

FY24 a rebasing year

PPE's FY23 results disappointed the market, with the company missing our estimates across all vertical revenue and earnings lines and at the group earnings level. After reaffirming its \$62-66m FY23 group EBITDA guidance at the end of May, PPE undershot the bottom end at \$61.1m, suggesting a weak unforeseen end to the financial year. Sensibly, PPE has stated it will not give guidance for FY24, given the moving dynamics across its core sectors and with the trust of the market needing to be rebuilt. We opt for conservatism in FY24, assuming a broad continuation of 2H23 margins into 1H24 and modest improvement in 2H24. This results in a 7% contraction in group EBITDA in FY24. Notwithstanding the challenging near-term outlook, and our applied 25% valuation discount to PPE's international peers, the stock appears to be oversold, offering 34% TSR at our revised 12-month target price of \$2.80/sh.

Key Points

FY23 result. The Industrial & Specialist vertical was a near-miss at \$41.1m EBITDA (-2.5% vs. WILSe), with FIP, Techforce, ExpectAStar and Tribe all performing well. Professional Services at \$15.0m EBITDA (-5.6% vs. WILSe) saw a continuation of technology sector weakness, with Perigon (finance & accounting) providing a partial offset. Health & Community at \$9.3m EBITDA (-18.8% vs. WILSe) suffered from the broader trend of experienced nurses retiring and being replaced by lower-pay graduate nurses, and as we understand a one-off drop in private hospital placements in late 2H23. Pleasingly, operating cash flow improved 192% on pcp to \$64.4m, aided by ~\$14m in receivables collections in late Jun-23, while net debt fell by 36% to \$45.6m, with PPE repaying \$12.9m of borrowings in FY23.

Outlook. PPE expects the technology sector to start to recover in 2Q24 and noted demand for cyber and AI specialists. The company also highlighted key organic initiatives including a continued focus on cross-sell across verticals and leveraging its at-scale international recruitment capability to support its healthcare, food services and childcare businesses.

Forecasts. We forecast a 6.8% contraction in group EBITDA in FY24 to \$56.9m, before earnings growth resumes in FY25 (+11.2% to \$63.3m). Part of the weakness experienced by PPE in FY23 was due to its planned shift in mix from permanent recruitment towards contracting volumes in its Professional Services vertical. However, other factors have been market-based. Figure 1 has our revised revenue, EBITDA and margin forecasts by vertical and for the group. We model the following EBITDA margins by vertical: I&S remaining constant at 4.6% from 1H24; H&C improving slightly to 5.5% in 1H24 and increasing evenly to 7.0% from 2H25 onwards; PS moderating slightly to 8.0% in 1H24 and improving evenly to 9.0% from 1H25 onwards.

Valuation. Our valuation remains solely EV/EBITDA based. We believe the market needs to regain confidence in PPE's near-term earnings outlook before a DCF (looking further out) can be factored into our valuation. We apply a 6.0x multiple to FY24 earnings, a 25% discount to PPE's international peers; delivery against its outlook statements in 1H24 may lead us to narrow this discount. Our valuation derives an equity value of \$292.5m and a 12-mth target of \$2.80/sh.

Financial summary (Y/E Jun, AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	679.2	1,183	1,230	1,303	1,369
EBITDA norm (\$m)	47.2	61.1	56.9	63.3	66.9
Consensus EBITDA (\$m)			68.9	73.5	79.3
EPS norm (cents)	26.8	28.2	19.5	26.1	33.1
EV/EBITDA (x)	6.3	4.4	5.3	4.5	4.0
P/E (x)	8.1	7.7	11.2	8.4	6.6
Dividend yield (%)	6.0	6.4	5.2	6.1	7.1

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
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Wilsons Equity Research

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Recommendation

OVERWEIGHT

12-mth target price (AUD)	\$2.80
Share price @ 25-Aug-23 (AUD)	\$2.18
Forecast 12-mth capital return	28.5%
Forecast 12-mth dividend yield	5.2%
12-mth total shareholder return	33.8%

Market cap (\$m)	221.4
Enterprise value (\$m)	270.4
Shares on issue (m)	101.6
Sold short (%)	0.3
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.6

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12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	(9.2)	(31.2)	(34.9)
Rel return (%)	(7.3)	(30.2)	(35.9)

Key changes		1-Jun	After	Var %
EBITDA	FY24E	69.5	56.9	-18%
norm	FY25E	75.2	63.3	-16%
(\$m)	FY26E	79.3	66.9	-16%
EPS	FY24E	32.1	19.5	-39%
norm	FY25E	36.8	26.1	-29%
(cents)	FY26E	41.7	33.1	-21%
Price target		3.53	2.80	-21%
Rating		O/W	O/W	

Business Description

PeopleIn Ltd (PPE) is a contract hire and permanent recruitment provider with operations primarily across Australia, and a small presence in Singapore and New Zealand. PPE services a diverse range of sectors, including nursing, community care, technology, accounting & finance, government, food services, child care, resources, renewables, hospitality & retail, construction and manufacturing.

Catalysts

(i) Recovery in technology sector; (ii) Rebound in skilled inbound immigration (e.g. UK/Ireland nurses); (iii) cross sell across verticals; (iv) further expansion in WA/SA/Singapore; (v) leveraging PALM scheme capability into disability & aged care; (vi) acquisitions.

P&L (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	679.2	1,183	1,230	1,303	1,369
EBITDA norm	47.2	61.1	56.9	63.3	66.9
EBIT norm	36.1	44.1	34.2	43.7	52.9
PBT norm	33.9	37.9	27.3	36.9	47.1
NPAT norm	25.5	28.4	19.8	26.5	33.6
NPAT reported	17.7	18.9	15.8	22.5	29.6
EPS norm (cents)	26.8	28.2	19.5	26.1	33.1
DPS (cents)	13.0	14.0	11.4	13.4	15.5

Growth (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	58.1	74.1	4.0	5.9	5.1
EBITDA norm	23.9	29.5	(6.8)	11.2	5.7
NPAT norm	22.1	11.5	(30.2)	33.6	27.1
EPS norm (cents)	17.8	5.1	(30.8)	33.6	27.1
DPS (cents)	23.8	7.7	(18.5)	17.3	15.8

Margins and returns (%)	FY22A	FY23A	FY24E	FY25E	FY26E
EBITDA margin	6.9	5.2	4.6	4.9	4.9
EBIT margin	5.3	3.7	2.8	3.4	3.9
PBT margin	5.0	3.2	2.2	2.8	3.4
NPAT margin	3.8	2.4	1.6	2.0	2.5
ROA	9.9	11.1	8.0	10.0	11.7
ROIC	16.9	21.5	14.4	18.7	22.6
ROE	17.9	17.7	12.0	15.0	17.4

Interims (\$m)	2H22A	1H23A	2H23A	1H24E	2H24E
Sales	364.6	594.4	588.3	602.2	627.6
EBITDA norm	25.6	32.5	28.6	27.5	29.5
EBIT norm	19.5	24.4	19.7	15.7	18.6
PBT norm	18.4	21.6	16.3	12.3	15.0
NPAT norm	14.5	16.2	12.2	9.0	10.8
NPAT reported	13.4	13.8	5.2	7.0	8.8
EPS norm (cents)	15.0	16.2	12.0	8.8	10.7
DPS (cents)	6.5	7.0	7.0	5.4	6.0

Stock specific	FY22A	FY23A	FY24E	FY25E	FY26E
ISS revenue (\$m)	415.0	872.5	901.1	951.3	999.4
H&C revenue (\$m)	139.2	147.4	156.8	168.6	177.1
PS revenue (\$m)	128.2	166.4	171.9	182.7	192.0
ISS EBITDA (\$m)	21.6	41.1	41.5	43.8	46.0
H&C EBITDA (\$m)	12.0	9.3	9.0	11.4	12.4
PS EBITDA (\$m)	17.6	15.0	14.2	16.4	17.3
NPATA norm (\$m)	31.9	37.6	29.0	34.0	39.3

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
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Investment Thesis

The strength of PPE's business model has been its diversification, in which weakness in one sector is typically offset by better conditions across the remaining sectors. This thesis has been challenged in FY23, given the downturn in the technology sector and structural challenges with nursing recruitment. Looking beyond this, several of the company's core sectors have a favourable long-term employment growth outlook. PPE offers a 34% TSR at our \$2.80 PT.

Risks

(i) Protracted weakness in IT employment market; (ii) slower than expected rebound in skilled inbound immigration (in particular nursing); (iii) loss of market share to existing or new competitors; (iv) RBA tightening cycle leads to a material economic slowdown.

Balance sheet (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash & equivalents	27.0	39.9	25.3	34.3	43.2
Current receivables	107.5	120.3	172.2	182.4	191.6
Current inventory	0.0	0.0	0.0	0.0	0.0
PPE	15.9	29.8	26.3	24.3	26.1
Intangibles	202.0	203.2	198.0	191.5	186.8
Other assets	12.4	3.7	3.7	3.7	3.7
Total assets	364.8	396.9	425.5	436.2	451.4
Current payables	51.0	66.6	88.1	93.1	97.8
Total debt	98.4	85.4	98.9	91.4	83.7
Other liabilities	68.3	79.1	67.8	69.4	70.8
Total liabilities	222.4	236.9	260.6	259.7	258.1
Minorities	2.6	3.4	5.2	7.0	8.8
Shareholders equity	139.8	156.6	159.8	169.5	184.5

Cash flow (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating cash flow	22.1	64.4	10.4	39.0	41.3
Maintenance capex	(4.5)	(9.1)	(7.0)	(4.0)	(4.0)
Free cash flow	17.6	55.3	3.4	35.0	37.3
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals	(49.8)	(12.2)	(13.2)	0.0	0.0
Dividends paid	(10.6)	(12.7)	(12.6)	(12.7)	(14.7)
Other cash flow	(3.6)	(4.6)	(5.6)	(5.9)	(6.1)
Cash flow pre-financing	(46.5)	25.8	(28.0)	16.5	16.6
Funded by equity	0.3	0.0	0.0	0.0	0.0
Funded by cash/debt	(13.6)	(12.9)	14.6	(9.0)	(8.9)

Liquidity	FY22A	FY23A	FY24E	FY25E	FY26E
Cash conversion (%)	80.8	130.2	42.5	88.0	89.7
Net debt (\$m)	71.4	45.6	73.6	57.1	40.6
Net debt / EBITDA (x)	1.5	0.7	1.3	0.9	0.6
ND / ND + Equity (%)	33.4	22.2	30.9	24.5	17.3
EBIT / Interest expense (x)	16.8	7.1	4.9	6.4	9.1

Valuation	FY22A	FY23A	FY24E	FY25E	FY26E
EV / Sales (x)	0.4	0.2	0.2	0.2	0.2
EV / EBITDA (x)	6.3	4.4	5.3	4.5	4.0
EV / EBIT (x)	8.2	6.1	8.8	6.5	5.1
P / E (x)	8.1	7.7	11.2	8.4	6.6
P / BV (x)	1.5	1.4	1.3	1.3	1.1
FCF yield (%)	8.2	25.0	1.5	15.8	16.9
Dividend yield (%)	6.0	6.4	5.2	6.1	7.1
Payout ratio (%)	48.5	49.7	58.5	51.3	46.8
Franking (%)	100.0	100.0	100.0	100.0	100.0
Weighted shares (m)	95.0	100.7	101.6	101.6	101.6

Changes To Our Forecasts

Figure 1: Summary of our revised forecasts

Y/E Jun, AUD	FY24			FY25			FY26			
	Old	New	% chg	Old	New	% chg	Old	New	% chg	
Revenue										
Industrial & Specialist	\$m	950.9	901.1	(5.2%)	1,018.6	951.3	(6.6%)	1,075.3	999.4	(7.1%)
Health & Community	\$m	162.4	156.8	(3.5%)	174.0	168.6	(3.1%)	183.7	177.1	(3.6%)
Professional Services	\$m	179.9	171.9	(4.4%)	192.7	182.7	(5.2%)	203.4	192.0	(5.6%)
Group revenue	\$m	1,293.2	1,229.8	(4.9%)	1,385.3	1,302.6	(6.0%)	1,462.4	1,368.6	(6.4%)
EBITDA margins										
Industrial & Specialist	%	4.8%	4.6%	(0.2%)	4.8%	4.6%	(0.2%)	4.8%	4.6%	(0.2%)
Health & Community	%	8.0%	5.8%	(2.2%)	8.5%	6.8%	(1.7%)	8.5%	7.0%	(1.5%)
Professional Services	%	10.0%	8.3%	(1.7%)	10.0%	9.0%	(1.0%)	10.0%	9.0%	(1.0%)
EBITDA rep										
Industrial & Specialist	\$m	45.3	41.5	(8.5%)	48.5	43.8	(9.8%)	51.2	46.0	(10.2%)
Health & Community	\$m	13.0	9.0	(30.5%)	14.8	11.4	(23.0%)	15.6	12.4	(20.6%)
Professional Services	\$m	18.0	14.2	(21.1%)	19.3	16.4	(14.6%)	20.3	17.3	(15.1%)
Corporate	\$m	(8.6)	(10.0)	16.1%	(9.2)	(10.5)	14.7%	(9.6)	(10.9)	13.3%
Group EBITDA rep	\$m	67.7	54.7	(19.2%)	73.4	61.1	(16.8%)	77.6	64.8	(16.5%)
EBITDA norm	\$m	69.5	56.9	(18.1%)	75.2	63.3	(15.9%)	79.3	66.9	(15.6%)
NPAT norm	\$m	32.6	19.8	(39.2%)	37.4	26.5	(29.1%)	42.4	33.6	(20.7%)
NPATA norm	\$m	41.4	29.0	(30.1%)	45.3	34.0	(25.0%)	48.7	39.3	(19.2%)
EPS norm (basic)	cps	32.1	19.5	(39.1%)	36.8	26.1	(29.1%)	41.7	33.1	(20.6%)
NPATA/sh norm (basic)	cps	40.8	28.5	(30.0%)	44.6	33.5	(24.9%)	47.9	38.7	(19.1%)
DPS	cps	16.3	11.4	(30.0%)	17.8	13.4	(24.9%)	19.2	15.5	(19.1%)

Source: Wilsons.

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