

## Business model challenged

PPE delivered a sombre trading update at its AGM, noting the “significant decline” in business confidence across multiple sectors and declining economic conditions. Management commented that private (i.e. non-government) clients have reduced their demand, especially high-margin roles and permanent recruitment (citing the health sector in particular). This update is consistent with the latest SEEK Employment Report for Oct-23, which revealed a 20% fall in national job ads vs. Oct-22, with hospitality & tourism (-11.6%) and healthcare (-3.4%), two key sectors for PPE, among the weakest performers. We see PPE as suffering the biggest challenge to its diversified business model to date, where weakness in one sector has typically been offset by strength in others. With clarity around near-term earnings at all-time lows, we opt for a sizeable ~35% valuation discount to PPE’s larger international peer group. As a result, we downgrade to Market Weight, with PPE offering a neutral 12-mth TSR based on our revised \$1.39/sh PT.

### Key Points

**Unpacking the AGM update.** EBITDA for 1Q24 was \$10m, 33% below 1Q23 at \$15m, which clearly represented peak operating conditions for PPE both in terms of the general economy and the company’s specific business units and exposures (e.g. permanent recruitment representing 70-75% of volumes for IT and financial services). 1Q24 revenue of \$281m was 3% above pcp at \$272m, highlighting a shift mix towards lower margin work. On the brighter side, cash conversion for 1Q24 was above 90% (we estimate a steady state conversion of 92%).

**Outlook.** PPE expects the wider downturn to be relatively short-lived, especially in health, with higher-margin demand improving in 4Q24 and FY25. PPE was also recently approved to start recruiting PALM workers into the aged care sector, presenting a new growth angle (albeit likely low margin). PPE noted it is driving efficiencies where possible to realign its cost base in line with the margin shift. We view this as important; while up to this point PPE has prioritised staying invested for a rebound in recruitment conditions, we believe the company should now adjust to what may be a prolonged downturn in several sectors (e.g. hospitals increasingly insourcing nurses, technology businesses focusing on profitability and leaner workforces, and hospitality challenged due to higher cost-of-living pressures).

**Forecasts.** We have lowered FY24 EBITDA by 28% to \$40.8m, driven by a sharp pullback in revenue growth and EBITDA margin assumptions across all 3 verticals. The health & community and prof. services verticals are hardest hit, reflecting the ongoing shift away from permanent recruitment to lower margin contracting work. Refer Fig 1 on page 3 for a detailed breakdown.

**Valuation.** Our valuation remains solely EV/EBITDA based. We believe the market needs to regain confidence in PPE’s near-term earnings outlook before a DCF can be factored into our valuation. We apply a 5.5x multiple to FY24 earnings, a ~35% discount to PPE’s offshore peers (ave. 8.3x). We believe this discount is warranted given: (i) our forecast FY24 EBITDA contraction for PPE of 33% is materially worse than the peer group (ave. FY24E contraction of 9%); and (ii) PPE is a fraction of the size of this group (ave. A\$8.7bn market cap). Evidence of improvement in conditions at the 1H result in Feb-24 may cause us to narrow the valuation discount.

Financial summary (Y/E Jun, AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	679.2	1,183	1,134	1,192	1,252
EBITDA norm (\$m)	47.2	61.1	40.8	51.2	54.3
Consensus EBITDA (\$m)			53.1	58.6	63.0
EPS norm (cents)	26.8	28.2	7.1	16.3	22.9
EV/EBITDA (x)	4.8	3.3	5.6	4.2	3.7
P/E (x)	5.4	5.2	20.4	8.9	6.4
Dividend yield (%)	8.9	9.6	4.4	6.5	7.8

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

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Recommendation	MARKET WEIGHT
12-mth target price (AUD)	\$1.39
Share price @ 27-Nov-23 (AUD)	\$1.46
Forecast 12-mth capital return	(4.6%)
Forecast 12-mth dividend yield	4.4%
<b>12-mth total shareholder return</b>	<b>(0.2%)</b>

  

Market cap (\$m)	150.8
Enterprise value (\$m)	199.7
Shares on issue (m)	103.6
Sold short (%)	0.2
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 (%)	(3.6)	(49.7)	(56.2)
Rel return (%)	(6.7)	(49.0)	(54.9)

Key changes		28-Aug	After	Var %
EBITDA	FY24E	56.9	40.8	-28%
norm	FY25E	63.3	51.2	-19%
(\$m)	FY26E	66.9	54.3	-19%
EPS	FY24E	19.5	7.1	-63%
norm	FY25E	26.1	16.3	-37%
(cents)	FY26E	33.1	22.9	-31%
<b>Price target</b>		<b>2.80</b>	<b>1.39</b>	<b>-50%</b>
<b>Rating</b>		<b>O/W</b>	<b>M/W</b>	

## Business Description

PeopleIn Ltd (PPE) is a contract hire and permanent recruitment provider with operations primarily across Australia, and a small presence in Singapore and New Zealand. PPE services a diverse range of sectors, including nursing, community care, technology, accounting & finance, government, food services, child care, resources, renewables, hospitality & retail, construction and manufacturing.

## Catalysts

(i) Recovery in technology and nursing sectors; (ii) Rebound in skilled inbound immigration (e.g. UK/Ireland nurses); (iii) cross sell across verticals; (iv) further expansion in WA/SA/Singapore; (v) leveraging PALM scheme capability into disability & aged care; (vi) acquisitions.

P&L (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	679.2	1,183	1,134	1,192	1,252
EBITDA norm	47.2	61.1	40.8	51.2	54.3
EBIT norm	36.1	44.1	18.1	31.6	40.3
PBT norm	33.9	37.9	11.3	24.9	34.7
NPAT norm	25.5	28.4	7.4	16.9	23.7
NPAT reported	17.7	18.9	7.4	16.9	23.7
EPS norm (cents)	26.8	28.2	7.1	16.3	22.9
DPS (cents)	13.0	14.0	6.4	9.4	11.4

Growth (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	58.1	74.1	(4.1)	5.1	5.1
EBITDA norm	23.9	29.5	(33.2)	25.4	6.1
NPAT norm	22.1	11.5	(74.0)	128.9	40.2
EPS norm (cents)	17.8	5.1	(74.7)	128.9	40.2
DPS (cents)	23.8	7.7	(54.4)	47.6	20.4

Margins and returns (%)	FY22A	FY23A	FY24E	FY25E	FY26E
EBITDA margin	6.9	5.2	3.6	4.3	4.3
EBIT margin	5.3	3.7	1.6	2.6	3.2
PBT margin	5.0	3.2	1.0	2.1	2.8
NPAT margin	3.8	2.4	0.7	1.4	1.9
ROA	9.9	11.1	4.4	7.6	9.4
ROIC	16.9	21.5	7.8	14.0	17.8
ROE	17.9	17.7	4.7	10.0	12.9

Interims (\$m)	2H22A	1H23A	2H23A	1H24E	2H24E
Sales	364.6	594.4	588.3	560.1	574.1
EBITDA norm	25.6	32.5	28.6	20.2	20.6
EBIT norm	19.5	24.4	19.7	8.4	9.7
PBT norm	18.4	21.6	16.3	5.1	6.2
NPAT norm	14.5	16.2	12.2	3.3	4.1
NPAT reported	13.4	13.8	5.2	3.3	4.1
EPS norm (cents)	15.0	16.2	12.0	3.2	4.0
DPS (cents)	6.5	7.0	7.0	3.2	3.2

Stock specific	FY22A	FY23A	FY24E	FY25E	FY26E
ISS revenue (\$m)	415.0	872.5	865.6	909.4	955.5
H&C revenue (\$m)	139.2	147.4	121.0	127.1	133.5
PS revenue (\$m)	128.2	166.4	147.6	155.1	163.0
ISS EBITDA (\$m)	21.6	41.1	36.8	40.9	43.0
H&C EBITDA (\$m)	12.0	9.3	5.4	8.6	9.3
PS EBITDA (\$m)	17.6	15.0	10.3	14.0	14.7
NPATA norm (\$m)	31.9	37.6	16.6	24.4	29.4

Source: Company data, Wilsons estimate, Refinitiv, IRESS.  
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## Investment Thesis

The strength of PPE's business model has historically been its diversification. However, this has been increasingly challenged in FY23 and FY24ytd, given the downturn in the technology and nursing sectors, among others. With the near-term earnings outlook facing heightened uncertainty, we downgrade to MARKET WEIGHT. Owing to its size, and the quantum of its likely earnings contraction in FY24, we believe PPE warrants a substantial valuation discount to its larger offshore peers.

## Risks

(i) Protracted weakness in IT and nursing employment markets; (ii) slower than expected rebound in immigration of skilled nurses; (iii) loss of market share to existing or new competitors; (iv) RBA tightening cycle leads to a material economic slowdown.

Balance sheet (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash & equivalents	27.0	39.9	22.2	30.7	37.8
Current receivables	107.5	120.3	158.8	166.8	175.3
Current inventory	0.0	0.0	0.0	0.0	0.0
PPE	15.9	29.8	26.3	24.3	26.1
Intangibles	202.0	203.2	198.0	191.5	186.8
Other assets	12.4	3.7	3.7	3.7	3.7
Total assets	364.8	396.9	409.1	417.1	429.7
Current payables	51.0	66.6	81.9	85.4	89.7
Total debt	98.4	85.4	95.5	87.5	79.6
Other liabilities	68.3	79.1	67.1	69.0	70.4
Total liabilities	222.4	236.9	250.3	247.7	245.5
Minorities	2.6	3.4	5.2	7.0	8.8
Shareholders equity	139.8	156.6	153.6	162.4	175.4

Cash flow (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating cash flow	22.1	64.4	8.4	34.5	35.8
Maintenance capex	(4.5)	(9.1)	(7.0)	(4.0)	(4.0)
Free cash flow	17.6	55.3	1.4	30.5	31.8
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals	(49.8)	(12.2)	(13.2)	0.0	0.0
Dividends paid	(10.6)	(12.7)	(10.4)	(8.1)	(10.8)
Other cash flow	(3.6)	(4.6)	(5.6)	(5.9)	(6.1)
Cash flow pre-financing	(46.5)	25.8	(27.8)	16.5	14.9
Funded by equity	0.3	0.0	0.0	0.0	0.0
Funded by cash/debt	(13.6)	(12.9)	17.7	(8.5)	(7.1)

Liquidity	FY22A	FY23A	FY24E	FY25E	FY26E
Cash conversion (%)	80.8	130.2	47.0	94.3	95.4
Net debt (\$m)	71.4	45.6	73.3	56.8	41.9
Net debt / EBITDA (x)	1.5	0.7	1.8	1.1	0.8
ND / ND + Equity (%)	33.4	22.2	31.6	25.1	18.5
EBIT / Interest expense (x)	16.8	7.1	2.7	4.7	7.2

Valuation	FY22A	FY23A	FY24E	FY25E	FY26E
EV / Sales (x)	0.3	0.2	0.2	0.2	0.2
EV / EBITDA (x)	4.8	3.3	5.6	4.2	3.7
EV / EBIT (x)	6.2	4.5	12.6	6.8	5.0
P / E (x)	5.4	5.2	20.4	8.9	6.4
P / BV (x)	1.0	0.9	0.9	0.9	0.8
FCF yield (%)	12.2	37.4	1.0	20.2	21.1
Dividend yield (%)	8.9	9.6	4.4	6.5	7.8
Payout ratio (%)	48.5	49.7	89.6	57.7	49.6
Franking (%)	100.0	100.0	100.0	100.0	100.0
Weighted shares (m)	95.0	100.7	103.6	103.6	103.6

# Earnings Changes

**Figure 1: Summary of our revised forecasts**

Y/E Jun, AUD	1H24			2H24			FY24			FY25			
	Old	New	% chg	Old	New	% chg	Old	New	% chg	Old	New	% chg	
<b>Revenue growth</b>													
Industrial & Specialist	%	1.0%	(2.5%)	(3.5%)	3.5%	2.5%	(1.0%)	3.3%	(0.8%)	(4.1%)	5.6%	5.1%	(0.5%)
Health & Community	%	7.5%	(15.0%)	(22.5%)	7.5%	2.5%	(5.0%)	6.4%	(17.9%)	(24.3%)	7.5%	5.1%	(2.5%)
Professional Services	%	3.5%	(10.0%)	(13.5%)	5.0%	2.5%	(2.5%)	3.3%	(11.3%)	(14.6%)	6.3%	5.1%	(1.3%)
<b>Revenue</b>													
Industrial & Specialist	\$m	442.8	427.5	(3.5%)	458.3	438.2	(4.4%)	901.1	865.6	(3.9%)	951.3	909.4	(4.4%)
Health & Community	\$m	75.6	59.7	(20.9%)	81.2	61.2	(24.6%)	156.8	121.0	(22.8%)	168.6	127.1	(24.6%)
Professional Services	\$m	83.8	72.9	(13.0%)	88.0	74.7	(15.1%)	171.9	147.6	(14.1%)	182.7	155.1	(15.1%)
<b>Group revenue</b>	<b>\$m</b>	<b>602</b>	<b>560</b>	<b>(7.0%)</b>	<b>628</b>	<b>574</b>	<b>(8.5%)</b>	<b>1,230</b>	<b>1,134</b>	<b>(7.8%)</b>	<b>1,303</b>	<b>1,192</b>	<b>(8.5%)</b>
<b>EBITDA margins</b>													
Industrial & Specialist	%	4.6%	4.25%	(0.4%)	4.6%	4.25%	(0.4%)	4.6%	4.25%	(0.4%)	4.6%	4.5%	(0.1%)
Health & Community	%	5.5%	4.5%	(1.0%)	6.0%	4.5%	(1.5%)	5.8%	4.5%	(1.3%)	6.8%	6.8%	-
Professional Services	%	8.0%	7.0%	(1.0%)	8.5%	7.0%	(1.5%)	8.3%	7.0%	(1.3%)	9.0%	9.0%	-
<b>EBITDA rep</b>													
Industrial & Specialist	\$m	20.4	18.2	(10.8%)	21.1	18.6	(11.7%)	41.5	36.8	(11.2%)	43.8	40.9	(6.5%)
Health & Community	\$m	4.2	2.7	(35.3%)	4.9	2.8	(43.5%)	9.0	5.4	(39.7%)	11.4	8.6	(24.6%)
Professional Services	\$m	6.7	5.1	(23.9%)	7.5	5.2	(30.1%)	14.2	10.3	(27.2%)	16.4	14.0	(15.1%)
Corporate	\$m	(4.9)	(4.9)	-	(5.1)	(5.1)	-	(10.0)	(10.0)	-	(10.5)	(10.5)	-
<b>Group EBITDA rep</b>	<b>\$m</b>	<b>26.3</b>	<b>21.1</b>	<b>(20.0%)</b>	<b>28.3</b>	<b>21.5</b>	<b>(24.1%)</b>	<b>54.7</b>	<b>42.6</b>	<b>(22.1%)</b>	<b>61.1</b>	<b>53.0</b>	<b>(13.3%)</b>
<b>EBITDA norm</b>	<b>\$m</b>	<b>27.5</b>	<b>20.2</b>	<b>(26.5%)</b>	<b>29.5</b>	<b>20.6</b>	<b>(30.0%)</b>	<b>56.9</b>	<b>40.8</b>	<b>(28.3%)</b>	<b>63.3</b>	<b>51.2</b>	<b>(19.2%)</b>
NPAT norm	\$m	9.0	3.3	(63.3%)	10.8	4.1	(62.2%)	19.8	7.4	(62.7%)	26.5	16.9	(36.1%)
<b>NPATA norm</b>	<b>\$m</b>	<b>13.8</b>	<b>8.1</b>	<b>(41.3%)</b>	<b>15.2</b>	<b>8.5</b>	<b>(44.3%)</b>	<b>29.0</b>	<b>16.6</b>	<b>(42.9%)</b>	<b>34.0</b>	<b>24.4</b>	<b>(28.1%)</b>
EPS norm (basic)	cps	8.8	3.2	(63.7%)	10.7	3.9	(63.2%)	19.5	7.1	(63.4%)	26.1	16.3	(37.4%)
<b>NPATA/sh norm (basic)</b>	<b>cps</b>	<b>13.6</b>	<b>7.9</b>	<b>(41.9%)</b>	<b>15.0</b>	<b>8.1</b>	<b>(45.9%)</b>	<b>28.5</b>	<b>16.0</b>	<b>(44.0%)</b>	<b>33.5</b>	<b>23.6</b>	<b>(29.5%)</b>
DPS	cps	5.4	3.2	(41.9%)	6.0	3.2	(45.9%)	11.4	6.4	(44.0%)	13.4	9.4	(29.5%)

Source: Wilsons.

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