

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

Recommendations BUY **Phu Nhuan Jewelry Joint Stock Company (HSX: PNJ)**
Sweet fruit from innovation effortAsset

| | | | | | |
|--------------------------|----------------|----------------------------------|------------|------------------------------|-------|
| 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% | | |

Analyst:

Pham Thi Minh Chau
(Retail Consumption)
chauptm@bsc.com.vn

Technical Analyst:

Vu Viet Anh
Anhvv@bsc.com.vn
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.

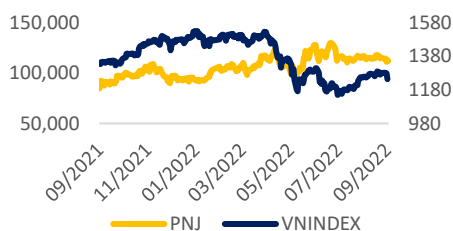
INVESTMENT THESIS

- 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.**

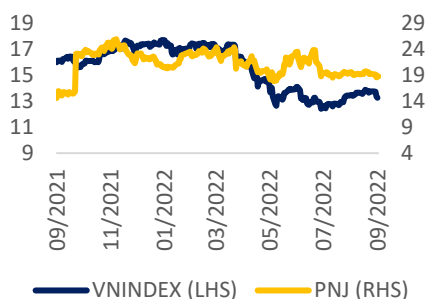
Risk:

- 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.

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.

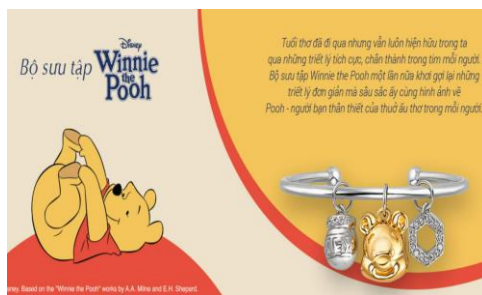
In 2023, BSC expects NET REVENUE and NPAT to reach VND 37,832 billion (+13% YoY) and VND 2,147 billion (+20% YoY) respectively, equivalent to EPS FW= 8,276 VND and P/E fw = 13.6 times lower than the average 3-year P/E 19 times. Based on these assumptions:

- (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.



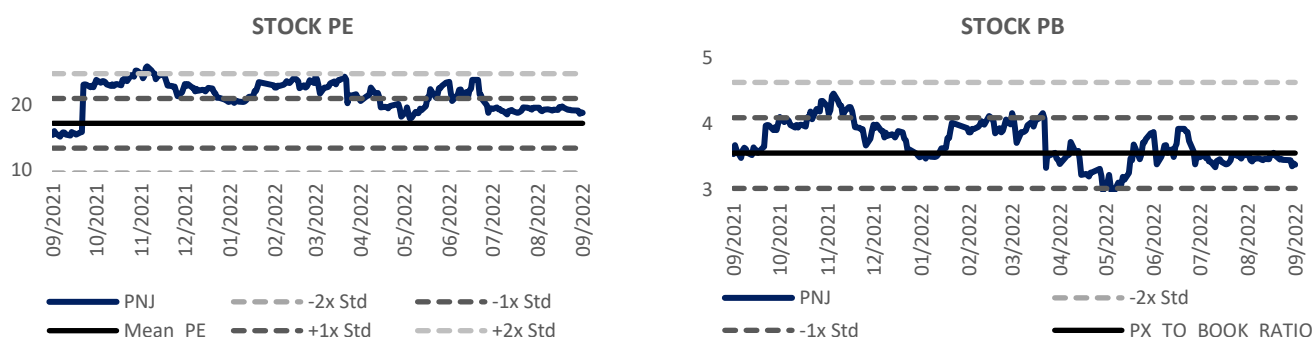
Pricing

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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BSC Head Office

8th floor & 9 Thai Holdings Tower
210 Tran Quang Khai, Hoan Kiem, Hanoi
Tel:+84439352722
Fax:+84422200669

BSC Ho Chi Minh Branch

9th Floor, 146 Nguyen Cong Tru Building
District 1, Ho Chi Minh City
Tel:+84838218885
Fax:+84838218510

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