

# Hi-P International (HIP SP)

Technology - Technology

Market Cap: USD264m

**Trading Buy** (Maintained)

 Target Price: **SGD0.59**

 Price: **SGD0.45**

## Every Cloud Has A Silver Lining

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

|                            |             |
|----------------------------|-------------|
| Avg Turnover (SGD/USD)     | 0.04m/0.03m |
| Cons. Upside (%)           | 31.1        |
| Upside (%)                 | 31.1        |
| 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 Incorporate          | 21.8        |
| Hi-P International         | 8.4         |

### Share Performance (%)

|          | YTD    | 1m   | 3m     | 6m     | 12m    |
|----------|--------|------|--------|--------|--------|
| Absolute | (38.4) | 20.0 | (12.6) | (27.4) | (28.6) |
| Relative | (28.7) | 14.1 | (3.0)  | (14.3) | (23.4) |

**Jarick Seet +65 6232 3891**
[jarick.seet@rhbgroup.com](mailto:jarick.seet@rhbgroup.com)

**REX Global Entertainment (164 HK, NR) has acquired 64.9% of Yota Devices for USD100m. We think this is positive for Hi-P, as we think this increases the chances of a positive settlement for its arbitration case with Yota Devices in the near future. Also, with Apple's (APPL US, NR) record iPhone 6s and 6s Plus sales just three days after launch, we are more convinced of a 2H turnaround and lift our FY15F earnings by 13%, which moves our TP to SGD0.59 (vs SGD0.56). Maintain TRADING BUY.**

- ◆ **High likelihood of a positive settlement.** Hong Kong-based investment company REX Global Entertainment has acquired a 64.9% share in Russian smartphone manufacturer Yota Devices for USD100m and will invest USD50m in the company. We view this as a positive for Hi-P, as a change in owner with a sound financial footing would decrease the possibility of Yota Devices' possible default in the event that Hi-P wins their arbitration case. In addition, we think that the new owner would also prefer the arbitration be completed as soon as possible and to focus instead on developing a new *YotaPhone 3*. As such, we think there is a high likelihood of a positive settlement favouring Hi-P in the near future.
- ◆ **Key customer's product posted record sales.** Apple has also announced a record of over 13m *iPhone 6s* and *6s Plus* sales just three days after launch. Analysts on the street are expecting Apple to sell around 48.5m  *iPhones* in the September quarter, representing a 24% YoY increase. With its key customer's product being well-received by the market, we think that Hi-P will be a positive beneficiary, further substantiating our view – as well as management's guidance – of a strong 2H15 turnaround.
- ◆ **Maintain TRADING BUY with higher SGD0.59 TP.** Previously, due to the uncertainty over its USD126m arbitration claim, which would impact the group's financials severely, we had this stock Under Review. However, with the recent positive chain of events, we think that the possibility of a positive settlement favouring Hi-P in the near future is high. We are also more convinced of a 2H15 turnaround and lift our FY15F NPAT estimate by 13% to SGD12.8m, resulting in a higher TP of SGD0.59 (vs SGD0.56), based on 0.8x FY15F P/BV. However, due to the high cyclical nature of the business, we maintain our TRADING BUY.

| Forecasts and Valuations            | Dec-13   | Dec-14 | Dec-15F  | Dec-16F  | Dec-17F  |
|-------------------------------------|----------|--------|----------|----------|----------|
| Total turnover (SGDm)               | 1,262    | 951    | 1,214    | 1,334    | 1,333    |
| Reported net profit (SGDm)          | 6.4      | 10.5   | 12.8     | 18.8     | 21.7     |
| Recurring net profit (SGDm)         | 6.4      | 10.5   | 12.8     | 18.8     | 21.7     |
| Recurring net profit growth (%)     | (64.4)   | 63.6   | 22.4     | 47.1     | 15.0     |
| Recurring EPS (SGD)                 | 0.01     | 0.01   | 0.02     | 0.02     | 0.03     |
| DPS (SGD)                           | 0.01     | 0.01   | 0.01     | 0.02     | 0.02     |
| Recurring P/E (x)                   | 58.1     | 35.5   | 29.0     | 19.7     | 17.2     |
| P/B (x)                             | 0.62     | 0.61   | 0.61     | 0.60     | 0.60     |
| P/CF (x)                            | 4.5      | 10.8   | 1.8      | 3.3      | 2.7      |
| Dividend Yield (%)                  | 1.3      | 2.2    | 2.2      | 3.3      | 4.4      |
| EV/EBITDA (x)                       | 3.38     | 3.93   | 2.51     | 2.50     | 2.45     |
| Return on average equity (%)        | 1.1      | 1.7    | 2.1      | 3.1      | 3.5      |
| Net debt to equity (%)              | net cash | 0.4    | net cash | net cash | net cash |
| Our vs consensus EPS (adjusted) (%) |          |        | (61.2)   | (43.0)   | (34.4)   |

Source: Company data, RHB

## 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           | 1,214          | 1,334          | 1,333          |
| Cost of sales                            | (1,165)       | (881)         | (1,111)        | (1,212)        | (1,209)        |
| <b>Gross profit</b>                      | <b>98</b>     | <b>70</b>     | <b>103</b>     | <b>122</b>     | <b>125</b>     |
| Gen & admin expenses                     | (81)          | (63)          | (77)           | (84)           | (84)           |
| Selling expenses                         | (10)          | (8)           | (9)            | (13)           | (13)           |
| Other operating costs                    | 3             | 16            | -              | -              | 1              |
| <b>Operating profit</b>                  | <b>11</b>     | <b>15</b>     | <b>17</b>      | <b>25</b>      | <b>29</b>      |
| Operating EBITDA                         | 98            | 94            | 121            | 135            | 143            |
| Depreciation of fixed assets             | (88)          | (79)          | (104)          | (110)          | (114)          |
| <b>Operating EBIT</b>                    | <b>11</b>     | <b>15</b>     | <b>17</b>      | <b>25</b>      | <b>29</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>17</b>      | <b>25</b>      | <b>29</b>      |
| Taxation                                 | (5)           | (5)           | (4)            | (6)            | (7)            |
| Minority interests                       | (0)           | -             | -              | -              | -              |
| <b>Profit after tax &amp; minorities</b> | <b>6</b>      | <b>10</b>     | <b>13</b>      | <b>19</b>      | <b>22</b>      |
| <b>Reported net profit</b>               | <b>6</b>      | <b>10</b>     | <b>13</b>      | <b>19</b>      | <b>22</b>      |
| <b>Recurring net profit</b>              | <b>6</b>      | <b>10</b>     | <b>13</b>      | <b>19</b>      | <b>22</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>17</b>      | <b>25</b>      | <b>29</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>90</b>      | <b>(17)</b>    | <b>(0)</b>     |
| Other operating cash flow                  | 29            | 2             | 2              | 2              | 2              |
| <b>Operating cash flow</b>                 | <b>90</b>     | <b>46</b>     | <b>213</b>     | <b>120</b>     | <b>145</b>     |
| Interest received                          | 3             | 2             | 2              | 2              | 2              |
| Interest paid                              | (2)           | (2)           | (2)            | (2)            | (2)            |
| Dividends received                         | 0             | -             | -              | -              | -              |
| Tax paid                                   | (8)           | (12)          | (4)            | (6)            | (7)            |
| <b>Cash flow from operations</b>           | <b>83</b>     | <b>34</b>     | <b>209</b>     | <b>114</b>     | <b>138</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            | 215            | 222            |
| <b>Total cash generated</b>                | <b>(43)</b>   | <b>74</b>     | <b>9</b>       | <b>9</b>       | <b>20</b>      |
| Forex effects                              | 9             | 3             | (3)            | (3)            | (3)            |
| <b>Implied cash at end of period</b>       | <b>132</b>    | <b>208</b>    | <b>215</b>     | <b>221</b>     | <b>238</b>     |

Source: Company data, RHB

## Financial Exhibits

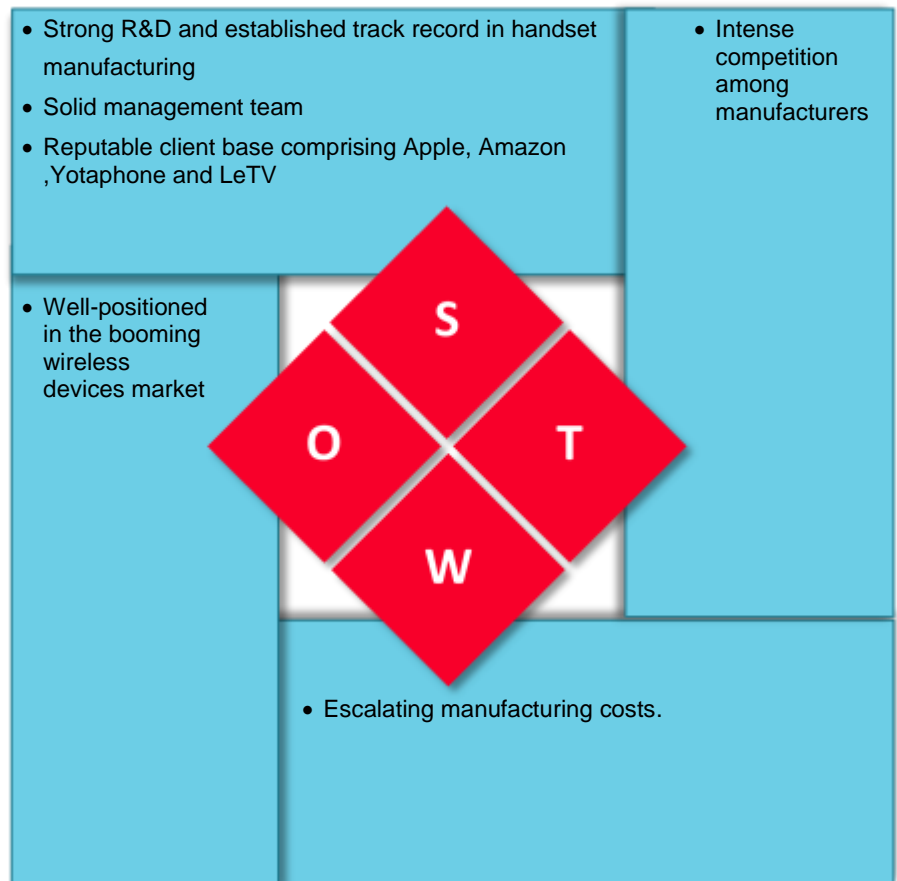
| <b>Balance Sheet (SGDm)</b>           | <b>Dec-13</b> | <b>Dec-14</b> | <b>Dec-15F</b> | <b>Dec-16F</b> | <b>Dec-17F</b> |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Total cash and equivalents            | 139           | 213           | 220            | 227            | 244            |
| Inventories                           | 163           | 223           | 133            | 145            | 145            |
| Accounts receivable                   | 323           | 373           | 267            | 293            | 293            |
| Other current assets                  | 14            | 9             | 9              | 9              | 9              |
| <b>Total current assets</b>           | <b>639</b>    | <b>818</b>    | <b>630</b>     | <b>675</b>     | <b>691</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>1,087</b>   | <b>1,155</b>   | <b>1,189</b>   |
| Short-term debt                       | 102           | 212           | 212            | 212            | 212            |
| Accounts payable                      | 239           | 339           | 233            | 254            | 254            |
| Other current liabilities             | 83            | 84            | 84             | 84             | 84             |
| <b>Total current liabilities</b>      | <b>424</b>    | <b>636</b>    | <b>530</b>     | <b>551</b>     | <b>550</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>476</b>     | <b>537</b>     | <b>566</b>     |
| Share capital                         | 120           | 120           | 120            | 120            | 120            |
| Retained earnings reserve             | 469           | 475           | 479            | 486            | 490            |
| Other reserves                        | 9             | 12            | 12             | 12             | 12             |
| <b>Shareholders' equity</b>           | <b>598</b>    | <b>606</b>    | <b>611</b>     | <b>617</b>     | <b>621</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>612</b>     | <b>618</b>     | <b>622</b>     |
| <b>Total liabilities &amp; equity</b> | <b>1,026</b>  | <b>1,248</b>  | <b>1,087</b>   | <b>1,155</b>   | <b>1,189</b>   |

Source: Company data, RHB

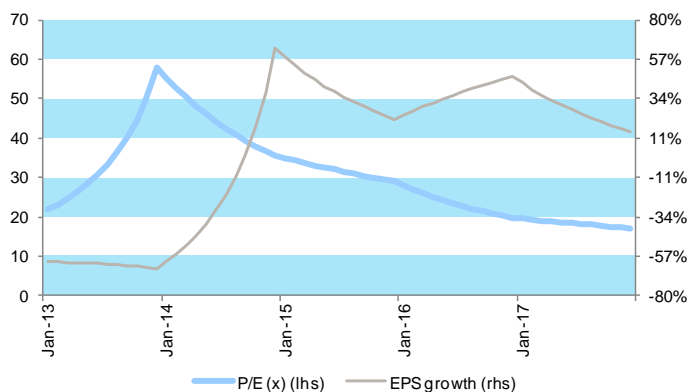
| <b>Key Ratios (SGD)</b>       | <b>Dec-13</b> | <b>Dec-14</b> | <b>Dec-15F</b> | <b>Dec-16F</b> | <b>Dec-17F</b> |
|-------------------------------|---------------|---------------|----------------|----------------|----------------|
| Revenue growth (%)            | 8.2           | (24.6)        | 27.6           | 9.9            | (0.1)          |
| Operating profit growth (%)   | (45.3)        | 40.2          | 11.7           | 50.4           | 14.3           |
| Net profit growth (%)         | (64.4)        | 63.6          | 22.4           | 47.1           | 15.0           |
| EPS growth (%)                | (64.4)        | 63.6          | 22.4           | 47.1           | 15.0           |
| BVPS growth (%)               | 3.3           | 1.3           | 0.8            | 1.1            | 0.7            |
| Operating margin (%)          | 0.8           | 1.6           | 1.4            | 1.9            | 2.1            |
| Net profit margin (%)         | 0.5           | 1.1           | 1.1            | 1.4            | 1.6            |
| Return on average assets (%)  | 0.6           | 0.9           | 1.1            | 1.7            | 1.8            |
| Return on average equity (%)  | 1.1           | 1.7           | 2.1            | 3.1            | 3.5            |
| Net debt to equity (%)        | (5.9)         | 0.4           | (10.6)         | (5.1)          | (2.9)          |
| DPS                           | 0.01          | 0.01          | 0.01           | 0.02           | 0.02           |
| Recurrent cash flow per share | 0.10          | 0.04          | 0.25           | 0.14           | 0.17           |

Source: Company data, RHB

## SWOT Analysis

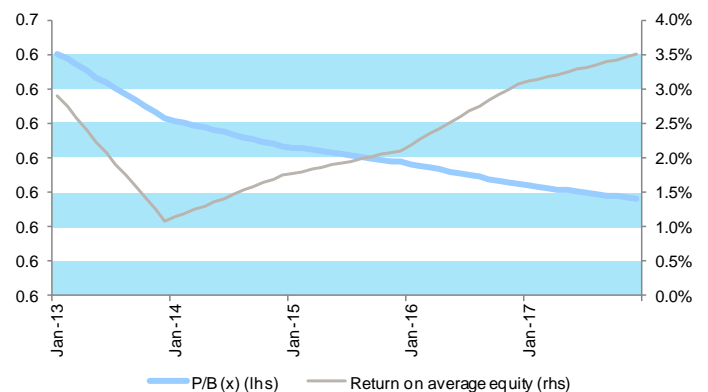


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

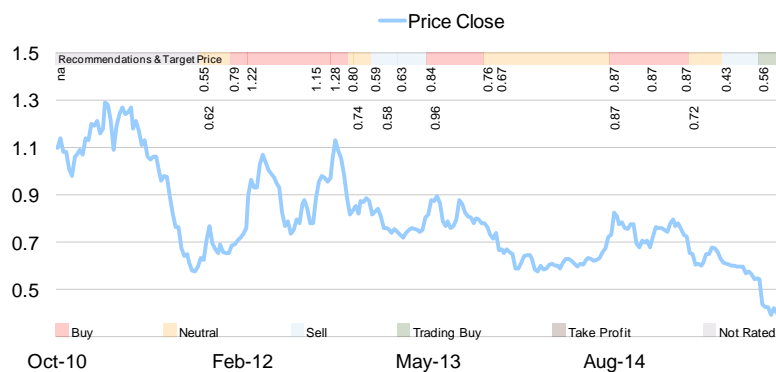


Source: Company data, RHB

## 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 |
|------------|----------------|--------------|-------|
| 2015-08-09 | 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  |
| 2013-10-28 | Neutral        | 0.67         | 0.68  |

Source : RHB, Bloomberg

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

**Shanghai**

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

**Phnom Penh**

**RHB OSK Indochina Securities Limited**  
No. 1-3, Street 271  
Sangkat Toeuk Thla, Khan Sen Sok  
Phnom Penh  
Cambodia  
Tel: +(855) 23 969 161  
Fax: +(855) 23 969 171

**Bangkok**

**RHB OSK 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