

Revenue in the 4Q.2018 gained 26% QoQ, NPAT increased by 20% QoQ

BUSINESS PERFORMANCE IN 2018 & PLAN IN 2019

Revenue in the 4Q.2018 hit VND4,065 bn, up by VND843 bn, equal to 26% QoQ, NPAT was VND265 bn, climbing 20% QoQ. In particular, the segment that witnessed the strongest growth in revenue was retails (jewelry and watch) with 30% of the total growth, reaching over VND1,000 bn; the gold bar trading and wholesale revenue also increased by 29% and 16% QoQ respectively.

2018 total revenue rose by 33%, NPAT increased by 32% YoY, exceeding the target of the year

In 2018, PNJ remained a high growth with the revenue of VND14,573 bn (+33% YoY), NPAT was VND960 bn (+32% YoY), which completed 106% and 109% of the business plan for 2018. The biggest proportion in revenue growth was gold jewelry retail (+41% YoY), and silver jewelry retail also saw a positive growth (+10% YoY). However, the expansion of retail chain and the increase in leasing cost made the cost increase and net profit margin remain flat at around 6.6%.

2019 revenue is expected to go up by 24%, NPAT up by 23%

In 2019, PNJ plans to achieve 24% revenue growth, tantamount to VND18,100 bn and raise NPAT by 23%, equal to VND1,184 bn. PNJ said they would still focus on jewelry trading. PNJ expects to keep the gross profit margin at 19%, SG&A/revenue at 10%, net profit margin down to 6.5%.

BUSINESS OPERATION

PNJ stimulates smaller markets penetration

The main market HCMC (accounting for 60% of gold jewelry sales and 50% of silver jewelry sales) had the highest number of new store openings in the past year, and still maintained the same store sales growth (SSSG), showing large room for development in HCMC, and no signs of saturation.

In addition to major cities, PNJ focused on smaller markets penetration. The proportion of revenue from secondary and tertiary cities rose from 14% to 17% in 2018. The Northern market only accounted for nearly 10% of revenue. Due to high potential growth, PNJ stores in Northern area achieved high growth rates (+46% in revenue from gold and +16% in revenue from silver). This segment may be a new growth driver for PNJ in the next years.

Gold jewelry retail

Gold jewelry had the largest proportion, contributing 80% of revenue and 92% of gross profit in PNJ. The SSSG of gold stores in 2018 reached 20%, the average value per order lifted 15% and the interval between two purchases was shortened. In 2019, PNJ will offer appropriate designs for different seasons and customers. By the end of 2018, PNJ had 257 PNJ Gold stores. The company plans to open 40 new stores and maintain the SSSG at 18%.

Silver jewelry

Silver jewelry contributed 1.9% revenue and 6% gross profit margin (GPM) in 2018. By the end of 2018, the company owned 64 PNJ Silver stores, SSSG of silver stores was 0%. The company was not very successful in this segment due to ineffective strategy aiming at 18-25 aged customers. Therefore, PNJ has launched various designs for 25-35 aged customers. In addition, in 2018, PNJ invited many brand ambassadors and celebrities to enhance PNJ brand awareness, which also increased the cost and decreased GPM of silver jewelry from 64% to 60%.

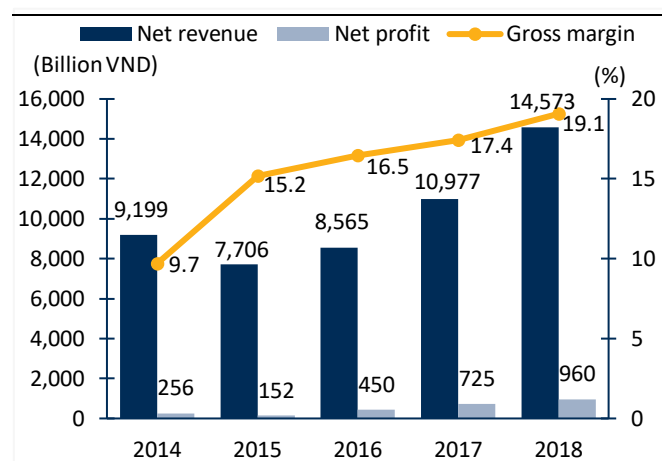
Jewelry wholesale

In the 2Q.2018, PNJ factory was separated from PNJ and changed its name into PNJ Production to develop the wholesale segment and open a wholesale center which not only sells PNJ products but also offers jewelry processed in order of the third party. Wholesale is a traditional business field of PNJ which can make use of high productivity, and help the company to approach 70% market share of over 12,000 small stores. PNJ currently has 3,000 wholesale customers who mainly are private gold stores in HCMC and surrounding provinces.

Accessories/watches

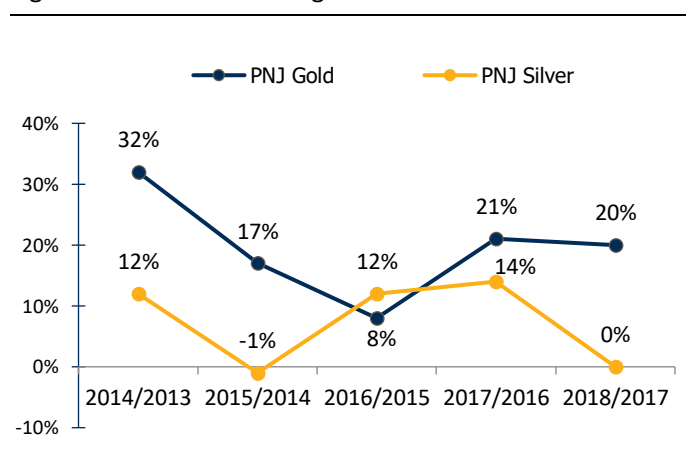
Accessories and watches sales gained VND27 bn in 2018, gaining 18% YoY. Although PNJ has started to sell watches since 2012, this segment only takes a small revenue proportion. In 2019, PNJ expect to focus more on this field, and develop it via online selling channels. Furthermore, the company will have negotiations with some existing brands to distribute its products directly instead of via sales agents. Nevertheless, accessories/watches segment still cannot bring a considerable contribution to PNJ revenue and profit growth in a short term.

Figure 1: Net revenue, Net profit and Gross margin YoY



Source: PNJ

Figure 2: Same store sales growth



Source: PNJ

ASSESSMENT

PNJ successfully maintained a high growth in 2018 with the total revenue surging 33% and NPAT climbing 32%, which all exceeded the annual business plan. In 2019, PNJ expects to record revenue and NPAT growth of 24% and 23% respectively. This plan is somewhat more prudent than the one in 2018, but it is still considered positive. We believe that PNJ development strategy in retail and wholesale segments are quite reasonable. In the next years, the potential growth of PNJ is still large as the company aims at expanding its market to HCMC surrounding areas. This brings a bright prospect for the company, which has already been partly proved.

PNJ shares are currently traded at VND95,000 (February 01, 2019), equal to the P/E trailing of 16.52x. With its leading position in a highly fragmented jewelry market, and the trend of consumers towards branded fashion jewelry, PNJ has the biggest advantage compared to competitors thanks to its famous brand name and broad retail network. Therefore, we maintain the **POSITIVE** outlook for PNJ in the medium and long term.

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

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