

# Phu Nhuan Jewelry (PNJ)

## Approaching the year plan on exponential growth

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### PNJ continued to achieve outstanding growth in 7M22

In the first seven months of 2022, Phu Nhuan Jewelry (PNJ) obtained NPAT of VND1,167 billion (+66.1% YoY) on revenue of VND20,721 billion (+70.9% YoY). Thus, the company fulfilled 88.4% and 80.2% of the year targets for earnings and revenue, respectively, and delivered 72% and 71% of our projections.

### The outlook is bright in the second half of 2022 despite inflation worries

We believe PNJ's business results will enjoy record-high growth in 3Q22 compared to the same period last year following store closures to contain the Covid-19 pandemic and remain positive in the peak season of 4Q22. PNJ targets mid- and high-end customer segments with spending habits not very much affected by elevated inflation.

### Long-term growth drivers should come from store expansion and ever-growing jewelry market

PNJ management targets to launch 30-40 new stores each year and expects the store count to reach 500 by 2025 with mid- and high-end product orientation. PNJ is also planning on building a new factory to increase the total production capacity to meet the ever-growing market. The demand for non-essential goods like jewelry is on the rise thanks to Vietnam's young population with income per capita increasing rapidly over the past ten years.

### We recommend BUY for PNJ stocks with a target price of VND141,200/share

In 2022, we forecast PNJ to achieve NPAT of VND1,615 billion (+56.4% YoY) and net revenue of VND29,111 billion (+48.4% YoY). We maintain our BUY recommendation for PNJ stocks with a target price of VND141,200/share, 25% higher than the closing price on September 13, 2022.

**Buy** maintain

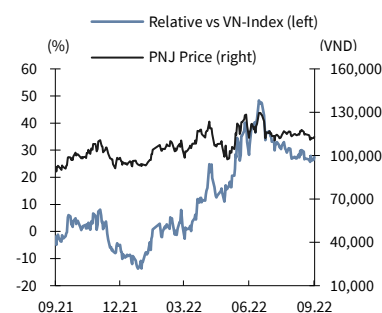
<b>Target price</b>	<b>VND141,200</b>
Upside/Downside	25%
Current price (Sep 13, 2022)	VND113,000
Market cap (VNDbn/USDbn)	27,847/1.17

<b>Trading data</b>	
Free float	85%
3M avg trading value (VNDbn/USDmn)	182.6/7.7
Foreign ownership	48.28%
Major shareholder	Vietnam Enterprise Investments Ltd (3.74%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	-1	-3	7	20
<b>Relative</b>	1	-9	23	27

#### Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net sales (VNDbn)	17,511	19,613	29,111	33,561
Net gain/Loss (VNDbn)	1,349	1,305	2,038	2,571
NPAT (VNDbn)	1,069	1,033	1,615	2,038
EPS (VND)	4,308	4,161	6,565	8,286
EPS growth (%)	-12.0	-3.4	57.7	26.2
P/E (x)	18.8	23.1	16.4	13.0
P/B (x)	3.5	3.6	3.1	2.6
ROE (%)	20	18	22	22
Dividend yield (%)	45	35	35	35



Source: Bloomberg, KB Securities Vietnam

## Business performance

### PNJ continued to achieve outstanding growth in 7M22

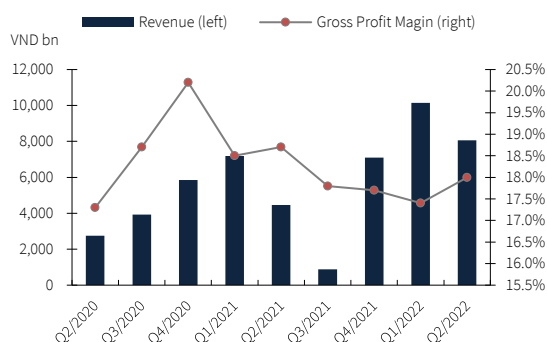
In the first seven months of 2022, Phu Nhuan Jewelry (PNJ) obtained NPAT of VND1,167 billion (+66.1% YoY) on revenue of VND20,721 billion (+70.9% YoY). Thus, the company fulfilled 88.4% and 80.2% of the year targets for earnings and revenue, respectively, and delivered 72% and 71% of our projections.

PNJ's 2Q22 revenue was VND8,184 billion, up firmly by 83.7% YoY from its 2Q21 low on store closures in the South during the lockdown. Despite being a low season, 2Q22 revenue only decreased by 21% QoQ (vs. a drop of 38% QoQ in 2Q21 and 45% QoQ in 2Q20).

### Gross profit margin went down slightly due to changes in retail product mix and promotions

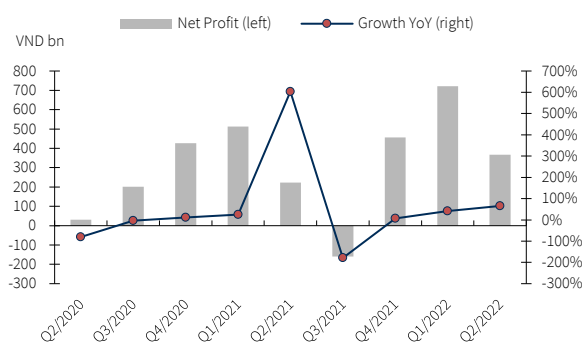
Gross profit margin decreased slightly to 17.4% from 18.6% in the same period of 2021 due to: (1) the change in the retail product mix and the higher contribution of the 24K gold bar segment, which often has a low gross profit margin of only 1-2%; and (2) various promotions in Tier 2 and 3 cities to gain market share.

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



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 2. PNJ – NPAT growth (VNDbn, %)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Table 1. PNJ – 7M22 business results

	7T2022	7T2021	YEAR PLAN	% YEAR PLAN	KBSV'S FORECAST	% KBSV'S FORECAST
Net revenue	20,721	12,126	25,835	80.2%	29,111	71%
Net revenue growth		+70.9%	+32%		+48%	
NPAT	1,167	703	1,320	88.4%	1,615	72%
NPAT growth		+66.1%	+30%		+56%	

Source: Phu Nhuan Jewelry, KB Securities Vietnam

## Sales increased across channels and retail sales remained the mainstay

### Demand for jewelry products recovered well after the pandemic

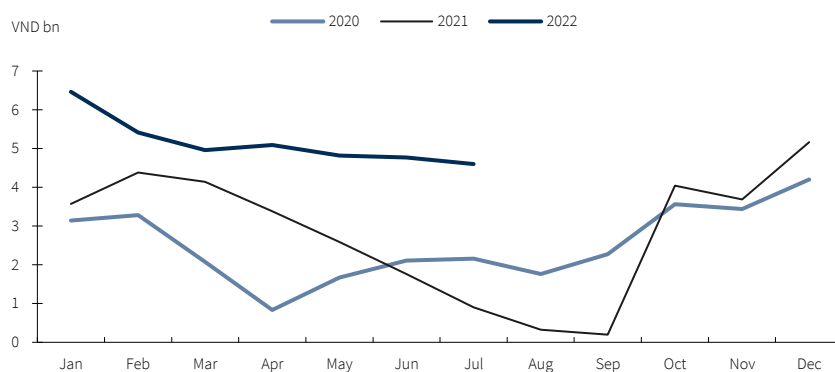
PNJ's sales revenue increased across channels on the low base of 2021 thanks to the recovery of the retail industry:

- Retail sales of gold and silver in the second quarter grew by 91% over the same period. The figure in 7M22 climbed 77.8% YoY thanks to: (1) significant growth in all brands and revenue contribution from new stores and (2) the launch of multiple collections ('Alice in Wonderland' (Disney) and 'Unique Design' reflecting the inner beauty and individuality of each person (CAO Fine Jewellery) coupled with effective marketing strategies.
- The wholesale segment in 7M22 rose by 49.9% YoY thanks to products suiting customers' taste. The revenue contribution of this segment to PNJ's total revenue is on the rise, achieving 12% in July 2022.
- 24K gold bar sales in 7M22 also recorded a growth of 76.1% compared to 7M21 due to the increased demand for amassing gold in the context of high inflation and SJC (24K) gold price fluctuation recently.

### Retail sales remained the key growth driver

Although 2Q22 is the low season, per-store revenue remained at VND4–5 billion/month, similar to our previous forecast. KBSV believes PNJ's average sales per store will continue to perform well in the peak season of 2H22.

Fig 3. PNJ – Per-store revenue/month (VNDbn)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

### The outlook is bright in the second half of 2022 despite inflation worries

In July, while inflationary pressure hit large economies in the world, it did not have a clear impact on the Vietnamese economy. However, the purchasing power of the retail industry has slowed down. In that context, PNJ maintained an impressive revenue growth rate (July revenue increased by 413.6% YoY) since PNJ targets the mid- to high-end customer segment with spending habits less affected by intensified inflation. We maintain a positive view about PNJ's outlook in the second half of 2022 and expect growth to peak in the third quarter compared to the same period last year as the company recorded a loss in 3Q21 when it had to close stores to contain the pandemic. Business results should remain positive in the high season of 4Q22.

### Market share should increase in the long term on new store opening and capacity expansion

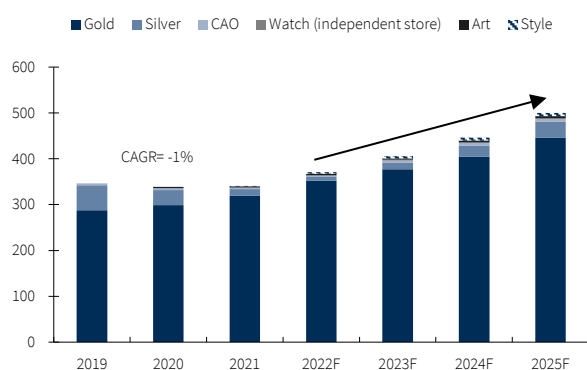
In the first seven months of the year, PNJ opened 27 new stores, raising the store number to 351, including 332 PNJ Gold, 8 PNJ Silver, 3 CAO Fine Jewellery, 4 PNJ Style, 1 PNJ Watch, and 3 PNJ Art. Furthermore, the company targets to open 30-40 new stores each year and expects the store count to reach 500 by 2025 with mid- and high-end product orientation.

Along with that, PNJ would continue to upgrade the Long Hau Factory and Go Vap Factory with 1-2 more production lines, given the full production capacity of these two plants (4 million items/year). In the first six months, PNJ expanded the production capacity of the Go Vap Factory to 4.1 million items/year. The firm aims to increase the Long Hau Factory's capacity by 30% and plans to build one new factory to meet the increasing demand of the jewelry segment.

### The jewelry market would maintain sustainable growth in the golden population period

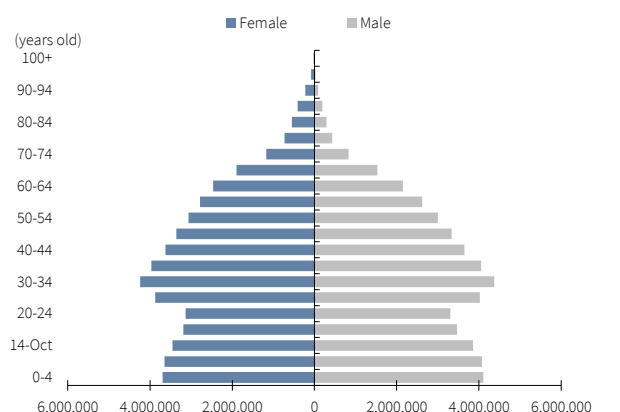
Vietnam is in the golden population period with 64% of working-age adults (15-60 years old), and the median age of the population is 33.3 years old. Meanwhile, PNJ targets customers aged 25-50 with higher spending. The average income of Vietnamese people has grown at a rate of 30-40% over the past ten years. We expect per capita income to improve further to propel Vietnam from a middle-income country to a high-income one, thereby boosting the consumption of luxury goods.

Fig 4. PNJ – Store count



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 5. Vietnam – Population pyramid



Source: World Population Review, KB Securities Vietnam

## Forecast & Valuation

### 2022–23F business results

In 2022, we forecast PNJ's NPAT to reach VND1,615 billion (+56.4% YoY) on net revenue of VND29,111 billion (+48.4% YoY). For 2023, those figures should rise to VND2,038 billion (+26.2% YoY) and VND33,561 billion (+15.3% YoY), respectively.

Table 2. PNJ – 2022F business results

	2022F	NOTES
Revenue	29,111	Business results beat expectations in the first seven months of the year. KBSV expects the company to fulfill its full-year plan soon.
Retail	18,574	We expect PNJ to open 30 new stores this year, supporting revenue growth. Purchasing power should maintain in the second half of 2022 thanks to: (1) high seasons for jewelry demand in 3Q and 4Q; and (2) new product lines combined with effective marketing strategies.
Wholesale	2,977	
24K gold bar	6,873	
Others	0	24K gold bar sales picked up on rising demand for amassing gold in the context of high inflation and spiraling gold prices.
Gross profit	5,316	Gross profit margin reached 18.3% thanks to the higher contribution of 24K gold sales, which often has a low gross profit margin of only 1–2%, to total revenue. Besides, various promotions also boosted revenue growth.
Selling expenses	–2,387	
G&A expenses	–701	
Profit after tax	1,615	NPAT in 2022 is expected to jump by more than 56% compared to 2021's.

Source: KB Securities Vietnam

### We recommend BUY for PNJ stocks with a target price of VND141,200/share

We combined the two valuation methods DCF (discounted cash flow) and P/E with a weight of 50–50 to find a final fair price for PNJ stocks. We give PNJ a target P/E of 19x, reflecting the risk of slowing demand at the end of the year on inflation pressures. 2022F EPS (earnings per share) should be VND6,565. We maintain our BUY recommendation for PNJ stocks with a target price of VND141,200/share, 25% higher than the closing price on September 13, 2022.

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

Valuation method	Forecast price	Weight
DCF	157,734	50%
P/E	124,740	50%
<b>Target price</b>	<b>141,237</b>	<b>100%</b>

Source: KB Securities Vietnam

## PNJ – 2020A–2023E financials

Income statement				
(VNDbn)	2020A	2021A	2022E	2023E
Net sales	17,511	19,613	29,111	33,561
Cost of sales	(14,076)	(16,040)	(23,795)	(27,090)
Gross Profit	3,435	3,573	5,316	6,472
Financial income	2	16	19	22
Financial expenses	(162)	(118)	(209)	(264)
of which: interest expenses	(154)	(104)	(188)	(240)
Gain/(loss) from joint ventures	0	0	0	0
Selling expenses	(1,421)	(1,694)	(2,387)	(2,752)
General & admin expenses	(506)	(472)	(701)	(906)
Operating profit/(loss)	1,349	1,305	2,038	2,571
Net other income/(expenses)	(3)	(18)	(10)	(12)
Pretax profit/(loss)	1,346	1,287	2,028	2,560
Income tax	(277)	(254)	(413)	(521)
Net profit/(loss)	1,069	1,033	1,615	2,038
Minority interests	0	0	0	0
Net profit after MI	1,069	1,033	1,615	2,038

Operating ratios				
(%)	2020A	2021A	2022E	2023E
Revenue growth	3%	12%	48%	15%
EBIT growth	-8%	-7%	59%	26%
EBITDA growth	-7%	-6%	58%	26%
NP after MI growth	-10%	-3%	56%	26%
Gross profit margin	20%	18%	18%	19%
EBITDA margin	9%	8%	8%	9%
EBIT margin	9%	7%	8%	8%
Pre-tax profit margin	9%	7%	8%	8%
Net profit margin	6%	5%	6%	6%

Cash flow				
(VNDbn)	2020A	2021A	2022E	2023E
Net profit	1,346	1,287	2,028	2,560
Plus: depreciation & amort	72	75	84	116
Plus: investing (profit)/loss	1	(29)	(29)	(29)
Change in working capital	360	(1,801)	(3,703)	906
(Inc)/dec - receivables	17	(16)	(69)	41
(Inc)/dec - inventory	485	(2,141)	(4,259)	1,375
(Inc)/dec - other curr assets	0	0	0	0
Inc/(dec) - payables	(100)	351	428	(579)
Inc/(dec) - advances	(42)	5	197	70
Inc/(dec) - other curr liab	0	0	0	0
Other adj for operations	0	0	0	0
Operating cash flow	1,497	(717)	(2,059)	3,101
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	11,645	12,753
ST debt	(8,208)	(6,876)	(10,480)	(12,082)
Other liabilities	0	0	0	0
Issuance/(retirement) of equity	46	0	1,411	0
Dividends paid	(355)	(177)	(369)	(492)
Other adj for financing	(1)	(2)	0	0
Financing cash flow	(1,085)	702	2,206	179
Net increase in cash & equivalents	327	(65)	(230)	2,808
Cash & equivalents - beginning	95	422	358	128
Cash & equivalents - ending	422	358	128	2,937

Balance sheet				
(VNDbn)	2020A	2021A	2022E	2023E
Total assets	8,483	10,547	14,989	16,692
Current assets	7,144	9,220	13,442	14,804
Cash & equivalents	422	358	128	2,937
ST investments	0	0	60	18
Accounts receivable	68	60	129	89
Inventory	6,546	8,687	12,945	11,570
Other current assets	108	116	179	190
Long-term assets	1,339	1,327	1,547	1,889
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	615	677
Liabilities	3,241	4,530	6,399	6,703
Current liabilities	3,232	4,521	6,387	6,689
Trade accounts payable	482	689	1,117	538
Advances from customers	0	0	0	0
ST borrowings	1,839	2,722	3,886	4,558
Special reserves	0	0	0	0
Other current liabilities	911	1,110	1,383	1,593
Long-term liabilities	9	9	12	14
LT payables	0	0	0	0
LT borrowings	0	0	0	0
Other LT liabilities	9	9	12	14
Shareholders' equity	5,242	6,017	8,591	9,989
Paid-in capital	2,276	2,276	2,460	2,460
Share premium	991	991	2,252	2,252
Treasury stock	(3)	(5)	(5)	(5)
Undistributed earnings	1,605	1,954	2,992	4,277
Reserve & others	373	801	891	1,004
Minority interests	0	0	0	0
Total liabilities & equity	8,483	10,547	14,989	16,692

Key ratios				
(x, %, VND)	2020A	2021A	2022E	2023E
Valuations				
P/E	18.8	23.1	16.4	13.0
P/E diluted	18.8	23.1	16.4	13.0
P/B	3.5	3.7	3.1	2.6
P/S	1.1	1.1	0.9	0.8
EV/EBITDA	17.4	20.0	13.8	10.2
EV/EBIT	18.2	21.0	14.4	10.6
EPS	4,308	4,161	6,565	8,286
DPS (annual, ordinary)	1,560	768	1,500	2,000
Dividend payout ratio (%)	45%	35%	35%	35%
Operating performance				
ROE	20%	18%	22%	22%
ROA	13%	11%	13%	13%
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	2.1	2.2
Interest coverage (x)	9.7	13.3	11.8	11.7
Activity ratios				
Asset turnover	0.8	2.1	2.3	2.1
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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