

HRnetGroup Ltd (HRNET SP)

Positive dynamics

1H22 net in line; declares interim dividend

1H22 underlying NPAT (excluding P&L impact of investments in mainly HR marketable securities) jumped 36% YoY to SGD42.6m, driven by robust operating performance of both flexible staffing (FS) and professional recruitment (PR) in its key markets. Overall, 1H22 net profit was in line with market expectations and our FY22-24E EPS forecasts are largely unchanged. The group declared a maiden interim DPS of 2.13 cents, representing 50% of its core earnings. Maintain BUY with TP of SGD1.07 as we roll forward our valuation and based on 15x FY23E P/E.

PR - price driven versus FS - volume driven

PR revenue grew 18.6% to SGD52.2m along with higher remuneration packages across the board even as placement volumes stayed flattish at 3,691 (1H21: 3,734). We note that contribution from the financial services sector rose from 14% to 18% as its European and Asian banking clients expanded their manpower needs in Singapore. Meanwhile, FS turnover rose 13.2% YoY to SGD259.8m as average monthly contractor volume increased by 12% to 17,954 with the deployment of workers to travel-related and consumer-facing sectors following the relaxation of borders.

Growth in North Asia continues to impress

1H22 blended GPM was 29.3% (1H21: 29.7%) with the PR/FS business mix at 16.6%/82.7% (1H21: 16%/83.5%). While GPM for PR was maintained at 99.5%, FS GPM narrowed by 1.4ppt to 14.7% as some high-volume projects were delivered to quickly establish its footprint in Taiwan and Indonesia. On a geographical basis, revenue from North Asia continued to increase by 28.4% YoY, and accounted for c.30% (+4ppt) of 1H22 topline. Notably, revenue growth in China and Taiwan was 25.2% and 19.3%, boosted by its specialization in the semiconductor industry.

Only utilised SGD1.2m out of SGD30m SBB program

Backed by its asset-light model, the Group generated strong operating cashflow of SGD54m in 1H22 before deploying SGD20m for its working capital requirements, especially FS. This boosted its net cash position to SGD312.7m with zero bank borrowings, thus shielding the Group from the rising interest rate environment. Under its SGD30m share buyback (SBB) program, it has purchased 1.5m shares in the open market at an average price of SGD0.78 from 13 Jun to 8 Jul 2022 (before blackout period).

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	433	591	626	648	665
EBITDA	71	97	101	107	109
Core net profit	45	61	67	71	73
Core EPS (cts)	4.5	6.1	6.7	7.1	7.3
Core EPS growth (%)	(11.8)	34.6	10.0	6.4	2.3
Net DPS (cts)	2.5	4.0	4.2	4.3	4.4
Core P/E (x)	12.1	13.2	11.6	10.9	10.6
P/BV (x)	1.6	2.2	2.0	1.8	1.7
Net dividend yield (%)	4.6	5.0	5.4	5.5	5.7
ROAE (%)	14.1	18.7	17.5	17.4	16.7
ROAA (%)	10.4	12.4	12.5	12.9	12.5
EV/EBITDA (x)	3.2	5.1	4.4	3.9	3.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	67	71	73
MKE vs. Consensus (%)	-	-	(0.1)	0.3	0.6

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BUY

Share Price	SGD 0.78
12m Price Target	SGD 1.07 (+38%)
Previous Price Target	SGD 1.07

Company Description

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

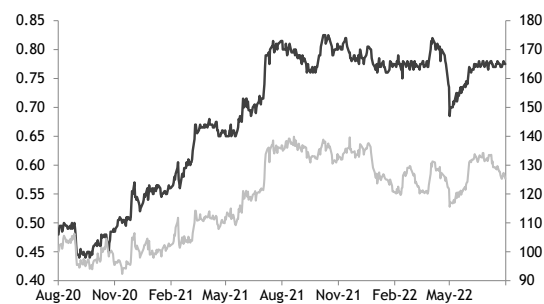
Statistics

52w high/low (SGD)	0.83/0.69
3m avg turnover (USDm)	0.1
Free float (%)	20.5
Issued shares (m)	1,004
Market capitalisation	SGD777.9M USD569M

Major shareholders:

Simco Global Ltd.	77.0%
Fidelity Management & Research Co. LLC	3.0%
HRnetGroup Ltd.	0.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	5	(5)
Relative to index (%)	(4)	4	(8)

Source: FactSet

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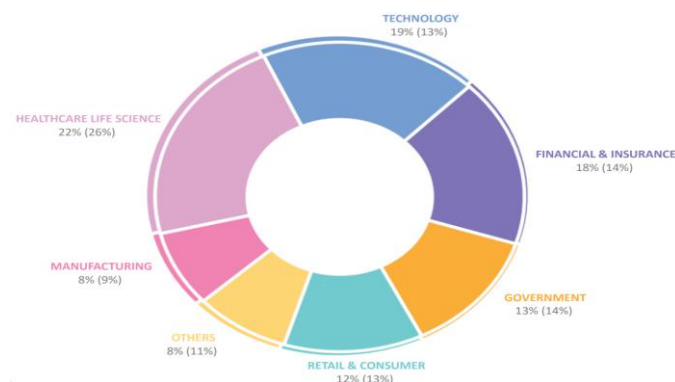
Tear Sheet Insert

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Value Proposition

- Balanced business model with professional recruitment and flexible staffing segments that are complementary through economic cycles and help customer retention.
- Geographical diversification and multi-disciplinary focus help it serve clients with varied staffing needs and with multi-country presence in APAC.
- Has 3,000+ clients, including several Fortune 500 companies operating in the region.
- Co-ownership is a key advantage in staff retention and motivation, which makes up about 25% of its permanent staff base in FY21.
- According to Frost & Sullivan, HRnet is the largest recruitment player in Singapore in terms of number of licensed consultants and revenue.

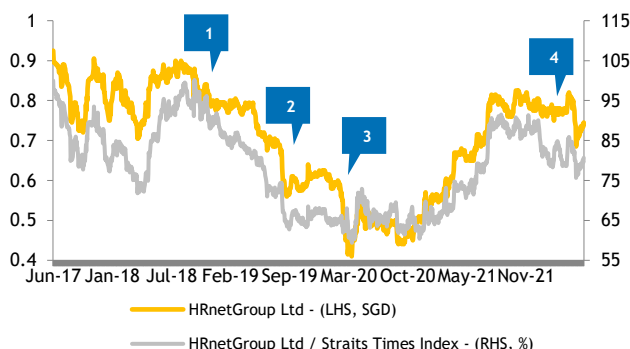
Diversified sector contribution



Source: Company

Price Drivers

Historical share price trend



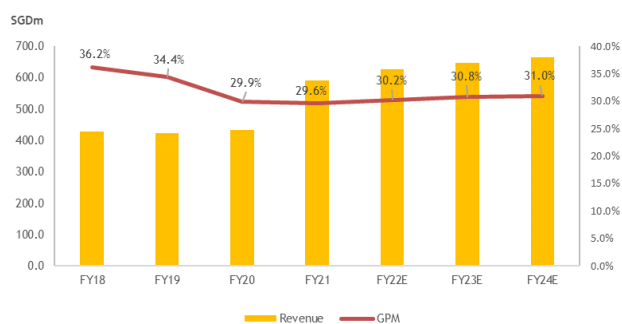
Source: Company, Maybank IBG Research

1. 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.
2. 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.
3. On 17 Jan '20, HRnet set up a JV, PT Recruit First Indonesia (RFI), to provide manpower services and other management consultancy service.
4. On Apr '22, the Group secured a 2-year contract for the recruitment of admin and ancillary positions for SGH.

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'.

Revenue and GPM trend



Source: Company, Maybank IBG Research

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 its key 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.

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

Business Model & Industry Issues

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

Material E issues

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

Material S issues

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

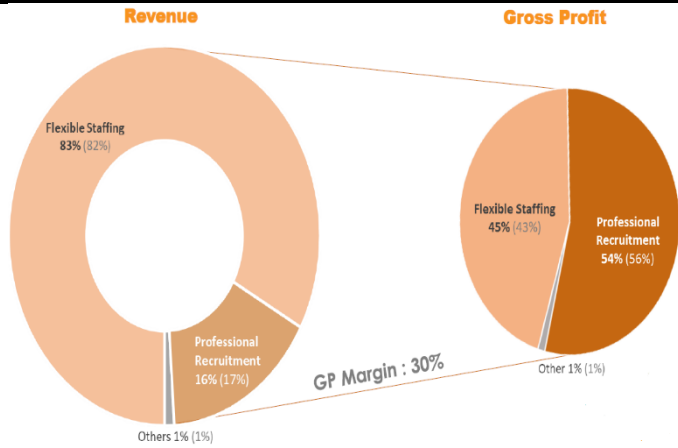
Key G metrics and issues

- The board consists of six directors, of which half (3) are independent and the rest are Sim family members i.e., Mr Sim Yong Siang, Mr Sim Joo Siang and Ms. Adeline Sim.
- The nominating, audit and remuneration committees are chaired by independent directors.
- None of the independent directors have served on the board beyond nine years from the date of his or her first appointment.
- SIMCO Ltd's (controlled by the Sim family) deemed stake in the company is 77.7%.
- Key management/ directors' compensation accounted for 3.8%/1.8% of total employee compensation in 2020.
- External auditor is Deloitte & Touche LLP (appointed on 12 Aug '20).
- Recruitment is a heavily regulated industry with the Ministry of Manpower leading the regulations. Non-compliance will lead to costly fines and reputational damage.
- It has therefore put in place a whistle-blowing policy and channels for employees to report any suspicious and non-compliant practices.
- In 2021, there were no incidents of corruption or non-compliance with laws or regulations resulting in significant fines and non-monetary sanctions.

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

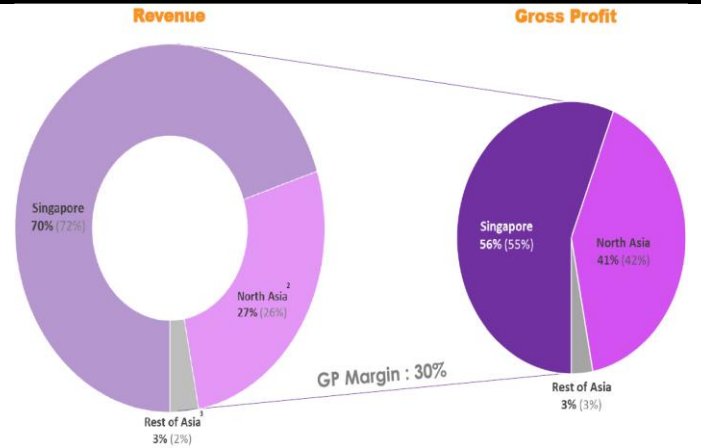
1. Focus charts

Fig 1: Revenue by business segment (FY21)



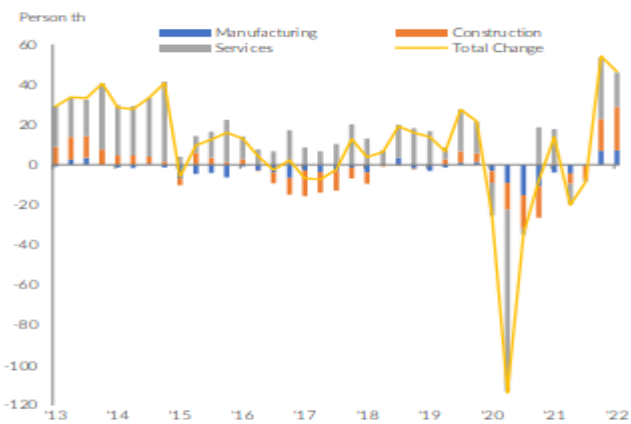
Source: Company

Fig 2: Revenue by geography (FY21)



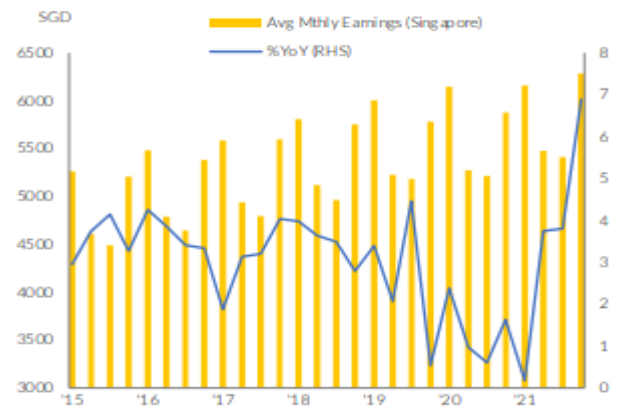
Source: Company

Fig 3: Employment continues to recover



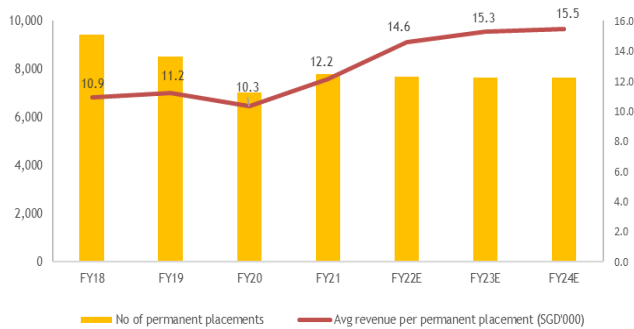
Source: Maybank IBG Research

Fig 4: Rise in average monthly salary with tight labour market



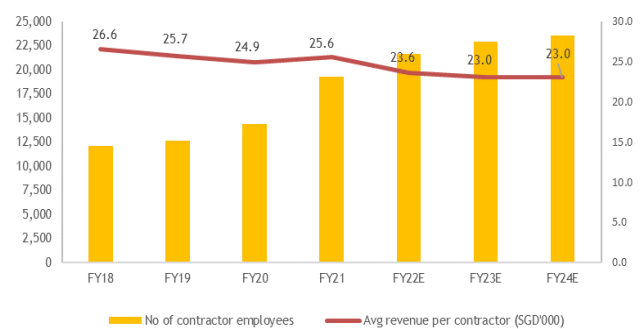
Source: Maybank IBG Research

Fig 5: Key assumptions for professional recruitment



Source: Company, Maybank IBG Research

Fig 6: Key assumptions for flexible staffing



Source: Company, Maybank IBG Research

2. Peer Comparison

Fig 7: Relative valuation

Company	BBG Code	MIBG Rec	MIBG TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	P/E (x)				EV/EBITDA (x) Actual	P/B (x) Actual	ROE (%) Actual
							Actual	FY1	FY2	FY3			
HRnet	HRNET SP	Buy	1.07	0.78	12/31	576	16.6	11.9	11.4	10.9	4.8	2.2	18.0%
Global peers													
Persol Hldgs	2181-JP	NR	-	2,767.00	03/31	4,957	20.2	20.4	17.9	14.9	9.0	3.4	18.5%
Kelly Services	KELYA US	NR	-	22.34	01/02	848	14.8	12.0	8.5	-	8.4	0.7	12.2%
Capita	CPI-LN	NR	-	3.76	11/30	617	12.2	10.1	9.7	9.0	5.8	-	29.5%
Beijing Career Int'l	300662-CH	NR	-	41.50	12/31	1,209	32.4	25.0	19.1	14.9	17.7	3.9	16.4%
Adecco	ADEN-VX	NR	-	33.17	12/31	5,942	8.9	9.6	9.4	8.4	8.1	1.5	17.1%
Randstad Hldgs	RAND-NA	NR	-	49.16	12/31	9,365	11.3	10.3	10.9	10.3	6.3	2.0	16.1%
ManpowerGroup	MAN US	NR	-	80.01	12/31	4,220	11.1	9.4	9.8	7.6	7.5	1.7	15.4%
Hays	HAS-LN	NR	-	1.26	06/30	2,526	36.1	14.6	13.2	11.8	11.4	2.7	7.1%
PageGroup	PAGE-LN	NR	-	4.45	12/31	1,792	12.0	9.6	10.3	9.7	5.7	3.7	36.1%
Korn/Ferry	KFY US	NR	-	64.70	04/30	3,430	10.4	11.0	11.1	9.6	5.6	2.2	21.9%
JAC Recruitment	2124 JP	NR	-	1,995.00	12/31	625	20.8	16.9	14.0	11.9	9.6	6.1	28.0%
Heldrick & Struggles	HSII US	NR	-	31.28	12/31	617	7.6	8.5	10.4	-	2.7	1.7	24.0%
Staffline Group	STAF-LN	NR	-	0.42	12/31	84	5.8	9.2	7.5	7.0	4.5	1.0	3.5%
Robert Walters	RWA LN	NR	-	4.99	12/31	470	11.4	8.8	8.4	7.4	4.4	2.2	19.5%
AVERAGE							15.4	12.5	11.4	10.2	7.6	2.5	19.0%

Source: FactSet, Bloomberg

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	10.8	10.9	11.6	10.9	10.6
Core P/E (x)	12.1	13.2	11.6	10.9	10.6
P/BV (x)	1.6	2.2	2.0	1.8	1.7
P/NTA (x)	1.7	2.3	2.1	1.9	1.8
Net dividend yield (%)	4.6	5.0	5.4	5.5	5.7
FCF yield (%)	19.1	7.3	8.5	11.3	11.3
EV/EBITDA (x)	3.2	5.1	4.4	3.9	3.6
EV/EBIT (x)	3.9	5.8	5.0	4.4	4.0
INCOME STATEMENT (SGD m)					
Revenue	433.0	590.5	625.6	647.8	664.9
EBITDA	71.4	96.9	100.8	106.6	109.2
Depreciation	(1.2)	(1.2)	(1.3)	(1.3)	(1.4)
Amortisation	(8.6)	(7.9)	(8.3)	(8.8)	(9.3)
EBIT	59.4	85.3	89.0	94.5	96.8
Net interest income / (exp)	(0.4)	(0.5)	(0.6)	(0.7)	(0.8)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	59.0	84.8	88.4	93.8	96.0
Income tax	(9.2)	(14.5)	(15.5)	(16.5)	(17.0)
Minorities	(2.9)	(4.8)	(5.8)	(5.9)	(6.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	46.9	65.5	67.1	71.4	73.0
Core net profit	45.4	61.1	67.1	71.4	73.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	332.2	327.1	356.5	390.6	423.0
Accounts receivable	72.9	119.6	113.4	107.4	103.4
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1.5	1.5	1.4	1.3	1.2
Intangible assets	14.7	19.1	18.5	18.5	18.5
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	31.0	63.0	50.8	51.7	52.6
Total assets	452.4	530.3	540.6	569.6	598.7
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	82.1	116.6	93.5	87.5	81.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	23.0	26.0	28.0	29.0	30.0
Total Liabilities	105.2	142.5	121.9	116.7	111.0
Shareholders Equity	331.7	370.2	395.3	423.5	452.4
Minority Interest	15.5	17.6	23.4	29.3	35.3
Total shareholder equity	347.1	387.9	418.7	452.9	487.7
Total liabilities and equity	452.4	530.3	540.6	569.6	598.7
CASH FLOW (SGD m)					
Pretax profit	59.0	84.8	88.4	93.8	96.0
Depreciation & amortisation	11.9	11.6	11.8	12.1	12.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	44.0	(23.5)	(16.8)	(0.1)	(2.0)
Cash taxes paid	(9.5)	(12.8)	(15.5)	(16.5)	(17.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	105.5	60.1	67.9	89.3	89.4
Capex	(1.2)	(1.4)	(1.5)	(1.6)	(1.7)
Free cash flow	104.2	58.7	66.4	87.7	87.7
Dividends paid	(30.1)	(26.7)	(42.1)	(43.1)	(44.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(15.4)	(30.2)	12.0	(3.8)	(4.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	58.7	1.8	36.3	40.8	38.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.4	36.4	5.9	3.6	2.6
EBITDA growth	(11.7)	35.8	4.1	5.7	2.5
EBIT growth	(13.5)	43.4	4.4	6.1	2.5
Pretax growth	(13.7)	43.6	4.3	6.0	2.4
Reported net profit growth	(9.2)	39.7	2.5	6.4	2.3
Core net profit growth	(12.1)	34.7	9.9	6.4	2.3
Profitability ratios (%)					
EBITDA margin	16.5	16.4	16.1	16.5	16.4
EBIT margin	13.7	14.4	14.2	14.6	14.6
Pretax profit margin	13.6	14.4	14.1	14.5	14.4
Payout ratio	53.5	61.3	62.7	60.4	60.4
DuPont analysis					
Net profit margin (%)	10.8	11.1	10.7	11.0	11.0
Revenue/Assets (x)	1.0	1.1	1.2	1.1	1.1
Assets/Equity (x)	1.4	1.4	1.4	1.3	1.3
ROAE (%)	14.1	18.7	17.5	17.4	16.7
ROAA (%)	10.4	12.4	12.5	12.9	12.5
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	64.2	58.7	67.0	61.3	57.1
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	75.4	86.0	86.7	72.7	66.3
Dividend cover (x)	1.9	1.6	1.6	1.7	1.7
Current ratio (x)	4.0	3.5	4.3	4.7	5.2
Leverage & Expense Analysis					
Asset/Liability (x)	4.3	3.7	4.4	4.9	5.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	143.9	nm	148.4	135.0	121.0
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.3	0.2	0.2	0.2	0.3
Net debt/ (net cash)	(332.2)	(327.1)	(356.5)	(390.6)	(423.0)

Source: Company; Maybank IBG Research

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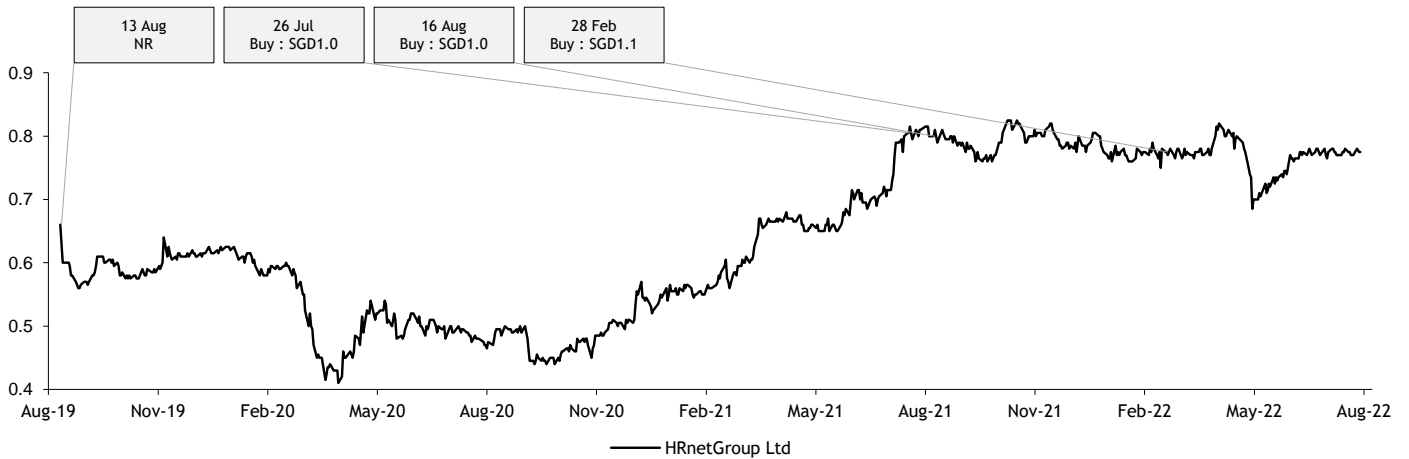
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