

HRnetGroup Ltd (HRNET SP)

Taking a break

Slowdown looks unavoidable; D/G To HOLD

With signs of economic slowdown in Singapore becoming more apparent, we take a pre-emptive approach and reassess our numbers ahead of its 1H23 results in Aug. We cut our FY23-25E earnings forecasts by 15-18% after factoring in lower placement volumes, especially for its Professional Recruitment (PR) segment. While management remains optimistic of a potential recovery in 2H, underpinned by its China operations, we think the stock is unlikely to perform in the near-term. D/G to HOLD with a reduced TP of SGD0.85 from SGD1.04, still based on 15x FY23E P/E.

1Q GDP growth came in weaker than expected

MIBG recently cut our Singapore GDP forecast to +0.8% (from +1.7%) in 2023 to account for weaker performance in external-oriented sectors including manufacturing and wholesale trade. With headline GDP growth rising by just +0.1% in 1Q, our macro team believes the country risks entering a technical recession if the boost from China's reopening fails to materialise in 2Q. There are already some indicators that Singapore's labour market is cooling due to the deteriorating global economic environment amid sticky cost inflation and geopolitical tensions.

China holds the wildcard to any recovery

In response to shareholders' questions during its recent AGM, the group said that business in China was severely impacted in 1Q23 due to the challenges in building business pipelines in 4Q22 when Covid infection was at its peak. Since the end of the Lunar New Year celebrations in Feb, management however saw some resumption of business activity and people have returned to offices. That said, there has been mixed levels of hiring momentum across various sectors in China. The next two months will be critical to see how 1H pans out, we think.

Cut FY23-25E EPS given challenging outlook

Fears of a global recession have impacted HRnet's business across its regions in 1Q23. While the group sees some modest recovery in 2Q, it believes that 1H performance is likely to be significantly lower than in the same period last year. As such, we lower our FY23-25E EPS by 15-18% to account for slower hiring activities given Singapore still contributes the bulk of its business (c.65%/52% of total revenues/GP in 2022).

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	591	612	613	622	630
EBITDA	97	99	85	87	91
Core net profit	61	68	56	58	60
Core EPS (cts)	6.1	6.8	5.7	5.8	6.1
Core EPS growth (%)	34.6	12.0	(16.8)	2.7	4.8
Net DPS (cts)	4.0	4.0	4.0	4.0	4.0
Core P/E (x)	13.2	11.5	14.0	13.7	13.0
P/BV (x)	2.2	2.2	2.1	2.0	1.9
Net dividend yield (%)	5.0	5.1	5.0	5.0	5.0
ROAE (%)	18.7	18.5	15.2	14.9	14.9
ROAA (%)	12.4	13.3	11.3	11.1	11.3
EV/EBITDA (x)	5.1	5.2	5.9	5.6	5.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	67	70	71
MIBG vs. Consensus (%)	-	-	(15.7)	(17.0)	(15.0)

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HOLD

[Prior:BUY]

Share Price SGD 0.80
12m Price Target SGD 0.85 (+7%)
Previous Price Target SGD 1.04

Company Description

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

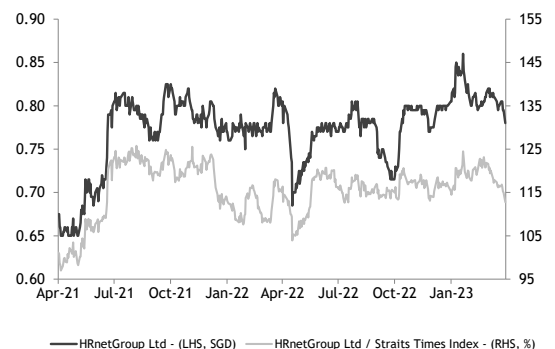
Statistics

52w high/low (SGD) 0.86/0.69
3m avg turnover (USDm) 0.1
Free float (%) na
Issued shares (m) 1,004
Market capitalisation SGD798.0M
USD598M

Major shareholders:

Simco Global Ltd. 77.4%
Fidelity Management & Research Co. LLC 3.3%
HRnetGroup Ltd. 2.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(1)	(2)
Relative to index (%)	(5)	(1)	(1)

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.
- The group has achieved continued growth through its co-ownership operating model with 36 business leaders holding stakes in the business units they operate.
- According to Frost & Sullivan, HRnet is the largest recruitment player in Singapore in terms of number of licensed consultants and revenue.

Long-standing customer relationships

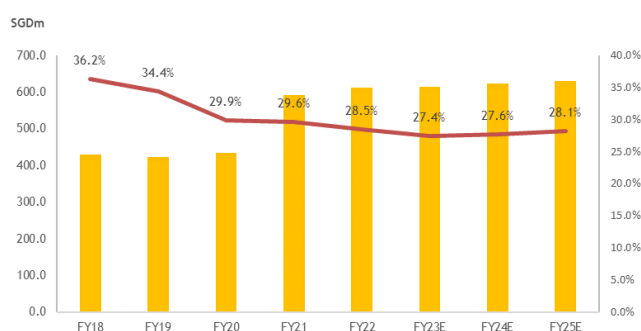
	Customer since	2022 Revenue Contribution
1. Client (Healthcare)	2005	3.4%
2. Client (Financial & Insurance)	2000	3.2%
3. Client (Financial & Banking)	2004	2.6%
4. Client (Retail & Consumer)	1999	2.3%
5. Client (Healthcare)	2006	2.2%
Contribution from Top 5 clients		13.7%
Contribution from Top 10 clients		21.6%

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'.

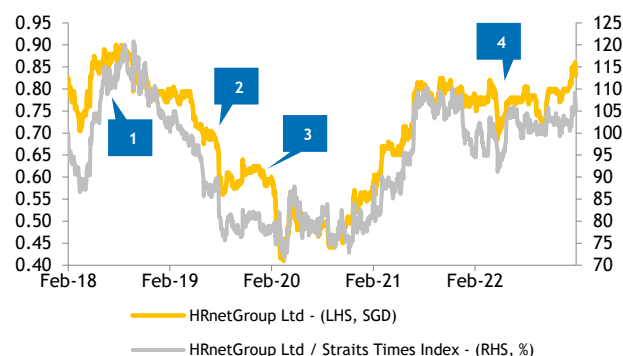
Revenue and GPM trend



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- On 2 Aug '18, HRnet acquired a 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 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 and other management consultancy service.
- On Apr '22, the Group secured a 2-year contract for the recruitment of admin and ancillary positions for SGH.

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.

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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 2+ 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 it 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%.
- Key management/ directors' compensation accounted for 3.7%/2.6% of total employee compensation in 2022.
- 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 2022, 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).

Quantitative Parameters (Score: 44)						
	Particulars	Unit	2019	2020	2021	KELYA US (2021)
E	Scope 1 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	1,553
	Scope 2 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	9,469
	Total	m tCO₂e	N/A	N/A	N/A	11,022
	Scope 3 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	5,577
	Total	m tCO₂e	N/A	N/A	N/A	16,599
	GHG intensity (Scope 1 and 2)	tCO ₂ e/t	N/A	N/A	N/A	3.6
	Energy intensity	GJ/ton	N/A	N/A	N/A	N/A
	Share of renewable energy use in operations	%	N/A	N/A	N/A	N/A
	NPE (New Plastic Economy) investments	SGD m	N/A	N/A	N/A	N/A
	Cases of environmental non-compliance	number	0.0	0.0	0.0	0.0
S	% of women in workforce	%	17.4%	17.2%	74%	71%
	% of women in management roles	%	30.8%	30.2%	70%	66%
	Incidences of non-compliance with laws	number	0.0	0.0	0.0	0.0
	Average training hours per employee	hours	77	72	64	N/A
G	MD/CEO salary as % of reported net profit	%	3.9%	4.3%	3.7%	2.5%
	Board salary as % of reported net profit	%	2.9%	3.2%	2.6%	3.5%
	Independent directors on the Board	%	57%	57%	57%	78%
	Female directors on the Board	%	33%	33%	33%	44%
	Dividends payout ratio as % of net profit	%	55%	54%	61%	15%

Qualitative Parameters (Score: 52)	
a) is there an ESG policy in place and is there a standalone ESG committee or is it part of a risk committee?	<i>Yes. The committee is tasked with developing sustainability, keeping in view the Group's overall long-term plans and vision, setting relevant KPIs and targets, managing and monitoring overall sustainability performance.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes, the Group has started climate-related disclosure per SGX requirement from 2022.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Management has changed its entire on-boarding process to become paperless to reduce its impact on the environment. It recruits engineers for environmental firms and sustainability professionals. The Group also consciously seeks to rent offices in green buildings.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No</i>

Target (Score: 80)		
Particulars	Target	Achieved
Maintain zero confirmed incidences of leaks, thefts of customer data/losses	0	0
Maintain zero confirmed incidents of discriminations	0	0
Maintain zero confirmed incidents of corruption	0	0
Maintain zero non-compliance with local laws and regulations	0	0
Target an average of at least 60 hours per year per employee	60	64
Impact		
NA		
Overall Score: 55		
As per our ESG matrix, HRnetGroup (HRNET SP) has an overall score of 55.		

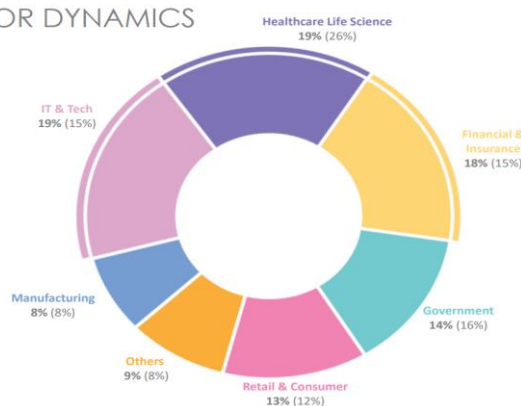
ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	52	13
Target	25%	80	20
Total			55

As per our ESG assessment, HRNET has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. HRNET's overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Focus charts

Fig 1: Revenue by business segment (FY22)

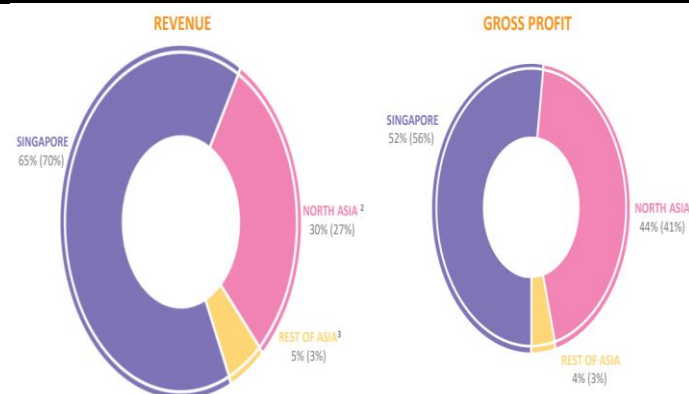
2022 SECTOR DYNAMICS



*2021 figures in brackets.

Source: Company

Fig 2: Revenue by geography (FY22)



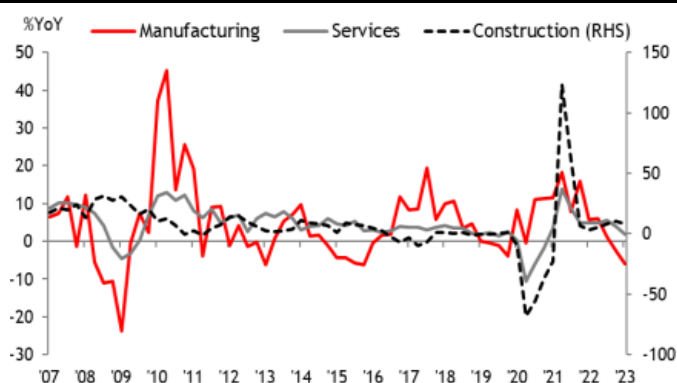
Source: Company

Fig 3: 1Q advance GDP growth slumped to +0.1%



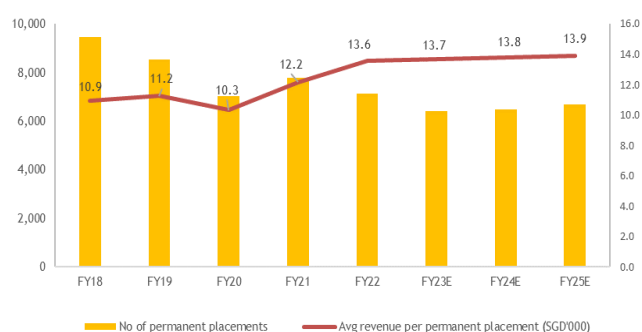
Source: CEIC, Department of Statistics

Fig 4: Manufacturing (-6%) fell by steepest pace since 4Q15



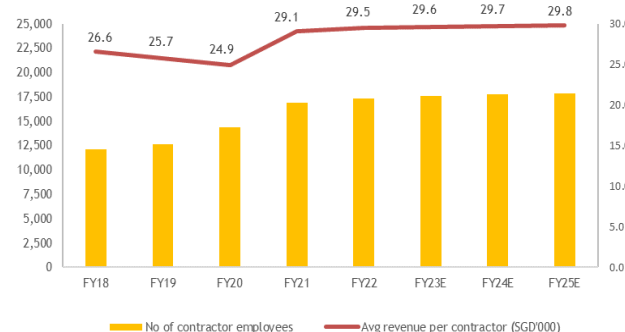
Source: CEIC, Department of Statistics

Fig 5: Key assumptions for professional recruitment



Source: Company, Maybank IBG Research

Fig 6: Key assumptions for flexible staffing



Source: Company, Maybank IBG Research

Figure 7: Earnings Revision

(SGD m)	FY23E			FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	613.1	632.2	-3.0	622.1	664.9	-6.4	630.4	675.6	-6.7
EBIT	73.3	89.0	-17.7	75.2	90.2	-16.6	78.7	92.5	-14.9
EBITDA	84.9	100.8	-15.8	86.9	102.2	-15.0	90.5	104.7	-13.6
Core net profit	56.2	68.7	-18.2	57.7	69.5	-17.0	60.5	71.1	-15.0
DPS (cts)	4.00	4.00	0.0	4.00	4.00	0.0	4.00	4.00	0.0
	Chg (ppt)			Chg (ppt)			Chg (ppt)		
GP margin	12.0%	14.1%	-2.1%	12.1%	13.6%	-1.5%	12.5%	13.7%	-1.2%
Net margin	9.2%	10.9%	-1.7%	9.3%	10.5%	-1.2%	9.6%	10.5%	-0.9%

Source: Company, Maybank IBG Research

Peer Comparison

Fig 8: Relative valuation

Company	BBG Code	MIBG Rec	MIBG		FYE	Market Cap	P/E (x)	EV/EBITDA				P/B (x)	ROE (%)
			TP	Price				(x)					
								(LC)	mm/dd	USDm	Actual		
HRnet	HRNET SP	HOLD	0.85	0.8	12/31	584	11.5	13.8	13.5	12.9	5.2	2.1	18.0
Global peers													
Persol Hldgs	2181-JP	NR	-	2,696.00	03/31	4,747	19.7	19.4	17.1	14.4	8.4	3.1	18.5
Kelly Services	KELYA US	NR	-	16.45	01/01	608	12.4	12.2	9.2	-	5.1	0.5	-4.8
SThree	STEM-LN	NR	-	4.16	11/30	693	10.1	10.3	9.4	8.1	5.5	-	30.2
Beijing Career Int'l	300662-CH	NR	-	40.47	12/31	1,156	27.3	20.8	16.1	12	15.3	3.5	13.5
Adecco	ADEN-VX	NR	-	30.33	12/31	5,716	9.3	10.1	9	8.1	8.5	1.3	8.8
Randstad Hldgs	RAND-NA	NR	-	50.82	12/31	10,259	9	11.8	11.3	10.1	6.7	2	18.9
ManpowerGroup	MAN US	NR	-	74.59	12/31	3,776	8.8	11.6	10.1	7.4	5.9	1.5	15.0
Hays	HAS-LN	NR	-	1.12	06/30	2,210	14	13.3	13.6	10.9	7.3	2.7	18.5
PageGroup	PAGE-LN	NR	-	4.44	12/31	1,811	10.2	15	12.1	9.8	5.7	3.6	40.2
Korn/Ferry	KFY US	NR	-	49.09	04/30	2,573	7.9	9.8	11.2	9.7	4.2	1.6	21.9
JAC Recruitment	2124 JP	NR	-	2,585.00	12/31	796	20.8	18.1	14.6	11.8	11.8	6.7	34.7
Heldrick & Struggles	HSII US	NR	-	27.86	12/31	553	7.3	10.3	9.2	-	0.3	1.3	21.3
Staffline Group	STAF-LN	NR	-	0.38	12/31	79	6.7	11.8	9.7	8.5	3.7	0.9	5.4
Robert Walters	RWA LN	NR	-	4.13	12/31	383	7.3	8.1	7	5.9	3.6	1.8	21.8
AVERAGE							12.2	13.1	11.4	9.7	6.6	2.4	18.9

Source: FactSet, Bloomberg

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	10.9	11.3	14.0	13.7	13.0
Core P/E (x)	13.2	11.5	14.0	13.7	13.0
P/BV (x)	2.2	2.2	2.1	2.0	1.9
P/NTA (x)	2.3	2.3	2.2	2.1	2.0
Net dividend yield (%)	5.0	5.1	5.0	5.0	5.0
FCF yield (%)	7.3	9.4	9.5	8.3	8.7
EV/EBITDA (x)	5.1	5.2	5.9	5.6	5.2
EV/EBIT (x)	5.8	5.8	6.8	6.5	6.0

INCOME STATEMENT (SGD m)

Revenue	590.5	611.8	613.1	622.1	630.4
EBITDA	96.9	98.7	84.9	86.9	90.5
Depreciation	(1.2)	(1.0)	(1.0)	(1.0)	(1.0)
Amortisation	(7.9)	(7.6)	(7.3)	(7.3)	(7.3)
EBIT	85.3	87.2	73.3	75.2	78.7
Net interest income / (exp)	(0.5)	(0.4)	(0.5)	(0.5)	(0.4)
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	84.8	86.8	72.8	74.7	78.3
Income tax	(14.5)	(14.3)	(12.4)	(12.7)	(13.3)
Minorities	(4.8)	(4.9)	(4.2)	(4.3)	(4.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	65.5	67.5	56.2	57.7	60.5
Core net profit	61.1	67.5	56.2	57.7	60.5

BALANCE SHEET (SGD m)

Cash & Short Term Investments	327.1	284.6	311.9	327.7	346.8
Accounts receivable	119.6	106.9	105.1	106.6	107.9
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	1.5	1.5	1.5
Intangible assets	19.1	16.8	16.8	16.8	16.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	63.0	74.2	74.2	74.2	74.2
Total assets	530.3	484.0	509.6	526.8	547.3
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	116.6	84.9	88.0	82.5	77.0
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	26.0	21.0	23.0	23.0	24.0
Total Liabilities	142.5	105.8	110.6	105.4	100.5
Shareholders Equity	370.2	361.8	378.4	396.4	417.2
Minority Interest	17.6	16.4	20.6	25.0	29.5
Total shareholder equity	387.9	378.2	399.0	421.4	446.8
Total liabilities and equity	530.3	484.0	509.6	526.8	547.3

CASH FLOW (SGD m)

Pretax profit	84.8	86.8	72.8	74.7	78.3
Depreciation & amortisation	11.6	11.5	11.6	11.7	11.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(23.5)	(7.8)	4.8	(6.9)	(6.8)
Cash taxes paid	(12.8)	(15.7)	(12.4)	(12.7)	(13.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	60.1	74.7	76.8	66.8	70.0
Capex	(1.4)	(1.5)	(1.6)	(1.7)	(1.8)
Free cash flow	58.7	73.1	75.2	65.1	68.2
Dividends paid	(26.7)	(64.8)	(39.6)	(39.6)	(39.6)
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	(30.2)	(41.8)	(3.9)	(5.2)	(4.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1.8	(33.5)	31.7	20.2	23.6

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.4	3.6	0.2	1.5	1.3
EBITDA growth	35.8	1.9	(14.0)	2.4	4.2
EBIT growth	43.4	2.3	(15.9)	2.6	4.7
Pretax growth	43.6	2.3	(16.1)	2.7	4.8
Reported net profit growth	39.7	3.1	(16.8)	2.7	4.8
Core net profit growth	34.7	10.6	(16.8)	2.7	4.8
Profitability ratios (%)					
EBITDA margin	16.4	16.1	13.8	14.0	14.4
EBIT margin	14.4	14.3	12.0	12.1	12.5
Pretax profit margin	14.4	14.2	11.9	12.0	12.4
Payout ratio	61.3	58.7	70.6	68.7	65.6
DuPont analysis					
Net profit margin (%)	11.1	11.0	9.2	9.3	9.6
Revenue/Assets (x)	1.1	1.3	1.2	1.2	1.2
Assets/Equity (x)	1.4	1.3	1.3	1.3	1.3
ROAE (%)	18.7	18.5	15.2	14.9	14.9
ROAA (%)	12.4	13.3	11.3	11.1	11.3
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	58.7	66.6	62.2	61.3	61.2
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	86.0	82.9	69.9	68.2	63.4
Dividend cover (x)	1.6	1.7	1.4	1.5	1.5
Current ratio (x)	3.5	4.3	4.4	4.8	5.2
Leverage & Expense Analysis					
Asset/Liability (x)	3.7	4.6	4.6	5.0	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)	nm	nm	146.6	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.2	0.3	0.3	0.3	0.3
Net debt/ (net cash)	(327.1)	(284.6)	(311.9)	(327.7)	(346.8)

Source: Company; Maybank IBG Research

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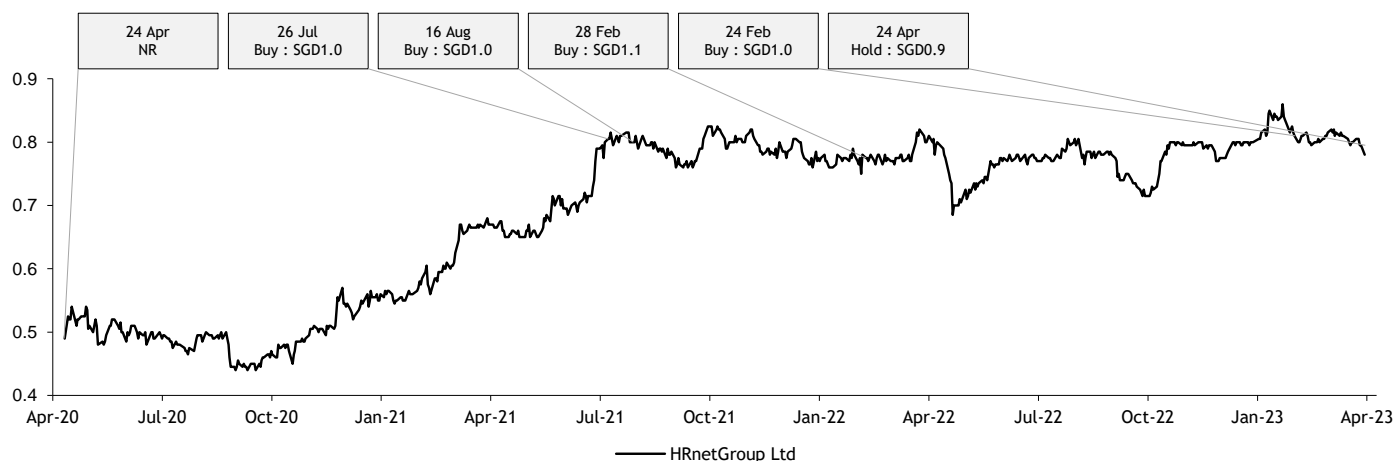
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