

# Recruiters bounce back as jobs market tightens



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WITH Australia's jobless rate about 5 per cent — as close as we'll get to full employment without totally fudging the figures — the listed recruitment sector slowly is returning to favour with investors. But beware: not all of the firms have surfed past booms and a few of them aren't around to learn from their mistakes.

Broadly speaking, a tight job market is positive for the sector but there's a disparity between the white-hot mining and infrastructure sectors and patchier white-collar spheres such as information technology.

"We keep reading about contracting unemployment, but it's very clear the engine room has been blue collar and the resources and infrastructure sectors in Queensland and WA," Ambition Group (Australian Securities Exchange code: AMB) executive chairman Nick Waterworth says.

Another proviso is that most of the players have expanded into offshore markets, which may not be as buoyant.

Talent Two (TWO) and Chandler McLeod (CMG), the biggest recruiters by market capitalisation, have led the revival. Talent Two, which spans the accounting and financial services markets, reported an 85 per cent interim net profit surge to \$3.4 million, despite

expanding its headcount by 25 per cent. Having posted a \$13m loss in the 2009-10 year, Chandler McLeod surged back into the black with a \$6.1m interim net profit. This, the company says, reflects "the early stages of a cyclical upswing for the recruitment sector".

Chandler McLeod is at the purchasing end of one of the sector's biggest consolidations: its cash-scrip acquisition of Julia Ross's Ross Human Directions, which plays in the pink collar (administrative and temp) market. Alas, the outfit founded by the eponymous Julia Ross 20 years ago ended up as takeover bait because its earnings performance didn't quite match its top-line growth.

A feature of most recruiters is that they're not solely in the business of whispering "Can you talk?" down the phone to startled potential candidates.

Talent Two runs sizeable payroll outsourcing and training and development operations, while Chandler McLeod offers "end-to-end workforce management solutions" such as leadership development.

For investors favouring resources grunt, Skilled Group (SKE) is the biggest provider in the sector and has

specialist recruitment arms such as health care, IT and oil and gas. Skilled is not a recruitment pure-play, as it offers engineering, marine and other business services. Programmed Group (PRG) provides property services but also derives about one-third of its earnings from workforce hire.

In the specialist IT sphere, Clarius (CND) has attracted a swag of followers because of its consistent performance. Ambition Group (AMB) shares had been going nowhere, but found some favour after last month reporting a \$1.9m surplus for calendar 2010, compared with a thumping \$7.5m loss previously. Ambition also reduced the loss in its troublesome (acquired) UK arm to \$568,000, from \$2.038m previously.

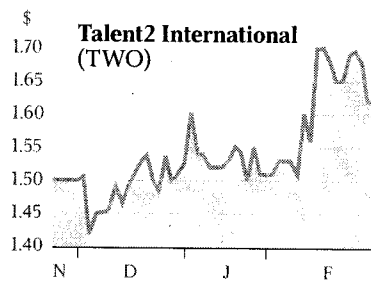
Locally, conditions are patchy (NSW continues to lag and Victoria is buoyant), while Hong Kong and Singapore report strong demand. "Things aren't roaring along and conditions vary from city to city and sector to sector," Waterworth says. "But 2010 was noticeably better than 2009."

BCG Equities analyst Mark Topy says most recruitment chiefs his firm has been in contact with expect staff turnover to increase substantially this year, to about 20 per cent.

Broadly speaking, the listed recruiters aren't a suitable investment for those who prefer a smooth performance. The sector is highly competitive, with dozens of private operators. And the businesses are only as good as the key talent, who can defect at any time.

But there's certainly value in a sector that continues to suffer a hangover from the global financial crisis. Ambition shares, in particular seem to be lagging the recovery.

## Leading the revival



Source: Bloomberg