

January 26, 2020

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Phu Nhuan Jewelry (PNJ)

December earnings up single digit

December earnings up 6.8% YoY on sharp rise in operating expenses

— December monthly earnings rose by 6.8% YoY to VND130 billion as the sharp 34.0% YoY rise in operating expenses offset the 14.4% YoY increase in monthly sales to VND2,206. Year-to-date profits remain down 10.4% YoY to VND1,069 billion on essentially flat sales that are up a mere 1.7% YoY to VND17,511 billion. By division, December monthly retail sales rose by 28.6% YoY while gold bar sales were down by 9.8% YoY and wholesale sales fell by 10.6% YoY (implying that PNJ's storefronts outperformed industry competitors). The December gross profit margin remained steady at 17.7% compared to a year ago. Year-to-date performance has already reached 128% of management's full-year earnings target and 121% of its annual sales goal and largely met the 2020E consensus for sales and earnings. We expect PNJ's performance in 2021E to be supported by: 1) continued recovery in consumer demand post pandemic; and 2) a bigger marketing push especially in light of PNJ's improved digital capabilities.

Management slowing new store openings to optimize sales per store

— While overall demand in the jewelry market has not fully recovered yet – as seen in weak wholesale sales and slower pace of new store openings – PNJ is outpacing peers and using its leading position to prepare for 2021E recovery. New store openings slowed further to optimize revenue per store with only two new *PNJ Gold* store locations in December with twenty-nine new stores opened this year or 94% of plan. Total stores at the end of December numbered 339 locations, including 299 *PNJ Gold*; 33 *PNJ Silver*; 4 *CAO Fine Jewelry*; 3 *PNJ Art* and 66 shop-in-shop *PNJ Watch* locations.

Management will assess market conditions before setting its business plan for 2021E

— As Q1 and Q4 are normally the high seasons for jewelry, management will monitor market conditions and consumer demand in the current quarter, especially during Tet, to set PNJ's 2021E performance targets. New business initiatives may include: 1) upgrading well-performing *PNJ Gold* stores; 2) scaling up *Style by PNJ*; and 3) launching installment programs via credit card and consumer finance companies.

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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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