

November 28, 2023

ADD (no change)

Stock code:	PPE AU
Price:	A\$1.36
12-month target price:	A\$1.85
Previous target price:	A\$2.40
Up/downside to target price:	36.0%
Dividend yield:	5.8%
12-month TSR*:	41.8%
Market cap:	A\$140.9m
Average daily turnover:	A\$0.59m
Index inclusion:	ALL ORDINARIES

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	-9.9	-34.6	-58.0	-63.6
Rel ASX/S&P200	-12.7	-32.6	-55.0	-69.9



Source: IRESS

Financial summary

	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue (A\$m)	1,186	1,179	1,212	1,265
EBITDA Norm (A\$m)	62.59	40.21	46.79	54.32
Net Profit (A\$m)	19.03	2.43	8.38	14.61
EPS Norm (A\$)	0.27	0.09	0.13	0.18
EPS Growth Norm (%)	4.7%	-68.2%	43.6%	41.0%
P/E Norm (x)	4.96	15.60	10.87	7.71
DPS (A\$)	0.14	0.08	0.08	0.09
Dividend Yield (%)	10.3%	5.6%	6.0%	6.4%
Franking (%)	100%	100%	100%	100%
EV/EBITDA (x)	2.97	4.85	4.15	3.31
Gearing (Net Debt/EBITDA)	0.73	1.24	0.95	0.45

Source: Company data, Morgans estimates

Related research

[Sector report - 26 Oct 2023](#)
[PPE \(ADD - TP A\\$3.70\) - 28 Aug 2023](#)

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Analyst(s) own shares in the following stocks mentioned in this report:

– PeopleIn

PeopleIn

Weak Q1 confirms challenging operating environment

- A challenging operating environment has seen continued margin compression across PPE's business. Q1 FY23 EBITDA (underlying) declined 33% (vs pcp) to \$10m, seeing our FY24 EBITDA (underlying) forecast decline to \$38.5m (previously \$48.8m). This is despite us having downgraded our EBITDA expectations by c.23% in Oct-23. As such the level of margin degradation in Q1 took us by surprise.
- As a result, our forecast FY24 EBITDA margin is at c.3.4%, below the 4.8% achieved in 2HFY23 and well short of management's margin target of +7%. To this end PPE is clearly a cyclical business in an earnings downgrade cycle – something that is unlikely to reverse until general business confidence improves.
- From a valuation perspective the business may look fair value on what we believe are currently depressed earnings (FY24 PER-A: 10.4x), but arguably cheap on mid-cycle earnings (FY24 PER-A: c.6-7x.). As a result we retain our Add rating, whilst decreasing our valuation to \$1.85/sh (previously \$2.40/sh).

Event – FY23 AGM and FY24 outlook

- At PPE's recent AGM the company flagged a more challenging operating environment, which it expects to impact earnings through FY24.
- Whilst stopping short of full year guidance, the company did say that Q1FY24 EBITDA (underlying) of \$10m was down 33% on the pcp (Q1FY23 EBITDA: \$15m) – EBITDA margins declined c.200bps. This compares to Q1FY24 revenue which increased 3.3% (vs pcp) to \$281m.
- The company did however note that it expects the wider downturn to be relatively short-lived, especially in health, and expects higher margin demand to improve in Q4 and into FY25.

Analysis

- Assuming the Q1 run-rate, adjusted for the fewer work weeks in Q2 and Q3 along with a potential uptick in Q4, we forecast FY24 full year EBITDA (underlying) of c.\$38.5m. This compares to FY23 where the business delivered \$61.1m of EBITDA.
- The Q1 FY24 EBITDA margin of 3.6% and our forecast FY24 EBITDA margin of 3.4% falls along way short of the company's target of +7% EBITDA margins (a level of margin delivered in FY22). The question then becomes, what level of terminal margin is achievable – we forecast margins improving to 4.3% in FY26 at which point underlying EBITDA would be c.\$53m (below the \$61m achieved in FY23).

Forecast and valuation update

- We have revised our divisional revenue and margin assumptions in light of the group outlook through FY24. This has seen our EBITDA forecasts decrease by 21%, 17% and 12% in FY24, FY25 and FY26, respectively. This comes in spite of having downgraded FY24/25/26 EBITDA forecasts by c.23% as recently as Oct-23.

Investment view

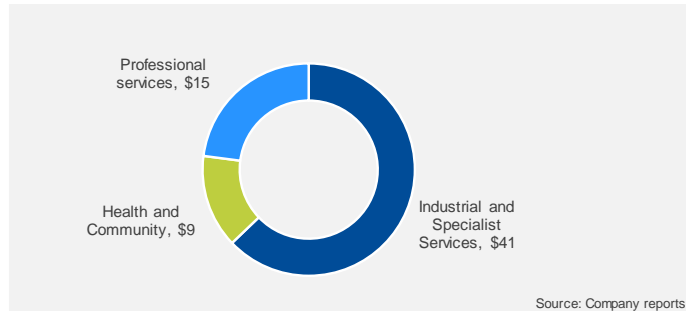
- PPE's earnings continued to weaken through Q1FY24, a trend we expect to remain for the majority of FY24, before returning to more normalised levels. So whilst we have reduced our forecast earnings and multiple to reflect a moderation in growth expectations, we still see cause for optimism longer term. The weaker operating environment has seen the share price decline c.50% in the past six months, a reflection of weaker operating conditions caused by reduced business confidence. To this end, the stock remains cheap on more mid-cycle earnings (FY25 PER-A: 7.8x | FY26 PER-A: 6.1x). On this basis, we retain our ADD rating pending a cyclical rebound, with a price target of \$1.85/share, derived by a weighted average of PER (70%) and DCF (30%).

PeopleIn

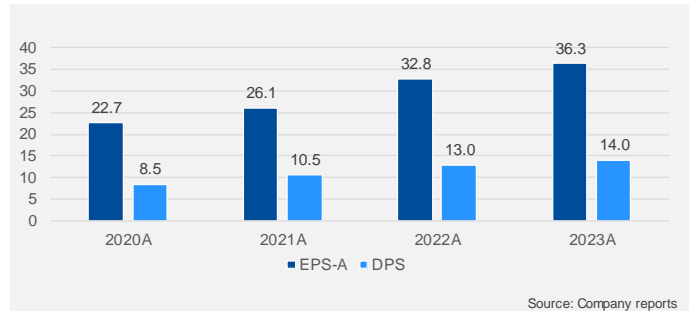
		as at November 28, 2023	
Price (A\$):	1.36	12-month target price (A\$):	1.85
Market cap (A\$m):	140.9	Up/downside to target price (%):	36.0
Free float (%):	67.8	Dividend yield (%):	5.8
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	41.8

People Infrastructure Ltd (PPE) is an Australian workforce management company that aims to deliver innovative solutions to the management of contracted workforces to Australian and New Zealand businesses. People Infrastructure provides contracted workforce and HR outsourcing services to enhance the HR function of its clients.

EBITDA by segment (A\$m) - FY23



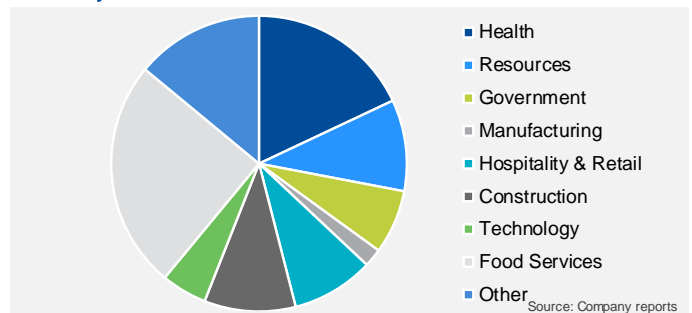
Historical EPS and DPS (cents)



Business snapshot



Sectors by GM contribution



Bull points

History of delivering strong earnings growth

PPE has grown earnings at c.20% year-in year-out, with FY23A EBITDA growing c.30% (8% organic).

Business continues to transition to more defensive sectors

Management remain focused on making the business more defensive, capable of navigating any potential downturn.

Growth opportunities remain

The opportunity under the Pacific Australia Labour Mobility (PALM) scheme is significant, with the Federal Government committed to jobs growth and the role of increasing migration.



Bear points

Employment market

Labour market conditions have rarely been better in Australia, this raises the question, how will PPE navigate an economic downturn?

Acquisitions

PPE has c.\$40m of debt capacity to undertake further acquisitions. Whilst this is a source of future earnings growth, it would take them to their target gearing level.

Migration and COVID risks

Whilst out of the company's hands, changes to migration rules has a direct impact on PPE. Likewise, the Government's response to COVID, namely lockdowns, has an adverse impact on PPE.



Environmental, Social and Governance



Exposure

PPE align to the UN sustainability goals, with three key pillars of focus; 1) First Nations People (750+ First Nations candidates placed in FY22), 2) Sustainability (4.8m trees planted in FY22) and 3) equity and inclusion (female participation, PALM community and NDIS support).

Management

PPE complies with the ASX Corporate Governance Council's corporate governance principles and recommendations.

Source: Morgans

Figure 1: Financial summary

Profit and Loss						Valuation details				Target			
	2022A	2023A	2024F	2025F	2026F								
Sales	(\$m)	682.3	1,186.4	1,178.6	1,211.5	1,264.7	Market cap	138.1	PER	70.0%	1.75		
Other income	(\$m)	0.3	0.2	0.0	0.0	0.0	Shares on issue (basic)	102	DCF	30.0%	2.03		
Operating Costs	(\$m)	(634.7)	(1,124.0)	(1,138.4)	(1,164.8)	(1,210.4)	A\$ Share Price						
EBITDA	(\$m)	47.9	62.6	40.2	46.8	54.3	1.36	A\$ Price Target				1.85	
Depreciation	(\$m)	(4.6)	(7.8)	(10.5)	(10.3)	(10.1)	Segment summary						
EBITA	(\$m)	43.3	54.8	29.7	36.5	44.2	2022A	2023A	2024F	2025F	2026F		
Amortisation	(\$m)	(6.5)	(9.2)	(8.2)	(9.2)	(9.0)	Revenue						
EBIT	(\$m)	36.8	45.6	21.4	27.3	35.1	Industrial and Specialist Services (\$m)	415.0	872.5	893.7	927.8	973.3	
Net Interest	(\$m)	(2.1)	(6.2)	(5.8)	(5.2)	(4.0)	Health and Community (\$m)	139.2	147.4	132.6	132.5	136.3	
Pre-tax Profit	(\$m)	34.6	39.5	15.6	22.1	31.1	Professional services (\$m)	128.2	166.4	152.2	151.2	155.1	
Tax	(\$m)	(8)	(9.6)	(4.7)	(6.6)	(9.3)	Unallocated (\$m)	0.0	0.0	0.0	0.0	0.0	
Underlying NPAT (100%)	(\$m)	26.2	29.9	11.0	15.4	21.8	Underlying revenue	(\$m)	682.3	1,186.4	1,178.6	1,211.5	1,264.7
Exceptional items	(\$m)	(7.8)	(9.4)	(6.8)	(5.3)	(5.3)	EBITDA						
Reported NPAT (100%)	(\$m)	18.4	20.5	4.2	10.2	16.5	Industrial and Specialist Services (\$m)	21.6	41.1	32.3	37.2	43.8	
Non-controlling interests	(\$m)	(0.7)	(1.5)	(1.7)	(1.8)	(1.9)	Health and Community (\$m)	12.0	9.3	5.1	6.3	6.8	
Underlying NPAT (equity)	(\$m)	25.5	28.4	9.2	13.6	19.9	Professional services (\$m)	17.6	15.0	6.3	7.4	8.5	
Underlying NPATA (equity)	(\$m)	31.9	37.6	17.5	22.9	28.9	Unallocated (\$m)	(3.3)	(2.8)	(3.6)	(4.2)	(4.8)	
Reported NPAT (equity)	(\$m)	17.7	19.0	2.4	8.4	14.6	Underlying EBITDA (100%)	(\$m)	47.9	62.6	40.2	46.8	54.3
Cashflow Statement							Underlying EBITDA (Equity)	(\$m)	47.2	61.1	38.5	45.0	52.4
EBITDA	(\$m)	47.9	62.6	40.2	46.8	54.3	Per share data						
Net interest	(\$m)	(2.1)	(4.7)	(5.0)	(4.5)	(3.3)	Diuted shares on issue (Qty)	101.0	104.4	107.1	110.8	114.5	
Tax	(\$m)	(13.9)	(9.8)	(4.7)	(6.6)	(9.3)	Normalised EPS (equity NPAT) (Cps)	26.2	27.4	8.7	12.5	17.6	
Other	(\$m)	(0.7)	(1.5)	(1.7)	(1.8)	(1.9)	Normalised EPS (equity NPATA) (Cps)	32.8	36.3	16.5	21.0	25.7	
Changes in working capital	(\$m)	(9.0)	18.5	(2.6)	(2.8)	(2.6)	Dividends per share (Cps)	13.0	14.0	7.6	8.1	8.6	
Operating cash flow	(\$m)	22.1	65.1	26.1	31.1	37.2	Reported payout ratio (%)	0.5	0.5	0.9	0.7	0.5	
Capex - maintenance	(\$m)	(4.5)	(4.3)	(3.5)	(3.0)	(3.1)	Key metrics/ multiples						
Free Cash Flow	(\$m)	17.6	60.8	22.6	28.1	34.2	P/E (x)	5.2	5.0	15.6	10.9	7.7	
Capex - growth	(\$m)	0.0	0.0	0.0	0.0	0.0	PEG (x)	0.4	(0.1)	0.4	0.3	0.7	
Acquisitions	(\$m)	(49.8)	(17.1)	(14.8)	(9.4)	0.0	EV/EBIT (x)	5.8	4.1	9.0	6.9	4.8	
Divestments	(\$m)	0.0	0.1	0.0	0.0	0.0	EV/EBITDA (x)	4.4	3.0	4.8	4.0	3.1	
Other	(\$m)	(0.1)	0.3	0.0	0.0	0.0	Dividend Yield (%)	9.6	10.3	5.6	6.0	6.4	
Investing cash flows	(\$m)	(54.3)	(21.1)	(18.3)	(12.4)	(3.1)	Growth ratios						
Increase / decrease in Equity	(\$m)	0.3	0.0	0.0	0.0	0.0	Sales (%)	53.6	73.9	(0.7)	2.8	4.4	
Increase / decrease in Debt	(\$m)	55.8	(17.8)	(3.7)	(23.8)	(23.9)	Operating costs (%)	56.2	77.1	1.3	2.3	3.9	
Dividends paid	(\$m)	(10.6)	(12.7)	(7.8)	(8.6)	(9.5)	EBITDA (%)	25.6	30.7	(35.8)	16.4	16.1	
Other financing cash flows	(\$m)	0.0	0.0	0.0	0.0	0.0	EBIT (%)	17.2	24.0	(53.0)	27.3	28.8	
Financing cash flows	(\$m)	45.6	(30.5)	(11.5)	(32.4)	(33.4)	NPAT (%)	25.1	14.2	(63.4)	40.9	41.0	
Increase/decrease in cash	(\$m)	13.3	13.5	(3.7)	(13.7)	0.8	EPS (%)	20.3	4.7	(68.2)	43.6	41.0	
Balance Sheet							DPS (%)	23.8	7.7	(45.7)	7.1	6.2	
Assets							Free cash flow (%)	164.2	245.9	(62.8)	24.2	21.7	
Cash	(\$m)	27.0	39.9	35.4	20.9	20.9	Margin and return analysis						
Debtors	(\$m)	107.5	120.3	128.8	135.3	141.3	EBITDA Margin (%)	7.0	5.3	3.4	3.9	4.3	
Inventory	(\$m)	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	5.4	3.8	1.8	2.3	2.8	
Other current assets	(\$m)	12.2	3.5	3.5	3.5	3.5	NPAT margin (%)	3.8	2.5	0.9	1.3	1.7	
Total Current Assets	(\$m)	146.7	163.7	167.8	159.7	165.7	ROE (%)	20.4	19.8	6.8	9.4	12.7	
Fixed Assets	(\$m)	15.8	29.8	26.4	22.9	19.8	ROIC (%)	14.6	15.2	7.2	9.0	11.9	
Investments	(\$m)	0.1	0.0	0.0	0.0	0.0	Gearing						
Intangibles	(\$m)	202.0	203.2	209.7	209.9	200.9	Net Debt (incl leases) (\$)	84.6	73.2	77.6	72.1	52.2	
Other non-current assets	(\$m)	0.2	0.2	0.2	0.2	0.2	Net Debt (excl leases) (\$)	71.4	45.6	50.0	44.5	24.5	
Total Non-Current Assets	(\$m)	218.1	233.2	236.4	233.0	220.9	Net Debt / Equity (%)	50.2	28.5	31.0	26.8	13.9	
TOTAL ASSETS	(\$m)	364.8	396.9	404.1	392.8	386.5	Net Debt / EBITDA (x)	1.5	0.7	1.2	1.0	0.5	
Liabilities							EBIT interest cover (x)	17.1	7.4	3.7	5.2	8.7	
Short Term Debt	(\$m)	32.6	27.9	0.0	0.0	0.0	Invested Capital (%)	213.7	205.6	211.4	210.9	201.3	
Creditors	(\$m)	51.0	66.6	72.5	76.1	79.5	Enterprise Value (%)	212.1	187.1	193.3	188.1	168.4	
Other current liabilities	(\$m)	36.6	45.2	42.5	42.5	42.5	Result quality						
Total Current Liabilities	(\$m)	120.2	139.7	114.9	118.6	121.9	Cash flow conversion (%)	79.6	125.9	87.2	88.4	90.3	
Long Term Debt	(\$m)	65.7	57.5	85.4	65.4	45.4	FCF vs NPAT (x)	1.0	2.9	5.3	2.7	2.0	
Other Non current liabilities	(\$m)	36.5	39.6	42.4	42.4	42.4	Effective tax rate (%)	24.4	24.2	30.0	30.0	30.0	
Total Non-Current liabilities	(\$m)	102.2	97.1	127.8	107.8	87.8	Equity						
TOTAL LIABILITIES	(\$m)	222.4	236.9	242.7	226.4	209.7	Issued capital (\$m)	101.5	107.6	112.6	117.6	122.6	
Equity							Retained earnings (\$m)	32.8	38.1	32.7	32.4	37.5	
Other reserves and FX (\$m)	5.5	10.9	10.9	10.9	10.9	Other reserves and FX (\$m)	5.5	10.9	10.9	10.9	10.9		
Minority interests (\$m)	2.6	3.4	5.2	5.5	5.7	Minority interests (\$m)	2.6	3.4	5.2	5.5	5.7		
TOTAL EQUITY	(\$m)	142.4	160.0	161.4	166.4	176.8							

Source: Morgans estimates, company data

Earnings changes

Figure 2: Earnings changes

Segment summary		2024F	2024F	2024F		2025F	2025F	2025F		2026F	2026F	2026F
		Pre	Post	Chg		Pre	Post	Chg		Pre	Post	Chg
Revenue												
Industrial and Specialist Services	(\$m)	877.3	893.7	1.9%		905.1	927.8	2.5%		949.4	973.3	2.5%
Health and Community	(\$m)	135.3	132.6	-2.0%		138.5	132.5	-4.4%		143.4	136.3	-4.9%
Professional services	(\$m)	152.2	152.2	0.0%		153.9	151.2	-1.8%		158.8	155.1	-2.3%
Unallocated	(\$m)	0.0	0.0	0.0%		0.0	0.0	0.0%		0.0	0.0	0.0%
Underlying revenue	(\$m)	1,164.8	1,178.6	1.2%		1,197.6	1,211.5	1.2%		1,251.6	1,264.7	1.0%
EBITDA												
Industrial and Specialist Services	(\$m)	37.3	32.3	-13.4%		40.7	37.2	-8.7%		45.1	43.8	-2.8%
Health and Community	(\$m)	6.1	5.1	-16.2%		7.6	6.3	-17.4%		8.2	6.8	-17.3%
Professional services	(\$m)	10.1	6.3	-37.1%		11.0	7.4	-32.2%		11.9	8.5	-28.4%
Unallocated	(\$m)	(3.0)	(3.6)	-20.2%		(3.3)	(4.2)	-26.1%		(3.6)	(4.8)	-33.2%
Total EBITDA (underlying)	(\$m)	50.5	40.2	-20.4%		56.0	46.8	-16.5%		61.6	54.3	-11.8%
Underlying EBITDA (Equity)	(\$m)	48.8	38.5	-21.2%		54.3	45.0	-17.1%		59.7	52.4	-12.2%
Per share data												
Shares on issue (end) (Diluted)	(Qty)	106.3	107.1	0.8%		108.9	110.8	1.8%		111.5	114.5	2.7%
NPATA (underlying) - equity	(CPS)	23.5	16.5	-29.7%		27.4	21.0	-23.5%		31.0	25.7	-17.3%
NPAT (underlying) - equity	(CPS)	15.7	8.7	-44.3%		18.5	12.5	-32.2%		22.5	17.6	-21.5%
Distributions	(CPS)	12.1	7.6	-37.2%		12.7	8.1	-35.6%		13.2	8.6	-34.3%
Payout ratio	(%)	0.8	0.9	12.7%		0.7	0.7	-5.0%		0.6	0.5	-16.3%
Profit and Loss												
Sales	(\$m)	1,164.8	1,178.6	1.2%		1,197.6	1,211.5	1.2%		1,251.6	1,264.7	1.0%
Other income	(\$m)	0.0	0.0	n.a		0.0	0.0	n.a		0.0	0.0	n.a
Operating Costs	(\$m)	(1,114.3)	(1,138.4)	2.2%		(1,141.6)	(1,164.8)	2.0%		(1,190.0)	(1,210.4)	1.7%
EBITDA	(\$m)	50.5	40.2	-20.4%		56.0	46.8	-16.5%		61.6	54.3	-11.8%
Depreciation	(\$m)	(10.5)	(10.5)	0.0%		(10.3)	(10.3)	0.0%		(10.1)	(10.1)	0.3%
EBITA	(\$m)	40.0	29.7	-25.8%		45.8	36.5	-20.2%		51.5	44.2	-14.2%
Amortisation	(\$m)	(8.2)	(8.2)	0.0%		(9.6)	(9.2)	-4.3%		(9.4)	(9.0)	-4.1%
EBIT	(\$m)	31.8	21.4	-32.5%		36.1	27.3	-24.4%		42.1	35.1	-16.4%
Net Interest	(\$m)	(6.0)	(6.0)	-0.2%		(5.4)	(5.4)	-0.3%		(4.2)	(4.2)	-0.4%
Pre-tax Profit	(\$m)	25.8	15.5	-40.0%		30.7	21.9	-28.7%		37.8	31.0	-18.2%
Tax	(\$m)	(7.8)	(4.7)	-39.8%		(9.3)	(6.6)	-28.6%		(11.4)	(9.3)	-18.2%
Underlying NPAT (100%)	(\$m)	18.0	10.8	-40.2%		21.5	15.3	-28.7%		26.4	21.6	-18.2%
Exceptional items	(\$m)	(5.7)	(6.8)	19.9%		(4.3)	(5.3)	23.7%		(4.3)	(5.3)	23.6%
Reported NPAT (100%)	(\$m)	12.3	4.0	-67.8%		17.2	10.0	-41.7%		22.2	16.4	-26.2%
Non-controlling interests	(\$m)	(1.7)	(1.7)	1.9%		(1.8)	(1.8)	2.6%		(1.8)	(1.9)	2.6%
Reported NPAT (equity)	(\$m)	10.6	2.2	-79.0%		15.5	8.2	-46.7%		20.3	14.5	-28.8%
Underlying NPATA (equity)	(\$m)	24.7	17.5	-29.4%		29.5	22.9	-22.5%		34.2	28.9	-15.4%
Underlying NPAT (equity)	(\$m)	16.5	9.2	-44.1%		19.9	13.6	-31.4%		24.8	19.9	-19.7%
Reported NPAT (equity)	(\$m)	10.8	2.4	-77.6%		15.6	8.4	-46.4%		20.5	14.6	-28.8%
Diluted shares on issue	(Qty)	106.3	107.1	0.8%		108.9	110.8	1.8%		111.5	114.5	2.7%
Normalised EPS (equity NPAT)	(Cps)	15.7	8.7	-44.3%		18.5	12.5	-32.2%		22.5	17.6	-21.5%
Normalised EPS (equity NPATA)	(Cps)	23.5	16.5	-29.7%		27.4	21.0	-23.5%		31.0	25.7	-17.3%
Dividends per share	(Cps)	12.1	7.6	-37.2%		12.7	8.1	-35.6%		13.2	8.6	-34.3%
Net Debt (incl leases)	(\$)	74.1	77.6	4.8%		66.8	72.1	8.0%		45.1	52.2	15.6%
Net Debt (excl leases)	(\$)	46.4	50.0	7.7%		39.2	44.5	13.6%		41.0	24.5	-40.1%

Source: Morgans estimates, company data

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