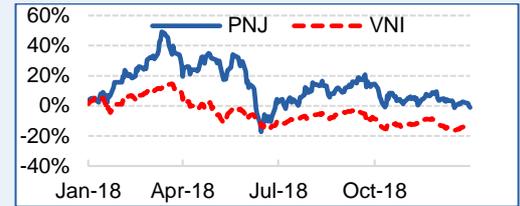


| | | | | |
|---------------------|--------------------------|------------|-------------|-------------|
| Industry: | Jewelry retailing | | <u>2017</u> | <u>2018</u> |
| Report Date: | January 18, 2019 | | | |
| Current Price: | VND89,200 | Rev Growth | 28.2% | 32.8% |
| Target Price: | VND145,000 | EPS Growth | 62.5% | 27.7% |
| Upside: | +62.6% | GPM | 17.4% | 19.1% |
| Dividend Yield | <u>1.6%</u> | NPM | 6.6% | 6.6% |
| TSR: | +64.1% | EV/EBITDA | 16.4x | 12.5x |
| Rating: | BUY | P/Op CF | 136.1x | N/M |
| | | P/E | 20.9x | 16.4x |



| | | | | | |
|-----------------------|-----------|------------|------------|---------------|------------|
| Market Cap: | \$713.3mn | | <u>PNJ</u> | <u>Peers*</u> | <u>VNI</u> |
| Foreign Room: | \$0.0mn | P/E (ttm) | 16.4x | 13.7x | 15.8x |
| ADTV30D: | \$1.2mn | P/B (curr) | 4.5x | 1.9x | 2.4x |
| State Ownership: | 0% | Net D/E | 36.3% | -6.4% | N/A |
| Outstanding Shares: | 167.0 mn | ROE | 28.7% | 15.2% | 14.8% |
| Fully Diluted Shares: | 167.0 mn | ROA | 17.8% | 9.4% | 2.4% |

Company overview

PNJ is the leading jewelry producer and retailer in Vietnam with the most extensive store network of 324 stores as of YE2018. We expect jewelry retailing will continue to be PNJ's future growth driver.

*including foreign peers

Nghia Le
Analyst
nghia.le@vcsc.com.vn
+848 3914 3588 ext. 181

Phap Dang, CFA
Associate Director
phap.dang@vcsc.com.vn
+848 3914 3588 ext. 143

Earnings elevate on jewelry retail business

PNJ delivered another strong quarter in Q4 2018 with NPAT jumping 20% vs Q4 2017. For full-year 2018, the company recorded 32% NPAT growth vs 2017 mainly driven by the jewelry retail segment. These results are broadly in line with our expectation. As such, we do not anticipate material changes to our current forecasts and target price. We reiterate our BUY rating on PNJ.

Jewelry retail segment maintained strong momentum. Jewelry retail sales soared 41% YoY in 2018 (40% YoY in 2017) driven by 20% same-store-sales-growth (SSSG), 54 new PNJ Gold stores and full-year contribution from stores opened in 2017.

Store expansion was slightly ahead of our projection of 50 new Gold stores per annum through 2022. As of YE2018, PNJ's store count reached 324, including 256 PNJ Gold stores, 65 PNJ Silver stores and three CAO stores.

Jewelry retail GPM broadened on the back of a ballooning revenue contribution from gemstone jewelry. Per PNJ, underpinned by a rising consumer preference for more sophisticated, premium products, sales of high-margin gemstone jewelry outgrew its total jewelry retail sales in 2018, which helped jewelry retail GPM widen by 1.5 ppts vs 2017 to 30.8% in 2018.

G&A expenses ramped up to support digital transformation. While selling expenses rose relatively in line with retail revenue, G&A expenses surged 84% YoY in 2018 partly owing to PNJ's digital transformation project, which kicked off in April 2018. PNJ shored up its IT headcount to support the development of a brand-new ERP system and data analytic capabilities as well as a revamp of its e-commerce platform. As a result, NPAT growth slightly trailed that of retail revenue in 2018.

YE2018 inventory exceeded our projection due to a higher store count, an early Lunar New Year and a larger promotion campaign planned for Q1 2019; no point of concern in our view. PNJ's inventory at YE2018 reached VND4.8tn (USD209mn, +42% vs YE2017), which is 11% above our YE2018 forecast. In our view, this could be attributed to (1) a faster-than-expected store expansion as mentioned above, (2) the Lunar New Year will come earlier in 2019 (February 5) vs 2018 (February 16), which prompted PNJ to stock up more in December 2018 vs December 2017, and (3) per our discussion with the company, PNJ is planning a bigger promotion campaign in Q1 2019 vs Q1 2018, which requires a higher level of inventory at the stores.

PNJ's 2018 results

| VND bn | 2017 | 2018 | Growth | Q4 2017 | Q4 2018 | Growth |
|-------------------------------|---------------|---------------|------------|--------------|--------------|------------|
| Revenue | 10,977 | 14,573 | 33% | 3,247 | 4,097 | 26% |
| Retailing (jewelry and watch) | 5,797 | 8,167 | 41% | 1,828 | 2,386 | 30% |
| Wholesaling | 3,017 | 3,723 | 23% | 864 | 1,001 | 16% |
| Gold bar trading | 2,048 | 2,635 | 29% | 489 | 631 | 29% |
| Others | 187 | 156 | -17% | 92 | 113 | 23% |
| Sales deduction* | -72 | -108 | | -26 | -32 | |
| Gross profit | 1,912 | 2,779 | 45% | 565 | 826 | 46% |
| Retailing (jewelry and watch) | 1,696 | 2,512 | 48% | 524 | 730 | 39% |
| Wholesaling | 111 | 103 | -7% | 25 | 23 | -8% |
| Gold bar trading | 38 | 24 | -37% | 2 | 1 | -31% |
| Others | 68 | 140 | 105% | 14 | 71 | 393% |
| Selling expenses | -775 | -1,171 | 51% | -223 | -352 | 58% |
| G&A expenses | -188 | -346 | 84% | -59 | -119 | 101% |
| Operating profit | 949 | 1,263 | 33% | 283 | 356 | 25% |
| Non-operating profit/loss | -42 | -57 | 35% | -6 | -19 | 212% |
| Profit before tax | 907 | 1,206 | 33% | 277 | 336 | 21% |
| NPAT | 725 | 960 | 32% | 222 | 266 | 20% |
| Blended GPM | 17.4% | 19.1% | | 17.4% | 20.2% | |
| SG&A as % of sales | 8.8% | 10.4% | | 8.7% | 11.5% | |
| Retailing GPM | 29.2% | 30.8% | | 28.6% | 30.6% | |
| SG&A as % of retail sales | 16.6% | 18.6% | | 15.4% | 19.7% | |
| NPAT margin | 6.6% | 6.6% | | 6.8% | 6.5% | |

Source: PNJ, VCSC

(*) Breakdown of net revenue is not available

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

| RATING | DEFINITION |
|-----------------------|---|
| BUY | Total stock return including dividends over next 12 months expected to exceed 20% |
| OUTPERFORM (O-PF) | Total stock return including dividends over next 12 months expected to be positive 10%-20% |
| MARKET PERFORM (M-PF) | Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10% |
| UNDERPERFORM (U-PF) | Total stock return including dividends over next 12 months expected to be negative 10%-20% |
| SELL | Total stock return including dividends over next 12 months expected to be below negative 20% |
| 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. |
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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588

research@vcsc.com.vn

Banks and Securities

Long Ngo, Associate Director, ext 123

- Nghia Dien, Analyst, ext 138
- Son Tong, Analyst, ext 116
- Anh Dinh, Analyst, ext 139

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Nghia Le, Analyst, ext 181

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Ninh Chu, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Head of Institutional Sales

Michel Tosto, M. Sc.
+84 28 3914 3588 ext 102
michel.tosto@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro and Insurance

- Cameron Joyce, Manager, ext 163

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Nam Hoang, Analyst, ext 196

Industrials and Transportation

Lucy Huynh, Senior Manager, ext 130

- Phu Pham, Analyst, ext 124
- Dang Thai, Analyst, ext 149

Vietnamese Sales

Dung Nguyen
+84 28 3914 3588 ext 136
dung.nguyen@vcsc.com.vn

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn