

17 August 2022

Industrials | Commercial & Professional Services

## HRnetgroup (HRNET SP)

**Buy** (Maintained)

### A Strong 1H22; Keep BUY

Target Price (Return): SGD1.01 (+28%)  
 Price (Market Cap): SGD0.79 (USD575m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.18m/0.13m

- Maintain BUY and TP of SGD1.01, 28% upside and c.6% yield.** HRnetgroup announced a strong 1H22, in line with our estimates. Revenue rose 14.2% YoY to SGD314.2m, while core NPAT rose to 36.2% YoY to SGD42.6m. Going forward, we see hiring remaining resilient despite the possibility of a slight slowdown. A 2.13 SG cent interim dividend has also been declared. We believe that the current share buyback (SBB) programme will be a positive to its share price.
- FY22F will likely end well.** For 1H22, HRNET's flexible and professional recruitment grew by 13.2% and 18.6% YoY, while Singapore continues to remain its largest market. Going forward, hiring is still expected to be strong from the technology, healthcare and consumer sectors. There is potential for a slowdown in hiring, especially if a recession hits, but for now, signs show hiring is still healthy.
- SGD30m SBB programme.** Management intends to buy up to SGD30m of company shares via the open market. The maximum number of shares which may be purchased by the company under the SBB programme is 100,377,338 (amounting to 10% of its issued shares). Depending on the prices at which the shares are purchased, the programme could take more than a year to be completed. As at 16 Aug 2022, management has already purchased 0.21% of the total shares outstanding. We expect the SBB programme to continue and be positive for its share price.
- Attractive dividends likely to continue.** Management has declared the first ever interim dividend of 2.13 SG cents. With the positive performance likely to continue, we expect management to reward shareholders with attractive dividends. As a result, we expect a 5.5% dividend yield for FY22F, or a 60% payout ratio.
- Hiring activity still positive; maintain BUY.** Management remains bullish for both its recruitment segments across all geographical areas and still see strong demand for the services YTD. As a result, we are optimistic the performance will continue, aided by higher margins as well. This counter is trading at 11x FY22F P/E, which is lower than its global peer average. We believe HRNET is a decent proxy to the global economic recovery, and as such, it will enjoy a solid FY22F. We maintain our BUY call on the stock, while pegging our TP to 14x FY22F P/E.
- ESG.** Using our in-house proprietary methodology, we derive an ESG score of 3.0, which is on par with the country median. As a result, we apply a 0% discount or premium to our TP.

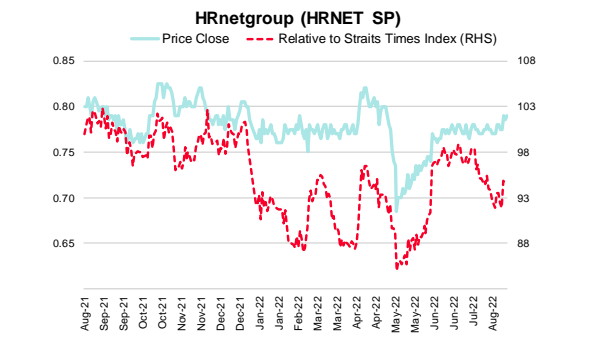
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.9)	1.9	12.9	1.9	(1.3)
Relative	(6.2)	(3.2)	10.8	7.2	(4.8)
52-wk Price low/high (SGD)	0.69 – 0.83				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	433	591	649	682	716
Recurring net profit (SGDm)	41	66	73	76	80
Recurring net profit growth (%)	(20.4)	59.5	10.6	4.4	4.5
Recurring P/E (x)	19.23	12.06	10.91	10.45	10.00
P/B (x)	2.4	2.1	2.0	1.8	1.7
P/CF (x)	8.13	14.97	10.88	9.67	9.26
Dividend Yield (%)	3.5	3.2	5.5	5.7	6.0
EV/EBITDA (x)	7.22	4.50	4.18	3.64	3.13
Return on average equity (%)	14.2	18.8	18.8	18.1	17.4

Source: Company data, RHB

#### Overall ESG Score: 3.00 (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, that 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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.04	0.07	0.07	0.08	0.08
Industrials	DPS	0.03	0.02	0.04	0.05	0.05
<b>HRnetgroup</b>	BVPS	0.33	0.37	0.40	0.44	0.47
HRNET SP	Return on average equity (%)	14.2	18.8	18.8	18.1	17.4
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	19.23	12.06	10.91	10.45	10.00
14x FY22F P/E	P/B (x)	2.4	2.1	2.0	1.8	1.7
	FCF Yield (%)	12.1	6.5	9.1	10.2	10.7
	Dividend Yield (%)	3.5	3.2	5.5	5.7	6.0
<b>Key drivers</b>	EV/EBITDA (x)	7.22	4.50	4.18	3.64	3.13
i. Increase demand for flexible staffing across Asia;	EV/EBIT (x)	8.56	4.98	4.23	3.69	3.17
ii. M&As.						
	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	433	591	649	682	716
i. Increase competition in the recruitment industry;	Gross profit	129	175	192	202	212
ii. Fluctuations in general economic activity.	EBITDA	62	94	95	99	104
	Depreciation and amortisation	(10)	(9)	(1)	(1)	(1)
	Operating profit	52	85	94	98	102
	Pre-tax profit	59	85	94	98	102
	Taxation	(9)	(15)	(16)	(17)	(18)
	Reported net profit	47	66	73	76	80
	Recurring net profit	41	66	73	76	80
<b>Company Profile</b>						
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.						
	<b>Cash flow (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	44	(24)	(6)	(0)	(0)
	Cash flow from operations	98	53	73	82	86
	Capex	(1)	(1)	(1)	(1)	(1)
	Cash flow from investing activities	0	(25)	(1)	(1)	(1)
	Dividends paid	(28)	(25)	(44)	(46)	(48)
	Cash flow from financing activities	(41)	(35)	(44)	(46)	(48)
	Cash at beginning of period	266	332	327	355	391
	Net change in cash	57	(6)	28	35	37
	Ending balance cash	333	328	355	391	428
	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	332	327	355	391	428
	Tangible fixed assets	2	1	1	1	1
	Total investments	30	61	61	61	61
	Total assets	452	530	576	618	661
	Total liabilities	105	142	154	161	167
	Total equity	347	388	422	457	494
	Total liabilities & equity	452	530	576	618	661
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	2.4	36.4	10.0	5.0	5.0
	Recurrent EPS growth (%)	(20.4)	59.5	10.6	4.4	4.5
	Gross margin (%)	29.9	29.6	29.6	29.6	29.6
	Operating EBITDA margin (%)	14.4	16.0	14.6	14.5	14.5
	Net profit margin (%)	10.9	11.2	11.2	11.2	11.1
	Dividend payout ratio (%)	59.2	38.0	60.0	60.0	60.0
	Capex/sales (%)	0.3	0.2	0.2	0.2	0.2

Source: Company data, RHB

## Recommendation Chart

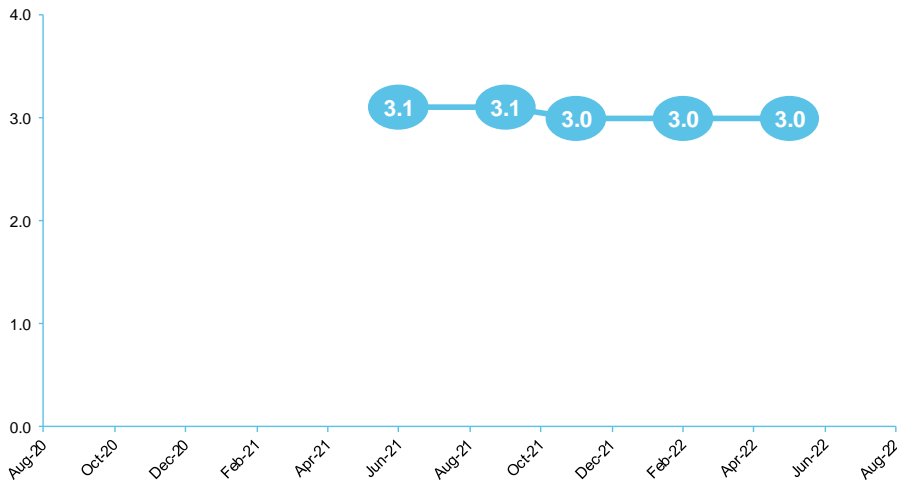


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-08-14	Buy	0.94	0.63
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

## ESG Rating History



Source: RHB

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