



HRnetGroup Limited

Stability creeping in

SINGAPORE | SERVICES | 1H23 RESULTS

13 August 2023

- The results were below expectations. 1H23 adjusted PATMI was 40% of our FY23e forecast. Weakness in earnings was largely due to professional recruitment contracting 34% YoY in revenue. North Asia experienced a major decline in technology hiring.
- Flexible staffing was resilient with revenue suffering a modest 0.5% YoY decline. The reduction in pandemic-related roles was replaced with luxury retail, consumer and logistics.
- We lowered our FY23e earnings by 11% to adj. PATMI of S\$56mn. We cut our professional recruitment volume and price assumptions. Our BUY recommendation is maintained with a lower target price of S\$0.88 (prev. S\$0.98). The target price is 12x PE FY23e ex-cash. We believe hiring activities will trend sideways in 2H23 after the stellar growth in FY22, propped up by technology and pandemic-related placements.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.745
FORECAST DIV	SGD 0.039
TARGET PRICE	SGD 0.880
TOTAL RETURN	23.3%

COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN):	987
MARKET CAP (USD mn / SGD mn):	544 / 735
52 - WK HI/LO (SGD):	0.87 / 0.7
3M Average Daily T/O (mn):	0.13

MAJOR SHAREHOLDERS

SIMCO GLOBAL LTD	79.4%
FMR LLC	5.9%

Results at a glance

(\$'000)	1H23	1H22	YoY	Comment
Gross revenue	294,756	314,158	-6.2%	
- Prof. recruitment	34,296	52,221	-34.3%	Placements -16.7% YoY / GP per placement -16.7%
- Flexible staffing	258,572	259,830	-0.5%	Contractors -9.9% YoY / GP per contractor +3.7%
Gross profit	71,497	91,900	-22.2%	
Employee expenses	-36,659	-45,524	-19.5%	
Other income	9,657	8,934	8.1%	
PATMI	28,283	34,597	-18.3%	
Adj. PATMI	25,316	33,213	-23.8%	
DPS -Interim (cents)	1.87	2.13	-12.2%	

Source: Company, PSR

The Positive

+ Flexible staffing (FS) resilient and flexible staff cost. Despite the absence of pandemic-related hiring, FS revenue was resilient. Sectors supporting FS in 1H23 were banking, luxury retail, consumer and logistics. FS is also expanding outside Singapore, namely Taipei, Hong Kong and Jakarta. In line with the weaker revenues, employee cost was down 19% YoY, from lower bonus payout and headcount reduction of 83.

The Negative

- Steep drop in North Asia and Singapore professional recruitment (PR). The drag on 1H23 earnings was the 37% and 31% YoY decline in North Asia and Singapore PR respectively. There was a severe drop in semiconductor and technology type placements. PR hiring will now be driven by industrial, engineering, lifescience and consumer sector roles.

Outlook

We expect FS to remain the near-term growth driver as corporates pivot towards contingent workers in an uncertain macro backdrop. Another FS growth pillar is expansion overseas, where its advantages are the track record, technology and capital. The strength of the ownership model was reflected by the flexibility to reduce employee expenses. From the \$30mn share buyback plan announced in June 2022, there is a balance of S\$16.6mn to be completed. In PR both business and candidate confidence is weak, negatively impacting demand and supply.

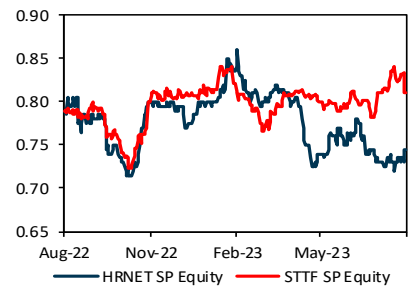
Maintain BUY and lower TP of S\$0.88 (prev. S\$0.98).

Our FY23e forecast is cut by 11% to adj. PATMI of S\$56mn. The target price is a huge discount to global peers trading at 17x PE. HRnetGroup enjoys net cash of S\$303mn with barriers of scale from its nearly 700 recruitment consultants across 16 cities.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.4	0.7	(2.6)
STTF	5.1	3.4	4.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$mn)	FY21	FY22	FY23e	FY24e
Gross Rev	590.5	611.8	597.7	667.1
Gross Profit	174.9	174.2	147.8	168.5
EBITDA	93.0	95.6	76.2	81.8
PATMI	65.5	67.5	59.1	63.2
PATMI - Adj.	61.3	60.2	56.2	63.2
P/B (x)	1.9	2.0	1.9	1.7
P/E (x) - Adj.	12.2	12.4	13.1	11.6
ROE (%)	16.9	17.9	14.7	14.6
Div yield (%)	5.4	5.4	5.2	5.8

Source: Company, PSR

VALUATION METHOD

12x FY23e ex-cash P/E

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Financials

Income Statement

Y/E Dec, (S\$'000)	FY20	FY21	FY22	FY23e	FY24e
Revenue	433,041	590,520	611,775	597,676	667,118
Sub-contractor expenses	(303,695)	(415,617)	(437,621)	(449,882)	(498,652)
Gross Profit	129,346	174,903	174,154	147,794	168,466
Other income	17,826	15,942	19,982	16,613	13,405
Employee benefit expenses	(69,124)	(87,757)	(87,867)	(70,941)	(80,864)
Facilities and depreciation expenses	(11,917)	(11,629)	(11,499)	(10,050)	(11,456)
Selling expenses	(3,486)	(2,893)	(2,757)	(2,340)	(2,667)
Other expenses	(3,197)	(3,311)	(4,835)	(4,103)	(4,677)
Finance costs	(413)	(472)	(418)	(380)	(350)
Profit/(loss) before tax	59,035	84,783	86,760	76,593	81,857
Income tax expense	(9,246)	(14,516)	(14,300)	(13,021)	(13,916)
Minority Interest	(2,924)	(4,777)	(4,925)	(4,450)	(4,756)
PATMI	46,865	65,490	67,535	59,122	63,186
Adjusted PATMI	43,418	61,338	60,178	56,155	63,186
EBIT	59,308	83,317	86,670	76,246	81,778
EBITDA	68,654	92,980	95,626	76,246	81,778

Per share data

Y/E Dec (S cents)	FY20	FY21	FY22	FY23e	FY24e
NAVPS	34.61	38.64	37.72	40.05	43.02
EPS	4.67	6.52	6.73	5.99	6.40
Adj. EPS	4.67	6.11	6.00	5.69	6.40
DPS	2.50	4.00	4.00	3.87	4.30

Cash Flow Statement

Y/E Dec, (S\$'000)	FY20	FY21	FY22	FY23e	FY24e
CFO					
PBT	59,035	84,783	86,760	76,593	81,857
Adjustments	8,210	3,305	11,000	700	1,259
WC changes	44,033	(23,543)	(7,845)	462	3,577
Cash generated from ops	111,278	64,545	89,915	77,754	86,692
Others	(6,818)	(11,867)	(14,676)	(5,375)	(6,511)
Cashflow from ops	104,460	52,678	75,239	72,379	80,181
CFI					
Purchase of PPE and intangible assets	(1,231)	(1,375)	(1,536)	(1,500)	(1,500)
Purchase of financial assets	(14,926)	(30,187)	(23,990)	-	-
Dividends received	540	845	907	1,000	1,000
Others	17,430	6,152	(4,909)	-	-
Cashflow from investments	1,813	(24,565)	(29,528)	(500)	(500)
CFF					
Dividends paid	(28,002)	(25,067)	(61,478)	(40,151)	(38,200)
Purchase of treasury shares	(3,146)	-	(10,085)	-	-
Repayment of leases liabilities	(8,022)	(7,622)	(7,172)	(8,500)	(8,500)
Others	(3,211)	(2,165)	(4,500)	-	-
Cashflow from financing	(42,381)	(34,854)	(83,235)	(48,651)	(46,700)
Net change in cash	63,892	(6,741)	(37,524)	23,228	32,982
Cash at the start of the period	266,162	332,234	327,078	284,567	307,795
Currency translation	2,180	1,585	(4,987)	-	-
Others	-	-	-	-	-
Ending cash	332,234	327,078	284,567	307,795	340,777

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Pledged deposits	988	1,141	1,031	1,031	1,031
Plant and equipment	1,503	1,478	1,532	1,321	1,268
Right-of-use assets	8,202	12,622	9,630	10,496	10,886
Other intangible assets	1,353	1,284	1,340	1,340	1,340
Goodwill	5,185	5,185	5,862	5,862	5,862
Other financial assets (NCA)	21,838	35,080	24,036	24,036	24,036
Deferred tax assets	1,314	1,845	1,446	1,446	1,446
Total non-current assets	40,383	58,635	44,877	45,532	45,868
Cash	332,234	327,078	284,567	307,795	340,777
Trade receivables	66,261	114,194	99,830	99,395	91,210
Other receivables	6,615	5,444	7,035	5,156	8,451
Other financial assets (CA)	6,886	24,959	46,584	46,584	46,584
Total current assets	411,996	471,675	438,016	458,931	487,022
Total Assets	452,379	530,310	482,893	504,462	532,890
LIABILITIES					
Trade payables	6,478	9,470	8,197	8,018	10,030
Other payables and accruals	75,591	107,132	76,693	75,020	71,695
Others	20,196	19,085	16,123	16,123	16,123
Total current liabilities	102,265	135,687	101,013	99,161	97,847
Deferred tax liabilities	323	309	356	356	356
Deferred considerations	2,643	6,458	4,394	4,394	4,394
Total non-current liabilities	2,966	6,767	4,750	4,750	4,750
Total liabilities	105,231	142,454	105,763	103,911	102,597
Net assets	347,148	387,856	377,130	400,551	430,293
Represented by:					
Share capital	260,605	260,605	260,605	260,605	260,605
Retained Earnings	165,598	195,983	212,081	235,502	265,244
Others	(79,055)	(68,732)	(94,463)	(94,463)	(94,463)
Total equity	347,148	387,856	378,223	401,644	431,386
Valuation Ratios					
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	2.15	1.93	1.98	1.86	1.73
P/E (x) - Adj.	16.0	12.2	12.4	13.1	11.6
Dividend yield (%)	3.36	5.37	5.37	5.19	5.77
Growth & Margins					
Growth					
Revenue	2.4%	36.4%	3.6%	-2.3%	11.6%
Gross profit	-11.1%	35.2%	-0.4%	-15.1%	14.0%
PATMI	-9.2%	39.7%	3.1%	-12.5%	6.9%
EPS	-13.3%	40.5%	4.0%	-12.0%	7.3%
Margins					
Gross profit margin	29.9%	29.6%	28.5%	24.7%	25.3%
EBITDA margin	15.9%	15.7%	15.6%	12.8%	12.3%
EBIT margin	13.7%	14.1%	14.2%	12.8%	12.3%
Key Ratios					
ROE	13.5%	16.9%	17.9%	14.7%	14.6%
ROA	10.4%	12.3%	14.0%	11.7%	11.9%



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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