

Business update report

PNJ - Phu Nhuan Jewelry Joint Stock Company

20/02/2019

BSC

2019 outlook - Positive

Recommendation

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Target price	143,100
Closing price	96,700
Upside	48.0%

Le Quoc Trung (TA)

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Target price	110,000
Price cut loss	88,300

Market data

Number of shares (stock)	167
Capitalization (billion VND)	16,166
Highest price 52 weeks	138,733
The average trading volume	282,265
Foreign ownership	49.00%

Major shareholders

Cao Thi Ngoc Dung	9.04
VinaCapital Investme	8.53
TRUONG NGOC PHUON	5.37
LGM Investments Inc	4.40
Dragon Capital Group	3.51

Price movement for 1 year



Company Overview

PNJ is the largest jewelry company in Vietnam, currently has 289 retail stores

Valuation

We recommend strongly buying PNJ shares and raising the target price to VND 143,100/share (+ 47.8% compared to the closing price on February 15, 2019) from VND 130,700/share compared to the latest report due to the adjustment of the valuation ratio by a method of FCFF to 70% and PE of 30%.

Catalyst

- Old store revenue growth (SSSG) of gold jewelry segment is expected to maintain a stable level, equivalent to 20% in 2018.
- Gross profit margin continued to improve thanks to (1) the contribution of jewelry gold segment continued to increase, (2) Focus on high-value products (Diamonds and colored stones).

Investment Risk

- (1) Risks from policies due to the gold jewelry industry are subject to strict management from the State Bank
- (2) Risks from expanding the store too fast but not controlling the costs leading to the operation have not been highly effective
- (3) The threat from the new competitor is Precita

Update business results

(1) Business results in 2018 surpassed expectations, completing 106% and 109% of revenue and profit after tax plans respectively. Specifically, net income and profit after tax of 2018 reached VND 14,573 billion (+ 33% yoy) and VND 960 billion (+ 32% yoy).

(2) Same-store revenue growth (Same Store Sales Growth)

jewelry gold segment in 2018 continues to maintain a high level of 20% compared to 21% in 2017.

(3) The progress of opening new stores exceeds the set plan, bringing the total number of stores to 324 stores.

(4) PNJ plans to increase revenue and profit after tax in 2019 by 24% and 23% respectively compared to the results of 2018.

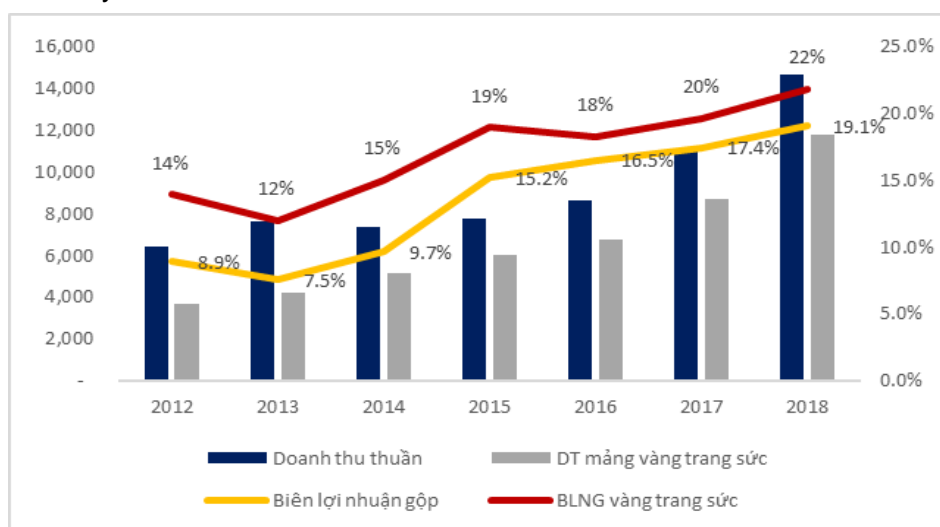
Specifically, revenue and profit after tax are estimated at VND 18,100 billion and VND 1,184 billion respectively.

(5) BSC forecasts 2019 business results with revenue and profit after tax of VND 18,482 billion (+ 25.9% yoy) and VND 1,291 billion (+ 34.7% yoy), FW EPS 2019 = 6,792 VND/share, PE FW 2019 = 14.3 times

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Business results in 2018 surpassed expectations, completing 106% and 109% of revenue and profit after tax plans respectively. Specifically, net income and profit after tax of 2018 reached VND 14,573 billion (+ 33% yoy) and VND 960 billion (+ 32% yoy). PNJ's business growth momentum continues to come from (1) Jewelry gold segment continues to play a core role in revenue growth of PNJ (+ 35.1% yoy), (2) Gross profit margin continues to improve from 19.1% in 2017 to 20% in 2018 (3) The total number of stores in 2018 reaches 324 stores, up 55 stores compared to the total number of stores at the end of the year 2017.



Source: BSC Research,

PNJ

Jewelry gold segment continues to be the core factor to maintain PNJ's profit growth in the future thanks to (1) Increasing the proportion of gold jewelry and (2) Gross profit margin of this segment continues to improve. 230/5000

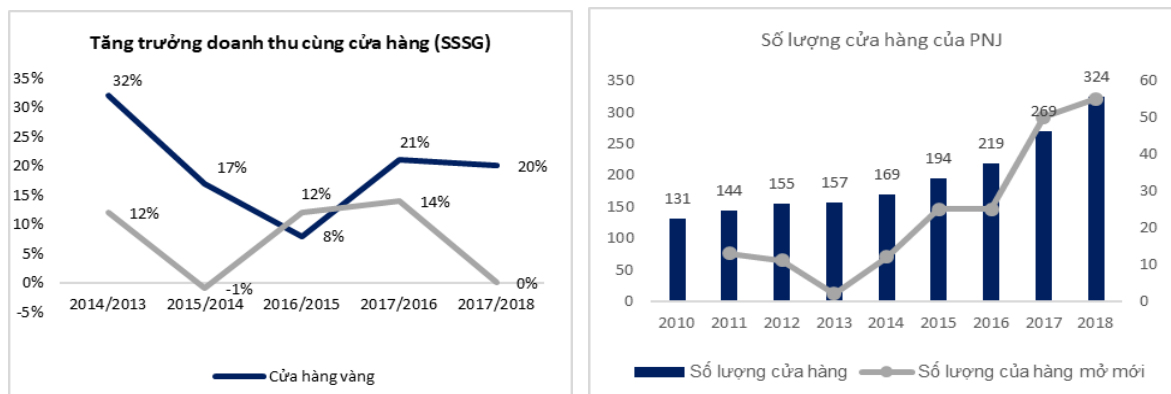
The percentage of jewelry gold segment in 2018 increased from 78.7% to 80% in the revenue structure of PNJ in 2018. The gross profit margin of jewelry gold risen from 19.6% in 2017 to 21.8 % in 2018. Therein,

(1) A gross profit margin of the retail jewelry segment recorded growth from 29.4% in 2017 to 30.9% in 2018 mainly thanks to changes in high-value products such as gems and diamonds. Gross profit of retail jewelry contributed to 89% of PNJ's gross profit structure. We expect gross margin of retail jewelry in 2019 will continue to improve to 31.3% thanks to the orientation of high-value products.

(2) Gross profit margin of jewelry gold segment remains low mainly to maintain partnerships with other small stores.

The proportion of SG&A expenses (SG&A)/Net revenue in 2018 increased sharply to 10.3% from 8.7% in 2017 mainly due to (1) the expansion of the store chain, (2) the cost salaries for employees increased sharply. Accordingly, because PNJ changed the way of calculating insurance costs for employees, the staff costs increased dramatically. Also, in 2018, PNJ organized big events to celebrate its 30th anniversary. We assume that the SG&A rate in 2019 will rise to 11.5% as PNJ continues to promote the plan to expand the chain of stores.

Same-store revenue growth (Same Store Sales Growth) jewelry gold segment in 2018 continues to maintain a high level of 20% compared to 21% in 2017. The main motives for SSSG to maintain a high level come from (1) The average value of each order continues to increase by about 5%, (2) the total number of new customers increases by 36% over the same period, (3) Change product structure, focus on high-value product lines (diamonds and colored stones), (4) Increase the frequency of returning customers to buy products (Old customers). We believe that SSSG will maintain a stable level in the next few years thanks to upgrading & applying technology in management, understanding customer needs as well as increasing customer experience.



Source : BSC Research, PNJ

The progress of opening new stores exceeds the set plan, bringing the total number of stores to 324 stores. In 2018, PNJ opened 61 new stores and closed 6 stores, thereby increasing the total number of stores to 324 stores, exceeding the number of stores in the plan of 40 stores. In particular, the number of independent stores accounted for 52.2%, the trade center was 23.1% and the rest was supermarkets. PNJ plans in 2019, the total number of new stores is expected to reach 40 stores, we believe that PNJ will complete the new store opening plan due to (1) the geographical growth of market share from taking more from small stores is still large, (2) potential from exploiting markets in the North, East and Southwest.

PNJ plans to increase revenue and profit after tax in 2019 by 24% and 23% respectively compared to the results of 2018. Specifically, revenue and profit after tax are estimated at VND 18,100 billion and VND 1,184 billion respectively. Selling and administrative expenses / net revenue remained at 10.3%, equivalent to 2017.

BSC forecasts 2019 business results with revenue and profit after tax of VND 18,482 billion (+ 25.9% yoy) and VND 1,291 billion (+ 34.7% yoy), EPS of FW 2019 = VND 6,792/share, PE FW 2019 = 14.3 times based on the assumptions (1) The gross profit margin in 2019 is estimated at 20.6%, (2) SSSG the jewelry gold chain remains at 20% and (3) The expected number of new stores in 2019 is 40 store. BSC believes that with the ability to continue to improve gross profit margin and SSSG maintain a stable level, it can help PNJ to achieve the 2018 plan.

SUMMARY OF FINANCIAL REPORTING INDICATORS

	2014	2015	2016	2017	2018
Net revenue	9,199	7,706	8,565	10,977	14,573
Gross profit	889	1,168	1,411	1,912	2,779
Financial revenue	19	1	5	9	7
Financial expenses	(90)	(431)	(182)	(56)	(66)
Interest	(80)	(81)	(73)	(55)	(61)
Selling expenses	(355)	(424)	(554)	(775)	(1,171)
General and administrative	(130)	(118)	(133)	(188)	(346)
Operating profit/loss	333	197	548	901	1,203
Other loss/profit	1	(11)	43	6	3
Profit before tax	335	187	591	907	1,206
Profit after tax	256	76	450	725	960
Minority interest	13	-	-	-	-
Parent company profit	242	76	450	725	960
EPS					
Current assets	1,817	2,265	3,103	3,896	5,280
Money and short-term in	38	38	155	335	207
Short-term receivables	72	47	63	85	176
Inventories	1,672	2,135	2,839	3,402	4,816
Other current assets	36	45	46	74	82
Long-term assets	1,011	711	485	596	1,023
Long-term receivables	14	21	26	43	57
Fix assets	452	486	416	487	719
Long-term uncompleted	-	6	8	10	68
Other long-term assets	13	30	36	56	178
Total assets	2,829	2,976	3,588	4,492	6,303
Liabilities	1,532	1,661	2,088	1,543	2,558
Short-term liabilities	1,395	1,581	2,022	1,489	2,542
Short-term Debt	1,132	1,189	1,449	846	1,558
Long-term liabilities	138	79	66	54	16
Long-term Debt	137	72	59	46	8
Equity	1,297	1,315	1,500	2,950	3,745
Contributed capital	756	983	983	1,081	1,670
Undistributed profits	203	113	374	772	885
Total resources	2,829	2,976	3,588	4,492	6,303
% yoy DT	#N/A	-57.1%	27.5%	23.1%	32.8%
Gross profit margin	9.7%	15.2%	16.5%	17.4%	19.1%
Interest/Net revenue	0.9%	1.1%	0.9%	0.5%	0.4%
Selling expenses/Net r	3.9%	5.5%	6.5%	7.1%	8.0%
General and administr	1.4%	1.5%	1.6%	1.7%	2.4%
Net profit margin	2.8%	1.0%	5.3%	6.6%	6.6%

PNJ revenue in 2018 reached VND 14,573 billion (+ 32.8% yoy), maintaining a good growth rate thanks to the large number of new stores opening, SSSG in 2018 remained at a high level of 20%.

Gross profit margin continued to improve from 17.4% in 2017 to 19.1% in 2018 mainly due to the contribution of jewelry gold segment (high gross profit margin), continuing to increase in revenue structure. SG&A/Net revenue in 2018 reached 10.3%, up from 8.7% in 2017.

Inventories increased by 41.6% over the same period mainly due to the expansion of new stores and preparation for the 2019 growth plan. The total number of stores at the end of 2018 reached 324 stores, an increase of 55 stores compared to the end of 2017.

Net debt of PNJ in 2018 increased sharply compared to 2017 (+ 84% YoY) mainly due to (1) Opening new stores (55 stores) and (2) Stocking inventory for the beginning of 2019 (good selling time of the year). Accordingly, each new store needs about VND 15 billion of working capital per year.

Gross profit growth has continuously improved on a quarterly basis thanks to PNJ changing its product structure, focusing on gold jewelry segment, focusing mainly on colored stones. This is a segment with high gross profit margin.

Some financial ratio

1. Liquidity	2014	2015	2016	2017	2018
Current ratio	1.30	1.43	1.53	2.62	2.08
Quick ratio	0.08	0.05	0.11	0.28	0.15
2. Capital structure					
Current assets/Total as	0.64	0.76	0.86	0.87	0.84
Long-term assets/Total	0.36	0.24	0.14	0.13	0.16
Liabilities/Total assets	0.54	0.56	0.58	0.34	0.41
Liabilities/Equity	1.18	1.26	1.39	0.52	0.68
Short-term Liabilities/T	0.49	0.53	0.56	0.33	0.40
Long-term liabilities/Tot	0.05	0.03	0.02	0.01	0.00
3. Operational capacity					
Inventory turnover	6.02	3.4	2.9	2.9	2.9
Receivables turnover	232.55	238.3	270.8	296.6	244.9
Accounts payable turnc	70.82	42.3	30.4	31.8	46.4
Days' sales in inventory	60.60	106.3	126.9	125.6	127.2
Days sales in receivabl	1.57	1.5	1.3	1.2	1.5
Days payable outstand	5.15	8.6	12.0	11.5	7.9
CCC	57.02	99.2	116.2	115.4	120.8
4. Profitability					
Net profit margin	2.8%	1.0%	5.3%	6.6%	6.6%
ROE	19.6%	5.8%	32.0%	32.6%	28.7%
ROA	8.8%	2.6%	13.7%	17.9%	17.8%
Net operating profit ma	3.6%	2.6%	6.4%	8.2%	8.3%
5. Dupont analysis (5 components)					
Financial leverage	2.21	2.22	2.33	1.82	1.61
Assets turnover	3.18	2.66	2.61	2.72	2.70
EBIT margin	0.05	0.03	0.08	0.09	0.09
Interest burden	0.81	0.70	0.89	0.94	0.95
Tax burden	0.76	0.40	0.76	0.80	0.80
6. Valuation					
PE		161.3	24.0	15.5	16.8
PB		7.4	6.5	3.6	4.3
EPS		769	4,584	6,705	5,749
BVPS		13,383	15,267	27,285	22,427
7. Growth (%)					
Total assets		5%	21%	25%	40%
Debt	-1.6%	1.4%	14.1%	96.6%	27.0%
Net revenue	3.2%	-16.2%	11.1%	28.2%	32.8%
Gross profit	32.8%	31.4%	20.8%	35.5%	45.4%
Net income	51.4%	-70.5%	496.3%	60.9%	32.5%
EPS					

Debt / total asset ratio in 2018 increased from 31% to 41%, mainly due to the expansion of new products and in 2017 the working capital of PNJ was supported thanks to a separate package for shareholders. The strategy in 2016 (9.83 million shares) helped PNJ collect about VND 975 billion.

PNJ's inventory days remain stable at about 127 days, we expect in 2019, the number of inventory days will tend to decrease because PNJ will start applying new ERP management technology from April 2019

PNJ's ROE in 2019 continued to improve slightly from 24.6% in 2017 to 25.6% in 2018.

PNJ is trading at a P/E of 16.8 times based on the closing price on February 14, 2018 of VND 97,200.

Technical highlights:

- Current trend: Medium-term price increase
- MACD trend indicator: Negative divergence, MACD is pointing up and crossing the center line.
- RSI indicator: Neutral zone, moving sideways after touching the upper Bollinger channel.
- MA line: MA 20 is about to cut MA50 and can advance to MA200.

Outlook: PNJ is in the short-term accumulation after the recovery from 2-bottoms model. RSI maintained the cumulative trend while hi MACD supported all the gaining trend. Stock liquidity remained high above the 20-day average level, indicating that the price increase is being contained. Besides, the movement of 3 MA lines shows that stocks are in the short-term recovery trend. The slight correction of the stock before the MA200 threshold at the price level of 99 indicates that the force of breaking up above the price range is still unclear. Therefore, PNJ may continue to accumulate short-term around 95-97 price range when the technical indicators are still quite mixed.

Recommendations: The current buying position is not clear. The stock may correct when hitting the resistance at 100. High risk traders could open positions at 95 and close at 105-110. For medium and long-term investors, investors should only invest when the stock has established a strong support level at 95. If not, it is recommended to open the position at the price level of 90 when PNJ adjusts to this price range.



Disclosure

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