

# HRnetGroup Limited

Resilient demand, buy-backs and more regional expansion



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SINGAPORE | SERVICES | UPDATE

20 June 2022

- Demand for jobs remains robust in Singapore with record job vacancies.
- The franchise is expanding further regionally with new co-owners in Indonesia, Shenzhen, Hong Kong and Shanghai. HRnet announced on 13 June 22 that it is undertaking a S\$30mn share buyback, equivalent to almost six months average daily volume.
- While the barrier to entry in the recruitment industry may be low, we believe the barriers to scale are immense. HRnet possesses a network of more than 700 recruiters across 14 Asian cities. These barriers allow HRnet to maintain an asset-light model with minimal fixed assets of S\$1.5mn. The reported return on equity is 16% but arguably much higher. Total attributable equity is S\$370mn, almost equivalent to the net cash of S\$327mn. In other words, HRnet could return a large chunk of capital to shareholders and still sustain profitability, especially with S\$114mn working capital already tied as trade debtors.
- We maintain our BUY recommendation with an unchanged target price of S\$1.18. Our valuation is benchmarked to the mid-range of the historical 5-year range, 12x PE FY22e ex-cash. HRnet dividend yield is 5% based on their guided payout of 50% of a recurrent net profit.

## BUY (Maintained)

LAST CLOSE PRICE	SGD 0.765
FORECAST DIV	SGD 0.045
TARGET PRICE	SGD 1.180
<b>TOTAL RETURN</b>	<b>60.1%</b>

### COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN):	1,003
MARKET CAP (USD mn / SGD mn):	552 / 768
52 - WK HI/LO (SGD):	0.82 / 0.67
3M Average Daily T/O (mn):	0.32

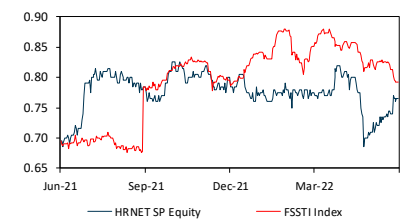
### MAJOR SHAREHOLDERS

SIMCO GLOBAL LTD	78.1%
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### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	9.3	3.3	0.1
STI RETURN	(3.2)	(5.2)	1.2

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (S\$'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)	2.2	2.0	1.8	1.7
P/E (x)	16.4	11.7	11.2	10.6
ROE (%)	13.5	16.9	16.3	16.0
Div yield (%)	3.3	5.2	5.9	5.9

Source: Company, PSR

### VALUATION METHOD

12x FY22e ex-cash P/E

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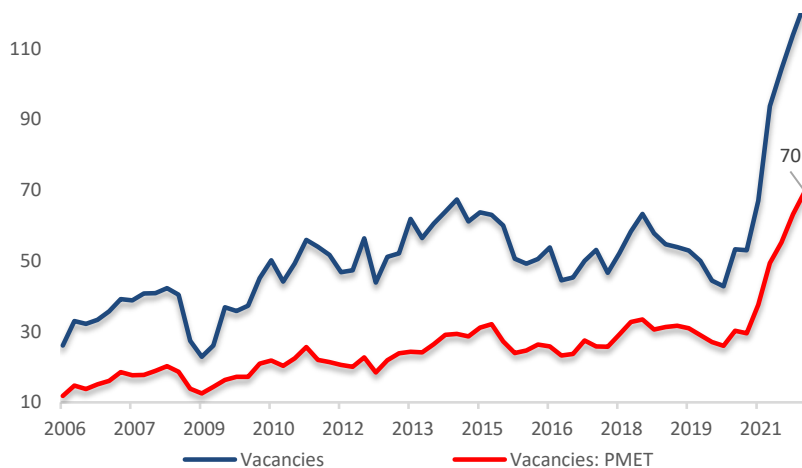
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## Investment Thesis

**Robust demand for jobs in Singapore.** Singapore is experiencing a robust recovery in jobs. In 1Q22, employment rose by 42,000. Employment growth was across all sectors including 17,500 from services. Financial and professional services enjoyed the largest growth in employment in more than a decade. PMET vacancies were the highest on record, at around 70,000. A tight labour market and difficulty in sourcing candidates invariably led to higher reliance on recruitment agencies. Hiring managers have no desire to spend hours interviewing and assessing candidates. It is a waste of a hiring manager's precious time. Clients want recruiters to identify the best one or two options for them. The ratio of job vacancies to unemployed persons in 1Q22 was 2.4, the highest since 3Q97.

Figure 1: Surge in vacancies in Singapore

### SG: Job Vacancies (000 persons)



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

**Further regional expansion.** This year HRnet has added several new co-owners in Indonesia, Taiwan (TW), Malaysia (MY), Hong Kong (HKG) and China. Co-owners are an important incentive tool to grow the regional franchise with local management. Co-owners get a stake in the company's earnings, are entitled to dividends and a pre-agreed exit path.

Figure 2: Another exciting year ahead

Date	Division	Country	Event
22-Mar-22	HRnetGroup	TW/MY	New Co-owners.
30-Mar-22	RecruitFirst	Singapore	4-year contract with MOE*.
27-Apr-22	RecruitFirst	Singapore	2-year extendable contract with SGH*.
26-May-22	PT Recruit First	Indonesia	New Co-owner.
31-May-22	HRnet One	Shenzhen	Business Leader Co-ownership.
09-Jun-22	HRnet One	HKG/Shanghai	Business Leader Co-ownership.
13-Jun-22	HRnetGroup	Group	Up to \$30mn share buyback.

Source: PSR, Company; \* MOE = Ministry of Education, SGH = Singapore General Hospital

**Barriers to scale.** Under the HRnet umbrella, co-owners can enjoy the branding with clients, higher pricing, shared services (e.g. accounting, legal, IT and HR), client referral across their network, regional and multiple industries and other services including RecruitFirst for flexible hires.

### Outlook

We expect a record year of earnings for the company. Drivers for growth will come from higher volumes, higher salaries and a widening footprint in the region. Demand for flexible hiring is expected to move away from COVID-19 related work to manufacturing and tourism. On a separate note, the company's strategic 14.47% investment in Staffline Group (STAF LN, Not Rated) returned to profitability in FY21.

**Maintain BUY with an unchanged TP of \$1.18.** We maintain our FY22e earnings and BUY recommendation.

## 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

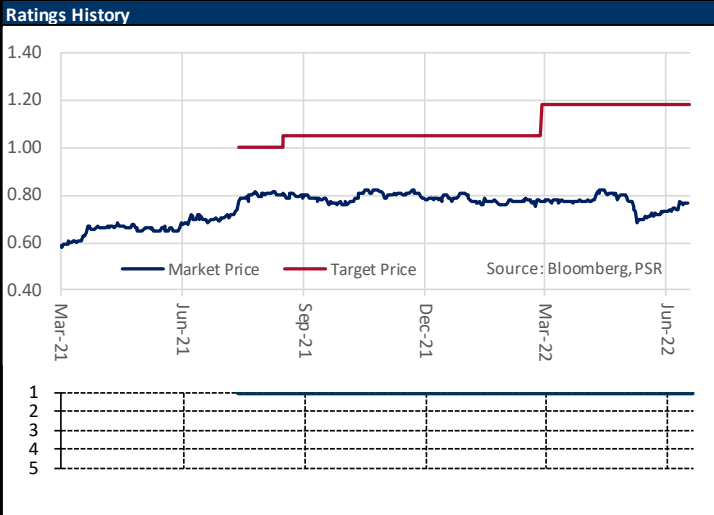
Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Pledged deposits	1,003	988	1,141	1,141	1,141
Plant and equipment	1,558	1,503	1,478	1,307	1,264
Right-of-use assets	14,144	8,202	12,622	12,311	11,702
Other intangible assets	1,501	1,353	1,284	1,284	1,284
Goodwill	5,185	5,185	5,185	5,185	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	2.21	1.98	1.82	1.69
P/E (x)	12.09	16.37	11.73	11.18	10.59
Dividend yield (%)	4.52	3.27	5.23	5.88	5.88

### Growth & Margins

<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
ROE	14.9%	13.5%	16.9%	16.3%	16.0%
ROA	12.3%	10.4%	12.3%	12.0%	11.8%



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**  
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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