

HRnetGroup Ltd (HRNET SP)

A tough year

1H24 PATMI below; Maintain HOLD with a lower TP

1H24 PATMI of SGD21.7m (-23% YoY) was below our and market expectations at 41%/38% of MIBG/consensus' full-year forecasts. Despite the lacklustre results, HRnet maintained its interim DPS of SGD1.87 cents, which translates to a record high DPR of 80%. We revise down our FY24-26E EPS by 12-17% due to lower placement volume and margin assumptions amid growing macroeconomic uncertainties. We also roll forward our valuation base to FY25E and reduce our 12-month TP from SGD0.80 to SGD0.70, still based on a target 15x PE. HOLD.

Facing tough market conditions

In 1H24, PR (professional recruitment) revenue fell 16.4% YoY to SGD28.7m as hiring freezes and cautious sentiment persisted across its key markets. HRnet placed 2,318 (-19.9% YoY) candidates, while GP/placement rose 4.5% to SGD12.4k as the group closed a higher proportion of higher value assignments. Meanwhile, flexible staffing (FS) turnover slipped by 1.3% YoY to SGD255.3m, although both volume and GP/contractor declined by c4% YoY along with the cessation of higher-margin Covid-related healthcare activities. After factoring in the direct cost of contractors' salaries and social insurance benefits, FS generated a GPM of 12.8% (1H23: 13.8%).

Shift in revenue/GP mix towards FS

For 1H, blended GPM narrowed by 2.3ppt to 22% due to the continued shift in business mix towards FS as a result of the economic headwinds. Notably, the revenue proportion of FS rose to 89.3% in 1H24 (1H23: 87.7%), while the GP proportion increased to 52% (1H23: 49.8%). On a geographical basis, Singapore and Mainland China were the hardest hit as they account for 63.9% and 24% of the GP decline, respectively, with both PR and FS businesses impacted. The group's business in Mainland China was predominantly in PR and the economy did not recover as expected.

6% dividend yield backed by strong net cash

Its balance sheet is robust with net cash of SGD302m (including credit-linked notes and T-bills) and no bank borrowings. This allows it to explore accretive M&A opportunities and capture inorganic growth, particularly in other overseas markets. Based on our full-year DPS forecast of SGD0.04, yield is decent at 6% and should limit further downside to the stock. The share buyback should also help to provide some support, we think.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	612	578	574	588	609
EBITDA	99	89	68	71	74
Core net profit	61	53	44	46	49
Core EPS (cts)	6.1	5.3	4.4	4.7	5.0
Core EPS growth (%)	0.7	(13.7)	(16.4)	5.7	6.4
Net DPS (cts)	4.0	4.0	4.0	4.0	4.0
Core P/E (x)	12.8	13.5	15.1	14.3	13.5
P/BV (x)	2.2	1.9	1.7	1.7	1.7
Net dividend yield (%)	5.1	5.6	6.0	6.0	6.0
ROAE (%)	18.5	17.2	11.5	12.0	12.5
ROAA (%)	12.0	11.0	9.0	9.3	9.7
EV/EBITDA (x)	5.2	5.1	5.9	5.6	5.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	58	61	65
MIBG vs. Consensus (%)	-	-	(24.9)	(24.6)	(24.7)

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HOLD

Share Price	SGD 0.67
12m Price Target	SGD 0.70 (+5%)
Previous Price Target	SGD 0.80

Company Description

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

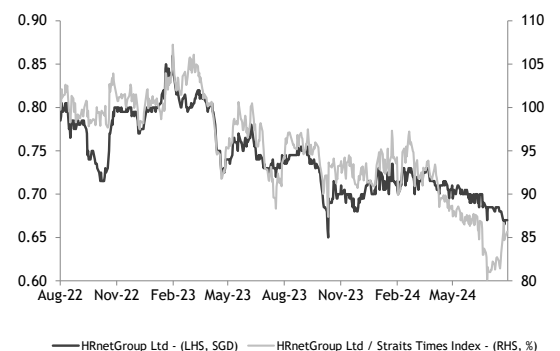
Statistics

52w high/low (SGD)	0.76/0.65
3m avg turnover (USDm)	0.1
Free float (%)	19.3
Issued shares (m)	1,004
Market capitalisation	SGD672.5M
	USD508M

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)	(5)	(10)
Relative to index (%)	5	(4)	(9)

Source: FactSet

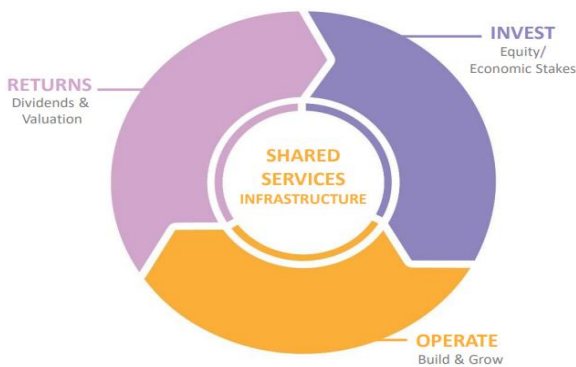
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Tear Sheet Insert

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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 helps 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 firm in Singapore in terms of number of licensed consultants and revenue.

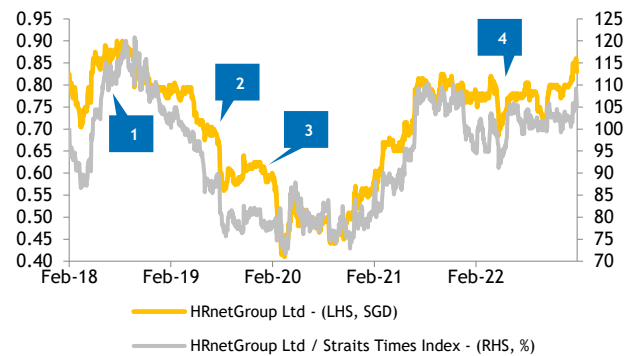
Co-ownership operating model



Source: Company

Price Drivers

Historical share price trend



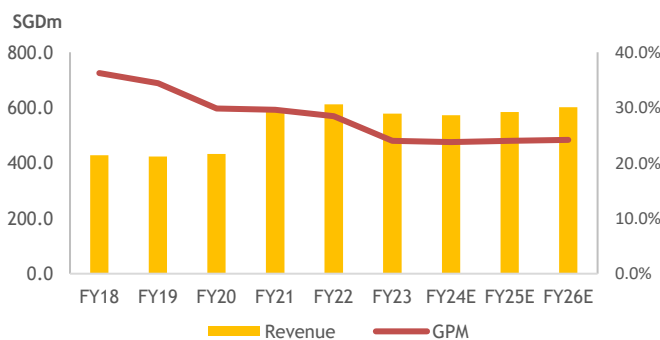
Source: Company, Maybank IBG Research

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&A, 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	na
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 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 nine directors, of which three are Sim family members i.e., Mr Sim Yong Siang, Mr Sim Joo Siang and Ms. Adeline Sim, and the rest are independent.
- 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 almost 80%.
- Key management/ directors' compensation accounted for 3.2%/2.4% of total employee compensation in 2023.
- 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 2023, 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: 40)						
	Particulars	Unit	2021	2022	2023	KELYA US (2023)
E	Scope 1 GHG emissions	m tCO2e	N/A	N/A	N/A	1,553
	Scope 2 GHG emissions	m tCO2e	N/A	N/A	N/A	9,469
	Total	m tCO2e	N/A	N/A	N/A	11,022
	Scope 3 GHG emissions	m tCO2e	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)	tCO2e/t	N/A	N/A	N/A	3.6
	Energy intensity	GJ/hc	N/A	N/A	2.24	N/A
	Share of renewable energy use in operations	L/hc	N/A	48	79	N/A
	NPE (New Plastic Economy) investments	%	15%	12%	14%	N/A
	Cases of environmental non-compliance	number	0.0	0.0	0.0	0.0
S	% of women in workforce	%	74%	76%	76%	71%
	% of women in senior management roles	%	70%	74%	74%	66%
	Incidences of non-compliance with laws	number	0	0	0	0.0
	Average training hours per employee	hours	64	73	46	N/A
G	MD/CEO salary as % of reported net profit	%	1.3%	1.5%	1.6%	2.5%
	Board salary as % of reported net profit	%	1.7%	2.2%	2.4%	3.5%
	Independent directors on the Board	%	57%	62%	56%	78%
	Female directors on the Board	%	33%	25%	33%	44%
	Dividends payout ratio as % of net profit	%	57%	55%	60%	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 the 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 started its TCFD in 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: 53		
As per our ESG matrix, HRnetGroup (HRNET SP) has an overall score of 53.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	40	20
Qualitative	25%	52	13
Target	25%	80	20
Total			53

As per our ESG assessment, HRNET has an established framework, internal policies, and tangible medium/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. HRNET's overall ESG score is 53, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Earnings revisions

(SGD m)	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGD m)	574.1	572.8	0.2%	588.4	584.0	0.8%	608.8	601.2	1.3%
EBIT (SGD m)	56.5	66.0	-14.4%	58.9	67.4	-12.6%	61.8	69.6	-11.1%
EBITDA (SGD m)	68.0	77.0	-11.7%	70.7	78.4	-9.9%	74.0	80.6	-8.1%
Core net profit (SGD m)	43.5	52.5	-17.0%	46.0	53.7	-14.4%	48.9	55.6	-11.9%
EPS (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)
EBITDA margin	9.8%	11.5%	-1.7%	10.0%	11.5%	-1.5%	10.2%	11.6%	-1.4%
Net margin	7.6%	9.2%	-1.6%	7.8%	9.2%	-1.4%	8.0%	9.2%	-1.2%

Source: Company, Maybank IBG Research

Fig 2: Peer comparison

Company	BBG Code	MIBG Rec	MIBG TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	P/E (x)				EV/EBITDA (x)	P/B (x)	ROE (%)
							Actual	FY1	FY2	FY3			
HRnet	HRNET SP	HOLD	0.70	0.67	12/31	498	9.8	10.5	15.1	14.3	4.6	1.8	18.0%
Global peers													
Persol Hldgs	2181-JP	NR	-	271.20	03/31	4,314	20.5	17.7	15.3	13.4	9.1	3.1	15.9%
Kelly Services	KELYA US	NR	-	19.43	12/31	692	8.8	8.4	6.5	-	8.5	0.5	2.8%
SThree	STEM-LN	NR	-	3.85	11/30	663	9.1	10.7	10.4	9.0	5.0	-	26.5%
Beijing Career Int'l	300662-CH	NR	-	14.84	12/31	407	14.5	11.0	8.8	7.1	9.3	1.6	9.9%
Adecco	ADEN-VX	NR	-	28.32	12/31	5,515	9.9	10.7	8.8	7.5	8.1	1.3	8.8%
Randstad Hldgs	RAND-NA	NR	-	41.19	12/31	8,138	9.1	12.5	10.9	9.3	6.6	1.8	13.0%
ManpowerGroup	MAN US	NR	-	70.11	12/31	3,327	11.6	14.4	11.3	9.1	8.0	1.6	3.8%
Hays	HAS-LN	NR	-	0.92	06/30	1,859	10.8	22.0	21.7	14.1	6.1	2.4	18.9%
PageGroup	PAGE-LN	NR	-	4.00	12/31	1,678	16.5	33.0	18.8	12.7	7.1	4.6	23.4%
Korn/Ferry	KFY US	NR	-	67.73	04/30	3,509	15.8	14.2	12.7	10.7	7.6	2.0	9.8%
JAC Recruitment	2124 JP	NR	-	676.00	12/31	763	18.1	16.2	13.9	10.6	11.0	6.4	36.4%
Heldrick & Struggles	HSII US	NR	-	36.25	12/31	737	12.5	13.8	12.7	-	4.2	1.6	12.5%
Staffline Group	STAF-LN	NR	-	0.38	12/31	70	-	12.5	9.9	7.9	4.5	1.3	-13.3%
Robert Walters	RWA LN	NR	-	3.45	12/31	319	18.2	48.9	14.5	10.7	5.1	1.7	7.7%
AVERAGE							13.5	17.6	12.6	10.2	7.1	2.3	12.6%

Source: FactSet, Bloomberg

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	11.3	11.8	15.1	14.3	13.5
Core P/E (x)	12.8	13.5	15.1	14.3	13.5
P/BV (x)	2.2	1.9	1.7	1.7	1.7
P/NTA (x)	2.3	2.0	1.8	1.8	1.7
Net dividend yield (%)	5.1	5.6	6.0	6.0	6.0
FCF yield (%)	9.4	8.5	8.6	8.7	9.0
EV/EBITDA (x)	5.2	5.1	5.9	5.6	5.2
EV/EBIT (x)	5.8	5.8	7.1	6.7	6.3
INCOME STATEMENT (SGD m)					
Revenue	611.8	578.5	574.1	588.4	608.8
EBITDA	98.7	89.3	68.0	70.7	74.0
Depreciation	(1.0)	(0.8)	(1.0)	(1.0)	(1.0)
Amortisation	(7.6)	(7.2)	(7.4)	(7.4)	(7.4)
EBIT	87.2	78.5	56.5	58.9	61.8
Net interest income / (exp)	(0.4)	(0.5)	(0.6)	(0.6)	(0.5)
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	86.8	78.0	55.9	58.4	61.3
Income tax	(14.3)	(12.0)	(10.1)	(9.9)	(9.8)
Minorities	(4.9)	(2.5)	(2.3)	(2.4)	(2.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	67.5	63.6	43.5	46.0	48.9
Core net profit	60.8	52.8	43.5	46.0	48.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	284.6	271.6	279.6	286.9	296.3
Accounts receivable	106.9	101.3	100.4	102.8	106.1
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	2.1	2.1	2.1	2.1
Intangible assets	16.8	17.7	17.9	18.1	18.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	74.2	87.2	87.4	87.6	87.8
Total assets	484.0	479.9	487.4	497.4	510.6
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	84.9	66.3	67.0	68.2	69.4
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	21.0	21.0	21.0	21.0	21.0
Total Liabilities	105.8	87.0	88.0	88.9	89.9
Shareholders Equity	361.8	376.6	380.8	387.4	397.0
Minority Interest	16.4	16.3	18.6	21.0	23.6
Total shareholder equity	378.2	392.9	399.4	408.5	420.6
Total liabilities and equity	484.0	479.9	487.4	497.4	510.6
CASH FLOW (SGD m)					
Pretax profit	86.8	78.0	55.9	58.4	61.3
Depreciation & amortisation	11.5	10.8	11.5	11.8	12.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(7.8)	(13.2)	1.6	(1.1)	(2.1)
Cash taxes paid	(15.7)	(13.0)	(10.1)	(9.9)	(9.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	74.7	62.7	58.9	59.1	61.6
Capex	(1.5)	(2.2)	(2.0)	(2.0)	(2.0)
Free cash flow	73.1	60.5	56.9	57.1	59.6
Dividends paid	(64.8)	(38.9)	(39.4)	(39.4)	(39.4)
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	(41.8)	(93.0)	(5.2)	(5.9)	(6.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(33.5)	(71.4)	12.3	11.8	14.2

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.6	(5.4)	(0.8)	2.5	3.5
EBITDA growth	1.9	(9.5)	(23.9)	4.0	4.7
EBIT growth	2.3	(10.0)	(28.0)	4.3	5.0
Pretax growth	2.3	(10.1)	(28.3)	4.4	5.1
Reported net profit growth	3.1	(5.9)	(31.5)	5.7	6.4
Core net profit growth	(0.5)	(13.1)	(17.6)	5.7	6.4
Profitability ratios (%)					
EBITDA margin	16.1	15.4	11.8	12.0	12.2
EBIT margin	14.3	13.6	9.8	10.0	10.2
Pretax profit margin	14.2	13.5	9.7	9.9	10.1
Payout ratio	58.7	62.8	90.4	85.6	80.4
DuPont analysis					
Net profit margin (%)	11.0	11.0	7.6	7.8	8.0
Revenue/Assets (x)	1.3	1.2	1.2	1.2	1.2
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	18.5	17.2	11.5	12.0	12.5
ROAA (%)	12.0	11.0	9.0	9.3	9.7
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	66.6	64.8	63.3	62.2	61.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	82.9	61.9	53.9	53.6	53.0
Dividend cover (x)	1.7	1.6	1.1	1.2	1.2
Current ratio (x)	4.3	5.4	5.4	5.5	5.6
Leverage & Expense Analysis					
Asset/Liability (x)	4.6	5.5	5.5	5.6	5.7
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	94.2	107.1	123.7
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.3	0.4	0.3	0.3	0.3
Net debt/ (net cash)	(284.6)	(271.6)	(279.6)	(286.9)	(296.3)

Source: Company; Maybank IBG Research

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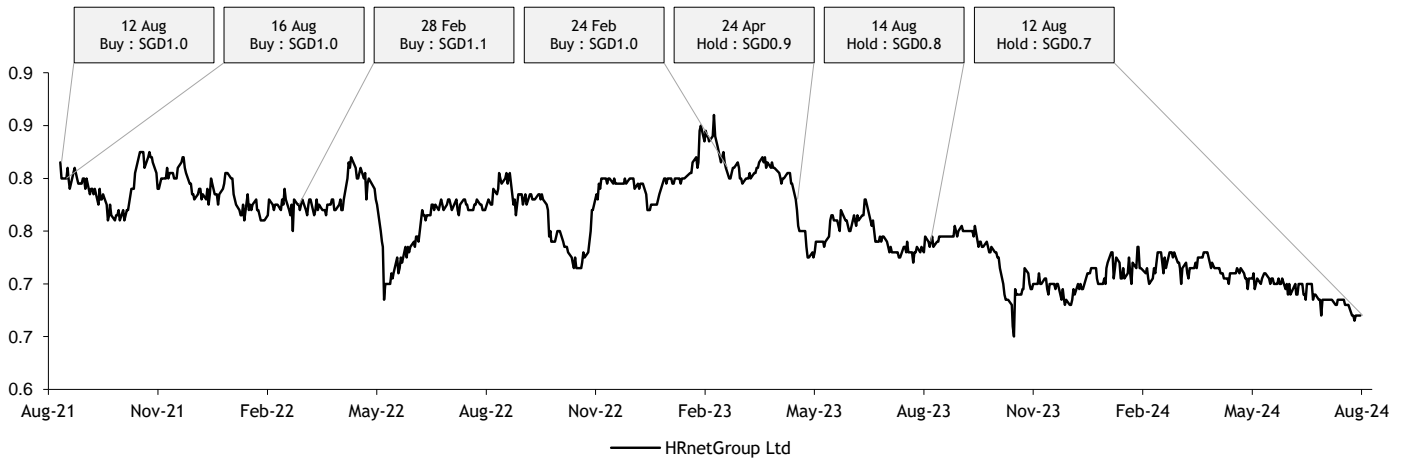
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