

# Hi-P International Limited. (H17.SI)

HI-P.SG -Daily 12/24/14 C=0.000 O=0.000 (0.00%) O=0.000 H=0.000 L=0.000 V=0



**Figure 1.0:** A Hi-P Daily Chart showing price levels from 2012 October to 25th December 2014. Analysis done using VSA and Wyckoff Phases as of 25th December 2014.

**How To Read The Chart:** Read from left to right. There are a total of 7 horizontal coloured support and resistance lines. **Pink line** at 0.765 represents the key resistance to be broken for the current uptrend to stay valid and continue. The **orange line** at 0.720 represents the immediate resistance at current trading price of 0.695 while the **green line** at 0.680 represents the immediate support. The **black line** at 0.595 represents the next strong support level for this period of the chart. **The blue lines** are key price levels to note should a position be taken at 0.695. 0.840 and 0.940 are possible target prices while 0.645 is a viable cut loss price for a bullish trade. **Red Ovals** shows selling pressures while **Blue ovals** represent buying pressure. **Yellow Ovals** are interesting price/ volume behaviours.

Chart Data by:



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## Done By:

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## Background

Hi-P provides 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 service. Notably, Hi-P's client base consists of Apple, Xiaomi, Amazon, Colgate, Motorola and P&G.

## Our Approach

In our attempt to arrive at a decision to buy/sell/hold the stock in discussion, we have applied the S.O.F.T analysis approach to gain a comprehensive understanding of all the probable factors that will affect the stock price. Although each factor is distinct, they should be viewed in conjunction with one another to find complementary signs and reasons that will support the main view.

## Technical Analysis

### i) Overview ( Wyckoff Phases)

To understand the big picture of the price action of the stock, we will apply the concepts and principles shared by Richard D. Wyckoff as a guide. In essence, the main assumptions adopted in this analysis are that price is non random and is in fact controlled by operators ; price consolidates in accumulation and distribution zones which follows the principle of cause and effect.

The principle of cause and effect explains that for every strong up or down move in stock prices, there must be a cause. In this case, it can be interpreted as the phases of accumulation and distribution.

### Early Downtrend

With reference to Figure 1.0, we can see that price was on a downtrend until the end of 2013.

This downtrend was driven by both bearish technical and fundamental signs. The buying climaxes highlighted by the first red ovals from the left of the chart were strong bearish distribution zones. During this period, Earnings Per Share (EPS) of Hi-P was also steadily decreasing annually.

### Selling Climax & Automatic Rebound

After which, there was a selling climax followed by an automatic rebound as shown by the first yellow oval observed from the left side of the chart. These are according to Wyckoff, defining phases that mark the end of a down trend.

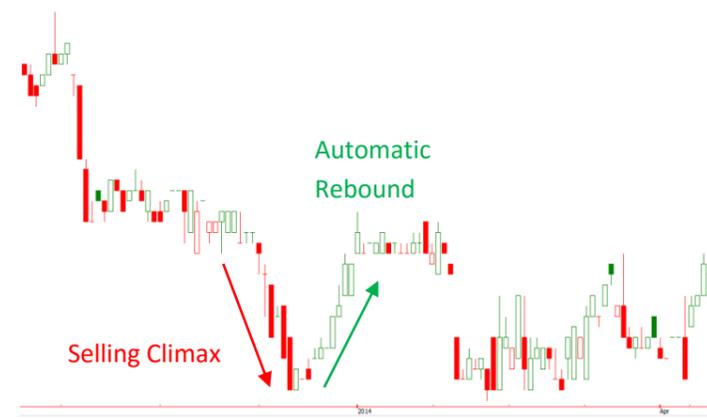


Figure 1.1: Selling Climax and Automatic Rebound

On hindsight, we are able to verify that price did not test any levels below the low created during the selling climax as seen in Figure 1.1.

After the automatic rebound, we saw that the price swings created a trading range whereby accumulation subsequently took place. Accumulation is the massive gathering of stocks by the main operator and can be characterised by a trading range with volume spiking above the average daily volume traded as shown by the blue ovals in Figure 1.0. There was an abnormal volume bar observed during the accumulation phase which will be investigated in greater detail.

### Significance of Hindsight Analysis

The end of the accumulation is characterised by the forming of higher lows and prices edging

towards the resistance line of 0.595. ( top of the existing trading range). The break of the trading range saw price soaring to levels of 0.765.

Until this point, much of the explanations are centred around events that occurred. These observations are although established on hindsight, are vital as they build the context and foundation for forecasting analysis.

In short, the identification of the end of a downtrend, the accumulation range, as well as the break of the accumulation exhibits and reinforces the causal nature of price action. Based on these 3 observations, we can thereby quite confidently rule out the possibility that price will revisit the lower levels at the accumulation range in the near term (not withstanding any major market sentiment change).

### Volume Spread Analysis (VSA)

Now that we understand the big picture i.e, the stock has just completed a campaign cycle, we are expecting price to climb as the operator carries out another accumulation of the stock. However, nothing is absolute in the stock market. We begin to observe that the price deviates from the expected movement in accordance to Wyckoff phases. It is during such times, that we attempt to apply VSA to identify weakness and strengths in the charts.

VSA is popularised by Tom Williams who build on the work started by Richard D. Wyckoff on the theory of stock market operation. VSA is a technique that attempts to identify areas of bullishness and bearishness via analysing the correlation between volume and the spread (length of price bars). Based on the collective sentiment, an outlook is formed.

In this example, we will use VSA to explain the dynamics of the price chart from period of August 2014 to December 25th 2014. As seen from Figure 1.0, when price first touched 0.765, it peaked with high volume and a cluster of

expanding spreads but price range remains unchanged. This is a sign of weakness that indicates oversupply, whereby retailers have rushed in late to purchase at the highs. What ensued was a sell down with price crashing on expanding spread but decreasing volume. While share price shows bearishness in the short term, the lack of expansion of volume with expanding spread is a sign of bullishness that suggest that this selling is a reaction that does not constitute any short selling intentions.

After the sell down, price picked up on expanding spread on the upside with increasing volume as shown by the blue ovals in Figure 1.0 Subsequently, we saw price picked up again after a mild retracement. This time, volume was also expanding as the stock price climbs. These are signs of strength in the stock. Although price peaked at 0.765 for a second time, the retracement that followed formed a higher low. At the new higher low, a bullish Harami was spotted with high bullish volume.

From a VSA standpoint, while the stock did not follow through a classic Wyckoff campaign completely, the recent price movements on the chart reveals underlying strength and bullishness.

### Price and Volume Divergences

Part of VSA is the observation for divergences in the direction of price movements and the fluctuations in volume.

With reference to Figure 1.0 once more, following the first black arrows from the left, we see that when price drops sharply, volume was low and it is decreasing. In fact, during all the selling waves that followed, volume was always decreasing or remained almost unchanged. These are bullish signs that price is consolidating and that no short positions are being built at the moment.

### Chart & Market data by:



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## Tubbs Model Comparison

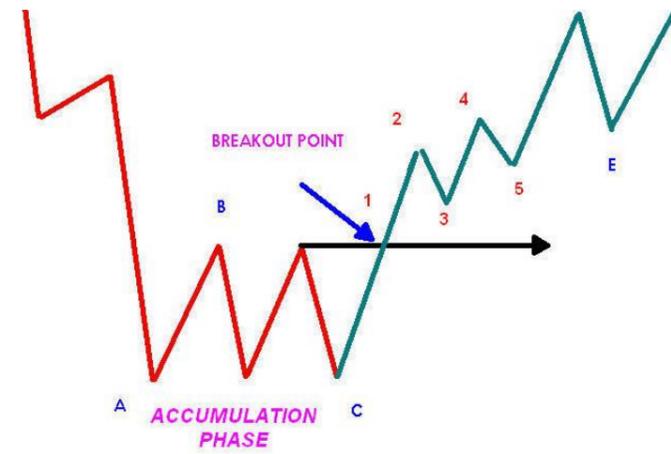


Figure 1.2: Classic Tubbs Model vs Hi-P Daily Chart extract

As mentioned earlier, after one round of the campaign phase, the stock movement deviated from the Classic Wyckoff phases. That is actually very common, as few stocks adhere very closely to the general template. The common observation among most stocks regardless which phase or model they follow is that they all comprise of accumulation and distribution phases.

In this example, the stock actually consolidated in a manner that resembles the accumulation phase of the classic Tubbs model as seen in Figure 1.2.

## Technical Analysis Conclusion

The combined view and analysis of Wyckoff phases, VSA, price n volume divergences and support and resistance levels suggest that the operator have yet to unload all of his/her accumulated positions and therefore have more incentive to push price higher in the mid-term.

## Fundamental analysis

Growth over previous year in %	FY2011	FY2012	FY2013
Net Income	(33.121)	(60.106)	(64.353)
Net Profit	(27.973)	(25.17)	(0.306)
EPS	(31.973)	(59.84)	(63.245)
Return on Equity	(33.704)	(60.348)	(64.417)

Figure 1.3: Key statistics and their trends over past 3 years

## Quantitative- EPS turnaround

Revenue and EPS growth had been lacklustre during the years of 2011-2013 as seen from Figure 1.3. This was largely attributed to the poor management of its operating cost and market factors such as the rapid decline of Research in Motion (RIM) 's market share as Black Berry fell out of favour amongst consumers. It was a difficult transition period for Hi-P as their main customer then, RIM accounted for one quarter of Hi-P's revenue, struggles to stay afloat.

However, with improved costs management and continued efforts of diversifying their customer base, Hi-P's EPS for 3Q from 2013 to 2014 rose by 247.4% from 0.38 to 1.32. Hi-P is primed to spot an EPS turnaround story for FY2014 as the yield from producing Xiaomi's Mi4 metal casing has surged beyond the 50% breakeven point for Hi-P. Profits are expected to roll in as early as 1Q2015.

## Qualitative - Yotaphone 2 Launch and Pipeline of Projects

Hi-P is the original design manufacturer of Yotaphone 2. It is a revolutionary phone that features 2 sided screen interface and has began its global launch starting with London on 3rd December. If sales of the phone pick off, Hi-P will stand to gain from the ramp up in production.

The recent resumption of Nantong's plant operations is further testimony that there is healthy growth in order flows buoyed by the continual increasing global demand for smart phones such as Apple and Xiaomi, both customers of Hi-P.

## (NAV) Net Asset Value

Hi-P has an approximate **net asset value(NAV)** of 0.715. At the point of writing, the stock price is trading below its NAV at the price of 0.695. As many stocks listed on SGX have a tendency to be valued at least at their NAV, currently Hi-P is undervalued and this presents a good probable buying opportunity.

## Share Buyback by CEO

Announcement Title	Share Buy Back - Daily Share Buy-Back Notice
Date & Time of Broadcast	03-Dec-2014 17:48:40
Status	New
Announcement Sub Title	Daily Share Buy-Back
Announcement Reference	SG1412030THRGUMX
Submitted By (Co./ Ind. Name)	Yao Hsiao Tung
Designation	Executive Chairman and Chief Executive Officer
Description (Please provide a detailed description of the event in the box below)	Daily Share Buy-Back by way of market acquisition.

Figure 1.4: Share buyback by CEO on 3rd December 2014

The CEO of Hi-P has been buying back shares recently on four separate occasions. For instance, buying back 108,000 shares at 0.629 on 17 Nov 2014 and 100,000 shares at 0.712 on 3 Dec 2014. A share buyback by the CEO of a company is always a vote of confidence in the outlook of the company.

It was also observed that, at the time of writing, share buyback ceased at price levels of 0.712. This is coherent with the fact that NAV of the company stands at 0.715. However, that is not to say that the fair value of Hi-P should rest at these levels. Based on technical analysis and our EPS projection, we believe that Hi-P share price has more room for upside.

## Order Flow Analysis

### i) Market Depth

BuyQ(k)	Buy	Sell	SellQ(k)
30	0.695	0.700	15
62	0.690	0.705	7
108	0.685	0.710	32
128	0.680	0.715	36
30	0.675	0.720	101
45	0.665	0.725	10
46	0.660	0.735	15
17	0.655	0.740	35
18	0.650	0.745	73
14	0.645	0.750	72
10	0.635	0.760	50
10	0.630	0.775	38
50	0.620	0.780	50
38	0.615	0.790	10
100	0.600	0.795	120
10	0.595	0.800	22
10	0.580	0.825	16
726	0.6554	0.7546	702

Figure 1.5: Market Depth on 26th December

## Thin queues and low liquidity

The preliminary analysis of the market depth reveals that this stock has a rather thin queue float. The strongest support and resistance levels at any queue levels are less than 1million SGD in market value. This suggests that for any highly leveraged or big position size trader, he may have problems selling his positions at one go easily. Therefore, one has to be cautious when building a position as well as in planning his exit strategy.

## Volatile

The thin queue float also suggest that Hi-P share price is very volatile. It takes just 1 million SGD to effectively push price down one price level. This means that relatively small amount of money can cause the fluctuation of the price in the short term. This theory is also supported by the chart where we can observe long spreads on low volume, as price changes drastically over short periods of time on few transactions.

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## Static vs Dynamic Market Depth (M.D)/ Missing Queues? Queue Withdrawals

Based on the static screenshot of Figure 1.5, there are not many conclusive insights that we can arrive at. This is largely due to the fact that a proper market depth analysis can only be done via observation of the movements of the queue levels when the data feed is dynamic and not static, over a period of time.

The difference between a static analysis and dynamic analysis of the market depth arises due to the act of withdrawal of queues, also known as fake queues. Upon scrutinizing Figure 1.5, we will realise that there are no queues of buyers nor sellers at some price levels. Does that mean that at those price levels, there are no buyers or sellers?

Looking back at the chart, Figure 1.0, we acknowledged earlier that 0.765 is a major resistance price level that the stock has to clear for the uptrend to continue. However, looking at the market depth, there was actually no queues looking to sell at 0.765 at all.

## Forming Analysis with Chart and M.D

For the past 2 months, based on observations of the market depth at fixed hours of the day, we are able to pick out strong price resistances at 0.720 and 0.765, and strong support at 0.680. This is in confluence with the resistance price levels as shown in the chart, Figure 1.0. The supporting view that Market Depth provides reaffirms the outlook the chart shown. In such scenarios, price will have a greater tendency to trade within these boundaries. Also, the larger queue levels that appear during matching at the opening of the market usually signals the support and resistance levels for the stock on an intraday basis. Definitely, these observations are not absolute and in fact deviate from stocks to stocks.

## ii) Time and Sales/ Tape/ Queue

### Volume Distribution Analysis

Price	Vol(k)	Buy (k)	Sell (k)
0.645	50	50	0
0.650	95	62	33
0.655	335	225	110
0.660	118	93	25
0.665	112	51	61
0.670	620	397	223
0.675	274	188	86
0.680	295	117	178
0.685	405	167	238
0.690	524	341	183
0.695	735	550	185
0.700	1305	640	665
0.705	680	208	472
0.710	959	640	319
0.715	1562	623	939
0.720	1226	738	488
0.725	1482	999	483
0.730	1228	547	681
0.735	960	320	640
0.740	604	198	406
0.745	435	330	105
0.750	876	375	501
0.755	771	365	406
0.760	208	28	180
0.765	297	23	274

Figure 1.6: Volume distribution for past 4 weeks

This volume distribution table shows that for the past month, most of the volume transaction took place at the price range of 0.700 to 0.730 which would be different from the month before. This shows that price is consolidating at a higher price range, reaffirming our stance that the stock is on a slow steady uptrend. Another point to note of the volume distribution is that at the extremes of 0.645 and 0.765, instead of the intuitive assumption that most retailers will arrive at i.e. (there are more sell downs at higher prices and buy ups at lower prices), the converse is true. Price peaks when there is high levels of buy ups at the peak and bottoms when high levels of sell down takes place.

### Time & Sales and queue track Analysis: Abnormal Volume Investigation

With reference to the second yellow oval from the left in Figure 1.0, we notice an abnormally large volume bar with little change in price spread in the consolidation range that occurred on the 30th May 2014.. This is an interesting price action that ought to be investigated. We notice this maybe a clue or sign of the end of accumulation phase and the start of mark up phase.

Time	Price	Vol	W
17:04:43	0.555	1300	b
16:59:57	0.575	1	b
16:59:57	0.580	2	s
16:59:57	0.575	3	b
16:59:56	0.580	2	s
16:59:56	0.575	5	b
16:59:56	0.580	2	s
16:59:56	0.575	4	b
16:59:56	0.580	4	s
16:59:55	0.575	8	b
16:59:55	0.580	5	s
16:59:55	0.580	10	s
16:59:41	0.575	1	b
16:59:41	0.580	1	s
16:59:40	0.575	1	b
16:59:40	0.575	1	b
16:59:40	0.580	1	s
16:59:40	0.575	1	b
16:59:39	0.575	1	b

Figure 1.7: Time and Sales on 30th May 2014

From Figure 1.7, we can observe that the huge volume was actually created by a large sell down volume during the matching process at the closing bell. What is surprising is the fact that the large position is matched at bid price instead of ask and that it is actually 4 price bids lower than the last traded price. Looking at it superficially, a bearish sentiment is painted as price actually gapped down with high volume. But in scrutinizing the entire day of activity, we can conclude that such price movement is not congruent with the current observations. Who will actually buy or sell that amount of stock at that price? Operators?

Time	BuyQ	Buy
17:00:08		
17:00:06		
17:00:06	121	0.595
17:00:00		
17:00:00	79	0.590
17:00:00		
17:00:00	79	0.595
16:59:57		
16:59:57	(-1) 11	0.575

Figure 1.8: Queue track at the start of closing matching

Operator activities are confirmed with data from Figure 1.8 showing wild swings during the matching of price. Price was initially matched up to 0.595 before closing at the intraday new low.

## iii) Short Seller Report Analysis

With reference to the Marking of Sell orders from SGX website, based on the available data at the point of analysis, we gathered that there were less than 100 lots of Hi-P at any one point that was short on the stock. This piece of information supports our VSA conclusion - that bears of Hi-P do not have any short sale intention of the stock. Hence we do not foresee a change in trend in the near term. Any selling should be profit taking.

## Speculation Analysis

### Xiaomi Hype

Xiaomi has proved to be wildly popular in China and a few South East Asian countries such as Singapore where their flagship models Mi3's are instant sell-outs. Xiaomi's upcoming plans to expand in India has put them in the spotlight as they are touted to rapidly takeover market share from Samsung and Apple. Xiaomi is currently privately held, therefore Hi-P, as one of the supplier of the Mi4's metal casing, serves as a good proxy to ride on Xiaomi's wild success.

## Global Markets Bull Rally Outlook

With reference to the chart analysis of some of the major indices of the world, such as S&P500 and SSCE, we can infer that the current outlook for the world stocks markets is bullish. When the major market sentiment is bullish, the average win rate when buying a stock is naturally increased. Therefore, we expect the bullish outlook to support our bullish view for Hi-P.

## Conclusion

In conclusion, using the S.O.F.T approach, we derive bullish outlooks from all segments. Therefore, we see more upside for price of Hi-P.

### Chart & Market data by:

