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PNJ achieve 60% of its 2018 earning target in first half

In the first 6 months, PNJ achieved net sales of VND7,357 billion, up 34% y/y. Net profit after tax was VND 517 billion, an increase of 37% over the same period last year. Particularly, PNJ announced Q2.2018 consolidated financial statements with net sales of VND 3,217 billion, an increase of 37% over the same period last year. According to PNJ, the revenue growth factor is still mainly focused on gold jewelry retailing channel.

PNJ's gross profit in the second quarter was nearly 583 billion dong, equivalent to gross profit margin of 18.1%, significantly higher than 17.1% in the second quarter of last year. This is also the second consecutive quarter PNJ reached gross profit margin of 18%. NPAT accordingly rise 40% to reach VND 180bn.

Store expansion and same store sales growth remained impressive

As of the end Q2.2108, PNJ has a total of 298 stores with 17 newly-opened stores this quarter, meaning the company almost completes its FY2018 target of 300 outlets early. As shared by management boards, there is still room for stores expansion in both Ho Chi Minh city and tier 2, 3 cities such as Dong Nai, Binh Duong... in the South while northern market needs more time to see improvement. Samestore sales growth in H1.2018 was 24% excluding stores of less than 18-month old, while 63 new stores opened in the third quarter of last year contributed 13% of sales.

Diverse business channels are encouraged to help drive sales growth

Thank to effective online marketing campaigns, online sales is on track to meet its FY2018's target of VND 150bn, particularly sales in 1H.2018 already reached over VND 60bn in 1H.2018. Meanwhile, PNJ has split the wholesales segment by establishing PNJ production which is in charge of wholesales business and a new PNJ wholesale showroom was inaugurated in April 2018 to further this effort, which has lead to a strong growth of 27.4% in wholesales revenue in 1H.2108.

Buy maintain

Target Price (VND)	112,100
Upside/Downside	+20.4%
Current price (July 23th, 18)	VND93,100
Market Cap (bn)	VND15,095

Trading Data

Outstanding shares	162,138,615
Avg Daily Vol (3M, shares)	414,252
Foreign ownership	49.0%
Major shareholders	Cao Thi Ngoc Dung - 9.22%
	LGM Investment LTD - 4.53%

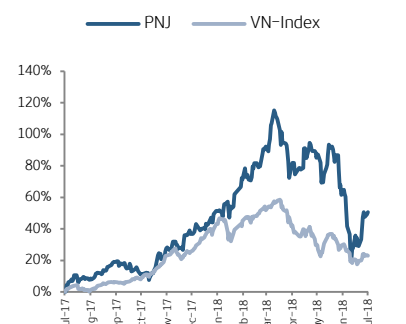
Performance

(%)	1M	3M	6M	12M
PNJ	-11.3	-19.7	-3.6	+50.6
VN-Index	-5.0	-13.6	-14.1	+22.9

Forecast earnings & valuation

FY-end	2017A	2018F	2019F
Net revenue	10,977	14,295	18,583
Gross profit	1,912	2,630	3,364
NPAT	725	956	1,238
EPS	6,707	5,900	7,640
EPS Growth (%)	47	-12	30
PER (x)	14.8	16.3	12.6
PBR (x)	3.5	4.1	3.4
ROE (%)	32.6%	28.4%	29.7%

Source: PNJ, KBSV estimate



Source: Fiin Pro

Table 1. Business Performance in 1H.2018 (VND bn)

VND bn	Plan of 2018	1H.2018	1H.2017	% Y/Y	% Plan
Net sales	13,727	7,331	5,449	34%	53%
Gross profit	2,477	1,325	933	42%	53%
Financial expense	65	25	36	-23%	38%
Selling expense	1,086	538	359	50%	50%
G&A expense	247	130	79	65%	53%
Operating profit	1,100	635	466	36%	58%
Profit before tax	1,100	637	471	35%	58%
Profit after tax	882	509	377	35%	58%

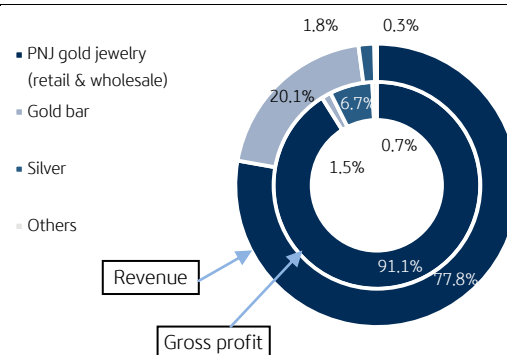
Source: PNJ

Table 2. Peer comparison

Name	Country	Mkt Cap (USD mn)	BF P/E	BF EV/EBIT DA	BF EV/Rev	LF P/BV
Phu Nhuan Jewelry JSC	Vietnam	650.2	14.27	10.71	1.00	4.72
Mean (Including PNJ VN)		1,822.5	18.28	17.96	2.27	2.82
Median		594.2	17.05	15.57	2.12	2.27
Zhejiang Ming Jewelry Co Ltd	China	435.2	23.32	--	0.60	0.95
Chow Tai Seng Jewelry Co Ltd	China	2,263.1	18.79	12.83	2.78	4.36
Guangdong Chj Industry Co Ltd	China	1,122.1	19.84	15.57	2.12	2.23
Titan Co Ltd	India	11,086.5	48.38	33.42	3.71	15.02
Rajesh Exports Ltd	India	2,409.4	11.16	4.88	0.05	2.32
PC Jeweler Ltd	India	538.3	4.60	--	--	0.96

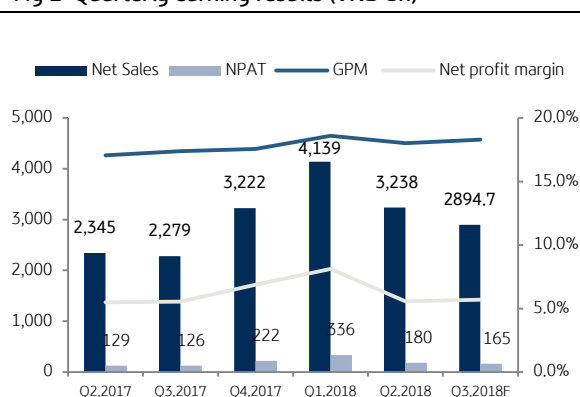
Source: Bloomberg

Fig 1: Revenue and gross profit structure in 1H.2018



Source: PNJ

Fig 2: Quarterly earning results (VND bn)



Source: PNJ, KBSV estimates

Business earnings forecast in 2018

Our projections for FY2018's net sales and NPAT are of VND 14,295bn (+30.2% y/y) and VND 956bn (+31.9% y/y), respectively for following reasons:

We expect revenue in the second half to remain similar growth rate as its previous half's result and strong growth at not less than 2x rate in the next two years thank to the increasing demand in gold jewelry and stores expansion effort. The former is believed to be backed by the improvement in average income per capita of Vietnam, which is partly proved by a strong growth in SSSG figure and ticket size of 13% in 1H.2018 while the latter possibility is highly optimistic since there is still plenty of room for expansion in tier 2, 3 cities and northern market as well as the company hope to attain broad nationwide coverage, which could bring total stores up to over 600.

Net profit growth is expected to corresponding to sales growth. For FY2018, we project 1 ppt up in GPM to 18.4% but SG&A expense may offset by 0.8 ppt up compared to last year. We do not expect GPM to broaden widely in the future. We conservatively believe that the larger contribution of wholesales revenue; PNJ's new plan to restructure its materials source from 100% to 70% of production and 30% purchase from other gold jewelry producers to help increase sales; and increasing can partly tighten its GPM.

We recommend BUY for this stock with target PER of 19x based on comparison to peer in region. We are optimistic at PNJ business result in the period of 2018-2020 as PNJ's board has shown their best effort in driving PNJ to the era of expansion and modernization, in which customer is main focus and customer satisfaction is the most priority.

Investment Rating for Company

Buy: +15% or beyond

Hold: between +15% and -15%

Sell: -15% or beyond

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