

PHU NHUAN JEWELRY JSC (PNJ)

| | | | | |
|-----------------------------------|-----------------------------------|-------------------------------|-----------------------|---------------------------------|
| Market Price VND108,900 | Target Price VND113,500 | Dividend Yield 1.6% | Rating HOLD | Sector CONSUMER GOODS |
|-----------------------------------|-----------------------------------|-------------------------------|-----------------------|---------------------------------|

Outlook – Short term



Outlook – Long term



Valuation



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Tuan Nguyen Thanh

tuan.nguyenthanh@vndirect.com.vn

Price performance



Source: VNDIRECT

Key statistics

| | |
|------------------------------|---------|
| 52w high (VND) | 115,000 |
| 52w low (VND) | 65,500 |
| 3m Avg daily volume (shares) | 300,000 |
| 3m Avg daily value (VNDmn) | 24,073 |
| Market cap (VND bn) | 11,945 |
| Outstanding shares (m) | 108 |
| Free float (%) | 53 |

Ownership

| | |
|--------------------------|--------|
| Cao Thi Ngoc Dung | 9.22% |
| LGM Investment | 4.53% |
| Route One Investment Co. | 4.06% |
| Others | 82.19% |

Source: VNDIRECT

PNJ's seasonal decline in 3Q gross margin will not significantly affect full year results. Price fall was more sentiment-driven.

Drop in Q3 gross margin disappointed the market. PNJ has announced the prelim results for 3Q and 9M2017. The announcement showed positive 3Q growth in revenue (20% yoy) and EBT (12% yoy) but a 200 bps drop in gross margin on a sequential basis (3Q's GM of 15.2% compared with 1H's GM of 17.2%); note that 3Q GM last year came in at 15.9% (versus 1H2016 GM of 17.9%). After the figures were published on Oct. 12th, the stock fell 2.8% to close at VND108,900/share which is unwarranted in light of last year's trend.

According to PNJ, 3rd quarter is the low season for jewelry retail sales which is the highest margin business line; the consequent decrease in jewelry retail sales contribution to total revenues dragged down blended gross margins and the company expects GM to recover in 4Q when it comes to wedding season.

9M prelim results were, nonetheless, encouraging. PNJ projected accumulated net revenue of VND7,910bn (+34% yoy), gross profit of VND1,319bn (+28% yoy), and EBT of VND629bn (+42% yoy). Besides, PNJ announced sale-store-sales growth (SSSG) for 9M2017 of 22% yoy, marking a seasonally-induced sequential deceleration from 1H2017's figure of 28% yoy but still very strong.

Retail footprint still expanding rapidly. In 3Q, PNJ opened 11 new stores, taking total estimated store count to 250 stores by September end. In the first 9 months of this year, the company has opened 33 new stores and plans to keep up the pace of expansion to reach its target of 300 stores by 2Q18.

PNJ's results are still in line with our latest forecasts of FY17 net revenue of VND10,822bn, EBT of VND968bn and EAT of VND753bn. Our projected FY17 EPS is VND6,872/share (after deducting bonus and welfare allocation). We will follow up with an updated forecast and valuation when PNJ releases its audited 3Q financial statements.

| Financial summary (VND) | 12-14A | 12-15A | 12-16A | 12-17E |
|-------------------------|--------|--------|--------|--------|
| Revenue (bn) | 9,199 | 7,708 | 8,565 | 10,822 |
| Revenue growth | 3.2% | -16.2% | 11.1% | 26.4% |
| Gross margin | 9.7% | 15.2% | 16.5% | 17.5% |
| Operating EBITDA (bn) | 436 | 659 | 759 | 1,097 |
| Net profit (bn) | 242 | 152 | 450 | 753 |
| Net profit growth | 48.6% | -37.2% | 195.8% | 67.2% |
| EPS | 3,208 | 1,752 | 4,383 | 6,872 |
| BVPS | 17,150 | 14,188 | 15,267 | 20,402 |
| ROAE | 18.5% | 11.3% | 31.1% | 43.0% |

Source: VNDIRECT

VNDIRECT RECOMMENDATION FRAMEWORK

The recommendation is based on the total expected return of the stock, calculated by the percentage difference between the target price and the market price at the date of the report. Unless otherwise specified, stock recommendations have an investment horizon of 12 months.

Recommendation

| | |
|--------|---|
| ADD | Target price is 15% or more higher than current market price |
| HOLD | Target price is between 10% below to 15% above current market price |
| REDUCE | Target price is 10% or more lower than current market price |

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Anirban Lahiri (Mr.) – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Phuong Nguyen Mai, CFA – Director

Email: phuong.nguyenmai@vndirect.com.vn

Tuan Nguyen Thanh – Analyst

Email: tuan.nguyenthanh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>