

HRnetGroup Ltd (HRNET SP)

Hungry for jobs

Solid results; maintain Buy and lift TP to SGD1.07

2H21 PATMI of SGD29.6mm (+14.2% YoY) beat MIBG and the street's estimates on better operating performance for both Flexible Staffing (FS) and Professional Recruitment (PR) segments across key markets. The group declared a final DPS of 3.0 cents, bringing total payout to 4.0 cents (including special DPS of 1.0 cent). We raised our FY22-24E EPS estimates by 16% on higher business volume base and maintain Buy with a new TP of SGD1.07, pegged at a lower P/E of 16x (from 18x previously) due to slower earnings growth going forward. However, this is still a slight premium to peers' 15x for its better ROE and balance sheet strength.

All geographies see double-digit growth

Revenue rose 41.6% YoY to SGD315.4m in 2H21, fuelled by an improving labour market especially Healthcare Life Science (Pharma and Medical). This sector accounts for 26% of FY21 topline (14% in FY20), while overall GPM was steady at 29.6% (FY20: 29.9%) with the PR/FS business revenue mix of 16.0%/83.4% on par with FY20's 16.8%/82.6%. Notably, all key geographies (Singapore: +31.7%, North Asia: +43.2%, Rest of Asia: +103.3%) experienced strong double-digit percentage turnover growth.

Positive hiring sentiment despite rising business costs

On a full year segmental basis, FS turnover rose 37.8% YoY to SGD492.6m as the number of monthly contractors rose to a record high of 19,280 in Dec 2021 (+34.4% YoY). PR revenue also grew by 30.6% to SGD94.8m as the group placed 7,794 (+11% YoY) candidates, chiefly in senior and niche positions that fetched higher salaries. While the employment outlook remains positive, we do not think this growth rate is repeatable in FY22 amid macroeconomic uncertainty and rising business costs.

Accretive M&A could be a catalyst

Management expects business recovery to be more broad-based across sectors/regions as borders begin to reopen. This contrasts with the past 2 years when hiring was mostly driven by the government, healthcare and IT sectors due to disruption caused by Covid-19. Backed by its robust net cash of SGD327m (c.42% of market cap), the group is well-positioned for synergistic M&A opportunity, possibly in Mainland China, in our view.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	433	591	646	681	702
EBITDA	71	97	99	104	107
Core net profit	47	65	67	70	72
Core EPS (cts)	4.7	6.5	6.7	7.0	7.2
Core EPS growth (%)	(8.9)	39.7	2.5	4.3	2.6
Net DPS (cts)	2.5	4.0	4.0	4.0	4.0
Core P/E (x)	11.7	12.3	11.7	11.2	10.9
P/BV (x)	1.6	2.2	2.0	1.8	1.7
Net dividend yield (%)	4.6	5.0	5.1	5.1	5.1
ROAE (%)	14.1	18.7	17.5	17.0	16.2
ROAA (%)	10.8	13.3	12.3	12.1	11.7
EV/EBITDA (x)	3.2	5.1	4.4	3.9	3.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	66	72	na
MKE vs. Consensus (%)	-	-	1.7	(2.0)	na

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BUY

Share Price	SGD 0.78
12m Price Target	SGD 1.07 (+37%)
Previous Price Target	SGD 1.02

Company Description

HRnetGroup provides personnel recruitment and human resource related services under two key segments: Professional Recruitment and Flexible Staffing.

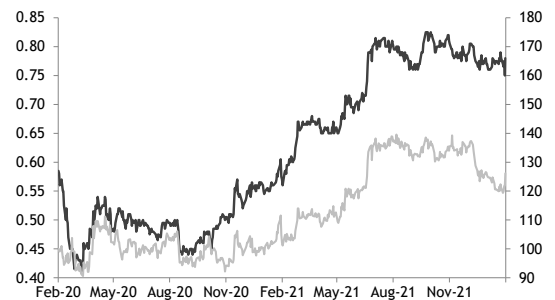
Statistics

52w high/low (SGD)	0.83/0.56
3m avg turnover (USDm)	0.1
Free float (%)	19.2
Issued shares (m)	1,004
Market capitalisation	SGD782.9M USD579M

Major shareholders:

Simco Global Ltd.	77.0%
Fidelity Management & Research Co. LLC	3.0%
Vanda 1 Investments Pte Ltd.	1.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(4)	37
Relative to index (%)	(0)	(6)	24

Source: FactSet

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Tear Sheet Insert

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Value Proposition

- Balanced business model with professional recruitment and flexible staffing segments that are complementary through economic cycles and help customer retention.
- Geographical diversification and multi-disciplinary focus help it serve clients with varied staffing needs and with multi-country presence in APAC.
- Has 3,000+ clients, including several Fortune 500 companies operating in the region.
- Co-ownership is a key advantage in staff retention and motivation, which makes up about 25% of its permanent staff base in FY20.
- According to Frost & Sullivan, HRnet is the largest recruitment player in Singapore in terms of number of licensed consultants and revenue.

Diversified customer base

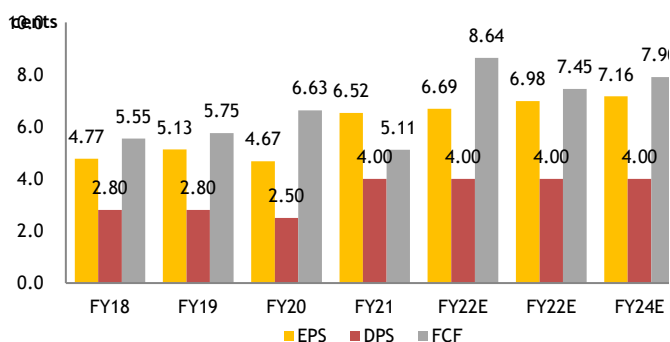
	Customer since	2021 Revenue Contribution
Top 1 Client (Healthcare)	2005	10.6%
Top 2 Client (Financial & Insurance)	2000	3.0%
Top 3 Client (Healthcare)	2015	2.3%
Top 4 Client (Retail & Consumer)	1999	2.2%
Top 5 Client (Government)	2010	1.8%
Contribution from Top 5 clients		19.9%

Source: Company

Financial Metrics

- Two complementary businesses provide margin resilience in economic and recruitment cycles, as seen by relatively stable margins over past the three and a half years.
- Commands decent ROE of 14-15% despite its significantly ungeared balance sheet.
- Low capex intensity with strong free cashflow generation.
- Does not require high working capital commitments as flexible staffing does not involve talent 'inventory'.

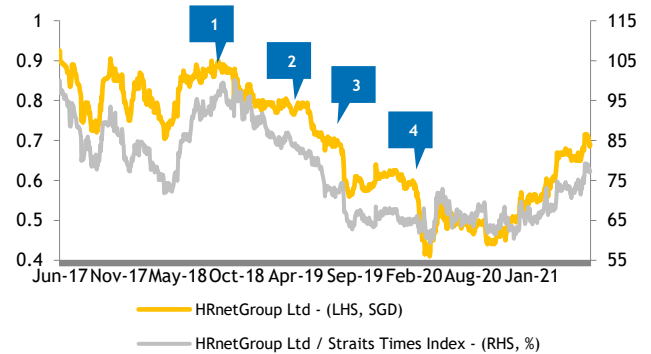
EPS, DPS and FCF per share



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- On 2 Aug '18. HRnet acquired 100% stake in Career Personnel for HKD800k, which is in the business of flexible staffing and provides temp and contract personnel predominantly to HK government agencies.
- On 21 Mar '19. the Group incorporates RecruitFirst in Taiwan to operate the business of flexible staffing and human resource outsourcing.
- On 2 Aug '19, it paid GBP21m for a 25% interest in Staffline - a leading workforce recruitment and training organisation providing services mainly in the UK and Ireland, to both government/commercial customers.
- On 17 Jan '20, HRnet set up a JV, PT Recruit First Indonesia (RFI), to provide manpower services such as domestic manpower selection, outsourcing, and placement and other management consultancy service.

Swing Factors

Upside

- Faster-than-expected organic growth in existing markets, particularly in Singapore where its market dominance is perceived to leave limited headroom for further growth.
- Successful and swift execution of its M&A strategy in acquiring accretive businesses.
- Expansion of other fee-generating services like payroll processing and HR consulting that can augment its core services and customer 'stickiness'.

Downside

- Slower-than-expected organic growth in existing markets; margin pressure from increased competition in what is essentially a low-entry barrier industry in most markets.
- Execution missteps for its M&As, creating a drag on returns due to idle balance sheet or non-accretive acquisitions.
- Staff turnover among its key performers and customer relationship managers.

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Risk Rating & Score ¹	NOT RATED
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- As a recruitment firm, the Group’s key asset is human capital and hence, it places the development, engagement and retention of its own staff high on the list of priorities. By enabling their growth and progression, this also helps to cultivate a highly driven and effective workforce.
- The HR industry is also increasingly going digital. These trends lean towards a need for reassessment of various aspects of its business ranging from internal areas such as its own benefits management, working arrangements, and training & education for its workforce, to external-facing elements such as methods of outreach to clientele and candidates, and helping to bridge the gap between the employees and employers.
- Its unique Co-Ownership plans further provide the opportunity for high-performers to unleash the entrepreneurship spirit in them, invest in the Group, and/or a new venture and share in its success as well as its risk of failure.

Material E issues

- Over the past 1.5 years, remote working or work-from-home has become the standard for many amid the lingering COVID-19 pandemic. In a way, this is also better for the environment.
- With fewer people in the office at any one time, the group may find that they can afford to downsize, cutting down on office space and energy usage. It will also mean a reduction in people on the roads driving in to work.

Material S issues

- Whenever HRnet starts an overseas business unit, it always seeks to localise leadership roles. This allows the group to kickstart operations as a local business with a staff population that is acutely aware of the nuances and intricacies involved when serving the domestic market. It has also committed to the UN’s Sustainable Development Goals, in particular with regard to promoting sustainable economic growth, decent work for all, and reducing inequalities.

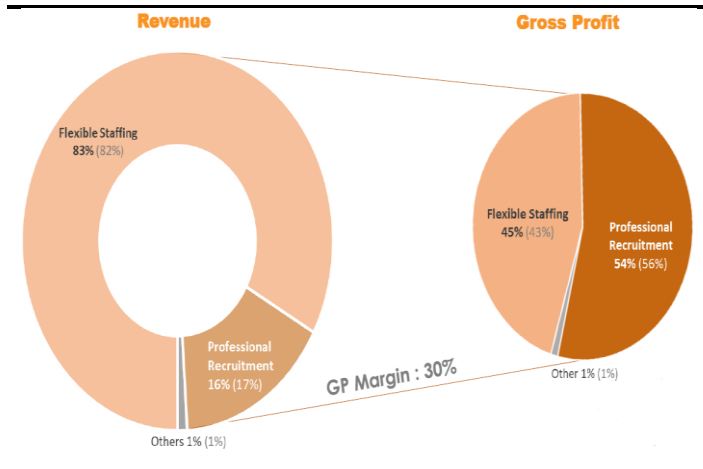
Key G metrics and issues

- The board consists of six directors, of which half (3) are independent and the rest are Sim family members i.e., Mr Sim Yong Siang, Mr Sim Joo Siang and Ms. Adeline Sim.
- The nominating, audit and remuneration committees are chaired by independent directors.
- None of the independent directors have served on the board beyond nine years from the date of his or her first appointment.
- SIMCO Ltd’s (controlled by the Sim family) deemed stake in the company is 77.7%.
- Key management/ directors’ compensation accounted for 3.8%/1.8% of total employee compensation in 2020.
- External auditor is Deloitte & Touche LLP (appointed on 12 Aug ’20).
- Recruitment is a heavily regulated industry with the Ministry of Manpower leading the regulations. Non-compliance will lead to costly fines and reputational damage.
- It has therefore put in place a whistle-blowing policy and channels for employees to report any suspicious and non-compliant practices.
- In 2020, there were no incidents of corruption or non-compliance with laws or regulations resulting in significant fines and non-monetary sanctions.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

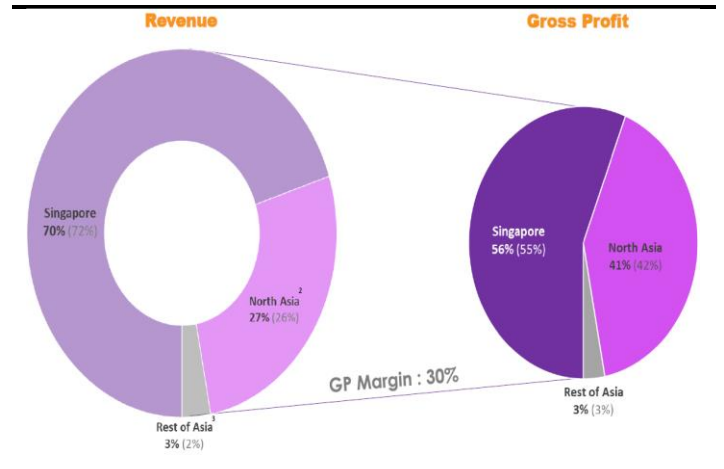
1. Focus charts

Fig 1: Revenue by business segment (FY21)



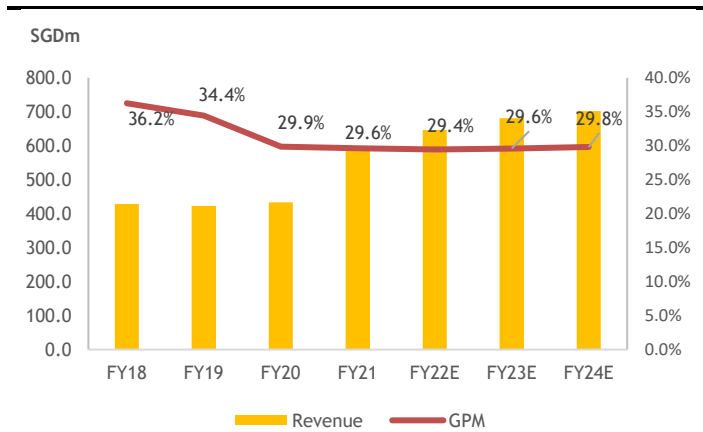
Source: Company

Fig 2: Revenue by geography (FY21)



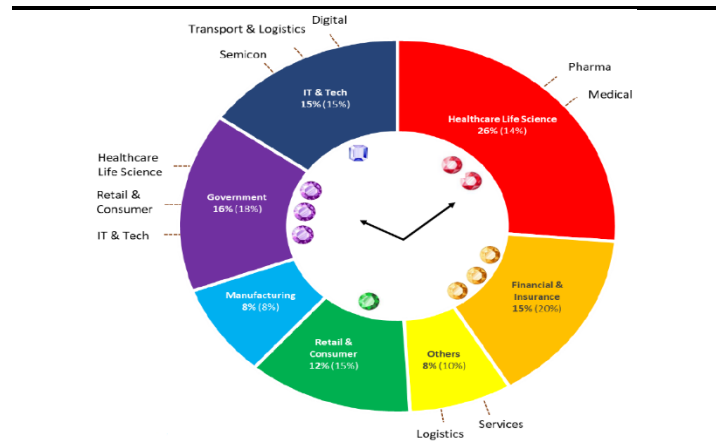
Source: Company

Fig 3: Revenue and GPM



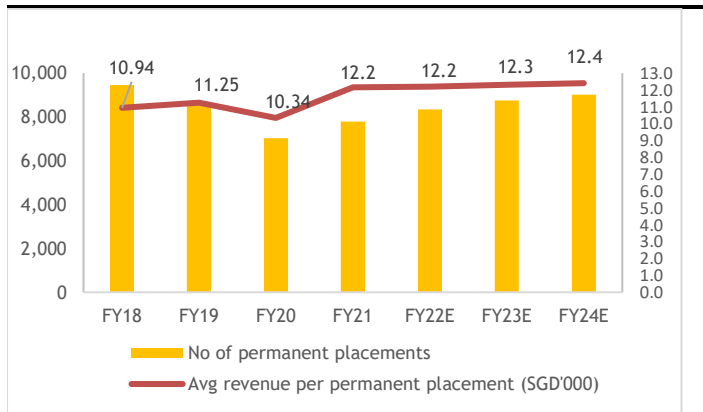
Source: Company, Maybank IBG Research

Fig 4: Diversified sector revenue



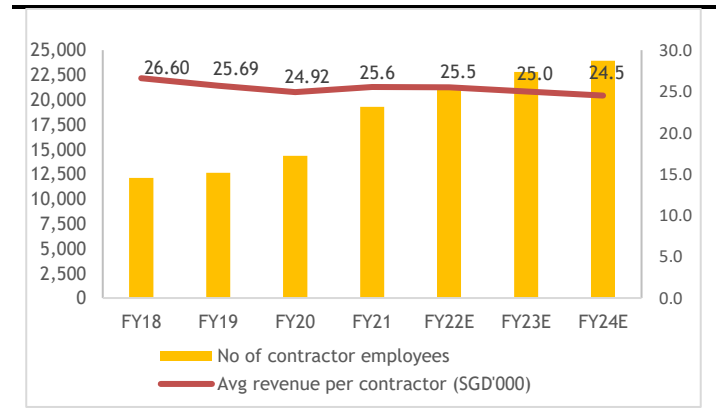
Source: Company

Fig 5: Assumption for professional recruitment



Source: Company, Maybank IBG Research

Fig 6: Assumption for flexible staffing



Source: Company, Maybank IBG Research

2. Peer Comparison

Fig 7: Relative valuation

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	P/E (x)			EV/EBITDA (x) Actual	P/B (x) Actual	ROE (%) Actual	
							Actual	FY1	FY2				FY3
HRnet	HRNET SP	Buy	1.07	0.75	12/31	580	16.7	12.0	11.7	11.2	7.0	2.3	18.0%
Global peers													
Persol Hldgs	2181-JP	NR	-	2,482.00	03/31	5,082	36.2	19.8	17.2	14.6	11.6	3.3	10.4%
Kelly Services	KELYA US	NR	-	21.53	01/02	846	14.3	12.2	9.8	-	9.7	0.6	12.2%
Capita	CPI-LN	NR	-	4.35	11/30	771	14.1	13.0	11.6	10.3	7.2	-	29.5%
Beijing Career Int'l	300662-CH	NR	-	48.60	12/31	1,513	47.6	37.1	27.8	21.8	31.1	4.8	19.6%
Adecco	ADEN-VX	NR	-	43.33	12/31	7,852	11.7	9.9	9.0	7.8	7.3	1.8	17.1%
Randstad Hldgs	RAND-NA	NR	-	60.66	12/31	12,402	13.9	12.3	11.6	10.5	8.2	2.4	16.1%
ManpowerGroup	MAN US	NR	-	105.68	12/31	5,669	14.6	12.2	10.6	9.6	9.5	2.3	15.4%
Hays	HAS-LN	NR	-	1.36	06/30	3,019	39.1	16.5	13.2	11.5	12.4	2.6	7.1%
PageGroup	PAGE-LN	NR	-	5.49	12/31	2,393	-	15.2	12.4	11.4	20.1	5.0	-1.8%
Korn/Ferry	KFY US	NR	-	64.27	04/30	3,497	25.6	11.1	11.5	11.5	11.3	2.4	8.6%
JAC Recruitment	2124 JP	NR	-	1,784.00	12/31	639	18.6	15.8	12.5	-	9.5	5.4	28.0%
Heldrick & Struggles	HSII US	NR	-	42.16	12/31	826	23.8	10.6	12.4	10.7	8.4	2.6	-13.1%
Staffline Group	STAF-LN	NR	-	0.50	12/31	110	9.1	11.2	9.1	-	1.5	1.2	-99.0%
Robert Walters	RWA LN	NR	-	6.40	12/31	651	85.3	14.9	12.1	10.8	10.8	2.8	3.5%
AVERAGE							27.2	15.1	12.9	11.9	11.3	2.9	11.7%

Source: FactSet, Bloomberg

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	10.8	10.9	11.7	11.2	10.9
Core P/E (x)	11.7	12.3	11.7	11.2	10.9
P/BV (x)	1.6	2.2	2.0	1.8	1.7
P/NTA (x)	1.7	2.3	2.1	1.9	1.8
Net dividend yield (%)	4.6	5.0	5.1	5.1	5.1
FCF yield (%)	19.1	7.3	11.9	10.4	11.0
EV/EBITDA (x)	3.2	5.1	4.4	3.9	3.5
EV/EBIT (x)	3.9	5.8	4.9	4.4	4.0
INCOME STATEMENT (SGD m)					
Revenue	433.0	590.5	645.7	681.0	701.7
EBITDA	71.4	96.9	99.1	103.7	106.5
Depreciation	(1.2)	(1.2)	(1.3)	(1.3)	(1.4)
Amortisation	(8.6)	(7.9)	(8.3)	(8.8)	(9.3)
EBIT	59.4	85.3	87.5	91.4	93.9
Net interest income / (exp)	(0.4)	(0.5)	(0.6)	(0.7)	(0.8)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	59.0	84.8	86.9	90.7	93.1
Income tax	(9.2)	(14.5)	(14.8)	(15.4)	(15.8)
Minorities	(2.9)	(4.8)	(5.0)	(5.2)	(5.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	46.9	65.5	67.1	70.1	71.9
Core net profit	46.9	65.5	67.1	70.1	71.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	332.2	327.1	372.8	404.3	439.7
Accounts receivable	72.9	119.6	101.9	107.1	110.3
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1.5	1.5	1.5	1.5	1.5
Intangible assets	14.7	19.1	19.1	19.1	19.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	31.0	63.0	63.2	63.7	64.2
Total assets	452.4	530.3	558.4	595.6	634.7
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	82.1	116.6	110.0	111.0	112.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	23.0	26.0	29.0	30.0	31.0
Total Liabilities	105.2	142.5	138.5	140.7	142.6
Shareholders Equity	331.7	370.2	397.2	427.1	458.9
Minority Interest	15.5	17.6	22.6	27.8	33.2
Total shareholder equity	347.1	387.9	419.8	455.0	492.1
Total liabilities and equity	452.4	530.3	558.4	595.6	634.7
CASH FLOW (SGD m)					
Pretax profit	59.0	84.8	86.9	90.7	93.1
Depreciation & amortisation	11.9	11.6	11.6	12.3	12.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	44.0	(23.5)	11.2	(4.3)	(2.1)
Cash taxes paid	(9.5)	(12.8)	(14.8)	(15.4)	(15.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	105.5	60.1	94.9	83.3	87.8
Capex	(1.2)	(1.4)	(1.5)	(1.6)	(1.7)
Free cash flow	104.2	58.7	93.4	81.7	86.1
Dividends paid	(30.1)	(26.7)	(40.2)	(40.2)	(40.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(15.4)	(30.2)	(0.9)	(3.2)	(3.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	58.7	1.8	52.4	38.4	42.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.4	36.4	9.3	5.5	3.0
EBITDA growth	(11.7)	35.8	2.3	4.6	2.8
EBIT growth	(13.5)	43.4	2.6	4.5	2.7
Pretax growth	(13.7)	43.6	2.5	4.4	2.7
Reported net profit growth	(9.2)	39.7	2.5	4.3	2.6
Core net profit growth	(9.2)	39.7	2.5	4.3	2.6
Profitability ratios (%)					
EBITDA margin	16.5	16.4	15.3	15.2	15.2
EBIT margin	13.7	14.4	13.5	13.4	13.4
Pretax profit margin	13.6	14.4	13.5	13.3	13.3
Payout ratio	53.5	61.3	59.8	57.3	55.9
DuPont analysis					
Net profit margin (%)	10.8	11.1	10.4	10.3	10.2
Revenue/Assets (x)	1.0	1.1	1.2	1.1	1.1
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.4
ROAE (%)	14.1	18.7	17.5	17.0	16.2
ROAA (%)	10.8	13.3	12.3	12.1	11.7
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	64.2	58.7	61.7	55.2	55.8
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	75.4	86.0	89.5	83.0	81.5
Dividend cover (x)	1.9	1.6	1.7	1.7	1.8
Current ratio (x)	4.0	3.5	3.8	4.0	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	4.3	3.7	4.0	4.2	4.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	143.9	nm	145.8	130.6	117.4
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.3	0.2	0.2	0.2	0.2
Net debt/ (net cash)	(332.2)	(327.1)	(372.8)	(404.3)	(439.7)

Source: Company; Maybank

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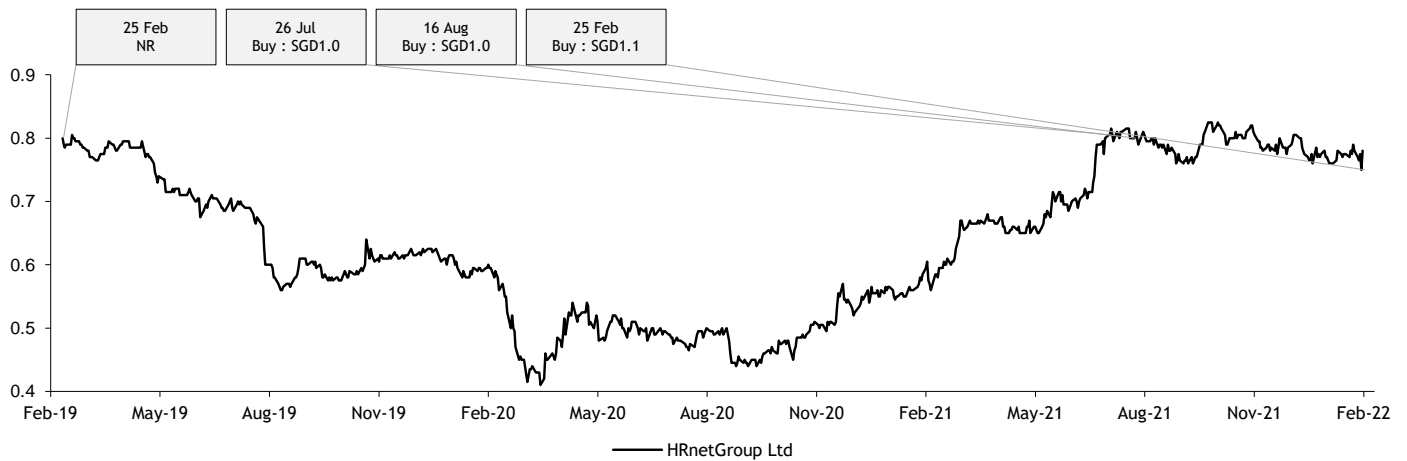
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