

HRnetGroup Limited

Faster growth outside Singapore

SINGAPORE | SERVICES | 1H22 RESULTS

- Results were within expectations. 1H22 revenue and PATMI was 51%/48% of our FY22e forecast. 1H22 PATMI grew 12% YoY to S\$32.6mn, excluding fair value losses and one-off reversal of trade accruals.
- Revenue growth of 14% was from both permanent recruitment (+19% YoY) and flexible staffing (+13% YoY). Maiden interim DPS of 3 cents was announced.
- Growth in 1H22 was a mixture of pricing and volumes driven by a 30% revenue growth in Rest of Asia. Expanding the franchise outside Singapore is a key growth driver. Rest of Asia is now 40% of revenue from 28% in FY20. We maintain our FY22e forecast. Our BUY recommendation and target price of S\$1.18 is maintained, 12x PE FY22e ex-cash. Flexible staffing demand is driven by new geographies and re-opening sectors. Permanent hiring is supported by the demand for unfilled job vacancies and an increase in full-time consultants.

15 August 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.790
FORECAST DIV	SGD 0.045
TARGET PRICE	SGD 1.180
TOTAL RETURN	55.1%

COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN) :	1,002
MARKET CAP (USD mn / SGD mn) :	577 / 792
52 - WK HI/LO (SGD) :	0.82 / 0.68
3M Average Daily T/O (mn) :	0.26

MAJOR SHAREHOLDERS

SIMCO GLOBAL LTD	78.1%
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Results at a glance

(\$'000)	1H22	1H21	YoY	Comment
Gross revenue	314,158	275,095	14.2%	
- Permanent recruitment	52,221	44,027	18.6%	Placements -1.2%, GP/placement +20.1%
- Flexible staffing	259,830	229,607	13.2%	Contractors 17.9k +11.7%, GP/contractor -7.7%
Gross profit	91,900	81,815	12.3%	
SG&A	-45,524	-41,591	9.5%	
Other income	8,934	14,161	-36.9%	FV loss/disposal of -\$4.9mn (1H21: +\$56.8mn).
PATMI	34,597	35,926	-3.7%	
Adj. PATMI	32,656	29,153	12.0%	Excl. FV and reversal of trade accrual S\$6.8mn.
DPS - Interim (cents)	3.00	0.00	n.m.	

Source: Company, PSR

The Positives

+ Strong growth outside Singapore. Revenue from Rest of Asia grew 30% to S\$107.8mn. These regions now account for 40% of total revenue, a jump from the 26% in FY18. Revenue has grown in region from increasing the number co-owners to build the franchise and expanding into flexible staffing services.

+ Returning S\$100mn cash, as it piles up. FCF generated in 1H22 was S\$33.1m (1H21: S\$3.5mn). Net cash on the balance sheet is S\$312.7mn (1H21: S\$297.1mn). HRnet announced a maiden interim dividend of 3 cents per share (S\$30mn). Together, with planned share buyback of S\$30mn, FY21 final dividend of 3 cent (S\$30mn) and special dividend of 1 cent (S\$10mn), HRnet is returning around S\$100mn to shareholders this year.

The Negative

- Weak equity market hurt book value. In 1H22 there was a decline of S\$12.6mn in financial assets, namely equity shares in listed recruitment companies. There was S\$5.7mn loss recognised in the income statement and another S\$6.9mn in the balance sheet.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.3	15.3	3.3
STI RETURN	5.0	4.5	7.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$'000)	FY20	FY21	FY22e	FY23e
Gross Rev	433,041	590,520	617,761	664,278
Gross Profit	129,346	174,903	202,691	216,845
EBITDA	69,959	93,602	95,291	90,804
PATMI	46,865	65,490	68,694	72,507
PATMI - Adj.	43,201	62,133	67,694	71,507
P/B (x)	2.3	2.0	1.9	1.7
P/E (x) - Adj	16.9	12.8	11.7	11.1
ROE (%)	13.5	16.9	16.3	16.0
Div yield (%)	3.2	5.1	5.7	5.7

Source: Company, PSR

VALUATION METHOD

12x FY22e ex-cash P/E

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Outlook

Weaker economic conditions in the region may have a dampening effect on volume. In Singapore, we expect the high job vacancy rates and re-opening of borders to drive revenue growth. For instance, there has been a decline in COVID-19 related vaccination roles but replaced by other non-COVID medical needs as foreign tourists and elective procedures return. The sustainability of growth in North Asia can improve if lockdowns ease. Another strength of HRnet is the ability to veer into faster growing segments of the economy. Despite the slower economic growth and lockdown in North Asia in 1H22, revenues expanded 28% YoY in 1H22. HRnet capitalized on the strong demand from semiconductor headcount by local and multinational companies

Maintain BUY and unchanged TP of \$1.18. Our FY22e forecast is unchanged. The target price is a huge discount to global peers. We excluded the cash from valuations as peers have leverage to operate the business.

Figure 1: Still trading at discount to global recruitment peers

Company	Currency	Mkt Cap (U\$mn)	Price (local)	P/B (x)	P/E (x)	P/S (x)	Gearing (%)	ROA (%)	ROE (%)	EV/EBITDA (x)
HRNETGROUP	SGD	577	0.79	2.1	12.3	1.3	0.0	13.3	18.7	5.0
RECRUIT HOLDINGS CO	JPY	65,871	5182	5.4	27.8	2.8	11.2	12.3	22.3	16.1
JAC RECRUITMENT CO	JPY	617	1990	6.0	18.2	2.9	1.4	25.1	35.4	9.3
TECHNOPRO HOLDINGS IM	JPY	2,775	3415	5.4	23.8	2.1	18.0	11.9	24.5	14.6
PERSOL HOLDINGS CO	JPY	5,211	2937	3.6	20.3	0.6	13.0	8.4	18.7	9.2
BEIJING CAREER	CNY	1,240	42.46	3.9	30.3	1.0	4.5	9.6	16.6	15.9
HUMANICA PCL	THB	307	12.50	5.8	51.6	11.4	8.5	9.8	12.2	33.0
ADECCO GROUP AG	CHF	6,056	33.87	1.6	11.8	0.3	29.3	4.3	14.1	8.5
RANDSTAD NV	EUR	8,876	49.50	2.1	10.9	0.3	11.5	8.1	19.0	6.6
HAYS PLC	GBP	1,690	125	2.6	17.9	0.4	10.7	6.9	14.7	7.2
PAGEGROUP PLC	GBP	1,226	453	3.8	9.0	0.8	14.1	21.8	44.0	5.5
ROBERT WALTERS PLC	GBP	329	521	2.1	9.8	0.4	18.4	8.9	21.7	4.6
HEIDRICK & STRUGGLES	USD	621	31.47	1.7	7.4	0.5	7.7	8.8	23.8	2.2
KELLY SERVICES INC	USD	702	18.41	0.5	13.4	0.1	2.8	3.1	6.6	3.7
KFORCE INC	USD	1,189	56.14	5.7	13.7	0.7	23.5	18.1	43.8	8.2
KORN FERRY	USD	3,577	65.50	2.3	10.6	1.3	17.3	10.0	22.3	5.4
MANPOWER GROUP INC	USD	4,207	81	1.7	9.8	0.2	15.3	4.4	17.5	6.2
ROBERT HALF	USD	9,020	82.32	6.1	13.5	1.3	9.0	24.1	50.1	8.4
<i>Average</i>				3.5	17.6	1.6	12.7	11.5	24.0	9.7

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, (\$'000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	423,081	433,041	590,520	617,761	664,278
Sub-contractor expenses	(277,523)	(303,695)	(415,617)	(415,070)	(447,433)
Gross Profit	145,558	129,346	174,903	202,691	216,845
Other income	17,686	17,826	15,942	8,521	7,521
Employee benefit expenses	(73,598)	(69,124)	(87,757)	(101,700)	(108,801)
Facilities and depreciation expenses	(12,102)	(11,917)	(11,629)	(12,982)	(13,651)
Selling expenses	(4,671)	(3,486)	(2,893)	(4,973)	(5,347)
Other expenses	(4,167)	(3,197)	(3,311)	(2,153)	(2,225)
Finance costs	(334)	(413)	(472)	(472)	(472)
Profit/(loss) before tax	68,372	59,035	84,783	88,933	93,869
Income tax expense	(12,596)	(9,246)	(14,516)	(15,226)	(16,072)
Minority Interest	(4,172)	(2,924)	(4,777)	(5,012)	(5,290)
PATMI	51,604	46,865	65,490	68,694	72,507
Adjusted PATMI	47,110	43,201	62,133	67,694	71,507
EBIT	68,367	59,308	83,317	86,074	90,804
EBITDA	78,349	69,959	93,602	95,291	90,804

Per share data

Y/E Dec (\$ cents)	FY19	FY20	FY21	FY22e	FY23e
NAVPS	34.43	34.61	38.64	42.03	45.28
EPS	5.13	4.67	6.52	6.84	7.22
Adj. EPS	5.11	4.67	6.19	6.74	7.12
DPS	2.80	2.50	4.00	4.50	4.50

Cash Flow Statement

Y/E Dec, (\$'000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
PBT	68,372	59,035	84,783	88,933	93,869
Adjustments	(4,431)	8,210	3,305	6,461	7,130
WC changes	4,668	44,033	(23,543)	27,232	(14,883)
Cash generated from ops	68,609	111,278	64,545	122,625	86,116
Others	(9,312)	(6,818)	(11,867)	(13,578)	(14,423)
Cashflow from ops	59,297	104,460	52,678	109,047	71,693
CFI					
Purchase of PPE and intangible assets	(1,276)	(1,231)	(1,375)	(1,500)	(1,500)
Purchase of financial assets	(6,594)	(14,926)	(30,187)	-	-
Dividends received	730	540	845	873	873
Others	(32,460)	17,430	6,152	1,000	1,000
Cashflow from investments	(39,600)	1,813	(24,565)	373	373
CFF					
Dividends paid	(28,163)	(28,002)	(25,067)	(40,151)	(45,170)
Purchase of treasury shares	(331)	(3,146)	-	-	-
Repayment of leases liabilities	(5,149)	(8,022)	(7,622)	(8,000)	(8,500)
Others	(956)	(3,211)	(2,165)	-	-
Cashflow from financing	(34,599)	(42,381)	(34,854)	(48,151)	(53,670)
Net change in cash	(14,902)	63,892	(6,741)	61,269	18,396
Cash at the start of the period	281,810	266,162	332,234	327,078	388,347
Currency translation	(746)	2,180	1,585	-	-
Others	-	-	-	-	-
Ending cash	266,162	332,234	327,078	388,347	406,743

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'000)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Pledged deposits	1,003	988	1,141	1,141	1,141
Plant and equipment	1,558	1,503	1,478	1,307	1,264
Right-of-use assets	14,144	8,202	12,622	12,311	11,702
Other intangible assets	1,501	1,353	1,284	1,284	1,284
Goodwill	5,185	5,185	5,185	5,185	5,185
Other financial assets (NCA)	38,733	21,838	35,080	35,080	35,080
Deferred tax assets	808	1,314	1,845	1,845	1,845
Total non-current assets	62,932	40,383	58,635	58,153	57,502
Cash	266,162	332,234	327,078	388,347	406,743
Trade receivables	74,693	66,261	114,194	91,726	119,156
Other receivables	6,922	6,615	5,444	7,163	6,393
Other financial assets (CA)	8,555	6,886	24,959	24,959	24,959
Total current assets	356,332	411,996	471,675	512,196	557,251
Total Assets	419,264	452,379	530,310	570,349	614,753
LIABILITIES					
Trade payables	6,034	6,478	9,470	9,934	10,948
Other payables and accruals	39,071	75,591	107,132	113,152	123,914
Others	20,408	20,196	19,085	19,085	19,085
Total current liabilities	65,513	102,265	135,687	142,171	153,947
Deferred tax liabilities	349	323	309	309	309
Deferred considerations	6,794	2,643	6,458	6,458	6,458
Total non-current liabilities	7,143	2,966	6,767	6,767	6,767
Total liabilities	72,656	105,231	142,454	148,938	160,714
Net assets	346,608	347,148	387,856	421,411	454,039
Represented by:					
Share capital	260,605	260,605	260,605	260,605	260,605
Retained Earnings	145,961	165,598	195,983	229,538	262,166
Others	(59,958)	(79,055)	(68,732)	(68,732)	(68,732)
Total equity	346,608	347,148	387,856	421,411	454,039

Valuation Ratios

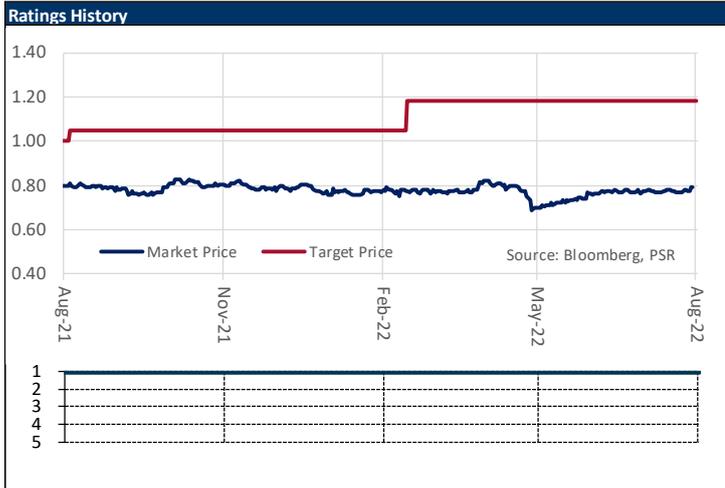
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.80	2.28	2.04	1.88	1.74
P/E (x) - Adj.	12.1	16.9	12.8	11.7	11.1
Dividend yield (%)	4.52	3.16	5.06	5.70	5.70

Growth & Margins

Growth					
Revenue	-1.3%	2.4%	36.4%	4.6%	7.5%
Gross profit	-6.3%	-11.1%	35.2%	15.9%	7.0%
PATMI	7.1%	-9.2%	39.7%	4.9%	5.6%
EPS	6.4%	-13.3%	40.5%	3.3%	5.5%
Margins					
Gross profit margin	34.4%	29.9%	29.6%	32.8%	32.6%
EBITDA margin	18.5%	16.2%	15.9%	15.4%	13.7%
EBIT margin	16.2%	13.7%	14.1%	13.9%	13.7%

Key Ratios

ROE	14.9%	13.5%	16.9%	16.3%	16.0%
ROA	12.3%	10.4%	12.3%	12.0%	11.8%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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