

Phu Nhuan Jewelry (PNJ)

Expecting a stable gold market

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The gold market is vibrant, PNJ set record-high revenue

By the end of 1Q24, Phu Nhuan Jewelry JSC (PNJ) recorded a record net revenue of VND12,594 billion (+28.6% YoY) thanks to the vibrant gold market. Gross profit reached VND2,149 billion, equivalent to a gross profit margin of 17.1%, losing 2.3ppts YoY as the gold bar segment has a very small profit margin but increased its proportion in this period. NPAT declined 1.4% YoY to VND738 billion, reaching 35% of the full-year plan.

24K gold spiked on the robust gold market

24K gold revenue reached over VND5,100 billion (+68% YoY) as gold prices continuously peak, and PNJ also launched many highly aesthetic 24K product sets for the God of Wealth Day, which attracted many new customers.

Jewelry retail maintains growth and should gain more benefits from gold price stability

Revenue from jewelry retailing exceeded VND6,300 billion (+13% YoY). Although PNJ did not open many new stores in 1Q, the segment maintained growth thanks to continuously research into products and effective marketing and sales programs. It is expected that in the coming time, stable gold prices will continue to benefit PNJ's jewelry retail. Wholesale revenue also saw a modest gain from an increase in the number of orders.

Valuation: BUY rating – Target price VND109,500/share

We forecast 2024F NPAT will reach VND2,238 billion (+13.5% YoY) on net revenue of VND37,914 billion (+14.4% YoY). Assuming that more stable gold market will help gold prices cool down and maintain growth for the jewelry retail segment, we gave a BUY rating to PNJ stock with a price target of VND109,500/share.

Buy maintain

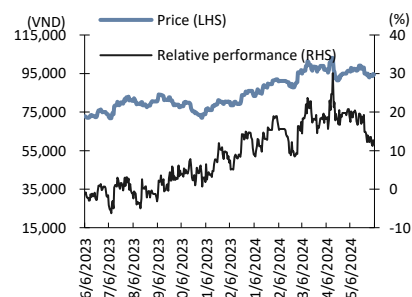
Target price	VND109,500
Upside	16%
Current price (Jun 10, 2024)	VND94,700
Consensus target price	VND107,900
Market cap (VNDtn/USDbn)	32.0/1.3

Trading data	
Free float	86.8%
3M avg trading value (VNDbn/USDmn)	159.2/6.3
Foreign ownership	49.0%
Major shareholder	VIETFUND (9.16%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1.6	-0.6	17.9	29.7
Relative	-5.0	-2.3	3.8	13.8

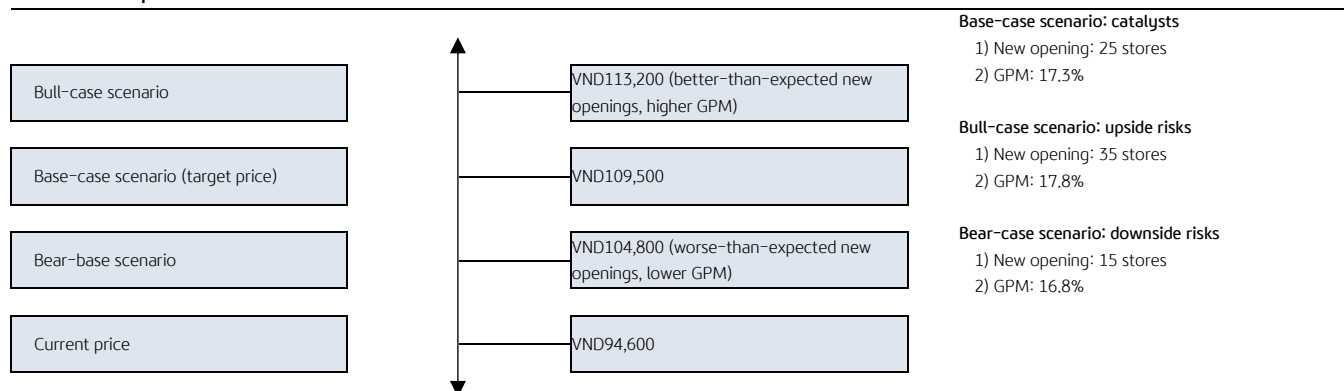
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	33,876	33,137	40,411	41,707
Operating income/loss (VNDbn)	2,338	2,485	2,685	3,117
NPAT-MI (VNDbn)	1,811	1,971	2,118	2,461
EPS (VND)	7,358	8,008	8,604	9,996
EPS growth (%)	76.8%	8.8%	7.4%	16.2%
P/E (x)	17.4	16.0	14.9	12.8
P/B (x)	3.7	3.2	2.8	2.5
ROE (%)	25%	22%	20%	21%
Dividend yield (%)	2.5%	2.3%	1.9%	1.9%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	37,914	42,448	41,056	41,694	8%	-2%
EBIT	2,885	3,213	2,747	3,353	-5%	4%
NP after MI	2,238	2,492	2,128	2,605	-5%	5%

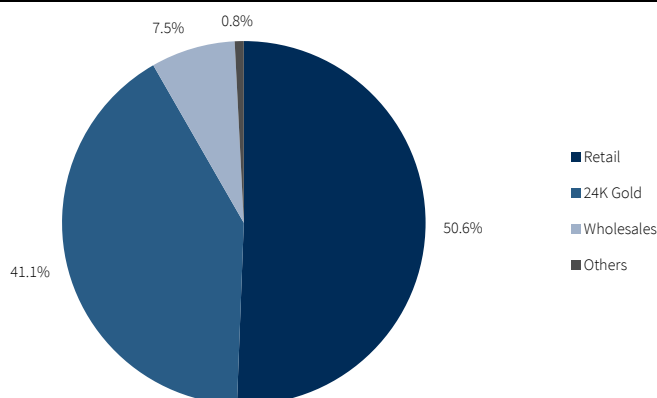
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	41,056	41,694	38,326	41,945	7%	-1%
EBIT	2,747	3,353	2,794	3,228	-2%	4%
NP after MI	2,128	2,605	2,176	2,524	-2%	3%

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Business operation

Phu Nhuan Jewelry (PNJ) was established in 1988, starting from Phu Nhuan Jewelry store. After more than 35 years of operation and development, PNJ has become one of the leading enterprises in the gold jewelry production and trading industry in Vietnam with a gold jewelry market share of 30% and a network of more than 400 stores covering the whole country.

1Q24 performance updates

Revenue reached a record high thanks to the vibrant gold market

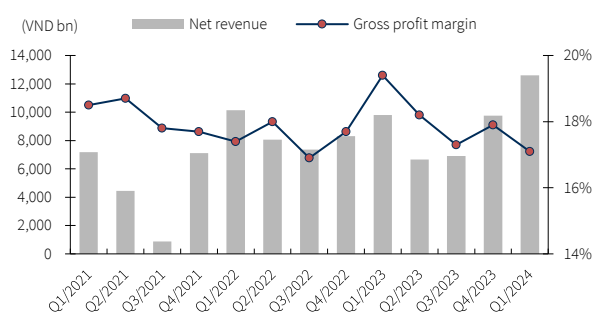
PNJ set a record net revenue of VND12,594 billion (+28.6% YoY), of which the 24K gold bar segment surged 68% YoY thanks to the vibrant gold market and peaking gold prices. Meanwhile, the jewelry retail segment continued to have double-digit growth despite not opening new stores. NPAT reached VND738 billion, down slightly by 1.4% YoY and equal to 35% of the full-year objective.

Table 1. PNJ – 1Q24 updated results

(VNDbn, %)	1Q23	1Q24	+/-%YoY	3M23	3M24	+/-%YoY	Notes
Revenue	9,796	12,594	28.6%	9,796	12,594	28.6%	
Jewelry retail	5,637	6,373	13.1%	5,637	6,373	13.1%	PNJ continuously launched new collections and implemented marketing and sales programs to attract new customers and increase the returning customer rate.
24K gold	3,082	5,176	67.9%	3,082	5,176	67.9%	The strong increase was attributable to peaking gold prices and robust gold market.
Jewelry wholesale	878	945	7.6%	878	945	7.6%	
Gross profit	1,900	2,149	13.1%	1,900	2,149	13.1%	Gross profit margin decreased due to a sharp increase in the proportion of 24K gold. In addition, strong fluctuations in gold prices also affected PNJ's inputs.
<i>Gross profit margin</i>	19.4%	17.1%	-2.3%	19.4%	17.1%	-2.3%	
Financial income	14	14	0.0%	14	14	0.0%	
Financial expenses	-38	-24	-36.8%	-38	-24	-36.8%	
SG&A	-935	-1,203	28.7%	-935	-1,203	28.7%	
Operating profit/loss	941	937	-0.4%	941	937	-0.4%	
Profit before taxes (PBT)	943	936	-0.7%	943	936	-0.7%	Although revenue increased sharply, it was mainly in the gold bar segment with very low profits. SG&A costs also increased strongly for sales and marketing programs, so net profit only remained flat over the same period last year.
Profit after taxes (NPAT)	749	738	-1.5%	749	738	-1.5%	

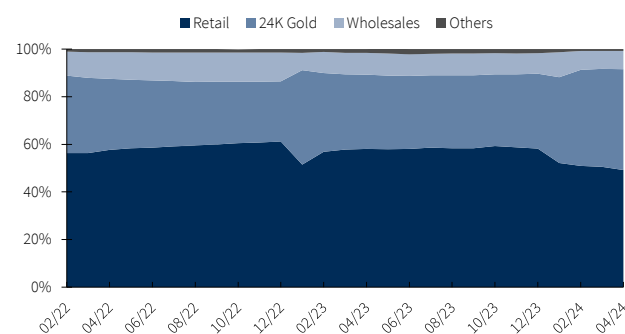
Source: Phu Nhuan Jewelry, KB Securities Vietnam

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



Source: Phu Nhuan Jewelry, KB Securities Vietnam

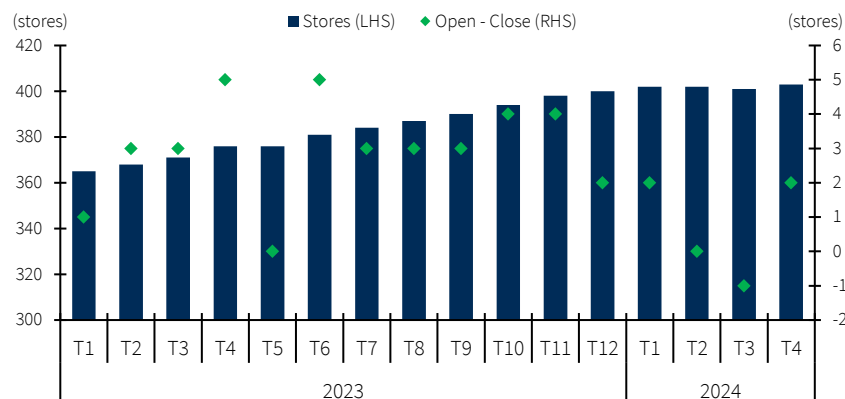
Fig 3. PNJ – Revenue breakdown (%)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 4. PNJ – Number of stores in 2023–2024 (store)

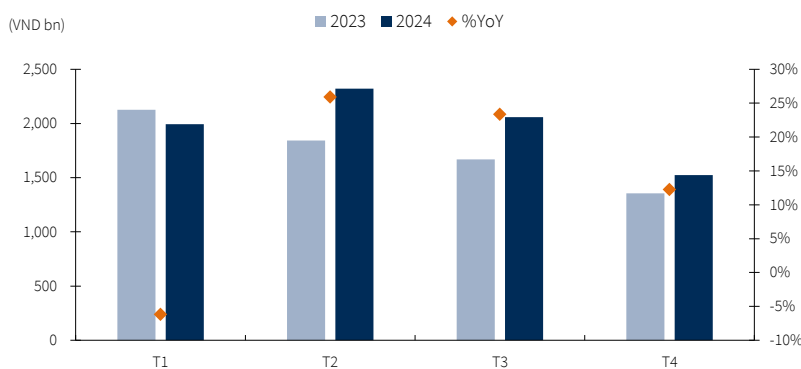
In the first quarter of 2024, PNJ is slowing down in opening new stores and closing many ineffective stores for optimization. In the first four months of the year, PNJ opened seven new stores and closed four stores.



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 5. PNJ – Retail sales in 4M23–4M24 (VNDbn)

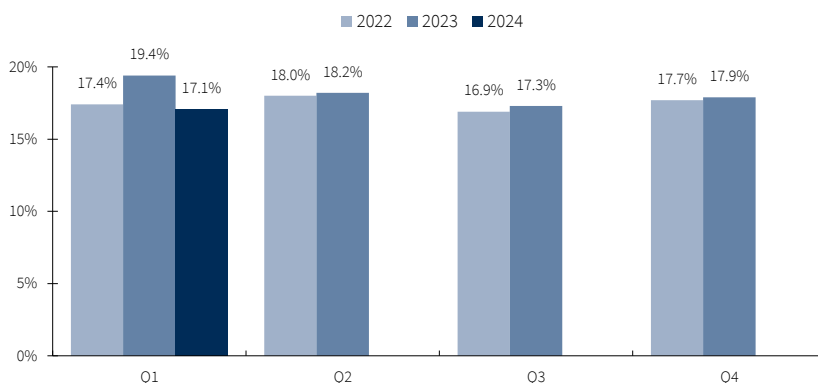
Jewelry retail revenue maintained growth despite PNJ's opening very few stores in 4M24. We believe that PNJ's jewelry retail segment will continue to grow thanks to the market's big growth potential. PNJ is also expanding its customer base. Previously, it focused on female customers, but now it develops many collections targeting many customers such as wedding jewelry, and jewelry for children, the young and men.



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 6. PNJ – Gross profit margin

PNJ's GPM in 1Q24 is at a fairly low level in recent years. The reason is (1) the proportion of gold bars increased sharply but this segment has a very low profit margin. (2) Strong fluctuations in gold prices affect the prices of imported raw materials of PNJ. However, we assess that this is only a temporary factor. When the gold market cools down, PNJ is expected to raise its profit margin again.



Source: Phu Nhuan Jewelry, KB Securities Vietnam

The SBV wants to stabilize the gold market and narrow the difference between domestic and world gold prices

Since June 3, the State Bank of Vietnam (SBV) has started to sell gold directly to people through the channels of four state-owned commercial banks including Agribank, BIDV, Vietcombank, Vietinbank and SJC. This action aims to narrow the difference between domestic and international gold prices and increase the supply of gold to the market. This should help gold prices cool down and be more stable.

Strongly volatile gold prices recently caused difficulties for PNJ

Normally, gold price fluctuations affect the cost prices, but when the price fluctuates over 5%, the selling price to customers will be adjusted. Basically, PNJ can maintain a relatively stable profit margin even when gold prices increase or decrease by adjusting selling prices.

Recently, high gold prices have helped 24K gold revenue and assets of PNK sharply gain. However, when gold prices increase rapidly, there are some impacts on the business situation such as (1) 24k gold segment will take over the market share of gold jewelry. (2) PNJ must consider the time to buy input materials (avoid buying too much when prices are high) and at the same time find ways to cushion its assets from price falls. (3) The retailer also has difficulty in forecasting customer purchasing needs for production. These will somewhat affect PNJ's business activities as they may cause lower profit margin and excess or shortage of inventory.

The expectation of more stable gold prices will help PNJ's business situation

However, we believe that the impact on PNJ is not too great thanks to the retailer's many years of experience in the gold industry and a modern data analysis system that brings accurate forecast and limits risks. At the end of 1Q, although PNJ recorded the largest provision for inventory devaluation ever, the number was only about VND6 billion, which is very small compared to the scale of PNJ's revenue and profit. Therefore, we think that PNJ is still capable of managing the risks of price fluctuations.

In the coming time, with the determination of the Government and the SBV on transparency and stability of the gold market, it is expected that gold prices will stabilize again and help PNJ's business situation improve.

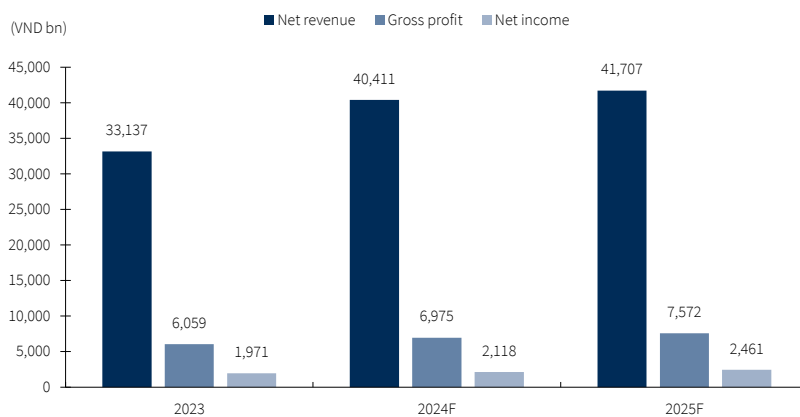
Forecast & valuation

Table 7. PNJ – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	33,137	40,411	22.0%	41,844	3.5%	
Jewelry retail	19,286	21,780	12.9%	24,297	11.6%	
24K gold	10,438	14,905	42.8%	13,415	-10.0%	The forecast is raised by VND3,000 billion compared to the old forecast due to the recent booming increase in the gold market and the sudden increase in demand for 24K gold.
Jewelry wholesale	2,850	3,135	10.0%	3,511	12.0%	
Gross profit	6,059	6,975	15.1%	7,734	10.9%	Profit margin is expected to recover when the gold market stabilizes.
<i>Gross profit margin</i>	18.3%	17.3%	-5.6%	18.5%	7.1%	
Financial income	98	79	-19.8%	86	9.6%	
Financial expenses	-141	-143	0.9%	-106	-26.0%	
SG&A	-3,529	-4,263	20.8%	-4,414	3.5%	
Operating profit/loss	2,529	2,712	7.2%	3,320	22.4%	
Profit before taxes (PBT)	2,489	2,671	7.3%	3,250	21.7%	
Profit after taxes (NPAT)	1,971	2,118	7.4%	2,578	21.7%	Forecast for NPAT is decreased by VND120 billion as fluctuating gold prices may affect the company's profit margin. In addition, SG&A costs also increase. The proposed NPAT is in accordance with the company's plan set out at the AGM

Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 8. PNJ – 2024–2025F results



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Valuation: BUY rating – Target price VND109,500/share

We value PNJ stock by two methods: (1) FCFE and (2) comparables:

- (1) FCFE: We used the discounted free cash flow method in the FCFE enterprise with the assumptions stated below. The target price of PNJ stock for this method is VND111,400/share.
- (2) Comparables: We used a target P/E of 17x, close to the five-year average P/E. Target EPS is VND6,331/share. We determined the target price of PNJ for this method at VND107,600/share

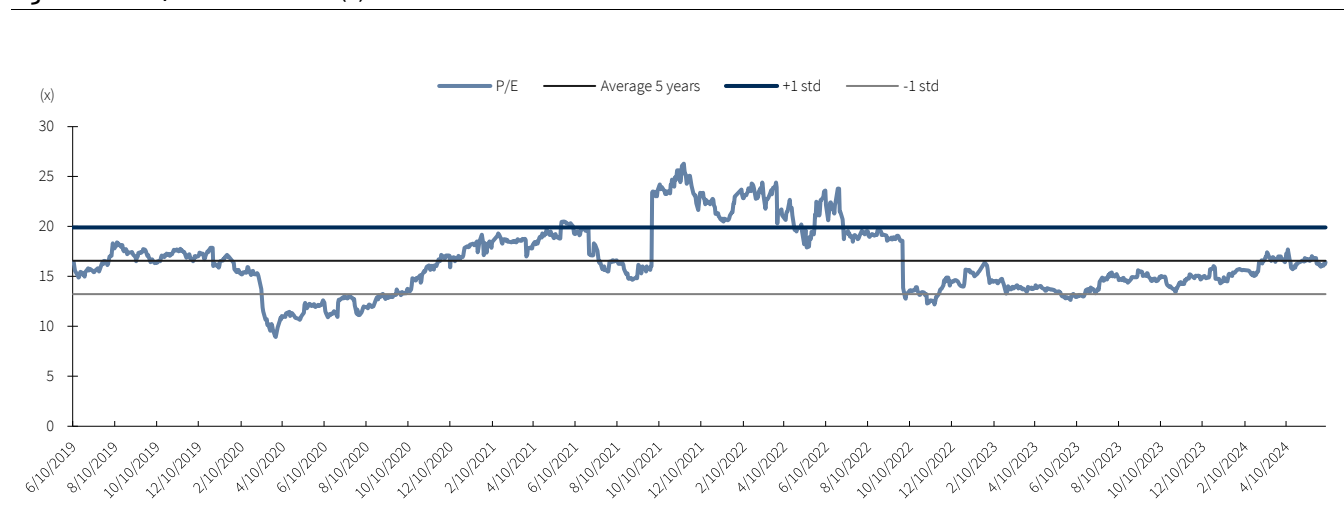
With the proportion used in the valuation model for each method being 50–50, we give a BUY recommendation for PNJ stock. The final target price is VND109,500, 16% higher than the closing price on June 10, 2024.

Table 9. PNJ – FCFE valuation & assumption

Cost of equity	9.26%	PV of terminal value	32,219
Cost of debt	6.00%	PV value of FCFE	5,724
Risk-free rate	4.70%	Cash & equivalents	821
Beta	0.6	Short-term investments	700
Terminal growth	4.0%	Enterprise value	39,464
Duration	5	Total debt	2,182
WACC	8.37%	Equity value	37,282
		Outstanding shares	334,559,621
Target price			111,400

Source: KB Securities Vietnam

Fig 10. PNJ – P/E in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

PNJ – 2022A–2025F financials

Income Statement					Balance Sheet				
(VNDbn)	2022A	2023A	2024E	2025E	(VNDbn)	2022A	2023A	2024E	2025E
Net sales	33,876	33,137	40,411	41,707	Total assets	13,337	14,430	15,162	17,052
Cost of sales	-27,949	-27,078	-33,436	-34,135	Current assets	11,966	12,960	13,638	15,449
Gross Profit	5,928	6,059	6,975	7,572	Cash & equivalents	880	896	821	1,081
Financial income	54	98	79	86	ST investments	200	810	702	1,002
Financial expenses	-141	-143	-106	-141	Accounts receivable	57	69	92	74
of which: interest expenses	-94	-119	-80	-114	Inventory	10,508	10,945	11,703	12,971
Gain/(loss) from joint ventures	0	0	0	0	Long-term assets	1,371	1,470	1,524	1,603
Selling expenses	-2,828	-2,836	-3,435	-3,545	LT trade receivables	94	105	115	127
General & admin expenses	-674	-694	-828	-855	Fixed assets	240	256	301	348
Operating profit/(loss)	2,338	2,485	2,685	3,117	Investment properties	31	29	29	29
Net other income/(expenses)	-25	5	-14	-15	Liabilities	4,893	4,623	3,979	4,328
Pretax profit/(loss)	2,313	2,489	2,671	3,103	Current liabilities	4,883	4,614	3,963	4,311
Income tax	-502	-518	-553	-642	Trade accounts payable	277	255	323	334
Net profit/(loss)	1,811	1,971	2,118	2,461	Advances from customers	0	0	0	0
Minority interests	0	0	0	0	ST borrowings	2,683	2,384	2,182	2,391
Net profit after MI	1,811	1,971	2,118	2,461	Long-term liabilities	10	9	17	17
					LT payables	0	0	0	0
					LT borrowings	10	9	17	17
					Other LT liabilities	0	0	0	0
					Shareholders' equity	8,444	9,807	11,182	12,724
					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	3,481	4,285
					Reserve & others	1,212	1,936	2,572	3,310
					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%	17.3%	18.2%	Multiple				
EBITDA margin	7.4%	7.9%	6.9%	7.8%	P/E	17.4	16.0	14.9	12.8
EBIT margin	7.2%	7.9%	6.9%	7.8%	P/E diluted	17.4	16.0	14.9	12.8
Net Operating margin	6.9%	7.5%	6.6%	7.5%	P/B	3.7	3.2	2.8	2.5
Pre-tax profit margin	6.8%	7.5%	6.6%	7.4%	P/S	0.9	1.0	0.8	0.8
Net profit margin	5.3%	5.9%	5.2%	5.9%	P/Tangible Book	3.7	3.2	2.8	2.5
					P/Cash Flow	60.3	1900.1	-420.9	121.4
					EV/EBITDA	13.2	12.6	11.8	10.1
					EV/EBIT	14.1	13.3	12.3	10.6
Cash flow statement					Operating Performance				
(VNDbn)	2022A	2023E	2024E	2025E	ROE%	25%	22%	20%	21%
Net profit	2,313	2,489	2,671	3,103	ROA%	15%	14%	14%	15%
Plus: depreciation & amort	80	81	80	91	ROIC%	18%	17%	17%	18%
Plus: investing (profit)/loss	-21	-81	0	0					
Interest Expense	94	119	80	114	Financial Structure				
Change in working capital	2,466	2,608	2,830	3,308	Cash ratio	0.2	0.2	0.2	0.3
(Inc)/dec - receivables	-52	27	-27	15	Quick Ratio	0.3	0.4	0.5	0.6
(Inc)/dec - inventory	-1,753	-435	-758	-1,269	Current Ratio	2.5	2.8	3.4	3.6
Inc/(dec) - payables	77	-13	-526	42	LT Debt/Equity	0.00	0.00	0.00	0.00
Inc/(dec) - advances	-60	-106	-79	-10	LT Debt/Total assets	0.0	0.0	0.0	0.0
Other adj for operations	-597	-660	-640	-757	ST Debt/Equity	0	0	0	0
Operating cash flow	101	1,503	801	1,330	ST Debt/Total assets	0.2	0.2	0.1	0.1
Purchase of Fixed Assets and long-term assets	-52	-82	-127	-158	ST liabilities/Equity	0.3	0.2	0.2	0.2
Proceeds from disposal of fixed assets	1	1	0	0	ST liabilities/Total assets	0.2	0.2	0.1	0.1
Loans granted, purchases of debt instruments	-540	-2,240	0	-300	Total liabilities/Equity	0.3	0.2	0.2	0.2
Collection of loans, proceeds from sales of debts instruments	200	1,680	110	0	Total liabilities/Total assets	0.2	0.2	0.1	0.1
Investments in other entities	0	-4	0	0					
Proceed from divestment in other entities	0	0	0	0	Activity Ratio				
Dividends and interest received	20	68	0	0	Account receivable turnover	582	527	500	500
Investing cash flow	-371	-577	-17	-458	Inventory turnover	2.9	2.5	3.0	2.8
Proceeds from issue of shares	1,447	0	0	0	Account payable turnover	62.0	103.5	118.4	107.8
Payment for share returns and repurchase	0	0	0	0					
Proceeds from borrowings	6,261	8,248	8,890	9,801					
Repayment of borrowings	-6,300	-8,546	-9,093	-9,593					
Finance lease principal payments	0	0	0	0					
Dividends paid	-617	-611	-656	-820					
Interests, dividends, profits received	0	0	0	0					
Financing cash flow	792	-909	-859	-612					
Net increase in cash & equivalents	522	17	-75	260					
Cash & equivalents – beginning	355	880	896	821					
Cash & equivalents - ending	880	896	821	1,081					

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:	Neutral:	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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