

20 September 2022

Industrials | Commercial & Professional Services

## HRnetgroup (HRNET SP)

**Buy** (Maintained)

### Outlook Stays Healthy; Keep BUY

- **Maintain BUY and SGD1.01 TP, 28% upside and c.6% yield.** 1H22 came 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 DPS has also been declared. We believe that the current share buyback (SBB) programme will also be positive to its share price.
- **FY22F to stay solid.** For 1H22, HRnetgroup's flexible and professional recruitment segments grew 13.2% and 18.6% YoY, with Singapore remaining its largest market share. Going forward, hiring is expected to remain strong from the technology, healthcare and consumer sectors. There is potential for a slowdown in hiring, especially if a recession hits, but signs continue to indicate hiring is healthy.
- **SGD30m SBB programme to provide share price support.** The company intends to purchase up to SGD30m of its shares via the market. The maximum number of shares, which may be purchased by the company under the 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 of 16 Aug 2022, management has already purchased 0.21% of its total shares outstanding. We expect the SBB to continue and likely be a boon to its share price.
- **Attractive dividends expected to continue.** Management has declared its first ever interim DPS of 2.13 SG cents. With the positive performance likely to continue, management should keep rewarding shareholders with attractive dividends. As a result, we expect a 5.5% dividend yield for FY22F using a 60% payout ratio.
- **Outlook still healthy.** Management remains bullish for both its recruitment segments across all geographical areas as there is continued strong demand for its services YTD. As a result, we believe the positive performance will continue and the company should benefit from higher margins as well. This counter is also 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. As such, we maintain our BUY call, with our TP is pegged 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.

Target Price (Return): SGD1.01 (+28%)  
 Price (Market Cap): SGD0.79 (USD557m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.19m/0.13m

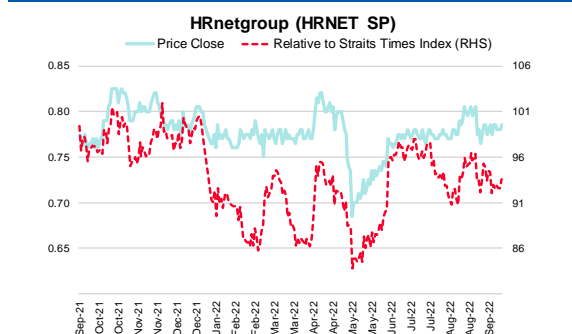
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.5)	(1.3)	2.6	1.3	0.0
Relative	(6.7)	(1.6)	(2.5)	3.5	(6.0)
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)	19.11	11.98	10.84	10.38	9.94
P/B (x)	2.4	2.1	2.0	1.8	1.7
P/CF (x)	8.08	14.87	10.81	9.61	9.20
Dividend Yield (%)	3.5	3.2	5.5	5.8	6.0
EV/EBITDA (x)	7.14	4.45	4.13	3.59	3.08
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

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
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)	19.11	11.98	10.84	10.38	9.94
14x FY22F P/E	P/B (x)	2.4	2.1	2.0	1.8	1.7
	FCF Yield (%)	12.2	6.5	9.1	10.3	10.7
<b>Key drivers</b>	Dividend Yield (%)	3.5	3.2	5.5	5.8	6.0
i. Increase demand for flexible staffing across Asia	EV/EBITDA (x)	7.14	4.45	4.13	3.59	3.08
ii. M&As	EV/EBIT (x)	8.47	4.93	4.18	3.64	3.12
<b>Key risks</b>	<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>
i. Increase competition in the recruitment industry	Total turnover	433	591	649	682	716
ii. Fluctuations in general economic activity	Gross profit	129	175	192	202	212
	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, 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.						
	<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

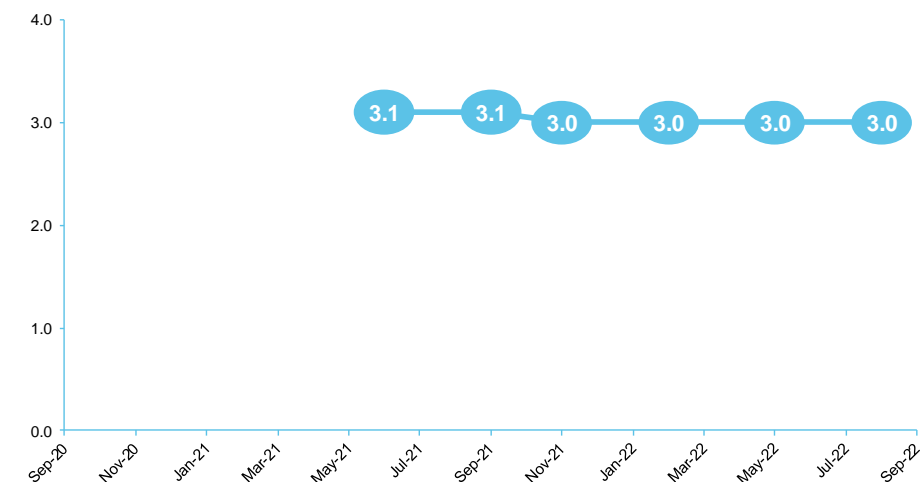


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-16	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
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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