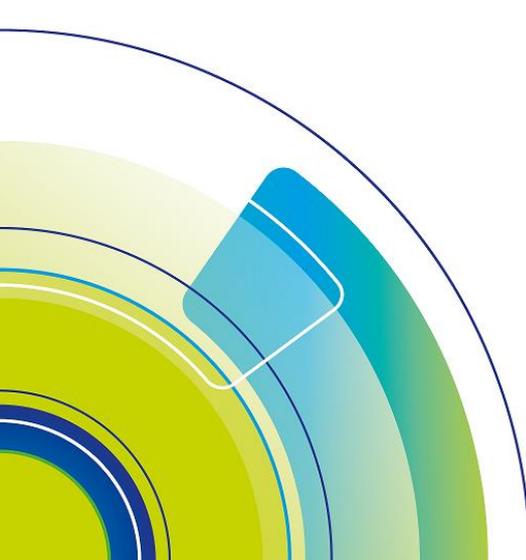




# PNJ Update- OUTPERFORM

November 3, 2023

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## Company Update

Recommendation **OUTPERFORM**

HSX: PNJ

Retail

Target price (VND)	86,049
Current price (VND)	73,800
Expected share price return	16.6%
Expected dividend yield	2.7%
Expected total return	19.3%

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	-15.3	-3.2	-7.8	-0.5
Relative	-21.9	0.7	3.6	-5.8

Source: Bloomberg



## Ownership

VietFund Management	7.8%
Sprucegrove Investment	5.1%
VinaCapital	4.5%
Vanguard Group	4.4%

## Stock Statistics 2-Nov-2023

Bloomberg code	PNJ VN
52-week range (VND)	67,500 - 95,100
Shares O/S (m)	328
Mkt cap (VND bn)	24,338
Mkt cap (USD m)	1,027
Foreign room left (%)	0.0
Est. free float (%)	82.7
3m avg daily vol (shrs)	777,651
VND/USD	24,730
Index: VNIIndex / HNX	1075.5/217.9

## PHU NHUAN JEWELRY JSC (PNJ VN)

The company reported shaky y/y growth in 9M2023 in light of weak consumer spending, completing 69% of the company's EAT target and 74% of our projections. The decline is expected to narrow in the last months of the year thanks to the year-end shopping and festival season. We projected the company may return to growth in 2024 based on expectations about improvement in consumer spending. Rating **OUTPERFORM** and moving target price to 2024 at VND86,049/share.

PNJ announced 9M2023 revenue at VND23,377bn (-8.6% y/y) and EAT at VND1,340bn (-0.1% y/y), completing 74% of our full-year projections.

**The retail segment**, the company's key earner (bringing nearly 60% of the company's revenue), experienced 10.5% y/y drop in revenue in 9M2023. The company estimated that this decline was lower than the average of the overall market. By the end of September 2023, PNJ had 390 stores (YE2022: 364) in operation, including 378 gold stores (YE2022: 343). The **wholesale segment** plunged by 32.1% y/y while **24K gold sales** increased by 5.9% y/y.

The company's gross margin enhanced to 18.4% in 9M2023, compared to 17.4% in the same period last year, while the SG&A expenses to gross profit ratio climbed slightly to 59.9% compared with 59.3% in 9M2022.

Inventories contracted by 7.6% and 4% compared to the end of 2022 and 1H2023, respectively, to VND9,709bn. The net debt to equity ratio improved from 17% at YE2022 to only 1% at the end of September 2023.

Looking to 2024, our projections for PNJ's net revenue and EAT are VND34,745bn (+9.9% y/y) and VND2,111bn (+15.2% y/y), 5% lower than our previous projections.

**Our target price for PNJ by the end of 2024 is VND86,049/share, equivalent to a total return of 19.3%.**

	2021	2022	2023F	2024F	2025F
Net sales (VNDbn)	19,547	33,876	31,611	34,745	38,830
Growth	11.6%	73.3%	-6.7%	9.9%	11.8%
EBITDA (VNDbn)	1,486	2,491	2,458	2,796	3,275
EBITDA margin	7.6%	7.4%	7.8%	8.0%	8.4%
Net profit (VNDbn)	1,029	1,811	1,833	2,111	2,501
Growth	-3.8%	76.0%	1.2%	15.2%	18.4%
EPS (bonus-adjusted, VND)	3,182	5,285	5,159	5,883	6,898
Growth	-4.0%	66.1%	-0.8%	14.0%	17.3%
ROE	18.3%	25.1%	20.3%	20.3%	20.7%
ROA	10.8%	15.1%	13.5%	14.8%	16.2%
Net debt/EBITDA (times)	1.6	0.6	0.3	0.1	-0.1
EV/EBITDA (times)	17.3	10.3	10.4	9.2	7.8
EV/Sales (times)	1.3	0.8	0.8	0.7	0.7
PER (times)	23.2	14.0	14.3	12.5	10.7
PBR (times)	2.8	2.1	2.5	2.2	1.9
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield	2.7%	2.7%	2.7%	2.7%	2.7%

## Maintained almost flat earnings y/y from high base in 2022 despite tough business environment

PNJ announced 9M2023 revenue at VND23,377bn (-8.6% y/y) and EAT at VND1,340bn (-0.1% y/y). The results were attributed to the company's high base last year and impacts from weak consumer spending in different consumer segments including PNJ's mid-to-high end ones. The company had enjoyed fruitful 9M2022 on the back of high demand for gold jewelry, 24K gold, etc. serving weddings or other personal purposes after lockdown stages due to COVID-19. Nevertheless, the decline in EAT in 9M2023 was much softer than those of other listed retailers.

The enhancement in gross margin to 18.4% compared to 17.4% the same period last year, irrespective of increased contribution of the humble-margin 24K gold segment, might imply widened gross margin in the retail segment, explained primarily by cost optimization.

The SG&A expenses to gross profit ratio climbed slightly in 9M2023, with higher figures recorded in 3Q and 2Q compared to 1Q given the seasonal effect, as 4Q and 1Q are usually the company's peak seasons. The ratio should lessen in 4Q thanks to the year-end shopping and festival occasions. Financial loss shrank to VND36bn in 9M2023 from VND67bn in 9M2022, contributing to support EAT.

PNJ's business results	3Q2023	3Q2022	y/y growth	9M2023	9M2022	y/y growth
Net revenue (VNDbn)	6,918	7,364	-6.1%	23,377	25,574	-9.6%
EAT (VNDbn)	253	252	+0.4%	1,340	1,340	-0.1%
Gross margin	17.3%	16.9%		18.4%	17.4%	
SG&A expenses to gross profit ratio	72.8%	71.5%		59.9%	59.3%	

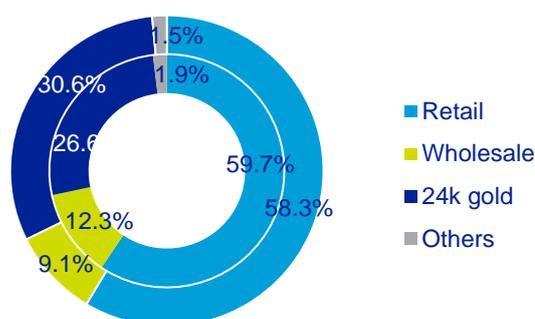
Source: PNJ; ACBS

## PNJ's segmented results in 9M2023:

	9M2023 Sales	y/y growth	Sales contribution
Retail	13,629	-10.5%	58.3%
Wholesales	2,127	-32.1%	9.1%
24K gold trading	7,153	+5.9%	30.6%
Others	468	+18.0%	1.9%

Source: PNJ; ACBS

## Revenue breakdown\*



Source: PNJ; ACBS. \*: Inside circle describes 9M2022 and the outside one describes 9M2023

**The retail segment**, the key earner bringing nearly 60% of the company's revenue, experienced 10.5% y/y drop in revenue in 9M2023. PNJ estimated that this decline was lower than the average of the overall market (which slumped by 40% in 9M2023 according to the company's estimate and 17% in 9M2023 according to World Gold Council's statistics about gold consumption in Vietnam though this is believed to be inadequate). This was driven by double-digit growth in the number of customers and the return rate of the existing customers reached the company's target. The detailed numbers were not disclosed by the company. PNJ continued to introduce diverse designs & collections, reach customers through various methods, adjust marketing campaigns to better satisfy young people's interest (employing KOLs, introducing trendy collectives, etc.) in tandem with modify their scale to adapt the current market conditions.

By the end of September 2023, PNJ had 390 stores (YE2022: 364) in operation, including 378 gold stores (YE2022: 343), covering 55/63 cities/provinces. The company targets to keep expanding their store network with the number of new stores of 30-40 in 2024, aiming at areas that still have potential despite no further details.



Source: PNJ; ACBS

**The 24K gold segment**, which is typically viewed as a safe-haven asset, reported revenue growth of 5.9% y/y, capturing 30.6% of the company's 9M2023 revenue compared with 26.6% in 9M2022, in contrast to a lower weight of the wholesale segment. The **wholesale segment's** revenue plunging by 32.1% y/y in 9M2023.

### Earnings forecasts for 2023-2024

For 2023, our forecast almost did not change from the previous update with 2023 EAT at VND1,833bn (from VND1,846bn).

For 2024, given expectations about improvement in consumer spending when economic difficulties diminish, although there may not be a sharp rebound right in upcoming months, we project PNJ may return to growth, with assumptions as below:

- The retail segment, remaining the company's key earner, may witness a 9% y/y decline in revenue in 2023 but grow by 12.4% y/y in 2024 with the net number of new stores similar to that in 2023 (i.e 30).
- The wholesale segment's revenue is assumed to climb by 10% y/y while the 24K gold segment's growth is assumed at 5% y/y in 2024.

- The company's overall gross margin is expected to broaden by 0.3% to 18.7% in 2024 thanks to increased contribution of the retail segment. Cost optimization will be maintained in the future though potential for further improvement may be no longer abundant.

### Valuation

Our projections for PNJ's net revenue and EAT are VND34,745bn (+9.9% y/y) and VND2,111bn (+15.2% y/y), 5% lower than our previous projections due to revision in retail revenue. Combining the DCF and PER methods, our **target price for PNJ by the end of 2024 is VND86,049/share, equivalent to a total return of 19.3%.**

<b>PNJ FINANCIALS MODEL</b>	Price (VND):	73,800	Target (VND):	86,049	Mkt cap (VND bn):	24,338
(VND bn except where stated)	2021	2022	2023F	2024F	2025F	
<b>Total Net Sales</b>	<b>19,547</b>	<b>33,876</b>	<b>31,611</b>	<b>34,745</b>	<b>38,830</b>	
<i>Sales growth</i>	<i>11.6%</i>	<i>73.3%</i>	<i>-6.7%</i>	<i>9.9%</i>	<i>11.8%</i>	
CoGS	15,921	27,921	25,768	28,218	31,386	
Selling expenses ex-dep'n	1,669	2,808	2,778	3,064	3,424	
G&A expenses ex-dep'n	473	644	601	660	738	
Financial revenues	16	34	17	19	21	
Financial expenses	14	47	24	25	28	
<b>EBITDA</b>	<b>1,486</b>	<b>2,491</b>	<b>2,458</b>	<b>2,796</b>	<b>3,275</b>	
<i>EBITDA margin</i>	<i>7.6%</i>	<i>7.4%</i>	<i>7.8%</i>	<i>8.0%</i>	<i>8.4%</i>	
Depreciation	75	80	81	87	92	
<b>Operating profit</b>	<b>1,411</b>	<b>2,411</b>	<b>2,376</b>	<b>2,709</b>	<b>3,183</b>	
<i>Operating profit margin</i>	<i>7.2%</i>	<i>7.1%</i>	<i>7.5%</i>	<i>7.8%</i>	<i>8.2%</i>	
Other profits/losses	(28)	(25)	1	1	1	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	104	74	44	23	1	
<i>as % of avg net debt</i>	<i>5.5%</i>	<i>3.9%</i>	<i>4.0%</i>	<i>4.7%</i>	<i>-2.0%</i>	
<i>Interest cover (x)</i>	<i>13.5</i>	<i>32.6</i>	<i>53.8</i>	<i>117.6</i>	<i>2225.6</i>	
Tax	250	502	500	575	681	
<i>Effective tax rate</i>	<i>19.1%</i>	<i>21.5%</i>	<i>21.4%</i>	<i>21.4%</i>	<i>21.4%</i>	
Minority interest	-	-	-	-	-	
<b>Attributable net profit</b>	<b>1,029</b>	<b>1,811</b>	<b>1,833</b>	<b>2,111</b>	<b>2,501</b>	
Cash earnings	1,104	1,890	1,915	2,199	2,594	
Total number of shares	227,612,362	246,171,620	328,169,188	331,450,880	334,765,389	
<b>EPS (VND) (after treasury shares)</b>	<b>4,242</b>	<b>7,044</b>	<b>5,159</b>	<b>5,883</b>	<b>6,898</b>	
Bonus factor (x)	0.75	0.75	1.00	1.00	1.00	
<b>Adjusted EPS (VND)</b>	<b>3,182</b>	<b>5,285</b>	<b>5,159</b>	<b>5,883</b>	<b>6,898</b>	
<i>EPS growth</i>	<i>-4.0%</i>	<i>66.1%</i>	<i>-0.8%</i>	<i>14.0%</i>	<i>17.3%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	1,773	1,441	258	801	1,039
Capex	48	51	75	75	63
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	-53	-326	-189	-258	-223
<b>Free cash flow</b>	<b>-771</b>	<b>72</b>	<b>1,392</b>	<b>1,065</b>	<b>1,267</b>
Share issues	(2)	1,447	-	66	66
Dividends paid	177	617	656	663	669
Increase in net debt	949	-903	-736	-468	-664
<b>Net debt, end of year</b>	<b>2,366</b>	<b>1,464</b>	<b>727</b>	<b>259</b>	<b>-405</b>
<b>Shareholders' equity</b>	<b>6,013</b>	<b>8,444</b>	<b>9,621</b>	<b>11,136</b>	<b>13,034</b>
BVPS (VND)	26,425	35,019	29,333	33,615	38,953
<i>Net debt / equity</i>	39.4%	17.3%	7.6%	2.3%	-3.1%
<i>Net debt / EBITDA (x)</i>	1.6	0.6	0.3	0.1	(0.1)
<b>Total assets</b>	<b>10,619</b>	<b>13,337</b>	<b>13,778</b>	<b>14,824</b>	<b>16,058</b>

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
<i>ROE</i>	18.3%	25.1%	20.3%	20.3%	20.7%
<i>ROA</i>	10.8%	15.1%	13.5%	14.8%	16.2%
<i>ROIC</i>	14.8%	20.5%	18.4%	19.6%	20.8%
<i>WACC</i>	11.3%	12.4%	13.2%	13.7%	14.0%
<i>EVA</i>	3.5%	8.1%	5.2%	5.8%	6.9%
<i>PER (x)</i>	23.2	14.0	14.3	12.5	10.7
<i>EV/EBITDA (x)</i>	17.3	10.3	10.4	9.2	7.8
<i>EV/FCF (x)</i>	-33.3	354.9	18.4	24.1	20.3
<i>PBR (x)</i>	2.8	2.1	2.5	2.2	1.9
<i>PSR (x)</i>	1.2	0.7	0.8	0.7	0.6
<i>EV/sales (x)</i>	1.3	0.8	0.8	0.7	0.7
<i>PEG (x, 3 yr prospective)</i>	1.1	0.5	1.4	0.9	0.8
<i>Dividend yield</i>	2.7%	2.7%	2.7%	2.7%	2.7%

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### Our Recommendation System

**BUY:** prospective 12 month VND total return (including dividends) will be more than 20%.

**OUTPERFORM:** prospective 12 month VND total return (including dividends) will be 10% to 20%.

**NEUTRAL:** prospective 12 month VND total return (including dividends) will be -10% to 10%.

**UNDERPERFORM:** prospective 12 month VND total return (including dividends) will be will be -20% to -10%.

**SELL:** prospective 12 month VND total return (including dividends) will be lower than -20%.

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