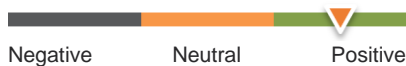


PHU NHUAN JEWELRY JSC (PNJ) – EARNINGS UPDATE

Market Price VND143,000	Target Price VND143,700	Dividend Yield 1.28%	Rating HOLD	Sector CONSUMER GOODS
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Outlook – Short term



Outlook – Long term



Valuation



23 January 2018

Tuan Nguyen Thanh

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PNJ's NPAT grew at an impressive clip in 2017, but undershot our forecast as a result of the sharp increase in SG&A costs. However, the stock price rose to almost touch our target price, reflecting the bright outlook for 2018. We maintain our target price and HOLD recommendation for now.

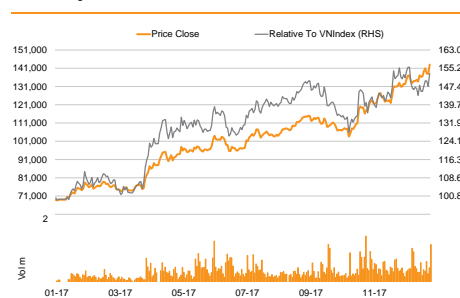
PNJ's store network is still growing rapidly, resulting in 39% growth in retail revenue in 2017. In 2017, PNJ opened 48 new stores, taking its total store count to 269 by the end of December (+22.8%). The company needs to open 31 more stores to reach the symbolic 300 stores mark in time for the 30th anniversary of PNJ's establishment. We think that this target could be achieved by the end of 2Q 2018.

2017 results were impressive with 61% growth in reported NPAT and 38% growth in recurring NPAT (excluding provisions for DongA Bank, DongA Land divestment, and asset liquidations in 2016). This was driven by 28% growth in net revenue and a 90bps increase in its gross margin (to 17.4%) thanks to higher contribution of retail revenue at the expense of low margin wholesale and gold bar trading.

2018 promises to be another great year for PNJ. We expect strong growth to continue into 2018, with topline growth of 19.6% and 55.2% bottom line growth based on 40 new store openings in the year and 12% SSSG. We project that retail revenue, which has very favourable margins, will grow by 36% and lift its GM to 19.2%.

PNJ remains our top pick to bet on Vietnam's retail story. Its stock price recently surged and met our latest target price of VND143,700 per share, translating into 2018 P/E of 14.4x. We still see further upside over the long-term because of (1) surging consumption supported by strong macro fundamentals, (2) PNJ's leading position in the jewelry retail market and aggressive plans to further consolidate its market share through rapid network expansion. However, we await further details on the company's 2018 business plan to revisit our current valuation.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	143,000
52w low (VND)	68,600
3m Avg daily volume (shares)	346,310
3m Avg daily value (VNDmn)	41,565
Market cap (VNDbn)	14,918
Outstanding shares (m)	108
TTM P/E (x)	20.9
P/B (x)	5.5

Ownership

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

Source: VNDIRECT

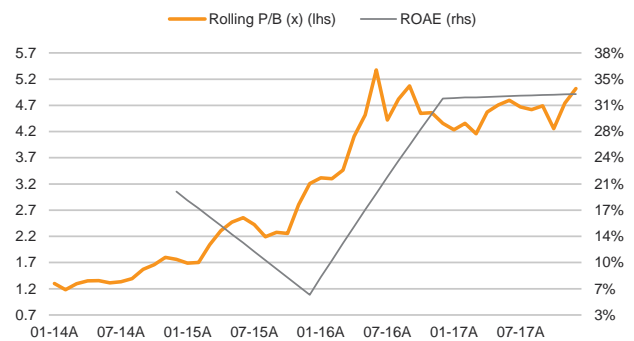
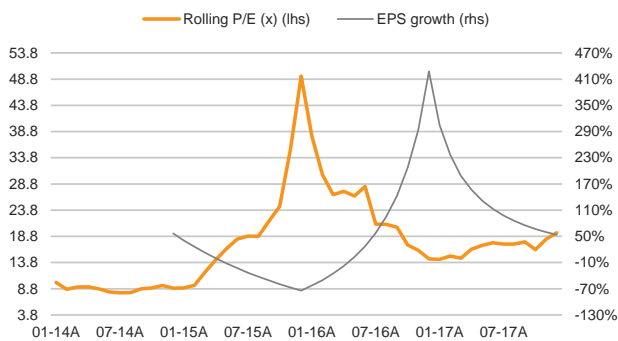
Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net revenue (bn)	7,706	8,565	10,977	13,127
Revenue growth	(16.2%)	11.1%	28.2%	19.6%
Gross margin	15.2%	16.5%	17.4%	19.2%
EBITDA margin	3.9%	8.2%	9.1%	11.2%
Net profit (bn)	76	450	726	1,126
Net profit growth	(70.5%)	496.3%	61.1%	55.2%
Recurring profit growth	63.3%	20.8%	37.8%	50.1%
Basic EPS	869	4,584	7,032	10,419
Adjusted EPS	869	4,383	6,841	9,929
BVPS	13,383	15,267	27,292	34,811
ROAE	5.8%	32.0%	32.6%	33.6%

Source: VNDIRECT

The slowdown in revenue growth during H2 did not materially drag on its full year performance. PNJ reported 4Q net revenue of VND3,222bn (+21.8% YoY), which allowed its full year figures to reach VND10,977bn (+28%, the highest since 2013). Sales growth of 4Q was in line with 3Q but lower than 1H's level of 39%. The reason can be partly explained by the decreasing same store sales growth in recent months. Full year SSSG was reported at 21% compared with 27% in H1. The slowdown in quarterly revenue growth is not yet a major concern in our view. The company said that high SSSG in 1H2017 mainly came from the low base in the same period in 2016, and its target SSSG for the next few years is only 12% per year.

SG&A expenses sharply increased, which dragged PNJ's profit below our forecasts. As a result of its aggressive store expansion, full year labor expenses surged 48%, leading to a 40% increase in SG&A expenses (VND962bn, accounting for 8.8% of net revenue, compared to 8.0% in 2016). The company's SG&A expenses were 10% higher than our estimate, resulting in a lower-than-expected NPAT of VND725bn (compared to the latest forecast of VND795bn).

Valuation



Income statement

(VNDbn)	12-16A	12-17A	12-18E
Net revenue	8,565	10,977	13,127
Cost of sales	(7,153)	(9,065)	(10,606)
Gen & admin expenses	(133)	(188)	(224)
Selling expenses	(554)	(775)	(927)
Operating profit	724	950	1,369
Operating EBITDA	759	989	1,404
Depreciation and amortisation	(34)	(39)	(35)
Operating EBIT	724	950	1,369
Interest income	5	9	13
Financial expense	(182)	(56)	(45)
Net other income	43	6	71
Income from associates & JVs	(1)	0	(0)
Pre-tax profit	591	908	1,408
Taxation	(140)	(183)	(282)
Minority interests			
Net profit	450	726	1,126
Adj. net profit to ordinary	450	726	1,126
Ordinary dividends	0	0	0
Retained earnings	450	726	1,126

Balance sheet

(VNDbn)	12-16A	12-17A	12-18E
Cash and equivalents	155	335	154
Short term investments	0	0	0
Accounts receivables	63	85	86
Inventories	2,839	3,402	4,338
Other current assets	46	74	72
Total current assets	3,103	3,896	4,649
Fixed assets	416	487	567
Total investments	0	0	0
Other long-term assets	70	109	0
Total assets	3,588	4,493	5,216
Short-term debt	1,449	881	602
Accounts payable	326	294	352
Other current liabilities	247	348	422
Total current liabilities	2,022	1,523	1,375
Total long-term debt	59	11	10
Other liabilities	7	8	68
Share capital	983	1,081	1,081
Retained earnings reserve	374	772	1,638
Shareholders' equity	1,500	2,950	3,763
Minority interests	0	0	0
Total liabilities & equity	3,588	4,493	5,216

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18E
Pre-tax profit	591	908	1,408
Depreciation & amortisation	34	39	35
Tax paid	(160)	(154)	(282)
Other adjustments	145	47	105
Change in working capital	(637)	(734)	(835)
Cash flow from operations	(27)	107	431
Capex	(87)	(115)	(115)
Proceeds from assets sales	165	8	0
Others	68	4	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	146	(102)	(115)
New share issuance	0	975	0
Shares buyback	0	0	0
Net borrowings	244	(615)	(282)
Other financing cash flow	0	0	0
Dividends paid	(246)	(185)	(216)
Cash flow from financing activities	(1)	175	(498)
Cash and equivalents at beginning of period	38	155	335
Total cash generated	117	180	(182)
Cash and equivalents at the end of period	155	335	154

Key ratios

	12-16A	12-17A	12-18E
Dupont			
Net profit margin	5.3%	6.6%	8.6%
Asset turnover	2.61	2.72	2.70
ROAA	13.7%	18.0%	23.2%
Avg assets/avg equity	2.33	1.82	1.45
ROAE	32.0%	32.6%	33.6%
Efficiency			
Days account receivable	0.42	0.37	0.38
Days inventory	145	137	149
Days creditor	16.7	11.8	12.1
Fixed asset turnover	19.0	24.3	24.9
ROIC	15.0%	18.9%	25.7%
Liquidity			
Current ratio	1.53	2.56	3.38
Quick ratio	0.13	0.32	0.23
Cash ratio	0.08	0.22	0.11
Cash cycle	129	126	138
Growth rate (yoy)			
Revenue growth	11.1%	28.2%	19.6%
Operating profit growth	15.6%	31.1%	44.1%
Net profit growth	496.3%	61.1%	55.2%
EPS growth	427.5%	53.4%	48.2%
Share value			
Basic EPS (VND)	4,584	7,032	10,419
BVPS (VND)	15,267	27,292	34,811

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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