

PHU NHUAN JEWELRY JSC (PNJ) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND116,500	VND140,700	1.7%	Add	CONSUMER GOODS

3 August 2022

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

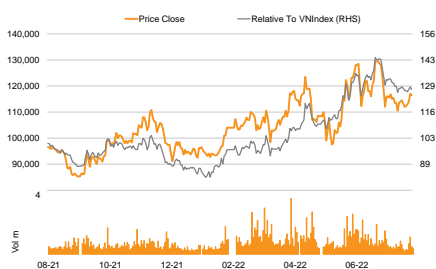
Consensus*: Add:12 Hold:1 Reduce:0

Target price / Consensus: 2.8%

Key changes in the report

➤ Increase TP by 7.3%

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	129,500
52w low (VND)	85,300
3m Avg daily value (VNDmn)	100,561
Market cap (VND bn)	28,357
Free float (%)	33
TTM P/E (x)	25.4
Current P/B (x)	4.36

Ownership

Vietnam Enterprise Investments	10.3%
Cao Thị Ngọc Dung	9.0%
Vinacapital	8.1%
Others	72.60%

Source: VNDIRECT RESEARCH

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The stars are aligned

- 2Q22 revenue and NP reached VND8,068bn (+81.1% yoy) and VND367bn (+63.8% yoy), respectively.
- We expect earnings to surge 79.7%/19.4% yoy in FY22/23F as PNJ gains more market share and a strong economic recovery momentum.
- Reiterate ADD with higher TP of VND140,700.

2Q22 results: Stronger than expected

2Q22 revenue grew 81.1% yoy to VND8,068bn as PNJ gains more market share and strong economic recovery momentum. 2Q22 gross margin decreased by 0.8 % pts yoy to 17.96%, but higher than that of 1Q22 (17.36%) as retail revenue posted a stronger growth rate, at 90.7% yoy, than gold bar revenue at 74.5% yoy. Thus, 2Q22 NP grew 63.8% yoy to VND367bn, stronger than that of 1Q22 (41.2% yoy). Consequently, 1H22 revenue and NP reached VND18,210bn (+56.5% yoy) and VND1,088bn(+48.0% yoy), far above our expectation.

We believe PNJ is able to maintain strong NP growth in 2H22F – FY23F

Strong 1H22 performance has eased concerns over the slowdown of luxury goods demand due to increasing inflation. We believe PNJ is able to maintain the momentum thanks to (1) its dominant position with more than 50% market share in retail jewelry space, (2) Vietnam 's moderate inflation together with increasing consumer confidence will bode well for both gold and jewelry sales.

Change in FY22-23F earnings forecasts

We increase our forecasts for PNJ's revenue by 20.4%/19.9% vs previous report to VND29,152bn /VND34,221bn in FY22/23F, on the back of stronger retail sales (+23.1%/23.1% vs previous report as increasing revenue per store in the same amount) and gold bar sales (+18.7%/18.7% vs previous report) in FY22/23F. We also increase SG&A expenses by 28.6%/29.9% to reflect increasing in promotional activities to boost sales in FY22/23F. Thus, we increase our forecast for PNJ's NP by 11.9%/7.7% to VND1,856bn/VND2,216bn in FY22/23F. We expect PNJ's revenue/NP to increase by 35.6/99.5% yoy in 2H22F and 17.4/19.4% yoy in FY23F.

Reiterate ADD with a higher TP of VND140,700

We increased our DCF-based target price (TP) by 7.3% to VND140,700 per share following FY22-23F EPS upgrade. Currently, PNJ is being traded at P/E FY22F 14.2x, lower than the 3-year average P/E of 17.6x and equivalent to the P/E region in 3Q21, when PNJ was heavily impacted by social distancing. Potential re-rating catalysts include 1) a faster-than-expected store opening/retail sales, and 2) new projects/collections/concepts which are expected to boost sales. Downside risk to our call is slower-than-expected store expansion/sale, especially PNJ's jewelry retail sale.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	17,511	19,613	29,152	34,221
Revenue growth	3.0%	12.0%	48.6%	17.4%
Gross margin	19.6%	18.2%	17.7%	18.2%
EBITDA margin	8.9%	7.4%	8.5%	8.7%
Net profit (bn)	1,069	1,033	1,856	2,216
Net profit growth	(10.2%)	(3.4%)	79.7%	19.4%
Recurring profit growth	(9.9%)	(2.0%)	77.0%	19.4%
Basic EPS	4,745	4,585	7,933	9,134
Adjusted EPS	3,999	3,746	7,049	8,207
BVPS	23,268	26,708	36,140	45,274
ROAE	21.8%	18.3%	25.1%	22.4%

Source: VNDIRECT RESEARCH¹

THE STARS ARE ALIGNED

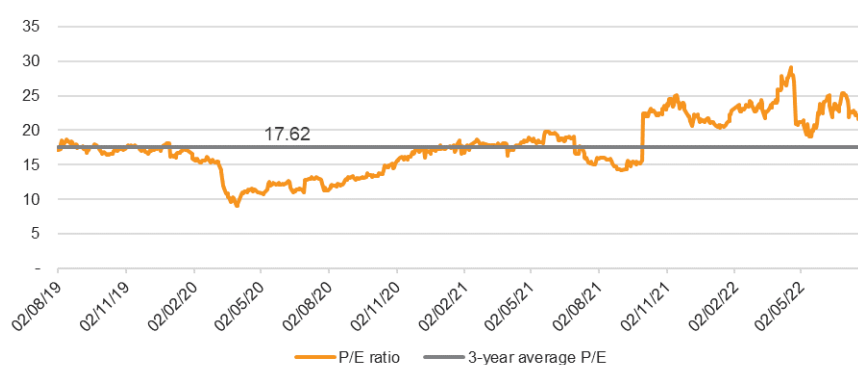
Investment thesis

We like PNJ for:

- PNJ is dominating statistical jewelry market share at more than 50% with a strong mid- to high-end customer base that is less affected by inflation. With the strong recovery of Vietnam's economy from 2022F to maintain high GDP growth, it will help middle and high class spending to remain high in the coming period, thereby helping to increase growth in demand of jewelry products in Vietnam.
- In 1H22, PNJ keeps shining with a strong growth of net profit, at 48% yoy to VND1,088bn, much beyond our expectation. This robust growth can be maintained in 2H22F – FY23F which will support the stock price rally amid the market's downward pressure.
- For long-term run, we expect PNJ's strategies, include 1) make attractive concepts like Style by PNJ, 2) launch more effective advertising campaigns, 3) co-operate with Pandora to become “Multi Branded Stores” and 4) increase digitization and aim for omnichannel sale will support PNJ's net profit to maintain 2-digits growth, at CAGR of 24.3% from FY22-26F, per our expectation.
- Besides, the proportion in the VNDiamond basket at 15% and the VNDiamond ETF's net assets value continuously increasing recently will support PNJ stock price in the near future.

We reiterate ADD rating with our 1-year DCF-based target price (TP) of VND140,700 per share. Our DCF valuation based on the assumptions of a risk-free rate at 3.0% and WACC at 10.8%. At this price (VND116,500 per share, 02/08/2022), PNJ is being traded at P/E 2022F 14.7x, lower than the 3-year average P/E of 17.6x and equivalent to the P/E region in 3Q21, when PNJ was heavily impacted by social distancing.

Figure 1: PNJ's P/E from 08/19 – 08/22



Source: VNDIRECT RESEARCH

Investment risks: slower-than-expected store expansion and lower than expected growth of PNJ's sale, especially PNJ's jewelry retail sale.

Potential re-rating catalysts: 1) a faster-than-expected store opening, 2) a better-than-expected revenue per store, and 3) new projects/ new collections / new concepts which are expected to boost sales.

Figure 2: Assumptions

Cost of Capital	
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	10.8%

Source: VNDIRECT RESEARCH

Figure 3: Target price

DCF Method	Amount	Unit
PV of Free Cash Flows	17,309	VNDbn
PV of Terminal Value (2.0% growth)	19,199	VNDbn
Enterprise value	36,508	VNDbn
Cash and cash equivalents	358	VNDbn
Total debts	(2,722)	VNDbn
Equity Value	34,144	VNDbn
Shares	243	million
Price per share	140,700	VND/share

Source: VNDIRECT RESEARCH

Figure 4: Peer Comparison

Company	Ticker	Recomm.	Target price		Mkt cap	P/E (x)		3-year EPS			ROA (%)		ROE (%)	
			LC\$	US\$m		FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Chow Tai Fook Jewellery Group Ltd	1929 HK	na	15.52	na	19,771	19.8	17.0	27.5	4.23	3.80	8.5	9.4	21.5	23.1
Kalyan Jewellers India Ltd	KALYANKJ	na	65.95	na	865	20.7	15.8	na	1.91	1.66	na	na	9.8	11.9
Chow Sang Sang Holdings International Ltd	116 HK	na	8.00	na	690	6.0	4.9	-11.2	0.41	0.39	5.3	6.1	7.1	8.2
Average						15.5	12.6	7.5	2.19	1.95	6.9	7.7	12.8	14.4
Phu Nhuan Jewelry JSC	PNJ VN	ADD	116,500	140,700	1,209	14.7	12.8	1.7	3.22	2.57	16.50	16.40	25.10	22.40

All prices are based on the closing prices on 02 Aug 2022

Source: BLOOMBERG, VNDIRECT RESEARCH

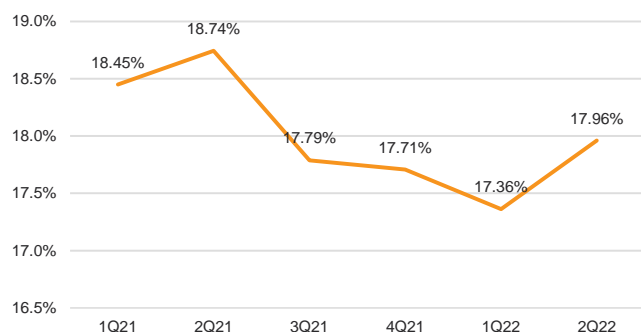
2Q22 results: better-than-expected bottom line, strong capacity expansion

Figure 5: 2Q22 and 1H22 results comparison

(VNDbn)	2Q21	2Q22	%yoy	1H21	1H22	%yoy	VNDS forecast	%vs VNDS forecast	Comments
Revenue	4,455	8,068	81.1%	11,637	18,210	56.5%	24,206	75.2%	Above our forecast
Retail	2,606	4,970	90.7%	6,610	10,671	61.4%	13,766	77.5%	
Goldbar	1,105	1,928	74.5%	3,095	5,135	65.9%	6,886	74.6%	
Wholesale	677	1,057	56.1%	1,652	2,149	30.1%	2,994	71.8%	
COGS	3,620	6,619	82.8%	9,477	15,001	58.3%	19,845	75.6%	
Gross profit	835	1,449	73.5%	2,160	3,210	48.6%	4,361	73.6%	Above our forecast
GM	18.74%	17.96%	-0.8 % pts	18.56%	17.63%	-0.9 % pts	18.00%	-0.4 % pts	Under our forecast due to 1) change in production mix as gold bar sales proportion in total revenue increased 1.6 % pts to 28.2% in 1H22 and 2) PNJ launched many promotional campaigns to promote revenue growth after the pandemic
Selling expenses	420	754	79.5%	923	1,396	51.2%	1,490	93.7%	
G&A expenses	125	181	44.8%	278	357	28.4%	662	53.9%	
SG&A expenses	545	935	71.6%	1,201	1,753	46.0%	2,152	81.5%	
S/Revenue	9.43%	9.35%	-0.1 % pts	7.93%	7.67%	-0.3 % pts	6.00%	1.7 % pts	
G&A/Revenue	2.81%	2.24%	-0.6 % pts	2.39%	1.96%	-0.4 % pts	3.00%	-1.0 % pts	
SG&A/Revenue	12.23%	11.59%	-0.6 % pts	10.32%	9.63%	-0.7 % pts	9.00%	0.6 % pts	
Operation profit	271	503	85.6%	920	1,416	53.9%	2,209	64.1%	Above our forecast
Net financial expense	(19)	(12)	-36.8%	(38)	(41)	7.9%	(134)	30.6%	Below our forecast as PNJ reduces short-term debt from VND2,100bn in 2Q21 to VND877bn in 2Q22 with strong cash after successful private placement
Pretax profit	274	477	74.1%	921	1,390	50.9%	2,073	67.1%	
Net profit	224	367	63.8%	735	1,088	48.0%	1,658	65.6%	Above our forecast

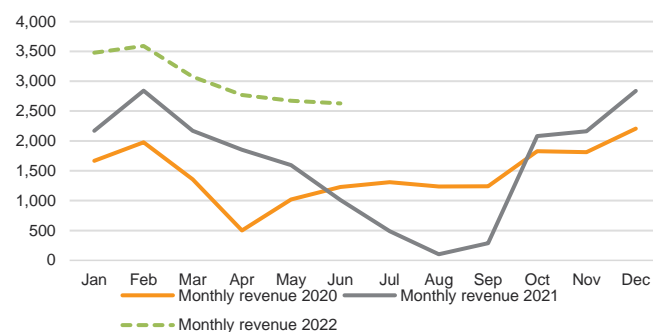
Source: VNDIRECT Research, company reports

Figure 6: PNJ's gross margin from 2021 - 2022



Source: VNDIRECT Research, Company reports

Figure 7: Monthly revenue of PNJ from 2020 – 1H22 (Unit: VNDbn)



Source: VNDIRECT Research, Company reports

2Q22 revenue and net profit continued to grow robustly of VND8,068bn (+81.1% yoy) and NP of VND367bn(+63.8% yoy) as the results of:

- Retail revenue grew at 90.7% yoy to VND4,970bn as PNJ gained more market share from traditional gold outlets.
- Gold bar revenue grew 74.5% yoy to VND1,928bn and wholesale revenue grew 56.1% yoy to VND1,057bn.

2Q22 gross margin decreased by 0.8 % pts yoy to 17.96% as PNJ launched many promotional campaigns to boost revenue growth in 2Q22, especially in tier 2 and 3 provinces when PNJ is looking to expand its brand coverage after the pandemic. 2Q22 GM is higher than that of 1Q22 (17.36%) as retail revenue, which have high margin, posted a stronger growth rate in 2Q22, at 90.7% yoy, than gold bar revenue at 74.5% yoy. We believe PNJ's GM will be better in 2H22F thanks to the growth of the retail segment to be able to achieve FY22F's GM at 17.7% (vs 17.6% in 1H22).

2Q22 SG&A expenses increased by 71.6% yoy with advertising campaigns to boost revenue, especially in tier 2 and tier 3 provinces.

2Q22 net financial expenses decreased by 36.8% yoy to VND12bn following the reduction in short-term debt from VND2,100bn in 2Q21 to VND877bn in 2Q22 with strong cash after successful private placement.

For 1H22, revenue and NP reached VND18,210bn (+56.5% yoy) and VND1,088bn (+48.0% yoy), above our expectation at 65.6% full-year forecast. According to management, PNJ posted 61.4% yoy in retail jewelry, much higher the industry growth of 11% yoy in 1H22. We believe PNJ has eaten up more pies in 1H22, lifting its market share in statistical jewelry market to above 50%.

Currently, PNJ is running at more than 90% its production capacity of 4m products/year, per our estimation. In 1H22, the company has upgraded its production line in Go Vap factory to lift the total capacity to 4.1 mn products/year, focusing on jewelry and diamond products. PNJ targets to upgrade the Long Hau factory in order to lift total capacity by 30% and build new factory to capture the growing demand.

We believe PNJ is able to maintain strong NP growth into 2H22F – FY23F

The strong performance of PNJ in 1H22 has eased concerns over the slowdown of luxury goods consumption due to increasing inflation. We believe PNJ is able to maintain the momentum thanks to:

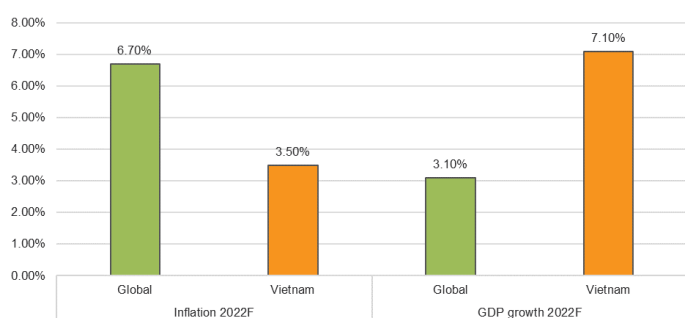
- 1) Its dominant position with more than 50% market share in retail jewelry space. In 2021, the number of mid- and high-end customers of CAO

Fashion Co., Ltd. still increased by 67% despite being strongly influenced by the social distancing period.

- 2) Vietnam's moderate inflation together with increasing consumer confidence will bode well for both gold and jewelry sales. CPI edged up 2.54% for 7M22 and is expected to reach 3.5% for 2022, well below the target 4% of the government. According to Kantar, Vietnam consumer confident index elevated since 2Q21 despite increasing inflation to reached 86 points in 2Q22.

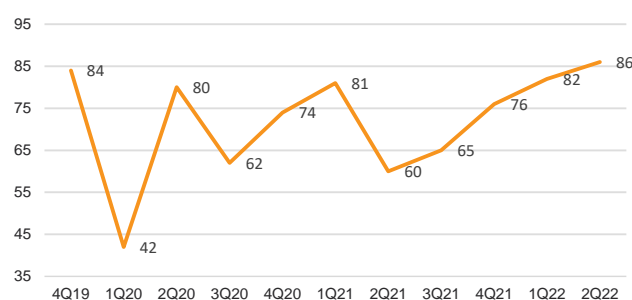
We estimate PNJ's revenue/NP to increase by 35.6/99.5% yoy in 2H22F, from the low base in 2H21. For 2023F, we expect PNJ to continue its growth momentum with larger market share and stronger brand with the expectation PNJ's revenue/NP to increase by 17.4/19.4% yoy in FY23F.

Figure 8: Global and Vietnam GDP growth and inflation based on UN data and our forecasts



Source: VNDIRECT Research, United nations

Figure 9: Vietnam consumer confident index from 4Q19 – 2Q22



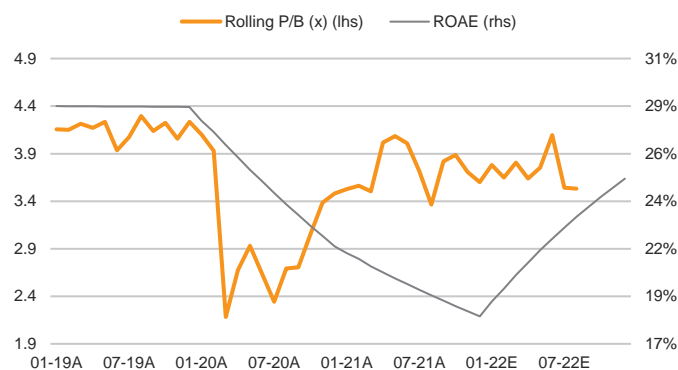
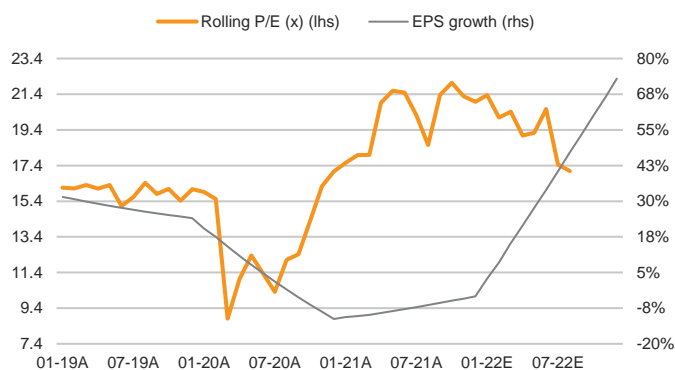
Source: VNDIRECT Research, Kantar

Changes in FY22 -23F earnings forecasts

Figure 10: Changes in FY22 – 23F earnings forecasts

	Old		New		%Chg		Comments
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	
Net revenue	24,206	28,535	29,152	34,221	20.4%	19.9%	We increase net revenue of PNJ by 20.4%/19.9% vs previous report due to better-than-expectation sales in all segment in 1H22
Retail	13,766	16,796	16,942	20,672	23.1%	23.1%	We increase retail monthly sale per store by 23.1% / 23.1% in FY22/23F vs previous report to VND3.95bn/VND4.5bn due to a strong brand with a market share of more than 50% in the modern jewelry market according to our estimates as well as the recovery momentum after the pandemic.
Goldbar	6,886	7,638	8,175	9,068	18.7%	18.7%	
Wholesale	2,994	3,443	3,475	3,823	16.1%	11.0%	
COGS	(19,845)	(23,223)	(23,987)	(27,984)	20.9%	20.5%	
Gross profit	4,361	5,312	5,165	6,237	18.4%	17.4%	
Gross profit margin	18.00%	18.60%	17.70%	18.20%	-0.30 % pts	-0.40 % pts	GPM reduced by 0.3 % pts/0.4 % pts in FY22/23F vs previous report as the result of boosting promotional campaigns and increasing in valuable products (which has lower margin)
Selling expenses	(1,490)	(1,786)	(2,106)	(2,522)	41.3%	41.2%	
G&A expenses	(662)	(793)	(662)	(828)	0.0%	4.4%	
SG&A expenses	(2,152)	(2,579)	(2,768)	(3,350)	28.6%	29.9%	We increase G&A expense by 28.6%/29.9% in FY22/23F as PNJ is increasing advertising campaigns to boost new brands and sales in tier 2 and tier 3 provinces.
S/Revenue	6.16%	6.26%	7.22%	7.37%	1.06 % pts	1.11 % pts	
G&A/Revenue	2.73%	2.78%	2.27%	2.42%	-0.46 % pts	-0.36 % pts	
SG&A/Revenue	8.89%	9.04%	9.49%	9.79%	0.60 % pts	0.75 % pts	
Operation profit	2,209	2,733	2,397	2,887	8.5%	5.6%	
Net financial income/expenses	(134)	(158)	(74)	(112)	-44.8%	-29.1%	We lower net financial expenses due to PNJ reduced their short-term debt from VND2,100bn in 2Q21 to VND877bn in 2Q22 with strong cash after successful private placement
Pretax profit	2,073	2,572	2,320	2,770	11.9%	7.7%	
Net profit	1,658	2,057	1,856	2,216	11.9%	7.7%	As the above adjustments in our forecasts, we raise PNJ's net profit forecast in FY22/23F by 11.9%/7.7% vs previous reports.

Source: VNDIRECT RESEARCH

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	19,613	29,152	34,221
Cost of sales	(16,040)	(23,987)	(27,984)
Gen & admin expenses	(472)	(662)	(828)
Selling expenses	(1,694)	(2,106)	(2,522)
Operating profit	1,407	2,397	2,887
Operating EBITDA	1,468	2,471	2,977
Depreciation and amortisation	(61)	(74)	(90)
Operating EBIT	1,407	2,397	2,887
Interest income	16	14	16
Financial expense	(118)	(87)	(128)
Net other income	(18)	(4)	(5)
Income from associates & JVs	0	0	0
Pre-tax profit	1,287	2,320	2,770
Tax expense	(254)	(464)	(554)
Minority interest	0	0	0
Net profit	1,033	1,856	2,216
Adj. net profit to ordinary	1,033	1,856	2,216
Ordinary dividends	(177)	(485)	(485)
Retained earnings	856	1,371	1,731

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	358	2,210	4,268
Short term investments	0	0	0
Accounts receivables	112	276	324
Inventories	8,687	7,920	8,470
Other current assets	120	183	234
Total current assets	9,277	10,589	13,296
Fixed assets	910	1,455	1,655
Total investments	0	0	0
Other long-term assets	359	456	964
Total assets	10,546	12,500	15,915
Short-term debt	2,722	1,166	1,711
Accounts payable	689	858	1,016
Other current liabilities	1,110	1,695	2,190
Total current liabilities	4,521	3,719	4,917
Total long-term debt	0	4	4
Other liabilities	8	9	10
Share capital	2,276	2,426	2,426
Retained earnings reserve	1,954	3,593	5,714
Shareholders' equity	6,017	8,768	10,984
Minority interest	0	0	0
Total liabilities & equity	10,546	12,500	15,915

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	1,287	2,320	2,770
Depreciation & amortisation	75	74	90
Tax paid	(234)	(464)	(554)
Other adjustments	1,154	(394)	233
Change in working capital	(1,784)	1,320	15
Cash flow from operations	498	2,856	2,554
Capex	(63)	(352)	(293)
Proceeds from assets sales	13	2	2
Others	2	0	0
Other non-current assets changes	(1,215)	334	(263)
Cash flow from investing activities	(1,263)	(16)	(554)
New share issuance	0	1,275	0
Shares buyback	(2)	(2)	(2)
Net borrowings	880	(1,776)	545
Other financing cash flow	0	0	0
Dividends paid	(177)	(485)	(485)
Cash flow from financing activities	701	(988)	58
Cash and equivalents at beginning of period	422	358	2,210
Total cash generated	(64)	1,852	2,058
Cash and equivalents at the end of period	358	2,210	4,268

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	5.3%	6.4%	6.5%
Asset turnover	2.06	2.53	2.41
ROAA	10.9%	16.1%	15.6%
Avg assets/avg equity	1.69	1.56	1.44
ROAE	18.3%	25.1%	22.4%
Efficiency			
Days account receivable	1.1	1.4	1.4
Days inventory	197.7	120.5	110.5
Days creditor	15.7	13.1	13.3
Fixed asset turnover	21.30	24.64	22.01
ROIC	11.8%	18.7%	17.5%
Liquidity			
Current ratio	2.1	2.8	2.7
Quick ratio	0.1	0.7	1.0
Cash ratio	0.1	0.6	0.9
Cash cycle	183.1	108.8	98.6
Growth rate (yoy)			
Revenue growth	12.0%	48.6%	17.4%
Operating profit growth	(6.7%)	70.4%	20.4%
Net profit growth	(3.4%)	79.7%	19.4%
EPS growth	(3.4%)	73.0%	15.1%

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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