

10 November 2023

## PeopleIn Limited (PPE)

**Tough going near term**

**We have lowered our earnings forecasts for PPE given deteriorating business sentiment, the uncertainty created by the government's IR bill and some mixed September quarter domestic results from global peers. With earnings multiples at attractive levels, we still believe PPE offers significant upside once earnings expectations stabilise. We stay at BUY with a revised TP of \$2.57 (from \$3.15).**

### Key Points

- We remain of the view that PPE's sector exposures and scale benefits see the company well positioned in the medium term. However, what we perceive as a broad-based deterioration in trading conditions in recent months has led us to lower our earnings forecasts.
- Business sentiment, as measured by the Roy Morgan Business Confidence Index is at a 3-year low and is trending lower towards mid-Covid levels.
- We believe the federal government's Closing Loopholes IR bill is contributing to the softness in trading. While we think the legislation will result in greater oversight of labour hire companies and the inevitable increase in red tape, this may benefit PPE in the medium term as more marginal players exit the industry.
- We also point to mixed quarterly updates from global players such as Hays, Randstad and Adecco. Hays noted a 17% LFL decline in net fees in ANZ in the September quarter (with NSW and Vic being the weakest markets). Randstad saw a 2% revenue decline in ANZ in the same quarter while Adecco's revenue jumped 73%, boosted by a major government contract.

### Changes to forecasts

- We have lowered our EBITDA forecasts over the next three years by 12-13% and EPS by 16-18%.
- The downgrades are more margin-driven given that FIP (which we expect to grow modestly) is low margin and our view that the weakness in margin in 2H23 across Healthcare and Professional Services is likely to have continued into 1H24.
- PPE's share price looks attractive at 5.9x FY24 PE with a 7.2% fully franked dividend yield. We believe PPE will be an attractive investment once the near-term uncertainty is removed. We reiterate our Buy recommendation with a reduced target price of \$2.57 (from \$3.15).

### Key date ahead

- The AGM is on Monday 27 November 2023. We doubt earnings guidance will be provided but there may be some commentary on year-to-date trading.

**BUY**

**Share Price: A\$1.60**

**Target Price: A\$2.57**

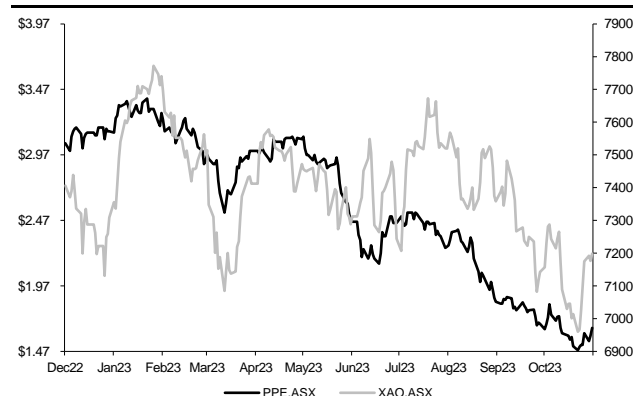
### Company Data

Shares – ordinary (M)	103.6
Dilution (M)	2.3
Total (fully diluted) (M)	105.9
Market capitalisation (\$M)	165.8
12 month low/high (\$)	1.45/ 3.45
Average monthly turnover (\$M)	9.4
GICS Industry	Professional Services

### Financial Summary (fully diluted/normalised)

Year end June	FY22A	FY23A	FY24F	FY25F	FY26F
Revenue (\$M)	679.2	1186.4	1166.3	1226.9	1280.9
Costs (\$M)	-632.2	-1125.5	-1114.2	-1169.0	-1217.2
EBITDA (\$M)	47.0	60.9	52.1	57.9	63.7
NPATA (\$M)	31.2	35.9	28.6	32.8	37.1
EPS (¢ps)	32.0	34.5	27.1	30.9	35.0
EPS Growth (%)	23%	8%	-22%	14%	13%
PER (x)	5.0	4.6	5.9	5.2	4.6
Free Cashflow (\$M)	17.6	55.3	18.9	28.6	34.8
FCFPS (¢ps)	17.0	53.3	18.2	27.6	33.5
P/FCFPS (x)	9.4	3.0	8.8	5.8	4.8
EV (\$M)	237.2	211.4	245.4	236.6	217.5
EV / EBITDA (x)	5.1	3.5	4.7	4.1	3.4
Payout ratio (%)	41%	41%	42%	42%	40%
Dividends (¢ps)	13.0	14.0	11.5	13.0	14.0
Yield (%)	8.1%	8.8%	7.2%	8.1%	8.8%
Franking (%)	100%	100%	100%	100%	100%

### PPE – performance over one year



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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.

Ken Wagner

+61 2 9239 9642

## Analysis

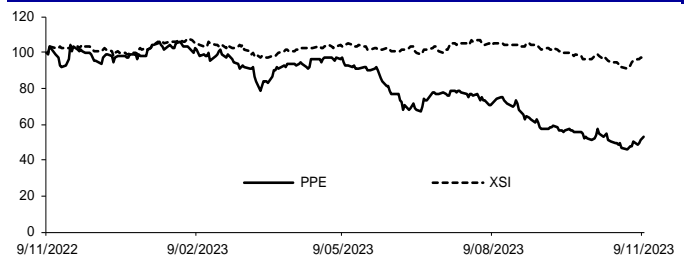
### PeopleIn Limited

Year end 30 June

#### MARKET DATA

Recommendation		Buy
Price	\$	1.60
Target price (12-month)	\$	2.57
52 week low / high	\$	1.45 / 3.45
Market capitalisation	\$m	165.8
Shares on issue (basic)	no.	103.6
Options / rights	no.	2.3
Other equity	no.	0.0
Shares on issue (diluted)	no.	105.9

#### 12-MONTH SHARE PRICE PERFORMANCE



#### INVESTMENT FUNDAMENTALS

	FY22A	FY23A	FY24F	FY25F	FY26F	
NPAT (reported)	\$m	17.7	18.9	15.7	19.7	24.1
NPATA (underlying)	\$m	31.2	35.9	28.6	32.8	37.1
EPS (Reported, undiluted)	¢	18.6	18.8	15.2	19.1	23.2
EPS (NPATA, diluted)	¢	32.0	34.5	27.1	30.9	35.0
Growth	%	23%	8%	-22%	14%	13%
PER normalised	x	5.0	4.6	5.9	5.2	4.6
Operating cash flow per share	¢	21.3	62.1	25.2	33.7	39.5
Free cash flow per share	¢	17.0	53.3	18.2	27.6	33.5
Price to free cash flow per share	x	9.4	3.0	8.8	5.8	4.8
FCF yield	%	10.6	33.3	11.4	17.2	21.0
Dividend	¢	13.0	14.0	11.5	13.0	14.0
Payout	%	41	41	42	42	40
Yield	%	8.1%	8.8%	7.2%	8.1%	8.8%
Franking	%	100.0	100.0	100.0	100.0	100.0
Enterprise value	\$m	237.2	211.4	245.4	236.6	217.5
EV/EBITDA	x	5.1	3.5	4.7	4.1	3.4
EV/EBIT	x	6.6	4.8	7.1	5.9	4.7
Price to book (NAV)	x	1.2	1.0	1.0	1.0	0.9
Price to NTA	x	na	na	na	na	61.0

#### KEY RATIOS

	FY22A	FY23A	FY24F	FY25F	FY26F	
EBITDA margin	%	6.9	5.1	4.5	4.7	5.0
EBIT margin	%	5.3	3.7	3.0	3.3	3.6
NPAT margin	%	4.6	3.0	2.5	2.7	2.9
ROE	%	21.9	22.4	17.0	18.8	20.0
ROA	%	8.6	9.0	7.4	8.6	10.0
Net debt / (cash)	\$m	71.4	45.6	51.0	41.4	21.7
Interest cover (EBIT / Net interest)	x	19.7	8.6	7.1	8.5	11.4
Leverage (Net debt / EBITDA)	x	1.5	0.7	1.0	0.7	0.3
Gearing (ND / (ND+E))	%	33%	22%	23%	19%	10%

#### DUPONT ANALYSIS

	FY22A	FY23A	FY24F	FY25F	FY26F	
Net Profit Margin	%	4.6	3.0	2.5	2.7	2.9
Asset Turnover	x	1.9	3.0	3.0	3.2	3.4
Return on Assets	%	8.6	9.0	7.4	8.6	10.0
Financial Leverage	x	2.6	2.5	2.3	2.2	2.0
Return on Equity	%	21.9	22.4	17.0	18.8	20.0

#### GROWTH PROFILE

	FY22A	FY23A	FY24F	FY25F	FY26F	
Revenue	%	58.1	74.7	(1.7)	5.2	4.4
EBITDA	%	23.4	29.6	(14.5)	11.2	10.1
EBIT	%	14.5	22.4	(20.9)	15.8	13.9
NPATA	%	24.9	14.9	(20.2)	14.6	13.2
EPS (NPATA, diluted)	%	22.7	7.9	(21.5)	14.1	13.2

#### PROFIT AND LOSS (PF)

	FY22A	FY23A	FY24F	FY25F	FY26F	
Revenue	\$m	679.2	1,186.4	1,166.3	1,226.9	1,280.9
EBITDA	\$m	47.0	60.9	52.1	57.9	63.7
Depreciation & amortisation	\$m	11.1	17.0	17.3	17.7	17.9
EBIT	\$m	35.9	43.9	34.7	40.2	45.8
Net interest	\$m	(2.1)	(6.2)	(6.2)	(5.8)	(4.8)
Pretax Profit	\$m	33.7	37.7	28.5	34.4	41.0
Tax expense	\$m	(8.4)	(9.7)	(8.0)	(9.7)	(11.6)
NPAT	\$m	24.7	26.6	19.2	23.2	27.6
Amortisation add-back	\$m	6.5	9.2	9.4	9.5	9.5
NPATA	\$m	31.2	35.9	28.6	32.8	37.1
Significant items	\$m	(7.1)	(7.7)	(3.5)	(3.5)	(3.5)
Reported NPAT	\$m	17.7	18.9	15.7	19.7	24.1

#### BALANCE SHEET

	FY22A	FY23A	FY24F	FY25F	FY26F	
Cash	\$m	27.0	39.9	33.6	28.1	24.9
Receivables	\$m	100.9	98.4	105.0	112.9	119.1
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	18.8	25.4	25.0	26.3	27.4
Current	\$m	146.7	163.7	163.5	167.2	171.4
Prop, plant & equip	\$m	15.8	29.8	25.8	21.5	16.6
Intangibles	\$m	202.0	203.2	197.0	190.0	183.1
Other	\$m	0.2	0.2	0.2	0.2	0.2
Non current	\$m	218.1	233.2	223.0	211.7	199.9
Total assets	\$m	364.8	396.9	386.6	378.9	371.4
Accounts Payable	\$m	51.0	66.6	65.5	67.5	69.2
Borrowings	\$m	98.4	85.4	84.5	69.5	46.6
Lease liabilities	\$m	13.2	27.6	28.6	29.4	30.0
Other	\$m	60.0	57.2	40.2	38.1	39.8
Total liabilities	\$m	222.4	236.9	218.8	204.5	185.6
Shareholder's equity	\$m	142.4	160.0	167.8	174.5	185.8

#### CASH FLOW

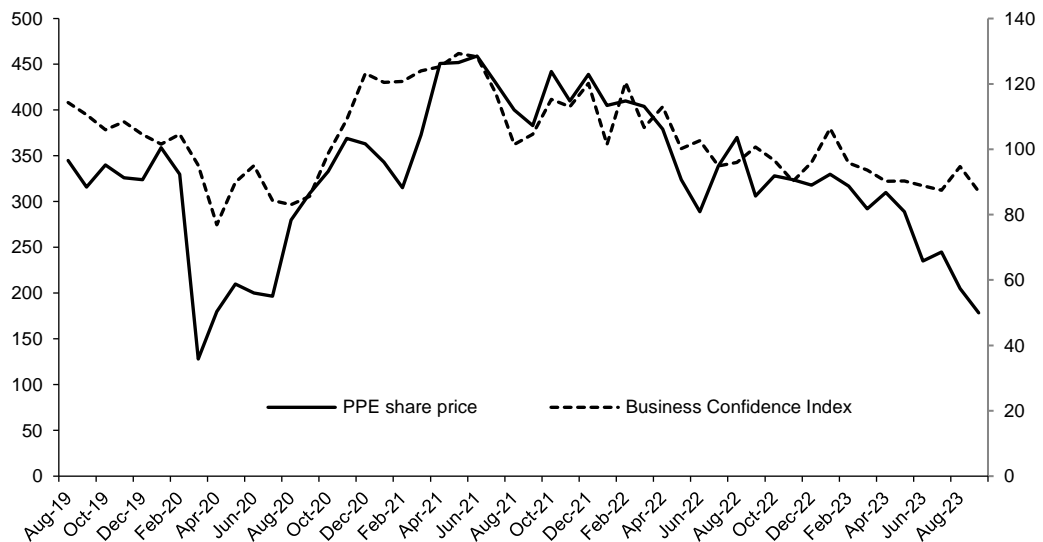
	FY22A	FY23A	FY24F	FY25F	FY26F	
EBITDA	\$m	47.0	60.9	52.1	57.9	63.7
Change in working capital	\$m	(5.5)	9.1	(7.7)	(5.9)	(4.6)
Net interest	\$m	(2.1)	(5.4)	(6.2)	(5.8)	(4.8)
Tax paid	\$m	(13.9)	(9.8)	(8.0)	(9.7)	(11.6)
Other	\$m	(3.3)	9.6	(4.1)	(1.6)	(1.8)
Operating cash flow	\$m	22.1	64.4	26.1	34.9	40.9
Capex	\$m	(2.4)	(4.3)	(4.0)	(3.8)	(3.5)
Acquisitions	\$m	(50.0)	(12.4)	(10.0)	(4.0)	0.0
Purchase of intangibles	\$m	(2.1)	(4.8)	(3.2)	(2.5)	(2.6)
Investing cash flow	\$m	(54.3)	(21.1)	(17.2)	(10.3)	(6.1)
Equity issuance	\$m	0.3	0.0	0.0	0.0	0.0
Change in financial liabilities	\$m	55.8	(17.8)	0.1	(14.3)	(22.3)
Dividends / other	\$m	(10.6)	(12.7)	(15.2)	(15.8)	(15.7)
Financing cash flow	\$m	45.6	(30.5)	(15.2)	(30.1)	(38.0)
Net cash flow	\$m	13.3	12.8	(6.3)	(5.5)	(3.2)
Free cash flow	\$m	17.6	55.3	18.9	28.6	34.8

Source: Petra Capital

## Business confidence deteriorating

While it's no surprise that business confidence is low at present, the Roy Morgan survey indicates a continuation of a declining trend which has been below the neutral level of 100 for 8 consecutive months and is 25 percentage points below the long term monthly average. We note a reasonable correlation with the PPE share price (Figure 1).

**Figure 1: PPE share price (\$) and Roy Morgan Business Confidence (RHS)**



Source: Roy Morgan, IRESS

## Changes to earnings forecasts

The changes to our earnings forecasts are summarised in Figure 2.

**Figure 2: Forecast changes**

	FY24F			FY25F			FY26F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	1,203.0	1,166.3	-3.1%	1,265.6	1,226.9	-3.1%	1,321.3	1,280.9	-3.1%
<b>EBITDA</b>	<b>60.1</b>	<b>52.1</b>	<b>-13.4%</b>	<b>65.9</b>	<b>57.9</b>	<b>-12.1%</b>	<b>72.7</b>	<b>63.7</b>	<b>-12.4%</b>
EBIT	42.8	34.7	-18.8%	48.2	40.2	-16.6%	54.8	45.8	-16.4%
Pretax Profit	36.6	28.5	-22.0%	42.6	34.4	-19.4%	50.5	41.0	-18.9%
NPAT	25.5	19.2	-24.9%	29.7	23.2	-21.7%	34.9	27.6	-21.0%
Amortisation add-back	9.4	9.4	0.0%	9.5	9.5	0.0%	9.5	9.5	0.0%
<b>NPATA</b>	<b>35.0</b>	<b>28.6</b>	<b>-18.2%</b>	<b>39.2</b>	<b>32.8</b>	<b>-16.4%</b>	<b>44.4</b>	<b>37.1</b>	<b>-16.5%</b>
<b>EPS (cps)</b>	<b>33.2</b>	<b>27.1</b>	<b>-18.5%</b>	<b>37.2</b>	<b>30.9</b>	<b>-16.8%</b>	<b>42.1</b>	<b>35.0</b>	<b>-16.9%</b>
<b>DPS (cps)</b>	<b>14.0</b>	<b>11.5</b>	<b>-17.9%</b>	<b>15.0</b>	<b>13.0</b>	<b>-13.3%</b>	<b>17.0</b>	<b>14.0</b>	<b>-17.6%</b>

Source: Petra Capital estimates



## Petra Capital

Level 17, 14 Martin Place, Sydney NSW 2000 Office: +61 2 9239 9600  
 Level 5, 1 Collins Street, Melbourne VIC 3000 Office: +61 3 9123 3000

ABN 95 110 952 782  
 ACN 110 952 782  
 AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Hugh Stackpool	+61 (0)2 9239 9625	hstackpool@petracapital.com.au
Research (Resources):	David Brennan	+61 (0)2 9239 9630	dbrennan@petracapital.com.au
Research (Resources):	Andrew Harrington	+61 (0)2 9239 9614	aharrington@petracapital.com.au
Research (Resources):	Kieran Barratt	+61 (0)2 9239 9610	kbarratt@petracapital.com.au
Research (Resources):	Colin McLelland	+61 (0)2 9239 9639	cmcllland@petracapital.com.au
Research (Resources):	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Research (Industrials):	Liam Cummins	+61 (0)2 9239 9607	lcummins@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Sam Haddad	+61 (0)2 9239 9633	shaddad@petracapital.com.au
Research (Industrials):	Ken Wagner	+61 (0)2 9239 9642	kwagner@petracapital.com.au
Research (Industrials):	Daniel Ireland	+61 (0)2 9239 9647	direland@petracapital.com.au
Research (Industrials):	Mark Yarwood	+61 (0)2 9239 9646	myarwood@petracapital.com.au
Research (Healthcare):	Tanushree Jain	+61 (0)2 9239 9649	tjain@petracapital.com.au
Research (Industrials):	Joanne Condopoulos	+61 (0)2 9239 9635	jcondopoulos@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Leigh Gardner	+61 (0)400 740 842	lgardner@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Paul Doherty	+61 (0)407 194 549	pdoherly@petracapital.com.au
Sales:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Andrew Richards	+61 (0)2 9239 9638	arichards@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Denise Wong	+61 (0)2 9239 9650	dwong@petracapital.com.au
Sales:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Sales:	Stacey Dinnage	+61 (0)425 764 907	sdinnage@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Corporate (ECM):	Maureen Baker	+61 (0)438 571 970	mbaker@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Danielle Smith	+61 (0)2 9239 9612	dsmith@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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