

PHU NHUAN JEWELRY JSC (PNJ) – KEY TAKEAWAYS FROM ANALYST MEETING

Market Price	Target Price	Dividend Yield	Rating	Sector
VND48,300	VND86,500	2.25%	ADD	CONSUMER GOODS

9 April 2020

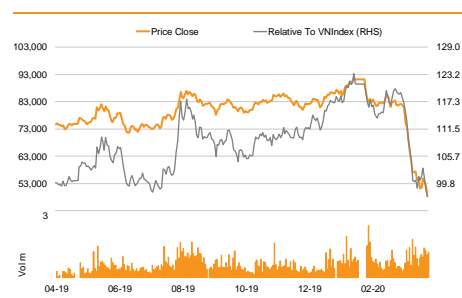
Outlook – Short term: Neutral
Outlook – Long term: Neutral
Valuation: Positive

Consensus*: Add:10 Hold:5 Reduce:0
 Target price / Consensus: +3.5%

Key changes in the report

> n/a

Price performance



Key statistics

52w high (VND)	92,000
52w low (VND)	48,300
3m Avg daily volume (shares)	792,868
3m Avg daily value (VNDm)	53,302
Market cap (VNDbn)	11,687
Outstanding shares (m)	242
Free float (%)	64
TTM P/E (x)	9.03
Current P/B (x)	2.38

Ownership

Cao Thi Ngoc Dung	9.2%
LGM Investments Ltd	4.5%
Route One Investment Company	4.1%
Others	82.2%

Source: VND RESEARCH

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1Q preview and FY20 business strategy update

- 1QFY20 preview: pre-lim revenue rose 5% yoy to VND5,000bn while net profit eased 4% yoy to VND411bn.
- PNJ has closed 85% of its stores nationwide for 14 days since 1 Apr 2020 following Vietnam's social distancing measure.
- We will revisit our earnings forecasts in the next update

1QFY20 results still on track

Phu Nhuan Jewelry (PNJ) posted a 5% yoy increase in 1Q20F prelim revenue to VND5,000bn while net profit eased 4% yoy to VND411bn. Revenue growth was driven by gold bar (+15% yoy) and retail sales (+8% yoy), while wholesale revenue decreased 17% yoy. However gross profit margin shrank to 21.7% in 1Q20 (-0.2 pts % yoy) due to larger revenue contribution from gold bar.

In 1Q20, PNJ opened six new jewelry stores and two new watch stores, while closed two jewelry stores at the same time, boosting its total outlet stores to 350 as at end-Mar.

COVID-19 to hit earnings harder from Mar 2020

According to management, revenue witnessed a sharp drop of 39% yoy in the last 10 days of March 2020 as the number of reported infection cases climbed to more than 100 in Vietnam. Following the social distancing measure to curb the virus spread, PNJ closed 85% of its stores nationwide for 14 days since 1 Apr 2020.

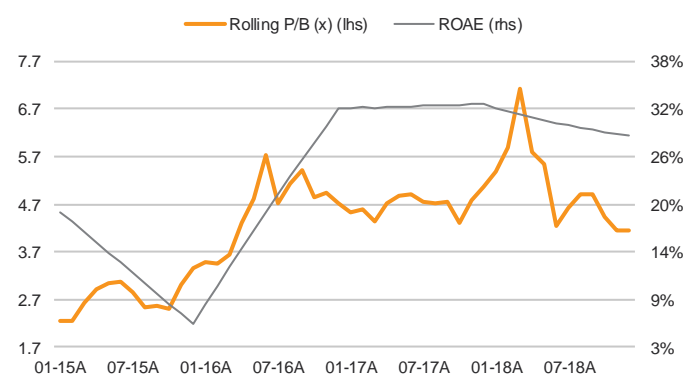
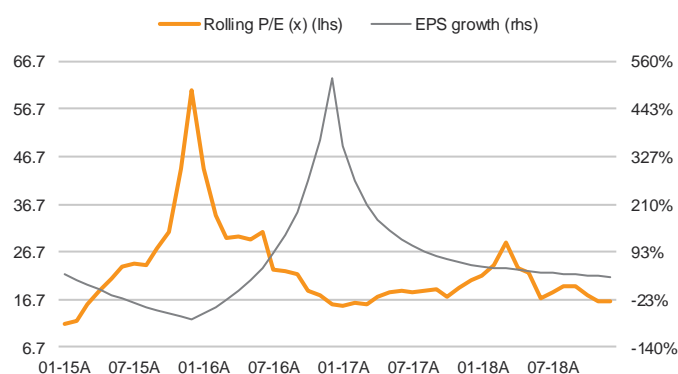
What will PNJ do to battle with headwinds?

- Lift cash on hand to about VND400bn, four times versus the value as at end-FY19
- Optimise inventory by suspending new purchasing orders and restructuring stocks of gold bars and gold products to meet market demand
- Cut down operating expense by negotiating with landlords over rent deduction; management to take a 50% pay cut, and reduce the number of working days per week of employees by two.
- PNJ will restructure its retail network by closing poorly performing stores and replace them with those at better locations but with more reasonable rent rates
- Halt all new investment projects in 2020

Figure 1: Percentage of closed stores by region as at 1 Apr 2020



SOURCES: VND RESEARCH, COMPANY REPORTS

Valuation

Income statement

(VNDbn)	12-17A	12-18A	12-19A
Net revenue	10,977	14,573	17,001
Cost of sales	(9,065)	(11,794)	(13,540)
Gen & admin expenses	(188)	(346)	(479)
Selling expenses	(775)	(1,171)	(1,363)
Operating profit	949	1,262	1,619
Operating EBITDA	988	1,304	1,675
Depreciation and amortisation	(39)	(42)	(56)
Operating EBIT	949	1,262	1,619
Interest income	9	7	2
Financial expense	(56)	(66)	(119)
Net other income	6	3	1
Income from associates & JVs	-	-	-
Pre-tax profit	908	1,206	1,503
Tax expense	(183)	(246)	(312)
Minority interest	-	-	-
Net profit	725	960	1,191
Adj. net profit to ordinary	725	960	1,191
Ordinary dividends	(185)	(265)	(344)
Retained earnings	540	695	847

Balance sheet

(VNDbn)	12-17A	12-18A	12-19A
Cash and equivalents	175	207	95
Short term investments	160	0	0
Accounts receivables	85	176	138
Inventories	3,402	4,816	7,019
Other current assets	74	82	78
Total current assets	3,896	5,281	7,330
Fixed assets	487	719	923
Total investments	0	0	0
Other long-term assets	109	304	346
Total assets	4,492	6,304	8,599
Short-term debt	846	1,558	2,611
Accounts payable	279	291	688
Other current liabilities	364	693	719
Total current liabilities	1,489	2,542	4,018
Total long-term debt	46	8	4
Other liabilities	7	9	3
Share capital	1,081	1,670	2,253
Retained earnings reserve	772	885	1,042
Shareholders' equity	2,950	3,745	4,574
Minority interest	0	0	0
Total liabilities & equity	4,492	6,304	8,599

Cash flow statement

(VNDbn)	12-17A	12-18A	12-19A
Pretax profit	908	1,206	1,503
Depreciation & amortisation	39	42	56
Tax paid	(154)	(232)	(291)
Other adjustments	(142)	(175)	(186)
Change in working capital	(542)	(1,144)	(1,757)
Cash flow from operations	109	(303)	(675)
Capex	(115)	(336)	(208)
Proceeds from assets sales	8	1	1
Others	3	6	1
Other non-current assets changes	(160)	160	0
Cash flow from investing activities	(264)	(169)	(206)
New share issuance	975	97	69
Shares buyback	0	0	(2)
Net borrowings	(615)	672	1,048
Other financing cash flow	0	0	(2)
Dividends paid	(185)	(265)	(344)
Cash flow from financing activities	175	504	769
Cash and equivalents at beginning of period	155	175	207
Total cash generated	20	32	(112)
Cash and equivalents at the end of period	175	207	95

Key ratios

	12-17A	12-18A	12-19A
Dupont			
Net profit margin	6.6%	6.6%	7.0%
Asset turnover	2.72	2.70	2.28
ROAA	17.9%	17.8%	16.0%
Avg assets/avg equity	1.82	1.61	1.79
ROAE	32.6%	28.7%	28.6%
Efficiency			
Days account receivable	1.3	2.0	1.0
Days inventory	137.0	149.0	189.2
Days creditor	11.2	9.0	18.5
Fixed asset turnover	24.29	24.17	20.71
ROIC	18.9%	18.1%	16.6%
Liquidity			
Current ratio	2.6	2.1	1.8
Quick ratio	0.3	0.2	0.1
Cash ratio	0.2	0.1	0.0
Cash cycle	127.1	142.0	171.7
Growth rate (yoy)			
Revenue growth	28.2%	32.8%	16.7%
Operating profit growth	30.9%	33.0%	28.3%
Net profit growth	60.8%	32.4%	24.1%
EPS growth	60.8%	32.4%	24.1%

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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