

August 26, 2023

ADD (no change)

Stock code:	PPE AU
Price:	A\$2.18
12-month target price:	A\$3.70
Previous target price:	A\$4.00
Up/downside to target price:	69.7%
Dividend yield:	7.0%
12-month TSR*:	76.7%
Market cap:	A\$221m
Average daily turnover:	A\$0.7m
Index inclusion:	ALL ORDINARIES

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	-10.7	-24.6	-41.4	-22.1
Rel ASX/S&P200	-8.5	-25.2	-44.0	-39.3



Source: IRESS

Financial summary

	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue (A\$m)	1,186.4	1,278.0	1,381.2	1,458.8
EBITDA Norm (A\$m)	62.6	65.6	73.5	78.5
Net Profit (A\$m)	19.0	19.8	26.8	31.4
EPS Norm (A\$)	0.27	0.25	0.29	0.33
EPS Growth Norm (%)	4.7%	-9.5%	18.0%	12.5%
P/E Norm (x)	8.0	8.8	7.4	6.6
DPS (A\$)	0.14	0.15	0.16	0.17
Dividend Yield (%)	6.4%	6.9%	7.4%	7.9%
Franking (%)	100%	100%	100%	100%
EV/EBITDA (x)	4.3	4.2	3.5	2.9
Gearing (Net Debt/EBITDA)	0.73	0.70	0.44	0.04

Source: Company data, Morgans estimates

Related research
[PPE \(ADD - TP A\\$4.00\) - 31 May 2023](#)
[PPE \(ADD - TP A\\$4.90\) - 19 Feb 2023](#)
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Analyst(s) own shares in the following stocks mentioned in this report:

– N/A

PeopleIn

Growth continues, but at a moderated pace

- Whilst the result was a slight miss against guidance and Factset consensus, PPE continued to deliver earnings growth (FY23 EBITDA: +29.5%) through a combination of organic growth (+8.3%) and acquisitions (acquired c.\$15m of EBITDA in FY22). Despite FY23 presenting a number of operational challenges (nurse visa approval rates | IT recruitment), the company continued to see demand for its services, driven by continued low levels of unemployment, solid wage inflation and jobs growth across its diversified exposure to what remains a range of high demand sectors.
- At an FY24f PER (NPATA) of c.7.3x (8.8x NPAT), +90% cash conversion and growing organically at c.8% pa (plus acquisition growth) PPE remains cheap. It is on this basis that we retain our ADD rating with a slightly reduced target price of \$3.70/sh (previously \$4.00/sh).

Event – FY23 Result

- FY23 Normalised EBITDA of \$61.1m, was 3% below our expectations of \$63.0m and slightly below the earnings guidance which was reiterated in May-23 for normalised EBITDA of \$62m to \$66m, albeit PPE still grew EBITDA 29.5% (vs pcp). That aside, both NPAT and NPATA were in line with our expectations.
- Across the segments the notable strength was in the industrial and specialist division, which contributed to the organic EBITDA growth of 8%. Offsetting this was the weakness in health and community, which declined 22% (YoY) to be 18% below our expectations – a result of slower visa approvals for UK/Ireland nurses. Also of note was the 15% decline (YoY) in professional services EBITDA, which was impacted by lower IT recruitment.
- Net debt declined to \$45.6m (\$71m pcp), reflecting c.1x Net Debt (excluding leases) / EBITDA (pre-AASB16). Cash conversion remains strong, at 116.8% of Normalised EBITDA, and 149% of normalised NPATA.
- FY23 dividends of 14 cps reflect a current yield of c.6.4%.
- **Guidance: Whilst the company didn't provide FY24 guidance**, it did reiterate its FY23-25 strategic target for organic growth of +10% pa at a 7% EBITDA margin. By way of comparison, we forecast organic growth of c.5-7% pa (FY25/26f) with stabilised EBITDA margins of c.5.5% - pointing to the conservatism (and potential upside) to our earnings forecasts.

Analysis

- The growth in EBITDA was weaker than expected, especially when considering the business acquired c.\$15m of additional EBITDA during FY22. This aside, PPE was still able to grow organic EBITDA 8.3% and deliver a RoE of 25%, during a period which presented a number of operational challenges.
- Organic revenue growth and margins appear to be moderating, most notably within 'health and community' and 'professional services'. Something we expect to continue through 1HFY24, before improving in 2HFY23.

Forecast and valuation update

- **Earnings:** We have reduced our organic growth assumptions, along with our contingent income assumptions associated with historic acquisitions (ie earn outs still underway).
- **Valuation:** We adopt a 25% PER discount to the ASX 300 index (previously 25%), whilst our DCF cost of capital assumptions also remains broadly unchanged.

Investment view

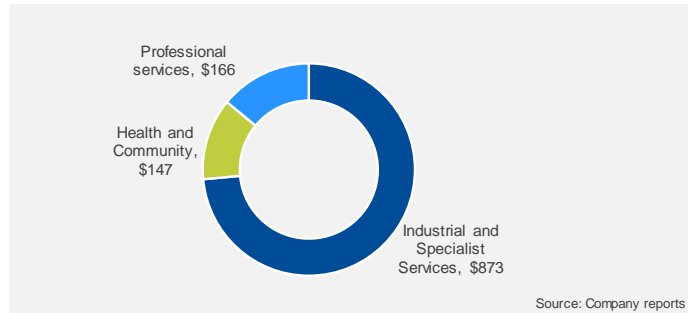
- Whilst valuation and earnings forecasts were incrementally weaker for FY23, PPE still screens well, in that the company trades on single digit PER, with earnings growing at a low to mid double digit rate (%), strong free cash flow conversion and a c.5-6% dividend yield, all positive characteristics that are somewhat rare amongst the small cap universe. We believe the business can continue to grow through uncertain economic times, with earnings derived from a range of diverse and defensive sectors, including early learning, food services, infrastructure and healthcare. On this basis we have an ADD rating with a price target of \$3.70/sh, derived by a weighted average of PER (70%) and DCF (30%).

PeopleIn

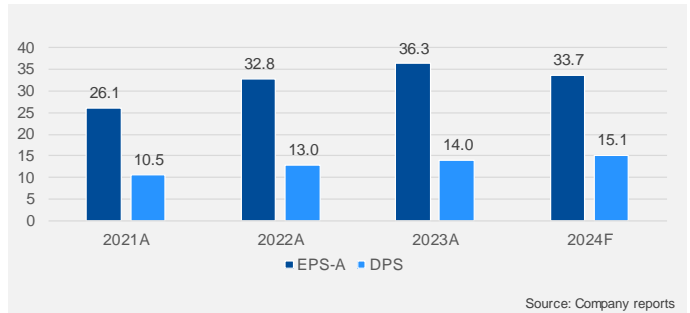
ADD		as at August 26, 2023	
Price (A\$):	2.18	12-month target price (A\$):	3.70
Market cap (A\$m):	221	Up/downside to target price (%):	69.7
Free float (%):	67.8	Dividend yield (%):	7.0
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	76.7

People Infrastructure Ltd (PPE) is an Australian workforce management company that aims to deliver innovative solutions to the management of contracted workforces to Australian and New Zealand businesses. People Infrastructure provides contracted workforce and HR outsourcing services to enhance the HR function of its clients.

Revenue by segment (A\$m) - FY23



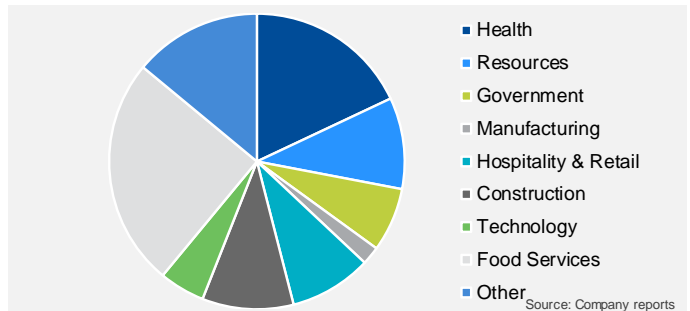
Historical EPS and DPS (cents)



Business snapshot



Sectors by GM contribution



Bull points

History of delivering strong earnings growth

PPE has grown earnings at c.20% year-in year-out, with FY23A EBITDA growing c.30% (8% organic).

Business continues to transition to more defensive sectors

Management remain focused on making the business more defensive, capable of navigating any potential downturn.

Growth opportunities remain

The opportunity under the Pacific Australia Labour Mobility (PALM) scheme is significant, with the Federal Government committed to jobs growth and the role of increasing migration.



Bear points

Employment market

Labour market conditions have rarely been better in Australia, this raises the question, how will PPE navigate an economic downturn?

Acquisitions

PPE has c.\$40m of debt capacity to undertake further acquisitions. Whilst this is a source of future earnings growth, it would take them to their target gearing level.

Migration and COVID risks

Whilst out of the company's hands, changes to migration rules has a direct impact on PPE. Likewise, the Government's response to COVID, namely lockdowns, has an adverse impact on PPE.



Environmental, Social and Governance



Exposure

PPE align to the UN sustainability goals, with three key pillars of focus; 1) First Nations People (750+ First Nations candidates placed in FY22), 2) Sustainability (4.8m trees planted in FY22) and 3) equity and inclusion (female participation, PALM community and NDIS support).

Management

PPE complies with the ASX Corporate Governance Council's corporate governance principles and recommendations.

Source: Morgans

Figure 1: Financial summary

Profit and Loss						Valuation details							
	2022A	2023A	2024F	2025F	2026F					Target			
Sales	(\$m)	682.3	1,186.4	1,278.0	1,381.2	1,458.8	Market cap	221.4	PER	70.0%	3.38		
Other income	(\$m)	0.3	0.2	0.0	0.0	0.0	Shares on issue (basic)	102	DCF	30.0%	4.48		
Operating Costs	(\$m)	(634.7)	(1,124.0)	(1,212.4)	(1,307.6)	(1,380.4)	A\$ Share Price						
EBITDA	(\$m)	47.9	62.6	65.6	73.5	78.5	2.18		A\$ Price Target		3.70		
Depreciation	(\$m)	(4.6)	(7.8)	(10.5)	(10.3)	(10.1)	Segment summary						
EBITA	(\$m)	43.3	54.8	55.0	63.2	68.3	2022A	2023A	2024F	2025F	2026F		
Amortisation	(\$m)	(6.5)	(9.2)	(9.3)	(10.5)	(10.2)	Revenue						
EBIT	(\$m)	36.8	45.6	45.7	52.7	58.1	Industrial and Specialist Services (\$m)	415.0	872.5	959.0	1,036.7	1,093.9	
Net Interest	(\$m)	(2.1)	(6.2)	(5.8)	(5.2)	(4.0)	Health and Community (\$m)	139.2	147.4	148.6	160.3	169.3	
Pre-tax Profit	(\$m)	34.6	39.5	39.9	47.5	54.1	Professional services (\$m)	128.2	166.4	170.3	184.1	195.7	
Tax	(\$m)	(8)	(9.6)	(12.0)	(14.3)	(16.2)	Unallocated (\$m)	0.0	0.0	0.0	0.0	0.0	
Underlying NPAT (100%)	(\$m)	26.2	29.9	27.9	33.3	37.9	Underlying revenue	(\$m)	682.3	1,186.4	1,278.0	1,381.2	1,458.8
Exceptional items	(\$m)	(7.8)	(9.4)	(6.3)	(4.4)	(4.3)	EBITDA						
Reported NPAT (100%)	(\$m)	18.4	20.5	21.6	28.8	33.6	Industrial and Specialist Services (\$m)	21.6	41.1	45.0	48.7	51.9	
Non-controlling interests	(\$m)	(0.7)	(1.5)	(1.9)	(2.0)	(2.1)	Health and Community (\$m)	12.0	9.3	9.9	11.6	12.7	
Underlying NPAT (equity)	(\$m)	25.5	28.4	26.1	31.2	35.8	Professional services (\$m)	17.6	15.0	13.8	16.7	17.6	
Underlying NPATA (equity)	(\$m)	31.9	37.6	35.4	41.8	46.0	Unallocated (\$m)	(3.3)	(2.8)	(3.1)	(3.5)	(3.7)	
Reported NPAT (equity)	(\$m)	17.7	19.0	19.8	26.8	31.4	Underlying EBITDA (100%)	(\$m)	47.9	62.6	65.6	73.5	78.5
Cashflow Statement						Underlying EBITDA (Equity)							
	(\$m)	2022A	2023A	2024F	2025F	2026F		(\$m)	47.2	61.1	63.7	71.5	76.3
EBITDA	(\$m)	47.9	62.6	65.6	73.5	78.5	Per share data						
Net interest	(\$m)	(2.1)	(4.7)	(5.0)	(4.4)	(3.2)	Diluted shares on issue (Qty)	101.0	104.4	105.8	107.6	109.4	
Tax	(\$m)	(13.9)	(9.8)	(12.0)	(14.3)	(16.2)	Normalised EPS (equity NPAT) (Cps)	26.2	27.4	24.8	29.3	32.9	
Other	(\$m)	(0.7)	(1.5)	(1.9)	(2.0)	(2.1)	Normalised EPS (equity NPATA) (Cps)	32.8	36.3	33.7	39.2	42.4	
Changes in working capital	(\$m)	(9.0)	18.5	(9.1)	(5.1)	(3.5)	Dividends per share (Cps)	13.0	14.0	15.1	16.1	17.1	
Operating cash flow	(\$m)	22.1	65.1	37.6	47.7	53.4	Reported payout ratio (%)	0.5	0.5	0.6	0.6	0.5	
Capex - maintenance	(\$m)	(4.5)	(4.3)	(3.5)	(3.0)	(2.0)	Key metrics/ multiples						
Free Cash Flow	(\$m)	17.6	60.8	34.1	44.7	51.4		2022A	2023A	2024F	2025F	2026F	
Capex - growth	(\$m)	0.0	0.0	0.0	0.0	0.0	P/E (x)	8.3	8.0	8.8	7.4	6.6	
Acquisitions	(\$m)	(49.8)	(17.1)	(14.8)	(9.4)	0.0	PEG (x)	0.6	(1.2)	0.5	0.5	0.7	
Divestments	(\$m)	0.0	0.1	0.0	0.0	0.0	EV/EBIT (x)	8.0	5.9	6.0	4.9	4.0	
Other	(\$m)	(0.1)	0.3	0.0	0.0	0.0	EV/EBITDA (x)	6.2	4.3	4.2	3.5	2.9	
Investing cash flows	(\$m)	(54.3)	(21.1)	(18.3)	(12.4)	(2.0)	Dividend Yield (%)	6.0	6.4	6.9	7.4	7.9	
Increase / decrease in Equity	(\$m)	0.3	0.0	0.0	0.0	0.0	Growth ratios						
Increase / decrease in Debt	(\$m)	55.8	(17.8)	(3.7)	(23.8)	(23.9)		2022A	2023A	2024F	2025F	2026F	
Dividends paid	(\$m)	(10.6)	(12.7)	(15.4)	(16.8)	(18.1)	Sales (%)	53.6	73.9	7.7	8.1	5.6	
Other financing cash flows	(\$m)	0.0	0.0	0.0	0.0	0.0	Operating costs (%)	56.2	77.1	7.9	7.9	5.6	
Financing cash flows	(\$m)	45.6	(30.5)	(19.1)	(40.6)	(42.0)	EBITDA (%)	25.6	30.7	4.8	12.1	6.7	
Increase/decrease in cash	(\$m)	13.3	13.5	0.2	(5.2)	9.4	EBIT (%)	17.2	24.0	0.2	15.4	10.2	
Balance Sheet						NPAT (%)							
		2022A	2023A	2024F	2025F	2026F	EPS (%)	20.3	4.7	(9.5)	18.0	12.5	
Assets						DPS (%)							
Cash	(\$m)	27.0	39.9	39.3	33.4	42.0	Free cash flow (%)	164.2	245.9	(43.9)	31.2	15.0	
Debtors	(\$m)	107.5	120.3	143.6	155.2	163.1	Margin and return analysis						
Inventory	(\$m)	0.0	0.0	0.0	0.0	0.0		2022A	2023A	2024F	2025F	2026F	
Other current assets	(\$m)	12.2	3.5	3.5	3.5	3.5	EBITDA Margin (%)	7.0	5.3	5.1	5.3	5.4	
Total Current Assets	(\$m)	146.7	163.7	186.4	192.1	208.6	EBIT margin (%)	5.4	3.8	3.6	3.8	4.0	
Fixed Assets	(\$m)	15.8	29.8	26.4	22.9	18.7	NPAT margin (%)	3.8	2.5	2.2	2.4	2.6	
Investments	(\$m)	0.1	0.0	0.0	0.0	0.0	ROE (%)	20.4	19.8	16.9	18.7	19.5	
Intangibles	(\$m)	202.0	203.2	208.6	207.5	197.2	ROIC (%)	14.6	15.2	15.1	17.0	19.2	
Other non-current assets	(\$m)	0.2	0.2	0.2	0.2	0.2	Gearing						
Total Non-Current Assets	(\$m)	218.1	233.2	235.3	230.6	216.2		2022A	2023A	2024F	2025F	2026F	
TOTAL ASSETS	(\$m)	364.8	396.9	421.7	422.7	424.8	Net Debt (incl leases) (\$)	84.6	73.2	73.7	59.7	31.1	
Liabilities						Net Debt (excl leases) (\$)							
Short Term Debt	(\$m)	32.6	27.9	0.0	0.0	0.0	Net Debt / Equity (%)	50.2	28.5	27.0	17.3	1.7	
Creditors	(\$m)	51.0	66.6	80.8	87.3	91.8	Net Debt / EBITDA (x)	1.5	0.7	0.7	0.4	0.0	
Other current liabilities	(\$m)	36.6	45.2	42.5	42.5	42.5	EBIT interest cover (x)	17.1	7.4	7.9	10.1	14.6	
Total Current Liabilities	(\$m)	120.2	139.7	123.2	129.8	134.2	Invested Capital (%)	213.7	205.6	216.8	217.2	206.2	
Long Term Debt	(\$m)	65.7	57.5	85.4	65.4	45.4	Enterprise Value (%)	295.4	270.4	273.2	259.6	231.3	
Other Non current liabilities	(\$m)	36.5	39.6	42.4	42.4	42.4	Result quality						
Total Non-Current liabilities	(\$m)	102.2	97.1	127.8	107.8	87.8		2022A	2023A	2024F	2025F	2026F	
TOTAL LIABILITIES	(\$m)	222.4	236.9	251.1	237.6	222.1	Cash flow conversion (%)	79.6	125.9	82.1	89.3	91.9	
Equity						FCF vs NPAT (x)							
Issued capital	(\$m)	101.5	107.6	111.6	115.6	119.6	Effective tax rate (%)	24.4	24.2	30.0	30.0	30.0	
Retained earnings	(\$m)	32.8	38.1	42.4	52.5	65.8							
Other reserves and FX	(\$m)	5.5	10.9	10.9	10.9	10.9							
Minority interests	(\$m)	2.6	3.4	5.7	6.1	6.5							
TOTAL EQUITY	(\$m)	142.4	160.0	170.6	185.1	202.7							

Source: Morgans estimates, company data

FY23 earnings vs prior expectations

FY23 Normalised EBITDA of \$61.1m, was 3% below our expectations of \$63.0m and slightly below the earnings guidance which was reiterated in May-23 for normalised EBITDA of \$62m to \$66m, albeit PPE still grew EBITDA 29.5% (vs pcp). That aside, both NPAT and NPATA were in line with our expectations.

Figure 2: FY23 earnings vs prior expectations

Across the segments the notable strength was in the **industrial and specialist division**, which contributed to the organic EBITDA growth of 8%.

Offsetting this was the weakness in **health and community**, which declined 22% (YoY) to be 18% below our expectations – a result of slower visa approvals for UK/Ireland nurses.

Also of note was the 15% decline (YoY) in **professional services EBITDA**, which was impacted by lower IT recruitment.

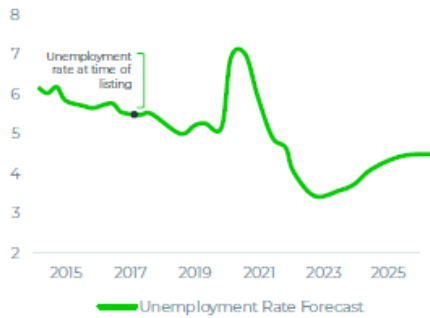
Segment summary	2022A	2023A	2023F	2023F	Chg	Chg	Chg
	Actual	Actual	Morgans (prior)	Factset	vs Morgans (prior)	(vs Factset)	(vs pcp)
Revenue							
Industrial and Specialist Services (\$m)	415.0	872.5	880.4	890.5	-0.9%	-2.0%	110.3%
Health and Community (\$m)	139.2	147.4	155.2	155.2	-5.0%	-5.0%	5.9%
Professional services (\$m)	128.2	166.4	170.8	167.5	-2.6%	-0.7%	29.8%
Unallocated (\$m)	0.0	0.0	0.0	0.0	429.2%	n.a	78.0%
Underlying revenue (\$m)	682.3	1,186.4	1,206.4	1,212.6	-1.7%	-2.2%	73.9%
EBITDA							
Industrial and Specialist Services (\$m)	21.6	41.1	40.9		0.5%	n.a	90.2%
Health and Community (\$m)	12.0	9.3	11.4		-18.4%	n.a	-22.2%
Professional services (\$m)	17.6	15.0	15.5		-3.0%	n.a	-15.0%
Unallocated (\$m)	(3.3)	(2.8)	(3.5)		-18.7%	n.a	-15.4%
Total EBITDA (underlying) (\$m)	47.9	62.6	64.3		-2.7%	n.a	30.7%
Underlying EBITDA (Equity) (\$m)	47.2	61.1	63.0	62.3	-3.0%	-2.0%	29.5%
Per share data							
Shares on issue (end) (Diluted) (Qty)	101.0	104.4	104.6		-0.2%	n.a	3.3%
NPATA (underlying) - equity (CPS)	32.8	36.3	36.5		-0.5%	n.a	10.6%
NPAT (underlying) - equity (CPS)	26.2	27.4	27.6	32.6	-0.5%	-15.9%	4.7%
Distributions (CPS)	13.0	14.0	14.7	14.2	-4.5%	-1.2%	7.7%
Payout ratio (%)	49.6%	51.1%	53.2%		-4.0%	n.a	2.9%
Profit and Loss							
	2022A	2023F	2023F	2023F	Chg	Chg	Chg
	Actual	Actual	Morgans (prior)	Factset	vs Morgans (prior)	(vs Factset)	(vs pcp)
Sales (\$m)	682.3	1,186.4	1,206.4	1,212.6	-1.7%	-2.2%	73.9%
Other income (\$m)	0.3	0.2	0.8		-69.4%	n.a	-16.2%
Operating Costs (\$m)	(634.7)	(1,124.0)	(1,142.9)		-1.7%	n.a	77.1%
EBITDA (\$m)	47.9	62.6	64.3	63.8	-2.6%	-1.9%	30.7%
Depreciation (\$m)	(4.6)	(7.8)	(8.5)		-8.6%	n.a	67.5%
EBITA (\$m)	43.3	54.8	55.8		-1.7%	n.a	26.8%
Amortisation (\$m)	(6.5)	(9.2)	(9.2)		0.1%	n.a	42.5%
EBIT (\$m)	36.8	45.6	46.6	50.0	-2.1%	-8.7%	24.0%
Net Interest (\$m)	(2.1)	(6.3)	(6.5)		-3.1%	n.a	194.8%
Pre-tax Profit (\$m)	34.6	39.3	40.0	43.9	-1.9%	-10.6%	13.4%
Tax (\$m)	(8.4)	(9.6)	(10.9)		-12.2%	n.a	13.2%
Underlying NPAT (100%) (\$m)	26.2	29.7	29.2		1.9%	n.a	13.5%
Exceptional items (\$m)	(7.8)	(9.4)	(6.1)		53.9%	n.a	20.1%
Reported NPAT (100%) (\$m)	18.4	20.4	23.1	25.0	-11.8%	-18.7%	10.7%
Non-controlling interests (\$m)	(0.7)	(1.5)	(1.3)		15.6%	n.a	108.5%
Reported NPAT (equity) (\$m)	17.7	18.9	21.8		-13.4%	n.a	6.7%
Underlying NPATA (equity) (\$m)	31.9	37.6	37.6	33.1	0.0%	13.7%	17.8%
Underlying NPAT (equity) (\$m)	25.5	28.4	28.4		0.0%	n.a	11.5%
Reported NPAT (equity) (\$m)	17.7	19.0	22.3		-14.7%	n.a	7.7%
Diluted shares on issue (Qty)	101.0	104.4	104.6		-0.2%	n.a	3.3%
Normalised EPS (equity NPAT) (Cps)	26.2	27.4	27.6	32.6	-0.5%	-15.9%	4.7%
Normalised EPS (equity NPATA) (Cps)	32.8	36.3	36.5		-0.5%	n.a	10.6%
Dividends per share (Cps)	13.0	14.0	14.7	14.2	-4.5%	-1.2%	7.7%
Net Debt (incl leases) (\$)	84.6	73.2	99.1	0.0	-26.1%	n.a	5.2%
Net Debt (excl leases) (\$)	71.4	45.6	75.1	83.1	-39.3%	-45.2%	5.2%

Source: Morgans estimates, Factset, company data

Key charts

Despite the softness in FY23, the company continues to see cause for optimism over the medium term, with the continued low levels of unemployment, solid wage inflation and jobs growth in high demand sectors projected to continue for the foreseeable future, which should drive earnings.

Figure 3: Unemployment Rate Forecast



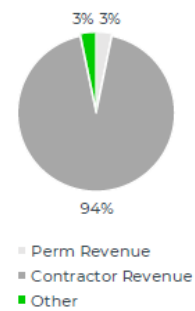
Source: Company data - ABS; RBA, Statement of Monetary Policy August 2023

Figure 4: Wage Price Index



Source: Company data - CEICData, Department of

Figure 5: PPE Revenue mix



Source: Morgans estimates, company data

PPE continues to have a diversified sector exposure and client base, across a number of long term high demand sectors, notably healthcare, professional services, education, food services, mining, renewables and transport infrastructure, all of which are expected to see continued job growth.

Figure 6: Key Sector Growth Drivers

Vertical	2026 Employment number of new jobs (volume) ³	Average annual % Growth Outlook (volume) ³	Wage growth (price) ⁴	Key Drivers
Healthcare and Community	+301,000	+3.2%	+3.2%	<ul style="list-style-type: none"> Global nursing shortage Government commitments to health including Medicare Urgent Care Facilities and aged care Growing NDIS spend
Industrial and Specialist Services	+148,600	+2.7% Education	+3.1%	<ul style="list-style-type: none"> 1m affordable homes to be built by 2029 Exposed to government's 10+ year infrastructure spend including rail and road projects Significant investment into the energy transition High demand from the food services sector
	+112,400	+2.6% Accom. & Food Services	+3.3%	
	+66,400	+1.2% Construction	+3.9%	
Professional Services	+206,600	+3.4%	+3.9%	<ul style="list-style-type: none"> Government commitment to achieve 12m tech jobs in Australia by 2030 Ongoing focus on digital transformation and streamlining finance functions Increasing demand for cyber security services

Source: Company data

Earnings changes

We have reduced our organic growth assumptions, along with our contingent income forecasts associated with historic acquisitions (ie earn outs still underway). We forecast margins to remain soft through 1HFY23, most notably within 'health and community' and 'professional service', before improving in 2HFY23.

We have not explicitly factored in any additional acquisition, but acknowledge the business may undertake small acquisitions, most likely funded from free-cash flow.

Figure 7: Earnings changes

Segment summary	2024F	2024F	2024F	2025F	2025F	2025F	2026F	2026F	2026F
	Post	Post	Chg	Post	Post	Chg	Post	Post	Chg
Revenue									
Industrial and Specialist Services (\$m)	969.1	959.0	-1.0%	1,036.2	1,036.7	0.0%	1,080.2	1,093.9	1.3%
Health and Community (\$m)	167.8	148.6	-11.4%	181.4	160.3	-11.6%	191.6	169.3	-11.6%
Professional services (\$m)	183.5	170.3	-7.2%	198.4	184.1	-7.2%	209.5	195.7	-6.6%
Unallocated (\$m)	0.0	0.0	n.a	0.0	0.0	n.a	0.0	0.0	n.a
Underlying revenue (\$m)	1,320.4	1,278.0	-3.2%	1,416.0	1,381.2	-2.5%	1,481.3	1,458.8	-1.5%
EBITDA									
Industrial and Specialist Services (\$m)	43.9	45.0	2.5%	47.0	48.7	3.7%	49.0	51.9	6.0%
Health and Community (\$m)	12.6	9.9	-21.7%	13.6	11.6	-14.6%	14.4	12.7	-11.6%
Professional services (\$m)	17.8	13.8	-22.5%	19.2	16.7	-13.1%	20.3	17.6	-13.3%
Unallocated (\$m)	(4.1)	(3.1)	-23.5%	(4.4)	(3.5)	-20.2%	(4.6)	(3.7)	-18.7%
Total EBITDA (underlying) (\$m)	70.2	65.6	-6.6%	75.4	73.5	-2.5%	79.0	78.5	-0.7%
Underlying EBITDA (Equity) (\$m)	68.8	63.7	-7.4%	73.9	71.5	-3.3%	77.5	76.3	-1.4%
Per share data									
Shares on issue (end) (Diluted) (Qty)	105.9	105.8	-0.1%	107.6	107.6	0.0%	109.4	109.4	0.1%
NPATA (underlying) - equity (CPS)	36.6	33.7	-8.0%	41.3	39.2	-5.2%	44.2	42.4	-4.0%
NPAT (underlying) - equity (CPS)	27.7	24.8	-10.5%	31.4	29.3	-6.7%	34.7	32.9	-5.1%
Distributions (CPS)	15.6	15.1	-3.2%	16.6	16.1	-3.0%	17.6	17.1	-2.8%
Payout ratio (%)	0.6	0.6	8.2%	0.5	0.6	4.0%	0.5	0.5	2.4%
Profit and Loss									
Sales (\$m)	1,320.4	1,278.0	-3.2%	1,416.0	1,381.2	-2.5%	1,481.3	1,458.8	-1.5%
Other income (\$m)	0.0	0.0	n.a	0.0	0.0	n.a	0.0	0.0	n.a
Operating Costs (\$m)	(1,250.2)	(1,212.4)	-3.0%	(1,340.6)	(1,307.6)	-2.5%	(1,402.3)	(1,380.4)	-1.6%
EBITDA (\$m)	70.2	65.6	-6.6%	75.4	73.5	-2.5%	79.0	78.5	-0.7%
Depreciation (\$m)	(10.7)	(10.5)	-1.3%	(8.9)	(10.3)	14.9%	(8.1)	(10.1)	24.7%
EBITA (\$m)	59.5	55.0	-7.6%	66.5	63.2	-4.9%	70.9	68.3	-3.6%
Amortisation (\$m)	(9.4)	(9.3)	-0.3%	(10.6)	(10.5)	-0.3%	(10.3)	(10.2)	-0.2%
EBIT (\$m)	50.2	45.7	-9.9%	55.9	52.7	-5.7%	60.6	58.1	-4.2%
Net Interest (\$m)	(7.0)	(6.0)	-14.2%	(6.3)	(5.4)	-14.6%	(5.1)	(4.2)	-16.6%
Pre-tax Profit (\$m)	43.2	39.7	-8.1%	49.6	47.3	-4.6%	55.6	53.9	-3.1%
Tax (\$m)	(13.1)	(12.0)	-8.7%	(15.0)	(14.3)	-5.1%	(16.8)	(16.2)	-3.4%
Underlying NPAT (100%) (\$m)	30.0	27.7	-7.8%	34.6	33.0	-4.4%	38.7	37.6	-2.9%
Exceptional items (\$m)	(5.5)	(6.3)	15.6%	(5.4)	(4.4)	-17.7%	(5.3)	(4.3)	-18.5%
Reported NPAT (100%) (\$m)	24.6	21.4	-13.0%	29.2	28.6	-2.0%	33.5	33.3	-0.4%
Non-controlling interests (\$m)	(1.4)	(1.9)	32.4%	(1.5)	(2.0)	33.9%	(1.6)	(2.1)	35.6%
Reported NPAT (equity) (\$m)	23.2	19.5	-15.8%	27.7	26.6	-3.9%	31.9	31.2	-2.2%
Underlying NPATA (equity) (\$m)	38.6	35.4	-8.1%	44.1	41.8	-5.2%	47.9	46.0	-4.0%
Underlying NPAT (equity) (\$m)	29.2	26.1	-10.6%	33.5	31.2	-6.8%	37.7	35.8	-5.0%
Reported NPAT (equity) (\$m)	23.7	19.8	-16.7%	28.1	26.8	-4.7%	32.4	31.4	-2.8%
Diluted shares on issue (Qty)	105.9	105.8	-0.1%	107.6	107.6	0.0%	109.4	109.4	0.1%
Normalised EPS (equity NPAT) (Cps)	27.7	24.8	-10.5%	31.4	29.3	-6.7%	34.7	32.9	-5.1%
Normalised EPS (equity NPATA) (Cps)	36.6	33.7	-8.0%	41.3	39.2	-5.2%	44.2	42.4	-4.0%
Dividends per share (Cps)	15.6	15.1	-3.2%	16.6	16.1	-3.0%	17.6	17.1	-2.8%
Net Debt (incl leases) (\$)	94.2	73.7	-21.7%	78.8	59.7	-24.2%	54.1	31.1	-42.6%
Net Debt (excl leases) (\$)	73.7	46.1	-37.4%	61.9	32.1	-48.1%	41.0	3.5	-91.6%

Source: Morgans estimates, company data

Revised earnings forecasts

Figure 8: Revised earnings forecasts

Segment summary		2022A	1HFY23A	2HFY23A	2023A	1HFY24F	2HFY24F	2024F	2025F	2026F
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenue										
Industrial and Specialist Services	(\$m)	415.0	434.1	438.4	872.5	468.3	490.7	959.0	1,036.7	1,093.9
Health and Community	(\$m)	139.2	77.1	70.3	147.4	72.7	75.9	148.6	160.3	169.3
Professional services	(\$m)	128.2	85.4	81.0	166.4	83.6	86.7	170.3	184.1	195.7
Unallocated	(\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Underlying revenue	(\$m)	682.3	596.6	589.7	1,186.4	624.6	653.4	1,278.0	1,381.2	1,458.8
EBITDA										
Industrial and Specialist Services	(\$m)	21.6	20.7	20.4	41.1	22.0	23.0	45.0	48.7	51.9
Health and Community	(\$m)	12.0	5.7	3.6	9.3	4.5	5.3	9.9	11.6	12.7
Professional services	(\$m)	17.6	8.2	6.1	15.0	6.4	7.4	13.8	16.7	17.6
Unallocated	(\$m)	(3.3)	(1.5)	(1.4)	(2.8)	(1.5)	(1.6)	(3.1)	(3.5)	(3.7)
EBITDA (underlying)	(\$m)	47.9	33.2	28.7	62.6	31.4	34.2	65.6	73.5	78.5
EBITDA (underlying equity)	(\$m)	47.2	32.5	27.9	61.1	30.5	33.2	63.7	71.5	76.3
Per share data										
Shares on issue (end) (Diluted)	(Qty)	101.0	103.7	104.4	104.4	105.3	106.2	105.8	107.6	109.4
NPATA (underlying) - equity	(CPS)	32.8	20.2	16.2	36.3	15.9	17.7	33.7	39.2	42.4
NPAT (underlying) - equity	(CPS)	26.2	15.7	11.8	27.4	11.5	13.2	24.8	29.3	32.9
Distributions	(CPS)	13.0	7.0	7.0	14.0	7.5	7.5	15.1	16.1	17.1
Payout ratio	(%)	49.6	44.4	59.4	51.1	65.0	56.7	60.8	55.1	52.0
Profit and Loss										
		2022A	1HFY23A	2HFY23A	2023A	1HFY24F	2HFY24F	2024F	2025F	2026F
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Sales	(\$m)	682.3	596.6	589.7	1,186.4	624.6	653.4	1,278.0	1,381.2	1,458.8
Other income	(\$m)	0.3	0.8	(0.5)	0.2	0.0	0.0	0.0	0.0	0.0
Operating Costs	(\$m)	(634.7)	(564.3)	(559.7)	(1,124.0)	(593.2)	(619.2)	(1,212.4)	(1,307.6)	(1,380.4)
EBITDA	(\$m)	47.9	33.1	29.5	62.6	31.4	34.2	65.6	73.5	78.5
Depreciation	(\$m)	(4.6)	(3.6)	(4.2)	(7.8)	(5.3)	(5.3)	(10.5)	(10.3)	(10.1)
EBITA	(\$m)	43.3	29.6	25.3	54.8	26.1	28.9	55.0	63.2	68.3
Amortisation	(\$m)	(6.5)	(4.6)	(4.6)	(9.2)	(4.6)	(4.7)	(9.3)	(10.5)	(10.2)
EBIT	(\$m)	36.8	25.0	20.6	45.6	21.5	24.2	45.7	52.7	58.1
Net Interest	(\$m)	(2.1)	(2.8)	(3.5)	(6.3)	(3.0)	(3.0)	(6.0)	(5.4)	(4.2)
Pre-tax Profit	(\$m)	34.6	22.2	17.1	39.3	18.5	21.2	39.7	47.3	53.9
Tax	(\$m)	(8.4)	(5.4)	(4.2)	(9.6)	(5.6)	(6.4)	(12.0)	(14.3)	(16.2)
Underlying NPAT (100%)	(\$m)	26.2	16.8	12.9	29.7	12.9	14.8	27.7	33.0	37.6
Exceptional items	(\$m)	(7.8)	(2.4)	(6.9)	(9.4)	(4.0)	(2.3)	(6.3)	(4.4)	(4.3)
Reported NPAT (100%)	(\$m)	18.4	14.4	6.0	20.4	8.9	12.5	21.4	28.6	33.3
Non-controlling interests	(\$m)	(0.7)	(0.6)	(0.9)	(1.5)	(0.9)	(1.0)	(1.9)	(2.0)	(2.1)
Underlying NPAT (equity)	(\$m)	17.7	13.7	5.1	18.9	8.0	11.5	19.5	26.6	31.2
Underlying NPATA (equity)	(\$m)	31.9	20.8	16.8	37.6	16.7	18.7	35.4	41.8	46.0
Reported NPAT (equity)	(\$m)	17.7	13.8	5.3	19.0	8.0	11.7	19.8	26.8	31.4
Diluted shares on issue	(Qty)	101.0	103.7	104.4	104.4	105.3	106.2	105.8	107.6	109.4
Normalised EPS (equity NPAT)	(Cps)	26.2	15.7	11.8	27.4	11.5	13.2	24.8	29.3	32.9
Normalised EPS (equity NPATA)	(Cps)	32.8	20.2	16.2	36.3	15.9	17.7	33.7	39.2	42.4
Dividends per share	(Cps)	13.0	7.0	7.0	14.0	7.5	7.5	15.1	16.1	17.1
Net Debt (incl leases)	(\$)	84.6	97.1	73.2	73.2	77.5	73.7	73.7	59.7	31.1
Net Debt (excl leases)	(\$)	71.4	71.5	45.6	45.6	49.9	46.1	46.1	32.1	41.0

Source: Morgans estimates, company data

Valuation

Our valuation of \$3.70/sh is a weighted averaged of PER (70%) and DCF (30%). The PER valuation of \$3.38/sh reflects FY24 EPS at a multiple of 11.0x – a 25% discount to the ASX 300 average (previously 20%). Our DCF valuation of \$4.48/sh is based on our five year earnings free cash flow to the firm projections at a WACC of 11.2%.

Figure 9: Valuation summary

Enterprise value	(\$m)	456.0					
Net debt (incl leases)	(\$m)	(73.2)					
Non-controlling interests	(\$m)	(3.4)					
Equity value	(\$m)	386.2					
Shares on issue (end) (Diluted)	(,000)	104.4					
Valuation	(\$m)	3.70					
Dividend yield	(%)	7.1					
Capital growth	(%)	69.7					
Total shareholder return	(%)	76.8					
			2023A	2024F	2025F	2026F	2027F
EV/EBITDA	(x)		7.3	7.0	6.2	5.8	5.6
EV/EBITA	(x)		8.5	8.1	7.2	6.7	6.4
EV/EBIT	(x)		10.0	10.0	8.7	7.8	7.4
PER (EQ NPATA SBP)	(x)		11.5	12.0	10.2	9.4	8.9
PER (underlying equity NPATA)	(x)		10.2	11.0	9.4	8.7	8.4
PER (underlying equity NPAT)	(x)		13.5	14.9	12.6	11.2	10.4
PEG	(x)		(1.4)	0.7	1.1	2.0	2.8
Dividend Yield	(%)		3.8	4.1	4.4	4.6	4.9
Free cash flow yield	(%)		15.7	8.6	11.1	12.6	13.3

Source: Morgans estimates, company data

SBP = Share Based Payments

Risks

- Weakening labour market conditions, adverse legislation (labour hire reforms) and slower visa approvals timeframes.

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