



# Phu Nhuan Jewelry JSC (PNJ: HSX)

*High potential growth*

UPDATED REPORT  
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**PNJ has owned 327 stores in all over the country by the end of the 1Q/2019**

By the end of 1Q/2019, the company has owned 327 stores in all over Vietnam. Although the company has expanded the network, revenue growth of each store is still maintained at two-digit level.

**Revenue and profit in the 1Q/2019 increased**

PNJ recorded a net revenue of over VND4,783 billion (+15.6% YoY) in 1Q/2019, and NPAT was VND428 billion (+28% YoY). The main segment that helped PNJ to increase revenue was still gold jewelry.

**PNJ increased the investment capital in technology and e-commerce**

PNJ determines to go-live enterprise resource planning project (ERP) in 2019, build a strong e-commerce platform so that this can increase 10-20% of sales in the next 5 years.

At the same time, the company also plans to stimulate the sale of watch from 2019 to make use of the store system and raise the number of sales.

**The jewelry retail market is potential**

Jewelry retail market in Vietnam is fragmented and potential in the following years, which creates favorable conditions for companies like PNJ, especially when the economic growth is positive and consumption spending is high.

**The risks are existing**

To expand its store chain, PNJ has to face financial pressure of high selling, general and admin (SG&A) expenses. At the same time, the company also has to invest in the ERP development and e-commerce website upgrade.

The luxury consumer industry relies heavily on the economic cycle. In particular, when the economy slows down, the demand for these products will reduce as they are consumer discretionary.

## BUY

<b>Target price</b>	<b>125,000</b>
Up/Down	21.4%
Current price (16/05/2019)	102,900 VND
Target price	125,000
Market capitalization	16,834 bil VND (721 mil USD)
Exchange rate on 16/05/2019: 1USD = 23,341 VND	

### Forecast business performance

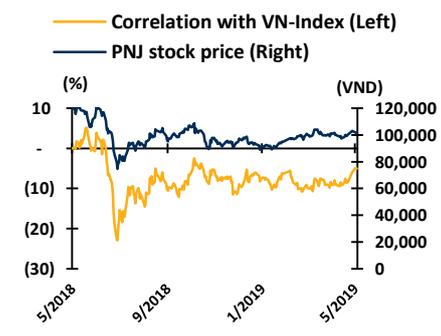
FY-End	2016A	2017A	2018A	2019F
Net revenue (Bn VND)	8,565	10,977	14,571	18,505
Revenue growth rate (%)	11.1%	28.2%	32.7%	27.0%
Gross profit (Bn VND)	1,411	1,912	2,779	3,701
Gross profit margin (%)	16.5%	17.4%	19.1%	20.0%
Net profit (Bn VND)	450	725	960	1,248
Growth rate (%)	196.1%	61.1%	32.41%	30.0%
EPS (VND)	4,383	6,434	6,481	7,357
EPS growth rate	225.4%	46.8%	0.73%	9.00%
P/E (x)	23	15	17	17

### Trading data

Outstanding share volume	167,002,273
3-month average trading volume	252,726
% foreign ownership	49%

### % price change

(%)	1M	3M	6M	12M
PNJ	0.7%	11.4%	0.4%	-15.5%
VNINDEX	-3.8%	4.7%	-0.2%	-10.5%



Source: FiinPro

## I. 2018 BUSINESS PERFORMANCE

### Positive business performance

In 2018, total net revenue of PNJ was VND14,571 billion (+33% YoY), the highest growth in the last five years. CAGR reached 30% per year from 2016 to 2018. Efficient cost management and demand - supply chain, combined with modern technology, help to lower the costs. In addition, the change in product mix has contributed to the 45% in gross profit compared to 2017, which was the highest level ever.

### Completed most of the plan to expand store system

By the end of 2018, PNJ claimed to have 55 more stores compared to 2017, raising the total number of stores to 324. PNJ stores are located in 50 out of 63 provinces and cities in Vietnam, surpassing the target of 300 stores in 2018. The company aims to continue to open more stores in Ho Chi Minh City, Dong Nai, Binh Duong, 2-tier cities and the Northern market.

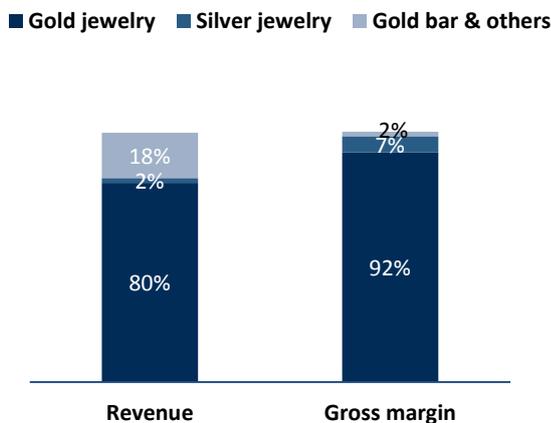
### Gold jewelry retail took the largest proportion on total revenue growth

Gold jewelry accounted for the largest proportion (80%) in the total revenue, and 92% in the gross profit of PNJ. By the end of 2018, PNJ owned 257 PNJ Gold stores. In 2018, jewelry retail had a growth of 40.9% YoY thanks to the same store sales growth in gold stores of 20%. Silver jewelry only added 1.9% to the total revenue, but accounted for 6% in the gross profit structure. By the end of 2018, the company had 64 PNJ Silver stores. In addition, revenue from gold bars accounted for 17.9% in the total revenue, but contributed only 0.9% in gross profit structure.

### PNJ stimulated the wholesale channel

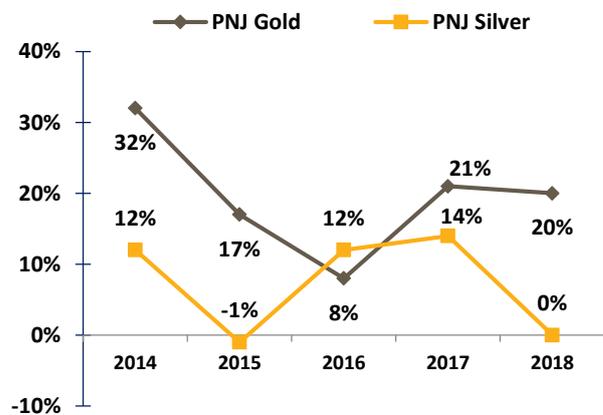
In the Q2.2018, PNJ separated the factory from the company, and established PNJ Production to develop wholesale, and open a wholesale center to sell both PNJ and outsourcing products. Wholesale is the traditional business in PNJ, which utilizes large production capacity and helps the company to approach 70% market share of about 12,000 small retail agents. PNJ has currently cooperated with 1,000 wholesale partners which are mainly private gold stores in HCMC and surrounding provinces.

Figure 1: Revenue and Gross profit margin breakdown in 2018



Source: PNJ

Figure 2: Same store sales growth over the years



Source: PNJ

## II. BUSINESS PERFORMANCE IN THE 1Q, AND 2019 BUSINESS PLAN

### 1. Business plan in the 1Q.2019

**By the end of 1Q/2019, revenue and net profit after taxes of PNJ rose 16% YoY and 28% YoY respectively.**

**Gross profit surged 21.9%, the highest level ever**

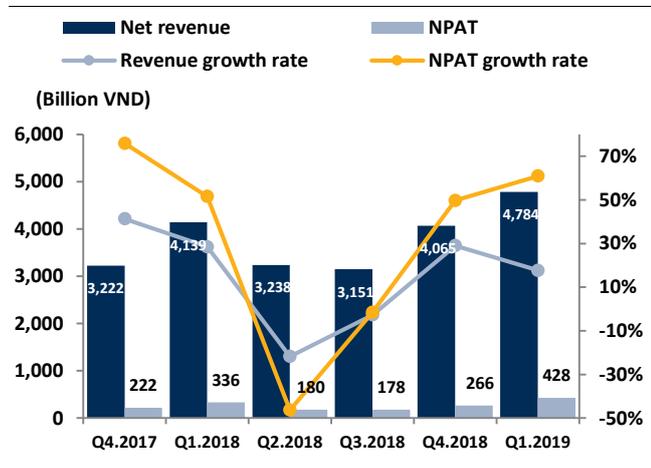
**The expansion of store system increased the costs**

Although this year, the God of Wealth Day was also the Valentine’s Day, which slightly affected the growth rate of the gold jewelry retail, and PNJ is mobilizing forces to go live ERP, the net revenue still reached 16% compared to the same period in 2018, reaching VND4,783 billion. NPAT was VND428 billion (+28% YoY), completing 36.2% business plan.

COGS of PNJ in the 1Q increased around 10.5% YoY, reaching VND3,734 billion. Meanwhile, gross profit of PNJ surged 36% YoY to VND1,049 billion. Therefore, gross profit of PNJ kept rising in the past quarter, which marked the third consecutive increasing quarter, and much higher than in the 1Q/2018.

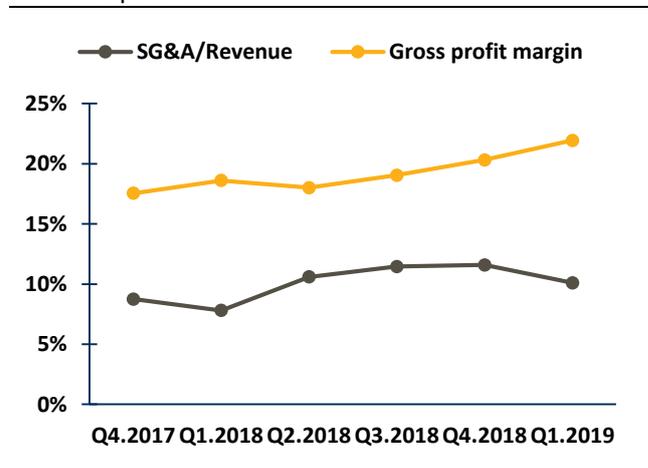
Revenue from financial activities in the 1Q//2019 shed 83% YoY to VND1 billion. Financial cost sharply increased by 74% YoY to VND24 billion. SG&A expenses of the company also climbed 30.4% YoY and 91% YoY respectively. PNJ total asset at the end of 1Q hit over VND6,152 billion, declining 4.4% compared to that at the beginning of the year. Cash and cash equivalents were down from VND206.7 billion to VND95 billion. Short-term receivables gained 70%, inventory declined 6.5% compared to the beginning balance. Short-term loans of PNJ by the end of March was over VND2,096 billion, down by 22% compared to the figure at the beginning of the year.

Figure 3: Revenue and Net Profit over the quarters



Source: PNJ

Figure 4: Gross profit margin and SG&A/revenue ratio over the quarters



Source: PNJ

**PNJ plans to increase 25% YoY net revenue and 23% YoY NPAT, ranking among enterprises with a revenue of over VND1 trillion.**

### 2. 2019 business plan

PNJ released a positive business plan with an increase of 25% YoY net revenue and 25% YoY gross profit, equivalent to VND18,207.6 billion and VND3,477.8 billion, which raised the NPAT to VND1,181.8 billion, increasing 23% compared to 2018. In 2019, PNJ also aims to open at least 40 new stores including independent stores and modern shopping malls and supermarkets, so the total number of stores will reach 364. In addition to additional stores, PNJ will continue to re-organize and open some new stores following the PNJ Next model, combined with E-commerce to create an omni channel.

### III. INVESTMENT HIGHLIGHT

#### **Jewelry market is fragmented, the demand for gold jewelry increased**

According to the report in the 4Q/2018 of the World Gold Council, the demand for gold jewelry in Vietnam was in the highest level in the past 10 years, reaching about 16.5 tons per year. Additionally, the prices of gold have rebounded from August 2018, which means the demand for gold in the world has also been increasing again.

Despite being the leading company in the jewelry sector, PNJ's market share was just around 7%. About nearly 70% of the gold jewelry market share has belonged to the traditional gold stores, however, the market share of large jewelry companies – trading high-class goods is increasing rapidly each year, currently at over 30%.

#### **PNJ opened a Flagship store according to PNJ Next model**

With the goal of becoming a professional retailer, PNJ launched a completely new business model with PNJ Next. In the first quarter of 2019, PNJ opened PNJ Next flagship store in Hai Ba Trung Street, District 1, Ho Chi Minh City, trading both watches and jewelry. With luxurious, classy, and open interactive space, compared to traditional stores, PNJ Next brings new, unique and intuitive experiences. Customers have chance to experience products directly, sales staff stand by customers to create a friendly and close feeling.

#### **Stimulate watch selling**

Vietnam watch market has a great potential growth (nearly USD750 million according to PNJ research published in 2018), and it is very fragmented as there is no store chain taking a market share of more than 20%. The demand for genuine watches with reasonable prices is very high. Taking this opportunity, PNJ has entered this potential market.

In 2018, this business segment of PNJ achieved a revenue of about VND27 billion, gaining 18% YoY. Although PNJ has started to sell watches since 2012, this segment still accounts for a very small proportion of revenue, with integrated watch counters inside some PNJ Gold stores. In 2019, PNJ will focus more on this segment with the establishment of the first specialized watch shop and a separate floor of PNJ Next flagship store for this item. PNJ also works step by step with existing brands to distribute products directly, instead of through agents. PNJ watch price range is from over VND2 million VND84 million, including high-end Swiss watch brands such as Longines, Tissot... bringing many choices for customers from mid-end to high-end.

As the wristwatch market in Vietnam has the participation of some big names such as Doji and the leading retail firm Mobile World Investment Corporation, the competition among brands also increased. Therefore, we think that the retailer who analyze customers' needs well, effectively use marketing strategies, and manage inventory well will gain advantages in this industry.

#### **PNJ increased investment in technology and e-commerce**

PNJ continues to make the most of high-tech machinery and equipment for production. The process of implementing PNJ's Digital Transformation strategy is accelerated with the ERP project being started. With the latest ERP system (SAP 4HANA), PNJ has an effective tool for managing and maximizing the use of resources, enhancing production capacity, supply chain management, strategic management, marketing, etc. Accordingly, PNJ will maintain the No. 1 position on the tier 1 market, and accelerate the growth on tier 2 and tier 3 markets.

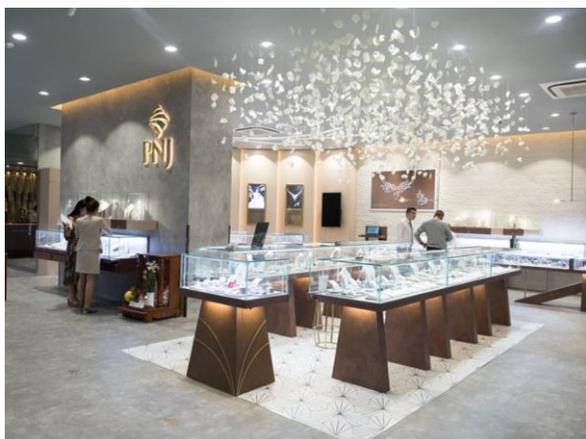
ERP system improves data analysis capabilities, analyzes buyers' behaviors in order to offer products that are exclusive for each customer.

In addition, PNJ also invests in building the basic data framework, Dashboard and associated models of sales management, customer management, and supply chain - production with Data Warehouse Project, which has been developed in line with the go-live ERP project schedule. At the same time, PNJ established Data Team to prepare qualified and experienced human resources in the 4.0 retail era.

According to PNJ, in 2019, E-commerce will have a stronger combination with the store network to create an omni-channel to enhance interactions with customers and increase the ratio of successful sales.

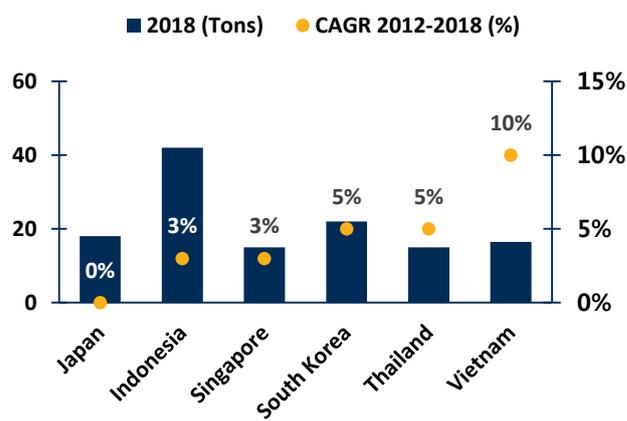
We believe that with the investment to build ERP system, Power BI application, AI Camera combined with E-commerce as well as management experience of PNJ's BOM, the company is able to catch the trend and optimize company management to bring high efficiency in the future.

Hinh 5: Inside a PNJ Next store



Source: Internet

Figure 6: Jewelry demand in different countries



Source: PNJ

#### IV. INVESTMENT RISKS

**Risks from sudden gold price changes**

However, the company said they has applied the Hedging strategy – to prevent the risk of gold price fluctuation via derivative contracts. In addition, as we observed in the past, the fluctuation of the world gold prices (even plunged in some quarters) almost had no significant impact on PNJ gross profit margin. Therefore, it can be seen that the company had a good risk management system.

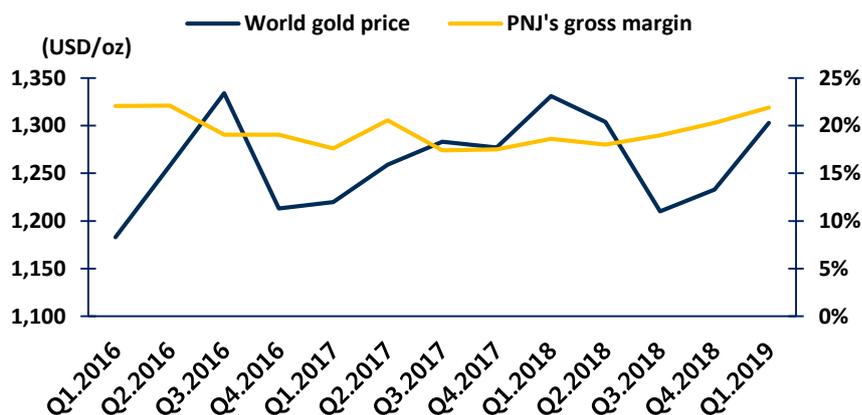
**Luxury product consumption heavily depends on economic cycle**

The trade war and concerns about an economic recession in some large countries have created a risk of a decreasing global economy, which may adversely affect high-end products.

**Long-term risks from the change in behaviors of Millennials**

The behavior of luxury product consumption of global Millennials is changing. This generation no longer cares much about brands, but prioritizes product quality, fancy designs and reasonable prices. According to our assessment, the current model of PNJ products has not really had competitive advantages against other brands, especially inferior to many imported brands.

Figure 7: World gold prices and PNJ's gross margin



Source: Fiinpro

## V. VALUATION

### 1. 2019 forecast business result

**NPAT of PNJ in 2019 is expected to reach VND 18,505 billion (+27% YoY), EPS forward will reach about VND 7,357 per share**

We forecast net revenue and NPAT in 2019 to be VND 18,505 billion (+ 27% YoY) and VND 1,248 billion (+ 30% YoY).

In 2019, we expect gross margin to increase slightly to 20% compared to 19.1% in 2018 thanks to the steady growth of jewelry gold chain, SSSG of the gold jewelry chain remains 20% as in 2018 and the number of new stores is expected to reach 40 stores as planned. PNJ currently does not face much competitive pressure in branded jewelry retailing in Vietnam and is likely to grow well in the coming years, especially with the application of ERP systems and focus on e-commerce platform.

Table 6: 2019 forecast business result

Billion VND	2015A	2016A	2017A	2018A	2019F
Net revenue	7,708	8,565	10,977	14,679	18,505
Cost of goods sold	6,538	7,153	9,065	11,792	14,804
Gross profit	1,170	1,411	1,912	2,779	3,701
Selling expenses	424	554	775	1,170	1,166
General & Administration expenses	118	133	188	346	314
Financial expenses/Financial income	431	182	56	66	80
Net Profit before tax	197	590	907	1,205	1,560
Net profit after tax	152	450	725	960	1,248

Source: PNJ, KBSV

### 2. Valuation

#### Recommendation

Based on the above comparison, we recommend to **BUY** PNJ shares with the target price of VND125,000 per share (equal to the forward P/E of 17x). We are positive with the outlook of PNJ in the next five years, as PNJ had competitive advantages and wide distribution system, healthy financial structure, two-digit SSSG, gross profit margin over 18% from early 2018 and two-digit revenue growth from 2016.

Table 7: Peer group comparison

Companies	Country	Market Capitalization (Million USD)	P/E	EV/EBITDA	EV/Revenue	P/BV
Phu Nhuan Jewelry JSC	Vietnam	721.2	13.8	9.9	0.9	4.2
Gansu Gantai Holding Group Co	China	577.1	7.2	--	2.5	0.8
Chow Tai Seng Jewelry Co Ltd	China	2,382.0	14.9	11.3	2.5	4.1
Guangdong Chj Industry Co Ltd	China	592.9	11.2	8.7	1.3	1.2
Titan Co Ltd	India	14,468.2	52.1	36.8	4.3	16.7
Rajesh Exports Ltd	India	2,797.6	12.2	4.4	--	2.3
PC Jeweler Ltd	India	667.0	8.0	4.2	0.4	1.2
Mean (including PNJ VN)		3,172.3	17.1	12.6	1.9	5.0
Median		3,522.4	12.2	9.3	1.9	2.3

Source: Bloomberg, KBSV



## Investment portfolio recommendations

**Buy:** +15% or more

**Hold:** between +15% and -15%

**Sell:** -15% or less

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