

Sector: Retail (Most recent report: [Link](#))

Recommendations

BUY

Phu Nhuan Jewelry Joint Stock Company (HSX: PNJ)

Sweet fruit from innovation effort

Current Price:	112.2 00	Report writing date:	12/09/2022	Shareholder structure	
Previous target price	122,100	Outstanding Shares (Million)	243	VN DC JSC	9.65%
New target price:	145.500	Capitalization (billion)	25,538	Truong Ngoc Phuong	8.06%
Dividend yield	2%	Average liquidity of 20 sessions	1,331	Vinacapital	4.3%
Upside	30%	(thousand stock)		Tran Phuong Ngoc Ha	3.8%
		Foreign ownership	0.02%		

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Recommended price: N/A VND/CP

Stop loss price: N/A VND/CP

VALUATION

BSC recommends **BUY** for PNJ at a 1-year price of **VND 145.500/share** upside 30% compared to 12/9/2022. Based on the name DCF/PE method with a ratio of 50% / 50%. We saw a 19% increase from [the previous report](#) thanks to

(1) Forecast revenue growth for 2022E/2023F is 28%/38% compared to the previous report thanks to the ability to increase the efficiency of factories and a more flexible sales strategy than expected.

(2) Reducing the forecasted gross profit margin for 2022E/2023F from 18.5%/19.5% (compared to the previous report) to 17.3%/17.7% thanks to the strategy of exploiting categories and the strategy of reducing prices to stimulate demand after a period of offsetting procurement in the second half of 2021-early 2022.

FORECASTING BUSINESS RESULTS

BSC adjusted **iAsset** expectation for net revenue and NPAT in 2022 will reach VND33,436 billion (+70%YoY) and **VND1,792 billion (+74%YoY) - Up 28%/11%** compared to the previous report, equivalent to 129% of revenue plan and 136% NPAT target in 2022.

In 2023, revenue and net profit are expected to reach VND 37,832 billion (+13% YoY) and VND 2,147 billion (+20%YoY) equivalent to EPS FW=8,276 VND and P/E fw=13.6 - Lower than average P/E 3 years 19 times.

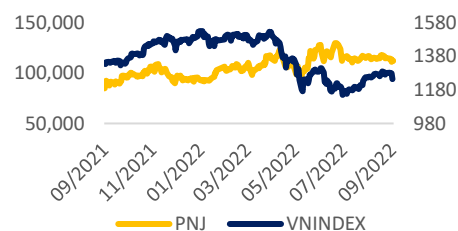
INVESTMENT THESIS

- Taking advantage of the industry gap after COVID-19, helping PNJ expand **iAsset** market share and scale in the period 2022-2023 ([details](#))
- Growth potential comes from internal businesses, including **(1) Strategy to expand market share by increasing the number of stores in 2nd and 3rd tier cities; (2) Product restructuring and cost optimization** thanks to digital transformation applications **(3) Exploiting potential young customer segment**, and flexible sales policies.

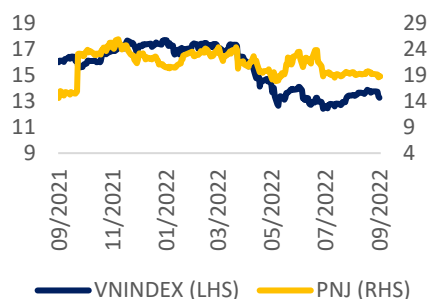
Risk:

- The epidemic continues to affect jewelry purchasing power.
- Recoverable income was lower than expected.

Comparison table of CP and VN-Index prices



P/E and VN-Index comparison table



	2021E	2022F	2023F	Peer
P/E (x)	28	16	14	11.0
P/B (x)	4.5	3.1	2.6	1.2
EV/EBITDA (x)	11.3	11.3	11.3	12.3
ROA (%)	10%	14%	14%	4%
ROE (%)	17%	21%	21%	6%

	2020	2021	2022F	2023F
Net revenue	17,511	19,613	33,436	37,832
Gross profit	3,435	3,573	5,793	6,710
NPAT	1,069	1,033	1,792	2,147
EPS	4,038	3,995	6,908	8,276
EPS growth	-18%	-1%	73%	20%

KQKD Update 1H/2022 – Exceeded all expectations

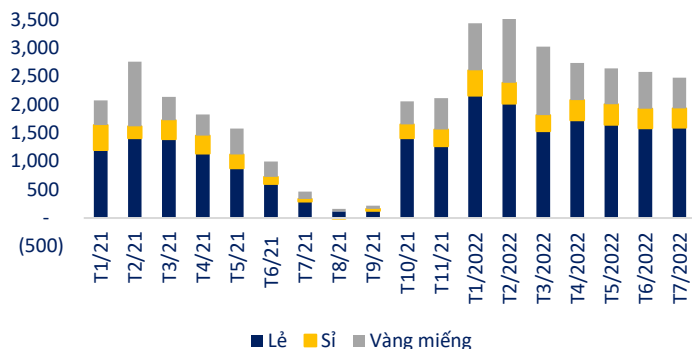
Revenue structure	Q2/2022	Q2/2021	%YoY	1H/2022	1H/2021	%YoY
Retail	4,961	2,623	89%	10,671	6,621	61%
%Revenue	61%	59%		59%	57%	
Wholesale	1,053	676	56%	2,149	1,652	30%
%Revenue	13%	15%		12%	14%	
Gold bullion	1,930	1,102	75%	5,135	3,095	66%
%Revenue	24%	25%		28%	27%	
Other	123	53	134%	255	268	-5%
%Revenue	2%	1%		1%	2%	
	Q2/2022	Q2/2021	%YoY	1H/2022	1H/2021	%YoY
Net revenue	8,068	4,455	81%	18,210	11,637	56%
Gross profit	1,449	835	74%	3,210	2,160	49%
GPM	18.0%	19%		17.6%	18.6%	
Cost of sales	(754)	(420)	79%	(1,396)	(923)	51%
SG&A expenses	(181)	(125)	44%	(357)	(278)	28%
SG&A/Rev	11.6%	12%		9.62%	10%	
Net profit	515	290	78%	1,457	959	
Net profit Margin	6.4%	6.5%		8.0%	8.2%	
Financial income	10	4	138%	16	9.9	56%
Financial expenses	(22)	(23)	-5%	(57)	(49)	17%
Other income	(26)	3	-853%	(26)	3	-1097%
EBT	477	274	74%	1,390	923	51%
NPAT	367	224	64%	1,088	736	48%
NPAT margin	4.5%	5.0%		6.0%	6.3%	

Source: BSC Research

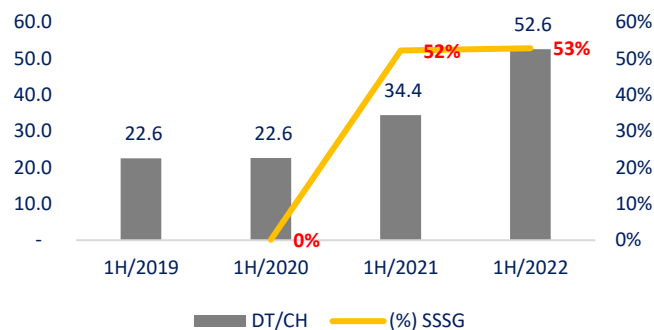
NET REVENUE and NPAT **1H/2022** reached VND **18,210** billion (+56%YoY) and VND **1,088 billion (+48% YoY)**, respectively, completing **70%** and **82%** of the **year plan in terms of net revenue and net profit**. Mainly from (1) low background levels and investment trends in the context of rapidly increasing inflation and global geopolitical instability, causing gold prices to continuously set new peaks in 1H/2022; (2) the effectiveness of marketing and digital transformation activities in sales activities and meeting the tastes of customers.

In addition, revenue/store growth in 2022 continues to grow by 53% YoY higher than the previous period, thanks to the offset consumer trend in 1H/2022 and constantly innovating sales strategies applying conversion, helping PNJ to reach many new customer groups with good growth, the rate of existing customers returning to increase and the value of average/orders is on the verge of positive growth.

Main revenue structure chart of PNJ



Change in revenue/store of PNJ over the years (Billion VND/store)



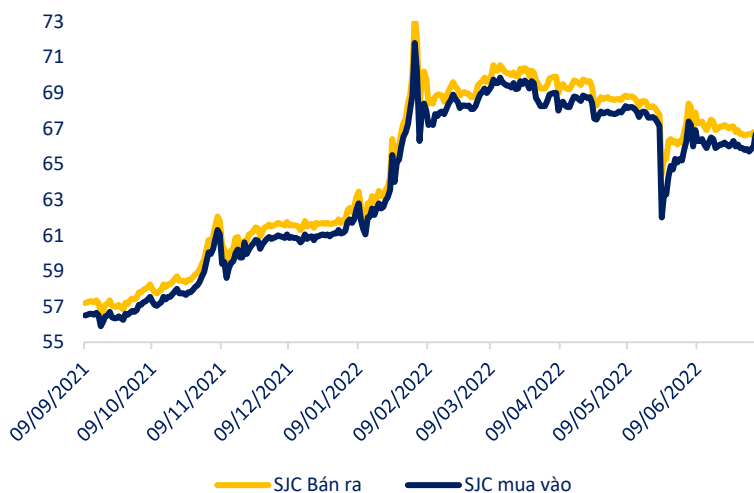
Source: SAPO, BSC Research

Operating profit margin 1H/2022 decreased slightly from 8.2% (1H/2021) to 8% (1H/2022) due to

(1) Gross profit margin decreased from 18.6% (1H/2021) to 17.6% (1H/2022) mainly due to the proportion of gold bullion revenue (with a gross profit margin of only ~1%) increased from 25.9 to 28% was offset and the strategy of reducing the selling price of the jewelry segment stimulated demand in Q2/2022

Partially offset from (2) the SG&A/revenue expenses decreased from 10.3% to 9.6% due to a 56% YoY increase in revenue faster than the increase in operating expenses (+45.9%YoY) due to high demand for effective control of the cost of sales and management efficiency of the ERP system.

Gold price chart from 9/9/2021-5/9/2022



Source: BSC research collect, PNJ

Financial revenue increased by 56%YoY thanks to interest from capital obtained from private placement, helping PNJ to proactively fund store openings, take initiative in working capital and reduce debt leverage in the context of an upward trend.

As of Q2/2022, PNJ owns a retail network of 351 stores across the country, an increase of 11 stores compared to Q1/2022 – 60% of customers opening stores in 2022 – taking advantage of opportunities from many businesses abandoning the market due to difficulties after the epidemic.

In addition, in Q2/2022, PNJ conducted the 2022 AGM to approve (1) the annual REVENUE and NPAT plans reaching VND 25,835 billion (+32.2%YoY) and VND 1,319 billion (+28.2%YoY), respectively, the dividend plan of 20%; (2) the plan to reward the Board of Directors in 2022 when (2.1) exceeding 128% of NPAT 2021: bonus 1% NPAT or exceeding 135% of NPAT 2021: bonus 1.5% NPAT (2.2) Issue a conditional ESOP at a maximum rate of 2% of the total outstanding shares at the time of issuance.

In July 2022, NET REVENUE and NPAT reached VND 2,511 billion (+413.6%YoY) and VND 79 billion respectively compared to VND -32 billion in 2021. Gross profit margin decreased compared to the previous period from 17.6% (Jul 20) and 19.6% (Jul 21) to 15.8% (Jul 22) due to increased sales in all categories and reduced selling prices to protect revenue. We consider this a positive signal that the company can take advantage of technology and innovate sales methods, which will support revenue in the second half of 2022.

PNJ Outlook 2022:

	2020	2021	Last Forecast	2022F	2023F
Revenue retail	10,454	11,513	15,711	20,845	24,941
%YoY	10%	10%	25%	81%	20%
Revenue wholesale	2,767	2,648	3,234	4,220	4,853
%YoY	-23%	-4%	14%	59%	15%
Revenue gold bars	3,870	5,021	6,816	7,824	7,498
%YoY	11%	30%	20%	56%	-4%
Other	420	431	435	546	540
%YoY	10%	3%	-7%	27%	-1%
Net revenue	17,511	19,613	26,196	33,436	37,832
%YoY	3%	12%	34%	70%	13%
Gross profit	3,435	3,573	4,837	5,793	6,710
GPM	19.6%	18.2%	18.50%	17.3%	17.7%
Cost of sales	(1,421)	(1,694)	-2,105	(2,742)	(3,140)
SG&A expenses	(506)	(472)	-625	(711)	(805)
SG&A/Rev	11.0%	11.0%	10.40%	10.3%	10.4%
EBIT	1,508	1,407	2,107	2,340	2,765
EBIT margin	8.6%	7.2%	8.0%	7.0%	7.3%
Financial income	3	16	17	17	14
Financial cosAsset	(162)	(118)	-118	(123)	(104)
Other income	(3)	(18)	0	0	0
EBT	1,346	1,287	2,006	2,234	2,676
NPAT	1,069	1,033	1,610	1,792	2,147
NPAT margin	6.1%	5.3%	6%	5.4%	5.7%
%YoY	-10%	-3%	56%	74%	20%
EPS	4,038	3,995	6,206	6,908	8,276
P/E	27.9	28.2	18.1	16.3	13.6
P/B	5.2	4.5	3.7	3.1	2.6

Source: BSC

BSC expects net revenue and NPAT in 2022 to reach VND 33,436 billion (+70%YoY) and VND 1,792 billion (+74%YoY), EPS fw is VND 6,908/share. PE fw = 16.3x – lower than the 5-year average P/E of 17x – Equivalent to 129% of customers and 136% of NPAT customers in 2022.

At the same time, We adjusted our forecast compared to the report dated 10/5/2022, increasing by 28% and 1.1% respectively due to

- (1) The average net sales of the low months in Q2 and July 2022 was VND 2,645 billion, which is higher than the average of the peak period of Q1.2021 of VND 2,395 billion and exceeded our previous expectations thanks to (1.1) increase the capacity of existing factories by 30% YoY thanks to changing the factory layout and investing in more machinery and equipment, meeting the demand for new products and sales channels that have not been paid much attention such as wholesale channels and (1.2) flexible sales policies, increase discounts and apply digital transformation in the sales and distribution process, manage products suitable for each store.
- (2) Gross profit margin was lower than previously expected from 18.5% to 17.3% mainly due to flexible sales policies and reduced selling prices, in order to expand market share and reach a diverse customer base.

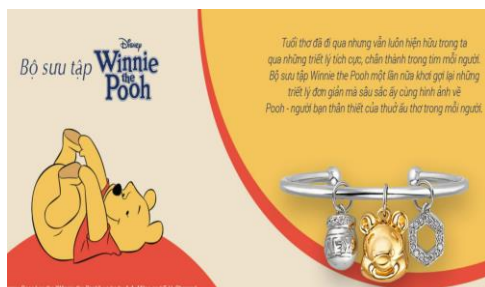
In 2023, BSC expects NET REVENUE and NPAT to reach VND 37,832 billion (+13% YoY) and VND 2,147 billion (+20% YoY) respectively, equivalent to EPS FW= 8,276 VND and P/E fw = 13.6 times lower than the average 3-year P/E 19 times. Based on these assumptions:

- (1) Current jewelry/store retail sales growth (SSSG) continues to grow 9.1% YoY on a high 2022E thanks to (1.1) Sales growth in all business segments supported by increased capacity of existing factories (1.2) Flexible sales and marketing policies with the support of digital transformation; (1.3) additional revenue when expanding stores to tier 2 and tier 3 cities.
- (2) Gross profit margin increased from 17.3% (2022E) to 17.7% (2023F) thanks to a decrease in gold bars from 23.2% to 19.6% due to the comprehensive exploitation of business segments, including wholesale segments, which were not focused in the previous period and the trend of investing in gold reserves is not as strong as before.

In addition, the estimated retail profit margin is only around 27-28% lower than the previous period (29%-30%) due to the policy of reducing selling prices to stimulate demand and focus on products with cheaper prices but faster turnover.

Chain expansion: Expect the number of stores in 2023 to reach 384 stores (an increase of 30 compared to the total number of stores in 2022F) in (1) tier 2 and 3 areas; (2) Style by PNJ in shops in big cities, invest in marketing, increase customer experience targeting young customers with affordable product lines. Investment capital for opening new stores and developing the market comes from capital issued more than VND 1,425 billion in 2022, ensuring medium-term growth goals.

Diverse marketing services and many attractive promotions in 1H/2022.



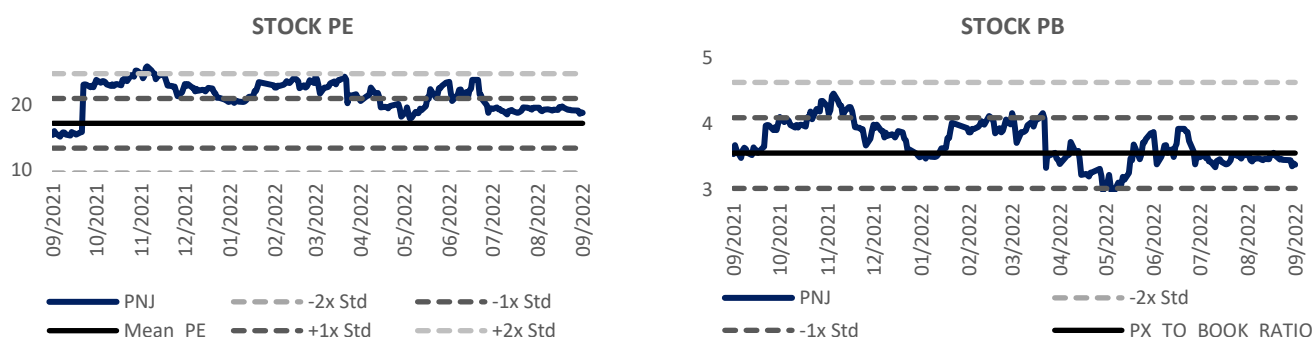
Pricing

BSC maintains iAsset recommendation to **buy PNJ** with a 1-year target price of VND 145,500/share - upside 30% compared to 12/9/2022. Based on the name DCF/PE method with a ratio of 50%/50%. We revised up 19% from the previous report thanks to (1) projected revenue increase for 2022E/2023F of 28%/38% sv THE PREVIOUS REPORT owing to increased factory performance and more flexible sales strategy than expected and

(2) Reduce the projected gross profit margin for 2022E/2023F decreased from 18.5%/19.5% (compare to the previous report) to 17.3%/17.7% thanks to the strategy of exploiting categories and the strategy of stimulating prices after the offset procurement period in the second half of 2021-early 2022.

DCF	2022	2023	2024	2025	2026
FCFF	1,188	1,438	1,797	2,322	2,937
Total 5-year free cash flow extract value	1,149	1,253	1,411	1,641	1,870
Terminal	42,294				
Terminal discount	26,935				
Total discount value	34,259				
(-) Debt	(1,989)				
(+) Cash	1,750				
Total company value	34,020				
Outstanding shares (million)	243				
Fair value	140,222				
P/E method					
Diluted EPS	7,934				
Target P/E	19.0				
Reasonable price	150,742				
Method	Price	Density	Average price	Cost of capital	
DCF	140,222	50%	70,111	Rf	4%
P/E	150,742	50%	75,371	Beta	1.20
Target price			145,500	Ke	14%
Current Price			112,200	Kd	5%
Upside			30%	E/A	31%
Recommendations			Buy	D/A	69%
Dividend yield			1.8%	Tax	20%
5-year P/E			17.1	WACC	11.0%
Sector average P/E (Trailing)			11	g	3.8%

Source BSC forecast.



Source: Bloomberg

ADDENDUM

P&L (Billion)	2020	2021	2022	2023
Net revenue	17,511	19,613	33,436	37,832
COGS	(14,076)	(16,040)	(27,643)	(31,122)
Gross profit	3,435	3,573	5,793	6,710
Cost of sales	(1,421)	(1,694)	(2,742)	(3,140)
SG&A expenses	(506)	(472)	(711)	(805)
Operating profit/loss	1,508	1,407	2,340	2,765
Financial income	3	16	17	14
Financial expenses	(162)	(118)	(123)	(104)
Interest expense	(154)	(104)	(115)	(95)
Profit from joint ventures/associations	-	-	-	-
Other profit/loss	(3)	(18)	0	0
EBT	1,346	1,287	2,234	2,676
Tax	(277)	(254)	(441)	(529)
NPAT	1,069	1,033	1,792	2,147
Minority shareholders	-	-	-	-
NPAT - Minority shareholders	1,069	1,033	1,792	2,147
EBITDA	1,578	1,482	2,426	2,860
EPS	4,038	3,995	6,908	8,276

CF (Billion)	2020	2021	2022	2023
Loss/NPAT	1,346	1,287	2,234	2,676
D&A	70	75	86	95
Change in working capital	346	(1,801)	(607)	(681)
Other adjustments	(424)	(356)	(556)	(623)
CFO	1,496	(717)	1,272	1,561
Cash for purchase of fixed assets	(84)	(63)	(175)	(199)
Other investments	(0)	14	1	2
CFI	(84)	(49)	(174)	(196)
Dividend payment	(355)	(177)	(384)	(384)
Cash from net borrowing	(775)	880	(732)	(99)
Other receipts	(1,085)	702	1,027	(384)
CFF	(1,085)	702	294	(483)
Beginning of year CF	95	422	358	1,750
CF in the period	327	(65)	1,393	881
Ending of year CF	422	358	1,750	2,631

BS (Billion VND)	2020	2021	2022	2023
Cash and cash equivalents	422	358	1,750	2,631
Short-term investments	-	-	-	-
Short-term receivables	100	110	187	191
Inventory	6,545	8,687	9,529	10,468
Other short-term asset	77	66	112	127
Short-term asset	7,144	9,220	11,579	13,417
Tangible asset	-	-	-	-
Depreciation	(319)	(374)	(374)	(374)
Long-term unfinished asset	-	-	-	-
Long-term phone	-	-	-	-
Other long-term asset	297	302	302	302
Long-term asset	1,339	1,327	1,416	1,519
General asset	8,483	10,547	12,995	14,936
Liabilities	482	689	809	910
Short-term loans	1,839	2,722	1,989	1,890
Other short-term liabilities	795	984	1,223	1,398
Total Current Debt	3,232	4,521	4,261	4,572
Long-term loans	-	-	-	-
Other long-term debt	1	0	0	0
Total Long-Term Debt	9	9	9	9
Total debt	3,242	4,530	4,270	4,581
Capital contribution	2,276	2,276	2,426	2,426
Equity surplus	991	991	2,252	2,252
Undistributed profit	1,605	1,954	3,251	4,881
Other equity	-	-	-	-
Minority shareholders	-	-	-	-
Total Equity	5,242	6,017	8,725	10,355
Total capital	8,483	10,547	12,995	14,936
No. outstanding shares (million shares)	243	243	243	243

Ratio (%)	2020	2021	2022	2023
Solvency				
Current ratio	2.21	2.04	2.72	2.93
Quick ratio	0.16	0.10	0.45	0.62
Capital structure				
Debt/asset	0.22	0.26	0.15	0.13
Debt/equity	0.35	0.45	0.23	0.18
Operational capacity				
DSI	135.1	160.0	103.0	100.0
DSO	2.1	2.0	2.0	1.8
DPO	12.5	15.7	10.7	10.7
CCC	124.7	146.4	94.4	91.2
Profit margin				
Gross profit	19.6%	18.2%	17.3%	17.7%
NPAT margin	6.1%	5.3%	5.4%	5.7%
ROE	20.4%	17.2%	20.5%	20.7%
ROA	12.6%	9.8%	13.8%	14.4%
Pricing				
Pe	27.86	28.16	16.28	13.59
Pb	5.21	4.54	3.13	2.64
Growth				
Net revenue growth	3.0%	12.0%	70.5%	13.1%
EBIT growth	-6.8%	-6.7%	66.3%	18.2%
EBT Growth	-10.4%	-4.4%	73.5%	19.8%
EPS growth	-17.8%	-1.1%	72.9%	19.8%

Source: BSC Research

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