

Firing on all fronts

PeopleIn held an Investor Day to discuss their FY23-FY25 strategy and current market conditions. PPE confirmed operating conditions remain highly positive, driven by the continuing tight labour market, with each of the three verticals experiencing solid organic growth. The H&C vertical continues to see an acute shortfall in nursing supply, underscoring the need for a potential acquisition to expand its international health recruitment network. The company confirmed its FY23 EBITDA guidance range of \$62-66m. We retain our Overweight rating, with PPE offering 62% TSR at our revised \$5.17 price target.

Key Points

Investor Day: This provided a good opportunity to meet the CEOs of the three verticals, who have all had long tenure within PPE and/or their underlying business and appear united behind the Group strategy. PPE outlined its FY23-FY25 strategy at the group and vertical level, discussed current market conditions and outlined key success indicators. We summarise the takeaways for each vertical on pages 3-4.

PPE confirmed its medium-term group targets of a 7% EBITDA margin and government work to represent ~20% of gross margin. We forecast group EBITDA margin to decline from 6.9% in FY22 to 6.1% in FY23E, largely driven by FIP. Therefore, reaching the 7% target will likely require a higher margin acquisition(s) – the company confirmed it is looking at opportunities in the international nursing recruitment/network sector and in government professional services.

Federal Budget: The Oct 25th budget contained several initiatives likely to boost demand across PPE's core sectors, including: *aged care* - requirement for 24/7 registered nurse attendance and min. 215min care/day/resident; *disability care* - extra \$8.8bn NDIS funding over 4 years (vs. May-22 budget); *nursing* - rollout of Medicare urgent care clinics; *childcare* - increasing the maximum subsidy to 90%; *FIP* - expansion of the PALM scheme. Regarding the government's intention to reduce reliance on external contractors and consultants, PPE is confident the impact on its IT business will be limited given existing skills shortages and the high level of new tenders.

Skills report: PPE also summarised the key findings of the 2022 Skills Priority List (SPL) released by the National Skills Commission on 6 Oct. The SPL concluded that 286 (or 31%) of the 914 occupation categories are currently in shortage, with professionals (incl. IT workers), healthcare and technicians & trades (all core PPE sectors) among the occupation groups with the most acute demand for workers. The proportion of occupation types within these groups currently in shortage has increased materially from 2021, with professionals at 39% (+20%), healthcare at 20% (+12%), and technicians & trades at 47% (+5%).

Forecasts and valuation: Given PPE did not provide a formal trading update, our forecasts are unchanged pending an update at the company's AGM on 14 Nov. Our valuation is set at the average of our DCF (\$5.53/sh) and EV/EBITDA (\$4.81) analyses. Our FY23 EV/EBITDA multiple, set at the mid-point of the domestic and int'l peer group, falls from 9.5x to 9.0x given the pullback in APM, the key domestic peer. As a result our PT decreases 2.5% to \$5.17/sh.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	429.7	679.2	1,040	1,136	1,241
EBITDA norm (\$m)	38.0	47.2	63.3	68.8	73.2
Consensus EBITDA (\$m)			63.4	68.7	73.0
EPS norm (cents)	22.8	26.8	27.3	33.1	37.8
EV/EBITDA (x)	10.3	8.3	6.0	5.3	4.8
P/E (x)	13.9	11.8	11.6	9.5	8.4
Dividend yield (%)	3.3	4.1	5.1	6.0	6.4

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
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Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$5.17
Share price @ 28-Oct-22 (AUD)	\$3.29
Forecast 12-mth capital return	57.1%
Forecast 12-mth dividend yield	4.9%
12-mth total shareholder return	62.0%

Market cap (\$m)	331.7
Enterprise value (\$m)	403.1
Shares on issue (m)	100.8
Sold short (%)	0.0
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.6

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12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	2.6	(16.0)	(25.5)
Rel return (%)	(2.4)	(9.9)	(17.9)

Key changes		29-Aug	After	Var %
EBITDA	FY23E	63.3	63.3	0%
norm	FY24E	68.8	68.8	0%
(\$m)	FY25E	73.2	73.2	0%
EPS	FY23E	27.4	27.3	-0%
norm	FY24E	33.3	33.1	-1%
(cents)	FY25E	38.0	37.8	-1%
Price target		5.30	5.17	-2%
Rating		O/W	O/W	

Business Description

PeopleIn Ltd (PPE) is a talent solutions and HR outsourcing company with operations across Australia, Singapore and New Zealand. The company's main activities include contract hire and permanent recruitment. PPE services a diverse range of sectors, including health & community care, technology, accounting & finance, government, food services, early learning, resources & renewables, hospitality & retail, construction and manufacturing.

Catalysts

(i) Rebound in skilled inbound immigration (e.g. UK/Ireland nurses); (ii) cross sell across each Vertical (e.g. accounting/IT roles into industrial clients); (iii) expansion in WA/SA/Singapore; (iv) leveraging PALM scheme capability into disability & aged care; (v) further acquisitions.

P&L (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	429.7	679.2	1,040	1,136	1,241
EBITDA norm	38.0	47.2	63.3	68.8	73.2
EBIT norm	31.3	36.1	44.1	52.7	58.9
PBT norm	29.8	33.9	37.6	46.4	53.1
NPAT norm	20.9	25.5	27.2	33.4	38.1
NPAT reported	17.7	17.7	23.4	29.6	34.3
EPS norm (cents)	22.8	26.8	27.3	33.1	37.8
DPS (cents)	10.5	13.0	16.0	19.0	20.1

Growth (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	19.6	58.1	53.2	9.2	9.2
EBITDA norm	32.8	23.9	34.1	8.7	6.5
NPAT norm	46.2	22.1	6.9	22.6	14.1
EPS norm (cents)	21.1	17.8	1.8	21.4	14.1
DPS (cents)	23.5	23.8	23.0	19.1	5.4

Margins and returns (%)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA margin	8.9	6.9	6.1	6.1	5.9
EBIT margin	7.3	5.3	4.2	4.6	4.7
PBT margin	6.9	5.0	3.6	4.1	4.3
NPAT margin	4.9	3.8	2.6	2.9	3.1
ROA	14.4	9.9	11.4	13.1	13.9
ROIC	22.4	16.9	20.3	24.6	27.4
ROE	18.2	17.9	17.4	19.8	20.7

Interims (\$m)	2H21A	1H22A	2H22A	1H23E	2H23E
Sales	242.6	314.5	364.6	508.7	531.6
EBITDA norm	17.1	21.6	25.6	31.0	32.3
EBIT norm	13.5	16.6	19.5	20.9	23.2
PBT norm	12.6	15.5	18.4	17.7	19.8
NPAT norm	9.1	10.9	14.5	12.9	14.3
NPAT reported	6.0	4.3	13.4	11.0	12.4
EPS norm (cents)	9.8	11.6	15.0	12.9	14.2
DPS (cents)	6.0	6.5	6.5	7.9	8.1

Stock specific	FY21A	FY22A	FY23E	FY24E	FY25E
ISS revenue (\$m)	251.2	415.0	712.1	777.6	849.2
H&C revenue (\$m)	132.7	139.2	152.1	166.1	181.4
PS revenue (\$m)	60.4	128.2	176.1	192.3	210.0
ISS EBITDA (\$m)	16.7	21.6	35.6	38.9	42.5
H&C EBITDA (\$m)	16.7	12.0	12.9	14.1	15.4
PS EBITDA (\$m)	8.3	17.6	24.7	26.9	27.8
NPATA norm (\$m)	25.0	31.9	39.9	42.7	45.0

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
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Investment Thesis

PPE confirmed at its Investor Day that all verticals are performing strongly with solid organic growth. The H&C Vertical, while recovering from the covid-impacted FY22, is impacted from the current shortage in nurses, with immigration rebounding albeit slowly. We are attracted to the company's exposure to defensive growth sectors, which have a favourable long-term employment growth outlook. We rate PPE Overweight, offering a 62% TSR at our \$5.17 PT.

Risks

(i) Loss of market share to existing or new competitors; (ii) RBA tightening cycle leads to a material economic slowdown; (iii) worsening of constrained candidate market (e.g. immigration takes longer to recover than expected).

Balance sheet (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	13.7	27.0	30.8	39.4	47.7
Current receivables	76.0	107.5	135.2	147.7	161.3
Current inventory	0.0	0.0	0.0	0.0	0.0
PPE	9.1	15.9	16.6	18.4	20.3
Intangibles	116.9	202.0	192.3	185.2	180.6
Other assets	1.7	12.4	12.4	12.4	12.4
Total assets	217.4	364.8	387.4	403.1	422.3
Current payables	33.7	51.0	76.7	83.8	91.6
Total debt	39.0	98.4	92.1	84.9	78.1
Other liabilities	27.3	68.3	58.3	60.9	63.4
Total liabilities	102.8	222.4	231.3	234.2	238.1
Minorities	2.4	2.6	3.3	4.0	4.8
Shareholders equity	112.2	139.8	152.8	164.8	179.4

Cash flow (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating cash flow	7.6	22.1	42.5	41.5	43.9
Maintenance capex	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Free cash flow	7.5	21.8	42.2	41.3	43.6
Growth capex	(1.2)	(4.2)	(4.9)	(4.2)	(4.6)
Acquisitions/disposals	(22.0)	(49.8)	(9.0)	0.0	0.0
Dividends paid	(7.1)	(10.6)	(14.4)	(17.6)	(19.8)
Other cash flow	(1.8)	(3.6)	(3.8)	(3.7)	(4.1)
Cash flow pre-financing	(24.6)	(46.5)	10.1	15.8	15.2
Funded by equity	0.6	0.3	0.0	0.0	0.0
Funded by cash/debt	17.1	(13.6)	(3.8)	(8.6)	(8.3)

Liquidity	FY21A	FY22A	FY23E	FY24E	FY25E
Cash conversion (%)	53.5	80.8	91.6	87.2	87.5
Net debt (\$m)	25.2	71.4	61.3	45.5	30.4
Net debt / EBITDA (x)	0.7	1.5	1.0	0.7	0.4
ND / ND + Equity (%)	18.1	33.4	28.2	21.2	14.1
EBIT / Interest expense (x)	20.2	16.8	6.8	8.3	10.3

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV / Sales (x)	0.9	0.6	0.4	0.3	0.3
EV / EBITDA (x)	10.3	8.3	6.0	5.3	4.8
EV / EBIT (x)	12.5	10.8	8.6	6.9	5.9
P / E (x)	13.9	11.8	11.6	9.5	8.4
P / BV (x)	2.6	2.2	2.0	1.9	1.7
FCF yield (%)	2.6	7.0	13.3	13.0	13.7
Dividend yield (%)	3.3	4.1	5.1	6.0	6.4
Payout ratio (%)	46.1	48.5	58.6	57.5	53.1
Franking (%)	100.0	100.0	100.0	100.0	100.0
Weighted shares (m)	91.7	95.0	99.8	100.8	100.8

Investor Day summary

Professional Services vertical – Technology

Takeaways

The Technology business (primarily Halcyon Knights) currently has ~100 internal staff and ~400 contractors. Recruitment volumes are currently at approx. a 70/30 permanent/contracting mix. Halcyon intends to shift this towards contracting representing the majority of volumes, to drive greater predictability of earnings.

Halcyon Knights has more than doubled EBITDA (excluding the impact of business integrations) from ~\$4m at the time of its acquisition by PPE in May 2019. Growth initiatives are focused on the government and education sector, its executive search offering, and expansion into WA & SA.

PPE has recently hired a GM, Government role to drive their government business (primarily via the GMT brand). PPE believes the federal government's intention to reduce reliance on external labour is unlikely to have a material impact on government technology contracting, given the heightened demand for this sector, skills shortages within the public sector and the current high levels of tenders outstanding.

FY23-25 target success factors

- 150+ staff, 1,000+ contractors
- Growth in government and education business by ~200%
- Executive Search offering growth
- Expansion into WA/SA delivering a national presence

Professional Services vertical – Perigon (financial services)

Takeaways

Recruitment volumes currently at an approx. 75/25 permanent/contracting mix (historically 55/45 permanent/contracting), reflecting the current hot market for financial services (accounting & finance) roles.

Perigon is strong in middle and back office roles within CFO, CIO and COO departments – the business has executive recruitment capability, however is looking to build this, as well as introducing a consulting capability.

Strong growth since acquisition by PPE in February 2022 – Perigon has increased staff from 30 at time of acquisition to 40 today (35 fee earners), with staff turnover currently well below 10%. Significant growth opportunity ahead, in particular in Melbourne.

Despite the building macro risks, Perigon is not seeing any weakening in demand from its client base.

FY23-25 target success factors

- 60+ staff; 250+ contractors
- 50/50 permanent/contracting mix
- Dominant position across eastern seaboard and expansion into Asia

Healthcare & Community vertical

Takeaways

The H&C vertical is facing an acute supply issue, with significantly more demand than they are able to fill. International nursing and carer staff supply continues to increase (now ~400 vs. ~300 in August), but will likely take 2-3 years to reach pre-covid levels of ~1,500. Given the ~3 month lead time for working holiday visa arrivals, and 4-6 months for sponsored arrivals, the benefit of increased government investment in visa processing capacity will likely begin to occur by end CY22.

Currently, PPE relies on a small number of partners and also word of mouth for its inbound international nursing recruitment. The company is seeking to significantly expand its international nursing and health network, to drive a material uplift in recruitment volumes. PPE has indicated it is investigating potential acquisition opportunities in this space.

FY23-25 target success factors

- National presence via expansion into WA/SA and major regional hubs across NSW, VIC and QLD
- Establishment of international health recruitment network

| Industrial & Specialist Services vertical

Takeaways

FIP's (food processing brand) current intake of PALM scheme workers is approx. 100-200 per month, with approx. 5,500 workers currently on its books. While this is approx. 20% share of the entire PALM scheme workforce of ~29k, FIP only utilises the long-term scheme (3-4 years), and has >50% share of this segment. There are over 40k pre-screened potential PALM scheme workers awaiting receipt of a visa. FIP is seeing elevated demand, so is seeking to secure as many of these workers as possible.

Techforce has broadened its offering away from purely mining-related work to also include food processing and other industrial and specialist sectors, by utilising the broader capability within PPE. Significant back office synergies have also been achieved within this business.

FY23-25 target success factors

- Geographic expansion of brand offerings; build out AWX Executive capability
- Grow government sector share of work to 20% (transport and infrastructure projects)
- Remain diversified with no sector exposure >25%

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