

28 August 2023

PeopleIn Limited (PPE)

Stock cheap on rebased earnings

We have rebased our earnings forecasts for PPE following an earnings miss in FY23. Despite FY24 looming as a broadly flat year, we see a partial recovery in nursing and potential for conditions in IT to improve in 2H24. With a PE of 6.6x and a supportive 6.4% ff dividend yield, we stay at BUY with a lower target price of \$3.50 (from \$4.20).

FY23 result – key takeaways

- PPE reported normalised EBITDA in FY23 of \$60.9m – a slight miss relative to the \$62m-\$66m guidance range first provided 12 months ago. This represents 29.6% growth on pcp including an organic contribution of 8.3%.
- Industrial and Support Services (ISS) was the key driver of the growth in earnings underpinned by a 121% increase in billed hours. This includes a strong full year contribution from FIP (at ~10.6m billed hours) while geographic expansions in Techforce and Expect A Star (early childhood staffing) also made solid contributions.
- Billed hours were flat in Healthcare & Community although EBITDA margin declined in 2H23 (5.1% vs 7.4% in 1H23) due in part to supply of lower margin junior staff in response to client demand.
- Within Professional Services, Perigon delivered record earnings while Halcyon Knights saw a significant shift from high margin permanent placements to lower margin contractors, particularly in 2H23.
- Strong cash collection was a feature of the result with trade receivables showing a 3% decline on pcp to \$89.4m despite a 75% increase in group revenue. This underpinned a near-tripling of operating cash flow and FY23 net debt of \$45.6m – below our \$71.4m estimate.

Changes to forecasts

- We have reduced FY24 and FY25 EBITDA by ~15% from \$70.5m to \$60.1m and from \$77.6m to \$65.9m respectively. EPS has been downgraded ~19% from 41.0c to 33.0c in FY24 and from 46.1c to 37.2c in FY25.
- We see group EBITDA margin in FY24 as down by ~15bps on FY23 but up by a similar margin on 2H23 driven by a partial recovery from 2H23 in Health & Community offset by some further weakness in Professional Services as IT contractors represent a greater proportion of positions filled.

Investment view

- While the downgrades are disappointing, we note that the trading multiple remains at a highly attractive level. On average, PPE trades at a 40% discount to the Small Industrials PE. This forms the basis for our target price of \$3.50 (from \$4.20). We reiterate our Buy recommendation.

BUY

Share Price: A\$2.18

Target Price: A\$3.50

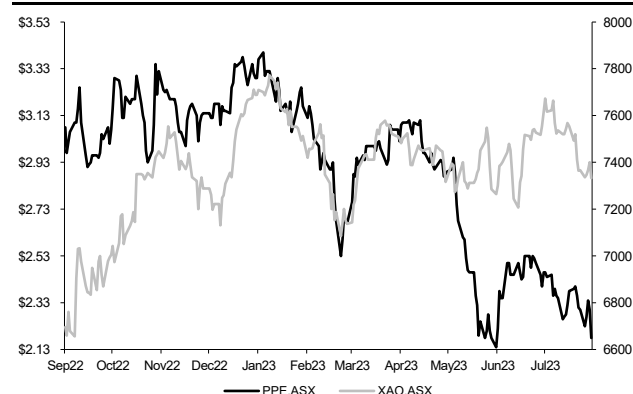
Company Data

Shares – ordinary (M)	101.6
Dilution (M)	3.1
Total (fully diluted) (M)	104.7
Market capitalisation (\$M)	221.4
12 month low/high (\$)	2.09/ 3.94
Average monthly turnover (\$M)	15.7
GICS Industry	Professional Services

Financial Summary (fully diluted/normalised)

Year end June	FY22A	FY23A	FY24F	FY25F	FY26F
Revenue (\$M)	679.2	1186.4	1203.0	1265.6	1321.3
Costs (\$M)	-632.2	-1125.5	-1142.9	-1199.7	-1248.6
EBITDA (\$M)	47.0	60.9	60.1	65.9	72.7
NPATA (\$M)	31.2	35.9	34.6	38.9	44.2
EPS (¢ps)	32.0	34.5	33.0	37.2	42.2
EPS Growth (%)	23%	8%	-4%	12%	14%
PER (x)	6.8	6.3	6.6	5.9	5.2
Free Cashflow (\$M)	17.6	55.3	23.7	34.0	41.5
FCFPS (¢ps)	17.3	54.4	23.3	33.5	40.9
P/FCFPS (x)	12.6	4.0	9.3	6.5	5.3
EV (\$M)	292.8	267.0	298.9	285.0	261.4
EV / EBITDA (x)	6.2	4.4	5.0	4.3	3.6
Payout ratio (%)	41%	41%	42%	40%	40%
Dividends (¢ps)	13.0	14.0	14.0	15.0	17.0
Yield (%)	6.0%	6.4%	6.4%	6.9%	7.8%
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

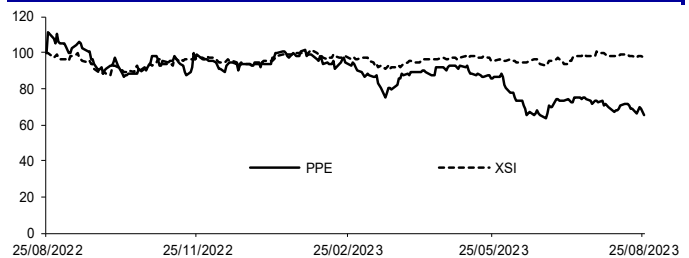
PeopleIn Limited

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	2.18
Target price (12-month)	\$	3.50
52 week low / high	\$	2.09 / 3.94
Market capitalisation	\$m	221.4
Shares on issue (basic)	no.	101.6
Options / rights	no.	3.1
Other equity	no.	0.0
Shares on issue (diluted)	no.	104.7

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	FY22A	FY23A	FY24F	FY25F	FY26F
NPAT (reported)	\$m 17.7	18.9	20.4	25.9	32.2
NPATA (underlying)	\$m 31.2	35.9	34.6	38.9	44.2
EPS (Reported, undiluted)	¢ 18.6	18.8	20.1	25.5	31.7
EPS (NPATA, diluted)	¢ 32.0	34.5	33.0	37.2	42.2
Growth	% 23%	8%	-4%	12%	14%
PER normalised	x 6.8	6.3	6.6	5.9	5.2
Operating cash flow per share	¢ 21.7	63.4	30.4	39.7	46.9
Free cash flow per share	¢ 17.3	54.4	23.3	33.5	40.9
Price to free cash flow per share	x 12.6	4.0	9.3	6.5	5.3
FCF yield	% 7.9	25.0	10.7	15.4	18.8

Dividend	¢	13.0	14.0	14.0	15.0	17.0
Payout	%	41	41	42	40	40
Yield	%	6.0%	6.4%	6.4%	6.9%	7.8%
Franking	%	100.0	100.0	100.0	100.0	100.0

Enterprise value	\$m	254.7	292.8	267.0	298.9	285.0
EV/EBITDA	x	5.4	4.8	4.4	4.5	3.9
EV/EBIT	x	7.1	6.7	6.3	6.1	5.1
Price to book (NAV)	x	1.6	1.4	1.3	1.2	1.1
Price to NTA	x	na	na	na	na	15.3

KEY RATIOS

	FY22A	FY23A	FY24F	FY25F	FY26F
EBITDA margin	% 6.9	5.1	5.0	5.2	5.5
EBIT margin	% 5.3	3.7	3.5	3.9	4.2
NPAT margin	% 4.6	3.0	2.9	3.1	3.3
ROE	% 21.9	22.4	20.3	21.2	22.1
ROA	% 8.6	9.0	8.9	10.1	11.7
Net debt / (cash)	\$m 71.4	45.6	48.8	34.1	9.9
Interest cover (EBIT / Net interest)	x 19.7	8.6	8.3	10.3	14.8
Leverage (Net debt / EBITDA)	x 1.5	0.7	0.8	0.5	0.1
Gearing (ND / (ND+E))	% 33%	22%	22%	16%	5%

DUPONT ANALYSIS

	FY22A	FY23A	FY24F	FY25F	FY26F
Net Profit Margin	% 4.6	3.0	2.9	3.1	3.3
Asset Turnover	x 1.9	3.0	3.1	3.3	3.5
Return on Assets	% 8.6	9.0	8.9	10.1	11.7
Financial Leverage	x 2.6	2.5	2.3	2.1	1.9
Return on Equity	% 21.9	22.4	20.3	21.2	22.1

GROWTH PROFILE

	FY22A	FY23A	FY24F	FY25F	FY26F
Revenue	% 58.1	74.7	1.4	5.2	4.4
EBITDA	% 23.4	29.6	(1.2)	9.7	10.3
EBIT	% 14.5	22.4	(3.1)	14.7	14.8
NPATA	% 24.9	14.9	(3.6)	12.5	13.6
EPS (NPATA, diluted)	% 22.7	7.9	(4.3)	12.5	13.6

PROFIT AND LOSS (PF)

	FY22A	FY23A	FY24F	FY25F	FY26F
Revenue	\$m 679.2	1,186.4	1,203.0	1,265.6	1,321.3
EBITDA	\$m 47.0	60.9	60.1	65.9	72.7
Depreciation & amortisation	\$m 11.1	17.0	17.6	17.1	16.7
EBIT	\$m 35.9	43.9	42.5	48.8	56.0
Net interest	\$m (2.1)	(6.2)	(6.2)	(5.6)	(4.3)
Pretax Profit	\$m 33.7	37.7	36.3	43.2	51.7
Tax expense	\$m (8.4)	(9.7)	(9.6)	(11.4)	(13.7)
NPAT	\$m 24.7	26.6	25.4	30.4	36.2
Amortisation add-back	\$m 6.5	9.2	9.2	8.5	8.0
NPATA	\$m 31.2	35.9	34.6	38.9	44.2
Significant items	\$m (7.1)	(7.7)	(5.0)	(4.5)	(4.0)
Reported NPAT	\$m 17.7	18.9	20.4	25.9	32.2

BALANCE SHEET

	FY22A	FY23A	FY24F	FY25F	FY26F
Cash	\$m 27.0	39.9	33.6	28.1	24.9
Receivables	\$m 100.9	98.4	108.3	116.4	122.9
Inventory	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 18.8	25.4	25.8	27.1	28.3
Current	\$m 146.7	163.7	167.6	171.6	176.1
Prop, plant & equip	\$m 15.8	29.8	25.4	20.6	15.4
Intangibles	\$m 202.0	203.2	197.2	191.2	185.9
Other	\$m 0.2	0.2	0.2	0.2	0.2
Non current	\$m 218.1	233.2	222.8	212.0	201.5
Total assets	\$m 364.8	396.9	390.5	383.7	377.5
Accounts Payable	\$m 51.0	66.6	67.5	69.6	71.3
Borrowings	\$m 98.4	85.4	82.4	62.2	34.8
Lease liabilities	\$m 13.2	27.6	28.6	29.4	30.0
Other	\$m 60.0	57.2	41.4	39.3	41.0
Total liabilities	\$m 222.4	236.9	219.9	200.5	177.2
Shareholder's equity	\$m 142.4	160.0	170.6	183.2	200.4

CASH FLOW

	FY22A	FY23A	FY24F	FY25F	FY26F
EBITDA	\$m 47.0	60.9	60.1	65.9	72.7
Change in working capital	\$m (5.5)	9.1	(8.9)	(6.1)	(4.7)
Net interest	\$m (2.1)	(5.4)	(6.2)	(5.6)	(4.3)
Tax paid	\$m (13.9)	(9.8)	(9.6)	(11.4)	(13.7)
Other	\$m (3.3)	9.6	(4.5)	(2.6)	(2.3)
Operating cash flow	\$m 22.1	64.4	30.9	40.3	47.7
Capex	\$m (2.4)	(4.3)	(4.0)	(3.8)	(3.5)
Acquisitions	\$m (50.0)	(12.4)	(10.0)	(4.0)	0.0
Purchase of intangibles	\$m (2.1)	(4.8)	(3.2)	(2.5)	(2.6)
Investing cash flow	\$m (54.3)	(21.1)	(17.2)	(10.3)	(6.1)
Equity issuance	\$m 0.3	0.0	0.0	0.0	0.0
Change in financial liabilities	\$m 55.8	(17.8)	(2.0)	(19.4)	(26.8)
Dividends / other	\$m (10.6)	(12.7)	(18.0)	(16.1)	(18.0)
Financing cash flow	\$m 45.6	(30.5)	(20.0)	(35.5)	(44.7)
Net cash flow	\$m 13.3	12.8	(6.3)	(5.5)	(3.2)
Free cash flow	\$m 17.6	55.3	23.7	34.0	41.5

Source: Petra Capital



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