ORD MINNETT RESEARCH

PeopleIn Limited

Belt tightening bites

PeopleIn has reported a soft trading update, with 1Q revenues of $281m (+3% vs. pcp) and EBITDA of $10m (-33% vs. pcp). The weaker trading conditions are broadly consistent with peer performance in the Asia Pacific region, cycling boom time recruitment conditions from 2021 and 2022. Increased revenue skew to low-margin temporary recruitment categories away from higher-margin permanent recruitment caused major margin contraction during the quarter. We expect the softer year-on-year conditions to prevail during 2Q24e and 3Q24e. FY24e EBITDA and EPS forecasts reduce by -10% and -17% respectively. We see the current year as a cyclical low point, due to the combined effect of lower revenues and operating leverage unwind. PPE has identified cost and efficiency measures to align with the current operating environment. We expect this to support an improved earnings/sales ratio during the latter stages of FY24e. We also note the diversification of PPE's customer segments, with the Food Industry People (FIP) acquisition exhibiting net growth and a likely upswing in the health segment during 2H as an essential service. Net debt/EBITDA is likely to peak above 2x during FY24e, restricting the P/E multiple until earnings momentum turns positive. PPE remains well within debt covenants and recorded 90% cash conversion for Q1. Our DCF-based valuation falls to $2.09 per share (from $2.19). We acknowledge that PPE is likely to trade at a discount to fair value until the earnings outlook improves.

Earnings detractors outweigh support

- We believe that technology, financial services and general industrial segment exposures likely contributed most to the weak 1Q performance.

First half expectations

- We expect a 1H/2H EBITDA split of $21.4m/$23.5m, before adjusting for share based payments.

$2.09 price target (from $2.19), BUY recommendation

- PPE trades on a FY24e EV/EBIT ratio of 7.6x, a 25% discount to the peer average. Next catalyst: 1H results, labour market conditions.

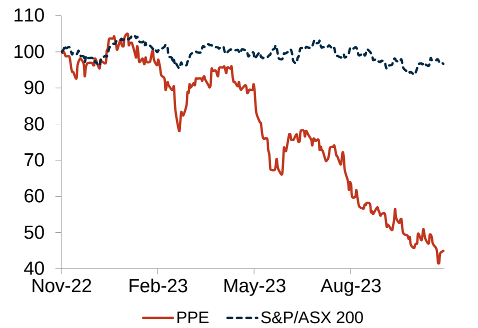
Year-end June ($)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue ($m)	682.3	1,186.3	1,183.8	1,238.0	1,297.8
EBITDA ($m)	43.8	55.8	40.4	50.6	53.7
EBIT ($m)	38.8	47.7	31.2	40.7	43.2
Reported NPAT ($m)	18.4	20.6	11.8	18.9	20.9
Reported EPS (c)	19.4	20.4	11.5	18.3	20.2
Normalised NPAT ($m)	25.7	29.0	17.3	24.4	26.4
Normalised EPS (c)	27.0	28.8	16.8	23.6	25.5
EPS Growth (%)	9.4	6.7	(41.6)	39.9	8.1
Dividend (c)	13.0	14.0	10.5	11.5	13.0
Net Yield (%)	8.9	9.6	7.2	7.9	8.9
Franking (%)	100	100	100	100	100
EV/EBITDA (X)	5.2	4.0	5.8	4.7	4.3
Normalised P/E (x)	5.4	5.0	8.6	6.2	5.7
Normalised ROE (%)	20.0	19.2	10.8	14.8	15.2

Source: OML, Iress, PeopleIn Limited

Last Price
A$1.46
Target Price
A$2.09 *(Previously A$2.19)*
Recommendation
Buy
Risk
Higher

Human Resource and Employment Service	
ASX Code	PPE
52 Week Range ($)	1.35 - 3.40
Market Cap ($m)	150.8
Shares Outstanding (m)	103.6
Av Daily Turnover ($m)	0.4
3 Month Total Return (%)	-33.3
12 Month Total Return (%)	-56.2
Benchmark 12 Month Return (%)	-3.7
NTA FY24E (¢ per share)	-47.6
Net Debt FY24E ($m)	85.1

Relative Price Performance



Source: FactSet

Consensus Earnings	FY24E	FY25E
NPAT (C) ($m)	23.1	27.2
NPAT (OM) ($m)	17.3	24.4
EPS (C) (c)	22.3	25.9
EPS (OM) (c)	16.8	23.6

Source: OML, Iress, PeopleIn Limited

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Key takeaways and outlook

- **A weak first quarter:** PPE has reported 1Q24 revenues of $281m (+3% vs pcp) and EBITDA of $10.0m (-33% vs pcp), prior to deducting share-based expenses. The mix of revenues has skewed towards lower margin temporary employment from permanent recruitment. Q1 EBITDA margins reduced to 3.6% (from 5.5%).
- **Revisions to FY24e earnings:** We expect continued year-on-year weakness in the industrial, health and technology/financial service segments during 1H24 and into 2H24e. We note the seasonally stronger June quarter and potential uplift from efficiency measures. FY24e EBITDA forecasts reduces by 10% to $40.4m (post share-based expenses).
- **Headroom within funding covenants:** PPE's key debt covenant is for gross financial debt/EBITDA < 3x. On our forecasts this ratio is likely to be ~1.7x for FY24e, providing headroom.
- **Regulatory environment reinforces PPE's business model:** Complexity within the Industrial relations environment, including the Pacific Australia Labour Mobility (PALM) scheme, on balance supports PPE's business model, as a key outsourcing partner for major employers in the corporate and Government market in Australia.

Figure 1: Forecast changes

	FY24e		*change*	FY25e		*change*	FY26e		*change*
	old	new	*%*	old	new	*%*	old	new	*%*
revenue- segments $m									
Industrial & Specialist	837	879	5%	896	923	3%	954	968	1%
Health & Community*	147	148	1%	153	154	0%	159	160	0%
Professional Services	148	156	6%	153	161	5%	162	170	5%
revenue- total	**1133**	**1184**	**5%**	**1203**	**1238**	**3%**	**1276**	**1298**	**2%**
EBITDA- segments $m									
Industrial & Specialist	33.3	31.2	-6%	38.4	37.8	-2%	40.7	40.2	-1%
Health & Community*	8.8	8.9	1%	10.4	10.3	0%	10.9	10.8	0%
Professional Services	12.1	9.5	-21%	13.3	12.0	-10%	15.2	12.6	-17%
unallocated	-4.7	-4.7	0%	-5.0	-5.0	0%	-5.4	-5.4	0%
EBITDA - pre SBP "PPE"	**49.6**	**44.9**	-9%	**57.0**	**55.1**	-3%	**61.3**	**58.2**	-5%
share based payments	-4.5	-4.5	0%	-4.5	-4.5	0%	-4.5	-4.5	0%
EBITDA- underlying	**45.1**	**40.4**	**-10%**	**52.5**	**50.6**	**-4%**	**56.8**	**53.7**	**-6%**
EBITDA margin %	4.4%	3.8%	-13%	4.7%	4.4%	-6%	4.8%	4.5%	-7%
Key P&L metrics $m									
D&A- underlying	-9.2	-9.2	0%	-9.8	-9.8	0%	-10.4	-10.4	0%
EBITA	37.5	32.8	-12%	44.6	42.6	-4%	48.5	45.4	-6%
EBIT	35.9	31.2	-13%	42.7	40.7	-5%	46.4	43.2	-7%
net interest	-6.5	-6.5	0%	-5.7	-5.9	-3%	-5.1	-5.5	-9%
PBT - underlying	29.4	24.7	-16%	37.0	34.9	-6%	41.3	37.7	-9%
NPATA - underlying**	20.6	17.3	-16%	25.9	24.4	-6%	28.9	26.4	-9%
EPS (cents): EPS-A**	**20.2**	**16.8**	**-17%**	**25.5**	**23.6**	**-8%**	**28.5**	**25.5**	**-10%**
D&A - reported	-17.1	-17.1	0%	-17.7	-17.7	0%	-18.3	-18.3	0%
Amortisation - abnormal	-7.8	-7.8	0%	-7.8	-7.8	0%	-7.8	-7.8	0%
Abnormals - pre-tax	0.0	0.0	na	0.0	0.0	na	0.0	0.0	na
reported NPAT	15.1	11.8	-22%	20.4	18.9	-7%	23.4	20.9	-11%
dividend (cents)	10.0	10.5	5%	13.0	11.5	-12%	14.0	13.0	-7%
payout % cash EPS	49%	62%	13%	51%	49%	-2%	49%	51%	2%
Key metrics $m									
operating cash flow	36.2	30.7	-15%	35.0	34.2	-2%	38.5	36.5	-5%
net capex & leases	-19.2	-19.2	0%	-17.7	-17.7	0%	-18.4	-18.4	0%
acquisitions (incl earn outs)	-12.6	-12.6	0%	-5.5	-5.5	0%	0.0	0.0	na
free cash flow (post tax)	4.5	-1.0	-123%	11.8	11.0	-7%	20.1	18.2	-10%
net debt (cash)	55.0	57.5	5%	53.2	57.1	7%	46.1	50.6	10%
Net debt/EBITDA (with leases)	1.8x	2.1x	15%	1.5x	1.7x	9%	1.3x	1.5x	12%
ROE %	13%	11%	-16%	16%	15%	-5%	16%	15%	-7%
EV/EBITDA x	5.4	5.8	8%	4.6	4.7	1%	4.1	4.3	3%
EV/EBIT x	6.8	7.6	12%	5.7	5.8	2%	5.1	5.3	5%
P/E x	**7.8**	**8.6**	**11%**	**6.2**	**6.2**	**0%**	**5.6**	**5.7**	**3%**

***Ords NPAT and EPS-A excludes only customer contract amortisation and tax adjusts for this.*

Source: Ord Minnett Research

AGM and 1Q24 update

- **Market conditions:** Consistent with global peers, market conditions have softened, with many customers reducing their demand for high-margin roles and delaying decisions, including in health.
- **Implementing efficiency measures:** PPE are driving efficiency measures to realign the cost base in line with the margin shift.
- **Cash collection/conversion above 90%:** Operating cash/EBITDA conversion was above 90% in Q1, a positive outcome.
- **Outlook:** PPE expects the wider downturn to be relatively short-lived, especially within the health segment. The company expect high margin demand to improve in Q4 and into FY25e.
- **Industrial Relations Reform Bill:** A complex bill, likely to be legislated in 2024, that provides an opportunity for PPE as a large and established business, to assist Government and corporate clients navigate the regulatory complexity.
- **PALM Scheme:** The number of workers PPE service on the PALM scheme (via the Food Industry People brand) has increased to 6,000, from 4,700 at the time of acquisition. Approval has been gained to recruit staff into the aged care sector, providing another growth avenue.
- **New CFO:** Adam Leake commenced on 13th November 2023 as group CFO.

Valuation

$2.09 valuation (from $2.19), BUY Recommendation

- We value PPE adopting a DCF methodology with a weighted average cost of capital of 11.6% (from 11.5%), cost of equity of 13.9% (from 13.9%) and terminal growth rate of 3% (no change). The revised DCF valuation is $2.09 per share (from $2.19 per share).
- PPE trades on a P/E ratio of 8.6x and an EV/EBIT ratio of 7.6x in FY24e. These represent a 40% and 25% discount to the peer set respectively. PPE is currently trading at a 48% discount versus its 5-year P/E average of 16.7x.

Figure 2: Peer multiples

	Mkt cap	EV	Price / Earnings			EV/ EBITDA			EV / Sales		Return on equity		EV / EBIT	
Company	A$m	A$m	FY22	FY23	FY24	FY22	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
APM Group	1,371	2,299	7.9	8.6	8.6	7.6	6.5	5.9	1.2	1.0	9.2	9.7	10.7	9.4
Creek & River Co Ltd	490	394	21.2	17.9	15.1	n.a.	n.a.	7.8	0.9	0.8	19.9	20.1	9.8	8.5
Persol Holdings Co	5,987	5,758	20.2	18.2	16.4	8.4	8.2	7.3	0.5	0.4	16.8	18.7	10.4	10.4
JAC Recruitment	5,987	5,758	20.2	18.2	16.4	8.4	8.2	7.3	0.5	0.4	16.8	18.7	10.4	10.4
WDB Holdings Co	460	264	10.6	13.0	12.0	n.a.	n.a.	n.a.	0.6	0.5	12.4	12.4	5.2	4.9
Hays PLC	3,215	3,318	12.3	13.1	15.2	6.2	6.7	7.7	0.2	0.2	18.9	17.4	8.9	10.6
Page Group	2,840	2,851	10.4	17.1	14.4	5.8	8.2	7.4	0.8	0.8	24.8	29.2	12.2	10.2
Sthree PLC	1,042	958	10.3	10.7	9.9	5.5	5.5	5.0	0.3	0.3	23.2	22.4	7.1	6.4
Robert Walters	599	612	7.9	22.0	11.6	4.2	6.8	4.8	0.3	0.3	8.1	14.8	13.4	7.9
AMN Healthcare Services	3,865	5,336	5.9	8.5	13.2	4.1	6.0	8.6	0.9	1.1	25.9	15.4	9.6	14.8
Kforce Inc	4,080	3,797	8.3	10.2	13.4	4.4	5.1	6.3	0.9	0.9	n.a.	11.0	6.7	8.9
Brunel International NV	930	966	15.6	13.7	11.4	7.5	6.8	6.0	0.4	0.4	13.2	15.0	9.1	7.8
Recruit Holdings	94,818	86,147	30.0	31.2	27.8	17.7	17.3	15.6	2.5	2.5	19.0	18.2	23.3	21.5
Amadeus Fire AG	1,094	1,244	16.7	15.4	13.8	8.1	7.7	7.2	1.7	1.6	24.6	24.2	10.4	9.7
		Average	**14.1**	**15.6**	**14.2**	**7.3**	**7.8**	**7.5**	**0.8**	**0.8**	**17.9**	**17.7**	**10.5**	**10.1**
		Median	**11.5**	**14.5**	**13.6**	**6.8**	**6.8**	**7.3**	**0.7**	**0.7**	**18.9**	**17.8**	**10.1**	**9.6**
PeopleIn	**151**	**236**	**5.4**	**5.0**	**8.6**	**5.2**	**4.0**	**5.8**	**0.2**	**0.2**	**18.2%**	**10.8%**	**4.6**	**7.6**

Source: Ord Minnett Research, Bloomberg

Industry conditions

Figure 3: International peers, September quarter results

- PPEs International staffing and recruitment competitors experienced negative top line growth across the board during the September quarter as employers continue to slow down the rate of hiring amid ongoing macroeconomic uncertainty. Across APAC / ANZ geographies segment revenue declines ranged between -2% and -24%.

PPE Peers	Sep '23 qtr. group revenue vs. pcp (global)	APAC / ANZ Commentary for the September quarter '23
Hays (UK)	-7.0%	ANZ fee income was down -17% (temp -13% & perm -24%)
Page Group (UK)	-7.9%	Australia total fee income fell -11% vs the pcp.
Robert Walters (UK)	-17.0%	ANZ net fee income was down -24% which was a larger decline than the Group -17%
Robert Half (US)	-14.7%	Non USA revenues (which incl. Australia) fell -7% vs pcp. Group PBT -40% for the quarter vs. pcp
Manpower Group (US)	-5.0%	APAC/Middle East revenue fell -1.6% (currency adjusted), with the segment recording the smallest revenue decline vs other geographies. Group EBIT fell by 57% during the Sep quarter
Randstad (Euro)	-11.0%	Revenue in Australia/New Zealand was down 2% vs the pcp. Group EBITA fell by -19% during the Sep quarter
Median revenue decline	**-9.5%**	

Source: Ord Minnett Research, Company filings

Internet job ads

- October saw internet job ads continue to moderate, falling -9.1% vs the pcp to 261,174. Job ads declined -3.8%, or -10,380 month-on-month from September 2023. We note internet job ads remain well above the long-term average of ~188,000.

Investment thesis

PeopleIn has considerable exposure to the defensive healthcare and fast-growing technology recruitment sectors, which are forecast to grow faster than GDP annually to at least 2026, driven by population growth and demographic changes. PPE's acquisition strategy since listing has taken the brand portfolio to 26 in total whilst still delivering ~10% organic earnings growth since the acquisition. Acquired brands have typically broadened the service offering and geographical spread and added to the stickiness of the group in retaining and expanding panel-based work. PPE's strong return on equity and higher forecast free cash flows suggest the acquisition strategy has delivered positive returns post-integration.

Overview

PeopleIn is a workforce solutions company providing services to over 4,000 clients across the public and private sectors. PeopleIn operates across three business divisions 1.) Health and Community 2.) Industrial and Specialist Services 3.) Professional Services. Services include sourcing, skilling, deployment, and managing workforce staff across permanent employees and contract hires. Since listing in 2017, PPE has grown its recruitment network to 26 brands that collectively provide payroll for 10,000-15,000 candidates weekly. PeopleIn employs over 850 internal staff and has a national presence.

Key risks

- **Changing employment conditions:** PPE's core business relies on the ongoing demand for labour. Economic conditions in segments including technology, financial services and industrial services may impact our financial forecasts beyond this earnings revision.
- **Regulatory risk:** PPEs exposure to more unionised and politically sensitive sectors increases the risk of industrial action impacting the company's operations. Changes to government legislation relating to the PALM Scheme may affect the business. However, given the barriers to entry in compliance, panel positions, systems and scale, the more regulated environment may benefit PPE's competitive positioning.
- **Margin outlook:** EBITDA margins for the group declined to 4.8% during the 2H23 (from 5.4% during 1H23). PPE's margins are sensitive to economic conditions and the company's ability to manage cost pressures and utilise staff.

PeopleIn Limited

Buy

PROFIT & LOSS (A$m)	2022A	2023A	2024E	2025E	2026E
Revenue	682.3	1,186.3	1,183.8	1,238.0	1,297.8
Operating costs	(638.5)	(1,130.6)	(1,143.4)	(1,187.4)	(1,244.2)
Operating EBITDA	**43.8**	**55.8**	**40.4**	**50.6**	**53.7**
D&A	(5.0)	(8.1)	(9.2)	(9.8)	(10.4)
EBIT	**38.8**	**47.7**	**31.2**	**40.7**	**43.2**
Net interest	(2.1)	(6.2)	(6.5)	(5.9)	(5.5)
Pre-tax profit	**36.7**	**41.5**	**24.7**	**34.9**	**37.7**
Net tax (expense) / benefit	(11.0)	(12.4)	(7.4)	(10.5)	(11.3)
Normalised NPAT	**25.7**	**29.0**	**17.3**	**24.4**	**26.4**
Reported NPAT	**18.4**	**20.6**	**11.8**	**18.9**	**20.9**
Normalised dil. EPS (cps)	27.0	28.8	16.8	23.6	25.5
Reported EPS (cps)	19.4	20.4	11.5	18.3	20.2
Effective tax rate (%)	28.4	28.4	28.4	28.4	28.4
DPS (cps)	13.0	14.0	10.5	11.5	13.0
Dividend yield (%)	8.9	9.6	7.2	7.9	8.9
Payout ratio (%)	48.1	48.6	62.3	48.8	51.0
Franking (%)	100.0	100.0	100.0	100.0	100.0
Diluted # of shares (m)	101.1	103.6	105.9	105.9	105.9

CASH FLOW (A$m)	2022A	2023A	2024E	2025E	2026E
EBITDA incl. adjustments	49.9	56.6	40.4	50.6	53.7
Change in working capital	(22.6)	11.2	1.8	(2.4)	(2.6)
Net Interest (paid)/received	(2.1)	(6.2)	(6.5)	(5.9)	(5.5)
Income tax paid	(13.9)	(9.8)	(5.1)	(8.1)	(9.0)
Other operating items	10.8	12.6	-	-	-
Operating Cash Flow	**22.0**	**64.4**	**30.7**	**34.2**	**36.5**
Capex	(4.5)	(9.1)	(6.0)	(4.0)	(4.1)
Acquisitions	(50.0)	(12.2)	-	-	-
Other investing items	0.0	-	(12.6)	(5.5)	-
Investing Cash Flow	**(54.3)**	**(21.0)**	**(18.4)**	**(9.3)**	**(3.9)**
Inc/(Dec) in borrowings	59.4	(12.9)	(15.0)	(5.0)	(5.0)
Dividends paid	(10.6)	(4.9)	(14.1)	(10.8)	(11.9)
Other financing items	(3.6)	(12.7)	(13.2)	(13.7)	(14.3)
Financing Cash Flow	**45.6**	**(30.5)**	**(39.3)**	**(29.5)**	**(31.2)**
Net Inc/(Dec) in Cash	13.2	12.9	(26.9)	(4.6)	1.4

BALANCE SHEET (A$m)	2022A	2023A	2024E	2025E	2026E
Cash	27.0	39.9	12.9	8.3	9.8
Receivables	115.8	120.3	123.2	128.9	135.1
Inventory	-	-	-	-	-
Other current assets	3.9	3.5	3.5	3.5	3.5
PP & E	15.8	29.8	37.4	45.2	53.3
Investments	-	-	-	-	-
Intangibles	202.0	203.2	210.0	207.6	199.4
Other non-current assets	0.3	0.3	0.3	0.3	0.3
Total Assets	**364.8**	**396.9**	**387.3**	**393.8**	**401.3**
Short term debt	32.6	27.9	27.9	27.9	27.9
Payables	51.0	66.6	71.4	74.6	78.2
Other current liabilities	36.6	45.2	45.2	45.2	45.2
Long term debt	65.7	57.5	42.5	37.5	32.5
Other non-current liabilities	36.5	39.6	39.6	39.6	39.6
Total Liabilities	**222.4**	**236.9**	**226.6**	**224.9**	**223.5**
Total Equity	**142.3**	**160.0**	**160.7**	**168.9**	**177.8**
Net debt (cash)	84.5	73.2	85.1	84.7	78.2

DIVISIONS	2022A	2023A	2024E	2025E	2026E

KEY METRICS (%)	2022A	2023A	2024E	2025E	2026E
Revenue growth	53.5	73.9	(0.2)	4.6	4.8
EBITDA growth	18.7	27.3	(27.6)	25.1	6.1
EBIT growth	14.6	23.0	(34.7)	30.7	6.1
Normalised EPS growth	9.4	6.7	(41.6)	39.9	8.1
EBITDA margin	6.4	4.7	3.4	4.1	4.1
EBIT margin	5.7	4.0	2.6	3.3	3.3
Return on assets	9.5	9.0	5.7	7.5	7.8
Return on equity	20.0	19.2	10.8	14.8	15.2

VALUATION RATIOS (x)	2022A	2023A	2024E	2025E	2026E
Reported P/E	7.5	7.1	12.7	8.0	7.2
Normalised P/E	5.4	5.0	8.6	6.2	5.7
Price To Free Cash Flow	9.9	3.4	13.0	9.1	8.3
Price To NTA	-	-	-	-	-
EV / EBITDA	5.2	4.0	5.8	4.7	4.3
EV / EBIT	5.9	4.6	7.6	5.8	5.3

LEVERAGE	2022A	2023A	2024E	2025E	2026E
ND / (ND + Equity) (%)	37.3	31.4	34.6	33.4	30.6
Net Debt / EBITDA (%)	192.9	131.2	210.5	167.5	145.8
EBIT Interest Cover (x)	18.1	7.6	4.8	7.0	7.8
EBITDA Interest Cover (x)	20.4	8.9	6.2	8.6	9.7

VALUATION	
Cost of Equity (%)	13.9
Cost of debt (after tax) (%)	4.6
D / EV (%)	(25.0)
WACC (%)	**11.6**
Forecast cash flow ($m)	82.6
Terminal value ($m)	144.7
Enterprise Value ($m)	227.3
Equity NPV Per Share ($)	**2.09**
Target Price Method	DCF
Target Price ($)	2.09
Valuation disc. / (prem.) to share price (%)	43.6

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Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.