

PHU NHUAN JEWELRY JSC (PNJ) – EARNINGS UPDATE

Market Price VND82,800	Target Price VND88,000	Dividend Yield 2.4%	Rating HOLD	Sector RETAIL
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Outlook – Short term



Outlook – Long term



Valuation



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Operational recovery in sight

Performance in 3Q19 improved from previous quarter. PNJ posted 3Q19 net revenue of VND3,934bn (+24.9% yoy) and net profit of VND208bn (+17.1% yoy), an impressive recovery from the slumps of 7.9% yoy and 6.3% yoy in 2Q19 revenue and net profit. For 9M19, revenue and net profit grew +11.1% yoy and 16.1% yoy, respectively, making up 71.2% and 69.5% of our FY19 forecasts.

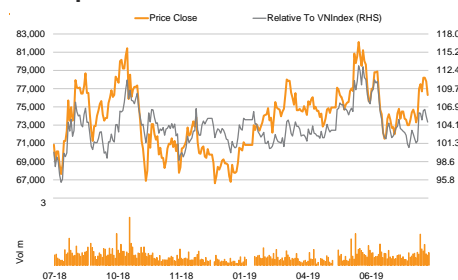
Operational recovery arrived in late Aug. According to Management, issues related to the new Enterprise Resource Planning (ERP) system have been resolved and production started running at full capacity since late-August. We estimated that retail sales bounced back strongly +24.5% yoy in Sep, well above the rate of +9.5% yoy seen in Jul-Aug or the 2.0% yoy decline in 2Q19. For 9M19, retail sales grew moderately 11.1% yoy on the back of: 1) estimated store sales growth of 4.4% yoy in 9M19, 2) the opening of 25 new stores in the period, and 2) the full contribution of the 61 stores opened in 2018.

The surge in financial and operating expenses offset GM expansion in 9M19. Blended gross margin gained 2.3% pts in 9M19, mainly driven by larger revenue contribution from premium products (especially high-margin gemstone jewellery) and better material-waste control thanks to the ERP system. A surge of 97.7% yoy in 9M19 short-term debt funding for working capital has triggered an 85.5% rise in 9M19 interest expenses. Additionally, 9M19 SG&A expenses jumped 25.9% yoy due to the ERP system implementation. All in, 9M19 pre-tax margin declined softly by 1.9% pts yoy.

PNJ slowed store expansion in 3Q19. While resolving the ERP system-related problems and avoiding the Hungry Ghost Festival in Aug, PNJ only opened six new gold stores in 3Q19, bringing to 345 the total store count, including 278 gold stores, 63 silver stores and 4 CAO stores (completing 71% of our projection). However, with sites secured, PNJ will speed up opening the planned 19 stores in 4Q19, especially in Nov to prepare for the wedding season and Tet, or the Lunar New Year festival.

Downgrade to HOLD as market price is close to our TP of VND88,000. Potential re-rating catalyst includes faster-than-expected store openings and the higher-than-expected SSSG of PNJ's Gold stores. The downside risk is the lower-than-expected contribution from premium products in PNJ's product mix.

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	89,300
52w low (VND)	64,004
3m Avg daily volume (shares)	751,308
3m Avg daily value (VNDm)	63,347
Market cap (VNDbn)	18,473
Outstanding shares (m)	223
Free float (%)	81
TTM P/E (x)	17.2
Current P/B (x)	4.5

Ownership

Cao Thi Ngoc Dung	9.0%
LGM Investments Ltd	4.4%
Route One Investment Company	3.9%
Others	82.7%

Source: VNDIRECT RESEARCH

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	10,977	14,573	16,402	19,189
Revenue growth	28.2%	32.8%	12.6%	17.0%
Gross margin	17.4%	19.1%	21.1%	21.3%
EBITDA margin	9.1%	9.0%	9.9%	11.2%
Net profit (bn)	725	960	1,157	1,554
Net profit growth	60.8%	32.4%	20.5%	34.3%
Recurring profit growth	76.2%	33.1%	20.6%	34.4%
Basic EPS	6,707	5,749	5,905	6,910
Adjusted EPS	6,013	5,246	5,435	6,474
BVPS	27,290	22,425	20,009	24,927
ROAE	32.6%	28.7%	28.1%	30.8%

Source: VNDIRECT RESEARCH

Figure 1: 9M19 results review

FYE (VNDbn)	3QFY18	3QFY19	% yoy	9MFY18	9MFY19	% yoy	vs. FY19 forecast	Comments
Net revenue	3,150.8	3,934.0	24.9%	10,507.7	11,679.3	11.1%	71.2%	In line with our forecast (3Q accounted for 24.0% of our FY19 topline forecast), thanks to 1) average sales per store improvement (+4.4% yoy) following the recovery from operational issues of the new ERP systems, 2) 25 new stores opened in 9MFY19 and 3) full contribution of 61 stores opened in 2018
<i>Jewellery revenue</i>	2,676.1	3,130.4	17.0%	8,558.2	9,062.9	5.9%	69.4%	
<i>Gold bar</i>	459.9	791.9	72.2%	1,901.9	2,557.8	34.5%	81.4%	
Gross profit	600.0	753.1	25.5%	1,952.9	2,438.2	24.9%	70.4%	Slightly below our estimates, due to the higher-than-expected contribution of gold bar, which yields lower margin (22.0% total sales in 9M19 vs. 19.2% per our forecast), given high demand for gold trading following the gold price volatility in 3Q19
<i>Gross profit margin</i>	19.0%	19.1%	+0.1% pts	18.6%	20.9%	+2.3% pts	-0.2% pts	
Selling expenses	268.1	340.8	27.1%	818.6	994.9	21.5%	68.5%	
<i>as % of revenue</i>	8.5%	8.7%	+0.2% pts	7.8%	8.5%	+0.7% pts	-0.4% pts	
G&A expenses	93.0	113.7	22.3%	227.3	345.5	52.0%	73.4%	
<i>as % of revenue</i>	3.0%	2.9%	-0.1% pts	2.2%	3.0%	+0.8% pts	+0.1% pts	
Interest expenses	15.3	29.0	89.5%	40.1	74.4	85.5%	70.5%	
Operating profit	221.7	268.0	20.9%	868.3	1,021.7	17.7%	70.7%	
Pre-tax profit	221.1	268.0	21.2%	869.4	1,021.3	17.5%	70.5%	
Net profit	177.7	208.0	17.1%	694.4	805.9	16.1%	69.5%	In line with our forecast as we project 4Q to be the peak season (accounting for ~30% of our full-year forecast)
Net margin	5.6%	5.3%	-0.3% pts	6.6%	6.9%	+0.3% pts	-0.2% pts	

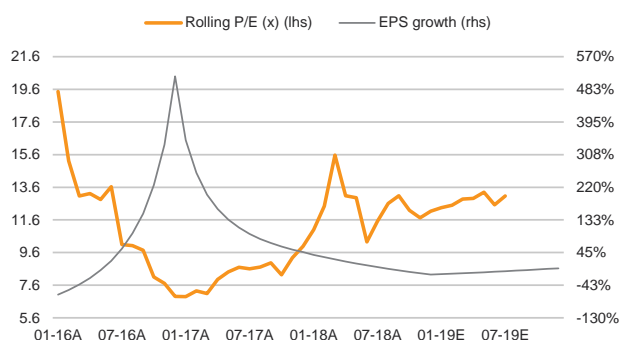
Source: PNJ, VNDIRECT RESEARCH

Figure 2: Peer Comparison (as at 22/10/2019)

Company	Ticker	Recom.	Target Price (VND)	Market Cap (US\$ m)	EPS growth (%)		P/E (x)		P/B (x)		ROE (%)		ROA (%)	
					FY19F	FY20F	FY19F	FY20F	FY19F	FY20F	TTM	FY19F	TTM	FY19F
Tiffany & Co	TIF US	NA	NA	10,988	15.0	2.6	18.7	17.5	3.2	3.0	17.99	18.21	9.77	10.98
Chow Tai Fook Jewellery Group Ltd	1929 HK	NA	NA	8,786	14.2	-2.1	15.0	12.9	2.2	2.1	14.3	14.9	7.6	8.0
Chow Sang Sang Holdings International Ltd	116 HK	NA	NA	739	15.4	-1.7	5.8	5.5	0.5	0.5	9.6	9.2	6.9	7.7
LEYSEN Jewelry Inc	03900 CH	NA	NA	547	-32.2	-10.5	20.5	20.1	1.6	1.5	6.9	7.5	5.7	5.5
Average				5,265	3.1	(2.9)	15.0	14.0	1.9	1.8	12.2	12.5	7.5	8.1
Median				4,763	14.6	(1.9)	16.8	15.2	1.9	1.8	11.9	12.0	7.3	7.9
Phu Nhuan Jewelry JSC	PNJ VN	HOLD	88,000	796	19.0	33.0	13.9	11.9	4.1	3.3	28.6	28.1	16.4	16.9

Source: BLOOMBERG, VNDIRECT RESEARCH

Valuation

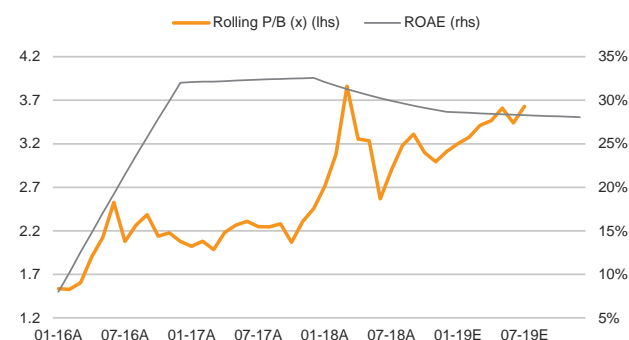


Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	14,573	16,402	19,189
Cost of sales	(11,794)	(12,937)	(15,099)
Gen & admin expenses	(346)	(471)	(484)
Selling expenses	(1,171)	(1,452)	(1,552)
Operating profit	1,262	1,542	2,054
Operating EBITDA	1,304	1,608	2,133
Depreciation and amortisation	(42)	(66)	(79)
Operating EBIT	1,262	1,542	2,054
Interest income	7	8	9
Financial expense	(66)	(106)	(123)
Net other income	3	3	3
Income from associates & JVs	0	0	0
Pre-tax profit	1,206	1,447	1,943
Tax expense	(246)	(290)	(389)
Minority interest	0	0	0
Net profit	960	1,157	1,554
Adj. net profit to ordinary	960	1,157	1,554
Ordinary dividends	(265)	(450)	(450)
Retained earnings	695	707	1,104

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	207	482	1,299
Short term investments	0	0	0
Accounts receivables	176	184	198
Inventories	4,816	5,411	5,977
Other current assets	82	98	118
Total current assets	5,281	6,175	7,592
Fixed assets	719	862	1,013
Total investments	0	0	0
Other long-term assets	304	312	323
Total assets	6,304	7,349	8,928
Short-term debt	1,558	1,753	2,051
Accounts payable	291	297	343
Other current liabilities	693	782	913
Total current liabilities	2,542	2,832	3,307
Total long-term debt	8	8	8
Other liabilities	9	9	7
Share capital	1,670	2,249	2,249
Retained earnings reserve	885	983	1,980
Shareholders' equity	3,745	4,500	5,606
Minority interest	0	0	0
Total liabilities & equity	6,304	7,349	8,928



Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
Pretax profit	1,206	1,447	1,943
Depreciation & amortisation	42	66	79
Tax paid	(232)	(290)	(389)
Other adjustments	(175)	(3)	3
Change in working capital	(1,144)	(519)	(426)
Cash flow from operations	(303)	701	1,210
Capex	(336)	(210)	(232)
Proceeds from assets sales	1	2	2
Others	6	0	0
Other non-current assets changes	160	(8)	(11)
Cash flow from investing activities	(169)	(216)	(241)
New share issuance	97	45	0
Shares buyback	0	0	0
Net borrowings	672	195	298
Other financing cash flow	0	0	0
Dividends paid	(265)	(450)	(450)
Cash flow from financing activities	504	(210)	(152)
Cash and equivalents at beginning of period	175	207	482
Total cash generated	32	275	817
Cash and equivalents at the end of period	207	482	1,299

Key ratios

	12-18A	12-19E	12-20E
Dupont			
Net profit margin	6.6%	7.1%	8.1%
Asset turnover	2.70	2.40	2.36
ROAA	17.8%	16.9%	19.1%
Avg assets/avg equity	1.61	1.66	1.61
ROAE	28.7%	28.1%	30.8%
Efficiency			
Days account receivable	1.98	1.69	1.70
Days inventory	149	153	145
Days creditor	9.01	8.38	8.31
Fixed asset turnover	24.2	20.7	20.5
ROIC	18.1%	18.5%	20.3%
Liquidity			
Current ratio	2.08	2.18	2.30
Quick ratio	0.18	0.27	0.49
Cash ratio	0.08	0.17	0.39
Cash cycle	142	146	138
Growth rate (yoy)			
Revenue growth	32.8%	12.6%	17.0%
Operating profit growth	33.0%	22.2%	33.2%
Net profit growth	32.4%	20.5%	34.3%
FD EPS growth	29.0%	19.0%	33.0%
Share value			
Basic EPS (VND)	5,749	5,905	6,910
BVPS (VND)	22,425	20,009	24,927

Source: VNDIRECT RESEARCH

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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.

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