers have requested for us to shift some of our operations outside of China. Secondly, price erosion has impacted our bottom line.

The spread of the Covid-19 has impacted our manufacturing operations in China through government mandated closure of our factories from 3 to 9 February 2020. Our operations have gradually resumed production since 10 February 2020. Prior to the enforcement of mandatory closures, we had already implemented business continuity plans across the Group to safeguard the well-being of our employees and ensure our continuing operations. However, the extent of any financial impact is difficult to ascertain as the situation continues to evolve, causing disruptions across global supply chains, including suppliers and final assemblers.

In the 40 years of our history, Hi-P has faced many crises. But with each crisis, we have emerged stronger. Despite the current challenging business conditions, we are garnering momentum in securing new business and pursuing M&A. Internally, we are automating operations and implementing artificial intelligence-aided processes across the Group. Furthermore, we have enhanced our motivation mechanisms to boost the performance of our staff.

With this foundation in place together with Hi-P's culture and fighting spirit, we remain confident in our long-term future."

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

Business Outlook

According to the latest report from the International Data Corporation ("IDC"), following three years of contraction, the worldwide smartphone market is expected to grow 1.5% year-on-year in 2020 with shipment volumes of just over 1.4 billion, fueled by the rise of 5G. IDC expects 190 million 5G smartphones to ship in 2020, accounting for 14% of total smartphones shipped, which far exceeds the first year of 4G shipments (2010) at 1.3%.[1]

Within the smart home devices segment, worldwide shipments of smart home devices are forecast to be more than 1.39 billion in 2023 with a five-year compound annual growth rate of 14.4% from 2018 to 2023.[2]

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

-- The End --

[1]IDC, China's Surge Into 5G Will Push the Worldwide Smartphone Market Back to Growth in 2020, According to IDC, 26 Nov 2019
[2] IDC, Worldwide Smart Home Devices Forecast to Maintain Steady Growth Through 2023, Says IDC, 23 September 2019

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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