

Phu Nhuan Jewelry (PNJ)

Astounding business results in 1Q22

April 28, 2022

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1Q22 business results outstripped the 1Q21's high level

In 1Q22, Phu Nhuan Jewelry (PNJ) achieved VND721 billion (+40.7% YoY) in NPAT and VND10,143 billion (+41.2% YoY) in net revenue, fulfilling 54.6% and 39.2% full-year targets for profit and revenue.

Retail sales continued to recover rapidly after the pandemic

PNJ's retail sales in the first quarter of 2022 continued to grow strongly by +43.2% YoY since its main customer base is less affected by the negative impact of the COVID-19 pandemic.

Average sales per store grew well, with lots of room left for growth thanks to enhanced production and sales capacity

Over the last quarter, we estimate the average sales per store (Gold and Silver) of PNJ at VND5.6 billion, 98% and 39% higher than 1Q20's and 1Q21's, respectively. PNJ plans to open 30 to 40 new stores per annum between 2022 and 2025. The BOD said PNJ has been looking for a venue to build a new factory, with construction expected this year due to the full-capacity operation of existing factories. At the AGM, the BOD approved 2021 dividend payment in cash (VND2,000/share) and by shares (3:1).

We recommend BUYING PNJ shares with a target price of VND140,000/share

In 2022, we forecast PNJ's NPAT of VND1,603 billion (+55.2% YoY) and net revenue of VND27,437 billion (+39.8% YoY). For 2023, those figures should be VND2,046 billion (+27.5% YoY) and VND31,697 billion (+15.5% YoY). We recommend BUYING PNJ shares with a target price of VND140,000/share, 30.8% higher than the closing price on April 27, 2022.

Buy maintain

Target price VND140,000

Upside/Downside	30.8%
Current price (Apr 27, 2022)	VND107,000
Market cap (VNDbn/USDbn)	26,030/1.15

Trading data

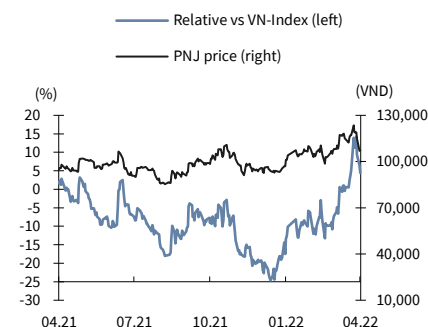
Free float	85.7%
3M avg trading value (VNDbn/USDmn)	154/6.8
Foreign ownership	48.97%
Major shareholder	VinaCapital (VOF) (8.48%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-3	6	6	12
Relative	8	15	12	4

Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net sales (VNDbn)	17,511	19,613	27,437	31,697
Earnings/Loss (VNDbn)	1,349	1,305	2,023	2,580
NPAT (VNDbn)	1,069	1,033	1,603	2,046
EPS (VND)	4,308	4,161	6,608	8,266
EPS growth (%)	-12.0	-3.4	58.8	25.1
P/E (x)	18.8	23.1	16.3	12.7
P/B (x)	3.5	3.6	3.0	3.8
ROE (%)	20	18	22	22
Dividend yield (%)	45	35	35	35



Updated business performance

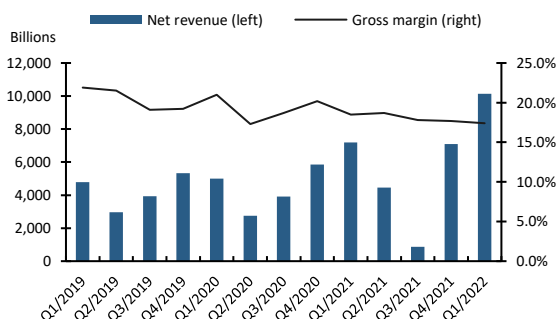
1Q22 business results outstripped the 1Q21's high level

In 1Q22, Phu Nhuan Jewelry (PNJ) achieved VND721 billion (+40.7% YoY) in NPAT and VND10,143 billion (+41.2% YoY) in net revenue, fulfilling 54.6% and 39.2% full-year targets for profit and revenue. NPAT and sales completed 50.2% and 42% of our previous forecast for profit and revenue, respectively.

In terms of revenue breakdown, gold bar sales witnessed the highest growth (+61.1% YoY) thanks to: (1) God of Wealth Day; and (2) surging gold prices in line with soaring inflation in the context of geopolitical tensions between Russia and Ukraine. Meanwhile, retail sales also jumped by +43.2% YoY following the resumption of business operation in the new normalcy and PNJ's numerous sales programs.

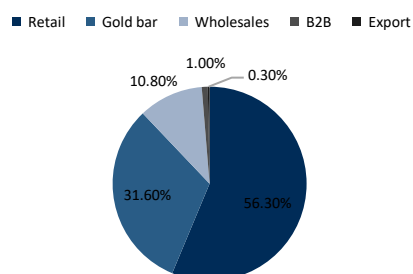
Gross profit margin in 1Q22 reached 17.4% vs. 18% in 1Q21. The slight decrease was mainly due to the higher proportion of gold bar sales at 31.6% compared to 27.8% over the same period in 2021.

Fig 1. PNJ – Net sales & gross profit margin (VNDbn, %)



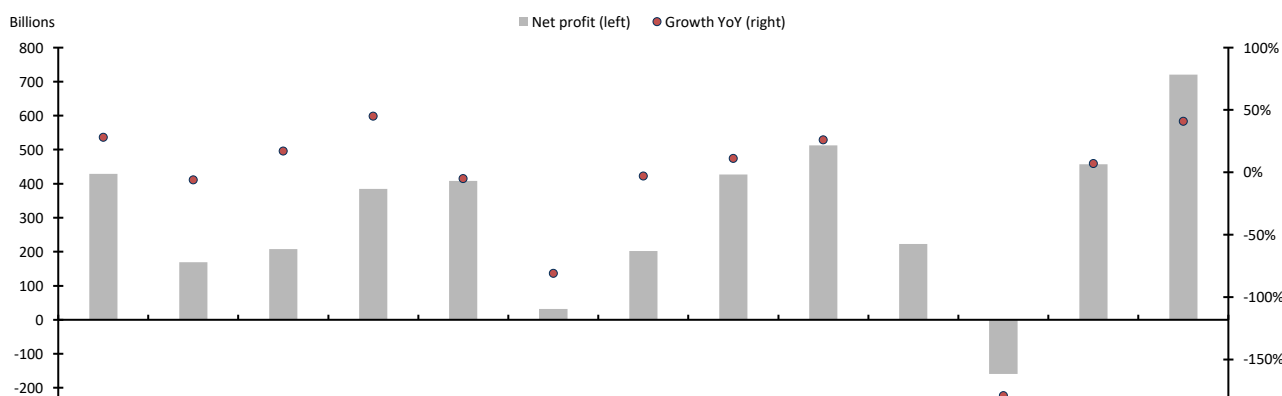
Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 2. PNJ – Revenue breakdown (%)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 3. PNJ – NPAT and NPAT growth by quarter (VNDbn, %)

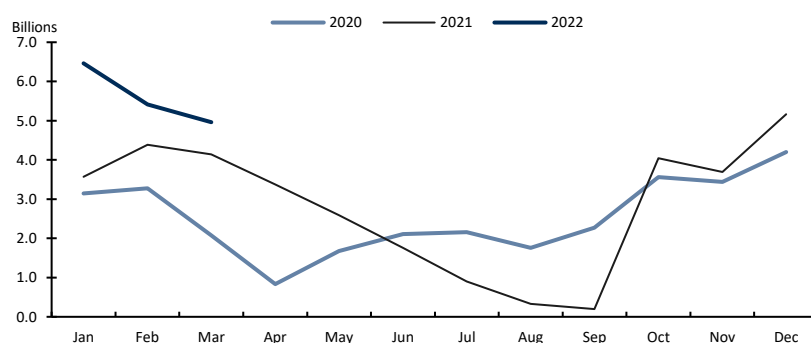


Source: Phu Nhuan Jewelry, KB Securities Vietnam

Retail sales grew well thanks to growing demand following eased social distancing measures

PNJ's retail sales in the first quarter of 2022 continued to grow strongly by +43.2% YoY as its main customer base is less affected by the negative impact of the COVID-19 pandemic. In our estimates, the average sales per store were approximately VND5 billion in March 2022 (Figure 4), lower than the first two months of the year but still higher YoY (PNJ achieved record-high sales in 1Q21).

Fig 4. PNJ – Average sales/store/month (VNDbn)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

PNJ eyed impressive average sales/store growth even though the number of stores has not changed much

Thanks to growing and stable demand after the pandemic, PNJ promoted large-scale sales programs in 1Q22 to stimulate consumption (Image 1). However, PNJ's average sales per store may decrease slightly in 2Q and 3Q since these two quarters are low sales seasons.

We expect PNJ's average sales/store to reach VND4.5 billion/month in 2022, an increase of 58% compared to that in 2020 and 96% compared to the pre-pandemic level in 2019.

Img 1. PNJ – Sales programs



Source: Phu Nhuan Jewelry, KB Securities Vietnam

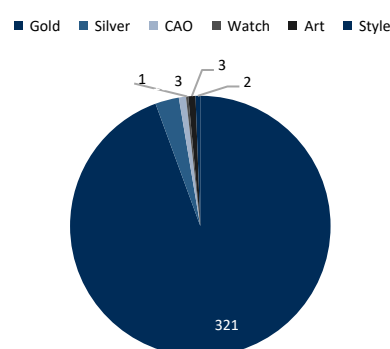
Business results should improve substantially thanks to enhanced production and sales capacity

We expect PNJ to achieve astounding results in the coming time after the new store opening. Specifically, PNJ plans to open 35–40 stores in 2022 and 30–40 stores per annum during 2022–2025. As a result, the number of stores will be 376–381 by the end-2022.

Over the past two years, PNJ’s number of stores has not changed much, but average sales per store still improved dramatically in 1Q22, reaching VND5.6 billion against 2020’s VND2.8 billion & 2021’s VND4 billion. Thus, launching new stores will help promote PNJ’s business performance between 2022 and 2025.

PNJ also plans to invest in one to two more production lines for gold products at its factory in Long Hau Province, which currently manufactures only silver and other products. Also, the BOD said that PNJ has been looking for a venue to build a new factory, with construction expected this year due to the full-capacity operation of existing factories.

Fig 5. PNJ – Number of stores in 3Q22



Source: Phu Nhuan Jewelry, KB Securities Vietnam

At the AGM, the management approved the business plan for 2022 with NPAT of VND1,300 billion (+28.2% YoY) and net revenue of VND25,800 billion (+32.2% YoY). In addition, PNJ plans pay dividends for 2021 in cash at VND2,000/share and by shares at a ratio of 3:1.

Besides, the BOD approved the plan to issue ESOP shares for 2022 if the NPAT growth rate touches 18% YoY or more. Please refer to Table 1 for more details:

Table 1. PNJ – ESOP

2022 NPAT growth rate	%ESOP
18–35%	1% + 0.06*(2022 NPAT growth rate - 18%); maximum 1.5% of outstanding shares.
>35%	2% of outstanding shares

Source: Phu Nhuan Jewelry, KB Securities Vietnam

Table 2. PNJ – Update on 2022F business results

	2022F (UPDATE)	2022F (OLD)	+/- %	NOTE
Revenue	27,437	24,111	+13%	We raise our forecast for net sales (+13% compared to our previous projection) thanks to the increase in retail sales. Thereby, net revenue in 2022 should grow by +39% YoY.
Retail	18,235	15,420	+18.2%	We revise up retail sales on higher-than-expected business results in 1Q22, assuming that PNJ will open another 30 stores in 2022.
Wholesale	2,848	2,848	+0%	
Gold bar	5,891	5,400	+9.09%	
Other	0	0	n/a	
Gross profit	5,121	4,794	+6.8%	Gross profit margin should reach 18.7% instead of 19.4% as previously forecast. We believe that gross profit margin of PNJ will not be able to increase rapidly since PNJ has been deploying many sales programs to boost sales this year.
Selling expense	-2,250	-1,977		
G&A expense	-661	-581		
NPAT	1,603	1,435	+11.7%	NPAT should increase by more than 55% YoY.

Source: KB Securities Vietnam

Forecast business performance

Forecast of business results

In 2022, we forecast PNJ's NPAT of VND1,603 billion (+55.2% YoY) on net revenue of VND27,437 billion (+39.8% YoY). For 2023, those figures should be VND2,046 billion (+27.5% YoY) and VND31,697 billion (+15.5% YoY), respectively.

We recommend BUYING PNJ shares with a target price of VND140,000 apiece

Based on two valuation methods, discounted cash flow (DCF) and P/E with a weight of 50–50, we recommend BUYING PNJ shares with a target price of VND140,000 per share, 30.3% higher than the closing price on April 26, 2022. According to the P/E method, we give PNJ a target P/E at 21x with EPS of VND6,608/share for 2022F.

Table 3. PNJ – Target price according to valuation methods (VND/share)

Valuation method	Forecast price (VND)	Weight
DCF	141,514	50%
P/E	138,776	50%
Target price	140,145	100%

Source: KB Securities Vietnam

PNJ – 2020A–2023E financials

Income statement				
(VNDbn)	2019A	2020A	2021E	2022E
Net sales	17,511	19,613	27,437	31,697
Cost of sales	(14,076)	(16,040)	(22,316)	(25,426)
Gross Profit	3,435	3,573	5,121	6,270
Financial income	2	16	18	21
Financial expenses	(162)	(118)	(206)	(258)
of which: interest expenses	(154)	(104)	(186)	(235)
Gain/(loss) from joint ventures	0	0	0	0
Selling expenses	(1,421)	(1,694)	(2,250)	(2,599)
General & admin expenses	(506)	(472)	(661)	(855)
Operating profit/(loss)	1,349	1,305	2,023	2,580
Net other income/(expenses)	(3)	(18)	(10)	(11)
Pretax profit/(loss)	1,346	1,287	2,013	2,568
Income tax	(277)	(254)	(410)	(523)
Net profit/(loss)	1,069	1,033	1,603	2,046
Minority interests	0	0	0	0
Net profit after MI	1,069	1,033	1,603	2,046

Operating ratios				
(%)	2019A	2020A	2021E	2022E
Revenue growth	3%	12%	40%	16%
EBIT growth	-8%	-7%	58%	27%
EBITDA growth	-7%	-6%	57%	27%
NP after MI growth	-10%	-3%	55%	28%
Gross profit margin	20%	18%	19%	20%
EBITDA margin	9%	8%	8%	9%
EBIT margin	9%	7%	8%	9%
Pre-tax profit margin	9%	7%	8%	9%
Net profit margin	6%	5%	6%	6%

Cash flow				
(VNDbn)	2019A	2020A	2021E	2022E
Net profit	1,346	1,287	2,013	2,568
Plus: depreciation & amort	72	75	84	116
Plus: investing (profit)/loss	1	(29)	(29)	(29)
Change in working capital	360	(1,801)	(2,556)	43
(Inc)/dec - receivables	17	(16)	(59)	31
(Inc)/dec - inventory	485	(2,141)	(2,914)	191
(Inc)/dec - other curr assets	0	0	0	0
Inc/(dec) - payables	(100)	351	247	(246)
Inc/(dec) - advances	(42)	5	171	67
Inc/(dec) - other curr liab	0	0	0	0
Other adj for operations	0	0	0	0
Operating cash flow	1,497	(717)	(923)	2,243
ST investments	0	0	0	0
Capital expenditures	(85)	(63)	(426)	(520)
Investment properties	0	0	0	0
Investment in subsidiaries	0	0	0	0
Other assets	0	0	0	0
Other adj for investments	1	14	48	48
Investing cash flow	(84)	(49)	(377)	(472)
Issuance/(repayment) of debt	7,433	7,756	10,975	12,045
ST debt	(8,208)	(6,876)	(9,877)	(11,411)
Other liabilities	0	0	0	0
Issuance/(retirement) of equity	46	0	1,411	0
Dividends paid	(355)	(177)	(364)	(485)
Other adj for financing	(1)	(2)	0	0
Financing cash flow	(1,085)	702	2,145	149
Net increase in cash & equivalents	327	(65)	844	1,920
Cash & equivalents - beginning	95	422	358	1,202
Cash & equivalents - ending	422	358	1,202	3,122

Balance sheet				
(VNDbn)	2019A	2020A	2021E	2022E
Total assets	8,483	10,547	14,614	13,545
Current assets	7,144	9,220	13,087	11,679
Cash & equivalents	422	358	1,202	0
ST investments	0	0	0	0
Accounts receivable	68	60	118	87
Inventory	6,546	8,687	11,601	11,410
Other current assets	108	116	166	182
Long-term assets	1,339	1,327	1,527	1,866
LT trade receivables	77	84	0	0
Fixed assets	281	259	507	786
Investment properties	0	0	0	0
LT incomplete assets	33	31	31	31
LT investments	395	395	395	395
Goodwill	0	0	0	0
Other LT assets	552	557	594	654
Liabilities	3,241	4,530	6,066	6,654
Current liabilities	3,232	4,521	6,054	6,641
Trade accounts payable	482	689	935	689
Advances from customers	0	0	0	0
ST borrowings	1,839	2,722	3,819	4,453
Special reserves	0	0	0	0
Other current liabilities	911	1,110	1,299	1,499
Long-term liabilities	9	9	11	13
LT payables	0	0	0	0
LT borrowings	0	0	0	0
Other LT liabilities	9	9	11	13
Shareholders' equity	5,242	6,017	8,551	9,963
Paid-in capital	2,276	2,276	2,426	2,426
Share premium	991	991	2,252	2,252
Treasury stock	(3)	(5)	(5)	(5)
Undistributed earnings	1,605	1,954	2,987	4,285
Reserve & others	373	801	890	1,004
Minority interests	0	0	0	0
Total liabilities & equity	8,483	10,547	14,616	16,617

Key ratios				
(x, % VND)	2019A	2020A	2021E	2022E
Valuations				
P/E	18.8	23.1	16.3	12.7
P/E diluted	18.8	23.1	16.3	12.7
P/B	3.5	3.6	3.0	3.8
P/S	1.1	1.1	0.9	0.8
EV/EBITDA	17.4	19.7	13.3	11.0
EV/EBIT	18.2	20.8	13.8	11.5
EPS	4,308	4,161	6,608	8,431
DPS (annual, ordinary)	1,560	779	1,500	2,000
Dividend payout ratio (%)	45%	35%	35%	35%
Operating performance				
ROE	20%	18%	22%	22%
ROA	13%	11%	13%	15%
ROIC	15%	12%	13%	14%
Financial structure				
Total liab/equity	0.6	0.8	0.7	0.7
Current ratio (x)	2.2	2.0	2.2	1.8
Interest coverage (x)	9.7	13.3	11.8	11.9
Activity ratios				
Asset turnover	0.8	2.1	2.2	2.3
Receivables turnover	7.4	307.6	307.6	308.0
Inventory turnover	2.3	2.1	2.2	2.2
Payables turnover	23.2	31.1	31.1	31.1

Source: Phu Nhuan Jewelry, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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