

PHU NHUAN JEWELRY JSC (PNJ) – EARNINGS UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND93,900	VND99,500	1.91%	HOLD	CONSUMER GOODS

22 April 2021

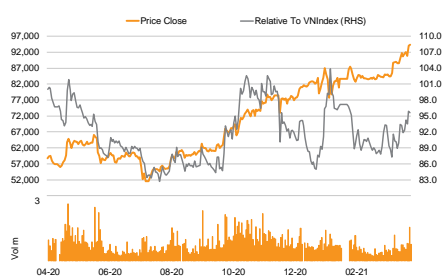
Outlook – Short term: Neutral
Outlook – Long term: Neutral
Valuation: Neutral

Consensus*: Add:12 Hold:2 Reduce:0
 Target price / Consensus: 1.3%

Key changes in the report

➤ N/a.

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	94,400
52w low (VND)	51,500
3m Avg daily value (VNDmn)	43,852
Market cap (VND bn)	21,463
Free float (%)	64
TTM P/E (x)	19.8
Current P/B (x)	4.04

Ownership

Cao Thi Ngoc Dung	9.0%
LGM Investments Ltd	4.4%
Route One Investment Company	3.9%
Others	82.7%

Source: VND RESEARCH

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Earnings recovery almost priced in

- PNJ posted VND7,182bn (+43.6% yoy) and VND512bn(+25.6% yoy) in 1Q21 revenue and NP, respectively.
- PNJ announced a plan for a private placement of 6.6% of outstanding shares to fund for network expansion and digital transformation.
- Downgrade to HOLD as we think the earnings recovery has been almost priced in.

PNJ 1Q21's results in line with our projection

- 1Q21 revenue grew significantly 43.6% yoy across the boards: gold bar (+65.6% yoy); retail (34.9% yoy) and wholesale (+28.6% yoy), thanks to robust sale volume in International Women's Day, God of Fortune day and Valentine this year.
- 1Q21 gross margin compressed by 2.5 pts % yoy to 18.5% as higher revenue contribution from of gold bar, 27.6% in 1Q21 vs. 24.1% in 1Q20.
- Consequently, 1Q21 net profit grew robustly 25.6% yoy to VND512bn, fulfilling 40.5% of our FY21F projection. 1Q21 was roughly in line with our estimates following the seasonality of jewelry and gold retail business.
- In 1Q21, PNJ opened 4 new PNJ Gold stores, closed 3 stores including 1 PNJ Gold, 1 PNJ Silver and 1 CAO to optimize its retail system. By the end of Mar 21, PNJ had 340 stores including 306 PNJ Gold, 27 PNJ Silver, 3 CAO and 1 PNJ Style.

PNJ will issue 15m share via private placement

In 17th Apr, the AGM approved a private placement plan of 15m new shares, equivalent to 6.6% of the outstanding shares. The placement price will not be lower than the prevailing 60 trading days average close price. We estimate the private placement value of about VND1,280bn, based on the average price of 60 trading days at VND85,400 per shares. The capital raising will be used as follow: (1) retail chain expansion in the next 2-3 years, of which 40-45 stores are expected to be opened in 2021, and (2) digital transformation plan to optimize sales and management systems.

Downgrade to HOLD as market price is close to fair value

PNJ's share price has rallied 17% ytd following the market expectation about earnings recovery. We maintain our DCF-base target price of VND99,500 per share and downgrade to HOLD rating. Potential re-rating catalysts include 1) a faster-than-expected store opening pace, 2) a better-than-expected recovery after the pandemic, and 3) new projects which are expected to boost sales. Downside risk to our call is the next wave of COVID-19 outbreak in Vietnam.

Breakdown of PNJ's revenue by segment in 1Q21 vs 1Q20 (Unit: %)

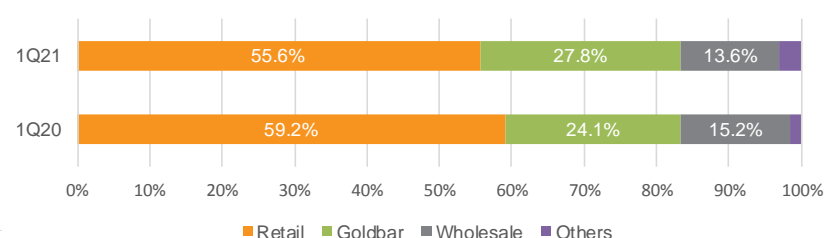
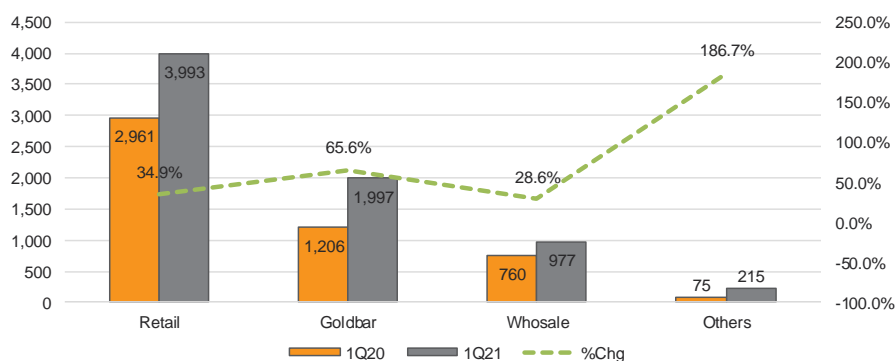


Figure 1: Results comparison

(Unit: VNDbn)	1Q21	1Q20	% yoy	VND's FY21F forecast	% vs VND's FY21F forecast	Comment
Net revenue	7,181.8	5000.9	43.61%	19,850.0	36.18%	Inline with our forecast as the 1st quarter is usually the highest quarter in term of revenue and net profit of PNJ with many holidays as 8th March - International Women's day, God of fortune day and valentine day.
<i>Retail</i>	3,993.0	2961	34.85%	11,708.0	34.10%	
<i>Goldbar</i>	1,997.0	1206	65.59%	4,425.0	45.13%	
<i>Wholesale</i>	977.0	760	28.55%	3,267.0	29.91%	
Gross profit	1,325.1	1049.6	26.26%	3,821.0	34.68%	Inline with our forecast
<i>Blended GM</i>	18.5%	21.0%	-2.54 pts %	19.25%	-0.80 pts %	Slightly lower than our forecast due to change in product mix, which Goldbar (which have lowest GM) sale growth strongly in 1Q21 at 80.1% yoy, contributed 27.8% in total revenue vs. 24.1% in 1Q20
Net financial income / (expense)	(19.8)	(41.5)		(78.0)	25.39%	Inline with our forecast
Selling expenses	503.0	368.0	36.69%	1,489.0	33.78%	Inline with our forecast as PNJ boost their promotions to catch the demand of customer in 1Q21 holidays as 8th March, God of fortune holiday and valentine day.
General and administrative expense	153.2	128.1	19.58%	672.0	22.79%	Inline with our forecast
<i>S/R</i>	7.00%	7.36%	-0.35 pts %			
<i>GA/R</i>	2.13%	2.56%	-0.43 pts %			
<i>SG&A/R</i>	9.14%	9.92%	-0.78 pts %	10.90%	-1.76 pts %	
Operating profit	649.1	511.9	26.80%	1,660.0	39.10%	Inline with our forecast
Other profit	(0.8)	-0.2	263.60%			
Pretax profit	648.3	511.7	26.69%	1,581.2	41.00%	Inline with our forecast
Net profit	512.6	408.3	25.56%	1,265.0	40.52%	Inline with our forecast

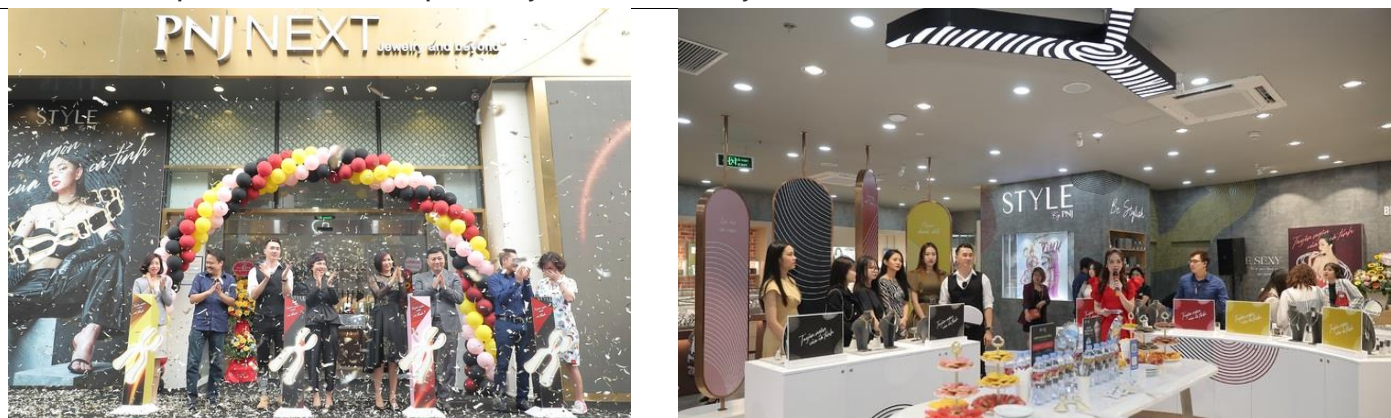
Source: VNDIRECT RESEARCH, Company reports

Figure 2: Revenue by segment of PNJ in 1Q21 vs 1Q20 (VNDbn – LHS) and growth of each segment (% - RHS)



Source: VNDIRECT Research, Company reports

Figure 3: New PNJ Style store in PNJ Next, Ha Noi, launched in 16th Apr 21, showing the move of PNJ toward young generation and customer-oriented products based on their personality to create their lifestyle



Source: VNDIRECT RESEARCH, Company news

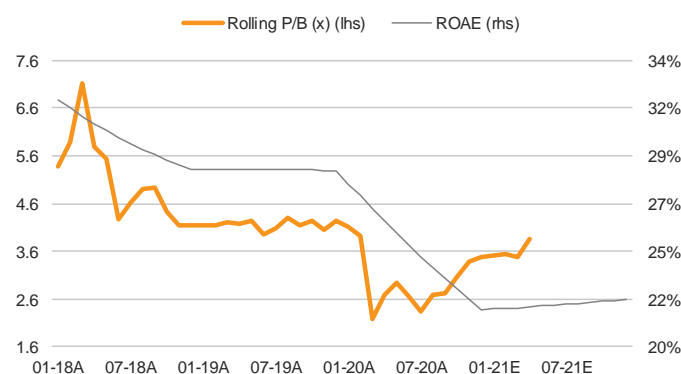
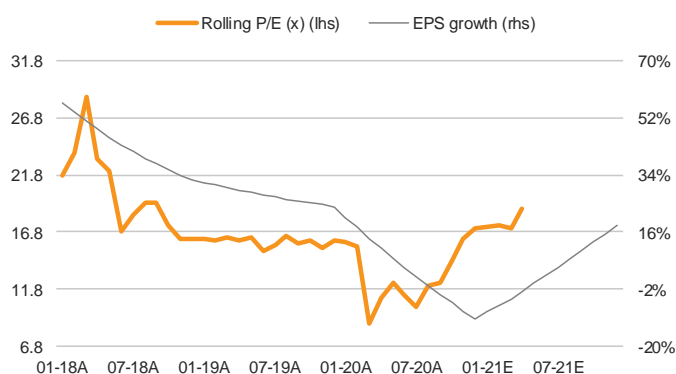
Figure 4: Peer Comparison

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY21F	FY22F	CAGR (%)	TTM	FY21F	FY22F	FY20	FY21F	FY22F	FY20	FY21F	FY22F
Phu Nhuan Jewelry JSC	PNJ VN	HOLD	94,400	99,500	930	19.9	18.5	16.1	11.8%	4.1	3.5	3.0	21.8%	22.3%	21.8%	12.5%	14.1%	14.4%
Tiffany & Co	TIF US	na	na	na	na	na	na	na	12.5%	na	na	na	9.0%	9.0%	13.9%	4.4%	4.0%	8.5%
Chow Tai Fook Jewellery Group Lt	1929 HK	na	12.60	6.00	16,235	34.7	24.6	20.9	3.0%	4.5	4.4	4.2	13.3%	18.7%	20.7%	5.5%	8.1%	9.3%
Chow Sang Sang Holdings Ltd	116 HK	na	13.54	na	1,182	16.2	8.9	7.5	-12.1%	0.7	0.7	0.7	4.8%	8.1%	9.2%	3.3%	5.5%	6.3%
Average - Jewelry retailers						25.5	16.7	14.2	1.1%	2.6	2.6	2.4	9.0%	12.0%	14.6%	4.4%	5.9%	8.0%

All prices are based on the closing prices on 20 Apr 2021

Source: BLOOMBERG, VNDIRECT RESEARCH

Valuation



Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	17,511	19,850	21,276
Cost of sales	(14,076)	(16,029)	(17,090)
Gen & admin expenses	(506)	(672)	(714)
Selling expenses	(1,421)	(1,489)	(1,581)
Operating profit	1,509	1,660	1,891
Operating EBITDA	1,564	1,721	1,965
Depreciation and amortisation	(56)	(61)	(74)
Operating EBIT	1,509	1,660	1,891
Interest income	3	9	10
Financial expense	(162)	(87)	(94)
Net other income	(3)	(1)	(1)
Income from associates & JVs	0	0	0
Pre-tax profit	1,346	1,581	1,806
Tax expense	(277)	(316)	(361)
Minority interest	0	0	0
Net profit	1,070	1,265	1,445
Adj. net profit to ordinary	1,070	1,265	1,445
Ordinary dividends	(406)	(406)	(406)
Retained earnings	664	859	1,039

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	422	1,339	2,114
Short term investments	0	0	0
Accounts receivables	100	189	199
Inventories	6,545	6,205	6,460
Other current assets	77	122	133
Total current assets	7,144	7,855	8,906
Fixed assets	932	1,192	1,469
Total investments	0	0	0
Other long-term assets	408	355	360
Total assets	8,483	9,402	10,736
Short-term debt	1,839	1,588	1,702
Accounts payable	482	583	618
Other current liabilities	911	1,107	1,253
Total current liabilities	3,232	3,278	3,573
Total long-term debt	0	4	4
Other liabilities	9	4	4
Share capital	2,276	2,253	2,253
Retained earnings reserve	1,605	2,564	3,556
Shareholders' equity	5,242	6,116	7,155
Minority interest	0	0	0
Total liabilities & equity	8,483	9,402	10,736

Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	1,346	1,581	1,806
Depreciation & amortisation	56	61	74
Tax paid	(277)	(316)	(361)
Other adjustments	(365)	10	14
Change in working capital	491	526	(99)
Cash flow from operations	1,251	1,863	1,434
Capex	(121)	(267)	(352)
Proceeds from assets sales	1	1	2
Others	0	0	0
Other non-current assets changes	401	(57)	(17)
Cash flow from investing activities	281	(323)	(367)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(805)	(218)	114
Other financing cash flow	5	0	0
Dividends paid	(406)	(406)	(406)
Cash flow from financing activities	(1,205)	(624)	(291)
Cash and equivalents at beginning of period	95	422	1,339
Total cash generated	327	916	775
Cash and equivalents at the end of period	422	1,339	2,114

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	6.1%	6.4%	6.8%
Asset turnover	2.05	2.22	2.11
ROAA	12.5%	14.1%	14.4%
Avg assets/avg equity	1.74	1.57	1.52
ROAE	21.8%	22.3%	21.8%
Efficiency			
Days account receivable	1.4	1.4	1.4
Days inventory	170.2	141.3	138.0
Days creditor	12.5	13.3	13.2
Fixed asset turnover	18.87	18.69	15.99
ROIC	15.1%	16.4%	16.3%
Liquidity			
Current ratio	2.2	2.4	2.5
Quick ratio	0.2	0.5	0.7
Cash ratio	0.1	0.4	0.6
Cash cycle	159.1	129.4	126.1
Growth rate (yoy)			
Revenue growth	3.0%	13.4%	7.2%
Operating profit growth	(6.8%)	10.0%	13.9%
Net profit growth	(10.2%)	18.3%	14.2%
EPS growth	(11.2%)	18.3%	14.2%

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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