

15 September 2022

PeopleIn Limited (PPE)

Growth opportunities abound

We are comfortable with our forecasts at the top end of the \$62m-\$66m EBITDA guidance range given the ongoing cross-selling opportunities for Perigon, the long tail of available workers that the FIP acquisition delivers, wage inflation, an expected recovery in Healthcare & Community and the benefits of increased immigration. We retain our BUY recommendation and \$5.55 target price.

Key Points

- We see the performance of recent acquisitions combined with initiatives to address labour supply shortages as being key drivers of earnings growth in FY23 and beyond.
- The Perigon acquisition easily beat expectations in the first four months under PPE ownership. While there is likely to be some moderation in the current run rate, the cross-selling opportunities to PPE's corporate customer base remain considerable, in our view.
- While it's early days for the FIP acquisition, we are encouraged by the Federal Government's support of the PALM scheme and believe that PPE is uniquely positioned to leverage the scheme to help address labour shortages in aged care and community services.

Investment case

- We expect PPE to be a beneficiary of the recently announced increase in permanent immigration levels to 195,000, from 160,000 in FY23.
- The company is also a beneficiary of wage inflation. We have previously estimated a 3.2% organic growth tailwind from the increase in the minimum wage.
- While cognisant of looming macro headwinds, we believe PPE's positioning in attractive verticals (e.g Tech, Healthcare, Accounting & Finance) should protect the company's earnings base if current robust trading conditions moderate.

Financial Summary

- We are comfortable with our earnings forecasts towards the top end of the guidance range. Ongoing strength in Professional Services combined with potential upside from both Perigon and FIP help support our view.
- We consider the single digit PE multiple as highly attractive especially given the growth profile and continuing tightness of the labour market.

Key Catalysts

- Next acquisition – PPE currently has ~\$30m in balance sheet capacity and the M&A pipeline is strong.
- Trading update at AGM.

BUY

Share Price: A\$3.55

Target Price: A\$5.55

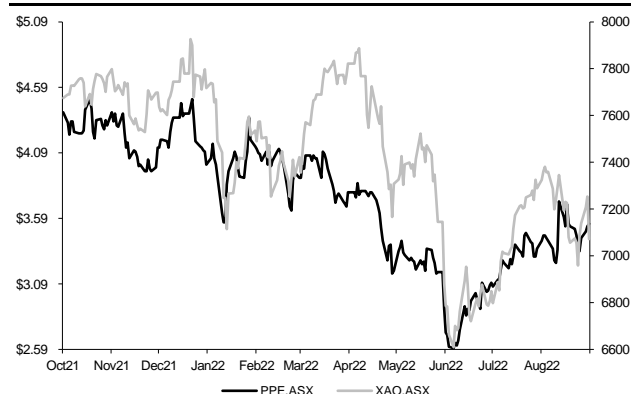
Company Data

Shares – ordinary (M)	100.6
Dilution (M)	2.7
Total (fully diluted) (M)	103.2
Market capitalisation (\$M)	357.0
12 month low/high (\$)	2.49/ 4.55
Average monthly turnover (\$M)	22.3
GICS Industry	Professional Services

Financial Summary (fully diluted/normalised)

Year end June	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue (\$M)	429.7	679.2	1078.1	1164.4	1240.1
Costs (\$M)	-391.6	-632.2	-1012.4	-1092.0	-1159.8
EBITDA (\$M)	38.0	47.0	65.8	72.4	80.3
NPATA (\$M)	25.0	31.2	41.7	46.6	52.6
EPS (¢ps)	26.1	32.0	40.4	44.7	50.2
EPS Growth (%)	14%	23%	26%	11%	12%
PER (x)	13.6	11.1	8.8	7.9	7.1
Free Cashflow (\$M)	6.3	17.6	32.0	42.6	49.0
FCFPS (¢ps)	6.2	17.5	31.9	42.3	48.8
P/FCFPS (x)	56.8	20.3	11.1	8.4	7.3
EV (\$M)	390.3	441.6	428.6	412.4	388.9
EV / EBITDA (x)	10.3	9.4	6.5	5.7	4.8
Payout ratio (%)	40%	41%	40%	41%	47%
Dividends (¢ps)	10.5	13.0	16.0	18.5	20.5
Yield (%)	3.0%	3.7%	4.5%	5.2%	5.8%
Franking (%)	100%	100%	100%	100%	100%

PPE – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. The analyst preparing this report has a beneficial interest in 4,000 shares in this company. He declares that no part of this holding will be traded within the next 2 weeks and has not been traded in the last 2 weeks.

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Analysis

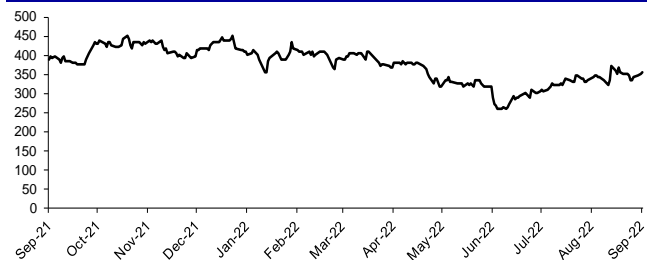
PeopleIn Limited

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	3.55
Target price (12-month)	\$	5.55
52 week low / high	\$	2.49 / 4.55
Market capitalisation	\$m	357.0
Shares on issue (basic)	no.	100.6
Options / rights	no.	2.7
Other equity	no.	0.0
Shares on issue (diluted)	no.	103.2

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS	FY21A	FY22A	FY23F	FY24F	FY25F
NPAT (reported)	\$m 17.7	17.7	34.5	39.4	45.4
NPATA (pro forma)	\$m 25.0	31.2	41.7	46.6	52.6

EPS (Reported, undiluted)	¢	19.3	18.6	34.3	38.8	44.5
EPS (NPATA PF, diluted)	¢	26.1	32.0	40.4	44.7	50.2
Growth	%	14%	23%	26%	11%	12%
PER normalised	x	13.6	11.1	8.8	7.9	7.1

Operating cash flow per share	¢	7.5	21.9	38.3	49.2	55.4
Free cash flow per share	¢	6.2	17.5	31.9	42.3	48.8
Price to free cash flow per share	x	56.8	20.3	11.1	8.4	7.3
FCF yield	%	1.8	4.9	9.0	11.9	13.7

Dividend	¢	10.5	13.0	16.0	18.5	20.5
Payout	%	40	41	40	41	41
Yield	%	3.0%	3.7%	4.5%	5.2%	5.8%
Franking	%	100.0	100.0	100.0	100.0	100.0

Enterprise value	\$m	390.3	441.6	428.6	412.4	388.9
EV/EBITDA	x	10.3	9.4	6.5	5.7	4.8
EV/EBIT	x	12.5	12.3	8.1	6.9	5.7
Price to book (NAV)	x	3.1	2.5	2.1	1.8	1.6
Price to NTA	x	na	na	na	287.0	11.6

KEY RATIOS	FY21A	FY22A	FY23F	FY24F	FY25F	
EBITDA margin	%	8.9	6.9	6.1	6.2	6.5
EBIT margin	%	7.3	5.3	4.9	5.2	5.5
NPAT margin	%	5.8	4.6	3.9	4.0	4.2
ROE	%	21.8	21.9	25.0	24.0	24.0
ROA	%	11.5	8.6	10.6	11.9	13.4
Net debt / (cash)	\$m	25.2	71.4	57.3	40.0	15.7
Interest cover (EBIT / Net interest)	x	23.0	19.7	18.6	22.5	32.1
Leverage (Net debt / EBITDA)	x	0.7	1.5	0.9	0.6	0.2
Gearing (ND / (ND+E))	%	18%	33%	26%	17%	7%

DUPONT ANALYSIS	FY21A	FY22A	FY23F	FY24F	FY25F	
Net Profit Margin	%	5.8	4.6	3.9	4.0	4.2
Asset Turnover	x	2.0	1.9	2.8	3.0	3.2
Return on Assets	%	11.5	8.6	10.6	11.9	13.4
Financial Leverage	x	1.9	2.6	2.3	2.0	1.8
Return on Equity	%	21.8	21.9	25.0	24.0	24.0

GROWTH PROFILE	FY21A	FY22A	FY23F	FY24F	FY25F	
Revenue	%	19.6	58.1	58.7	8.0	6.5
EBITDA	%	44.1	23.4	40.1	10.1	10.9
EBIT	%	43.1	14.5	48.3	12.9	13.6
NPATA	%	36.0	24.9	33.5	11.8	13.0
EPS (NPATA PF, diluted)	%	13.8	22.7	26.2	10.6	12.4

PROFIT AND LOSS (PF)	FY21A	FY22A	FY23F	FY24F	FY25F	
Revenue	\$m	429.7	679.2	1,078.1	1,164.4	1,240.1
EBITDA	\$m	38.0	47.0	65.8	72.4	80.3
Depreciation & amortisation	\$m	6.7	11.1	12.6	12.4	12.1
EBIT	\$m	31.3	35.9	53.2	60.0	68.2
Net interest	\$m	(1.5)	(2.1)	(3.3)	(3.0)	(2.3)
Pretax Profit	\$m	29.8	33.7	49.9	57.0	65.9
Tax expense	\$m	(8.9)	(8.4)	(15.0)	(17.1)	(19.7)
NPAT (pro forma)	\$m	20.9	24.7	34.5	39.4	45.4
Amortisation add-back	\$m	4.1	6.5	7.2	7.2	7.2
NPATA	\$m	25.0	31.2	41.7	46.6	52.6
Significant items	\$m	(3.1)	(7.1)	0.0	0.0	0.0
Reported NPAT	\$m	17.7	17.7	34.5	39.4	45.4

BALANCE SHEET	FY21A	FY22A	FY23F	FY24F	FY25F	
Cash	\$m	13.7	27.0	20.7	14.4	8.9
Receivables	\$m	76.0	107.5	150.9	163.0	173.6
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	1.7	12.2	8.0	8.6	9.2
Current	\$m	91.4	146.7	179.6	186.0	191.7
Prop, plant & equip	\$m	9.1	15.8	14.4	13.4	12.3
Intangibles	\$m	116.9	202.0	197.3	192.8	188.5
Other	\$m	0.0	0.2	0.0	0.0	0.0
Non current	\$m	126.0	218.1	211.8	206.3	200.9
Total assets	\$m	217.4	364.8	391.4	392.3	392.6
Accounts Payable	\$m	33.7	51.0	86.3	93.2	99.2
Borrowings	\$m	39.0	98.4	77.9	54.4	24.6
Lease liabilities	\$m	8.0	13.2	14.4	15.4	16.2
Other	\$m	22.1	60.0	46.0	35.3	33.4
Total liabilities	\$m	102.8	222.4	224.6	198.3	173.3
Shareholder's equity	\$m	114.6	142.4	166.8	194.1	219.3

CASH FLOW	FY21A	FY22A	FY23F	FY24F	FY25F	
EBITDA	\$m	38.0	47.0	65.8	72.4	80.3
Change in working capital	\$m	(17.8)	(5.5)	(8.1)	(5.2)	(4.5)
Net interest	\$m	(1.5)	(2.1)	(3.3)	(3.0)	(2.3)
Tax paid	\$m	(11.2)	(13.9)	(15.0)	(17.1)	(19.7)
Other	\$m	0.2	(3.3)	(0.9)	2.3	2.0
Operating cash flow	\$m	7.6	22.1	38.5	49.5	55.7
Capex	\$m	(0.8)	(2.4)	(4.0)	(4.2)	(3.8)
Acquisitions	\$m	(22.0)	(49.6)	(10.0)	(10.0)	(4.0)
Purchase of intangibles	\$m	(0.5)	(2.1)	(2.5)	(2.7)	(2.9)
Investing cash flow	\$m	(23.3)	(54.3)	(16.5)	(16.9)	(10.7)
Equity issuance	\$m	0.6	0.3	0.0	0.0	0.0
Change in financial liabilities	\$m	4.3	55.8	(19.2)	(22.5)	(29.0)
Dividends / other	\$m	(7.1)	(10.6)	(9.1)	(16.4)	(21.5)
Financing cash flow	\$m	(2.1)	45.6	(28.3)	(38.9)	(50.5)
Net cash flow	\$m	(17.8)	13.3	(6.3)	(6.3)	(5.5)
Free cash flow	\$m	6.3	17.6	32.0	42.6	49.0

Source: Petra Capital

Recent acquisitions underpinning growth in FY23

We refer to PPE's commentary in the recent results that the four acquisitions made during the financial year contributed \$6.6m of EBITDA in FY22. While management provided an indication of the split between these acquisitions on the results conference call, we felt it would be a useful exercise to verify this data.

Based on our analysis of Note 9 in the Annual Report which provides details on each of the acquisitions including revenue and NPAT contribution for FY22 (Figure 1), we estimate the FY22 EBITDA contribution.

Figure 1: FY22 Revenue & NPAT contributions from acquisitions

	Vision Surveys	GMT	Perigon	FIP
Date acquired	30-Jul-21	30-Nov-21	28-Feb-22	06-Jun-22
Total consideration (\$m)	8.9	2.0	30.8	40.6
Revenue contribution to FY22 (\$m)	12.5	11.7	12.5	24.2
NPAT contribution to FY22 (\$m)	0.9	0.1	2.2	0.6
Revenue if owned for full year (\$m)	13.9	19.6	30.6	268.5
NPAT if owned for full year (\$m)	1.1	0.0	4.5	4.7

Source: PPE FY22 Annual Report Note 9

Estimating the FY22 EBITDA contribution from each acquisition

Starting with the NPAT provided and working our way back up the P&L, our assumptions are as follows. Pre-tax profit assumes a 30% tax rate. Interest expense assumes all acquisitions are funded by debt and we apply a 5.5% interest rate to the net cash outflow for each acquisition pro-rated by the proportion of the year each acquisition was under PPE ownership. Depreciation and amortisation is perhaps the most subjective assumption. We estimate that the acquisitions collectively added ~\$0.7m of D&A in FY22. We have disproportionately allocated this to Vision Surveys and FIP due to a greater proportion of PP&E in their respective balance sheets.

As seen in Figure 2, we estimate Vision Surveys contributed \$2.0m of EBITDA in FY22. While below initial expectations of \$2.4m, the business was impacted by Covid. GMT's contribution was always going to be negligible as the acquisition was more about gaining access to government panels.

Our estimate of Perigon's EBITDA at \$3.5m is broadly consistent with management commentary at the result (about half of the \$6.6m). As we have noted previously, this is well above the \$1.5m flagged at the time the acquisition was announced and clearly bodes well for FY23. FIP's contribution of close to \$1.0m of EBITDA is also encouraging given it was achieved in the last three and a half weeks of the financial year.

Figure 2: FY22 estimated EBITDA contribution from acquisitions

	Vision Surveys	GMT	Perigon	FIP	Total
NPAT	0.9	0.1	2.2	0.6	3.7
Pre-tax profit	1.2	0.1	3.2	0.8	5.4
Interest expense	0.2	0.0	0.3	0.1	0.6
EBIT	1.5	0.1	3.5	0.9	5.9
D&A	0.6	0.0	0.0	0.0	0.7
EBITDA	2.0	0.1	3.5	0.9	6.6
Revenue	12.5	11.7	12.5	24.2	60.9
EBITDA margin	16.2%	1.0%	28.1%	3.9%	10.8%

Source: Petra Capital estimates

Estimating the FY22 pro forma EBITDA contribution from each acquisition

Finally, we do the same analysis starting with the NPAT each acquisition would have produced had it been under PPE ownership for the full year. We estimate that the pro forma EBITDA contribution across the four acquisitions for FY22 was \$18.5m. If we assume a 10% organic increase – consistent with the rest of the business - into FY23, this results in an estimate of \$20.3m.

Figure 3: FY22 estimated pro forma EBITDA contribution from acquisitions

	Vision Surveys	GMT	Perigon	FIP	Total
NPAT	1.1	0.0	4.5	4.7	10.3
Pre-tax profit	1.6	0.1	6.4	6.7	14.7
Interest expense	0.2	0.0	0.8	1.4	2.5
EBIT	1.8	0.1	7.2	8.1	17.2
D&A	0.6	0.1	0.1	0.5	1.3
EBITDA	2.4	0.1	7.3	8.6	18.5
Revenue	13.9	19.6	30.6	268.5	332.5
EBITDA margin	17.5%	0.6%	23.9%	3.2%	5.6%

Source: Petra Capital estimates

Assessing the guidance

We now examine the guidance of \$62m-\$66m. Taking the FY22 EBITDA of \$47.2m and deducting \$6.6m gives us a starting position of \$40.6m. We are comfortable with organic growth of 10% given the company's track record, the absence of Covid-related headwinds in Health & Community and the expected increase in immigration. So, \$40.6m x 1.10 + \$20.3m equates to \$65.0m – towards the upper end of the guidance range. Our actual forecast of \$65.8m assumes a slightly higher contribution from FIP than the above analysis given government support of the PALM scheme and the strong pipeline of available workers.



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