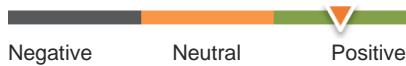


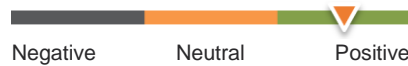
PHU NHUAN JEWELRY JSC (PNJ) – EARNINGS UPDATE

Market Price VND101,500	Target Price VND120,700	Dividend Yield 1.8%	Rating ADD	Sector CONSUMER GOODS
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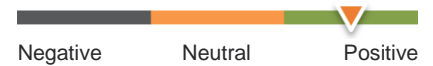
Outlook – Short term



Outlook – Long term



Valuation



23 October 2018

Natalie Nguyen

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PNJ reported robust 9MFY18 business results with topline rising by 35.5% yoy and bottom-line growing by 37.8% yoy. These results were slightly above our forecasts mainly due to GPM expansion in jewelry segment and higher jewelry contribution to revenue both surpassing our expectations.

Price performance



Source: VNDIRECT

PNJ posted 3QFY18 net revenue of VND3,151bn (+38.2% yoy) and net profit of VND178bn (+40.9% yoy) with a sharp expansion in GPM to touch 19.0% (vs. 17.4% in 3Q2017). PNJ achieved VND10,508bn in 9MFY18 net revenue (+35.5% yoy, completing 73.6% of our FY18 forecast) and VND694bn in net profit (+37.8% yoy, fulfilling 68.8% our FY18 projection).

GPM expansion due to improving revenue and product mix. PNJ has been able to improve overall gross margin in 9MFY18 to 18.6% (vs. 17.4% in 9M2017), mostly thanks to 1) increasing revenue contribution from PNJ Gold to touch 79.0% of gold jewelry revenue (vs. 77.6% in 9MFY17) and 2) rising contribution from high margin products like gemstone jewelry (GPM~30-60%) to gold jewelry revenue.

Key statistics

52w high (VND)	137,077
52w low (VND)	66,778
3m Avg daily volume (shares)	596,571
3m Avg daily value (VNDmn)	60,769
Market cap (VNDbn)	16,895
Outstanding shares (m)	162
Free float (%)	85
TTM P/E (x)	18.4
Current P/B (x)	5.0

Ownership

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

Source: VNDIRECT

SSSG for PNJ's gold retail stores accelerated to 23% (vs. 22% in 9MFY17), driven by 1) ticket size increase of 15% yoy, 2) new customer acquisitions expanded by 49% yoy and returning customers went up by 58% yoy, signaling rising brand loyalty and improved merchandising.

SSSG for PNJ's silver retail stores stayed muted at 1%, due to the company's strategic shift to target a younger customer demographic of 15-25 year old female buyers versus a previous focus on the 25-35 year old age bracket. However, PNJ's management shared that silver retail performance in 3Q showed a slight improvement in comparison to 2Q.

Rapid new store openings exceeded the company's target. During 3Q, the company opened 44 new stores and closed 5 old stores, bringing the total store count up by 39 stores to 308 stores in total as of end-3QFY18 (versus a targeted store count of 309 at year-end per management guidance). The store network comprised 243 PNJ Gold stores, 62 Silver stores and 3 CAO stores. The store opening pace exceeded expectations as the store count has already fulfilled 98% of our FY18 year-end forecasted store count.

Reiterate ADD, as YTD earnings are tracking our full-year projections. We will revisit our valuation and release an update report soon.

Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net revenue (bn)	7,706	8,565	10,977	14,271
Revenue growth	(16.2%)	11.1%	28.2%	30.0%
Gross margin	15.2%	16.5%	17.4%	17.9%
EBITDA margin	3.1%	7.4%	8.4%	8.7%
Net profit (bn)	73	451	725	1,010
Net profit growth	(72.9%)	517.8%	60.8%	39.3%
Recurring profit growth	(68.7%)	385.7%	76.2%	40.2%
Basic EPS	497	3,068	4,471	6,229
Adjusted EPS	20	2,483	3,848	5,513
BVPS	8,952	10,211	18,193	22,621
ROAE	5.6%	32.0%	32.6%	30.5%

G&A expenses shot up by 76.6% yoy in 9MFY18 to aid the ongoing digital transformation project and fast-paced store expansion. Besides hiring employees for new stores opened, PNJ continued to recruit more IT staff to move forward with its Enterprise Resources Planning (ERP) and Customer Relationship Management (CRM) projects, crucial elements of PNJ's strategy to improve efficiency and reduce reliance on new store openings to drive growth for the period FY18-19. Salary expenses soared by 73.1% yoy in 3Q.

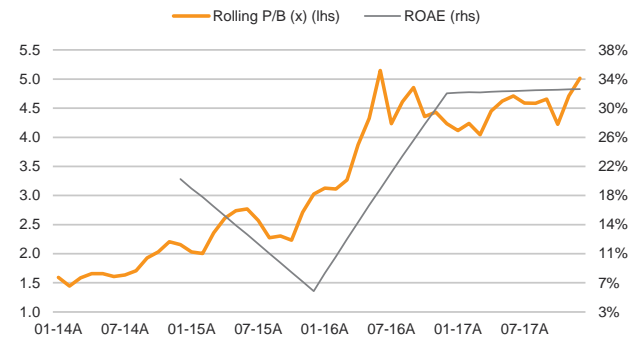
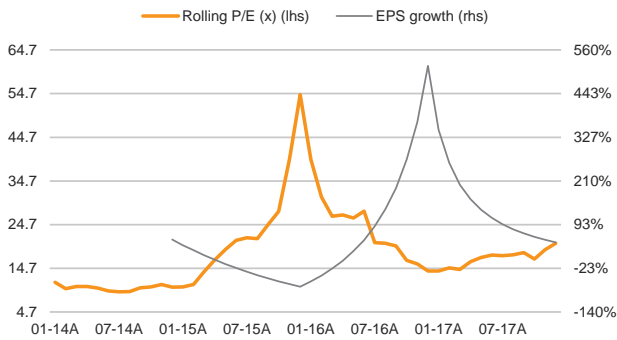
PNJ recorded higher topline and gross margin than we had forecasted but bottom-line tracked our projections. 9MFY18 revenue (+35.5% yoy, completing 73.6% of our FY18 projection) and GPM (18.6%, vs. 17.9% in our forecast) surpassed our expectations mainly due to 1) higher growth in gold jewelry sales of 37.9% yoy (vs. 20.1% yoy forecast) more rapid store opening pace than expected; and 2) GPM of gold jewelry segment expanding to 21.6% (vs. 20.8% in our projections). However, G&A expenses (+76.6% yoy, making up 97.6% of our FY18 forecast) rose faster than expected (due to faster store openings and IT costs), causing bottom-line growth to lag top line growth (fulfilling 68.8% of our FY18 forecast).

Figure 1: Comparison of Financial Results

FYE (VNDbn)	3QFY18	yoy chg	9MFY18	vs. FY18		Comments
				yoy chg	forecast	
Net revenue	3,150.8	38.2%	10,507.7	35.5%	73.6%	
<i>Jewelry revenue</i>	3,136.1	38.3%	10,460.2	35.6%	71.8%	Higher than our expectations as gold jewelry retail sales went up by 37.9% yoy (vs. 20.1% in our forecast) and partly due to more aggressive footprint expansion than expected
<i>Accessories</i>	4.8	-4.0%	16.8	5.2%	42.0%	
<i>Services</i>	10.0	47.1%	30.7	44.3%	113.7%	
Gross profit	600.0	51.4%	1,952.9	45.0%	76.6%	
<i>Gross profit margin</i>	19.0%	+1.6% pts	18.6%	+1.2% pts	+0.7% pts	GPM expanded significantly thanks to the higher contribution from gold jewelry and its improved product mix
Selling expenses	268.1	46.7%	818.6	48.3%	80.3%	Higher than our expectation, following higher revenues and more rapid store network expansion
G&A expenses	93.0	98.7%	227.3	76.6%	97.6%	Higher than our expectation due to the ongoing increase in expenses to support the digital transformation project
Operating profit	221.7	40.6%	868.3	38.9%	67.0%	
Pre-tax profit	221.1	39.8%	869.4	37.8%	68.9%	
Net profit	177.7	40.9%	694.4	37.8%	68.8%	In line with our projections as the soaring G&A expenses offset higher-than-expected revenue and gross profit

Source: PNJ, VNDIRECT

Valuation



Income statement

(VNDbn)	12-16A	12-17A	12-18E
Net revenue	8,565	10,977	14,271
Cost of sales	(7,153)	(9,065)	(11,722)
Gen & admin expenses	(133)	(188)	(233)
Selling expenses	(554)	(775)	(1,020)
Operating profit	725	949	1,296
Operating EBITDA	691	910	1,230
Depreciation and amortisation	34	39	66
Operating EBIT	725	949	1,296
Interest income	5	9	7
Financial expense	(182)	(56)	(43)
Net other income	43	6	2
Income from associates & JVs	0	0	0
Pre-tax profit	591	908	1,262
Tax expense	(140)	(183)	(252)
Minority interest	0	0	0
Net profit	451	725	1,010
Adj. net profit to ordinary	451	725	1,010
Ordinary dividends	(246)	(185)	(292)
Retained earnings	205	540	718

Balance sheet

(VNDbn)	12-16A	12-17A	12-18E
Cash and equivalents	155	175	319
Short term investments	0	160	214
Accounts receivables	63	85	92
Inventories	2,839	3,402	4,142
Other current assets	46	74	85
Total current assets	3,103	3,896	4,852
Fixed assets	416	487	558
Total investments	0	0	0
Other long-term assets	70	109	109
Total assets	3,589	4,492	5,519
Short-term debt	1,449	846	970
Accounts payable	326	279	361
Other current liabilities	247	364	409
Total current liabilities	2,022	1,489	1,740
Total long-term debt	59	46	105
Other liabilities	7	7	6
Share capital	983	1,081	1,622
Retained earnings reserve	374	772	866
Shareholders' equity	1,501	2,950	3,668
Minority interest	0	0	0
Total liabilities & equity	3,589	4,492	5,519

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18E
Pretax profit	591	908	1,262
Depreciation & amortisation	34	39	66
Tax paid	(160)	(154)	(252)
Other adjustments	47	(142)	(5)
Change in working capital	(539)	(542)	(628)
Cash flow from operations	(27)	109	443
Capex	(87)	(115)	(150)
Proceeds from assets sales	165	8	14
Others	68	3	(54)
Other non-current assets changes	0	(160)	0
Cash flow from investing activities	146	(264)	(190)
New share issuance	0	975	0
Shares buyback	0	0	0
Net borrowings	244	(615)	183
Other financing cash flow	0	0	0
Dividends paid	(246)	(185)	(292)
Cash flow from financing activities	(2)	175	(109)
Cash and equivalents at beginning of period	38	155	175
Total cash generated	117	20	144
Cash and equivalents at the end of period	155	175	319

Key ratios

	12-16A	12-17A	12-18E
Dupont			
Net profit margin	5.3%	6.6%	7.1%
Asset turnover	2.61	2.72	2.85
ROAA	13.7%	17.9%	20.2%
Avg assets/avg equity	2.33	1.82	1.51
ROAE	32.0%	32.6%	30.5%
Efficiency			
Days account receivable	1.45	1.33	1.23
Days inventory	145	137	129
Days creditor	16.7	11.2	11.2
Fixed asset turnover	19.0	24.3	27.3
ROIC	15.0%	18.9%	21.3%
Liquidity			
Current ratio	1.53	2.62	2.79
Quick ratio	0.13	0.33	0.41
Cash ratio	0.08	0.22	0.31
Cash cycle	130	127	119
Growth rate (yoy)			
Revenue growth	11.1%	28.2%	30.0%
Operating profit growth	15.8%	30.9%	36.6%
Net profit growth	517.8%	60.8%	39.3%
EPS growth	517.8%	45.7%	39.3%
Share value			
Basic EPS (VND)	3,068	4,471	6,229
BVPS (VND)	10,211	18,193	22,621

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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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.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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