

29 October 2020

Industrials | Commercial & Professional Services

HRnetgroup (HRNET SP)

Buy (Maintained)

Economic Recovery Play; Maintain BUY

- **Maintain BUY with a TP of SGD0.52, 8% upside and c.4% yield.** With global economies reopening, more flight routes reinstated over time, and positive test results on a potential vaccine, chances for an economic rebound seem credible in 2021. Hiring may likely bottom this year and rebound in 2H21. We think the majority of bad news relating to HRnetgroup has been priced in.
- **Negative news mostly priced in.** With COVID-19 effectively affecting HRnetgroup negatively, professional staffing, which yields the highest margins, dropped 27% YoY for 1H20 and resulted in lower gross margin. This is likely to continue till 1H21F but we think that most of the negative news and negative outlook has already been priced in and the stock price has likely bottomed unless the situation continues to worsen globally.
- **3.8% dividend yield for FY20F.** HRnetgroup announced 2.8 SG cents dividend for FY19, in line with our forecasts and represents about 55.8% of its PATMI. With its net cash balance sheet and strong cash flow generation despite a tough outlook and poorer performance, we expect FY20F dividend yield of 3.8% – decent, albeit, lower.
- **Hiring correlated to GDP performance.** A country's GDP growth is a key indicator on how it has performed economically. Singapore's GDP growth fell in 2020 and is expected to be impacted in 1H21. We think that the world has now adjusted to COVID-19 and global economies should likely bottom by 1H21. In addition, positive news of vaccine trials may potentially lead to an effective vaccine, which will be positive for a global economic rebound and lead to more jobs and further hiring.
- **Net cash represents 60% of market cap.** HRnetgroup is an efficiently run company as compared to its global peers, many of whom are operating at losses during this tough period. The company is still generating positive cash flow and has SGD286m of net cash on its balance sheet as at 1H20, representing 60% of its market cap. It is also trading at a modest 12x FY21F P/E and a decent yield of 3.8%. We think that it has reached an attractive price level to accumulate for the longer term. Maintain BUY.
- **Key risks :** Economic recession

Target Price (Return): SGD0.52 (+8%)
Price: SGD0.48
Market Cap: USD354m
Avg Daily Turnover (SGD/USD) 0.25m/0.19m

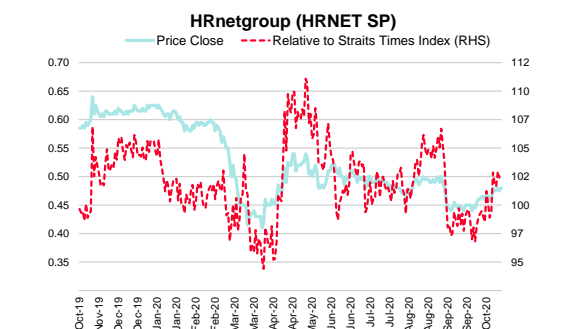
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.2)	6.7	0.0	(7.7)	(18.7)
Relative	(1.2)	5.5	2.7	(5.7)	2.4
52-wk Price low/high (SGD)				0.41	– 0.64



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	428	423	398	410	423
Recurring net profit (SGDm)	48	52	37	40	43
Recurring net profit growth (%)	9.1	7.8	(28.4)	7.5	7.5
Recurring P/E (x)	10.02	9.31	13.00	12.09	11.25
P/B (x)	1.4	1.5	1.4	1.4	1.3
P/CF (x)	9.35	8.11	10.14	11.30	10.49
Dividend Yield (%)	5.0	5.4	3.8	4.1	4.4
EV/EBITDA (x)	2.78	2.44	3.39	2.95	2.50
Return on average equity (%)	14.9	15.6	11.0	11.4	11.7

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.05	0.05	0.04	0.04	0.04
Industrials	DPS	0.02	0.03	0.02	0.02	0.02
HRnetgroup	BVPS	0.33	0.33	0.34	0.36	0.37
HRNET SP	Return on average equity (%)	14.9	15.6	11.0	11.4	11.7
Buy						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
DCF-based TP of SGD0.52	Recurring P/E (x)	10.02	9.31	13.00	12.09	11.25
	P/B (x)	1.4	1.5	1.4	1.4	1.3
	FCF Yield (%)	10.3	12.1	9.0	8.0	8.7
	Dividend Yield (%)	5.0	5.4	3.8	4.1	4.4
Key drivers	EV/EBITDA (x)	2.78	2.44	3.39	2.95	2.50
i. Increase demand for flexible staffing across Asia;	EV/EBIT (x)	2.82	2.67	3.46	3.01	2.56
ii. M&As.						
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Increase competition in the recruitment industry;	Total turnover	428	423	398	410	423
ii. Fluctuations in general economic activity.	Gross profit	155	146	127	134	140
	EBITDA	66	75	50	53	58
	Depreciation and amortisation	(1)	(7)	(1)	(1)	(1)
	Operating profit	65	69	49	52	56
	Pre-tax profit	65	69	49	52	56
	Taxation	(13)	(13)	(9)	(10)	(10)
	Reported net profit	48	52	37	40	43
	Recurring net profit	48	52	37	40	43
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
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, HRnet Group 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.	Change in working capital	(9)	5	7	(1)	(1)
	Cash flow from operations	52	60	48	43	46
	Capex	(2)	(1)	(4)	(4)	(4)
	Cash flow from investing activities	(27)	(39)	(4)	(4)	(4)
	Dividends paid	(23)	(28)	(28)	(28)	(28)
	Cash flow from financing activities	(31)	(35)	(28)	(28)	(28)
	Cash at beginning of period	289	282	266	282	292
	Net change in cash	(7)	(15)	15	11	14
	Ending balance cash	282	266	282	292	306
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	282	266	282	292	306
	Tangible fixed assets	2	2	5	7	10
	Total investments	29	48	48	48	48
	Total assets	407	419	443	459	478
	Total liabilities	62	73	85	86	87
	Total equity	345	347	358	373	390
	Total liabilities & equity	407	419	443	459	478
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	9.3	(1.3)	(5.9)	3.0	3.2
	Recurrent EPS growth (%)	9.7	7.7	(28.4)	7.5	7.5
	Gross margin (%)	36.2	34.4	32.0	32.6	33.1
	Operating EBITDA margin (%)	15.4	17.8	12.5	13.0	13.6
	Net profit margin (%)	11.2	12.3	9.3	9.7	10.2
	Capex/sales (%)	0.4	0.3	1.0	1.0	0.9

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-05-13	Buy	0.94	0.76
2019-02-25	Buy	1.06	0.80
2018-11-12	Buy	1.18	0.82
2018-08-10	Buy	na	0.90
2018-06-11	Buy	1.18	0.84

Source: RHB, Bloomberg

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