

# HRnetGroup Ltd (HRNET SP)

## You're Hired

### Leading Asia-based recruitment firm; initiate BUY

HRnetGroup (HRnet) is one of the largest Asia Pacific-based recruitment companies outside Japan operating in 13 Asian cities and serving more than 3,000 clients across 23 industry segments. We are initiating coverage on HRnet with a BUY and TP of SGD0.99, pegged at 18x FY22E P/E. This implies a slight premium to global peers' average, which is justifiable given its more superior ROE and a strong net cash position of SGD332m (or 42% of its market capitalisation). At current level, the stock is still trading at an undemanding valuation of 9x (ex-cash) FY21E P/E.

### Twin engines of complementary businesses

We like the Group's synergistic and balanced business model that is supported by two complementary businesses. Its flexible staffing business provides a relatively stable and steady revenue stream during economic downturns, while the professional recruitment business generally performs well during periods of economic expansion. In our view, the provision of both services allows HRnet to be resilient through economic cycles, while offering comprehensive recruitment solutions to its highly-diversified customer base (FY20: top ten customers were 22% of revenues).

### Proxy to improving employment outlook

We see HRnet as a good proxy for an impending recovery in labour markets, underpinned by: 1) improving economic indicators; 2) positive hiring sentiment by employers; as well as 3) further reopening due to mass vaccination across the regions. In FY20, Singapore accounted for 72% of revenue and 54.5% of gross profit. We think North Asia could gradually become a bigger contributor going forward, as the group builds on its presence there via the expansion of existing brands and potential M&As.

### Cash-generative, asset-light business model

The Group's business is highly cash generative, being backed by an asset-light model and flexible cost base, the latter per unique remuneration structure via profit sharing incentive and productive salesforce (defined as consultants who achieve gross profit of 3x his/her payroll costs). Moreover, management is also ramping up its investments in technology such as digital staffing platform to further improve productivity, as well as deliver a better product and enhance the user experience of its clients.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	423	433	466	492	510
EBITDA	81	71	75	82	88
Core net profit	52	47	50	55	60
Core EPS (cts)	5.1	4.7	5.0	5.5	6.0
Core EPS growth (%)	7.4	(8.9)	7.3	9.7	8.9
Net DPS (cts)	2.8	2.5	2.7	2.9	3.2
Core P/E (x)	12.2	11.7	15.5	14.1	12.9
P/BV (x)	1.9	1.6	2.2	2.0	1.9
Net dividend yield (%)	4.5	4.6	3.4	3.8	4.1
ROAE (%)	15.5	14.1	14.6	15.0	15.2
ROAA (%)	12.5	10.8	10.8	11.3	11.6
EV/EBITDA (x)	4.7	3.2	5.8	5.1	4.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	57	63	67
MKE vs. Consensus (%)	-	-	(11.7)	(12.0)	(10.7)

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## BUY

Share Price SGD 0.78  
12m Price Target SGD 0.99 (+28%)

### 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)	0.80/0.44
3m avg turnover (USDm)	0.4
Free float (%)	19.6
Issued shares (m)	1,003
Market capitalisation	SGD777.1M
	USD572M

### Major shareholders:

Simco Global Ltd.	77.0%
Fidelity Management & Research Co. LLC	2.5%
Vanda 1 Investments Pte Ltd.	1.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	13	17	60
Relative to index (%)	13	19	33

Source: FactSet

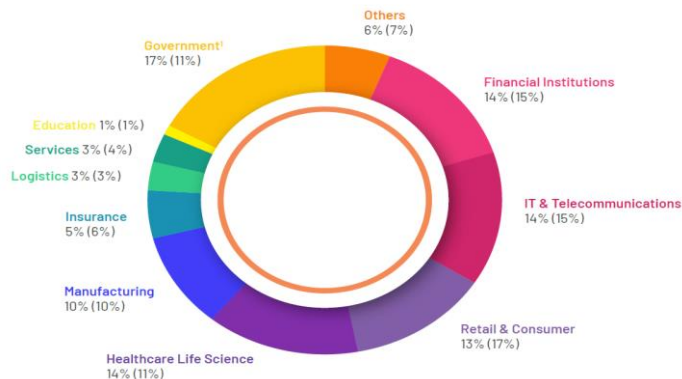
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## Value Proposition

- 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.

### Highly diversified customer base

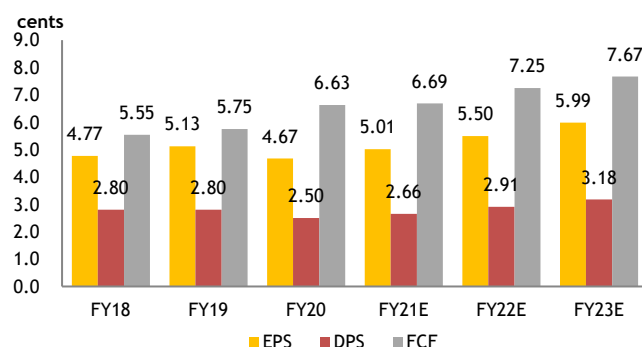


Source: Company

## 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'.

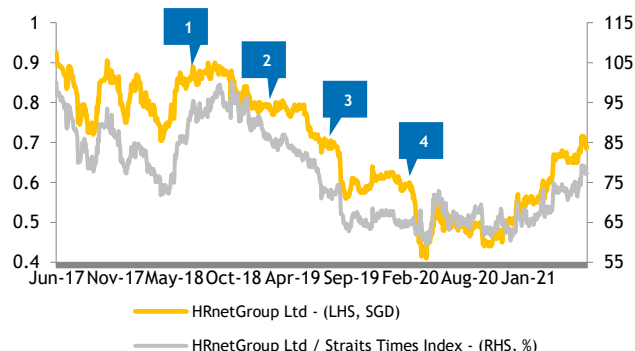
### EPS, DPS and FCF per share



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

- 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 <sup>1</sup>	NOT RATED
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup> (Updated: na)	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.

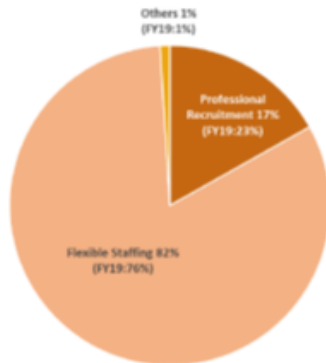
## Key G metrics and issues

- 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

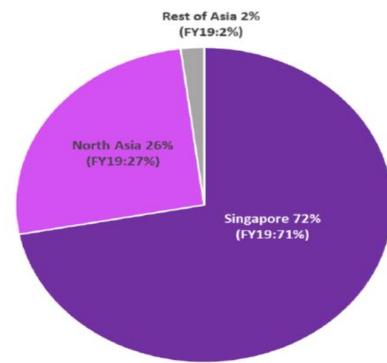
## Focus charts

Fig 1: Revenue by business segment (FY20)



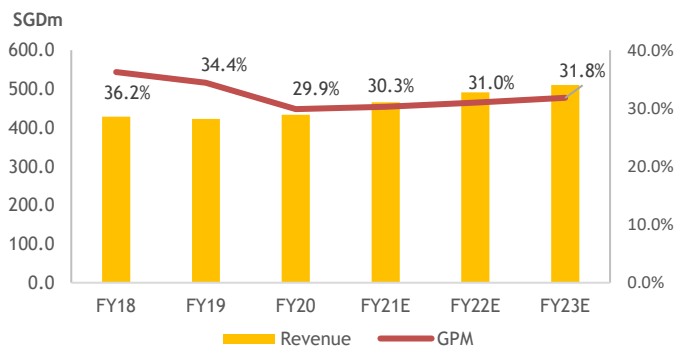
Source: Company Data

Fig 2: Revenue by geography (FY20)



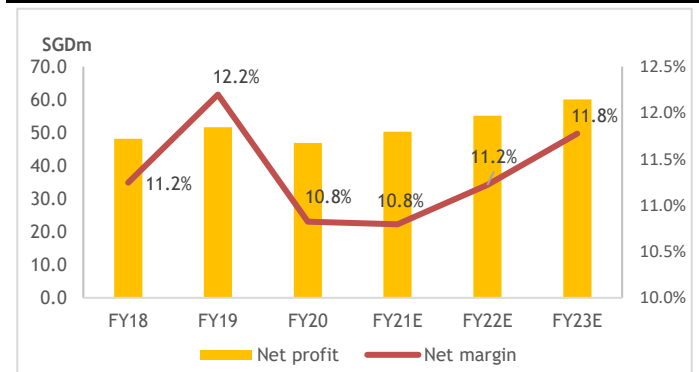
Source: Company Data

Fig 3: Revenue and GPM



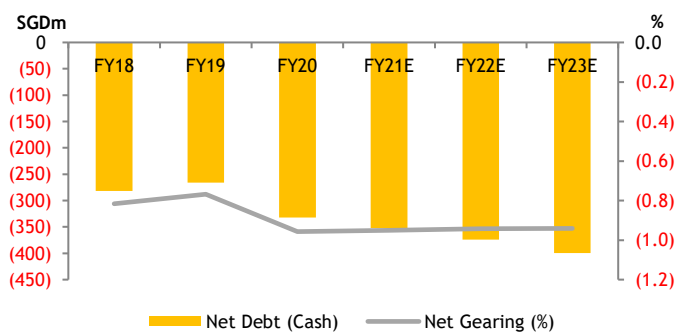
Source: Company data, Maybank Kim Eng

Fig 4: Net profit and NPM



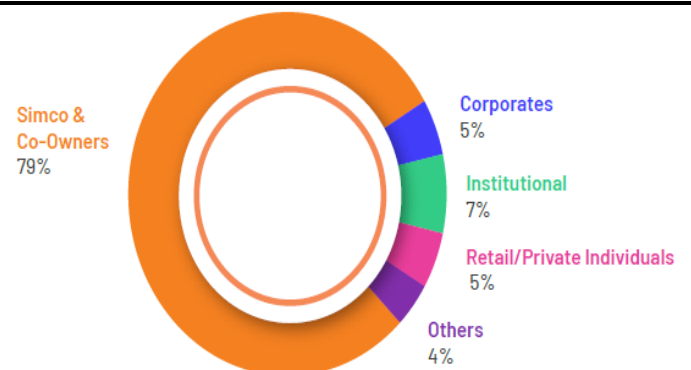
Source: Company data, Maybank Kim Eng

Fig 5: Net debt (cash) and gearing ratio



Source: Company data, Maybank Kim Eng

Fig 6: Shareholder base



Source: Company data

# 1. Investment thesis

## 1.1 Growth powered by twin engines of complementary businesses

HRnet's strong growth has been powered by its twin engines of complementary businesses, namely professional recruitment and flexible staffing. While these businesses are different, they are highly complementary and have resulted in a synergistic and balanced business model.

First, the combination of providing temporary and permanent recruitment solutions allows the Group to foster deep relationships with its corporate customers as it is able to provide comprehensive recruitment and staffing solutions across junior to senior positions.

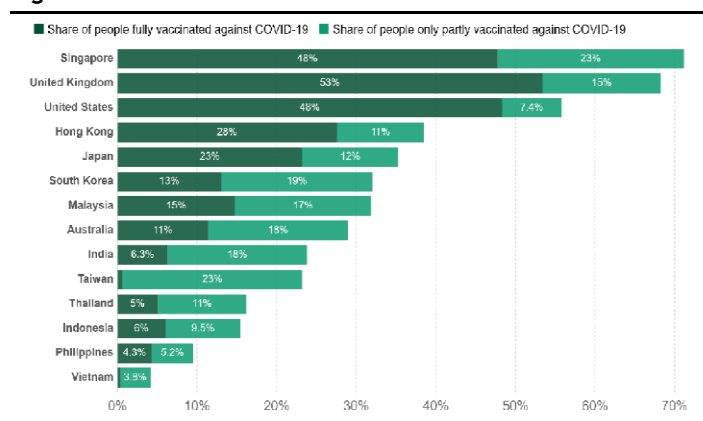
Second, its flexible staffing business provides HRnet with a relatively stable and steady revenue stream in an economic downturn as businesses prefer to keep costs variable to respond to uncertain environment. On the other hand, professional recruitment business generally performs well during periods of economic growth as customers are more willing to increase permanent headcount to meet business expansion plans and needs.

**Fig 7: Proxy to regional economic recovery**

Country	2020	2021	2022
Australia	-2.4	4.5	2.8
China	2.3	8.1	5.5
Malaysia*	-5.6	4.2	6.0
Singapore*	-5.4	6.8	3.5
Taiwan	3.1	4.6	3.0
United Kingdom	-9.9	5.3	5.1
Hong Kong	-6.1	4.3	3.8
Indonesia*	-2.1	4.8	5.4
South Korea	-1.0	3.6	2.8
Japan	-4.8	3.3	2.5
Thailand*	-6.1	2.7	5.2

Source: IMF, Maybank Kim Eng\*

**Fig 8: COVID-19 vaccination rate**



Source: Our World in Data (21 Jul '21)

While labour market recovery appears to be uneven across different sectors, the accelerated rollout of mass vaccination should lead to further easing of COVID-19 curbs and allow the countries to gradually reopen. Empirical studies have shown that economic growth tends to be positively associated with job creation. We thus expect HRnet to be well positioned to ride this positive tailwind, driven by improved hiring sentiment in its key markets.

## 1.2 Highly diversified base of premium customers

Over the years, the Group has developed established relationships with a diversified base of premium customers. As at end-Dec 2020, it had 3,732 corporates across 23 industry specialisations and led the market in verticals as diverse as data scientists in Jakarta, and nutritionists in Shanghai.

For FY20, total revenue contribution from the top five customers was 14.8% with no single customer accounting more than 5% of revenue, reducing dependency risk on any one customer. Turnover contribution from its top 10 customers was 22%. Notably, revenue from the healthcare sector grew

by 28% to constitute 14.4% (2019: 11.5%) of total revenue, while the government sector grew by 68.2% to constitute 17.3% (2019: 10.5%).

**Fig 9: Diversified base of customers**

	Customer since	FY20 Revenue Contribution
<b>Supermarket Chain</b> The largest supermarket in Singapore	2010	4.0%
<b>Singapore Bank</b> One of the top 3 largest banks in ASEAN by assets	2000	3.9%
<b>Asian Conglomerate</b> One of the top 3 largest technology companies globally by revenue, Fortune 100	1999	2.9%
<b>European Bank</b> One of the top 10 largest bank globally by total assets, Fortune 500	2000	2.1%
<b>Health Hub</b> Leading primary healthcare provider in Singapore	2005	1.9%
Contribution from <b>Top 5 clients</b>		14.8%
Contribution from <b>Top 10 clients</b>		22.0%

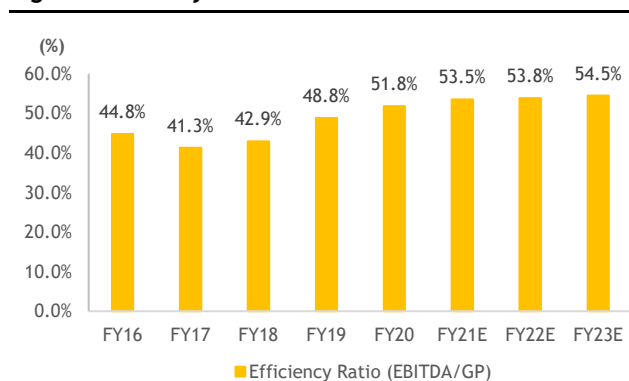
Source: Company

As can be seen from Fig 9, the top five clients have been its customers since early 2000. The Group believes this is a testament to the quality of its services and ability to adapt to its customers' changing needs even as their businesses evolve. The diversification across its customer base reduces over-dependency risk, ensures varied revenue streams, and reduces its vulnerability to sector and geography-specific risks.

### 1.3 Strong cash generative business with asset-light model

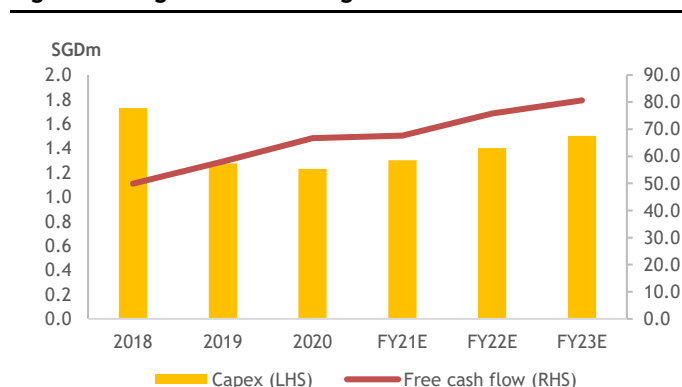
HRnet's business is premised on an asset-light model with few capital assets relative to its operations. It has generated positive operating cash flow due to its disciplined cost management and scalable model where it does not own any properties and has minimal capex requirements. EBITDA has generally been on the uptrend, driven by growth in its revenue, as well as improvements in the productivity of its employees and operating efficiency.

**Fig 10: Efficiency ratio on the rise**



Source: Company data, Maybank Kim Eng

**Fig 11: Strong free cash flow generation**



Source: Company data, Maybank Kim Eng

Its efficiency ratio (calculated based on EBITDA divided by gross profit) had also increased steadily from 36.5% in FY14 to 51.8% in FY20. Since inception, its organic growth has been self-funded through cash generated by operations, without any debt financing. Free cash flow is also very robust even after adjustment for its working capital requirements and capex.

## 2. Corporate information

HRnet is the largest Asia-based recruitment agency in Asia Pacific (excluding Japan), as compared to other key players within the professional recruitment and flexible staffing industry with presence in Asia Pacific. As of end-Dec 2020, the Group had 264 registered consultants, which makes it one of the largest agencies in Singapore.

Currently, it operates in 13 Asian growth cities, namely, Singapore (HQ), Kuala Lumpur, Jakarta, Bangkok, Hong Kong, Taipei, Guangzhou, Shanghai, Beijing, Shenzhen, Suzhou, Tokyo and Seoul.

The Group primarily divides its business into two key segments, namely flexible staffing (FS) - placement of junior to mid-level positions and professional recruitment (PR) - mid to senior-level positions.

Fig 12: Complementary business segments



Source: Company

Both segments serve more than 3,000 clients in 23 diversified sectors, covering a wide spectrum of industries, including financial institutions, retail and consumer, information technology and telecommunications, manufacturing, healthcare life science, insurance and logistics, and functions such as human resources, finance and accounting, and legal and compliance. It also offers other services, such as payroll processing, HR consulting and corporate training.

In terms of geographical breakdown, Singapore, which contributed 54.5% (FY19: 50.8%) to its gross profit in FY20, remains its stronghold. The Group is especially strong in FS, which served many of the essential services sectors and government sectors during the Circuit Breaker.

According to Ministry of Manpower (MoM), the number of recruiters in the industry (measured by the number of EA Personnel registered with MoM) shrank by more than 10%. In stark contrast, HRnet's staffing business continued to grow by 10.3%, with its number of contractor employees surging to an all-time high in its December payroll, bringing its total number of contractor employees for FY20 to 42,998.

### 3. Industry outlook

According to a recent survey by ManpowerGroup, the hiring prospects for 3Q21 appears positive as employers in six of the seven countries and territories expect to add to payrolls during the next three months, while a flat labour market is expected in one.

Steady payroll growth is anticipated in Singapore for a third consecutive quarter, driven in part by an active labour market in the Finance, Insurance & Real Estate sector where employers report the strongest outlook in more than six years and a steep increase year-over-year in the Services sector, while the Manufacturing sector forecast is the strongest in nine years.

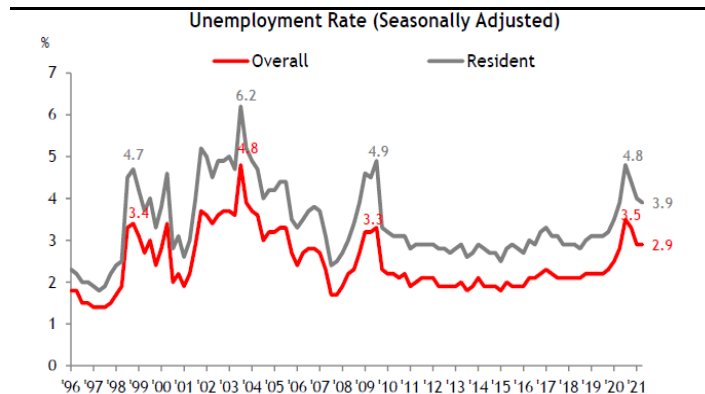
Our economist expects Singapore's labour market will continue to heal but may not recover to pre-pandemic employment levels until late-2022 or early 2023. MKE is forecasting employment growth of +50k to +100k in 2021, well short of the 167k jobs lost last year. The labour market recovery is K-shaped, with a stark divergence between resident and non-resident employment due to generous wage subsidies for locals.

**Fig 13: Hiring sentiment strengthens in key APAC countries**

	Quarter 3 2021	Qtr on Qtr Change Q2 2021 to Q3 2021	Yr on Yr Change Q3 2020 to Q3 2021
	%		
<b>Asia Pacific</b>			
Australia	16 (17) <sup>1</sup>	0 (0) <sup>1</sup>	30 (30) <sup>1</sup>
China	16 (13) <sup>1</sup>	11 (7) <sup>1</sup>	13 (10) <sup>1</sup>
Hong Kong	1 (0) <sup>1</sup>	3 (1) <sup>1</sup>	1 (0) <sup>1</sup>
India	5 (7) <sup>1</sup>	-5 (-2) <sup>1</sup>	2 (2) <sup>1</sup>
Japan	11 (10) <sup>1</sup>	4 (5) <sup>1</sup>	2 (1) <sup>1</sup>
Singapore	16 (15) <sup>1</sup>	-1 (-1) <sup>1</sup>	43 (43) <sup>1</sup>
Taiwan	27 (24) <sup>1</sup>	2 (-1) <sup>1</sup>	20 (20) <sup>1</sup>

Source: ManpowerGroup

**Fig 14: SG overall unemployment continues to decline**



Source: Company data, Maybank Kim Eng

The Chinese labour market is forecast to make a strong recovery from the impact of the pandemic during the coming quarter, with employers reporting the strongest hiring intentions in six years. Workforce gains are expected in all six Chinese industry sectors, with the strongest hiring sentiment reported in the Finance, Insurance & Real Estate, Services, Manufacturing and the Wholesale & Retail Trade sectors. Outlooks for these four sectors are also the strongest reported in at least six years.

For the fourth consecutive quarter, the strongest hiring climate in the Asia Pacific region is expected in Taiwan, fuelled in part by bright hiring plans for the Mining & Construction sector and a brisk hiring pace in the Manufacturing sector, where the outlook for the coming quarter is the strongest in six years.

However, Hong Kong employers expect the subdued labour market to continue during the next three months, forecasting flat hiring activity overall, although limited payroll growth is expected in the Finance, Insurance & Real Estate and Services sectors.

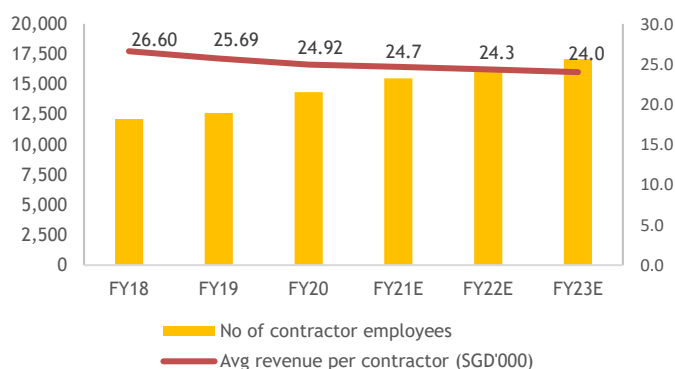
Overall, we think the upbeat survey suggests that HRnet's core markets especially in Singapore, China and Taiwan are showing positive hiring sentiment and an improving labour market outlook, which should continue to drive the Group's placement volumes in these countries.

## 4. Financial analysis

Despite the ongoing pandemic, we expect HRnet to remain on its growth trajectory after posting record FY20 revenue. In fact, FS recorded an all-time high revenue of SGD357.6m (FY19: SGD324.2m), an increase of 10.3% YoY. With benefit of a full-year operation, the RecruitFirst start-ups of 2019 in Taipei, Kuala Lumpur and Shanghai contributed to 38.4% of the increase of the FS in 2020. RecruitFirst was also launched in Jakarta in 2020.

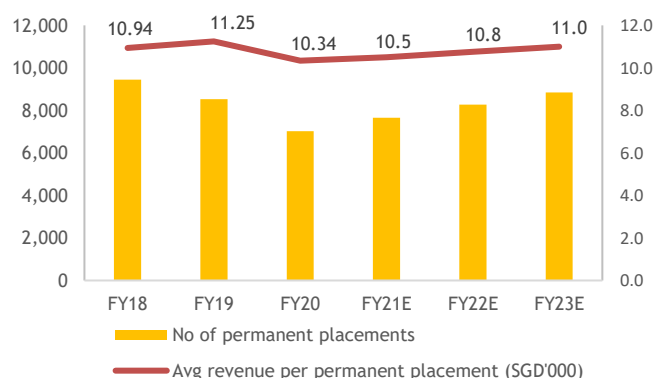
However, PR revenue was SGD72.6m (2019: SGD95.9m), a reduction of 24.3% YoY. The number of placements declined by 17.7% YoY to 7,022 (2019: 8,530). This is not surprising as companies typically shied away from taking on permanent headcount when they are unsure what market demand would look like during periods of economic uncertainties.

**Fig 15: Assumptions for flexible staffing**



Source: Company data, Maybank Kim Eng

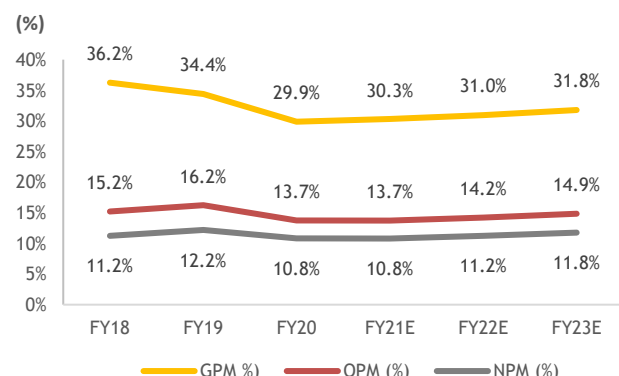
**Fig 16: Assumptions for professional recruitment**



Source: Company data, Maybank Kim Eng

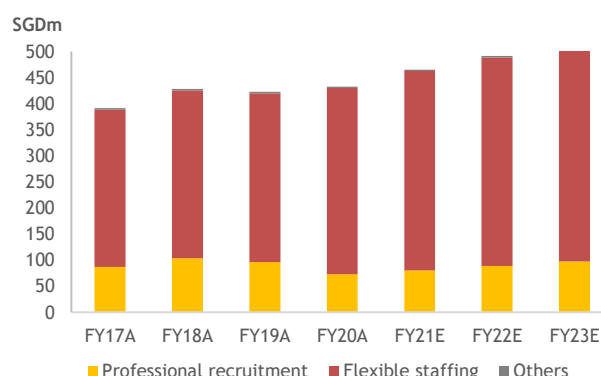
Against the backdrop of improving economies across the regions, we expect net employment outlook to remain positive. This should also translate into higher recruitment numbers for both its FS and PR businesses going forward. According to management, the Healthcare, Finance, Technology, Logistics and Government sectors are still the bright spots for hiring in the near term.

**Fig 17: Improving margins on better sales mix**



Source: Company data, Maybank Kim Eng

**Fig 18: Positive shift in revenue breakdown**



Source: Company data, Maybank Kim Eng

In FY20, we observed there was a distinct swing of business mix in favour of flexible staffing, thus resulting in some margins pressure. GPM averaged 29.9% (2019: 34.4%) as FS (which carried a gross margin of 15.5% versus PR's 99.7%) accounted for a bigger pie (82.6%) of total revenue.

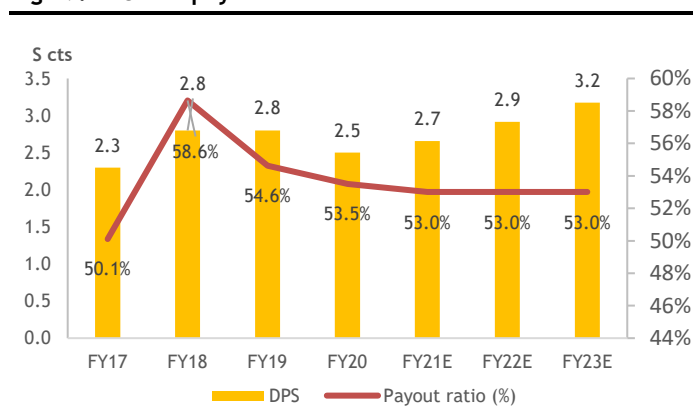
That said, we think profit margins should expand in tandem with better sales mix and continued tight control of operating expenses. However, this may be partly offset by a reduction in government subsidies (FY20: SGD11.7m), which mainly comprised of pandemic-related relief schemes by various governments of countries that the Group operates in.

## Unique co-ownership model

To retain talent, HRnet has a unique co-ownership model based on the 123GROW Co-Ownership Scheme. Under this plan, selected employees who met performance criteria in the prior financial year are able to receive bonus shares. It also created the GROW shares scheme to bring more Co-Owners on board and allow existing Co-Owners to grow the number of shares they own.

As of end-Dec '20, the number of employees under the Co-Ownership scheme was 218, which made up 25% of its permanent staff base. In 2019, this number was 254, 27% of the permanent staff base. The reduction in the number of Co-Owners is mainly due to natural attrition. That said, the overall retention rate in Co-Owners was 83%, which was higher than the retention rate of non-Co-Owners.

**Fig 19: DPS and payout ratio**



Source: Company data, Maybank Kim Eng

**Fig 20: 123GROW Co-Ownership Scheme**

Number of Treasury Shares	FY2020
As at 1 January 2020	4.3m
Treasury shares purchased	7.1m S\$3.1m
Reissued pursuant to bonus shares vested under 123GROW plans – Opp 1 Plan and Opp 2 Plan	(1.6m) (S\$0.9m)
Reissued pursuant to bonus shares vested under 123GROW Plan - HRnet GROW Plan	(1.1m) (S\$0.7m)
As at 31 December 2020	8.7m

Source: Company

We believe the scheme helps to effectively align the interests of its high-performing employees with shareholders, creates a strong sense of ownership and driving force towards even higher productivity, as well as to unleash the entrepreneurship spirit in them.

## Potential earnings-accretive M&As

Armed with a strong balance sheet, HRnet will opportunistically seek out strategic M&As to further diversify its revenue streams. For market entry, the Group could likely acquire or partner with existing players in its targeted city. This strategy helps to jumpstart its entry into these cities and allows it to focus on achieving scale and profitability in a much faster, effective and more cost-efficient manner, especially in highly competitive markets. Currently, we do not assume any income contribution from M&As in our forecasts yet.

## Sustainable dividend payout

The Group generally declares a payout ratio of 50+% of its core earnings. We believe this dividend payout ratio will be sustainable, translating into decent FY21-23E yields of 3.3-4.0%, backed by its cash-generative business, strong balance sheet and minimal capex needs.

## 5. Valuation

We initiate coverage on HRnet with a BUY and 12-month target price of SGD0.99, pegged at 18x FY22E P/E. This implies a slight premium to a basket of global peers' average, which is justifiable given its more superior ROE and a strong net cash position of SGD332m (or 42% of its market capitalisation). At current level, the stock is still trading at an undemanding valuation of 9x (ex-cash) FY21E P/E.

HRnet does not have any direct listed comparable in the Singapore market. From various company websites, we understand that business models of each recruitment agencies can differ widely - some focus purely on high level executive placement, some do broad-based placements, some purely flexible staffing (for which they may even keep headcount inventory) and some focus on specific industries.

Key re-rating catalysts will include stronger-than-expected organic growth, improving business mix leading to better margins, as well as synergistic M&As as the Group looks to further increase its regional presence.

Fig 21: Peers relative valuation

Company	BBG Code	MKE REC	MKE TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	P/E (x)				EV/EBITDA (x)		P/B (x)		ROE (%)
							Actual	FY1	FY2	FY3	Actual		Actual	Actual	

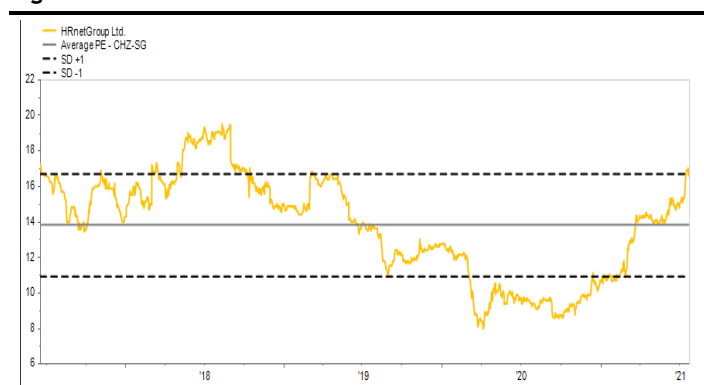
HRnet	HRNET SP	Buy	0.99	0.79	12/31	582	16.9	15.8	14.4	13.2	7.1		2.3		14.1
-------	----------	-----	------	------	-------	-----	------	------	------	------	-----	--	-----	--	------

### Global peers

Persol Hldgs	2181-JP	NR	-	2,225.00		4,773	32.4	24.5	19.9	17.1	11.6		3.3		10.4
Kelly Services	KELYA US	NR	-	21.02	03/31	830	14.6	13.7	9.5	-	9.8		0.7		-5.8
Capita	CPI-LN	NR	-	0.33	01/03	773	8.0	5.2	3.7	3.3	5.9		-		-
Beijing Career Int'l	300662-CH	NR	-	55.09	12/31	1,557	54.0	41.4	32.1	26.1	35.7		9		19.6
Adecco	ADEN-VX	NR	-	61.72	12/31	10,963	21.0	14.9	13.1	11.9	11.4		2.6		-2.7
Randstad Hldgs	RAND-NA	NR	-	64.46	12/31	13,984	25.3	16.6	14.5	13.1	12.9		2.7		6.7
ManpowerGroup	MAN US	NR	-	108.76	12/31	5,930	29.6	15.8	13.0	11.1	13.1		2.5		0.9
Hays	HAS-LN	NR	-	1.52	12/31	3,501	29.0	46.9	22.5	17.9	14.9		3.1		6.1
PageGroup	PAGE-LN	NR	-	6.03	06/30	2,726	-	21.5	17.5	15.9	23.3		6		-1.8
Korn/Ferry	KFY US	NR	-	65.31	12/31	3,527	26.0	16.5	15.3	16.3	11.1		2.6		8.6
JAC Recruitment	2124 JP	NR	-	1,787.00	04/30	685	40.0	19.5	16.7	14.5	10.9		6.8		12.2
Heldrick & Struggles	HSII US	NR	-	40.54	12/31	790	22.9	13.6	12.3	-	10.6		2.8		-13.1
Staffline Group	STAF-LN	NR	-	0.55	12/31	125	11.0	15.0	13.1	10.9	5.4		1.7		-99.0
Robert Walters	RWA LN	NR	-	7.17	12/31	753	95.6	24.2	18.0	16.0	11.7		3.1		3.5
<b>AVERAGE</b>							<b>31.5</b>	<b>20.7</b>	<b>15.8</b>	<b>14.5</b>	<b>13.5</b>		<b>3.6</b>		<b>3.4</b>

Source: FactSet, Bloomberg

Fig 22: 12-month forward P/E band



Source: FactSet

Fig 23: 12-month forward P/B band



Source: FactSet

## 6. Risks

### Market competition

As expected, the recruitment industry is highly competitive, not capital intensive and has relatively low entry barriers and switching cost for customers is also relatively low.

### Regulatory issues

Labour markets in the region are subject to a high level of government regulation and licencing. Breaches in such local laws in the respective operating countries could result in fines or even closure of operations in the worst-case scenario.

### Reduction of grants

HRnet's Singapore operations have benefitted from various grants and subsidies under schemes of the Singapore government that are now being reduced. Going forward, the level of such grants in the future is unknown and will evolve with government policy direction.

### M&A execution

The Group has grown mainly through organic expansion since inception. While M&A to expand operations in other high-growth cities in APAC is one of the legs of its future growth strategy, this entails execution risks in successfully tackling a different set of challenges such as operational control, integration and cultural fit etc.

### FX exposure

HRnet's reporting currency is in SGD but operational currencies also include HKD, JPY, MYR, CNY, KRW, THB and TWD amongst others. As such, the Group is potentially exposed to translation risk in adverse movements of these currencies against the SGD as well as currency exposure in geographies outside Singapore to the extent that revenue and cost streams are not naturally matched in the same currency.

## 7. Key management

### **Peter Sim - Founding Chairman**

Peter Sim is the Group's Founding Chairman. He founded the company in 1992 and has over 40 years of expertise in social work, human resource management, and talent acquisition. He has the acumen when it comes to people, with an uncanny knack for assessing for suitability. Peter has played various HR roles at organisations including McDermott South East Asia, the Monetary Authority of Singapore, Singapore Aerospace and Thomson Consumer Electronics. His last role before founding HRnetOne was as Regional Human Resource Director of Honeywell SEA. 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.

### **JS Sim - Executive Director and CEO of Recruit Express**

JS leads over 300 people across Singapore, Taipei, Hong Kong and Kuala Lumpur. Every single candidate who aspires to join Recruit Express Group has to be personally interviewed by him. Thereafter, JS will conduct the sales training for each cohort, and tracks them in the monthly missive he sends to his leaders. JS started his career in 1982 with Aurora Products and was Head of Personnel before joining General Electric Intersil in 1983. Prior to joining Recruit Express, he was the Regional Human Resource Director of Motorola Electrics. 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.

### **Adeline Sim - Executive Director and Chief Legal Officer**

Adeline leads strategic and tactical initiatives, and is a member of the Investment Committee identifying and executing investments and acquisitions. She also oversees the technology, digital marketing, investor relations and communication functions of the Group. Adeline provides counsel and guidance on legal matters across the 32 business units in 13 Asian cities. Adeline began her career as a lawyer with Drew & Napier in 2004 where she was engaged in dispute resolution and subsequently, capital markets work. She left the firm in 2008 to join the Group. She 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 the Singapore Institute of Management Society, as well as a member of the Finance Committee of Saint Joseph's Institution International.

### **Jennifer Kang - Chief Financial Officer (CFO)**

Jennifer began her career in 1989 as an auditor with Coopers & Lybrand, before joining AT&T Singapore. She was involved in the financial control and IPO of an SGX-listed company. She also performed M&A work with BIL International Ltd and corporate planning with Abacus International. 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 our 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.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	13.5	10.8	15.5	14.1	12.9
Core P/E (x)	12.2	11.7	15.5	14.1	12.9
P/BV (x)	1.9	1.6	2.2	2.0	1.9
P/NTA (x)	2.0	1.7	2.3	2.1	2.0
Net dividend yield (%)	4.5	4.6	3.4	3.8	4.1
FCF yield (%)	11.2	19.1	8.6	9.4	9.9
EV/EBITDA (x)	4.7	3.2	5.8	5.1	4.4
EV/EBIT (x)	5.5	3.9	6.9	6.0	5.2
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	423.1	433.0	465.6	491.5	510.2
EBITDA	80.8	71.4	75.5	81.9	88.3
Depreciation	(1.0)	(1.2)	(1.4)	(1.6)	(1.8)
Amortisation	(5.6)	(8.6)	(10.2)	(10.5)	(10.8)
EBIT	68.7	59.4	63.9	69.8	75.8
Net interest income / (exp)	(0.3)	(0.4)	(0.5)	(0.6)	(0.7)
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	68.4	59.0	63.4	69.2	75.1
Income tax	(12.6)	(9.2)	(10.1)	(11.1)	(12.0)
Minorities	(4.2)	(2.9)	(3.0)	(3.0)	(3.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	51.6	46.9	50.3	55.1	60.1
Core net profit	51.6	46.9	50.3	55.1	60.1
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	266.2	332.2	352.1	374.2	399.6
Accounts receivable	81.6	72.9	76.5	80.3	83.2
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)	1.6	1.5	1.6	1.6	1.6
Intangible assets	20.8	14.7	14.7	14.7	14.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	49.1	31.0	31.0	31.0	31.0
<b>Total assets</b>	<b>419.3</b>	<b>452.4</b>	<b>476.0</b>	<b>501.9</b>	<b>530.1</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	45.1	82.1	82.1	82.1	82.1
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	28.0	23.0	23.0	23.0	23.0
<b>Total Liabilities</b>	<b>72.7</b>	<b>105.2</b>	<b>105.2</b>	<b>105.2</b>	<b>105.2</b>
Shareholders Equity	332.0	331.7	355.3	381.2	409.4
Minority Interest	14.6	15.5	15.5	15.5	15.5
<b>Total shareholder equity</b>	<b>346.6</b>	<b>347.1</b>	<b>370.8</b>	<b>396.7</b>	<b>424.9</b>
<b>Total liabilities and equity</b>	<b>419.3</b>	<b>452.4</b>	<b>476.0</b>	<b>501.9</b>	<b>530.1</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	68.4	59.0	63.4	69.2	75.1
Depreciation & amortisation	12.1	11.9	11.6	12.1	12.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	4.7	44.0	3.6	3.9	2.8
Cash taxes paid	(13.2)	(9.5)	(10.1)	(11.1)	(12.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	71.9	105.5	68.4	74.1	78.4
Capex	(1.3)	(1.2)	(1.3)	(1.4)	(1.5)
Free cash flow	70.6	104.2	67.1	72.7	76.9
Dividends paid	(30.0)	(30.1)	(26.6)	(29.2)	(31.8)
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	(69.9)	(15.4)	(20.5)	(21.4)	(19.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(29.3)</b>	<b>58.7</b>	<b>19.9</b>	<b>22.0</b>	<b>25.4</b>

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(1.3)	2.4	7.5	5.6	3.8
EBITDA growth	5.9	(11.7)	5.7	8.5	7.9
EBIT growth	5.4	(13.5)	7.5	9.3	8.6
Pretax growth	4.9	(13.7)	7.4	9.2	8.5
Reported net profit growth	7.1	(9.2)	7.2	9.7	8.9
Core net profit growth	7.1	(9.2)	7.2	9.7	8.9
<b>Profitability ratios (%)</b>					
EBITDA margin	19.1	16.5	16.2	16.7	17.3
EBIT margin	16.2	13.7	13.7	14.2	14.9
Pretax profit margin	16.2	13.6	13.6	14.1	14.7
Payout ratio	54.6	53.5	53.0	53.0	53.0
<b>DuPont analysis</b>					
Net profit margin (%)	12.2	10.8	10.8	11.2	11.8
Revenue/Assets (x)	1.0	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.3	1.4	1.3	1.3	1.3
ROAE (%)	15.5	14.1	14.6	15.0	15.2
ROAA (%)	12.5	10.8	10.8	11.3	11.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	71.8	64.2	57.7	57.4	57.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	58.9	75.4	91.0	87.1	84.9
Dividend cover (x)	1.8	1.9	1.9	1.9	1.9
Current ratio (x)	5.4	4.0	4.3	4.5	4.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	5.8	4.3	4.5	4.8	5.0
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)	nm	143.9	127.8	116.4	108.3
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.3	0.3	0.3	0.3	0.3
Net debt/ (net cash)	(266.2)	(332.2)	(352.1)	(374.2)	(399.6)

Source: Company; Maybank

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