

HRnetGroup Limited

Hiring still sluggish



StocksBnB.com

SINGAPORE | SERVICES | 1H24 RESULTS

16 August 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.660
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 0.820
TOTAL RETURN	30.3%

COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN) :	981
MARKET CAP (USD mn / SGD mn) :	491 / 647
52 - WK HI/LO (SGD) :	0.76 / 0.62
3M Average Daily T/O (mn) :	0.22

MAJOR SHAREHOLDERS

SIMCO GLOBAL LTD	79.9%
FMR LLC	6.8%

- Earnings were below our expectations. 1H24 revenue and adjusted PATMI were 47%/37% of our FY24e forecast. 1H24 adjusted PATMI declined 16% YoY to S\$21mn. Professional recruitment remains the weakest segment with revenue declining 16% YoY and volumes down 20%.
- Flexible staffing revenue was more stable with a 1.3% YoY decline. Clients have become more careful in hiring decisions and rely more on flexible staffing for their hiring needs.
- The two largest markets for professional recruitment are Singapore and China. Both markets are facing clients cautious about their hiring plans and candidates cautious about switching jobs. The hiring environment has been weaker than expected. We decreased our FY24e adjusted PATMI by 6% to S\$53.5mn, with revenue lowered by 2%. Our BUY recommendation is maintained but the target price lowered from S\$0.85 to S\$0.82. We benchmark our valuations to 11x PE ex-cash FY24e. It remains a discount to global peers trading at an average PE of 21x PE and 9x EV/EBITDA.

Results at a glance

(\$'000)	1H24	1H23	YoY	Comment
Gross revenue	285,906	294,756	-3.0%	
- Prof. recruitment	28,676	34,296	-16.4%	Placements -19.9% YoY / Rev. per placement +4.5% YoY
- Flexible staffing	255,264	258,572	-1.3%	Contractors -3.8% YoY / Rev. per contractor -4.4% YoY
Gross profit	62,999	71,497	-11.9%	Lower PR and weaker FS margins
Employee expenses	-33,193	-36,659	-9.5%	Relection of fall in PR revenue
Other income	6,512	9,657	-32.6%	Lower govt. grants.
PATMI	21,682	28,283	-23.3%	
Adj. PATMI*	21,190	25,316	-16.3%	Excl. S\$2.3mn reversal of trade accruals (1H23: S\$3.7mn).
DPS -Interim (cents)	1.87	1.87	0.0%	80% payout ratio (1H23: 62%).

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

The Positive

+ Flexible staffing (FS) stable. The moderation in flexible staffing levels was due to a 3.8% decline in volume. Singapore (69% of group FS) dropped 2.1% YoY followed by modest growth of 0.4% YoY in North Asia (24%). Demand for FS across verticals has been stable. There was some residual impact of Covid-related FS still underway in 1Q23.

The Negative

- Professional recruitment (PR) still sliding. PR placements declined almost 20% YoY to 2,318. The worst hit has been North Asia (66% of group PR) with a revenue drop of 13% YoY to S\$19mn. The hiring decline is slowing from the massive 35% YoY placements drop in 2H23.

Outlook

There are no indications of the decline in PR placements for 2H24. Some growth opportunities in AI and semiconductor hiring in North Asia are emerging. However, the macro backdrop is weak with cautious corporates and candidates. FS will be stable with HRnet technology and balance sheet a major competitive edge. HRnet is also expanding into new segments. These include CREW (blue-collar and foreign worker staffing) and EASE (instant job recruitment). Delayed receipt of government grants into 2H24 will also support earnings.

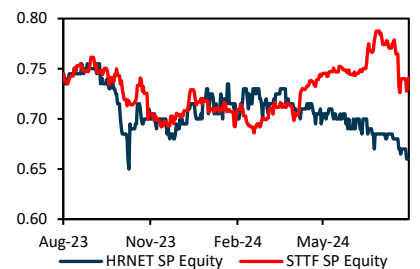
Maintain BUY and lower TP of S\$0.82 (prev. S\$0.85)

HRnetGroup enjoys an attractive ROE (>50% excluding cash), strong net cash of S\$246.8mn and a dividend yield of 6%.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.6)	(4.2)	(4.9)
STTF	(4.6)	0.9	5.4

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$mn)	FY22	FY23	FY24e	FY25e
Gross Rev	611.8	578.5	598.4	637.3
Gross Profit	174.2	139.0	142.3	155.6
EBITDA	95.7	79.1	67.7	73.4
PATMI	67.5	63.6	53.5	57.8
PATMI - Adj.	59.8	53.1	53.5	57.8
P/B (x)	1.7	1.7	1.6	1.5
P/E (x) - Adj	11.1	12.3	12.2	11.3
ROE (%)	17.9	16.2	13.1	13.5
Div yield (%)	6.1	6.1	6.1	6.3

Source: Company, PSR

VALUATION METHOD

11x FY24e ex-cash P/E

Paul Chew (+65 6212 1851)
Head Of Research
paulchewkl@phillip.com.sg

Financials

Income Statement

Y/E Dec, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
Revenue	590,520	611,775	578,469	598,367	637,297
Sub-contractor expenses	(415,617)	(437,621)	(439,503)	(456,035)	(481,660)
Gross Profit	174,903	174,154	138,966	142,332	155,637
Other income	15,942	19,982	28,089	12,462	13,723
Employee benefit expenses	(87,757)	(87,867)	(71,076)	(72,305)	(79,219)
Facilities and depreciation expenses	(11,629)	(11,499)	(10,836)	(9,679)	(10,895)
Selling expenses	(2,893)	(2,757)	(3,064)	(2,562)	(3,113)
Other expenses	(3,311)	(4,835)	(3,610)	(3,558)	(4,047)
Finance costs	(472)	(418)	(454)	(350)	(350)
Profit/(loss) before tax	84,783	86,760	78,015	66,340	71,737
Income tax expense	(14,516)	(14,300)	(11,956)	(10,614)	(11,478)
Minority interest	(4,777)	(4,925)	(2,496)	(2,229)	(2,410)
PATMI	65,490	67,535	63,563	53,497	57,849
Adjusted PATMI	61,338	59,818	53,061	53,546	57,849
EBIT	83,317	86,670	79,129	67,670	73,373
EBITDA	93,367	95,691	79,129	67,670	73,373

Per share data

Y/E Dec (\$ cents)	FY21	FY22	FY23	FY24e	FY25e
NAVPS	38.64	37.72	39.19	40.81	42.88
EPS	6.52	6.73	6.44	5.42	5.86
Adj. EPS	6.11	5.96	5.38	5.42	5.86
DPS	4.00	4.00	4.00	4.00	4.15

Cash Flow Statement

Y/E Dec, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
PBT	84,783	86,760	78,015	66,340	71,737
Adjustments	3,305	11,000	(719)	4,588	1,298
WC changes	(23,543)	(7,845)	(13,175)	36,479	(49,062)
Cash generated from ops	64,545	89,915	64,121	107,407	23,973
Others	(11,867)	(14,676)	(6,528)	(3,663)	(4,598)
Cashflow from ops	52,678	75,239	57,593	103,745	19,376
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)	(39,483)
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)	(47,483)
Net change in cash	(6,741)	(37,524)	(11,446)	55,105	(28,764)
Cash at the start of the period	332,234	327,078	284,567	271,586	326,691
Currency translation	1,585	(4,987)	(1,535)	-	-
Others	-	-	-	-	-
Ending cash	327,078	284,567	271,586	326,691	297,927

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'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	326,691	297,927
Trade receivables	114,194	99,830	94,490	76,472	135,960
Other receivables	5,444	7,035	6,858	7,513	7,793
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	475,789	506,793
Total Assets	530,310	483,986	479,942	517,634	549,117

LIABILITIES

Trade payables	9,470	8,197	8,788	9,373	9,929
Other payables and accruals	107,132	76,693	57,542	76,073	86,224
Others	19,085	16,123	14,951	14,951	14,951
Total current liabilities	135,687	101,013	81,281	100,397	111,104
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	106,117	116,824

Net assets	387,856	378,223	392,941	411,517	432,294
Represented by:					
Share capital	260,605	260,605	260,605	260,605	260,605
Retained Earnings	195,983	212,081	238,743	254,986	275,763
Others	(68,732)	(94,463)	(106,407)	(106,407)	(106,407)
Total equity	387,856	378,223	392,941	409,184	429,961

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.71	1.75	1.68	1.62	1.54
P/E (x) - Adj.	10.8	11.1	12.3	12.2	11.3
Dividend yield (%)	6.06	6.06	6.06	6.06	6.29
Growth & Margins					
Growth					
Revenue	36.4%	3.6%	-5.4%	3.4%	6.5%
Gross profit	35.2%	-0.4%	-20.2%	2.4%	9.3%
PATMI	39.7%	3.1%	-5.9%	-15.8%	8.1%
PATMI-adj.	41.3%	-2.5%	-11.3%	0.9%	8.0%
EPS	40.5%	4.0%	-8.7%	-14.5%	8.4%
Margins					
Gross profit margin	29.6%	28.5%	24.0%	23.8%	24.4%
EBITDA margin	15.8%	15.6%	13.7%	11.3%	11.5%
EBIT margin	14.1%	14.2%	13.7%	11.3%	11.5%
Key Ratios					
ROE	16.9%	17.9%	16.2%	13.1%	13.5%
ROA	12.3%	14.0%	13.2%	10.3%	10.5%

Ratings History


1				
2				
3				
4				
5				

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

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumic@phillip.com.sg

US Tech Analyst (Hardware/E-commerce/ETF)

Helena Wang – helenawang@phillip.com.sg

Research Admin

Qystina Azli – qystina@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

US Tech Analyst (Digital Entertainment/Semicons)

Jonathan Woo – jonathanwookj@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.