Hi-P International

Version 7 | Bloomberg: HIP SP | Reuters: HIPI.SI

DBS Group Research . Equity

2 Oct 2018

BUY (Upgrade from Hold)

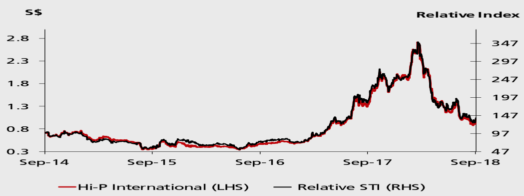
Last Traded Price (2 Oct 2018): S$1.00 (**STI :** 3,242.65)
Price Target 12-mth: S$1.30 (30% upside) (Prev S$1.21)

Analyst
Lee Keng LING +65 6682 3703 leekeng@dbs.com

What's New

- Scenario analysis on the impact of trade tariff - possible 1-3% cut in earnings; worst case 2-17%
- Global customer base, about 24% in USA
- Mitigating measures – relocate plants outside China; explore M&A in Europe
- Upgrade to BUY on attractive valuations; TP revised up to S$1.30

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2016A	2017A	2018F	2019F
Revenue	1,305	1,427	1,481	1,469
EBITDA	158	219	182	182
Pre-tax Profit	71.2	146	104	105
Net Profit	54.5	121	86.5	87.4
Net Pft (Pre Ex.)	54.5	121	86.5	87.4
Net Pft Gth (Pre-ex) (%)	nm	122.8	(28.8)	1.0
EPS (S cts)	6.52	15.1	10.7	10.8
EPS Pre Ex. (S cts)	6.52	15.1	10.7	10.8
EPS Gth Pre Ex (%)	nm	131	(29)	1
Diluted EPS (S cts)	6.11	13.6	9.69	9.79
Net DPS (S cts)	0.80	25.0	3.76	3.80
BV Per Share (S cts)	69.2	65.6	72.6	79.6
PE (X)	15.3	6.6	9.3	9.2
PE Pre Ex. (X)	15.3	6.6	9.3	9.2
P/Cash Flow (X)	3.1	3.1	12.1	4.9
EV/EBITDA (X)	5.2	3.4	4.3	3.9
Net Div Yield (%)	0.8	25.0	3.8	3.8
P/Book Value (X)	1.4	1.5	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	9.6	22.0	15.5	14.3
Earnings Rev (%):			0	0
Consensus EPS (S cts):			10.5	11.0
Other Broker Recs:		B: 0	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Trading on valuations

Upgrade to BUY on attractive valuations. Hi-P's share price has tumbled 46% YTD and 62% from its high of S$2.72 in March 2018. At current PE of 9.3x and 9.2x on FY18F and FY19x earnings respectively, Hi-P is trading at attractive valuations relatively to peers' 15x and 12x. From a longer-term perspective, it is also below its historical average on a forward PE and P/BV basis. Hence, we upgrade our recommendation to BUY from HOLD on valuation grounds.

Trade war uncertainty remains. With the majority of its manufacturing plants in China, Hi-P is vulnerable to the trade tariffs. Our scenario analysis shows that FY19F earnings could fall by 17% in a worst case scenario, but there should be minimal impact on our current FY18F numbers.

Where we differ: We were the first to conduct scenario analysis on trade war impact.

Potential catalyst: 1) Stronger-than-expected production ramp-up and demand; better operational efficiency to improve margins. 2) Further strengthening of USD as bulk of Hi-P's revenue is in USD while overheads are in RMB.

Valuation:

Maintain forecasts for now; TP revised to S$1.30. Our current forecasts have already accounted for the trade war uncertainty. We have cut our earnings forecast by about 40% since the trade war started. We will review our numbers after the release of the company's 3Q results, when we have more clarity on the impact from the trade tariff. Our revised TP of S$1.30 is based on peers' average of 12x, and rolling forward our earnings peg to FY19F numbers.

Key Risks to Our View:

Volatile industry with shorter product life cycle. This presents risks on margins and inventories.

Forex exposure. Bulk of revenue in USD but overheads are mainly in RMB and the reporting currency is SGD.

At A Glance

Issued Capital (m shrs)	803
Mkt. Cap (Sm/USm)	811 / 585
Major Shareholders (%)	
Yao Hsiao Tung	84.4
Free Float (%)	15.6
3m Avg. Daily Val (US$m)	2.9
ICB Industry : Industrials / Electronic & Electrical Equipment	

WHAT'S NEW

Scenario analysis on the impact of trade tariff

Vulnerable to trade tariff with most of its manufacturing plants in China

Hi-P has 13 manufacturing plants globally located across six locations in China (Shanghai, Chengdu, Tianjin, Xiamen, Suzhou and Nantong), and also in Poland, Singapore and Thailand. Hi-P has marketing and engineering support centres in China, Singapore, Taiwan and the US.

With the majority of its plants in China, Hi-P is vulnerable to the trade tariffs. US companies importing goods from China will have to pay an additional 10% levy now and the tax will rise to 25% from the start of 2019, unless the two countries reach a trade pact.

Consumer Electronics segment most vulnerable to trade tariff

Hi-P's business can be classified into five broad segments as follows:

Segmental breakdown by contribution to revenue

Business Segment	% of revenue (estimate)
Wireless	20%
Computing & Peripherals	20%
Consumer Electronics	38%
Industrial & Medical	2%
IoT & Accessories	20%
TOTAL	100%

Source: DBS Bank

Based on the current list of goods affected by the trade tariff, the Consumer Electronics segment is most vulnerable, though not all of Hi-P's customers are in US. The rest of the segments may not see a direct impact, but may also well be affected by the tariffs because they are involved in the complex supply chains.

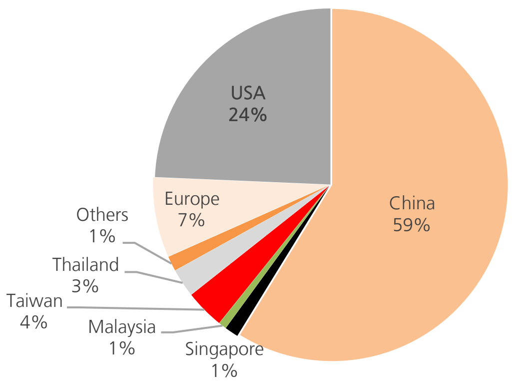
Scenario analysis on the impact of trade tariff

Overall, we expect Hi-P to be affected by the current trade tariff, though we are unable to quantify the extent of the impact now. However, not all of Hi-P's products are affected by the higher taxation as its customers are mainly global customers from different regions.

Global customers; c.24% in USA

For FY17, 24% of the products were shipped to US, 59% to China, 7% to Europe and the balance to Asia.

Geographical revenue based on location of customers



Source: DBS Bank, Company

Higher tax burden to be shared among suppliers

Furthermore, Hi-P is unlikely to bear the full tax impact as the tax burden is likely to be shared among the suppliers in the whole technology value chain, and also the end-consumers. Hence, we attempt to assess the impact of the trade tariffs on Hi-P's earnings based on the following assumptions and scenarios:

Assumptions

1) For FY18F, we assume a 3-month impact as the 10% tax tariff was only implemented at end-September; assuming full 25% tax tariff in FY19F.
2) Only the selling price (ASP) is affected; sales volume remains constant.
3) All other costs remain constant.

Scenarios

1) Only a portion of Hi-P's products are affected by the trade tariff.
2) Hi-P bears different amount of the tax burden.

Impact on revenue and net earnings

Scenario and Assumptions	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F
	Hi-P bears full tax impact		Hi-P bears 50% of tax impact		Hi-P bears 20% of tax impact	
75% of goods affected by :						
10% tax in FY18F, 25% in FY19F						
Reduction in revenue (S$m)	27.8	275.5	13.9	137.7	5.6	55.1
Reduction in revenue (%)	1.9%	18.8%	0.9%	9.4%	0.4%	3.8%
Reduction in net earnings (S$m)	1.5	15.2	0.8	7.6	0.3	3.0
Reduction in net earnings (%)	1.7%	17.4%	0.9%	8.7%	0.3%	3.5%
Adjusted earnings (S$m)	85.0	72.2	85.8	79.8	86.2	84.4
Adjusted P/E (x)	9.5	11.2	9.4	10.1	9.3	9.6
50% of goods affected by :						
10% tax in FY18F, 25% in FY19F						
Reduction in revenue (S$m)	18.5	183.6	9.3	91.8	3.7	36.7
Reduction in revenue (%)	1.3%	12.5%	0.6%	6.3%	0.3%	2.5%
Reduction in net earnings (S$m)	1.0	10.1	0.5	5.1	0.2	2.0
Reduction in net earnings (%)	1.2%	11.6%	0.6%	5.8%	0.2%	2.3%
Adjusted earnings (S$m)	85.5	77.3	86.0	82.3	86.3	85.4
Adjusted P/E (x)	9.4	10.4	9.4	9.8	9.3	9.4
25% of goods affected by :						
10% tax in FY18F, 25% in FY19F						
Reduction in revenue (S$m)	9.3	91.8	4.6	45.9	1.9	18.4
Reduction in revenue (%)	0.6%	6.3%	0.3%	3.1%	0.1%	1.3%
Reduction in net earnings (S$m)	0.5	5.1	0.3	2.5	0.1	1.0
Reduction in net earnings (%)	0.6%	5.8%	0.3%	2.9%	0.1%	1.2%
Adjusted earnings (S$m)	86.0	82.3	86.3	84.9	86.4	86.4
Adjusted P/E (x)	9.4	9.8	9.3	9.5	9.3	9.3
10% of goods affected by :						
10% tax in FY18F, 25% in FY19F						
Reduction in earnings (S$m)	3.7	36.7	1.9	18.4	0.7	7.3
Reduction in earnings (%)	0.3%	2.5%	0.1%	1.3%	0.1%	0.5%
Reduction in net earnings (S$m)	0.2	2.0	0.1	1.0	0.0	0.4
Reduction in net earnings (%)	0.2%	2.3%	0.1%	1.2%	0.0%	0.5%
Adjusted earnings (S$m)	86.3	85.4	86.4	86.4	86.5	87.0
Adjusted P/E (x)	9.3	9.4	9.3	9.3	9.3	9.3

Source: DBS Bank

Possible 1-3% cut in earnings; worst case 2-17%. From the above analysis, assuming a likely scenario that 25% of Hi-P's products are affected by the tax tariff, as 24% of its customers were from US based on FY17 revenue, and Hi-P's share of 50% of the tax burden, this would shave 0.3% and 3.1% off FY18F and FY19F revenue respectively. Net earnings would be reduced by S$0.3m and S$2.5m, translating to PE of 9.3x for FY18F and 9.5x for FY19F.

On a worst-case scenario, assuming 75% of Hi-P's goods are affected and the group bears the full impact of the trade tariff, this would lead to a 2% and 17% reduction in net profit. PE of 9.5x for FY18F and 11.2x for FY19F is still lower than peers' average of 15x on current year's earnings and 12x on next year's earnings.

Mitigating measures for Hi-P

We expect Hi-P to put in place some measures to mitigate the impact of the trade tariff. Possible measures include negotiating with its US customers, relocating capacity outside China, or leveraging the complex global supply chain to adjust how their internal costs are charged among subsidiaries to potentially lower the tariff charge.

Relocate plants outside China, including Thailand. As Hi-P already has existing manufacturing plants outside China, to relocate some of its capacity out of China is much easier, compared to some of its competitors that do not have plants outside China. Among the plants outside China including Poland, Singapore and Thailand, we believe that Thailand is the most plausible option given its relatively lower cost of production compared to the other two regions.

Alternatively, Hi-P can also ship the products from China to other regions to be assembled before shipping to its US customers.

Explore M&A targets in Europe. Other than Asia, Hi-P could also explore M&A targets in other regions like Europe, as it currently does not have a presence in Europe yet, and Europe is also not affected by the trade war issues.

Earnings and Recommendation

Maintain forecasts for now. Our current forecasts have already accounted for the trade war uncertainty. We have earlier cut our earnings by about 40% since the trade war started. We would review our numbers after the release of the company's 3Q results, when we have more clarity on the impact from the trade tariff.

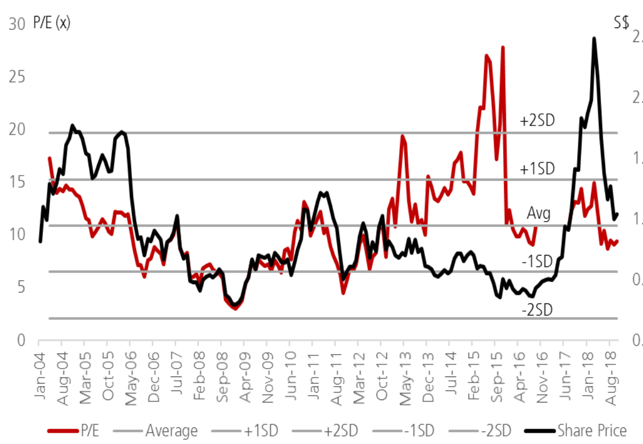
Upgrade to BUY on attraction valuations; TP revised up to S$1.30. Hi-P's share price has tumbled 46% YTD and 62% from its high of S$2.72 in March 2018. At the current price of S$1.02, it is only 24% above our initiation price of S$0.82 in May last year. At current PE of 9.5x and 9.4x on FY18F and FY19x earnings respectively, Hi-P is trading at attractive valuations relative to peers' 15x and 12x.

From a longer-term perspective, in terms of forward PE trading band from 2004, Hi-P is trading below its historical average of 11x. On a P/BV basis, at 1.4x, it is also below its long-term average of 1.65x. Hence, we upgrade our recommendation to BUY from HOLD on valuation grounds.

Our revised TP of S$1.30 (Previously S$1.21) is based on peers' average of 12x (Previous peg to 30% discount to peer average of 16x current year earnings) on next year's earnings, and rolling forward our earnings peg to FY19F numbers. The 12x valuation peg is also close to Hi-P's 12-month forward historical average. *(refer to 12M forward P/E chart below).*

Benefitting from the strengthening USD. Near-term catalysts include the further strengthening of the USD. The bulk of Hi-P's revenue is in USD but overheads are mainly in RMB and the reporting currency is SGD. Hi-P reported a forex gain of S$1.7m in 2Q18 (vs forex loss of S$13m in 1Q18) due to the appreciation of USD against the RMB and SGD. Our currency strategist expects the USD to continue its upward trend to 1.42 vs SGD and 6.95 vs RMB by 4Q 2018.

12M forward P/E



Price/Book Value

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Ramp-up in production. Capacity utilisation had improved from around 30% in 1Q18 to about 40% in 2Q18. We expect a peak utilisation rate of about 60-70% (based on 24/7 basis) in 3Q18, which is traditionally the strongest quarter. Thereafter, utilisation rate should ease to around 60% in 4Q18. Hi-P is expanding production, in particular at its Suzhou plant, to prepare for new product launches from existing customers from the mobile and IoT segments.

Industry trend and consumer sentiment. According to independent research firm IDC, the worldwide smartphone market is expected to reach 1.65bn units in 2022, resulting in a CAGR of 2.5% over the 2018-2022 period. For the IoT segment, global IoT spending is projected to post a CAGR of 13.6% over 2017-2022.

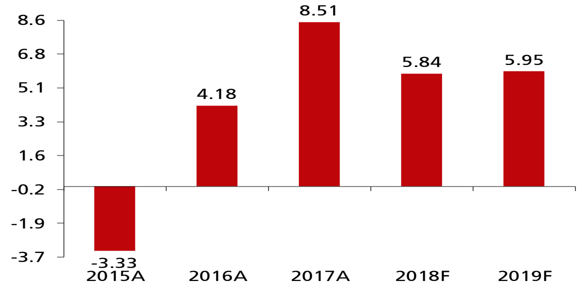
The more stable Consumer Electronics segment with a longer product life cycle (where Hi-P derives about 30-40% of group revenue), helps to neutralise the impact from the more volatile Smartphone and IoT segments.

Operational efficiency and cost-control measures to improve margins. To mitigate the impact of the uncertain business landscape, Hi-P strives to drive operational efficiency and strengthen its business model to improve margins. Despite the challenging environment, especially rising labour costs in the region in the past few years and margin pressure from customers, total operating expenses as a percentage of sales has been trending down, from about 12% in FY10 to 6.8% in FY17, and expected to account for a lower 6.2% in FY19F.

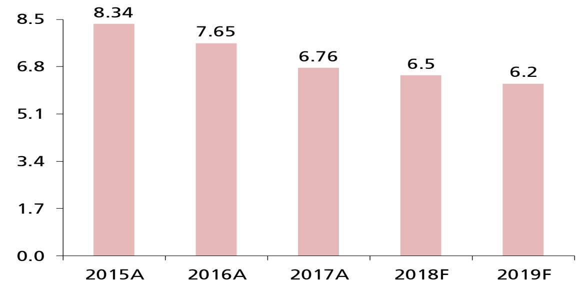
M&A activities. Hi-P could be a takeover target as its free float in the market is small. Executive Chairman and Chief Executive Officer, Mr Yao Hsiao Tung, now has an 83% stake in the company, after buying the second largest shareholder, Molex's 22% stake in June 2017.

Furthermore, with its entrenched relationship with key customers, which include some of the world's biggest names in mobile phones, tablets, household and personal care appliances, Hi-P could be an attractive target for global companies looking to build a base in Asia.

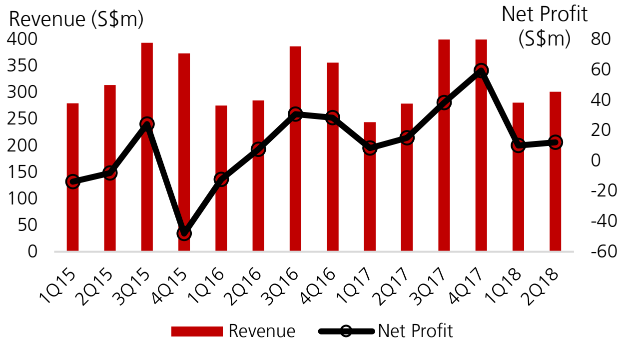
Net margin



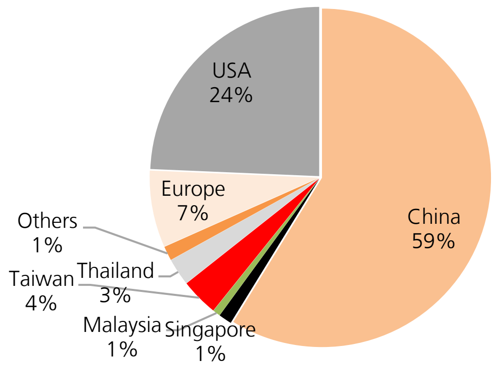
SGA as % of sales



Quarterly Revenue and Net Profit Trend

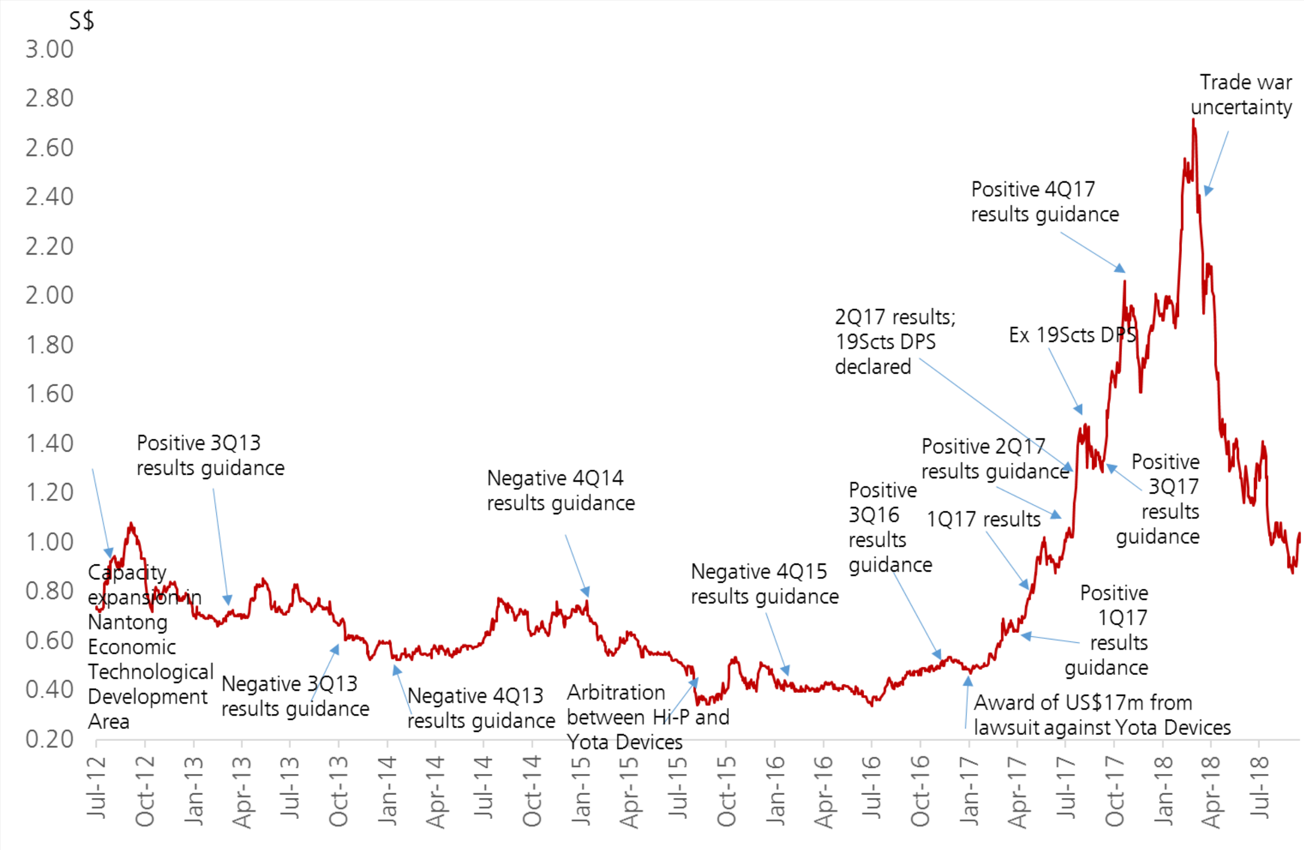


Geographical revenue based on location of customers



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?



Source: Company, DBS Bank

Balance Sheet:

Strong operating cashflow. Hi-P was able to generate strong positive operating cashflows amounting to S$53.5m for 1H18. This contributed to a strong cash balance of S$257.8m as at 30 June 2018, with net cash of S$62.4m.

Share Price Drivers:

Earnings momentum slowing down. The recent trade war between the US and China has created uncertainty and margin pressure within the supply chain. Hi-P, with six out of nine manufacturing plants in China, is not spared. Its share price has shed about 62% from its peak since the trade war started. In terms of location of customers, based of FY17 revenue, 59% were from China and 24% from US. Forex exposure is also another wildcard. With the USD expected to strengthen, this should have a positive impact on earnings as the bulk of its revenue is in USD but overheads are mainly in RMB and the reporting currency is SGD.

Management is now guiding for similar revenue but lower profit for FY18 as compared to FY17. Hi-P expects higher revenue but similar profit for 3Q18 as compared to 3Q17, and a stronger 2H18 vs 1H18.

Expansion of customer base to other industries. Hi-P's existing customers are mainly from the Wireless (smartphones), Consumer Electronics and Computer Peripherals (IoT) segments. We would not rule out the possibility of the group expanding into other industries like automotive and medical devices, in order to diversify and reduce customer concentration risk, and to smooth out the seasonality effect, especially for smartphones.

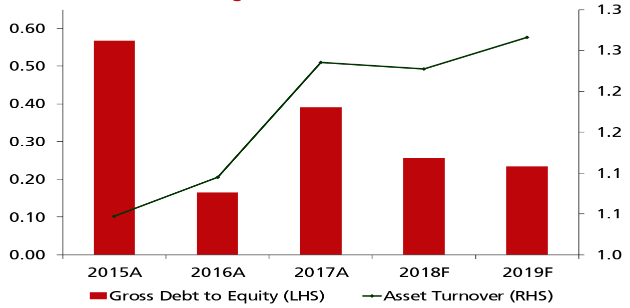
Key Risks:

Volatile industry with shorter product life cycle. The Wireless (smartphones) segment is getting more competitive with shorter product life cycles, and presents risks on margins and inventories.
Forex exposure. About 90% of Hi-P's total revenue is in USD, but overheads are mainly in RMB and the reporting currency is SGD.
Macroeconomic uncertainty. Any prolonged macroeconomic uncertainty would postpone consumer consumption, which would in turn drive down revenue further.

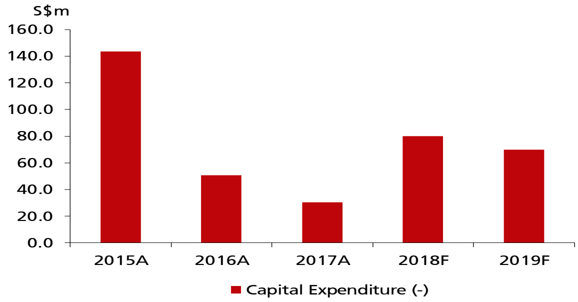
Company Background

Hi-P provides one-stop solutions - from product development, component manufacturing to complete product assembly - to customers in various industries. Hi-P's products can be classified into three broad categories: Wireless (smartphones), Computer Peripherals (Internet of Things [IoT]) and Consumer Electronics.

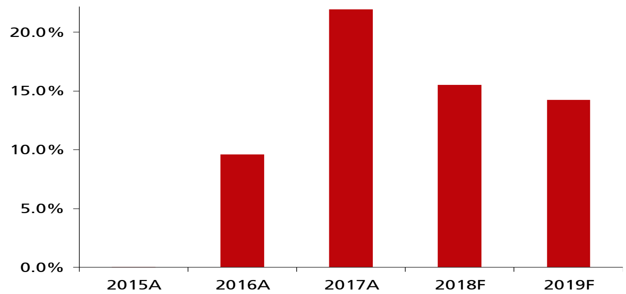
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



PB Band (x)

Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Net margin	(3.3)	4.18	8.52	5.84	5.95
SGA as % of sales	8.34	7.65	6.76	6.50	6.20

Operational efficiency and improved product mix to partly offset margins squeezed within the supply chain.

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	1,363	1,305	1,427	1,481	1,469
Cost of Goods Sold	(1,292)	(1,149)	(1,194)	(1,287)	(1,279)
Gross Profit	**70.9**	**156**	**233**	**194**	**190**
Other Opng (Exp)/Inc	(102)	(81.7)	(86.5)	(86.3)	(81.1)
Operating Profit	**(31.2)**	**74.1**	**146**	**107**	**108**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.55	0.29	0.00	0.0	0.0
Net Interest (Exp)/Inc	(2.1)	(3.2)	(0.1)	(2.5)	(2.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**(32.8)**	**71.2**	**146**	**104**	**105**
Tax	(12.6)	(16.7)	(24.8)	(17.7)	(17.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**(45.4)**	**54.5**	**121**	**86.5**	**87.4**
Net Profit before Except.	(45.4)	54.5	121	86.5	87.4
EBITDA	70.8	158	219	182	182
Growth					
Revenue Gth (%)	43.2	(4.2)	9.3	3.8	(0.8)
EBITDA Gth (%)	(24.8)	123.2	38.3	(16.9)	0.3
Opg Profit Gth (%)	(309.9)	(337.6)	97.4	(27.1)	1.0
Net Profit Gth (Pre-ex) (%)	nm	nm	122.8	(28.8)	1.0
Margins & Ratio					
Gross Margins (%)	5.2	11.9	16.3	13.1	12.9
Opg Profit Margin (%)	(2.3)	5.7	10.3	7.2	7.3
Net Profit Margin (%)	(3.3)	4.2	8.5	5.8	5.9
ROAE (%)	(7.8)	9.6	22.0	15.5	14.3
ROA (%)	(3.5)	4.6	10.5	7.2	7.5
ROCE (%)	(3.7)	7.3	17.0	11.9	11.5
Div Payout Ratio (%)	N/A	12.3	165.8	35.0	35.0
Net Interest Cover (x)	(14.7)	22.9	2,761.7	42.7	43.1

Source: Company, DBS Bank

Special DPS of 19 Scts declared and paid after a strong set of 2Q17 results, and a subsequent 2 Scts in 3Q17 and 4 Scts in 4Q17.

Expect higher dividend payout ratio of 35% (up from 20%) in FY18F and FY19F, which works out to a DPS of about 6 Scts, which is similar to FY17, excluding special DPS of 19 Scts.

Quarterly / Interim Income Statement (S$m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	280	411	492	281	302
Cost of Goods Sold	(245)	(343)	(395)	(243)	(272)
Gross Profit	**34.2**	**68.1**	**97.2**	**37.8**	**29.7**
Other Oper. (Exp)/Inc	(16.9)	(21.2)	(26.9)	(26.0)	(13.9)
Operating Profit	**18.4**	**46.9**	**70.3**	**11.8**	**15.8**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.04	(0.2)	0.04	(0.1)	0.0
Net Interest (Exp)/Inc	(0.7)	(0.2)	(0.2)	0.35	0.21
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**17.8**	**46.5**	**70.1**	**12.1**	**16.0**
Tax	(2.7)	(8.2)	(10.5)	(2.0)	(3.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**15.1**	**38.4**	**59.6**	**10.1**	**12.3**
Net profit bef Except.	15.1	38.4	59.6	10.1	12.3
EBITDA	18.4	64.2	87.6	28.8	32.8
Growth					
Revenue Gth (%)	14.5	47.2	19.6	(42.8)	7.4
EBITDA Gth (%)	53.4	248.2	36.5	(67.1)	13.8
Opg Profit Gth (%)	54.1	155.0	49.9	(83.2)	34.1
Net Profit Gth (Pre-ex) (%)	79.7	154.1	55.4	(83.1)	21.9
Margins					
Gross Margins (%)	12.2	16.5	19.8	13.4	9.8
Opg Profit Margins (%)	6.6	11.4	14.3	4.2	5.2
Net Profit Margins (%)	5.4	9.3	12.1	3.6	4.1

Strong recovery from 3Q16, mainly due to manufacturing efficiency, new customers.

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	451	360	315	320	316
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	44.9	36.4	44.6	44.6	44.6
Cash & ST Invts	126	111	278	177	241
Inventory	243	143	179	162	161
Debtors	480	362	445	411	407
Other Current Assets	9.63	18.3	18.4	18.4	18.4
Total Assets	**1,354**	**1,030**	**1,280**	**1,133**	**1,188**
ST Debt	315	95.5	207	150	150
Creditor	377	245	420	278	276
Other Current Liab	96.2	101	113	109	109
LT Debt	0.91	0.08	0.03	0.03	0.03
Other LT Liabilities	6.75	9.46	10.8	10.8	10.8
Shareholder's Equity	557	578	529	585	642
Minority Interests	1.04	0.99	0.97	0.97	0.97
Total Cap. & Liab.	**1,354**	**1,030**	**1,280**	**1,133**	**1,188**
Non-Cash Wkg. Capital	259	177	109	204	202
Net Cash/(Debt)	(190)	15.3	71.1	27.4	91.1
Debtors Turn (avg days)	114.3	117.7	103.2	105.5	101.6
Creditors Turn (avg days)	109.8	106.6	108.1	105.0	83.8
Inventory Turn (avg days)	71.4	66.1	52.3	51.3	48.9
Asset Turnover (x)	1.0	1.1	1.2	1.2	1.3
Current Ratio (x)	1.1	1.4	1.2	1.4	1.5
Quick Ratio (x)	0.8	1.1	1.0	1.1	1.2
Net Debt/Equity (X)	0.3	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.3	CASH	CASH	CASH	CASH
Capex to Debt (%)	45.4	52.9	14.6	53.3	46.7
Z-Score (X)	2.0	3.4	2.7	3.3	3.3

Source: Company, DBS Bank

Cash Flow Statement (S$m)

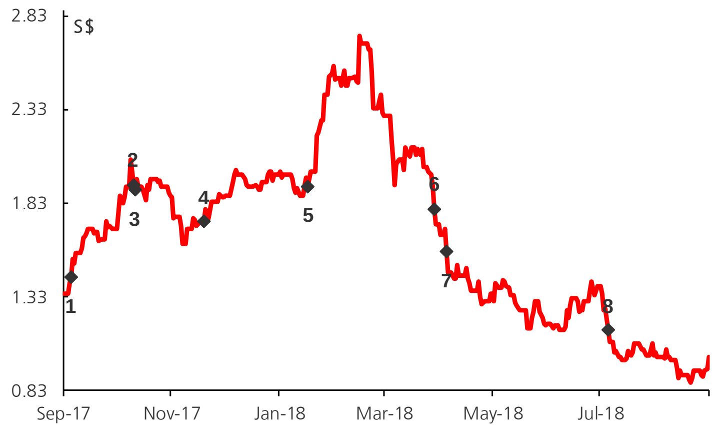
FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	(32.8)	71.2	146	104	105
Dep. & Amort.	101	83.6	72.3	75.0	74.4
Tax Paid	(12.4)	(12.9)	(11.9)	(21.6)	(17.7)
Assoc. & JV Inc/(loss)	(0.5)	(0.3)	0.0	0.0	0.0
Chg in Wkg.Cap.	(179)	93.0	51.7	(91.1)	2.34
Other Operating CF	101	33.2	1.81	0.0	0.0
Net Operating CF	**(21.7)**	**268**	**260**	**66.5**	**164**
Capital Exp.(net)	(143)	(50.6)	(30.3)	(80.0)	(70.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	(4.6)	0.0	0.0
Div from Assoc & JV	0.0	0.15	0.0	0.0	0.0
Other Investing CF	5.97	14.6	5.30	0.0	0.0
Net Investing CF	**(137)**	**(35.8)**	**(29.6)**	**(80.0)**	**(70.0)**
Div Paid	(10.6)	(5.7)	(173)	(30.3)	(30.6)
Chg in Gross Debt	83.6	(220)	110	(56.8)	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(0.2)	(18.2)	0.69	0.0	0.0
Net Financing CF	**72.8**	**(243)**	**(62.3)**	**(87.1)**	**(30.6)**
Currency Adjustments	4.42	(3.8)	(1.4)	0.0	0.0
Chg in Cash	(82.0)	(15.2)	167	(101)	63.7
Opg CFPS (S cts)	18.8	20.9	25.9	19.6	20.1
Free CFPS (S cts)	(19.8)	26.0	28.5	(1.7)	11.7

Strong operating cashflow.

Higher capex, partly for new plant in Suzhou.

Source: Company, DBS Bank

Target Price & Ratings History



***Note** : Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Oct 17	1.44	1.67	BUY
2:	07 Nov 17	1.93	1.67	BUY
3:	08 Nov 17	1.90	2.30	BUY
4:	17 Dec 17	1.73	2.30	BUY
5:	14 Feb 18	1.92	2.48	BUY
6:	26 Apr 18	1.80	1.88	HOLD
7:	03 May 18	1.57	1.80	HOLD
8:	02 Aug 18	1.15	1.21	HOLD

Source: DBS Bank
Analyst: Lee Keng LING

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 2 Oct 2018 17:51:39 (SGT)
Dissemination Date: 2 Oct 2018 18:46:21 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.
Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS'') or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 31 Aug 2018.

2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946. DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. DBSVS is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited, a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). For any query regarding the materials herein, please contact Carol Wu (Reg No. AH8283) at equityresearch@dbs.com
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies. Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.

United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS Bank (Hong Kong) Limited
Contact: Carol Wu
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand