

7 February 2023

## PeopleIn Limited (PPE)

BUY

Share Price: **A\$3.22**

MoU with TAFE Qld to support organic growth

Target Price: **A\$5.55**

With the bottleneck in PPE's business continuing to be the supply of labour to meet client demand, we view any attempt to stimulate supply as a positive for the company. Collaborating with TAFE Queensland provides PPE with access to skilled workers which we believe match up well with PPE's corporate and government client base and should provide support to our FY24 earnings forecasts. Valuation metrics remain highly attractive at 7.3x FY24 PE. We reiterate our BUY recommendation and \$5.55 target price.

### Key Points from Announcement

- PPE has entered into a non-binding non-exclusive MoU with TAFE Queensland.
- The MoU enables PPE to provide employment placement services to TAFE Qld's 125,000 graduates pa while TAFE Qld provides upskilling opportunities to PPE's contract labour pool (~55,000 workers).
- We understand that there is a strong fit between the study areas that TAFE offers and PPE's customer base in terms of both skills and geographical location. As such the MoU should help to alleviate the current labour shortage issue thereby supporting organic growth in FY24.
- Given that we have previously estimated the EBITDA tailwind from recovery in PPE's Healthcare segment to be ~\$4m, the additional support this collaboration should provide further enhances our confidence in our forecasts beyond FY23.
- We note that the MoU is consistent with previous management commentary that upskilling of its contracted labour pool to enhance employability was a strategic priority.

### Investment case

- We remain confident in our FY23 EBITDA forecast of \$65.8m – towards the top end of the guidance range.
- Near term earnings are driven by wage inflation, improvements in visa processing times and underlying organic growth in most areas, supplemented by strong performances by the Perigon and FIP acquisitions.

### Financial Summary

- With PPE trading on a FY24 PER of 7.3x and a fully franked dividend yield of 5.6%, we continue to see significant upside in the share price.
- We reiterate our Buy recommendation and DCF-based target price of \$5.55.

### Key Dates Ahead

- PPE releases its 1H23 result on Friday 17 February.

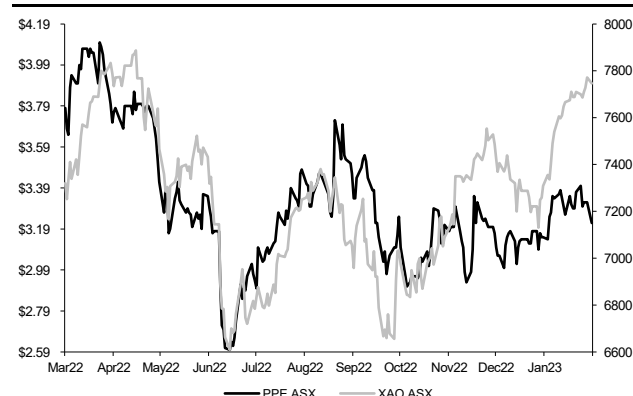
### Company Data

Shares – ordinary (M)	101.1
Dilution (M)	4.8
Total (fully diluted) (M)	105.9
Market capitalisation (\$M)	325.6
12 month low/high (\$)	2.49/ 4.4
Average monthly turnover (\$M)	9.8
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	40.1	44.2	49.7
EPS Growth (%)	14%	23%	25%	10%	12%
PER (x)	12.3	10.1	8.0	7.3	6.5
Free Cashflow (\$M)	6.3	17.6	32.0	42.6	49.0
FCFPS (¢ps)	6.2	17.4	31.7	42.1	48.5
P/FCFPS (x)	51.9	18.5	10.2	7.6	6.6
EV (\$M)	358.9	410.2	396.8	380.1	356.7
EV / EBITDA (x)	9.4	8.7	6.0	5.2	4.4
Payout ratio (%)	40%	41%	39%	41%	48%
Dividends (¢ps)	10.5	13.0	15.5	18.0	20.5
Yield (%)	3.3%	4.0%	4.8%	5.6%	6.4%
Franking (%)	100%	100%	100%	100%	100%

### PPE – performance over one year



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## Analysis

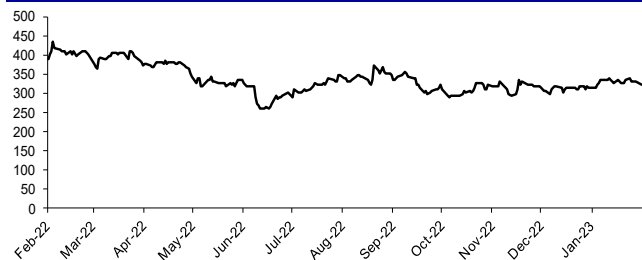
### PeopleIn Limited

Year end 30 June

#### MARKET DATA

Recommendation		Buy
Price	\$	3.22
Target price (12-month)	\$	5.55
52 week low / high	\$	2.49 / 4.40
Market capitalisation	\$m	325.6
Shares on issue (basic)	no.	101.1
Options / rights	no.	4.8
Other equity	no.	0.0
Shares on issue (diluted)	no.	105.9

#### 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	34.2	38.6	44.2
EPS (NPATA PF, diluted)	¢ 26.1	32.0	40.1	44.2	49.7
Growth	% 14%	23%	25%	10%	12%
PER normalised	x 12.3	10.1	8.0	7.3	6.5
Operating cash flow per share	¢ 7.5	21.8	38.1	48.9	55.1
Free cash flow per share	¢ 6.2	17.4	31.7	42.1	48.5
Price to free cash flow per share	x 51.9	18.5	10.2	7.6	6.6
FCF yield	% 1.9	5.4	9.8	13.1	15.1
Dividend	¢ 10.5	13.0	15.5	18.0	20.5
Payout	% 40	41	39	41	41
Yield	% 3.3%	4.0%	4.8%	5.6%	6.4%
Franking	% 100.0	100.0	100.0	100.0	100.0
Enterprise value	\$m 358.9	410.2	396.8	380.1	356.7
EV/EBITDA	x 9.4	8.7	6.0	5.2	4.4
EV/EBIT	x 11.5	11.4	7.5	6.3	5.2
Price to book (NAV)	x 2.8	2.3	1.9	1.7	1.5
Price to NTA	x na	na	na	152.2	10.3

#### 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	24.9	23.9	23.9
ROA	% 11.5	8.6	10.6	11.9	13.4
Net debt / (cash)	\$m 25.2	71.4	56.8	39.1	14.9
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	0.5	0.2
Gearing (ND / (ND+E))	% 18%	33%	25%	17%	6%

#### 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	24.9	23.9	23.9

#### 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	25.2	10.4	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	77.5	53.5	23.8
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	224.1	197.4	172.5
Shareholder's equity	\$m 114.6	142.4	167.3	195.0	220.0

#### 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	(19.7)	(22.9)	(28.9)
Dividends / other	\$m (7.1)	(10.6)	(8.6)	(15.9)	(21.6)
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



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