

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Aug 2018

HRNetGroup Ltd (HRNET SP) : BUY

Mkt. Cap: US\$662m | 3m Avg. Daily Val: US\$0.30m

Last Traded Price (10 Aug 2018): S\$0.90

Price Target 12-mth: S\$1.01 (12% upside) (Prev S\$0.98)

Analyst

Alfie YEO +65 6682 3717; alfieyeo@db.com

Andy SIM, CFA +65 6682 3718; andysim@db.com

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

[HRNetGroup Ltd - iBanking Login](#)

[HRNetGroup Ltd - Institution Login](#)

Higher productive headcount driving growth

- 2Q18 in line, driven by more professional recruitment placements
- New acquisitions and JVs to contribute and support growth from 2H18
- Maintain BUY, TP S\$1.01

Forecasts and Valuation

FY Dec (\$m)	2017A	2018F	2019F	2020F
Revenue	392	411	431	447
EBITDA	56.2	62.2	64.4	66.4
Pre-tax Profit	56.9	63.2	66.0	68.0
Net Profit	41.3	47.9	50.0	51.6
Net Pft (Pre Ex.)	41.3	47.9	50.0	51.6
Net Pft Gth (Pre-ex) (%)	0.6	16.0	4.4	3.0
EPS (S cts)	4.48	4.74	4.95	5.10
EPS Pre Ex. (S cts)	4.48	4.74	4.95	5.10
EPS Gth Pre Ex (%)	(11)	6	4	3
Diluted EPS (S cts)	4.09	4.74	4.95	5.10
Net DPS (S cts)	2.30	2.67	2.78	2.87
BV Per Share (S cts)	30.9	33.0	35.1	37.4
PE (X)	20.1	19.0	18.2	17.7
PE Pre Ex. (X)	20.1	19.0	18.2	17.7
P/Cash Flow (X)	23.6	14.7	17.5	16.8
EV/EBITDA (X)	9.7	9.9	9.5	9.2
Net Div Yield (%)	2.6	3.0	3.1	3.2
P/Book Value (X)	2.9	2.7	2.6	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	20.9	14.8	14.5	14.1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

What's New

2Q18 in line on higher productivity. Revenue and earnings of S\$108m (+10.8% y-o-y) and S\$13m (+77.5% y-o-y) respectively were within expectations. Revenue growth was driven by both professional recruitment (+21.8% y-o-y, S\$4.8m, particularly China, Hong Kong and Singapore), and flexible staffing (+7.7% to S\$5.8m) in Singapore and Hong Kong. Gross margin increased from 34.9% to 36.9% due to better sales mix from professional recruitment (66.6%, +2.7ppts). Productive headcount for 2Q18 was highest in eight consecutive quarters at 75.5% as headcount tapered 3.6% y-o-y to 669 from last year. Core operating profit growth was S\$16.4m (+18.6% y-o-y). However, government grants were down to S\$0.5m from S\$0.9m in 2Q17. Stripping out one-off IPO expense in 2Q17 amounting to S\$2.7m, PBT of S\$17.2m would have grown by 23% y-o-y.

Volume-led recovery. The quarter saw improved performances in China, Hong Kong and Singapore, which we understood was led largely by higher professional recruitment volumes with minimal change in recruitment rates. 2Q18 numbers are now on track to meet our estimates as 1H18 revenue of S\$203.3m now makes up 49.5% of our S\$411m full-year forecast, with earnings (S\$24.2m) at 50.5% of our full-year forecast (S\$47.2m). Earnings growth outlook in 2H18 will be supported by new contribution from recent acquisitions in REForce Human Resources in Shanghai, JV with HRnet Rimbun in Indonesia and Career Personnel in Hong Kong.

Flash Note

Maintain BUY; TP S\$1.01. No change to our earnings. Our TP, pegged to 15x (based on ex-cash multiple) FY19F (after rolling over earnings base from FY18F) EPS and net cash, is now S\$1.01.

Quarterly / Interim Income Statement (S\$m)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	97.4	107	108	10.8	1.0
Cost of Goods Sold	(63.5)	(70.5)	(69.2)	9.0	(1.9)
Gross Profit	34.0	36.4	38.8	14.3	6.6
Other Oper. (Exp)/Inc	(22.8)	(17.8)	(22.4)	(1.9)	25.8
Operating Profit	11.2	18.6	16.4	47.4	(11.8)
Other Non Opg (Exp)/Inc	0.0	0.82	0.0	nm	(100.0)
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.12	0.68	0.77	549.6	13.5
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	11.3	20.1	17.2	52.7	(14.5)
Tax	(2.4)	(2.9)	(3.3)	40.4	15.8
Minority Interest	(1.6)	(1.0)	(0.9)	44.7	(10.1)
Net Profit	7.33	16.3	13.0	77.5	(20.1)
Net profit bef Except.	7.33	16.3	13.0	77.5	(20.1)
EBITDA	11.4	19.7	16.7	46.5	(15.3)
Margins (%)					
Gross Margins	34.9	34.1	35.9		
Opg Profit Margins	11.4	17.4	15.2		
Net Profit Margins	7.5	15.2	12.0		

Source of all data: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Jan 18	0.80	0.96	BUY
2:	26 Feb 18	0.81	0.97	BUY
3:	10 May 18	0.83	0.98	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Alfie YEO

Andy SIM, CFA

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 13 Aug 2018 15:25:32 (SGT)

Dissemination Date: 13 Aug 2018 15:34:37 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 31 Jul 2018.
2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.


Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates in the preceding 12 months.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	<p>This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946.</p> <p>DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. DBSVS is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
Hong Kong	<p>This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited, a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).</p> <p>For any query regarding the materials herein, please contact Carol Wu (Reg No. AH8283) at equityresearch@db.com</p>
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;"> Wong Ming Tek, Executive Director, ADBSR</p>
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	<p>This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore.</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>

Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand