

Back to basics

PeopleIn has announced the conclusion of its strategic review and reaffirmed its FY23 EBITDA guidance range of \$62-66m. The strategic review has not led to a corporation action, with PPE determining it is best positioned to continue executing on its existing 3-year strategic plan. While it is disappointing that a value realisation outcome or strategic investment was not achieved, we had not expected these to eventuate. We have lowered our FY23 EBITDA forecast to \$63.3m (prev. \$65.3m), mainly due to slower immigration of nurses inhibiting H&C vertical growth. We remain constructive over the medium term however, and note several positive federal budget initiatives (see below). We remove the DCF component from our valuation, reducing our valuation and PT by 26% to \$3.53/sh. Nonetheless we retain OW, with PPE still offering 26% TSR.

Key Points

Strategic review and acquisition headroom. That the review (announced 23 Nov) took 6 months to conclude indicates to us there were several interested parties in the process. However, given weak equity market conditions and the relative breadth/complexity of PPE's business vs. competitors, we had not expected a major outcome. While today's announcement does not alleviate the current difficulty to equity fund acquisitions, we estimate PPE has \$45.6m in debt capacity while staying below its internal limit of 2x ND/EBITDA (noting covenant is at 3x). At 2x ND/EBITDA, we estimate PPE's interest cover ratio for FY24 would fall from 11.9x to 8.5x, well above covenant (also 3x) and, in our view, acceptable for an accretive acquisition.

Federal budget. The May 2023 federal budget contained a number of initiatives which we see as positive for PPE over the medium term, and building upon the also supportive Oct 2022 budget. Initiatives include: \$445m to enable GPs to have nurses and allied health professionals working with them; \$941m in additional aged care and home care funding; \$3.4bn over 10 years for the Brisbane 2032 Olympics; increased intake of skilled migrants (to 70% of 2023-24 migration program); expansion of PALM scheme to other priority sectors; and paid professional development for early childhood educators.

Forecasts. We reduce FY23 EBITDA by 3% to \$63.3m (prev. \$65.3m), mainly due to bringing Health & Community vertical 2H23 EBITDA back to flat on 1H23 (prev. +\$1.2m). We understand the H&C vertical has experienced a slower than expected inflow of nurses immigrating from the UK/Ireland, and also a shift in demand mix from registered nurses to student nurses (lower rate and margin). We also reduce our Professional Services vertical 2H23 EBITDA margin to 9.0% (prev. 9.5%), reflecting the continued shift from permanent recruitment to contracting volumes.

Valuation. We have removed the DCF component from our valuation, reflecting the market's focus on near-term earnings and the inability of the strategic review to draw out an acceptable intrinsic valuation of the business. We apply a 7.0x multiple to FY23 EBITDA, representing a 5% discount to international peers (7.4x). As a result, our valuation and PT fall 26% to \$3.53 p/share. Nevertheless, in our view PPE still offers solid value (trading on 6.4x FY23 EBITDA) and diversified exposure to long-term growth sectors. For reference, our intrinsic DCF valuation is \$4.71 p/share, which illustrates the potential upside from more positive equity market conditions.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	429.7	679.2	1,208	1,293	1,385
EBITDA norm (\$m)	38.0	47.2	63.3	69.5	75.2
Consensus EBITDA (\$m)			63.8	69.6	74.1
EPS norm (cents)	22.8	26.8	28.9	32.1	36.8
EV/EBITDA (x)	8.5	7.9	6.0	5.4	4.8
P/E (x)	12.8	10.9	10.1	9.1	7.9
Dividend yield (%)	3.6	4.5	4.7	5.6	6.1

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

Wilsons Equity Research

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Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$3.53
Share price @ 31-May-23 (AUD)	\$2.92
Forecast 12-mth capital return	21.1%
Forecast 12-mth dividend yield	5.1%
12-mth total shareholder return	26.2%

Market cap (\$m)	296.0
Enterprise value (\$m)	370.4
Shares on issue (m)	101.6
Sold short (%)	0.1
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 (%)	(6.0)	(10.0)	(10.0)
Rel return (%)	(4.5)	(8.9)	(9.2)

Key changes		20-Feb	After	Var %
EBITDA	FY23E	65.3	63.3	-3%
norm	FY24E	71.9	69.5	-3%
(\$m)	FY25E	76.9	75.2	-2%
EPS	FY23E	30.4	28.9	-5%
norm	FY24E	33.8	32.1	-5%
(cents)	FY25E	38.0	36.8	-3%
Price target		4.77	3.53	-26%
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	1,208	1,293	1,385
EBITDA norm	38.0	47.2	63.3	69.5	75.2
EBIT norm	31.3	36.1	46.6	52.8	59.2
PBT norm	29.8	33.9	40.4	45.8	52.6
NPAT norm	20.9	25.5	29.3	32.6	37.4
NPAT reported	17.7	17.7	26.3	29.4	34.2
EPS norm (cents)	22.8	26.8	28.9	32.1	36.8
DPS (cents)	10.5	13.0	13.8	16.3	17.8

Growth (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	19.6	58.1	77.9	7.0	7.1
EBITDA norm	32.8	23.9	34.2	9.8	8.2
NPAT norm	46.2	22.1	15.1	11.2	14.7
EPS norm (cents)	21.1	17.8	7.9	10.8	14.7
DPS (cents)	23.5	23.8	6.5	17.8	9.3

Margins and returns (%)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA margin	8.9	6.9	5.2	5.4	5.4
EBIT margin	7.3	5.3	3.9	4.1	4.3
PBT margin	6.9	5.0	3.3	3.5	3.8
NPAT margin	4.9	3.8	2.4	2.5	2.7
ROA	14.4	9.9	10.4	11.6	12.6
ROIC	22.4	16.9	19.0	20.9	23.3
ROE	18.2	17.9	17.9	18.1	18.9

Interims (\$m)	1H22A	2H22A	1H23A	2H23E	1H24E
Sales	314.5	364.6	594.4	614.0	635.5
EBITDA norm	21.6	25.6	32.5	30.8	34.2
EBIT norm	16.6	19.5	24.4	22.2	25.6
PBT norm	15.5	18.4	21.6	18.8	22.0
NPAT norm	10.9	14.5	16.2	13.1	15.7
NPAT reported	4.3	13.4	13.8	12.6	14.1
EPS norm (cents)	11.6	15.0	16.2	12.9	15.5
DPS (cents)	6.5	6.5	7.0	6.8	8.0

Stock specific	FY21A	FY22A	FY23E	FY24E	FY25E
ISS revenue (\$m)	251.2	415.0	885.6	950.9	1,019
H&C revenue (\$m)	132.7	139.2	154.3	162.4	174.0
PS revenue (\$m)	60.4	128.2	170.8	179.9	192.7
ISS EBITDA (\$m)	16.7	21.6	42.2	45.3	48.5
H&C EBITDA (\$m)	16.7	12.0	11.4	13.0	14.8
PS EBITDA (\$m)	8.3	17.6	15.9	18.0	19.3
NPATA norm (\$m)	25.0	31.9	38.3	41.4	45.3

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
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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 26% TSR at our \$3.53 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; (iv) slower than expected rebound in skilled inbound immigration.

Balance sheet (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	13.7	27.0	30.7	31.3	41.5
Current receivables	76.0	107.5	170.7	182.4	195.4
Current inventory	0.0	0.0	0.0	0.0	0.0
PPE	9.1	15.9	29.2	30.8	30.2
Intangibles	116.9	202.0	200.0	193.6	188.2
Other assets	1.7	12.4	16.1	16.1	16.1
Total assets	217.4	364.8	446.7	454.2	471.4
Current payables	33.7	51.0	90.0	95.9	102.7
Total debt	39.0	98.4	111.7	104.6	97.8
Other liabilities	27.3	68.3	72.5	65.9	65.4
Total liabilities	102.8	222.4	282.6	274.2	273.1
Minorities	2.4	2.6	3.5	4.9	6.2
Shareholders equity	112.2	139.8	160.5	175.1	192.0

Cash flow (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating cash flow	7.6	22.1	29.5	42.2	45.8
Maintenance capex	(1.3)	(4.5)	(8.3)	(5.3)	(5.1)
Free cash flow	6.3	17.6	21.2	36.9	40.7
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)	(15.1)	(17.3)
Other cash flow	(1.8)	(3.6)	(7.0)	(7.0)	(6.5)
Cash flow pre-financing	(24.6)	(46.5)	(9.6)	7.8	16.9
Funded by equity	0.6	0.3	0.0	0.0	0.0
Funded by cash/debt	17.1	(13.6)	(3.7)	(0.7)	(10.1)

Liquidity	FY21A	FY22A	FY23E	FY24E	FY25E
Cash conversion (%)	53.5	80.8	65.2	88.8	89.0
Net debt (\$m)	25.2	71.4	81.0	73.2	56.3
Net debt / EBITDA (x)	0.7	1.5	1.3	1.1	0.7
ND / ND + Equity (%)	18.1	33.4	33.1	28.9	22.1
EBIT / Interest expense (x)	20.2	16.8	7.5	7.5	9.0

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV / Sales (x)	0.8	0.5	0.3	0.3	0.3
EV / EBITDA (x)	8.5	7.9	6.0	5.4	4.8
EV / EBIT (x)	10.3	10.3	8.2	7.1	6.1
P / E (x)	12.8	10.9	10.1	9.1	7.9
P / BV (x)	2.4	2.0	1.8	1.6	1.5
FCF yield (%)	2.3	6.1	7.1	12.5	13.7
Dividend yield (%)	3.6	4.5	4.7	5.6	6.1
Payout ratio (%)	46.1	48.5	47.8	50.9	48.5
Franking (%)	100.0	100.0	100.0	100.0	100.0
Weighted shares (m)	91.7	95.0	101.3	101.6	101.6

Revised Forecasts

Figure 1: 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	889.9	885.6	(0.5%)	960.0	950.9	(1.0%)	1,028.4	1,018.6	(1.0%)
Health & Community	\$m	158.1	154.3	(2.4%)	170.6	162.4	(4.8%)	182.7	174.0	(4.8%)
Professional Services	\$m	172.9	170.8	(1.2%)	184.4	179.9	(2.4%)	197.5	192.7	(2.4%)
Group revenue	\$m	1,220.9	1,210.6	(0.8%)	1,315.0	1,293.2	(1.7%)	1,408.6	1,385.3	(1.7%)
EBITDA margins										
Industrial & Specialist	%	4.8%	4.8%	-	4.8%	4.8%	-	4.8%	4.8%	-
Health & Community	%	8.0%	7.4%	(0.6%)	8.5%	8.0%	(0.5%)	8.5%	8.5%	-
Professional Services	%	9.6%	9.3%	(0.2%)	10.0%	10.0%	-	10.0%	10.0%	-
EBITDA rep										
Industrial & Specialist	\$m	42.4	42.2	(0.5%)	45.7	45.3	(1.0%)	49.0	48.5	(1.0%)
Health & Community	\$m	12.6	11.4	(9.2%)	14.5	13.0	(10.4%)	15.5	14.8	(4.8%)
Professional Services	\$m	16.5	15.9	(3.8%)	18.4	18.0	(2.4%)	19.7	19.3	(2.4%)
Corporate	\$m	(7.8)	(7.8)	-	(8.6)	(8.6)	-	(9.2)	(9.2)	-
Group EBITDA rep	\$m	63.7	61.7	(3.1%)	70.1	67.7	(3.4%)	75.1	73.4	(2.2%)
EBITDA norm	\$m	65.3	63.3	(3.1%)	71.9	69.5	(3.3%)	76.9	75.2	(2.2%)
NPAT norm	\$m	30.7	29.3	(4.5%)	34.2	32.6	(4.8%)	38.5	37.4	(2.9%)
NPATA norm	\$m	39.7	38.3	(3.5%)	43.1	41.4	(3.8%)	46.4	45.3	(2.5%)
EPS norm (basic)	cps	30.4	28.9	(4.7%)	33.8	32.1	(5.2%)	38.0	36.8	(3.3%)
NPATA/sh norm (basic)	cps	39.3	37.9	(3.7%)	42.6	40.8	(4.2%)	45.9	44.6	(2.9%)
DPS	cps	14.4	13.8	(4.0%)	17.0	16.3	(4.2%)	18.4	17.8	(2.9%)

Source: Wilsons.

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