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# Phu Nhuan Jewelry (PNJ)

## Store closures pressure 1Q earnings

### 1Q earnings down by 4% on store closures but still positive 5% sales growth

— 1Q earnings fell by 4% to VND408 billion but still managed to reach 30% of the company's full-year target. Despite the store closures, revenue rose by 5% to VND5,001 billion or 26% of the full-year plan for 2020E. Store closures hit harder in March, with monthly retail sales down 10% YoY and wholesale down 6% YoY but the sharp 75% YoY (+15% YoY for 1Q) rise in sales for gold bars helped offset the drop. Most of the severe impact was seen in the final week when 85% of all locations were closed – including all stores in Hanoi and Ho Chi Minh representing about 55% of total revenue – and 90% of gross profit coming from the retail jewelry segment. Taken together, closures in the key retail profit center caused the overall 1Q gross profit margin to fall to 20.9% from 21.9% from a year ago and the net profit margin to drop by 80bps to 8.2%.

### PNJ has readied action plans in response to the COVID-19 pandemic

— PNJ has prepared and executed several counter-measures to the pandemic, including: 1) mitigating staff costs with 50% reduction in salaries for senior management and two unpaid days per week for managers and employees; 2) negotiating lower rents during the shutdown period; 3) inventory adjustments to focus more on gold bars and high-carat jewelry to optimize cash flows; 4) restructuring loan terms and interest rates; 5) boosting livestreaming and home delivery activities; and 6) focusing R&D and technology on new products to reduce the proportion of imported items.

### Management plans to release new guidance for 2020E at the AGM

— Management will now release its new business plan and ESOP program at the annual general shareholders' meeting but will try to maintain the company's cash dividend at VND1,800 per share. PNJ's initial plan for 2020E was 12% growth in revenue and 13% growth in after-tax earnings, including 31 new store openings.

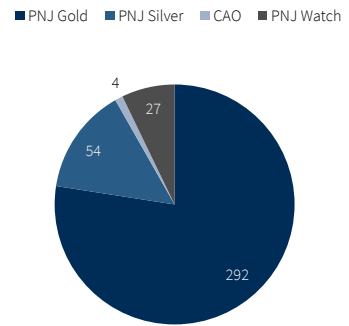


Fig 1. PNJ – Store closures, 1 April 2020



Source: PNJ

Fig 2. PNJ – Number of stores by brand, March 2020



Source: PNJ

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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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