

9 December 2022

PeopleIn Limited (PPE)

Tailwinds underpin earnings forecasts

Since the FY22 result, PPE's share price has fallen ~18% compared with a ~5% fall across the Small Industrials. With the stock trading at a FY23 PE of 7.6x, the market appears to be anticipating a significant negative impact from looming unquantified macro headwinds as the impact of higher inflation and interest rates affect the broader economy. However, we highlight here several specific earnings tailwinds which underpin our FY23 forecasts and beyond. We reiterate our BUY recommendation.

Key Points

- We have estimated previously that the mandated increase to the minimum wage should provide a tailwind to organic revenue growth of over 3%.
- Despite our FY23 EBITDA forecast being at the high end of the guidance range, this allows for minimal growth from the Healthcare & Community segment due largely to the impact of the nursing shortage. We estimate that as the supply of nurses normalises, this equates to an EBITDA tailwind of ~\$4m.
- Government initiatives to free up labour supply including priority visa processing and increased immigration levels should benefit PPE in key areas such as nursing and IT. Both areas are heavily in demand, feature at the top on the government's Priority Migration Skilled Occupation List and represent a significant proportion of our FY23 EBITDA forecast.
- Moreover, the acquisition of FIP, completed in June, addresses the labour supply issue in the food and agricultural sector with 4,500 people in work under the PALM scheme. We believe this acquisition is tracking well ahead of the \$9.5m EBITDA contribution estimated at the time of the acquisition.
- The potential for corporate activity in the stock, as a possible outcome of the review announced on 23 November, should also be supportive of the share price.

Investment case

- We believe PPE is on target to achieve EBITDA at the high end of the \$62m-\$66m guidance range based on the tailwinds outlined above underpinning solid organic growth as well as the recent Perigon and FIP acquisitions outperforming expectations. We await the first half result with interest.
- With PPE trading on a FY23 PER of 7.6x and a fully franked dividend yield of 5.1%, we continue to see significant upside in the share price.
- We reiterate our Buy recommendation and target price of \$5.55 based on our DCF valuation (10.1% WACC and 2% terminal growth rate).

BUY

Share Price: A\$3.06

Target Price: A\$5.55

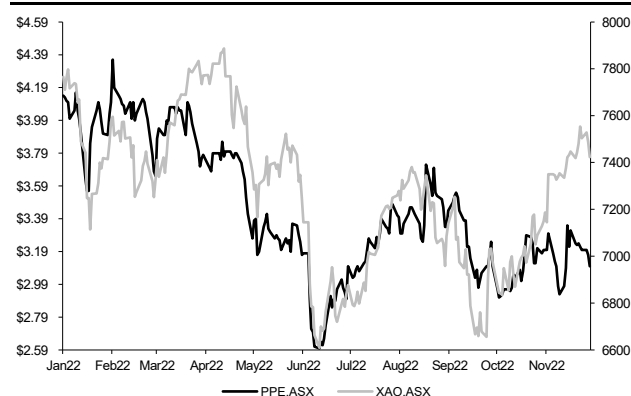
Company Data

Shares – ordinary (M)	101.0
Dilution (M)	4.8
Total (fully diluted) (M)	105.8
Market capitalisation (\$M)	309.1
12 month low/high (\$)	2.49/ 4.5
Average monthly turnover (\$M)	20.6
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	44.3	49.8
EPS Growth (%)	14%	23%	25%	10%	12%
PER (x)	11.7	9.6	7.6	6.9	6.2
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)	49.2	17.6	9.6	7.3	6.3
EV (\$M)	342.4	393.7	380.3	363.6	340.2
EV / EBITDA (x)	9.0	8.4	5.8	5.0	4.2
Payout ratio (%)	40%	41%	39%	41%	48%
Dividends (¢ps)	10.5	13.0	15.5	18.0	20.5
Yield (%)	3.4%	4.2%	5.1%	5.9%	6.7%
Franking (%)	100%	100%	100%	100%	100%

PPE – performance over one year



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Analysis

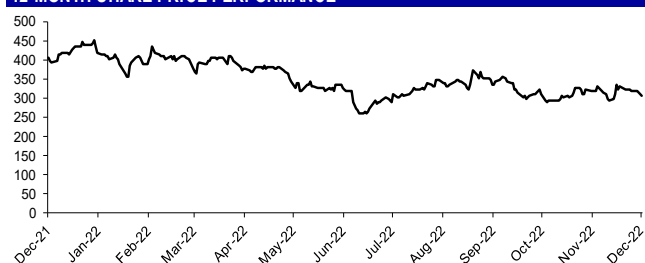
PeopleIn Limited

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	3.06
Target price (12-month)	\$	5.55
52 week low / high	\$	2.49 / 4.50
Market capitalisation	\$m	309.1
Shares on issue (basic)	no.	101.0
Options / rights	no.	4.8
Other equity	no.	0.0
Shares on issue (diluted)	no.	105.8

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	44.3
EPS (NPATA PF, diluted)	¢ 26.1	32.0	40.1	44.3	49.8
Growth	% 14%	23%	25%	10%	12%
PER normalised	x 11.7	9.6	7.6	6.9	6.2
Operating cash flow per share	¢ 7.5	21.8	38.2	49.0	55.2
Free cash flow per share	¢ 6.2	17.4	31.7	42.1	48.5
Price to free cash flow per share	x 49.2	17.6	9.6	7.3	6.3
FCF yield	% 2.0	5.7	10.4	13.8	15.9
Dividend	¢ 10.5	13.0	15.5	18.0	20.5
Payout	% 40	41	39	41	41
Yield	% 3.4%	4.2%	5.1%	5.9%	6.7%
Franking	% 100.0	100.0	100.0	100.0	100.0
Enterprise value	\$m 342.4	393.7	380.3	363.6	340.2
EV/EBITDA	x 9.0	8.4	5.8	5.0	4.2
EV/EBIT	x 10.9	11.0	7.2	6.1	5.0
Price to book (NAV)	x 2.7	2.2	1.8	1.6	1.4
Price to NTA	x na	na	na	143.5	9.8

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	10.5	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	197.3	172.5
Shareholder's equity	\$m 114.6	142.4	167.3	195.0	220.1

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)	(23.0)	(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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