

HRnetGroup Limited

Collecting income, no growth yet

SINGAPORE | SERVICES | 2H24 RESULTS

8 March 2025

- Results were below our expectations. FY24 revenue and adjusted PATMI were 95%/85% of our FY24e forecast. Adding back the S\$3.1mn delay in progressive wage credit scheme (PWCS) payment, the results will be 91%. Dividends were maintained at 4 cents in FY24, with a payout ratio of 85%.
- Professional recruitment remains the weakest segment, declining 16% in 2H24. It has been on a decline for the past 2.5 years. Weak and uncertain macro conditions are causing delays or hesitancy in hiring. Flexible staffing revenue is stable with 1% growth in 2H24.
- HRnet is widening its strategy to access a larger recruitment market share. The company is targeting more C-suite roles and entering the recruitment of foreign manpower in the service industry. We are lowering FY25e earnings by 14%. Recovery in recruitment has been delayed and may worsen with the current macro uncertainty. We are still forecasting modest growth in FY25e including the delayed PWCS payment and additional growth from new target segments. Our recommendation is downgraded from BUY to ACCUMULATE and the target price lowered to S\$0.78 (prev. S\$0.82). The company is paying an attractive dividend yield of 5.8% with planned share buyback of S\$11.2mn (~16mn shares) backed by a net cash of S\$258mn.

ACCUMULATE (Downgraded)

LAST CLOSE PRICE	SGD 0.695
FORECAST DIV	SGD 0.042
TARGET PRICE	SGD 0.780
TOTAL RETURN	18.2%

COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN):	980
MARKET CAP (USD mn / SGD mn):	507 / 676
52 - WK HI/LO (SGD):	0.74 / 0.66
3M Average Daily T/O (mn):	0.07

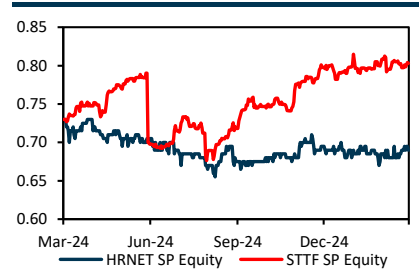
MAJOR SHAREHOLDERS

SIMCO GLOBAL LTD	80.0%
FMR LLC	7.6%

TOTAL PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.5	0.0	2.2
STTF	2.5	3.2	4.2

PRICE VS. STTF



Source: Bloomberg, PSR

Results at a glance

(\$'000)	2H24	2H23	YoY	Comment
Gross revenue	281,090	283,713	-0.9%	
- Prof. recruitment	26,260	31,239	-15.9%	Placements -22% YoY / Rev. per placement +8% YoY
- Flexible staffing	252,692	250,335	0.9%	Contractors -4% YoY / Rev. per contractor +5% YoY
Gross profit	46,658	67,469	-30.8%	Lower FS margin due to competition.
Employee expenses	-30,749	-34,417	-10.7%	Lower profit sharing incentive.
Other income	8,932	18,432	-51.5%	Lower govt. grants and financial assets loss.
PATMI	28,059	35,280	-20.5%	
Adj. PATMI*	29,818	28,001	6.5%	Excl. S\$2.0mn fair value loss (2H23: +S\$1.8mn).
DPS -Final (cents)	2.13	2.13	0.0%	85% payout ratio (2023: 60%).

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

The Positive

+ Flexible staffing (FS) remains stable. FS revenue in 2H24 was stable at S\$252mn despite the volume contraction of 3.6% YoY. However, gross profits declined 9% YoY due to margin pressure in Singapore. North Asia grew 3% YoY gross profits in 2H24 but only represented 23% of total FS contribution. Singapore is 73% of FS's gross profit.

The Negative

- Professional recruitment (PR) volumes still contracting. PR placements volume declined 22% YoY in 2H24 to 2,240 (1H23 -20% YoY). The largest geography, North Asia, experienced a 19% YoY decline in revenue. A positive has been an 8% rise in revenue per placement.

Outlook

HRnet is undertaking several initiatives to cope with the soft recruitment environment. Firstly, the company is realigning costs more aggressively. The management team will be right-sizing and consolidating more space to lower rental costs. Secondly, PR will target more C-Suite placements. Thirdly, HRnet is expanding into HR consulting and establishing CREW for blue-collar and foreign worker staffing.

Downgrade to ACCUMULATE from BUY with lower TP of S\$0.78 (prev. S\$0.82)

HRnetGroup enjoys an attractive ROE (>50% excluding cash), substantial net cash of S\$258mn and a dividend yield of 6% backed by the annual free cash flow of S\$53mn.

KEY FINANCIALS

Y/E Dec (\$'mn)	FY23	FY24	FY25e	FY26e
Gross Rev	578.5	567.0	583.2	600.6
Gross Profit	139.0	122.2	125.8	131.6
EBITDA	89.2	56.9	62.2	62.5
PATMI	63.6	44.5	49.5	49.3
PATMI - Adj.	53.2	45.4	49.5	49.3
P/B (x)	1.7	1.7	1.7	1.6
P/E (x) - Adj	12.9	15.0	13.8	13.8
ROE (%)	16.2	11.3	12.2	11.8
Div yield (%)	5.8	5.8	6.0	6.1

Source: Company, PSR

VALUATION METHOD

11x FY25e ex-cash P/E

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

Financials
Income Statement

Y/E Dec, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
Revenue	611,775	578,469	566,996	583,181	600,557
Sub-contractor expenses	(437,621)	(439,503)	(444,786)	(457,339)	(468,953)
Gross Profit	174,154	138,966	122,210	125,842	131,603
Other income	19,982	28,089	15,444	15,539	13,006
Employee benefit expenses	(87,867)	(71,076)	(63,942)	(64,054)	(66,986)
Facilities and depreciation expenses	(11,499)	(10,836)	(11,407)	(10,067)	(9,870)
Selling expenses	(2,757)	(3,064)	(3,032)	(2,517)	(2,632)
Other expenses	(4,835)	(3,610)	(2,647)	(2,894)	(3,158)
Finance costs	(418)	(454)	(623)	(623)	(623)
Profit/(loss) before tax	86,760	78,015	56,003	61,226	61,339
Income tax expense	(14,300)	(11,956)	(9,724)	(9,796)	(10,121)
Minority Interest	(4,925)	(2,496)	(1,761)	(1,957)	(1,949)
PATMI	67,535	63,563	44,518	49,473	49,269
Adjusted PATMI	59,818	53,240	45,351	49,473	49,269
EBIT	86,670	79,129	56,889	62,163	62,549
EBITDA	97,813	89,155	56,889	62,163	62,549

Per share data

Y/E Dec (\$ cents)	FY22	FY23	FY24	FY25e	FY26e
NAVPS	37.68	39.81	40.22	41.47	42.54
EPS	6.73	6.44	4.53	5.05	5.03
Adj. EPS	5.96	5.39	4.63	5.05	5.03
DPS	4.00	4.00	4.00	4.15	4.21

Cash Flow Statement

Y/E Dec, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
PBT	86,760	78,015	56,003	61,226	61,339
Adjustments	11,000	(719)	3,153	3,604	3,020
WC changes	(7,845)	(13,175)	(2,987)	(930)	(1,421)
Cash generated from ops	89,915	64,121	56,169	63,900	62,938
Others	(14,676)	(6,528)	(4,568)	(3,171)	(4,029)
Cashflow from ops	75,239	57,593	51,601	60,728	58,909
CFI					
Purchase of PPE and intangible assets	(1,536)	(2,196)	(2,173)	(1,500)	(1,500)
Purchase of financial assets	(23,990)	(41,104)	(60,968)	-	-
Dividends received	907	829	894	914	914
Others	(4,909)	24,811	49,489	-	-
Cashflow from investments	(29,528)	(17,660)	(12,758)	(586)	(586)
CFF					
Dividends paid	(61,478)	(36,911)	(39,255)	(39,203)	(40,673)
Purchase of treasury shares	(10,085)	(5,431)	(3,343)	-	-
Repayment of leases liabilities	(7,172)	(6,486)	(5,866)	(8,000)	(8,000)
Others	(4,500)	(2,551)	(3,006)	-	-
Cashflow from financing	(83,235)	(51,379)	(51,470)	(47,203)	(48,673)
Net change in cash	(37,524)	(11,446)	(12,627)	12,939	9,650
Cash at the start of the period	327,078	284,567	271,586	258,398	271,337
Currency translation	(4,987)	(1,535)	(561)	-	-
Others	-	-	-	-	-
Ending cash	284,567	271,586	258,398	271,337	280,987

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$S'000)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Pledged deposits	1,031	1,210	1,182	1,182	1,182
Plant and equipment	1,532	2,105	2,827	1,644	1,349
Right-of-use assets	9,630	10,130	12,920	12,460	12,230
Other intangible assets	1,340	1,746	4,502	4,502	4,502
Goodwill	5,862	5,862	6,310	6,310	6,310
Other financial assets (NCA)	24,036	19,242	19,748	19,748	19,748
Deferred tax assets	1,446	1,600	2,713	2,713	2,713
Total non-current assets	44,877	41,895	50,202	48,559	48,034
Cash	284,567	271,586	258,398	271,337	280,987
Trade receivables	99,830	94,490	93,298	101,096	99,090
Other receivables	7,035	6,858	7,313	7,263	7,747
Other assets	1,093	3,328	4,325	4,325	4,325
Other financial assets (CA)	46,584	61,785	68,745	68,745	68,745
Total current assets	439,109	438,047	432,079	452,765	460,894
Total Assets	483,986	479,942	482,281	501,325	508,928

LIABILITIES

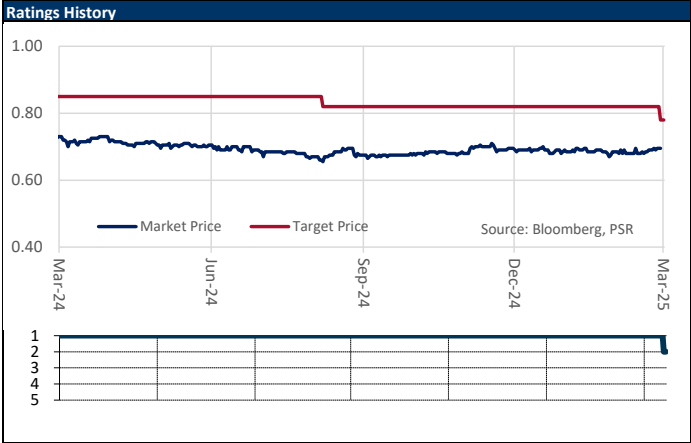
Trade payables	8,197	8,788	9,623	10,087	10,181
Other payables and accruals	76,693	57,542	55,357	61,711	58,674
Others	16,123	14,951	13,629	13,629	13,629
Total current liabilities	101,013	81,281	78,609	85,426	82,484
Deferred tax liabilities	356	477	437	437	437
Deferred considerations	4,394	5,243	9,057	9,057	9,057
Total non-current liabilities	4,750	5,720	9,494	9,494	9,494
Total liabilities	105,763	87,001	88,103	94,920	91,978
Net assets	378,223	392,941	394,178	406,404	416,949
Represented by:					
Share capital	260,605	260,605	260,605	260,605	260,605
Retained Earnings	212,081	238,743	243,999	256,225	266,770
Others	(94,463)	(106,407)	(110,426)	(110,426)	(110,426)
Total equity	378,223	392,941	394,178	406,404	416,949

Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/NAV (x)	1.84	1.75	1.73	1.68	1.63
P/E (x) - Adj.	11.7	12.9	15.0	13.8	13.8
Dividend yield (%)	5.76	5.76	5.76	5.97	6.06

Growth & Margins

Growth					
Revenue	3.6%	-5.4%	-2.0%	2.9%	3.0%
Gross profit	-0.4%	-20.2%	-12.1%	3.0%	4.6%
PATMI	3.1%	-5.9%	-30.0%	11.1%	-0.4%
PATMI-adj.	-2.5%	-11.0%	-14.8%	9.1%	-0.4%
EPS	4.0%	-8.7%	-28.1%	9.3%	0.6%
Margins					
Gross profit margin	28.5%	24.0%	21.6%	21.6%	21.9%
EBITDA margin	16.0%	15.4%	10.0%	10.7%	10.4%
EBIT margin	14.2%	13.7%	10.0%	10.7%	10.4%
Key Ratios					
ROE	17.9%	16.2%	11.3%	12.2%	11.8%
ROA	14.0%	13.2%	9.2%	9.9%	9.7%



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

Research Admin

Qystina Azli - qystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

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

Helena Wang – helenawang@phillip.com.sg

Construction & Semiconductor

Yik Ban Chong (Ben) – chongyb@phillip.com.sg

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 (DGEX)
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

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