

25 January 2024

Industrials | Commercial & Professional Services

HRnetGroup (HRNET SP)

Buy (Maintained)

Growth Led By Economic Recovery; Keep BUY

Target Price (Return): SGD0.91 (29.4%)
 Price (Market Cap): SGD0.71 (USD518m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.02m/0.02m

- **Keep BUY and SGD0.91 TP, 29% upside, c.5% FY24F yield.** We continue to be positive on HRnetGroup, ahead of anticipated 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 has also remained stable in Nov 2023 from 3Q23. We like the stock due for its compelling valuation vis-à-vis growth as a beneficiary of economic recovery this year.
- **Nov 2023's unemployment rate remained low.** Based on the Ministry of Manpower's latest Monthly Unemployment Situation for Nov 2023, overall unemployment rates remained low at 2% (resident: 2.8%, citizen: 2.9%). This is stable from 3Q23's 2% rate. Unemployed residents in Nov 2023 amounted to 67,600, of which 59,600 were citizens. Overall unemployment has remained stable at 1.8-2% this year, well below the 2013-2022 average of 2.4%. The overall unemployment rate of 2% was also consistent with 3Q23.
- **Expecting better job demand in Singapore.** Our economics desk estimates Singapore's 2023 GDP growth at 1.5%, before accelerating to 3% in 2024 – 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.
- **China recovering economically; growth remains strong at 5%.** Our economists see signs of continued economic recovery and has forecasted a 5% GDP growth for 2024. China's 3Q23 GDP has already surprised market estimates with a 4.9% YoY growth. Furthermore, the country's growth momentum has accelerated sequentially to 1.3% QoQ SA from +0.5% QoQ SA in 2Q23, supporting a recovery. This should translate into higher job demand in 2024 as well. HRNET's North Asia segment contributed to 40% of 1H23's gross earnings, of which China is a key contributor.
- **Maintain BUY.** As overall unemployment is stable, we make no changes to our estimates and TP. Our 2-year FY23F-25F earnings growth CAGR remains at 5%, as we are positive on a hiring recovery from next year onwards – this is on the back of accelerating economic growth. 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 of SGD0.24, iii) attractive dividend yield of c.5%, iv) undemanding valuation of c.11x 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 3.1 ESG score (at the country median), we apply a 0% ESG discount/premium to its intrinsic value to derive our TP.

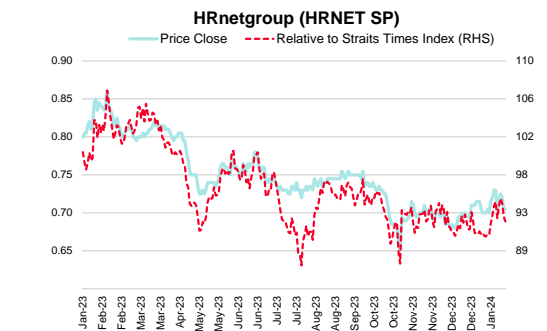
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.4)	1.4	6.8	(4.1)	(11.9)
Relative	1.3	1.0	4.5	(0.7)	(7.6)
52-wk Price low/high (SGD)				0.65	– 0.86



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	591	612	596	625	657
Recurring net profit (SGDm)	65	68	62	64	68
Recurring net profit growth (%)	58.3	3.1	(8.9)	4.6	5.4
Recurring P/E (x)	10.81	10.35	11.32	10.82	10.27
P/B (x)	1.9	1.9	1.8	1.7	1.6
P/CF (x)	13.31	9.23	8.11	10.00	9.51
Dividend Yield (%)	3.5	8.8	5.4	5.3	5.5
EV/EBITDA (x)	3.57	3.75	3.96	3.45	2.93
Return on average equity (%)	18.7	18.5	16.5	16.1	15.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

The group 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: EXCELLENT

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 the group's clients.

G: EXCELLENT

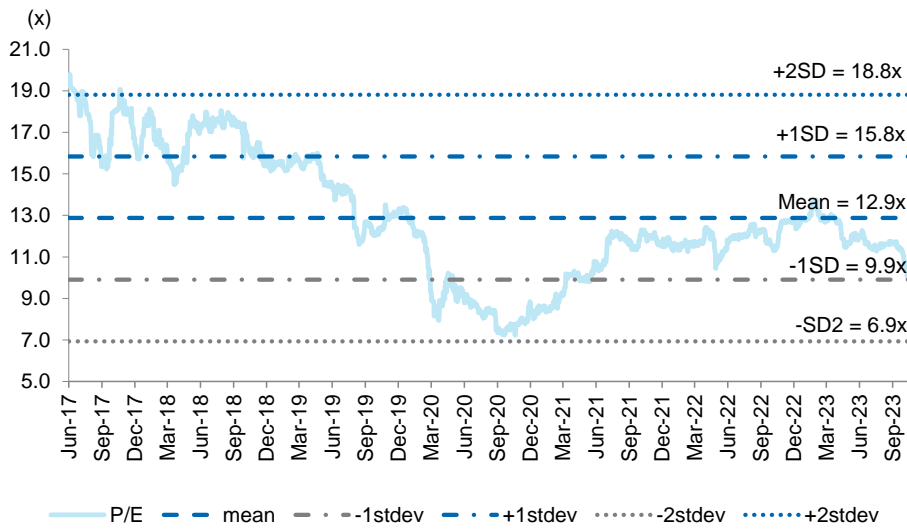
HRNET has not had any material data security or privacy issues over the past few years. Its board of directors comprises six independent directors, three non-executive directors and the group CEO is an executive director.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.07	0.07	0.06	0.07	0.07
Industrials	DPS	0.02	0.06	0.04	0.04	0.04
HRnetGroup	BVPS	0.37	0.37	0.39	0.42	0.45
HRNET SP	Return on average equity (%)	18.7	18.5	16.5	16.1	15.8
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	10.81	10.35	11.32	10.82	10.27
14x FY24F P/E	P/B (x)	1.9	1.9	1.8	1.7	1.6
	FCF Yield (%)	7.3	10.5	12.1	9.8	10.3
	Dividend Yield (%)	3.5	8.8	5.4	5.3	5.5
Key drivers	EV/EBITDA (x)	3.57	3.75	3.96	3.45	2.93
i. Increase demand for flexible staffing across Asia;	EV/EBIT (x)	3.95	4.12	4.03	3.51	2.98
ii. M&A.						
Key risks						
i. Increased competition in the recruitment industry;						
ii. Fluctuations in general economic activities						
Company Profile						
HRnetGroup is the largest Asia-based recruitment agency in Asia-Pacific ex-Japan, as compared to other key players with a presence in this region. The group operates 11 brands in 10 Asian growth cities, namely, Singapore (where its headquarters is 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.						
	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	591	612	596	625	657
	Gross profit	175	174	149	155	163
	EBITDA	94	96	79	82	87
	Depreciation and amortisation	(9)	(9)	(1)	(1)	(1)
	Operating profit	85	87	78	81	85
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	85	87	77	81	85
	Taxation	(15)	(14)	(13)	(13)	(14)
	Reported net profit	65	68	62	64	68
	Recurring net profit	65	68	62	64	68
	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(24)	(8)	20	0	0
	Cash flow from operations	53	76	86	70	73
	Capex	(1)	(3)	(1)	(1)	(1)
	Cash flow from investing activities	(25)	(31)	(1)	(1)	(1)
	Dividends paid	(25)	(61)	(37)	(37)	(39)
	Cash flow from financing activities	(35)	(82)	(37)	(37)	(39)
	Cash at beginning of period	332	327	285	331	362
	Net change in cash	(6)	(37)	47	31	33
	Ending balance cash	328	285	332	363	396
	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	327	285	331	362	395
	Tangible fixed assets	1	2	1	1	1
	Total investments	61	72	72	72	72
	Total assets	530	484	552	588	627
	Total liabilities	142	106	146	153	159
	Total equity	388	378	405	436	468
	Total liabilities & equity	530	484	552	588	627
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	36.4	3.6	(2.6)	5.0	5.0
	Recurrent EPS growth (%)	58.1	4.4	(8.6)	4.6	5.4
	Gross margin (%)	29.6	28.5	24.9	24.8	24.8
	Operating EBITDA margin (%)	16.0	15.7	13.2	13.2	13.2
	Net profit margin (%)	11.1	11.0	10.3	10.3	10.3
	Dividend payout ratio (%)	38.3	91.0	60.8	57.4	56.9
	Capex/sales (%)	0.2	0.4	0.2	0.2	0.2
	Interest cover (x)	181	209	185	194	204

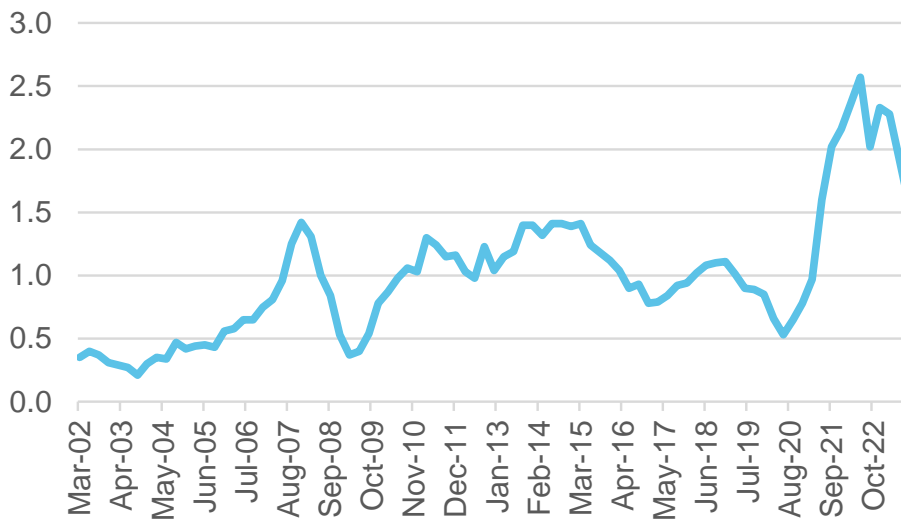
Source: Company data, RHB

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.

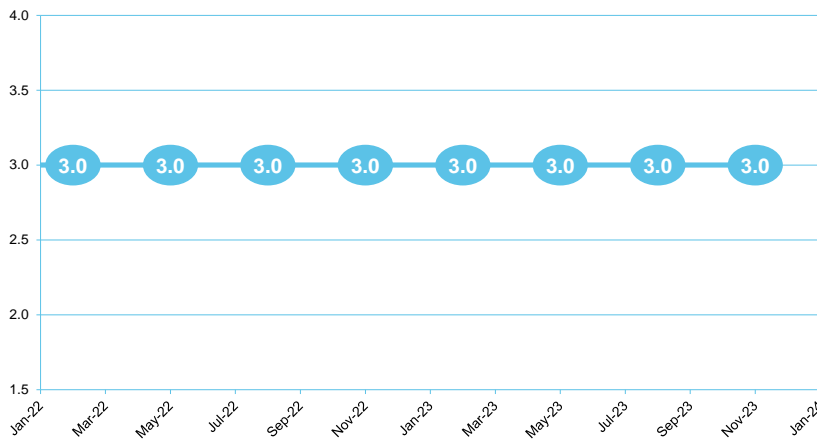
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

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
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
2020-03-01	Neutral	0.61	0.56
2019-11-11	Buy	0.81	0.61

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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