

20 February 2023

## PeopleIn Limited (PPE)

BUY

Share Price: **A\$3.06**

Solid result, nursing recovery to underpin growth

Target Price: **A\$5.20**

We view PPE's 1H23 result as a solid performance driven by organic growth, particularly in ISS and a strong contribution from FIP. With a recovery in nursing to underpin growth in 2H23 and FY24, management expecting to deliver at the upper end of the FY23 guidance range plus highly attractive valuation metrics, the investment case remains compelling, in our view. We reiterate our BUY recommendation and trim our TP to \$5.20 (from \$5.55).

### Key takeaways from result

- PPE delivered a strong result with normalised EBITDA of \$32.5m (up 50.5%) ahead of our \$32.0m estimate. Organic growth was impressive contributing 21.3% to revenue and 11.8% to EBITDA.
- The performance of Industrial and Support Services (ISS) was a key feature of the result with our estimate of organic revenue growth at 25-30% plus an estimated >\$5m of EBITDA in the half from FIP.
- The nursing shortage negatively impacted Healthcare & Community. Encouragingly, billed hours were 13% higher in 2Q23 vs 1Q23. The demand/supply gap exceeds 15,000 hours pw of unfilled work which is clearly material given billed hours were 1.1m in the half.
- EBITDA in Professional Services grew ~13% on pcp to \$8.2m. We estimate that Perigon EBITDA was >\$3m implying a material decline in IT as demand for high margin permanent recruitment weakened. Management noted a pickup in cybersecurity and government work in 2H23.

### Investment case

- Management expects to be at the upper end of the FY23 EBITDA guidance range of \$62m-\$66m.
- We see recovery in nursing as a key driver of organic growth in 2H23 and FY24 given our estimate of a ~\$4m-\$5m EBITDA tailwind from this segment.
- Valuation metrics appear compelling at 7.8x FY23 EPS and a fully franked dividend yield of 5.1%.

### Financial summary

- We have increased our revenue forecasts and reviewed our assumptions around margins, working capital, capex and D&A. The net result is minimal change to EBITDA, a decline in EPS of 2.2% in FY23 and 3.6% in FY24 and a fall in our target price to \$5.20 (from \$5.55). We reiterate our Buy recommendation.

### Key catalyst ahead

- PPE has ~\$40m in balance sheet capacity to fund strategic opportunities in 2H23.

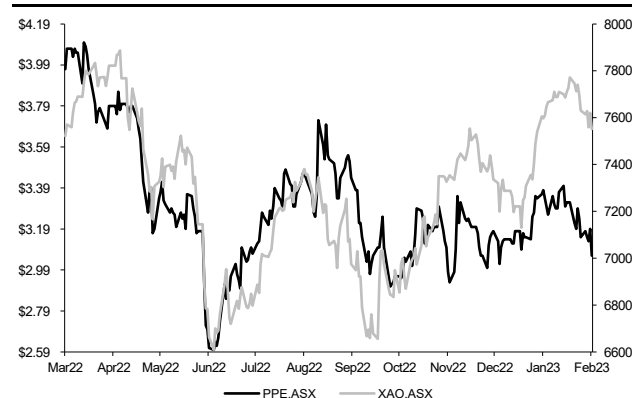
### Company Data

Shares – ordinary (M)	101.1
Dilution (M)	4.8
Total (fully diluted) (M)	105.9
Market capitalisation (\$M)	309.4
12 month low/high (\$)	2.49/ 4.26
Average monthly turnover (\$M)	12.5
GICS Industry	Professional Services

### Financial Summary (fully diluted/normalised)

Year end June	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue (\$M)	429.7	679.2	1195.3	1290.9	1374.8
Costs (\$M)	-391.6	-632.2	-1129.4	-1218.5	-1294.5
EBITDA (\$M)	38.0	47.0	65.8	72.4	80.3
NPATA (\$M)	25.0	31.2	40.8	44.8	50.8
EPS (¢ps)	26.1	32.0	39.2	42.6	48.0
EPS Growth (%)	14%	23%	23%	9%	13%
PER (x)	11.7	9.6	7.8	7.2	6.4
Free Cashflow (\$M)	6.3	17.6	32.6	33.9	52.1
FCFPS (¢ps)	6.2	17.4	32.3	33.6	51.6
P/FCFPS (x)	49.3	17.6	9.5	9.1	5.9
EV (\$M)	342.7	394.0	400.1	394.2	363.7
EV / EBITDA (x)	9.0	8.4	6.1	5.4	4.5
Payout ratio (%)	40%	41%	39%	39%	45%
Dividends (¢ps)	10.5	13.0	15.5	16.5	18.0
Yield (%)	3.4%	4.2%	5.1%	5.4%	5.9%
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.

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## Analysis

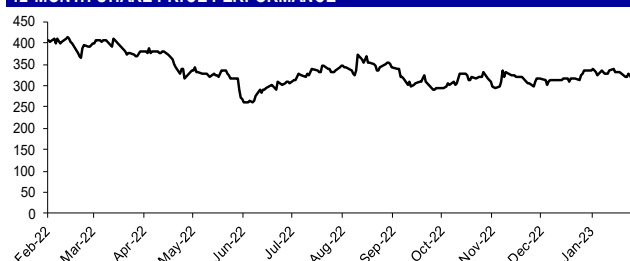
### PeopleIn Limited

Year end 30 June

#### MARKET DATA

Recommendation		Buy
Price	\$	3.06
Target price (12-month)	\$	5.20
52 week low / high	\$	2.49 / 4.26
Market capitalisation	\$m	309.4
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	29.9	35.7	42.7
NPATA (underlying)	\$m 25.0	31.2	40.8	44.8	50.8
EPS (Reported, undiluted)	¢ 19.3	18.6	29.7	34.9	41.6
EPS (NPATA, diluted)	¢ 26.1	32.0	39.2	42.6	48.0
Growth	% 14%	23%	23%	9%	13%
PER normalised	x 11.7	9.6	7.8	7.2	6.4
Operating cash flow per share	¢ 7.5	21.8	41.1	39.2	55.9
Free cash flow per share	¢ 6.2	17.4	32.3	33.6	51.6
Price to free cash flow per share	x 49.3	17.6	9.5	9.1	5.9
FCF yield	% 2.0	5.7	10.5	11.0	16.8
Dividend	¢ 10.5	13.0	15.5	16.5	18.0
Payout	% 40	41	39	39	38
Yield	% 3.4%	4.2%	5.1%	5.4%	5.9%
Franking	% 100.0	100.0	100.0	100.0	100.0
Enterprise value	\$m 342.7	394.0	400.1	394.2	363.7
EV/EBITDA	x 9.0	8.4	6.1	5.4	4.5
EV/EBIT	x 10.9	11.0	8.2	7.1	5.7
Price to book (NAV)	x 2.7	2.2	1.8	1.6	1.4
Price to NTA	x na	na	na	na	9.8

#### KEY RATIOS

	FY21A	FY22A	FY23F	FY24F	FY25F
EBITDA margin	% 8.9	6.9	5.5	5.6	5.8
EBIT margin	% 7.3	5.3	4.1	4.3	4.7
NPAT margin	% 5.8	4.6	3.4	3.5	3.7
ROE	% 21.8	21.9	24.0	23.3	23.2
ROA	% 11.5	8.6	10.0	10.9	12.5
Net debt / (cash)	\$m 25.2	71.4	64.4	57.6	26.2
Interest cover (EBIT / Net interest)	x 23.0	19.7	10.6	12.0	17.2
Leverage (Net debt / EBITDA)	x 0.7	1.5	1.0	0.8	0.3
Gearing (ND / (ND+E))	% 18%	33%	27%	23%	11%

#### DUPONT ANALYSIS

	FY21A	FY22A	FY23F	FY24F	FY25F
Net Profit Margin	% 5.8	4.6	3.4	3.5	3.7
Asset Turnover	x 2.0	1.9	2.9	3.1	3.4
Return on Assets	% 11.5	8.6	10.0	10.9	12.5
Financial Leverage	x 1.9	2.6	2.4	2.1	1.9
Return on Equity	% 21.8	21.9	24.0	23.3	23.2

#### GROWTH PROFILE

	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue	% 19.6	58.1	76.0	8.0	6.5
EBITDA	% 44.1	23.4	40.2	9.9	10.9
EBIT	% 43.1	14.5	36.8	12.8	15.7
NPATA	% 36.0	24.9	30.7	9.9	13.3
EPS (NPATA, diluted)	% 13.8	22.7	22.6	8.5	12.7

#### PROFIT AND LOSS (PF)

	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue	\$m 429.7	679.2	1,195.3	1,290.9	1,374.8
EBITDA	\$m 38.0	47.0	65.8	72.4	80.3
Depreciation & amortisation	\$m 6.7	11.1	16.8	17.1	16.3
EBIT	\$m 31.3	35.9	49.0	55.3	64.0
Net interest	\$m (1.5)	(2.1)	(5.5)	(5.4)	(4.2)
Pretax Profit	\$m 29.8	33.7	43.6	49.9	59.8
Tax expense	\$m (8.9)	(8.4)	(11.4)	(13.7)	(16.4)
NPAT	\$m 20.9	24.7	31.7	35.7	42.7
Amortisation add-back	\$m 4.1	6.5	9.1	9.2	8.1
NPATA	\$m 25.0	31.2	40.8	44.8	50.8
Significant items	\$m (3.1)	(7.1)	(1.8)	0.0	0.0
Reported NPAT	\$m 17.7	17.7	29.9	35.7	42.7

#### BALANCE SHEET

	FY21A	FY22A	FY23F	FY24F	FY25F
Cash	\$m 13.7	27.0	22.1	15.8	10.3
Receivables	\$m 76.0	107.5	141.7	163.9	174.6
Inventory	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 1.7	12.2	16.0	17.3	18.4
Current	\$m 91.4	146.7	179.8	197.0	203.3
Prop, plant & equip	\$m 9.1	15.8	26.2	20.8	16.4
Intangibles	\$m 116.9	202.0	201.0	195.0	187.5
Other	\$m 0.0	0.2	0.0	0.0	0.0
Non current	\$m 126.0	218.1	227.2	215.8	203.9
Total assets	\$m 217.4	364.8	407.0	412.8	407.2
Accounts Payable	\$m 33.7	51.0	69.3	74.9	79.7
Borrowings	\$m 39.0	98.4	86.6	73.4	36.6
Lease liabilities	\$m 8.0	13.2	26.2	27.2	28.0
Other	\$m 22.1	60.0	55.0	45.0	43.7
Total liabilities	\$m 102.8	222.4	237.1	220.5	188.0
Shareholder's equity	\$m 114.6	142.4	169.9	192.3	219.2

#### 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)	(15.2)	(16.7)	(5.8)
Net interest	\$m (1.5)	(2.1)	(4.0)	(5.4)	(4.2)
Tax paid	\$m (11.2)	(13.9)	(9.6)	(13.7)	(16.4)
Other	\$m 0.2	(3.3)	4.4	3.0	2.7
Operating cash flow	\$m 7.6	22.1	41.5	39.6	56.5
Capex	\$m (0.8)	(2.4)	(4.0)	(2.5)	(3.8)
Acquisitions	\$m (22.0)	(49.6)	(10.1)	(10.0)	(4.0)
Purchase of intangibles	\$m (0.5)	(2.1)	(4.9)	(3.2)	(0.6)
Investing cash flow	\$m (23.3)	(54.3)	(19.1)	(15.7)	(8.4)
Equity issuance	\$m 0.6	0.3	0.0	0.0	0.0
Change in financial liabilities	\$m 4.3	55.8	(14.3)	(12.1)	(36.1)
Dividends / other	\$m (7.1)	(10.6)	(13.2)	(18.1)	(17.6)
Financing cash flow	\$m (2.1)	45.6	(27.5)	(30.2)	(53.6)
Net cash flow	\$m (17.8)	13.3	(5.0)	(6.3)	(5.5)
Free cash flow	\$m 6.3	17.6	32.6	33.9	52.1

Source: Petra Capital



20 February 2023

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