

Phu Nhuan Jewelry (PNJ)

Expecting recovery at the end of the year

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1Q23 business results set a profit peak despite the difficulties of the economy

At the end of 1Q23, PNJ achieved net revenue of VND9,795 billion, down slightly by 3% YoY. Although the overall purchasing power was still quite weak, 1Q was the period with the day of the God of Fortune and many holidays, so PNJ can maintain its sales level. Gross profit margin increased from 17.2% to 19.2% thanks to the goods restructuring and inventory optimizing strategy. NPAT reached a record of VND749 billion, +4% YoY, completing 38.8% of the plan.

Jewelry retail continued to maintain positive results while other segments declined in general

Jewelry retail sales in 1Q23 maintained the same level as the record in 2022 despite the decline in the overall purchasing power of the economy, and 1Q22 was also a quarter of pent-up demand after the pandemic. While wholesale sales decreased by 19.2% YoY, showing the difficulties of other gold and silver businesses, gold bar revenue decreased only by 3% YoY as it is still the people's favorite defensive asset. Thanks to the goods restructuring and effective inventory management strategy, the company's gross profit margin improved significantly.

Entering the low season, business results dropped sharply, recovery is expected at the end of the year

Business results in recent months showed a decline due to low season effect and diminished purchasing power. However, we believe that purchasing power will recover at the end of the year thanks to (1) the peak season for weddings and holidays and (2) the retail industry benefits from the general economic recovery.

BUY recommendation – Target price VND86,600

We forecast PNJ's business results in 2023 with net sales of VND33,720 billion (-0.5% YoY) and NPAT of VND1,789 billion (-1% YoY). We recommend a BUY for PNJ with a target price of VND86,600/share.

Buy maintain

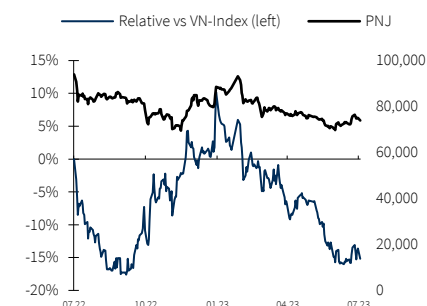
Target price	VND86,600
Upside	16%
Current price (Jun 22, 2023)	VND74,500
Consensus target price	VND90,300
Market cap (VNDtn/USDbn)	24.2/1.02

Trading data	
Free float	48.4%
3M avg trading value (VNDbn/USDmn)	60.81/2.6
Foreign ownership	49%
Major shareholder	VIETFUND (9.2%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	1	-3	-16	-21
Relative	-2	-7	-24	-15

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	19,613	33,876	33,720	38,130
Operating income (VNDbn)	1,305	2,338	2,268	2,822
NPAT (VNDbn)	1,033	1,811	1,789	2,228
EPS (VND)	4,161	7,358	5,452	9,049
EPS growth (%)	-3.4%	75.3%	-1.2%	24.5%
P/E (x)	23.5	13.4	13.5	10.9
P/B (x)	4.0	2.9	2.6	2.2
ROE (%)	17%	25%	20%	22%
Dividend yield (%)	-8%	15%	20%	20%



Source: Bloomberg, KB Securities Vietnam

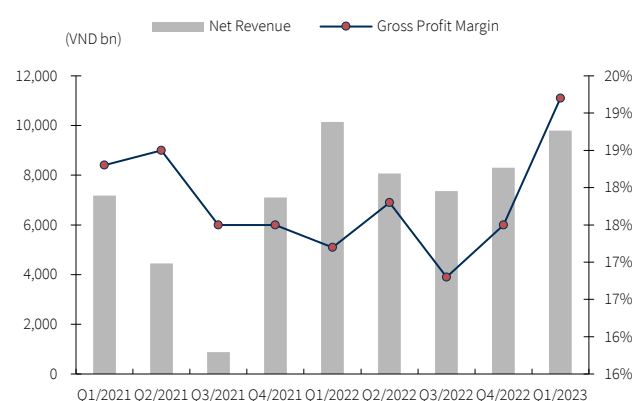
1Q23 performance updates

Table 1. PNJ – 1Q23 results

(VNDbn)	1Q22	1Q23	+/-%YoY	KBSV's notes
Revenue	10,143	9,753	-3.8%	Sustained revenue over the same period is a positive result although purchasing power is still weak. PNJ maintained its business results thanks to major holidays combined with efforts in marketing programs to attract customers, inventory management technology, and operations optimization.
Jewelry retail	5,711	5,627	-1.5%	Marketing programs help attract customers. In addition, there are many big holidays and weddings, so the demand for gold jewelry only saw an insignificant decrease.
24K gold	3,205	3,082	-3.8%	24K gold has always been a favorite asset class of many Vietnamese people, so demand did not decline steeply. Moreover, as there was also a Day of God of Fortune at the beginning of the year, the demand for gold bars remained elevated.
Jewelry wholesale	1,095	878	-19.9%	Purchasing power dropped sharply, PNJ's wholesale partners also reduced the need to import products, so wholesale revenue dropped sharply.
Others	132	156	18.3%	
Gross profit	1,761	1,891	7.4%	
Gross profit margin	17.4%	19.4%	11.7%	Gross profit margin increased thanks to inventory optimization activities, application of technology to reduce logistics costs and change the structure of goods, increasing the proportion of high-value items.
Financial income	5	14	176.5%	
Financial expenses	-34	-38	11.0%	
SG&A	-818	-934	14.2%	Selling expenses increased due to the implementation of the marketing campaigns to attract new customers and gain more market share as competitors facing difficulties.
SG&A/Revenue	-8.1%	-9.6%	18.8%	
Operating income	913	941	3.1%	
Other incomes	0	2	1800%	
Profit before taxes	913	943	3.3%	
Profit after taxes	721	748	3.8%	NPAT remained very high compared to the same period, thanks to efforts to maintain revenue and optimal activities to increase profit margin.

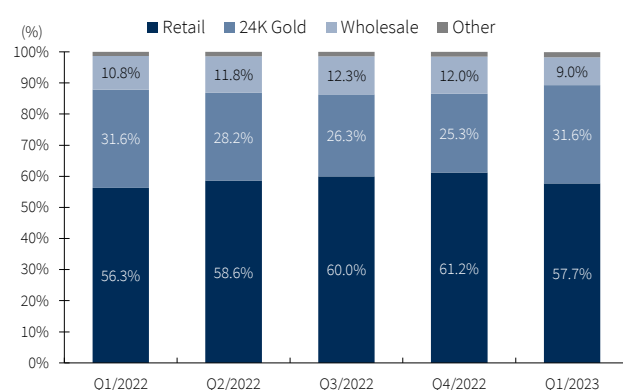
Source: Phu Nhuan Jewelry, KB Securities Vietnam

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



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 2. PNJ – Revenue structure by product

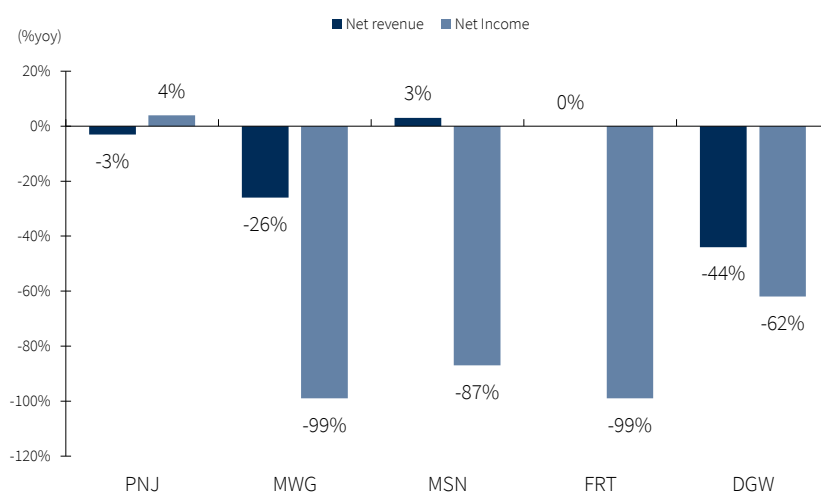


Source: Phu Nhuan Jewelry, KB Securities Vietnam

Business results went against the general trend of the retail industry in the context of declining purchasing power

1Q23 can be considered a difficult time for most retail businesses. Inflation and interest rates rose, asset classes declined in value, the global economic downturn led businesses to downsize, the general income of the people decreased, leading to a sharp decline in purchasing power. Large retail businesses experienced a decrease in both revenue and profit margin. In that context, PNJ still maintained both revenue and profit over the same period, even though 1Q22 was the time after the pandemic with extreme pent-up purchasing power. The reasons for PNJ to maintain impressive business results include (1) The team's efforts in effective sales and marketing campaigns to attract new customers and retain old ones; (2) High-income customers are less affected by the decline in purchasing power; (3) The first quarter is the peak with many holidays, New Year Eve and weddings.

Fig 3. Vietnamese retailers – 1Q23 business results over the same period

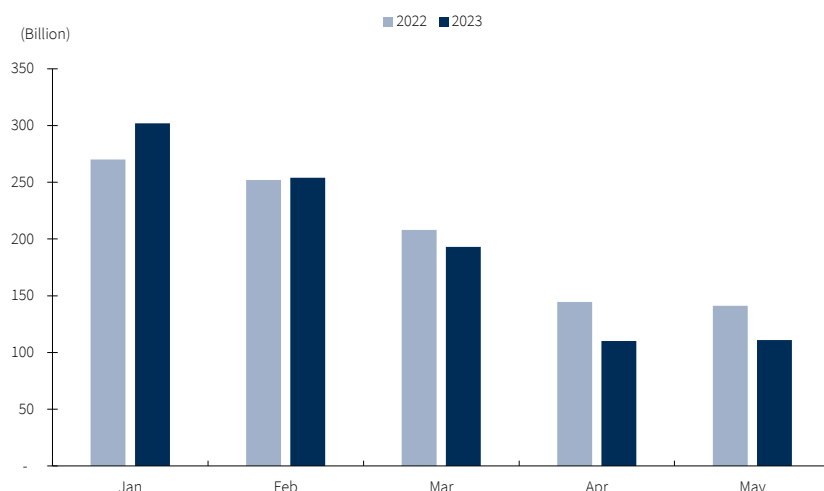


Source: KB Securities Vietnam

Entering the low season, business results dropped. 2H2023 results will depend on the recovery of the economy

Although 1Q23 business results were still impressive in the context of declining purchasing power, 2Q and 3Q are the low seasons as well as the purchasing power of the whole economy remains sluggish. The recent business results during the low season are falling steeply compared to the same period, reflecting the general situation. We forecast that PNJ will experience negative growth in 2Q and 3Q before recovering and breaking out in 4Q. Factors to support PNJ's business results at the end of the year include (1) The year-end is the shopping season with many holidays (2) Inflation and interest rates are expected to cool down, positively affecting the economy (3) Increase in basic salary and VAT reduction will support purchasing power.

Fig 4. PNJ – 5M23 business results over the same period



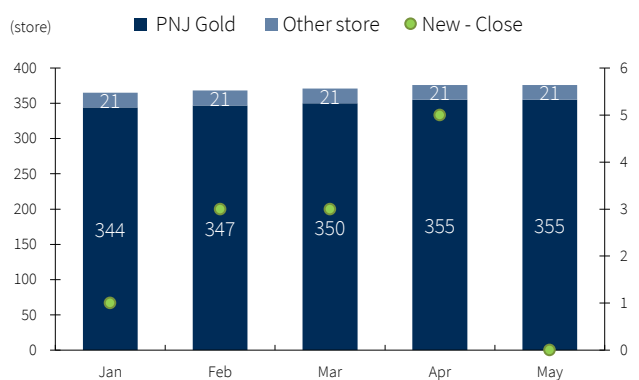
Source: Phu Nhuan Jewelry, KB Securities Vietnam

New store openings are stable but average sales per store are difficult to maintain during low season

In the first five months of the year, PNJ opened 16 new stores and closed four stores on the plan of opening 20–25 stores in the year. At this rate we expect PNJ to achieve the opening plan. In the context of an unfavorable economy, PNJ's store expansion will be cautious, they will prioritize maintaining revenue on existing stores. When the economy recovers and the shopping season peaks in 4Q and 1Q this year, opening more stores in new markets will be back in focus.

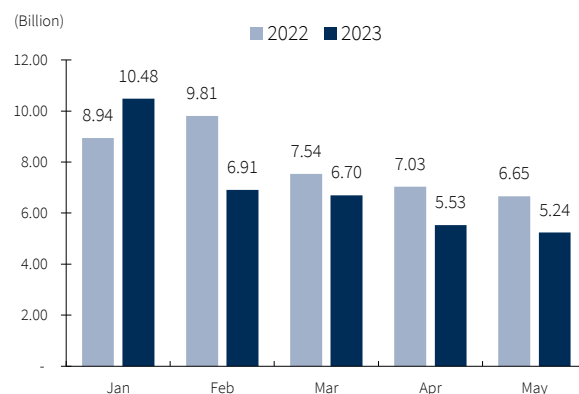
Sales per stores in recent months were lower than the same period last year, only VND5.53 billion/store in April (-21% YoY) and VND5.24 billion/store in May (-21% YoY). It can be explained that in the low season, the purchasing power is poor; Recently opened stores in grade 2, class 3 urban areas, located in commercial centers had low turnover compared to stores in big cities, thereby reducing average revenue. We forecast that average sales per store will not increase in the near future as the future strategy will target new markets in more emerging cities and urban areas with smaller stores bringing smaller revenue.

Fig 5. PNJ – Number of stores in 2023 (unit)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 6. PNJ – Average sales per store (VNDbn)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Other information

Regarding the ESOP plan, in the 2023 AGM, PNJ proposed to shareholders the issuance of ESOP. Specifically, if the NPAT is lower than VND1,811 billion, the company will not issue ESOP. If NPAT is higher than or equal to VND1,811 billion and lower than VND1,937 billion, PNJ will issue ESOP at the rate of 1% of the total outstanding shares at the time of issuance. If NPAT is higher than or equal to VND1,937 billion, the company plans to issue ESOP at the rate of 1.5% of the total outstanding shares at the time of issuance.

In addition, at the AGM, PNJ's management stated that they will launch a new business segment related to the beauty industry, but they do not intend to go too far. In our opinion, this segment will only add a small portion to business results. While the jewelry and beauty-products customer groups are quite similar, consisted of Gen Y and Gen Z women, they will not contribute much to the business results as the market size is small and relatively fragmented as well as there are already many other competitors in the market.

Forecast & valuation

#2023 business results forecast

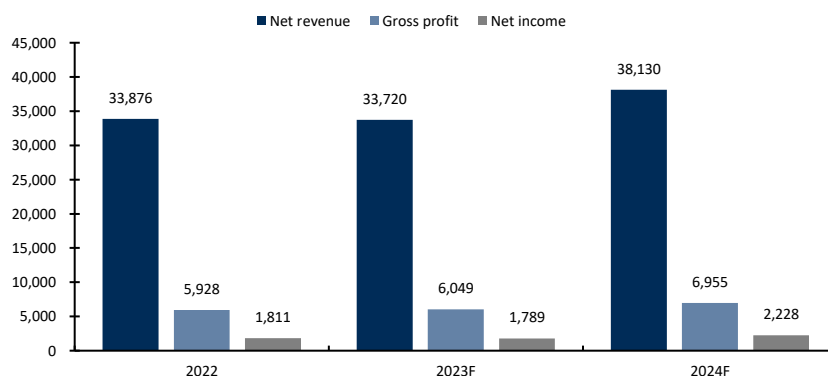
We believe that with limited purchasing power in the low season compared to the same period with revenge shopping effect, PNJ will experience negative growth in 2Q and Q3. The recovery will come at the end of the year with many holidays and the purchasing power expected to recover when the government policies gradually took effect on the economy. We forecast PNJ's net revenue to reach VND33,720 billion (-0.5% YoY), GPM to increase from 17.5% to 17.9% due to product restructuring and NPAT to reach VND1,789 billion (-1% YoY). In 2024, when the economy and purchasing power recover, PNJ will deploy new market expansion strategies to strengthen its growth.

Table 2. PNJ – 2023–2024F results

(VNDbn)	2022	2023F	+/- % YoY	2024F	+/- YoY	KBSV's notes
Revenue	33,876	33,720	-0.5%	38,130	13.1%	
Jewelry retail	20,732	20,732	0.0%	23,427	13.0%	As purchasing power decreased, PNJ implement many marketing and promotion programs to maintain the results of jewelry retailing which is the main segment.
Gold bar retail	8,571	8,999	5.0%	10,169	13.0%	The gold bar segment does not fluctuate much due to the preference to hoard gold bar of Vietnamese people
Jewelry wholesale	4,065	3,455	-15.0%	3,974	15.0%	PNJ's wholesale partners also face difficulties when purchasing power decreases. They face even more difficulties than PNJ due to insufficient resources to carry out large scales marketing programs to attract customers.
Others	508	534	5.0%	560	5.0%	
Gross profit	5,928	6,049	2.0%	6,955	15.0%	
Gross profit margin	17.5%	17.9%	2.5%	18.2%	1.7%	Gross profit margin improve due to changes in goods structure and increased efficiency in inventory management
SG&A	-3,502	-3,642	4.0%	-4,004	9.9%	SG&A expenses increased due to the implementation of many sales and marketing policies to attract new customers
EBIT	2,426	2,407	-0.8%	2,952	22.6%	
EBT	2,313	2,256	-2.5%	2,809	24.5%	
Profit after taxes	1,811	1,789	-1.2%	2,228	24.5%	NPAT in 2023 will stay flat. When the economy and purchasing power recover in 2024, it is expected to grow exponentially

Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 7. PNJ – 2022A–2024F results



Source: Phu Nhuan Jewelry, KB Securities Vietnam

BUY recommendation – Target price VND86,600/share

We conduct valuation of PNJ stock with two methods: (1) discounted cash flow and (2) comparative method to compute a reasonable price for PNJ.

(1) With the discounted cash flow method, we use the discounted free cash flow to firm FCFE with the following assumptions. We set a target price of PNJ for this method at VND91,400/share.

(2) With the comparative method, we use a target P/E of 15 times which is equivalent to the 5-year average P/E. Target EPS is 5,452 VND/share. We set a target price for this method at 81,800 VND/share

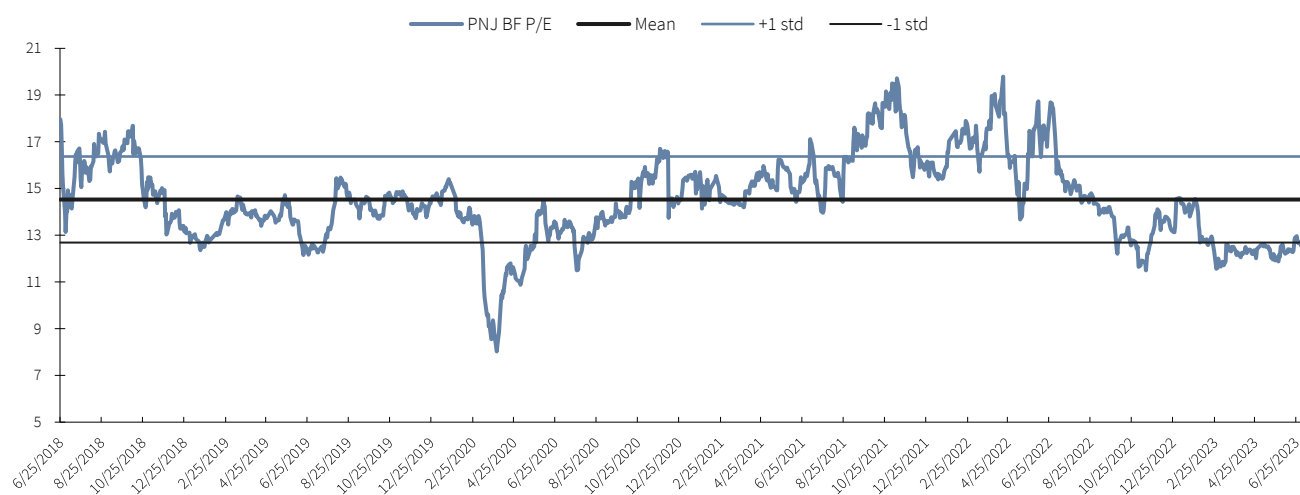
With the weight for each method of 50–50, we recommend a BUY for PNJ, with a target price of VND86,600/share, 16% higher than the closing price on the 22/06/2023.

Table 3. PNJ – FCFE forecast and assumptions

Equity cost	14.36%	Present value of terminal value	24.497
Debt cost	8.00%	Present value of FCFE	6.771
Risk-free rate	5%	Cash and cash equivalents	376
Beta	1.2	Short term investment	337
Long term growth	3.5%	Enterprise value	31,981
Projection time	5 years	Debts	2,009
WACC	12.37%	Company value	29,972
		Outstanding shares	327,999,629
The target price			VND91,400

Source: KB Securities Vietnam

Fig 8. PNJ – P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

PNJ – 2021A–2024F financials

Income statement					Balance Sheet				
(VNDbn)	2021	2022	2023F	2024F	(VNDbn)	2021	2022	2023F	2024
Net sales	19,613	33,876	33,720	38,130	Total assets	10,619	13,337	14,050	16,36
Cost of sales	-16,040	-27,949	-27,671	-31,175	Current assets	9,292	11,966	12,643	14,84
Gross Profit	3,573	5,928	6,049	6,955	Cash & equivalents	355	880	376	82
Financial income	16	54	23	25	ST investments	0	200	337	38
Financial expenses	-118	-141	-162	-155	Accounts receivable	60	57	78	7
of which: interest expenses	-104	-94	-141	-130	Inventory	8,755	10,508	11,629	13,31
Gain/(loss) from joint ventures	0	0	0	0	Long-term assets	1,327	1,371	1,406	1,51
Selling expenses	-1,694	-2,828	-2,866	-3,165	LT trade receivables	84	94	101	11
General & admin expenses	-472	-674	-776	-839	Fixed assets	259	240	245	28
Operating profit/(loss)	1,305	2,338	2,268	2,822	Investment properties	31	31	31	3
Net other income/(expenses)	-18	-25	-12	-13	Liabilities	4,606	4,893	4,645	5,57
Pretax profit/(loss)	1,287	2,313	2,256	2,809	Current liabilities	4,563	4,883	4,611	5,54
Income tax	-254	-502	-467	-581	Trade accounts payable	680	277	545	64
Net profit/(loss)	1,033	1,811	1,789	2,228	Advances from customers	0	0	0	0
Minority interests	0	0	0	0	ST borrowings	2,722	2,683	2,009	2,58
Net profit after MI	1,033	1,811	1,789	2,228	Long-term liabilities	43	10	34	3
					LT payables	0	0	0	0
					LT borrowings	0	0	0	0
					Other LT liabilities	43	10	34	3
					Shareholders' equity	6,013	8,444	9,405	10,78
					Paid-in capital	2,276	2,462	3,282	3,28
					Share premium	991	2,251	1,431	1,43
					Undistributed earnings	1,950	2,522	3,092	3,98
					Reserve & others	801	1,212	1,606	2,09
					Minority interest	0	0	0	0
Operating ratios					Key ratio				
	2021	2022	2023F	2024F	(x, %, VND)				
Gross profit margin	18.2%	17.5%	17.9%	18.2%	Multiple				
EBITDA margin	7.6%	7.4%	7.3%	7.9%	P/E	23.5	13.4	13.5	10.
EBIT margin	7.2%	7.2%	7.1%	7.7%	P/E diluted	23.5	13.4	13.5	10.
Net Operating margin	7.2%	7.2%	7.1%	7.7%	P/B	4.0	2.9	2.6	2.
Pre-tax profit margin	6.6%	6.8%	6.7%	7.4%	P/S	1.2	0.7	0.7	0.
Net profit margin	5.3%	5.3%	5.3%	5.8%	P/Tangible Book	4.5	3.1	2.8	2.
					P/Cash Flow	-376	46	-48	5
					EV/EBITDA	18.0	10.4	10.4	8.
					EV/EBIT	18.9	10.7	10.7	8.
Cash flow statement					Operating Performance				
(VNDbn)	2022	2022	2023F	2024F	ROE%	17%	25%	20%	22%
Net profit	1,287	2,313	2,256	2,809	ROA%	10%	15%	13%	15%
Plus: depreciation & amort	75	80	71	79	ROIC%	12%	18%	16%	18%
Plus: investing (profit)/loss	-29	-21	-21	-21	Financial Structure				
Interest Expense	104	94	141	130	Cash ratio	0.1	0.2	0.1	0.
Change in working capital	1,438	2,466	2,446	2,997	Quick Ratio	0.1	0.3	0.2	0.
(Inc)/dec - receivables	-16	-52	-22	4	Current Ratio	2.0	2.5	2.7	2.
(Inc)/dec - inventory	-2,141	-1,753	-1,121	-1,682	LT Debt/Equity	0.00	0.00	0.00	0.0
Inc/(dec) - payables	351	77	268	104	LT Debt/Total assets	0.0	0.0	0.0	0.
Inc/(dec) - advances	5	-60	36	46	ST Debt/Equity	0	0	0	0
Other adj for operations	-383	-597	-648	-751	ST Debt/Total assets	0.26	0.20	0.14	0.1
Operating cash flow	-717	101	981	738	ST liabilities/Equity	0.3	0.3	0.3	0.
Purchase of Fixed Assets and longterm assets	-63	-52	-157	-209	ST liabilities/Total assest	0.2	0.2	0.2	0.
Proceeds from disposal of fixed assets	13	1	1	2	Total liabilities/Equity	0.3	0.3	0.3	0.
Loans granted, purchases of debt instruments	0	-540	0	0	Total liabilities/Total assets	0.2	0.2	0.2	0.
Collection of loans, proceeds from sales of debts instruments	0	200	0	0					
Investments in other entities	0	0	0	0	Activity Ratio				
Proceed from divestment in other entities	0	0	0	0	Account receivable turnover	327	582	500	50
Dividends and interest received	2	20	0	0	Inventory turnover	2	3	3	
Investing cash flow	-49	-371	-155	-207	Account payable turnover	24	62	70	5
Proceeds from issue of shares	0	1,447	0	0					
Payment for share returns and repurchase	-2	0	0	0					
Proceeds from borrowings	7,756	6,261	6,070	8,389					
Repayment of borrowings	-6,876	-6,300	-6,744	-7,817					
Finance lease principal payments	0	0	0	0					
Dividends paid	-177	-617	-656	-656					
Interests, dividends, profits received	0	0	0	0					
Financing cash flow	702	792	-1,331	-84					
Net increase in cash & equivalents	-64	522	-505	447					
Cash & equivalents – beginning	422	355	880	376					
Cash & equivalents - ending	358	880	376	822					

Source: Phu Nhuan Jewelry, KB Securities Vietnam

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Investment ratings & definitions

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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