

3 April 2024

Industrials | Commercial & Professional Services

HRnetGroup (HRNET SP)

Buy (Maintained)

Expect Better Job Demand; Keep BUY

Target Price (Return): SGD0.84 (14.9%)
 Price (Market Cap): SGD0.73 (USD533m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.06m/0.04m

- **Keep BUY and SGD0.84 TP, 15% upside, c.5% FY24F yield.** We continue to like HRnetGroup, as we anticipate economic recovery in Singapore and China. Our economist forecasts Singapore's 2024 GDP growth to accelerate while maintaining strong GDP growth of 5% for China. The unemployment rate situation in Singapore turned slightly better in 4Q23 vs 3Q23, supporting our recovery thesis. Valuations are compelling, with forward P/E at -0.5SD of its historical mean and a dividend yield of 5%.
- **4Q23's unemployment rate remained low.** Based on the Ministry of Manpower's (MoM) latest Monthly Unemployment Situation for 4Q23, overall unemployment rates in Dec 2023 remained low at 2% (resident: 2.8%, citizen: 2.9%). The citizen unemployment rate of 2.9% was slightly better than 3Q23's 3%. The number of retrenchments declined to 3,460 for the quarter from 4,110 in 3Q23. Job vacancies to unemployed persons increased in 4Q23 to 1.74 from 1.64 in 3Q23 after consecutive quarters of decline. The recruitment rate inched up from 2.2 in 3Q23 to 2.3 in 4Q23.
- **Expect better job demand in Singapore and China.** Our economics desk estimates Singapore's 2024 GDP growth at 2.5%, accelerating from 2023 - driven by an improving external environment. More robust global demand should drive domestic industries' recovery and, eventually, the demand for labour, which will lend support to our earnings outlook. MoM, in its report, also indicated that labour demand is expected to strengthen on the back of improving GDP growth. Based on its research findings, 48% of firms surveyed in Dec 2023 had plans to hire over the next quarter, an increase from 42.8% in Sep 2023. In addition, 32.6% of firms intended to raise wages in the next three months, rising from the low of 18% in Sep 2023. For China, our economists see signs of continued economic recovery and have forecasted a 5% GDP growth for 2024. This should translate into higher job demand in 2024 as well.
- **Maintain BUY.** As overall unemployment is stable, we make no changes to our estimates and TP. Our TP pegs the stock at +0.5SD of the historical mean forward P/E. 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.12x forward P/E (at -1SD of its historical mean forward P/E), v) continued share buyback in support of EPS, and vi) 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.
- **ESG.** 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.

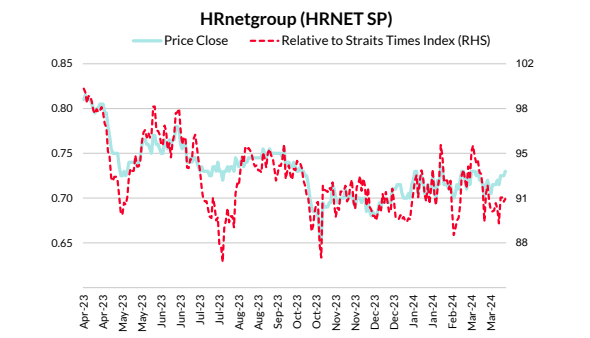
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.1	2.1	2.1	(1.4)	(10.4)
Relative	1.9	(1.5)	1.5	(2.6)	(10.0)
52-wk Price low/high (SGD)	0.65 - 0.82				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	612	578	607	637	669
Recurring net profit (SGDm)	55	56	60	63	67
Recurring net profit growth (%)	(15.8)	0.9	8.0	5.4	5.4
Recurring P/E (x)	13.11	12.90	11.95	11.33	10.76
P/B (x)	2.0	1.9	1.8	1.7	1.6
P/CF (x)	11.89	14.74	12.88	10.89	10.33
Dividend Yield (%)	8.5	5.1	5.5	5.0	5.3
EV/EBITDA (x)	4.74	4.94	4.87	4.30	3.76
Return on average equity (%)	18.5	17.2	15.5	15.4	15.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.00 (out of 4)

E: GOOD

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

S: GOOD

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

G: GOOD

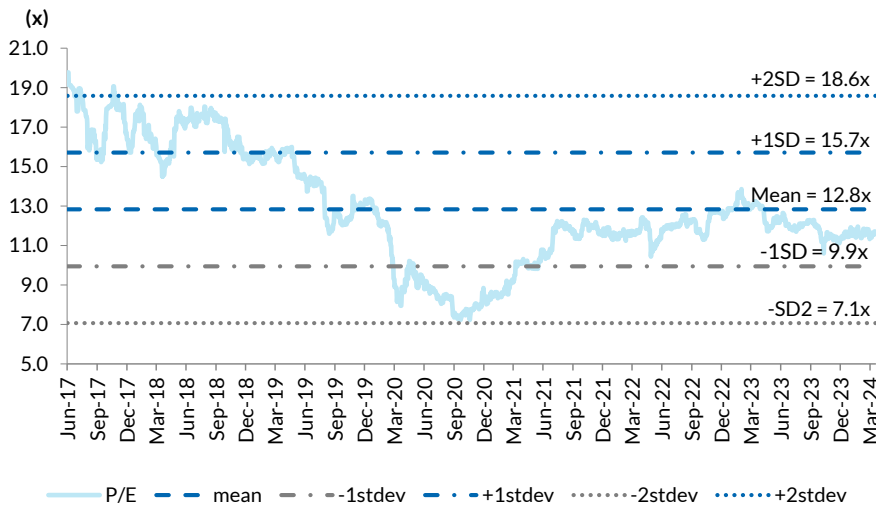
HRNET has not had any material data security or privacy issues over the past few years. Its board of directors comprises six Independent directors and three non-executive directors. The group CEO is an executive director.

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	15.5	15.4	15.2
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	13.11	12.90	11.95	11.33	10.76
14x FY24F P/E	P/B (x)	2.0	1.9	1.8	1.7	1.6
	FCF Yield (%)	8.1	6.2	7.6	9.0	9.5
	Dividend Yield (%)	8.5	5.1	5.5	5.0	5.3
Key drivers	EV/EBITDA (x)	4.74	4.94	4.87	4.30	3.76
i. Increasing demand for flexible staffing across Asia;	EV/EBIT (x)	5.30	5.51	4.97	4.38	3.83
ii. M&A.						
Key risks	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Slower-than-expected recovery in the key labour markets of Singapore, China, and Taiwan.	Total turnover	612	578	607	637	669
	Gross profit	174	139	146	153	160
	EBITDA	81	77	76	80	84
	Depreciation and amortisation	(9)	(8)	(1)	(1)	(2)
	Operating profit	72	69	74	78	82
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	87	78	74	78	82
	Taxation	(14)	(12)	(11)	(12)	(13)
	Reported net profit	68	64	60	63	67
	Recurring net profit	55	56	60	63	67
Company Profile	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
HRnetGroup is the largest Asia-based recruitment agency in Asia-Pacific (ex-Japan), as compared to other key players with presence in this region. 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 human resource services (eg payroll and training) to over 2,000 clients from 30 diversified sectors such as financial institutions, retail & consumer, IT, and telecommunications, among others.	Change in working capital	(8)	(13)	(9)	(2)	(2)
	Cash flow from operations	61	49	56	66	70
	Capex	(3)	(4)	(1)	(1)	(1)
	Cash flow from investing activities	(31)	(18)	(1)	(1)	(1)
	Dividends paid	(61)	(37)	(40)	(36)	(38)
	Cash flow from financing activities	(82)	(51)	(40)	(36)	(38)
	Cash at beginning of period	327	285	272	286	314
	Net change in cash	(52)	(20)	15	29	30
	Ending balance cash	270	263	287	315	345
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	285	272	286	314	344
	Tangible fixed assets	2	2	2	2	1
	Total investments	72	82	82	82	82
	Total assets	484	480	506	540	575
	Total liabilities	106	87	90	94	97
	Total equity	378	393	416	446	477
	Total liabilities & equity	484	480	506	540	575
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	3.6	(5.4)	5.0	5.0	5.0
	Recurrent EPS growth (%)	(14.7)	1.6	8.0	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	12.6
	Net profit margin (%)	11.0	11.0	9.9	9.9	10.0
	Dividend payout ratio (%)	91.0	58.1	65.7	56.9	56.9
	Capex/sales (%)	0.4	0.7	0.2	0.2	0.2
	Interest cover (x)	173	152	164	172	182

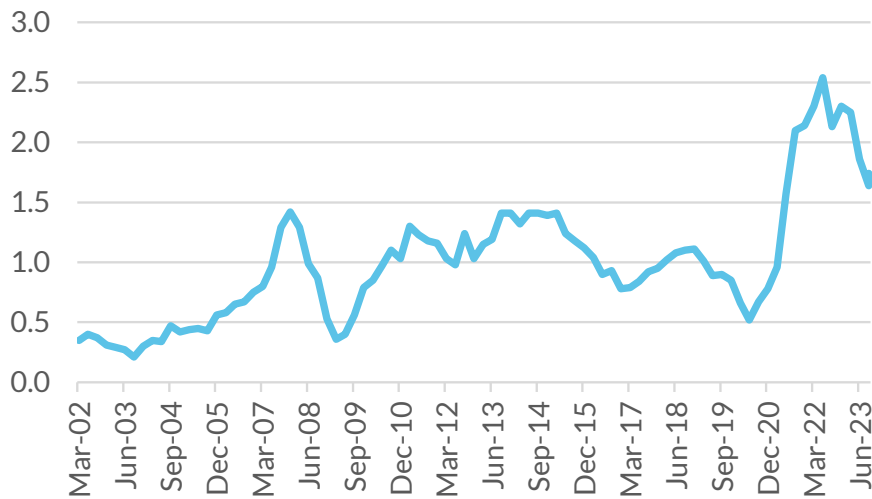
Source: Company data, RHB

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 greenhouse gas (GHG) emissions inventory, starting with Scope 1 and Scope 2 emissions in FY23.

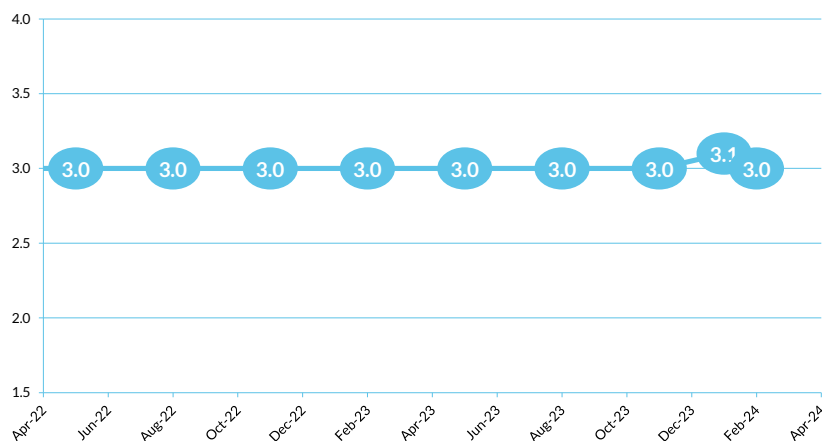
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

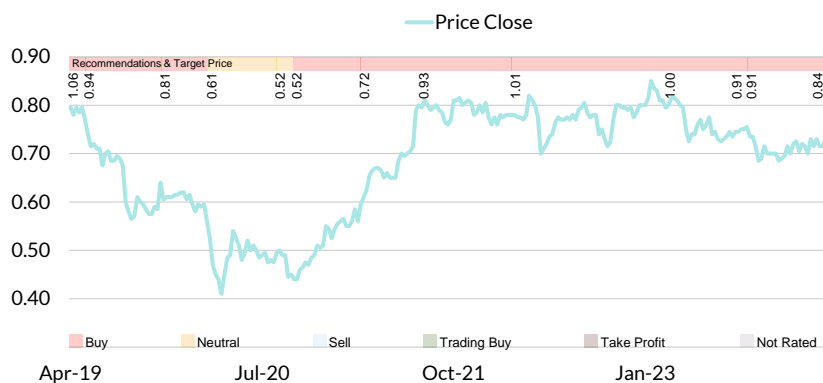
- HRnetGroup has recently commenced tracking of its environmental performance.
- 2022's efforts were focused on improving water management, waste management and energy use at its offices.
- Data collection started in 2022 on energy and water consumption in Singapore.
- Plans going forward include expanding data collection beyond Singapore and implementing performance indicators including GHG.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-08-12	Neutral	0.52	0.48

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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