

# HRnetGroup Limited

Another record year expected

## SINGAPORE | SERVICES | 2H21 RESULTS

- Results beat our estimates. FY21 revenue and PATMI was 114%/108% of our forecast. 2H21 PATMI grew 14% YoY to S\$29.6mn. Excluding fair value losses, PATMI would have jumped 37%.
- 2H21 growth was from both permanent recruitment (+36% YoY) and flexible staffing (+43% YoY). FY21 DPS increased 60% to 4 cents, including a 1 cent special dividend.
- We expect another record year in FY22e. Volume growth in permanent hires will come from recovering economic conditions and clients working more with recruiters due to the tight labour market. Rising salaries will be the driver for higher margins. Flexible staffing remains healthy as others sectors start to re-open. We maintain BUY. Our target price is raised to S\$1.18 (previous S\$1.05) as we raise FY22e earnings by 20%. The valuation metric is lowered from 14x to 12x PE FY22e ex-cash. We tag to the mid-range of the historical 5-year range as the labour recovery has moved past the peak cycle. HRnet pays a dividend yield of 5%, net cash of S\$327mn and unlevered ROEs of 16% (or above 100% ex-cash).

### Results at a glance

(\$'000)	2H21	2H20	YoY	Comment
Gross revenue	315,445	222,704	41.6%	
- Permanent recruitment	50,752	37,402	35.7%	Volume rose 16% YoY to 4,034 placements.
- Flexible staffing	263,021	183,449	43.4%	
Gross profit	93,088	66,868	31.0%	
SG&A	-46,166	-34,597	33.4%	
Other income	1,781	9,301	-80.9%	FV loss of S\$2.4mn (2H20: +S\$2.5mn).
PATMI	29,564	25,880	14.2%	Excl. FV, PATMI increase is 37% YoY.
DPS - Final (cents)	3.00	2.50	20.0%	Final DPS 4 cents (FY20: 2.5 cents).

Source: Company, PSR

### The Positives

**+ Growth in both segments.** Both permanent and flexible staffing enjoyed growth in 2H21. Permanent staffing recorded 16% volume growth at 4,034 placements and 16% improvement in margins per placement. Flexible staffing volumes grew an estimated 36% YoY. Sectors that performed the best in 2H21 were healthcare (+182% YoY), manufacturing (+65%) and IT and Tech (+49%). Consumer (-1%) and financials (+7%) were the weak spots. Healthcare was driven by COVID-19 vaccinations and testing work in Singapore, while IT and tech hires came from North Asia.

**+ Jump in dividends.** Full-year dividend was raised 60% to 4 cents (includes 1 cent special). This represents a payout of S\$40mn. Cash flow from operations of S\$53mn and a net cash hoard of S\$327mn will support the dividends. CAPEX for the year was a modest S\$1.3mn.

### The Negative

**- Volatility from investments.** There is S\$30mn of listed equities and debt on the balance sheet which will be marked to market. Changes in value will be reflected through the income statement. In 2H21 there was a S\$2.4mn net fair value loss. In contrast, 2H20 saw a S\$2.5mn gain. This swing in fair value will create some volatility in reported net earnings.

2 March 2022

### BUY (Maintained)

LAST CLOSE PRICE	SGD 0.775
FORECAST DIV	SGD 0.045
TARGET PRICE	SGD 1.180
<b>TOTAL RETURN</b>	<b>58.1%</b>

#### COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN):	1,004
MARKET CAP (USD mn / SGD mn):	598 / 813
52 - WK HI/LO (SGD):	0.83 / 0.44
3M Average Daily T/O (mn):	0.85

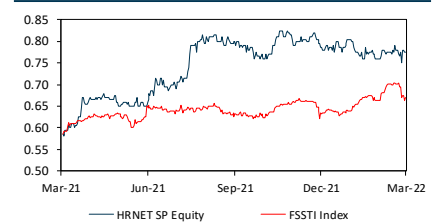
#### MAJOR SHAREHOLDERS

SIMCO GLOBAL LTD	77.6%
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#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.0	(1.3)	(2.5)
STI RETURN	(0.0)	7.0	4.0

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec (\$'000)	FY20	FY21	FY22e	FY23e
Gross Rev	433,041	590,520	617,761	664,278
Gross Profit	129,346	174,903	202,691	216,845
EBITDA	69,959	93,602	95,291	90,804
PATMI	46,865	65,490	68,694	72,507
P/B (x)	2.24	2.00	1.84	1.71
P/E (x)	11.8	11.9	11.3	10.7
ROE (%)	13.5	16.9	16.3	16.0
Div yield (%)	3.23	5.16	5.81	5.81

Source: Company, PSR

#### VALUATION METHOD

12x FY22e ex-cash P/E

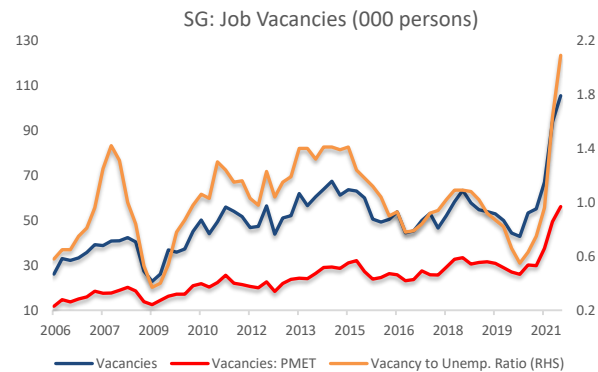
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## Outlook

We expect another healthy year of growth in FY22e. Economies are recovering and vacancies are at record levels, especially in Singapore (Figure 1). Labour challenges have led to companies working closer with recruiters. The pivot towards local hires is another demand driver for recruiters. North Asia demand is driven by semiconductor roles such as IC design and wafer fabs in Taiwan and China. We expect growth in flexible hiring to soften as healthcare hires slow down. The pick up will come from sectors most affected by border closures such as retail and consumer.

**Figure 1: Record vacancies in Singapore including PMET**



Source: PSR, Company; PMET = professionals, managers, executives and technicians

**Maintain BUY with a higher TP of \$1.18 from S\$1.05.** We raised our FY22e revenue and PATMI by 13% and 20% respectively. The employment market is stronger than expected. Our margins are also raised from higher margin per placement due to improvement in salaries and pricing. Our valuation metric is lowered from 14x to 12x PE FY22e ex-cash. We tag to the mid-range of the historical 5-year range as the labour recovery has moved past the peak cycle.

## Financials

### Income Statement

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	423,081	433,041	590,520	617,761	664,278
Sub-contractor expenses	(277,523)	(303,695)	(415,617)	(415,070)	(447,433)
<b>Gross Profit</b>	<b>145,558</b>	<b>129,346</b>	<b>174,903</b>	<b>202,691</b>	<b>216,845</b>
Other income	17,686	17,826	15,942	8,521	7,521
Employee benefit expenses	(73,598)	(69,124)	(87,757)	(101,700)	(108,801)
Facilities and depreciation expenses	(12,102)	(11,917)	(11,629)	(12,982)	(13,651)
Selling expenses	(4,671)	(3,486)	(2,893)	(4,973)	(5,347)
Other expenses	(4,167)	(3,197)	(3,311)	(2,153)	(2,225)
Finance costs	(334)	(413)	(472)	(472)	(472)
<b>Profit/(loss) before tax</b>	<b>68,372</b>	<b>59,035</b>	<b>84,783</b>	<b>88,933</b>	<b>93,869</b>
Income tax expense	(12,596)	(9,246)	(14,516)	(15,226)	(16,072)
Minority Interest	(4,172)	(2,924)	(4,777)	(5,012)	(5,290)
<b>PATMI</b>	<b>51,604</b>	<b>46,865</b>	<b>65,490</b>	<b>68,694</b>	<b>72,507</b>
<b>EBIT</b>	<b>68,367</b>	<b>59,308</b>	<b>83,317</b>	<b>86,074</b>	<b>90,804</b>
<b>EBITDA</b>	<b>78,349</b>	<b>69,959</b>	<b>93,602</b>	<b>95,291</b>	<b>90,804</b>

### Per share data

Y/E Dec (S cents)	FY19	FY20	FY21	FY22e	FY23e
NAVPS	34.43	34.61	38.66	42.01	45.26
EPS	5.13	4.67	6.52	6.84	7.22
DPS	2.80	2.50	4.00	4.50	4.50

### Cash Flow Statement

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
<b>PBT</b>	<b>68,372</b>	<b>59,035</b>	<b>84,783</b>	<b>88,933</b>	<b>93,869</b>
Adjustments	(4,431)	8,210	3,305	6,461	7,130
WC changes	4,668	44,033	(23,543)	27,232	(14,883)
<b>Cash generated from ops</b>	<b>68,609</b>	<b>111,278</b>	<b>64,545</b>	<b>122,625</b>	<b>86,116</b>
Others	(9,312)	(6,818)	(11,867)	(13,578)	(14,423)
<b>Cashflow from ops</b>	<b>59,297</b>	<b>104,460</b>	<b>52,678</b>	<b>109,047</b>	<b>71,693</b>
<b>CFI</b>					
Purchase of PPE and intangible assets	(1,276)	(1,231)	(1,375)	(1,500)	(1,500)
Purchase of financial assets	(6,594)	(14,926)	(30,187)	-	-
Dividends received	730	540	845	873	873
Others	(32,460)	17,430	6,152	1,000	1,000
<b>Cashflow from investments</b>	<b>(39,600)</b>	<b>1,813</b>	<b>(24,565)</b>	<b>373</b>	<b>373</b>
<b>CFF</b>					
Dividends paid	(28,163)	(28,002)	(25,067)	(40,151)	(45,170)
Purchase of treasury shares	(331)	(3,146)	-	-	-
Repayment of leases liabilities	(5,149)	(8,022)	(7,622)	(8,000)	(8,500)
Others	(956)	(3,211)	(2,165)	-	-
<b>Cashflow from financing</b>	<b>(34,599)</b>	<b>(42,381)</b>	<b>(34,854)</b>	<b>(48,151)</b>	<b>(53,670)</b>
<b>Net change in cash</b>	<b>(14,902)</b>	<b>63,892</b>	<b>(6,741)</b>	<b>61,269</b>	<b>18,396</b>
Cash at the start of the period	281,810	266,162	332,234	327,078	388,347
Currency translation	(746)	2,180	1,585	-	-
Others	-	-	-	-	-
<b>Ending cash</b>	<b>266,162</b>	<b>332,234</b>	<b>327,078</b>	<b>388,347</b>	<b>406,743</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Pledged deposits	1,003	988	1,141	1,141	1,141
Plant and equipment	1,558	1,503	1,478	1,307	1,264
Right-of-use assets	14,144	8,202	12,622	12,311	11,702
Other intangible assets	1,501	1,353	1,284	1,284	1,284
Goodwill	5,185	5,185	5,185	5,185	5,185
Other financial assets (NCA)	38,733	21,838	35,080	35,080	35,080
Deferred tax assets	808	1,314	1,845	1,845	1,845
<b>Total non-current assets</b>	<b>62,932</b>	<b>40,383</b>	<b>58,635</b>	<b>58,153</b>	<b>57,502</b>
Cash	266,162	332,234	327,078	388,347	406,743
Trade receivables	74,693	66,261	114,194	91,726	119,156
Other receivables	6,922	6,615	5,444	7,163	6,393
Other financial assets (CA)	8,555	6,886	24,959	24,959	24,959
<b>Total current assets</b>	<b>356,332</b>	<b>411,996</b>	<b>471,675</b>	<b>512,196</b>	<b>557,251</b>
<b>Total Assets</b>	<b>419,264</b>	<b>452,379</b>	<b>530,310</b>	<b>570,349</b>	<b>614,753</b>
<b>LIABILITIES</b>					
Trade payables	6,034	6,478	9,470	9,934	10,948
Other payables and accruals	39,071	75,591	107,132	113,152	123,914
Others	20,408	20,196	19,085	19,085	19,085
<b>Total current liabilities</b>	<b>65,513</b>	<b>102,265</b>	<b>135,687</b>	<b>142,171</b>	<b>153,947</b>
Deferred tax liabilities	349	323	309	309	309
Deferred considerations	6,794	2,643	6,458	6,458	6,458
<b>Total non-current liabilities</b>	<b>7,143</b>	<b>2,966</b>	<b>6,767</b>	<b>6,767</b>	<b>6,767</b>
<b>Total liabilities</b>	<b>72,656</b>	<b>105,231</b>	<b>142,454</b>	<b>148,938</b>	<b>160,714</b>
<b>Net assets</b>	<b>346,608</b>	<b>347,148</b>	<b>387,856</b>	<b>421,411</b>	<b>454,039</b>
<b>Represented by:</b>					
Share capital	260,605	260,605	260,605	260,605	260,605
Retained Earnings	145,961	165,598	195,983	229,538	262,166
Others	(59,958)	(79,055)	(68,732)	(68,732)	(68,732)
<b>Total equity</b>	<b>346,608</b>	<b>347,148</b>	<b>387,856</b>	<b>421,411</b>	<b>454,039</b>

### Valuation Ratios

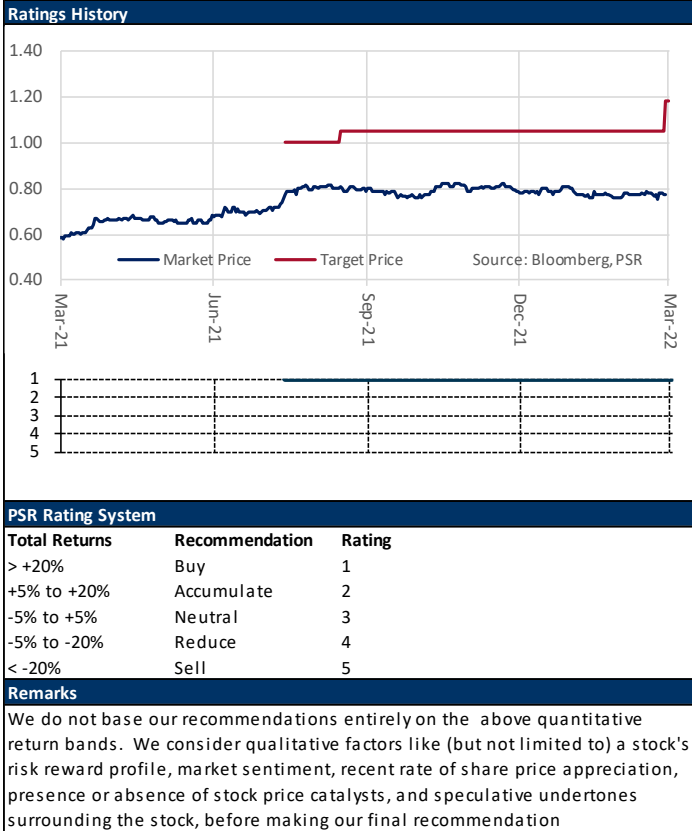
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.80	2.24	2.00	1.84	1.71
P/E (x)	12.09	11.77	11.88	11.32	10.73
Dividend yield (%)	4.52	4.55	5.16	5.81	5.81

### Growth & Margins

Growth					
Revenue	-1.3%	2.4%	36.4%	4.6%	7.5%
Gross profit	-6.3%	-11.1%	35.2%	15.9%	7.0%
PATMI	7.1%	-9.2%	39.7%	4.9%	5.6%
EPS	6.4%	-13.3%	40.5%	3.3%	5.5%
Margins					
Gross profit margin	34.4%	29.9%	29.6%	32.8%	32.6%
EBITDA margin	18.5%	16.2%	15.9%	15.4%	13.7%
EBIT margin	16.2%	13.7%	14.1%	13.9%	13.7%

### Key Ratios

ROE	14.9%	13.5%	16.9%	16.3%	16.0%
ROA	12.3%	10.4%	12.3%	12.0%	11.8%



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