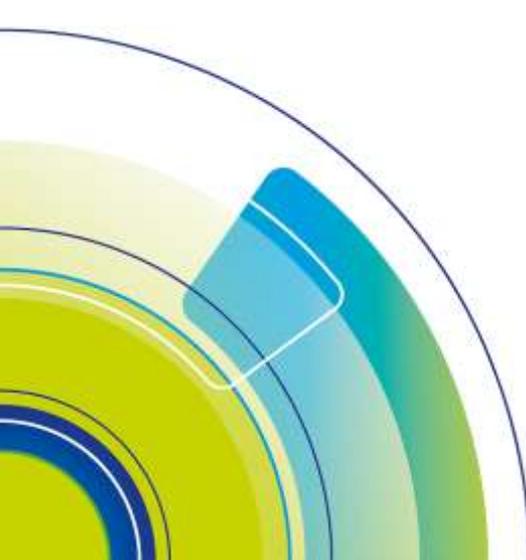




PNJ Update - BUY

August 8, 2024



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Company Update

Recommendation

BUY

HSX: PNJ

Retail

Target price (VND)

114,400

Market price (VND)

94,300

Expected share price return

21.4%

Expected dividend yield

2.1%

Expected total return

23.5%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	15.8	4.0	2.9	22.8
Relative	5.2	6.1	0.7	20.0

Source: Bloomberg



Ownership

Dragon Capital	6.9%
Sprucegrove Investment	5.1%

Stock Statistics 08-Aug-2024

Bloomberg code	PNJ VN
52-week range (VND)	71,100 - 104,000
Shares O/S (m)	335
Mkt cap (VND bn)	31,549
Mkt cap (USD m)	1,243
Est. Foreign room left (%)	0.0
Est. free float (%)	89.3
3m avg daily vol (shrs)	1,241,529
VND/USD	25,380
Index: VNIndex / HNX	1208.3/226.7

PHU NHUAN JEWELRY JSC (PNJ VN)

Growth was seen in 1H2024 on the back of skyrocketed 24K gold revenue and a recovery in the retail and wholesale segments on a low base in the same period last year. This momentum is projected to extend in 2H2024 thanks to the year-end shopping season/festivals and a better outlook expected for 2025. Moving target price to 2025 at VND114,400/share with an **BUY** rating.

PNJ announced 1H2024 revenue at VND22,113bn (+34.3% YoY) and EAT at VND1,167bn (+7.4% YoY), completing 52% of our full-year projections.

The retail segment, the key earner bringing in 49% of the company's revenue, grew by 14% YoY. By the end of June 2024, PNJ had 405 stores (YE2023: 400) in operation.

The wholesale segment posted 20% YoY revenue growth following a stagnant year 2023, contributing 8.2% to the overall revenue result in 1H2024.

24K gold sales surged by 80.8% YoY in 1H2024 thanks to acceleration of the domestic gold price and soaring demand. However, given the government's measures to cool down the 24K gold market and tightened regulations on gold trading activity, the segment's growth showed signs of slowdown from June 2024 (+10.8% YoY).

The company's gross margin slid to 16.4% in 1H2024, versus 18.9% in 1H2023, while the SG&A expenses to gross profit ratio inflated to 59.0% (1H2023: 54.9%).

Inventories contracted by 11.2% compared to that at YE2023, which could explain a substantial decline in the company's debt in 1H2024. The net debt to equity ratio turned from 6% at YE2023 to -12% at the end of 1H2024 (i.e from net debt to net cash).

For 2024 and looking to 2025, our respective projections for PNJ's net revenue and EAT growth are 25.5%/14.2% YoY for 2024 and 6.0%/15.6% YoY for 2025, almost unchanged from the prior update. **Our target price for PNJ by the end of 2025 is VND114,400/share, equivalent to a total return of 23.5%.**

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	33,876	33,137	41,572	44,055	48,989
Growth	73.3%	-2.2%	25.5%	6.0%	11.2%
EBITDA (VNDbn)	2,491	2,605	2,952	3,326	3,727
EBITDA margin	7.4%	7.9%	7.1%	7.6%	7.6%
Net Profit (VNDbn)	1,811	1,971	2,251	2,602	2,941
Growth	76.0%	8.9%	14.2%	15.6%	13.0%
EPS (bonus-adjusted, VND)	5,200	5,436	6,087	6,966	7,795
Growth	63.4%	4.5%	12.0%	14.4%	11.9%
ROE	25.1%	21.6%	21.1%	20.8%	20.0%
ROA	15.1%	14.2%	15.7%	18.0%	19.3%
Net debt/EBITDA (times)	0.6	0.2	-0.5	-0.9	-1.1
EV/EBITDA (times)	12.7	12.1	10.7	9.5	8.5
EV/Sales (times)	0.9	1.0	0.8	0.7	0.6
PER (times)	18.1	17.3	15.5	13.5	12.1
PBR (times)	2.7	3.2	2.7	2.4	2.0
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield (%)	2.1%	2.1%	2.1%	2.1%	2.1%

1H2024 continued to bounce back despite a divergence in revenue and EAT performance

PNJ generated a stunning revenue growth rate of 34.3% YoY despite EAT growth of 7.4% YoY in 1H2024.

The moderate earnings performance was primarily attributed to a hike in the SG&A expenses to gross profit ratio (to 59% in 1H2024 vs. 54.9% in 1H2023), explained by booking some expenses in advance and restoration of some expenses for marketing activities and employees that were delayed in the same period last year. Gross margin shrank to 16.4% in 1H2024 vs. 18.9% in 1H2023 because of increased contribution of the humble-margin 24K gold segment.

Inventories contracted by 11.2% compared to that at YE2023, mostly resulting from a 68% drop in raw materials (including gold material and others). Due to a narrower supply of gold material in the domestic market - PNJ's main material source - stemming from skyrocketed 24K gold demand and tightened regulations for gold trading activity in recent time, PNJ put a priority for stocking materials for production of jewelry over humble-margin 24K gold products.

PNJ's business results	2Q2024	2Q2023	YoY growth	1H2024	1H2023	YoY growth
Net revenue (VNDbn)	9,519	6,663	42.9%	22,113	16,459	34.3%
EAT (VNDbn)	429	338	27.0%	1,167	1,086	7.4%
Gross margin	15.6%	18.2%		16.4%	18.9%	
SG&A expenses to gross profit ratio	63.4%	63.8%		59.0%	54.9%	

Source: PNJ; ACBS

All segments delivered growth; the 24K gold segment outstripped

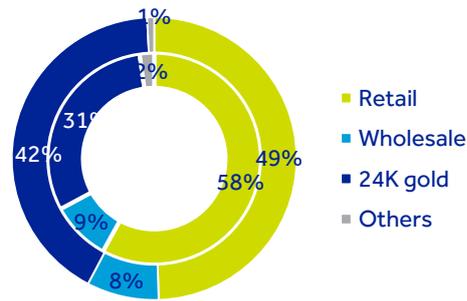
PNJ's spectacular revenue growth in 1H2024 was driven by skyrocketed 24K gold revenue combined with a rebound in the retail and wholesale segments on a low base in the same period last year. **The 24K gold segment's** revenue surged by 80.8% YoY in 1H2024 given acceleration of the domestic gold price and soaring demand. **The wholesale segment** resurged to post 20% YoY revenue growth following a stagnant year 2023, contributing 8.2% to the overall result in 1H2024.

PNJ's segmented results in 1H2024:

	1H2024 revenue	YoY change	Sales contribution
Retail	10,946	+14.0%	49.5%
Wholesale	1,813	+20.0%	8.2%
24K gold trading	9,177	+80.8%	41.5%
Others	177	-48.7%	0.8%

Source: PNJ; ACBS

Revenue breakdown (1H2024)



Source: PNJ; ACBS. *: Inside circle describes 1H2023 and the outside one describes 1H2024

Bringing in 49% of the company's top line, **the retail segment** grew by 14% YoY, with same-store sales growth of more than 10% in 1H2024. Increasing interaction with old customers in tandem with boosting the number of new customers have been leveraged to restore the retail segment's growth in the midst of declining bill value.

New store opening was maintained although some were closed (13 new vs. 8 closed) to optimize the network. By the end of June 2024, PNJ had 405 stores (YE2023: 400) in operation.

Avg. sales per store by month



Source: PNJ; ACBS

Earnings forecasts for 2024-2025

For 2H2024-2025, we project that the company may continue to reinforce their business performance, fueled by the year-end shopping season/festivals and expectations about warmer consumer spending as a result of improvements in the economic picture in the coming time.

We do not expect that 2H2024 and 2025 growth will still be fostered by another surge in the 24K gold segment, considering the government's measures to cool down the market. From early June 2024, with an aim to narrow the wide gap between the domestic and global gold prices (the former was much higher than the latter), the State Bank of Vietnam (SBV) announced to sell gold bars directly to four banks (including Agribank, Vietcombank, BIDV and Vietinbank) so that they could sell to retail customers (who succeeded in online registration), at a price that has low difference

from the international level (but with limited volume per transaction). Also, the government tightened regulations and heightened inspection to eliminate such issues as trading gold without permission or with illegal origins, manipulation, etc.

The retail segment is projected to grow by 13.7% YoY in 2024 and 15.9% YoY in 2025, 1-2% higher than the prior projections. The company targets to keep enlarging their store network, aiming at areas that still have potential. However, we do not project any aggressive expansion in the company's network in the future.

Gross margin is assumed to widen in 2H2024-2025 thanks to expansion of the retail segment and shrink of the 24K gold segment.

Valuation

For the whole year 2024, our forecast almost did not change from the previous update with 2024 EAT at VND2,251bn (from VND2,235bn). For 2025, we expect that the EAT may grow by 15.6% YoY. Combining the DCF and PER methods, our **target price for PNJ by the end of 2025 is VND114,400/share, equivalent to a total return of 23.5%**.

PNJ FINANCIALS MODEL	Price (VND):	94,300	Target (VND):	114,400	Mkt cap (VND bn):	31,549
(VND bn except where stated)	2022	2023	2024F	2025F	2026F	
Total Net Sales	33,876	33,137	41,572	44,055	48,989	
<i>Sales growth (%)</i>	73.3%	-2.2%	25.5%	6.0%	11.2%	
CoGS	27,921	27,052	34,517	36,061	40,068	
Selling expenses ex-dep'n	2,808	2,814	3,330	3,828	4,286	
G&A expenses ex-dep'n	644	661	772	839	909	
Financial revenues	34	19	24	26	28	
Financial expenses	47	24	26	27	28	
EBITDA	2,491	2,605	2,952	3,326	3,727	
<i>EBITDA margin (%)</i>	7.4%	7.9%	7.1%	7.6%	7.6%	
Depreciation	80	81	81	86	91	
Operating profit	2,411	2,524	2,871	3,240	3,636	
<i>Operating profit margin (%)</i>	7.1%	7.6%	6.9%	7.4%	7.4%	
Other profits/losses	(25)	5	1	1	1	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	74	40	30	(43)	(76)	
<i>as % of avg net debt</i>	3.9%	3.9%	-8.0%	2.1%	2.2%	
<i>Interest cover (x)</i>	32.6	63.1	96.6	-74.5	-48.1	
Tax	502	518	591	683	772	
<i>Effective tax rate (%)</i>	21.5%	20.8%	20.8%	20.8%	20.8%	
Minority interest	-	-	-	-	-	
Attributable net profit	1,811	1,971	2,251	2,602	2,941	
Cash earnings	1,890	2,052	2,332	2,688	3,032	
Total number of shares	246,171,620	328,169,188	334,729,180	338,076,472	341,457,237	
EPS (VND) (after treasury shares)	6,931	5,436	6,087	6,966	7,795	
Bonus factor (x)	0.75	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	5,200	5,436	6,087	6,966	7,795	
<i>EPS growth (%)</i>	63.4%	4.5%	12.0%	14.4%	11.9%	

KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	1,441	372	-395	308	929
Capex	51	81	52	75	63
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	-326	-109	-217	-163	-190
Free cash flow	72	1,491	2,458	2,141	1,850
Share issues	1,447	-	131	67	68
Dividends paid	617	615	669	676	683
Increase in net debt	-903	-875	-1,920	-1,532	-1,235
Net debt, end of year	1,464	588	-1,332	-2,864	-4,099
Shareholders' equity	8,444	9,806	11,519	13,512	15,838
BVPS (VND)	35,019	29,897	34,431	39,988	46,407
<i>Net debt / equity (%)</i>	<i>17.3%</i>	<i>6.0%</i>	<i>-11.6%</i>	<i>-21.2%</i>	<i>-25.9%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.6</i>	<i>0.2</i>	<i>(0.5)</i>	<i>(0.9)</i>	<i>(1.1)</i>
Total assets	13,337	14,428	14,221	14,682	15,773

KEY RETURN AND VALUATION RATIOS	2022	2023	2024F	2025F	2026F
<i>ROE</i>	<i>25.1%</i>	<i>21.6%</i>	<i>21.1%</i>	<i>20.8%</i>	<i>20.0%</i>
<i>ROA</i>	<i>15.1%</i>	<i>14.2%</i>	<i>15.7%</i>	<i>18.0%</i>	<i>19.3%</i>
<i>ROIC</i>	<i>20.5%</i>	<i>19.7%</i>	<i>22.1%</i>	<i>24.6%</i>	<i>25.7%</i>
<i>WACC</i>	<i>11.7%</i>	<i>12.6%</i>	<i>13.2%</i>	<i>13.2%</i>	<i>13.2%</i>
<i>EVA</i>	<i>8.7%</i>	<i>7.1%</i>	<i>8.9%</i>	<i>11.4%</i>	<i>12.5%</i>
<i>PER (x)</i>	<i>18.1</i>	<i>17.3</i>	<i>15.5</i>	<i>13.5</i>	<i>12.1</i>
<i>EV/EBITDA (x)</i>	<i>12.7</i>	<i>12.1</i>	<i>10.7</i>	<i>9.5</i>	<i>8.5</i>
<i>EV/FCF (x)</i>	<i>435.7</i>	<i>21.1</i>	<i>12.8</i>	<i>14.7</i>	<i>17.0</i>
<i>PBR (x)</i>	<i>2.7</i>	<i>3.2</i>	<i>2.7</i>	<i>2.4</i>	<i>2.0</i>
<i>PSR (x)</i>	<i>0.9</i>	<i>0.9</i>	<i>0.7</i>	<i>0.7</i>	<i>0.6</i>
<i>EV/sales (x)</i>	<i>0.9</i>	<i>1.0</i>	<i>0.8</i>	<i>0.7</i>	<i>0.6</i>
<i>PEG (x, 3 yr prospective)</i>	<i>0.7</i>	<i>1.7</i>	<i>1.2</i>	<i>1.1</i>	<i>1.1</i>
<i>Dividend yield</i>	<i>2.1%</i>	<i>2.1%</i>	<i>2.1%</i>	<i>2.1%</i>	<i>2.1%</i>

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BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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