

**Vietnam: Jewelry**
**25 November 2020**
**PNJ VN**
**BUY**
**TP upside 21.3%**
**Close 24 Nov 2020**

Price	VND 75,900
12M Target	VND 92,085
Previous Target	VND 86,200

**What's new?**

- ▶ PNJ's retail sales (57% of revenue) posted 9.5% YoY expansion in 3Q20.
- ▶ PNJ is a proxy on long-term Jewelry consumption and a beneficiary of the growth of the middle class.
- ▶ We upgrade to BUY from our previous HOLD-Outperform rating.

**Our view**

- ▶ While the Street remains skeptical about PNJ's retail business recovery, we think that the result is reasonable.
- ▶ Jewelry demand should continue to recover in 4Q20 underpinned by a softer gold price and a seasonal increase demand.
- ▶ Our new target price of VND 92,085 is based on a weighted approach and implies 17.3x 2021E P/E.

**Company profile:** PNJ is a leader in Vietnam's fragmented jewelry market, with gold products contributing 73% of sales and 94% of profits. The company has the largest gold jewelry retail network in Vietnam, with 296 stores.

**Share price performance relative to VNI**


<b>Market cap</b>	<b>US\$735mn</b>
<b>6M avg. daily turnover</b>	<b>US\$2.1mn</b>
<b>Outstanding shares</b>	<b>225mn</b>
<b>Free float</b>	<b>71%</b>
<b>FINI ownership</b>	<b>49%</b>
<b>Major shareholders</b>	<b>22.9%</b>
<b>2020E Net Debt/equity</b>	<b>18%</b>
<b>2020E P/B</b>	<b>2.5x</b>
<b>2020E P/E</b>	<b>19.4x</b>
<b>Trading platform</b>	<b>HOSE</b>
<b>FOL Room</b>	<b>0%</b>

**Financial outlook (VND bn)**

Year to Dec	2018A	2019A	2020E	2021E
Sales	14,573	17,001	17,441	20,603
Op. profit	33.0	10.6	(7.7)	35.0
Net profit	960	1,063	975	1,334
EPS (VND)	5,330	4,251	3,902	5,336
EPS chg (%)	(17.2)	(20.2)	(8.2)	36.8
P/E (x)	17.5	17.8	19.4	14.2
ROE (%)	32.6	28.7	25.9	20.3
Div. yield (%)	1.2	2.6	2.4	3.3
DPS (VND)	1,585	2,000	1,800	2,500

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Bloomberg code: YUTA

## Phu Nhuan Jewelry JSC.

### Long-term prospect remains positive

**PNJ should achieve its 2020 profit guidance** given the soft gold price and typical 4Q seasonality. 9M20 PAT was VND642bn (-20.3% YoY), fulfilling 77.1% of the firm's target. 9M20 revenue was nearly unchanged (-0.1% YoY) at VND11.7tn. This fulfilled 80.6% of the company's 2020 revenue guidance, mostly due to +15.6% YoY growth in gold bar revenues. We think that jewelry demand should continue to recovery in 4Q20, underpinned by a softer gold price and seasonal demand which should be further supported by delayed demand from 1H20.

**PNJ prospect remains intact in the long term.** Jewelry demand should continue to grow along with the middle class. According to World Bank, the middle class account for 13% of the total population but it is growing at 18% YoY, equivalent to 1.5 million Vietnamese joining the middle class each year. Thus, the middle class should account for 26% of the population by 2026. By 2035, half of the population will be in the middle class according to the World Bank. We believe that PNJ, as the jewelry market leader, is a clear proxy on middle class consumption growth.

**Yuanta vs the consensus.** PNJ's retail business (57% of revenue) posted 9.5% YoY expansion in 3Q20 with impressive September retail sales growth of 18% YoY. The street is skeptical about PNJ's retail business recovery, but we think that the rebound is reasonable given that GSO data indicating reported that economy-wide retail sales value of goods expanded by 8.3% YoY in 3Q20.

**Model revisit.** After transferring coverage, we cut our FY2020E revenue forecast by 21.8% to VND 17,441bn (+2.6% YoY). The recovery picture is clearer in 2021E with an increase of 36.8% YoY in 2021E PAT to VND 1,334bn, although this is 6.4% lower than our previous forecast.

**We upgrade to BUY** from the previous HOLD-Outperform rating. Our new target price of VND 92,085 is based on a weighted approach that comprises 50% weightings each in our FCFE model and a P/E comparison with peers. Our target price implies 17.3x 2021E P/E.

**ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.**

Yuanta does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Vietnam's largest jewelry retailer

PNJ remains the largest and most widely known jewelry retailer in Vietnam. Although PNJ has closed 30 stores YTD due to COVID-19, it still possesses a nationwide distribution system of 340 stores, more than double that of the next largest competitor (Doji, with 69 stores, acquired Diamond World (96 stores) in April).

Out of the 340 stores, PNJ currently has 296 gold jewelry stores, 38 silver jewelry stores, and 53 watch stores. Year to date, PNJ has open 23 new stores in prime locations out of the 31 planned new stores for 2020. However, the company has also closed 30 unprofitable stores YTD. This should help boost efficiency and profitability when the market recovers.

Figure 1: Store mix in September 2020

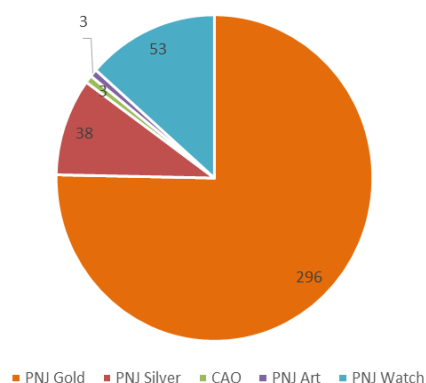
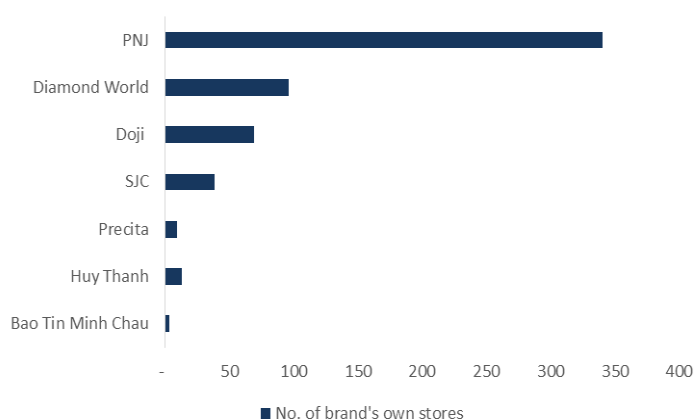


Figure 2: PNJ possesses largest network of distribution



Source: Company, YSVN estimates

Management disclosed that SSSG may remain flat for the entire year despite the COVID-19 issues. While we expect some recovery in the retail business, we don't expect PNJ to post positive growth for jewelry sales for the whole of 2020E because we believe consumers are likely to wait for price consolidation.

In the long-term, as the market leader with strong distribution network, PNJ should benefit from Vietnam's fast-growing middle class, which should continue to provide ample room for jewelry chain store business to grow at the expense of mom-and-pop stores.

# Retail business recovery is sensible and should extend to 4Q20

PNJ posted a recovery in its retail business in 3Q20 despite the (well-contained) mid-July outbreak. The retail business (57% of revenue) posted **9.5% YoY** expansion in 3Q20 with impressive Sep retail sales growth of 18% YoY, although PNJ's 3Q20 revenue still slid slightly by 0.3% YoY to VND3.9tn.

Whereas the street remains skeptical about PNJ's retail business recovery, we think that PNJ's sales recovery is fairly sensible as this is more or less in line with the overall recovery of retail sales of good across the country. The GSO reported retail sales value of goods in 3Q20 expanded by **8.3% YoY**.

Figure 3: Revenue mix 9M2020

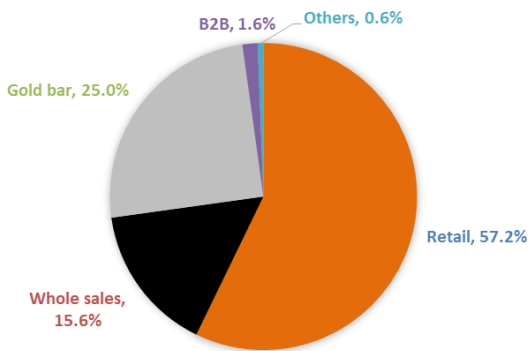
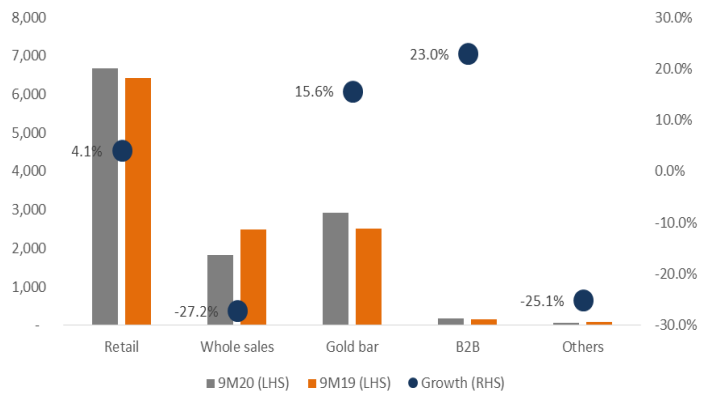


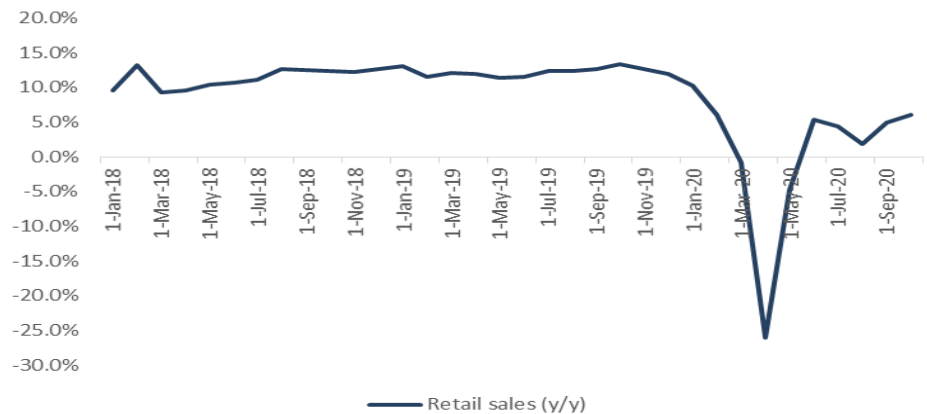
Figure 4: Retail recovered YoY regardless of COVID



Source: Company

The GSO has reported that retail sales momentum extended through October. Specifically, October retail sales of goods grew at 11.1% YoY, the highest level since January. This supports our belief that PNJ (as a proxy on retail demand) will continue to recover in 4Q20. This recovery should be further underpinned by the soft gold price, typical seasonality, and delayed demand from 1H20.

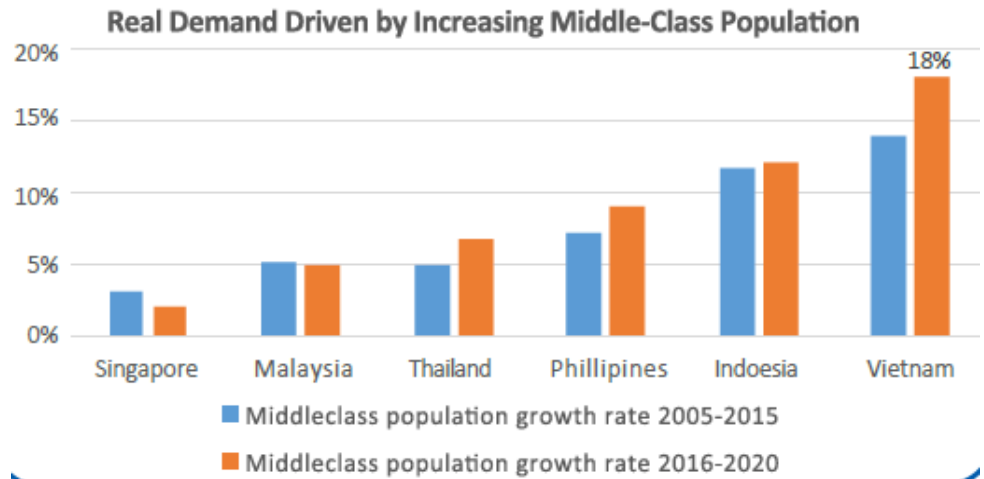
Figure 5: GSO: Total retail sales of good and services



Source: GSO

In the longer term, jewelry consumption should benefit from the growth of the middle class in Vietnam. According to World Bank, the middle class accounts for 13% of the total population, but it is growing at 18% YoY, which is much higher than middle class growth in most regional countries and implies that each year, 1.5 million Vietnamese join the middle class. Thus, the middle class should account for 26% of the population by 2026. By 2035, half of the population will be in the middle class. As the market leader in jewelry retailing, PNJ should benefit from this high middle class growth rate.

**Figure 6: Vietnam middle class growth is outperforming that of its regional peers**



Source: World Bank, YSVN

Gold jewelry chain stores account for about 30% of total segment sales, while the remaining market is dominated by mom-and-pop stores. We believe this indicates potential room for jewelry chain stores to grow going forward. At least from the authors' point of view, consumers tend to prefer buying jewelry products from retail chain stores due to their higher credibility than mom-and-pop stores, especially for those of us who lack professional knowledge regarding jewelry.

## Model revisit

We think PNJ operations are recovering, but we don't expect rapid growth in the short term as consumers are likely to wait until future price consolidation. Specifically, after transferring coverage, we trim our FY20E revenue forecast by 21.8% compared to the previous forecast to VND 17.4bn (+2.6% YoY) mainly driven by the following:

- **We cut our gold jewelry sales assumption by 29.7%** as we expect a 30% YoY decrease in wholesale business instead the +20% YoY increase in the previous model. We trip our FY20E SSSG estimate to 0%, down from 30%.
- **We also cut our silver jewelry revenue growth forecast to -27.7% YoY** from flat YoY previously, as PNJ has closed 16 silver stores YTD. They still had 38 silver jewelry stores as of September. Silver is generally targeted at low-end customers, a segment that has been particularly impacted by COVID-19.
- **We assume gold bar revenue growth of 20% in 2020.** This is a low-margin product, but it has been the company's main revenue growth driver in 9M20.

Our new FY2020E PAT estimate is thus 21.9% lower than the previous forecast.

**Figure 7: Forecast revision**

FY Dec 31 (VND'bn)	OLD FORECAST		NEW FORECAST		OLD FORECAST/NEW FORECAST (%)		
	2020E	2021E	2020E	2021E	2020E	2021E	Y/Y (%)
<b>Revenue</b>	<b>22,295</b>	<b>26,439</b>	<b>17,441</b>	<b>20,603</b>	-21.8%	-22.1%	18.1%
Gold jewelry	18,178	21,897	12,783	15,934	-29.7%	-27.2%	24.7%
Silver jewelry	263	263	190	190	-27.7%	-27.7%	0.0%
Gold bar	3,756	4,132	4,366	4,366	16.2%	5.7%	0.0%
Others	98	148	102	112	3.7%	-24.0%	10.0%
<b>Gross profits</b>	<b>4,294</b>	<b>5,150</b>	<b>3,277</b>	<b>4,006</b>	-23.7%	-22.2%	22.2%
Operating expenses	(2,453)	(2,908)	(1,988)	(2,266)	-18.9%	-22.1%	14.0%
<b>Operating profits</b>	<b>1,842</b>	<b>2,241</b>	<b>1,289</b>	<b>1,740</b>	-30.0%	-22.4%	35.0%
<b>Pretax profits</b>	<b>1,772</b>	<b>2,169</b>	<b>1,219</b>	<b>1,667</b>	-31.2%	-23.1%	36.8%
<b>Net profits</b>	<b>1,418</b>	<b>1,735</b>	<b>975</b>	<b>1,334</b>	-31.2%	-23.1%	36.8%

Source: YSVN

**2021 outlook: a clear recovery.** We slash our FY2021E revenue by 17.2% to VND 21,882bn. However, this is 18.1% higher than the (low) 2020 base. This expected growth is mainly attributable to our assumption of a 24.7% YoY jump in gold jewelry revenue to VND 15,934bn. This leads to margin improvement of 6ppt YoY to 19.4%. As such, our new 2021E PAT forecast is VND 1,334bn, an increase of 36.8% YoY, but 6.4% lower than our previous forecast.

## Valuation

Our price target of VND 92,085 is based on a weighted approach that applies an FCFE model with a 50% weighting and a peer P/E comparison with a 50% weighting. This target price implies 17.3x 2021E EPS, which we see as reasonable.

As a result, we upgrade our recommendation on PNJ to BUY.

**Figure 8: Weighted approach valuation**

Fair price	Stock value	Weighting	Price
FCFE	93,258	50%	46,629
P/E	90,944	50%	45,472
<b>SUM</b>			<b>92,101</b>
Implied FY2021PER			17.3
<b>Current price</b>			<b>75,900</b>
Upside			21.3%

Source: YSVN

### FCFE valuation

A series of interest rate cuts have triggered us to lowered our cost of equity to 12% from 13.7%, mostly due to the reduced risk free rate.

**Figure 9: Revenue mix in 2019 (%)**

DCF Analysis	FY20E	FY21E	FY22E	FY23E
Sales	17,441	20,603	23,829	27,182
YoY Growth	2.6%	18.1%	15.7%	14.1%
Net profit	975	1,334	1,780	2,175
Net margin	5.6%	6.5%	7.5%	8.0%
Depr&Amor (+)	48	53	58	64
Working cap investment (-)	(38)	(879)	(713)	(775)
Capex (-)	(55)	(53)	(53)	(53)
Net borrowing (+)	81	95	70	57
FCFE	1,011	550	1,141	1,468
Terminal growth rate	5.1%			
Terminal value				22,516
Cost of equity	12.0%			
Total equity value	21,090			
<b>FCFE-derived value per share</b>	<b>94,717</b>			

Source: YSVN

### Relative PER valuation

Our relative valuation of VND 90,944 is pegged on PER of 17.0x, which is the median 2021E PER of regional jeweler. We think PNJ deserves the median given the fact that it is still the most profitable jeweler amongst peers with trailing ROE of 22.8%, which is significantly higher than peers' median of 9.9%.

**Figure 10: Relative valuation**

Peer comparisons	Tickers	Country	Market cap (USD Mn)	P/E		P/B	ROE	ROA
				FY20E	FY21E	Trailing 12M	Trailing 12M	Trailing 12M
Richemont SA	CFR SW Equity	SW	48,481	57.8	30.3	2.5	1.0	1.4
Tiffany & Co.	TIF US Equity	US	15,891	50.6	31.6	5.0	9.3	3.4
Chow Tai Fook	1929 HK Equity	HK	12,461	22.7	18.0	3.7	10.5	-0.1
Chow Tai Seng	002867 CH Equity	CH	3,121	19.5	16.1	4.1	20.3	-39.3
Luk Fook	590 HK Equity	HK	1,550	13.5	10.5	1.2	6.8	4.0
Michael Hill	MHJ NZ Equity	NZ	146	10.9	9.0	N/A	5.5	11.9
Thangamayil Jewellery	TJL IN Equity	IN	81	N/A	N/A	2.7	22.1	16.2
Hartadinata Abadi	HRTA IJ Equity	IJ	69	N/A	N/A	0.7	13.4	-0.7
<b>Median</b>				<b>21.1</b>	<b>17.0</b>	<b>2.7</b>	<b>9.9</b>	<b>2.4</b>
Phu Nhuan Jewelry JSC	PNJ VN Equity		735	18.8	15.4	3.5	22.8	13.1

Source: Bloomberg

## Risks

**COVID-19 remain the core risk.** The soft lockdown during the COVID-19 outbreak(s) proved to be the biggest downside driver of our earnings forecasts. This is due to temporary store closure and impaired consumer purchasing power. Absent the mass availability of COVID-19 vaccines, another resurgence of the outbreak is still the key risk, in our view.

**Gold price resurgence.** Our model assumes that the gold price will continue to consolidate from here, which is good for PNJ given that consumers tend to wait for price consolidation before spending on jewelry. An increase in gold's price (for whatever reason) could dampen jewelry consumption once again.

**Digital business.** This represents upside for the business, on balance. We do not expect a major impact from digitalization given that jewelry is a high-value product that typically requires consumers to visit stores to make their purchasing decisions. However, the pandemic may have changed consumer behavior in favor of online shopping. This would help PNJ to grow its online business, which we believe would result in lower operating costs and higher profitability.

**PROFIT AND LOSS (VND bn)**

<i>FY Dec 31 (VND'bn)</i>	2019A	2020E	2021E	2022E
<b>Revenue</b>	<b>17,001</b>	<b>17,441</b>	<b>20,603</b>	<b>23,829</b>
<i>Clean water</i>	<i>13,006</i>	<i>12,783</i>	<i>15,934</i>	<i>18,668</i>
<i>Waste treatment</i>	<i>255</i>	<i>190</i>	<i>190</i>	<i>190</i>
<i>water treatment</i>	<i>3,638</i>	<i>4,366</i>	<i>4,366</i>	<i>4,802</i>
<i>others</i>	<i>102</i>	<i>102</i>	<i>112</i>	<i>168</i>
Cost of goods sold	(13,734)	(14,164)	(16,597)	(18,887)
<b>Gross profits</b>	<b>3,267</b>	<b>3,277</b>	<b>4,006</b>	<b>4,943</b>
Operating expenses	(1,870)	(1,988)	(2,266)	(2,645)
<b>Operating profits</b>	<b>1,397</b>	<b>1,289</b>	<b>1,740</b>	<b>2,297</b>
Net interest expenses	(93)	(96)	(101)	(106)
Net investments Income	-	-	-	-
Net other incomes	3	3	3	3
<b>Pretax profits</b>	<b>1,329</b>	<b>1,219</b>	<b>1,667</b>	<b>2,224</b>
Income taxes	(266)	(244)	(333)	(445)
Minority interests	-	-	-	-
<b>Net profits</b>	<b>1,063</b>	<b>975</b>	<b>1,334</b>	<b>1,780</b>
<i>Core earnings</i>	<i>1,439</i>	<i>1,336</i>	<i>1,793</i>	<i>2,356</i>
EBITDA	4,251	3,902	5,336	7,120
EPS (VND)	<b>17,001</b>	<b>17,441</b>	<b>20,603</b>	<b>23,829</b>

**KEY RATIOS**

	2019A	2020E	2021E	2022E
<b>Growth (%YoY)</b>				
Sales	16.7	2.6	18.1	15.7
<i>Clean water</i>	<i>12%</i>	<i>-2%</i>	<i>25%</i>	<i>17%</i>
<i>Waste treatment</i>	<i>-3%</i>	<i>-25%</i>	<i>0%</i>	<i>0%</i>
<i>Water treatment</i>	<i>39%</i>	<i>20%</i>	<i>0%</i>	<i>10%</i>
<i>Others</i>	<i>133%</i>	<i>0%</i>	<i>10%</i>	<i>50%</i>
Operating profit	10.6	(7.7)	35.0	32.1
EBITDA	10.3	(7.1)	34.1	31.4
Net profit	10.7	(8.3)	36.8	33.4
EPS (VND)	(20.2)	(8.3)	36.8	33.4
<b>Profitability ratio (%)</b>				
Gross margin	19.2	18.8	19.4	20.7
Operating margin	<b>8.7</b>	<b>8.2</b>	<b>7.4</b>	<b>8.4</b>
EBITDA margin	9.0	8.5	7.7	8.7
Net margin	6.6	6.3	5.6	6.5
ROA	17.8	16.0	13.2	16.2
ROE	28.7	25.9	20.4	24.0
<b>Stability</b>				
Net debt/equity (x)	0.4	0.2	0.0	0.0
Int. coverage (x)	19.0	15.1	13.4	17.2
Int.&ST debt coverage(x)	0.8	0.8	0.7	0.9
Cash conversion days	107.0	110.3	108.0	111.3
Current ratio (X)	<b>2.1</b>	<b>2.4</b>	<b>2.6</b>	<b>2.8</b>
Quick ratio (X)	0.2	0.4	0.7	0.7
Net cash (VND bn)	(1,360)	(794)	(224)	(218)
<b>Efficiency</b>				
Days receivable outstanding	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Days inventory outstanding	<b>127</b>	<b>130</b>	<b>127</b>	<b>128</b>
Days payable outstanding	23	23	22	20

Source: Company data, YSVN

**BALANCE SHEET (VND bn)**

<i>FY Dec 31 (VND'bn)</i>	2019A	2020E	2021E	2022E
<b>Total assets</b>	<b>7,021</b>	<b>7,755</b>	<b>8,809</b>	<b>10,350</b>
Cash & cash equivalents	826	1,510	1,612	2,300
ST Investment	-	-	-	-
Accounts receivable	154	143	186	222
Inventories	4,891	4,928	5,820	6,623
Other current assets	86	91	95	100
Net fixed assets	816	823	823	818
Others	247	260	273	286
<b>Total liabilities</b>	<b>2,559</b>	<b>2,629</b>	<b>2,780</b>	<b>2,976</b>
Current liabilities	2,484	2,557	2,708	2,903
Accounts payable	865	854	909	1,035
ST debts	1,618	1,703	1,798	1,868
Long-term liabilities	75	71	72	72
Long-term debts	4	-	-	-
Others	71	71	72	72
<b>Shareholder's equity</b>	<b>4,462</b>	<b>5,127</b>	<b>6,030</b>	<b>7,374</b>
Share capital	2,595	2,595	2,595	2,595
Treasury stocks	(2)	(2)	(2)	(2)
Others	1,015	370	(506)	(1,815)
Retained earnings	1,582	2,228	3,104	4,412
Minority interest	-	-	-	-

**CASH FLOW (VND bn)**

<i>FY Dec 31 (VND'bn)</i>	2019A	2020E	2021E	2022E
<b>Operating cash flow</b>	<b>991</b>	<b>981</b>	<b>503</b>	<b>1,120</b>
Net income	1,063	975	1,334	1,780
Dep. & amortization	42	48	53	58
Change in working capital	(56)	(12)	56	125
Others	(270)	(248)	(338)	(450)
<b>Investment cash flow</b>	<b>(82)</b>	<b>(67)</b>	<b>(66)</b>	<b>(67)</b>
Net capex	(82)	(67)	(66)	(67)
Change in LT investment	-	-	-	-
Change in other assets	-	-	-	-
Cash flow after invt.	-	-	-	-
<b>Financing cash flow</b>	<b>(290)</b>	<b>(229)</b>	<b>(335)</b>	<b>(365)</b>
Change in share capital	-	-	-	-
Net change in debt	56	81	95	70
Change in other LT liab.	(346)	(310)	(430)	(435)
<b>Net change in cash flow</b>	<b>619</b>	<b>684</b>	<b>102</b>	<b>688</b>
Beginning cash flow	207	826	1,510	1,612
<b>Ending Cash Balance</b>	<b>826</b>	<b>1,510</b>	<b>1,612</b>	<b>2,300</b>

**KEY METRICS**

	2019A	2020E	2021E	2022E
PE (x)	17.8	19.4	14.2	10.6
Diluted PE (x)	17.8	19.4	14.2	10.6
PB (x)	2.8	2.5	2.1	1.7
EBITDA/share	8,614	8,003	10,734	14,106
DPS (VND)	2,000	1,800	2,500	2,500
Dividend yield (%)	2.6	2.4	3.3	3.3
EV/EBITDA (x)	9.7	8.8	9.5	7.1
EV/EBIT (x)	9.2	9.9	9.1	9.8



# Appendix A: Important Disclosures

## Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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**BUY:** We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

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