

13 May 2019

Industrials | Commercial & Professional Services

## HRnetgroup (HRNET SP)

**Buy** (Maintained)

### Weak SG Numbers Drag Down Core Profit

Target Price (Return) SGD0.94 (+22%)  
 Price: SGD0.77  
 Market Cap: USD569m  
 Avg Daily Turnover (SGD/USD) 0.07m/0.05m

- **Maintain BUY, new SGD0.94 TP from SGD1.06, 22% upside plus 3% FY19F yield.** Gross profit contributions from HRnetgroup's Singapore operation dropped 11.6% YoY on a slowdown in hiring after the unicorn hiring spree ended. As we expect the Singapore unit to remain weak in subsequent quarters, we adjust FY19-20F core PATMI by -6%/-5% which results in a lower TP. That said, it has net cash of SGD304m in its balance sheet – for which management plans to make yield-accretive acquisitions.
- **Investment profits aid bottomline.** 4Q18 topline dropped 2.8% YoY while PATMI rose by 16.9% to SGD20.2m, mainly due to a one-off investment gain of SGD4.7m. Without these one-offs, core PATMI would have declined YoY, mainly due to the weakness in its Singapore and Taiwan units.
- **Looking at Vietnam for acquisitions.** Management is in negotiations on a potential M&A, likely in Vietnam, with a company size similar of that of REForce which it acquired previously. The company is profitable and we think that it will likely be earnings-accretive (just like REForce).
- **Becoming a strategic shareholder of Bamboos Health Care Holdings (Bamboo).** HRnetgroup invested in a 7.85% stake in Bamboo, with the aim of being a strategic shareholder and forming a partnership to further expand and develop its recruitment business in the healthcare sector. We believe it is possible it could grow its stake further, as long as deal is yield-accretive and strengthens its partnership even more.
- **2Q19 should still be weak for Singapore unit.** Due to the ongoing trade war issues, management said some companies are holding off on hiring while waiting for the trade talks to settle. In the meantime, it has noticed weaker numbers from its Singapore operation this quarter. Premised on this, we trim FY19-20 PATMI estimates by 6%/5%, which results in a lower DCF-backed TP of SGD0.94. With SGD304m om net cash, a >3% dividend yield and potential yield-accretive acquisitions, we maintain BUY.
- **Key downside risks :** Economic slowdown, defaults on payments by customers.

#### Analysts

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

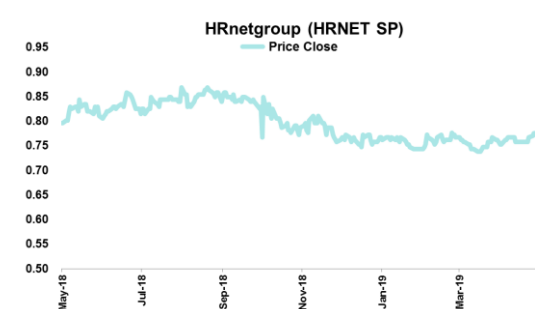


Lee Cai Ling  
 +65 6232 3892  
[lee.cai.ling@rhbgroup.com](mailto:lee.cai.ling@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	(1.9)	0.0	(5.5)	(7.2)
Relative	(10.4)	(0.3)	(2.2)	(11.9)	0.2
52-wk Price low/high (SGD)	0.76-0.91				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	391.9	428.5	453.0	476.5	501.4
Recurring net profit (SGDm)	41.3	48.2	52.2	55.4	58.1
Recurring net profit growth	0.6	16.6	8.3	6.2	4.9
Recurring P/E (x)	18.7	16.1	14.8	14.0	13.3
P/BV (x)	2.5	2.3	2.1	2.0	1.8
P/CF (x)	16.2	12.8	9.9	10.8	10.3
Dividend Yield (%)	3.0	3.6	3.4	3.6	3.8
EV/EBITDA (x)	8.6	7.6	6.7	5.9	5.3
ROE (%)	13.23	14.45	14.37	14.05	13.59
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	na	na	na	na	na

Source: Company data, RHB

Figure 1: 1Q19 results summary

SGDm	1QFY19	1QFY18	YoY +/- %	4QFY18	QoQ +/- %	Comments
Revenue	104.0	107.0	-2.8%	108.5	-4.2%	Revenue dragged down by weakness in Singapore and Taiwan hiring
Gross Profit	35.4	36.4	-2.8%	39.2	-9.6%	
<i>Gross Profit Margin</i>	<i>34.1%</i>	<i>34.1%</i>		<i>36.1%</i>		
Profit Before Tax	23.6	20.1	16.9%	10.9	115.6%	
PATMI	19.3	16.3	18.5%	6.3	207.7%	PATMI surged partially due to a one-off investment gain
<i>Net Profit Margin</i>	<i>18.6%</i>	<i>15.2%</i>		<i>5.8%</i>		

Source: Company data, RHB

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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**KUALA LUMPUR**

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

**JAKARTA**

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

**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

**BANGKOK**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

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**RHB Securities Singapore  
Pte Ltd.**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +65 6533 1818  
Fax : +65 6532 6211