



# HRnetGroup Limited

## Hire returns

### SINGAPORE | SMALL-MID CAP | INITIATION

- One of the largest recruitment agencies in Asia-Pac ex-Japan with an asset-light, net-cash (S\$332mn) and high-return (FY21e ex-cash ROE of 152%) business.
- Economic recovery to revive employment in key service sectors. Higher contract volumes and rates expected for both permanent recruitment (PR) and flexible staffing (FS) solutions.
- Trades at 16.2x P/E against peer average of 24.4x, even though it is the most profitable employment agency in town. After net cash of S\$332mn, it trades at ex-cash P/Es of 9.2x/8.9x on FY21e/22e EPS. We initiate coverage with BUY and a TP of S\$1.00, set at 14x FY21e ex-cash P/E.

### Company Background

Listed on the main board of the SGX on 16 June 2017, HRnetGroup is the largest recruitment agency in Asia, ex-Japan. It has over 900 consultants in 13 Asian cities. Singapore is its stronghold, contributing 54.5% to its FY20 gross profit. PR generated 56% of its FY20 gross profit and FS, 43%. Other services include payroll processing and outsourcing of recruitment processes.

### Investment Merits

- Most profitable of them all.** As a human-resource business, its operations do not require much PPE. Its 152% ex-cash ROE can be attributed to strong income generation built on scale and reputable brands, led by an experienced board and management team. According to Frost & Sullivan, HRnet is the largest employment agency in Singapore with a 20.5% market share based on 2015 revenue. In a recent ACRA compilation, HRnet remained the largest and most profitable recruitment service player in Singapore.
- High barriers to entry for FS and scale barriers for PR.** Complementing each other, PR performs well during economic expansion while FS protects HRnet during downturns. Creating scale in both trades is not easy. FS requires a lot of liquid capital. Contract employees are frequently paid upfront before clients reimburse recruitment agencies. A strong balance sheet is therefore required to enter and grow this business. On the other hand, PR faces high barriers to scale. To increase volume, PR firms need to be able to manage and train batches of headhunters effectively. It took HRnet years to find a golden methodology for its PR business.
- Turnaround in hiring.** In 4Q20 and 1Q21, 18,700 and 17,600 new jobs were created in Singapore, following renewed hiring by the F&B, community, social and personal service industries. HRnet's PR and FS volumes and rates increased, driven by urgent market needs to fill positions left vacant during the pandemic. We expect FY21e bottom line to improve 1.9% YoY, after accounting for easing Covid-19 government grants.
- Cash-rich and cheap.** HRnet is trading at 16.2x FY21e P/E, significantly lower than its peer average of 24.4x. Stripping out net cash of S\$332.2mn which is equivalent to 43% of its market cap, it trades at ex-cash P/Es of 9.2x/8.9x on FY21e/22e EPS. A strong cash hoard positions HRnet for any earnings-accretive North Asian opportunities that may come its way.

We initiate coverage with a BUY rating. Our target price of S\$1.00 is set at 14x FY21e ex-cash P/E (net of interest income after tax), given that HRnet has been generating superior ROEs than most regional and global recruitment peers. Historical high of HRnet's ex-cash P/E is c.14x.

**16 July 2021**

### BUY (Initiation)

LAST CLOSE PRICE	SGD 0.770
FORECAST DIV	SGD 0.026
TARGET PRICE	SGD 1.000
TOTAL RETURN	33.2%

### COMPANY DATA

BLOOMBERG CODE:	HRNET SP
O/S SHARES (MN):	1,003
MARKET CAP (USD mn / SGD mn):	570 / 772
52 - WK HI/LO (SGD):	0.78 / 0.44
3M Average Daily T/O (mn):	0.84

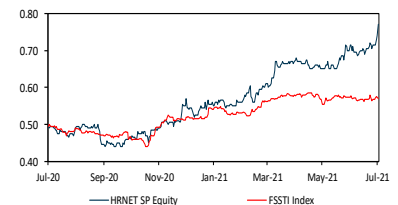
### MAJOR SHAREHOLDERS (%)

SIMCO GLOBAL LTD	77.7%
TECHNOPRO HOLDINGS INC	3.0%
FMR LLC	2.6%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.5	13.8	40.9
STI RETURN	0.0	0.3	12.6

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (S\$'000)	FY19	FY20	FY21e	FY22e
Gross Rev	423,081	433,041	506,948	535,170
Gross Profit	145,558	129,346	159,472	170,219
EBITDA	73,708	63,401	66,653	70,906
NPAT	55,776	49,789	50,733	52,551
P/B (x)	1.80	2.23	2.08	1.94
P/E (x)	12	12	16	16
ROE (%)	16	14	14	13
Div yield (%)	4.50	4.50	3.38	3.51

Source: Company, PSR

### VALUATION METHOD

14x FY21e ex-cash P/E

Tan Jie Hui (+65 6212 1850)

Research Analyst  
tanjh@phillip.com.sg

*The report is produced by Phillip Securities Research under the 'Research Talent Development Grant Scheme' (administered by SGX).*

## REVENUE

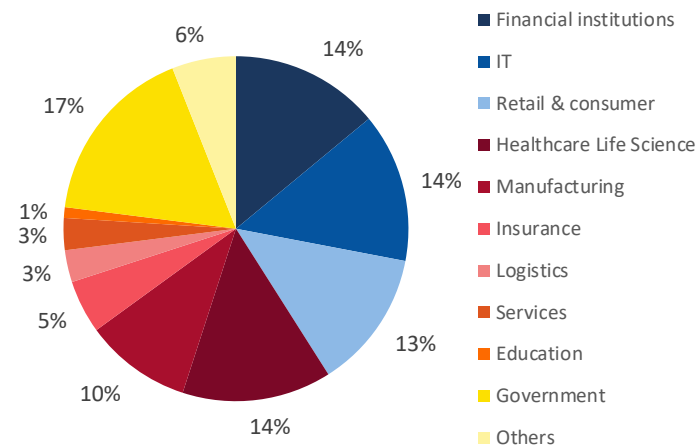
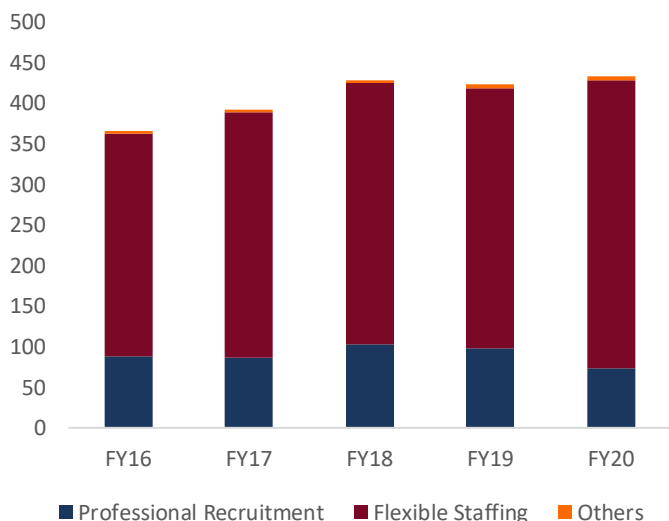
HRnet has two main businesses: PR, which formed 17% of its FY20 revenue and FS, which formed 82%. Other services include payroll processing and outsourcing of recruitment processes (1%). HRnet has clients spanning industries such as financial institutions, information technology, retail and consumer, manufacturing and government, and consumer, manufacturing and government. Its top 10 and 5 clients contributed 22.0% and 14.8% to its FY20 revenue respectively.

Figure 1: Top 5 clients' contributions

Top 5 clients	Contribution
Supermarket chain	4%
Singapore bank	4%
Asian conglomerate	3%
European bank	2%
Health Hub	2%
Contribution from top 5	15%
Contribution from top 10	22%

Figure 2: FS historically contributes the bulk of HRnet's revenue (\$\$mn)

Figure 3: Revenue contributions by trade sector in FY20

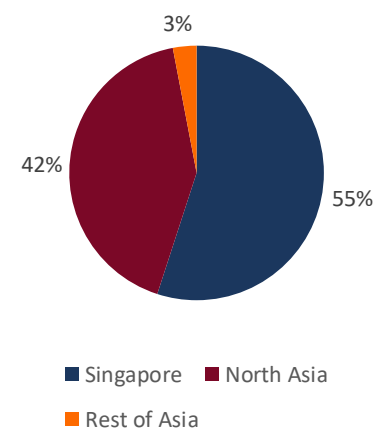
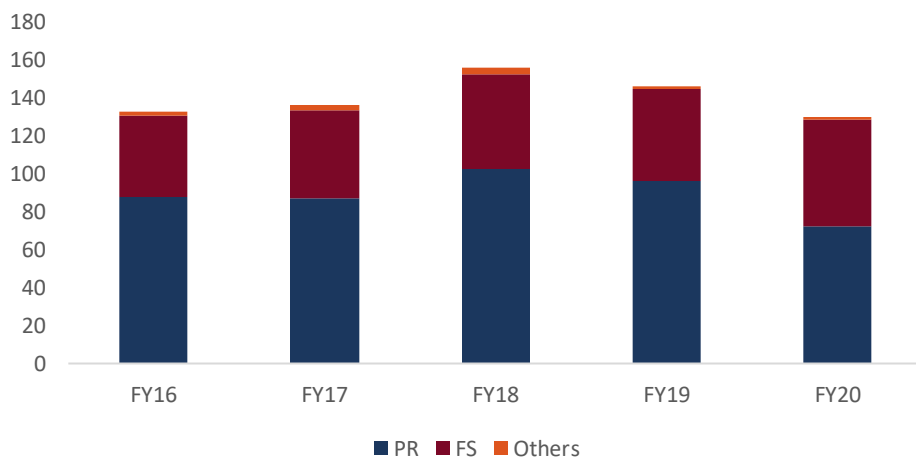


Source: Company, PSR

In terms of FY20 gross profit, PR and FS contributed 56% and 43% respectively. PR generates impressive gross margins of 98% while gross margins for FS are lower at 15%. For FS, salaries and wages of contractor employees are recognised as revenue. For PR, salaries and wages paid to the same employees are recognised as cost of sales. Singapore continues to be HRnet's stronghold in terms of market, contributing 55% to its FY20 gross profit.

Figure 5: FY20 gross profit by geographical market

Figure 4: PR accounts for the biggest chunk of HRnet's gross profit (\$\$mn)



Source: Company, PSR

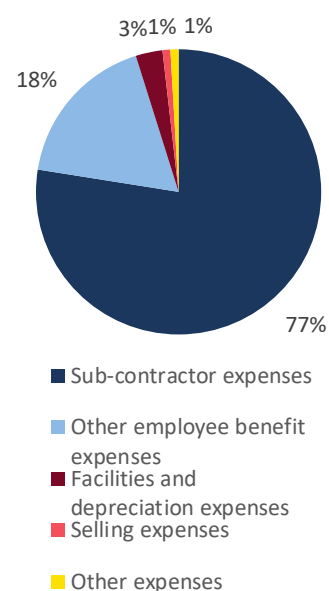
Source: Company, PSR

## EXPENSES

FY16-20 gross margins ranged from 30% to 36% after sub-contractor expenses. The largest cost, sub-contractor expenses, contributed 77% to FY20 operating expenses. They are a direct function of revenue, which primarily consists of the payroll costs of contractor employees. Employee benefits made up 18% of FY20 operating expenses. These are variable incentives on top of employees' fixed remuneration. At typically 50% of HRnet's gross profit, the incentives encourage employees to work towards raising the profitability of the group, driving its productivity.

Total operating expenses in FY20 dropped by 7.1% to S\$88.1m from S\$94.9m in FY19. This was aided by lower profit-sharing incentives of S\$2.7mn, a Chinese government exemption of S\$0.9mn in contribution to social insurance and S\$1.4mn of savings in business travel.

Figure 6: FY20 operating expenses



Source: Company, PSR

## OTHER INCOME

- Government subsidies.** HRnet currently benefits from various government subsidies, including pandemic-related relief schemes and incentives by the governments of the countries it operates in. In 2021, we expect government subsidies to comprise mainly Singapore's Wage Credit Scheme and Job Supports Scheme, which was extended to 13 June 2021. Phase 2 of the new Job Growth Incentive is expected to spur PR revenue in FY21.
- Gains on disposal of investments.** As seasoned human-resource operators, HRnet trades on a portfolio of global HR marketable securities. HRnet tracks and monitors these to gain deeper insights into market trends and activities on the ground. Over the past five years, it has booked average capital gains of S\$2mn from divestments.

Figure 7: Capital gains from divestments (S\$'000)

S\$'000	FY16	FY17	FY18	FY19	FY20
Gain on disposal of investments	69	30	1040	6096	2551

Source: Company, PSR

## BALANCE SHEET & CASHFLOW

**Asset-light business; strong operating cash flows...** As of FY20, 73% of its S\$452mn assets were cash and cash equivalents. Strong net cash of S\$332.2mn was strengthened by S\$66mn in FY20, from net positive operating cashflows of S\$104mn. This was offset by S\$41mn used to pay dividends, repay lease liabilities and purchase treasury shares. Operating cash flows from FY16-FY20 averaged S\$69mn per year. As of FY20, HRnet had no borrowings.

**... with hardly any capex.** HRnet's operations do not require a lot of PPE. PPE over the past five years averaged S\$1.2mn, constituting 0.3% of total assets. Historical capex in the past five years averaged S\$1.2mn. Capex is expected to remain minimal.

**Invests opportunistically in human-resource companies...** Short-term trades and long-term investments are booked under other financial assets. Over the past five years, HRnet had invested an average of S\$8.8mn. Purchases increased 2-fold in FY20 as it took advantage of share-price crashes during Covid-19 to snap up some human-resource related equities. Current financial assets represent 2% of assets and non-current financial assets, 5% (Appendix II).

Figure 8: Investments in other HR-related equities

Financial assets (S\$'000)	FY16	FY17	FY18	FY19	FY20
Purchase	(432)	(4,387)	(17,645)	(6,594)	(14,926)

Source: Company, PSR

**... including itself.** In 2019, it bought back 572,000 shares for S\$330,897. HRnet bought back 6.3mn of its own shares for a total of S\$2.8mn in 2020.

**Sustainable dividend policy.** HRnet generally pays out 50% of its net profits, subject to discretionary adjustments for one-off and/or other exceptional items. Considering its debt-free balance sheet, strong cash flow generation and low capex needs, we believe it can sustain its current payout levels.

Figure 9: HRnet's historical dividend payouts since listing in 2017

	FY17	FY18	FY19	FY20
EPS (cents)	4.59	4.77	5.13	4.67
DPS (cents)	2.30	2.80	2.80	2.50
Payout ratio (%)	50.20	53.70	50.60	50.30
Dividend yield (%)	3.00	3.50	4.50	4.50

Source: Company, PSR

Figure 10: FY20 balance sheet

FY20 asset breakdown	% of assets
Cash and cash equivalents	73%
Trade receivables	15%
Other financial assets (NCA)	5%
Right-of-use assets	2%
Other financial assets (CA)	2%
Other receivables and prepayments	1%
Goodwill	1%
Others	1%

FY20 liabilities breakdown	% of liabilities
Other payables and accruals	72%
Income tax payable	10%
Trade payables	6%
Lease liabilities	6%
Deferred considerations (CA)	4%
Deferred considerations (NCA)	3%
Others	0%

Source: Company, PSR

## INVESTMENT MERITS

**1. Most profitable of them all.** As a human-resource business, its operations do not require much PPE. High ex-cash ROEs are attributable to HRnet’s strong income-generating business, which is built on scale, little PPE and reputable brands, led by an experienced management team which is skilful in identifying talents. While employees are incentivised to be productive, HRnet has also been controlling costs as well. Reflecting this, it has been able to generate steady and consistent gross and net margins of 30-36% and 11-13% respectively. These tower above the net margins of its key regional competitors, which range from -17% to 7%. According to an independent market research report by Frost & Sullivan, HRnet is the largest employment agency in Singapore, with a 20.5% market share based on 2015 revenue. In HRnet’s latest compilation of ACRA company filings in February 2019, it maintained its position as the largest and most profitable recruitment service player in Singapore (Fig 11).

Figure 12: High ex-cash ROEs since listing in 2017

	FY17	FY18	FY19	FY20
ROE ex cash	147%	83%	69%	334%

Source: Company, PSR

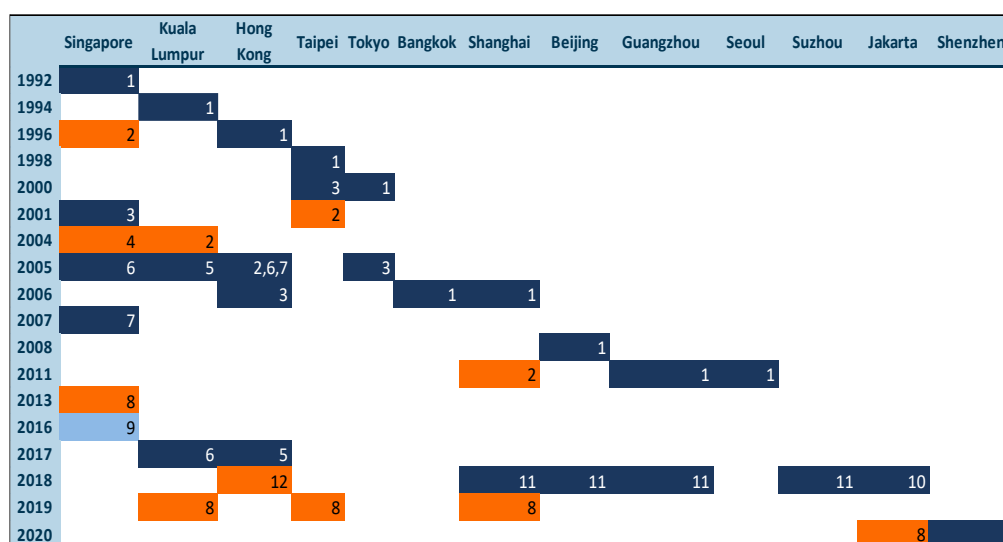
Figure 11: Comparison of key players, based on FY18 data

Company	Revenue (S\$mn)	Net profit before tax (S\$mn)	Licensed Consultants
HRnetGroup	298.2	37.2	299
Persol Group	216.8	7.9	312
Adecco	143.2	2.8	131
Manpower Group	85.6	3.6	65
Randstad	71.0	-5.5	122
Robert Walters	67.6	-4.5	118
Recruit Holdings	35.8	0.7	66
Korn Ferry	25.0	2.8	83
Page Group	17.2	0.9	81
Heidrick & Struggles	14.9	-2.6	21
JAC Recruitment Asia	8.0	0.6	58
	983.3	43.9	1356

Source: Company, ACRA company filings accessed in February 2019

**2. High barriers to entry for FS and scale barriers for PR.** Complementing each other, PR performs well during economic expansion while FS protects HRnet during downturns. Creating scale in both trades is not easy. FS faces high barriers to entry as it requires a lot of liquid capital. Contract employees are frequently paid upfront before clients’ reimbursement. Therefore, a strong balance sheet is required to be able to initiate and grow this business. On the other hand, PR faces high barriers to scale. To increase volume, PR firms need to be able to manage and train batches of headhunters effectively. It took HRnet years to find a golden methodology for its PR business. Since listing, HRnet has grown rapidly in fast-growing economies (Fig.13). This has given HRnet a greater catchment of candidates, allowing it to provide more staff and increase contract volumes.

Figure 13: HRnet's expansion journey since inception



Source: Company, PSR

Legend:

1 HRnetOne	PR
2 Recruit Express	FS
3 PeopleSearch	PR
4 Recruit Express Services	FS
5 PeopleFirst	PR
6 Recruit Legal	PR
7 SearchAsia Consulting	PR
8 RecruitFirst	FS
9 YesPay	Tech
10 HRnetRimbun	PR
11 REForce	PR
12 Centre Point Personnel	FS

**3. Turnaround in hiring.** A turnaround in the Singapore economy led to a rebound in employment in key service sectors in 4Q20 and 1Q21. Mirroring this, 18,700 and 17,600 new service jobs were created, led by renewed hiring by the F&B, community, social and personal service industries (Fig. 14). Unemployment rates in Singapore dwindled from their high of 3.5% in September 2020 to 2.9% in March 2021. This signals improved hiring confidence among employers, which we believe will boost the volume of HRnet’s PR business. Billing value per PR placement has also been climbing for HRnet. This reflects companies’ demand for quality employees to be filled on short notice as soon as they are out of their hiring freezes.

In the FS business, there has been an equal spurt in both rates and volumes. This is led by companies requesting for more roles to be filled on temporary or short-term contracts. ManpowerGroup’s Employment Outlook for 2021, which is a survey of over 45,000 employers in 43 countries, found that hiring optimism is only tempered by the highest level of global talent shortages in 15 years. About 69% of the employers polled reported difficulties in filling vacancies. Even for mid-senior level roles, some are filling C-suite executives on an interim basis before possible conversion after 6-12 months. Given that some foreign workers are unable to return from their hometowns due to the pandemic and tightened rules for foreign hiring in Singapore, rates offered for FS roles have increased. We are expecting the FS growth spurt to offset the slack in other income, as some pandemic-related government schemes taper off.

Figure 14: Singapore’s employment numbers grew for the first time in 1Q21 since Covid-19 ('000 persons)

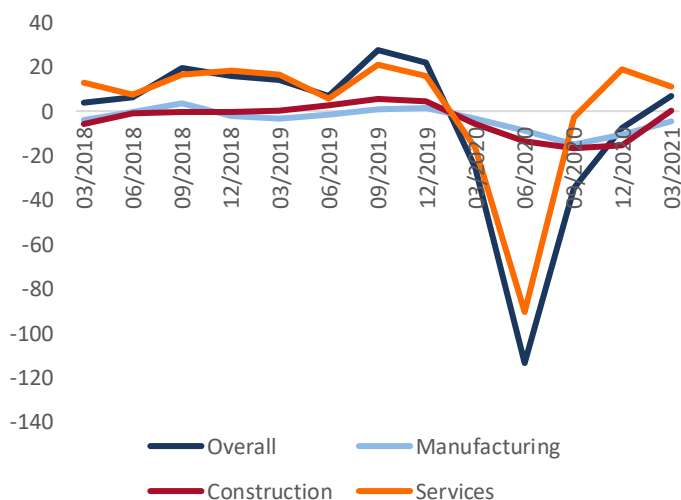


Figure 16: GDP growth nosedived in FY20. A sharp rebound is expected in FY21e, led by China and Taiwan

GDP growth rates (%)	FY19	FY20	FY21e	1Q21
China	5.95	2.30	8.40	18.30
Malaysia	4.30	(5.60)	6.50	(0.50)
United Kingdom	1.40	(9.90)	5.30	(1.50)
Singapore	1.30	(5.40)	5.20	1.30
Taiwan	3.00	3.10	4.70	8.20
Hong Kong	(1.20)	(6.10)	4.30	7.80
Indonesia	5.00	(2.10)	4.30	(0.70)
Korea	2.00	(1.40)	3.60	1.80
Japan	0.30	(4.80)	3.30	(1.90)
Thailand	2.40	(6.10)	2.60	(4.20)

Figure 15: Hiring has returned to the hardest-hit service sectors of accommodation, arts, entertainment and recreation, to pre-Covid levels. F&B is hiring above pre-Covid levels

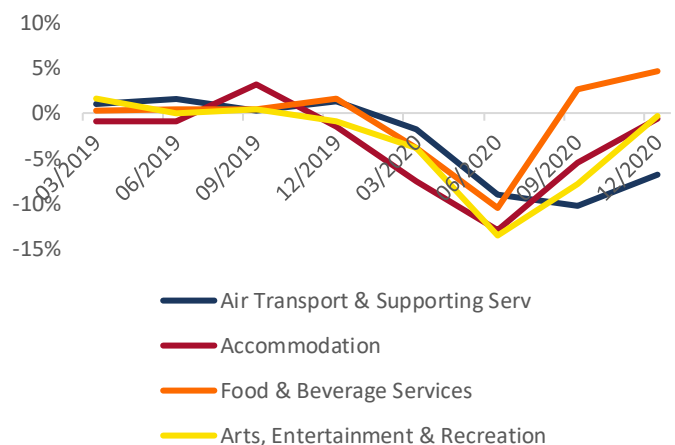
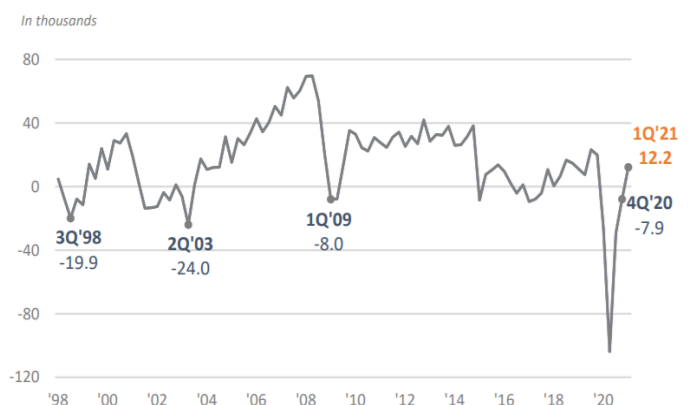


Figure 17: Quarterly total employment changes suggest that hiring has returned close to pre-pandemic levels



Source: Company, PSR, CEIC, Labour Market Survey, Manpower Research & Statistics Department, MOM

- 4. Pursuing growth in North Asia.** With a cash hoard of S\$332mn, HRnet is well positioned to explore any interesting North Asian expansion opportunities. In the past three years, HRnet has been actively growing in Asia. We expect HRnet to continue its expansion in North Asia, especially in China where its economy remains robust. China's GDP grew by 18.3% in 1Q21. In 2021, China is planning to create 11 million jobs. HRnet can grow organically through an expansion of its brands into new markets or through acquisitions.

HRnet will typically explore a new market in the more cash-generative PR business first, before introducing FS solutions which consume more cash (Fig. 13). For M&A growth opportunities to be considered, it has three criteria.

- 1) The target's PR business must have at least 30 consultants in one location, with a presence in first-tier Asian growth cities or cities where HRnet has a presence in.
- 2) The target's FS business must have at least 1,000 contractors in one location, with a presence in a first-tier city in China or Japan.
- 3) The target should be able to contribute to HRnet's earnings immediately and returns on capital invested should be above the industry average.

For PR acquisition targets which are smaller than HRnet, HRnet is inclined to acquiring a majority stake, requiring existing management to invest in the business for co-ownership. This is such that all parties are on the same page to grow the target company. HRnet will only consider a 100% buyout for FS acquisitions if the targets have existing contracts. Otherwise, HRnet will try to acquire FS businesses through earnout agreements. It eliminates uncertainty for HRnet as they only pay a portion of the sale price upfront. The remainder is based on future performance. For companies that are larger, HRnet will try to acquire at least 20% of the target to collaborate in mutual areas of interest, such as its investment in UK-based Staffline Group.

## RISKS

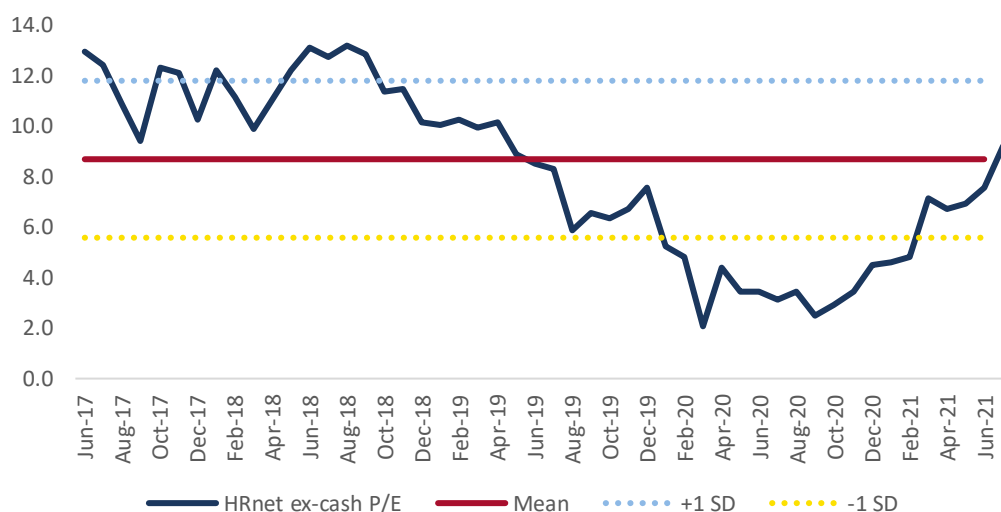
- 1. Covid-19 relapses to slow recruitment demand.** In FY20, HRnet's gross profit dropped due to hiring freezes for permanent placements amid Covid-19. This was mitigated by growth in flexible staffing. A prolonged Covid-19 pandemic could stall economic recoveries in the regions where HRnet operates, affecting its ability to retain or add clients and financial performance.
- 2. Competition.** PR has low barriers to entry for new entrants given that it does not involve a highly skilled workforce or large capex for fixed assets. Customers can switch to other competitors easily as service differentiation is not significant. As such, the PR sector remains competitive. HRnet may face price pressures from existing and new competitors. To mitigate this, the offering of FS to complement PR has been vital to attract and retain customers. HRnet also has a long-standing relationship of over 10 years with many of its key clients.
- 3. Forex.** HRnet has several overseas subsidiaries which provide profits in their local currencies. It thus has FX exposure to the US\$, £, ¥, HK\$ and RMB. However, FX risks are hedged through investments grade bonds, fixed deposits and FX structured deposits.

## VALUATION

We initiate coverage of HRnet with a BUY and target price of S\$1.00. HRnet has been generating higher ROEs than most of its regional and global recruitment peers. Yet, it trades at 16.2x FY21e P/E, far below its peer average of 24.4x (Fig. 18). Stripping out net cash of S\$332.2mn, it trades at ex-cash P/Es of 9.2x/8.9x on FY21/22e EPS.

Our TP is set at 14.0x FY21e ex-cash P/E (net of interest income after tax). In 2019 and 2020, HRnet's share price suffered from a weaker hiring environment amid ongoing trade wars and Covid-19. With the worst likely over for HRnet, we expect HRnet to perform on the back of a recovering labour market. Historical high of HRnet's ex-cash P/E is c.14x. Equipped with a debt-free balance sheet and strong cash generation, we are anticipating growth from potential M&As.

Figure 18: HRnet is trading slightly above its historical 5-year mean of 8.7x ex-cash P/E



Source: Company, PSR, Bloomberg

## PEER COMPARISON

Figure 19: HRnet does not have any listed peers on the SGX. Its closest comparable is Persol Holdings in Japan.

Company	Currency	Mkt Cap (\$mn)	Price (\$S)	P/B	P/E	P/S	Gearing (%)	ROA	ROE	EV/EBITDA	Div Yield (%)	Trailing 1M	Trailing YTD	FY21e P/E*	FY21 ex-cash P/E*
HRNETGROUP	SGD	772	0.77	2.3	16.5	1.8	1.9	10.8	14.1	7.0	3.2	3.5	40.9	16.2	9.2
RECRUIT HOLDINGS CO	JPY	9556735	5635	8.4	70.7	4.1	19.0	6.3	12.6	28.5	0.4	1.7	32.6	50.4	68.9
JAC RECRUITMENT CO	JPY	77134	1825	6.9	42.4	3.5	1.7	11.1	14.3	11.3	4.4	5.4	-2.8	19.9	37.2
TECHNOPRO HOLDINGS	JPY	298917	2757	5.5	24.6	1.9	18.0	11.1	24.1	14.5	2.1	7.5	-1.5	24.3	25.1
PASONA GROUP INC	JPY	100682	2415	2.6	16.8	0.3	25.6	4.0	16.3	n.a.	1.2	10.6	17.9	18.3	4.3
PERSOL HOLDINGS CO	JPY	539687	2280	3.3	33.2	0.6	17.2	4.2	10.4	10.8	1.1	1.2	24.5	25.1	21.8
WILL GROUP	JPY	22765	1009	2.7	9.5	0.2	32.5	5.2	35.1	3.7	2.4	0.4	3.5	11.9	7.7
BEIJING CAREER	CNY	11200	61.27	10.2	55.5	2.5	2.1	10.0	20.0	30.8	n.a.	5.0	16.4	45.9	58.6
HUMANICA PCL	THB	6222	9.15	4.8	40.6	8.7	8.6	9.6	12.0	20.2	1.5	-5.2	3.6	31.8	33.4
ADECCO GROUP AG	CHF	10075	61.76	2.7	24.6	0.5	23.4	3.8	10.7	8.8	4.0	-1.9	10.9	14.6	13.4
RANDSTAD NV	EUR	11954	64.98	2.8	29.8	0.6	7.6	4.0	9.4	9.5	2.5	1.3	26.3	16.8	15.8
HAYS PLC	GBP	2686	160	3.3	n.a.	0.5	11.8	-0.4	-1.0	17.8	n.a.	-0.7	17.3	49.5	28.8
PAGEGROUP PLC	GBP	2006	611	6.4	n.a.	1.5	16.4	-0.9	-1.8	10.8	n.a.	0.8	36.3	23.4	21.3
ROBERT WALTERS PLC	GBP	550	720	3.0	91.0	0.5	15.5	1.3	3.5	7.9	2.2	2.0	54.6	26.0	19.0
HEIDRICK & STRUGGLES	USD	809	41.47	2.9	11.9	1.2	14.7	-4.3	-10.7	5.7	1.4	-9.7	42.2	13.9	12.7
KELLY SERVICES INC	USD	878	22.28	0.7	19.2	0.2	3.6	4.4	9.2	6.3	n.a.	-10.8	8.3	14.5	10.7
KFORCE INC	USD	1370	62.52	7.7	21.8	0.9	25.1	13.4	36.5	11.8	1.4	-0.5	49.7	19.9	19.1
KORN FERRY	USD	3661	67.79	2.7	31.7	2.0	19.7	3.9	8.7	7.4	0.6	2.0	56.4	17.2	12.0
MANPOWER GROUP INC	USD	6381	117	2.7	22.9	0.4	16.6	0.9	3.4	9.4	2.1	-4.9	31.1	18.7	14.0
ROBERT HALF	USD	9858	87.41	8.3	30.1	2.0	11.8	13.5	28.1	13.6	1.6	-3.6	41.2	21.4	20.4
<b>Average</b>				4.6	33.9	1.7	15.3	5.3	12.7	12.7	1.9	0.0	24.7	24.4	23.4

Source: Company, PSR, Bloomberg

\*Derived from Bloomberg FY21 consensus estimates



## Appendix I: Company background

Headquartered in Singapore where it was founded in 1992, HRnetGroup started off as a 4-person team. Twenty nine years later, it has grown into the largest recruitment agency in Asia, ex-Japan. It has 12 brands, 30 business units and over 900 consultants spread across 13 Asian cities.

The PR business generally performs well during economic upcycles while the FS business provides stable revenue during economic downturns. HRnet’s combination of providing temporary and permanent recruitment solutions fosters deep relationships with its corporate customers as it is able to offer comprehensive recruitment and staffing solutions from junior to senior positions. The year of 2020 testifies to its success.

In 2020, GDP contracted globally. In key regional markets like Singapore and Hong Kong, GDP declined 5.4% and 6.1%. Economic uncertainties caused PR hiring to pause in several markets, particularly North Asia. Consequently, HRnet’s PR revenue and gross profits fell 24% and 25% YoY respectively.

On the other hand, more companies turned to FS solutions as a stopgap measure for hiring freezes. There were also short-term spikes in demand for temporary jobs, such as healthcare providers, social-distancing ambassadors and cleaning staff during Covid-19. The manufacturing sector also hired more Singaporeans, as some foreign workers were unable to return to Singapore due to lockdowns. FY20 gross profit thus only declined 11% YoY, cushioned by a 16% YoY increase in FS.

Customers can engage HRnet for both PR and FS services. Its FS business is key to customer retention as switching is inconvenient. Switching involves the replacement of a large number of contractor employees within a short period of time and the cumbersome migration of payroll management and other human-resource systems which HRnet manages. Also, FS requires substantial working capital requirements which smaller firms may not be able to afford. For ease of management, customers tend to engage the same provider for both PR and FS services.

Figure 20: PR brands



Source: Company

Figure 21: FS brands



## Appendix II: Non-current financial assets

Non-current financial assets comprise two investments: Staffline Group (STAF LN, Not Rated) and Bamboos Health Care Holdings Limited (2293 HK, Not Rated).

- 1) Staffline is one of the UK's leading recruitment and training providers. With a blue-collar recruitment market share of 10%, Staffline has more than 60,000 FS contractors who can be deployed to clients daily. Staffline holds the largest market share of 21.2% in Northern Ireland through its Recruitment Ireland business. Staffline's share price plunged at the start of 2019 due to internal issues and one-off items on its P&L. This provided HRnet with an opportunity to enter at distress valuations. HRnet invested S\$55.5mn in Staffline for a 29.95% stake in 2019 - S\$46.3mn for a 25.02% stake in July 2019 and another S\$9.2mn for a 4.93% stake in September 2019.
- 2) Based in Hong Kong, Bamboos offers healthcare staffing services, including private nursing and institutional healthcare staffing solutions. The owner of this business is an ex-senior nurse. In April 2019, HRnet invested S\$8.45mn for an 8.19% stake. With a talent pool of over 20,000 healthcare personnel, Bamboos serves as a trusted strategic advisor to HRnet's clients, which include hospitals, social service organisations, clinics, pharmaceutical companies and individuals who need customised healthcare staffing services.

Financial assets are booked at fair value under other comprehensive income as HRnet does not have board seats or a significant influence over the businesses it invests in. Their fair value is recorded as non-current assets as HRnet takes a long-term view to its investments. Any gains or losses arising from changes in their fair value would be recognised as other comprehensive income and accumulated under investment revaluation reserves. Upon disposal, the cumulative gains or losses would be transferred to retained earnings.



## Financials

### Income Statement

Y/E Dec, (S\$'000)	FY18	FY19	FY20	FY21e	FY22e
<b>Revenue</b>	<b>428,490</b>	<b>423,081</b>	<b>433,041</b>	<b>506,948</b>	<b>535,170</b>
Sub-contractor expenses	(273,193)	(277,523)	(303,695)	(347,476)	(364,951)
<b>Gross Profit</b>	<b>155,297</b>	<b>145,558</b>	<b>129,346</b>	<b>159,472</b>	<b>170,219</b>
Other income	6,787	17,686	17,826	7,423	7,423
Employee benefit expenses	(76,861)	(73,598)	(69,124)	(80,988)	(86,446)
Facilities and depreciation expenses	(11,107)	(12,102)	(11,917)	(14,643)	(15,379)
Selling expenses	(5,599)	(4,671)	(3,486)	(5,368)	(5,667)
Other expenses	(3,350)	(4,167)	(3,197)	(5,329)	(5,598)
Finance costs	-	(334)	(413)	(413)	(413)
<b>Profit/(loss) before tax</b>	<b>65,167</b>	<b>68,372</b>	<b>59,035</b>	<b>60,154</b>	<b>64,140</b>
Income tax expense	(12,745)	(12,596)	(9,246)	(9,421)	(11,589)
<b>Profit/(loss) after tax</b>	<b>52,422</b>	<b>55,776</b>	<b>49,789</b>	<b>50,733</b>	<b>52,551</b>
<b>PATMI</b>	<b>48,178</b>	<b>51,604</b>	<b>46,865</b>	<b>47,753</b>	<b>49,465</b>
<b>EBIT</b>	<b>68,517</b>	<b>72,539</b>	<b>62,232</b>	<b>65,484</b>	<b>69,737</b>
<b>EBITDA</b>	<b>77,888</b>	<b>73,708</b>	<b>63,401</b>	<b>66,653</b>	<b>70,906</b>

### Per share data

Y/E Dec (S cents)	FY18	FY19	FY20	FY21e	FY22e
NAVPS	34.21	34.43	34.61	37.06	39.60
EPS	4.77	5.13	4.67	4.76	4.93
DPS	2.80	2.80	2.50	2.60	2.70

### Cash Flow Statement

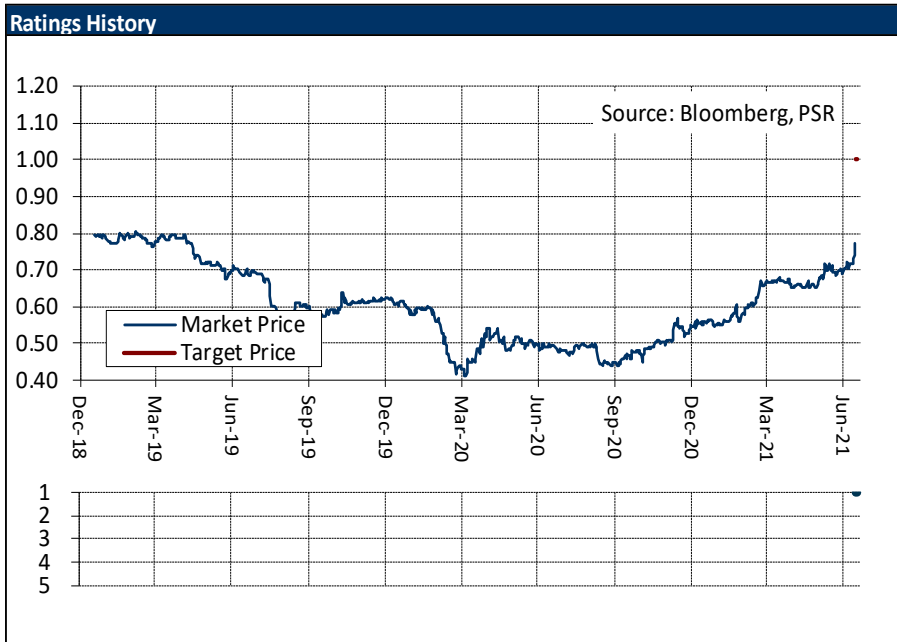
Y/E Dec, (S\$'000)	FY18	FY19	FY20	FY21e	FY22e
<b>CFO</b>					
<b>PBT</b>	<b>65,167</b>	<b>68,372</b>	<b>59,035</b>	<b>60,154</b>	<b>64,140</b>
Adjustments	4,014	(4,431)	8,210	6,565	(1,637)
WC changes	(8,755)	4,668	44,033	(20,323)	19,803
<b>Cash generated from ops</b>	<b>60,426</b>	<b>68,609</b>	<b>111,278</b>	<b>46,396</b>	<b>82,306</b>
Others	(8,810)	(9,312)	(6,818)	(7,244)	(9,412)
<b>Cashflow from ops</b>	<b>51,616</b>	<b>59,297</b>	<b>104,460</b>	<b>39,152</b>	<b>72,895</b>
<b>CFI</b>					
Purchase of plant and equipment and intangible :	(1,728)	(1,276)	(1,231)	(1,169)	(1,169)
Purchase of financial assets mandatorily measure	(17,645)	(6,594)	(14,926)	(8,797)	(8,797)
Dividends received	328	730	540	629	629
Others	(8,322)	(32,460)	15,949	8,797	8,797
<b>Cashflow from investments</b>	<b>(27,367)</b>	<b>(39,600)</b>	<b>332</b>	<b>(540)</b>	<b>(540)</b>
<b>CFF</b>					
Dividends paid	(23,456)	(28,163)	(28,002)	(26,081)	(27,084)
Purchase of treasury shares	(6,633)	(331)	(3,146)	-	-
Repayment of leases liabilities	-	(5,149)	(8,022)	(5,893)	-
Others	(1,145)	(956)	(1,732)	-	-
<b>Cashflow from financing</b>	<b>(31,234)</b>	<b>(34,599)</b>	<b>(40,902)</b>	<b>(31,974)</b>	<b>(27,084)</b>
<b>Net change in cash</b>	<b>(6,985)</b>	<b>(14,902)</b>	<b>63,890</b>	<b>6,638</b>	<b>45,270</b>
Cash at the start of the period	289,090	281,810	266,162	332,234	338,872
Currency translation	(295)	(746)	2,182	-	-
Others	-	-	-	-	-
<b>Ending cash</b>	<b>281,810</b>	<b>266,162</b>	<b>332,234</b>	<b>338,872</b>	<b>384,142</b>

\*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (S\$'000)	FY18	FY19	FY20	FY21e	FY22e
<b>ASSETS</b>					
Pledged deposits	841	1,003	988	988	988
Plant and equipment	1,559	1,558	1,503	1,503	1,503
Right-of-use assets	-	14,144	8,202	-	-
Other intangible assets	1,600	1,501	1,353	1,353	1,353
Goodwill	5,185	5,185	5,185	5,185	5,185
Other financial assets (NCA)	12,197	38,733	21,838	21,838	21,838
Deferred tax assets	905	808	1,314	1,314	1,314
<b>Total non-current assets</b>	<b>22,287</b>	<b>62,932</b>	<b>40,383</b>	<b>32,181</b>	<b>32,181</b>
Cash and cash equivalents	281,810	266,162	332,234	338,872	384,142
Trade receivables	81,266	74,693	66,261	113,532	76,270
Other receivables and prepaym	5,896	6,922	6,615	6,067	7,321
Other financial assets (CA)	16,078	8,555	6,886	6,886	6,886
<b>Total current assets</b>	<b>385,050</b>	<b>356,332</b>	<b>411,996</b>	<b>465,357</b>	<b>474,619</b>
<b>Total Assets</b>	<b>407,337</b>	<b>419,264</b>	<b>452,379</b>	<b>497,538</b>	<b>506,800</b>
<b>LIABILITIES</b>					
Trade payables	6,486	6,034	6,478	9,112	7,312
Other payables and accruals	39,296	39,071	75,591	99,357	84,953
Others	12,984	20,408	20,196	14,303	14,303
<b>Total current liabilities</b>	<b>58,766</b>	<b>65,513</b>	<b>102,265</b>	<b>122,772</b>	<b>106,568</b>
Deferred tax liabilities	366	349	323	323	323
Deferred considerations	2,955	6,794	2,643	2,643	2,643
<b>Total non-current liabilities</b>	<b>3,321</b>	<b>7,143</b>	<b>2,966</b>	<b>2,966</b>	<b>2,966</b>
<b>Total liabilities</b>	<b>62,087</b>	<b>72,656</b>	<b>105,231</b>	<b>125,738</b>	<b>109,534</b>
<b>Net assets</b>	<b>345,250</b>	<b>346,608</b>	<b>347,148</b>	<b>371,800</b>	<b>397,267</b>
<b>Represented by:</b>					
Share capital	260,605	260,605	260,605	260,605	260,605
Retained Earnings	122,981	145,961	165,598	190,250	215,717
Others	(38,336)	(59,958)	(79,055)	(79,055)	(79,055)
<b>Total equity</b>	<b>345,250</b>	<b>346,608</b>	<b>347,148</b>	<b>371,800</b>	<b>397,267</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/NAV (x)	2.34	1.80	2.23	2.08	1.94
P/E (x)	17	12	12	16	16
Dividend yield (%)	3.50	4.52	4.55	3.38	3.51
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue	9.3%	-1.3%	2.4%	17.1%	5.6%
Gross profit	14.2%	-6.3%	-11.1%	23.3%	6.7%
EBITDA	-11.0%	-5.4%	-14.0%	5.1%	6.4%
EBIT	8.8%	5.9%	-14.2%	5.2%	6.5%
<b>Margins</b>					
Gross profit margin	36.2%	34.4%	29.9%	31.5%	31.8%
EBITDA margin	18.2%	17.4%	14.6%	13.1%	13.2%
EBIT margin	16.0%	17.1%	14.4%	12.9%	13.0%
<b>Key Ratios</b>					
ROE	15.2%	16.1%	14.3%	13.6%	13.2%
ROA	12.9%	13.3%	11.0%	10.2%	10.4%



### 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

**Head of Research**Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)**Research Admin**Qystina Azli - [qystina@phillip.com.sg](mailto:qystina@phillip.com.sg)**Consumer | Industrial | Conglomerates**Terence Chua - [terencechuatl@phillip.com.sg](mailto:terencechuatl@phillip.com.sg)**Property | REITs**Natalie Ong - [natalieongpf@phillip.com.sg](mailto:natalieongpf@phillip.com.sg)**Credit Analyst (Bonds)**Timothy Ang – [timothyang@phillip.com.sg](mailto:timothyang@phillip.com.sg)**Small-Mid Cap**Tan Jie Hui – [tanjh@phillip.com.sg](mailto:tanjh@phillip.com.sg)**Small-Mid Cap**Vivian Ye Qianwei – [yegw@phillip.com.sg](mailto:yegw@phillip.com.sg)**Technical Analyst**Chua Wei Ren – [chuawr@phillip.com.sg](mailto:chuawr@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](http://www.poems.com.sg)

**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](http://www.poems.com.my)

**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](http://www.phillip.com.hk)

**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](http://www.phillip.co.jp)

**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](http://www.phillip.co.id)

**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](http://www.phillip.com.cn)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangkok,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**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](http://www.kingandshaxson.com)

**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](http://www.kingandshaxson.com)

**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](http://www.phillipusa.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](http://www.phillipcapital.com.au)

**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](http://www.phillipbank.com.kh)

**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](http://www.phillipcapital.in)

**TURKEY**

**PhillipCapital Menkul Degerler**  
Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

**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.