9 November 2017

HiTech Group Australia

Recruitment

HIT-ASX A$ 0.71 TARGET PRICE A$1.00

BUY

Company Hitech Group Australia Ltd. engages in supplying information and communications technology (ICT) recruitment services for contract and permanent staff.

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HiTech Group Australia – Strong balance sheet - Looking for organic growth and acquisitions

HiTech Group Australia (HiTech) looks attractive on every financial metric in our view

It is trading on a FY18F EV/EBITDA multiple of sub 5.0 times, a three-year PEG ratio of 1.0 and a cash adjusted P/E of less than 8.0 times. NB: At the end of FY17, HiTech had cash on balance sheet equal to $0.15 per share. We believe HiTech has probably been flying "under the radar" but now certainly deserves attention.

Investor return

Based on our price target and forecast dividend yield, HiTech offers investors a total stock return of over 50%.

FY18F gross yield of ~12%

We are forecasting HiTech will pay a fully franked dividend of $0.06 per share in FY18F lifting to $0.065 in FY19F.

Pristine balance sheet

HIT has no debt and cash available of ~$5m. Based on our forecasts and dividend payout ratio cash levels will continue to grow unless an acquisition can be sourced and/or capital is utilised for organic growth opportunities.

Basic investment proposition.

We believe HiTech is in a very solid position and will be able to grow its business through organic growth and EPS accretive acquisitions. HiTech has made no secret that it wants to grow. HiTech stated at its FY17 result that it is "ready to take advantage of market opportunities and EPS accretive acquisitions to increase stakeholder returns" and that "acquisition targets are currently under consideration subject to" its strict criteria.

Industry position

While barriers to entry in the recruitment space are low we are comfortable that the quality of the Board and management will ensure HiTech keeps pace with market and technological developments while acquiring and consolidating new business lines to grow and diversify the earnings base. HiTech earns most of its revenue through contracting to the ICT market. As firms continue to downsize their full-time work forces, the use of outsourcing and contracted workforces will continue to grow. This combined with forecast strong growth in the ICT staffing levels ensures HiTech is well placed to capitalise on these trends.

Valuation

The average of our three valuation techniques gives us a 12 month forward blended valuation of $0.98. Thus; our 12-month forward price target is set at $1.00.

Company Data

Shares outstanding (m)	35.2
Price ($)	0.71
Market Capitalisation ($m)	24.8
Free Float (%)	32%
Free Float Market Capitalisation ($m)	8.0
12 month low ($)	0.46
12 month high ($)	0.75
Average daily volume (3 month) ('000)	3.5

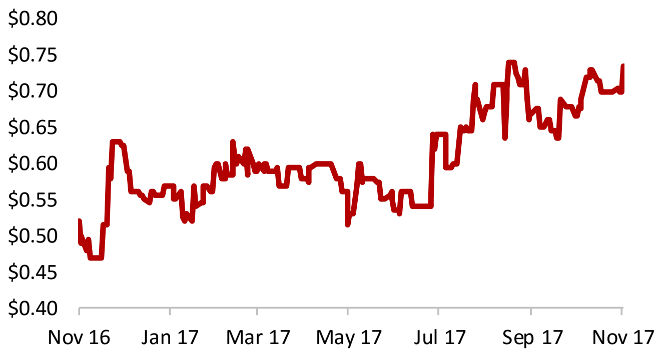
Data Source: FactSet

Earnings Summary (A$m)

Year end June	FY17	FY18F	FY19F	FY20F
Sales revenue	**23.3**	**26.2**	**28.9**	**31.0**
EBITDA	**3.4**	**3.9**	**4.3**	**4.7**
PBT	3.5	3.9	4.4	4.7
Underlying NPAT	**2.4**	**2.7**	**3.0**	**3.3**
Reported NPAT	2.3	2.7	3.0	3.3
Reported EPS (c)	6.6	7.8	8.6	9.3
Underlying EPS diluted (c)	**6.1**	**6.2**	**6.9**	**7.5**
Underlying P/E (x)	**10.5**	**11.3**	**10.2**	**9.4**
DPS (c)	6.0	6.0	6.5	7.0
Payout ratio (%)	**87%**	**77%**	**75%**	**75%**
Franking (%)	100%	100%	100%	100%
Dividend yield (%)	8.5%	8.5%	9.2%	9.9%
Gross Yield (%)	**13.4%**	**12.2%**	**13.2%**	**14.2%**

Data Source: Company, APP Securities

Share Price Performance



Source: FactSet

APP Securities contributes all company estimates to Bloomberg, Thomson Reuters, FactSet and Capital IQ.

HiTech Australia HIT-ASX

Summary	
Recommendation	**BUY**
Price ($)	**0.71**
Target Price ($)	**1.00**
Upside (Downside) (%)	40.8%
Gross Yield (%)	11.7%
Total Stock Return (%)	**52.5%**
Shares (m)	35.2
Diluted shares(m)	43.7
Market Capitalisation ($m)	25.0
Free Float Market Capitalisation ($m)	8.4

Valuation	
Discounted Cash Flow	
Diluted Value per share ($)	**$0.97**
Cash adjusted P/E (x)	
Forecast P/E Multiple (x)	**12.0**
Diluted Value per share ($)	**$1.00**
EV/EBITDA	
Forecast EV/EBITDA (x)	**8.0**
12 month forward EBITDA ($m)	4.1
Enterprise Value ($m)	**32.5**
Net Cash (Debt) ($m)	5.8
Cash from option exercise	4.0
Value ($m)	42.3
Diluted Value per share ($)	**$0.97**

Financial Metrics	FY16	FY17	FY18F	FY19F	FY20F
Reported EPS (c)	7.0	6.6	7.8	8.6	9.3
Underlying EPS (c)	**5.8**	**6.9**	**7.8**	**8.6**	**9.3**
Underlying EPS diluted (c)	4.9	6.1	6.2	6.9	7.5
Underlying P/E (x)	**6.5**	**9.3**	**9.5**	**8.5**	**7.9**
Underlying P/E (diluted) (x)	**7.6**	**10.5**	**11.8**	**10.6**	**9.8**
DPS (c)	2.0	6.0	6.0	6.5	7.0
Payout ratio (%)	34.4%	87.4%	77.3%	75.4%	75.0%
Franking (%)	**100%**	**100%**	**100%**	**100%**	**100%**
Dividend yield (%)	2.7%	8.2%	8.2%	8.8%	9.5%
Gross Yield (%)	**7.6%**	**13.4%**	**11.7%**	**12.6%**	**13.6%**
Book value (c)	16.3	16.8	16.7	18.7	20.8
Net Tangible Assets (c)	16.2	16.7	16.7	18.7	20.8
Price to Book value (x)	**2.3**	**3.8**	**4.4**	**3.9**	**3.5**
Price to NTA (x)	2.3	3.8	4.4	3.9	3.5
Cash Conversion	**100%**	**99%**	**96%**	**97%**	**98%**
Op. cashflow per share (c)	5.1	4.3	5.8	6.5	7.1
Price to OCFS (x)	**7.0**	**13.5**	**12.3**	**11.0**	**10.1**
Interest cover (EBIT/Net int) (x)	n/m	n/m	n/m	n/m	n/m
Underlying ROE (%)	37.1%	38.3%	39.0%	39.1%	37.9%
Underlying ROA (%)	9.1%	10.4%	11.2%	11.2%	10.9%

Multiples	FY16	FY17	FY18F	FY19F	FY20F
Net debt	(4.4)	(5.2)	(5.6)	(6.2)	(6.9)
Market Equity (Y/E)	11.6	22.5	25.8	25.8	25.8
EV	**7.2**	**17.3**	**20.2**	**19.6**	**18.9**
EV/EBITDA (x)	**2.9**	**5.0**	**5.2**	**4.5**	**4.0**
EV/EBIT (x)	2.9	5.0	5.2	4.5	4.0

Growth Rates	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	22%	28%	12%	10%	8%
Gross Profit growth (%)	22%	21%	13%	10%	8%
EBITDA growth (%)	**85%**	**37%**	**14%**	**11%**	**8%**
Underlying EPS (dil) growth (%)	62%	23%	3%	11%	8%

Profit and Loss A$m	FY16	FY17	FY18F	FY19F	FY20F
Sales revenue	**18.3**	**23.3**	**26.2**	**28.9**	**31.0**
COGS	(14.4)	(18.6)	(20.9)	(23.0)	(24.8)
Gross Profit	**3.9**	**4.7**	**5.3**	**5.8**	**6.3**
Gross Profit Margin	*21.3%*	*20.2%*	*20.2%*	*20.2%*	*20.2%*
Other operating costs	(1.4)	(1.3)	(1.4)	(1.5)	(1.6)
EBITDA	**2.5**	**3.4**	**3.9**	**4.3**	**4.7**
D&A	0.0	0.0	0.0	0.0	0.0
EBIT	**2.5**	**3.4**	**3.9**	**4.3**	**4.7**
Margin	*13.7%*	*14.7%*	*14.9%*	*15.0%*	*15.1%*
Net interest	0.0	0.0	0.0	0.0	0.0
PBT	**2.5**	**3.5**	**3.9**	**4.4**	**4.7**
Tax	(0.7)	(1.0)	(1.2)	(1.3)	(1.4)
Profit	1.8	2.4	2.7	3.0	3.3
Minority interests	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	**1.8**	**2.4**	**2.7**	**3.0**	**3.3**
Non-recurring items	0.4	(0.1)	0.0	0.0	0.0
Reported NPAT	**2.2**	**2.3**	**2.7**	**3.0**	**3.3**

Cashflow A$m	FY16	FY17	FY18F	FY19F	FY20F
Operating EBITDA	2.5	3.4	3.9	4.3	4.7
Change in working capital	0.1	0.2	(0.1)	(0.1)	(0.1)
Net interest	0.0	0.0	0.0	0.0	0.0
Tax paid	(0.6)	(1.5)	(1.2)	(1.3)	(1.4)
Other	(0.1)	(0.2)	0.0	0.0	0.0
Operating cashflow	**1.9**	**1.9**	**2.6**	**2.9**	**3.2**
Capital expenditure	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Net Divestment/(Acquistions)	0.7	0.7	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing cashflow	**0.6**	**0.5**	**(0.1)**	**(0.1)**	**(0.1)**
Change in Debt	0.0	0.0	0.0	0.0	0.0
Change in Equity	0.0	0.1	0.0	0.0	0.0
Dividends paid	0.0	(1.7)	(2.1)	(2.2)	(2.4)
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflow	**0.0**	**(1.6)**	**(2.1)**	**(2.2)**	**(2.4)**
Net cashflow	2.6	0.8	0.4	0.6	0.7

Balance Sheet A$m	FY16	FY17	FY18F	FY19F	FY20F
Cash and Deposits	4.4	5.2	5.6	6.2	6.9
Receivables	3.1	2.6	2.9	3.2	3.5
Financial assets	0.6	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.2	0.2	0.2	0.2
Total Current Assets	**8.1**	**8.0**	**8.8**	**9.7**	**10.6**
PPE	0.1	0.2	0.3	0.4	0.5
Deferred tax assets	0.1	0.1	0.1	0.1	0.1
Intangibles (incl. goodwill)	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Non Current Assets	**0.1**	**0.3**	**0.4**	**0.5**	**0.6**
Total Assets	**8.2**	**8.3**	**9.2**	**10.2**	**11.3**
Payables	1.4	1.2	1.3	1.4	1.5
Interest Bearing Debt	0.8	0.2	0.3	0.3	0.3
Other	0.1	0.2	0.2	0.2	0.2
Total Current Liabilities	**2.2**	**1.6**	**1.8**	**1.9**	**2.0**
Interest Bearing Debt	0.0	0.0	0.0	0.0	0.0
Long Term Provisions	0.0	0.1	0.1	0.1	0.1
Deferred Tax	0.0	0.0	0.0	0.0	0.0
Total Non Current Liabilities	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**
Total Liabilities	**2.3**	**1.7**	**1.9**	**2.0**	**2.2**
Shareholders Equity	2.9	3.1	3.1	3.1	3.1
Retained Earnings/(Losses)	2.7	3.4	4.0	4.7	5.6
Reserves/Other	0.3	0.2	0.2	0.3	0.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	**6.0**	**6.7**	**7.3**	**8.2**	**9.1**

Investment Case

In our view HiTech Group Australia (HiTech) looks an attractive investment opportunity. The stock is trading on a FY18F EV/EBITDA multiple of sub 5.0 times, a three-year PEG ratio of 1.0 and a cash adjusted P/E of less than 8.0 times. NB: At the end of FY17, HiTech had cash on balance sheet equal to $0.15 per share.

We are forecasting HIT will pay a fully franked dividend of $0.06 per share in FY18F (gross yield over 12%), lifting to $0.065 in FY19F.

While barriers to entry in the recruitment space are low we are comfortable that the quality of the Board and management will ensure HIT keeps pace with market and technological developments while continuing to offer existing clients a broader suite of recruitment and information and communications technology (ICT) consulting solutions in addition to base contracting agreements.

HiTech has no debt and cash available of ~$5m, so is in a very solid position to grow its business through organic growth and EPS accretive acquisitions in a highly-fragmented market. We expect the Board and management to target acquisitions that fit the existing company culture and industry of HIT's existing client base, and are EPS accretive. HiTech stated at its FY17 results that it is "ready to take advantage of market opportunities and EPS accretive acquisitions to increase stakeholder returns" and that "acquisition targets are currently under consideration subject to" its strict criteria.

HiTech intends to pursue organic growth through on-boarding new clients, enhancing the service offering provided to existing clients by providing a broader suite of recruitment and ICT consulting solutions in addition to base contracting agreements, and expanding the company's ICT offering into high margin consulting and services space i.e. Cloud, Security and Software as a service (SaaS).

The company generates the majority of its revenue from supplying ICT contracting and consulting, meaning revenue is almost entirely recurring. Revenue is underpinned by a long term, blue chip customer base with a number of significant client supplier agreements recently extended for three to seven years including the Department of Human Services and the Department of Infrastructure.

We expect companies and government agencies to continue to reduce full time equivalent work force numbers while continuing to outsource, thus increasing contracting job hours. HiTech is perfectly placed to benefit from this ongoing trend.

FY17 delivered the company's third consecutive year of double digit revenue and profit growth.

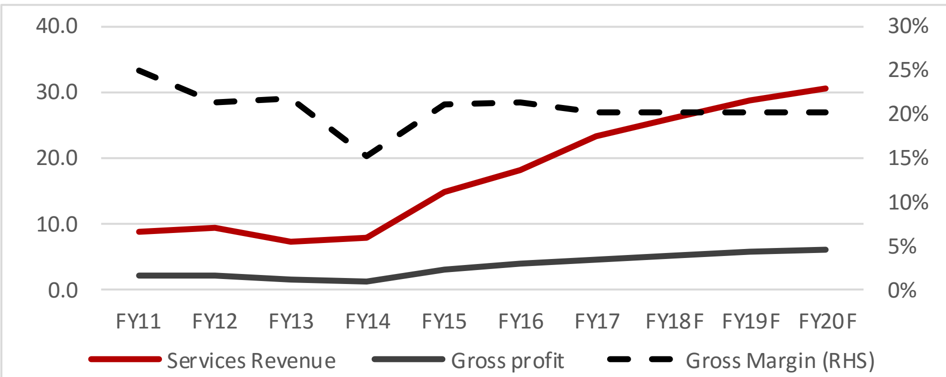
Figure 1. HiTech Group Australia Service Revenue growth and Gross Margin (A$m)

A$m	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F
Services Revenue	**8.7**	**9.6**	**7.3**	**8.0**	**15.0**	**18.3**	**23.3**	**26.2**	**28.9**	**31.0**
Growth		*9.5%*	*-23.7%*	*9.1%*	*88.6%*	*21.5%*	*27.6%*	*12.5%*	*10.0%*	*7.5%*
Gross profit	2.2	2.1	1.6	1.2	3.2	3.9	4.7	5.3	5.8	6.3
Gross Margin (RHS)	25.1%	21.5%	21.7%	15.2%	21.1%	21.3%	20.2%	20.2%	20.2%	20.2%

Source: Company data, APP Securities

Revenue has grown at a compound average growth rate (CAGR) of ~18% since FY11 despite a drop off in FY13 reflecting a move away from low margin business.

Figure 2. HiTech Group Australia Service Revenue and Gross Margin Growth (A$m)



Source: Company data, APP Securities

Valuation

The average of our three valuation techniques gives us a 12 month forward blended valuation of $0.98. Thus; our 12-month forward price target is set at $1.00.

Figure 3. HiTech Australia Group Valuation

12 month forward price (P/E)	Jun-18	Nov-18	Jun-19	Nov-19	Jun-20
HIT underlying EPS ($) (diluted)	0.062	0.065	0.069	0.072	0.075
Forecast P/E (x)	12.0	12.0	12.0	12.0	12.0
Undajusted Value	**$0.75**	**$0.78**	**$0.83**	**$0.86**	**$0.90**
Net Cash (Debt)	5.6	5.8	6.2	6.5	6.9
Cash from exercised options	4.0	4.0	4.0	4.0	4.0
Total Cash post option exercise	9.6	9.8	10.2	10.5	10.9
Cash value per share	$0.22	$0.22	$0.23	$0.24	$0.25
Value	**$0.97**	**$1.00**	**$1.07**	**$1.10**	**$1.15**
12 month forward price DCF	**Jun-18**	**Nov-18**	**Jun-19**	**Nov-19**	**Jun-20**
HiTech Australia DCF	**$0.96**	**$0.97**	**$1.00**	**$1.02**	**$1.05**
12 month forward price (EV/EBITDA)	**Jun-18**	**Nov-18**	**Jun-19**	**Nov-19**	**Jun-20**
HIT underlying EBITDA ($)	3.9	4.1	4.3	4.5	4.7
Forecast EV/EBITDA (x)	8.0	8.0	8.0	8.0	8.0
Forecast Enterprise Value	31.3	32.4	34.7	35.8	37.5
Net Cash (Debt)	5.6	5.8	6.2	6.5	6.9
Option exercise	4.0	4.0	4.0	4.0	4.0
Forecast Equity	**40.9**	**42.3**	**44.9**	**46.2**	**48.4**
Diluted shares	43.7	43.7	43.7	43.7	43.7
Per share (diluted)	**$0.94**	**$0.97**	**$1.03**	**$1.06**	**$1.11**
Blended valuation	**Jun-18**	**Nov-18**	**Jun-19**	**Nov-19**	**Jun-20**
12 month forward (Cash adjusted P/E)	$0.97	$1.00	$1.07	$1.10	$1.15
12 month forward price DCF	$0.96	$0.97	$1.00	$1.02	$1.05
12 month forward EV/EBITDA	$0.94	$0.97	$1.03	$1.06	$1.11
Blended target	**$0.95**	**$0.98**	**$1.03**	**$1.06**	**$1.10**

Source: Company data, APP Securities

Discounted cash flow valuation

We have used a cost of equity of 11.0% based off an equity beta of 1.0 (NB: FactSet observed equity beta for HiTech is 0.81), a risk-free rate of 5.0% and a market risk premium of 6.0%. Given our assumed debt levels are zero going forward we have a weighted average cost of capital (WACC) of 11.0%. We have discounted 10 years of free cash flows and applied a nominal terminal growth rate of 3.0% (2.5% inflation and 0.5% real growth).

Figure 4. HiTech Australia Discounted Cash Flow Valuation

DCF Operating Cash Flows	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	Terminal
EBITA incl other income (expense) & abnorms	3.9	4.3	4.7	4.9	5.0	4.9	4.9	4.8	4.8	4.7	
Ungeared taxation	(1.2)	(1.3)	(1.4)	(1.5)	(1.5)	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)	
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Increase in Working Capital	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Capital Expenditure	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
Acquisitions/Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Disposals/Capital Raised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Standard Free Cashflow	**2.5**	**2.9**	**3.2**	**3.3**	**3.4**	**3.3**	**3.3**	**3.3**	**3.2**	**3.2**	**40.0**
FCF Timing Factor	0.7	1.7	2.7	3.7	4.7	5.7	6.7	7.7	8.7	9.7	10.7
Discount Factor	1.1	1.2	1.3	1.5	1.6	1.8	2.0	2.2	2.5	2.7	3.0
Discounted FCF	**2.3**	**2.5**	**2.4**	**2.3**	**2.1**	**1.9**	**1.6**	**1.5**	**1.3**	**1.2**	**13.1**

Valuation	$m
Explicit Cashflows (10 Years)	19
Terminal Value	13
Total Firm Value	**32**
Plus Cash (Net debt)	6
Option exercise cash	4
Total Equity Claims	**42**
Diluted Shares	44
Per Share Value	**$0.96**

Source: Company data, APP Securities

Company Overview

Hitech Group Australia Ltd (HiTech) is a specialist provider of recruitment and ICT consulting services.

HiTech's primary driver is supplying ICT recruitment services for contract staff. The company was founded by Raymond Hazouri on October 14, 1993 and is headquartered in Sydney, Australia.

ICT contracting comprises the provision of ICT professionals for temporary and other non-permanent staffing needs of clients for specific projects. Contracting makes up the majority of HiTech's reported services revenue stream and given the recurring nature of the income, provides the company with a relatively stable outlook.

HiTech's recruitment business is broadly based in this sector and operates across the full range of ICT services, including system development, infrastructure support and networking, operation and other skill sets. Given the growth in this sector, there is a growing need for skilled ICT professionals. HiTech is addressing the demand for specialised ICT skills by making use of its database (HiBase that has over 360,000 candidates) for contracting and permanent positions.

Revenue is underpinned by a long term, blue chip customer base with a number of significant client supplier agreements recently extended for three to seven years including the Department of Human Services and the Department of Infrastructure.

HiTech has diversified into non-ICT areas of recruitment such as office support, sales, accounting, legal and healthcare. Whilst this diversification remains minor in comparison to ICT recruitment, it marks a start for all these other areas of business with a potential to grow further.

HiTech's market share of the total Australian recruitment market is relatively small. This represents a huge growth potential. HiTech is focused on servicing existing clients by providing a complete recruitment solution in addition to contracting.

As HiTech's core competency is in recruitment, it's strategy is to build on its existing client base and maximize revenue from existing clients by effectively providing personnel to not only the ICT market but also to other markets such as administration and office support, sales and marketing, finance and legal.

There is also a possibility of broadening the consolidated entity's operations into geographical markets in which HiTech operates.

Clients

HiTech is a preferred supplier to several Public (State & Federal) Government departments and Private sector corporations. It provides contract and permanent staff to over 23 Federal Government departments including:

- The Digital Transformation Agency, Department of Human Services, Attorney General's Department, Department of Employment, Department of Training, Department of Infrastructure, Austrade, Australian Criminal Intelligence Commission.
- Several Federal Government Departments have appointed HiTech as a preferred panel member for the provision of ICT contractors.

Government (Partial):

- Australian Bureau of Statistics, Department of Human Services, Australian Communications and Media Authority, Department of Industry, Department of Education | Department of Employment, Department of Immigration & Border Protection, Department of Social Services, Department of Veteran Affairs, Austrade, Department of Education and Communities, AUSTRAC and the Department of Infrastructure

Private Sector (Partial):

- AT&T, Bupa, Sage Micropay, Sungard and the Good Guys

Market Conditions

The FY18F growth will depend on the existing economic conditions continuing for the foreseeable future. There are signs of growing business confidence coming into the market. The most significant areas for change will be the continuation of an increase in job vacancies in ICT. HiTech believe skilled professionals remain in short supply. The directors' main objective will be organic growth in the consolidated entity's core business and further enhancing existing client business.

The Australian job market, particularly the ICT sector, has seen renewed demand for quality talent. HiTech has succeeded in retaining its valued clients, winning new business, diversifying and ensuring that operating costs are kept to a minimum.

Hudson Information Technology (IT) Talent Insights reports that 88% of all employers are looking to maintain or increase their workforce. Large scale public and private IT transformation projects continue as the trend towards the cloud progresses.

Throughout FY17, HiTech was successful in being selected as a preferred supplier to additional government departments including the NSW state government and new Federal Government supply panels. This will provide HiTech with an opportunity to further diversify its revenue base.

Growth outlook

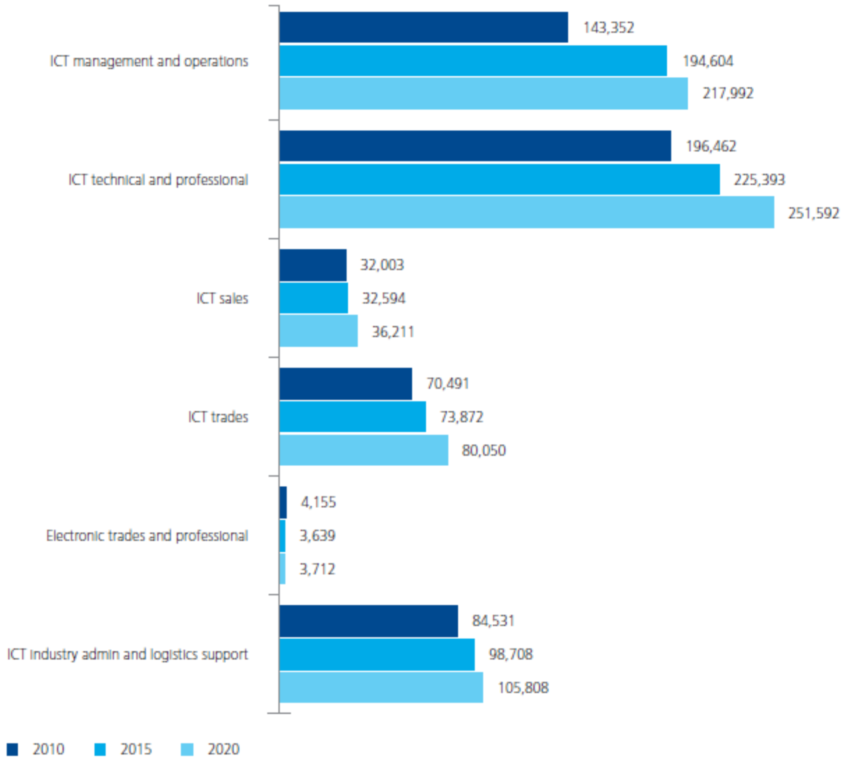
In Australia there are circa 12m people employed. The average staff turnover is ~16% p.a. implying ~1.9m people will look for a new job in the next 12 months.

Deloitte Access Economics forecast that the digital economy's contribution to Australia's GDP will grow from $79b in 2014 to $139b in 2020 representing a CAGR of ~10% per annum.

Australia's ICT workforce is forecast to lift from 628,000 in 2015 to 722,000 in 2022 representing a CAGR of 2.0% p.a.

On average 80% of ICT work is contracted according to the Information Technology Contract and Recruitment Association (ITCRA). **We note here that HiTech's "contracting" revenue has grown at a CAGR of 19.5% since FY11.**

Figure 5. The historical and forecast ICT employment snapshot



Source: Deloitte Access Economics Report; Australia's Digital Pulse 2016.

Comparative companies

The recruitment market has a number of listed entities, most of which have variant operating models. Suffice to say the size and the profitability of the Australian listed space is not something to write home about. HiTech at this stage is the stand out. As can be noted below there are only three established players with revenue exceeding $100m with only Rubicor reporting a profit. NB: If the Rubicor FY17 income statement is adjusted for one off items (gains on sale of businesses and debt forgiven less some restructuring expenses) the company would have reported a loss at the PBT line).

We believe the listed Recruitment space is ripe for consolidation and HiTech Group Australia might just be the entity to do it.

Figure 8. Australian Listed Comparative Companies

Ticker	Australian Listed Company	Price (A$)	Market Cap	Sales	EBITDA	EPS (A$)	Net Debt	Enterprise Value	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
1PG-ASX	1-Page Limited	0.17	25	1	(24)	(0.19)	(31)	(5)	n/m	n/m	n/m
AD1-ASX	ApplyDirect Ltd.	0.14	23	1	(5)	(0.03)	(3)	20	28.7	n/m	n/m
AMB-ASX	Ambition Group Limited	0.18	12	115	1	0.01	(4)	8	0.1	6.9	16.8
CND-ASX	Clarius Group Limited	0.07	7	153	(2)	(0.04)	1	8	0.1	n/m	n/m
GOO-ASX	Gooroo Ventures Ltd.	0.15	9	0	(3)	(0.06)	(2)	7	305.4	n/m	n/m
HIT-ASX	**Hitech Group Australia Limited**	**0.70**	**25**	**23**	**3**	**0.07**	**(5)**	**19**	**0.8**	**5.8**	**10.7**
HJB-ASX	HJB Corporation Limited	0.01	2	0	(0)	(0.00)	(0)	2	218.7	n/m	n/m
LVH-ASX	LiveHire Ltd.	0.97	227	1	(5)	(0.02)	(18)	209	269.9	n/m	n/m
RUB-ASX	Rubicor Group Limited	0.04	10	197	13	0.06	12	22	0.1	1.7	0.6
Average									**103.0**	**4.8**	**9.4**
Median									**14.8**	**5.8**	**10.7**

Note: All company financials in A$m unless stated

Source: FactSet

Additionally, we have tabled below a number of global listed entities, whose businesses are predominantly exposed to recruitment to demonstrate the multiples that global comp-cos trade at once they have achieved scale and thus market capitalisations that allow the stocks to enter fund manager's investable universe.

Figure 9. Overseas Listed Comparative Companies

Ticker	Overseas Listed Company	Price (LC)	Market Cap.(A$m)	Sales	EBITDA	EPS	Net Debt	Enterprise Value	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
2124-JP	JAC Recruitment Co., Ltd.	2,093	969	13,838	4,812	81.02	(10,114)	76,310	5.5	15.9	25.8
4318-JP	Quick Co., Ltd.	1,957	422	14,579	2,200	74.05	(4,455)	32,921	2.3	15.0	26.4
6098-JP	Recruit Holdings Co., Ltd.	2,776	53,220	1,839,987	253,761	50.84	(134,019)	4,573,966	2.5	18.0	54.6
ADEN-CH	Adecco Group AG	79.15	17,641	24,747	1,322	4.63	951	14,498	0.6	11.0	17.1
ASGN-US	On Assignment, Inc.	61.22	4,216	2,440	251	1.81	613	3,846	1.6	15.3	33.8
CSG-ZA	CSG Holdings Limited	1.07	51	1,747	151	0.19	70	621	0.4	4.1	5.5
HAS-GB	Hays plc	1.86	4,675	5,081	230	0.10	(112)	2,588	0.5	11.3	19.3
HSII-US	Heidrick & Struggles International, Ir	24.85	609	601	54	0.81	(165)	302	0.5	5.6	30.7
JOBS	51job Inc Sponsored ADR	61.90	4,958	351	120	1.46	(694)	3,107	8.8	25.9	42.3
KELYA-US	Kelly Services, Inc. Class A	26.31	1,315	5,277	175	3.08	(30)	982	0.2	5.6	8.5
KFY-US	Korn/Ferry International	41.83	3,082	1,650	174	1.47	(159)	2,204	1.3	12.7	28.5
MAN-US	ManpowerGroup Inc.	123.28	10,730	19,654	835	6.27	227	8,454	0.4	10.1	19.7
MHH-US	Mastech Digital, Inc.	12.75	91	132	5	0.56	9	79	0.6	14.4	22.8
PAGE-GB	PageGroup PLC	4.68	2,647	1,196	118	0.23	(93)	1,436	1.2	12.2	20.2
RAND-NL	Randstad Holding NV	52.82	14,675	20,684	966	3.15	791	10,471	0.5	10.8	16.8
O1BC-ETR	XING SE	255.10	2,178	146	47	4.19	(87)	1,347	9.2	28.7	60.9
Average									**2.3**	**13.5**	**27.1**
Median									**0.9**	**12.4**	**24.3**

Note: All overseas listed company financials in local currency (LC) unless stated

Source: FactSet

Risk Factors

Competition

HiTech operates in a competitive industry and is subject to increasing competition, through a combination of established organisations and new entrants to the market. The actions of an existing competitor or competitors may become more focussed on HiTech's sector of the market or more effective. New competitors may enter the market.

Economic

A downturn in the Australian economy and or the ICT sector could put job turnover and numbers under pressure, thus impacting pay rates and impact HiTech's contracting margins.

Structural

Structural changes to the recruitment industry or a faster than expected transition to direct recruitment (see below) or other industry drivers could lead to reduced demand for HiTech's services.

Direct recruitment

The trend towards direct recruitment is being driven by employers seeking to reduce the time and cost of recruitment by the use of on-line systems and automated applicant tracking software to facilitate direct interaction between themselves and potential employees. HiTech is in a strong position to offer its existing clients or new clients a budget service that lowers talent acquisition costs.

Acquisition and Growth Strategy implementation

HiTech has made it clear it wishes to grow organically and via acquisition. Paying too much for an acquisition or failure to execute on either strategy would clearly impact profitability going forward.

Loss of key contracts and or obtaining repeat business

HiTech has a number of blue chip customers with long term client supplier agreements. We understand that no one client makes up more than 19% of revenue. We understand that the top 20 clients made up 78% of revenue.

Technology

System failure, security breaches and or hacking, power outages could cause major disruption. We understand the HiTech backs up its database daily and remotely in the cloud.

Free float and management overhang

With only 32% free float, liquidity in the stock is tight and the ability to enter and exit the register is a consideration.

Company Financials

Profit and Loss

FY17 services revenue of $23.4m was up 27% over the previous corresponding period (pcp). The high margin permanent placement income was 13% higher and contracting revenue was 28% higher. Gross Profit of $4.7m was up 21% on pcp.

Figure 7. HiTech Group Australia Profit and Loss

A$m	FY15	*1H16*	*2H16*	FY16	*1H17*	*2H17*	FY17	FY18F	FY19F	FY20F
Contracting and permanent placement revenue	15.0	*8.1*	*10.1*	18.3	*11.0*	*12.3*	23.3	26.2	28.9	31.0
Other Revenue	0.0	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0	0.0
Total Sales	**15.0**	*8.1*	*10.1*	**18.3**	*11.0*	*12.3*	**23.3**	**26.2**	**28.9**	**31.0**
Growth		*27.2%*	*17.3%*	*21.5%*	*34.9%*	*21.7%*	*27.6%*	*12.5%*	*10.0%*	*7.5%*
Cost of Services	(11.9)	*(6.6)*	*(7.8)*	(14.4)	*(9.1)*	*(9.5)*	(18.6)	(20.9)	(23.0)	(24.8)
Gross Profit	**3.2**	*1.6*	*2.3*	**3.9**	*1.9*	*2.8*	**4.7**	**5.3**	**5.8**	**6.3**
Margin	*21.1%*	*19.4%*	*22.8%*	*21.3%*	*17.3%*	*22.7%*	*20.2%*	*20.2%*	*20.2%*	*20.2%*
Administration	(0.8)	*(0.4)*	*(0.7)*	(1.1)	*(0.6)*	*(0.6)*	(1.2)	(1.4)	(1.4)	(1.5)
Other	(1.0)	*(0.2)*	*(0.1)*	(0.3)	*(0.0)*	*(0.0)*	(0.0)	(0.0)	(0.0)	(0.0)
Total other operating expenditure	**(1.8)**	*(0.6)*	*(0.8)*	**(1.4)**	*(0.6)*	*(0.6)*	**(1.3)**	**(1.4)**	**(1.5)**	**(1.6)**
EBITDA	**1.3**	*1.0*	*1.5*	**2.5**	*1.3*	*2.2*	**3.4**	**3.9**	**4.3**	**4.7**
Depreciation	0.0	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0	0.0
EBITA	**1.3**	*1.0*	*1.5*	**2.5**	*1.3*	*2.2*	**3.4**	**3.9**	**4.3**	**4.7**
Amortisation of intangibles	0.0	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0	0.0
Underlying EBIT	**1.3**	*1.0*	*1.5*	**2.5**	*1.3*	*2.2*	**3.4**	**3.9**	**4.3**	**4.7**
Net Interest income/(expense)	(0.0)	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0	0.0
Underlying PBT	**1.3**	*1.0*	*1.5*	**2.5**	*1.3*	*2.2*	**3.5**	**3.9**	**4.4**	**4.7**
Taxation	(0.4)	*(0.3)*	*(0.5)*	(0.7)	*(0.4)*	*(0.7)*	(1.0)	(1.2)	(1.3)	(1.4)
Underlying profit after tax	**0.9**	*0.7*	*1.1*	**1.8**	*0.9*	*1.5*	**2.4**	**2.8**	**3.1**	**3.3**
Growth		*27.7%*	*163.1%*	*91.2%*	*31.1%*	*42.5%*	*34.1%*	*14.1%*	*11.0%*	*8.0%*
Statutory NPBT	**1.3**	*1.0*	*2.1*	**3.1**	*1.3*	*2.0*	**3.3**	**3.9**	**4.4**	**4.7**
Tax	(0.5)	*(0.3)*	*(0.7)*	(0.9)	*(0.4)*	*(0.6)*	(1.0)	(1.2)	(1.3)	(1.4)
Reported NPAT	**0.8**	*0.7*	*1.5*	**2.2**	*0.9*	*1.4*	**2.3**	**2.7**	**3.0**	**3.3**
Average Shares	31.0	*31.0*	*31.0*	31.0	*31.0*	*35.2*	35.2	35.2	35.2	35.2
EPS	**2.6**	*2.2*	*4.8*	**7.0**	*3.0*	*3.9*	**6.6**	**7.8**	**8.6**	**9.3**
Underlying EPS	**3.0**	*2.2*	*3.4*	**5.8**	*2.9*	*4.3*	**6.9**	**7.8**	**8.7**	**9.4**
DPS	**0.0**	*0.0*	*0.0*	**2.0**	*3.0*	*3.0*	**6.0**	**6.0**	**6.5**	**7.0**

Source: Company data, APP Securities

We are forecasting continued growth in revenue but at lower levels than that have been achieved over the last five years (CAGR of 19.5%). Our base case forecasts assume revenue growth in FY18F of 12.5% then growth rates to lower by 2.5% p.a.

We are forecasting gross margins to be maintained at FY17 levels (some might argue a tad optimistic), but given our declining revenue growth assumptions we are comfortable with our forecasts.

We have assumed the dividend payout ratio to lower to 77% in FY18F and then 75% in FY19F and FY20F. Thus; cash will lift to circa $7m by FY20F if management is unable to source an acquisition, particularly given the low stay in business software capital spend per annum.

Capital Structure

HiTech has 35.15m shares on issue with a free float of ~30%. The majority shareholder is Ray Hazouri, Chairman and founder, who owns circa 50% of the register.

The next largest shareholder is Elias Hazouri, Chief Executive Officer, with ~4m shares (~11%).

There are 8.5m options outstanding (under the assumption that 4.0m new options will be granted to the Chairman and the CEO at the upcoming annual general meeting (AGM) that if exercised in full would raise ~$4m cash. All our forecasts and valuations assume 8.5m options will be on issue post the AGM on 24 November 2017.

Current options outstanding include4.5m with an exercise price of $0.22 and 4m at $0.75 (assuming they are approved at the AGM).

Board and Management

Raymond Hazouri

Chairman, Company Secretary (appointed Company Secretary 13 February 2015).

Qualifications: BA (Sydney University), DipEd.

Ray founded HiTech in 1993 and has over 26 years' experience in the IT industry. Prior to establishing HiTech, Ray worked in a number of capacities in the information technology industry ranging from management positions, technical IT consulting roles including systems analysis/programming, project management and sales roles. Ray worked and consulted for a broad range of employers in the private, multinational, SME, and public sectors.

Interest in shares and options: 17,760,000 ordinary shares in HiTech Group Australia Limited. Other current and former directorship in last three years: Nil.

George Shad

Non-executive Director.

Qualifications: Solicitor

George was appointed to the Board on 30 July 2003. Principal of Shad Partners Solicitors with thirty years' experience as a lawyer specialising in commercial and conveyancing work. George is a panel solicitor for a number of major banks and his expertise and contacts in the corporate sector will assist HiTech in furthering its client base. Special responsibilities: Chairman of the Audit and Risk Committee

Interest in shares: 250,000 ordinary shares in HiTech Group Australia Limited.

Other current and former directorship in last three years: Nil

Elias Hazouri

Executive Director, Chief Executive Officer

Qualifications: B Sc, MBA

Elias was appointed to the Board on 30 July, 2003 as an alternate Director representing Ray Hazouri when he was not available. Over 27 years' experience in IT and banking. Elias was previously a director of HiTech from 1993-March 2000. Elias's knowledge of HiTech's business is extensive. Throughout his career, Elias has been integral to the development of many IT systems and IT support departments. He has held roles ranging from programmer to technology support head. Elias is a key resource and knowledge base to the HiTech account managers and is jointly responsible for generating new business. Elias has advised on business strategy, both from a financial and operational perspective, since the inception of HiTech in 1993. Elias is employed in the capacity of Chief Executive Officer.

Interest in shares and options: 3,926,202 ordinary shares, 2.9m options in HiTech Group Australia Limited beneficially owned by him.

Other current and former directorship in last three years: Nil

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Contact with HiTech Group Australia Limited has been made during the preparation of this report for assistance with the verification of facts.

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