



HRnetGroup Limited

Expecting growth to creep up

SINGAPORE | SERVICES | 2H23 RESULTS

26 February 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.730
FORECAST DIV	SGD 0.041
TARGET PRICE	SGD 0.850
TOTAL RETURN	22.0%

COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN) :	984
MARKET CAP (USD mn / SGD mn) :	535 / 718
52 - WK HI/LO (SGD) :	0.82 / 0.62
3M Average Daily T/O (mn) :	0.06

MAJOR SHAREHOLDERS

SIMCO GLOBAL LTD	79.6%
FMR LLC	6.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.5	5.8	2.1
STTF	1.7	2.7	(1.3)

PRICE VS. STTF



Source: Bloomberg, PSR

- Results were marginally below expectations. FY23 revenue and adjusted PATMI were 97%/95% of our forecast. 2H23 grew 5% YoY to S\$27mn. Professional recruitment revenue was weaker than expected with a decline of 30% YoY. Placements were the lowest since listing.
- Flexible staffing remained resilient. Margins were softer with the absence of pandemic-related roles. Growth was from finance and manufacturing.
- Hiring in technology roles from start-ups to semiconductors has been a growth vertical for HRnet. However, the pace of hiring in this segment has slowed significantly. Growth will now come from capturing a larger share of customer budgets. HRnet office network and sphere of service including solutions in instant pay and claims, can raise the support of client needs in the region. Flexible staffing is benefiting from a rising wage environment, tight supply of local manpower and increased outsourcing. General hiring conditions are weak, particularly in China. We lowered our FY24e earnings by 11% to S\$57mn. Our BUY recommendation is maintained. With the more tepid growth, we are reducing our valuation metric to 11x PE ex-cash FY24e (prev. 12x PE). Target price lowered from S\$0.88 to S\$0.85. It remains at a huge discount to global peers trading at an average PE of 19x.

Results at a glance

(\$'000)	2H23	2H22	YoY	Comment
Gross revenue	283,713	297,617	-4.7%	
- Prof. recruitment	31,239	44,814	-30.3%	Placements -16% YoY / Rev. per placement -17% YoY
- Flexible staffing	250,335	250,289	0.0%	Contractors +3% YoY / Rev. per contractor +3%
Gross profit	67,469	82,254	-18.0%	Lower PR and weaker FS margins
Employee expenses	-34,417	-42,343	-18.7%	Relection of fall in PR revenue
Other income	18,432	11,048	66.8%	
PATMI	35,280	32,938	7.1%	
Adj. PATMI*	27,745	26,480	4.8%	Excl. S\$5.6mn reversal of trade accruals.
DPS -Final (cents)	1.87	1.87	0.0%	

Source: Company, PSR * Adj. PATMI excludes reversal of trade accruals and fair value gains

The Positive

+ Flexible staffing (FS) is the key performer. Around 94% of FS revenue is from Singapore. 2H23 FS revenue in Singapore rose 1.8% YoY. Despite the decline in number of contractors, the rise in wages supported revenue. Government policy to drive up wages of the lower income also pushed income from government subsidies to S\$6.6mn in 2H23 (2H22: S\$1.2mn).

The Negative

- Professional recruitment (PR) is still the weak spot. The number of PR hirings in 2H23 fell 17% YoY to 2,856, due to hiring freezes and cautious sentiment. Revenue per placement declined 17% YoY as more placements were completed for junior roles.

Outlook

We are forecasting a 5% contraction in volumes for PR. There are limited indications corporates are ramping up their hiring of managerial roles in this region. FS revenue is expected to grow stronger from higher wages and improvement in volumes especially in Taiwan. The FS operations in Taiwan is beginning to hit scale and gain more traction with corporates.

Maintain BUY and lower TP of S\$0.85 (prev. S\$0.88).

HRnetGroup enjoys net cash of S\$303mn with barriers of scale with more than 500 full-time recruitment consultants across 17 cities. There is another S14mn outstanding in their committed share buyback programme.

KEY FINANCIALS

Y/E Dec (\$\$mn)	FY22	FY23	FY24e	FY25e
Gross Rev	611.8	578.5	612.2	652.1
Gross Profit	174.2	139.0	147.3	161.1
EBITDA	95.7	79.1	71.9	75.5
PATMI	67.5	63.6	56.9	59.5
PATMI - Adj.	59.8	53.1	56.9	59.5
P/B (x)	1.9	1.9	1.8	1.7
P/E (x) - Adj	12.2	13.6	12.7	12.1
ROE (%)	17.9	16.2	13.8	13.7
Div yield (%)	5.5	5.5	5.5	5.7

Source: Company, PSR

VALUATION METHOD

11x FY24e ex-cash P/E

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Financials

Income Statement

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
Revenue	590,520	611,775	578,469	612,161	652,059
Sub-contractor expenses	(415,617)	(437,621)	(439,503)	(464,826)	(490,945)
Gross Profit	174,903	174,154	138,966	147,335	161,114
Other income	15,942	19,982	28,089	14,795	13,726
Employee benefit expenses	(87,757)	(87,867)	(71,076)	(74,846)	(82,007)
Facilities and depreciation expenses	(11,629)	(11,499)	(10,836)	(10,019)	(11,278)
Selling expenses	(2,893)	(2,757)	(3,064)	(2,652)	(3,222)
Other expenses	(3,311)	(4,835)	(3,610)	(3,683)	(4,189)
Finance costs	(472)	(418)	(454)	(350)	(350)
Profit/(loss) before tax	84,783	86,760	78,015	70,580	73,793
Income tax expense	(14,516)	(14,300)	(11,956)	(11,293)	(11,807)
Minority Interest	(4,777)	(4,925)	(2,496)	(2,371)	(2,479)
PATMI	65,490	67,535	63,563	56,915	59,507
Adjusted PATMI	61,338	59,818	53,061	56,915	59,507
EBIT	83,317	86,670	79,129	71,892	75,503
EBITDA	93,367	95,691	79,129	71,892	75,503

Per share data

Y/E Dec (S cents)	FY21	FY22	FY23	FY24e	FY25e
NAVPS	38.64	37.72	39.19	41.16	43.36
EPS	6.52	6.73	6.44	5.77	6.03
Adj. EPS	6.11	5.96	5.38	5.77	6.03
DPS	4.00	4.00	4.00	4.05	4.15

Cash Flow Statement

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
PBT	84,783	86,760	78,015	70,580	73,793
Adjustments	3,305	11,000	(719)	2,255	1,295
WC changes	(23,543)	(7,845)	(13,175)	35,486	(48,410)
Cash generated from ops	64,545	89,915	64,121	108,321	26,678
Others	(11,867)	(14,676)	(6,528)	(4,341)	(4,924)
Cashflow from ops	52,678	75,239	57,593	103,980	21,754
CFI					
Purchase of PPE and intangible assets	(1,375)	(1,536)	(2,196)	(1,500)	(1,500)
Purchase of financial assets	(30,187)	(23,990)	(41,104)	-	-
Dividends received	845	907	829	843	843
Others	6,152	(4,909)	24,811	-	-
Cashflow from investments	(24,565)	(29,528)	(17,660)	(657)	(657)
CFF					
Dividends paid	(25,067)	(61,478)	(36,911)	(39,483)	(39,976)
Purchase of treasury shares	-	(10,085)	(5,431)	-	-
Repayment of leases liabilities	(7,622)	(7,172)	(6,486)	(8,500)	(8,000)
Others	(2,165)	(4,500)	(2,551)	-	-
Cashflow from financing	(34,854)	(83,235)	(51,379)	(47,983)	(47,976)
Net change in cash	(6,741)	(37,524)	(11,446)	55,340	(26,879)
Cash at the start of the period	332,234	327,078	284,567	271,586	326,926
Currency translation	1,585	(4,987)	(1,535)	-	-
Others	-	-	-	-	-
Ending cash	327,078	284,567	271,586	326,926	300,047

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Pledged deposits	1,141	1,031	1,210	1,210	1,210
Plant and equipment	1,478	1,532	2,105	1,464	1,303
Right-of-use assets	12,622	9,630	10,130	10,721	11,361
Other intangible assets	1,284	1,340	1,746	1,746	1,746
Goodwill	5,185	5,862	5,862	5,862	5,862
Other financial assets (NCA)	35,080	24,036	19,242	19,242	19,242
Deferred tax assets	1,845	1,446	1,600	1,600	1,600
Total non-current assets	58,635	44,877	41,895	41,845	42,324
Cash	327,078	284,567	271,586	326,926	300,047
Trade receivables	114,194	99,830	94,490	80,413	136,940
Other receivables	5,444	7,035	6,858	7,844	7,816
Other assets	-	1,093	3,328	3,328	3,328
Other financial assets (CA)	24,959	46,584	61,785	61,785	61,785
Total current assets	471,675	439,109	438,047	480,296	509,916
Total Assets	530,310	483,986	479,942	522,141	552,240

LIABILITIES

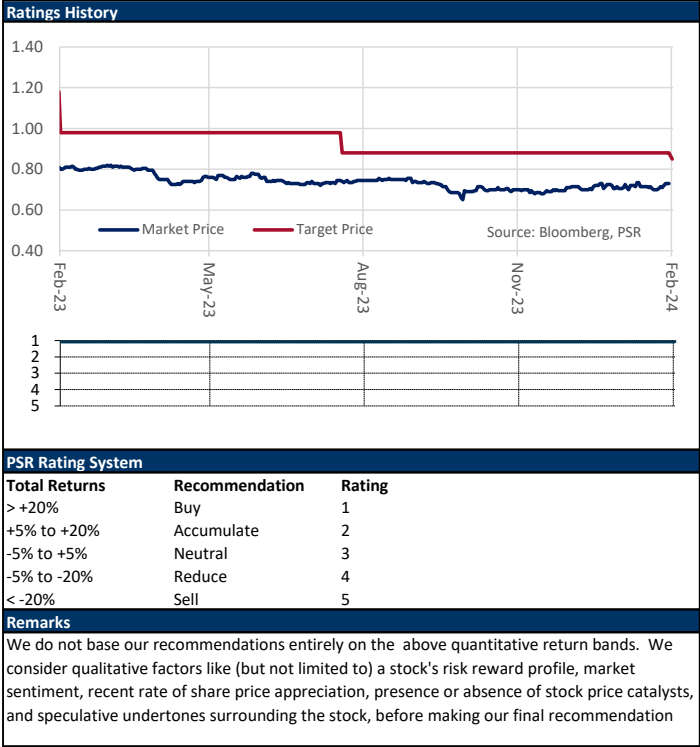
Trade payables	9,470	8,197	8,788	9,765	9,955
Other payables and accruals	107,132	76,693	57,542	78,960	86,858
Others	19,085	16,123	14,951	14,951	14,951
Total current liabilities	135,687	101,013	81,281	103,676	111,765
Deferred tax liabilities	309	356	477	477	477
Deferred considerations	6,458	4,394	5,243	5,243	5,243
Total non-current liabilities	6,767	4,750	5,720	5,720	5,720
Total liabilities	142,454	105,763	87,001	109,396	117,485
Net assets	387,856	378,223	392,941	412,745	434,755
Represented by:					
Share capital	260,605	260,605	260,605	260,605	260,605
Retained Earnings	195,983	212,081	238,743	258,547	280,557
Others	(68,732)	(94,463)	(106,407)	(106,407)	(106,407)
Total equity	387,856	378,223	392,941	412,745	434,755

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.89	1.94	1.86	1.77	1.68
P/E (x) - Adj.	11.9	12.2	13.6	12.7	12.1
Dividend yield (%)	5.48	5.48	5.48	5.55	5.68

Growth & Margins

Growth					
Revenue	36.4%	3.6%	-5.4%	5.8%	6.5%
Gross profit	35.2%	-0.4%	-20.2%	6.0%	9.4%
PATMI	39.7%	3.1%	-5.9%	-10.5%	4.6%
PATMI-adj.	41.3%	-2.5%	-11.3%	7.3%	4.6%
EPS	40.5%	4.0%	-8.7%	-9.1%	5.0%
Margins					
Gross profit margin	29.6%	28.5%	24.0%	24.1%	24.7%
EBITDA margin	15.8%	15.6%	13.7%	11.7%	11.6%
EBIT margin	14.1%	14.2%	13.7%	11.7%	11.6%
Key Ratios					
ROE	16.9%	17.9%	16.2%	13.8%	13.7%
ROA	12.3%	14.0%	13.2%	10.9%	10.8%



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