Singapore Company Focus

HRnetGroup Ltd

Bloomberg: HRNET SP | Reuters: HRNE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Sep 2022

DBS is supported by the Research Talent Development Grant Scheme, which aims to groom research talent to expand research coverage of small to mid-cap SGX-listed companies

BUY

(Reinstate Coverage)

Last Traded Price (15 Sep 2022): S$0.78 (STI : 3,267.98)

Price Target 12-mth: S$1.08 (39% upside)

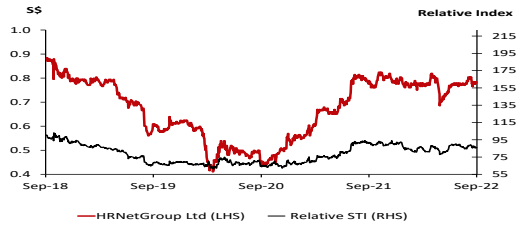
Potential Catalyst: Earnings-accretive acquisitions

Analyst

Andy SIM, CFA +65 6682 3718 andysim@dbs.com

Singapore Research Team equityresearch3@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2021A	2022F	2023F	2024F
Revenue	591	616	634	642
EBITDA	85.5	85.8	87.0	89.1
Pre-tax Profit	84.8	85.9	88.3	90.2
Net Profit	65.5	66.4	68.3	69.8
Net Pft (Pre Ex.)	65.5	66.4	68.3	69.8
EPS (S cts)	6.52	6.62	6.81	6.96
EPS Pre Ex. (S cts)	6.52	6.62	6.81	6.96
EPS Gth (%)	40	2	3	2
EPS Gth Pre Ex (%)	40	2	3	2
Diluted EPS (S cts)	6.49	6.58	6.77	6.91
Net DPS (S cts)	4.00	3.55	3.65	3.73
BV Per Share (S cts)	36.9	40.0	43.2	46.4
PE (X)	12.0	11.8	11.5	11.2
PE Pre Ex. (X)	12.0	11.8	11.5	11.2
P/Cash Flow (X)	14.9	9.2	9.9	9.5
EV/EBITDA (X)	5.2	4.9	4.7	4.4
Net Div Yield (%)	5.1	4.6	4.7	4.8
P/Book Value (X)	2.1	2.0	1.8	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	18.7	17.2	16.4	15.5
Consensus EPS (S cts):		6.80	7.40	7.70
Other Broker Recs:		B: 4	S: 0	H: 0

GIC Industry : Industrials

GIC Sector: Commercial & Professional Serv

Principal Business: Recruitment agency involved in the permanent placement and flexible staffing industry with presence in the Asia Pacific region.

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Homing in on hot jobs

- At job vacancy-to-unemployed ratio of 2.5x – highest since 1998 – Singapore's job market still tight, despite global uncertainties
- Ability to navigate economic downturns with twin engines, unique ownership model, and diversified business
- Largest recruitment group in Asia (ex-Japan) with room to grow in new and existing markets
- With 40% market cap in cash and at just 11.5x FY23F PE (or c.7x ex-cash PE), reinstate BUY, TP of S$1.08

Singapore labour remains tight; market likely to stay resilient in 2H22 (with high job vacancy-to-unemployed person ratio). Singapore's job market remains tight, with the job vacancy-to-unemployed person ratio at 2.5 – the highest in 24 years since 1998. Despite geopolitical uncertainties and the inflationary environment, this tight labour market should bode well for HRnet and is likely to continue into 2H22. Even after a record profit year in FY21, we project continued growth of 2%/3% for HRnet as a result of it leveraging its dominant position, twin engines, and wide coverage of sectors.

Strong ability to pivot across sectors, helmed by unique ownership model. HRnet has been versatile in pivoting towards the "hot" sectors requiring staffing, given its unique ownership model and mindset. As can be seen during the COVID-19 pandemic, HRnet's contribution from healthcare grew to 26% in 2H21, from 11% pre-COVID. Its entrepreneurial mindset in an organised corporate outfit as well as its remuneration cum reward structure enabled it to tide out the downturn and achieve record profits in 2021, which is commendable and provides comfort to shareholders.

Earnings growth to be led by expansion in new and existing markets. HRNet has expanded its operations from 10 cities since its IPO to 15 cities currently. Despite the relatively mature market in Singapore, management has also indicated that there are still further areas of growth, particularly in large contracts with government agencies. Moreover, we also believe that the North Asia segment, which has a focus on the semiconductor industry, will benefit from the structural uptrend of the semiconductor segment. Its war chest of cash also opens up possibilities for accretive acquisitions.

Valuation:

Our TP of S$1.08 is based on the mean ex-cash PE of peers at c.11.5x on FY22/FY23 earnings.

Key Risks to Our View:

Prolonged recession which results in significant labour market weakness and falling wages.

At A Glance

Issued Capital (m shrs)	1,002
Mkt. Cap (Sm/USm)	782 / 556
Major Shareholders (%)	
Simco Global Ltd	78.3
Free Float (%)	21.7
3m Avg. Daily Val (US$m)	0.14

ed: BM/ sa: DT, PY, CS

Table of Contents

Investment Summary

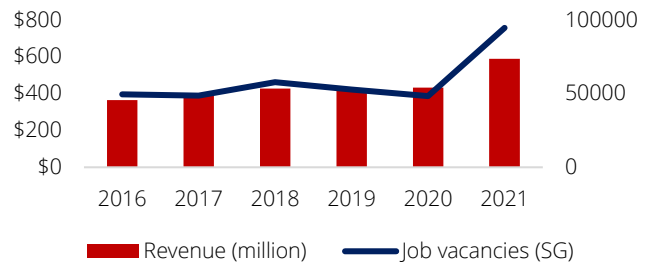
Reinstate coverage with BUY, TP: S$1.08 or 39% upside. The labour market in Singapore remains tight and we think that HRnet is well poised to benefit as a dominant player in a fragmented market. Although the overall macroeconomic outlook has weakened, HRnet has proven its ability to navigate economic downturns with its twin engines and diversified business. Moreover, its valuation at 11.5x FY23F PE with c.S$313m in cash (~40% of market cap) remains attractive; and we believe that its strong cash flow generation should support its dividend payments.

(1) Singapore job market still tight despite global headwinds

Singapore's labour market likely to stay resilient in 2H22, albeit slowing growth in resident employment. According to the Ministry of Manpower (MOM), total employment was up 66,500 in 2Q22 compared to 42,000 in 1Q22 with substantial growth observed in the construction and manufacturing sectors. 2Q22 advance estimates indicate that resident employment has already surpassed pre-COVID levels by 4%. While residents continued to secure jobs, particularly in growth areas such as information and communications, professional services, and financial services, resident employment will likely experience relatively slower growth going forward as the readily available resident labour supply shrinks on the back of the improving unemployment situation. Macroeconomic headwinds could also lead to subdued growth going forward.

Job vacancies expected to stay elevated in 3Q22, a positive for HRnet. Job vacancies in Singapore are at record-high levels of 126,600 as at 2Q22. **Hiring** is expected to **remain robust** with **69% of companies indicating that they plan to hire more staff in 3Q22**. Generally, HRnet's revenue has coincided with the job vacancy levels. A larger available pool of jobs indicates more opportunities for HRnet to increase its permanent placements and contract positions, contributing to revenue growth.

HRnet Revenue (S$m) vs. Job Vacancies

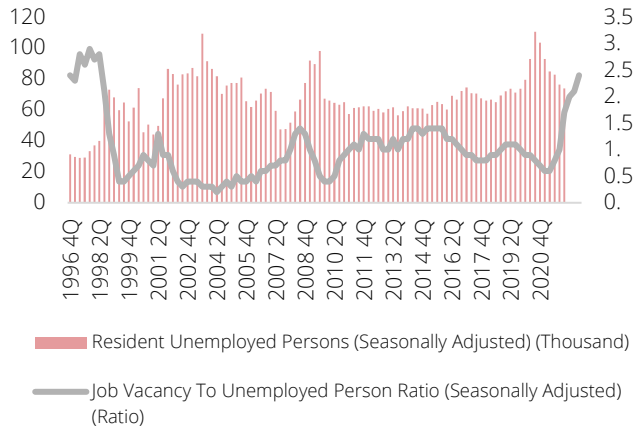


Source: Ministry of Manpower, Company, DBS Bank

Riding on the "Great Reshuffle"; higher demand for recruitment services whilst boosting GP/placement. The Great Resignation has evolved into the Great Reshuffle, with more individuals changing jobs rather than leaving the workforce. At the same time, job vacancies have increased on the back of the recovering labour market. The job vacancy-to-unemployed person ratio is currently elevated at **2.5x in 2Q22, the highest since 1998**.

With more jobs than available workers, potential employees may be more selective, and it may take employers a longer time to woo employees. This may in turn increase the demand for recruitment services as companies outsource the time-consuming multi-stage recruitment process. Moreover, the Great Reshuffle has led to salary increases, boosting HRnet's GP/placement by 20% in 1H22. We are keeping a lookout on wages as MOM's 2Q22 advanced estimates show that fewer companies intend to raise wages (28% in June 2022 vs. 31% in March 2022).

SG: Job vacancy-to-unemployed person ratio at highest since 1998

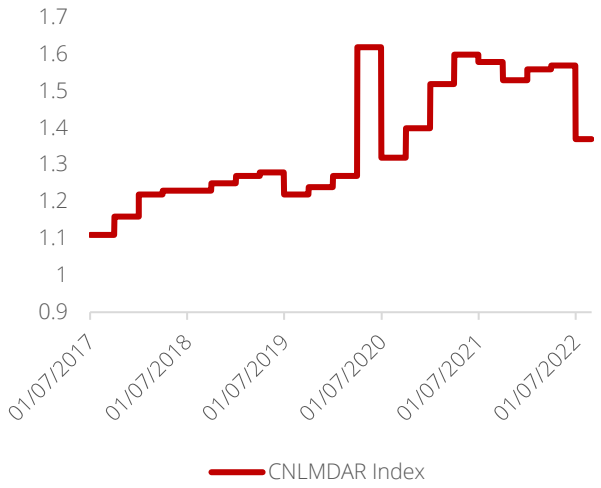


Source: Ministry of Manpower, DBS Bank

China's slowing economy could lead to muted growth for the North Asia segment. Despite jobless rates falling to 5.4% in July (vs. 5.5% in June), unemployment insurance pay-outs in China hit a record high of $37.19bn yuan in June, and the youth employment rate surged to record levels of 19.9% in July. China's job vacancies-to-job applicants' ratio has also declined to 1.37 in 2Q22 compared to 1.57 in 1Q22. Thus far, revenue from the North Asia segment has grown 28.4% y-o-y and 8.2% h-o-h in 1H22. However, sluggish external and domestic demand could exert additional pressure on the job market, dampening the growth of HRnet's North Asia segment going forward. On the bright side, China's fiscal and monetary policies could further stabilise the

labour market, and HRnet's ability to pivot to growth areas could also help cushion the impacts from the slowdown.

China: Job vacancies-to-job applicants index



Source: Bloomberg Finance L.P., DBS Bank

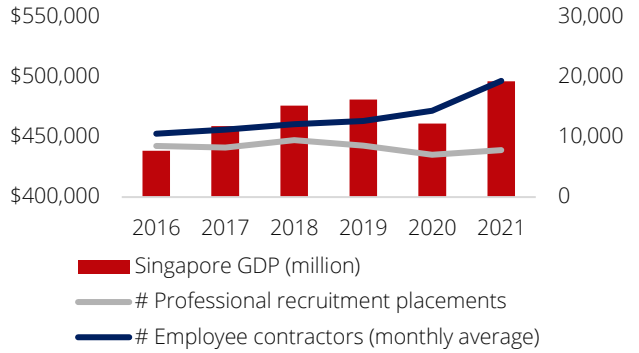
However, increased market expectations of a recession may weigh on sentiment. Overall, there has been a deterioration of the external economic environment, aggravated by surging inflation and the ongoing Russia-Ukraine crisis. Although the risk of a recession in Singapore is presently low, we are cognisant that the uncertainty surrounding the macroeconomic conditions may cool labour demand as companies tone down hiring plans in light of diminishing output levels. Nevertheless, we expect HRnet to be more resilient, given its ability to navigate economic downturns.

(2) Ability to navigate economic downturns with twin engines and diversified business

Highly resilient business, enabling HRnet to weather economic downturns. The twin pillars of growth, namely Professional Recruitment (PR) and Flexible Staffing (FS), enable HRnet to ride out periods of economic contractions. HRnet's professional recruitment segment is more sensitive to business cycles, given its involvement in permanent placements. On the other hand, HRnet's flexible business segment is relatively more resilient to recessions, as it provides staffing solutions for corporate clients seeking variability in operating costs and talent deployment.

In recessionary periods, corporate clients may prefer to hire staff on a contract or temporary basis, which offers corporates with higher flexibility to deal with the changing business conditions. We believe that the highly complementary twin engines make the business model highly resilient, enabling HRnet to weather economic downturns whilst benefitting from economic growth.

Singapore GDP vs. HRnet's placements and contractors



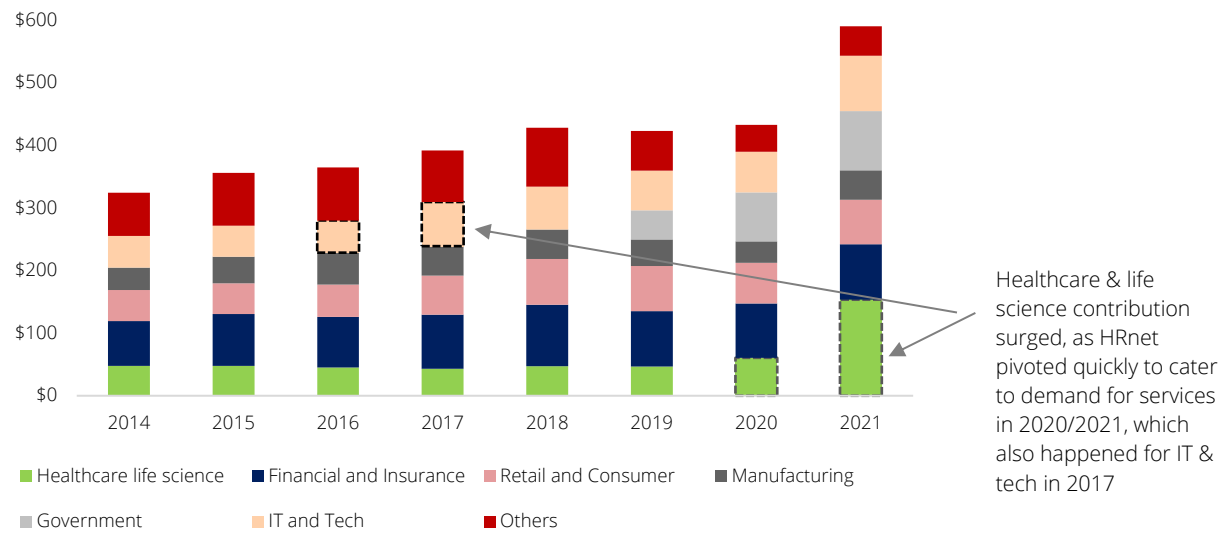
Source: Singapore Department of Statistics, Company, DBS Bank

Strong ability to pivot across sectors, helmed by unique ownership model. HRnet enjoys revenue from both defensive sectors such as healthcare life science and government as well as growth sectors such as IT & tech and financial & insurance. During the IT boom in 2017, HRnet quickly adapted its business and increased its revenue contributions from the IT sector from 14% in FY16 to 18% in FY17. This was aided by a business alliance agreement with TechnoPro Holdings – Japan's largest technology-focused staffing company.

Owing to its highly diversified business, HRnet was also able to quickly pivot to the healthcare life science segment, as there was high staff demand at testing and vaccination centres in 1H21. Consequently, revenue contributions from the healthcare life science segment jumped from 14% in 2H20 to 26% in 1H21.

With COVID-19 largely in an endemic phase, revenue contributions from healthcare have moderated down to 22% in 1H22. Nonetheless, pockets of growth still exist in areas such as digitalisation, wealth banking, and luxury retail. We think that HRnet is well poised to manoeuvre those growth areas due to its co-ownership model. With greater skin in the game, its 36 business leader co-owners are incentivised to respond quickly to market trends, paving the way for HRnet to deliver above-GDP growth rates.

HRnet's revenue by sector (S$'m): Quick pivot to healthcare services helped overall revenues



Source: Company, DBS Bank

Diversified business with quality client base. In addition, HRnet boasts a quality client base, with the top five clients engaging their services for an average of 15 years. Moreover, concentration risk is mitigated by having a diversified client base, with the top 5 and top 10 clients contributing 19.9% and 26.6% of revenue, respectively.

	Customer Since	FY21 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%
Top 5 Total		19.9%
Top 10 Total		26.6%

Source: Company, DBS Bank

(3) Largest recruitment group in Asia (ex-Japan) with more room to grow

Dominant player in a fragmented market. HRnet operates in 15 cities across Asia. In Singapore, where it derives 70% of its revenues and 56% of its gross profit (based on FY21 filings), HRnet has the largest market share by revenue. The size and scale at which HRnet operates allows it to enjoy pricing power alongside reputable branding to attract quality clients and high-calibre candidates.

Earnings growth to be led by expansion in new and existing markets. HRnet has expanded its operations from 10 cities since its IPO to 15 cities currently. The 15 cities that it operates in include Singapore, Kuala Lumpur, Hong Kong SAR, Taipei, Tokyo, Shanghai, Bangkok, Beijing, Seoul, Guangzhou, Jakarta, Suzhou, Shenzhen, Chengdu, and Kaohsiung. Despite the relatively mature market in Singapore, management has also indicated that there are still further areas of growth, particularly in large contracts with government agencies and corporate clients.

Just this year, **RecruitFirst**, a subsidiary of HRnet, has **announced two contract wins** – a four-year contract with the Ministry of Education and a two-year extendable contract with Singapore General Hospital. We believe its size and public-listed status could have given its clients more confidence in the firm, enabling it to clinch contracts, particularly with government agencies. Moreover, we also believe that the North Asia segment, which has a focus on the semiconductor industry, will benefit from the long-term structural uptrend of the semiconductor industry.

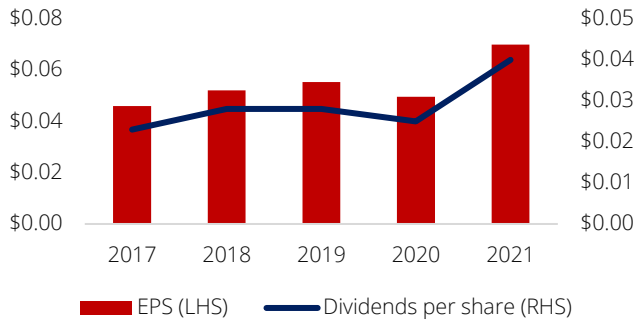
Growth by acquisitions a possibility given war chest of cash. Given the huge cash hoard of $312.7m with no bank borrowings as at 1H22, we think that there is potential for accretive acquisitions. Based on our read on management's intentions, we believe HRnet could be looking at acquisitions, particularly in areas such as IT and digitalisation, where they do not have a specialisation. Should there be a need to raise more cash, we believe equity fund-raising could be a potential and eventual funding option, post the use of its cash, as long as the deal mechanics and valuation are accretive and beneficial for the existing shareholders. In addition, this option could also aid in increasing its free float, which should boost liquidity and trading volumes.

(4) Attractive valuation, share price to be supported by sustainable dividends and 30m share buyback programme

Strong cash position to sustain dividends. HRnet has strong cash flow generation abilities with a relatively asset-light model. Without the need for heavy machinery and equipment, its capital expenditure has been minimal. HRnet also has a lean operating model where c.80% of its staff are fee earners. We project the group to remain in a strong net cash position, given its cash generative business. Being cash flow generative and given its strong balance sheet, we think that HRnet should be able to sustain its dividend practice of paying out at least 50% NPAT (net profit after tax), if not more, after adjusting for exceptional items. In addition, HRnet has given out a special dividend in FY21 and a maiden interim dividend in 1H22. We are positive on this move, as it indicates receptiveness to feedback from the market.

Share buyback to return profit to investors. HRnet also has a S$30m share buyback programme that should help support the share price and further boost returns to investors.

HRnet's EPS vs. Dividends per share



Source: Company, DBS Bank

Valuation & Peer Comparison

Reinstate coverage with BUY, TP S$1.08. Our target price is based on the mean of its peers' ex-cash PE at c.11.5x. Currently, HRnet is trading at an ex-cash PE of 7.1x with an estimated cash hoard of S$312.7m (1H22).

The job market is still tight in Singapore, hence 2H22 is expected to remain resilient. Though an increased risk of a recession may weigh on sentiment, we like HRnet for its resilient and diversified business that allows it to navigate economic downturns. HRnet trades at an attractive entry point, which gives rise to a forward dividend yield of 4.6%.

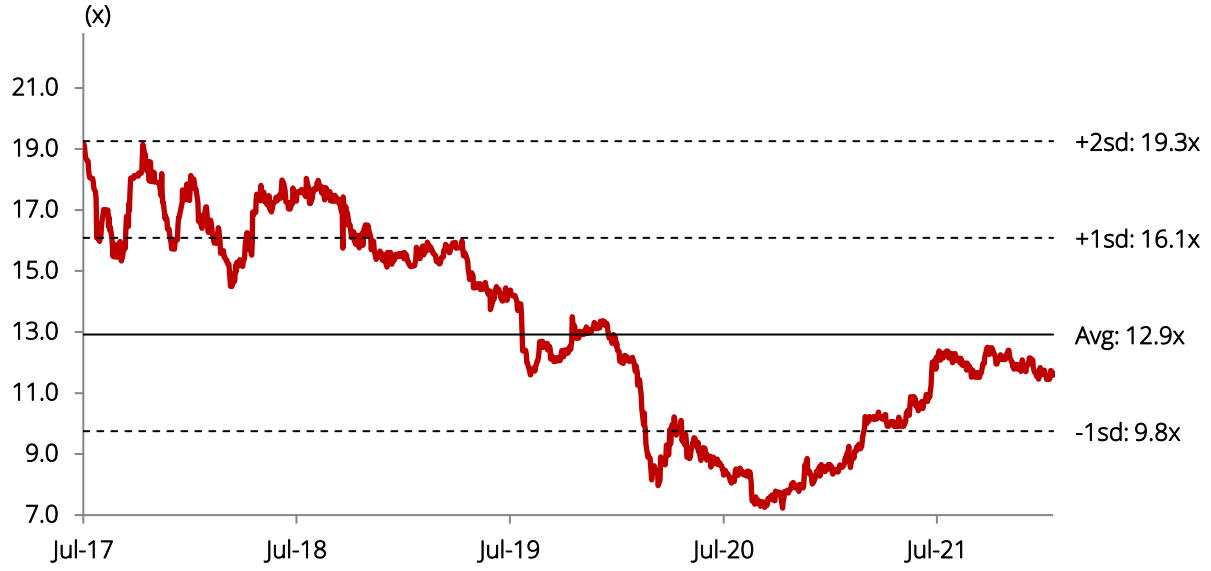
Key assumptions:
Key drivers of earnings growth include the number of professional recruitment placements, employee contractors, as well as GP/placement and GP/contractor employee. On the back of macroeconomic deterioration, we have forecasted revenue to grow by 4.6% in FY22 followed by a relatively more muted growth of 3.0% in FY23.

Peer Comparison – HRnet is undervalued based on Forward PE and Ex-cash PE

Security Name	Market Capitalisation (S$'m)	Forward PE	Ex-cash PE
HRnetgroup Ltd	780.4	10.5	7.1
Adecco Group AG	7409.7	8.3	7.9
Randstad NV	12251.0	10.3	10.8
ManpowerGroup Inc	5235.4	8.8	7.4
Robert Half International Inc	12115.2	13.0	13.4
Korn Ferry	3868.9	9.2	6.5
Heidrick & Struggles International	763.0	9.1	2.8
Kelly Services Inc	790.9	6.3	2.7
Kforce Inc	1801.5	14.5	16.6
Hays PLC	3123.0	11.1	10.6
Pagegroup PLC	2121.1	9.1	9.9
Robert Walters PLC	619.4	8.6	8.2
Recruit Holdings Co Ltd	74593.1	21.5	22.8
JAC Recruitment Co Ltd	826.0	15.4	18.3
Persol Holdings Co Ltd	6492.3	17.7	18.0
En Japan Inc	1170.1	23.4	13.1
TechnoPro Holdings Inc	3173.1	18.6	18.5
Average		12.8	11.7

Source: Bloomberg Finance L.P., DBS Bank

Forward PE Band (x)



Source: Bloomberg Finance L.P., DBS Bank

Key Risks

Economic downturn and business cycle. The demand for recruitment services is contingent on the requirements and availability of employment positions. This, in turn, is affected by the economic conditions in the regions and sectors the group is servicing, especially for the professional recruitment segment.

Departure of key performers/consultants. Consultants generate sales for HRnet by matching and placing suitable candidates for its clients. Consultants with a good and consistent track record (of PHC status) will be able to contribute to growth. The departure of these consultants to competitors or the loss of key performers through retirement or career changes could impact the company's ability to grow going forward.

Competition, given relatively low barriers to entry. While the group has a certain competitive edge, such as its scale and size, the barriers to entry in the professional recruitment services industry is relatively low. Also, given the fragmented nature of the industry, potential entry of new players in the markets that the group operates may increase competition for the group and other existing players. This could result in price-cutting pressure from the new or existing players.

Loss of licence, reputation. HRnet operates in a regulated environment and holds licences to operate employment services and agencies in the various markets in which it operates. Operations of such agencies are subject to employment legislation of each country. These include labour laws, minimum wage, provident fund regulations, work injury compensation, foreign manpower laws, employment services regulation. Failure to comply with the relevant laws could result in fine, demerit points, or loss of licence.

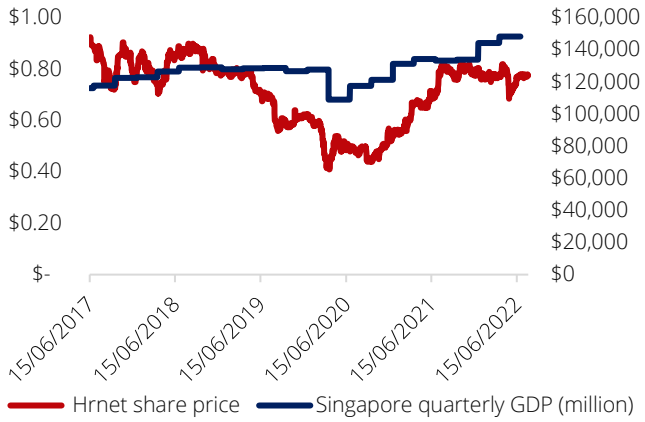
SWOT Analysis

Strengths	Weakness
• **Largest recruitment agency** based in Asia Pacific (excluding Japan) with multiple brands to serve different segments of the manpower recruiting market. Its large scale provides a position of strength, particularly for Flexible Staffing, where the agency acts as the employer and pays wages and salaries for contractor employees, billing corporate customers thereafter. • **Strong track record** with 30 years of operating history, since 1992, in establishing new brands and businesses and growing organically. • **Complementary business model**, with the Flexible Staffing business providing the group with a relatively stable and steady revenue stream even in an economic downturn, and the Professional Recruitment business generally performing well during periods of economic growth. Ability of management to adapt to changes in the needs, nature, and composition of the labour market to suit clients' requirements. • **Diverse base of clients** across 30 diversified sectors, with its top 5 and top 10 clients accounting for 19.9% and 26.6% of group revenue in 2021, respectively.	• **Highly dependent on consultants to drive sales and top-line growth**. A high percentage of sales personnel being productive headcount (defined as those who have achieved a gross profit thrice the value of his/her fixed salary) is essential in driving growth and profitability for the group. The departure of well-performing, key individuals and/or a group of consultants may have an impact on the group's operating performance.
Opportunities	**Threats**
• **Well poised to benefit from tight labour market**. Expect the tight labour market to lead to an increase in demand for staffing, which in turn presents opportunities for recruitment agencies. • **Strong cash flow generation** enables the group to pursue inorganic growth opportunities such as strategic acquisitions and/or partnerships in new or existing markets.	• **Low barriers to entry** for new entrants in the Professional Recruitment segment, which could result in price competition and thus in clients switching to other competitors. • **Regulatory framework changes**, breach of laws and regulations, as well as complaints may affect operations and the brand reputation of the various recruitment agencies under the group's umbrella. • **Downturn in economy and employment** causing placement opportunities to drop and corporates turning to more cost-conscious initiatives, such as internal talent acquisition teams (for large corporations). While the group's performance may be mitigated partially by its exposure in the Flexible Staffing segment, its overall performance may still be impacted.

Source: DBS Bank

Critical Factors

Principal share price driver #1: Singapore GDP

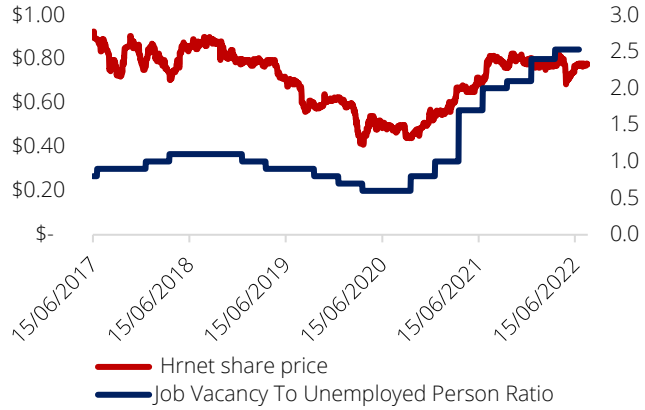


Source: Singapore Department of Statistics, Bloomberg Finance L.P., DBS Bank

Comments

On average, 56% of HRnet's gross profit comes from Singapore. We are of the view that the economic performance of Singapore will determine the labour market dynamics with regard to job opportunities, which is an important determinant of the number of job placements that HRnet clinches. Stronger economic performance in the countries that HRnet operates in will benefit the labour market and translate to higher earning potential for HRnet.

Principal share price driver #2: Job vacancy-to-unemployed person ratio

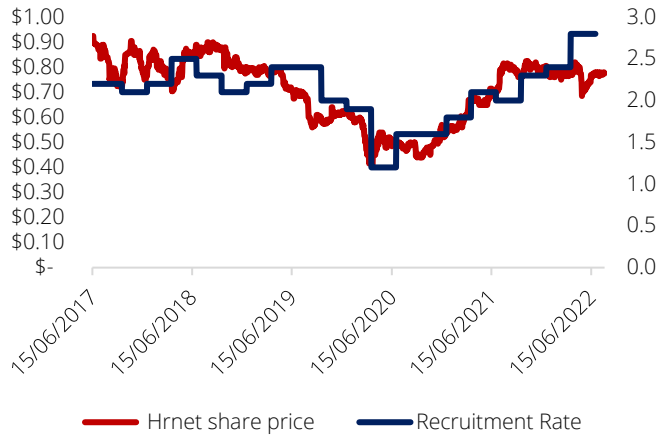


Source: Ministry of Manpower, Bloomberg Finance L.P., DBS Bank

Comments

Higher job vacancies point to a greater available pool of jobs in the labour market. This suggests that there are more opportunities for HRnet to increase its permanent placements and contract positions, contributing to growth in the top and bottom lines. However, we note that the number of job seekers could be a potential limiting factor in filling up available job positions. Overall, a higher job vacancy-to-unemployed person ratio has historically led to better share price performance.

Principal share price driver #3: Singapore recruitment rate

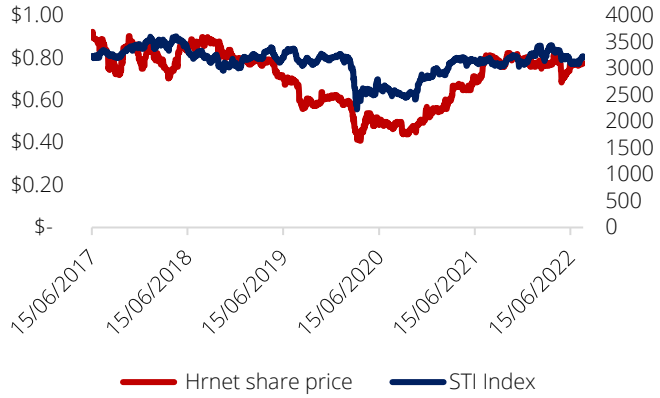


Source: Ministry of Manpower, Bloomberg Finance L.P., DBS Bank

Comments

The recruitment rate is a function of the available job opportunities. In general, recruitment rates tend to be higher when job openings are aplenty. We believe that higher recruitment rates imply that there are more opportunities for HRnet to increase its placements and employee contractors, which will translate to more robust earnings. This is evidenced by the strong positive correlation between HRnet's share price and the recruitment rate.

Principal share price driver #4: STI Index



Source: Bloomberg Finance L.P., DBS Bank

Comments

We have also observed a strong correlation between HRnet's share price and the Straits Times Index. We think that the STI is a good proxy for the state of the Singapore economy, which reflects business sentiment and labour hiring practices. A stronger economy can support job growth, which should be positive for HRnet in the form of more job placements.

Financials

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F	2024F
Professional recruitment placements	8,530	7,022	7,794	7,482	7,445	7,482
GP/placement	11,206	10,311	12,073	14,488	15,067	15,368
Flexible staffing employee contractors (average)	12,616	14,347	19,280	18,027	17,847	17,668

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F	2024F
Revenues (S$m)						
Professional recruitment	95.9	72.6	94.8	109	113	116
Flexible staffing	324	358	493	504	519	524
Others	2.99	2.89	3.13	3.13	3.13	3.13
Total	423	433	591	616	634	642
(S$m)						
Professional recruitment	95.6	72.4	94.1	108	112	115
Flexible staffing	48.3	55.4	78.3	77.8	80.1	80.9
Others	1.70	1.59	2.49	2.49	2.49	2.49
Total	146	129	175	189	195	198
Gross Margins (%)						
Professional recruitment	99.7	99.7	99.3	99.5	99.5	99.5
Flexible staffing	14.9	15.5	15.9	15.4	15.4	15.4
Others	56.9	55.0	79.3	79.3	79.3	79.3
Total	34.4	29.9	29.6	30.6	30.7	30.9

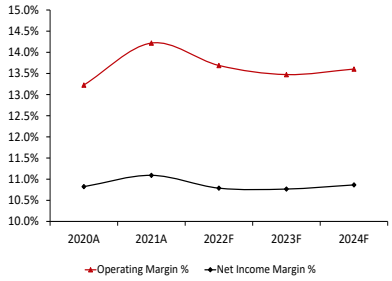
Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2019A	2020A	2021A	2022F	2023F	2024F
Revenue	423	433	591	616	634	642
Cost of Goods Sold	(278)	(304)	(416)	(427)	(440)	(444)
Gross Profit	146	129	175	189	195	198
Other Opng (Exp)/Inc	(81.2)	(72.1)	(90.9)	(104)	(109)	(111)
Operating Profit	64.4	57.3	84.0	84.3	85.5	87.4
Other Non Opg	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	3.98	1.76	0.82	1.58	2.82	2.82
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	68.4	59.0	84.8	85.9	88.3	90.2
Tax	(12.6)	(9.2)	(14.5)	(14.7)	(15.1)	(15.4)
Minority Interest	(4.2)	(2.9)	(4.8)	(4.8)	(4.9)	(5.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	51.6	46.9	65.5	66.4	68.3	69.8
Net Profit before	51.6	46.9	65.5	66.4	68.3	69.8
EBITDA	65.8	58.7	85.5	85.8	87.0	89.1
Growth						
Revenue Gth (%)	(1.3)	2.4	36.4	4.3	3.0	1.2
EBITDA Gth (%)	4.9	(10.7)	45.5	0.3	1.5	2.3
Opg Profit Gth (%)	4.3	(11.1)	46.6	0.4	1.4	2.2
Net Profit Gth (Pre-ex)	7.1	(9.2)	39.7	1.4	2.8	2.2
Margins & Ratio						
Gross Margins (%)	34.4	29.9	29.6	30.6	30.7	30.9
Opg Profit Margin (%)	15.2	13.2	14.2	13.7	13.5	13.6
Net Profit Margin (%)	12.2	10.8	11.1	10.8	10.8	10.9
ROAE (%)	15.5	14.1	18.7	17.2	16.4	15.5
ROA (%)	12.5	10.8	13.3	12.1	11.6	11.0
ROCE (%)	15.8	13.8	17.8	16.4	15.7	14.7
Div Payout Ratio (%)	54.6	53.5	61.3	53.6	53.6	53.6
Net Interest Cover (x)	NM	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Margins Trend



FY20/21 benefitted from pandemic-related grants, bringing government grant income to S$13.3m/S$9.1m, respectively. 1H22 has S$5.7m in government grants, which includes the Wage Credit Scheme and Special Employment Credit given by the Singapore Government, as well as grants from other geographies that HRnet operates in.

Interim Income Statement (S$m)

FY Dec	2H2H	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	211	210	223	275	315	314
Cost of Goods Sold	(139)	(148)	(156)	(193)	(222)	(222)
Gross Profit	72.0	62.5	66.9	81.8	93.1	91.9
Other Oper. (Exp)/Inc	(44.2)	(35.9)	(36.2)	(37.6)	(53.4)	(46.8)
Operating Profit	27.8	26.6	30.7	44.3	39.7	45.1
Other Non Opg	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.69	1.12	0.64	0.46	0.36	0.62
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.5	27.7	31.3	44.7	40.1	45.7
Tax	(6.6)	(5.5)	(3.7)	(6.7)	(7.9)	(8.0)
Minority Interest	(2.2)	(1.2)	(1.7)	(2.1)	(2.6)	(3.1)
Net Profit	20.8	21.0	25.9	35.9	29.6	34.6
Net profit bef Except.	20.8	21.0	25.9	35.9	29.6	34.6
EBITDA	31.2	31.5	35.8	48.9	44.4	49.2
Growth						
Revenue Gth (%)	(0.9)	(0.1)	5.9	23.5	14.7	(0.4)
EBITDA Gth (%)	(22.5)	1.1	13.7	36.6	(9.2)	10.6
Opg Profit Gth (%)	(24.1)	(4.2)	15.2	44.4	(10.3)	13.6
Net Profit Gth (%)	(32.6)	1.0	23.3	38.8	(17.7)	17.0
Margins						
Gross Margins (%)	34.2	29.7	30.0	29.7	29.5	29.3
Opg Profit Margins (%)	13.2	12.7	13.8	16.1	12.6	14.4
Net Profit Margins (%)	9.9	10.0	11.6	13.1	9.4	11.0

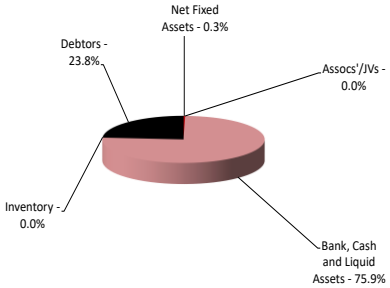
Source: Company, DBS Bank

Balance Sheet (S$m)

FY Dec	2019A	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	1.56	1.50	1.48	1.54	1.55	1.48
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	61.4	38.9	57.2	71.8	87.9	106
Cash & ST Invts	275	339	352	380	401	424
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	74.7	66.3	114	111	115	116
Other Current Assets	6.92	6.62	5.44	5.44	5.44	5.44
Total Assets	419	452	530	570	610	653
ST Debt	0.0	0.0	0.0	0.0	0.0	0.0
Creditor	6.03	6.48	9.47	9.71	9.99	10.1
Other Current Liab	59.5	95.8	126	128	129	129
LT Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	7.14	2.97	6.77	8.77	11.8	16.8
Shareholder's Equity	332	332	370	401	433	465
Minority Interests	14.6	15.5	17.6	22.4	27.3	32.3
Total Cap. & Liab.	419	452	530	570	610	653
Non-Cash Wkg. Capital	16.1	(29.4)	(16.0)	(21.3)	(18.6)	(17.6)
Net Cash/(Debt)	275	339	352	380	401	424
Debtors Turn (avg days)	67.3	59.4	55.8	66.8	64.9	65.5
Creditors Turn (avg	8.3	7.6	7.0	8.2	8.2	8.3
Inventory Turn (avg	N/A	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.0	1.0	1.2	1.1	1.1	1.0
Current Ratio (x)	5.4	4.0	3.5	3.6	3.8	3.9
Quick Ratio (x)	5.3	4.0	3.4	3.6	3.7	3.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company, DBS Bank

Asset Breakdown

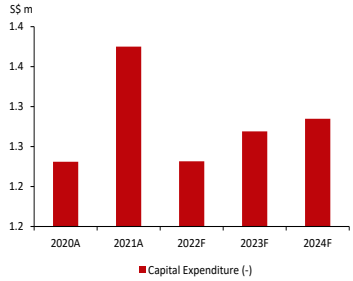


Cash Flow Statement (S$m)

FY Dec	2019A	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	68.4	59.0	84.8	85.9	88.3	90.2
Dep. & Amort.	6.65	9.76	9.12	8.49	8.23	8.13
Tax Paid	(13.2)	(9.5)	(12.8)	(12.7)	(14.7)	(15.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	4.66	44.0	(23.5)	3.24	(3.1)	(1.3)
Other Operating CF	(7.1)	1.17	(4.9)	0.0	0.0	0.0
Net Operating CF	59.3	104	52.7	84.9	78.8	81.9
Capital Exp.(net)	(1.3)	(1.2)	(1.4)	(1.2)	(1.3)	(1.3)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(37.9)	1.56	(23.2)	(20.0)	(20.0)	(20.0)
Net Investing CF	(39.2)	0.33	(24.6)	(21.2)	(21.3)	(21.3)
Div Paid	(28.2)	(28.0)	(25.1)	(35.6)	(36.6)	(37.4)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0	0.0
Capital Issues	(0.3)	(3.1)	0.0	0.0	0.0	0.0
Other Financing CF	(6.5)	(9.8)	(9.8)	0.0	0.0	0.0
Net Financing CF	(35.0)	(40.9)	(34.9)	(35.6)	(36.6)	(37.4)
Currency Adjustments	(0.7)	2.18	1.59	0.0	0.0	0.0
Chg in Cash	(15.6)	66.1	(5.2)	28.1	20.9	23.2
Opg CFPS (S cts)	5.43	6.03	7.59	8.14	8.16	8.30
Free CFPS (S cts)	5.76	10.3	5.11	8.34	7.73	8.04

Source: Company, DBS Bank

Capital Expenditure



Company Background

Corporate History. HRnet Group was established in 1992 and is the largest recruitment agency based in Asia Pacific (excluding Japan). The group operates in 15 Asian growth cities, namely, Singapore (location of headquarters), Kuala Lumpur, Hong Kong SAR, Taipei, Kaohsiung, Tokyo, Seoul, Shanghai, Beijing, Guangzhou, Suzhou, Shenzhen, Chengdu, Jakarta, and Bangkok.

Under its professional recruitment segment, its brands include HRnetOne, PeopleSearch, and ReForce, amongst others. Its flexible staffing brands include Recruit Express, Centre Point Personnel, and RecruitFirst.

Professional Recruitment Brands

Source: Company

Flexible Staffing Brands

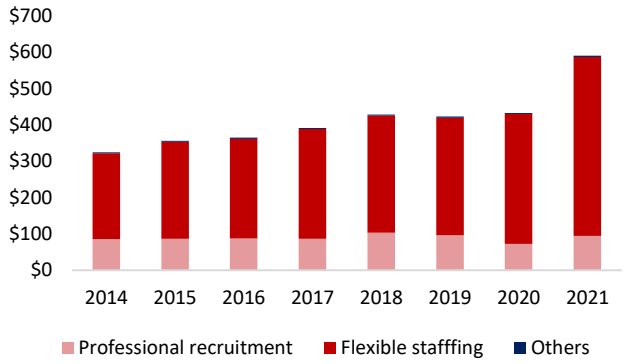
Source: Company

Business segmentation
The group is broadly organised into two operating segments – Professional Recruitment and Flexible Staffing. The Professional Recruitment business involves permanent placements in positions for corporate clients. A fee is charged from the client based on a percentage (which is determined after taking into account various factors, such as the customary rate in the relevant city of operation, the seniority of the candidate, the degree of complexity and difficulty in finding a candidate for the position, and the volume of the client's business) of the first-year remuneration offered and accepted for the position, upon successful selection and placement.

The Flexible Staffing business involves staffing solutions for corporate clients seeking variability in operating costs and talent deployment. For workers, this business solution satisfies candidates seeking less formal, contract, temporary, and part-time employment. Candidates in the Flexible Staffing business are employed by the group as contractor employees on a contract basis. This means that these candidates are put on the group's payroll and are concurrently placed with clients on back-to-back agreements. The salaries and employment benefits of the contractor employees are paid by the group at each payroll cycle, and clients are subsequently billed a fee that covers the contractor employee's payroll plus a margin as a percentage of the payroll or a fixed sum agreed.

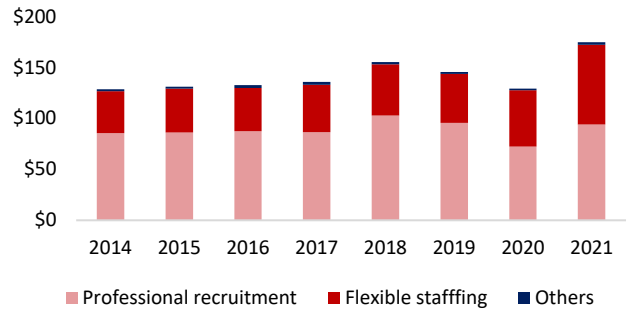
As of FY21, Flexible Staffing contributed about 83% of the group's revenue but accounted for only 45% of the group's gross profit. On the other hand, Professional Recruitment accounts for 16% of FY21 revenue but contributed to about 54% of the group's gross profit. The main reason for this is due to the cost structure of flexible staffing, where the salaries and wages of the contractor employees paid by the clients are recognised as revenue for the group. On the other hand, the salaries/wages paid by HRnet to the same employees are recognised as cost of sales.

Revenue by business segment S$'m



Source: Company, DBS Bank

Gross profit by business segment S$'m

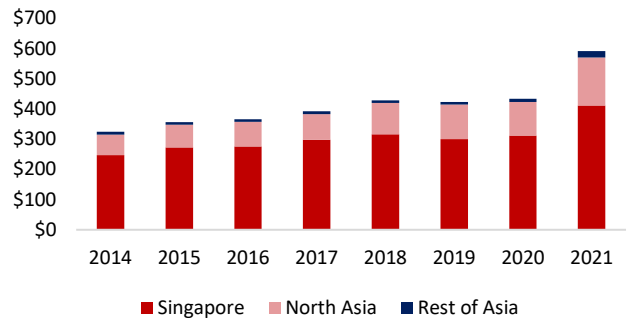


Source: Company, DBS Bank

Geographical segmentation

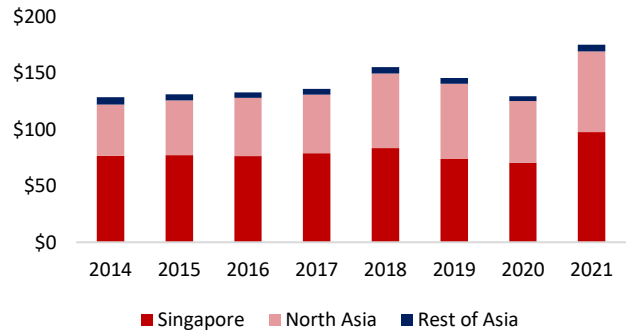
In terms of geographical area, Singapore accounted for 70% of the group's revenue for FY21 and 56% of gross profit. Singapore contributed a higher percentage to revenue vis-à-vis gross profit compared to the other geographical areas, as the group's Flexible Staffing business in Singapore is larger. On the other hand, Professional Recruitment accounted for the bulk of business in North Asia, which comprises the People's Republic of China, Taiwan, Hong Kong, Japan, and South Korea.

Revenue by geographical segment S$'m



Source: Company, DBS Bank

Gross profit by geographical segment S$'m



Source: Company, DBS Bank

Cost structure

Sub-contractor expenses make up the largest cost component, but this is due to the recognition of contractor employees' payroll. The largest cost component for the group is sub-contractor expenses, which are incurred as cost of sales in relation to the payroll expenses of contractor employees for the Flexible Staffing segment. In return, corporate clients pay the group a fee for the management of admin, payroll, insurance, etc. This expense item will move in tandem with the revenue from the Flexible Staffing business.

Aside from sub-contractor expenses, the group's other cost items are employee benefit expenses, facilities and depreciation expenses, and selling and other expenses. Employee benefits account for about 83% of total operating expenses (excluding sub-contractor expenses). Employee benefit expenses essentially comprise the compensation and benefits paid to the group's consultants and support staff.

Co-ownership model and incentive programmes. 88GLOW. This plan was implemented whereby business leaders who have shares or interests in HRnet's operating subsidiaries or branches will be given the opportunity to continue to own these shares or interests, together with an opportunity to swap their illiquid stakes in the operating subsidiaries or branches for shares in HRnet based on the relative valuations of the operating subsidiaries or branches at the relevant time of the swap. This model of co-ownership aligns the interests of these employees with that of HRnet and motivates them to ensure the continuing success of HRnet as a whole.

What has changed since the IPO?

Growth across the years

1992 – HRnetOne Singapore
1994 – HRnetOne Kuala Lumpur
1996 – Recruit Express Singapore, HRnetOne Hong Kong SAR
1998 – HRnetOne Taipei
2000 – PeopleSearch Taipei, HRnetOne Tokyo
2001 – Recruit Express Taipei, PeopleSearch Singapore
2004 – Recruit Express Singapore (Services), Recruit Express Kuala Lumpur
2005 – Recruit Express Hong Kong SAR, PeopleFirst Kuala Lumpur, PeopleSearch Tokyo, Recruit Legal Hong Kong SAR and Singapore, SearchAsia Hongkong SAR
2006 – HRnetOne Shanghai and Bangkok, PeopleSearch Hongkong SAR
2007 – SearchAsia Singapore
2008 – HRnetOne Beijing
2011 – HRnetOne Seoul and Guangzhou, PeopleSearch Shanghai
2013 – RecruitFirst Singapore
2016 – yespay Singapore
2017 – RecruitFirst Hongkong SAR, Recruit Legal Kuala Lumpur

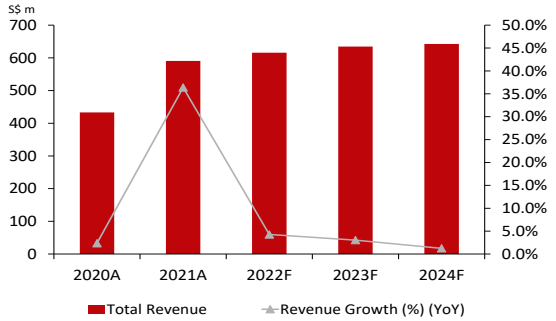
2018 – HRnetRimbun Jakarta, REForce (Beijing, Shanghai, Guangzhou, Suzhou), Center Point Personnel Hong Kong SAR
2019 – RecruitFirst (Kuala Lumpur, Shanghai, Taipei)
2020 – RecruitFirst Jakarta, HRnetOne Shenzhen
2021 – REForce Chengdu

Before the IPO in 2017, HRnet operated in 10 cities, namely Singapore, Kuala Lumpur, Hong Kong SAR, Taipei, Tokyo, Shanghai, Bangkok, Beijing, Seoul, and Guangzhou. After the IPO, HRnet has expanded its geographical reach to include Jakarta, Suzhou, Shenzhen, Chengdu, and Kaohsiung

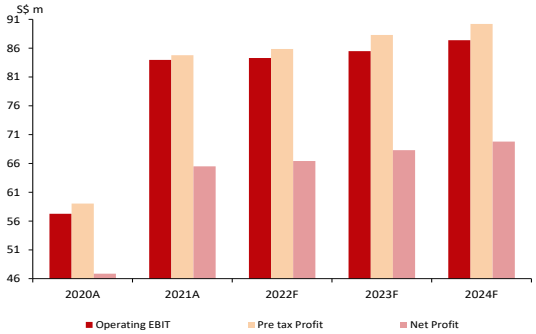
Revenue and earnings growth

In line with its expansion over the years, HRnet has been experiencing good revenue and earnings growth. Revenue grew at a CAGR of 10.8% between FY17-FY21 compared to 6.1% between FY14-FY16. Fully diluted net profit also grew at a higher CAGR of 12.2% in FY17-FY21 compared to 11% in FY14-16.

Sales Trend



Profitability Trend



Source: Company, DBS Bank

Analysis of notable acquisitions/investments

Jan 2018 PT HRnet Rimbun	Indonesia	In January 2018, the group signed a shareholder's agreement to take a 51% stake in Rimbun. Upon acquiring PT Rimbun, HRnet launched a new brand – HRnet RImbun, a professional recruitment brand in Jakarta, Indonesia. This acquisition supported HRnet's expansion into the Southeast Asia region.
Sept 2018 REForce (Shanghai) Human Resources Management Consulting Co., Ltd	China	HRnet has acquired 51% of REForce, which, at the point of acquisition, had a staff count of 68. REForce specialises in mid to senior-level recruitment. This acquisition is aligned to HRnet's growth strategy through geographical diversification.
Oct 2018 Career Personnel	Hong Kong	HRnet has acquired 100% of the shares in Career Personnel Limited, incorporated in 1992. Career Personnel is in the business of flexible staffing and predominantly services the government agencies in Hong Kong. This helped to accelerate the growth of RecruitFirst Hong Kong as well as expand the company's core business in flexible staffing.
May 2019 Bamboos Healthcare Holdings	Hong Kong	The company had acquired more shares in June, bringing HRnet's stake in Bamboos from 7.85% in May to 8.0% in June. Bamboos provides healthcare staffing solutions to individuals and institutional clients such as hospitals and social service organisations in Hong Kong. HRnet intended for this investment in Bamboos to be a strategic partnership to develop its business in the healthcare sector.
Jul 2019 Staffline	UK	Since its initial investment in July 2019 that amounted to 7.39% of voting rights, HRnet has increased its holdings to 29.95%. Staffline is listed on the Alternative Investment Market, a sub-market of the London Stock Exchange. We note that HRnet has reclassified Staffline as an equity investment designated at FVTOCI so the impact to Staffline's share price mainly flowed through comprehensive income rather than P&L. Following Staffline raising equity of 96.8m new ordinary shares, HRnet's interest in Staffline decreased to 14.47%. Back then, HRnet saw the distressed valuations as an attractive entry point to acquire a blue-collar business at large scale. Staffline generates the largest placement volume of 60,000 workers a day in the UK. However, Brexit had a cascading impact on the share price. Following that, the Staffline board underwent restructuring and management believes that Staffline is a strategic investment that will pay off in the future.

Source: Company, DBS Bank

Apart from the investment in Staffline, we are largely positive about HRnet's acquisitions and investments. Revenue contributions from the North Asia segment have grown more than 87%, from S$85m in FY17 to S$159m in FY21. We believe that this could be partially attributed to HRnet's investments in North Asia.

Management

Name and Designation	Background and Experience
Peter Sim Founding chairman	• Peter Sim founded the company in 1992 and has over 40 years of expertise in social work, human resource management, and talent acquisition. • Peter has played various HR roles at organisations including McDermott South East Asia Pte Ltd, the Monetary Authority of Singapore, Singapore Aerospace Pte Ltd, and Thomson Consumer Electronics Pte Ltd. His last role before founding HRnetOne was as regional human resource director of Honeywell SEA Pte Ltd. • He graduated with a Bachelor of Arts from the University of Singapore in 1976 and is also an associate of the Institute of Chartered Secretaries and Administrators, UK.
Jennifer Kang Chief financial officer	• Jennifer Kang began her career in 1989 as an auditor with Coopers & Lybrand before joining AT&T Singapore Pte Ltd. She was involved in the financial control and IPO of an SGX-listed company. She also performed M&A work with BIL International Limited and corporate planning with Abacus International Pte Ltd. • The experience that Jennifer garnered proved to be an asset when she started her career with HRnetGroup in 2003 as a Regional Finance Director. She went on to lead one of its professional recruitment businesses in Malaysia in 2007 before co-pioneering HRnetOne Beijing in 2008. Jennifer took on the role of CFO of HRnetGroup in 2012. • Jennifer graduated with a Bachelor of Accountancy from the National University of Singapore in 1989. She also received a Master of Business in Information Technology from the Royal Melbourne Institute of Technology in Australia in 1998.
Daisy Tan Chief people officer	• Daisy Tan joined the group in 1992 and has been the CPO since 2012. Over the course of 29 years in HRnetGroup, she handled the accounts at one stage, went on to be a senior regional consultant and business services manager at another, and was even, at some point, part of the core team setting up the Recruit Express brand. • Daisy obtained a Diploma in Human Resource Management from the Singapore Institute of Human Resource Management in 1995.
Adeline Sim Executive director and chief legal officer	• Adeline Sim leads strategic and tactical initiatives and is a member of the Investment Committee identifying and executing investments and acquisitions. Adeline also runs the technology, digital marketing, investor relations, and communication functions of the group. • In her role as chief legal officer, Adeline heads a team which provides counsel and guidance on legal matters across the 32 business units. • Adeline began her career as a lawyer with Drew & Napier LLC in 2004, where she was engaged in dispute resolution and subsequently, capital market work. She joined the group on 1 January 2009. • Adeline graduated with a Bachelor of Laws from the National University of Singapore in 2003, was admitted to the Singapore Bar in 2004, and is a Solicitor of the Supreme Court of England and Wales. Adeline is also a director of SkillsFuture Singapore, the Lifelong Learning Institute, the Singapore Institute of Management Society, as well as a member of the Finance Committee of Saint Joseph's Institution International.
Sim Joo Siang Executive director and chief executive officer of Recruit Express Group of Companies	• As the CEO of Recruit Express, Recruit Express Services, Recruit Legal, and SearchAsia, Sim Joo Siang leads over 300 people across Singapore, Taipei, Hong Kong SAR, and Kuala Lumpur. • Joo Siang started his career in 1982 with Aurora Products Pte Ltd and was head of personnel before joining General Electric Intersil Pte Ltd in 1983. Prior to joining Recruit Express, he was the regional human resource director of Motorola Electrics Pte Ltd. • He graduated with a Bachelor of Science from the National University of Singapore in 1982 and received a Graduate Diploma in Personnel Management from the Singapore Institute of Management in 1984.
Lorencz Tay Group business leader and managing director of PeopleSearch Group of Companies	• Lorencz Tay began his career in 1993 as a recruitment and accounts officer with HRnetOne and rapidly made his mark when he was appointed a managing director in 2005. In 2007, Lorencz took on the role of group business leader and managing director of the PeopleSearch Group of Companies. • Lorencz graduated with a Bachelor of Arts from the National University of Singapore in 1993.

Management (continued)

Name and Designation	Background and Experience
Madeline Wan Group business leader and senior general manager of the Greater China and Japan businesses for HRnetOne	• Madeline Wan joined HRnetOne in Singapore as a consultant in 1996. In 1999, she moved to Taipei to launch HRnetOne Taipei, and four years later, took over the running of HRnetOne Hong Kong SAR. By 2007, HRnetOne Tokyo also came under her charge. • Over the past 15 years, together with her stalwart leaders, she successfully planted the HRnetOne flag in Shanghai, Beijing, Guangzhou, and Shenzhen. Madeline was the sponsor for the REForce team, the company's first acquisition in China. • Madeline graduated with a Diploma in Chemical Process Technology from Singapore Polytechnic in 1992.
Jacelyn Chua Group business leader of RecruitFirst Singapore	• Jacelyn Chua spearheaded the launch of RecruitFirst Singapore in 2013 with a team of three hires and was responsible for overseeing all operations, including business development, project delivery, leadership development, and organisational design. • She is also the driving force behind the digital initiatives rolled out by RecruitFirst – initiatives that have proven to improve client and candidate workflow and efficiency. • Jacelyn graduated with a Diploma in Business Administration from Singapore Polytechnic in 1989.

Source: Company

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 16 Sep 2022 06:45:41 (SGT)
Dissemination Date: 16 Sep 2022 07:41:56 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 31 Aug 2022.

Compensation for investment banking services:

2. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

3. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed on page 1 of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates in the preceding 12 months.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946. DBS Bank Ltd, DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report has been prepared by a personnel of DBS Bank Ltd, who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited ("DBS HK"), a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). DBS Bank Ltd., Hong Kong Branch is a limited liability company incorporated in Singapore. For any query regarding the materials herein, please contact Dennis Lam (Reg No. AH8290) at dbsvhk@dbs.com
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies. Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6878 8888 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. For any query regarding the materials herein, please contact Chanpen Sirithanarattanakul at research@th.dbs.com

United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Bank Ltd, London Branch ("DBS UK"). DBS UK is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. In respect of the United Kingdom, this report is solely intended for the clients of DBS UK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS UK, This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This communication is provided to you as a Professional Client or Market Counterparty as defined in the DFSA Rulebook Conduct of Business Module (the "COB Module"), and should not be relied upon or acted on by any person which does not meet the criteria to be classified as a Professional Client or Market Counterparty under the DFSA rules. This communication is from the branch of DBS Bank Ltd operating in the Dubai International Financial Centre (the "DIFC") under the trading name "DBS Bank Ltd. (DIFC Branch)" ("DBS DIFC"), registered with the DIFC Registrar of Companies under number 156 and having its registered office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates. DBS DIFC is regulated by the Dubai Financial Services Authority (the "DFSA") with a DFSA reference number F000164. For more information on DBS DIFC and its affiliates, please see http://www.dbs.com/ae/our--network/default.page. Where this communication contains a research report, this research report is prepared by the entity referred to therein, which may be DBS Bank Ltd or a third party, and is provided to you by DBS DIFC. The research report has not been reviewed or authorised by the DFSA. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBS DIFC. Unless otherwise indicated, this communication does not constitute an "Offer of Securities to the Public" as defined under Article 12 of the Markets Law (DIFC Law No.1 of 2012) or an "Offer of a Unit of a Fund" as defined under Article 19(2) of the Collective Investment Law (DIFC Law No.2 of 2010). The DFSA has no responsibility for reviewing or verifying this communication or any associated documents in connection with this investment and it is not subject to any form of regulation or approval by the DFSA. Accordingly, the DFSA has not approved this communication or any other associated documents in connection with this investment nor taken any steps to verify the information set out in this communication or any associated documents, and has no responsibility for them. The DFSA has not assessed the suitability of any investments to which the communication relates and, in respect of any Islamic investments (or other investments identified to be Shari'a compliant), neither we nor the DFSA has determined whether they are Shari'a compliant in any way. Any investments which this communication relates to may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on any investments. If you do not understand the contents of this document you should consult an authorised financial adviser.

United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS (Hong Kong) Ltd
Contact: Dennis Lam
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

SINGAPORE
DBS Bank Ltd
Contact: Paul Yong
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand