

# Phu Nhuan Jewelry (PNJ)

## Strong rebound in 4Q21 after lockdowns

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Analyst Luong Ngoc Tuan Dung  
dunglnt@kbsec.com.vn

### Business results recovered strongly after accumulated losses in 3Q21

In 2021, Phu Nhuan Jewelry (PNJ) recorded VND1,030 billion (-3.7% YoY) in NPAT on net revenue of VND19,593 billion (+11.9% YoY), fulfilling 83.8% and 93.3% of the full-year plan profit and revenue. In the first two months of this year, those figures were VND522 billion (+36.7% YoY) and VND7,066 billion (+41.1% YoY).

### Revenue should recover in "K-shape" after the lifting of social distancing measures

We believe that PNJ's business performance in 2022 will continue to recover strongly, especially in the retail segment when business results rely heavily on the opening of stores. From our observation, PNJ's customer base is less affected by the pandemic, proven by the exceptional business results of PNJ after two major lockdowns in 2Q20 and 3Q21.

### PNJ will boost the retail segment by opening new stores from private placement proceedings

We expect retail sales to grow by 30–35% YoY from the low base last year, with the number of new PNJ Gold stores in 2022 ranging between 20 and 40, depending on the pandemic.

### We recommend BUYING PNJ shares with a target price of VND129,100

In 2022, KBSV forecasts PNJ's NPAT at VND1,435 billion (+38.9% YoY) and net revenue at VND24,111 billion (+23% YoY). In 2023, those figures should be VND1,898 billion (+32% YoY) and VND27,772 billion (+15.1% YoY), respectively. We recommend BUYING PNJ shares with a target price of VND129,100/share, 22% higher than the closing price on March 21, 2022.

**Buy** maintain

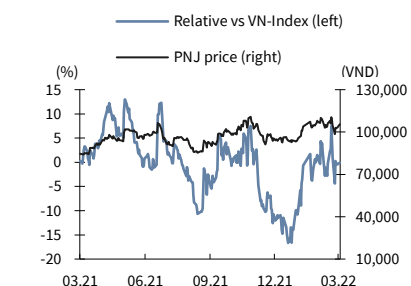
<b>Target price</b>	<b>VND129,100</b>
Upside/Downside	22%
Current price (Mar 21, 2022)	VND105,600
Market cap (VNDbn/USDmn)	24/1.06

<b>Trading data</b>	
Free float	85%
3M avg trading value (VNDbn/USDmn)	101/4.48
Foreign ownership	48.62%
Major shareholder	VinaCapital (8.48%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-4	12	15	24
<b>Relative</b>	-3	11	4	0

#### Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net revenue (VNDbn)	17,511	19,613	24,111	27,772
Earnings/Loss (VNDbn)	1,349	1,305	1,810	2,393
NPAT (VNDbn)	1,069	1,033	1,435	1,898
EPS (VND)	4,308	4,161	5,914	7,823
EPS growth (%)	-12.0	-3.4	42.1	32.3
P/E (x)	18.8	23.1	17.9	13.5
P/B (x)	3.5	3.6	3.7	3.2
ROE (%)	20	18	22	24
Dividend yield (%)	45	35	35	35



Source: Bloomberg, KB Securities Vietnam

## Updated business performance

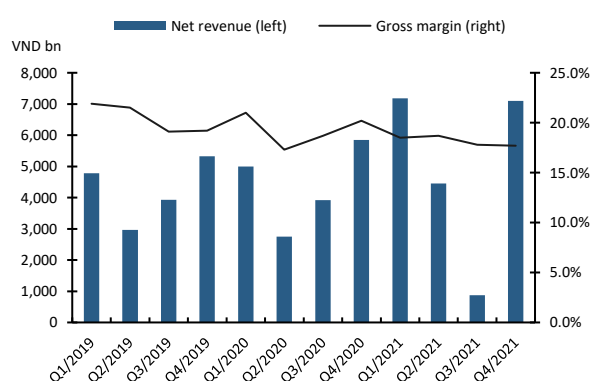
### 4Q21 business results recovered well from the lost quarter of 3Q21

In 2021, PNJ achieved VND1,030 billion (-3.7% YoY) in NPAT and VND19,593 billion (+11.9% YoY) in net revenue, delivering 83.8% and 93.3% of the full-year targets. The profit was affected by the COVID-19 pandemic, which severely disrupted business activities in the first two months of 3Q21.

Entering 4Q21, NPAT reached VND457 billion (+7% YoY, up strongly from a loss of -VND159 billion in 3Q21) while net revenue hit VND7,098 billion (+21.4% YoY), driven by retail sales (+15.2% YoY). Business results of PNJ recovered well after the lifting of social distancing measures in megacities, with revenue and NPAT being only lower than 1Q21's VND7,181 billion and VND513 billion (the highest recorded by PNJ).

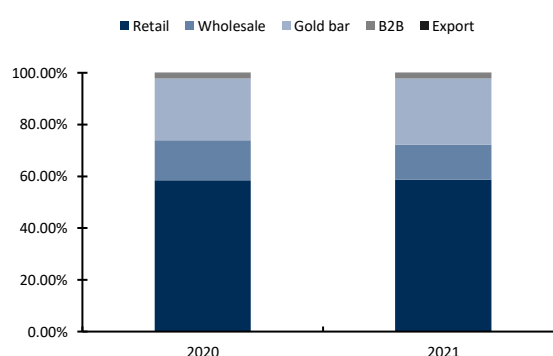
The gross profit margin was down from 20.15% in 2020 to 17.7% (-245 bps YoY) in 4Q21. Over the past year, PNJ's gross margin was 18.2%, 1.4 percentage points lower than in 2020.

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



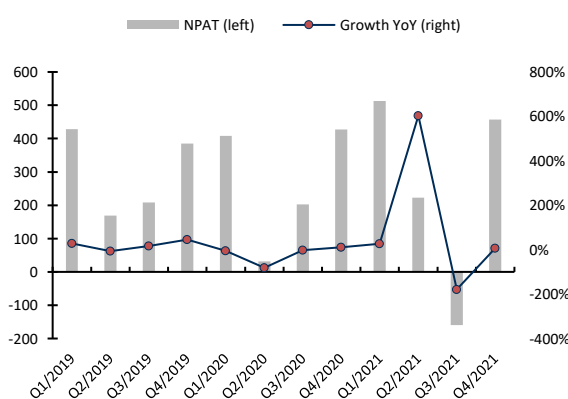
Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 2. PNJ – Revenue breakdown (%)



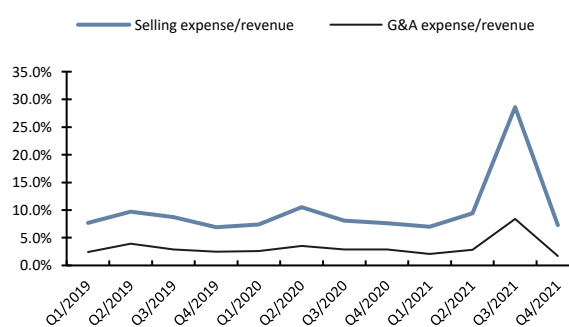
Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 3. NPAT & growth of NPAT



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 4. SG&A expenses/revenue quarterly



Source: Phu Nhuan Jewelry, KB Securities Vietnam

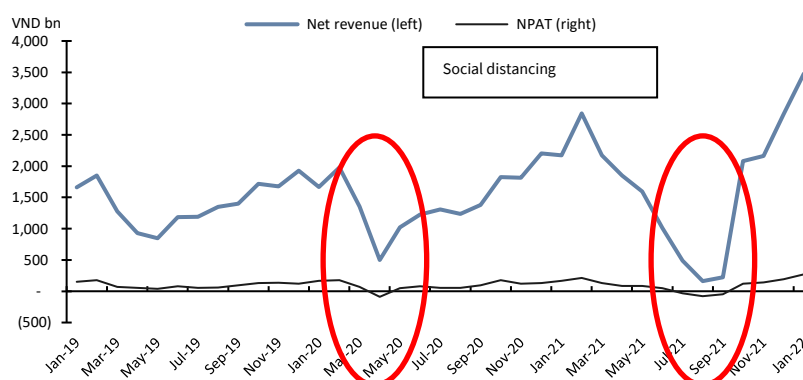
## Retail sales as the key driver in 2022

Revenue should recover in "K-shape" after social distancing is lifted

During the third quarter of 2021, PNJ was heavily impacted by social distancing in major cities, leading to the temporary closure of many stores. Specifically, PNJ suffered a loss in 3Q21 with net revenue of just over VND870 billion.

However, when the Government relaxed most of the social distancing measures to focus on socio-economic recovery, PNJ's business results bounced back in 4Q21. We believe that PNJ's positive growth will continue in 2022, especially in the retail segment with the reopening of stores.

Fig 5. Net revenue & NPAT monthly



Source: Phu Nhuan Jewelry, KB Securities Vietnam

PNJ continues to promote retail sales by opening new stores from private placement proceeds

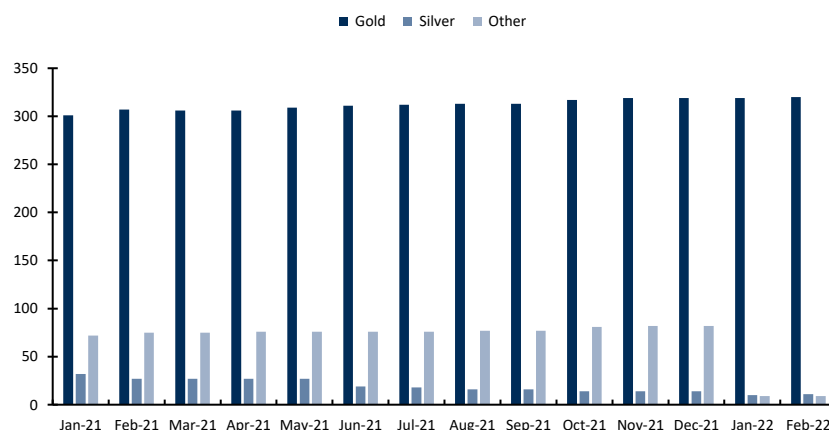
Furthermore, PNJ's customer base is less affected by the pandemic (Figure 5), proven by the impressive rebound in business results following the relaxation of social distancing protocols in 2Q20 and 3Q21.

At the General Meeting of Shareholders, the BOD approved the private placement of 15 million shares at VND95,000 per share, bringing in total mobilized capital of more than VND1,400 billion. 55% of the proceeds are to expand the jewelry business, promote development, and open and expand new retail stores.

In addition, PNJ would spend VND285 billion of the above amount to increase production capacity, expand the factory at PNJ Jewelry Manufacturing and One Member Co., Ltd, and the rest for technology advancement and system improvement.

We expect the number of new PNJ Gold stores in 2022 to range from 20 to 40, depending on the pandemic. By the end of January 2022, PNJ had 310 PNJ Gold stores, 10 PNJ Silver stores, and 9 other stores (CAO, Watch, Art, and Style).

Fig 6. PNJ – Number of stores



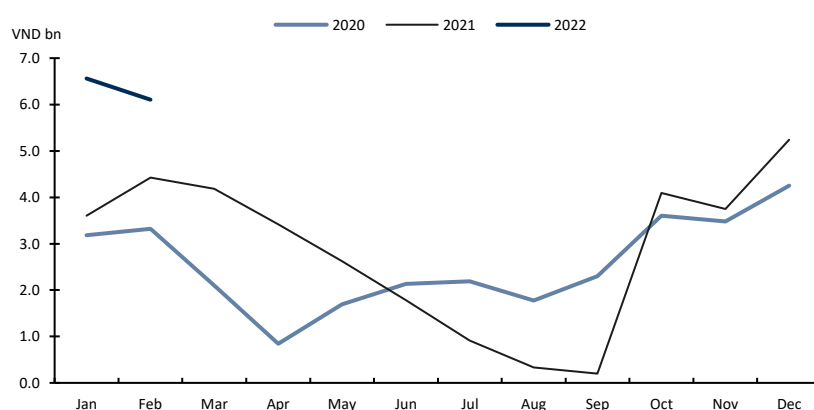
Source: Phu Nhuan Jewelry, KB Securities Vietnam

### Business results maintained positive growth in February 2022

In 2M22, PNJ posted NPAT of VND522 billion (+36.7% YoY) on net revenue of VND7,066 billion (+41.1% YoY). Last month, those figures were VND252 billion (+17.8% YoY) and VND3,589 billion (+26.5% YoY), respectively.

Retail sales picked up by 53.3% (online sales jumped by 115%), driven by the Tet holiday in January and Valentine's Day in February. Gold bar sales also climbed by +46.4% YoY thanks to the God of Wealth Day as well as surging gold prices since the beginning of the year.

Fig 7. PNJ – Average sales/store/month, gold &amp; silver included (VNDbn)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

In our estimates, the average retail sales/store of the jewelry segment (including gold and silver) in the first two months of this year were over VND6 billion (up strongly compared to 2021 and 2020, even higher than the pre-pandemic level of VND3–5 billion). We believe that PNJ's average sales per store will continue to outperform in March 2022 thanks to International Women's Day. For the whole year of 2022, we forecast PNJ's average sales/store to be VND3.6 billion (28.5% higher than the 2021 average of VND2.8 billion/store).

Table 1. PNJ – 2021A–2022E business results

VND BN	2021A	2022F	%YOY	NOTES
Revenue	19,613	24,111	+23%	
Retail	11,513	15,420	+33.9%	Positive growth came mainly from the recovery of gold sales (+30–35% YoY) thanks to: Joining hands with Pandora to open stores that provide PNJ and Pandora products in major cities, boosting PNJ's average sales per store. 30 new PNJ Gold stores from mid-2022, expanding stores in second-tier and third-tier cities. Increasing customer experience, and targeting young customers with appropriate product lines. Gaining market share from retail stores hit by COVID-19 pandemic and with limited processing technology.
Wholesale	2,648	2,848	+7.5%	
Gold bar	5,021	5,400	+7.5%	
Others	431	0	n/a	
Gross profit	3,573	4,794	+34.1%	Gross profit margin reached 19.4% thanks to increased retail sales with superior gross margin.
Selling expense	-1,694	-1,977		
G&A expense	-472	-581		
NPAT	1,033	1,435	38.9%	

Source: KB Securities Vietnam

## Forecast business performance, valuation & recommendation

### 2022F business results

In FY22, we forecast PNJ's NPAT of VND1,435 billion (+38.9% YoY) on net revenue of VND24,111 billion (+23% YoY). In FY23, those figures should be VND1,898 billion (+32% YoY) and VND27,772 billion (+15.1% YoY), respectively.

### We recommend BUYING PNJ shares with a target price of VND129,100 apiece

According to the P/E method, we give PNJ a target P/E of 21x and EPS of VND5,914/share for FY22. By combining the two valuation methods of DCF and P/E with a ratio of 50-50, We recommend BUYING PNJ shares with a target price of VND129,100/share, 22% higher than the closing price on March 21, 2022.

**Table 2. PNJ – DCF valuation method**

Risk-free rate	5.5%
Risk premium	9.0%
Beta	1.0
Long term growth	2.0%
WACC	11.44%

Source: KB Securities Vietnam

**Table 3. PNJ – Target price according to DCF and P/E valuation methods (VND)**

Valuation method	Forecast price (VND)	Weight
DCF	134,097	50%
P/E	124,184	50%
<b>Target price</b>	<b>129,100</b>	<b>100%</b>

Source: KB Securities Vietnam

## PNJ – 2020A–2023E financials

Income statement					Balance sheet				
(VNDbn)	2019A	2020A	2021E	2022E	(VNDbn)	2019A	2020A	2021E	2022E
Net sales	17,511	19,613	24,111	27,772	Total assets	8,483	10,547	11,980	13,931
Cost of sales	(14,076)	(16,040)	(19,435)	(22,045)	Current assets	7,144	9,220	10,661	12,307
Gross Profit	3,435	3,573	4,677	5,727	Cash & equivalents	422	358	419	640
Financial income	2	16	16	18	ST investments	0	0	0	0
Financial expenses	(162)	(118)	(325)	(298)	Accounts receivable	68	60	97	84
of which: interest expenses	(154)	(104)	(172)	(197)	Inventory	6,546	8,687	9,769	11,166
Gain/(loss) from joint ventures	0	0	0	0	Other current assets	108	116	376	418
Selling expenses	(1,421)	(1,694)	(1,977)	(2,305)	Long-term assets	1,339	1,327	1,318	1,625
General & admin expenses	(506)	(472)	(581)	(749)	LT trade receivables	77	84	0	0
Operating profit/(loss)	1,349	1,305	1,810	2,393	Fixed assets	281	259	507	786
Net other income/(expenses)	(3)	(18)	(8)	(10)	Investment properties	0	0	0	0
Pretax profit/(loss)	1,346	1,287	1,801	2,383	LT incomplete assets	33	31	31	31
Income tax	(277)	(254)	(367)	(485)	LT investments	395	395	530	611
Net profit/(loss)	1,069	1,033	1,435	1,898	Goodwill	0	0	0	0
Minority interests	0	0	0	0	Other LT assets	552	557	251	197
Net profit after MI	1,069	1,033	1,435	1,898	Liabilities	3,241	4,530	5,113	5,806
Operating ratios					Current liabilities	3,232	4,521	5,103	5,795
(%)	2019A	2020A	2021E	2022E	Trade accounts payable	482	689	632	877
Revenue growth	3%	12%	23%	15%	Advances from customers	0	0	0	0
EBIT growth	-8%	-7%	42%	31%	ST borrowings	1,839	2,722	3,336	3,614
EBITDA growth	-7%	-6%	42%	30%	Special reserves	0	0	0	0
NP after MI growth	-10%	-3%	39%	32%	Other current liabilities	911	1,110	1,135	1,304
Gross profit margin	20%	18%	19%	21%	Long-term liabilities	9	9	10	11
EBITDA margin	9%	8%	9%	10%	LT payables	0	0	0	0
EBIT margin	9%	7%	8%	9%	LT borrowings	0	0	0	0
Pre-tax profit margin	9%	7%	8%	9%	Other LT liabilities	9	9	10	11
Net profit margin	6%	5%	6%	7%	Shareholders' equity	5,242	6,017	7,133	8,409
Cash flow					Paid-in capital	2,276	2,276	2,426	2,426
(VNDbn)	2019A	2020A	2021E	2022E	Share premium	991	991	991	991
Net profit	1,346	1,287	1,801	2,383	Treasury stock	(3)	(5)	(5)	(5)
Plus: depreciation & amort	72	75	84	116	Undistributed earnings	1,605	1,954	2,840	4,010
Plus: investing (profit)/loss	1	(29)	(29)	(29)	Reserve & others	373	801	881	987
Change in working capital	360	(1,801)	(1,227)	(1,106)	Minority interests	0	0	0	0
(Inc)/dec - receivables	17	(16)	(37)	13	Total liabilities & equity	8,483	10,547	12,246	14,215
(Inc)/dec - inventory	485	(2,141)	(1,083)	(1,396)	Key ratios				
(Inc)/dec - other curr assets	0	0	0	0	(x, % VND)	2019A	2020A	2021E	2022E
Inc/(dec) - payables	(100)	351	(57)	245	Valuations				
Inc/(dec) - advances	(42)	5	(50)	32	P/E	18.8	23.1	17.9	13.5
Inc/(dec) - other curr liab	0	0	0	0	P/E diluted	18.8	23.1	17.9	13.5
Other adj for operations	0	0	0	0	P/B	3.5	3.6	3.7	3.2
Operating cash flow	1,497	(717)	237	948	P/S	1.1	1.1	1.1	0.9
ST investments	0	0	0	0	EV/EBITDA	17.4	19.7	14.9	11.4
Capital expenditures	(85)	(63)	(426)	(520)	EV/EBIT	18.2	20.8	15.5	11.9
Investment properties	0	0	0	0	EPS	4,308	4,161	5,914	7,823
Investment in subsidiaries	0	0	0	0	DPS (annual, ordinary)	1,560	779	1,500	2,000
Other assets	0	0	0	0	Dividend payout ratio (%)	45%	35%	35%	35%
Other adj for investments	1	14	0	0	Operating performance				
Investing cash flow	(84)	(49)	(426)	(520)	ROE	20%	18%	22%	24%
Issuance/(repayment) of debt	7,433	7,756	9,535	10,553	ROA	13%	11%	13%	15%
ST debt	(8,208)	(6,876)	(8,921)	(10,276)	ROIC	15%	12%	14%	16%
Other liabilities	0	0	0	0	Financial structure				
Issuance/(retirement) of equity	46	0	0	0	Total liab/equity	0.6	0.8	0.7	0.7
Dividends paid	(355)	(177)	(364)	(485)	Current ratio (x)	2.2	2.0	2.1	2.1
Other adj for financing	(1)	(2)	0	0	Interest coverage (x)	9.7	13.3	11.5	13.1
Financing cash flow	(1,085)	702	250	(208)	Activity ratios				
Net increase in cash & equivalents	327	(65)	62	220	Asset turnover	0.8	2.1	2.1	2.1
Cash & equivalents - beginning	95	422	358	419	Receivables turnover	7.4	307.6	307.6	308.0
Cash & equivalents - ending	422	358	419	640	Inventory turnover	2.3	2.1	2.1	2.1
					Payables turnover	23.2	31.1	31.1	31.1

Source: Phu Nhuan Jewelry, KB Securities Vietnam

## KB SECURITIES VIETNAM RESEARCH

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**Nguyen Xuan Binh**  
Head of Research  
binhnx@kbsec.com.vn

### Equity

**Duong Duc Hieu**  
Head of Equity Research  
hieudd@kbsec.com.vn

**Nguyen Anh Tung**  
Senior Analyst – Financials & Information technology  
tungna@kbsec.com.vn

**Pham Hoang Bao Nga**  
Senior Analyst – Property  
ngaphb@kbsec.com.vn

**Le Anh Tung**  
Senior Analyst – Oil & Gas & Banks  
tungla@kbsec.com.vn

**Nguyen Ngoc Hieu**  
Analyst – Power & Construction Materials  
hieunn@kbsec.com.vn

**Tieu Phan Thanh Quang**  
Analyst – Industrial Real Estate & Logistics  
quangtpt@kbsec.com.vn

**Luong Ngoc Tuan Dung**  
Analyst – Consumers & Retailing  
dunglnt@kbsec.com.vn

**Research Division**  
research@kbsec.com.vn

### Macro/Strategy

**Tran Duc Anh**  
Head of Macro & Strategy  
anhtd@kbsec.com.vn

**Le Hanh Quyen**  
Analyst – Macroeconomics & Banks  
quyenlh@kbsec.com.vn

**Thai Huu Cong**  
Analyst – Strategy & Mid cap Stocks  
congth@kbsec.com.vn

**Tran Thi Phuong Anh**  
Analyst – Strategy & Mid cap Stocks  
anhttp@kbsec.com.vn

### Support team

**Nguyen Cam Tho**  
Assistant  
thonc@kbsec.com.vn

**Nguyen Thi Huong**  
Assistant  
huongnt3@kbsec.com.vn



## KB SECURITIES VIETNAM (KBSV)

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### Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

### Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

### Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

### Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

## CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: [ccc@kbsec.com.vn](mailto:ccc@kbsec.com.vn)

Website: [www.kbsec.com.vn](http://www.kbsec.com.vn)

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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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