

## PHU NHUAN JEWELRY JSC (PNJ) – UPDATE

<b>Market Price</b>	<b>Target Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND78,500	VND99,500	2.29%	ADD	CONSUMER GOODS

7 December 2020

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

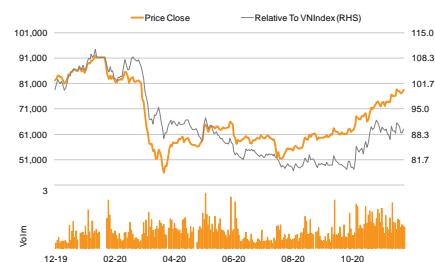
Consensus\*: Add:0 Hold:0 Reduce:0

Target price / Consensus: na

### Key changes in the report

- Increase TP by 26.2%

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	92,000
52w low (VND)	45,900
3m Avg daily value (VNDmn)	65,892
Market cap (VND bn)	17,447
Free float (%)	64
TTM P/E (x)	14.7
Current P/B (x)	3.9

### Ownership

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

Source: VND RESEARCH

### Analyst(s):



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### October performance shines

- PNJ reported Oct topline and bottomline to grow 6.5% yoy / 35% yoy to VND1,827bn / VND175bn, respectively.
- PNJ's 10M20 revenue stayed flat yoy at VND13,495bn, while net profit dropped 13% yoy to VND817bn, fulfilling 83.5% our forecast.
- Reiterate ADD with a higher TP of VND99,500.

### 10M20 results above our expectation

PNJ's Oct revenue increased 6.5% yoy to VND1,827bn, mainly thanks to the strong growth of revenue from retail channel, which increased 17.5% yoy and offset the decline in wholesales channel and gold bar channel. PNJ's Oct net profit reached VND175bn, up 35% yoy. For 10M20, PNJ's revenue stayed flat yoy at VND13,495bn, while 10M20 net profit decreased 13% yoy to VND817bn, completing 83.5% our FY20F forecast, above our expectation.

### Weakening gold price may benefit PNJ's inventory restocking process

The gold price rally of more than 29.2% from Jan 20 to Aug 20 put a heavy pressure on PNJ's COGS in the long term when they want to restock their inventory. However, the good news of vaccine for Covid-19, which led to the reduction of gold price by 7% from Aug 20 to Dec 20, could help ease the pressure on PNJ's COGS when PNJ's inventory is restocked at lower costs.

### Changes to our forecasts

We increased our FY20/21/22F net profit forecasts by 11.2%/0.5%/2.6%, respectively, due to 1) higher sales in the retail segment in FY20F/21F/22F (+14.6%/+12.5%/+23.1% vs. old forecasts) and 2) a faster pace of store opening in 2021-22F thanks to the recovery from Covid-19 impacts (20/15 PNJ gold stores in 2021/22F vs. 10/10 in previous forecasts).

### Reiterate ADD with a higher TP of VND99,500

We increased our DCF-based TP by 26.2% to VND99,500 following a rollover to FY21F, 0.5%/2.6% upward revision in FY21F/FY22F net profit forecasts and higher 10-year EBIT CAGR at 8.4% (vs. 7.8% in previous forecast). Our TP translates to a FY21F P/E of 17.7x, based on the assumptions of risk-free rate at 3% and WACC at 10.6%.

### Re-rating catalysts and downside risks

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 leading to another social distancing, especially in Hanoi and Ho Chi Minh City.

Financial summary (VND)	12-19A	12-20E	12-21E	12-22E
Net revenue (bn)	17,001	18,064	19,850	21,276
Revenue growth	16.7%	6.3%	9.9%	7.2%
Gross margin	20.4%	19.1%	19.2%	19.7%
EBITDA margin	9.8%	8.4%	8.7%	9.3%
Net profit (bn)	1,191	1,088	1,265	1,445
Net profit growth	24.0%	(8.6%)	16.3%	14.2%
Recurring profit growth	24.3%	(8.6%)	16.3%	14.3%
Basic EPS	5,348	4,829	5,615	6,414
Adjusted EPS	4,887	4,338	5,102	5,879
BVPS	20,303	23,331	27,146	31,760
ROAE	28.6%	22.1%	22.2%	21.8%

Source: VND RESEARCH

## OCTOBER PERFORMANCE SHINES

### 10M20 results above our expectation

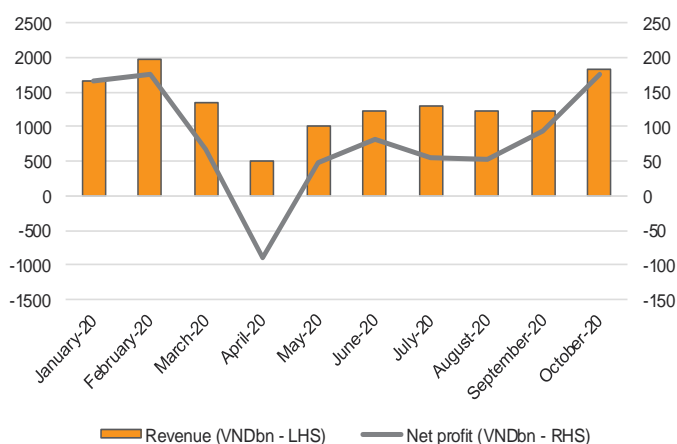
PNJ's Oct revenue increased 6.5% yoy to VND1,827bn, in which retail channel showed a strong growth of 17.5% yoy which helped offset the reduction in wholesales channel and gold bar channel. The increase of PNJ's retail channel in Oct 20 is thanks to the time of wedding season, promotion campaigns like Black-Friday sales, Vietnamese Women's day - 20/10, and the release of new concept – STYLE by PNJ – which targets young generation with a wide range of products (gold, silver jewelry, watches...) at reasonable prices. PNJ's Oct net profit reached VND175bn, up 35% yoy.

For 10M20, PNJ's revenue stayed flat yoy at VND13,495bn, in which:

- PNJ's retail channel revenue increased 6% yoy to VND7,894bn, maintaining its growth trajectory while wholesale channel revenue decreased by 25.3% yoy to VND2,091bn, as PNJ is the leader in the jewelry market, having good resources and well-known images to survive while many household gold/jewelry businesses were suspended due to the social distancing periods and the impacts of Covid-19 on discretionary goods.
- PNJ's gold bar revenue increased 12.5% yoy to VND3,225bn thanks to the growth of gold bar price and the slowdown in global economy amid Covid-19 pandemic.

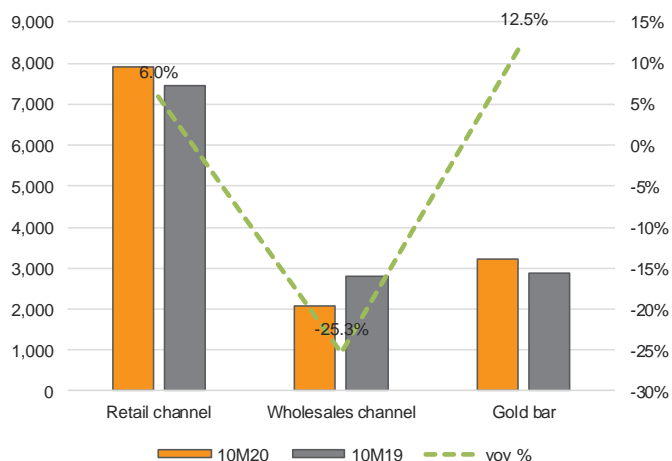
10M20 net profit decreased 13% yoy to VND817bn, fulfilling 83.5% our FY20F forecast, above our expectation.

Figure 1: PNJ performance in 2020 (Monthly)



Source: VNDIRECT RESEARCH, Company reports

Figure 2: PNJ's sales by segments in 10M20 and 10M19 (VNDbn)



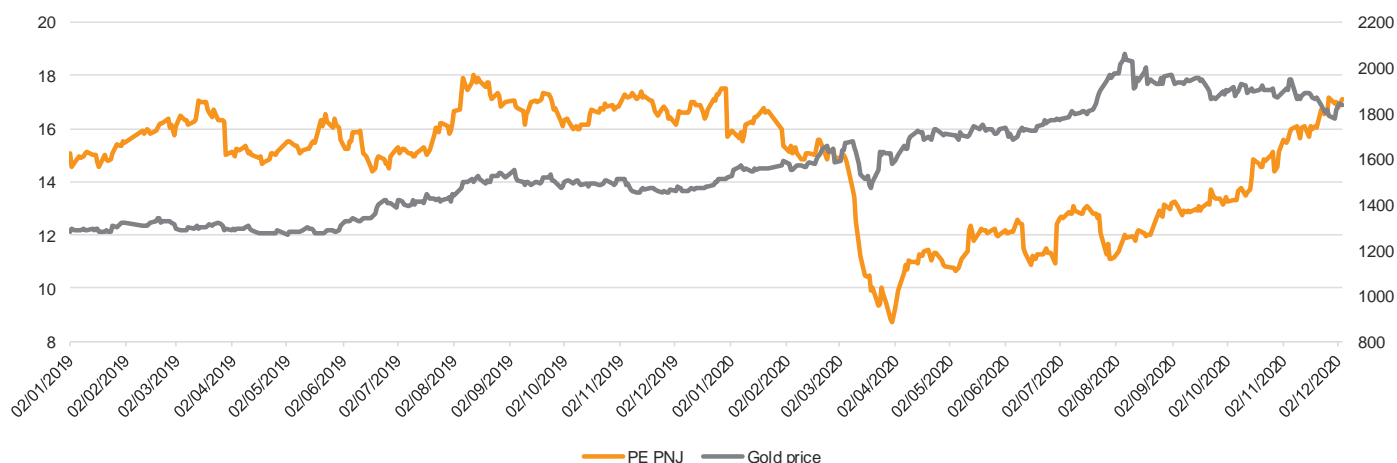
Source: VNDIRECT RESEARCH, Company reports

### Weakening gold price may benefit PNJ's inventory restocking process

The gold price rally of more than 29.2% from Jan 20 to Aug 20 put a heavy pressure on PNJ's COGS in the long term when they want to restock their inventory. However, the good news of vaccine for Covid-19, which led to the reduction of gold price by 7% from Aug 20 to Dec 20, can ease the pressure on PNJ's COGS when inventory is restocked at lower costs.

We observe that the trailing P/E of PNJ is negatively correlated with the global gold price, especially from the beginning of 2020. Therefore, the decrease in gold prices will reduce pressure on PNJ's P/E in the future.

Figure 3: PNJ's P/E and gold price in 2019-2020 period



Source: BLOOMBERG, VNDIRECT RESEARCH

**We expect jewelry retail sales to maintain a growth momentum in 2021-22F**

**Demand for gold bar will grow more slowly in 2021F and decline in 2022F** due to the recovery of the global economy when Covid-19 vaccines are coming soon in early 2021F. We expect PNJ's gold bar sales in 2021F to have a lower growth comparing to 2020 level, then drop in 2022F.

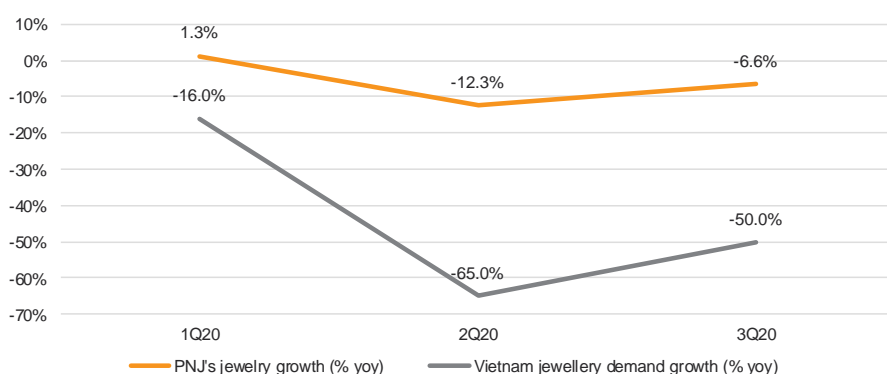
**The wholesale segment is worst hit** by the pandemic in 2020F but will recover in 2021-22F off low-base 2020F as the global economy recovered after vaccines are widely distributed.

**Jewelry retail sales to maintain a growth trend in 2021-22F.** PNJ's results in 2Q20 and 3Q20 outperformed the market as PNJ's jewelry segment decreased by only 12.3% yoy / 6.6% yoy while market demand decreased by 65% yoy / 50% yoy in 2Q20 and 3Q20, according to the World Gold Council.

PNJ's market share in jewelry segment has increased sharply from about 23.2% in 1Q20 to 34.7% in 2Q20 and 35.8% in 3Q20. With the strong market share expansion in 2Q20 - 3Q20, we believe PNJ's retail segment could grow strongly in 2021-22F when the Vietnamese jewelry market recovers. We expect revenue of retail sales channel to increase 10.1% yoy / 9.5% yoy in 2021-22F.

We increase our FY20F/21F/22F net profit by 11.2%/0.5%/2.6%, respectively, due to 1) higher sales of the retail segment in FY20/21/22F (+14.6%/+12.5%/+23.1% vs. old forecasts) and 2) a faster pace of store opening in 2021/22F thanks to the recovery from Covid-19 impacts (20/15 PNJ gold stores in FY21/22F vs. 10/10 in previous forecasts).

Figure 4: PNJ's jewelry revenue growth vs. Vietnam's jewelry demand growth in 9M20



Source: VNDIRECT RESEARCH, World gold council

**Figure 5: Changes in forecasts**

	2020F			2021F			2022F			Comments
	Old	New	%Δ	Old	New	%Δ	Old	New	%Δ	
<b>Net revenue</b>	<b>17,215</b>	<b>18,064</b>	<b>4.9%</b>	<b>19,208</b>	<b>19,850</b>	<b>3.3%</b>	<b>20,232</b>	<b>21,276</b>	<b>5.2%</b>	We have revised our forecast with the expectation PNJ's retail sales grow stronger in 21F/22F due to better performance vs. market and the recovery of world economy after vaccine for Covid-19 widely distributed.
Retail revenue	9,236	10,585	14.6%	10,365	11,657	12.5%	10,365	12,763	23.1%	
Wholesale revenue	2,970	2,970	0.0%	3,267	3,267	0.0%	3,267	3,594	10.0%	
Gold bar revenue	4,592	4,104	-10.6%	5,057	4,425	-12.5%	5,057	4,312	-14.7%	
Net revenue growth	1.3%	6.3%		11.6%	9.9%		17.5%	7.2%		
Gross profit	3,089	3,452	11.8%	3,480	3,821	9.8%	3,721	4,186	12.5%	Gross profit margin increased due to the higher contribution of retail segment - mostly jewelry items, which have the highest gross margin in PNJ's sale segment.
<b>Gross profit margin</b>	<b>17.9%</b>	<b>19.1%</b>	<b>+1.2% pts</b>	<b>18.1%</b>	<b>19.2%</b>	<b>+1.1% pts</b>	<b>18.4%</b>	<b>19.7%</b>	<b>+1.3% pts</b>	
Selling expenses	1,388	1,380	-0.6%	1,427	1,489	4.3%	1,466	1,581	7.8%	
as % of revenue:	8.1%	7.6%	-0.5% pts	7.4%	7.5%	+0.1% pts	7.2%	7.4%	+0.2% pts	
G&A expenses	392	621	58.4%	403	672	66.7%	414	714	72.5%	
as % of revenue:	2.3%	3.4%	+1.1% pts	2.1%	3.4%	+1.3% pts	2.0%	3.4%	+1.4% pts	
Operating profit	1,309	1,451	10.8%	1,650	1,660	0.6%	1,841	1,891	2.7%	
EBT	1,222	1,360	11.3%	1,574	1,581	0.4%	1,760	1,806	2.6%	
Net profit	978	1,088	11.2%	1,259	1,265	0.5%	1,408	1,445	2.6%	
Net margin	5.7%	6.0%	+0.3% pts	6.6%	6.4%	-0.2% pts	7.0%	6.8%	-0.2% pts	

Source: BLOOMBERG, VNDIRECT RESEARCH

### Valuation

We reiterate our ADD rating with higher TP of VND99,500, following a rollover to FY21F, 0.5%/2.6% upward revision in FY21-22F net profit forecasts and higher 10-year EBIT CAGR at 8.4% (vs. 7.8% in previous forecast). Our DCF-based target price is VND99,500 on the assumptions of risk-free rate at 3% and WACC at 10.6%.

Potential re-rating catalysts include 1) a faster-than-expected store opening pace, 2) better-than-expected demand recovery after the pandemic, and 3) the launch of new products/brands which are expected to boost sales. Downside risk to our call is the next wave of COVID-19 outbreak in Vietnam.

**Figure 6: Discounted Cash Flow (DCF Valuation)**

DCF Valuation	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
EBIT	1,660	1,891	2,165	2,360	2,399	2,520	2,723	2,862	3,025	3,149	3,293
Tax	-316	-361	-415	-453	-460	-483	1,263	1,619	1,451	1,660	1,891
Depreciation	61	74	90	103	118	136	150	164	181	199	218
Capex	-267	-352	-293	-336	-386	-296	-325	-357	-393	-432	-474
Change in working cap	-250	-226	-221	-233	-229	-153	-75	-72	-5	-8	8
Free Cash Flows	888	1,026	1,326	1,441	1,442	1,724	1,950	2,047	2,224	2,274	2,383
Present Value of FCF	888	923	1,087	1,066	966	1,034	1,073	1,003	1,001	910	882

Source: VNDIRECT RESEARCH

**Figure 7: Assumptions**

Cost of Capital	Current
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	10.6%

Source: VNDIRECT RESEARCH

**Figure 8: Target price**

DCF Method	Amount	Unit
PV of Free Cash Flows	10,833	VNDbn
PV of Terminal Value (2.0% growth)	11,948	VNDbn
<b>Enterprise value</b>	<b>22,781</b>	<b>VNDbn</b>
Cash and cash equivalents	1,429	VNDbn
Total debts	(1,810)	VNDbn
Equity Value	22,400	VNDbn
Shares	225	million
<b>Price per share</b>	<b>99,500</b>	<b>VND/share</b>

Source: VNDIRECT RESEARCH

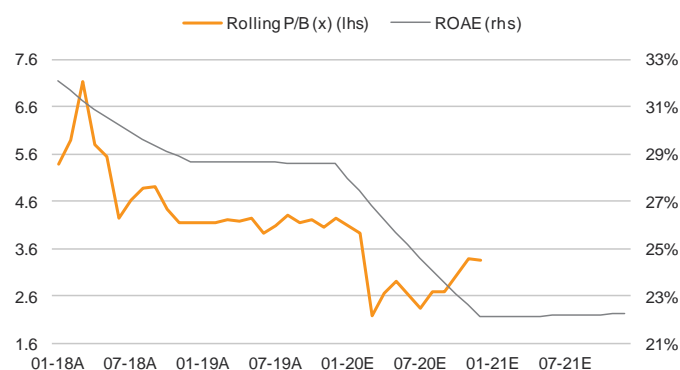
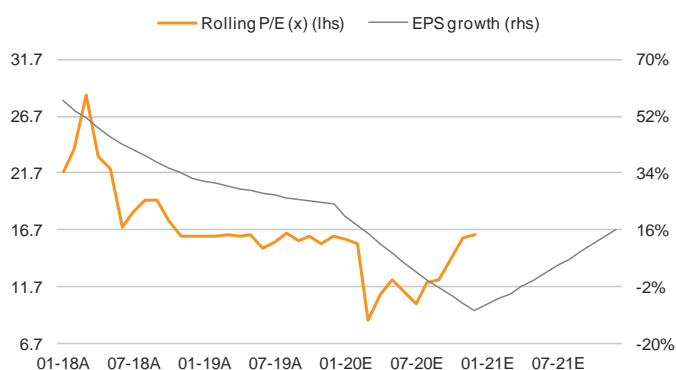
**Figure 9: Peer Comparison**

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY21F	FY22F		TTM	FY21F	FY22F	TTM	FY21F	FY22F	TTM	FY21F	FY22F
Phu Nhuan Jewelry JSC	PNJ VN	NR	78,500	99,500	764	14.7	17.7	15.5	16.4%	3.9	3.7	3.1	22.8%	22.2%	21.8%	12.4%	13.8%	14.4%
Tiffany & Co	TIF US	na	na	na	15,937	45.2	51.3	30.0	12.5%	4.9	4.5	4.3	9.0%	8.2%	14.4%	4.4%	4.0%	8.0%
Chow Tai Fook Jewellery Group Ltd	1929 HK	na	9.90	6.00	12,980	27.6	21.7	18.1	3.0%	3.6	3.6	3.4	13.3%	17.2%	19.7%	5.5%	7.7%	9.0%
Chow Sang Sang Holdings Ltd	116 HK	na	9.30	na	813	25.6	9.6	6.5	-1.0%	0.6	0.6	0.5	2.2%	5.9%	8.4%	1.5%	3.7%	5.6%
<b>Average - Jewelry retailers</b>						<b>32.8</b>	<b>27.5</b>	<b>18.2</b>	<b>4.8%</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>8.2%</b>	<b>10.4%</b>	<b>14.2%</b>	<b>3.8%</b>	<b>5.1%</b>	<b>7.5%</b>

*All prices are based on the closing prices on 04 Dec 2020*

Source: BLOOMBERG, VNDIRECT RESEARCH



**Valuation**

**Income statement**

(VNDbn)	12-20E	12-21E	12-22E
Net revenue	18,064	19,850	21,276
Cost of sales	(14,612)	(16,029)	(17,090)
Gen & admin expenses	(621)	(672)	(714)
Selling expenses	(1,380)	(1,489)	(1,581)
<b>Operating profit</b>	<b>1,451</b>	<b>1,660</b>	<b>1,891</b>
Operating EBITDA	1,507	1,721	1,965
<b>Depreciation and amortisation</b>	<b>(56)</b>	<b>(61)</b>	<b>(74)</b>
<b>Operating EBIT</b>	<b>1,451</b>	<b>1,660</b>	<b>1,891</b>
Interest income	8	9	10
Financial expense	(100)	(87)	(94)
Net other income	(0)	(1)	(1)
Income from associates & JVs	0	0	0
<b>Pre-tax profit</b>	<b>1,360</b>	<b>1,581</b>	<b>1,806</b>
Tax expense	(272)	(316)	(361)
Minority interest	0	0	0
<b>Net profit</b>	<b>1,088</b>	<b>1,265</b>	<b>1,445</b>
Adj. net profit to ordinary	1,088	1,265	1,445
Ordinary dividends	(406)	(406)	(406)
<b>Retained earnings</b>	<b>682</b>	<b>859</b>	<b>1,039</b>

**Balance sheet**

(VNDbn)	12-20E	12-21E	12-22E
Cash and equivalents	1,429	1,339	2,114
Short term investments	0	0	0
Accounts receivables	169	189	199
Inventories	5,865	6,205	6,460
Other current assets	146	122	133
<b>Total current assets</b>	<b>7,609</b>	<b>7,855</b>	<b>8,906</b>
Fixed assets	988	1,192	1,469
Total investments	0	0	0
Other long-term assets	347	355	360
<b>Total assets</b>	<b>8,945</b>	<b>9,402</b>	<b>10,736</b>
Short-term debt	1,806	1,588	1,702
Accounts payable	478	583	618
Other current liabilities	1,396	1,107	1,253
<b>Total current liabilities</b>	<b>3,680</b>	<b>3,278</b>	<b>3,573</b>
Total long-term debt	4	4	4
Other liabilities	4	4	4
Share capital	2,253	2,253	2,253
Retained earnings reserve	1,751	2,564	3,556
<b>Shareholders' equity</b>	<b>5,256</b>	<b>6,116</b>	<b>7,155</b>
Minority interest	0	0	0
<b>Total liabilities &amp; equity</b>	<b>8,945</b>	<b>9,402</b>	<b>10,736</b>

**Cash flow statement**

(VNDbn)	12-20E	12-21E	12-22E
<b>Pretax profit</b>	<b>1,360</b>	<b>1,581</b>	<b>1,806</b>
Depreciation & amortisation	56	61	74
Tax paid	(272)	(316)	(361)
Other adjustments	(44)	10	14
<b>Change in working capital</b>	<b>1,531</b>	<b>(514)</b>	<b>(99)</b>
<b>Cash flow from operations</b>	<b>2,631</b>	<b>823</b>	<b>1,434</b>
Capex	(121)	(267)	(352)
Proceeds from assets sales	1	1	2
Others	0	0	0
Other non-current assets changes	33	(23)	(18)
<b>Cash flow from investing activities</b>	<b>(87)</b>	<b>(289)</b>	<b>(368)</b>
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(805)	(218)	114
Other financing cash flow	0	0	0
Dividends paid	(406)	(406)	(406)
<b>Cash flow from financing activities</b>	<b>(1,210)</b>	<b>(624)</b>	<b>(291)</b>
Cash and equivalents at beginning of period	95	1,429	1,339
<b>Total cash generated</b>	<b>1,334</b>	<b>(90)</b>	<b>774</b>
Cash and equivalents at the end of period	1,429	1,339	2,113

**Key ratios**

	12-20E	12-21E	12-22E
<b>Dupont</b>			
Net profit margin	6.0%	6.4%	6.8%
Asset turnover	2.06	2.16	2.11
ROAA	12.4%	13.8%	14.4%
Avg assets/avg equity	1.78	1.61	1.52
ROAE	22.1%	22.2%	21.8%
<b>Efficiency</b>			
Days account receivable	1.4	1.4	1.4
Days inventory	146.9	141.3	138.0
Days creditor	12.0	13.3	13.2
Fixed asset turnover	18.89	18.21	15.99
ROIC	15.4%	16.4%	16.3%
<b>Liquidity</b>			
Current ratio	2.1	2.4	2.5
Quick ratio	0.5	0.5	0.7
Cash ratio	0.4	0.4	0.6
Cash cycle	136.3	129.4	126.1
<b>Growth rate (yoy)</b>			
Revenue growth	6.3%	9.9%	7.2%
Operating profit growth	(10.4%)	14.4%	13.9%
Net profit growth	(8.6%)	16.3%	14.2%
EPS growth	(9.7%)	16.3%	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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