

Industry: Retail (Recent Report: [Link](#))

Recommendations

BUY

Phu Nhuan Jewelry Joint Stock Company (HSX: PNJ) Like a day without storms

Current price: 106,300
Previous target price: 126,100
New target price: 127,400
Dividend yield: 1.9%
Potential for price increase: 20%

Report writing date: 07/03/2022
Outstanding Shares (Million): 227.6
Market capitalization (billion VND): 24,059
Average volume of 20 sessions (thousand shares): 784
Remaining foreign ownership: 0.8%

Shareholder structure
Cao Thi Ngoc Dung: 5.01%
Tran Phuong Ngoc Ha: 4.04%
Vietnam Enterprise: 3.61%

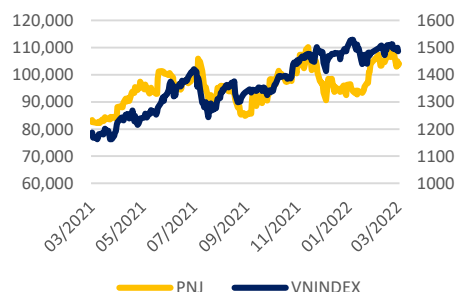
Industry Analyst:

Pham Thi Minh Chau
(Retail consumption, industrial real estate, construction)
chauptm@bsc.com.vn

Technical Analyst:

Vu Viet Anh
Anhvv@bsc.com.vn
Recommended price: 128,000 VND/share
Stop loss price: 102,000 VND/share

CP price comparison table and VN-Index



Valuation

BSC maintains its recommendation to **BUY** PNJ with a 2022 target price of VND **127,400/share** upside 20% compared to March 4, 2022. Valuation based on DCF method with WACC=10%

Forecasting business results

BSC expects revenue and PAT in 2022 to reach VND 23,847 billion (+22% YoY) and VND 1,383 billion (+34% YoY), EPS fw is VND 5,637/share. PE fw = 19x – Higher than 5-year average P/E of 17x; thanks to offsetting consumer trends and improved profit margins.

Investment Thesis

- **The low base level of 2021 with the expectation of expanding market share and scale in the period 2022-2023 thanks to (1) [The jewelry retail industry is expected to recover in the shape of a "K"](#) (2) The trend of revenge shopping in the short term, and people's incomes recover, the middle class structure increases in the long term.**
- **Growth potential comes from within the business**, including (1) [Strategy to expand market share by increasing the number of stores in tier 2 and 3 city areas](#); (2) [Product restructuring and cost optimization](#) (3) [Exploiting potential young customer segments](#) through modern and strategic sales channels marketing.

Catalyst:

PNJ is expected to issue 15 million shares individually, at the price of 95,000 VND/share.

Risks

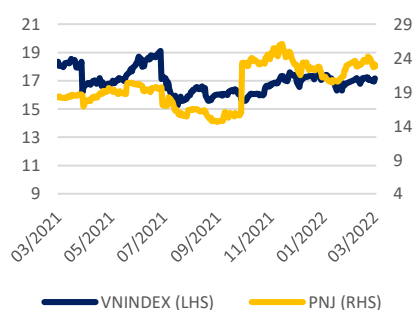
- The epidemic continues to affect jewelry purchasing power.
- Disposable income recovered lower than expected.

Updated business results for 2021

Revenue and PAT in 2021 will reach VND 19,613 billion (+12%YoY) and VND 1,034 billion (-3.3% YoY), respectively. PAT declined due to the impact of the pandemic and gross profit margin decreased by 1.4ppt as the contribution of gold bars increased from 22% (2020) to 26% (2021).

Net revenue and PAT in January 2022 reached VND 3,476 billion (+60.2%YoY) and VND 270 billion (+60.7%YoY) respectively thanks to pent-up demand from 2021, shopping during Tet and the effectiveness of campaigns marketing and promotions from the end of 2021.

P/E and VN-Index comparison table



	2021E	2022F	2023F	Peer
P/E (x)	25.3	18.9	14.8	21.9
P/B (x)	4.0	3.5	2.9	1.3
EV/EBITDA (x)	12.4	12.4	12.4	13.3
ROA (%)	10%	12%	13%	3%

	2020	2021	2022F	2023F
Net Revenue	17,511	19,613	23,874	27,466
Gross profit	3,435	3,573	4,494	5,365
Profit after tax	1,069	1,033	1,383	1,763
EPS	4,305	4,209	5,637	7,184

ROE (%) 17% 20% 21% 8% EPS growth -12% -2% 34% 27%

Update Business Results 2021 – Through a stormy day

Revenue structure	Q4/2021	Q4/2020	%YoY	2021	2020	%YoY
Retail	4,343	3,862	12%	11,513	10,454	10.1%
% DT	61%	66%		59%	60%	
Wholesale	918	912	1%	2,648	2,767	-4.3%
% DT	13%	16%		14%	16%	
Gold Bars	1,687	906	86%	5,021	3,870	29.7%
% DT	24%	16%		26%	22%	
Others	131	164	-20%	431	420	2.7%
% DT	2%	3%		2%	2%	
	Q4/2021	Q4/2020	%YoY	2021	2020	%YoY
Net Revenue	7,099	5,843	21%	19,613	17,511	12.0%
Gross profit	1,257	1,177	7%	3,573	3,435	4.0%
GPM	17.7%	20.2%		18.2%	19.6%	
Selling expenses	(519)	(445)	17%	(1,694)	(1,421)	19.2%
Management costs	(121)	(168)	-28%	(473)	(506)	-6.5%
SG&A/Rev	9.0%	10.5%		11.04%	11.00%	
Operating profit	617	565	9%	1,407	1,508	-6.7%
Operating profit margin	8.7%	9.7%		7.2%	8.6%	
Financial income	3	1	114%	17	3	456.3%
Financial expenses	(41)	(32)	30%	(118)	(162)	-26.9%
Other income, net	(19)	1	-1522%	(16)	(3)	423.4%
PBT	559	535	4%	1,288	1,346	-4.3%
PAT	457	427	7%	1,034	1,069	-3.3%
NPAT margin	6.4%	7.3%		5.3%	6.1%	

Sources: BSC Research

Revenue and NPAT in 2021 will reach VND 19,613 billion (+12%YoY) and VND 1,034 billion (-3.3% YoY), respectively, completing 93% and 84% of the year plan in terms of net revenue and net profit, respectively. Double-digit revenue growth despite a 4% YoY drop in overall retail sales, driven by positive growth in jewelry retail (+10.1%YoY) and gold bars (+29.7%YoY) in Q1, Q2, Q4/2021 in the context of (1) complicated developments of the epidemic in Q3/2021, causing PNJ to temporarily close more than 80% of the total number of stores across the system according to social distancing regulations from the end of July/ 2021 and (2) people's income will be cut, leading to a negative impact on purchasing power.

However, **gross profit in 2021 will reach VND 3,573 billion (+4% YoY), corresponding to a decrease in gross profit margin from 19.6% to 18.2%**, due to the change in revenue structure to increase the proportion of gold bars (with a marginal margin). lower gross profit) from 22% (2020) to 26% (2021) from the perspective of proactively changing the structure of the industry in the context of the need to store safe assets in the face of complicated developments of the epidemic. However, the gross profit margin of the jewelry retail segment increased slightly by 1ppt due to the increased contribution of the high-margin diamond and high-end product line.

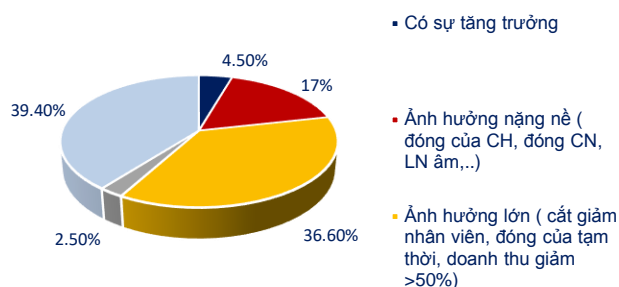
Selling and administrative expenses/revenue remained stable at 11% in the period of 2019-2021, due to a reduction in administrative expenses, while selling expenses/receipts increased from 8.1% (2020) to 8.6% (2021) due to (1) an increase in expenses incurred in Q3/2021 because PNJ was only entitled to rent exemption and reduction at commercial centers during the period of store closure, increasing disease prevention costs. and ensure basic salary for employees; (2) maintaining advertising and marketing expenses during the epidemic to increase brand recognition, even during a period of sharp decline in revenue due to temporary store closures.

Financial income (+456% YoY) and Financial expense (-27%YoY) due to benefiting from exchange rate differences and taking advantage of cheap capital thanks to preferential interest rates in 2021.

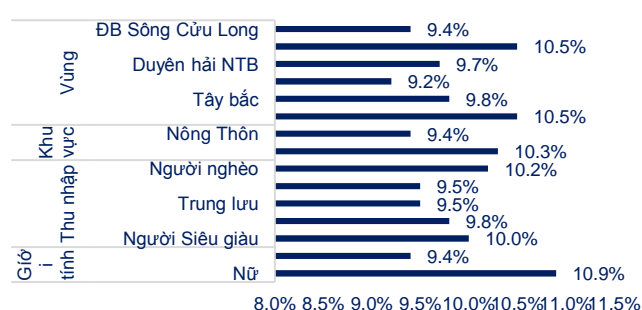
By the end of 2021, PNJ owns a retail network of 341 stores across the country, in which, 319 gold stores (+20 newly opened), 13 silver stores (20 stores closed), 2 PNJ Style stores and 3 CAO Fine Jewelry stores (premium brand) – Only 20/40 stores goods according to the 2021 plan due to the impact of the epidemic.

In addition, the General Meeting of Shareholders approved the private placement of 15 million shares at the price of 95,000 VND/share, equivalent to the total mobilized capital of 1,425 billion VND in 2022; in which (1) 785 billion dong to expand the jewelry market: develop retail store chains in width and depth; (2) 285 billion VND to increase production capacity, expand the production plant at PNJ Jewelry Manufacturing and Trading One Member Company to increase productivity and serve the retail segment; (3) 70 billion VND to improve and innovate technology, product designs and optimize costs.

The extent of the impact of the epidemic on the business activities of retail businesses (with a sample of 15,000 enterprises)



% Decrease in estimated income due to COVID-19



Sources: ADB, ourworldindata.com

PNJ prospect in 2022:

	2020	2021	2022F	2023F
Retail revenue	10,454	11,513	14,437	17,356
%YoY	10%	10%	25%	20%
Wholesale revenue	2,767	2,648	3,027	3,178
%YoY	-23%	-4%	14%	5%
Gold bar revenue	3,870	5,021	6,008	6,488
%YoY	11%	30%	20%	8%
Others revenue	420	431	403	443
%YoY	10%	3%	-7%	10%
Net Revenue	17,511	19,613	23,874	27,466
%YoY	3%	12%	22%	15%
Gross profit	3,435	3,573	4,494	5,365
GPM	19.6%	18.2%	18.8%	19.5%
Selling expenses	(1,421)	(1,694)	(2,041)	(2,348)
Management costs	(506)	(472)	(593)	(682)
SG&A/Rev	11.0%	11.0%	11.0%	11.0%
EBIT	1,508	1,407	1,861	2,335
Financial income	3	16	13	11
Financial expenses	(162)	(118)	(132)	(131)
Other income, net	(3)	(18)	(18)	(18)
PBT	1,346	1,287	1,724	2,197
PAT	1,069	1,033	1,383	1,763
%YoY	-10%	-3%	34%	27%
NPAT margin	6%	5%	6%	6%

EPS	4,305	4,209	5,637	7,184
P/E	25	25	19	15
P/B	4.6	4.0	3.5	2.9

Sources: BSC Research

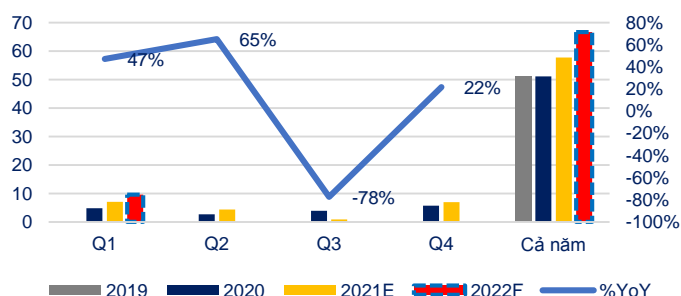
Net revenue and profit in January 2022 reached VND 3,476 billion (+60.2%YoY) and VND 270 billion (+60.7%YoY) respectively thanks to pent-up demand from 2021 and promotion of marketing campaigns from the end of 2021; the need to hoard assets due to the epidemic. In which, (1) Retail and gold bars increased by +79.9% YoY and +90% YoY respectively thanks to pent-up demand from 2021, combined with Tet shopping demand and effective marketing and promotional campaigns until the end of 2021; (2) Wholesale sales increased 11.7% YoY due to the purchasing power of small stores still affected by the epidemic.

BSC expects revenue and net profit in 2022 to reach VND 23,847 billion (+22%YoY) and VND 1,383 billion (+34%YoY), EPS fw of VND5,637/share. PE fw = 19x – Higher than 5-year average P/E of 17x.

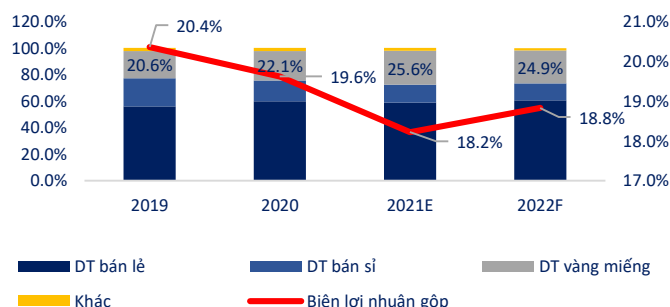
BSC's forecast for PNJ's business results on March 7, 2022 is based on the following assumptions:

- (1) Jewelry/in-store retail sales (SSSG) increased from 6.7% (2021) to 11.9% (2022)** thanks to (1.1) trend of revenge consumption due to pent up demand in Q3/2021; (1.2) the effectiveness of restructuring efforts and marketing campaigns to take advantage of the market gap when small stores were forced to close due to the epidemic and (1.3) promote high-end products (combined with diamonds)) serving high-income people not much affected by the epidemic; (1.4) additional revenue when expanding the store to tier 2 and tier 3 cities.
- (2) Profit margin increased from 18.2% to 18.8%** due to the reduction in the proportion of retail gold bars from 25.6% (2021) to 24.9% (2022) following the management's focus on jewelry business. Particularly, the gross profit margin of the jewelry retail segment was maintained equivalent to 2021 at ~29%-30% thanks to the trend of revenge consumption and luxury, which is enough to offset the gross profit affected by opening stores in tier 2 and tier 3 cities. However, we expect this segment's gross margin to decline slightly by 1ppt in 2024-2026 due to increased revenue contribution of marginal tier 2 and tier 3 stores. lower profits, as businesses accelerate store expansion.
- (3) Selling and administrative expenses/revenue remained at 11%**, thanks to a reasonable balance between administrative expenses and selling expenses, maintenance of promotion and marketing programs to help stimulate business growth. Demand during the period of jewelry consumption is still affected by the epidemic.
- (4) Store chain expansion: It is expected that the number of stores by the end of 2022 will reach 376 stores** (up 35 compared to the total number of stores in 2021) in (1) level 2 and 3 areas; (2) Style by PNJ in stores in big cities, investing in marketing, increasing customer experience, targeting young customers with affordable product lines.

Revenue / Store changes after restructuring 2019-2022F



Revenue structure



Marketing campaign in March 2022.



Nguồn: PNJ, BSC Research.

Valuation

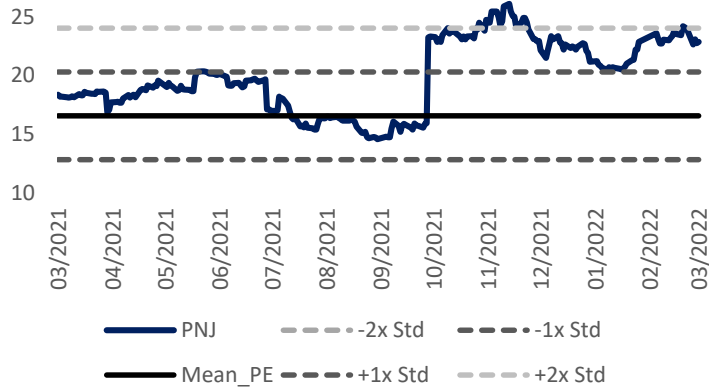
BSC maintains its recommendation to **BUY** PNJ with a 2022 target price of VND **127,400/share** compared to the valuation [in the previous report of VND 126,100/share](#), 20% upside compared to March 4, 2022. Valuation is based on the DCF method with WACC = 10% and g = 4%.

Adjusted from the previous forecast on November 25, 2021, +3% of revenue and -5% of NPAT respectively, coming from gross profit margin from 19.7% to 18.8% due to the proportion of gold bars accounting for 25% (2022 new) compared with 24.5% (2022 old); based on the focus on jewelry retail and the positive recovery of the industry; combined with complicated fluctuations of the political situation and epidemics. In addition, we revise our medium-term 2024-2026 jewelry retail outlook to 12% from 10% on the back of more store openings after raising capital through private placement and expect to serve improve faster recovery of people's income after the epidemic.

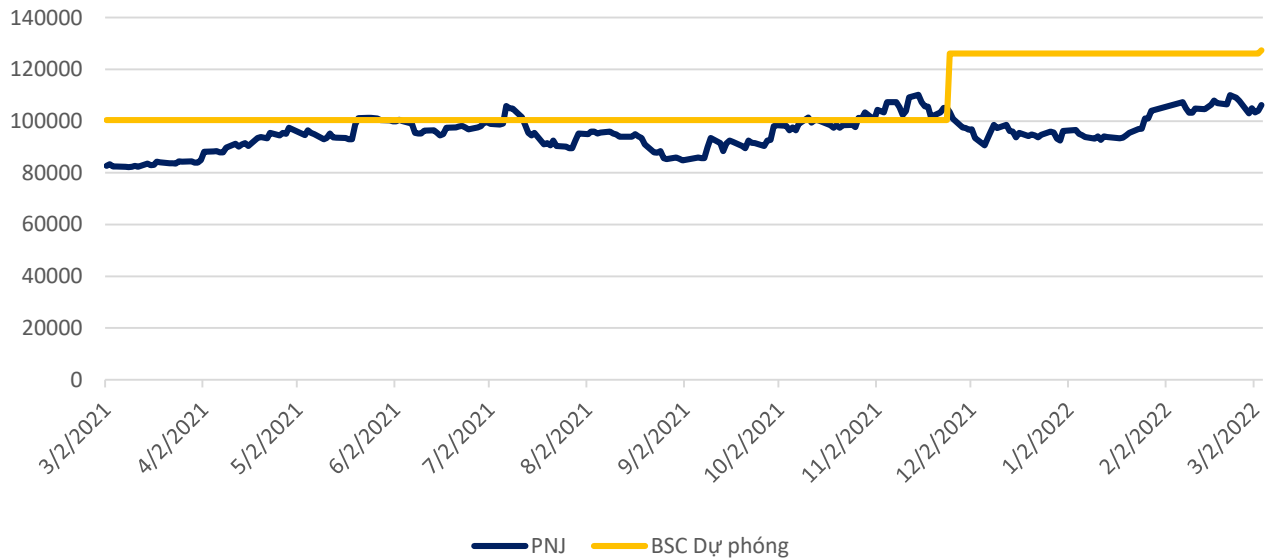
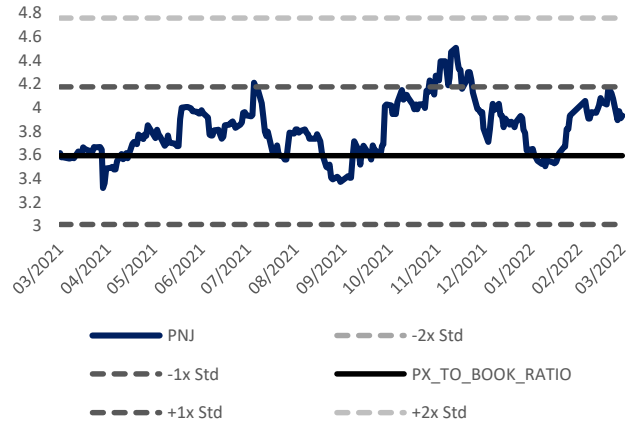
DCF method	2022	2023	2024	2025	2026
Firm free cash flow (FCFF)	921	1,186	1,402	1,734	2,335
Total value of 5 year free cash flow discount	847	990	1,064	1,194	1,461
Last value	39,720				
Final value discount	24,850				
Total discount value	30,405				
(-) In debt	-1,839				
(+) Cash	422				
Total company value	28,988				
Number of outstanding shares (million)	228				
Reasonable value	127,400			Rf	3%
Current Price	106,300			Beta	1.20
Upside	20%			Ke	13%
Recommendations	BUY			Kd	5%
Dividend rate	1.9%			WACC	10%
P/E 5 years	17.09			g	4%

Sources: BSC forecast

STOCK PE



STOCK PB



List of companies in the same industry

Ticker	Name	Curr Adj Mkt Cap	P/E	P/B	P/S	ROE LF	ROA LF	EV/EBITDA T12M	Overridable Adjusted Beta
Median	Median	18,741,087	21.9	1.3	0.9	7.8%	3.1%	13.3	0.9
002574 CH Equity	Zhejiang ming jewelry co-a	8,141,094	#N/A N/A	0.7	0.7	-2.0%	-1.5%	#N/A N/A	0.7
RJEX IN Equity	Rajesh exports ltd	57,874,219	22.4	1.7	0.1	7.8%	3.1%	13.3	0.5
RENL IN Equity	Renaissance global ltd	5,543,920	38.6	2.2	0.9	5.6%	2.7%	8.5	1.0
600687 CH Equity	Gansu gangtai hd group co-a	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	-	-	#N/A N/A	1.1
002345 CH Equity	Guangdong chj industry co-a	14,698,453	11.8	1.1	0.9	9.8%	6.2%	#N/A N/A	0.7
002740 CH Equity	Fujian ideal jewellery ind-a	6,260,708	#N/A N/A	1.9	1.4	-49.3%	-	#N/A N/A	1.3
200168 CH Equity	Guangdong jadiete holdings-b	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	-1.9%	-1.3%	#N/A N/A	0.5
1815 HK Equity	Csmall group ltd	3,421,371	125.7	0.7	2.8	0.3%	0.2%	23.8	0.5
002867 CH Equity	Chow tai seng jewellery co-a	70,329,450	15.1	3.4	2.4	23.2%	18.6%	#N/A N/A	1.2
002731 CH Equity	Shenyang cuihua gold and s-a	6,037,898	43.8	1.3	0.5	3.1%	1.1%	#N/A N/A	0.8
PDJ TB Equity	Pranda jewelry pub co ltd	888,096	21.4	0.6	0.5	4.8%	2.5%	23.5	0.9
TTAN IN Equity	Titan co ltd	681,018,021	228.8	29.8	11.1	13.2%	6.2%	81.5	1.1
TIF US Equity	Tiffany & co	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	11.0%	5.3%	16.3	0.4
1929 HK Equity	Chow tai fook jewellery grou	469,573,237	26.8	5.2	2.3	22.6%	10.0%	11.6	1.0

900905 CH Equity	Lao feng xiang co ltd-b	68,203,379	6.2	1.3	0.2	19.8%	8.0%	#N/A N/A	0.8
590 HK Equity	Juk fook holdings intl ltd	39,969,945	13.5	1.2	1.6	9.6%	7.3%	5.9	1.0
116 HK Equity	Chow sang sang hldg	22,783,720	9.0	0.6	0.4	9.1%	6.5%	4.5	0.9
PNJ VN Equity	Phu nhuan jewelry jsc	24,100,856	25.2	4.3	1.3	18.3%	11.6%	17.3	1.0

Sources: BSC, Bloomberg

APPENDIX

Business results (Billion VND)	2020	2021	2022	2023
Net Revenue	17,511	19,613	23,874	27,466
Cost of goods sold	(14,076)	(16,040)	(19,380)	(22,101)
Gross profit	3,435	3,573	4,494	5,365
Selling expenses	(1,421)	(1,694)	(2,041)	(2,348)
Management costs	(506)	(472)	(593)	(682)
Operating profit/loss	1,508	1,407	1,861	2,335
Financial revenue	3	16	13	11
Financial expenses	(162)	(118)	(132)	(131)
Interest expenses	(154)	(104)	(124)	(122)
Profits from Joint Ventures/Associates	-	-	-	-
Other profit/loss	(3)	(18)	(18)	(18)
Profit before tax	1,346	1,287	1,724	2,197
Corporate income tax	(277)	(254)	(341)	(434)
Profit after tax	1,069	1,033	1,383	1,763
CDTS	-	-	-	-
NPAT - Minority Shareholders	1,069	1,033	1,383	1,763
EBITDA	1,578	1,482	1,944	2,425
EPS	4,305	4,209	5,637	7,184

Cash flow (Billion VND)	2020	2021	2022	2023
(Loss)/NPAT	1,346	1,287	1,724	2,197
Depreciation and amortization	70	75	84	90
Change in working capital	346	(1,801)	(520)	(622)
Other adjustments	(424)	(356)	(465)	(556)
Cash flow from operating activities	1,496	(717)	920	1,204
Cash for purchase of fixed assets	(84)	(63)	(125)	(144)
Other investment	(0)	14	1	1
Cash flow from Investment Contract	(84)	(49)	(125)	(143)
Dividend payment	(355)	(177)	(360)	(360)
Cash from net borrowing	(775)	880	(24)	(54)
Other revenue	(1,085)	702	(360)	(360)
Cash flow from Finance Activity	(1,085)	702	(384)	(414)
Cash flow at the beginning of the period	95	422	358	768
Money in the period	327	(65)	411	647
Cash flow at the end of the period	422	358	768	1,415

Balance sheet (Billion VND)	2020	2021	2022	2023
Cash and cash equivalents	422	358	768	1,415
Short term investment	-	-	-	-

Ratio (%)	2020	2021	2022	2023
Solvency				
Short-term payment number	2.21	2.04	2.11	2.26

Short-term receivables	100	110	134	139	Quick Payment Number	0.16	0.10	0.18	0.29
Inventory	6,545	8,687	9,578	10,487					
Other current assets	77	66	80	92	Capital structure				
Short-term assets	7,144	9,220	10,586	12,186	Debt Number/Early Payment	0.22	0.26	0.23	0.19
Tangible wealth	-	-	-	-	Debt/Equity	0.35	0.45	0.39	0.32
Depreciation	(319)	(374)	(374)	(374)	Operational capacity				
Long-term unfinished assets	-	-	-	-	Number of days Inventory	135.1	160.0	145.0	138.0
Long-term investment	-	-	-	-	Number of days receivable	2.1	2.0	2.0	1.8
Other long-term assets	297	302	302	302	Number of days to pay	12.5	15.7	16.7	16.7
Long-term assets	1,339	1,327	1,368	1,422	CCC	124.7	146.4	130.4	123.2
Total assets	8,483	10,547	11,955	13,608	Profit rate				
Liabilities must pay	482	689	885	1,010	Gross profit	19.6%	18.2%	18.8%	19.5%
Short-term loans	1,839	2,722	2,698	2,644	Profit after tax	6.1%	5.3%	5.8%	6.4%
Other short-term debt	795	984	1,197	1,377	ROE	20.4%	17.2%	19.9%	21.5%
Total current liabilities	3,232	4,521	5,006	5,384	ROA	12.6%	9.8%	11.6%	13.0%
Long-term loans	-	-	-	-	Valuation				
Other long-term debt	1	0	0	0	PE	24.69	25.25	18.86	14.80
Total Long-term Debt	9	9	9	9	PB	4.62	4.02	3.49	2.95
Total liabilities	3,242	4,530	5,015	5,393	Growth				
Capital	2,276	2,276	2,276	2,276	GDP growth	3.0%	12.0%	21.7%	15.0%
Surplus equity	991	991	991	991	EBIT Growth	-6.8%	-6.7%	32.3%	25.5%
Undistributed profit	1,605	1,954	2,876	4,151	EBT growth	-10.4%	-4.4%	33.9%	27.4%
Other equity	-	-	-	-	EPS growth	-12.4%	-2.2%	33.9%	27.4%
The contents of a presentation	-	-	-	-					
Total Equity	5,242	6,017	6,939	8,214					
Total capital	8,483	10,547	11,955	13,608					
Number of shares outstanding	228	228	228	228					

Sources: BSC Research

Technical point of view

Target Price: 128.0

Stop Loss Price: 102.0

Technical highlights:

- Current Trend: Upward
- MACD trend indicator: MACD is below the signal line but showing signs of crossing up
- RSI indicator: is in an uptrend approaching the level of 70

Comment: After a correction around 102-104 zone, PNJ has started an uptrend with relatively positive trading volume. The price has been above MA20, MA50, MA50 is about to cut above MA100, this agrees with the stock's price increase. The liquidity is still maintaining at a good level but the volume is still lower than the average of the last 20 sessions. The technical indicators RSI and MACD are relatively positive as the RSI continues its uptrend and the MACD is about to cross above the signal line. The nearest resistance zone ranges from 112-114.

Recommendation: BSC recommends that medium-term investors can open a position with the stock at 109.0, take profit at 128.0, and cut loss at 102.0.



Sources: BSC, PTKT iTrade

Disclosure

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BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84439352722
Fax: +84422200669

Ho Chi Minh Office

146 Nguyen Cong Tru St, 9th Floor District 1,
HCMC
Tel: +84838218885
Fax: +84838218510

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