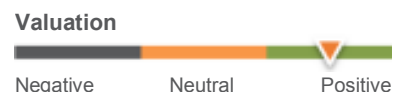
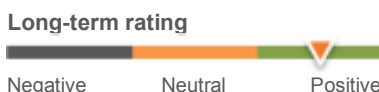
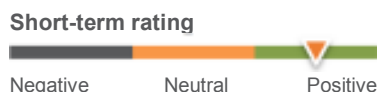


PHU NHUAN JEWELRY JOINT STOCK COMPANY (PNJ)

Market price VND92,900 **Targeted price** VND113,500 **Dividend yield** 1,9% **Recommendation** ADD **Sector** Consumer Goods

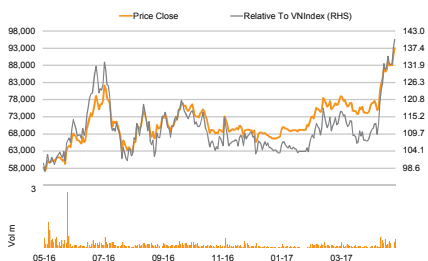


Date 05/05/2017

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Price performance



Source: VNDIRECT

Stock Profile

52w high (VND)	92,900
52w low (VND)	57,000
Average daily turnover (3m)	270,728
Market cap (VND) billion	8,942
Outstanding shares (m)	98.3
Free float (%)	53
Beta	0.29

Major shareholders

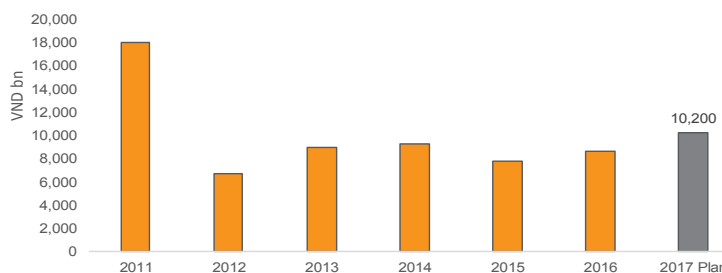
Shareholder	% share
Cao Th? Ng?c Dung	10.1
Dragon Capital	4.6
Route One Investment Company	4.5
LGM Investment Ltd	4

We note some positive news from PNJ: (1) 1Q results are better than expectation. (2) There is less pressure with the private placement plan. (3) There will be no change in the CEO position as previously announced. We raised our target price to VND113,500 per share and maintained our ADD rating.

Impressive FY17 business plan together with a better-than-expected 1Q results.

1Q17's results recovered to normal growth pace after a disappointed 4Q16, with sales and net profit going up 35% and 31%, respectively. The sharp increase in revenue was driven by a 44% yoy growth in sales of the gold retail business and 25% SSSG. PNJ increased the number of jewelry stores by 5 in 1Q17, and by 10 in April only.

PNJ's revenue in 2011-2017 period



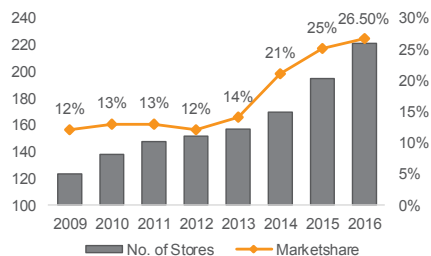
FY17 sales target of more than VND 10 trillion shows the commitment of the BOD. After a period of focusing on gold bar business and recording petroleum revenue, PNJ for the first time planed for revenue of over VND 10 trillion. In the report to the Annual General Meeting on April 27, PNJ set a net revenue target of VND10.2 trillion (up 19% from 2016) and gold retail sales target of VND5,116 billion (up 26% compared to 2016).

Unit: VND	Q1/2016	Q1/2017	2017 Plan	% Plan complete	2017 Forecast
Net revenue (Bn)	2,331	3,131	10,202	31%	10,822
Net revenue growth (yoy)		35%			26%
Gross margin	17.7%	17.3%	16.0%		17.5%
Gold Jewelry retail sale	1,038	1,495	5,136	29%	5,604
Retail sale growth (yoy)		44.0%			37%
Net profit (tỷ)	120	248	600	41%	753
Net profit growth (yoy)		31%			34.0%
EPS	1,228	2,531			7,665
EPS adjusted					7,261

Source: PNJ, VNDIRECT estimate

Although FY17's targets are significantly higher than FY16, we think Management's guidance still relatively conservative. We think a profit target of VND600 billion (+33% yoy) is relatively conservative because (1) Such figure suggests that core profit will only increase by 17%, (2) the targeted gross margin is similar to that of 2016 while the retail segment (with a high gross margin of 26-27%) is forecasted to grow well, (3) 1Q17's profit actually fulfilled 41% of the full year target.

PNJ's number of stores and market share



Source: VNDIRECT

Market share in 2016 continued to rise to 26.5%, maintaining the leading position of jewelry retailer. Ending the first five years of the 2012-2022 restructuring plan, PNJ has increased the number of stores from 147 to 219 and doubled its market share of branded jewelry from 12% to 26.5%. PNJ plans to open 80 more stores by 2017-2018 and reach 300 stores by early 2019.

FY17 Annual General Meeting Updates

The plan for new CEO will be postponed until 2019. As the CEO is required to take the position of Managing Director of Jewelry Manufacturer, it is still hard to find the new one. So Ms. Cao Thi Ngoc Dung will continue the position for another 2 or 3 years.

Circular No.39/2016/TT-NHNN, effective on March 15, 2017, allowing gold businesses to borrow capital, releases PNJ from working capital pressure. This helps PNJ to flexibly mobilize capital for expanding its retail chain and preparing for new business line. (PNJ has not revealed much about the new business line but it is expected to be related to core business). Before this Circular took effect, PNJ was not allowed to borrow money for gold business, so the firm had to access bank loans in other forms (e.g. loans for gem business).

The private placement plan might be delayed as Management only accept the issuance at attractive prices. Thanks to the easy access to bank loans, PNJ will no longer face difficulties in raising working capital as the firm did in late 2016, so its capital raising plan is no longer urgent.

The Board re-affirmed that Dong A Bank no longer affects PNJ's business as well as its personnel. In the recent AGM, the Board of Directors also left open the possibility of reversal of provision for DongA Bank stock if the market price for the stock (OTC price) is available for reference or if the firm is able to sell these shares. Whatever the case, PNJ will be able to record extraordinary profit if the share price is greater than zero.

Outstanding FY17 business performance to be expected

We raise our FY2017 sales forecast to VND10,822 billion (26% yoy), and FY2017 net profit will come in at VND753 billion (67% yoy), which is 25% higher than the firm plan based on the following assumptions:

- Sales of the jewelry retail segment grow by 37% yoy thanks to the opening of 45 new stores (higher than the firm's plan of 40 stores) and 10% SSSG
- Gross margin is 17.5% (FY16 gross margin: 16.5%) driven by the increasing contribution of the retail segment with higher margin.

We estimate that gross margin of gold retail business in 2017 will reach 28%, equivalent to the actual figure in 1Q17 and higher than the firm's plan of 26%.

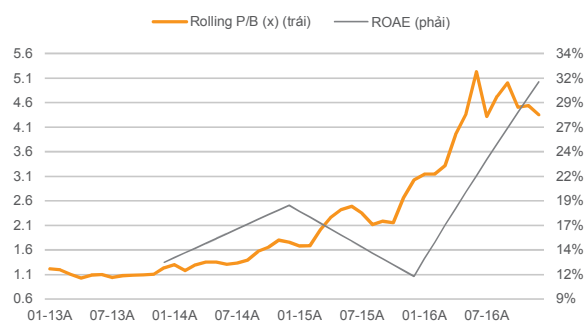
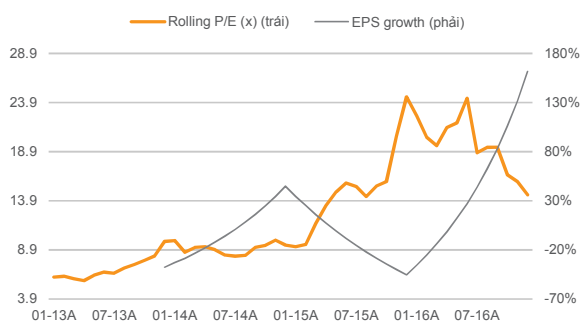
- Selling expenses and administrative expenses rise 22% yoy and 23% yoy, respectively, as a result of the plan of increasing the number of retail stores.
- Financial expenses increase by 45% yoy to VND 105 billion as the firm has to borrow bank loans for expansion plan.
- Extra-ordinary profits are all excluded. Private placement is not taken into consideration.

Based on the above forecasted profit, bonus for the Management and the Board is estimated at VND 39.6 billion, FY17 EPS is estimated at VND7,665 and adjusted FY17 EPS (after adjusted for Management incentives) is VND 7,261.

Valuation and Recommendation

Positive view for the outlook. Maintain ADD. We raised our DCF-based valuation to VND 113,500 (28% higher than the previous target price). At this price, FY17 P/E forward is 15.6x, relatively fair for such a leading firm with positive outlook in the retail sector.

Valuation



Income statements

(VNDbn)	12-15A	12-16A	12-17E
Revenue	7,708	8,565	10,822
Cost of sales	-6,538	-7,153	-8,929
Gen & admin expenses	-118	-133	-164
Selling expenses	-424	-554	-676
Operating profit	629	724	1,052
Operating EBITDA	659	759	1,097
Depreciation and amortisation	-30	-34	-44
Operating EBIT	629	724	1,052
Interest income	1	5	11
Financial expense	-431	-182	-118
Net other income	-3	43	-3
Income from associates & JVs	1	-1	-1
Pre-tax profit	197	591	942
Taxation	-45	-140	-188
Minority interests			
Net profit	152	450	753
Adj. net profit to ordinary	152	450	753
Ordinary dividends	0	0	0
Retained earnings	152	450	753

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17E
Pretax profit	197.3	590.6	941.5
Depreciation & amortisation	30.5	34.4	44.5
Other non cash gains/(losses)	292.8	85.2	2.3
Other non operating gains/(losses)	119.2	52.5	106.0
Tax paid	(67.8)	(160.5)	(188.3)
Other operating cash flow	(20.6)	7.7	(2.6)
Change in working capital	(477.7)	(637.3)	(769.3)
Cash flow from operations	73.7	(27.4)	134.0
Capex	(70.4)	(87.3)	(172.1)
Proceeds from assets sales	0.3	164.9	0.0
Others	26.4	68.3	0.0
Other non-current assets changes	0.0	0.0	0.0
Cash flow from investing activities	(43.7)	145.9	(172.1)
New share issuance	0.0	0.0	0.0
Shares buyback	0.0	0.0	0.0
Net borrowings	(7.2)	244.4	324.1
Other financing cash flow	0.0	0.0	0.0
Dividends paid	(22.7)	(245.7)	(226.0)
Cash flow from financing activities	(29.8)	(1.3)	98.2
Cash and equivalents at beginning of period	37.7	37.9	155.3
Total cash generated	0.2	117.3	60.1
Cash and equivalents at the end of period	37.9	155.2	215.5

Balance sheets

(VNDbn)	12-15A	12-16A	12-17E
Cash and equivalents	38	155	215
Short term investments	0	0	0
Accounts receivables	47	63	74
Inventories	2,135	2,839	3,648
Other current assets	45	46	46
Total current assets	2,265	3,103	3,983
Fixed assets	486	416	543
Total investments	167	0	44
Other long-term assets	57	70	0
Total assets	2,975	3,588	4,571
Short-term debt	1,189	1,449	1,783
Accounts payable	191	326	405
Other current liabilities	121	247	323
Total current liabilities	1,502	2,022	2,511
Total long-term debt	72	59	54
Other liabilities	7	7	1
Shareholders' equity	1,394	1,500	2,005
Minority interests	0	0	0
Total liabilities & equity	2,975	3,588	4,571

Key ratios

	12-15A	12-16A	12-17E
Dupont			
Net profit margin	2.0%	5.3%	7.0%
Asset turnover	3	3	3
ROAA	5.2%	13.7%	18.5%
Avg assets/avg equity	2	2	2
ROAE	11.3%	31.1%	43.0%
Efficiency			
Days account receivable	0	0	0
Days inventory	119	145	149
Days creditor	11	17	17
Fixed asset turnover	16	19	23
ROIC	5.7%	15.0%	19.6%
Liquidity			
Current ratio	2	2	2
Quick ratio	0	0	0
Cash ratio	0	0	0
Cash cycle	109	129	133
Growth rate (yoy)			
Revenue growth	(16.2%)	11.1%	26.4%
Operating profit growth	55.4%	15.2%	45.3%
Net profit growth	(37.2%)	195.8%	67.2%
EPS growth	(45.4%)	161.7%	67.2%
Share value			
EPS (VND)	1,752	4,584	7,665
BVPS (VND)	14,188	15,267	20,402
DPS (VND)	0	0	0

Source: VNDIRECT

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