

17 July 2024

PeopleIn Limited (PPE)

BUY **Share Price: A\$0.96**

Strong base, primed for a return of cyclical earnings **Target Price: A\$1.26**

Management has done a commendable job of guiding the business through a persistently difficult external environment. While these efforts are yet to materially impact the P&L, PPE is well positioned to see a material expansion of earnings when markets in higher margin segments improve. Relative to our FY24 forecasts, ABS data shows hours worked in PPE's lower margin sub-verticals were strong but higher margin areas (e.g. Tech) remain subdued. While this mix impacts our prior margins, PPE's current trading multiple reflects the point in the cycle. **BUY. \$1.26 TP.**

ABS data suggests 1H24 trends continuing

- ABS data on the aggregate hours worked across PPE's key sub-verticals during FY24 (12m to May) has mixed implications for the composition of our revenue forecasts.
- Health and Community (e.g. Health Care and Social Assistance) continues to perform strongly as do select areas within the Industrial and Specialist division (e.g. Mining, Agriculture, and Manufacturing). Conversely, Accommodation and Food Services remain weak and there are few signs of improvement in higher margin areas relevant to the Professional Services division.
- Before considering other potential share gains/losses, the data suggests PPE should deliver low single digit earnings growth for FY24 on a lower margin than our prior forecast. We therefore cut FY24 earnings and use more conservative settings in FY25+. We note PPE's higher leverage to future growth given cost cuts in 1H24.

Investment case

- Quality management and balance sheet will allow PPE to gain share through the cycle low and emerge from the trough in a stronger market position.
- Structural cost reductions have increased PPE's leverage to an eventual improvement in higher margin areas of the market.
- PPE is trading below its mid-cycle multiple.

Financial Summary

- Valuation – \$1.26 (8.2x FY25e EV/EBIT)
- Cash – \$24.3m FY25e
- Debt – \$108.7m FY25e
- PE – 12.6x FY25e
- EPS Growth – -7.3% FY25e, +19.7% 3yr CAGR
- Yield – 3.4% FY25e

Key Dates Ahead

- NAB business survey (July) – 13th August

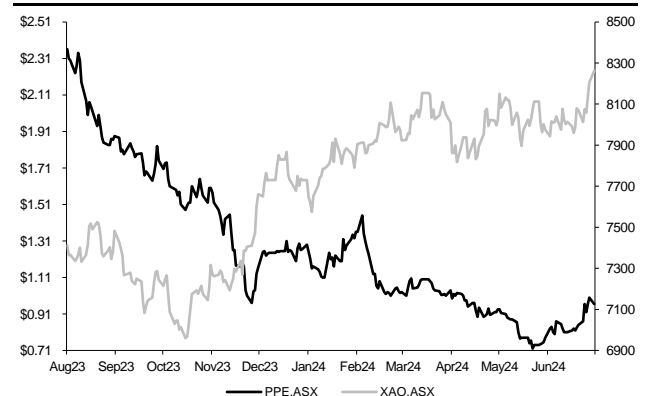
Company Data

Shares – ordinary (M)	104.5
Dilution (M)	0.7
Total (fully diluted) (M)	105.2
Market capitalisation (\$M)	100.8
12 month low/high (\$)	0.7/ 2.56
Average monthly turnover (\$M)	12
GICS Industry	Professional Services

Financial Summary (fully diluted/normalised)

June Year End	2022A	2023A	2024F	2025F	2026F
Total revenue (A\$m)	682.3	1186.4	1203.5	1216.5	1238.5
Costs (A\$m)	-635.2	-1125.3	-1169.2	-1179.2	-1196.8
EBIT (A\$m)	36.1	44.1	17.7	21.1	26.2
NPAT (A\$m)	24.6	26.6	9.1	8.1	11.9
EPS (cps)	32.8	36.3	18.2	16.9	20.2
EPS growth (%)	27.5%	10.7%	-49.9%	-7.3%	19.5%
PER (x)	3.8	3.7	11.2	12.6	8.5
EV (A\$m)	352.4	289.0	182.7	184.4	180.9
EV/EBITDA (x)	7.5	4.7	5.3	4.9	4.3
EV/EBIT (x)	9.8	6.6	10.3	8.7	6.9
ROIC (%)	0%	0%	0%	0%	0%
Net debt (A\$m)	71.4	45.6	82.7	84.4	80.9
ND/ND+E (%)	33%	22%	34%	37%	36%
Dividend (¢ps)	13.0	14.0	3.2	3.3	5.1
Dividend Yield (%)	4.5%	6.0%	3.3%	3.4%	5.3%
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.

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Analysis

Peoplein Limited (PPE)

Jun Year end

Market Data

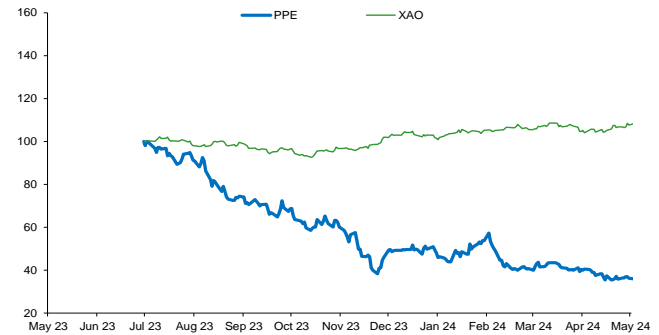
Recommendation	Buy
Price	\$0.96
Target Price (12-month) (A\$ps)	\$1.26
Market cap (\$m)	100.3
Shares on issue (basic)	104.5
Options / Other	0.7
Diluted issued capital (m)	105.2

Profit & Loss (A\$m)	2022a	2023a	2024e	2025e	2026e
Total revenue	682.3	1,186.4	1,203.5	1,216.5	1,238.5
... Change	53.6%	73.9%	1.4%	1.1%	1.8%
EBITDA - Adj.	47.2	61.1	34.3	37.3	41.7
... Change	23.9%	29.5%	-43.9%	8.7%	12.0%
Deprec. & amort.	(11.1)	(17.0)	(16.6)	(16.1)	(15.5)
EBIT - Adj.	36.1	44.1	17.7	21.1	26.2
Net Interest	(2.1)	(6.2)	(8.3)	(8.8)	(8.4)
Pre-tax profit	33.9	37.9	9.4	12.4	17.9
Tax expense	(8.6)	(9.7)	0.6	(3.7)	(5.4)
... tax rate	25%	26%	-6%	30%	30%
Minorities/Prefs	(0.7)	(1.5)	(0.9)	(0.6)	(0.6)
Net Profit	24.6	26.6	9.1	8.1	11.9
... Change	19.0%	8.2%	-65.9%	-11.1%	47.4%
EBITDA - statutory	40.2	53.4	29.2	34.7	38.8
EBIT - statutory	29.1	36.4	12.6	18.6	23.3
NPATA	31.9	37.6	19.1	17.7	21.2

Cashflow (A\$m)	2022a	2023a	2024e	2025e	2026e
Customer receipts	753.1	1,301.6	1,330.9	1,344.2	1,353.7
Supplier Payments	(715.0)	(1,222.0)	(1,326.6)	(1,317.5)	(1,316.5)
Net Interest	(2.1)	(5.4)	(7.7)	(8.8)	(8.4)
Tax	(13.9)	(9.8)	(8.2)	(3.7)	(5.4)
Other operating items	-	-	-	-	-
Operating Cash Flow	22.1	64.4	(11.6)	14.2	23.5
Capex	(2.4)	(4.3)	(3.1)	(3.1)	(3.2)
Other	(51.9)	(16.8)	(9.8)	(3.3)	(5.4)
Investing Cash Flow	(54.3)	(21.1)	(13.0)	(6.4)	(6.6)
Changes in equity	0.3	-	-	-	-
Increase/(decrease) in borrowings	59.4	(12.9)	21.3	2.0	-
Dividends paid	(10.6)	(12.7)	(6.7)	(3.5)	(5.4)
Other	(3.6)	(4.9)	(5.9)	(6.0)	(6.1)
Financing Cash Flow	45.6	(30.5)	8.6	(7.4)	(11.4)
Change in cash (pre-FX)	13.3	12.8	(15.9)	0.3	3.4

Balance Sheet (A\$m)	2022a	2023a	2024e	2025e	2026e
Cash	27.0	39.9	24.0	24.3	27.8
Receivables	115.8	120.3	128.7	130.7	133.4
Other	3.9	3.5	20.4	15.7	15.7
Current Assets	146.7	163.7	173.0	170.7	176.8
PP&E	15.8	29.8	27.9	25.5	23.3
Intangibles	202.0	203.2	199.8	193.1	187.7
Other	0.3	0.2	0.1	0.1	0.1
Non Current Assets	218.1	233.2	227.8	218.7	211.2
Total Assets	364.8	396.9	400.8	389.5	388.0
Payables	51.0	66.6	65.5	66.5	67.9
Financial liabilities ex-leases	32.6	27.9	56.0	56.0	56.0
Leases	4.9	5.7	5.5	5.7	5.9
Provisions	16.7	25.4	26.8	26.8	26.8
Other	15.1	14.1	9.6	8.7	7.2
Current Liabilities	120.2	139.7	163.4	163.7	163.7
Financial liabilities ex-leases	65.7	57.5	50.7	52.7	52.7
Leases	8.3	21.9	20.8	21.4	22.0
Provisions	0.9	1.3	1.2	1.2	1.2
Other	27.3	16.4	6.5	6.5	6.5
Non Current Liabilities	102.2	97.1	79.2	81.8	82.4
Total Liabilities	222.4	236.9	242.5	245.5	246.1
Net Assets	142.4	160.0	158.3	144.0	141.9
Share Capital	101.5	107.6	109.0	109.0	109.0
Retained Earnings	32.8	38.1	36.6	41.2	47.7
Reserves	5.5	10.9	9.4	(9.5)	(18.1)
Shareholders Equity	139.8	156.6	155.0	140.7	138.6
Outside Equity Interests	2.6	3.4	3.3	3.3	3.3
Total Equity	142.4	160.0	158.3	144.0	141.9
Net debt ex. LT leases/(cash) \$m	71.4	45.6	82.7	84.4	80.9

12-Month Share Price Performance



Valuation Ratios	2022a	2023a	2024e	2025e	2026e
EPS (eps) - NPATA	32.8	36.3	18.2	16.9	20.2
... % change	27.5%	10.7%	-49.9%	-7.3%	19.5%
EPS (eps) - normalised	25.3	25.7	8.6	7.7	11.3
PE (x) - normalised EPS	3.8	3.7	11.1	12.5	8.5
EV/EBITDA (x)	7.5	4.7	5.3	4.9	4.3
EV/EBIT (x)	9.8	6.6	10.3	8.7	6.9
DPS (eps)	13.0	14.0	3.2	3.3	5.1
... % pay-out	51.4%	54.4%	36.8%	43.1%	45.0%
Yield (%)	4.5%	6.0%	3.3%	3.4%	5.3%
Franking (%)	100%	100%	100%	100%	100%

Performance Ratios	2022a	2023a	2024e	2025e	2026e
Revenue growth (%)	53.6%	73.9%	1.4%	1.1%	1.8%
EBIT growth (%)	15.1%	22.3%	-59.9%	19.7%	24.1%
EBIT margin (%)	5.3%	3.7%	1.5%	1.7%	2.1%
ROE (%)	35.6%	35.2%	12.6%	12.0%	17.6%
ROA (%)	13.9%	14.2%	5.0%	4.5%	6.4%
Interest Cover (x)	16.8	7.1	2.1	2.4	3.1
ND/EBITDA (x)	1.5	0.7	2.4	2.3	1.9
ND/ND+E (%)	33.4%	22.2%	34.3%	36.9%	36.3%

Key Drivers	2022a	2023a	2024e	2025e	2026e
Revenue					
Industrial and Specialist	415.0	872.5	915.9	922.8	938.9
Health and Community	139.2	147.4	148.2	153.7	156.8
Professional Services	128.2	166.4	139.3	140.0	142.8
EBITDA					
Industrial and Specialist	21.6	41.1	23.8	27.7	30.1
Health and Community	12.0	9.3	7.2	8.1	8.5
Professional Services	17.6	15.0	6.4	7.4	9.1
Unallocated	(11.0)	(12.0)	(8.2)	(8.5)	(8.8)
Total	40.2	53.4	29.2	34.7	38.8
Adjustments	6.9	7.7	5.1	2.6	2.9
Adj EBITDA	47.2	61.1	34.3	37.3	41.7

Valuation	
FY26 eps (inc 6% TV disc) - c	10.7
Applied PE - x	11.3
Target price - \$/share	1.20

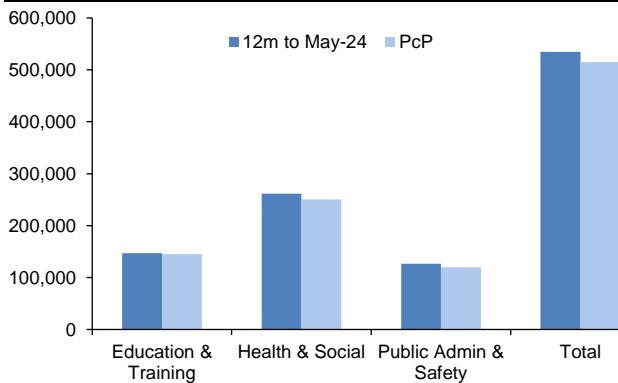
Half yearly (A\$m)	2H22a	1H23a	2H23a	1H24a	2H24e
Sales revenue	366.5	596.6	589.7	602.7	600.7
EBITDA	25.6	32.5	28.6	20.2	14.1
Deprec. & amort.	(6.1)	(8.1)	(8.8)	(8.4)	(8.2)
EBIT	19.5	24.4	19.7	11.8	5.9
Interest expense	(1.1)	(2.8)	(3.5)	(3.8)	(4.4)
Pre-tax profit	18.4	21.6	16.3	8.0	1.4
Tax expense	(3.9)	(5.5)	(4.3)	1.0	(0.4)
... tax rate	21%	25%	26%	-13%	30%
Minorities/Prefs	(0.4)	(0.6)	(0.9)	(0.4)	(0.5)
Net Profit	14.1	15.5	11.2	8.6	0.5

Source: Petra Capital

ABS data suggests 1H24 trends continuing

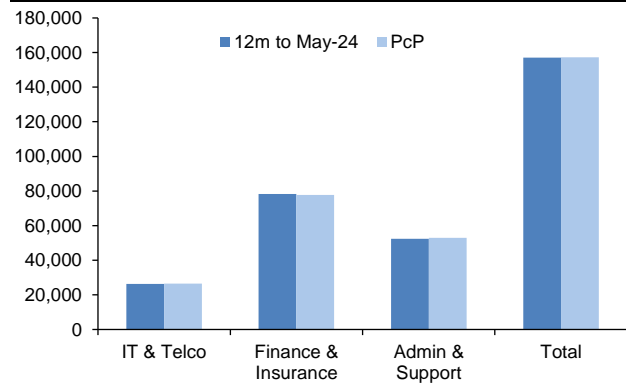
Detailed labour force statistics for the year May 2024 (Figure 1 to Figure 4) show a continuation of trends noted by PPE at its 1H24 result, namely, growth in hours worked in typically lower margin sectors but continued softness in typically higher margin sectors. Before considering any potential market share changes, the data suggests PPE should deliver marginal revenue growth in FY24 but relative to our previous forecasts, on a mix that delivers a lower group margin.

Figure 1: Aggregate hours worked – H&C sub-verticals



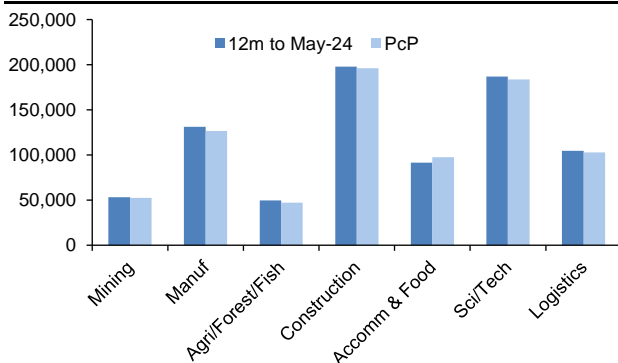
Source: Australian Bureau of Statistics

Figure 2: Aggregate hours worked – PS sub-verticals



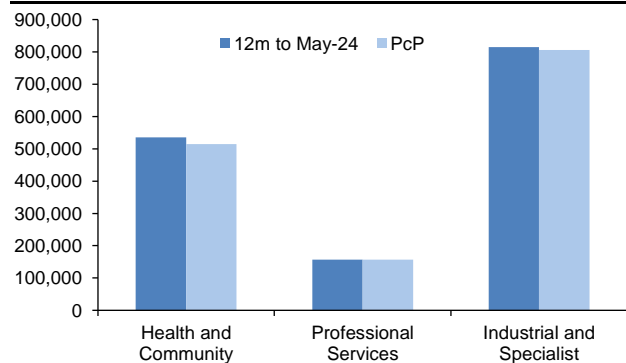
Source: Australian Bureau of Statistics

Figure 3: Aggregate hours worked – I&S sub-verticals



Source: Australian Bureau of Statistics

Figure 4: Aggregate hours worked – totals



Source: Australian Bureau of Statistics

Earnings changes

Updating our divisional revenue forecasts for the ABS data sees a negligible change to our prior FY24 revenue forecast but a material shift in earnings (Figure 5). Notwithstanding the enhanced operating leverage stemming from managements cost cutting program, much of which we believe is structural in nature, we have also assumed a more conservative revenue mix/margin profile for our FY25+ forecasts and lower 'add backs' to adjusted EBITDA (e.g. lower share-based payments). We will hold our stance on this revenue mix until we see signs of market improvement in higher margin sectors. We also note the normalisation of tax in FY25 versus FY24.

Figure 5: Earnings changes

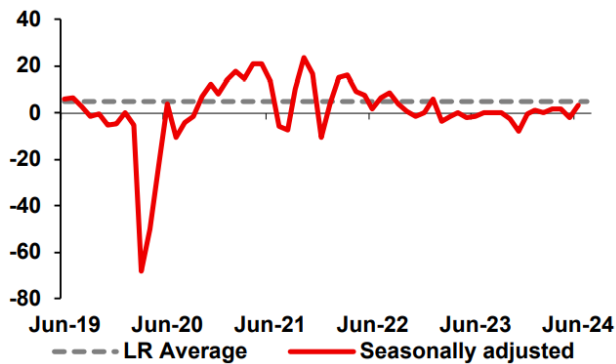
	Old	FY24 New	Chg	Old	FY25 New	Chg - %	Old	FY26 New	Chg - %
Revenue	1,209.5	1,203.5	-0.5%	1,263.9	1,216.5	-3.8%	1,329.6	1,238.5	-6.8%
EBITDA - adj.	39.8	34.3	-13.9%	45.7	37.3	-18.5%	53.4	41.7	-21.9%
EBIT - adj.	22.4	17.7	-21.1%	28.0	21.1	-24.5%	35.5	26.2	-26.1%
NPAT - adj.	13.0	9.1	-30.1%	13.5	8.1	-40.2%	18.6	11.9	-36.0%

Source: Petra estimates

In our view, FY25+ changes align with the conservative outlook issued by management in the highlights section of its 1H24 result presentation, specifically, ‘we’re confident we’ll return to a strong growth footing when interest rates stabilise and business confidence rebounds.’

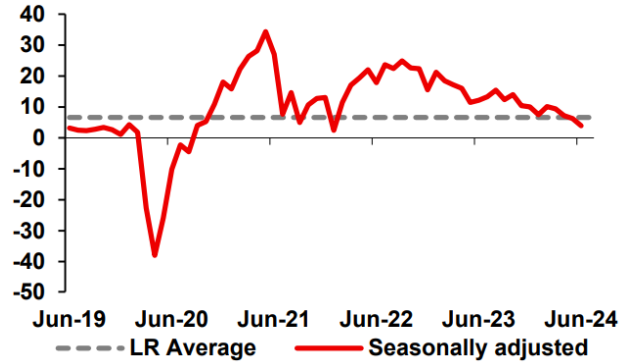
To that, rates have indeed been stable since February, but recent inflation data have introduced the spectre of another hike. This has maintained pressure on business confidence and conditions (as measured by National Australia Bank, Figure 6 and Figure 7). While the measure can be volatile and it is only one data point, we do note the rebound in the June business confidence number.

Figure 6: Business confidence (seasonally adjusted)



Source: NAB

Figure 7: Business conditions (seasonally adjusted)

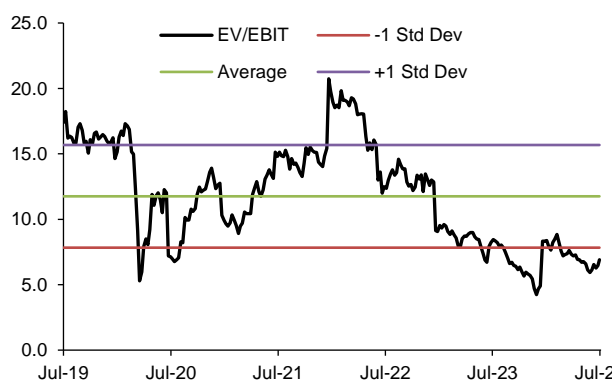


Source: NAB

Valuation

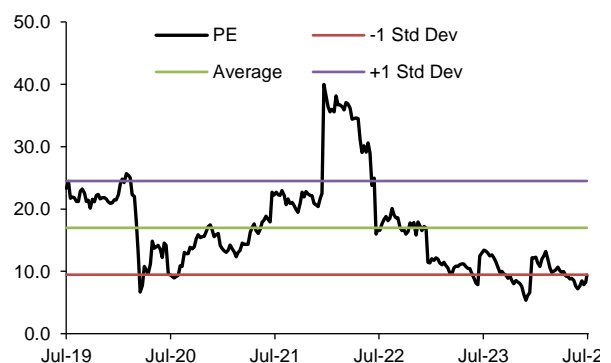
While PPE does not have a large tangible asset backing to protect its valuation multiple through the low parts of an earning cycle, much of PPE’s more economically exposed earnings are now out of our near-term revenue forecasts. With the balance largely underpinned by defensive sectors like public health and accounting, we are confident in applying an FY25 EV/EBIT multiple that is marginally above the 7.8x trough (i.e. 8.2x, Figure 8). This generates our updated valuation of \$1.26. PPE is a capex light business, but we use an EBIT approach to account for acquisition related payments. We will expand the 8.2x multiple once there is evidence of improvement from PPE’s higher margin segments.

Figure 8: EV/EBIT – five-year history



Source: Bloomberg

Figure 9: PE – five-year history (adjusted)



Source: Bloomberg

With the updated valuation offering >30% upside, we maintain our buy recommendation. We are comfortable with the rating despite our negative FY25 eps forecast. Operationally, we expect the business to advance in FY25, with much of the YoY decline due to the normalisation of tax and fewer ‘add backs’ to adjusted EBITDA. Additionally, in the context of the cost outs achieved through FY24, any improvement from PPE’s higher margin businesses will have an outsized P&L impact.



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