

Phu Nhuan Jewelry (PNJ)

To hit the finish line amidst challenges

March 18, 2024

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Strong EAT growth in 4Q2023 helped PNJ to hit the finish line amidst a challenging market

Ending 4Q2023, Phu Nhuan Jewelry (PNJ) achieved net revenue of VND9,760 billion (up 17.6% YoY) following increased market share. The gross profit margin (GPM) was up 0.2 percentage points (ppts) YoY to 17.9%. Earnings after tax (EAT) recorded VND632 billion, up 35% YoY and exceeding the target set at the start of 2023, thanks to PNJ's collective efforts to improve revenue and optimize costs.

PNJ's business segments showed contrasting results

PNJ's business segments showed contrasting results. The retail segment saw revenue flat YoY, while gold bar sales enjoyed strong growth on surging gold prices and strong consumer demand during the economic downturn. Meanwhile, wholesale sales continued to decline sharply.

The retail segment remains a growth driver

Although retail revenue remained relatively unchanged compared to the same period in 2022, it still outperformed the overall market thanks to customer expansion and continuous store openings. In 2024, with purchasing power expected to recover and plans to open an additional 40–50 new stores, the retail segment is set to keep driving PNJ's growth.

We recommend BUY for PNJ with a target price of VND112,000/share

We project PNJ's 2024F financial performance with net revenue of VND37,914 billion (+14.4% YoY) and NPAT of VND2.238 trillion (+13.5% YoY). With prospects for sustained positive growth, we reiterate our BUY recommendation for PNJ with a target price of VND112,000 apiece, equaling a total return of 15% against the closing price on March 18, 2024.

Buy maintain

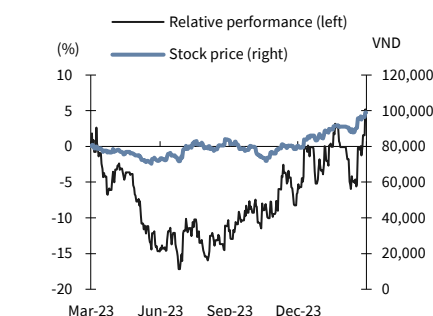
Target price	VND112,000
Upside	15%
Current price (Mar 18, 2024)	VND97,300
Consensus target price	VND99,630
Market cap (VNDtn/USDbn)	31.6/1.3

Trading data	
Free float	85.9%
3M avg trading value (VNDbn/USDmn)	116/4.7
Foreign ownership	49%
Major shareholder	VIETFUND (9.16%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	8.6	23.3	18.4	23.4
Relative	4.5	11.7	18.5	4.4

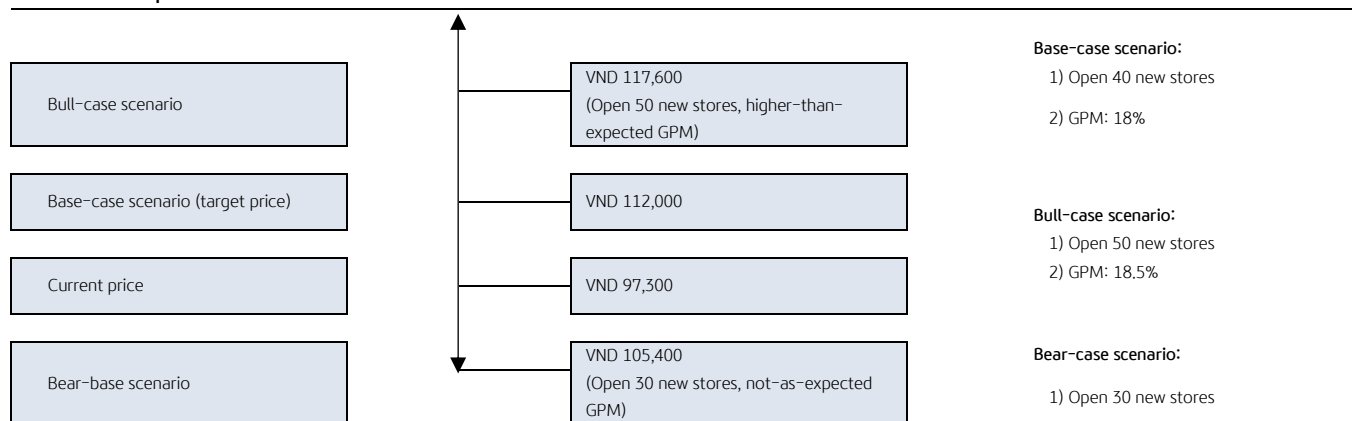
Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	33,876	33,137	37,914	42,448
Operating income/loss (VNDbn)	2,338	2,485	2,835	3,164
NPAT (VNDbn)	1,811	1,971	2,238	2,498
EPS (VND)	7,358	8,008	9,090	10,147
EPS growth (%)	76.8%	8.8%	13.5%	11.6%
P/E (x)	13.4	13.5	10.9	10.9
P/B (x)	2.9	2.6	2.2	2.2
ROE (%)	25%	22%	21%	22%
Dividend yield (%)	2.5%	2.3%	1.9%	1.9%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

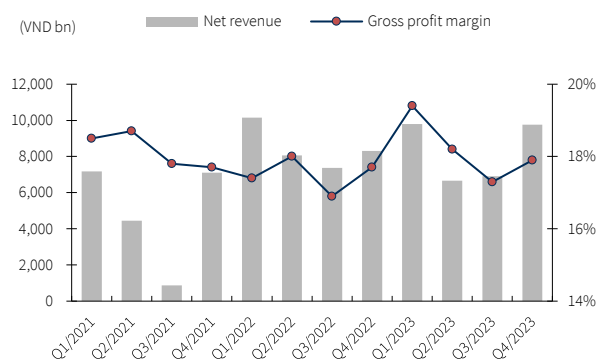
Business performance

Table 1. PNJ – 2022A–2023A business results

(VNDbn)	4Q2022	4Q2023	%YoY	2022A	2023A	%YoY	KBSV's comments
Revenue	8,302	9,760	17.6%	33,877	33,137	-2.2%	
Retail	5,380	5,563	3.4%	20,732	19,286	-7.0%	In 2023, purchasing power decreased compared to 2022, but the retail segment continuously expanded its store network and attracted new customers, thereby helping retail revenue maintain the same level compared to the same period when consumer demand rose sharply after the pandemic.
24K gold bar	1,843	3,348	81.7%	8,571	10,438	21.8%	Gold bar sales increased sharply thanks to rising gold prices and surging demand amid economic slowdown and a frozen real estate market.
Wholesale	922	712	-22.8%	4,065	2,850	-29.9%	Wholesale sales plummeted because PNJ's customers, which are retail stores, encountered difficulties in the context of weak purchasing power.
Gross profit	1,469	1,751	19.2%	5,927	6,059	2.2%	GPM increased thanks to increased sales of high-margin products along with inventory optimization and reduced cost of goods sold.
Gross profit margin	17.7%	17.9%	0.2%	17.5%	18.3%	0.8%	
Financial income	37	20	-45.9%	59	98	66.1%	
Financial expenses	-57	-29	-49.1%	-146	-143	-2.1%	
SG&A	-857	-950	10.9%	-3,503	-3,529	0.7%	Operating expenses increased slightly due to new store openings but remained reasonable thanks to operational cost optimization.
Operating income	591	792	34.0%	2,336	2,485	6.4%	
EBT	591	797	34.9%	2,311	2,489	7.7%	
EAT	466	632	35.6%	1,811	1,972	8.9%	NPAT grew strongly in the fourth quarter thanks to higher revenue and GPM and cost optimization.

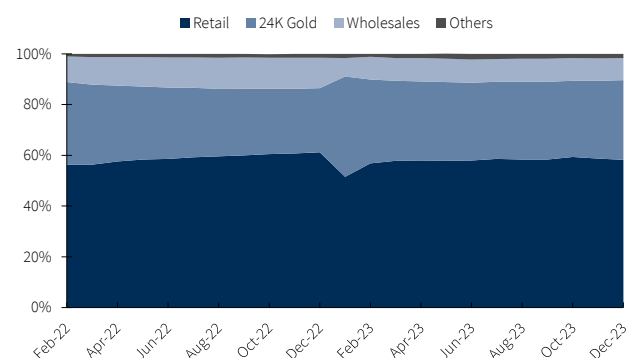
Source: Phu Nhuan Jewelry, KB Securities Vietnam

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



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 3. PNJ – Revenue breakdown (%)



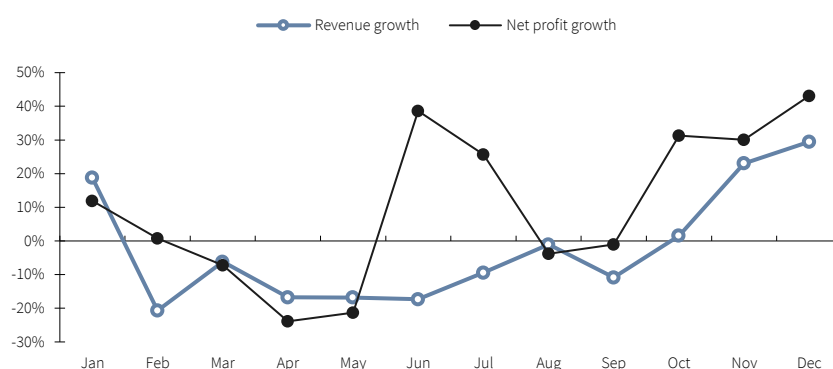
Source: Phu Nhuan Jewelry, KB Securities Vietnam

Strong EAT growth in 4Q2023 helped PNJ to hit the finish line amidst a challenging market

In the backdrop of 2023, which proved to be a very challenging year not only for PNJ but also for many other retailers because: (1) Pent-up demand after the pandemic led to a very high baseline for revenue and profit in 2022, almost equivalent to nearly two years combined and (2) Surging inflation forced central banks to raise interest rates, resulting in a significant slowdown among major economies and thus affecting Vietnam's economy. This caused purchasing power to fall sharply.

Despite challenges, PNJ achieved impressive growth in the fourth quarter of 2023, with a 17.6% YoY increase in net revenue and a robust 35.5% growth in EAT. For the full year, despite a slight 2% YoY decrease in revenue, NPAT grew by 9% YoY, surpassing the profit target set at the beginning of the year.

Fig 4. PNJ – Revenue, NPAT growth in 2023 (%)



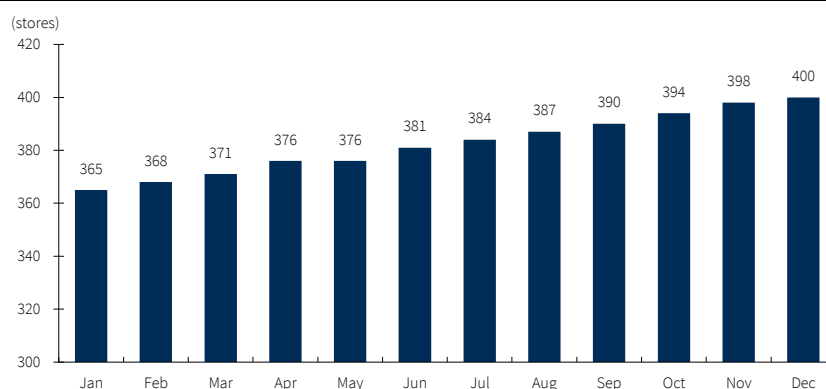
Source: Phu Nhuan Jewelry, KB Securities Vietnam

This result appears very difficult to achieve, especially when looking at other large retail companies such as Mobile World Investment (MWG), Masan Group (MSN), or FPT Digital Retail (FRT), which have shown dismal results in response to the challenges of the economy (except for FRT's Long Chau Pharmacy chain which is rapidly expanding and dominating the market, although its profit margin remains much lower than PNJ's).

To achieve impressive growth in such challenging circumstances is the collective effort of PNJ, with key factors contributing to its growth including: (1) market dominance and customer expansion; (2) continuous store openings; and (3) cost optimization.

In 2023, PNJ opened 48 new stores to increase coverage and closed 7 poor-performing stores. In the context of many businesses closing stores to protect earnings, PNJ continuously opened new ones, showing its confidence in the market's gold demand. With its strong brand, PNJ could gain customers from small retail stores. In addition, constant openings in the context of competitors encountering difficulties helped PNJ to stay ahead of the field and expand its market share to anticipate economic recovery.

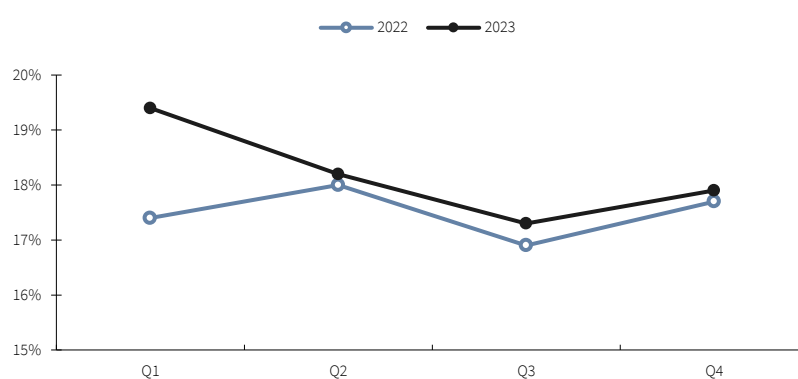
Fig 5. PNJ – Store count in 2023 (store)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

PNJ's gross profit margin improved thanks to effective inventory management and increased sales of high-margin products. Operating expenses rose slightly due to new store openings but remained reasonable, helping to increase profit margins for PNJ.

Fig 6. PNJ – GPM in 2022–2023 (%)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

The retail segment remains a growth driver

The retail jewelry segment remains the key driver for PNJ's earnings growth, so the outlook for this segment has implications for the overall company's prospects. Although the gold bar segment generates significant revenue, its profit margin is thin, so we will not focus on analyzing this segment. In 2024, we expect PNJ's revenue and earnings to grow further for the following reasons:

- Economic recovery signs are expected to boost purchasing power. Export growth is returning, as evidenced by the purchasing managers' index (PMI) exceeding 50 points and wage growth. Furthermore, continued reduction of VAT in the first half of 2024 and an increase in the base salary from July 1, 2024 are also expected to boost purchasing power. In the base-case scenario, PNJ's management forecasts that purchasing power will fully recover from 3Q2024, which aligns with the forecasts of many retail companies and will help restore order values, thereby pushing average revenue across stores.
- PNJ will continue its plan to open new stores, given ample room for growth. PNJ's management has noted positive signals in the Northern market in recent years, with significant recovery and growth rates. Moreover, many provinces in the North either have few or no PNJ stores, making it a highly potential market for PNJ to explore in the future. The company may keep opening 40–50 new stores in 2024.

- Gross profit margin should remain stable in 2024F. Gold price fluctuations do not significantly affect PNJ's profit margin as the company can adjust selling prices accordingly and has forecasting tools to adjust inventory levels reasonably. In 2024F, we anticipate that PNJ's gross profit margin will remain stable at 18%. Adjustments will be made where necessary to balance market share and profitability.

Forecast & Valuation

2024F business results

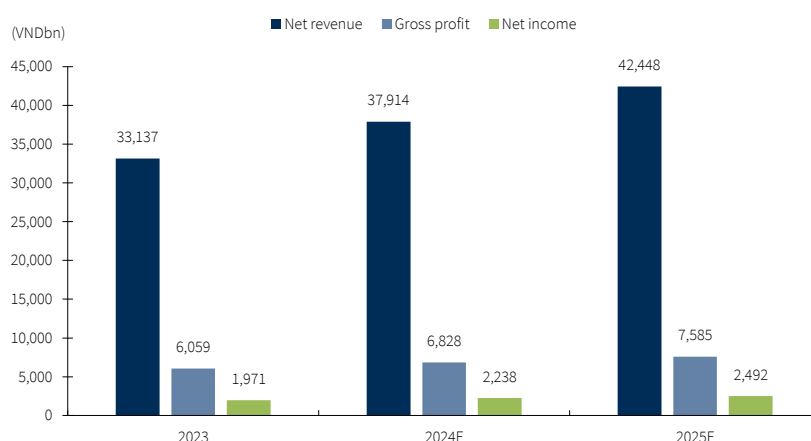
We believe that the retail segment is benefiting from a recovery in purchasing power, and PNJ can capitalize on the overall market trends and its inner strengths, boosting positive growth in 2024F. We project PNJ's net revenue to reach VND37,914 billion (+14.4% YoY) due to its continued market expansion, with a full-year gross profit margin of 18.0%, a slight decrease of 0.3 pts YoY. EAT is expected at VND2,238 billion (+13.5% YoY).

Table 8. PNJ – 2023A–2025F business results

(VNDbn)	2023A	2024F	+/-% YoY	2025F	+/- YoY	KBSV's comments
Net revenue	33,137	37,914	14.4%	42,448	12.0%	
Retail	19,286	21,672	12.4%	24,143	11.4%	Recovering purchasing power would help to improve average revenue per store. PNJ will continue to open 40-50 new stores/year.
24K gold bar	10,438	12,004	15.0%	13,444	12.0%	The demand for 24K gold bars should remain high as Vietnamese people like to buy gold bars as a means to save assets.
Wholesale	2,850	3,591	26.0%	4,129	15.0%	PNJ's wholesale customers will order more from PNJ when consumer demand returns.
Gross profit	6,059	6,828	12.7%	7,585	11.1%	Gross profit will grow further, and gross profit margin will continue to be maintained.
Gross profit margin	18.3%	18.0%	-1.5%	17.9%	-0.8%	
SG&A	-3,529	-3,943	11.7%	-4,372	10.9%	
EBIT	2,529	2,885	14.1%	3,213	11.4%	
EBT	2,489	2,822	13.4%	3,142	11.4%	
EAT	1,971	2,238	13.5%	2,492	11.4%	Our upward revision compared to the previous assumption is based on the outstanding results PNJ achieved in 2023 amidst a challenging market. We expect PNJ's profit growth momentum to continue in 2024F.

Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 9. PNJ – 2023A–2025F business results



Source: Phu Nhuan Jewelry, KB Securities Vietnam

We recommend BUY for PNJ with a target price of VND112,000/share

We utilized two valuation methods, discounted cash flow (DCF) and (2) P/E comparables, to determine a fair price for PNJ.

(1) For the DCF method, we used the free cash flow to the firm (FCFF) approach with the assumptions outlined below. The FCFF-derived price for PNJ is VND110,200 per share.

(2) For the P/E comparables method, we gave PNJ a target P/E of 17x, close to its 5-year average P/E. The target EPS is VND6,689. The P/E-derived price for PNJ is VND113,700 per share.

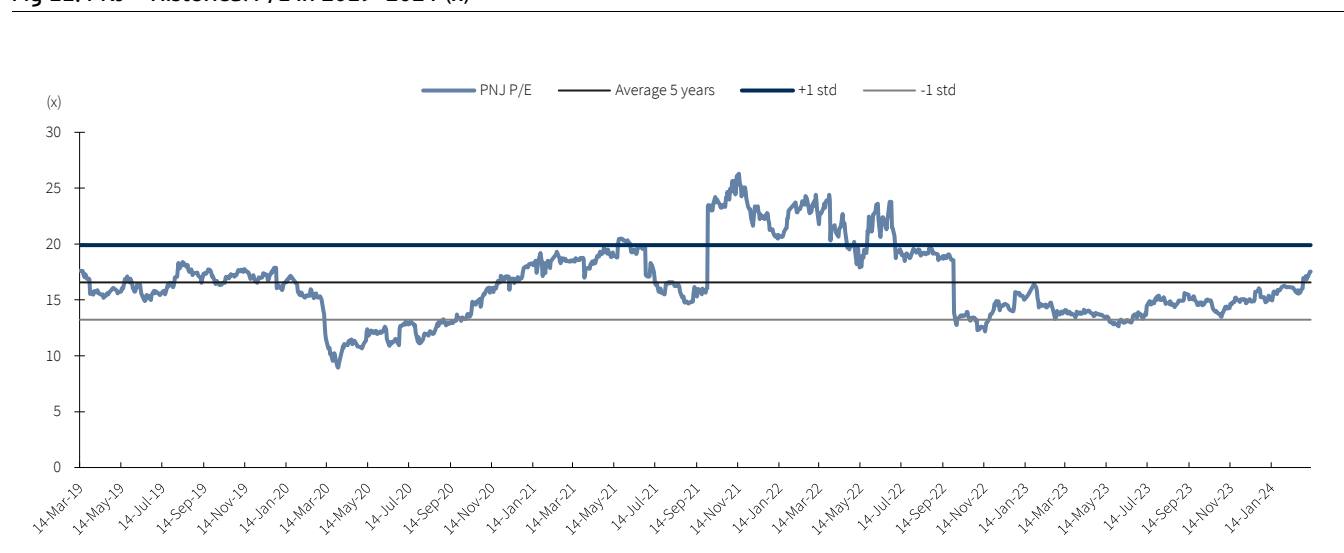
By equally combining two abovementioned methods, we recommend BUY for PNJ with a target price of VND112,000/share, representing a 15% upside compared to the closing price on March 18, 2023.

Table 10. PNJ – FCFF model assumptions

Cost of equity	9.26%	PV of terminal value	31,993
Cost of debt	6.00%	PV value of FCFF	5,353
Risk-free rate	4.70%	Cash & equivalents	1,024
Beta	0.6	Short-term investments	700
Terminal growth	4.0%	Enterprise value	39,070
Duration	5	Total debt	2,194
WACC	8.37%	Equity value	36,875
		Outstanding shares	334,559,621
Target price			110,200

Source: KB Securities Vietnam

Fig 11. PNJ – Historical P/E in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

PNJ – 2022A–2025F financials

Income Statement					Balance Sheet				
(VNDbn)	2022	2023	2024F	2025F	(VNDbn)	2022A	2023E	2024E	2025E
Net sales	33,876	33,137	37,914	42,448	Total assets	13,337	14,430	15,430	17,661
Cost of sales	-27,949	-27,078	-31,086	-34,863	Current assets	11,966	12,960	13,927	16,052
Gross Profit	5,928	6,059	6,828	7,585	Cash & equivalents	880	896	1,024	1,392
Financial income	54	98	77	87	ST investments	200	810	700	1,000
Financial expenses	-141	-143	-127	-142	Accounts receivable	57	69	82	87
of which: interest expenses	-94	-119	-103	-115	Inventory	10,508	10,945	11,813	13,248
Gain/(loss) from joint ventures	0	0	0	0	Long-term assets	1,371	1,470	1,504	1,609
Selling expenses	-2,828	-2,836	-3,185	-3,523	LT trade receivables	94	105	115	127
General & admin expenses	-674	-694	-758	-849	Fixed assets	240	256	301	348
Operating profit/(loss)	2,338	2,485	2,835	3,157	Investment properties	31	29	29	29
Net other income/(expenses)	-25	5	-13	-15	Liabilities	4,893	4,623	3,916	4,348
Pretax profit/(loss)	2,313	2,489	2,822	3,142	Current liabilities	4,883	4,614	3,900	4,330
Income tax	-502	-518	-584	-650	Trade accounts payable	277	255	379	424
Net profit/(loss)	1,811	1,971	2,238	2,492	Advances from customers	0	0	0	0
Minority interests	0	0	0	0	ST borrowings	2,683	2,384	2,194	2,407
Net profit after MI	1,811	1,971	2,238	2,492	Long-term liabilities	10	9	16	17
					LT payables	0	0	0	0
					LT borrowings	10	9	16	17
					Other LT liabilities	0	0	0	0
					Shareholders' equity	8,444	9,807	11,517	13,316
					Paid-in capital	2,462	3,282	3,282	3,282
					Share premium	2,251	1,851	1,851	1,851
					Undistributed earnings	2,522	2,740	3,780	4,831
					Reserve & others	1,212	1,936	2,607	3,355
					Minority interest	0	0	0	0
Operating ratios					Key ratio				
	2022A	2023E	2024E	2025E	(x, %, VND)	2022A	2023E	2024E	2025E
Gross profit margin	17.5%	18.3%	18.0%	17.9%	Multiple				
EBITDA margin	7.4%	7.9%	7.8%	7.8%	P/E	18.8	17.2	15.2	13.6
EBIT margin	7.2%	7.9%	7.8%	7.7%	P/E diluted	18.8	17.2	15.2	13.6
Net Operating margin	6.9%	7.5%	7.5%	7.4%	P/B	4.0	3.5	3.0	2.6
Pre-tax profit margin	6.8%	7.5%	7.4%	7.4%	P/S	1.0	1.0	0.9	0.8
Net profit margin	5.3%	5.9%	5.9%	5.9%	P/Tangible Book	4.0	3.5	3.0	2.6
					P/Cash Flow	65.1	2050.9	265.6	92.4
					EV/EBITDA	14.2	13.6	12.0	10.7
					EV/EBIT	15.2	14.3	12.5	11.2
Cash flow statement					Operating Performance				
(VNDbn)	2022A	2023E	2024E	2025E	ROE%	25%	22%	21%	20%
Net profit	2,313	2,489	2,822	3,142	ROA%	15%	14%	15%	15%
Plus: depreciation & amort	80	81	80	91	ROIC%	18%	17%	18%	17%
Plus: investing (profit)/loss	-21	-81	0	0	Financial Structure				
Interest Expense	94	119	103	115	Cash ratio	0.2	0.2	0.3	0.3
Change in working capital	2,466	2,608	3,004	3,348	Quick Ratio	0.3	0.4	0.5	0.6
(Inc)/dec - receivables	-52	27	-17	-8	Current Ratio	2.5	2.8	3.6	3.7
(Inc)/dec - inventory	-1,753	-435	-868	-1,435	LT Debt/Equity	0.0	0.0	0.0	0.0
Inc/(dec) - payables	77	-13	-551	182	LT Debt/Total assets	0.0	0.0	0.0	0.0
Inc/(dec) - advances	-60	-106	-66	-26	ST Debt/Equity	0.0	0.0	0.0	0.0
Other adj for operations	-597	-660	-694	-765	ST Debt/Total assets	0.2	0.2	0.1	0.1
Operating cash flow	101	1,503	807	1,296	ST liabilities/Equity	0.3	0.2	0.1	0.1
Purchase of Fixed Assets and long-term assets	-52	-82	-107	-184	ST liabilities/Total assets	0.2	0.2	0.1	0.1
Proceeds from disposal of fixed assets	1	1	0	0	Total liabilities/Equity	0.3	0.2	0.1	0.1
Loans granted, purchases of debt instruments	-540	-2,240	0	-300	Total liabilities/Total assets	0.2	0.2	0.1	0.1
Collection of loans, proceeds from sales of debts instruments	200	1,680	110	0	Activity Ratio				
Investments in other entities	0	-4	0	0	Account receivable turnover	582	527	500	500
Proceed from divestment in other entities	0	0	0	0	Inventory turnover	1.8	2.9	2.5	2.7
Dividends and interest received	20	68	0	0	Account payable turnover	23.6	62.0	103.5	100.9
Investing cash flow	-371	-577	3	-484					
Proceeds from issue of shares	1,447	0	0	0					
Payment for share returns and repurchase	0	0	0	0					
Proceeds from borrowings	6,261	8,248	8,341	9,975					
Repayment of borrowings	-6,300	-8,546	-8,531	-9,763					
Finance lease principal payments	0	0	0	0					
Dividends paid	-617	-611	-492	-656					
Interests, dividends, profits received	0	0	0	0					
Financing cash flow	792	-909	-682	-444					
Net increase in cash & equivalents	522	17	128	368					
Cash & equivalents - beginning	355	880	896	1,024					
Cash & equivalents - ending	880	896	1,024	1,392					

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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