



PNJ Update - BUY

November 8, 2024



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Company Update

Recommendation

BUY

HSX: PNJ

Target price (VND)

113,400

Market price (VND)

93,300

Expected share price return

21.6%

Expected dividend yield

2.1%

Expected total return

23.7%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	10.7	-1.2	0.0	25.6
Relative	-2.6	-0.5	-4.8	7.5

Source: Bloomberg



Ownership

VietFund Management	4.9%
Sprucegrove Investment	4.1%

Stock Statistics 7-Nov-2024

Bloomberg code	PNJ VN
52-week range (VND)	74,800-110,200
Shares O/S (m)	338
Mkt cap (VND bn)	31,527
Mkt cap (USD m)	1,236
Est. Foreign room left (%)	0.0
Est. free float (%)	90.7
3m avg daily vol (shrs)	1,155,014
VND/USD	25,497
Index: VNIIndex / HNX	1259.75/227.49

PHU NHUAN JEWELRY JSC (PNJ VN)

Although a positive rebound in the retail segment kept propping up the company's sales growth regardless of a slump in the 24K gold segment in 3Q2024, we revised down 2024-2025 EBT projections by 5% and 6% respectively to reflect a narrower 24K gold-excluded gross margin due to higher costs for sourcing materials. However, diminution in the 24K gold business may facilitate a healthier financial structure and cashflow. Maintain a target price of VND113,400/shr at YE2025. **BUY.**

PNJ announced 3Q2024 revenue at VND7,130bn (+3.1% YoY) and EBT at VND318bn (+1.5% YoY), lower than our expectation. On a cumulative basis, net revenue grew by 25.1% YoY, to VND29,242bn, and EBT climbed by 5.6% YoY, to VND1,787bn.

The retail segment sustained a recovery since the beginning of the year. Bringing in 54.5% of the overall revenue, retail revenue jumped by 20.1% YoY in 3Q and 15.9% YoY in 9M2024. The company plans to launch a new product segment, jewelry for men, in 4Q2024, which could be expanded after the trial phase.

Wholesale sales moved in the same trajectory with 30.2% YoY growth following a stagnant year 2023, contributing 9.5% to the overall revenue in 9M2024.

24K gold sales tumbled by 46% YoY in 3Q given the government's measures to cool down the 24K gold market and tightened regulations on gold trading activity. Nevertheless, the segment still reported 44.1% YoY growth in 9M2024 mostly thanks to acceleration of the domestic gold price and soaring demand in 1H.

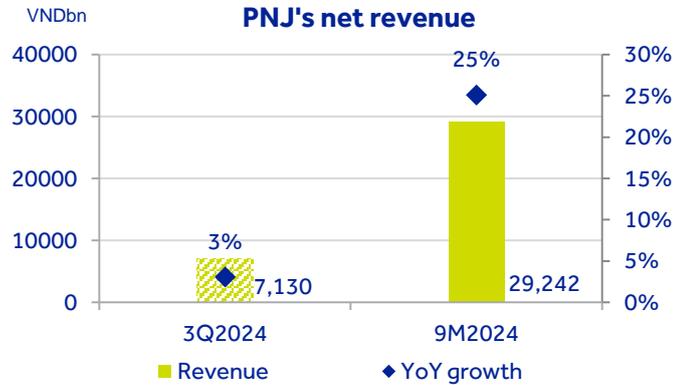
Weak earnings performance stemmed primarily from a narrower gross margin. Gross margin shrank to 16.7% in 9M2024 (9M2023: 18.4%) despite strengthening from 16.4% in 1H given changes in 24K sales contribution. We estimate that the 24K gold-excluded gross margin reduced to 24.7% in 9M2024 from 25.9% in 9M2023, mainly explained by higher costs for sourcing materials and restructuring inventories. The restructuring aims at better efficiency of inventory structure and to find an appropriate rate for recycling old products into materials amid limited materials supply.

We project net revenue and EBT for PNJ in 2024 at VND38,549bn (+15.1% YoY) and VND2,687bn (+8.0% YoY), 5% lower than the prior update. The respective growth is projected at -8.4% YoY (as a result of an expected plummet in 24K gold sales) and 14.4% YoY in 2025. **Our target price for PNJ by YE2025 is VND113,400/share, equivalent to a total return of 23.7%.**

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	33,876	33,137	38,152	34,932	38,546
Growth	73.3%	-2.2%	15.1%	-8.4%	10.3%
NPATMI (VNDbn)	1,811	1,971	2,096	2,434	2,779
Growth	76.0%	8.9%	6.3%	16.1%	14.2%
EPS (bonus-adjusted, VND)	5,200	5,436	5,612	6,452	7,294
Growth	63.4%	4.5%	3.2%	15.0%	13.1%
ROE	25.1%	21.6%	19.9%	19.9%	19.6%
ROA	15.1%	14.2%	14.4%	17.2%	19.8%
Net debt/EBITDA (times)	0.6	0.2	-0.2	-1.1	-1.4
EV/EBITDA (times)	12.7	12.1	11.4	10.1	9.0
EV/Sales (times)	0.9	1.0	0.8	0.9	0.8
PER (times)	18.1	17.3	16.8	14.6	12.9
PBR (times)	2.7	3.2	2.8	2.5	2.1
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield (%)	2.1%	2.1%	2.1%	2.1%	2.1%

Retail revenue sustained a continual growth stream year to date

A continued rebound in the retail segment drove PNJ to generate revenue growth of 3.1% YoY in 3Q2024, irrespective of a 46% YoY plummet in 24K gold sales. On a cumulative basis, PNJ's net revenue grew by 25.1% YoY, to VND29,242bn, in 9M2024.



Source: PNJ; ACBS

The retail segment solidified its role as the mainstay responsible for 54.5% of the company's revenue. With a recovery persisting during the past months, the segment delivered growth of 20.1% YoY in 3Q and 15.9% YoY in 9M2024.

PNJ's segmented results in 9M2024:

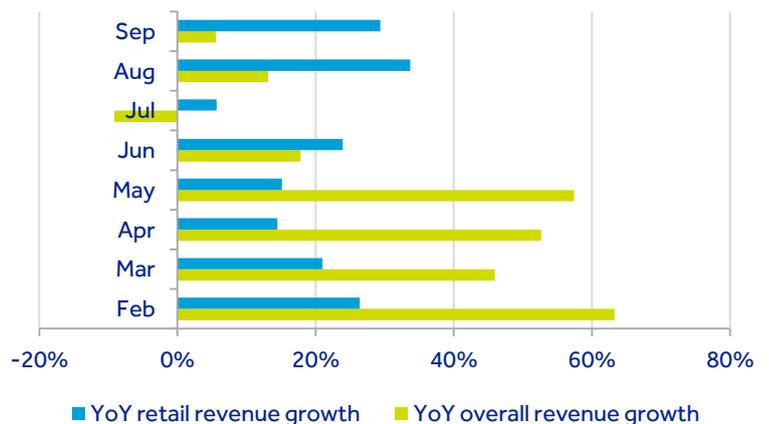
	9M2024 revenue	YoY change	Sales contribution
Retail	15,937	+15.9%	54.5%
Wholesale	2,778	+30.2%	9.5%
24K gold trading	10,264	+44.1%	35.1%
Others	263	-41.2%	0.9%

Source: PNJ; ACBS

Revenue breakdown



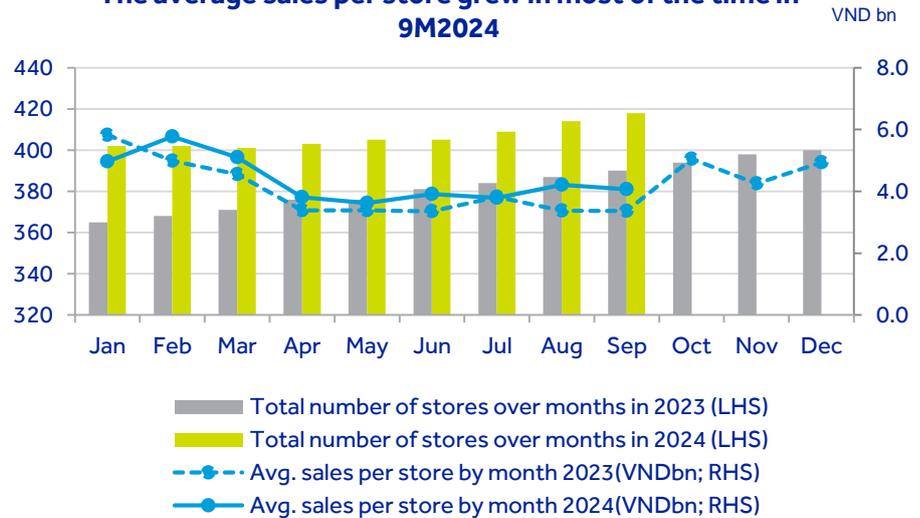
PNJ's YoY revenue growth over months in 2024



Source: PNJ; ACBS. *: Inside circle describes 9M2023 and the outside one describes 9M2024

The average revenue per store delivered YoY growth in most the time in 9M2024 in defiance of new store opening maintained, thanks to enlargement in the number of customers. Although some were closed to optimize the network, PNJ had 418 stores (YE2023: 400) in operation at the end of Sept 2024.

The average sales per store grew in most of the time in 9M2024



Source: PNJ; ACBS

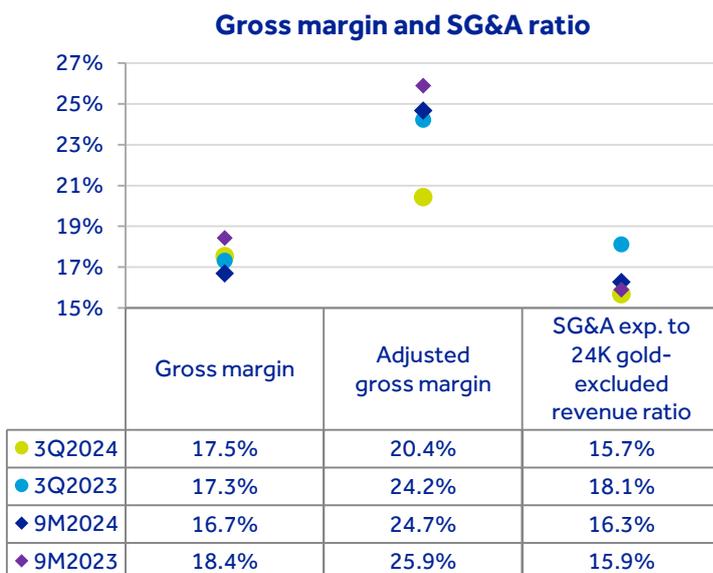
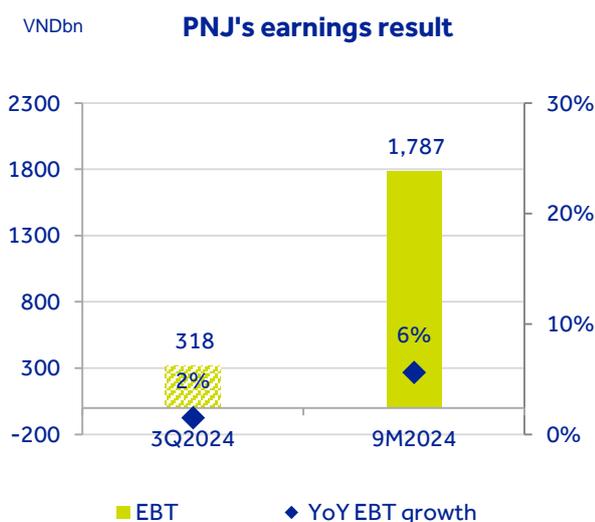
Weak EBT performance mainly due to a narrower 24K gold-excluded gross margin

The company's earnings performed weaker than our expectation with a 1.5% YoY upturn in EBT in 3Q2024, largely driven by a narrower adjusted gross margin which we estimate by excluding the 24K gold segment. The margin declined to 20.4% in 3Q2024 from 24.2% in 3Q2023, hampering the overall gross margin from a dramatic expansion despite much lower sales contribution of the 24K gold segment.

This shrink came as a result of higher costs for sourcing materials, restructuring inventories and opening more stores in Tier 2&3 areas where low-margin products are favored. In 3Q2024, PNJ restructured inventories to heighten efficiency of inventory structure and find a proper rate for recycling old products into gold material amid limited materials supply, according to the company. Due to a narrower supply of gold material in the domestic market - PNJ's main material source - resulting from tightened regulations for gold trading activity in recent months, PNJ has also put a priority for stocking raw materials for production of jewelry over humble-margin 24K gold products.

For 9M2024, the overall gross margin was 16.7% (compared to 18.4% in 9M2023) and the adjusted gross margin was 24.7% (compared to 25.9% in 9M2023).

The SG&A expenses to 24K gold-excluded revenue ratio slightly climbed to 16.3% in 9M2024 (9M2023: 15.9%), including an improvement in 3Q (15.7% vs. 18.1% in 3Q2023), explained by restoration of some expenses for marketing activities and employees that were delayed in the same period last year and recruitment for network expansion and future production plans.



Source: PNJ; ACBS

2024-2025 forecasts

For 4Q2024 and 2025, we project that the company will continue to reinforce the retail segment's 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. PNJ also plans to introduce a new product segment, jewelry for men, in 4Q2024, which could be expanded after the trial phase.

Retail revenue is expected grow by 16.8% YoY in 2024 and 15.3% YoY in 2025, 3% higher than the prior projections. The company targets to keep broadening 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.

The 24K gold segment will likely continue to witness a drop, considering the government's measures to cool down the market and eliminate such issues as trading gold without permission or with illegal origins, manipulation, etc. However, this diminution may facilitate a healthier financial structure and cashflow. The net debt to equity ratio turned from 6% at YE2023 to -8% at the end of 9M2024 (i.e from net debt to net cash).

Although we assume that a limited supply of gold material in the domestic market may still persist, the company's gross margin may be supported by expansion of the retail segment and diminution in the 24K gold segment. While waiting for new regulations favorable for accessing material supply, PNJ aims to cope with difficulties in sourcing materials by applying new technologies to produce new products with lower gold content and keeping an efficient structure for inventories in addition to maintaining the policy of buying back.

Valuation

We project net revenue and EBT for PNJ in 2024 at VND38,549bn (+15.1% YoY) and VND2,687bn (+8.0% YoY), 5% lower than the prior update. The respective growth is projected at -8.4% YoY (as a result of an expected plummet in 24K gold sales) and 14.4% YoY in 2025. Combining the DCF and PER methods, our **target price for PNJ by the end of 2025 is VND113,400 /share.**

PNJ FINANCIALS MODEL	Price (VND):	93,300	Target (VND):	113,400	Mkt cap (VND bn):	31,527
(VND bn except where stated)	2022	2023	2024F	2025F	2026F	
Total Net Sales	33,876	33,137	38,152	34,932	38,546	
<i>Sales growth (%)</i>	<i>73.3%</i>	<i>-2.2%</i>	<i>15.1%</i>	<i>-8.4%</i>	<i>10.3%</i>	
CoGS	27,921	27,052	31,409	27,333	30,074	
Selling expenses ex-dep'n	2,808	2,814	3,267	3,695	4,117	
G&A expenses ex-dep'n	644	661	713	779	843	
Financial revenues	34	19	33	30	34	
Financial expenses	47	24	38	36	38	
EBITDA	2,491	2,605	2,758	3,120	3,507	
<i>EBITDA margin (%)</i>	<i>7.4%</i>	<i>7.9%</i>	<i>7.2%</i>	<i>8.9%</i>	<i>9.1%</i>	
Depreciation	80	81	81	86	92	
Operating profit	2,411	2,524	2,677	3,034	3,415	
<i>Operating profit margin (%)</i>	<i>7.1%</i>	<i>7.6%</i>	<i>7.0%</i>	<i>8.7%</i>	<i>8.9%</i>	
Other profits/losses	(25)	5	1	1	1	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	74	40	(9)	(38)	(93)	
<i>as % of avg net debt</i>	<i>3.9%</i>	<i>3.9%</i>	<i>56.2%</i>	<i>1.8%</i>	<i>2.2%</i>	
<i>Interest cover (x)</i>	<i>32.6</i>	<i>63.1</i>	<i>-292.8</i>	<i>-79.1</i>	<i>-36.7</i>	
Tax	502	518	591	639	730	
<i>Effective tax rate (%)</i>	<i>21.5%</i>	<i>20.8%</i>	<i>22.0%</i>	<i>20.8%</i>	<i>20.8%</i>	
Minority interest	-	-	-	-	-	
Attributable net profit after MI	1,811	1,971	2,096	2,434	2,779	
Cash earnings	1,890	2,052	2,177	2,520	2,871	
Total number of shares	246,171,620	328,169,188	338,074,776	341,455,524	344,870,079	
EPS (VND) (after treasury shares)	6,931	5,436	5,612	6,452	7,294	
Bonus factor (x)	0.75	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	5,200	5,436	5,612	6,452	7,294	
<i>EPS growth (%)</i>	<i>63.4%</i>	<i>4.5%</i>	<i>3.2%</i>	<i>15.0%</i>	<i>13.1%</i>	

KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	1,441	372	83	-1,288	721
Capex	51	81	60	75	63
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	-326	-109	-217	-163	-190
Free cash flow	72	1,491	1,817	3,570	1,897
Share issues	1,447	-	67	67	68
Dividends paid	617	615	676	683	689
Increase in net debt	-903	-875	-1,209	-2,954	-1,275
Net debt, end of year	1,464	588	-621	-3,575	-4,850
Shareholders' equity	8,444	9,806	11,294	13,112	15,270
BVPS (VND)	35,019	29,897	33,423	38,419	44,298
<i>Net debt / equity (%)</i>	<i>17.3%</i>	<i>6.0%</i>	<i>-5.5%</i>	<i>-27.3%</i>	<i>-31.8%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.6</i>	<i>0.2</i>	<i>(0.2)</i>	<i>(1.1)</i>	<i>(1.4)</i>
Total assets	13,337	14,428	14,706	13,571	14,453

KEY RETURN AND VALUATION RATIOS	2022	2023	2024F	2025F	2026F
<i>ROE</i>	<i>25.1%</i>	<i>21.6%</i>	<i>19.9%</i>	<i>19.9%</i>	<i>19.6%</i>
<i>ROA</i>	<i>15.1%</i>	<i>14.2%</i>	<i>14.4%</i>	<i>17.2%</i>	<i>19.8%</i>
<i>ROIC</i>	<i>20.5%</i>	<i>19.7%</i>	<i>19.8%</i>	<i>23.8%</i>	<i>27.1%</i>
<i>WACC</i>	<i>11.3%</i>	<i>12.2%</i>	<i>12.7%</i>	<i>12.7%</i>	<i>12.7%</i>
<i>EVA</i>	<i>9.2%</i>	<i>7.6%</i>	<i>7.1%</i>	<i>11.1%</i>	<i>14.4%</i>
<i>PER (x)</i>	<i>17.9</i>	<i>17.2</i>	<i>16.6</i>	<i>14.5</i>	<i>12.8</i>
<i>EV/EBITDA (x)</i>	<i>12.5</i>	<i>12.0</i>	<i>11.3</i>	<i>10.0</i>	<i>8.9</i>
<i>EV/FCF (x)</i>	<i>431.2</i>	<i>20.9</i>	<i>17.2</i>	<i>8.7</i>	<i>16.4</i>
<i>PBR (x)</i>	<i>2.7</i>	<i>3.1</i>	<i>2.8</i>	<i>2.4</i>	<i>2.1</i>
<i>PSR (x)</i>	<i>0.9</i>	<i>0.9</i>	<i>0.8</i>	<i>0.9</i>	<i>0.8</i>
<i>EV/sales (x)</i>	<i>0.9</i>	<i>0.9</i>	<i>0.8</i>	<i>0.9</i>	<i>0.8</i>
<i>PEG (x, 3 yr prospective)</i>	<i>0.8</i>	<i>2.3</i>	<i>1.6</i>	<i>1.2</i>	<i>1.2</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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DISCLAIMER

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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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