

Vietnam: Consumers
27 October 2023
PNJ VN
BUY
TP upside +24.3%
Close 27 Oct 2023

Price	VND 73,600
12M Target	VND 90,100
Previous Target	VND 101,700
Change	-11.4%

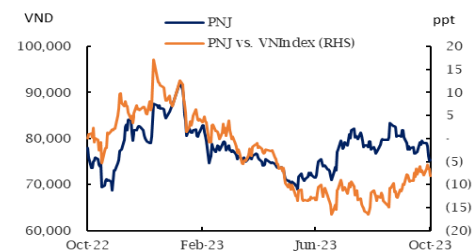
What's new?

- ▶ PNJ has expanded its retail network by +26 outlets YTD to 390 stores, mostly in Tier 2 and 3 cities.
- ▶ 9M23 sales decreased by -8.6% YoY, but 9M23 PAT was flattish YoY.
- ▶ Launch of Long Hau factory to be delayed.
- ▶ We downgrade our sales forecasts by -15% for 2023E and -19% for 2024E.
- ▶ We slash our PAT forecasts by -21% for both 2023E and 2024E.

Our view

- ▶ We expect to see a seasonal recovery in 4Q23 and 1Q24 sales, and economic recovery should help to boost jewelry demand in 2024 and beyond.
- ▶ PNJ offers excellent exposure to the long-term growth of Vietnam's middle class.
- ▶ The persistent gap between annual FCFE and net income is due to inventories. We take a stab at understanding the gap in this note (see p. 5-8).
- ▶ Reiterate BUY with TP of 90,100, which implies 2024E P/E of 14.6 and 2024E PEG of 0.5x.

Company profile: PNJ engages in fabrication and trade of gold, silver, and gemstone jewelry. The company operates a factory with designed capacity of 4.0 million items per year. In addition, PNJ operates Vietnam's largest jewelry retail network in at 390 stores as of 3Q23, and management targets a network of 500 stores by 2025.

Share price performance relative to VNI


Market cap	US\$987mn
6M avg. daily turnover	US\$2.9mn
Outstanding shares	328mn
Free float	64.6%
FINI ownership	49.0%
Major shareholders	35.4%
2022 Asset/equity (*)	1.6x
EV/EBITDA	10.7x
2024E P/E	11.9x
Trading platform	HOSE
FOL Room	0.0%

Source: Fiiipro, Bloomberg, Yuanta Vietnam (*)

Financial outlook (VND bn)

Year to Dec (VNDbn)	2022A	2023E	2024E	2025E
Sales	33,876	32,060	35,743	38,263
Op. profit	2,425	2,290	2,897	3,152
Net profit	1,811	1,736	2,210	2,407
EPS (VND)	5,223	4,947	6,172	6,723
EPS chg	63%	-5%	25%	9%
P/E (x)	14.1	14.9	11.9	10.9
Dividend yield	0.0%	1.8%	1.9%	1.8%

Source: Fiiipro, Yuanta Vietnam

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Bloomberg code: YUTA

Phu Nhuan Jewelry (PNJ VN)

Expanding through the cyclical weakness

PNJ posted negative sales growth in 9M23 but after-tax profits were flattish YoY given higher operating efficiencies. Specifically, 9M23 net sales were 23.4tn (-8.6% YoY) and after-tax profits were VND 1.3tn (-0.1% YoY). Thus, average net margin improved by +0.5ppt YoY to reach 5.7% in 9M23.

Footprint expansion continues. PNJ has opened +26 stores YTD in 9M23, increasing its retail network to 390 outlets nationwide. This is the fastest expansion pace of any jewelry retailer in Vietnam, and in our view should help PNJ to increase its market share going forward.

Positioned to benefit from the rising middle-class population. In addition, we believe that PNJ will remain its leading position as Vietnam's largest jewelry retailer with its retail-oriented and multi-brand strategies.

Gap between free cash flow and net income in 2016-2022 driven by growth in inventories. Substantial precious metals inventory represents a risk given price volatility, but it also supports future revenue growth. Concerns regarding working capital are reasonable but are somewhat mitigated by PNJ's efficient risk management system and sales growth plans.

Forecast cuts: We were too optimistic in our previous assumptions. We cut our sales forecasts by -15% to VND 32tn (-5% YoY) for 2023E and by -19% to VND36tn (+12% YoY) for 2024E. We also slash our PATMI forecasts by -21% to VND1.7tn (-4% YoY) for 2023 and by -21% to VND2.2tn (+27% YoY) for 2024E.

Yuanta vs. the Street. Our sales forecasts for 2023E and 2024E are in line with the Street's. However, our revised 2023E EPS forecast is -8% lower than the Bloomberg consensus, probably driven by a higher SG&A cost assumption. We forecast EPS to grow by +25% YoY in 2024E EPS, but this expectation is -2% lower than the average estimate of the Bloomberg consensus.

We reiterate BUY on PNJ but cut our target price by -11.4% to VND 90,100 after paring our previously aggressive operating assumptions. Our reduced target price implies +24.3% 12-month TSR, which justifies our BUY recommendation.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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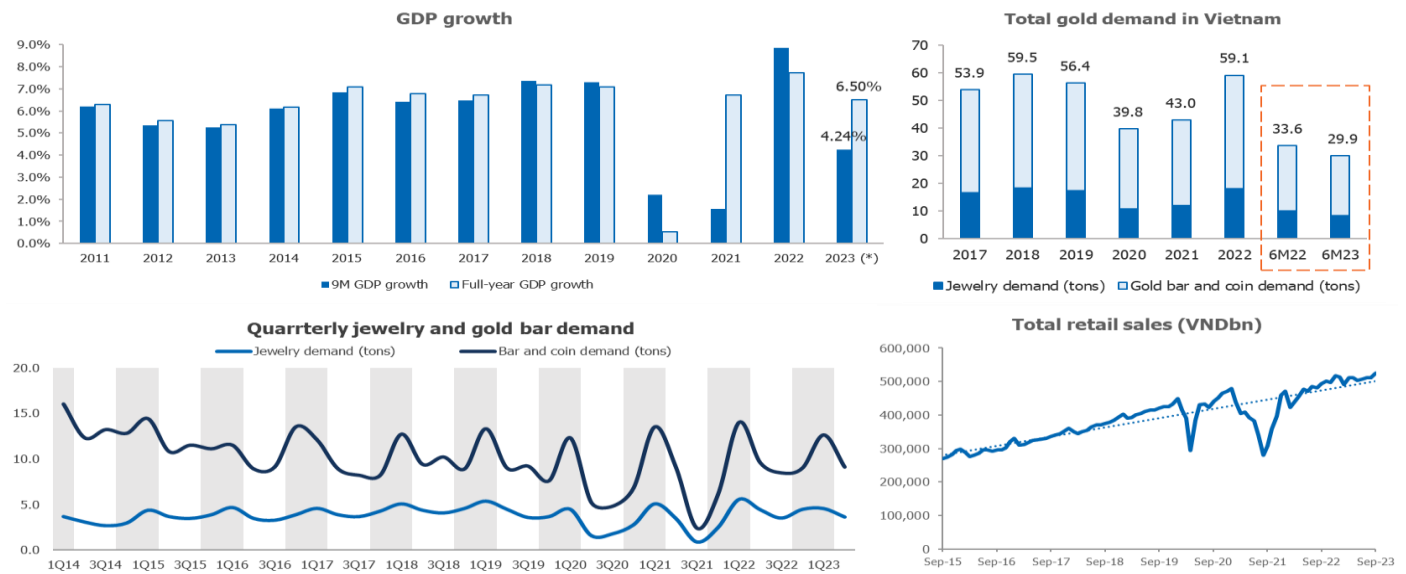
Business Update

Business results were impacted by the economic slowdown. Vietnam's GDP increased by only 4.24% in 9M23.

Total retail sales continued its positive momentum in September (+2.4% MoM / +7.5% YoY), 3Q23 (+1.9% QoQ / +7.9% YoY) and 9M23 (+9.7% YoY). But growth was mostly driven by a revival of tourism as Vietnam has surpassed the annual target to welcome 8.9 million international visitors in 9M23 (+4.7x YoY). Notably, this figure is still lower compared to the pre-COVID levels in 2017–2019.

Jewelry and gold bar demand slumped substantially in 1H23. According to the World Gold Council (WGC), Vietnam's jewelry sales declined by -18.5% YoY to 8.2 tons in the first 6 months of 2023, while gold bar & coin sales also decreased by -8.0% YoY to 21.7 tons. Gold jewelry and gold bar demand remained weak in 3Q23 but we expects the business to rebound seasonally in 4Q23–1Q24.

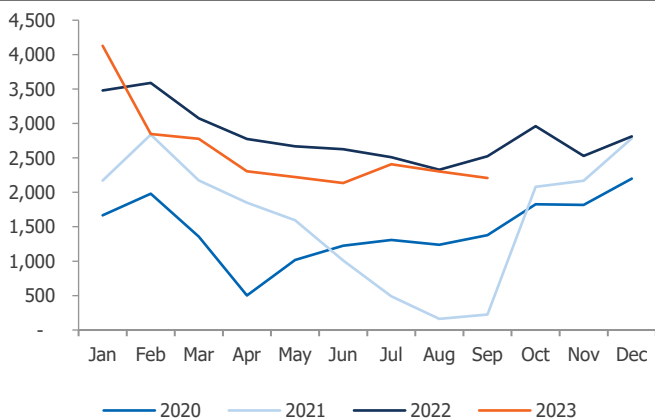
Fig.1: Business results were partly impacted due to economic slowdown



Source: Company data, GSO, WGC, Yuanta Vietnam, (*) The government's target for 2023

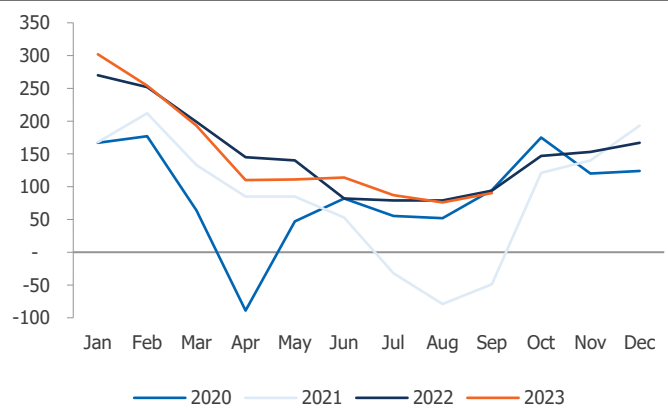
PNJ also posted soft results YTD. Monthly results fluctuate depending on the season, but this year's results have been persistently lower than the same periods of 2022. In September, PNJ posted sales of VND 2.2tn (-4% MoM / -13% YoY) and after-tax profits of VND 90bn (+19% MoM / -4% YoY).

Fig.2: Monthly sales (VNDbn)



Source: Company data

Fig.3: Monthly after-tax profits (VNDbn)



Source: Company data

In 3Q23, sales declined YoY off a high base. The extremely favorable market conditions last year were driven by revenge spending, which helped to boost jewelry retail sales and wholesale revenues, while pressure from high inflation and risk-off sentiment boosted 24k gold sales in 3Q22.

PNJ's 3Q23 sales of VND 6.9tn were up +3.8% QoQ but down -6.1% YoY. After-tax profits of VND 253bn in 3Q23 were down by -25% QoQ, but ticked up by +0.4% YoY. The YoY gain in net profit was driven by gross margin, which increased by +0.4ppt YoY to 17.3% in 3Q23.

9M23 net sales were VND 23.4tn, down by -8.6% YoY despite the addition of 26 new outlets YTD.

Segment breakdown. Retail sales declined by -10.5% YoY in 9M23 and wholesale revenues slumped by -32.1% YoY. While disappointing, these figures are not as bad as the slump in the overall market (-c.40% YoY, according to management). Meanwhile, 24k gold sales increased by +5.9% YoY in 9M23.

Gross profit reached VND 4.3tn in 9M23, down by -3.4% YoY and less negative than the decline in sales. Gross margin improved by +1.0ppt YoY to 18.4% in 9M23 due to operating optimization. Thus, after-tax profits slightly declined by -0.1% YoY to VND 1.3tn in 9M23 and net margin improved by +0.5ppt YoY to 5.7% in 9M23.

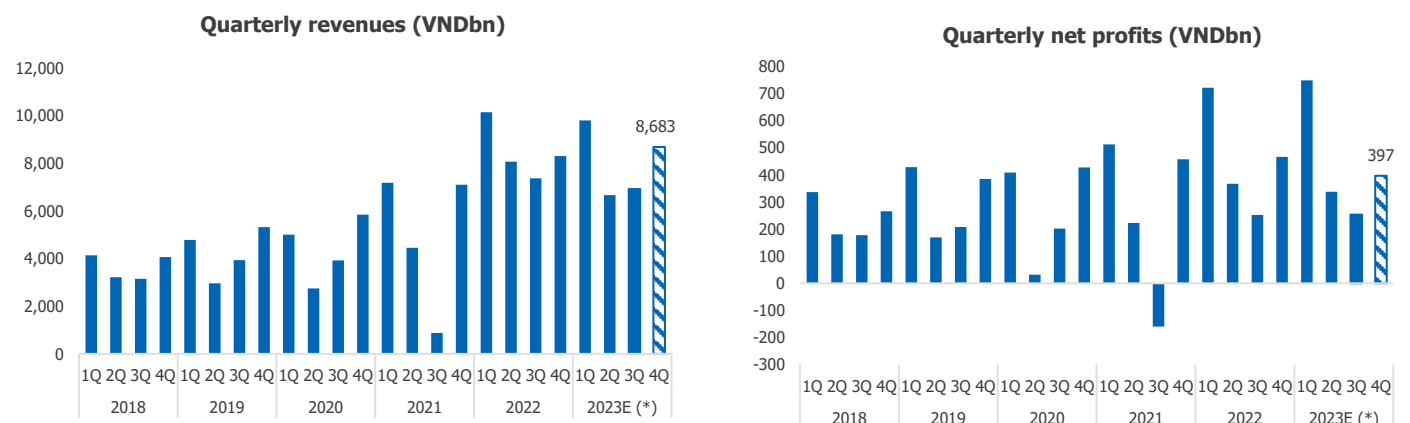
So far, PNJ has fulfilled 66% of its revenue guidance and 69% of its PAT target for 2023E.

We expect sales to seasonally rebound in the next two quarters given that --

- Jewelry demand should be supported by the upcoming holidays towards year-end and early of 2024. In addition, new stores opening increases the potential to approach new customers and increase market shares going forward. Indeed, the number of clients is increasing at a double-digit growth in Oct and nearly half of them are new buyers.
- VAT tax reduction policy to be prolonged in 1H24 is a great story for consumers, however precious metals are NOT eligible for VAT reduction. Thus, we think PNJ will not directly but somewhat benefit from this policy in the context of less spending on necessary goods and services.
- 24k gold demand should also be boosted amid lower interest rates and higher inflation environments. This is good for sales but not goods for margins as 24k gold offers a very low gross margin among the segments.

Hence, for 4Q23, we forecast net sales to reach VND 8.7tn (+26% QoQ / +5% YoY) and net profits to reach VND 397bn (+57% QoQ / -15% YoY) in 4Q23.

Fig.4: We expect to see a recovery since 4Q23



Source: Company data, (*) 4Q23 figures are YSVN's forecasts

Long Hau factory launch to be delayed. We no longer expect PNJ to launch its second factory (i.e., PNJ Long Hau Factory) in 2023E, in line with management's guidance for a delayed start. When completed, this factory should boost total designed capacity by 2.0 million items per year from the current level of 4.0 million items.

In our view, the delay is reasonable and should not be a major concern, as utilization at the current factory (i.e., PNJP) is still well below capacity amid the soft market demand.

PNJP produced a total of 2.3 million items in 2021 (equivalent to 58% of designed capacity). Although this factory's jewelry production improved by 63% YoY in 2022 to reach 3.8 million items (equivalent to 95% of PNJP's initial designed capacity), it still didn't reach full utilization despite the very high demand of 2022.

Inventories & free cashflow

Changes in working capital – specifically, inventory growth – has resulted in a substantial gap between free cash flow and net income in 2016–2022. PNJ usually increases inventory in 2Q and 3Q (or even in 4Q if Tet falls in January the subsequent year) to prepare for the high season in the next two quarters. Thus, PNJ typically posts negative operating cash flows in the last three quarters of the year.

Fig.5: Operating cash flow is often negative in the last three quarters given increasing in inventories.

Operating cash flow (VNDbn)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1Q	36	(106)	159	205	155	528	435	525	1,707	1,399
2Q	(126)	(212)	13	(29)	(174)	(191)	(59)	(781)	202	(307)
3Q	(118)	129	(52)	4	(42)	(645)	392	(350)	(638)	650
4Q	109	263	(201)	(72)	(241)	(368)	728	(111)	(1,178)	

Source: Company data, Yuanta Vietnam

However, the fact that PNJ has posted sharply lower free cash flow than net profits on a full-year basis in six of the past seven years cannot be explained away by seasonality. As illustrated below, free cashflow has been negative in three out of these years, and net income has exceeded FCFF by a substantial margin in each year except for 2020.

This results in an aggregate accumulated gap of VND6.9 trillion (US\$282 million at today's exchange rate) between net income and free cashflow to the firm in 2016–22. This gap, which represents 28% of PNJ's current market cap, suggests that shareholders might benefit from endeavoring to understand the company's net working capital, and more specifically, annual increases in inventory.

Table.1. The differences between net income and FCFF in 2016-2022 period

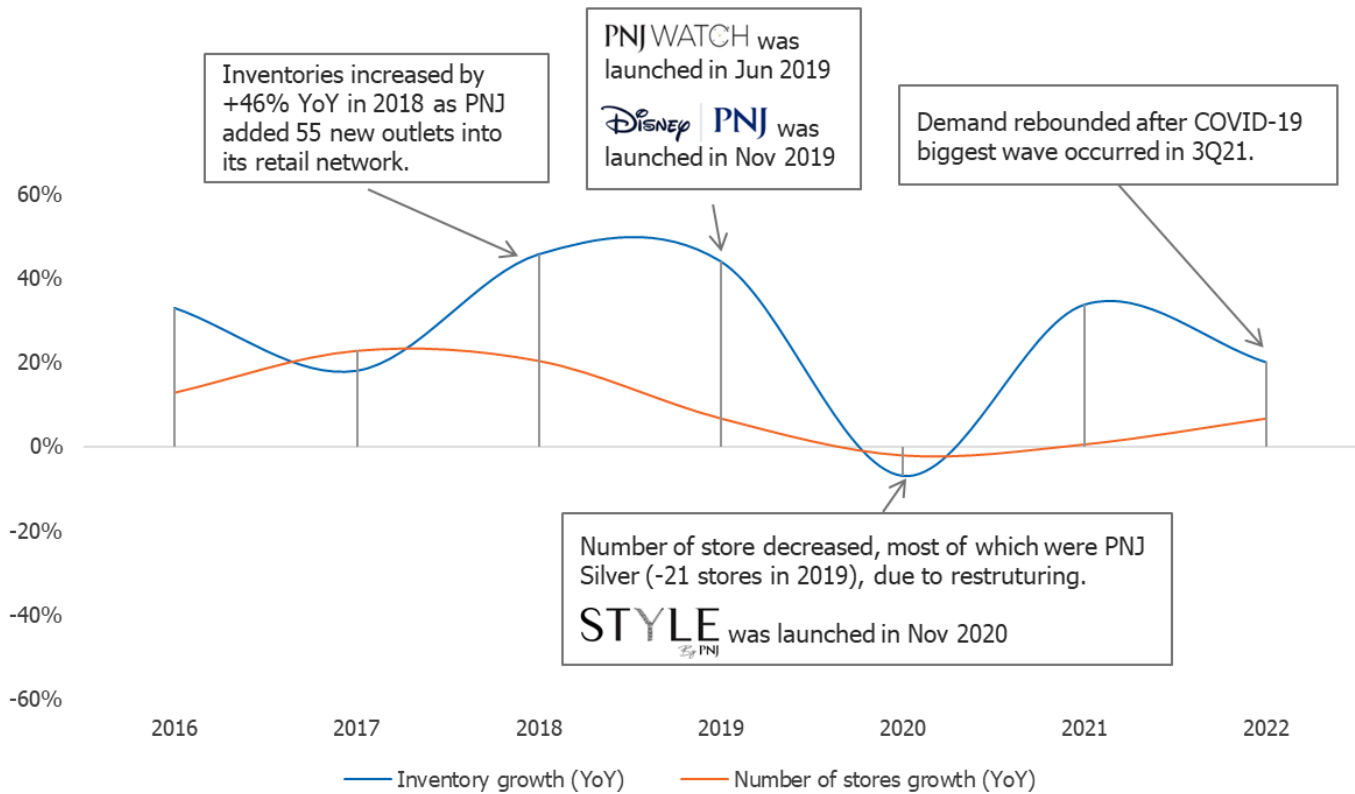
Unit: VND bn	2016A	2017A	2018A	2019A	2020A	2021A	2022A
Net income	450	725	960	1,194	1,069	1,033	1,811
FCFF	54	164	(459)	(657)	1,645	(623)	228
Gap between net income and FCFF	396	561	1,419	1,851	(576)	1,656	1,582
Aggregate 2016-22 gap	6,890						

Source: Yuanta Vietnam

On a yearly basis, inventories drastically increased by +46% YoY in 2018, mostly due to the aggressive retail footprint expansion (+55 new outlets in 2018 – the most rapidly expanding rate since 2011). In 2019, inventories continued to jump by +42% YoY (mainly in the form of finished products), which was probably due to the launching of 2 new brands.

In addition, inventories are attributable to both brick-and-mortar stores and to the wholesale segment (accounting for c.10% of total sales in 2022) and online channel (currently accounting for c.5% of total sales). In our view, the development of omni-channel since 2017 has also likely contributed to the increase in PNJ's inventories.

Fig.6: Inventory sharply increased in 2018-2019 period



Source: Company data, Yuanta Vietnam

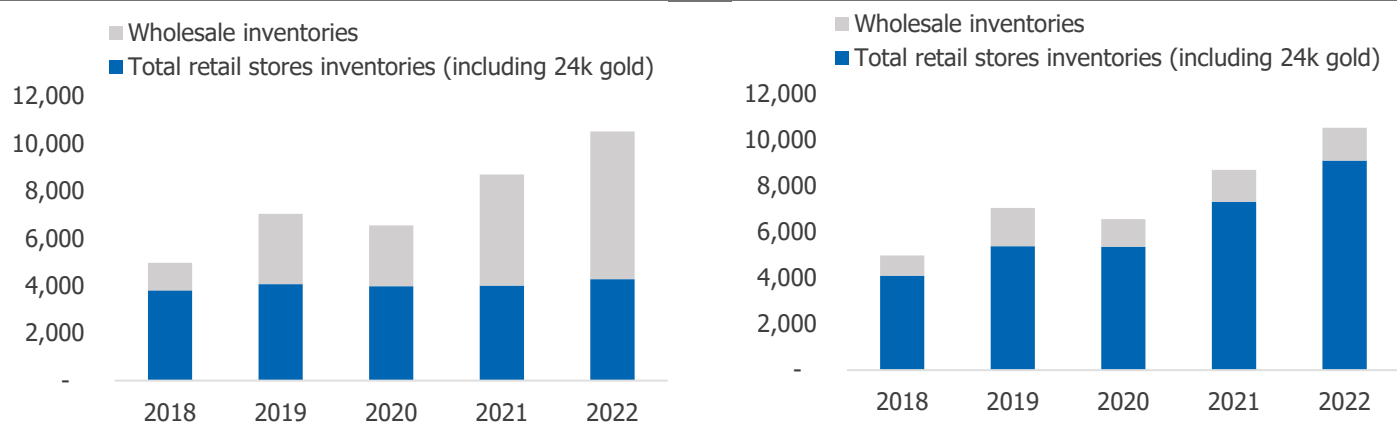
We have attempted to square this phenomenon with the growth of PNJ's retail footprint, online sales, and wholesale business. However, we're afraid that our analysis here may not provide many firm answers. It does, however, raise questions that shareholders might be wise to ponder (and perhaps seek greater clarity from management).

PNJ indicates that every retail outlet requires around US\$500–600k of inventories, so we model out total retail store inventories based on the disclosed yearend number of stores. Any remaining inventory is thus assumed to be allocated to the wholesale channel (please see the chart on the left in the figure below). However, the trend of sharply higher wholesale inventories under these assumptions looks wrong to us.

Hence, we have reclassified the inventory again based on the disclosed revenue split between PNJ's retail, wholesale, and gold bar sales. In this exercise, total inventory at retail stores also includes 24k gold inventory, as we assume that 24k gold sales are 100% retail. The results look more reasonable (please see the chart on the right).

Beware that these are our estimates for readers to have an overall view of the company's inventory and these are not the official figures disclosed by PNJ.

Fig.7: Inventory mix by selling channels (VNDbn)

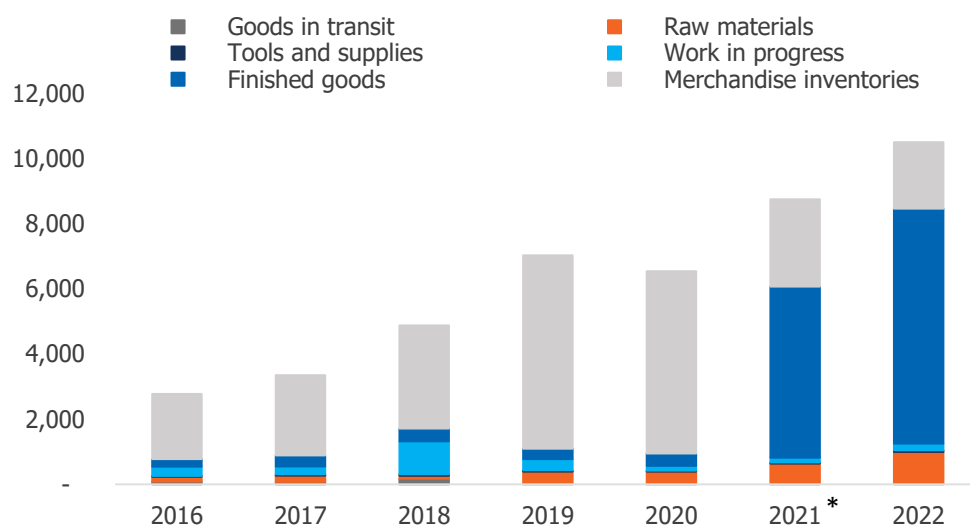


Source: Company data for total inventory, Yuanta Vietnam estimates for the split.

Risk of high inventories? Inventories accounted for 79% of total assets at end-2022, which is relatively high compared to the regional peer average level of c.57%. Holding a large amount of precious metals inventory is an underlying risk in itself due to price fluctuations. However, the level of risk can be limited if a retailer has an efficient inventory management system and a detailed plan to use added inventories in the future.

In our view, PNJ has plans to use inventories... PNJ often needs 30–60 days to plan out a campaign / design a new collection. Then, it will need another 30 days to craft / manufacture jewelries and another 30 days to sell them. Please note that 70% of PNJ’s current inventories comprises finished products, including items that are produced at PNJP Factory and at PNJ’s retail outlets. Thus, in our opinion, this does not appear to be a directional bet on PM prices, but rather the rational exercise of the company’s sales growth strategy.

Fig.8: Inventories by product types (VNDbn)



Source: Company data
 (*) PNJ re-classified VND 3.9tn of merchandise inventories as finished goods in 2021

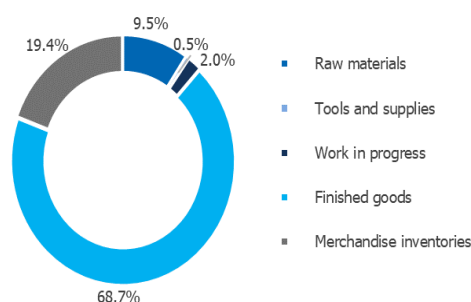
...but whether risk management really is effective remains a question. PNJ started to apply its SAP-ERP system in 2019, with limited initial improvements in the initial stages of implementation. Days of inventory outstanding remained high in 2020–2021, but this could have been attributable to COVID-19.

By 2022, this ratio decreased to 125 days (2022) from 173 days (2021) and 162 days (2019), which we see as a positive signal. The company discussed this shift in detail in its 2022 annual report, which probably suggests that 1) we are not the first external observers to bring this issue up, and 2) management is at least responsive to shareholder concerns regarding its inventory management.

Another ratio that jewelry retailers can use to manage inventory is GMROI, but we lack sufficient data to measure this ratio on our side. According to the company, they track GMROI, and the ratio remains fine, but more detailed disclosure is not available.

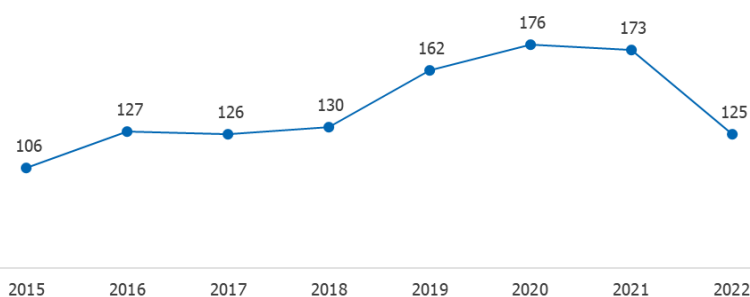
As sell-side analysts, we are in no position to insist on greater detail here; but pressure from actual shareholders (some of whom are likely reading this report) could lead to additional disclosure regarding this issue.

Fig.9: Inventory mix in 2022



Source: Company data

Fig.10: Inventory days



Source: Company data, Yuanta Vietnam

Increased inventory is not necessarily all bad... Considering compound annual growth rate of inventories and revenues in 2016–2022 among regional jewelry retailers, we see that retailers that have posted higher inventory growth have also posted higher revenues growth than those that did not expand their inventory as aggressively.

PNJ is the poster child of this trend. The company reported the highest inventory growth among regional jewelry retailers, with a 5-year CAGR of 24%; but it has also posted the highest revenue CAGR at 25% in the same period. Thus, rising inventory levels may be a leading indicator of increased sales for a retailer (assuming an efficient management system, of course).

Fig.11: Compound annual growth rate (%) in 2016-2022



Source: Bloomberg, Yuanta Vietnam

Long-term outlook remains bright

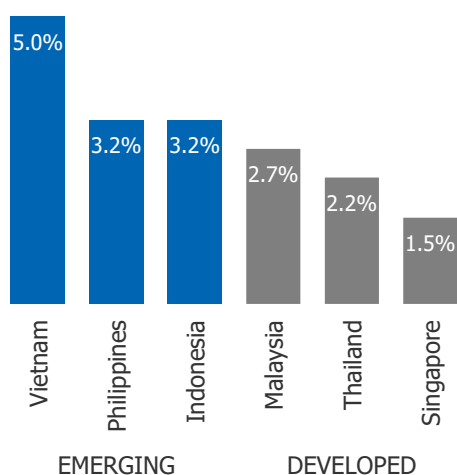
PNJ offers attractive exposure to Vietnam's growing elite and upper-mid classes. In our opinion, this is the most compelling reason to invest in retail industry stocks in Vietnam.

Euromonitor expects Vietnam to post the highest disposable income per capita growth among SEA-6 countries with CAGR of 5.0% in 2018–2030.

In addition, the number of households of high and upper-mid class at emerging countries (including Vietnam, Philippines, and Indonesia) is expected to see a big jump by 2030. Specifically, the numbers of high- / upper-middle class households are expected to increase by +12 million / +14 million to reach 21.6 million / 60.1 million households by 2030.

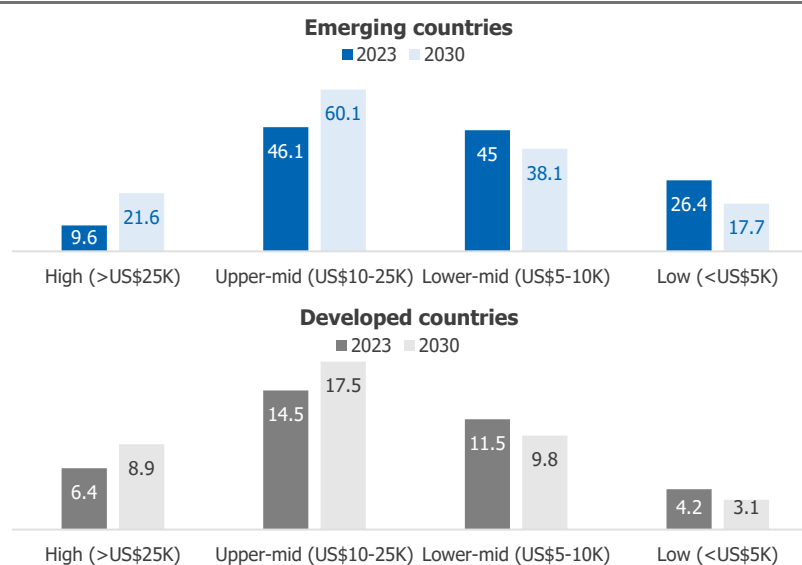
This represents a highly promising market for the entire consumer discretionary sector, including branded jewelry companies like PNJ.

Fig.12: Real disposable income per capita growth (2018-30 CAGR, %)



Source: Euromonitor

Fig.13: Number of households by disposable income class in SEA-6 region (million)



Source: Euromonitor

PNJ remains its position among the most reputable jewelry retailers in Vietnam, which is demonstrated by:

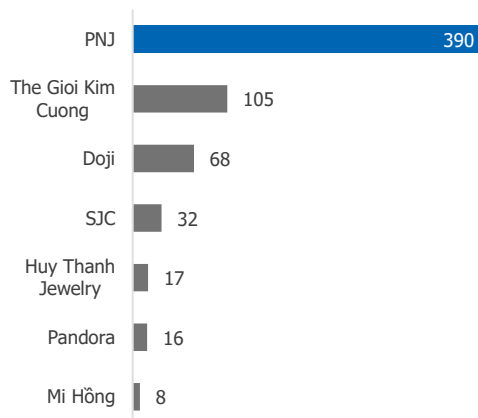
- (1) Its ability to offer customers “the best of both worlds” (i.e., offline and online) through the omni-channel strategy.

PNJ runs the largest and widest jewelry retail network in Vietnam with 390 brick-and-mortar outlets as of Sep 2023 (+26 outlets YTD in 9M23). PNJ is expanding its retail footprint at the fastest rate of all Vietnam jewelries retailers. Expanding despite the cyclical slowdown in consumer spending of 2023 should help PNJ to gain market share as demand recovers going forward, in our view.

PNJ is also reaching out to customers through multiple online platforms (i.e., websites and social commerce / e-commerce platforms). Purely online sales currently contribute c.5% of total revenues, while omni-channel sales contributes c.40% of total revenues.

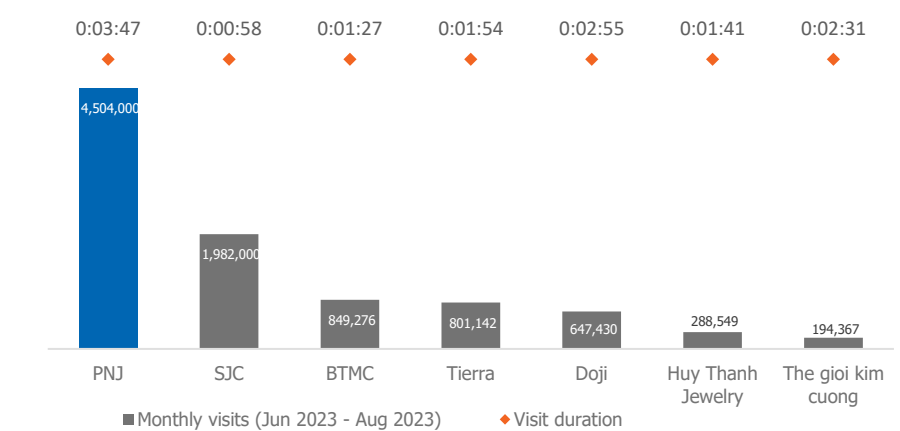
Most products sold online are relatively low-value items, but this is understandable considering typical consumer behavior. However, the increased visibility of PNJ's online selling platforms implies greater opportunities to reach potential new customers.

Fig.14: Jewelry retail chains in Vietnam



Source: Company websites, Yuanta Vietnam

Fig.15: PNJ's website has highest number of visits among jewelry retailers

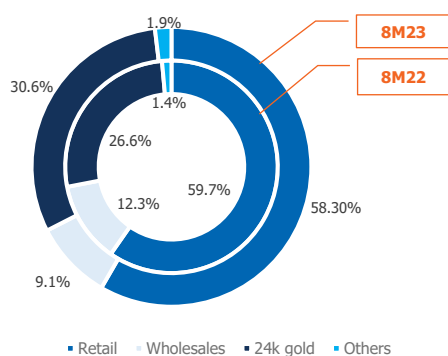


Source: Similarweb.com, visit duration is the average time on site for the selected time period

(2) **Its industry leading position in terms of profitability.** We believe this is primarily due to its relatively high contribution of sales from the jewelry retail segment, which offers higher gross margin than that of the 24k gold segment.

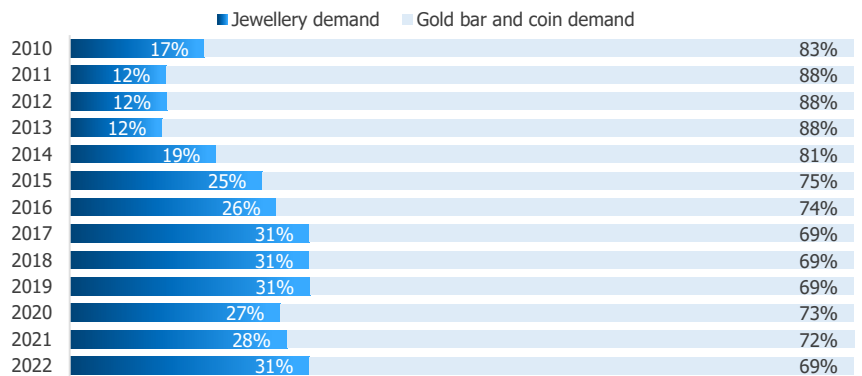
In 2022, PNJ posted net margin of 5.3%, which is far higher than the range of other Vietnamese jewelry retail chains (0.2%–1.2% in the same period). In addition, demand for gold jewelry is gradually rising in Vietnam, which should reinforce gross margin going forward.

Fig.16: Revenue mix (%)



Source: Company Data

Fig.17: Jewelry demand is rising in Vietnam



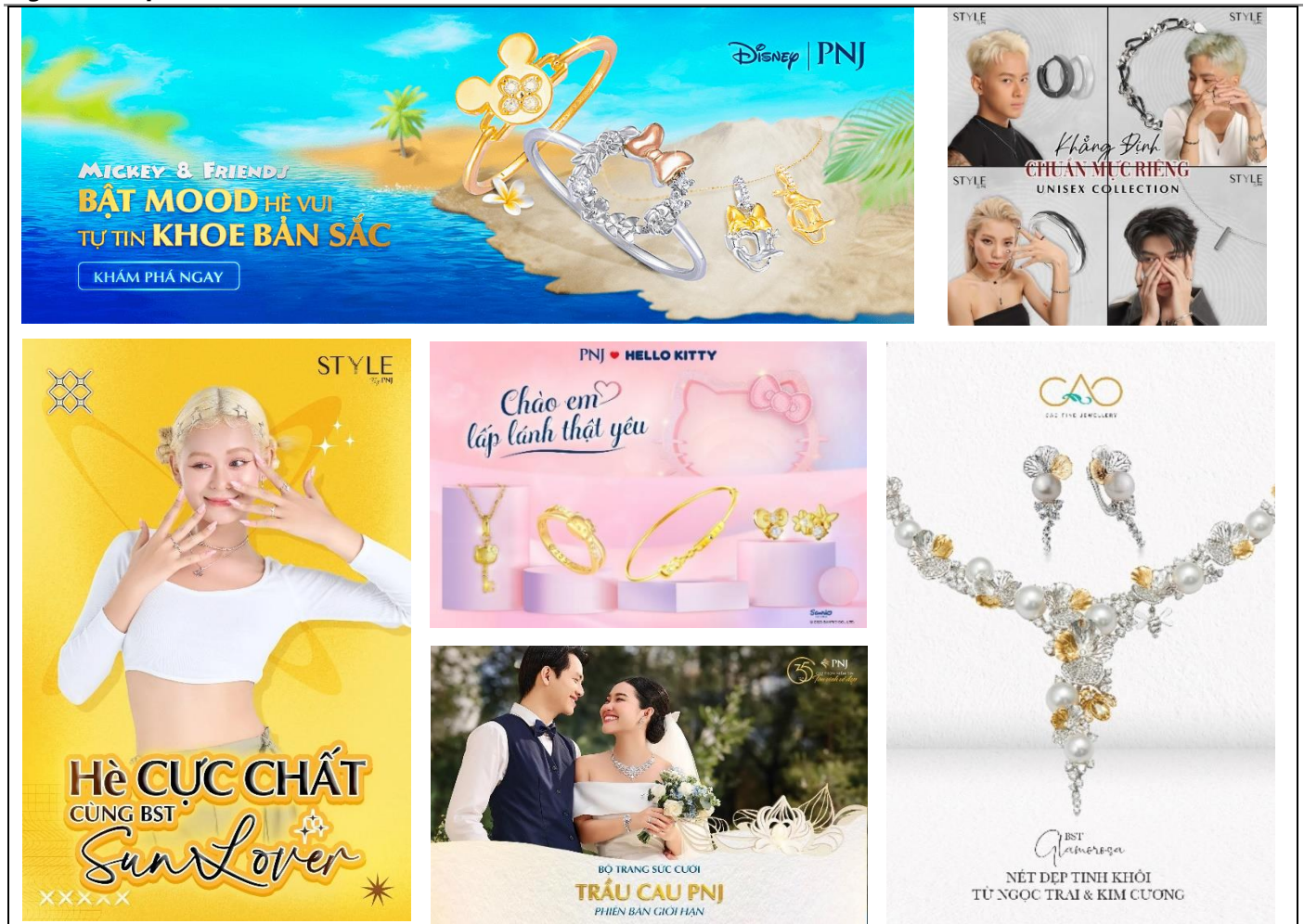
Source: World Gold Council

(3) **Its ability to target various customer segments with the multi-brand strategy.** PNJ's six current jewelry and accessory brands have alternatively launched new collections to target different customers groups at various price ranges. Most of the new collections target the young and middle-class population, a fast-growing customer segment.

For example, PNJ collaborated to launch the Disney | PNJ brand in Nov 2019. More recently, PNJ has collaborated with Sanrio to launch the PNJ x Hello Kitty brand in Apr 2023. Management plans to introduce a new brand in 2024E if the market conditions are stable, which could be a short-term catalyst for PNJ, in our view.

This branding strategy demonstrates that PNJ is both asserting its position in Vietnam and reaching out to the world with a very long-term approach.

Fig.18: Glimpse of PNJ's new collections.



Source: Company Data, Yuanta Vietnam

Forecast downgrades

Admittedly, we were too optimistic in our previous forecasts. Thus, we revise down our 2023E revenue forecasts by -14.8% to VND 32.0tn (-5.4% YoY) and by -18.6% to VND 35.7tn (+11.5% YoY) for 2024E. We also slash our PATMI forecasts by -20.6% to VND 1.7tn in 2023E (-4.1% YoY) and by -21.3% to VND 2.2tn in 2024E (+27.3% YoY). These estimates are based on the following key assumptions:

- We assume retail sales decline by -7% YoY in 2023E but recover by +15% YoY in 2024E, while wholesale revenues decline by -25% YoY in 2023E but rebound by +10% YoY in 2024E. These forecasts are based on the expectation that jewelry demand gradually recovers starting from 4Q23.
- 24k gold sales to increase by +7% YoY in 2023E / +5% YoY in 2024E as lower interest rates and higher inflation environment might trigger demand for the perceived safe-haven status of gold in 2H23.
- We expect gross margins to reach 17.9% (+0.4ppt YoY) in 2023E and 18.4% (+0.5ppt YoY) in 2024E. Our new gross margin forecasts are lower than our previous forecasts given the higher assumed contribution from low-margin sales of 24k gold.
- We expect net margin to tick up by +0.1ppt to 5.4% in 2023 and +0.8ppt YoY to reach 6.2% in 2024 due to improved operating efficiencies.

Table.2: Forecasts revision

FORECAST REVISION	OLD FORECAST		NEW FORECAST		NEW / OLD FORECAST (%)	
	2023E	2024E	2023E	2024E	2023E	2024E
<i>FY Dec 31 (VNDbn)</i>						
Revenue	37,642	43,886	32,060	35,743	-14.8%	-18.6%
Retail	23,095	27,714	19,281	22,173	-16.5%	-20.0%
Wholesales	4,369	4,806	3,049	3,354	-30.2%	-30.2%
24k gold	9,700	10,865	9,171	9,629	-5.5%	-11.4%
Others	478	501	559	587	16.9%	17.1%
COGS	(30,644)	(35,491)	(26,307)	(29,165)	-14.2%	-17.8%
Gross profit	6,998	8,396	5,753	6,578	-17.8%	-21.7%
<i>Operating expenses</i>	(4,065)	(4,652)	(3,462)	(3,682)	-14.8%	-20.9%
Operating profit	2,933	3,744	2,290	2,897	-21.9%	-22.6%
Pretax profit	2,732	3,510	2,170	2,763	-20.6%	-21.3%
Net profit	2,186	2,808	1,736	2,210	-20.6%	-21.3%

Source: Yuanta Vietnam

Valuation and risks

We reiterate BUY but revise down our target price to VND 90,100 per share (-11.4% vs our previous target price of VND 101,700) in line with our toned-down operational assumptions. Our new target price is based on a weighted valuation approach that applies 50% weightings to our discounted FCFF model and comparable P/E multiple analysis. Our new target price implies a 2024E PE of 14.6x and 12M-TSR of 24.3%.

Table.3: Cutting our target price by -11.4%

Unit: VND	Target Price	Weight
FCFF	102,300	50%
PER multiple	77,800	50%
Overall	90,100	100%
Implied PE	14.6	
Previous target	101,700	
% change vs previous TP	-11.4%	

Source: Yuanta Vietnam

In our FCFF valuation, we decrease our risk-free rate assumption to 5.1% from the previous level of 5.5% and applied a terminal growth rate of 2.5%. However, we increase our WACC to 15.4% from the previous 11.2% on an increased market risk premium assumption. These assumptions generate a per-share valuation of VND 102,300.

Table.4: FCFF valuation

DCF ANALYSIS	2022	2023E	2024E	2025E
Sales	33,876	32,060	35,743	38,263
EBITDA	2,486	2,347	2,950	3,204
Interest expenses	(94)	(97)	(109)	(116)
D&A	76	79	79	79
Tax	(502)	(434)	(553)	(602)
Working capital investment	(1,729)	734	(874)	(629)
CAPEX	(51)	(10)	-	0
FCFF	204	2,637	1,524	1,973
Terminal growth rate	2.5%			
Terminal value	4,924			
WACC	15.4%			
Total equity value	33,564			
FCFF-derived value per share	102,300			

Source: Yuanta Vietnam

Our PE multiple comparison approach generates a target PE of 12.6x, which is the regional peer median. We think this is reasonable given that our 2024E ROE forecast is also in line with the 21.1% regional peer median ROE forecast. Please see table 6 for more details.

Table.5: PE multiples

PER MULTIPLE VALUATION	
Target PE	12.6
PNJ's peers P/E 2024E	11.9
Premium (%)	6%
Target price (VND)	77,800

Source: Bloomberg, Yuanta Vietnam

Table.6: PNJ vs. regional peers

Company	Ticker	Market Cap (USDmn)	Revenues (USDk)	2023E PE	2024E PE	2023E PS	2024E PS	2023E ROE	2024E ROE
TITAN CO LTD	TTAN IN Equity	34,317	4,723	76.5	61.8	6.1	5.3	27.7	28.1
LUK FOOK HOLDINGS INTL LTD	590 HK Equity	1,481	1,528	7.0	6.2	0.8	0.7	13.3	14.0
CHOW TAI SENG JEWELLERY CO-A	002867 CH Equity	2,425	1,653	12.7	10.7	1.2	1.0	20.5	21.0
CHOW TAI FOOK JEWELLERY GROUP	1929 HK Equity	13,803	12,079	13.7	12.0	1.0	0.9	23.6	26.3
KALYAN JEWELLERS INDIA LTD	KALYANKJ IN Equity	3,658	1,747	48.0	36.6	1.7	1.4	16.1	18.0
VIVARA PARTICIPACOES SA	VIVA3 BZ Equity	1,279	358	15.9	13.3	2.9	2.5	21.7	21.2
Median		3,041	1,700	14.8	12.6	1.4	1.2	21.1	21.1
PHU NHUAN JEWELRY JSC	PNJ VN Equity	999	1,447	13.8	11.8	0.8	0.7	20.3	21.1

Source: Company Data, Yuanta Vietnam

Yuanta vs. the Street. In general, our downgraded revenue forecasts for 2023E and 2024E are in line with those of the Street. The consensus expects sales to decrease in 2023E and recover in 2024E. However, we have a more negative view on 2023E earnings than the Street does, probably due to a higher SG&A cost assumption.

Our 2023E EPS forecast is -8% below the consensus. Although our expectation for a 25% YoY rebound in 2024E EPS exceeds the Street's +16% EPS growth forecast, our specific EPS estimate is actually -2% below that of the consensus, as illustrated below.

Table.7: Yuanta vs. The Street

Revenues (VNDbn)	2023E		2024E	
	Value	YoY growth	Value	YoY growth
Yuanta Vietnam	32,060	▼ -5%	35,743	▲ 11%
The Street	31,764	▼ -6%	35,823	▲ 13%
% difference (Yuanta vs. The Street)	1%		0%	

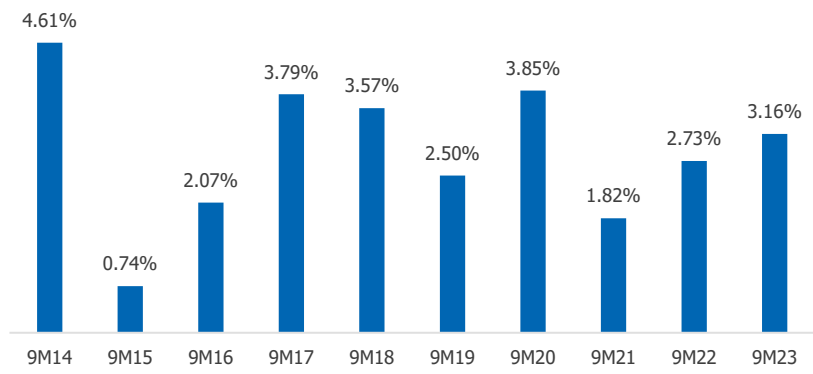
EPS (VND)	2023E		2024E	
	Value	YoY growth	Value	YoY growth
Yuanta Vietnam	4,947	▼ -5%	6,172	▲ 25%
The Street	5,392	▲ 4%	6,279	▲ 16%
% difference (Yuanta vs. The Street)	-8%		-2%	

Source: Yuanta Vietnam, Bloomberg Consensus

Risks to our view

- 1) **Long-lasting unfavorable macro conditions.** Our positive forecasts for 2024E are made based on the key assumptions that consumer sentiment to recover next year, which will be encouraged by the rebound of global and domestic demand. However, an economic recession (or more likely, a prolonged growth slump) is not impossible, and this would obviously impact consumer sentiment going forward.
- 2) **Inflation is a wildcard** that might 1) negatively impact discretionary retail spending but also 2) potentially increase demand for safe haven assets (i.e., gold bars & coins). In other words, increased demand for low-margin gold bars might hinder spending on high-margin jewelry, which is a risk to our forecasts for PNJ. See our [October macro report](#) for details on Vietnam's inflationary outlook.

Fig.19: Average CPI increased by +3.16% YoY in 9M23



Source: GSO

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2021A	2022A	2023E	2024E	2025E
Revenue	19,613	33,876	32,060	35,743	38,263
Retail	11,572	20,732	19,281	22,173	23,947
Wholesales	2,628	4,065	3,049	3,354	3,589
Gold bar	4,923	8,571	9,171	9,629	10,111
Others	490	508	559	587	616
Cost of goods sold	(16,040)	(27,949)	(26,307)	(29,165)	(31,169)
Gross profits	3,573	5,927	5,753	6,578	7,093
Operating expenses	(2,166)	(3,502)	(3,462)	(3,682)	(3,941)
Operating profits	1,407	2,425	2,290	2,897	3,152
Net interest expenses	(102)	(87)	(96)	(107)	(115)
Net investments income/(loss)	-	-	-	-	-
Net other incomes	(18)	(25)	(24)	(27)	(28)
Pretax profits	1,287	2,312	2,170	2,763	3,009
Income taxes	(254)	(502)	(434)	(553)	(602)
Minority interests	-	-	-	-	-
Net profits	1,033	1,811	1,736	2,210	2,407
EBITDA	1,467	2,486	2,347	2,950	3,204
EPS (VND)	3,197	5,223	4,947	6,172	6,723

KEY RATIOS					
	2021A	2022A	2023E	2024E	2025E
Growth (% YoY)					
Sales	12.0%	72.7%	-5.4%	11.5%	7.0%
Retail		79.2%	-7.0%	15.0%	8.0%
Wholesales		54.7%	-25.0%	10.0%	7.0%
Gold bar		74.1%	7.0%	5.0%	5.0%
Others		0.0%	0.0%	0.0%	0.0%
Operating profit	12.0%	72.7%	-5.4%	11.5%	7.0%
EBITDA	-6.7%	72.4%	-5.6%	26.5%	8.8%
Net profit	-3.4%	75.3%	-4.1%	27.3%	8.9%
EPS (VND)	-6.7%	69.5%	-5.6%	25.7%	8.6%
Profitability ratio (%)					
Gross margin	18.2%	17.5%	17.9%	18.4%	18.5%
Operating margin	7.2%	7.2%	7.1%	8.1%	8.2%
EBITDA margin	7.5%	7.3%	7.3%	8.3%	8.4%
Net margin	5.3%	5.3%	5.4%	6.2%	6.3%
ROA	17.2%	21.4%	19.3%	22.5%	22.7%
ROE	11.2%	15.1%	13.9%	15.9%	15.9%
Stability					
Net debt/equity (x)	0.4	0.2	0.2	0.2	0.1
Int. coverage (x)	13	26	24	27	27
Int. &ST debt coverage (x)	0.5	0.9	0.9	1.0	1.0
Cash conversion days	164	122	135	135	135
Current ratio (X)	2.0	2.5	2.5	2.5	2.6
Quick ratio (X)	0.1	0.3	0.5	0.5	0.5
Net cash/(debt) (VND mn)	(2,364)	(1,803)	(1,542)	(1,588)	(1,374)
Efficiency					
Days receivable outstanding	2	2	2	2	2
Days inventory outstanding	173	125	140	140	140
Days payable outstanding	11	5	7	7	7

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2021A	2022A	2023E	2024E	2025E
Total assets	10,547	13,337	13,957	15,341	16,527
Cash & cash equivalents	358	880	997	1,242	1,657
ST Investment	0	200	990	990	990
Accounts receivable	110	301	317	354	379
Inventories	8,687	10,506	10,090	11,187	11,955
Other current assets	66	80	107	120	128
Net fixed assets	910	882	794	714	635
Others	417	488	661	734	783
Total liabilities	4,530	4,893	4,940	5,528	5,921
Current liabilities	4,521	4,883	4,930	5,518	5,911
Accounts payable	689	277	615	685	734
ST debts	2,722	2,683	2,539	2,831	3,030
Others	1,110	1,923	1,776	2,002	2,146
Long-term liabilities	9	10	10	10	10
Long-term debts	0	0	0	0	0
Others	9	10	10	10	10
Shareholder's equity	6,017	8,444	9,017	9,812	10,607
Share capital	2,276	2,462	2,462	2,528	2,528
Treasury stocks	(5)	(3)	(3)	(3)	(3)
Others	1,792	3,463	3,811	4,253	4,734
Retained earnings	1,954	2,522	2,748	3,035	3,348

CASH FLOW (VND bn)					
FY (VND'bn)	2021A	2022A	2023E	2024E	2025E
Operating cash flow	(720)	101	1,510	362	681
Net income	1,033	1,811	1,736	2,210	2,407
Dep. & amortization	75	80	79	79	79
Change in working capital	(2,251)	(2,359)	(484)	(2,213)	(2,133)
Others	423	569	178	286	327
Investment cash flow	(48)	(371)	(805)	(19)	(13)
Net capex	(48)	(51)	10	0	(0)
Change in LT investment	-	-	-	-	-
Change in other assets	0	20	-	-	-
Cash flow after invt.	(768)	(270)	704	343	668
Financing cash flow	704	792	(587)	(97)	(255)
Change in share capital	(2)	1,447	-	66	-
Net change in debt	883	(39)	(144)	292	200
Change in other LT liab.	(177)	(617)	(443)	(455)	(455)
Net change in cash flow	(65)	522	117	245	412
Beginning cash flow	422	355	880	997	1,242
Ending Cash Balance	358	880	997	1,242	1,657

KEY METRICS					
	2021A	2022A	2023E	2024E	2025E
PE (x)	23.0	14.1	14.9	11.9	10.9
Diluted PE (x)	23.0	14.1	14.9	11.9	10.9
PB (x)	4.1	3.5	3.3	3.1	2.8
EBITDA/share	4,839	7,926	7,196	8,901	9,572
DPS	585	-	1,359	1,373	1,359
Dividend yield (%)	0.8%	0.0%	1.8%	1.9%	1.8%
EV/EBITDA (x)	18.5	12.0	12.8	10.3	9.5
EV/EBIT (x)	19.5	12.4	13.2	10.6	9.8

Appendix A: Important Disclosures

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