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Hi-P reported a 17.1% yoy rise in net profit to S$14.4 million for 2Q2019

- Gross profit margin rose 4.1 percentage points to 13.9% driven by a change in product mix, better cost management and more effective spending on new product introduction
- Strong positive operating cash flow generation of S$107.3 million for 1H2019 contributed to balance sheet strength as net cash position improved to S$149.2 million as at 30 June 2019 (31 December 2018: S$120.2 million)
- Actively pursuing M&A opportunities along with aggressive business development initiatives in new geographical regions and different product fields

Singapore – 1 August 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 second quarter ("2Q2019") ended 30 June 2019.

Financial Highlights

(S$'000)	2Q2019	2Q2018	Change (%)
Revenue	286,445	302,006	(5.2)
Gross Profit	39,843	29,701	34.1
Gross Profit Margin (%)	13.9	9.8	4.1 pts
Profit After Tax	14,377	12,279	17.1
Net Profit Margin (%)	5.0	4.1	0.9 pts
Earnings per Share (Sing Cents)	1.79	1.52	17.8
Net Asset Value per Share (Sing Cents)	69.06	64.34	7.3

The Group reported a 5.2% year-on-year ("yoy") decline in revenue to S$286.4 million for 2Q2019. The decline was primarily due to the deconsolidation of the Group's flexible printed circuit board ("FPCB") business unit upon the dilution of interest in Hi-Flex (Suzhou) Electronics Co., Ltd. in 4Q2018, price pressure and lower sales volume for certain customers. This decline was cushioned by an increase in demand from customers in other segments such as consumer electronics products as the Group continues to diversify its business.

Despite the decline in revenue, gross profit surged 34.1% yoy to S$39.8 million. Correspondingly, gross profit margin increased from 9.8% for 2Q2018 to 13.9% for 2Q2019. The rise in gross profit margin was driven by a change in product mix, better cost management, more effective spending on new product introduction and the deconsolidation of losses from the FPCB business unit.

Total selling, distribution and administrative expenses increased 6.2% yoy to S$21.4 million mainly due to higher staff costs resulting from salary increments and higher bonus provisions which were aligned with the higher profit before tax.

The Group recorded an income tax expense of S$5.9 million for 2Q2019, representing an effective tax rate of 29.0% (2Q2018: 23.5%). The higher effective tax rate was mainly the result of taxes imposed on profitable entities, and certain deferred tax assets not being recognized for unutilized tax losses. The impact was partially offset by an adjustment of tax in respect of the prior year, mainly due to an enhanced tax deduction approved in 2Q2019.

Consequently, the Group's net profit after tax increased 17.1% yoy to S$14.4 million for 2Q2019.

The Group continued to generate strong positive operating cash flows amounting to S$107.3 million for 1H2019. This contributed to a strengthening balance sheet as cash and cash equivalents and restricted bank deposits stood at S$252.0 million as at 30 June 2019. As a result, the Group's net cash position improved to S$149.2 million (31 December 2018: S$120.2 million).

"The global market remains volatile and uncertain. Although China and the United States have agreed to a "truce" in the trade war, many issues between the two countries remain unresolved. Furthermore, the recent trade dispute between Japan and South Korea has added more volatility to the already turbulent market.

Within Hi-P, we have been working aggressively on growth transformation and it has yielded some positive results, as evident by our 2Q2019 financials. However, we have yet to realise our full potential in light of the Group's transformation roadmap.

Every year, we continue to generate positive EBITDA which allows us to support our strategy of pursuing merger and acquisition ("M&A") activities. We have been on constant lookout for suitable M&A opportunities which complement our business model and plans. With our effort, we hope to achieve positive results from our pursuit of M&As to benefit our long-term growth.

Internally, we have continued to strengthen our staff talent pool to cope with business needs. In addition, we have also increased our sales team in various regions to explore new business including that of the medical and automotive industries.

To reduce the impact of trade war, we have initiated new projects in Thailand and worked on some plans out of China to cope with customers' business demand. In the meantime, we have also fought diligently for non-US related business to fill our operations in China.

We have diagnosed our situation and believe that we have figured out the right prescription. We believe that tough situations do not last but tough companies do. We will strive to grow bigger and stronger."

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

Outlook

According to the International Data Corporation ("IDC"), worldwide smartphone shipments are forecasted to grow 1.4% yoy in the second half of 2019 driven by 5G acceleration, a growing selection of lower-priced premium handsets, and on-going uplift from markets like India. IDC expects 5G smartphones to experience a slow start in 2019, capturing just 0.5% of total shipments. But the ramp up will be quick across all markets, driving 5G to account for 26.3% of worldwide shipments in 2023[1].

Within the smart home devices segment, the IDC anticipates the global smart home market will reach 840.7 million units by the end of 2019 and grow to 1.46 billion units by 2023 with a compound annual growth rate of 14.9%. This growth will be driven by the growing acceptance of connected devices within the home, including smart TVs, smart speakers, cameras, door locks, doorbells, and many more[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 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 higher revenue and similar profit for 3Q2019 as compared to 3Q2018
- The Group expects higher revenue and profit for 2H2019 as compared to 1H2019
- The Group expects similar revenue but lower profit for FY2019 as compared to FY2018

-- The End --

[1] IDC, IDC Forecasts Worldwide Smartphone Market Will Face Another Challenging Year in 2019 with a Return to Growth on the Horizon, 30 May 2019
[2] IDC, Growing Acceptance of Smart Home Devices Will Drive Double-Digit Growth Through 2023, According to a New IDC Forecast, 25 June 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 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 visit www.hi-p.com

Issued for and on behalf of Hi-P International Limited by Financial PR

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