

1 June 2023

PeopleIn Limited (PPE)

BUY**Share Price: A\$2.89****Business as usual****Target Price: A\$4.90**

With PPE's strategic review having delivered a business-as-usual outcome, it appears that the Board's view of the outlook for the business and executing the existing 3-year strategic plan was superior to any alternatives that may have been considered as part of the process. To us, this reflects a strong belief in the business and in management to deliver positive outcomes for shareholders. We reiterate our BUY recommendation with our target price edging back to \$4.90 (from \$5.20).

Key points

- The review has concluded that maximising shareholder value is best served by the company continuing to execute on its existing 3-year strategic plan. The ongoing focus will be on resilient sectors with long term demand for staff, cross-selling between brands and international recruitment.
- Given the length of the review and the appointment of both financial and legal advisers at the time, it seems reasonable to conclude that selling the company to a third party was one of the options considered.
- The fact that this has not occurred suggests to us that the relevant parties were unable to reach an agreed valuation of the business. Moreover, it reflects management's belief in the outlook for the business given tailwinds such as faster visa processing times and broader migration reforms which should assist in alleviating the current labour supply issue.

Investment case

- We believe the outlook remains positive for PPE given the ongoing tight labour market (unemployment at 3.5%), the company's diversification across industry sectors providing a degree of risk management, an improved outlook for immigration and a strong track record of organic growth.
- At an EV/EBITDA multiple of 5.4x in FY24 and a normalised PE of 7.0x, value appears compelling.

Financial summary

- Management has reiterated FY23 EBITDA guidance of \$62m-\$66m. We note that the comment "expect to be at the upper end of guidance" included at the half-year result has been omitted this time.
- We have adjusted our forecasts accordingly with our FY23 EBITDA forecast down 2.7% to \$64.1m and NPATA down 4.6% to \$38.9m. FY24 and FY25 are similarly adjusted as noted on page 3.
- Our DCF valuation reduces 5.8% to \$4.90. We reiterate our Buy recommendation.

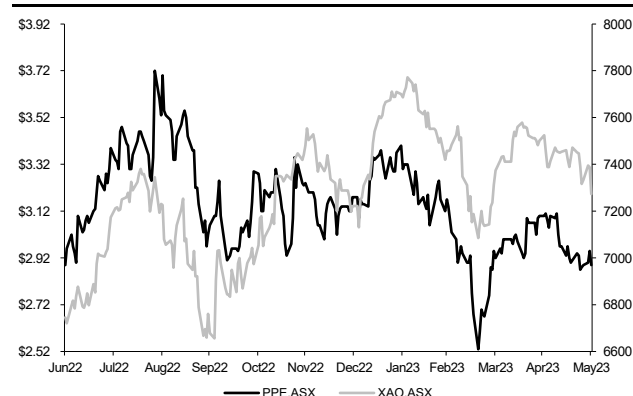
Company Data

Shares – ordinary (M)	101.6
Dilution (M)	3.1
Total (fully diluted) (M)	104.6
Market capitalisation (\$M)	293.5
12 month low/high (\$)	2.49/ 3.94
Average monthly turnover (\$M)	15.6
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)	11.1	9.0	7.7	7.0	6.3
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)	46.7	16.7	10.5	8.6	5.9
EV (\$M)	326.7	378.1	389.4	381.9	352.2
EV / EBITDA (x)	8.6	8.1	6.1	5.4	4.5
Payout ratio (%)	40%	41%	39%	39%	44%
Dividends (¢ps)	10.5	13.0	14.5	16.0	17.0
Yield (%)	3.6%	4.5%	5.0%	5.5%	5.9%
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

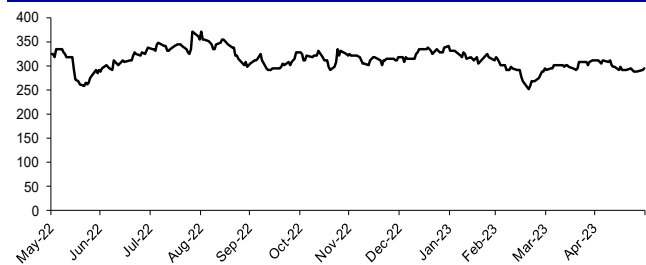
PeopleIn Limited

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	2.89
Target price (12-month)	\$	4.90
52 week low / high	\$	2.49 / 3.94
Market capitalisation	\$m	293.5
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 11.1	9.0	7.7	7.0	6.3
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 46.7	16.7	10.5	8.6	5.9
FCF yield	% 2.1	6.0	9.5	11.7	17.0

Dividend	¢ 10.5	13.0	14.5	16.0	17.0
Payout	% 40	41	39	39	37
Yield	% 3.6%	4.5%	5.0%	5.5%	5.9%
Franking	% 100.0	100.0	100.0	100.0	100.0

Enterprise value	\$m 326.7	378.1	389.4	381.9	352.2
EV/EBITDA	x 8.6	8.1	6.1	5.4	4.5
EV/EBIT	x 10.4	10.5	8.2	7.1	5.7
Price to book (NAV)	x 2.6	2.1	1.7	1.5	1.4
Price to NTA	x na	na	na	na	10.1

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

Changes to forecasts

The changes to our earnings forecasts are summarised in Figure 1.

Figure 1: Changes to earnings forecasts (\$m)

	FY23			FY24			FY25		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	1195	1,211	1.3%	1,291	1,286	-0.4%	1,375	1,369	-0.4%
EBITDA	65.8	64.1	-2.7%	72.4	70.5	-2.6%	80.3	77.6	-3.4%
Dep'n & amort'n	16.8	16.8	0.0%	17.1	17.1	0.0%	16.3	16.3	0.0%
EBIT	49.0	47.3	-3.6%	55.3	53.4	-3.4%	64.0	61.3	-4.2%
Net interest	(5.5)	(5.6)	2.4%	(5.4)	(5.4)	0.0%	(4.2)	(4.2)	0.0%
Pretax Profit	43.6	41.7	-4.4%	49.9	48.0	-3.8%	59.8	57.1	-4.5%
Tax expense	(11.4)	(11.0)	-3.6%	(13.7)	(13.3)	-3.2%	(16.4)	(15.8)	-4.0%
NPAT	31.7	29.8	-6.0%	35.7	33.7	-5.5%	42.7	40.1	-6.0%
Amort'n add-back	9.1	9.1	0.0%	9.2	9.2	0.0%	8.1	8.1	0.0%
NPATA	40.8	38.9	-4.6%	44.8	42.9	-4.4%	50.8	48.2	-5.1%
Significant items	(1.8)	(1.8)	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
<i>Reported NPAT</i>	<i>29.9</i>	<i>28.0</i>	<i>-6.3%</i>	<i>35.7</i>	<i>33.7</i>	<i>-5.5%</i>	<i>42.7</i>	<i>40.1</i>	<i>0.0%</i>
EPS (cps)	39.2	37.5	-4.5%	42.6	41.0	-3.7%	48.0	46.1	-3.9%

Source: Petra Capital



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