

27 June 2024

Industrials | Commercial & Professional Services

HRnetGroup (HRNET SP)

Buy (Maintained)

Expecting Slightly Weaker Earnings Outlook; Still BUY

Target Price (Return): SGD0.84 (21.0%)
 Price (Market Cap): SGD0.69 (USD500m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.07m/0.05m

- **Maintain BUY and SGD0.84 TP, 21% upside and c.5% FY25F yield.** We continue to like HRnetGroup, as we anticipate growth on the back of economic recovery in Singapore and China even after trimming our estimates. We see growth driven by an improving economy. RHB Economics forecasts Singapore's 2024 GDP growth to accelerate while maintaining strong GDP growth of 5% for China. Valuation is compelling, with forward P/E at -0.5SD of its historical mean.
- **1Q24's unemployment rate increased.** According to the Ministry of Manpower's (MoM) latest Monthly Unemployment Situation for 1Q24, overall unemployment rates in March, inched up to 2.1% (resident: 3%, citizen: 3.1%). The citizen unemployment rate of 3.1% was higher than 3Q23's 3%. The number of retrenchments declined to 3,030 for the quarter from a high of 4,110 in 3Q23 since 1Q23. Job vacancies to unemployed persons decreased in 1Q24 to 1.56 from 2.25 in 1Q23. The average monthly recruitment rate, which has averaged at 2.3% in the past four quarters, declined to 2.1% in 4Q23.
- **Expecting weaker job demand in Singapore.** The latest MoM data showed continued expansion of the labour market in 1Q24, albeit at a slower pace. While retrenchments declined, unemployment rate increased. The employment change for the quarter was +4,700, lower than +7,500 for 4Q23 and +33,000 for 1Q23. Nonetheless, RHB Economics estimates Singapore's 2024 GDP growth at 2.5%, accelerating from 2023 - driven by an improving external environment. For China, RHB Economics sees signs of continued economic recovery and has forecasted a 5% GDP growth for 2024. This should support job demand in 2024 as well.
- **Trim FY24F-26F earnings by 3% each.** Based on 1Q24's labour situation, we see a less robust outlook going forward. As such, we lower our growth rates for the number of placements and contractors from 5% to 2%. We also trim our FY24F-26F earnings by 3% each to reflect a slower-than-expected growth outlook. Despite cutting our earnings, our TP remains at SGD0.84 as we roll over our earnings base from FY24F to a blended FY24F-25F.
- **Maintain BUY.** Despite trimming our estimates, we continue to like HRNET for its: i) Cash-generative ability, ii) strong net cash balance sheet, iii) attractive dividend yield of c.5%, iv) undemanding valuation of c.11x forward P/E (at -0.5SD of its historical mean forward P/E), v) continued share buyback in support of EPS, and vi) advantage as a beneficiary of the economic recovery going into FY24 - especially in Singapore and China.
- **Key risk.** Slower-than-expected recovery in the key labour markets of Singapore, China, and Taiwan. Based on HRNET's 3.0 ESG score (below the country median of 3.1), we apply a 2% ESG discount to its intrinsic value to derive our TP.

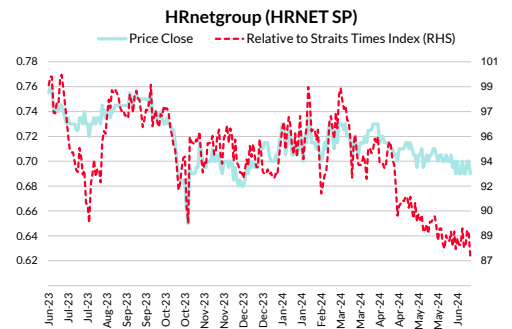
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.5)	(2.8)	(3.5)	(0.7)	(11.0)
Relative	(6.2)	(3.1)	(7.5)	(6.6)	(15.2)
52-wk Price low/high (SGD)				0.65	-0.76



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	612	578	590	619	650
Recurring net profit (SGDm)	55	56	58	61	65
Recurring net profit growth (%)	(15.8)	0.9	4.8	5.4	5.4
Recurring P/E (x)	12.39	12.20	11.64	11.04	10.48
P/B (x)	1.9	1.8	1.7	1.6	1.5
P/CF (x)	11.24	13.93	12.36	10.60	10.06
Dividend Yield (%)	9.0	5.4	5.8	5.2	5.4
EV/EBITDA (x)	4.25	4.43	4.50	3.94	3.42
Return on average equity (%)	18.5	17.2	15.1	15.0	14.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

The company engaged an external consultant to assist in conducting a materiality assessment of the "E" (as well as S and G) factor, which is relevant to its operations.

S: GOOD

Embraces gender diversity with key positions in management filled with a good mix of both genders. They are committed to promoting diversity and equal opportunity, both within their own workplace, and also amongst their clients.

G: GOOD

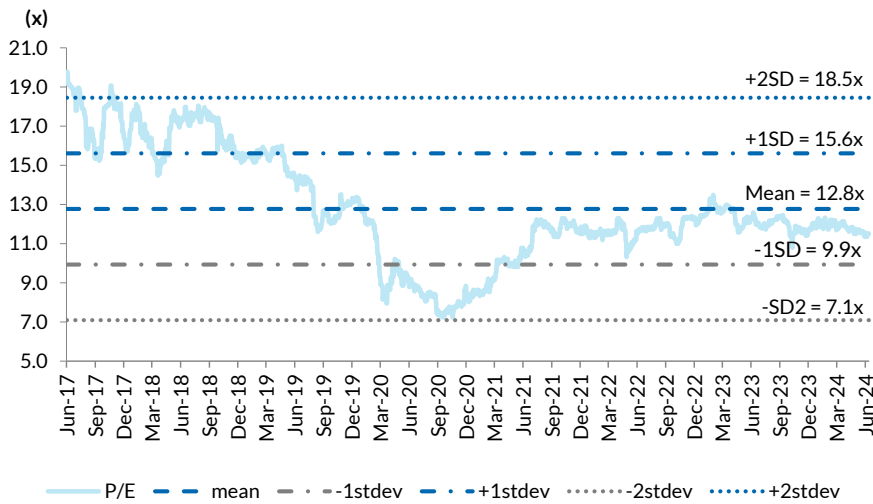
The company has not had any material data security or privacy issues over the past few years. Its board of directors comprises six independent directors, three non-executive directors and the group CEO is an executive director.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.06	0.06	0.06	0.06	0.07
Industrials	DPS	0.06	0.04	0.04	0.04	0.04
HRnetGroup	BVPS	0.37	0.38	0.40	0.43	0.46
HRNET SP	Return on average equity (%)	18.5	17.2	15.1	15.0	14.9
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	12.39	12.20	11.64	11.04	10.48
14x blended FY24F-25F P/E	P/B (x)	1.9	1.8	1.7	1.6	1.5
	FCF Yield (%)	8.5	6.6	7.9	9.3	9.8
	Dividend Yield (%)	9.0	5.4	5.8	5.2	5.4
	EV/EBITDA (x)	4.25	4.43	4.50	3.94	3.42
	EV/EBIT (x)	4.75	4.94	4.58	4.02	3.49
Key drivers						
i. Increased demand for flexible staffing across Asia;						
ii. M&A.						
Key risks						
i. Increased competition in the recruitment industry;						
ii. Fluctuation in general economic activity.						
Company Profile						
HRnetGroup is the largest Asia-based recruitment agency in Asia-Pacific (ex-Japan), as compared to other key players with presence in Asia-Pacific. The group operates 11 brands in 10 Asian growth cities, namely, Singapore (where the headquarters are located), Kuala Lumpur, Bangkok, Hong Kong, Taipei, Guangzhou, Shanghai, Beijing, Tokyo and Seoul. Currently, HRnetGroup provides professional recruitment, flexible staffing and other HR services (payroll, training) to over 2000 clients from 30 diversified sectors such as financial institutions, retail & consumer, IT, and telecommunications, etc.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	612	578	590	619	650
	Gross profit	174	139	142	149	156
	EBITDA	81	77	73	77	82
	Depreciation and amortisation	(9)	(8)	(1)	(1)	(2)
	Operating profit	72	69	72	76	80
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	87	78	72	75	80
	Taxation	(14)	(12)	(11)	(12)	(12)
	Reported net profit	68	64	58	61	65
	Recurring net profit	55	56	58	61	65
	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(8)	(13)	(8)	(2)	(2)
	Cash flow from operations	61	49	55	64	68
	Capex	(3)	(4)	(1)	(1)	(1)
	Cash flow from investing activities	(31)	(18)	(1)	(1)	(1)
	Dividends paid	(61)	(37)	(40)	(35)	(37)
	Cash flow from financing activities	(82)	(51)	(40)	(35)	(37)
	Cash at beginning of period	327	285	272	285	313
	Net change in cash	(52)	(20)	14	28	29
	Ending balance cash	270	263	286	313	342
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	285	272	285	313	342
	Tangible fixed assets	2	2	2	2	1
	Total investments	72	82	82	82	82
	Total assets	484	480	502	535	569
	Total liabilities	106	87	88	92	95
	Total equity	378	393	414	443	473
	Total liabilities & equity	484	480	502	535	569
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	3.6	(5.4)	2.0	5.0	5.0
	Recurrent EPS growth (%)	(14.7)	1.6	4.8	5.4	5.4
	Gross margin (%)	28.5	24.0	24.0	24.0	24.0
	Operating EBITDA margin (%)	13.2	13.3	12.5	12.5	12.5
	Net profit margin (%)	11.0	11.0	9.9	9.9	10.0
	Dividend payout ratio (%)	91.0	58.1	67.7	56.9	56.9
	Capex/sales (%)	0.4	0.7	0.2	0.2	0.2
	Interest cover (x)	173	152	159	167	176

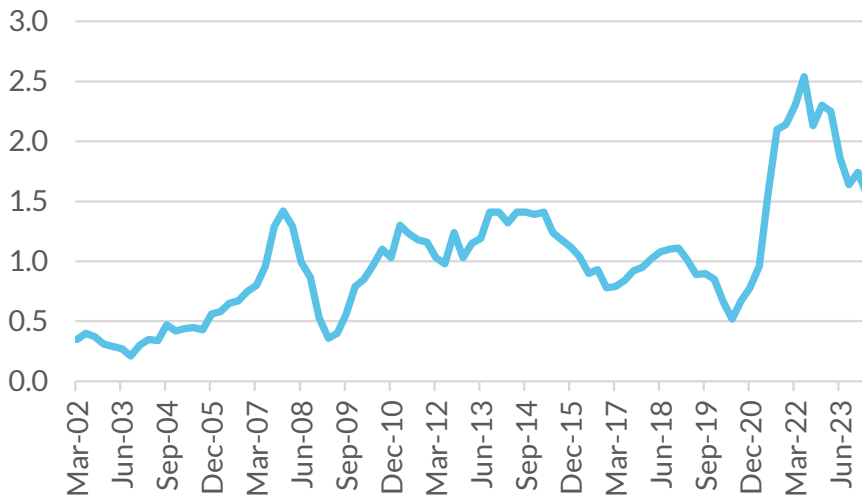
Source: Company data, RHB

Figure 1: HRNET currently trades below the historical 13x forward P/E mean



Source: RHB, Bloomberg

Figure 2: Singapore's job vacancy to unemployed person's ratio



Source: RHB, Bloomberg

Emissions And ESG

Trend analysis

There is currently no data for Scope 1 and Scope 2 emissions. However, HRnetGroup is working to collect the required information to establish its GHG emissions inventory, starting with Scope 1 and Scope 2 emissions in FY23.

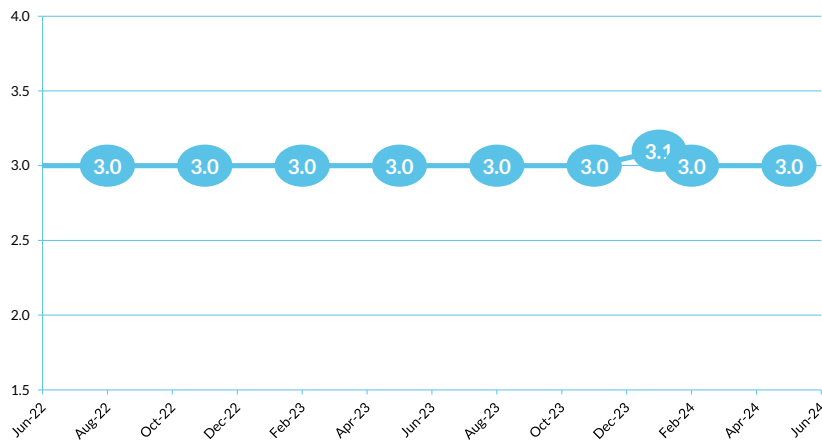
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

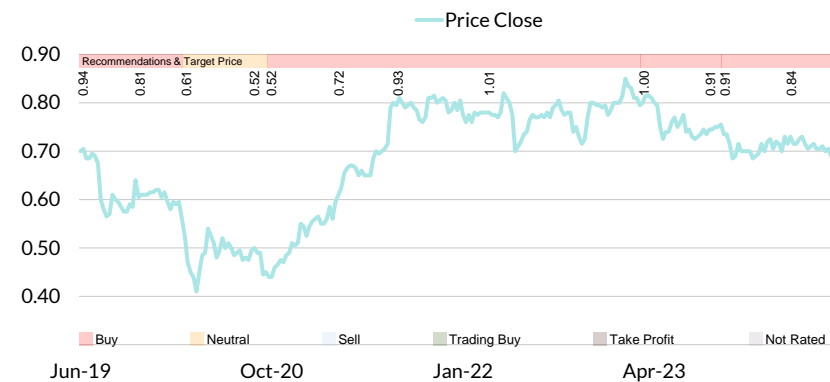
- HRnetGroup has recently commenced tracking of its environmental performance and efforts were focused on improving water management, waste management and energy use at its offices. Data collection started in 2022 on energy and water consumption in Singapore.
- Plans going forward include expanding data collection beyond Singapore and implementing performance indicators including greenhouse gas emissions (GHG). It has identified an opportunity to increase demand for ESG and carbon management professionals.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-03	Buy	0.84	0.73
2024-02-26	Buy	0.84	0.73
2024-01-25	Buy	0.91	0.72
2023-10-31	Buy	0.91	0.69
2023-09-19	Buy	0.91	0.75
2023-08-14	Buy	0.91	0.74
2023-03-22	Buy	1.00	0.81
2023-03-06	Buy	1.00	0.82
2022-08-16	Buy	1.01	0.79
2022-02-28	Buy	1.01	0.78
2021-11-23	Buy	0.93	0.82
2021-08-16	Buy	0.93	0.80
2021-07-22	Buy	0.93	0.78
2021-03-03	Buy	0.72	0.59
2020-09-21	Buy	0.52	0.45

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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