

Phu Nhuan Jewelry (PNJ)

Back to growth trajectory

December 12, 2023

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3Q23 business results neared the levels achieved last year on the slow recovery of purchasing power For 3Q23, Phu Nhuan Jewelry (PNJ) generated net revenue of VND6,918 billion, down 6.1% YoY as purchasing power recovered slowly and remained softer than in the 3Q22 post-pandemic period. Gross profit margin (GPM) picked up 40bps YoY to 17.3% thanks to efforts to optimize costs and boost sales of high-value products. NPAT hit VND253 billion, flat YoY, helped by operations optimization.

Performance varied among business segments

Performance varied among business segments in the third quarter of 2023. In particular, retail sales only recorded VND4,054 billion (-13% YoY), and wholesale sales achieved VND621 billion (-38% YoY). Meanwhile, 24K gold sales brought about VND2,073 billion (+31% YoY) thanks to the increased purchases of gold bars among Vietnamese people during the economic slowdown.

The core retail segment showed positive signals

PNJ's retail sales dropped YoY but at a much smaller percentage than the entire industry. It was attributable to PNJ opening new stores and deploying many campaigns to gain new customers and retain old ones. In the first three quarters of 2023, the company could expand its coverage and maintain GPM growth simultaneously.

We recommend BUY for PNJ with a target price of VND92,200/share

We forecast PNJ's 2023 NPAT to achieve VND1,838 billion (+1.4% YoY) on net revenue of VND31,939 billion (-5.7% YoY). We recommend BUY for PNJ with a target price of VND92,200/share, implying a 15% upside compared to the closing price as of December 12, 2023.

Buu maintain

Target price	VND92,200
Upside	15%
Current price (Dec 12, 2023)	VND80,300
Consensus target price	VND92,575
Market cap (VNDtn/USDbn)	25.7/1.1

Trading data	
Free float	82.7%
3M avg trading value (VNDbn/USDmn)	39.8/1.7
Foreign ownership	49%
Major shareholder	VIETFUND
	(9.16%)

Snare price performance						
(%)	1M	3M	6M	12M		
Absolute	4.6	-1.2	10.0	-1.7		
Relative	1.2	9.2	8.3	-9.2		

Forecast	earnings	&	valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	19,613	33,876	32,208	36,630
Operating income/loss (VNDbn)	1,305	2,338	2,389	2,753
NPAT (VNDbn)	1,033	1,811	1,886	2,173
EPS (VND)	4,161	7,358	7,662	8,828
EPS growth (%)	-3.4%	76.8%	4.1%	15.2%
P/E (x)	23.5	13.4	13.5	10.9
P/B (x)	4.0	2.9	2.6	2.2
ROE (%)	17%	25%	21%	21%
Dividend yield (%)	1.7%	2.5%	2.5%	2.5%



Source: Bloomberg, KB Securities Vietnam

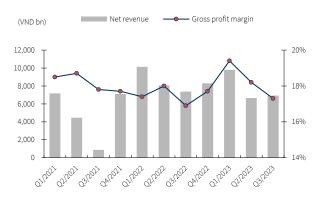
Business performance

Table 1. PNJ - 3Q22-3Q23 business results

(VNDbn)	3Q2022	3Q2023	+/-%YoY	Comments
Revenue	7,364	6,918	-6.1%	3Q23 revenue only decreased slightly YoY thanks to PNJ winning back market share from rivals.
Retail sales	4,675	4,054	-13.3%	PNJ's retail sales decreased sharply (due to declining purchasing power on consumer discretionary such as gold and jewelry) but remained higher than the whole industry as the company won back market share from competitors thanks to deploying many campaigns to gain new customers and retain old ones.
24K gold sales	1,589	2,073	30.5%	Vietnamese people like to use 24K gold as a means to save assets, especially during the economic slowdown. Therefore, 24K gold sales were not adversely affected by the decline in purchasing power.
Wholesale sales	997	621	-37.7%	Purchasing power decreased sharply, so small stores that are PNJ's wholesale customers saw a sharp fall in revenue and thus ordered less from PNJ.
Other	103	80	-22.3%	
Gross profit	1,248	1,198	-4.0%	Although GPM decreased QoQ due to the effects of seasonality (revenue decreased but PNJ still had to
Gross profit margin	16.9%	17.3%	40bps	cover fixed costs in production), it improved YoY thanks to PNJ's efforts to optimize inventory and logistics costs and boost sales of high-margin products.
Financial income	6	27	350%	
Financial expenses	-33	-36	9.1%	
SG&A	-893	-872	-2.4%	SG&A expenses decrease thanks to PNJ's operations optimization, changes in marketing strategies, targeting customers with high purchasing power.
Operating income/loss	329	316	-4.0%	
PBT	330	313	-5.2%	
NPAT	252	253	0.4%	NPAT is expected to increase marginally YoY despite numerous difficulties facing the whole industry and diminishing sales. It is attributable to PNJ's inventory, operational, and marketing costs optimization efforts,

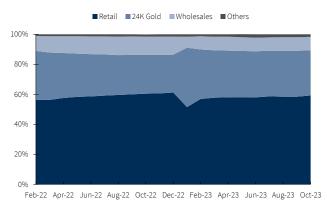
Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 2. PNJ - Net revenue, GPM (VNDbn, %)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 3. PNJ - Revenue breakdown (%)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

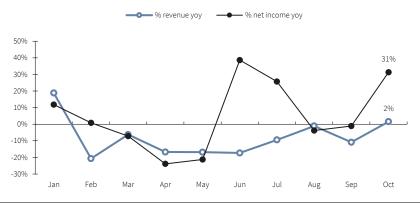
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Monthly revenue and earnings returned to growth track

In the February through June period, PNJ recorded disappointing results (Fig 4). It was due to (1) declining purchasing power on non-essential goods and (2) very high bases in the same period thanks to pent-up demand after the COVID-19 pandemic. Despite numerous difficulties, PNJ still maintained revenue and earnings at the same time compared with most other retailers.

PNJ recently released its financial statements for October, which is the start of the high season. Revenue and earnings both grew positively for the first time after ten months. Specifically, retail sales rose by 4% YoY, and gold bar sales jumped by 24% YoY. However, wholesale sales continued to fall sharply by 34% YoY. The expansion continued at a steady pace, reaching 394 stores by the end of October (including 382 PNJ Gold and others).

Fig 4. PNJ - Monthly revenue & profit growth in 2023 (% YoY)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

The retail channel remains the long-term growth driver for PNJ

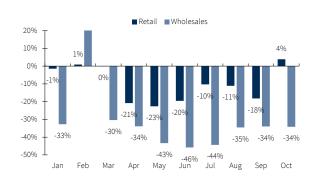
Although retail revenue only makes up 60% of total revenue, this core business contributes as much as 90% of profits. Therefore, the performance of this segment has an enormous impact on PNJ's business prospects. Looking back at PNJ's results in recent months, we can see positive signals coming from the retail channel, specifically:

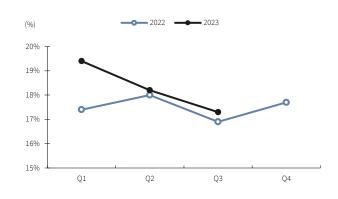
(1) It returned to positive growth thanks to market share gained from rivals. Revenue rose 4% YoY in October after many consecutive months of negative growth, though the decrease rate was much lower than the whole industry. PNJ's wholesale segment can reflect the general trend of the retail sector. PNJ received fewer orders from its wholesale customers due to poor sales. PNJ's retail revenue witnessed a slighter decline than wholesale revenue, indicating that the enterprise has gained more market share from weaker performers.

(2) GPM improved along with store expansion. Although the high-margin retail segment experienced a drop in sales, PNJ's GPM still improved YoY. In addition, its market share also significantly increased as mentioned before. These are very positive signs, especially when many other retail companies have been struggling amid fierce competition, accepting to sacrifice profits for market share.

Fig 5. PNJ – Monthly retail & wholesale sales growth (% YoY)

Fig 6. PNJ - Quarterly GPM (%)



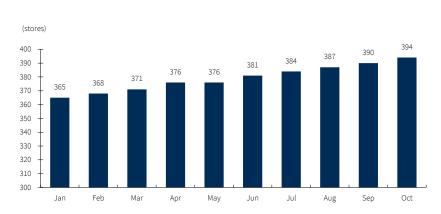


Source: Phu Nhuan Jewelry, KB Securities Vietnam

Source: Phu Nhuan Jewelry, KB Securities Vietnam

(3) PNJ maintained a steady pace of new store openings. In the first ten months of the year, PNJ opened 38 new stores to expand its coverage and closed 8 poor–performing stores. Unlike other retailers, PNJ opened 3–4 stores on a monthly basis. On the one hand, new openings show PNJ's confidence in its ability to attract new customers, and on the other hand, it helps PNJ increase its coverage to anticipate the economic recovery.

Fig 7. PNJ - Store count (stores)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Forecast & Valuation

2023F business results

We believe the retail industry in general and the jewelry retail market in particular are gradually recovering. For the whole year 2023, KBSV forecasts PNJ's net revenue of VND32,208 billion (-4.9% YoY), GPM of 18.6% (up 110 bps from 17.5% in 2022) due to changes in product portfolio and inventory and supply chain optimization. NPAT should reach VND1,886 billion (+4.1% YoY). Despite lower revenue, we assess PNJ will achieve positive earnings growth by the end of this year, nearing the full–year objective set thanks to cost optimization efforts.

Table 8. PNJ - 2022A-2023F business results

(VNDbn)	2022A	2023F	+/-% YoY	2024F	+/- YoY	Comments
Net revenue	33,876	32,208	-4.9%	36,630	13.7%	
Retail sales	20,732	19,497	-6.0%	22,005	12.9%	Declining purchasing power directly affected jewelry retail sales, however, PNJ has won back market share from weaker performers thanks to marketing campaigns to attract new customers without sacrificing profit margins like many other retailers. Thanks to the market share gained during the difficult time, PNJ will see a strong acceleration when the economy recovers.
24K gold sales	8,571	9,256	8.0%	10,367	12.0%	Gold bar sales are not affected by purchasing power as Vietnamese people like to buy gold bars as a means to save assets, especially during the economic downturn.
Wholesale sales	4,065	2,846	-30.0%	3,557	25.0%	PNJ's wholesale customers encountered many difficulties due to the weakening purchasing power and had to reduce jewelry orders from PN When the market recovers, PNJ will receive more orders from those customers.
Other	508	610	20.0%	701	15.0%	
Gross profit	5,928	5,976	0.8%	6,692	12.0%	GPM is expected to improve due to changes in product portfolio and
Gross profit margin	17.5%	18.6%	6.0%	18.3%	-1.5%	inventory & logistics cost optimization efforts.
SG&A	-3,502	-3,446	-1.6%	-3,810	10.5%	PNJ is trying to improve marketing efficiency and increasingly optimize the corporate management system.
EBIT	2,426	2,530	4.3%	2,883	14.0%	
PBT	2,313	2,378	2.8%	2,740	15.2%	
NPAT	1,811	1,886	4.1%	2,173	15.2%	A slight increase in 2023F NPAT in the context of weaker purchasing power is a very positive sign. In 2024F, when the economy and purchasing power recover, along with rising market share, it is forecast that PNJ will return to strong growth.

Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 9. PNJ - 2022A-2024F business results



Source: Phu Nhuan Jewelry, KB Securities Vietnam

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We recommend BUY for PNJ with a target price of VND92,200/share

We conduct PNJ stock valuation with two methods: (1) discounted cash flow (DCF) and (2) P/E comparables (50:50 weighting) to find a fair price for PNJ.

(1) For DCF, we use the free cash flow to the firm (FCFF) method with the assumptions stated below. Our FCFF-derived target price for PNJ is VND91,500/share.

(2) For the P/B comparables method, we give PNJ a target P/E of 15x (close to the 5-year average P/E) and a target EPS of VND6,185. Our P/B-derived target price for PNJ is VND92,800/share.

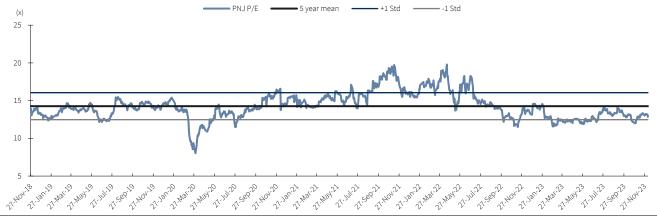
Accordingly, we recommend BUY for PNJ with a target price of VND92,200/share, 15% higher than the closing price as of December 12, 2023.

Table 10. PNJ - FCFF model assumptions

Target price			VND91,500
		Outstanding shares	327,999,629
WACC	10.38%	Equity value	30,006
Duration	5	Debt	2,039
Terminal growth	4.0%	Enterprise value (EV)	32,045
Beta	0.8	Short-term investments	800
Risk-free rate	5.00%	Cash & cash equivalents	575
Cost of debt	7.00%	PV of FCFF	5,814
Cost of equity	11.58%	PV of terminal value	24,856

Source: KB Securities Vietnam

Fig 11. PNJ - Historical P/E in 2018-2023 (x)



Source: Bloomberg, KB Securities Vietnam

PNJ - 2021A-2023F financials

Income statement	2021	20224	20225	20245	Balance Sheet	20211	20224	20225	•
(VNDbn)	2021A	2022A	2023F	2024F	(VNDbn)	2021A	2022A	2023F	20
let sales	19,613	33,876	32,208	36,630	Total assets	10,619	13,337	13,439	15,
Cost of sales Gross Profit	-16,040	-27,949	-26,232	-29,938	Current assets	9,292	11,966 880	12,030	13
Financial income	3,573 16	5,928 54	5,976 22	6,692 25	Cash & equivalents ST investments	355 0	200	575 800	1
Financial income	-118	-141	-162	-155	Accounts receivable	60	200 57	72	
of which: interest expenses	-104	-94	-142	-131	Inventory	8,755	10,508	10,231	11
Gain/(loss) from joint ventures	0	0	0	0	Long-term assets	1,327	1,371	1,409	1
Selling expenses	-1,694	-2,828	-2,738	-3,040	LT trade receivables	84	94	103	_
General & admin expenses	-472	-674	-709	-769	Fixed assets	259	240	245	
Operating profit/(loss)	1,305	2,338	2,389	2,753	Investment properties	31	31	31	
Net other income/(expenses)	-18	-25	-11	-13	Liabilities	4,606	4,893	3,794	4
Pretax profit/(loss)	1,287	2,313	2,378	2,740	Current liabilities	4,563	4,883	3,761	4
ncome tax	-254	-502	-492	-567	Trade accounts payable	680	277	322	
Net profit/(loss)	1,033	1,811	1,886	2,173	Advances from customers	0	0	0	
Minority interests	0	0	0	0	ST borrowings	2,722	2,683	2,039	2
let profit after MI	1,033	1,811	1,886	2,173	Long-term liabilities	43	10	32	
					LT payables	0	0	0	
					LT borrowings	43	10	32	
Operating ratios	2021A	2022A	2023E	2024E	Other LT liabilities	0	0	0	
Gross profit margin	18.2%	17.5%	18.6%	18.3%	Shareholders' equity	6,013	8,444	9,645	11
EBITDA margin	7.6%	7.4%	8.1%	8.1%	Paid-in capital	2,276	2,462	3,282	3
EBIT margin	7.2%	7.2%	7.9%	7.9%	Share premium	991	2,251	1,851	1
let Operating margin Pre-tax profit margin	6.7%	6.9%	7.4%	7.5%	Undistributed earnings Reserve & others	1,950 801	2,522	2,549	3
re-tax pront margin Net profit margin	6.6% 5.3%	6.8% 5.3%	7.4% 5.9%	7.5% 5.9%	Minority interest	801	1,212 0	1,967 0	2
Net pront margin	3.370	3.370	3.570	3.370	Millority interest	U	U	U	
Cash flow statement					Key ratio				
VNDbn)	2021A	2022A	2023E	2024E	(x, %, VND)	2021A	2022A	2023E	20
let profit	1,287	2,313	2,378	2,740	Multiple				
Plus: depreciation & amort	75	80	70	79	P/E	23.5	13.4	13.5	
						23.5	13.4	13.5	
Plus: investing (profit)/loss	-29	-21	0	0	P/E diluted				
nterest Expense	104	94	142	131	P/B	4	2.9	2.6	
hange in working capital	1,438	2,466	2,590	2,951	P/S	1.2	0.7	0.7	
Inc)/dec - receivables	-16	-52	-43	-2	P/Tangible Book	4.5	3.1	2.8	
Inc)/dec - inventory	-2,141	-1,753	278	-1,745	P/Cash Flow	-376	46	-48	
nc/(dec) - payables	351	77	-484	-81	EV/EBITDA	18	10.4	10.4	
nc/(dec) - advances	5	-60	-10	-27	EV/EBIT	18.9	10.7	10.7	
Other adj for operations	-383	-597	-637	-698	•				
Operating cash flow	-717	101	1,694	397	Operating Performance				
Purchase of Fixed Assets and long-term assets					ROE%	170/	250/	210/	
	-63	-52	-99	-164	ROA%	17%	25%	21%	
Proceeds from disposal of fixed assets	13	1	0	0		10%	15%	14%	
oans granted, purchases of debt instruments	0	-540	-600	-200	ROIC%	12%	18%	17%	
Collection of loans, proceeds from sales of debts instruments	0	200	0	0	Financial Structure				
nvestments in other entities		0		0	Cash ratio	0.1	0.2	0.2	
Proceed from divestment in other entities	0		0		Quick Ratio	0.1	0.2	0.2	
	0	0	0	0	=	0.1	0.3	0.5	
Dividends and interest received	2	20	0	0	Current Ratio	2.0	2.5	3.2	
nvesting cash flow	-49	-371	-699	-364	LT Debt/Equity	0.0	0.0	0.0	
roceeds from issue of shares	0	1,447	0	0	LT Debt/Total assets	0.0	0.0	0.0	
ayment for share returns and repurchase	-2	0	0	0	ST Debt/Equity	0	0	0	
Proceeds from borrowings	7,756	6,261	5,797	8,059	ST Debt/Total assets	0.3	0.2	0.2	
Repayment of borrowings	-6,876	-6,300	-6,442	-7,509	ST liabilities/Equity	0.3	0.3	0.2	
inance lease principal payments	0	0	0,1.12	0	ST liabilities/Total assets	0.2	0.2	0.1	
Dividends paid	-177	-617	-656	-656	Total liabilities/Equity	0.3	0.3	0.2	
nterests, dividends, profits received	0	0	0	0	Total liabilities/Total assets	0.2	0.2	0.1	
inancing cash flow	702	792		-107	Activity Ratio	0.2	0.2	0.1	
Net increase in cash & equivalents			-1,301		Account receivable turnover	207	500	500	
	-64	522	-306	-74		327	582	500	
Cash & equivalents - beginning	422	355	880	575	Inventory turnover	2	3	3	
Cash & equivalents - ending	358	880	575	501	Account payable turnover	24	62	87	

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(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	Undernerform the market

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