

PHU NHUAN JEWELRY JSC (PNJ) – EARNINGS UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND67,000	VND78,800	2.28%	ADD	CONSUMER GOODS

22 October 2020

Outlook – Short term: Neutral
Outlook – Long term: Positive
Valuation: Positive

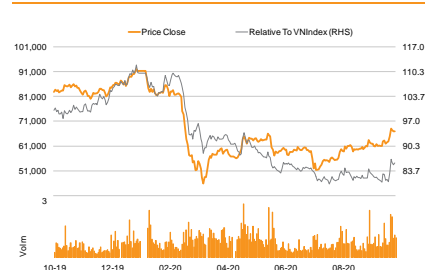
Consensus*: Add:6 Hold:3 Reduce:1

Target price / Consensus: 12%

Key changes in the report

➤ No change

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	92,000
52w low (VND)	45,900
3m Avg daily value (VNDmn)	40,831
Market cap (VND bn)	15,083
Free float (%)	64
TTM P/E (x)	14.6
Current P/B (x)	3.1

Ownership

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

Source: VND RESEARCH

Analyst(s):



Phan Nhu Bach

bach.phannhu@vndirect.com.vn

www.vndirect.com.vn

Wedding season is coming

- PNJ posted VND3,962bn (-0.1% yoy) and VND202bn(-2.8% yoy) in 3Q20 revenue and NP, respectively.
- For 9M20, revenue edged up 0.1% yoy to VND11,779bn while net profit fell 20.3% yoy to VND642bn, making up 66% of our forecast.
- Reiterate ADD with unchanged TP of VND78,800.

3Q20 results: recovery underway

- In Sep 20, PNJ reported VND1,239bn (-1.5% yoy) in revenue and VND94bn (-0.4% yoy, +80.1% mom) in net profit, signaling a strong rebound from the performance of Aug 20 (-11.5% yoy in NP). These 3Q20 results were positive amid the impacts of the second Covid-19 outbreak in Vietnam, in our view.
- 3Q20 revenue stayed flat at VND3,962bn (-0.1% yoy) thanks to the 19.1% yoy/9.5% yoy respective revenue growth of gold bar and retail sale segments, offsetting the 40% yoy drop of wholesale channel.
- 3Q20 gross margin contracted 5% pts yoy due to higher contribution of gold bar sales at 28.7% of total revenue (+4.6% pts yoy).
- 3Q20 financial expenses increased 37% yoy on increasing short-term debts since 2H19 to support PNJ's expansion and inventory stocking.
- Altogether, 3Q20 NP slightly fell 2.8% yoy to VND202bn. For 9M20, net profit sank 20.3% yoy to VND642bn, making up 66% of our forecast.

Unveil the new concept – STYLE by PNJ

On 18 Oct 20, PNJ launched a new concept – STYLE by PNJ – which targets to offer young generation a wide range of products (gold, silver jewelry, watches,...) at reasonable prices. We believe the new concept is attractive as it leverages on customers' jewelry experience with new and modern spaces in the STYLE by PNJ areas and customer-oriented products based on their personality to create their lifestyle. Thereby, this new concept can support the sales of PNJ's stores, especially PNJ silver stores. PNJ plans to re-design its silver stores (38 stores, or 11% of total stores at end-9M20) with this new concept.

Hope on the upcoming wedding season (4Q20-1Q21)

According to PNJ, its revenue in Vietnamese women's day (20 Oct 2020) increased 50% yoy thanks to big sales promotion program, better brand awareness after mass media advertising in 9M20. The peak seasons of PNJ's sales are usually winter and spring, combined with the pent-up effects after many weddings have been delayed due to the social distancing in two waves of Covid-19 (in Apr 20 and Jul-Aug 20), thus PNJ expects a stellar performance in 4Q20. We expect VND340bn for 4Q20 net profit (-12% yoy), making up the remaining 34.3% of our full-year forecast.

Reiterate ADD with unchanged TP of VND78,800

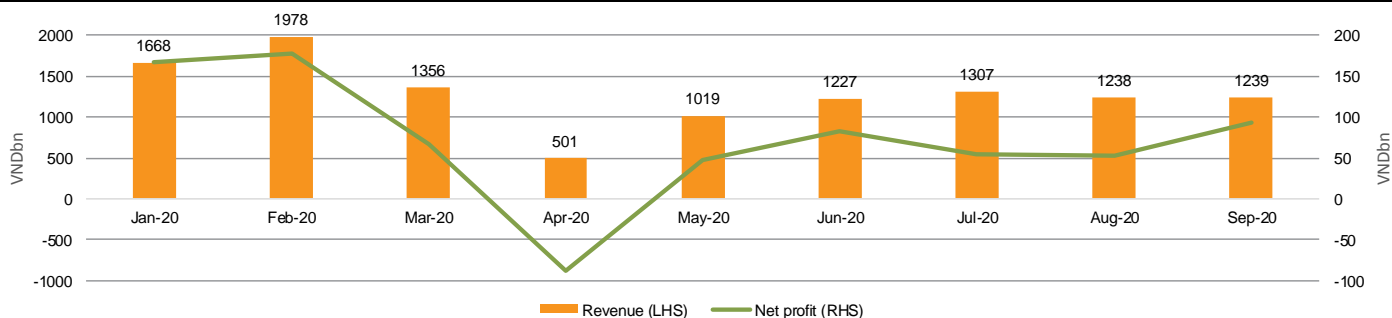
Potential re-rating catalysts include 1) a faster-than-expected store opening speed, 2) better-than-expected demand recovery after the pandemic, and 3) the launch of new products which is expected to boost sales. Downside risk to our call is the next wave of COVID-19 outbreak in Vietnam which could lead to another social distancing period.

Figure 1: 9M20's results comparison (Unit: VNDbn)

	3Q20	3Q19	% yoy	9M20	9M19	% yoy	9M20 vs 2020F VND's forecast	Comments
Revenue	3962.2	3966.3	-0.1%	11779.1	11770.2	0.1%	68.4%	Below expectations due to the 2nd wave of Covid-19 in Danang, lead to a social distancing period in this regions.
COGS	3188.0	3181.0	0.2%	9410.7	9241.2	1.8%	66.6%	
Gross profit	734.3	753.1	-2.5%	2257.4	2438.1	-7.4%	73.1%	Inline with our forecast thanks to a higher GPM (19.2%) vs our expectation of 18% for 2020F
GPM	18.5%	19.0%	-0.5% pts	19.2%	20.7%	-1.6% pts		
Net financial expense	42.3	30.8	37.1%	128.8	76.3	68.8%	148.5%	Higher than our forecast due to PNJ's expansion and stocking inventory plan since 2H19, lead to the increase in PNJ's short-term debt to a high level, which the debts as at 30 Jun 2020 jumped 82% yoy to VND2,647bn.
Selling expense	318.8	340.8	-6.5%	976.1	994.9	-1.9%	70.3%	
%Revenue	8.0%	8.6%	-0.5% pts	8.3%	8.5%	-0.2% pts		
G&A expense	113.0	113.7	-0.6%	337.5	345.5	-2.3%	86.1%	
%Revenue	2.9%	2.9%	0.0% pts	2.9%	2.9%	-0.1% pts		
SG&A expense	431.8	454.5	-5.0%	1313.6	1340.4	-2.0%	73.8%	Inline with our forecast
SG&A %Revenue	10.9%	11.5%	-0.6% pts	11.2%	11.4%	-0.2% pts		
Operating profit	260.3	267.7	-2.8%	815.0	1021.4	-20.2%		
EBT	256.1	268.0	-4.5%	810.5	1021.3	-20.6%		
Net profit	202.1	208.0	-2.8%	642.0	805.9	-20.3%	65.7%	Below expectations but we believe the peak season of PNJ's sales will be 4Q20 which may boost to PNJ's net profit in 4Q20 to finish our 2020F forecast

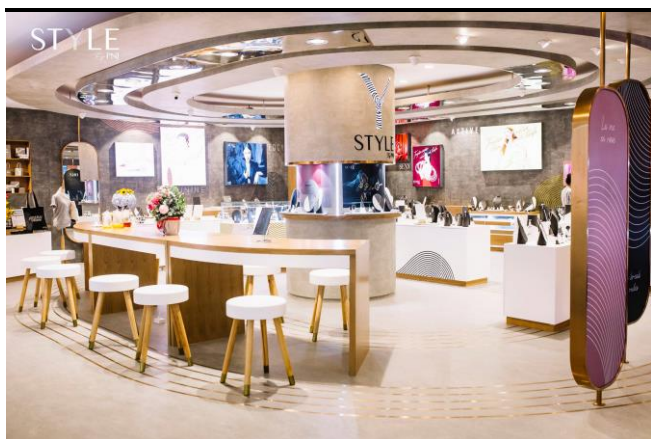
Sources: VND RESEARCH, COMPANY REPORTS

Figure 2: PNJ's performance in 2020 (monthly)



Sources: VND RESEARCH, COMPANY REPORTS

Figure 3: Space of PNJ's new concept – STYLE by PNJ



Sources: VND RESEARCH, COMPANY REPORTS

Figure 4: Space of PNJ's new concept – STYLE by PNJ



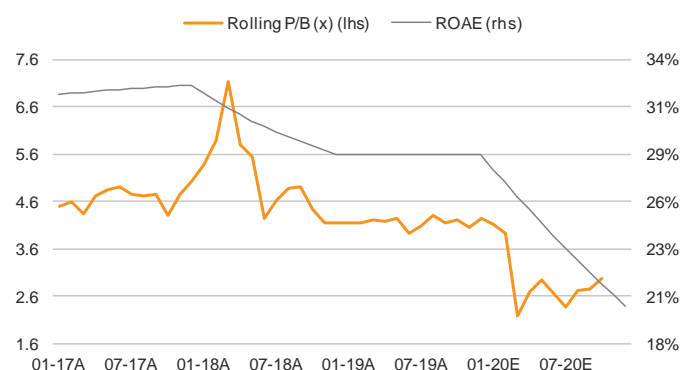
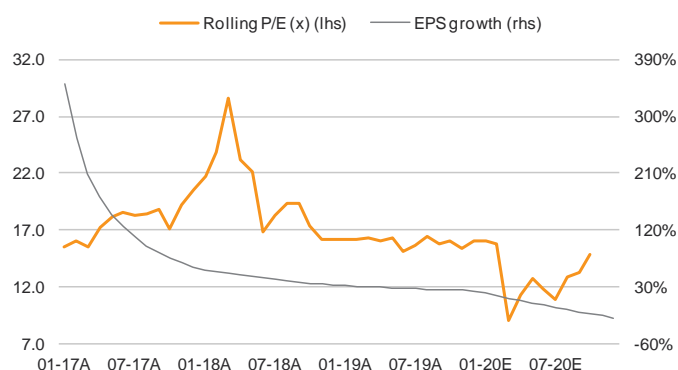
Sources: VND RESEARCH, COMPANY REPORTS

Figure 5: Peer Comparison

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY20F	FY21F		TTM	FY20F	FY21F	TTM	FY20F	FY21F	TTM	FY20F	FY21F
Jewelry retailers																		
Phu Nhuan Jewelry JSC	PNJ VN	ADD	67,000	78,800	651	14.6	17.1	14.6	32.0%	3.1	3.0	2.8	22.8%	20.0%	22.0%	13.1%	10.9%	12.4%
Tiffany & Co	TIF US	na	na	na	14,904	50.3	50.2	29.5	12.5%	4.7	4.2	4.0	7.7%	7.4%	14.2%	3.7%	3.9%	7.9%
Chow Tai Fook Jewellery Group Ltd	1929 HK	na	10.30	na	13,290	35.5	24.1	19.5	3.0%	3.9	3.8	3.6	10.2%	15.9%	19.1%	4.6%	7.1%	8.8%
Chow Sang Sang Holdings Ltd	116 HK	na	8.46	na	739	23.9	10.9	6.3	-1.0%	0.5	0.5	0.5	2.2%	4.8%	8.0%	1.5%	3.1%	5.5%
Average - Jewelry retailers					9,645	36.6	28.4	18.4	4.8%	3.0	2.8	2.7	6.7%	9.4%	13.8%	3.3%	4.7%	7.4%

All prices are based on the closing prices on 21 Oct 2020. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates

Sources: BLOOMBERG, VNDIRECT RESEARCH

Valuation

Income statement

(VNDbn)	12-19A	12-20E	12-21E
Net revenue	17,001	17,215	19,208
Cost of sales	(13,540)	(14,126)	(15,728)
Gen & admin expenses	(479)	(392)	(403)
Selling expenses	(1,363)	(1,388)	(1,427)
Operating profit	1,619	1,309	1,650
Operating EBITDA	1,675	1,365	1,711
Depreciation and amortisation	(56)	(56)	(61)
Operating EBIT	1,619	1,309	1,650
Interest income	2	8	9
Financial expense	(119)	(95)	(85)
Net other income	1	0	(1)
Income from associates & JVs	0	0	0
Pre-tax profit	1,503	1,222	1,573
Tax expense	(312)	(244)	(315)
Minority interest	0	0	0
Net profit	1,191	978	1,258
Adj. net profit to ordinary	1,191	978	1,258
Ordinary dividends	(344)	(406)	(406)
Retained earnings	847	572	852

Balance sheet

(VNDbn)	12-19A	12-20E	12-21E
Cash and equivalents	95	974	751
Short term investments	0	0	0
Accounts receivables	138	163	184
Inventories	7,019	6,052	6,588
Other current assets	78	139	118
Total current assets	7,330	7,328	7,641
Fixed assets	923	989	1,192
Total investments	0	0	0
Other long-term assets	346	344	352
Total assets	8,599	8,661	9,185
Short-term debt	2,611	1,722	1,537
Accounts payable	688	467	579
Other current liabilities	719	1,316	1,063
Total current liabilities	4,018	3,505	3,179
Total long-term debt	4	4	4
Other liabilities	3	6	2
Share capital	2,253	2,253	2,253
Retained earnings reserve	1,042	1,670	2,450
Shareholders' equity	4,574	5,146	6,000
Minority interest	0	0	0
Total liabilities & equity	8,599	8,661	9,185

Cash flow statement

(VNDbn)	12-19A	12-20E	12-21E
Pretax profit	1,503	1,222	1,573
Depreciation & amortisation	56	56	61
Tax paid	(291)	(244)	(315)
Other adjustments	(186)	(94)	46
Change in working capital	(1,757)	1,265	(671)
Cash flow from operations	(675)	2,205	694
Capex	(208)	(121)	(267)
Proceeds from assets sales	1	1	1
Others	1	0	0
Other non-current assets changes	0	88	(36)
Cash flow from investing activities	(206)	(32)	(302)
New share issuance	69	0	0
Shares buyback	(2)	0	0
Net borrowings	1,048	(889)	(185)
Other financing cash flow	(2)	0	0
Dividends paid	(344)	(406)	(406)
Cash flow from financing activities	769	(1,295)	(591)
Cash and equivalents at beginning of period	207	95	974
Total cash generated	(112)	878	(199)
Cash and equivalents at the end of period	95	973	775

Key ratios

	12-19A	12-20E	12-21E
Dupont			
Net profit margin	7.0%	5.7%	6.5%
Asset turnover	2.28	1.99	2.15
ROAA	16.0%	11.3%	14.1%
Avg assets/avg equity	1.79	1.78	1.60
ROAE	28.6%	20.1%	22.6%
Efficiency			
Days account receivable	1.0	1.4	1.3
Days inventory	189.2	156.8	152.9
Days creditor	18.5	12.1	13.4
Fixed asset turnover	20.71	18.01	17.61
ROIC	16.6%	14.2%	16.7%
Liquidity			
Current ratio	1.8	2.1	2.4
Quick ratio	0.1	0.4	0.3
Cash ratio	-	0.3	0.2
Cash cycle	171.7	146.1	140.8
Growth rate (yoy)			
Revenue growth	16.7%	1.3%	11.6%
Operating profit growth	28.3%	(19.1%)	26.1%
Net profit growth	24.1%	(17.9%)	28.6%
EPS growth	24.1%	(18.8%)	28.6%

Source: VND 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.

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Phan Nhu Bach – Analyst

Email: bach.phannhu@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>