

26 February 2024

Industrials | Commercial & Professional Services

HRnetGroup (HRNET SP)

Buy (Maintained)

Positive On Better Job Outlook; Maintain BUY

Target Price (Return): SGD0.84 (14.9%)
 Price (Market Cap): SGD0.73 (USD535m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.04m/0.03m

- **Maintain BUY, new SGD0.84 TP from SGD0.91, 15% upside, c.5% FY24F yield.** We continue to be positive on HRnetGroup based on expected economic recovery in Singapore and China. Our economist forecasts the former's 2024 GDP growth to accelerate while maintaining strong GDP growth of 5% for the latter. We like the stock for its compelling valuation vis-à-vis growth as a beneficiary of economic recovery this year.
- **FY23 earnings below.** Revenue came in at SGD578m (-5% YoY) while core earnings rose 1% YoY to SGD56m – below our forecast. While headline earnings are in line, they were lifted by SGD9m in reversal of trade-related accruals. Revenue growth was dragged by a 32% YoY decline in the professional recruitment segment (SGD66m), supported by flattish revenue from flexible staffing (SGD509m). Gross margins fell to 24% (-4.5ppts) as the revenue mix of flexible staffing increased. FY23 saw a decline in both the number of professional recruitment placements (-19% YoY), and revenue and gross profit per placement. This was led by a slower hiring environment across its key markets. In the flexible staffing segment, the average number of contractors declined. This was offset by higher gross profit per contractor. Core EBIT margins underperformed our expectations by 1ppt at 12% on lower than expected gross margins. HRNET declared a final dividend of 2.13 SGD cents, bringing full-year dividends to 4 SGD cents, which is unchanged from last year. Dividend payout ratio amounted to c.60%. As overall EBIT margins have missed our expectations, we lower our FY25F-26F earnings by 6.5% each to factor in the current run-rate. Nonetheless, we expect core earnings growth of 5-8% going forward on a recovering employment outlook.
- **Expecting better job outlook.** Our economics desk estimates Singapore's 2023 GDP growth at 1.5%, before accelerating to 2.5% 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. For China, our economists see signs of continued economic recovery and has forecasted a 5% GDP growth for 2024. This should translate into higher job demand in 2024 as well.
- **Maintain BUY.** We continue to like HRNET for its: i) Cash-generative ability, ii) strong net cash balance sheet, iii) attractive dividend yield, iv) undemanding valuation at -0.5SD 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. Our new SGD0.84 TP pegs the stock at +0.5SD of the historical mean forward P/E.
- **Key risk.** Slower-than-expected recovery in the key labour markets of Singapore, China, and Taiwan. As HRNET's 3.0 ESG score is below the 3.1 country median, our TP includes a further 2% ESG discount to its fair value.

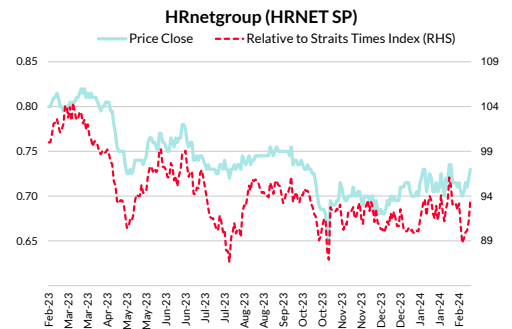
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.1	3.5	5.8	(2.0)	(10.4)
Relative	3.8	1.9	3.4	(2.3)	(7.9)
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: 3.0 (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, which is relevant to its operations.

S: GOOD

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

G: GOOD

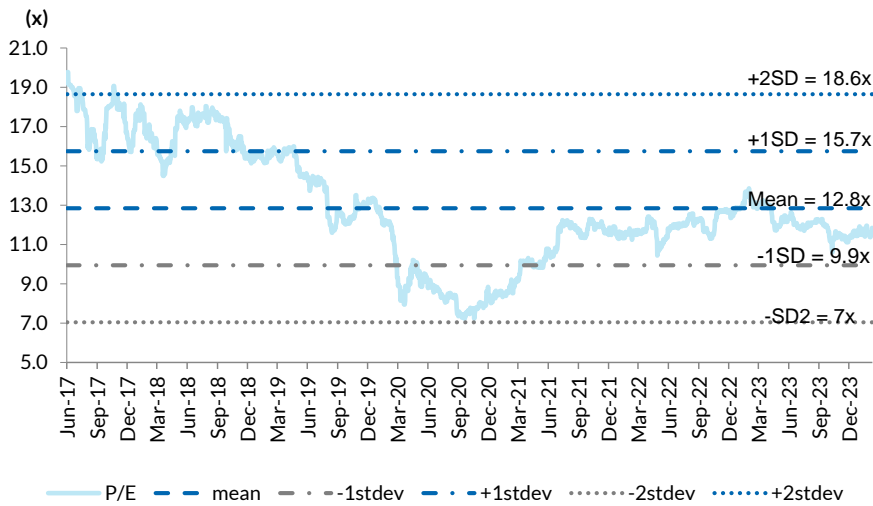
HRNET has not had any material data security or privacy issues over the past few years. Its board of directors comprises six independent directors, three non-executive directors and the group CEO is an executive director.

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	15.5	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. Increase demand for flexible staffing across Asia;	EV/EBIT (x)	5.30	5.51	4.97	4.38	3.83
ii. M&A.						
Key risks						
i. Increase 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 a presence in the 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 (payroll, training) to over 2,000 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	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
	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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

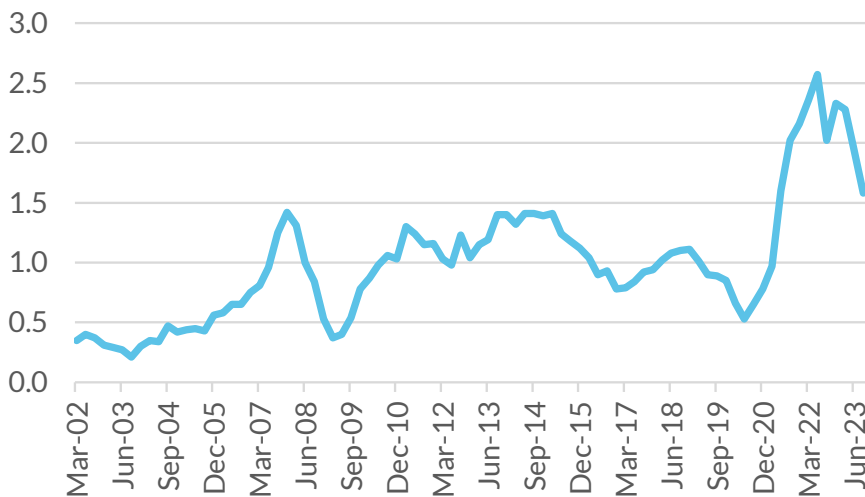
Source: Company data, RHB

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, HRNET is working to collect the required information to establish its greenhouse gas or GHG emissions inventory, starting with Scope 1 and Scope 2 emissions in FY23.

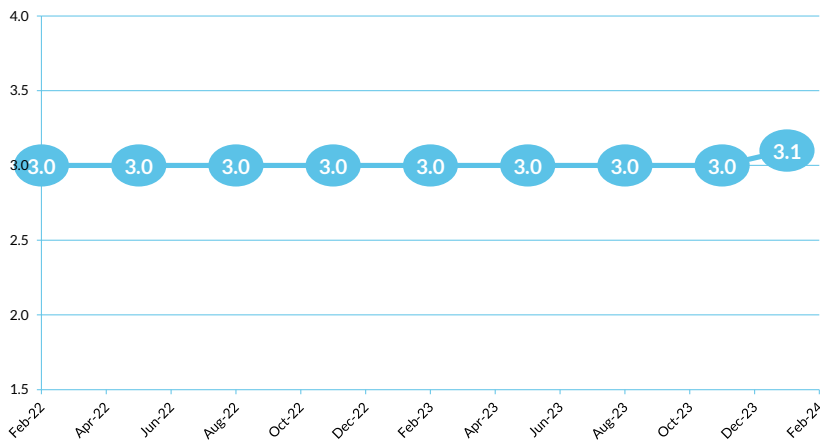
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

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
2024-01-25	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
2020-03-01	Neutral	0.61	0.56

Source: RHB, Bloomberg

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Buy:	Share price may exceed 15% 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
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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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