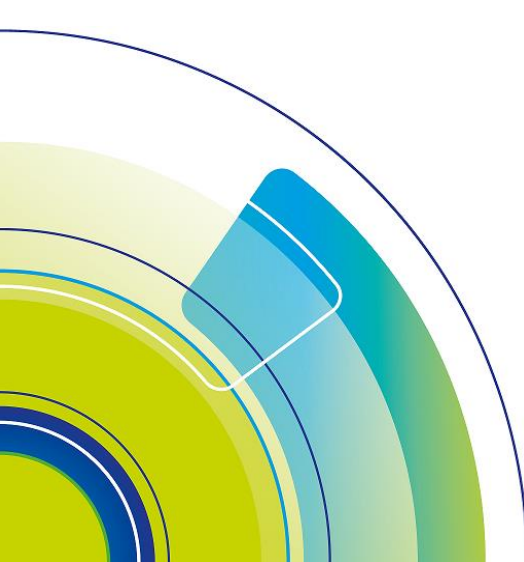




PNJ Update- BUY

May 10, 2022



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Company Update

Recommendation

BUY

HSX: PNJ

Discretionary

Target price (VND) **123,015**

Current price (VND) **99,100**

Expected share price return 24.2%

Expected dividend yield 2.0%

Expected total return **26.2%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	3.6	-9.8	3.0	12.2
Relative	18.7	2.9	13.0	4.7

Source: Bloomberg



Ownership

VietFund Management	7.9%
VinaCapital	4.5%
Dragon Capital	3.5%
Fiera Capital	2.8%

Stock Statistics

09-May-22

Bloomberg code **PNJ VN**

52-week range (VND) 84,900-124,000

Shares O/S (m) 242

Mkt cap (VND bn) 24,019

Mkt cap (USD m) 1,047

Foreign room left (%) 0.0

Est. free float (%) 85.7

3m avg daily vol (shrs) 1,181,152

VND/USD 23,095

Index: VNIIndex / HNX 1269.6/323.3

PHU NHUAN JEWELRY JSC (PNJ VN)

We revised up our projection and target price for 2022 given the company's stunning growth in 1Q2022 and our positive expectations for the rest of the year. Upgrade recommendation to **BUY**. Target price VND123,015/shr.

PNJ reported 41.2% YoY growth in net revenue, to VND10,143bn, and 40.7% growth in EAT, to VND721bn, in 1Q2022, better than our expectations. The results were primarily attributed to the retail segment's vigorous growth of 43.2% YoY, suggesting resilient demand for jewelry products in the mid to high-end consumer segment and peak seasons with special occasions. By the end of March 2022, PNJ had 340 stores (YE2021: 341) in operation; in which, gold stores captured the largest number with 321 (YE2021: 319). PNJ plans to keep broadening its store network with 35-40 new stores this year.

Gold bar sales continued to soar by 61.1% YoY in 1Q2022, irrespective of a high base in the same period last year. This was explained by higher demand for these products as either safe-haven assets or investments/speculation amid concerns about inflation and global geopolitical uncertainty. The wholesale segment's revenue also climbed by 12.3% YoY in 1Q2022.

PNJ's 1Q2022 results		YoY growth
Net revenue	10,143	41.2%
Retail	5,711	43.2%
Wholesale	1,095	12.3%
Gold bar	3,205	61.1%
Others	132	-34.2%
EAT	721	40.7%

Source: PNJ

The company's overall gross margin was 17.4% compared to 18.4% in the same period last year, due to increased proportion of gold bar revenue. Still, a lower SG&A expenses to net revenue ratio (8.1% in 1Q2022 vs 9.1% in 1Q2021) supported its bottom line. We assume the gross margin will strengthen in the following quarters on the back of the retail segment's expansion, while the gold bar segment may see cooler growth after experiencing a spectacular jump with sharp fluctuations in gold price in 1Q.

	2020	2021	2022F	2023F	2024F
Net sales (VNDbn)	17,511	19,547	28,467	32,889	37,596
Growth	3.0%	11.6%	45.6%	15.5%	14.3%
EBITDA (VNDbn)	1,575	1,486	2,386	2,788	3,310
EBITDA margin	9.0%	7.6%	8.4%	8.5%	8.8%
Net profit (VNDbn)	1,069	1,029	1,762	2,101	2,525
Growth	-10.4%	-3.8%	71.2%	19.2%	20.2%
EPS (bonus-adjusted, VND)	4,418	4,242	6,748	7,965	9,478
Growth	-11.0%	-4.0%	59.1%	18.0%	19.0%
ROE	21.8%	18.3%	23.9%	21.9%	22.1%
ROA	12.5%	10.8%	15.5%	16.5%	17.9%
Net debt/EBITDA (times)	0.9	1.6	0.5	0.3	0.0
EV/EBITDA (times)	16.9	17.9	11.2	9.6	8.0
EV/Sales (times)	1.5	1.4	0.9	0.8	0.7
PER (times)	22.4	23.4	14.7	12.4	10.5
PBR (times)	4.3	3.8	2.8	2.4	2.0
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield	2.0%	2.0%	2.0%	2.0%	2.0%

PNJ expects that consumers will have better purchasing power this year versus 2021, according to the company's management in the recent annual general meeting. PNJ will continue to foster growth by exploiting technology, expanding store network and product categories, and upholding its ability in catching market trends, etc. Despite an estimated market share of more than 50%, the company believes this number could expand further because mid and high-end products tend to be increasingly chosen. Additionally, COVID-19 pandemic might have caused numerous enterprises to face difficulties, creating opportunities for stronger ones like PNJ.

Although potentially higher inflation rates may affect consumers' purchasing power, they will probably not jump severely in Vietnam, according to some forecasts. We think PNJ may extend its growth thanks to its focus on the mid to high-end customer segment, which is expected to keep enlarging in the future and less sensitive to price fluctuations. Nevertheless, consumer spending may be shared with tourism activities once international flights are re-opened widely, enabling domestic consumers to travel overseas again after two years of restriction.

Considering the company's gorgeous performance in 1Q2022 and a more optimistic view on the recovery of economic activities in addition to a low base in 3Q2021, we revised up our revenue and EAT projections for the company to VND28,467bn (+45.6% YoY) and VND1,762bn (+71.2% YoY) in 2022, up by 29% and 35% versus the earlier projections, respectively. Combining DCF and PER methods, we value the stock at VND123k/share, equivalent to a total return of 26.2% at YE2022.

PNJ FINANCIALS MODEL	Price (VND):	99,100	Target (VND):	123,015	Mkt cap (VND bn):	24,019
(VND bn except where stated)	2019	2020	2021	2022F	2023F	2024F
Total Net Sales	17,001	17,511	19,547	28,467	32,889	37,596
<i>Sales growth</i>	<i>16.7%</i>	<i>3.0%</i>	<i>11.6%</i>	<i>45.6%</i>	<i>15.5%</i>	<i>14.3%</i>
CoGS ex-dep'n	13,479	14,004	15,874	23,186	26,708	30,370
Selling expenses	1,362	1,421	1,688	2,173	2,494	2,889
G&A expenses	476	506	502	717	894	1,022
Financial revenues	17	2	16	-	-	-
Financial expenses	18	7	14	5	5	5
EBITDA	1,682	1,575	1,486	2,386	2,788	3,310
<i>EBITDA margin</i>	<i>9.9%</i>	<i>9.0%</i>	<i>7.6%</i>	<i>8.4%</i>	<i>8.5%</i>	<i>8.8%</i>
Depreciation	61	72	75	73	79	84
Operating profit	1,621	1,503	1,411	2,313	2,710	3,227
<i>Operating profit margin</i>	<i>9.5%</i>	<i>8.6%</i>	<i>7.2%</i>	<i>8.1%</i>	<i>8.2%</i>	<i>8.6%</i>
Other profits/losses	0	(3)	(28)	1	1	1
Profits/Losses from associates	-	-	-	-	-	-
Net interest expense	115	154	104	103	74	59
<i>as % of avg net debt</i>	<i>5.9%</i>	<i>7.8%</i>	<i>5.5%</i>	<i>6.0%</i>	<i>8.1%</i>	<i>14.9%</i>
<i>Interest cover (x)</i>	<i>14.1</i>	<i>9.8</i>	<i>13.5</i>	<i>22.4</i>	<i>36.4</i>	<i>54.3</i>
Tax	313	277	250	449	535	643
<i>Effective tax rate</i>	<i>20.8%</i>	<i>20.5%</i>	<i>19.1%</i>	<i>20.3%</i>	<i>20.3%</i>	<i>20.3%</i>
Minority interest	-	-	-	-	-	-
Attributable net profit	1,194	1,069	1,029	1,762	2,101	2,525
Cash earnings	1,255	1,142	1,104	1,835	2,180	2,609
Total number of shares	225,293,585	227,612,362	227,612,362	245,038,486	247,488,870	249,963,759
EPS (VND) (after treasury shares)	4,962	4,418	4,242	6,748	7,965	9,478
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	1.00
Adjusted EPS (VND)	4,962	4,418	4,242	6,748	7,965	9,478
<i>EPS growth</i>	<i>22.7%</i>	<i>-11.0%</i>	<i>-4.0%</i>	<i>59.1%</i>	<i>18.0%</i>	<i>19.0%</i>

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022F	2023F	2024F
Increase in working capital	1,749	-501	1,773	1,375	1,257	1,298
Capex	222	85	48	60	60	60
Change in investment in affiliates	-	-	-	-	-	-
Other cashflow items	-167	-146	-53	-99	-76	-88
Free cash flow	-883	1,412	-771	301	787	1,163
Share issues	67	45	(2)	1,460	49	49
Dividends paid	344	355	177	490	495	500
Increase in net debt	1,160	-1,102	949	-1,271	-341	-713
Net debt, end of year	2,519	1,417	2,366	1,096	755	42
Shareholders' equity	4,577	5,242	6,013	8,744	10,399	12,474
BVPS (VND)	20,566	23,284	26,425	35,696	42,032	49,917
Net debt / equity	55.0%	27.0%	39.4%	12.5%	7.3%	0.3%
Net debt / EBITDA (x)	1.5	0.9	1.6	0.5	0.3	0.0
Total assets	8,603	8,483	10,619	12,080	13,394	14,756

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022F	2023F	2024F
ROE	28.7%	21.8%	18.3%	23.9%	21.9%	22.1%
ROA	15.9%	12.5%	10.8%	15.5%	16.5%	17.9%
ROIC	21.1%	17.3%	14.8%	20.2%	20.6%	21.7%
WACC	8.5%	9.7%	8.8%	10.0%	10.3%	10.6%
EVA	12.6%	7.7%	5.9%	10.3%	10.3%	11.1%
PER (x)	20.0	22.4	23.4	14.7	12.4	10.5
EV/EBITDA (x)	15.8	16.9	17.9	11.2	9.6	8.0
EV/FCF (x)	-30.2	18.9	-34.6	88.4	33.9	22.9
PBR (x)	4.8	4.3	3.8	2.8	2.4	2.0
PSR (x)	1.4	1.4	1.2	0.9	0.7	0.6
EV/sales (x)	1.6	1.5	1.4	0.9	0.8	0.7
PEG (x, 3 yr prospective)	7.7	1.5	1.0	0.5	0.8	0.8
Dividend yield	1.8%	2.0%	2.0%	2.0%	2.0%	2.0%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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