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Phu Nhuan Jewelry (PNJ)

Flat 3Q earnings despite second wave of Covid-19

3Q earnings largely flat and only down 3% on stable sales despite store closures

— PNJ's 3Q earnings fell by a modest 3% to VND202 billion on stable revenue of VND3,922 billion despite Vietnam's second wave that closed stores in Da Nang during the final week of July and the first two weeks of August. Store closures hit hard in August, with monthly retail sales down 7% YoY and wholesale down 40% YoY but offset by the 10% YoY boost to monthly sales for gold bars (gold bars sales were up 19% YoY for 3Q). Aside from August's covid-19 disruption, management indicated positive same-store-sales-growth (SSSG) in July and September despite the negative impact on consumer income and demand for luxury goods. Monthly sales for the retail segment rose by 16% YoY and 18% YoY in July and September, respectively. Taken together, PNJ's overall 3Q quarterly retail sales increased by 10% YoY compared to the 40% YoY plunge in quarterly wholesale revenue, implying PNJ outperformed industry competitors. The company's 3Q gross profit margin fell slightly to 18.7% from 19.1% from a year ago. Year-to-date performance reached 77% of management's full-year earnings target and 81% of its annual sales goal versus 69% for earnings and 71% for sales against the 2020E consensus. Meeting 2020E consensus should still be on track into fourth quarter's peak holiday season, with Christmas and delayed weddings due to the pandemic keeping business activities high until the Tet holiday.

PNJ launches new *Style by PNJ* brand to target young customers

— PNJ soft launched *Style by PNJ* in October to target a younger group of customers. *Style by PNJ* is a jewelry and accessories brand endorsed by PNJ with four distinct personalities: Feminine, Edgy, Sexy and Active. Management indicated that initial October sales were promising as retail sales for Vietnamese Women's Day surged by 50% YoY on October 20.

New openings progressing well

— In 3Q, PNJ opened and upgraded nine *PNJ Gold* stores and eight *PNJ Watch* shop-in-shop locations. It also closed eight underperforming stores during this time (four *PNJ Gold* stores and four *PNJ Silver* stores). Total stores at the end of September numbered 340 locations, including 296 *PNJ Gold*, 38 *PNJ Silver*, 3 *CAO Fine Jewelry*, 3 *PNJ Art* and 53 shop-in-shop *PNJ Watch* locations. PNJ will accelerate new store openings, targeting 31 stores in central business districts in Hanoi and Ho Chi Minh City and optimizing revenue per store by the end of 2020E.

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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	Underperform the market

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