

August 27, 2022

ADD (no change)

Stock code:	PPE AU
Price:	A\$3.72
12-month target price:	A\$4.90
Previous target price:	A\$4.25
Up/downside to target price:	31.7%
Dividend yield:	4.0%
12-month TSR*:	35.7%
Market cap:	A\$344m
Average daily turnover:	A\$0.8m
Index inclusion:	ALL ORDINARIES

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	9.7	13.8	-11.2	7.8
Rel ASX/S&P200	7.4	14.6	-5.3	-0.5



Source: Bloomberg

Financial summary

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A\$m)	682.3	1,020.0	1,136.8	1,216.7
EBITDA Norm (A\$m)	47.9	63.6	70.5	75.7
Net Profit (A\$m)	17.7	31.7	34.8	37.9
EPS Norm (A\$)	0.26	0.31	0.34	0.37
EPS Growth Norm (%)	20.3%	18.0%	11.0%	8.7%
P/E Norm (x)	14.3	12.0	10.9	10.1
DPS (A\$)	0.13	0.15	0.16	0.17
Dividend Yield (%)	3.5%	3.9%	4.2%	4.4%
EV/EBITDA (x)	9.5	7.3	6.5	5.9
Gearing (Net Debt/EBITDA)	1.77	1.45	1.25	0.97

Source: Company data, Morgans estimates

Related research

[PPE \(ADD - TP A\\$4.25\) - 30 Jun 2022](#)
[PPE \(ADD - TP A\\$5.15\) - 19 Feb 2022](#)

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Analyst(s) own shares in the following stocks mentioned in this report:

– N/A

PeopleIn

FY23 guidance increases confidence

- FY22 results and FY23 guidance exceeded both our expectations and those of consensus. PPE delivered normalised EBITDA (equity) of \$47.2m, an increase of 23.9% vs pcp, of which organic growth contributed 10.5%. The FY23 ROE-A of 24.9% demonstrates the business' continued capacity to deliver accretive acquisition growth.
- Looking forward, management reaffirmed their commitment to delivering c.10% pa organic growth, complemented by continued accretive acquisitions and industry leading EBITDA margins of +7%.
- We retain our ADD, increasing our target price to \$4.90/sh, reflecting an FY23 PER-A of 12.5x, a level we believe as reasonable given the pathway to future earnings growth.

FY22 results a beat, with an FY23 guidance upgrade

- FY23 outlook commentary was positive, with the company guiding to FY23 normalised EBITDA \$62-66m (Morgans est: \$62.9m) – c.33% growth vs pcp.
- PPE has delivered a solid FY22 result, with normalised EBITDA (equity) of \$47.2m slightly above guidance (normalised EBITDA range of \$45m-\$47m) and our prior expectations (\$45.6m) – 23.9% growth vs pcp.
- Fully franked dividends for the year of 14.0c, reflecting a dividend yield of 3.8%.

Analysis

- A solid set of results with both FY22 and FY23 guidance exceeding expectations.
- Importantly, growth continues to be driven from a combination of organic growth (+10.5% in FY22) and contributions from recent M&A. To that end, the company note it has spare debt capacity of c.\$30m for acquisitions during FY23.
- Net debt to EBITDA is currently at 1.5x, reducing to 1.1x with the inclusion of the FIP contribution. With \$30m of additional debt capacity, we could see PPE growing FY23 EBITDA (proforma) by c.10% (proforma).
- The company reported strong cash flow conversion of 99.5% (vs EBITDA), with cash conversion to revert to c.90% to accommodate future growth.
- ROE-A of 24.9% for the year demonstrates this business' continued ability to generate value through acquisition – a trend we expect to continue.

Forecast and valuation update

- We have increased our forecast normalised EBITDA for FY23 by 3.9% from \$60.5m to \$62.9m.
- Likewise, we have also increased our FY24 EBITDA by 4.7% from \$66.5m to \$69.7m.
- Our valuation has increased 15.3% to \$4.90/sh (previously: \$4.25/sh), as a result of increased earnings, along with a reduced discount to the adopted ASX 300 EBIT PE multiple. We have applied a PE multiple of 12.4x FY23, a 15% discount to the index (previous discount: 20%). We believe the reduced discount is appropriate, given our increased confidence in forward earnings and the business' ability to navigate economic uncertainty, should it eventuate.

Investment view

- We retain our ADD rating, increasing our target price to \$4.90/sh.
- At the current price of \$3.72/sh, the stock continues to screens cheap at a PER-A of <10x, given the potential for annual EPS-A growth of 10-20%.
- Management continue to deliver on earnings growth and ROE-A, with a commitment to organic growth of c.10% pa and a target long-run industry leading EBITDA margin of +7%.

PeopleIn

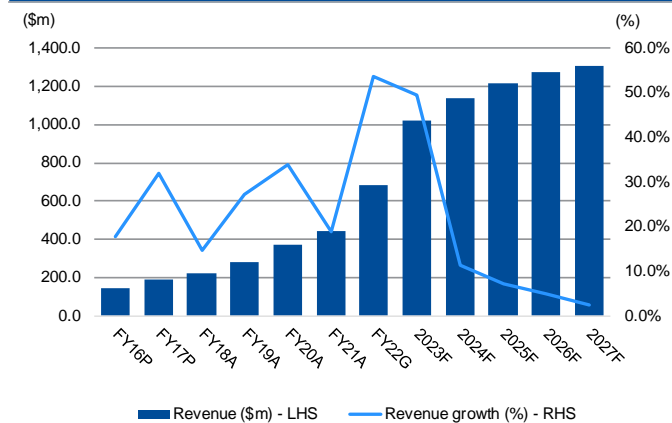
as at August 27, 2022

Rating	ADD	Price (A\$):	3.72
Market cap (A\$m):	344	12-month target price (A\$):	4.90
Shares outstanding (m):	98.78	Up/downside to target price (%):	31.7
Free float (%):	67.8	Dividend yield (%):	4.0

Company description

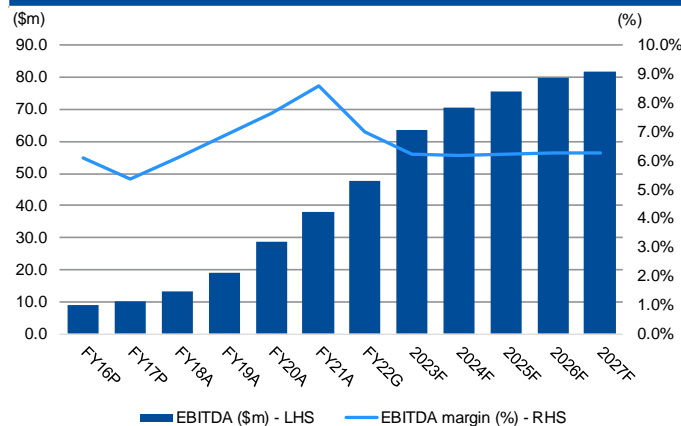
People Infrastructure Ltd (PPE) is an Australian workforce management company that aims to deliver innovative solutions to the management of contracted workforces to Australian and New Zealand businesses. People Infrastructure provides contracted workforce and HR outsourcing services to enhance the HR function of its clients.

Revenue forecasts



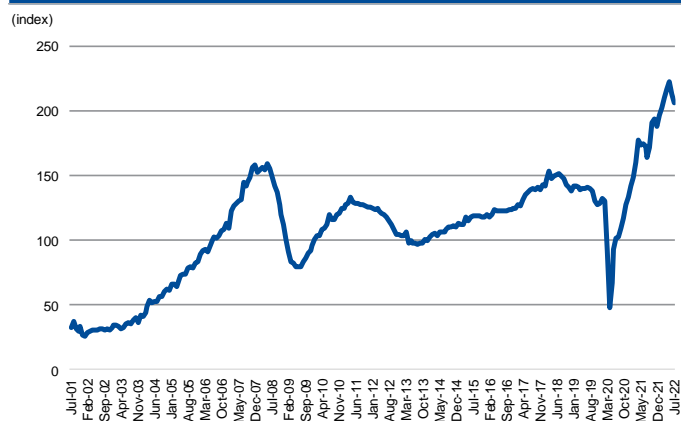
Source: Morgans, company data

EBITDA forecasts



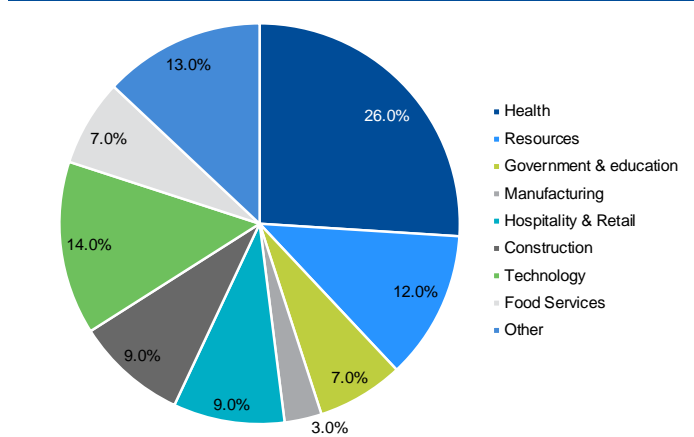
Source: Morgans, company data

Job vacancies (index), seasonally adjusted



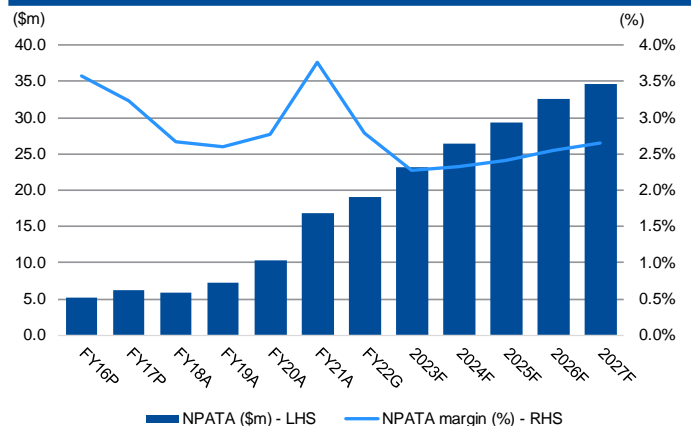
Source: Seek.com.au

Sector by GM contribution



Source: Morgans, company data

NPATAForecasts



Source: Morgans, company data

Business snapshot



Source: Company data

Figure 1: Financial summary

Profit and Loss						Valuation details				Target			
	2021A	2022A	2023F	2024F	2025F	Market cap	PER	DCF	70.0%	4.85			
Sales	(\$m)	444.3	682.3	1,020.0	1,136.8	1,216.7	367.4	99	30.0%	5.07			
Other income	(\$m)	0.1	0.3	0.0	0.0	0.0							
Operating Costs	(\$m)	(406.3)	(634.7)	(956.4)	(1,066.3)	(1,141.1)							
EBITDA	(\$m)	38.1	47.9	63.6	70.5	75.7							
Depreciation	(\$m)	(2.6)	(4.6)	(5.3)	(5.4)	(5.4)							
EBITA	(\$m)	35.5	43.3	58.3	65.1	70.3							
Amortisation	(\$m)	(4.1)	(6.5)	(8.3)	(8.6)	(8.9)							
EBIT	(\$m)	31.4	36.8	50.0	56.5	61.4							
Net Interest	(\$m)	(1.5)	(2.1)	(4.1)	(5.2)	(5.6)							
Pre-tax Profit	(\$m)	29.8	34.6	46.0	51.3	55.8							
Tax	(\$m)	(9)	(8.4)	(13.8)	(15.4)	(16.7)							
Underlying NPAT (100%)	(\$m)	20.9	26.2	32.2	35.9	39.0							
Exceptional items	(\$m)	(3.2)	(7.8)	0.3	(0.2)	(0.3)							
Reported NPAT (100%)	(\$m)	17.7	18.4	32.4	35.7	38.8							
Non-controlling interests	(\$m)	(0.1)	(0.7)	(0.8)	(0.8)	(0.9)							
Underlying NPAT (equity)	(\$m)	20.9	25.5	31.4	35.1	38.1							
Underlying NPATA (equity)	(\$m)	25.0	31.9	39.7	43.7	47.0							
Reported NPAT (equity)	(\$m)	17.7	17.7	31.7	34.8	37.9							
Cashflow Statement						Segment summary							
	(\$m)	2021A	2022A	2023F	2024F	2025F	2021A	2022A	2023F	2024F	2025F		
EBITDA	(\$m)	38.1	47.9	63.6	70.5	75.7	Revenue						
Net interest	(\$m)	(1.2)	(2.1)	(3.6)	(4.7)	(5.1)	Industrial and Specialist Services (\$m)	251.2	415.0	693.9	742.1	785.2	
Tax	(\$m)	(11.2)	(13.9)	(13.8)	(15.4)	(16.7)	Health and Community (\$m)	132.7	139.2	153.1	159.8	172.8	
Other	(\$m)	(0.1)	(0.7)	(0.8)	(0.8)	(0.9)	Technology (\$m)	60.4	128.2	170.1	186.1	200.3	
Changes in working capital	(\$m)	(17.7)	(9.0)	(14.8)	(8.1)	(5.7)	Contingent income (\$m)	0.0	0.0	3.0	48.7	58.5	
Operating cash flow	(\$m)	8.0	22.1	30.7	41.5	47.2	Unallocated (\$m)	0.0	0.0	0.0	0.0	0.0	
Capex - maintenance	(\$m)	(1.3)	(4.5)	(3.5)	(2.5)	(2.0)	Underlying revenue	(\$m)	444.3	682.3	1,020.0	1,136.8	1,216.7
Free Cash Flow	(\$m)	6.7	17.6	27.2	39.0	45.2	EBITDA						
Capex - growth	(\$m)	0.0	0.0	0.0	0.0	0.0	Industrial and Specialist Services (\$m)	16.7	21.6	32.4	34.7	36.8	
Acquisitions	(\$m)	(22.0)	(49.8)	(15.4)	(14.8)	(9.4)	Health and Community (\$m)	16.8	12.0	13.4	14.0	15.1	
Divestments	(\$m)	0.0	0.0	0.0	0.0	0.0	Technology (\$m)	8.3	17.6	21.4	23.4	25.1	
Other	(\$m)	0.0	(0.1)	0.0	0.0	0.0	Contingent income (\$m)	0.0	0.0	0.4	2.8	3.4	
Investing cash flows	(\$m)	(23.3)	(54.3)	(18.9)	(17.3)	(11.4)	Unallocated (\$m)	(3.7)	(3.3)	(4.0)	(4.4)	(4.8)	
Increase / decrease in Equity	(\$m)	0.6	0.3	0.0	0.0	0.0	Underlying EBITDA (100%)	(\$m)	38.1	47.9	63.6	70.5	75.7
Increase / decrease in Debt	(\$m)	4.3	55.8	(4.2)	(4.3)	(4.5)	Underlying EBITDA (Equity)	(\$m)	38.0	47.2	62.9	69.7	74.8
Dividends paid	(\$m)	(7.1)	(10.6)	(14.5)	(15.5)	(16.5)	Per share data						
Other financing cash flows	(\$m)	0.0	0.0	0.0	0.0	0.0	Diluted shares on issue (Qty)	96.8	101.0	102.2	102.2	102.2	
Financing cash flows	(\$m)	(2.1)	45.6	(18.7)	(19.8)	(21.0)	Normalised EPS (equity NPAT) (Cps)	21.8	26.2	30.9	34.3	37.3	
Increase/decrease in cash	(\$m)	(17.4)	13.3	(6.9)	4.4	14.9	Normalised EPS (equity NPATA) (Cps)	26.1	32.8	39.1	42.7	46.0	
							Dividends per share (Cps)	10.5	13.0	14.6	15.5	16.5	
							Reported payout ratio (%)	0.5	0.5	0.5	0.5	0.4	
Balance Sheet						Key metrics/ multiples							
	2021A	2022A	2023F	2024F	2025F	2021A	2022A	2023F	2024F	2025F			
Assets						P/E (x)	17.1	14.2	12.0	10.8	10.0		
Cash	(\$m)	13.7	27.0	19.6	23.4	37.8	PEG (x)	0.7	0.6	1.0	1.2	1.2	
Debtors	(\$m)	76.0	107.5	128.5	143.2	153.4	EV/EBIT (x)	12.6	12.4	9.2	8.1	7.2	
Inventory	(\$m)	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	10.4	9.5	7.3	6.5	5.9	
Other current assets	(\$m)	1.7	12.2	12.2	12.2	12.2	Dividend Yield (%)	2.8	3.5	3.9	4.2	4.4	
Total Current Assets	(\$m)	91.4	146.7	160.3	178.8	203.4	Growth ratios						
Fixed Assets	(\$m)	9.1	15.8	17.0	17.1	16.6	Sales (%)	19.7	53.6	49.5	11.4	7.0	
Investments	(\$m)	0.0	0.1	0.1	0.1	0.1	Operating costs (%)	17.6	56.2	50.7	11.5	7.0	
Intangibles	(\$m)	116.9	202.0	212.7	218.8	219.3	EBITDA (%)	33.1	25.6	32.9	10.8	7.4	
Other non-current assets	(\$m)	0.0	0.2	0.2	0.2	0.2	EBIT (%)	42.3	17.2	36.0	12.9	8.8	
Total Non-Current Assets	(\$m)	126.0	218.1	229.9	236.1	236.2	NPAT (%)	46.7	25.1	22.8	11.6	8.8	
TOTAL ASSETS	(\$m)	217.4	364.8	390.2	414.9	439.7	EPS (%)	22.4	20.3	18.0	11.0	8.7	
Liabilities							DPS (%)	23.5	23.8	12.2	6.3	6.5	
Short Term Debt	(\$m)	15.5	37.5	37.5	0.0	0.0	Free cash flow (%)	(74.8)	164.2	54.7	43.4	16.0	
Creditors	(\$m)	33.7	51.0	57.1	63.6	68.2	Margin and return analysis						
Other current liabilities	(\$m)	17.5	31.8	34.8	34.8	34.8	EBITDA Margin (%)	7.7	8.6	7.0	6.2	6.2	
Total Current Liabilities	(\$m)	66.7	120.2	129.4	98.4	103.0	EBIT margin (%)	5.9	7.1	5.4	4.9	5.0	
Long Term Debt	(\$m)	23.4	74.0	74.0	111.5	111.5	NPAT margin (%)	3.8	4.7	3.8	3.2	3.2	
Other Non current liabilities	(\$m)	12.6	28.2	24.0	22.7	21.2	ROE (%)	19.8	20.4	21.1	20.8	20.2	
Total Non-Current liabilities	(\$m)	36.1	102.2	98.0	134.2	132.7	ROIC (%)	19.4	14.0	14.5	15.1	15.7	
TOTAL LIABILITIES	(\$m)	102.8	222.4	227.4	232.6	235.7	Gearing						
Equity							Net Debt (incl leases) (\$)	33.2	84.6	90.8	85.6	69.8	
Issued capital	(\$m)	83.1	101.5	105.0	105.0	105.0	Net Debt (excl leases) (\$)	25.2	84.6	92.0	88.1	73.8	
Retained earnings	(\$m)	26.9	32.8	50.0	69.3	90.7	Net Debt / Equity (%)	22.0	59.4	56.5	48.3	36.2	
Other reserves and FX	(\$m)	2.2	5.5	5.5	5.5	5.5	Net Debt / EBITDA (x)	0.7	1.8	1.4	1.3	1.0	
Minority interests	(\$m)	2.4	2.6	2.3	2.5	2.8	EBIT interest cover (x)	20.4	17.1	12.3	10.9	10.9	
TOTAL EQUITY	(\$m)	114.6	142.4	162.7	182.3	204.0	Invested Capital (%)	139.9	226.9	254.7	270.4	277.7	
							Enterprise Value (%)	395.1	454.6	461.7	458.1	444.0	
							Result quality						
							Cash flow conversion (%)	52.4	79.6	74.7	86.6	90.6	
							FCF vs NPAT (x)	0.4	1.0	0.8	1.1	1.2	
							Effective tax rate (%)	29.8	24.4	30.0	30.0	30.0	

Source: Morgans estimates, company data

Forward guidance

- FY23 outlook commentary is positive, with the company guiding to FY23 normalised EBITDA \$62-66m (Morgans prior est: \$60.5m | Consensus: \$60.9m) – 33% growth vs pcp. The company report that the guidance is based on a range of organic growth of 7.5% to 15%.
- The company has provided a longer-term target EBITDA margin of +7%, with the CEO breakdown to the margins on the call, citing professional services at lower double digit, health and community at 8-9% and industrial and specialist services at c.4-5%.
- Based on guidance, we have updated our FY23 forecast normalised EBITDA from \$60.5m to \$62.9m, a 3.9% increase.
- We note that our FY23 forecast includes additional income from the Feb-22 acquisition of Perigon Group and the Jun-22 FIP.

FY22 earnings beat vs consensus

- PPE delivered a solid FY22 result, with normalised EBITDA (equity) of \$47.2m slightly above guidance (normalised EBITDA range of \$45m-\$47m) and our expectations (\$45.6m).
- Growth was driven from a combination of organic growth (+10.5%) and contributions from recent M&A.
- The company reported strong cash flow conversion of 99.5% (vs EBITDA).

Figure 2: Figure 3: FY22 earnings vs prior expectations (divisional)

Segment summary		1HFY21A	2HFY21A	2021A	1HFY22A	2HFY22A	2022A	1HFY22A	2HFY22A	2022A	Morgans	vs
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	chg on pcp	chg on pcp	chg on pcp	est.	forecast
								(%)	(%)	(%)	(\$m)	(%)
Revenue												
Industrial and Specialist Services	(\$m)	117.1	134.1	251.2	190.3	224.7	415.0	62.5	67.6	65.2	394.3	5.2
Health and Community	(\$m)	64.8	67.9	132.7	71.5	67.6	139.2	10.4	(0.4)	4.9	146.6	(5.1)
Technology	(\$m)	18.6	41.8	60.4	54.0	74.2	128.2	190.8	77.5	112.4	121.7	5.3
Contingent income	(\$m)	0.0	0.0	0.0	0.0	0.0	0.0	n.a	n.a	n.a	0.0	n.a
Unallocated	(\$m)	0.5	(0.4)	0.0	0.0	0.0	0.0	(99.9)	(102.2)	(69.9)	0.0	1,398.0
Underlying revenue	(\$m)	201.0	243.3	444.3	315.8	366.5	682.3	57.2	50.6	53.6	662.6	3.0
EBITDA												
Industrial and Specialist Services	(\$m)	10.2	6.5	16.7	9.9	11.7	21.6	(3.1)	80.1	29.4	20.1	7.8
Health and Community	(\$m)	9.6	7.1	16.8	6.3	5.6	12.0	(34.3)	(21.3)	(28.8)	12.3	(3.1)
Technology	(\$m)	2.3	6.1	8.3	7.3	6.1	17.6	221.3	0.0	111.6	17.1	3.1
Contingent income	(\$m)	0.0	0.0	0.0	0.0	0.0	0.0	n.a	n.a	n.a	0.0	n.a
Unallocated	(\$m)	(1.1)	(2.6)	(3.7)	(1.5)	(1.9)	(3.3)	35.8	(26.2)	(10.8)	(3.2)	4.9
EBITDA (underlying)	(\$m)	21.0	17.1	38.1	22.0	21.5	47.9	4.7	25.6	25.7	46.3	3.3
EBITDA (underlying equity)	(\$m)	21.0	17.0	38.0	21.6	21.1	47.2	2.9	24.0	24.0	45.6	3.5
Per share data												
Shares on issue (end) (Diluted)	(Qty)	95.9	96.8	96.8	97.9	101.0	101.0	2.1	4.3	4.3	101.2	(0.2)
NPATA (underlying) - equity	(CPS)	15.7	10.8	26.1	14.4	18.5	32.8	(7.9)	71.7	25.9	28.9	13.6
NPAT (underlying) - equity	(CPS)	13.6	8.5	21.8	11.3	14.9	26.2	(16.8)	76.3	20.3	23.7	10.5
Distributions	(CPS)	4.5	6.0	10.5	6.5	6.5	13.0	44.4	8.3	23.8	13.2	(1.4)
Payout ratio	(%)	33.1	70.8	48.2	57.4	43.5	49.6	73.6	(38.5)	3.0	55.6	(10.7)

Source: Morgans estimates, company data

Figure 4: Figure 5: FY22 earnings vs prior expectations (group)

Profit and Loss		1HFY21A	2HFY21A	2021A	1HFY22A	2HFY22A	2022A	1HFY22A	2HFY22A	2022A	Morgans	vs
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	chg on pcp	chg on pcp	chg on pcp	est.	forecast
								(%)	(%)	(%)	(\$m)	(%)
Sales	(\$m)	201.0	243.3	444.3	315.8	366.5	682.3	57.2	50.6	53.6	662.6	3.0
EBITDA	(\$m)	21.0	17.1	38.1	22.0	25.9	47.9	4.7	51.3	25.6	46.3	3.3
EBITA	(\$m)	20.7	14.8	35.5	19.9	23.3	43.3	(3.9)	57.8	21.8	42.1	2.8
EBIT	(\$m)	18.8	12.6	31.4	16.9	19.9	36.8	(10.0)	57.9	17.2	37.0	(0.5)
Underlying NPAT (100%)	(\$m)	12.7	8.2	20.9	11.3	14.9	26.2	(11.2)	81.7	25.2	24.0	9.0
Reported NPAT (100%)	(\$m)	12.6	5.1	17.7	4.6	13.8	18.4	(63.3)	169.3	3.8	17.2	6.7
Underlying NPAT (equity)	(\$m)	12.6	5.0	17.7	4.3	13.4	17.7	(66.2)	165.9	0.1	16.5	7.2
Underlying NPATA (equity)	(\$m)	14.7	10.3	25.0	13.9	18.0	31.9	(5.0)	74.2	27.7	28.4	12.5
Reported NPAT (equity)	(\$m)	12.6	5.0	17.7	4.3	13.4	17.7	(66.3)	165.8	0.0	16.5	7.2
Diluted shares on issue	(Qty)	95.9	96.8	96.8	97.9	101.0	101.0	2.1	4.3	4.3	101.2	(0.2)
Normalised EPS (equity NPAT)	(Cps)	13.6	8.5	21.8	11.3	14.9	26.2	(16.8)	76.3	20.3	23.7	10.5
Normalised EPS (equity NPATA)	(Cps)	15.7	10.8	26.1	14.4	18.5	32.8	(7.9)	71.7	25.9	28.9	13.6
Dividends per share	(Cps)	4.5	6.0	10.5	6.5	6.5	13.0	44.4	8.3	23.8	13.2	(1.4)

Source: Morgans estimates, company data

Forecast changes

In adjusting our forecasts, we have made the following changes:

- Increase organic growth in FY24 to 10% (previously 7.5%), reflecting management's continued commitment to c.10% pa organic growth over of the medium term,
- Slight margin increase for the health and community division to 8.8% (previously 8.0%), the result of management's guidance for division margins to be c.8-9%. Group EBITDA margin at 6.2% in FY24F.
- Additional 1.2m shares related to deferred consideration from Halcyon Knights and Vision Surveys.

Figure 6: Earnings changes

ASX:PPE		2022F			2023F			2024F		
		Old	New	Chg	Old	New	Chg	Old	New	Chg
EBITDA										
Industrial and Specialist Services	(\$m)	20.1	21.6	7.8	30.3	32.4	7.1	31.9	34.7	8.8
Health and Community	(\$m)	12.3	12.0	(3.1)	12.9	13.4	3.8	13.9	14.0	0.3
Technology	(\$m)	17.1	17.6	3.1	21.9	21.4	(2.6)	23.4	23.4	(0.0)
Contingent income	(\$m)	0.0	0.0	n.a	0.4	0.4	0.0	2.8	2.8	0.0
Unallocated	(\$m)	(3.2)	(3.3)	4.9	(4.2)	(4.0)	(4.7)	(4.6)	(4.4)	(4.0)
EBITDA (underlying)	(\$m)	46.3	47.9	3.3	61.3	63.6	3.7	67.5	70.5	4.5
EBITDA (underlying equity)	(\$m)	45.6	47.2	3.5	60.5	62.9	3.9	66.5	69.7	4.7
Profit and Loss										
Sales	(\$m)	663	682	3.0	967	1,020	6	1,070	1,137	6.2
EBITDA	(\$m)	46.3	47.9	3.3	61.3	63.6	3.7	67.5	70.5	4.5
Margin	(%)	7.0	7.0		6.3	6.2		6.3	6.2	
EBITA	(\$m)	42.1	43.3	2.8	55.7	58.3	4.6	60.1	65.1	8.2
Margin	(%)	6.3	6.3		5.8	5.7		5.6	5.7	
EBIT	(\$m)	37.0	36.8	(0.5)	49.6	50.0	0.8	53.9	56.5	4.7
Margin	(%)	5.6	5.4		5.1	4.9		5.0	5.0	
Underlying NPAT (100%)	(\$m)	24.0	26.2	9.0	31.9	31.5	(1.2)	34.5	35.2	1.9
Margin	(%)	3.6	3.8		3.3	3.1		3.2	3.1	
Underlying NPATA (equity)	(\$m)	28.4	31.9	12.5	37.1	39.7	7.0	39.8	43.7	9.7
Underlying NPAT (equity)	(\$m)	23.3	25.5	9.4	31.0	31.4	1.3	33.6	35.1	4.4
Reported NPAT (equity)	(\$m)	16.5	17.7	7.2	30.8	31.7	3.0	33.3	34.8	4.5
Per share data										
Diluted shares on issue	(Qty)	101.2	101.0	(0.2)	101.2	102.2	1.0	101.2	102.2	1.0
Normalised EPS (equity NPATA)	(Cps)	28.9	32.8	13.6	36.7	39.1	6.5	39.3	42.7	8.6
Normalised EPS (equity NPAT)	(Cps)	23.7	26.2	10.5	30.6	30.9	0.9	33.2	34.3	3.4
Dividends per share	(Cps)	13.2	13.0	(1.4)	14.5	14.6	0.6	15.5	15.5	0.0

Source: Morgans estimates, company data

Valuation

In adjusting our valuation, we have updated our earnings forecasts and our market multiples. The upward revision to valuation (+15.3%), primarily a function of updated guidance, along with improved medium-term earnings conviction, along with updated market multiples and a reduced multiple discount to 15% (previously 20%).

Figure 7: Valuation summary

Enterprise value	(\$m)	576.9					
Net debt (incl leases)	(\$m)	(84.6)					
Non-controlling interests	(\$m)	(2.6)					
Equity value	(\$m)	495.0					
Shares on issue (end) (Diluted)	(,000)	101.0					
Valuation	(\$m)	4.90					
Dividend yield	(%)	3.9					
Capital growth	(%)	31.7					
Total shareholder return	(%)	35.6					
			2021A	2022A	2023F	2024F	2025F
EV/EBITDA	(x)		15.1	12.0	9.1	8.2	7.6
EV/EBITA	(x)		17.0	13.9	10.4	9.3	8.6
EV/EBIT	(x)		18.4	15.7	11.5	10.2	9.4
PER (underlying equity NPATA)	(x)		18.8	14.9	12.5	11.5	10.7
PER (underlying equity NPAT)	(x)		22.5	18.7	15.8	14.3	13.1
PEG	(x)		0.7	0.8	1.3	1.5	1.7
Dividend Yield	(%)		2.1	2.7	3.0	3.2	3.4
Free cash flow yield	(%)		1.3	3.7	5.4	7.7	8.9

Source: Morgans estimates, company data

Price to earnings valuation

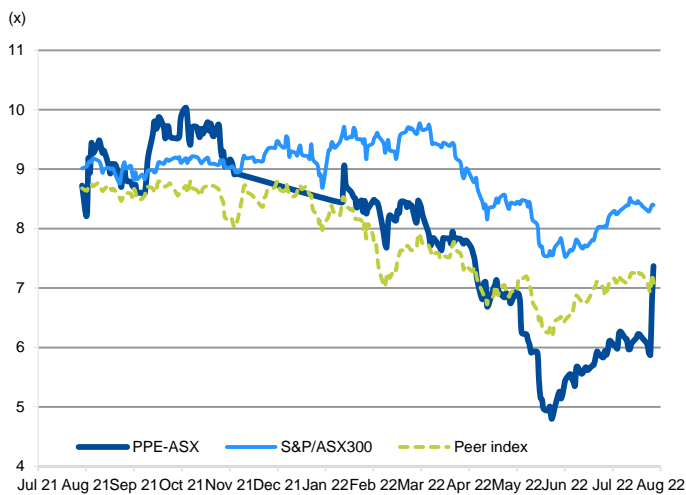
In adjusting our PER valuation, we have updated our earnings forecasts and our market multiples, slightly reducing our S&P ASX 300 multiple discount from 20% to 15%.

Figure 8: PER

FY23 Underlying EPS (equity NPATA)	(EPS)	39.1
S&P ASX 300 (FY23 PER)	(x)	14.6
Premium / Discount	(%)	(15.0)
Adopted multiple	(x)	12.4
Valuation	(\$/sh)	4.85

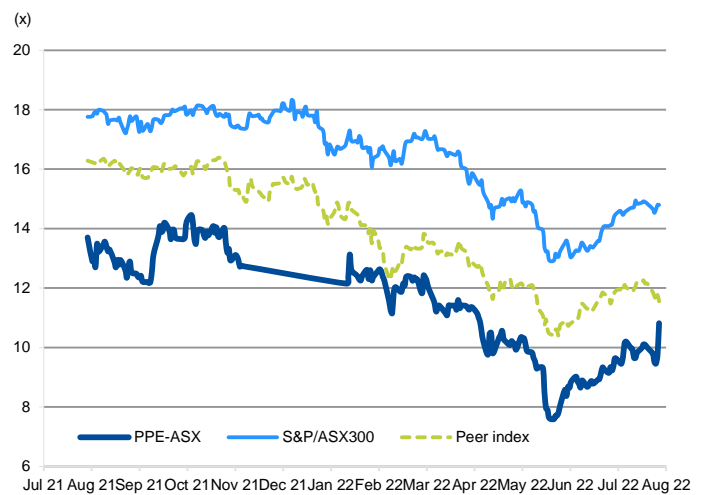
Source: Morgans estimates, company data

Figure 9: EV/EBITDA (NTM)



Source: Morgans estimates, company data

Figure 10: PER (NTM)



Source: Morgans estimates, company data

Discounted cashflow

In adjusting our discounted cashflow valuation, we have updated our earnings forecasts, along with updated debt and shares on issue.

Figure 11: Discounted cashflow analysis

		1HFY23	2HFY23	1HFY24	2HFY24	1HFY25	2HFY25	1HFY26	2HFY26	1HFY27	2HFY27	1HFY28	2HFY28
EBIT (1-tax)	(\$m)	17.8	18.4	19.9	20.9	21.8	22.6	23.2	24.2	24.0	25.0	25.0	26.0
Net capex	(\$m)	(16.8)	(3.3)	(8.0)	(3.3)	(5.2)	2.4	5.9	2.1	7.6	1.7	7.3	1.9
Free cashflow	(\$m)	(1.1)	13.0	9.7	15.4	14.3	22.7	26.8	23.9	29.3	24.4	29.8	25.4
Terminal value	(\$m)										757.83		
WACC	(%)	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Cash flow (PV)	(\$m)	129.9	(1.1)	11.8	8.4	12.7	11.3	17.0	19.2	16.3	19.1	15.1	
Terminal value (PV)	(\$m)	469.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	469.7	
Total	(\$m)	599.6	(1.1)	11.8	8.4	12.7	11.3	17.0	19.2	16.3	19.1	484.8	
Enterprise value	(\$m)	599.6											
Net debt (excl leases)	(\$m)	(84.6)											
Non-controlling interests	(\$m)	(2.6)											
Equity value	(\$m)	512.5											
Shares on issue	(Qty)	101.0											
Valuation	(\$/sh)	5.07											
Prem./Disc	(%)	36.4%											
Divid yield	(%)	3.9%											
TSR	(%)	40.3%											

Source: Morgans estimates, company data

Risk

- **Legislative changes:** The Australian Labor Party's recent election win may result in changes to the Fair Work Act, potentially impacting some labour hire companies. The company believes the risk to be minimal and may prove to be a positive as PPE pays above award rates and already offers contract employees the opportunity to go full time after a year (as per the current law). As such, the changes may if anything reduce competition.
- **Migration legislation changes:** A ramp up in organic growth is contingent on improved net migration, along with wages remaining stable (or growing). Given the tightness of existing labour markets, PPE will likely need to access foreign labour to grow hours billed.
- **Downturn in employment markets:** Employment markets remain robust (refer to job ads and unemployment rate). Should the employment market deteriorate, then labour hire firms will be impacted.
- **Covid and future lockdowns:** PPE was impacted by Covid, most notably from cancelation of elective surgeries, the inability to move staff around locations and the restrictions on recruiting interstate and internationally.

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