

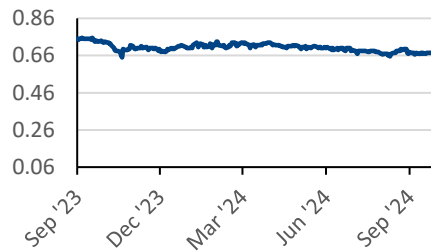
HRNETGROUP (HRNE.SI)

RECRUITMENT

October 2024

0.68SGD - Market Cap: 389.5m

SHARE PRICE (SGD)



12m high/low 0.8SGD/0.7SGD

Source: LSE Data

KEY DATA

Net (Debt)/Cash	235.6m (at 30/06/24)
Enterprise value	251.8m
Index/market	SGX
Next news	Q3 November
Shares in Issue (m)	986.8

TOP TEN SHAREHOLDERS

SIMCO Global	77.4%
Fidelity (FMR & Asst Mgt)	7.0%
iFAST Financial	0.4%
Seafarer Capital Ptnrs	0.3%
Sim Wei Wen	0.2%
Teh Chong Hua	0.2%
Tay Yuh Shuian	0.1%
Tan Teck Wah	0.1%
Dimensional Fund Advisors	0.1%
Chua Meng Hoon	0.1%

<https://www.hrnetgroup.com>

HRNETGROUP IS A RESEARCH CLIENT OF
PROGRESSIVE

ANALYSTS

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Income and long term growth

Company description

HRnetGroup is an Asian recruitment company, offering temporary and permanent recruitment. The group has grown dramatically since its foundation in Singapore (1992) and now boasts a wealth of domain expertise, 3,000 blue-chip clients and a very attractive operating methodology.

There are two divisions: (i) Flexible Staffing, a temporary staffing agency and (ii) Professional Recruitment for full time placement. The mix makes for a robust balanced business as Staffing gives a steady revenue stream even during an economic downturn, whereas Recruitment is geared to growth. The two divisions span 17 Go-to-Market brands and 36 Business Units across 17 cities.

HRnetGroup has the most effective business model across our 15-company global Recruitment universe. It is long established, profitable and cash generative – surplus cash is distributed via dividends (c6% yield) and buybacks.

Investment case summary

While the recruitment market remains “challenging”, when the economy recovers, recruiters will be among the first to turn. HRnetGroup offers investors a toehold in Asia and a compelling way to tap into global growth and any sector re-rating. Until then, HRnetGroup has superb defensibility, is cash backed, pays a handsome dividend (6% yield) with buy backs, and is very attractively priced (PE c12x).

- The latest Manpower Employment Survey indicates improving hiring intentions, HRnetGroup says that “hiring freezes have eased” - the labour market may be about to unlock.
- Short-term profit growth is under-pinned by cross-selling by Business Unit teams in Singapore, Hong Kong, Malaysia & Shanghai, and by offering more verticals to existing c3000 blue chip customers.

The flexible offer and cost model insulate HRnetGroup from macro swings. While shares reflect ‘bottom of the cycle’ valuation, a ‘peak and trough’ analysis suggests potential value of up to 3x current levels.

FYE DEC (€M)	2021	2022	2023	2024E	2025E
Revenue	590.5	611.8	578.5	571.3	598.1
Adj EBITDA	78.4	75.8	58.5	55.0	59.3
Fully Adj PBT	93.9	95.4	86.2	69.0	74.0
Fully Adj Dil EPS (c)	7.4	7.6	7.3	5.8	6.2
EV/Sales (x)	0.7x	0.7x	0.7x	0.8x	0.7x
EV/EBITDA (x)	5.5x	5.7x	7.4x	7.8x	7.3x
PER (x)	9.1x	8.9x	9.3x	11.7x	11.0x

Source: Company Information and Progressive Equity Research estimates

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

Investor criteria – how HRnetGroup measures up...

What investors look for	What HRnetGroup offers
Large and growing market with diverse revenue streams	The global HR & Recruitment Services market was valued at US\$868.8bn in 2023 as it grew 2.6% Y/Y. HRnetGroup has flexible and permanent recruitment solutions, gearing the company to economic growth while the flexible/temporary division gives ‘through the cycle’ stability.
Recurring (or repeat) business from blue-chip customers, or otherwise reliable revenue base	HRnetGroup is long-established. It offers geographical diversification and a multi-disciplinary focus serving 3,000+ clients (including several Fortune 500 companies) with varied staffing needs, usually mid-to-senior management.
Defensible position with barriers to entry	The ‘moat’ is based on maintaining a diverse offering, the wide geographic footprint in Asia and a unique culture which creates widespread business ownership.
Strong margins, cash generation and dividends	HRnetGroup has industry leading KPIs featuring profitability, cash generation and dividends which are consistently above cohort average (see below). The strong balance sheet enables HRnetGroup to pay dividends, share buy-backs and make accretive acquisitions.
Positioned for acquisitive growth	HRnetGroup has grown organically and by acquisition. The company has typically acquired smaller founder-led companies that enable the strategy of; (i) entering new geographic areas and, (ii) broadening its offer in existing geographies to increase wallet share at its clients.
Strong ESG credentials – as a business or via products/services	HRnetGroup is committed to the UN’s Sustainable Development Goals with regards to the promotion of sustainable economic growth, decent work for all, and reducing inequality. There are board members from other international recruiters, giving HRnetGroup strong informed governance and a practitioners knowledge of global ‘best practice’. The board consists of nine directors, three are Sim family members, the rest are independent.
Credible, strategic and experienced management team	Mr Peter Sim founded the company 32 years ago, being appointed to the Board in September 2016. Mr Sim has close to 40 years of experience in social work, HR functions and the recruitment industry. The C-suite is similarly long established with industry and finance individuals.

Business model

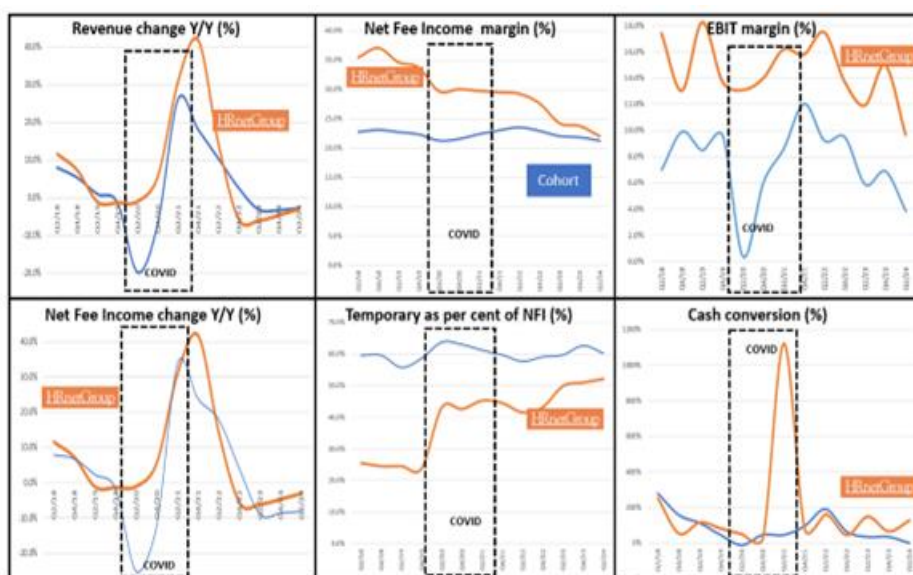
HRnetGroup was founded in Singapore in 1992 by Peter Sim, Executive Director and Founding Chairman. The company has grown from a 4-person start-up to 900+ consultants spread across 17 Asian cities. The business model is characterized by a unique entrepreneurial model based on co-ownership model among 42 co-owners.

The group has two reporting divisions: (i) Flexible Staffing a contract or temporary manpower solution (89% of revenue), and (ii) Permanent Recruitment placing talents for permanent employment by corporate clients. The current economic backdrop favours Flexible Staffing, but Permanent Recruitment is geared to economic growth.

- HRnetGroup allows business unit leaders to own stakes in the subsidiaries that they run; this is unique, and results in a strong alignment of interests with the wider shareholder community. There are currently 42 of these Business Leader Co-owners. We believe that this structure fosters greater productivity, and in part explains why HRnetGroup consistently beats cohort-wide KPIs for growth, profitability and cash generation.
- HRnetGroup comes across as well-managed, with a genuine passion across the business for high quality outcomes for both clients and candidates.
- Strong performance is rewarded, and the teams share common goals and a clear, positive work ethic.
- The group benefits from the shared ownership structure as described above, which incentivizes mid-management to deliver profitable and cash-generative business.

The group achieves very strong cash generation which the management team believes in returning to their shareholders. The company returned a total of S\$23.8m to shareholders this half year (vs S\$17.2m FCF generated).

HRnetGroup outperforms other recruitment company KPIs



Source: Adecco, Empresario, Gattaca, HRnetGroup, Hays, Kelly, Kforce, Kom Ferry, Manpower, Ogden Up, Page, Randstad, Robert Half, Robert Walters, Staffline, Street

Source: Progressive Equity Research / Company information

Market dynamics

Hit by macro and geopolitical headwinds, the Recruitment industry continues to report mixed KPIs coupled with very cautious Q3 and FY24 outlook statements.

Market dynamics can be summarized as follows:

- The permanent placement environment remains subdued suffering from low employer and candidate confidence. This will make for ongoing cautious guidance. Positively, results from our Recruitment cohort in Q2 showed some spotty growth in revenue and Net Fee income (a.k.a. gross profit) change suggesting a piecemeal sequential improvement.
- The latest results from HRnetGroup featured revenue growth in Hong Kong and Indonesia being offset by declines in the other operating geographies, with Singapore and Mainland China “the hardest hit”.
- In a poor economy there is less confidence and less natural unplanned staff attrition, also making for a challenging recruitment market.

There are niggling concerns about the impact of GenAI and its potential to move from ‘co-pilot’ to replacement in certain ‘white collar’ markets. These concerns have conspired to make the Recruitment sector very attractively priced and could reflect ‘bottom of the cycle’ valuation. We believe that AI will impact only modestly the demand for staff, and an intrinsic valuation could see HRnetGroup shares re-rated to up to 3x current levels.

The market remains highly fragmented – HRnetGroup continues to eye small acquisitions to extend and augment presence in attractive locations or market niches; challenging times could provide opportunity to deploy the group’s significant cash balances and generate shareholder value over time.

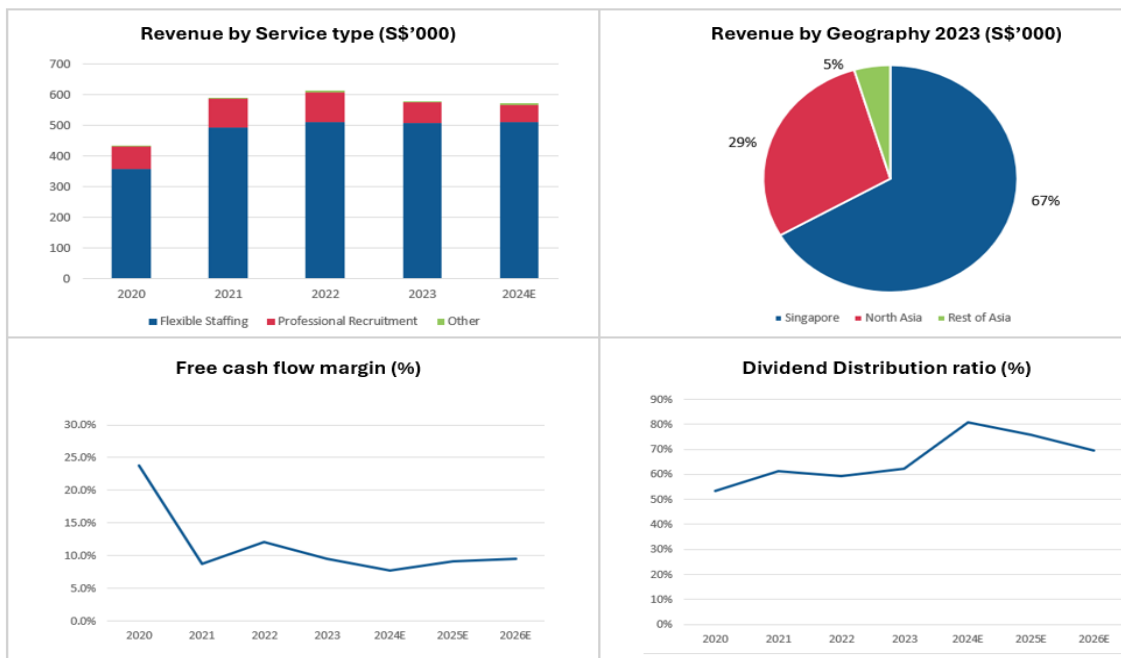
Customer examples

HRnetGroup has a diversified customer base, c3000. The top three vertical markets are IT, Financial & Insurance, Retail & Consumer. The Top 5 clients have been with HRnetGroup for an average of 19 years.

	Customer since	1H2024 Revenue Contribution
1. Client (Financial & Insurance)	2000	5.1%
2. Client (IT services)	2022	3.9%
3. Client (Financial & Banking)	2004	3.6%
4. Client (Retail & Consumer)	1999	2.5%
5. Client (Financial & Banking)	2001	2.0%
Contribution from Top 5 clients		17.0%
Contribution from Top 10 clients		24.8%

Source: Progressive Equity Research / Company information

Financial detail



Source: Progressive Equity Research / Company information

Catalysts for future performance

- The macro backdrop moves from headwind to tailwind. A challenging macroeconomic environment makes companies hunker down, preserve cash, downsize cost (i.e. staff). The most visible business accelerator for HRnetGroup is an improving economic backdrop.
- Having a flexible offer enables HRnetGroup to pivot between temporary and permanent recruitment and thereby to thrive irrespective of the economic cycle and navigate economic downturns and upswings.
- HRnetGroup's strong balance sheet and cash flow means that its Capital Allocation policy enables it to pay dividends, execute share buybacks and deliver acquisitions. M&A has seen the company expand on two axes: (i) into new territories and (ii) selling more to existing customers and thereby improving customer LifeTimeValue. HRnetGroup is unlikely to "waste a crisis" and is likely to use its balance sheet to make further accretive acquisitions.
- HRnetGroup could use its balance sheet to expand its portfolio of other Professional Services in billable activities such as Recruitment process outsourcing, payroll processing, HR consulting, Training. This 'Other' category is currently c1% of Group revenue – so has much potential. These could all add to the portfolio and serve existing customers who already buy the recruitment offer. An illustration of this is 'Leaps' which HRnetGroup debuted recently. This is a strategic initiative that integrates HRnetGroup's extensive resources and established market position with the consulting expertise of industry professionals.

Executive Management Team and Chair

Peter Sim
Chairman



Peter Sim is Founding Chairman. Mr Sim has 40 years of experience in social work, HR functions and the recruitment industry. Prior to founding HRnetGroup, Mr Sim was the regional HR Director at Honeywell SEA Pte Ltd and earlier at Thomson Consumer Electronics Pte Ltd. A graduate of The University of Singapore and associate of the Institute of Chartered Secretaries and Administrators, UK.

Adeline Sim
Chief Corporate Officer



Ms. Sim leads strategic and tactical initiatives, is a member of the Investment Committee and oversees the technology, digital marketing, investor relations and communications. Ms. Sim began her career as a lawyer with Drew & Napier LLC in 2004 and joined HRnetGroup in 2008 Ms Sim is a Bachelor of Laws from the National University of Singapore, was admitted to the Singapore Bar in 2004, and is a Solicitor of the Supreme Court of England and Wales.

JS Sim
Executive Director,
CEO Recruit Express



Mr Sim is CEO of Recruit Express Group. Mr Sim started his career in 1982 with Aurora Products rising to Head of Personnel, moved to GE Intersil, and Motorola Electronics as Regional HR Director. Mr Sim was awarded a Bachelor of Science from the National University of Singapore. He also holds a Graduate Diploma in Personnel Management from Singapore Institute of Management.

Jennifer Kang
Group CFO



Ms Kang is responsible for finance, tax, treasury, and risk management. In 2003, Ms Kang joined HRnetGroup as a Regional FD; she co-founded HRnetOne Beijing in 2008 and was appointed CFO in 2012. Ms Kang's career began at Coopers & Lybrand (1989), after which she moved to AT&T Singapore, BIL International and Abacus International. Ms Kang holds a Bachelor of Accountancy from National University of Singapore and Master of Business in IT, Royal Melbourne Institute of Technology.

Key risks and challenges

Areas of concern

Management mitigation

Continued macro headwinds

A slow economy delays decision making, and candidates have less confidence. HRnetGroup has a flexible operating model spanning temporary and permanent recruitment and is diversified by geography and vertical market. It offers 'through the cycle' stability and growth.

Market contraction

HRnetGroup is an ambitious company with a strong balance sheet, which has allowed it to conclude a number of successful M&A transactions

'Disintermediation'

Digital Transformation has led to disintermediation in many industries enabling companies 'go direct'. GenAI may enable companies to narrow the role of the third-party recruiter in certain scenarios. While remaining transaction-led, HRnetGroup is building its Professional Services offering, increasing HR wallet share and strategic importance to its clients.

Customer concentration

HRnetGroup has a diversified customer base, c3000. The top three vertical markets are IT, Financial & Insurance, Retail & Consumer.

Competition

HRnetGroup competes successfully with the large multinational recruiters such as Adecco, Hays, PageGroup, Randstad and others who are present in Asia.

Financial Summary: HRnetGroup

Year end: December (\$\$m unless shown)

	2021	2022	2023	2024E	2025E
PROFIT & LOSS					
Revenue	590.5	611.8	578.5	571.3	598.1
Adj EBITDA	78.4	75.8	58.5	55.0	59.3
Adj EBIT	69.3	67.3	50.6	47.1	51.2
Reported PBT	84.8	86.8	78.0	60.9	65.7
Fully Adj PBT	93.9	95.4	86.2	69.0	74.0
NOPAT	78.3	56.4	58.9	56.2	60.9
Reported EPS (c)	6.5	6.7	6.4	5.0	5.3
Fully Adj Dil EPS (c)	7.4	7.6	7.3	5.8	6.2
Dividend per share (c)	4.0	4.0	4.0	4.0	4.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	64.5	89.9	64.1	50.8	62.9
Free Cash flow	51.3	73.7	55.4	44.2	54.7
FCF per share (c)	5.1	7.4	5.6	4.5	5.5
Acquisitions	(4.3)	(0.6)	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	(6.7)	(37.5)	(11.4)	(32.0)	(10.1)
Lease liabilities	(12.9)	(9.9)	(10.5)	(10.1)	(9.4)
Cash & equivalents	327.1	284.6	271.6	238.5	227.3
Net (Debt)/Cash	314.2	274.7	261.0	228.4	217.9
NAV AND RETURNS					
Net asset value	387.9	378.2	392.9	402.9	407.9
NAV/share (c)	38.7	37.8	39.8	40.8	43.6
Net Tangible Asset Value	381.4	371.0	385.3	393.9	397.6
NTAV/share (c)	38.0	37.1	39.0	39.9	40.3
Average equity	367.5	383.0	385.6	397.9	405.4
Post-tax ROE (%)	25.6%	21.2%	22.3%	14.9%	15.5%
METRICS					
Revenue growth	36.4%	3.6%	(5.4%)	(1.2%)	4.7%
Adj EBITDA growth	50.8%	(3.3%)	(22.8%)	(6.1%)	7.8%
Adj EBIT growth	64.0%	(3.0%)	(24.8%)	(7.0%)	8.8%
Adj PBT growth	32.0%	1.6%	(9.7%)	(19.9%)	7.3%
Adj EPS growth	30.0%	2.3%	(4.5%)	(20.3%)	6.3%
Dividend growth	(10.0%)	0.0%	0.0%	0.1%	0.5%
Adj EBIT margins	11.7%	11.0%	8.7%	8.2%	8.6%
VALUATION					
EV/Sales (x)	0.7	0.7	0.7	0.8	0.7
EV/EBITDA (x)	5.5	5.7	7.4	7.8	7.3
EV/NOPAT (x)	5.5	7.6	7.3	7.7	7.1
PER (x)	9.1	8.9	9.3	11.7	11.0
Dividend yield	5.9%	5.9%	5.9%	5.9%	6.0%
FCF yield	7.6%	10.9%	8.3%	6.6%	8.2%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

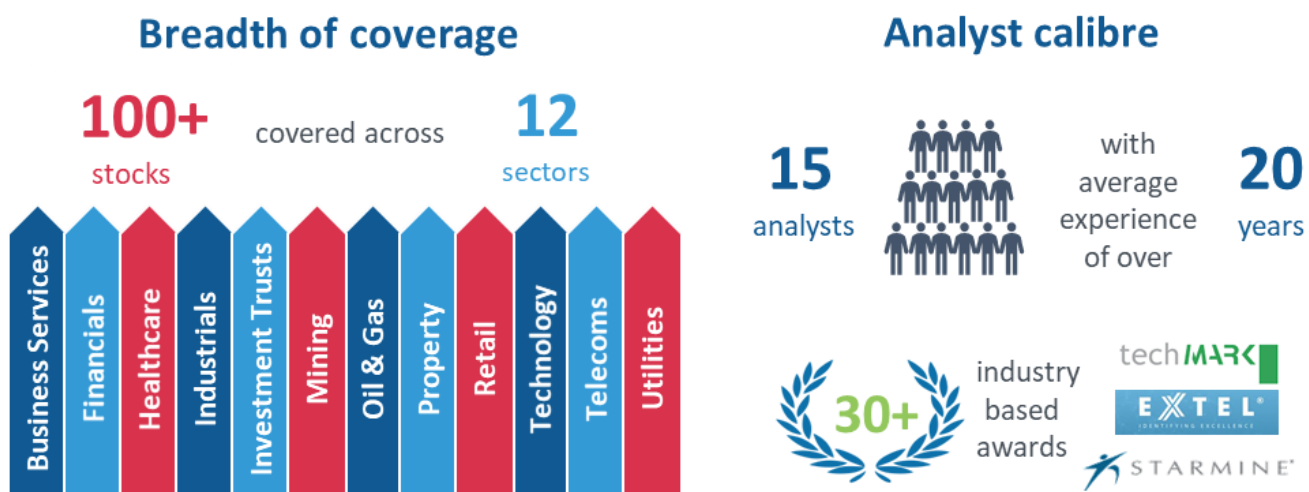
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