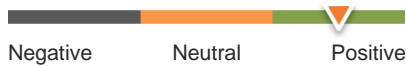


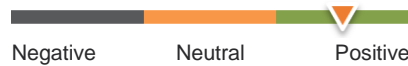
PHU NHUAN JEWELRY JSC (PNJ) – EARNINGS UPDATE

Market Price VND99,300	Target Price VND126,500	Dividend Yield 1.8%	Rating ADD	Sector RETAIL
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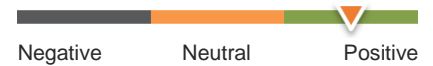
Outlook – Short term



Outlook – Long term



Valuation



26 April 2019

Natalie Nguyen

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1Q19: Enhanced product mix to drive up margins

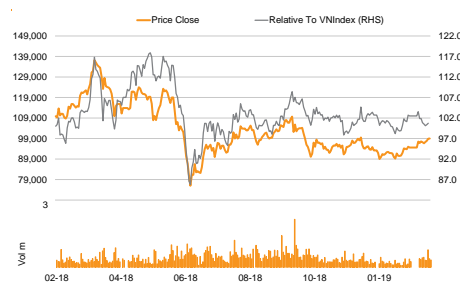
Double-digit revenue growth mainly driven by gold jewellery segment. PNJ's 1Q19 revenue achieved VND4,738bn (+15.6% yoy) fulfilled 25.9% of our FY19 estimates. However, it was lower than our expectation as Q1 is usually the peak period of PNJ's sale volume (contributing about 30% of full-year revenue). Gold jewellery business recorded 13.0% yoy, while gold bar business significantly grew 22.9% yoy thanks to the better sales seen in God of Wealth day in Feb this year.

Expanding store footprint network bolstered retail business. Gold jewellery retail grew 21.7% yoy in 1Q2019 driven by 1) same-store sales growth (SSSG) of 11% yoy, 2) full contribution from new stores opened in FY18 and 3) another four new Gold stores launched in 1Q19. Despite closing down 3 Silver stores, 1 new CAO store was opened in Q1 to expand PNJ's presence in 50/63, completing 13% of its FY19's store expansion plan. As of end Mar-2019, PNJ had 327 stores in operation, including 260 Gold stores, 63 Silver stores and 4 CAO stores.

Gross margin (GM) stretch to reach all-time high level of 22% thanks to better product mix. PNJ enjoyed significant blended margin expansion in Q1, supported by 1) higher GM of gold jewellery segment (+4.8% pts) on the back of increasing contribution of high-margin gem-stone products and 2) bolstered GM of gold bar segment (+1.2% pts) thanks to new launch products special for God of Wealth day. Consequently, PNJ posted VND428.7bn in net profit (+28% yoy) to come in 36% of the company's FY19 guidance and 35% of our full-year forecasts.

Maintain Add and TP of VND126,500. Given the positive view on PNJ's outlook in 2019, we maintain our ADD rating and DCF-based target price of VND126,500, equivalent to 17.3x of FY19 P/E. Potential re-rating catalyst consistently higher-than-expected margin expansion thanks to better product mix and signification contribution of other high-margin product categories. Downside risks to our call are the fall short in store expansion and lower than expected SSSG for both Gold stores and Silver stores.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	122,797
52w low (VND)	73,559
3m Avg daily volume (shares)	0.28m
3m Avg daily value (VNDm)	28,206
Market cap (VNDbn)	16,583
Outstanding shares (m)	167
Free float (%)	85
TTM P/E (x)	15.5
Current P/B (x)	4.1

Ownership

Cao Thi Ngoc Dung	9.0%
LGM Investments Ltd	4.4%
Route One Investment Company	4.0%
Others	82.6%

Source: VNDIRECT

Financial summary (VND)	12-16A	12-17A	12-18A	12-19E
Net revenue (bn)	8,565	10,977	14,573	18,463
Revenue growth	11.1%	28.2%	32.8%	26.7%
Gross margin	16.5%	17.4%	19.1%	19.3%
EBITDA margin	8.1%	9.1%	9.0%	9.3%
Net profit (bn)	451	725	960	1,219
Net profit growth	517.8%	60.8%	32.4%	27.0%
Recurring profit growth	385.7%	76.2%	33.1%	27.1%
Basic EPS	3,068	4,471	5,749	7,299
Adjusted EPS	2,558	3,922	5,138	6,599
BVPS	10,211	18,193	22,425	27,737
ROAE	32.0%	32.6%	28.7%	29.1%

Figure 1: 1Q19 results comparison (*)

FYE (VNDbn)	1QFY18	1QFY19	% yoy	vs. FY19 forecast	Comments
Net revenue	4,139.5	4,783.5	15.6%	25.9%	Below our expectation, accounting for 25.9% of our FY19 topline forecast (vs. projected 1Q19 revenue's contribution to full-year revenue of 30%)
<i>Jewellery revenue</i>	3,216.4	3,635.4	13.0%	24.1%	Below our expectation due to 1) lower-than-expected average revenue per store and 2) exclusion of the last 4 operating days in Mar-2018
<i>Gold bar revenue</i>	910.7	1,119.3	22.9%	35.1%	
<i>Others</i>	12.4	28.7	131.5%	8.0%	PNJ Watch is expected to accelerate its store openings in 2H19
Gross profit	770.0	1,049.4	36.3%	29.5%	
<i>Gross profit margin</i>	18.6%	21.9%	+3.3% pts	+2.6% pts	GPM improved significantly, above our expectation, supported by the margin expansion of gold jewellery segment (from 22.0% in 1Q18 to 26.8% in 1Q19) and gold bar segment (from 2.0% in 1Q18 to 3.2% in 1Q19)
<i>Selling expenses</i>	281.6	367.2	30.4%	25.1%	On track with our projection
<i>as % of revenue:</i>	6.8%	7.7%	+0.9% pts	-0.2% pts	
<i>G&A expenses</i>	60.6	115.6	90.8%	25.1%	On track with our projection
<i>as % of revenue:</i>	1.5%	2.4%	+0.9% pts	-0.1% pts	
Pre-tax profit	420.8	543.2	29.1%	35.6%	
Net profit	336.3	428.7	27.5%	35.1%	
<i>Net margin</i>	8.1%	9.0%	+0.9% pts	+2.4% pts	Higher than our expectation

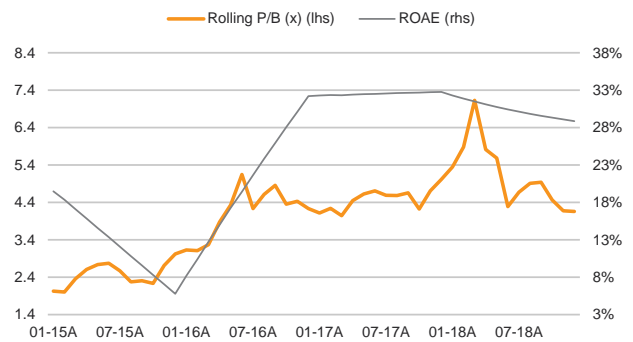
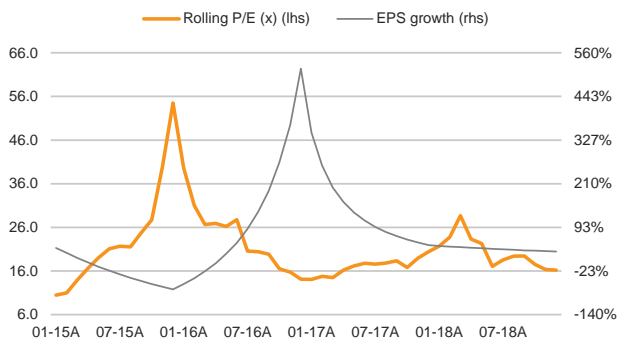
(*) Note: 1Q19 reporting period is ended on Mar 26 due to the deployment of the ERP system and the remaining four operating days would be incorporated in 2Q19.
Source: PNJ, VNDIRECT

Figure 2: Peer Comparison as of 24 Apr 2019

Company	Country	Market cap (US\$m)	TTM NPAT Growth (%)	TTM EPS growth (% YoY)	ROE (%)	ROA (%)	D/E (%)	TTM P/E (x)	P/B (x)
Tiffany & Co	U.S	12,961	14.3	15.7	18.6	10.9	31.8	22.4	4.2
Chow Tai Fook Jewellery Group	Hong Kong	10,811	16.7	17.0	13.9	7.4	38.9	19.9	2.9
LEYSEN Jewelry Inc	China	727	(32.4)	4.7	12.9	10.6	0.1	23.4	2.1
Average			(0.5)	12.5	15.1	9.7	23.6	21.9	3.0
Median			14.3	15.7	13.9	10.6	31.8	22.4	2.9
PNJ	Vietnam	713	30.3	26.6	29.1	19.4	41.8	15.5	4.1

Source: BLOOMBERG, VNDIRECT

Valuation



Income statement

(VNDbn)	12-17A	12-18A	12-19E
Net revenue	10,977	14,573	18,463
Cost of sales	(9,065)	(11,794)	(14,906)
Gen & admin expenses	(188)	(346)	(461)
Selling expenses	(775)	(1,171)	(1,465)
Operating profit	949	1,262	1,631
Operating EBITDA	988	1,304	1,697
Depreciation and amortisation	(39)	(42)	(66)
Operating EBIT	949	1,262	1,631
Interest income	9	7	9
Financial expense	(56)	(66)	(119)
Net other income	6	3	3
Income from associates & JVs	0	0	0
Pre-tax profit	908	1,206	1,524
Tax expense	(183)	(246)	(305)
Minority interest	0	0	0
Net profit	725	960	1,219
Adj. net profit to ordinary	725	960	1,219
Ordinary dividends	(185)	(265)	(334)
Retained earnings	540	695	885

Balance sheet

(VNDbn)	12-17A	12-18A	12-19E
Cash and equivalents	175	207	367
Short term investments	160	0	0
Accounts receivables	85	176	208
Inventories	3,402	4,816	5,712
Other current assets	74	82	110
Total current assets	3,896	5,281	6,397
Fixed assets	487	719	1,129
Total investments	0	0	0
Other long-term assets	109	304	320
Total assets	4,492	6,304	7,846
Short-term debt	846	1,558	1,974
Accounts payable	279	291	346
Other current liabilities	364	693	878
Total current liabilities	1,489	2,542	3,198
Total long-term debt	46	8	8
Other liabilities	7	9	8
Share capital	1,081	1,670	1,670
Retained earnings reserve	772	885	1,700
Shareholders' equity	2,950	3,745	4,632
Minority interest	0	0	0
Total liabilities & equity	4,492	6,304	7,846

Cash flow statement

(VNDbn)	12-17A	12-18A	12-19E
Pretax profit	908	1,206	1,524
Depreciation & amortisation	39	42	66
Tax paid	(154)	(232)	(305)
Other adjustments	(142)	(175)	(9)
Change in working capital	(542)	(1,144)	(706)
Cash flow from operations	109	(303)	570
Capex	(115)	(336)	(477)
Proceeds from assets sales	8	1	2
Others	3	6	0
Other non-current assets changes	(160)	160	(16)
Cash flow from investing activities	(264)	(169)	(491)
New share issuance	975	97	0
Shares buyback	0	0	0
Net borrowings	(615)	672	415
Other financing cash flow	0	0	0
Dividends paid	(185)	(265)	(334)
Cash flow from financing activities	175	504	81
Cash and equivalents at beginning of period	155	175	207
Total cash generated	20	32	160
Cash and equivalents at the end of period	175	207	367

Key ratios

	12-17A	12-18A	12-19E
Dupont			
Net profit margin	6.6%	6.6%	6.6%
Asset turnover	2.72	2.70	2.61
ROAA	17.9%	17.8%	17.2%
Avg assets/avg equity	1.82	1.61	1.69
ROAE	32.6%	28.7%	29.1%
Efficiency			
Days account receivable	1.33	1.98	1.70
Days inventory	137	149	140
Days creditor	11.2	9.0	8.5
Fixed asset turnover	24.3	24.2	20.0
ROIC	18.9%	18.1%	18.4%
Liquidity			
Current ratio	2.62	2.08	2.00
Quick ratio	0.33	0.18	0.21
Cash ratio	0.22	0.08	0.11
Cash cycle	127	142	133
Growth rate (yoy)			
Revenue growth	28.2%	32.8%	26.7%
Operating profit growth	30.9%	33.0%	29.2%
Net profit growth	60.8%	32.4%	27.0%
EPS growth	45.7%	28.6%	27.0%
Share value			
Basic EPS (VND)	4,471	5,749	7,299
BVPS (VND)	18,193	22,425	27,737

Source: VNDIRECT

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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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