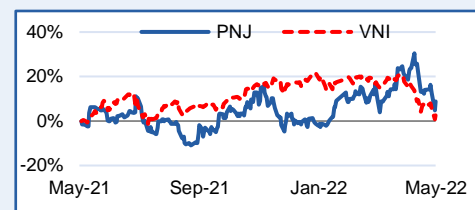




# Phu Nhuan Jewelry (PNJ) [BUY +44.4%]

## Update Report

<b>Industry:</b>	<b>Jewelry</b>		<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Report Date:</b>	<b>May 13, 2022</b>	Rev Growth	12.0%	29.4%	8.8%	12.2%
Current Price:	VND97,500	EPS Growth	-3.3%	40.0%	23.2%	21.6%
Target Price:	VND139,000	GPM	18.2%	18.7%	20.3%	21.1%
Last Target Price:	VND118,000	NPM	5.3%	6.1%	7.1%	7.8%
Upside to TP:	42.6%	EV/EBITDA	17.4x	10.7x	8.9x	7.4x
Dividend Yield:	1.8%	P/CFO	N.M.	27.0x	16.7x	12.2x
TSR:	44.4%	P/E	22.8x	16.3x	13.2x	10.9x



Market Cap:	USD1.0bn
Foreign Room:	USD0
ADTV30D:	USD5.8mn
State Ownership:	0.0%
Outstanding Shares:	242.6 mn
Fully Diluted Shares*:	246.2 mn
3-yr PEG:	0.6

	<b>PNJ</b>	<b>VNI</b>
P/E (ttm)	17.9x	12.9x
P/B (curr)	2.9x	2.0x
Net D/E	-7.7%	N/A
ROE	18.0%	15.8%
ROA	12.7%	2.6%

\* Including private placement completed in Q1 2022 and ESOP to be executed in Q2 2022

### Company overview

PNJ is the leading jewelry producer and retailer in Vietnam with an extensive store network of 341 jewelry stores as of YE2021.

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## Competitive advantages underpin solid growth outlook

- We upgrade our rating for PNJ from OUTPERFORM to BUY as we raise our target price (TP) by 17.8% due to our stronger conviction regarding the company's growth outlook.
- Our increased TP is mainly driven by a 10.5% upward revision to our aggregate 2022F-2024F NPAT as PNJ's sales are significantly tracking ahead of our previous expectation. We also roll our TP forward to mid-2023 vs previously YE2022, which has a further positive impact on our TP.
- We increase our aggregate 2022F-2024F retail revenue by 7%, which is mainly driven by our upward revision of PNJ's SSSG due to our stronger conviction regarding the growing appetite for luxury goods among PNJ's target customers — the middle and affluent class (MAC).
- We forecast a retail revenue CAGR of 21% in 2021-2024F vs ~11% growth in 2021, which is driven by double-digit SSSG and an average of 35 new gold stores p.a. Expected improvements in the product mix and operating leverage further drive our EPS CAGR forecast of 28% in 2021-2024F.
- Our TP puts PNJ's 2022F/2023F P/E at 23x/19x, respectively, which we believe are justified by PNJ's superior competitive advantages amid the rise of Vietnam's fashion jewelry industry.
- Downside risks to our positive view: Higher-than-expected inflation leading to weaker-than-expected growth in discretionary spending; slower-than-expected store expansion.

**Resilient spending on luxury goods and PNJ's competitive advantages support a strong recovery and growth outlook.** We believe PNJ's MAC customer base was more financially resilient against COVID-19's impacts than the average population, which was evidenced by a 43% YoY jump in PNJ's retail revenue in Q1 2022 (despite a high base in Q1 2021) following a 15% YoY increase in retail revenue in Q4 2021 after the relaxation of social distancing restrictions in early October 2021. The strength of luxury spending is also evidenced in other high-end product categories such as passenger cars. According to the Vietnam Automobile Manufacturers' Association, passenger car sales volume\* advanced 35% YoY in Q1 2022. This backdrop — coupled with PNJ's superior competencies vs competitors in terms of design, production and execution — should sustain its outperforming growth amid the rise of the fashion jewelry industry.

**Store expansion and upgrades to stimulate growth.** We project 35 new gold stores in each of 2022 and 2023 given PNJ's ample headroom to expand its footprint in underpenetrated regions such as Hanoi and tier 2-3 provinces apart from its main market of HCMC. As of YE2021, PNJ's store count in the northern, southeast, southwest, highlands and central regions only equaled 22%-52% of its store count in HCMC. PNJ also plans to upgrade its existing standard gold jewelry stores to the PNJ Center format, which provides a better shopping experience to customers. We assume ~50% of PNJ's existing gold jewelry stores (150 stores) will be upgraded in the next three years, which should enhance the company's sales/store.

(\*) Sales figures exclude Mercedes and VinFast; VinFast's sales volume could include pre-orders while other auto producers report completed retail sales.

## Q1 2022 Recap: Results beat mainly thanks to strong retail sales

Figure 1: PNJ's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	VCSC comments
<b>Revenue</b>	<b>7,182</b>	<b>10,143</b>	<b>41%</b>	The company's upbeat retail sales reinforce our positive view on PNJ's growth prospects, which are premised on the resilient spending of MAC consumers on luxury goods as well as PNJ's superior business execution vs competitors.
Retail	4,025	5,770	43%	In Q1 2022, PNJ opened two new gold stores, upgraded three gold stores to the PNJ Center format and closed four silver stores. At end-March 2022, PNJ had 321 gold stores, 10 standalone silver stores, three CAO Fine stores (PNJ's luxury jewelry brand), two Style by PNJ stores, one PNJ Watch store and three PNJ Art stores (showrooms for corporate gifts). While PNJ continued the closure of silver stores to optimize profitability, we see further expansion in the shop-in-shop (SiS) format for silver, CAO Fine, Style by PNJ and PNJ Watch.
Wholesales	983	1,107	13%	In accordance with a rebound in demand for jewelry and a surge in demand for gold, in our view.
Gold bar trading	2,009	3,239	61%	Due to a surge in demand for gold as a safe-haven asset amid rising concerns over inflation and heightened geopolitical uncertainties.
Others	217	114	-48%	
Sales reduction	-53	-86	63%	
<b>Gross profit</b>	<b>1,325</b>	<b>1,761</b>	<b>33%</b>	
SG&A	-656	-818	25%	
<b>EBIT</b>	<b>669</b>	<b>943</b>	<b>41%</b>	
<b>PBT</b>	<b>648</b>	<b>913</b>	<b>41%</b>	
<b>NPAT</b>	<b>513</b>	<b>721</b>	<b>41%</b>	
GPM	18.5%	17.4%		GPM contracted by 1.1 ppt in Q1 2022 due to product mix — particularly from a surge in the revenue contribution from gold bar trading that typically generates a low single-digit GPM (approximately 1%, per our estimate).
SG&A/sales	9.1%	8.1%		
SG&A/retail sales	16.4%	14.2%		SG&A/retail sales contracted 2.2 ppts in Q1 2022 primarily thanks to operating leverage
EBIT margin	9.3%	9.3%		
NPAT margin	7.1%	7.1%		

Source: PNJ, VCSC (segmental revenue breakdown is VCSC's estimates)

## 2022F Outlook: Raising our NPAT forecast by 12% as PNJ's net sales are more upbeat than we expected

Figure 2: VCSC's 2022 forecasts

VND bn	2021	2022F Old	2022F New	2022F New YoY	VCSC comments on 2022F
<b>Revenue</b>	<b>19,613</b>	<b>23,177</b>	<b>25,387</b>	<b>29%</b>	
Retail	11,665	14,329	<b>15,449</b>	32%	We project gold jewelry SSSG at 25% in 2022 (vs 15% in our last Update Report), which is backed by stronger-than-expected purchasing patterns of MAC consumers on luxury goods as PNJ's net retail is tracking ahead of our previous expectation. We maintain our projection of 35 new gold stores in 2022, which will increase the total gold store count to 354 by YE2022. In addition, we maintain our assumption of 50 existing gold stores to be upgraded to the PNJ Center format in 2022.
Wholesales	2,640	3,036	<b>3,168</b>	20%	We revise up our wholesales forecast by 4.4%.
Gold bar trading	4,884	5,372	<b>6,349</b>	30%	We revise up our gold bar revenue forecast by 18% as PNJ's Q1 2022 gold bar sales is significantly tracking ahead of our expectation.
Others	628	690	<b>690</b>	10%	
Sales reduction	-204	-250	<b>-270</b>	32%	We maintain our assumption of sales reduction/retail sales of -1.7%. An upward revision of 8% in sales reductions is mainly due to our upward revision of retail sales.
<b>Gross profit</b>	<b>3,573</b>	<b>4,418</b>	<b>4,759</b>	<b>33%</b>	We maintain our assumption that retail GPM will stay flat vs 2021.
SG&A	-2,166	-2,575	-2,714	25%	
<b>EBIT</b>	<b>1,407</b>	<b>1,843</b>	<b>2,044</b>	<b>45%</b>	
<b>PBT</b>	<b>1,287</b>	<b>1,743</b>	<b>1,944</b>	<b>51%</b>	
<b>NPAT</b>	<b>1,033</b>	<b>1,394</b>	<b>1,555</b>	<b>51%</b>	
GPM	18.2%	19.1%	18.7%		GPM is revised down by 0.4 ppt due to our upward revision of gold bar trading in the sales mix.
SG&A/sales	11.0%	11.1%	10.7%		
SG&A/retail sales	18.6%	18.0%	17.5%		SG&A/retail sales is revised down by 0.5 ppt due to our expectation for further operating leverage given stronger-than-expected SSSG.
EBIT margin	7.2%	8.0%	8.1%		
NPAT margin	5.3%	6.0%	6.1%		

Source: PNJ, VCSC (segmental revenue breakdown is VCSC's estimates)

## Valuation

In this report, we roll our TP forward to mid-2023 vs previously YE2022. We maintain our valuation method for PNJ using a five-year DCF model, which we believe is best suited to capture the company's long-term growth potential. We also maintain our in-house cost of equity. Moreover, we maintain weightings that we assign to our projected FCFE that reflect the cumulative dilution from projected future ESOP issuances (**Figure 3**).

**Figure 3: FCFE valuation**

VND bn	2022F	2023F	2024F	2025F	2026F
Net income, after allocations to bonus and welfare funds	1,439	1,813	2,228	2,693	3,244
- Capex <sup>(1)</sup>	-395	-418	-442	-319	-349
+ D&A <sup>(2)</sup>	213	270	315	329	322
- Change in working capital	-582	-450	-398	-334	-271
+ Net borrowings	582	450	398	334	271
+ ESOP proceeds	36	25	25	25	25
<b>FCFE + ESOP proceeds (1)</b>	<b>1,293</b>	<b>1,690</b>	<b>2,125</b>	<b>2,728</b>	<b>3,242</b>
ESOP-adjustment weighting (2)	100%	99%	98%	97%	96%
<b>ESOP-adjusted attributed FCFE (1 x 2)</b>	<b>1,293</b>	<b>1,673</b>	<b>2,083</b>	<b>2,648</b>	<b>3,115</b>
<b>Present Value of attributed FCFE</b>	<b>1,219</b>	<b>1,402</b>	<b>1,552</b>	<b>1,753</b>	<b>1,834</b>
<b>Cumulative PV of attributed FCFE</b>	<b>1,219</b>	<b>2,621</b>	<b>4,173</b>	<b>5,926</b>	<b>7,760</b>

Cost of Equity	Current	Previous	FCFE (Five Years)	VND bn
Beta	1.0	1.0	PV of Free Cash Flows	7,760
Market Risk Premium	7.0%	7.0%	PV of Terminal Val (5.0% g)	25,672
Risk Free Rate	5.5%	5.5%	<b>PV of FCF and TV</b>	<b>33,431</b>
Cost of Equity	12.5%	12.5%	- Minority Interest	0.0
			<b>Equity Value</b>	<b>33,431</b>
			Average share count <sup>(3)</sup> (million)	240.7
			<b>Value per share, VND</b>	<b>139,000</b>

Source: VCSC <sup>(1)</sup> total capex to be allocated to fixed assets and prepaid expenses; <sup>(2)</sup> including allocations of prepaid expenses; <sup>(3)</sup> weighted average share count including private placement completed in Q1 2022 and ESOP to be executed in Q2 2022)

**Figure 4: Sensitivity analysis of our target price for PNJ in relation to cost of equity and terminal growth rate, ceteris paribus**

PNJ target price (VND)	Cost of equity (Ke)					
		11.5%	12.0%	12.5%	13.0%	13.5%
Terminal growth	4.0%	143,000	134,000	125,000	118,000	112,000
	4.5%	151,000	141,000	132,000	124,000	116,000
	5.0%	161,000	149,000	<b>139,000</b>	130,000	122,000
	5.5%	172,000	159,000	147,000	137,000	128,000
	6.0%	186,000	170,000	156,000	145,000	135,000

Source: VCSC



## Comparable peers

For peer references, we select leading branded jewelry retailers in the Asian markets of Hong Kong, China and India.

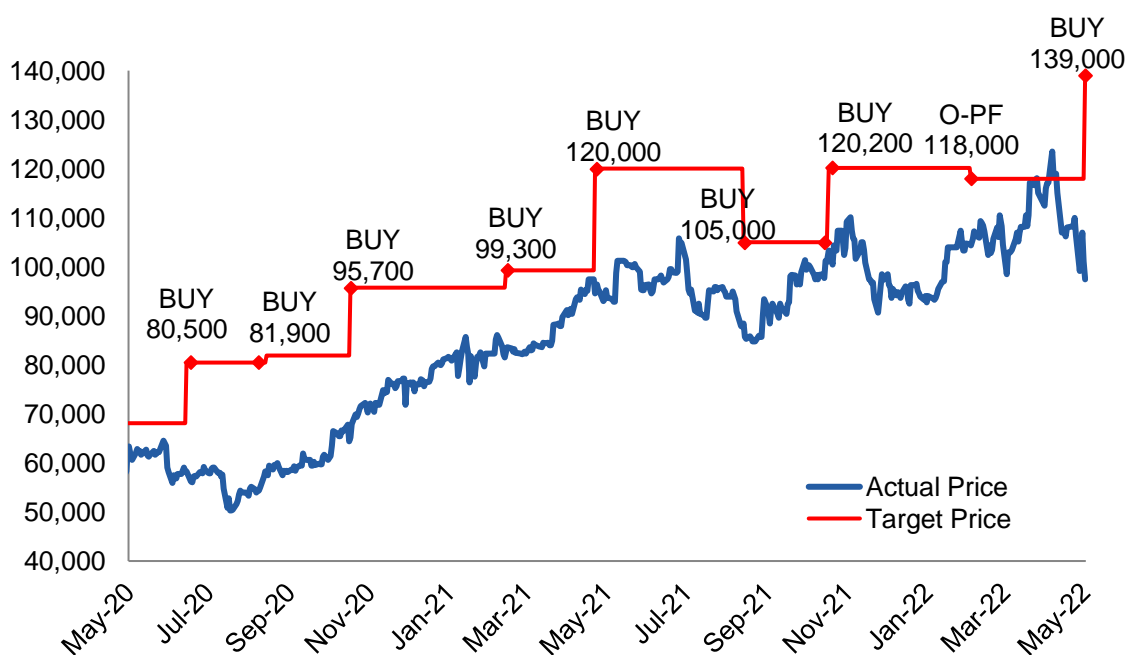
**Figure 5: Comparable peers for PNJ**

USD mn Company	Country	Market cap	TTM Sales	2021-2023F sales CAGR	TTM NPAT	2021-2023F EPS CAGR	TTM P/E	TTM EV/EBITDA	ROE
Titan Co Ltd	INDIA	24,501	3,680	28.4%	292	74.8%	84.2	54.6	25.9%
Chow Tai Fook	HONG KONG	15,975	11,551	29.7%	950	27.3%	16.8	10.7	24.5%
Lao Feng Xiang	CHINA	2,487	9,341	8.4%	255	6.7%	6.6	N/A	17.9%
Luk Fook	HONG KONG	1,283	1,431	18.4%	178	34.5%	7.2	3.9	12.5%
Chow Sang Luck	HONG KONG	709	2,829	18.4%	83	4.6%	7.4	3.4	5.2%
<b>Average</b>		<b>8,991</b>	<b>5,766</b>	<b>20.7%</b>	<b>351</b>	<b>29.6%</b>	<b>24.4</b>	<b>18.1</b>	<b>17.2%</b>
<b>Median</b>		<b>2,487</b>	<b>3,680</b>	<b>18.4%</b>	<b>255</b>	<b>27.3%</b>	<b>7.4</b>	<b>7.3</b>	<b>17.9%</b>
<b>Phu Nhuan Jewelry</b>	<b>Vietnam</b>	<b>1,027</b>	<b>984</b>	<b>40.2%</b>	<b>54</b>	<b>33.6%</b>	<b>17.9</b>	<b>13.0</b>	<b>18.0%</b>

Source: Bloomberg (Bloomberg consensus forecasts for peers), VCSC (PNJ forecasts); data as of May 13, 2022

## Recommendation History

**Figure 6: Recommendation history (share prices adjusted for share splits – VND/share)**



Source: Bloomberg, VCSC

## Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F	B/S (VND bn)	2021	2022F	2023F	2024F
<b>Revenue</b>	<b>19,613</b>	<b>25,387</b>	<b>27,618</b>	<b>30,979</b>	Cash & equivalents	358	1,175	902	1,064
COGS	-16,040	-20,628	-22,015	-24,442	ST investment	0	1,500	3,000	4,500
<b>Gross profit</b>	<b>3,573</b>	<b>4,759</b>	<b>5,604</b>	<b>6,537</b>	Accounts receivable	60	60	60	60
Selling expenses	-1,694	-2,166	-2,502	-2,856	Inventories	8,687	9,319	9,808	10,240
G&A expenses	-472	-548	-620	-692	Other current assets	116	116	116	116
<b>Operating profit</b>	<b>1,407</b>	<b>2,044</b>	<b>2,482</b>	<b>2,988</b>	<b>Total Current assets</b>	<b>9,220</b>	<b>12,170</b>	<b>13,886</b>	<b>15,980</b>
Financial income	16	36	134	210	Fixed assets, gross	1,363	1,503	1,666	1,853
Financial expenses	-118	-136	-165	-188	- Depreciation	-422	-507	-605	-722
- o/w interest expense	-104	-136	-165	-188	Fixed assets, net	941	997	1,061	1,132
Associates	0	0	0	0	LT investment	0	0	0	0
Net other income/(loss)	-18	0	0	0	LT assets other	386	512	596	653
<b>Profit before tax</b>	<b>1,287</b>	<b>1,944</b>	<b>2,451</b>	<b>3,010</b>	<b>Total LT assets</b>	<b>1,327</b>	<b>1,509</b>	<b>1,657</b>	<b>1,784</b>
Income Tax	-254	-389	-490	-602	<b>Total Assets</b>	<b>10,547</b>	<b>13,679</b>	<b>15,544</b>	<b>17,764</b>
<b>NPAT before MI</b>	<b>1,033</b>	<b>1,555</b>	<b>1,960</b>	<b>2,408</b>	Accounts payable	689	739	778	812
Minority Interest	0	0	0	0	Short-term debt	2,722	3,304	3,755	4,152
<b>NPAT-MI, reported</b>	<b>1,033</b>	<b>1,555</b>	<b>1,960</b>	<b>2,408</b>	Other ST liabilities	1,110	1,110	1,110	1,110
<b>NPAT-MI, adjusted <sup>(1)</sup></b>	<b>1,033</b>	<b>1,555</b>	<b>1,960</b>	<b>2,408</b>	Total current liabilities	4,521	5,154	5,643	6,075
EBITDA	1,482	2,128	2,581	3,104	Long term debt	0	0	0	0
EPS reported, VND	4,270	5,977	7,364	8,957	Other LT liabilities	9	9	9	9
EPS adjusted <sup>(1)</sup> , VND	4,270	5,977	7,364	8,957	<b>Total Liabilities</b>	<b>4,530</b>	<b>5,163</b>	<b>5,652</b>	<b>6,084</b>
EPS diluted, adj <sup>(1)</sup> , VND	4,270	5,977	7,364	8,957	Preferred Equity	0	0	0	0
DPS, VND	2,000	2,000	2,000	2,000	Paid in capital	2,276	2,462	2,487	2,512
DPS/EPS (%)	47%	33%	27%	22%	Share premium	991	2,266	2,266	2,266
<sup>(1)</sup> Adjusted for one-offs					Retained earnings	1,954	2,992	4,343	6,107
<b>RATIOS</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	Other equity	796	796	796	796
<b>Growth</b>					Minority interest	0	0	0	0
Revenue growth	12.0%	29.4%	8.8%	12.2%	<b>Total equity</b>	<b>6,017</b>	<b>8,516</b>	<b>9,892</b>	<b>11,681</b>
Op profit (EBIT) growth	-6.7%	45.3%	21.4%	20.4%	<b>Liabilities &amp; equity</b>	<b>10,547</b>	<b>13,679</b>	<b>15,544</b>	<b>17,764</b>
PBT growth	-4.4%	51.0%	26.0%	22.9%	Y/E shares out, mn	227.6	246.2	248.7	251.2
EPS growth	-3.3%	40.0%	23.2%	21.6%	Y/E treasury shares, mn	0.2	0.2	0.2	0.2
<b>Profitability</b>					<b>CASH FLOW (VND bn)</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Gross Profit Margin	18.2%	18.7%	20.3%	21.1%	<b>Beginning Cash Balance</b>	<b>422</b>	<b>358</b>	<b>1,175</b>	<b>902</b>
Op Profit, (EBIT) Margin	7.2%	8.1%	9.0%	9.6%	Net Income	1,033	1,555	1,960	2,408
EBITDA Margin	7.6%	8.4%	9.3%	10.0%	Dep, & amortization	75	84	99	116
NPAT Margin	5.3%	6.1%	7.1%	7.8%	Change in Working Cap	-1,734	-582	-450	-398
ROE	18.3%	21.4%	21.3%	22.3%	Other adjustments	-91	-188	-201	-203
ROA	10.9%	12.8%	13.4%	14.5%	<b>Cash from Operations</b>	<b>-717</b>	<b>869</b>	<b>1,408</b>	<b>1,924</b>
<b>Efficiency</b>					Capital Expenditures, net	-63	-140	-163	-187
Days Inventory On Hand	173	159	159	150	Investments, net	14	-1,500	-1,500	-1,500
Days Accts, Receivable	1	1	1	1	<b>Cash from Investments</b>	<b>-49</b>	<b>-1,640</b>	<b>-1,663</b>	<b>-1,687</b>
Days Accts, Payable	12	12	12	12	Dividends Paid	-177	-455	-492	-497
Cash Conversion Days	163	148	147	139	Δ in Share Capital	0	1,461	25	25
<b>Liquidity</b>					Δ in ST debt	883	582	450	398
Current Ratio x	2.0	2.4	2.5	2.6	Δ in LT debt	0	0	0	0
Quick Ratio x	0.1	0.5	0.7	0.9	Other financing C/F	-4	0	0	0
Cash Ratio x	0.1	0.5	0.7	0.9	<b>Cash from Financing</b>	<b>702</b>	<b>1,589</b>	<b>-18</b>	<b>-75</b>
Debt / Assets	25.8%	24.2%	24.2%	23.4%	<b>Net Change in Cash</b>	<b>-65</b>	<b>817</b>	<b>-272</b>	<b>162</b>
Debt / Capital	31.1%	28.0%	27.5%	26.2%	<b>Ending Cash Balance</b>	<b>358</b>	<b>1,175</b>	<b>902</b>	<b>1,064</b>
Net Debt / Equity	39.3%	7.4%	-1.5%	-12.1%					
Interest Coverage x	13.5	15.0	15.0	15.9					

Source: Company data, VCSC



## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

**Risks:** Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.





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