

# Hi-P International (HIP SP)

Technology - Technology

Market Cap: USD311m

**Trading Buy** (Maintained)

 Target Price: **SGD0.61**

 Price: **SGD0.51**

## Surging Back To Life

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	0.06m/0.04m
Cons. Upside (%)	9.3
Upside (%)	20
52-wk Price low/high (SGD)	0.34 - 0.77
Free float (%)	10
Share outstanding (m)	816
<b>Shareholders (%)</b>	
Yao Hsiao Tung	60.2
Molex Inc	21.8
Hi-P International	8.4

**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	(26.7)	39.0	10.3	(8.6)	(21.3)
Relative	(16.5)	33.0	15.6	4.3	(13.3)

**Jarick Seet** +65 6232 3891

[jarick.seet@rhbgroup.com](mailto:jarick.seet@rhbgroup.com)

Hi-P made a strong turnaround with its positive 3Q15 results. **Maintain TRADING BUY** with a SGD0.61 TP (from SGD0.59, 20% upside), based on 0.7x FY15F P/BV. It beat consensus estimates, with revenue and NPAT surging 60% YoY to SGD394m and 125.8%YoY to SGD24.3m, a strong reversal from 1H15's SGD22m loss. An interim dividend of SGD0.3cents was also declared. With a positive outlook ahead, we lift our FY15F recurring NPAT by 89%.

- ◆ **Positive 3Q15 lifting it back into profitability.** Hi-P International (Hi-P) reported a strong 3Q15, blowing past average consensus estimates with revenue and net profit after tax (NPAT) surging 60% YoY to SGD394m and 125.8% to SGD24.3m, a strong reverse from a 22m loss in 1H15 (-SGD8m 2Q15). Gross profit margin expanded from 9.4% to 13.6% due to a shift in product mix. In addition, its Jinhai and Nantong factories, previously loss making, have made a turnaround in 3Q15. Average utilisation rates have also increased to 50% in 3Q (40% 2Q).
- ◆ **Yota claim still unknown, but likely positive.** Management is still in talks with the concerned parties to find a resolution relating to the arbitration claim. Currently, the USD126m claim is parked under both account receivables and inventory under the balance sheet. With Yota Devices being taken over by REX Global Entertainment (164 HK, NR), we expect a positive settlement favoring Hi-P. However, we note that there is still a risk of Hi-P needing to account for an impairment loss depending on the outcome of the claim.
- ◆ **LeTV sold 550k units on the first day of launch.** Leshi Internet Information & Technology Corp (LeTV) has enjoyed a robust reception of its latest smartphone launch. It sold about 550,000 units on its launch date and has pre-orders of about 4m currently. Hi-P, one of the two main manufacturers, would likely stand to benefit from this and contribute positively to their 4Q15.
- ◆ **Strong turnaround justified, maintain TRADING BUY.** With a positive operational outlook ahead, we lift our FY15F recurring NPAT by 89% to SGD21.4m while maintaining TRADING BUY on this counter with a higher SGD0.61 TP, based on a 0.8x FY15F P/BV. However, we note the uncertainty of the arbitration claim that may potentially affect its FY15 results.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	1,262	951	1,446	1,675	1,770
Reported net profit (SGDm)	6.4	10.5	21.4	32.3	36.3
Recurring net profit (SGDm)	6.4	10.5	21.4	32.3	36.3
Recurring net profit growth (%)	(64.4)	63.6	104.0	51.4	12.3
Recurring EPS (SGD)	0.01	0.01	0.03	0.04	0.04
DPS (SGD)	0.01	0.01	0.01	0.02	0.02
Recurring P/E (x)	69.1	42.2	20.7	13.7	12.2
P/B (x)	0.74	0.73	0.71	0.69	0.67
P/CF (x)	5.3	12.9	2.4	4.0	3.2
Dividend Yield (%)	1.1	1.9	1.9	2.8	3.7
EV/EBITDA (x)	4.08	4.67	3.00	2.82	2.73
Return on average equity (%)	1.1	1.7	3.5	5.1	5.6
Net debt to equity (%)	net cash	0.4	net cash	net cash	1.0
Our vs consensus EPS (adjusted) (%)			(35.4)	(2.1)	9.9

Source: Company data, RHB

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Figure 1: 3Q15 Results summary

FYE Dec (SGDm)	2Q15	3Q14	3Q15	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>314.7</b>	<b>245.7</b>	<b>394.2</b>	<b>25.3</b>	<b>60.4</b>	Revenue increased by 60.4% YoY to SGD394.2m mainly driven by increase in orders from key customers.
<b>EBITDA</b>	<b>15.8</b>	<b>32.4</b>	<b>55.2</b>	<b>250.5</b>	<b>70.4</b>	
<i>EBITDA margin</i>	<i>5%</i>	<i>13%</i>	<i>14%</i>			
Depreciation and amortisation	(24.6)	(19.2)	(26.4)	7.4	37.9	
<b>EBIT</b>	<b>(8.9)</b>	<b>13.2</b>	<b>28.8</b>	<b>n.m</b>	<b>117.4</b>	Increase is mainly due to higher sales and margins as a result of a positive shift in product mix, partially offset by higher scrap costs incurred during production ramp-up.
<i>EBIT margin</i>	<i>-2.8%</i>	<i>5.4%</i>	<i>7.3%</i>			
Net finance cost	0.4	0.2	(0.9)	n.m	n.m	
<b>Pretax profit</b>	<b>(8.5)</b>	<b>13.4</b>	<b>27.9</b>	<b>n.m</b>	<b>107.5</b>	
<i>Pretax margin</i>	<i>-3%</i>	<i>5%</i>	<i>7%</i>			
Tax	0.5	(2.7)	(3.6)	n.m	33.6	
<i>Effective tax rate (%)</i>	<i>-6%</i>	<i>-20%</i>	<i>-13%</i>			The low effective tax rate was mainly due to utilisation of previous unused tax losses.
<b>Net profit</b>	<b>(8.0)</b>	<b>10.8</b>	<b>24.3</b>	<b>n.m</b>	<b>125.8</b>	
<i>Net margin</i>	<i>-3%</i>	<i>4%</i>	<i>6%</i>			

Source: RHB estimates

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	1,262	951	1,446	1,675	1,770
Cost of sales	(1,165)	(881)	(1,315)	(1,511)	(1,595)
<b>Gross profit</b>	<b>98</b>	<b>70</b>	<b>130</b>	<b>164</b>	<b>175</b>
Gen & admin expenses	(81)	(63)	(91)	(105)	(111)
Selling expenses	(10)	(8)	(11)	(16)	(17)
Other operating costs	3	16	-	-	1
<b>Operating profit</b>	<b>11</b>	<b>15</b>	<b>28</b>	<b>43</b>	<b>48</b>
Operating EBITDA	98	94	133	153	163
Depreciation of fixed assets	(88)	(79)	(104)	(110)	(114)
<b>Operating EBIT</b>	<b>11</b>	<b>15</b>	<b>28</b>	<b>43</b>	<b>48</b>
Net income from investments	(0)	0	-	-	-
Interest income	3	2	2	2	2
Interest expense	(2)	(2)	(2)	(2)	(2)
<b>Pre-tax profit</b>	<b>11</b>	<b>16</b>	<b>28</b>	<b>43</b>	<b>48</b>
Taxation	(5)	(5)	(7)	(11)	(12)
Minority interests	(0)	-	-	-	-
<b>Profit after tax &amp; minorities</b>	<b>6</b>	<b>10</b>	<b>21</b>	<b>32</b>	<b>36</b>
<b>Reported net profit</b>	<b>6</b>	<b>10</b>	<b>21</b>	<b>32</b>	<b>36</b>
<b>Recurring net profit</b>	<b>6</b>	<b>10</b>	<b>21</b>	<b>32</b>	<b>36</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>11</b>	<b>15</b>	<b>28</b>	<b>43</b>	<b>48</b>
<b>Depreciation &amp; amortisation</b>	<b>88</b>	<b>79</b>	<b>104</b>	<b>110</b>	<b>114</b>
<b>Change in working capital</b>	<b>(38)</b>	<b>(51)</b>	<b>57</b>	<b>(33)</b>	<b>(13)</b>
Other operating cash flow	29	2	2	2	2
<b>Operating cash flow</b>	<b>90</b>	<b>46</b>	<b>192</b>	<b>122</b>	<b>152</b>
Interest received	3	2	2	2	2
Interest paid	(2)	(2)	(2)	(2)	(2)
Dividends received	0	-	-	-	-
Tax paid	(8)	(12)	(7)	(11)	(12)
<b>Cash flow from operations</b>	<b>83</b>	<b>34</b>	<b>185</b>	<b>112</b>	<b>140</b>
Capex	(66)	(66)	(132)	(132)	(132)
Other investing cash flow	(2)	3	2	2	2
<b>Cash flow from investing activities</b>	<b>(68)</b>	<b>(63)</b>	<b>(130)</b>	<b>(130)</b>	<b>(130)</b>
Dividends paid	(10)	(5)	(8)	(12)	(16)
Shares repurchased	(6)	(1)	-	-	-
Increase in debt	(39)	110	(60)	40	30
Other financing cash flow	(3)	(2)	(2)	(2)	(2)
<b>Cash flow from financing activities</b>	<b>(58)</b>	<b>102</b>	<b>(70)</b>	<b>26</b>	<b>11</b>
Cash at beginning of period	166	132	208	191	196
<b>Total cash generated</b>	<b>(43)</b>	<b>74</b>	<b>(15)</b>	<b>7</b>	<b>21</b>
Forex effects	9	3	(3)	(3)	(3)
<b>Implied cash at end of period</b>	<b>132</b>	<b>208</b>	<b>190</b>	<b>195</b>	<b>214</b>

Source: Company data, RHB

## Financial Exhibits

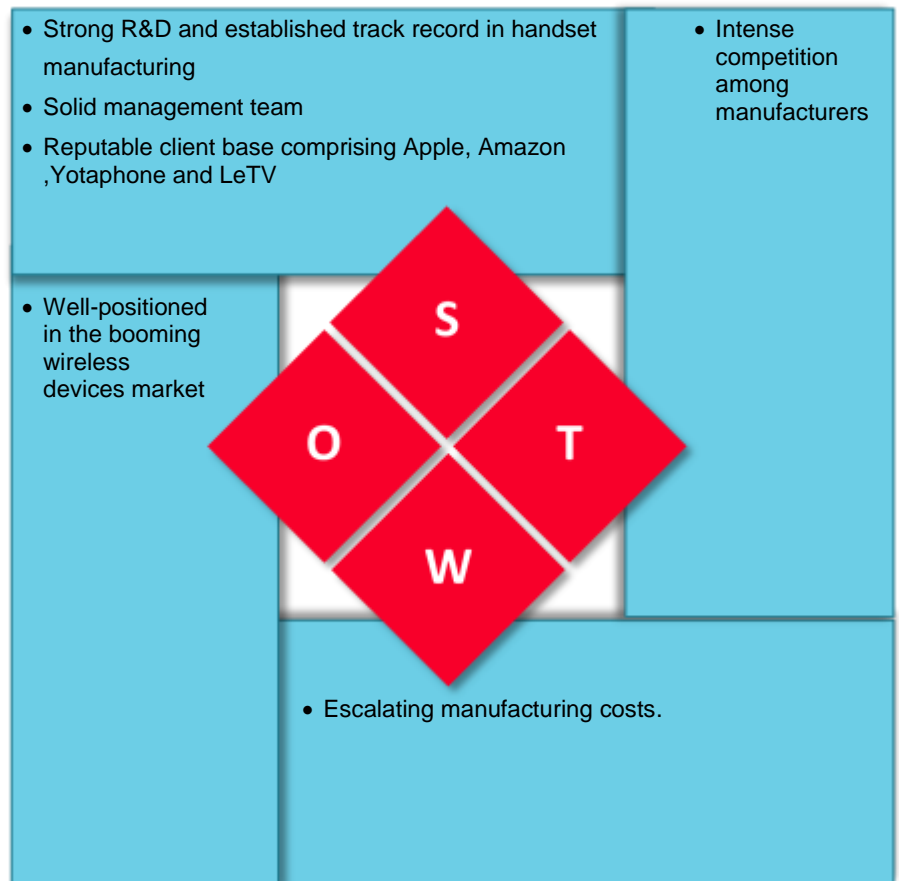
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	139	213	196	201	219
Inventories	163	223	158	181	191
Accounts receivable	323	373	318	369	389
Other current assets	14	9	9	9	9
<b>Total current assets</b>	<b>639</b>	<b>818</b>	<b>681</b>	<b>760</b>	<b>809</b>
Total investments	8	7	7	7	7
Tangible fixed assets	359	397	424	446	464
Total other assets	21	27	27	27	27
Total non-current assets	388	430	458	480	497
<b>Total assets</b>	<b>1,026</b>	<b>1,248</b>	<b>1,139</b>	<b>1,240</b>	<b>1,306</b>
Short-term debt	102	212	212	212	212
Accounts payable	239	339	276	317	335
Other current liabilities	83	84	84	84	84
<b>Total current liabilities</b>	<b>424</b>	<b>636</b>	<b>573</b>	<b>614</b>	<b>631</b>
Total long-term debt	2	3	(57)	(17)	13
Other liabilities	1	3	3	3	3
<b>Total non-current liabilities</b>	<b>3</b>	<b>6</b>	<b>(54)</b>	<b>(14)</b>	<b>16</b>
<b>Total liabilities</b>	<b>427</b>	<b>641</b>	<b>519</b>	<b>600</b>	<b>647</b>
Share capital	120	120	120	120	120
Retained earnings reserve	469	475	488	508	527
Other reserves	9	12	12	12	12
<b>Shareholders' equity</b>	<b>598</b>	<b>606</b>	<b>619</b>	<b>639</b>	<b>658</b>
Minority interests	1	1	1	1	1
Other equity	0	(0)	(0)	(0)	(0)
<b>Total equity</b>	<b>599</b>	<b>607</b>	<b>620</b>	<b>640</b>	<b>659</b>
<b>Total liabilities &amp; equity</b>	<b>1,026</b>	<b>1,248</b>	<b>1,139</b>	<b>1,240</b>	<b>1,306</b>

Source: Company data, RHB

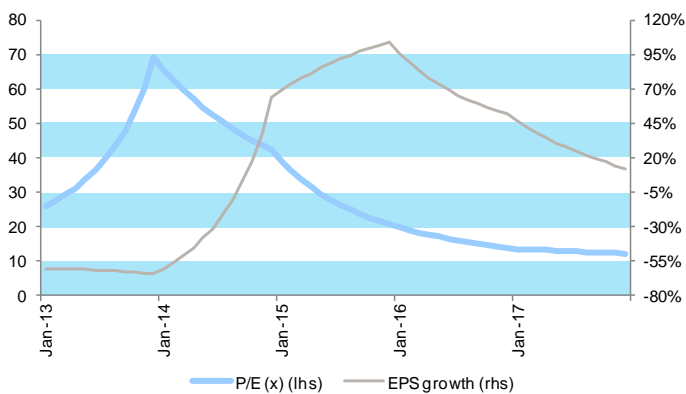
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	8.2	(24.6)	52.0	15.9	5.7
Operating profit growth (%)	(45.3)	40.2	89.8	53.1	11.8
Net profit growth (%)	(64.4)	63.6	104.0	51.4	12.3
EPS growth (%)	(64.4)	63.6	104.0	51.4	12.3
BVPS growth (%)	3.3	1.3	2.2	3.2	3.0
Operating margin (%)	0.8	1.6	2.0	2.6	2.7
Net profit margin (%)	0.5	1.1	1.5	1.9	2.1
Return on average assets (%)	0.6	0.9	1.8	2.7	2.9
Return on average equity (%)	1.1	1.7	3.5	5.1	5.6
Net debt to equity (%)	(5.9)	0.4	(6.5)	(0.9)	1.0
DPS	0.01	0.01	0.01	0.02	0.02
Recurrent cash flow per share	0.10	0.04	0.22	0.14	0.17

Source: Company data, RHB

## SWOT Analysis

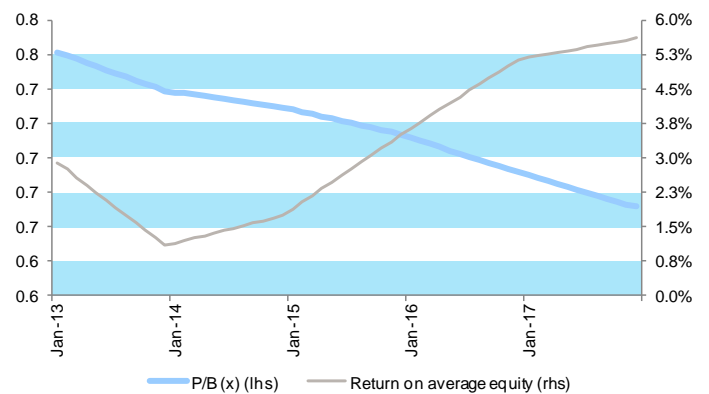


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

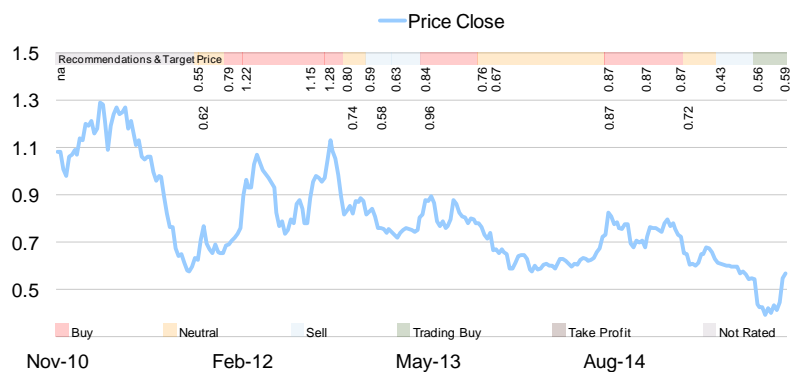


Source: Company data, RHB

## Company Profile

Hi-P International is an integrated contract manufacturing services provider specialising in precision plastic injection moulding, mould design and fabrication, assembly, ancillary value-added services and precision metal stamping.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-10-23	Trading Buy	0.59	0.50
2015-08-09	Trading Buy	0.56	0.50
2015-05-08	Sell	0.43	0.58
2015-02-17	Neutral	0.72	0.63
2015-01-29	Buy	0.87	0.73
2014-11-20	Buy	0.87	0.67
2014-11-05	Buy	0.87	0.68
2014-08-05	Buy	0.87	0.65
2014-08-03	Buy	0.87	0.68
2013-11-04	Neutral	0.67	0.61

Source: RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

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**Kuala Lumpur**

**RHB Research Institute Sdn Bhd**  
Level 11, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur  
Malaysia  
Tel : +(60) 3 9280 2185  
Fax : +(60) 3 9284 8693

**Hong Kong**

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor  
World-Wide House  
19 Des Voeux Road  
Central, Hong Kong  
Tel : +(852) 2525 1118  
Fax : +(852) 2810 0908

**Singapore**

**RHB Research Institute Singapore  
Pte Ltd (formerly known as DMG & Partners Research  
Pte Ltd)**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +(65) 6533 1818  
Fax : +(65) 6532 6211

**Jakarta**

**PT RHB Securities Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710, Indonesia  
Tel : +(6221) 2783 0888  
Fax : +(6221) 2783 0777

**Shanghai**

**RHB (China) Investment Advisory Co. Ltd.**  
Suite 4005, CITIC Square  
1168 Nanjing West Road  
Shanghai 20041  
China  
Tel : +(8621) 6288 9611  
Fax : +(8621) 6288 9633

**Bangkok**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +(66) 2 862 9999  
Fax : +(66) 2 862 9799