

Pricing in a recession

PPE reported a complex 1H23 result in which strong performance from recent acquisitions FIP Group and Perigon, and impressive organic growth from the Industrial & Specialist (ISS) vertical, led to a positive beat on earnings (EBITDA \$32.5m +5.0% vs. WILSe \$31.0m). Partly offsetting this however was a weak Professional Services (PS) vertical result, in which margin compression caused by sector-wide contraction led to a material EBITDA miss (\$8.2m vs. WILSe \$12.1m). Ultimately we see this as validation of the company's diversified model, in which temporary weakness in one sector is typically offset by better conditions across the remaining sectors. PPE continues to trade at a material discount to our intrinsic (DCF) and multiples based valuation, pricing in employment conditions substantially worse than those likely to occur over the medium term. Retain Overweight, offering 61% TSR to our revised \$4.77 PT (prev. \$5.17).

Key Points

1H23 result. Sales of \$597m, +89% on pcp and +17.3% vs. WILSe, with 21% organic growth on pcp and excellent performance from FIP and Perigon. ISS EBITDA of \$20.7m, +109% on pcp and +18.8% vs. WILSe, driven by FIP and broad-based organic growth. Health & Comm. (H&C) EBITDA of \$5.7m, -9.7% on pcp and -9.4% vs. WILSe, impacted by the continued delay in visa processing and investment in UK marketing. PS EBITDA of \$8.2m, +12.9% on pcp but -32% vs. WILSe, with strong growth from Perigon partly offsetting IT weakness. NPATA norm of \$20.8m, +49% on pcp and +5.4% vs. WILSe. Interim dividend of 7.0cps (pcp: 6.5cps) vs. WILSe 7.9cps.

Outlook. PPE reaffirmed its FY23 EBITDA guidance range of \$62-66m and stated that it expects to be at the upper end, based on a continuation of current trading conditions. The company noted the continuing significant staff shortages across its core sectors of healthcare, professional services and industrials, and that it expects visa processing times to improve over 2H23.

Forecasts. Sales upgraded 14-17%, primarily off the higher base from ISS growth in 1H23. We reduce our organic growth forecast to 7.7% in FY24 and 7.1% in FY25 (prev. 9.2% in both years). EBITDA increased 3-5% driven by FIP (higher base) and lower corporate costs, partly offset by reduced EBITDA margins in the PS vertical, which assume a permanent shift in job mix towards contracting volumes. EPS lifted 11% in FY23, due to the slower rate of amortisation of intangibles in 1H23 vs. prior years, but only 1-2% in FY24-FY25 due to higher D&A and interest costs.

Valuation. Our PT of \$4.77 p/share (prev. \$5.17) remains based on the average of our DCF and EV/EBITDA valuations. Our DCF reduces to \$524m (prev. \$570m), with higher FCF offset by an increase in our RFR to 3.5% (prev. 3.0%) and cost of debt to 5.5% (prev. 5.0%). Our EV/EBITDA valuation falls to \$468m (prev. \$495m) driven by a lower FY23 multiple (8.3x), in line with PPE's international peers. PPE is trading at a FY23 EV/EBITDA multiple of 6.0x, a material discount to its ave 1-yr fwd multiple of 9.2x since IPO. FY23E EBITDA would have to fall 27% (to \$48.0m) from our current estimate (\$65.3m) to trade at the average of its peers. We believe the discount is unjustified, and supports our view that PPE is already pricing in recessionary conditions.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	429.7	679.2	1,219	1,315	1,409
EBITDA norm (\$m)	38.0	47.2	65.3	71.9	76.9
Consensus EBITDA (\$m)			63.2	68.4	72.6
EPS norm (cents)	22.8	26.8	30.4	33.8	38.0
EV/EBITDA (x)	8.9	8.1	6.0	5.4	4.8
P/E (x)	13.4	11.4	10.1	9.0	8.0
Dividend yield (%)	3.4	4.2	4.7	5.6	6.0

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Wilsons Equity Research

Analyst(s) who owns shares in the Company: n/a Issued by Wilsons Advisory and Stockbroking Limited (Wilsons) ABN 68 010 529 665 – Australian Financial Services Licence No 238375, a participant of ASX Group and should be read in conjunction with the disclosures and disclaimer in this report. Important disclosures regarding companies that are subject of this report and an explanation of recommendations can be found at the end of this document.

Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$4.77
Share price @ 17-Feb-23 (AUD)	\$3.06
Forecast 12-mth capital return	55.9%
Forecast 12-mth dividend yield	5.2%
12-mth total shareholder return	61.0%

Market cap (\$m)	309.1
Enterprise value (\$m)	383.5
Shares on issue (m)	101.0
Sold short (%)	0.3
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 (%)	(9.5)	(11.6)	(25.0)
Rel return (%)	(9.7)	(14.3)	(25.5)

Key changes		31-Oct	After	Var %
EBITDA	FY23E	63.3	65.3	3%
norm	FY24E	68.8	71.9	5%
(\$m)	FY25E	73.2	76.9	5%
EPS	FY23E	27.3	30.4	11%
norm	FY24E	33.1	33.8	2%
(cents)	FY25E	37.8	38.0	1%
Price target		5.17	4.77	-8%
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	1,219	1,315	1,409
EBITDA norm	38.0	47.2	65.3	71.9	76.9
EBIT norm	31.3	36.1	48.6	55.2	60.9
PBT norm	29.8	33.9	42.3	48.1	54.2
NPAT norm	20.9	25.5	30.7	34.2	38.5
NPAT reported	17.7	17.7	27.7	31.1	35.3
EPS norm (cents)	22.8	26.8	30.4	33.8	38.0
DPS (cents)	10.5	13.0	14.4	17.0	18.4

Growth (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	19.6	58.1	79.4	7.9	7.1
EBITDA norm	32.8	23.9	38.4	10.1	7.0
NPAT norm	46.2	22.1	20.6	11.5	12.5
EPS norm (cents)	21.1	17.8	13.3	11.3	12.5
DPS (cents)	23.5	23.8	10.9	18.1	7.8

Margins and returns (%)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA margin	8.9	6.9	5.4	5.5	5.5
EBIT margin	7.3	5.3	4.0	4.2	4.3
PBT margin	6.9	5.0	3.5	3.7	3.8
NPAT margin	4.9	3.8	2.5	2.6	2.7
ROA	14.4	9.9	10.8	12.0	12.8
ROIC	22.4	16.9	19.8	21.7	23.8
ROE	18.2	17.9	18.6	18.8	19.2

Interims (\$m)	1H22A	2H22A	1H23A	2H23E	1H24E
Sales	314.5	364.6	594.4	624.3	646.2
EBITDA norm	21.6	25.6	32.5	32.8	35.4
EBIT norm	16.6	19.5	24.4	24.2	26.8
PBT norm	15.5	18.4	21.6	20.8	23.2
NPAT norm	10.9	14.5	16.2	14.5	16.5
NPAT reported	4.3	13.4	13.8	14.0	14.9
EPS norm (cents)	11.6	15.0	16.2	14.3	16.3
DPS (cents)	6.5	6.5	7.0	7.4	8.4

Stock specific	FY21A	FY22A	FY23E	FY24E	FY25E
ISS revenue (\$m)	251.2	415.0	889.9	960.0	1,028
H&C revenue (\$m)	132.7	139.2	158.1	170.6	182.7
PS revenue (\$m)	60.4	128.2	172.9	184.4	197.5
ISS EBITDA (\$m)	16.7	21.6	42.4	45.7	49.0
H&C EBITDA (\$m)	16.7	12.0	12.6	14.5	15.5
PS EBITDA (\$m)	8.3	17.6	16.5	18.4	19.7
NPATA norm (\$m)	25.0	31.9	39.7	43.1	46.4

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Investment Thesis

The attractiveness of PPE's business model lies in its diversification, in which weakness in one sector (e.g. Health FY22, IT 1H23) is typically offset by better conditions across the remaining sectors. In addition, several of the company's core sectors have a favourable long-term employment growth outlook (incl. nursing, financial services, food processing, child care and renewables). We rate PPE Overweight, offering a 61% TSR at our \$4.77 PT.

Risks

(i) Loss of market share to existing or new competitors; (ii) RBA tightening cycle leads to a material economic slowdown; (iii) protracted weakness in IT employment market.

Balance sheet (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	13.7	27.0	31.9	32.8	43.4
Current receivables	76.0	107.5	172.2	185.4	198.6
Current inventory	0.0	0.0	0.0	0.0	0.0
PPE	9.1	15.9	29.2	30.8	30.3
Intangibles	116.9	202.0	200.0	193.6	188.3
Other assets	1.7	12.4	16.1	16.1	16.1
Total assets	217.4	364.8	449.5	458.8	476.7
Current payables	33.7	51.0	90.7	97.5	104.4
Total debt	39.0	98.4	112.0	105.3	98.6
Other liabilities	27.3	68.3	72.9	66.2	65.6
Total liabilities	102.8	222.4	284.0	276.7	275.8
Minorities	2.4	2.6	3.5	4.9	6.2
Shareholders equity	112.2	139.8	161.9	177.3	194.7

Cash flow (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating cash flow	7.6	22.1	30.4	43.0	46.8
Maintenance capex	(1.3)	(4.5)	(8.3)	(5.4)	(5.2)
Free cash flow	6.3	17.6	22.1	37.6	41.7
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals	(22.0)	(49.8)	(10.7)	(7.0)	0.0
Dividends paid	(7.1)	(10.6)	(13.1)	(16.0)	(17.9)
Other cash flow	(1.8)	(3.6)	(7.0)	(7.0)	(6.5)
Cash flow pre-financing	(24.6)	(46.5)	(8.7)	7.6	17.3
Funded by equity	0.6	0.3	0.0	0.0	0.0
Funded by cash/debt	17.1	(13.6)	(5.0)	(0.9)	(10.6)

Liquidity	FY21A	FY22A	FY23E	FY24E	FY25E
Cash conversion (%)	53.5	80.8	65.0	88.1	89.2
Net debt (\$m)	25.2	71.4	80.1	72.5	55.2
Net debt / EBITDA (x)	0.7	1.5	1.2	1.0	0.7
ND / ND + Equity (%)	18.1	33.4	32.6	28.5	21.6
EBIT / Interest expense (x)	20.2	16.8	7.8	7.8	9.2

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV / Sales (x)	0.8	0.6	0.3	0.3	0.3
EV / EBITDA (x)	8.9	8.1	6.0	5.4	4.8
EV / EBIT (x)	10.8	10.6	8.1	7.0	6.1
P / E (x)	13.4	11.4	10.1	9.0	8.0
P / BV (x)	2.5	2.1	1.9	1.7	1.5
FCF yield (%)	2.2	5.8	7.1	12.1	13.5
Dividend yield (%)	3.4	4.2	4.7	5.6	6.0
Payout ratio (%)	46.1	48.5	47.5	50.3	48.3
Franking (%)	100.0	100.0	100.0	100.0	100.0
Weighted shares (m)	91.7	95.0	101.1	101.2	101.2

1H23 Results Review

Figure 1: Summary of PPE's 1H23 result

Y/E Jun, AUD		1H22A	2H22A	1H23A	Growth (pcp)	WILSe	Var.
Revenue							
Industrial & Specialist vertical	\$m	190.3	224.7	434.1	128.1%	348.2	24.7%
Health & Community vertical	\$m	71.5	67.6	77.1	7.8%	74.4	3.7%
Professional Services vertical	\$m	54.0	74.2	85.4	58.2%	86.1	(0.8%)
Group revenue	\$m	315.8	366.5	596.6	88.9%	508.7	17.3%
EBITDA							
Industrial & Specialist vertical	\$m	9.9	11.7	20.7	109.4%	17.4	18.8%
Health & Community vertical	\$m	6.3	5.6	5.7	(9.7%)	6.3	(9.4%)
Professional Services vertical	\$m	7.3	10.4	8.2	12.9%	12.1	(31.9%)
Corporate	\$m	(8.1)	(2.9)	(3.8)	53.1%	(6.4)	40.1%
EBITDA rep	\$m	15.3	24.9	30.8	100.7%	29.4	4.7%
Normalisations:							
Acquisition costs	\$m	0.3	0.4	0.4		-	
Share-based payments	\$m	1.4	1.9	2.6		1.9	
Fair value mvmt in conting. consid.	\$m	4.9	(1.4)	(0.6)		-	
Other	\$m	(0.3)	(0.2)	(0.6)		(0.4)	
EBITDA norm	\$m	21.6	25.6	32.5	50.5%	31.0	5.0%
EBITDA norm, incl. share-based pmnts	\$m	20.2	23.7	29.9	48.5%	29.1	3.0%
EBIT norm	\$m	16.6	19.5	21.8	31.7%	20.9	4.4%
NPAT norm	\$m	10.9	14.5	16.2	48.1%	12.9	25.7%
NPATA norm	\$m	13.9	18.0	20.8	49.0%	19.7	5.4%
EPS norm (basic)	cps	11.6	15.2	16.2	39.1%	12.9	25.3%
NPATA/sh norm (basic)	cps	14.8	18.8	20.8	40.0%	19.8	5.0%
DPS	cps	6.5	6.5	7.0	7.7%	7.9	(11.4%)
ROE (NPATA)	%	24.0%	27.7%	28.2%	4.2%	27.4%	0.8%
Net debt	\$m	29.2	71.4	71.5	(144.5%)	53.0	(34.8%)
Net debt / EBITDA norm	x	0.76	1.51	1.23	(0.47)	0.94	(0.29)
Operating cash flow	\$m	11.1	10.9	19.5	75.1%	29.4	(33.5%)
Change in working capital	\$m	(5.0)	(9.3)	(10.3)	(106.1%)	7.1	
Free cash flow	\$m	9.7	7.9	14.1	45.5%	26.8	(47.4%)
Operating cash conversion	%	118%	81%	79%	(38.9%)	123%	(44.6%)

Source: PPE, Wilsons.

Income Statement

Sales of \$597m increased 89% on pcp and was 17% above our forecast. PPE again registered strong organic growth of 21% on pcp. Recently acquired businesses FIP and Perigon continued their impressive growth, while the Health & Community vertical increased revenue by 7.4% on pcp (+3.7% vs. WILSe), with billed hours in 2Q23 lifting by 13% on 1Q23 driven by improved visa processing times.

EBITDA reported of \$30.8m increased 101% on pcp and was 4.7% above our forecasts, driven by the Industrial & Specialist Services vertical and lower corporate costs. Results by Vertical included:

- Industrial & Specialist (ISS): \$20.7m, up 109% on pcp and +18.8% vs. WILSe. The biggest driver was FIP (~\$5.5m EBITDA), which is well on track to exceed its FY23 EBITDA budget of ~\$9.5m and therefore be eligible for the first earnout payment in 1H24. However, when backing out FIP the ISS vertical still achieved growth of ~54% on pcp, with strong organic growth enjoyed by Vision Surveys and ExpectAStar (early learning) among others.

- Health & Community (H&C): \$5.7m, down 9.7% on pcp and -9.4% vs. WILSe. The H&C Vertical was impacted in 1H23 by the continued delay in visa processing and investment in UK/overseas marketing to attract international nurses. We are confident the H&C vertical will return to EBITDA growth in 2H23, given visa processing times improved in 2Q23, new client wins and impressive growth from the regional/rural nursing business.
- Professional Services (PS): \$8.2m, up 12.9% on pcp but -32% vs. WILSe. PPE was negatively impacted by the broad IT sector weakness that emerged throughout 1H23, with EBITDA margin for the vertical falling to 9.6% (pcp 13.5%). The business also saw a shift from higher margin permanent recruitment volumes towards lower margin contracting volumes. Partly offsetting this weakness was the performance of Perigon, which contributed ~\$3.0m EBITDA, placing it well on track to exceed its FY23 budget of \$4.3m. Perigon is due to be paid its first earnout payment at the end of Feb-23.

EBITDA norm of \$32.5m increased 50% on pcp and was 5.0% ahead of our forecasts. Organic growth contributed 11.8% to 1H23 EBITDA norm growth.

NPATA norm of \$20.8m increased 49% on pcp and was 5.4% ahead of our forecasts.

NPATA norm per share (basic) of 20.8cps increased 40% on pcp and was 5.0% above our forecasts.

PeopleIn declared an interim dividend of 7.0cps (pcp: 6.5cps), below our forecast of 7.9cps. This represents a payout ratio of 34% of normalised NPATA (WILSe 40%).

Cash Flow

Operating cash flow of \$19.5m increased 75% on pcp but was 34% below our forecast, with continued organic growth and strong growth from both FIP and Perigon requiring investment in working capital. Operating cash conversion of 79% fell from 118% in pcp due to the change in working capital.

Balance Sheet

Net debt at Dec-22 of \$71.5m, \$18.4m higher than WILSe, due to PPE drawing down on its working capital facility. Net debt to EBITDA now stands at 1.23x, well below the company's covenant of 3.0x, and also below its new preferred 2.0x internal limit (prev. 1.5x). PPE estimates it has ~\$40m balance sheet capacity to fund acquisition and growth opportunities while staying within its preferred ND/EBITDA limit.

ROE (NPATA) increased by 4.2% on pcp to 28.2%, +0.8% relative to WILSe.

Earnings Outlook

Guidance and Outlook

PPE reaffirmed its FY23 EBITDA guidance range of \$62-66m and stated that it expects to be at the upper end. Factors underscoring this confidence include continued strong growth across the ISS vertical, further improvement in visa processing times for international nurses and carers for the H&C vertical, and a stabilisation in trading conditions for the PS vertical.

Changes to our Forecasts

Sales upgraded 14-17%, primarily off the higher base from ISS vertical growth achieved in 1H23. H&C vertical revised upward slightly on confirmation of faster visa processing times. We reduce our organic growth assumption across all 3 verticals to 7.7% in FY24 and 7.1% in FY25 (prev. 9.2% in both years).

EBITDA upgraded 3-5% driven by FIP (higher base) and lower corporate costs, partly offset by reduced EBITDA margins in the PS vertical, which assumes a permanent shift in job mix towards contracting volumes.

NPAT norm lifted 13% in FY23, due to the slower rate of amortisation of intangibles in 1H23 vs. prior years, but only 1-3% in FY24-FY25 due to higher D&A and interest costs.

Figure 2: Summary of changes to our forecasts

Y/E Jun, AUD	FY23			FY24			FY25			
	Old	New	% chg	Old	New	% chg	Old	New	% chg	
Revenue										
Industrial & Specialist	\$m	712.1	889.9	25.0%	777.6	960.0	23.5%	849.2	1,028.4	21.1%
Health & Community	\$m	152.1	158.1	4.0%	166.1	170.6	2.7%	181.4	182.7	0.7%
Professional Services	\$m	176.1	172.9	(1.8%)	192.3	184.4	(4.1%)	210.0	197.5	(6.0%)
Group revenue	\$m	1,040.3	1,220.9	17.4%	1,136.0	1,315.0	15.8%	1,240.5	1,408.6	13.5%
EBITDA margins										
Industrial & Specialist	%	5.0%	4.8%	(0.2%)	5.0%	4.8%	(0.2%)	5.0%	4.8%	(0.2%)
Health & Community	%	8.5%	8.0%	(0.5%)	8.5%	8.5%	-	8.5%	8.5%	-
Professional Services	%	14.0%	9.6%	(4.4%)	14.0%	10.0%	(4.0%)	13.2%	10.0%	(3.2%)
EBITDA rep										
Industrial & Specialist	\$m	35.6	42.4	19.1%	38.9	45.7	17.6%	42.5	49.0	15.4%
Health & Community	\$m	12.9	12.6	(2.5%)	14.1	14.5	2.7%	15.4	15.5	0.7%
Professional Services	\$m	24.7	16.5	(33.0%)	26.9	18.4	(31.5%)	27.8	19.7	(29.0%)
Corporate	\$m	(13.0)	(7.8)	(39.9%)	(14.2)	(8.6)	(39.3%)	(15.5)	(9.2)	(40.9%)
Group EBITDA rep	\$m	60.2	63.7	5.9%	65.7	70.1	6.6%	70.2	75.1	7.0%
EBITDA norm	\$m	63.3	65.3	3.2%	68.8	71.9	4.5%	73.2	76.9	5.0%
NPAT norm	\$m	27.2	30.7	12.8%	33.4	34.2	2.5%	38.1	38.5	1.0%
NPATA norm	\$m	39.9	39.7	(0.4%)	42.7	43.1	0.9%	45.0	46.4	3.3%
EPS norm (basic)	cps	27.3	30.4	11.3%	33.1	33.8	2.2%	37.8	38.0	0.7%
NPATA/sh norm (basic)	cps	40.0	39.3	(1.7%)	42.3	42.6	0.6%	44.6	45.9	2.9%
DPS	cps	16.0	14.4	(9.8%)	19.0	17.0	(10.6%)	20.1	18.4	(8.5%)

Source: Wilsons.

Revised Forecasts

Figure 3: Summary of our revised forecasts

		FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
Revenue											
Industrial & Specialist	\$m	-	-	206.7	251.2	415.0	889.9	960.0	1,028.4	1,085.7	1,140.6
Health & Community	\$m	-	-	113.7	132.7	139.2	158.1	170.6	182.7	192.9	202.7
Professional Services	\$m	-	-	49.9	60.4	128.2	172.9	184.4	197.5	208.5	219.0
Corporate	\$m	-	-	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group revenue	\$m	-	-	371.2	444.3	682.3	1,220.9	1,315.0	1,408.6	1,487.0	1,562.3
Revenue growth											
Industrial & Specialist	%	-	-	-	21.5%	65.2%	114.5%	7.9%	7.1%	5.6%	5.1%
Health & Community	%	-	-	-	16.7%	4.9%	13.6%	7.9%	7.1%	5.6%	5.1%
Professional Services	%	-	-	-	21.0%	112.4%	34.9%	6.6%	7.1%	5.6%	5.1%
EBITDA rep											
Industrial & Specialist	\$m	-	-	16.4	16.7	21.6	42.4	45.7	49.0	51.7	54.3
Health & Community	\$m	-	-	15.2	16.7	12.0	12.6	14.5	15.5	16.4	17.2
Professional Services	\$m	-	-	7.1	8.3	17.6	16.5	18.4	19.7	20.8	21.9
Corporate	\$m	-	-	(7.9)	(6.7)	(11.0)	(7.8)	(8.6)	(9.2)	(9.6)	(10.1)
Group EBITDA rep	\$m	-	-	30.8	35.0	40.2	63.7	70.1	75.1	79.3	83.4
EBITDA margin											
Industrial & Specialist	%	-	-	8.0%	6.7%	5.2%	4.8%	4.8%	4.8%	4.8%	4.8%
Health & Community	%	-	-	13.3%	12.6%	8.6%	8.0%	8.5%	8.5%	8.5%	8.5%
Professional Services	%	-	-	14.2%	13.8%	13.8%	9.6%	10.0%	10.0%	10.0%	10.0%
EBITDA norm	\$m	13.0	19.1	28.7	38.0	47.2	65.3	71.9	76.9	81.1	85.1
EBITDA norm, incl. share-based pmnt	\$m	12.8	18.8	28.2	36.9	43.8	62.2	68.8	73.8	78.0	82.0
NPAT norm	\$m	7.2	9.6	14.3	20.9	25.5	30.7	34.2	38.5	43.6	48.0
NPATA norm	\$m	8.9	12.1	18.2	25.0	31.9	39.7	43.1	46.4	49.9	53.2
EPS norm (basic)	cps	15.0	14.8	18.8	22.8	26.8	30.4	33.8	38.0	43.1	47.4
NPATA/sh norm (basic)	cps	18.6	18.5	24.0	27.3	33.6	39.3	42.6	45.9	49.3	52.5
DPS	cps	4.0	8.5	8.5	10.5	13.0	14.4	17.0	18.4	19.7	21.0
ROE (NPATA)	%	20.8%	21.7%	22.1%	23.9%	25.3%	26.3%	25.4%	25.0%	24.3%	23.3%
Net debt	\$m	7.1	13.4	(9.9)	25.2	71.4	80.1	72.5	55.2	34.7	12.2
Net debt / EBITDA norm	x	0.5	0.7	-0.3	0.7	1.5	1.2	1.0	0.7	0.4	0.1
Change in working capital	\$m	(3.2)	(4.1)	8.3	(31.9)	(14.3)	(25.0)	(6.4)	(6.3)	(5.3)	(5.0)
Free cash flow	\$m	5.7	9.9	26.0	6.3	17.6	22.1	37.6	41.7	45.8	48.9
Operating cash conversion	\$m	92%	81%	118%	58%	95%	67%	90%	91%	93%	94%

Source: PPE, Wilsons.

Valuation

Our 12-month target price of \$4.77 p/share (prev. \$5.17) remains based on the average of our DCF and EV/EBITDA valuations. Our DCF valuation has reduced to \$524m (prev. \$570m), with higher free cash flow offset by an increase in our risk free rate to 3.5% (prev. 3.0%), consistent with changes across Wilsons' coverage universe, and in our cost of debt to 5.5% (prev. 5.0%). Our EV/EBITDA valuation falls to \$468m (prev. \$495m) driven by the reduction in our FY23 EBITDA multiple to 8.3x, in line with the average of PPE's international peers.

PPE is trading at a FY23 EV/EBITDA multiple of 6.0x (consensus), a material discount to its average 1-yr fwd multiple of 9.2x since IPO (Fig 7), and offering a FY23 dividend yield of 4.7%. FY23E EBITDA would have to fall by 27% (to \$48.0m) from our current estimate (\$65.3m) in order to trade at the average of the company's international peers. We believe this discount is unjustified, and supports our view that PPE is already pricing in recessionary conditions.

Figure 4: DCF valuation

Y/E Jun, AUD					
Calculation			Assumptions		
PV of FCF (8yrs)	\$m	252.5	Risk free rate	%	3.5%
PV of terminal value	\$m	346.1	Equity risk premium	%	6.0%
Enterprise value	\$m	598.6	Beta (levered)	x	1.5
TV as % EV	%	58%	Cost of equity	%	12.5%
Net (debt) / cash	\$m	(71.5)	Cost of debt (pre tax)	%	5.5%
Minority interests	\$m	(2.9)	Target gearing (D/D+E)	%	15%
Equity value	\$m	524.3	Corporate tax rate	%	30%
SOI (fully diluted)	m	103.9	WACC (pre tax)	%	11.5%
Equity value p/share	\$	5.05	WACC (post tax)	%	11.2%
			Terminal growth rate	%	3.0%

Source: Wilsons.

Figure 5: EV/EBITDA valuation

Y/E Jun, AUD		
FY23E EBITDA norm	\$m	65.3
Multiple	x	8.3
EV/EBITDA growth ratio	x	0.22
Enterprise value	\$m	541.9
Less: net debt / (cash)	\$m	71.5
Less: minority interests	\$m	2.9
Equity value	\$m	467.6
SOI (fully diluted)	m	103.9
Equity value p/share	\$	4.50

Source: Wilsons.

Figure 6: Comparable company trading multiples

Company Name	Ticker	Curr.	Y/E	Mkt cap	EV	EV/EBITDA (x)			PER (x)			EBITDA Growth (%)			
						A\$m	A\$m	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2
PeopleIn Ltd	PPEAX	AUD	30-Jun	324	398	6.1x	5.5x	5.2x	10.1x	9.0x	8.0x	38%	10%	7%	18%
Domestic peers															
APM Human Services Int'l Ltd	APMAX	AUD	30-Jun	2,265	2,779	7.7x	6.6x	6.0x	12.9x	10.7x	9.6x	19%	16%	11%	14%
International peers															
Adecco Group AG	ADENS	CHF	31-Dec	9,227	13,540	9.1x	9.6x	8.9x	10.5x	11.9x	10.3x	(14%)	(6%)	8%	(4%)
Hays PLC	HAYSL	GBP	30-Jun	3,492	3,289	7.0x	6.9x	6.4x	14.5x	14.2x	12.3x	1%	1%	9%	4%
ManpowerGroup Inc	MAN	USD	31-Dec	6,434	6,955	7.8x	6.8x	5.6x	12.4x	10.4x	8.1x	(18%)	16%	20%	4%
Persol Holdings Co Ltd	2181.T	JPY	31-Mar	7,298	6,998	9.1x	8.2x	7.4x	20.2x	17.8x	15.0x	10%	11%	12%	11%
Randstad NV	RANDAS	EUR	31-Dec	16,821	18,172	8.4x	8.2x	7.5x	13.6x	13.0x	11.1x	(9%)	2%	9%	0%
Int'l group average						8.3x	8.0x	7.2x	14.2x	13.4x	11.4x	(6%)	5%	12%	3%

Source: Wilsons, Refinitiv (as at 17/2/23). PPE earnings multiples based on Wilsons estimates.

Figure 7: PPE 1-yr forward EV/EBITDA



Source: Refinitiv (as at 17/2/23).

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Recommendation structure and other definitions

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