PeopleIn Limited

Full circle

PeopleIn has completed the strategic review first announced in November 2022. The review has evolved full circle and returned to the company's strategy of growing core verticals of health/community, industrial and technology/financial services. Each of these verticals has supportive growth thematics tied with solving skills shortages, population growth and trends of outsourcing. Our review of 15 major global peers highlights only 3 M&A transactions above $100m value within the past 12 months and of these all were <$300m in value. The timing of PPE's strategic review has coincided with a period of rising cost of capital and constraints to capital raising activity. Medium term, we believe that PPE still offers M&A appeal for global players. In releasing the summary of the review, PPE re-affirmed full-year EBITDA guidance of $62m-$66m, extracting the prior commentary that earnings were tracking to the upper end of this range. We have trimmed FY23e EBITDA on a like-for-like basis to $63.7m, prior to deducting share-based expenses. Employment sector conditions remain firm, with internet job ads continuing to track above long-term averages. PPE's more defensive health and industrials sector exposures are likely to start FY24e with positive momentum. Our DCF-based valuation falls to $3.86 (from $4.39). Retain BUY.

Improving balance sheet

- We forecast positive free cash flow generation during the second half and net debt to reduce to $69.3m (from $71.5m), equivalent to 1.1x EBITDA.

Federal Budget supports PPE's operating environment

- A range of Federal Budget measures have been aimed at stimulating skilled employment levels including: skilled migration growth and accelerated visa processing times, increased funding for the PALM scheme and allowances for higher spending on NDIS and Mental Health.

Continued organic growth can close valuation differential

- PPE generates 20% ROE in line with global peers, however trades on a FY23e EV/EBIT ratio of 6.6x versus the peer median of 9.7x. Continued evidence of positive organic growth and free cash flow generation, plus capacity to make EPS accretive acquisitions can help close this differential.

Year-end June ($)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue ($m)	444.4	682.3	1,223.4	1,295.9	1,368.4
EBITDA ($m)	36.9	43.8	60.6	66.9	69.9
EBIT ($m)	33.9	38.8	52.2	57.8	60.3
Reported NPAT ($m)	17.7	18.4	26.5	31.0	33.2
Reported EPS (c)	19.3	19.4	26.6	30.8	33.1
Normalised NPAT ($m)	22.6	25.7	32.3	36.5	38.7
Normalised EPS (c)	24.7	27.0	32.4	36.3	38.5
EPS Growth (%)	17.2	9.4	20.1	11.9	6.1
Dividend (c)	10.5	13.0	14.0	15.0	16.0
Net Yield (%)	3.8	4.7	5.1	5.5	5.8
Franking (%)	100	100	100	100	100
EV/EBITDA (X)	7.8	7.8	5.7	5.1	4.6
Normalised P/E (x)	11.1	10.2	8.5	7.6	7.1
Normalised ROE (%)	21.4	20.0	20.9	20.9	20.1

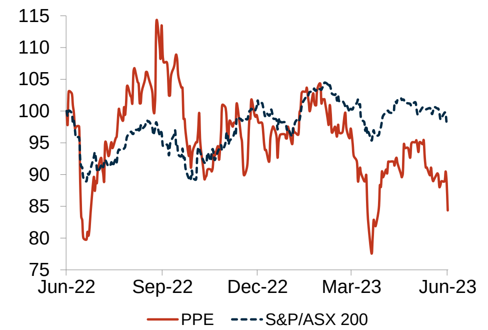
Source: OML, Iress, PeopleIn Limited

Last Price
A$2.75
Target Price
A$3.86 *(Previously A$4.39)*
Recommendation
Buy
Risk
Higher

Human Resource and Employment Services

ASX Code	PPE
52 Week Range ($)	2.53 - 3.72
Market Cap ($m)	279.3
Shares Outstanding (m)	101.6
Av Daily Turnover ($m)	1.8
3 Month Total Return (%)	-12.4
12 Month Total Return (%)	-15.6
Benchmark 12 Month Return (%)	-1.7
NTA FY23E (¢ per share)	-50.8
Net Debt FY23E ($m)	69.3

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY23E	FY24E
NPAT (C) ($m)	30.8	33.4
NPAT (OM) ($m)	32.3	36.5
EPS (C) (c)	33.3	35.5
EPS (OM) (c)	32.4	36.3

Source: OML, Iress, PeopleIn Limited

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Key takeaways and outlook

- **Strategic review completed:** The strategic review has taken close to 6 months to complete and in essence re-affirms PPE's strategic direction. The review validated that PPE's recruitment sector exposures are favourable including health, industrial and technology. Each segment is supported by a range of longer-term growth thematics.
- **FY23 guidance reaffirmed:** In releasing the review, PPE re-affirmed FY23e EBITDA guidance of $62m- $66m, prior to expensing share-based payments.
- **Ords FY23e EBITDA trimmed:** Ords like-for-like EBITDA reduces to $63.7m (from $65.3m). We have trimmed EBITDA to reflect likely seasonal softness in technology, financial services and health services exposure during the second half, in line with quarterly statistics reported by global peers. Forward interest expenses rise to reflect a 40-basis point rise in 3-month swap rates since the first half reporting period.

Forecast changes

Figure 1: -2% revision to FY23e EPS

	FY23e		*change*	FY24e		*change*	FY25e		*change*
	old	new	*%*	old	new	*%*	old	new	*%*
revenue- segments $m									
Industrial & Specialist*	907	907	0%	968	967	0%	1,030	1029	0%
Health & Community*	156	156	0%	162	162	0%	168	168	0%
Technology*	159	161	1%	165	167	1%	170	172	1%
revenue- total	**1221**	**1223**	**0%**	**1295**	**1296**	**0%**	**1368**	**1368**	**0%**
EBITDA- segments $m									
Industrial & Specialist*	41.3	41.3	0%	45.1	44.3	-2%	47.5	46.6	-2%
Health & Community*	12.5	11.5	-8%	13.8	13.2	-4%	14.8	13.7	-8%
Technology*	16.2	15.6	-4%	17.4	17.6	1%	17.9	18.1	1%
unallocated	-4.7	-4.7	0%	-5.2	-5.1	-2%	-5.7	-5.4	-5%
EBITDA - pre SBP "PPE"	**65.3**	**63.7**	-2%	**71.1**	**70.0**	-2%	74.6	**73.0**	-2%
share based payments	-3.1	-3.1	0%	-3.1	-3.1	0%	-3.1	-3.1	0%
EBITDA- underlying	**62.2**	**60.6**	**-3%**	**68.0**	**66.9**	**-2%**	**71.5**	**69.9**	**-2%**
EBITDA margin %	5.3%	5.2%	-3%	5.5%	5.4%	-2%	5.5%	5.3%	-2%
Key P&L metrics $m									
D&A- underlying	-8.4	-8.4	0%	-9.1	-9.1	0%	-9.7	-9.7	0%
EBITA	55.2	53.6	-3%	60.7	59.6	-2%	63.9	62.4	-2%
EBIT	53.9	52.2	-3%	58.9	57.8	-2%	61.8	60.3	-3%
net interest	-6.0	-6.1	-2%	-5.4	-5.7	-5%	-4.7	-4.9	-5%
PBT - underlying	47.9	46.2	-4%	53.5	52.1	-3%	57.1	55.3	-3%
NPATA - underlying**	33.5	32.3	-4%	37.5	36.5	-3%	40.0	38.7	-3%
EPS (cents): EPS-A**	33.6	32.4	-4%	37.3	36.3	-3%	39.8	38.5	-3%
D&A - reported	-16.2	-16.2	0%	-16.9	-16.9	0%	-17.5	-17.5	0%
Amortisation - abnormal	-7.8	-7.8	0%	-7.8	-7.8	0%	-7.8	-7.8	0%
Abnormals - pre-tax	0.5	-0.5	0%	0.0	0.0	na	0.0	0.0	na
reported NPAT	28.4	26.5	-7%	32.0	31.0	-3%	34.5	33.2	-4%
dividend (cents)	14.0	14.0	0%	15.0	15.0	0%	16.0	16.0	0%
payout % cash EPS	42%	43%	2%	40%	41%	1%	40%	42%	1%
Key metrics $m									
operating cash flow	40.4	39.4	-2%	52.4	44.4	-15%	48.8	47.2	-3%
net capex & leases	-14.7	-14.7	0%	-10.7	-10.7	0%	-10.0	-10.0	0%
acquisitions (incl earn outs)	-9.8	-9.8	0%	-12.6	-12.6	0%	-5.5	-5.5	0%
free cash flow (post tax)	16.0	15.0	-6%	29.1	21.1	-28%	33.3	31.7	-5%
net debt (cash)	67.8	68.8	1%	52.6	61.6	17%	34.3	45.0	31%
Net debt/EBITDA	1.1x	1.1x	4%	0.8x	0.9x	19%	0.5x	0.6x	34%
ROE %	22%	21%	-3%	21%	21%	-1%	20%	20%	-1%
EV/EBITDA x	5.8	5.7	-2%	5.1	5.1	-1%	4.6	4.6	0%
EV/EBIT x	6.7	6.6	-2%	5.9	5.8	-1%	5.3	5.3	0%
P/E x	**8.7**	**8.5**	**-3%**	**7.9**	**7.6**	**-4%**	**7.4**	**7.1**	**-3%**

***Ords NPAT and EPS-A excludes only customer contract amortisation and tax adjusts for this.*

Source Ord Minnett Limited Research

Federal Budget supports PPE's outlook

General growth in skilled labour:

- Australia is forecasting +1.5m people entering Australia in the next 5 years, with an associated acceleration of visa processing for skilled workers, supporting PPE's skilled labour pool.
- Funding for mental health, traineeships and fee free TAFE courses are broadly supportive of PPE's sector exposures.
- As displayed in figure 2 below, monthly online job advertisements, a barometer for skilled worker demand, has remained well above longer term averages up until April 2023.

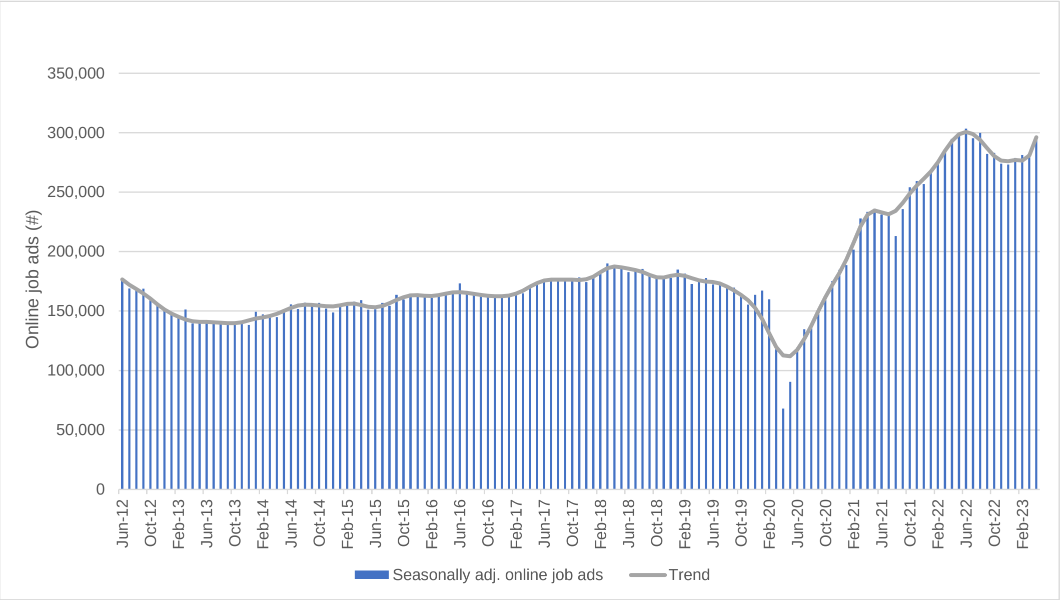
PALM scheme:

- The Australian Government will provide an additional $168.1 million over 4 years to consolidate and insource domestic operations to DEWR. Consolidating responsibility of the PALM scheme to DEWR is likely to support the regulatory outlook for PPE's Food Industry People (FIP) acquisition.
- Participating countries will receive additional resources including personnel to increase the number of workers taking up job opportunities in Australia.

NDIS:

- The Federal and State governments will spend $39.8 billion on the NDIS in 2023-24, and spending is forecast to grow 10.4% per annum over the next decade, making it the fastest-growing major Federal Government expense.
- At the end of March '23 total NDIS participation had grown to over 608,000, up from 531,000 in the pcp (+14%).

Figure 2: Job market conditions have remained strong



Source Ord Minnett Limited Research, Jobs & Skills Australia

Valuation

Price target $3.86 per share (from $4.39)

- We value PPE adopting a DCF methodology with a weighted average cost of capital of 11.2% (no change), cost of equity of 12.8% (no change) and terminal growth rate of 3% (no change). The revised DCF valuation is $3.86 per share (previous $4.39 per share). The revision reflects the slightly lower earnings base for FY23e and also higher interest costs and also more steady terminal value assumptions on future earnings margins beyond FY26.
- PPE trades on a price/earnings ratio of 8.5x and an EV/EBIT ratio of 6.6x in FY23e. These represent a -42% and -32% discount to the peer set respectively. We note that PPE has cash and scrip earn out's pending for recent acquisitions. The peer set is currently trading at a -36% discount to its 5-year average price/earnings ratio of 21.3x. PPE is currently trading on a 50% discount versus its 5-year P/E average of 17.2x.

Figure 3: Relative valuation

	Mkt cap	EV	Price / Earnings			EV/ EBITDA			EV / Sales		Return on equity		EV / EBIT	
Company	A$m	A$m	FY22	FY23	FY24	FY22	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
APM Group	1,738	2,621	10.0	9.5	8.5	8.7	7.2	6.0	1.3	1.1	10.1	12.6	11.6	9.5
Nisso Corp	306	239	16.8	17.9	12.6	8.4	8.3	5.2	0.2	0.2	29.2	16.9	9.8	6.7
Creek & River Co L	515	438	20.7	17.5	14.8	na	na	na	0.9	0.8	19.9	19.8	10.1	8.8
Persol Holdings Co	7,286	6,954	22.8	20.6	17.9	9.4	9.2	8.4	0.5	0.5	16.8	18.1	11.7	10.8
JAC Recruitment	7,286	6,954	22.8	20.6	17.9	9.4	9.2	8.4	0.5	0.5	16.8	18.1	11.7	10.8
WDB Holdings Co	463	291	9.9	12.2	11.2	na	na	na	0.6	0.5	12.4	na	5.0	4.7
Hays PLC	3,401	3,398	13.2	13.7	13.5	6.5	6.9	7.0	0.2	0.3	19.0	19.6	9.1	9.2
Page Group	2,737	2,698	10.2	14.7	11.8	5.6	7.1	6.2	0.7	0.7	28.3	33.9	10.3	8.3
Sthree PLC	995	938	10.0	9.5	8.9	5.4	5.0	4.5	0.3	0.3	25.6	24.7	6.1	5.6
Robert Walters	605	568	7.8	8.6	7.4	3.9	3.9	3.5	0.3	0.2	18.4	19.3	5.6	4.9
AMN Healthcare S	5,678	7,104	8.3	11.3	12.2	5.6	7.7	8.0	1.2	1.2	25.1	19.9	10.9	10.9
Kforce Inc	3,928	3,304	8.1	9.9	11.5	3.7	4.4	4.9	0.8	0.8	16.0	14.1	5.7	6.4
Brunel Internationa	1,002	968	17.1	13.7	11.7	7.6	6.4	5.6	0.4	0.4	14.2	15.8	8.5	7.2
Recruit Holdings	81,917	75,083	24.0	25.1	27.4	14.3	14.0	14.3	2.0	2.0	19.0	14.9	18.9	20.3
Amadeus Fire AG	1,113	1,215	16.4	14.4	13.5	8.0	7.4	7.0	1.7	1.6	24.0	22.1	9.7	9.2
		Average	**14.5**	**14.6**	**13.4**	**7.4**	**7.4**	**6.8**	**0.8**	**0.7**	**19.6**	**19.3**	**9.7**	**8.9**
		Median	**13.2**	**13.7**	**12.2**	**7.6**	**7.2**	**6.2**	**0.6**	**0.5**	**19.0**	**18.7**	**9.8**	**8.8**
PeopleIn	**277**	**346**	**10.2**	**8.5**	**7.6**	**7.8**	**5.7**	**5.1**	**0.3**	**0.3**	**19.4**	**19.9**	**6.6**	**5.9**

Source: Ord Minnett Research and Bloomberg

Investment thesis

- We are attracted to PeopleIn's exposure to the defensive and growing healthcare, community and technology recruitment verticals. Each of these is forecast to grow above GDP growth between 2021 and 2026, driven by supportive thematics and demographic change. PPE's acquisition strategy since listing has taken the brand portfolio to 26 in total whilst still delivering ~10% organic earnings growth since the time of acquisition. Acquired brands have typically broadened the service offering and geographical spread and added to the stickiness of the broader group in retaining and expanding panel-based work. We see PPE's return on equity and higher forecast free cash flows as evidence that the acquisition strategy is delivering returns post-acquisition integration.

Overview

- PeopleIn is a workforce solutions company, providing services to over 4,000 clients across the public and private sectors. PeopleIn operates in four key segments including health and community services, industrial services, food/agri, specialist services and information technology. Services include sourcing, skilling, deployment and management of workforce staff, with a balance of permanent placement and contracting. Since listing in 2017 the network has grown to 26 market facing brands and the company provides payroll for 10,000-15,000 candidates every week. PeopleIn employs over 850 internal staff and has a national presence.

Key risks

- **A change in employment conditions:** PPE's core business relies on the ongoing demand for labour, any change in conditions that affect this could have an adverse impact on revenue. This includes a reversal in the trend towards workforce casualisation and any event which causes a fall in economic activity and material rise in unemployment.
- **Regulatory risk:** Due to the focus of the company's operations being in comparatively more unionised and politically exposed sectors, there is a risk of industrial action impacting PPE's operations. Changes to government regulations and/or conditions relating to the PALM scheme could also have an adverse impact on the business. We note that the more regulated environment also supports the business model, given the barriers to entry in compliance, panel positions, systems and scale.
- **Margin management:** First half EBITDA margins reduced to 5.4% (from 6.8%), with a full 6-month contribution of the lower-margin FIP acquisition. Stabilising and growing margins within the FIP business remains a key sensitivity to the earnings outlook.
- **Cash Flow conversion:** The conversion from EBITDA to operating cash flow during FY21 was 21%, constrained by acquisition integration and working capital movements. FY22 conversion was 67% which we see as being closer to a normalised ratio. Variation between debtor days and creditor days has potential to impact cash flow conversion, particularly in periods following M&A activity.

PeopleIn Limited

Buy

PROFIT & LOSS (A$m)	2021A	2022A	2023E	2024E	2025E
Revenue	444.4	682.3	1,223.4	1,295.9	1,368.4
Operating costs	(407.5)	(638.5)	(1,162.8)	(1,228.9)	(1,298.5)
Operating EBITDA	**36.9**	**43.8**	**60.6**	**66.9**	**69.9**
D&A	(3.1)	(5.0)	(8.4)	(9.1)	(9.7)
EBIT	**33.9**	**38.8**	**52.2**	**57.8**	**60.3**
Net interest	(1.5)	(2.1)	(6.1)	(5.7)	(4.9)
Pre-tax profit	**32.3**	**36.7**	**46.2**	**52.1**	**55.3**
Net tax (expense) / benefit	(9.7)	(11.0)	(13.9)	(15.6)	(16.6)
Normalised NPAT	**22.6**	**25.7**	**32.3**	**36.5**	**38.7**
Reported NPAT	**17.7**	**18.4**	**26.5**	**31.0**	**33.2**
Normalised dil. EPS (cps)	24.7	27.0	32.4	36.3	38.5
Reported EPS (cps)	19.3	19.4	26.6	30.8	33.1
Effective tax rate (%)	28.4	28.4	28.4	28.4	28.4
DPS (cps)	10.5	13.0	14.0	15.0	16.0
Dividend yield (%)	3.8	4.7	5.1	5.5	5.8
Payout ratio (%)	42.6	48.1	43.2	41.3	41.5
Franking (%)	100.0	100.0	100.0	100.0	100.0
Diluted # of shares (m)	95.8	101.1	102.9	102.9	102.9

CASH FLOW (A$m)	2021A	2022A	2023E	2024E	2025E
EBITDA incl. adjustments	37.0	49.9	60.6	66.9	69.9
Change in working capital	(31.9)	(14.3)	(3.8)	(3.6)	(3.6)
Net Interest (paid)/received	(1.5)	(2.1)	(6.1)	(5.7)	(4.9)
Income tax paid	(11.2)	(13.9)	(11.3)	(13.3)	(14.2)
Other operating items	15.3	2.5	(0.5)	-	-
Operating Cash Flow	**7.6**	**22.0**	**38.9**	**44.4**	**47.2**
Capex	(1.3)	(4.5)	(9.2)	(5.0)	(4.0)
Acquisitions	(22.0)	(50.0)	-	-	-
Other investing items	0.0	0.0	(9.8)	(12.6)	(5.5)
Investing Cash Flow	**(23.3)**	**(54.3)**	**(19.0)**	**(17.6)**	**(9.5)**
Inc/(Dec) in borrowings	6.2	59.4	(10.0)	(10.0)	(15.0)
Dividends paid	(7.1)	(10.6)	(12.4)	(14.0)	(15.1)
Other financing items	(1.9)	(3.6)	(5.5)	(5.7)	(5.9)
Financing Cash Flow	**(2.1)**	**45.6**	**(27.9)**	**(29.7)**	**(36.0)**
Net Inc/(Dec) in Cash	(17.7)	13.2	(7.9)	(2.9)	1.6

BALANCE SHEET (A$m)	2021A	2022A	2023E	2024E	2025E
Cash	13.7	27.0	19.1	16.2	17.9
Receivables	76.0	107.5	150.8	159.8	168.7
Inventory	-	-	-	-	-
Other current assets	1.7	12.2	12.2	12.2	12.2
PP & E	9.1	15.8	18.6	19.0	19.4
Investments	-	-	-	-	-
Intangibles	116.9	202.0	217.3	223.2	220.8
Other non-current assets	-	0.3	0.3	0.3	0.3
Total Assets	**217.4**	**364.8**	**418.2**	**430.7**	**439.2**
Short term debt	18.3	32.6	35.5	35.5	35.5
Payables	33.7	51.0	90.5	95.9	101.2
Other current liabilities	14.7	36.6	36.6	36.6	36.6
Long term debt	28.6	65.7	52.9	42.9	27.9
Other non-current liabilities	7.4	36.5	36.5	36.5	36.5
Total Liabilities	**102.8**	**222.4**	**252.0**	**247.3**	**237.7**
Total Equity	**114.6**	**142.3**	**166.2**	**183.3**	**201.4**
Net debt (cash)	33.2	71.4	69.3	62.1	45.5

DIVISIONS	2021A	2022A	2023E	2024E	2025E

KEY METRICS (%)	2021A	2022A	2023E	2024E	2025E
Revenue growth	18.7	53.5	79.3	5.9	5.6
EBITDA growth	30.9	18.7	38.3	10.4	4.5
EBIT growth	34.7	14.6	34.7	10.7	4.2
Normalised EPS growth	17.2	9.4	20.1	11.9	6.1
EBITDA margin	8.3	6.4	5.0	5.2	5.1
EBIT margin	7.6	5.7	4.3	4.5	4.4
Return on assets	12.6	9.5	9.6	9.8	9.9
Return on equity	21.4	20.0	20.9	20.9	20.1

VALUATION RATIOS (x)	2021A	2022A	2023E	2024E	2025E
Reported P/E	14.3	14.2	10.4	8.9	8.3
Normalised P/E	11.1	10.2	8.5	7.6	7.1
Price To Free Cash Flow	56.9	18.7	11.3	8.2	7.4
Price To NTA	-	-	-	-	-
EV / EBITDA	7.8	7.8	5.7	5.1	4.6
EV / EBIT	8.5	8.8	6.6	5.9	5.3

LEVERAGE	2021A	2022A	2023E	2024E	2025E
ND / (ND + Equity) (%)	22.5	33.4	29.4	25.3	18.4
Net Debt / EBITDA (%)	90.1	162.8	114.3	92.8	65.1
EBIT Interest Cover (x)	21.9	18.1	8.6	10.2	12.2
EBITDA Interest Cover (x)	23.8	20.4	10.0	11.8	14.2

SUBSTANTIAL HOLDERS	m	%
Declan Sherman	7.2	11.2%
Perennial Value	6.1	9.5%
AP Brosnan Trust	6.1	9.4%

VALUATION	
Cost of Equity (%)	12.8
Cost of debt (after tax) (%)	4.2
D / EV (%)	(19.9)
WACC (%)	**11.1**
Forecast cash flow ($m)	178.3
Terminal value ($m)	244.0
Enterprise Value ($m)	422.3
Equity NPV Per Share ($)	**3.86**
Target Price Method	DCF
Target Price ($)	3.86
Valuation disc. / (prem.) to share price (%)	40.4

Institutional Research

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Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.