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PNJ fulfilled the whole year plan right in 9M22

At its analyst meeting, Phu Nhuan Jewelry (PNJ) announced its business performance for 9M22 with NPAT of VND1,340 billion (+132.7% YoY) and net revenue of VND25,574 billion (+104.4% YoY). Thus, the company completed 99% and 101.5% of its 2022F plan for earnings and revenue, respectively, and delivered 73% and 75% of our projections.

Retail sales set a new high on International Women's Day

Business results grew impressively across segments in the first nine months of the year. We expect PNJ's revenue in 4Q22 to approach its high base achieved in 1Q22 thanks to the peak season effect after the Board of Directors revealed that PNJ had set a new sales record this past International Women's Day on October 20.

The impact of inflation on the purchasing power may come next year or right in 4Q22

Although the purchasing power in the third quarter was not worsened by inflation, this risk factor should be closely followed in the coming months. 2023F inflation would somewhat dent the demand for non-essential goods like jewelry, but negative impacts on PNJ will be limited and may come later. In the long run, the enterprise targets a new customer segment less affected by rising inflation.

We recommend BUY for PNJ with a target price of VND121,100

We revise our forecast for 2022F NPAT and revenue to VND1,838 billion (+78% YoY) and VND33,926 billion (+73% YoY), respectively, given relatively positive signals at the end of 3Q22. We, therefore, maintain our BUY recommendation for PNJ stocks. The target price is VND121,100/share, 24.7% higher than the closing price on November 10, 2022.

Buy maintain

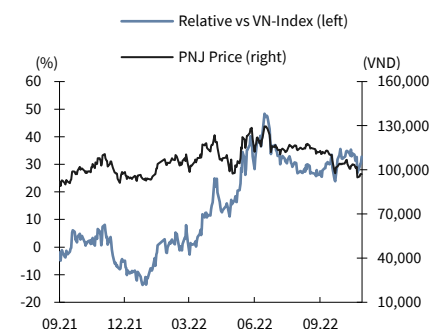
Target price	VND 121,100
Upside/Downside	24.7%
Current price (Nov 10, 2022)	VND97,000
Market cap (VNDbn/USDbn)	23,936/0.96

Trading data	
Free float	85%
3M avg trading value (VNDbn/USDmn)	68.04/2.7
Foreign ownership	49%
Major shareholder	Dragon Capital (9.65%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-13	-17	-6	-6
Relative			11	5

Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net revenue (VNDbn)	17,511	19,613	33,926	38,786
Operating income (VNDbn)	1,349	1,305	2,319	2,641
NPAT (VNDbn)	1,069	1,033	1,838	2,093
EPS (VND)	4,308	4,161	7,470	8,506
EPS growth (%)	-12.0	-3.4	79.5	13.8
P/E (x)	18.8	23.1	14.4	12.6
P/B (x)	3.5	3.6	3.0	2.6
ROE (%)	20	18	25	22
Dividend yield (%)	45	35	35	35



Source: Bloomberg, KB Securities Vietnam

Business performance

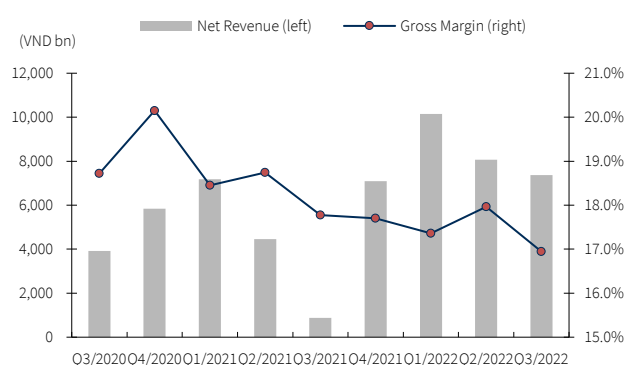
PNJ fulfilled the whole year plan right in 9M22

In 9M22, PNJ recorded NPAT of VND1,340 billion (+132.7% YoY) on net revenue of VND25,574 billion (+132.7% YoY), fulfilling 99% and 101.5% of its 2022F plan for earnings and revenue and delivering 73% and 75% of our forecasts at VND1,838 billion and VND33,926 billion.

In 3Q22, gross profit margin shrank to 16.9% from 18% in the previous quarter due to: (1) increased consumption of low gross margin products with high gold content in Tier 2 and 3 cities and (2) various promotions. The ratio of selling, general and administrative expenses (SG&A) to revenue increased QoQ on PNJ's promotional marketing, making net profit margin down to 3.4% in 3Q22.

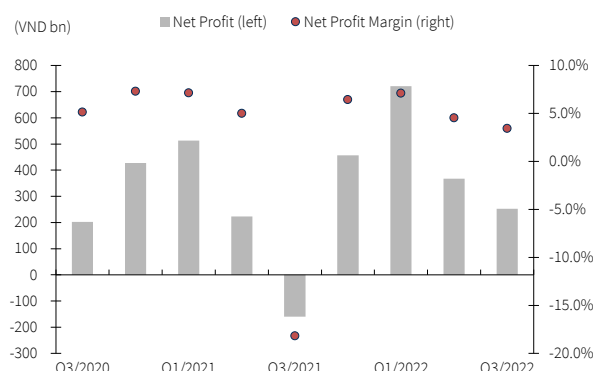
Inventories account for 70–80% of total assets and tend to increase recently since PNJ primarily concentrates on core business activities as shared by the Board of Directors. Inventory management remains effective, as evidenced by inventory turnover improvement over the years.

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



Source: Phu Nhuan Jewelry, KB Securities Vietnam

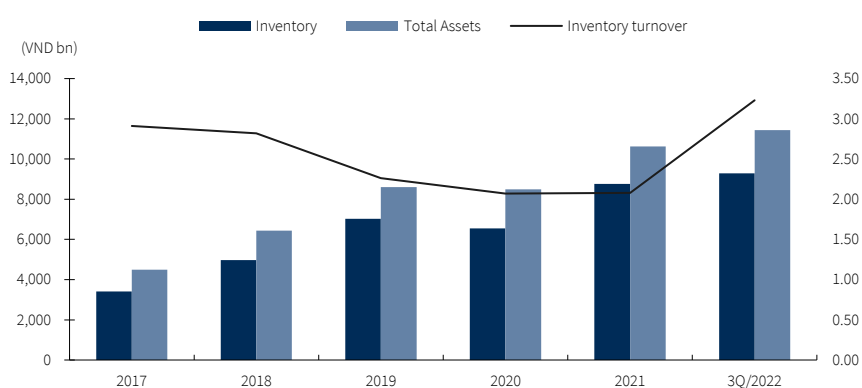
Fig 2. PNJ – NPAT, net profit margin (VNDbn, %)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 3. PNJ – Inventories, total assets, inventory turnover (VNDbn)

As of 3Q22, inventories accounted for 74.5% of total assets, higher than other peers' at 50–60%. However, inventory turnover improved from 2.08 in 2021 to 3.23 in 3Q22, meaning fewer days in inventory. It is partly due to the digital transformation process, and PNJ applied ERP (enterprise resource planning) to manage its inventory more effectively.



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Retail sales grew strongly on the release of new collections

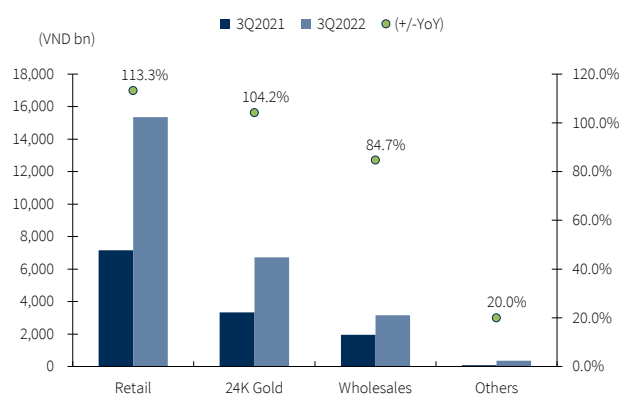
Despite being low season, 3Q22 posted positive results

Despite being low season, 3Q22 sales still recorded 739.7% YoY growth thanks to recovering from the low base in 3Q21 when PNJ had to close numerous stores during the lockdown. During the pre-pandemic era in 3Q19 and 3Q20, revenue only grew by 87% YoY and 114% YoY, respectively. Impressive results in 3Q22 came from PNJ's continuous release of new collections and expansion of its network with points of sales increasing to 354 by the end of the period.

Retail sales set a new record on International Women's Day

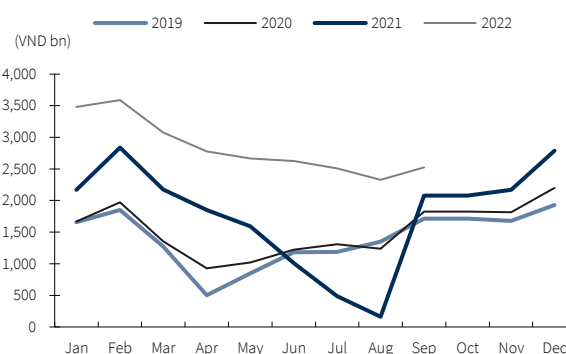
Business results grew impressively across segments in 9M22 with retail sales up 113.3% YoY, supported by significant growth in all brands and 24K gold bar sales up 104.2% YoY amid high inflation and political uncertainty. We expect PNJ's revenue in 4Q22 to approach its high base achieved in 1Q22 thanks to the peak season effect after the Board of Directors revealed that PNJ had set a new sales record this past International Women's Day on October 20.

Fig 4. PNJ – Revenue growth (%YoY)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 5. PNJ – 2019A–2022A business results



Source: Phu Nhuan Jewelry, KB Securities Vietnam

The impact of inflation on the purchasing power may come next year or right in 4Q22

The Board of Directors said purchasing power in the third quarter was not worsened by inflation, but this risk factor should be closely followed in the coming months. 2023F inflation would somewhat dent the demand for non-essential goods like jewelry, but negative impacts on PNJ will be limited and come later since PNJ targets the mid-to-high income segments of the market. In the long run, the enterprise will keep targeting customers less affected by intensified inflation.

PNJ's new store opening and its concentration on product development is the growth engine for 2023

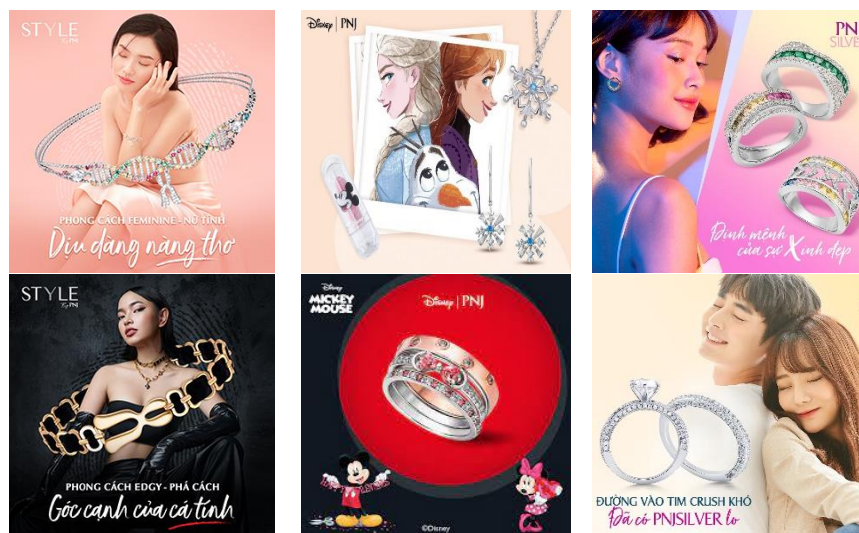
As mentioned in the previous reports, PNJ plans to open 30–40 new stores per annum, and it inaugurated 25 stores for the year to the end of September. Although applying for the construction permit was behind schedule, the Board of Directors remains confident it can fulfill the store opening plan this year and in the years ahead. Besides, PNJ is still studying the feasibility of building a new factory.

PNJ constantly launched new collections targeting specific customer groups.

With PNJ's diverse team of skilled jewelry designers, we expect its retail segment to gain more market share and grow strongly in the long term.

Img 1. PNJ – New collections

Increasingly, young people are attracted by mid-to-high-end jewelry lines combining different materials with unique designs and distinct styles.



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Forecast & Valuation

2022–23F business results

Given positive results in 3Q22 and bright future outlook, we raise our forecast of PNJ's business performance. Accordingly, 2022F NPAT and net revenue should reach VND1,838 billion (+78% YoY) and VND33,926 billion (+73% YoY). For 2023, those figures may rise to VND2,093 billion (+14% YoY) and VND38,786 billion (+14.32% YoY).

Table 1. PNJ – 2022–23F business results

	UPDATE		PREVIOUS		CHANGE (%)		NOTES
	2022F	2023F	2022F	2023F	2022F	2023F	
Net revenue	33,926	38,786	29,111	33,561	+17%	+16%	
Retail	20,263	23,302	18,574	22,289	+9%	+5%	Retail sales should grow positively thanks to the peak season effect in the fourth quarter of 2022 (wedding season, holidays). New products are well received by customers.
Wholesale	3,884	4,272	2,977	3,186	+30%	+34%	
24K gold bar	9,082	10,444	6,873	7,354	+32%	+42%	Gold bar consumption is expected to increase on growing demand for amassing gold in the context of rising inflation and high gold prices.
Gross profit	5,973	6,850	5,316	6,472	+12%	+6%	We revise gross profit margin in 2022F to 17.6% due to higher proportion of gold bar sales with low profit margin to total revenue. Gross margin of the retail segment should be down to 27.5%, given the company's promotions to boost revenue.
Selling expense	-2,748	-3,142	-2,387	-2,752	+15%	+14%	
G&A expense	-712	-814	-701	-906	+2%	-10%	
Profit after tax	1,838	2,093	1,615	2,038	+14%	+3%	We expect PNJ's 2022F NPAT to exceed the plan by 39%.

Source: KB Securities Vietnam

We recommend BUY for PNJ with a target price of VND121,100/share

We combine two valuation methods DCF (discounted cash flow) and P/E with a ratio of 50:50 to find a final fair price for PNJ stocks. With the DCF method, we increase the cost of equity due to rising interest rates and high-risk investments. Regarding the P/E method, we adjust PNJ's 2022F target P/E to 15x and EPS to VND7,470. We recommend BUY for PNJ stocks with a target price of VND121,100/share (down 14% compared to the previous forecast), 24.7% higher than the closing price on November 10, 2022.

Table 2. PNJ – Target price based on DCF and P/E valuation (VND/share)

Valuation method	Forecast price	Weight
DCF	130,200	50%
P/E	112,057	50%
Target price	121,100	100%

Source: KB Securities Vietnam

PNJ – 2020A–2023E financials

Income statement				
(VNDbn)	2020A	2021A	2022E	2023E
Net sales	17,511	19,613	33,926	38,786
Cost of sales	(14,076)	(16,040)	(27,953)	(31,935)
Gross Profit	3,435	3,573	5,973	6,850
Financial income	2	16	22	25
Financial expenses	(162)	(118)	(215)	(278)
of which: interest expense	(154)	(104)	(193)	(254)
Gain/(loss) from joint venture	0	0	0	0
Selling expenses	(1,421)	(1,694)	(2,748)	(3,142)
General & admin expenses	(506)	(472)	(712)	(814)
Operating profit/(loss)	1,349	1,305	2,319	2,641
Net other income/(expenses)	(3)	(18)	(12)	(14)
Pretax profit/(loss)	1,346	1,287	2,308	2,627
Income tax	(277)	(254)	(470)	(535)
Net profit/(loss)	1,069	1,033	1,838	2,093
Minority interests	0	0	0	0
Net profit after MI	1,069	1,033	1,838	2,093

Operating ratios				
(%)	2020A	2021A	2022E	2023E
Revenue growth	3%	12%	73%	14%
EBIT growth	-8%	-7%	80%	15%
EBITDA growth	-7%	-6%	77%	16%
NP after MI growth	-10%	-3%	78%	14%
Gross profit margin	20%	18%	18%	18%
EBITDA margin	9%	8%	8%	8%
EBIT margin	9%	7%	7%	7%
Pre-tax profit margin	9%	7%	7%	7%
Net profit margin	6%	5%	5%	5%

Cash flow				
(VNDbn)	2020A	2021A	2022E	2023E
Net profit	1,346	1,287	2,308	2,627
Plus: depreciation & amort	72	75	84	116
Plus: investing (profit)/loss	1	(29)	(29)	(29)
Change in working capital	360	(1,801)	(4,000)	(2,064)
(Inc)/dec - receivables	17	(16)	(101)	69
(Inc)/dec - inventory	485	(2,141)	(4,989)	(1,418)
(Inc)/dec - other curr assets	0	0	0	0
Inc/(dec) - payables	(100)	351	818	(791)
Inc/(dec) - advances	(42)	5	272	76
Inc/(dec) - other curr liab	0	0	0	0
Other adj for operations	0	0	0	0
Operating cash flow	1,497	(717)	(2,133)	185
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	13,570	14,739
ST debt	(8,208)	(6,876)	(12,213)	(13,963)
Other liabilities	0	0	0	0
Issuance/(retirement) of eq	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	2,399	284
Net increase in cash & equivalents	327	(65)	(111)	(3)
Cash & equivalents - beginning	95	422	358	247
Cash & equivalents - ending	422	358	247	243

Balance sheet				
(VNDbn)	2020A	2021A	2022E	2023E
Total assets	8,483	10,547	16,018	17,699
Current assets	7,144	9,220	14,413	15,747
Cash & equivalents	422	358	247	243
ST investments	0	0	120	89
Accounts receivable	68	60	161	91
Inventory	6,546	8,687	13,676	15,094
Other current assets	108	116	209	229
Long-term assets	1,339	1,327	1,605	1,951
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	672	739
Liabilities	3,241	4,530	7,221	7,453
Current liabilities	3,232	4,521	7,207	7,436
Trade accounts payable	482	689	1,507	716
Advances from customers	0	0	0	0
ST borrowings	1,839	2,722	4,079	4,855
Special reserves	0	0	0	0
Other current liabilities	911	1,110	1,620	1,865
Long-term liabilities	9	9	14	16
LT payables	0	0	0	0
LT borrowings	0	0	0	0
Other LT liabilities	9	9	14	16
Shareholders' equity	5,242	6,017	8,797	10,246
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	3,187	4,519
Reserve & others	373	801	903	1,020
Minority interests	0	0	0	0
Total liabilities & equity	8,483	10,547	16,018	17,699

Key ratios				
(x, % VND)	2020A	2021A	2022E	2023E
Valuations				
P/E	18.8	23.1	14.4	12.6
P/E diluted	18.8	23.1	14.4	12.6
P/B	3.5	3.7	3.0	2.6
P/S	1.1	1.1	0.8	0.7
EV/EBITDA	17.4	20.0	12.3	10.9
EV/EBIT	18.2	21.0	12.7	11.3
EPS	4,308	4,161	7,470	8,506
DPS (annual, ordinary)	1,560	768	1,500	2,000
Dividend payout ratio (%)	45%	35%	35%	35%
Operating performance				
ROE	20%	18%	25%	22%
ROA	13%	11%	14%	12%
ROIC	15%	12%	14%	14%
Financial structure				
Total liab/equity	0.6	0.8	0.8	0.7
Current ratio (x)	2.2	2.0	2.0	2.1
Interest coverage (x)	9.7	13.3	13.0	11.4
Activity ratios				
Asset turnover	0.8	2.1	2.6	2.3
Receivables turnover	7.4	307.6	307.6	308.0
Inventory turnover	2.3	2.1	2.5	2.2
Payables turnover	23.2	31.1	30.0	30.0

Source: Phu Nhuan Jewelry, KB Securities Vietnam

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Investment ratings & definitions

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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