

26 June 2023

PeopleIn Limited (PPE)

BUY**Share Price: A\$2.18**

Tailwinds persist

Target Price: A\$4.20

With PPE underperforming the Small Industrials by >20% in less than a month, we revisit the investment case. The market appears to be pricing in a significant decline in earnings in FY24 which seems unlikely given a stubbornly tight labour market and tailwinds in specific sectors. We believe investors willing to look through the uncertain economic environment will be rewarded. We reiterate our BUY recommendation with a revised target price of \$4.20 (from \$4.90).

Key points

- While the business-as-usual outcome of the strategic review was not the result that the market was expecting, we are surprised at the extent of the subsequent share price decline. PPE has fallen ~26.1% since the review was concluded compared with a 2.7% fall in the XSI.
- Based on consensus forecasts, PPE is now trading at a 64% discount to the Small Industrials 12-mth forward PE of 16.8x. Its 5-year average is a 39% discount which translates to 10.2x in this market.
- The market appears to be pricing in a ~40% earnings decline in FY24 (applying PPE's average discount to market to the current share price). Given PPE's growth constraints relate primarily to labour supply rather than demand, unemployment at 3.6% and the strategic positioning of PPE in high demand, defensive sectors such a decline seems highly unlikely in our view.

Investment case

- While we are cognisant of macro headwinds given the economic slowdown, we are confident that management can grow earnings in FY24 due to tailwinds from: (i) a near term surge in immigration, (ii) a \$4-5m EBITDA shortfall in Health & Community from pre-Covid levels to be recovered over time and (iii) continued albeit slower growth in ISS and Perigon.
- A modest rise in unemployment should be positive for PPE as it would free up labour supply. PPE benefits from wage inflation which we estimate provides an earnings tailwind of over 3%.
- PPE's strategic positioning in high demand, defensive sectors such as early learning, food services, health and infrastructure provide a solid earnings base.

Change to target price

- We have been valuing PPE on a DCF-basis to date. We now switch to a PE-relative basis applying the average discount to the Small Industrials multiple. This reduces our target price 14% to \$4.20 - still close to double the current share price.
- We reiterate our Buy recommendation.

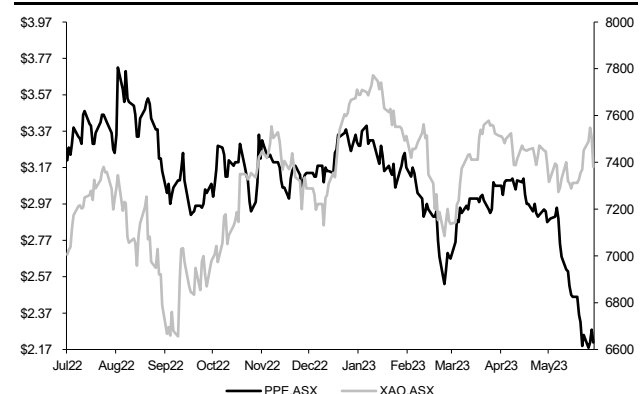
Company Data

Shares – ordinary (M)	101.6
Dilution (M)	3.1
Total (fully diluted) (M)	104.6
Market capitalisation (\$M)	221.4
12 month low/high (\$)	2.09/ 3.94
Average monthly turnover (\$M)	24.5
GICS Industry	Professional Services

Financial Summary (fully diluted/normalised)

Year end June	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue (\$M)	429.7	679.2	1211.3	1285.8	1369.3
Costs (\$M)	-391.6	-632.2	-1147.2	-1215.3	-1291.7
EBITDA (\$M)	38.0	47.0	64.1	70.5	77.6
NPATA (\$M)	25.0	31.2	38.9	42.9	48.2
EPS (¢ps)	26.1	32.0	37.5	41.0	46.1
EPS Growth (%)	14%	23%	17%	9%	12%
PER (x)	8.4	6.8	5.8	5.3	4.7
Free Cashflow (\$M)	6.3	17.6	27.9	34.3	50.0
FCFPS (¢ps)	6.2	17.3	27.5	33.8	49.2
P/FCFPS (x)	35.3	12.6	7.9	6.5	4.4
EV (\$M)	254.6	306.0	317.3	309.7	280.1
EV / EBITDA (x)	6.7	6.5	5.0	4.4	3.6
Payout ratio (%)	40%	41%	39%	39%	44%
Dividends (¢ps)	10.5	13.0	14.5	16.0	17.0
Yield (%)	4.8%	6.0%	6.7%	7.3%	7.8%
Franking (%)	100%	100%	100%	100%	100%

PPE – performance over one year



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Analysis

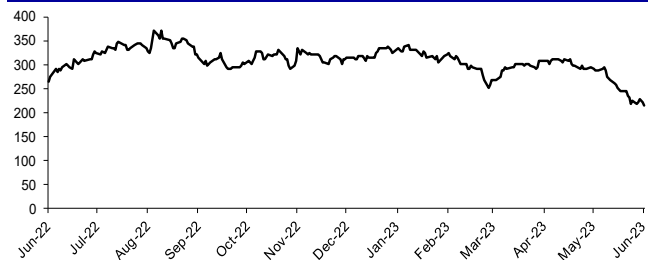
PeopleIn Limited

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	2.18
Target price (12-month)	\$	4.20
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.	104.6

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	FY21A	FY22A	FY23F	FY24F	FY25F
NPAT (reported)	\$m 17.7	17.7	28.0	33.7	40.1
NPATA (underlying)	\$m 25.0	31.2	38.9	42.9	48.2
EPS (Reported, undiluted)	¢ 19.3	18.6	27.8	33.2	39.5
EPS (NPATA, diluted)	¢ 26.1	32.0	37.5	41.0	46.1
Growth	% 14%	23%	17%	9%	12%
PER normalised	x 8.4	6.8	5.8	5.3	4.7
Operating cash flow per share	¢ 7.5	21.7	36.3	39.4	53.6
Free cash flow per share	¢ 6.2	17.3	27.5	33.8	49.2
Price to free cash flow per share	x 35.3	12.6	7.9	6.5	4.4
FCF yield	% 2.8	7.9	12.6	15.5	22.6

Dividend	¢ 10.5	13.0	14.5	16.0	17.0
Payout	% 40	41	39	39	37
Yield	% 4.8%	6.0%	6.7%	7.3%	7.8%
Franking	% 100.0	100.0	100.0	100.0	100.0

Enterprise value	\$m 254.6	306.0	317.3	309.7	280.1
EV/EBITDA	x 6.7	6.5	5.0	4.4	3.6
EV/EBIT	x 8.1	8.5	6.7	5.8	4.6
Price to book (NAV)	x 1.9	1.6	1.3	1.2	1.0
Price to NTA	x na	na	na	na	7.6

KEY RATIOS

	FY21A	FY22A	FY23F	FY24F	FY25F
EBITDA margin	% 8.9	6.9	5.3	5.5	5.7
EBIT margin	% 7.3	5.3	3.9	4.2	4.5
NPAT margin	% 5.8	4.6	3.2	3.3	3.5
ROE	% 21.8	21.9	23.1	22.5	22.3
ROA	% 11.5	8.6	9.5	10.4	11.9
Net debt / (cash)	\$m 25.2	71.4	69.7	61.1	30.7
Interest cover (EBIT / Net interest)	x 23.0	19.7	10.1	11.6	16.6
Leverage (Net debt / EBITDA)	x 0.7	1.5	1.1	0.9	0.4
Gearing (ND / (ND+E))	% 18%	33%	29%	24%	12%

DUPONT ANALYSIS

	FY21A	FY22A	FY23F	FY24F	FY25F
Net Profit Margin	% 5.8	4.6	3.2	3.3	3.5
Asset Turnover	x 2.0	1.9	2.9	3.1	3.4
Return on Assets	% 11.5	8.6	9.5	10.4	11.9
Financial Leverage	x 1.9	2.6	2.4	2.2	1.9
Return on Equity	% 21.8	21.9	23.1	22.5	22.3

GROWTH PROFILE

	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue	% 19.6	58.1	78.3	6.1	6.5
EBITDA	% 44.1	23.4	36.4	10.0	10.1
EBIT	% 43.1	14.5	31.8	13.0	14.8
NPATA	% 36.0	24.9	24.7	10.2	12.5
EPS (NPATA, diluted)	% 13.8	22.7	17.1	9.4	12.5

PROFIT AND LOSS (PF)

	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue	\$m 429.7	679.2	1,211.3	1,285.8	1,369.3
EBITDA	\$m 38.0	47.0	64.1	70.5	77.6
Depreciation & amortisation	\$m 6.7	11.1	16.8	17.1	16.3
EBIT	\$m 31.3	35.9	47.3	53.4	61.3
Net interest	\$m (1.5)	(2.1)	(5.6)	(5.4)	(4.2)
Pretax Profit	\$m 29.8	33.7	41.7	48.0	57.1
Tax expense	\$m (8.9)	(8.4)	(11.0)	(13.3)	(15.8)
NPAT	\$m 20.9	24.7	29.8	33.7	40.1
Amortisation add-back	\$m 4.1	6.5	9.1	9.2	8.1
NPATA	\$m 25.0	31.2	38.9	42.9	48.2
Significant items	\$m (3.1)	(7.1)	(1.8)	0.0	0.0
Reported NPAT	\$m 17.7	17.7	28.0	33.7	40.1

BALANCE SHEET

	FY21A	FY22A	FY23F	FY24F	FY25F
Cash	\$m 13.7	27.0	22.1	15.8	10.3
Receivables	\$m 76.0	107.5	144.8	163.3	173.9
Inventory	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 1.7	12.2	16.0	17.0	18.1
Current	\$m 91.4	146.7	183.0	196.1	202.3
Prop, plant & equip	\$m 9.1	15.8	26.2	20.8	16.4
Intangibles	\$m 116.9	202.0	201.0	195.0	187.5
Other	\$m 0.0	0.2	0.5	0.6	0.6
Non current	\$m 126.0	218.1	227.7	216.3	204.5
Total assets	\$m 217.4	364.8	410.6	412.4	406.8
Accounts Payable	\$m 33.7	51.0	70.3	74.6	79.4
Borrowings	\$m 39.0	98.4	91.8	77.0	41.0
Lease liabilities	\$m 8.0	13.2	26.2	27.2	28.0
Other	\$m 22.1	60.0	54.0	43.3	41.8
Total liabilities	\$m 102.8	222.4	242.3	222.0	190.3
Shareholder's equity	\$m 114.6	142.4	168.4	190.4	216.5

CASH FLOW

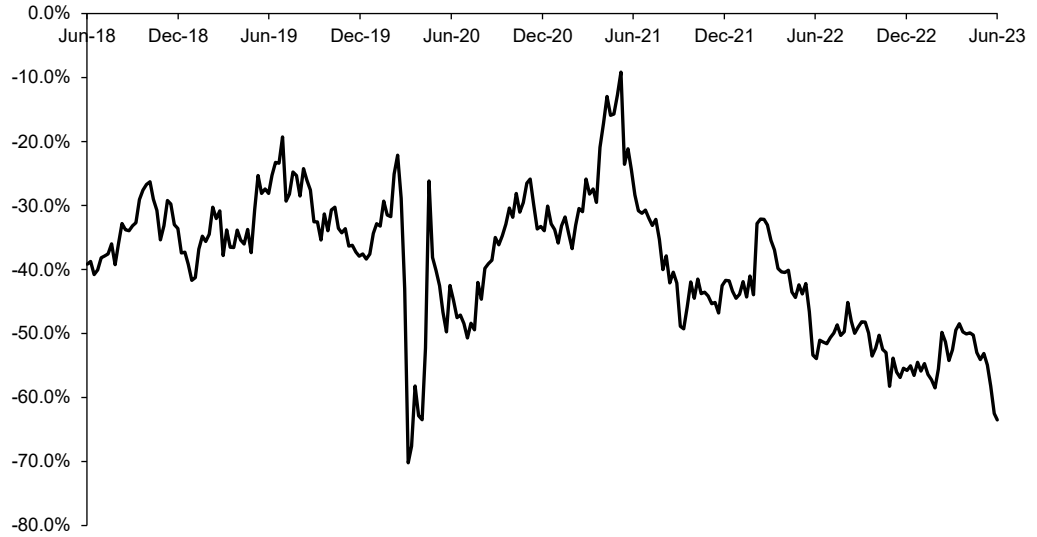
	FY21A	FY22A	FY23F	FY24F	FY25F
EBITDA	\$m 38.0	47.0	64.1	70.5	77.6
Change in working capital	\$m (17.8)	(5.5)	(17.4)	(14.1)	(5.8)
Net interest	\$m (1.5)	(2.1)	(4.1)	(5.4)	(4.2)
Tax paid	\$m (11.2)	(13.9)	(9.2)	(13.3)	(15.8)
Other	\$m 0.2	(3.3)	3.4	2.3	2.6
Operating cash flow	\$m 7.6	22.1	36.8	40.0	54.4
Capex	\$m (0.8)	(2.4)	(4.0)	(2.5)	(3.8)
Acquisitions	\$m (22.0)	(49.6)	(10.1)	(10.0)	(4.0)
Purchase of intangibles	\$m (0.5)	(2.1)	(4.9)	(3.2)	(0.6)
Investing cash flow	\$m (23.3)	(54.3)	(19.1)	(15.7)	(8.4)
Equity issuance	\$m 0.6	0.3	0.0	0.0	0.0
Change in financial liabilities	\$m 4.3	55.8	(9.1)	(13.8)	(35.1)
Dividends / other	\$m (7.1)	(10.6)	(13.7)	(16.8)	(16.4)
Financing cash flow	\$m (2.1)	45.6	(22.8)	(30.6)	(51.5)
Net cash flow	\$m (17.8)	13.3	(5.0)	(6.3)	(5.5)
Free cash flow	\$m 6.3	17.6	27.9	34.3	50.0

Source: Petra Capital

PPE historical trading discount

Based on Bloomberg consensus estimates, PPE has traded at an average discount of 39% to the Small Industrials (Figure 1). The current discount is 63% - a level not seen since April 2020 which was at the peak of Covid-19 uncertainty.

Figure 1: PPE – PE relative to the Small Industrials Index



Source: Bloomberg

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