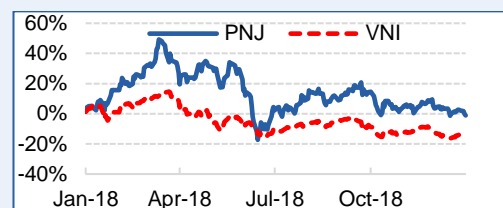


# Phu Nhuan Jewelry (PNJ)

# Earnings Flash

<b>Industry:</b>	<b>Jewelry retailing</b>		<u>2017</u>	<u>2018</u>
<b>Report Date:</b>	<b>January 18, 2019</b>			
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	1.6%	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%

\*including foreign peers

## 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.

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## 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
<b>Revenue</b>	<b>10,977</b>	<b>14,573</b>	<b>33%</b>	<b>3,247</b>	<b>4,097</b>	<b>26%</b>
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	
<b>Gross profit</b>	<b>1,912</b>	<b>2,779</b>	<b>45%</b>	<b>565</b>	<b>826</b>	<b>46%</b>
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%
<b>Operating profit</b>	<b>949</b>	<b>1,263</b>	<b>33%</b>	<b>283</b>	<b>356</b>	<b>25%</b>
Non-operating profit/loss	-42	-57	35%	-6	-19	212%
<b>Profit before tax</b>	<b>907</b>	<b>1,206</b>	<b>33%</b>	<b>277</b>	<b>336</b>	<b>21%</b>
<b>NPAT</b>	<b>725</b>	<b>960</b>	<b>32%</b>	<b>222</b>	<b>266</b>	<b>20%</b>
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



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**Absolute, long term (fundamental) rating:** The recommendation is based on implied total return for the stock defined as  $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$ , 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%
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