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Hi-P reports 97.5% yoy surge in net profit to S$15.1 million for 2Q2017; enters into production ramp-up phase for 2H2017

- Gross profit jumps 64.9% yoy to S$34.2 million while margin expands 4.9 percentage points to 12.2%, driven by improvements to operational efficiency and a shift in product mix to less high component content assembly products
- Robust core business operations generate strong positive operating cash flows amounting S$51.5 million, contributing to balance sheet strength as net cash position improves to S$156.5 million as at 30 June 2017 (31 December 2016: S$25.1 million)
- The Board of Directors recommends an interim dividend of 19 Sing cents per share to reward shareholders for their support
- Management expects higher revenue and profit for 2H2017 as compared to 1H2017

Singapore – 3 August 2017, 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 ended 30 June 2017 ("2Q2017").

Financial Highlights

(S$'000)	2Q2017	2Q2016	YOY % Change	1Q2017	QOQ % Change
Revenue	279,522	285,368	(2.0)	244,190	14.5
Gross Profit	34,185	20,735	64.9	33,444	2.2
Gross Profit Margin (%)	12.2	7.3	4.9 pts	13.7	(1.5 pts)
Profit After Tax	15,097	7,644	97.5	8,400	79.7
Net Profit Margin (%)	5.4	2.7	2.7 pts	3.4	2.0 pts
Earnings per Share (Sing Cents)	1.87	0.94	98.9	1.04	79.8
Net Asset Value per Share (Sing Cents)	73.44	62.97	16.6	71.74	2.4

Despite the competitive industry landscape, the Group reported stable revenue of S$279.5 million for 2Q2017 with a marginally decrease of 2% year-on-year ("yoy"). Despite the decrease in revenue, gross profit surged 64.9% yoy to S$34.2 million. Similarly, the Group's gross profit margin expanded 4.9 percentage points to 12.2%. This growth was driven by a combination of improved operational efficiency and less high component content assembly products. While gearing up for a ramp up in production for the second half of the year, the Group incurred higher labour costs during 2Q2017.

Backed by strong cash flows generated from operations, the Group improved from a net debt position for 2Q2016 to a net cash position for 2Q2017. This led to net interest income amounting S$0.4 million for 2Q2017 as compared to S$0.9 million net interest expense for 2Q2016.

The Group's other income declined 80.5% yoy to S$2.3 million for 2Q2017. This decrease was attributed to higher other income for 2Q2016 resulting from a pre-tax gain of S$10.5 million from the disposal of an investment in a startup company.

For 2Q2017, the Group reported an income tax expense of S$2.7 million. This translated to a relatively lower effective tax rate of 15.0% due to the utilisation of unused tax losses where deferred tax assets were not recognised during 1Q2017 and prior years.

As a result of the above, the Group continued to garner momentum posting a 97.5% yoy increase in net profit to S$15.1 million for 2Q2017.

Heading into 2H2017 where the Group expects stronger sales as compared to 1H2017, the Group's inventories increased from S$142.9 million as at 31 December 2016 to S$155.4 million as at 30 June 2017.

The Group's robust business operations continued to generate strong positive operating cash flows amounting S$51.5 million for 2Q2017. This contributed to balance sheet strength as cash, cash equivalents and restricted bank deposits increased from S$120.7 million as at 31 December 2016 to S$255.2 million as at 30 June 2017. Correspondingly, the Group's net cash position improved to S$156.5 million as at 30 June 2017 (31 December 2016: S$25.1 million).

The Board of Directors has recommended an interim dividend of 19 Sing cents per share to reward shareholders for their support.

"Despite the decline in revenue, we have focused our efforts on ensuring business sustainability by improving operational efficiency and strategically manufacturing less high component content assembly products. This has helped to raise our gross profit margins while leading to significant improvement to our bottom line. Similarly, targeted efforts geared towards improving our cash conversion cycle has contributed to a strengthened balance sheet as our net cash position improved from S$25.1 million as at 31 December 2016 to S$156.5 million as at 30 June 2017.

To ensure the long-term sustainability of Hi-P, we have placed succession planning as a top priority and are developing talented individuals within the organisation. In the near term, we hope to reveal the next generation of leadership who will take Hi-P forward as a leading contract manufacturer for many years to come."

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

Outlook

According to research conducted by the International Data Corporation ("IDC"), global smartphone shipments are expected to increase by 3.0% in 2017 to 1.52 billion units, higher than the 2.5% growth achieved in 2016. This growth will be driven by the release of highly expected new phone launches in 2017. Subsequently, the IDC expects global smartphone shipments to rise 4.5% in 2018, increasing steadily to reach 1.745 billion units shipped by 2021[1].

In a separate study, IDC forecasts worldwide spending on the Internet of Things ("IoT") to grow 16.7% in 2017 reaching just over $800 billion in total expenditure. By 2021, global IoT spending is expected to total nearly $1.4 trillion as organisations continue to invest in the hardware, software, services, and connectivity that enable the IoT[2].

Similarly, IDC forecasts the vendors in the worldwide wearables market to increase 20.4% in 2017 to a total of 125.5 million wearable devices shipments[3].

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

- Tightening cost controls and improving operational efficiency to adopt a leaner business model
- Intensifying business development efforts to diversify the Group's customer base
- Enhancing capacity utilisation across all manufacturing sites while controlling capital expenditure
- Succession planning to ensure the long-term sustainability of the Group's operations

The Group continues to strive for sustainable growth and to 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 unforeseen circumstances, the Group wishes to guide its performance as follows:

- The Group expects similar revenue and profit for 3Q2017 as compared to 3Q2016
- The Group expects higher revenue and profit for 2H2017 as compared to 1H2017
- The Group expects similar revenue but higher profit for FY2017 as compared to FY2016

[1] IDC, Worldwide Smartphone Forecast Update, 2017–2021, June 2017
[2] IDC, Worldwide Spending on the Internet of Things Forecast to Reach Nearly $1.4 Trillion in 2021, June 2017
[3] IDC, Worldwide Wearables Market to Nearly Double by 2021, According to IDC, June 2017

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 14 manufacturing plants globally located across six locations in the People's Republic of China (Shanghai, Chengdu, Tianjin, 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 Pte Ltd

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