

People Infrastructure Ltd

Industrials Human Resource & Employment Services
27 November 2023

BUY

Weakness persists as macro factors continue to weigh on demand

EVENT: AGM & 1Q TRADING UPDATE

1Q sales of \$281m (+3% pcp) and EBITDA (pre share based payments) of \$10m (-35% pcp) which implied an EBITDA margin of ~3.6% (vs. pcp ~5.5%). 1Q performance was impacted by a "significant decline in business confidence across multiple sectors", with management noting this decline had also been experienced by peers.

IMPACT

We assume 1Q EBITDA (inclusive of share-based payments) was ~\$9m. We reduce our FY24e EBITDA (incl. share-based payments) by 25% to \$36m (\$40m pre-share based payments). This implies 1Q's run-rate is broadly maintained across FY24 (2H weighting of ~51%).

INVESTMENT VIEW

Earnings have continued to deteriorate sequentially into 1Q FY24, with management noting many private clients have reduced their demands, especially regarding higher margin roles/permanent recruitment. Factors weighing on sector demand include inflationary pressures on corporate margins & end consumer demand, as well as uncertainty related to the proposed Industrial Relations Reform Bill. This is evident across peers such as Hays which experienced a 39% decline ANZ profitability in FY23, and a 17% decline in net fees in 1Q FY24 (incl 24% decline in permanent).

Within the industrial & specialist services division, ongoing growth in FIP is likely to be offset by weakness in other areas such as retail/hospitality. Visibility to a recovery in Tech remains poor, albeit much of the decline in permanent sales mix should have been felt by the end of 1H FY24. Across healthcare, while foreign nurses had grown back to 900 as at Jun'23 (vs. ~1,200 pre Covid), this has been partially offset by both domestic nurse resignations and tighter spending/delayed investment decisions across private hospitals.

Overall, while near-term macro-risks imply a re-basing of earnings in FY24e, this appears largely captured in the current valuation at ~8x FY24 P/E (vs. 5yr avg. ~12x). Our Buy rating and \$1.92 target price implies ~9x FY26 P/E.

COMPANY UPDATE

Ticker	PPE
Stock Price	\$1.46
Target Price	\$1.92
Forecast Capital Return	32.2%
Forecast Dividend Yield	8.8%
Estimated Total Return - 12Mth	40.9%

COMPANY MARKET DATA

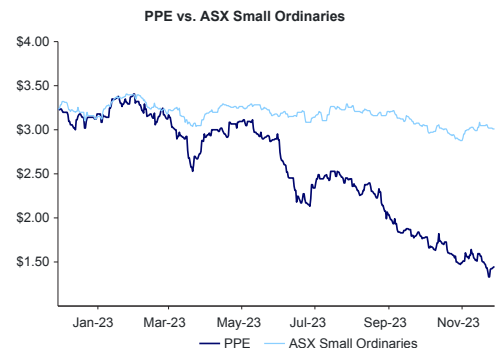
Market Cap	\$146.9m
Free Float (%)	80.0%
Enterprise Value	\$146.9m
Shares on issue	101.0m
52-wk Range	\$1.34 - \$3.45

ESTIMATE CHANGES 2023a 2024e 2025e 2026e

NPAT - new	32.7	18.8	19.8	23.4
NPAT - old	32.7	30.7	32.6	36.8
% Change	0.0%	(38.8)%	(39.2)%	(36.4)%

All figures are in AUD unless otherwise specified.

SHARE PRICE PERFORMANCE



ANALYST

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Y/E JUN 30	2023a	2024e	2025e	2026e
EBITDA	55.9	35.9	39.2	44.4
EV/EBITDA	2.6x	4.1x	3.7x	3.3x
NPAT	32.7	18.8	19.8	23.4
EPS (Diluted) (¢)	31.5	17.7	18.2	20.6
P/E	4.6x	8.2x	8.0x	7.0x
EPS growth	8.4%	(43.6)%	2.4%	13.6%
DPS (¢)	14.0	8.7	8.1	9.2
Yield	9.6%	6.0%	5.5%	6.3%

All figures are in AUD.

People Infrastructure Ltd (PPE)	Market Cap: \$146.9m	Stock Price: \$1.46	Target Price: \$1.92	Buy
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Y/E JUN 30

PROFIT & LOSS (\$)	2022A	2023A	2024E	2025E	2026E
Revenue	682.6	1,186.5	1,113.1	1,158.1	1,228.7
<i>Growth</i>	53.6%	73.8%	(6.2)%	4.0%	6.1%
EBITDA	43.8	55.9	35.9	39.2	44.4
<i>Growth</i>	19.4%	27.6%	(35.8)%	9.2%	13.3%
Dep'n & Amort.	(11.1)	(17.0)	(16.6)	(16.6)	(15.3)
EBIT	32.7	38.9	19.3	22.6	29.1
<i>Growth</i>	9.2%	18.9%	(50.4)%	17.4%	28.6%
Net interest Expense	(2.2)	(5.8)	(6.0)	(6.1)	(5.5)
Profit Before Tax	30.6	33.1	13.3	16.5	23.6
Tax	(8.5)	(9.6)	(3.8)	(4.8)	(6.9)
Tax Rate (%)	(27.8)%	(29.0)%	(28.9)%	(29.1)%	(29.2)%
NPAT (Underlying)	28.6	32.7	18.8	19.8	23.4
<i>Growth</i>	21.4%	14.3%	(42.5)%	5.6%	17.9%
One-Off Items	(3.7)	4.9	0.0	0.0	0.0
NPAT (Reported)	24.9	37.6	18.8	19.8	23.4
EPS Underlying (Diluted) (¢)	29.0	31.5	17.7	18.2	20.6
<i>Growth</i>	17.3%	8.4%	(43.6)%	2.4%	13.6%

BALANCE SHEET (\$)	2022A	2023A	2024E	2025E	2026E
Cash	27.0	39.9	25.0	25.0	25.0
Inventory	0.0	0.0	0.0	0.0	0.0
Current Receivable	107.5	120.2	114.1	119.3	127.2
PPE	15.8	29.8	35.0	35.8	37.0
Intangibles	58.3	54.2	44.9	36.8	30.1
Other	156.1	153.1	167.5	167.5	167.5
Total Assets	364.8	397.2	386.5	384.4	386.8
Current Payables	51.0	66.6	63.2	66.1	70.5
ST Debt	0.0	0.0	0.0	0.0	0.0
LT Debt	98.2	85.4	78.1	70.3	62.1
Provisions	58.1	56.4	56.4	56.4	56.4
Other	15.2	28.5	28.5	28.5	28.5
Total Liabilities	222.5	236.9	226.2	221.3	217.4
Net Assets	142.3	160.3	160.3	163.1	169.3
Equity & Reserves	107.0	118.5	118.5	118.5	118.5
Retained Profits	32.7	38.1	38.2	41.0	47.3
Shareholders' Equity	139.7	156.6	156.7	159.5	165.8
Minorities	2.6	3.4	3.4	3.4	3.4
Total Equity	142.3	160.0	160.1	162.9	169.2

CASHFLOW (\$)	2022A	2023A	2024E	2025E	2026E
EBITDA	43.8	55.9	35.9	39.2	44.4
Net Interest	(2.1)	(5.5)	(5.9)	(5.9)	(5.3)
Tax	(14.0)	(9.7)	(3.8)	(4.8)	(6.9)
Δ in Working Capital	(14.3)	3.0	2.7	(2.3)	(3.5)
Other	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	13.4	43.7	28.9	26.2	28.7
<i>Growth</i>	(267.6)%	226.5%	(33.8)%	(9.5)%	9.8%
Capex	(4.5)	(9.1)	(8.9)	(9.3)	(9.8)
Acquisitions	(50.0)	(12.3)	(18.0)	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.3	0.0	0.0	0.0
Investing Cash Flow	(54.3)	(21.1)	(26.9)	(9.3)	(9.8)
Equity Raised	0.3	0.0	0.0	0.0	0.0
Dividends Paid	(10.6)	(12.7)	(9.1)	(8.7)	(10.2)
Net Borrowings	59.5	(12.9)	(7.3)	(7.8)	(8.2)
Other	(3.7)	(4.9)	0.0	0.0	0.0
Financing Cash Flow	45.6	(30.5)	(16.4)	(16.5)	(18.5)
FX / Non Cash items	0.0	0.0	0.0	0.0	0.0
Change in Cash	4.6	(7.9)	(14.4)	0.4	0.4
Free Cash Flow	44.3	8.1	8.6	9.8	11.4

VALUATION SUMMARY	
Market Cap	\$146.9m
Shares on issue	101.0m
Stock Price	\$1.46
Target Price	\$1.92
Estimated Total Return - 12 Mth	40.9%
12 Mth Fwd Dividend Yield	8.8%

PERFORMANCE RATIOS	2022A	2023A	2024E	2025E	2026E
ROIC	9.5%	10.3%	4.1%	5.2%	7.5%
Net Debt (Cash) (\$m)	71.2	45.5	53.1	45.3	37.1
Net Debt/EBITDA (x)	1.6x	0.8x	1.5x	1.2x	0.8x
Working Capital/Sales (%)	5.4%	1.5%	1.4%	1.5%	1.7%

VALUATION RATIOS	2022A	2023A	2024E	2025E	2026E
EPS Underlying (Diluted) (¢)	29.0	31.5	17.7	18.2	20.6
<i>Growth</i>	17.3%	8.4%	(43.6)%	2.4%	13.6%
P/E (x)	5.0x	4.6x	8.2x	8.0x	7.0x
EV/EBITDA (x)	3.4x	2.6x	4.1x	3.7x	3.3x
DPS (¢)	13.0	14.0	8.7	8.1	9.2
<i>Growth</i>	18.2%	7.7%	(37.6)%	(7.7)%	13.8%
Yield	8.9%	9.6%	6.0%	5.5%	6.3%

CASH FLOW METRICS	2022A	2023A	2024E	2025E	2026E
FCF/Share (\$)	0.45	0.08	0.08	0.09	0.10
Price/FCPS (x)	3.2x	18.7x	17.9x	16.3x	14.5x
Capex/Sales (%)	(0.7)%	(0.8)%	(0.8)%	(0.8)%	(0.8)%
Capex/Depreciation (x)	0.4x	0.5x	0.5x	0.6x	0.6x

MARGINS	2022A	2023A	2024E	2025E	2026E
EBITDA	6.4%	4.7%	3.2%	3.4%	3.6%
EBIT	4.8%	3.3%	1.7%	2.0%	2.4%
NPAT	4.2%	2.8%	1.7%	1.7%	1.9%

VALUATION METHODOLOGY	
WACC	12.05%
Discounted Cash Flow Valuation/Share	\$2.01
Sum-of-the-Parts Valuation/Share	\$1.84
Average Valuation/Share	\$1.92
Target Price	\$1.92

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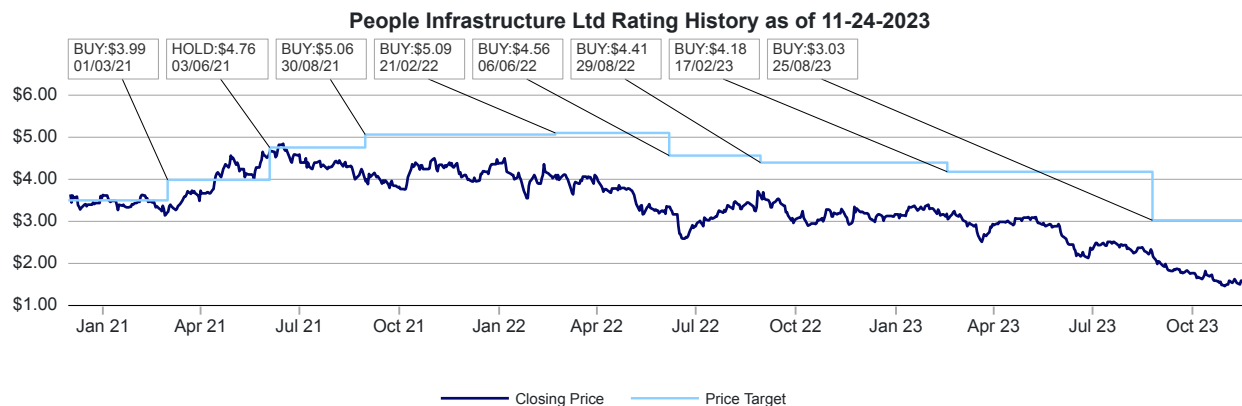
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