

PHU NHUAN JEWELRY JSC (PNJ) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND97,500	VND131,100	0.73%	Add	CONSUMER GOODS

16 May 2022

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

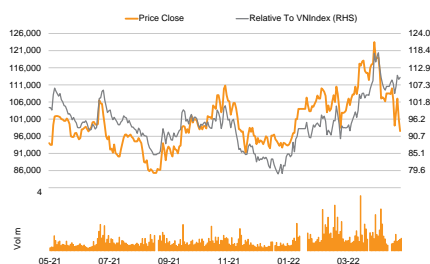
Consensus*: Add:12 Hold:2 Reduce:0

Target price / Consensus: 0.5%

Key changes in the report

- Increase TP by 2.3%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	123,500
52w low (VND)	85,300
3m Avg daily value (VNDmn)	122,800
Market cap (VND bn)	24,503
Free float (%)	33
TTM P/E (x)	21.3
Current P/B (x)	3.65

Ownership

Vietnam Enterprise Investments	10.3%
Tran Phuong Ngoc Ha	9.0%
Route One Investment Company	8.2%
Others	72.6%

Source: VND RESEARCH

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Attractive valuation from shining business

- 1Q22 revenue and net profit grew robustly of VND10,143bn (+46.6% yoy) and NP of VND721bn(+40.5% yoy), fulfilling 44.6% of our FY22F forecast.
- We expect net profit to accelerate 60.5%/24.1% yoy in FY22/23F.
- Reiterate ADD with TP of VND131,100.

1Q22 results: Gold shines amid the global geopolitical crisis

PNJ's 1Q22 revenue grew 46.6% yoy to VND10,143bn driven by strong performance of both retail and gold bar sales. Retail sales grew robustly 41.5% yoy despite high base 1Q21 thanks to wedding pent-up activities during "new normal". Gold bar sale surged 78.1% yoy following the sharp volatility in gold price and strong demand amid the global geopolitical crisis. 1Q22 gross margin decreased by 1.1 % pts yoy to 17.4% as a larger contribution of gold bar revenue (31.6%, +3.8 % pts yoy in 1Q22). Consequently, 1Q22 net profit grew 40.5% yoy to VND721bn, fulfilling 44.6% of our FY22F forecast.

Strong cash position thanks to succeed capital raising

With the succeed capital raising of VND1,425bn on Mar 22 and robust 1Q22 business results, net cash position climbed to VND660bn (~2,723VND/share) at end-Mar 22 ; highest in the last 5 years. Will ample cash position, PNJ will embark their business expansion in 2022F, including (1) VND355bn for production capacity expansion as the factory are currently run at max level; (2) VND785bn for increase the retail network to 500 stores by 2025 from current 340; and (3) VND285bn for implementing next phase of digital transformation system to optimize operation.

Strong earnings growth in FY22/23F

As a strong recovery in Vietnam's retail, we expect PNJ's revenue will increase 23.4%/17.9% yoy to VND24,206bn /VND28,535bn in FY22/23F, on the back of strong growth in retail sales (+24.9%/20.7% yoy) and gold bar sales (+57.7%/10.9% yoy) in FY22/23F. Thus, we expect PNJ's net profit will increase 60.5%/24.1% yoy to VND1,658bn/VND2,058bn in FY22/23F.

Reiterate ADD with a higher TP of VND131,100

We reiterate ADD with DCF-based target price (TP) of VND131,100 per share. We believe that the strong growth come from PNJ's core business in FY22/23F will firm PNJ's valuation at this attractive price and give more upside potential in market's correction pressure. At 13/05/22 (VND97,500 per share), P/E FY22F of PNJ stays at 13.8x, which is the lowest level since Oct 2020. Potential re-rating catalysts include 1) a faster-than-expected store opening/retail sales, and 2) new projects/collections/concepts which are expected to boost sales. Downside risk to our call is slower-than-expected store expansion/sale, especially PNJ's jewelry retail sale.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	17,511	19,613	24,206	28,535
Revenue growth	3.0%	12.0%	23.4%	17.9%
Gross margin	19.6%	18.2%	18.0%	18.6%
EBITDA margin	8.9%	7.4%	9.5%	9.9%
Net profit (bn)	1,069	1,033	1,658	2,058
Net profit growth	(10.2%)	(3.4%)	60.5%	24.1%
Recurring profit growth	(9.9%)	(2.0%)	57.9%	24.2%
Basic EPS	4,745	4,585	7,087	8,483
Adjusted EPS	4,128	3,893	6,352	7,716
BVPS	23,268	26,708	33,325	39,805
ROAE	21.8%	18.3%	23.5%	23.2%

Source: VND RESEARCH 1

ATTRACTIVE VALUATION FROM SHINING BUSINESS

Investment thesis

We like PNJ for:

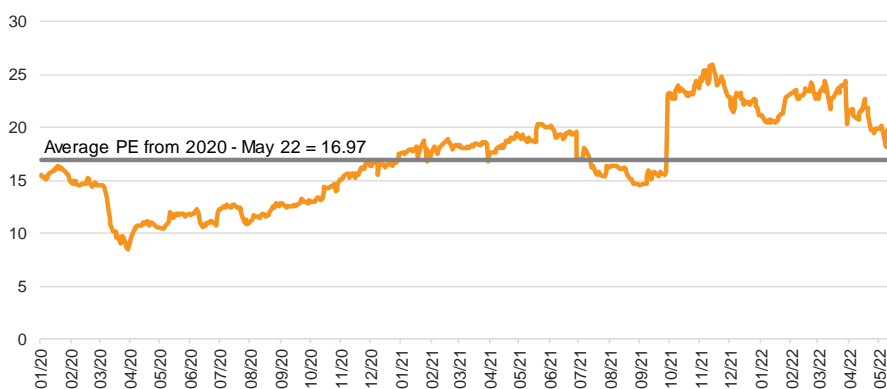
- PNJ shined again with a strong growth of net profit in 1Q22, which grew 40.5% yoy to VND721bn to firm a robust growth in net profit of 60.7%/22.6% yoy in FY22/23F. This strong growth will make PNJ's valuation hardened at attractive price (VND131,100 per share) and give more upside potential in market's correction pressure period. At current price (VND97,500 per share), P/E FY22F of PNJ stays at 13.8x, which is the lowest level since Oct 2020.
- For long-term run, we expect PNJ's strategies, include 1) attractive concept – Style by PNJ, 2) effective advertising campaign, 3) co-operate with Pandora to become “Multi Branded Stores” and 4) increase digitization and aim for omnichannel sale will support PNJ's net profit to maintain 2 digits growth, at CAGR 23.5% from FY22-26F, per our expectation.

We reiterate ADD rating with our 1-year DCF-based target price (TP) of VND131,100 per share. Our DCF valuation based on the assumptions of a risk-free rate at 3% and WACC at 10.8%.

Investment risks: slower-than-expected store expansion and lower than expected growth of PNJ's sale, especially PNJ's jewelry retail sale.

Potential re-rating catalysts) a faster-than-expected store opening, 2) a better-than-expected revenue per store, and 3) new projects/ new collections / new concepts which are expected to boost sales.

Figure 1: PE value from 2022 – May 2022



Source: VNDIRECT RESEARCH, Bloomberg

Figure 2: DCF Valuation

DCF Valuation	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
EBIT	2,209	2,733	3,258	3,550	3,930	4,444	4,604	4,807	4,932	5,072
Tax	-415	-514	-615	-670	-742	1,263	1,619	1,508	1,407	2,209
Depreciation	74	90	103	118	136	150	164	181	199	218
Capex	-352	-293	-336	-386	-296	-325	-357	-393	-432	-474
Change in working cap	636	-442	-176	-534	-563	301	-52	-91	-99	-80
Free Cash Flows	2,152	1,574	2,234	2,078	2,465	3,729	3,487	3,591	3,608	3,716
Present Value of FCF	1,937	1,275	1,653	1,371	1,479	2,014	1,709	1,580	1,443	1,338

Source: VNDIRECT RESEARCH

Figure 3: Assumptions

Cost of Capital	
Beta	0.9
Market Risk Premium	10.1%
Risk Free Rate	3.0%
Cost of Equity	12.5%
Cost of Debt	5.0%
Corporate Tax Rate	20.0%
WACC	10.8%

Source: VNDIRECT RESEARCH

Figure 4: Target price

DCF Method	Amount	Unit
PV of Free Cash Flows	15,799	VNDbn
PV of Terminal Value (2.0% growth)	18,369	VNDbn
Enterprise value	34,168	VNDbn
Cash and cash equivalents	358	VNDbn
Total debts	(2,722)	VNDbn
Equity Value	31,804	VNDbn
Shares	243	million
Price per share	131,100	VND/share

Source: VNDIRECT RESEARCH

Figure 5: Peer Comparison

Company	Ticker	Recomm.	Current price		Target price		Mkt cap	P/E (x)		3-year EPS		P/B (x)		ROA (%)		ROE (%)	
			LC\$	LC\$	US\$m	FY22F		FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F		
Tiffany & Co	TIF US	na	na	na	na	na	na	na	12.5	na	na	4.0	8.5	9.0	13.9		
Chow Tai Fook Jewellery Group Ltd	1929 HK	na	12.54	na	15,975	18.9	15.0	27.7	3.92	3.31	9.9	10.1	21.4	22.4			
LEYSEN Jewelry Inc	603900 CH	na	6.62	na	332	na	na	-41.0	na	na	na	na	na	na	na		
Chow Sang Sang Holdings Int. Ltd	116 HK	na	8.26	na	713	6.1	5.0	-11.2	0.42	0.40	5.3	6.1	7.1	8.2			
Average									12.5	10.0	-3.0	2.17	1.85	6.4	8.2	12.5	14.8

Phu Nhuan Jewelry JSC

PNJ VN ADD 97,500 131,100 1,023 13.8 11.5 1.7 2.93 2.45 14.30 14.80 23.50 23.20

All prices are based on the closing prices on 13 May 2022

Source: BLOOMBERG, VNDIRECT RESEARCH

1Q22 results: Keep shining in the golden age

Figure 6: 1Q22 results comparison

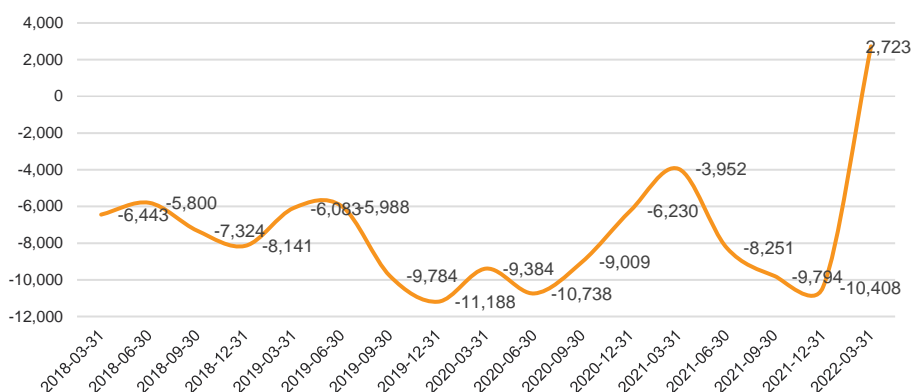
(VNDbn)	1Q21	1Q22	%yoy	VNDS forecast	%vs VNDS forecast	Comments
Revenue	7,182	10,143	41.2%	21,769	46.6%	Slightly above our forecast
Retail	4,000	5,711	42.7%	13,766	41.5%	
Goldbar	1,997	3,205	60.5%	4,102	78.1%	The strong increase in gold bar trading demand beat our expectation due to the geopolitical instability that lead to high volatility of gold prices in 1Q22.
Wholesale	977	1,095	12.2%	3,341	32.8%	Below our forecast as traditional gold stores has not made a strong recovery after being hurt by Covid-19 and many of them closed their stores.
COGS	5,857	8,382	43.1%	17,410	48.1%	
Gross profit	1,325	1,761	32.9%	4,359	40.4%	Inline with our forecast
GM	18.45%	17.36%	-1.1 % pts	20.00%	2.6 % pts	Under our forecast due to change in production mix as gold bar sales proportion in total revenue increased 3.8 pts % to 31.6% in 1Q22
Selling expenses	503	642	27.6%	1,490	43.1%	
G&A expenses	153	176	15.0%	727	24.2%	Below our forecast as ERP system that help PNJ optimize their G&A expense after 3 years put this system into operation
SG&A expense	656	818	24.7%	2,217	36.9%	
S/Revenue	7.00%	6.33%	-0.7 % pts	6.84%	0.5 % pts	
G&A/Revenue	2.13%	1.74%	-0.4 % pts	3.34%	1.6 % pts	
SG&A/Revenue	9.13%	8.06%	-1.1 % pts	10.18%	2.1 % pts	
Operation profit	668	943	41.2%	2,142	44.0%	Inline with our forecast
Net financial expense	(19)	(30)	57.9%	(120)	25.0%	Inline with our forecast
Pretax profit	648	913	40.9%	2,020	45.2%	
Net income	513	721	40.5%	1,616	44.6%	Inline with our forecast as 1Q22 usually the peak season and the pent-up effect of demand will be eased in 2H22F.

Source: VNDIRECT Research, company reports

Strong cash position thanks to succeed capital raising

With the succeed capital raising of VND1,425bn on Mar 22 and robust 1Q22 business results, cash position climbed to VND660bn (~2,723VND/share) while net cash position were VND2,723bn at end-Mar 22; highest in the last 5 years.

Figure 7: Net cash per share of PNJ from 1Q18 – 1Q22 (VND)



Source: VNDIRECT Research, Company reports

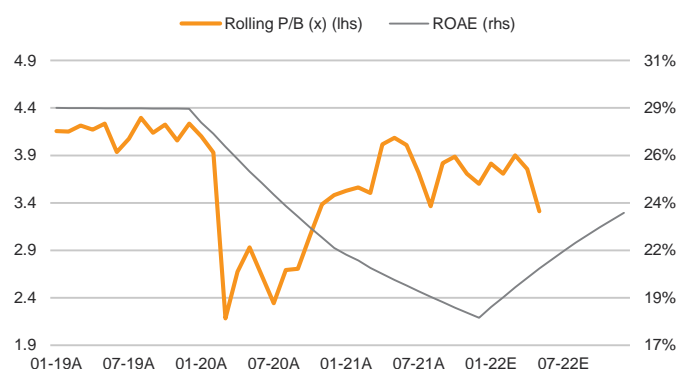
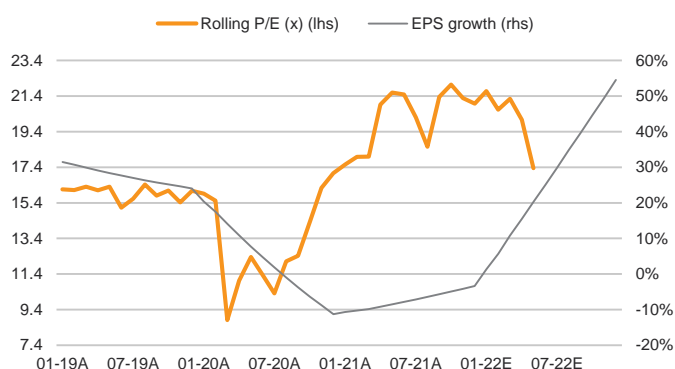
With this new financial source, PNJ will implement expansion plans to maintain its growth momentum, including:

- **VND355bn for factory expansion and technology improvement and production process optimization:** PNJ has nearly reached its maximum of current capacity (4m products/year) in 2021 and is looking for a new location to build a new factory to increase production capacity to serve market demand. According to management's sharing and our estimates, PNJ's jewelry market share has accounted for more than 50% of the total branded jewelry retail chains in Vietnam. Therefore, with the advantage of PNJ brand name, the factory expansion of PNJ will be the driving force to maintain the revenue growth momentum in the coming period.
- **VND785bn for retail store chain expansion:** PNJ aims to open 30-50 stores each year in the period of 2022-2025 after the period of stopping opening new stores due to the pandemic in FY20-2021, with the goal is to reach 500 stores by 2025. Thus, we increase our forecast of new gold stores in FY23/24/25F from 20/15/10 to 35/30/30 stores.
- **VND285bn for implementing a digital transformation plan** implement next phase of digital transformation system to optimize their management to reduce SG&A costs to achieve more benefits for shareholders. Thus, we reduce G&A expense by 8.9%/5.1% vs previous forecast in FY22/23F as the effectiveness of ERP system and digital transformation plan.

Changes in FY22 -23F earnings forecasts
Figure 8: Changes in FY22 – 23F earnings forecasts

(VNDbn)	Old		New		%Chg		Comments
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	
Net revenue	21,769	25,347	24,206	28,535	11.2%	12.6%	
Retail	13,766	16,339	13,766	16,796	0.0%	2.8%	We maintain number of new gold stores in FY22F at 30 stores vs previous report, while increase number of new gold stores in FY23 from 20 to 35 stores as PNJ will expand their retail chain in order to reach 500 stores by 2025
Goldbar	4,102	4,508	6,886	7,638	67.9%	69.4%	We increase goldbar sale in FY22/23F by 67.9%/69.4% vs previous reports as the geopolitical instability and inflation risks that lead to high volatility of gold prices in the next 2 years.
Wholesale	3,341	3,842	2,994	3,443	-10.4%	-10.4%	
COGS	(17,410)	(20,174)	(19,845)	(23,223)	14.0%	15.1%	
Gross profit	4,359	5,173	4,361	5,312	0.0%	2.7%	
Gross profit margin	20.00%	20.40%	18.00%	18.60%	-2.00 % pts	-1.80 % pts	GPM reduced by 2.0 % pts/1.8 % pts vs previous report as the result of increasing gold bar sale, which have lowest gross margin among PNJ's businesses
Selling expenses	(1,490)	(1,717)	(1,490)	(1,786)	0.0%	4.0%	
G&A expenses	(727)	(836)	(662)	(793)	-8.9%	-5.1%	We reduce G&A expense by 8.9%/5.1% in FY22/23F as the effectiveness of ERP system and digital transformation plan
SG&A expenses	(2,217)	(2,553)	(2,152)	(2,579)	-2.9%	1.0%	
S/Revenue	6.84%	6.77%	6.16%	6.26%	-0.68 % pts	-0.51 % pts	
G&A/Revenue	3.34%	3.30%	2.73%	2.78%	-0.61 % pts	-0.52 % pts	
SG&A/Revenue	10.18%	10.07%	8.89%	9.04%	-1.29 % pts	-1.03 % pts	
Operation profit	2,142	2,620	2,209	2,733	3.1%	4.3%	
Net financial income/expense	(120)	(140)	(134)	(158)	11.7%	12.9%	
Pretax profit	2,020	2,477	2,073	2,572	2.6%	3.8%	
Net profit	1,616	1,982	1,658	2,057	2.6%	3.8%	As the above adjustments in our forecasts, we raise PNJ's net profit forecast in FY22/23F by 2.6%/3.8% vs previous reports.

Source: VNDIRECT RESEARCH

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	19,613	24,206	28,535
Cost of sales	(16,040)	(19,845)	(23,223)
Gen & admin expenses	(472)	(662)	(793)
Selling expenses	(1,694)	(1,490)	(1,786)
Operating profit	1,407	2,209	2,733
Operating EBITDA	1,468	2,283	2,823
Depreciation and amortisation	(61)	(74)	(90)
Operating EBIT	1,407	2,209	2,733
Interest income	16	11	13
Financial expense	(118)	(145)	(171)
Net other income	(18)	(2)	(3)
Income from associates & JVs	0	0	0
Pre-tax profit	1,287	2,073	2,572
Tax expense	(254)	(415)	(514)
Minority interest	0	0	0
Net profit	1,033	1,658	2,058
Adj. net profit to ordinary	1,033	1,658	2,058
Ordinary dividends	(177)	(485)	(485)
Retained earnings	856	1,173	1,573

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	358	2,956	4,673
Short term investments	0	0	0
Accounts receivables	112	228	270
Inventories	8,687	7,920	8,470
Other current assets	120	152	195
Total current assets	9,277	11,256	13,608
Fixed assets	910	1,455	1,655
Total investments	0	0	0
Other long-term assets	359	(50)	(29)
Total assets	10,546	12,661	15,234
Short-term debt	2,722	2,421	2,854
Accounts payable	689	710	847
Other current liabilities	1,110	1,432	1,863
Total current liabilities	4,521	4,563	5,564
Total long-term debt	0	4	4
Other liabilities	8	9	9
Share capital	2,276	2,426	2,426
Retained earnings reserve	1,954	2,962	4,429
Shareholders' equity	6,017	8,085	9,657
Minority interest	0	0	0
Total liabilities & equity	10,546	12,661	15,234

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	1,287	2,073	2,572
Depreciation & amortisation	75	74	90
Tax paid	(234)	(415)	(514)
Other adjustments	1,154	(625)	179
Change in working capital	(1,784)	980	(57)
Cash flow from operations	498	2,087	2,270
Capex	(63)	(352)	(293)
Proceeds from assets sales	13	2	2
Others	2	0	0
Other non-current assets changes	(1,215)	594	(208)
Cash flow from investing activities	(1,263)	244	(499)
New share issuance	0	1,275	0
Shares buyback	(2)	(2)	(2)
Net borrowings	880	(521)	433
Other financing cash flow	0	0	0
Dividends paid	(177)	(485)	(485)
Cash flow from financing activities	701	267	(54)
Cash and equivalents at beginning of period	422	358	2,956
Total cash generated	(64)	2,598	1,717
Cash and equivalents at the end of period	358	2,956	4,673

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	5.3%	6.8%	7.2%
Asset turnover	2.06	2.09	2.05
ROAA	10.9%	14.3%	14.8%
Avg assets/avg equity	1.69	1.65	1.57
ROAE	18.3%	23.5%	23.2%
Efficiency			
Days account receivable	1.1	1.4	1.4
Days inventory	197.7	145.7	133.1
Days creditor	15.7	13.1	13.3
Fixed asset turnover	21.30	20.46	18.35
ROIC	11.8%	15.8%	16.4%
Liquidity			
Current ratio	2.1	2.5	2.4
Quick ratio	0.1	0.7	0.9
Cash ratio	0.1	0.6	0.8
Cash cycle	183.1	134.0	121.2
Growth rate (yoy)			
Revenue growth	12.0%	23.4%	17.9%
Operating profit growth	(6.7%)	57.0%	23.7%
Net profit growth	(3.4%)	60.5%	24.1%
EPS growth	(3.4%)	54.6%	19.7%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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