PHU NHUAN JEWELRY JSC (HSX: PNJ)

Shifting Gear to Reaccelerating Growth

(VND bn)	Q1-FY21	Q4-FY20	*+/-(qoq)*	Q1-FY20	*+/-(yoy)*
Net revenue	7,182	5,843	22.9%	5,001	43.6%
PAT-MI	513	427	20.0%	408	25.6%
EBIT	669	565	18.5%	553	20.9%
EBIT margin	9.3%	9.7%	-34.7bps	11.1%	-175.3bps

Source: PNJ, Rong Viet Securities

4M-2021 – Robust retail sales momentum continued

- PNJ reported solid growth in revenue and net profit of 64% YoY and 88% YoY. Retail sales thrived ahead of our expectations, posting a 60% YoY growth, on the back of the lower base last year and improved market conditions (Vietnam's Q1-2021 gold jewelry consumption up 27% YoY, per WGC). In line with this market recovery, wholesale revenue up 56% YoY. Gold bar sales contributed the most to the revenue growth, surging 69% YoY.
- Days of inventory on hand cut to around 100 days from 2020 average of 175 days.
- Higher contribution from gold bar sales (GPM of ~1%) and a variety of discounts has driven blended GPM downward to 18.3% (-150 bps YoY).
- PNJ opened four Gold stores (net opened three), which seems slightly behind the full-year openings plan of 40-45 stores.

2021 Outlook – Picking up the growth pace

We expect that the continued recovery momentum and the low comparative base should give room for PNJ to post solid SSSG at least until Q3-2021. We, therefore, revise up our assumption for 2021 SSSG to 15% from 5% previously. Besides, we expect improving market conditions to provide comfort for PNJ to accelerate opening pace in lower tier cities during the coming quarters. As a result, we project that retail sales will reach VND13,394Bn (USD575Mn, +28% YoY). Meanwhile, gross margin will likely be maintained as we expect PNJ to offer many promotions going forward to capture a pick-up in demand while continuing to focus on enhancing the product mix to boost profit margin. Overall, we raise our forecast for 2021 revenue and NPAT by 18% and 6% to VND 22,694Bn (USD 978Mn,+29% YoY) and VND1,355Tn (USD58Mn,+27% YoY) from better retail performance.

Valuation and recommendation

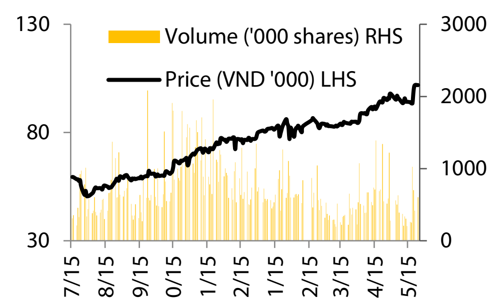
Share price has risen by 27% YTD as the market partly priced in positive catalyst of extremely strong retail sales growth owing to solid demand recovery and low-base effect. We believe this effect will continue to benefit PNJ over the coming months, allowing the company to deliver high double-digit growth. While the high base from Sep 2020 onwards may cause a potential slowdown, we expect the private placement plan (6.6% of outstanding shares) to provide a decent support for the stock price. In the long-term, we maintain our positive stance on PNJ's capability to sustain market share gains and, thus, its long-term growth trajectory (NPAT's 3Y CAGR of 27%). We raise our target price to VND115,000 from VND100,00 previously, implying 2021F/22F P/E of 19.6x/15.7x, to reflect revised up forecasts. Based on total expected return of ***16% as of June 4th, 2021****, we recommend* ***ACCUMULATING*** *the stock.*

ACCUMULATE	+16%
Target price (VND)	115,000
Current market price (VND)	100,600
Cash dividend	2,000

Stock Info	
Sector	Retail-Jewelry
Market Cap (VND billion)	23,146
Current Shares O/S	227.4
Avg. Daily Volume (in 20 sessions)	501,875
Free float (%)	37.8
52 weeks High	101,900
52 weeks Low	50,617
Beta	1.10

	FY2020	Current
EPS	4,698	5,167
EPS Growth (%)	-11.1	-0.9
Diluted EPS	4,698	5,156
P/E	17.9	19.8
P/B	3.7	4.0
EV/EBITDA	13.0	14.2
Cash dividend yield (%)	2.4	2.0
ROE (%)	25.2	20.4

Price performance



Major Shareholders (%)	
DC	10.3
VINA CAPITAL	7.0
CAO THI NGOC DUNG	5.0
Foreign ownership room (%)	0.0

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Exhibit 1: Q1-2021 Results

(VND Bn)	Q1-FY21	Q4-FY20	+/- (qoq)	Q1-FY20	+/- (yoy)
Net revenue	7,182	5,843	22.9%	5,001	43.6%
Gross profit	1,325	1,177	12.5%	1,050	26.3%
SG&A	350	277	26.5%	240	45.8%
Operating income	975	901	8.3%	810	20.5%
EBITDA	686	582	17.9%	571	20.2%
EBIT	669	565	18.5%	553	20.9%
Financial expenses	25	32	-20.2%	46	-44.3%
- Interest Expenses	*23*	*29*	*-21.8%*	*40*	*-43.6%*
Dep. and amortization	17	17	-0.8%	17	-1.9%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	648	535	21.1%	512	26.7%
PAT	513	427	20.0%	408	25.6%
(*) Adjusted PAT	513	427	20.0%	408	25.6%

Source: PNJ, Rong Viet Securities

Exhibit 2: Q1-2021 Performance Analysis

Particulars	Q1-FY21	Q4-FY20	+/- (qoq)	Q1-FY20	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	18.5%	20.2%	-170bps	21.0%	-254bps
EBITDA Margin	9.6%	10.0%	-40bps	11.4%	-186bps
EBIT Margin	9.3%	9.7%	-35bps	11.1%	-175bps
Net Margin	7.1%	7.3%	-18bps	8.2%	-103bps
Adjusted Net Margin	7.1%	7.3%	-18bps	8.2%	-103bps
Turnover*(x)					
-Inventories	4	3	0.7	2	1.3
-Receivables	260.2	185.0	75.3	144.1	116.1
-Payables	19	18	1.1	14	4.9
Leverage (%)					
Total Liabilities/Equity	41.3%	61.7%	-20.4 pps	68.1%	-26.9 pps

*Source: Rong Viet Securities, * Annualized*

Exhibit 3: Q2-2021 Performance Forecast

Particulars (VND Bn)	Q2-FY21	+/- qoq	+/- yoy	Comments
Revenue	3,511	-51%	28%	We expect PNJ gold stores to post a SSSG of 15% due to last year's low base, leading to gold jewelry retail sales of VND1.9Tn, despite the low season for jewelry sales. Wholesale and gold bar sales are projected to increase by 36% YoY and 32% YoY respectively.
Gross profit	721	-46%	52%	GPM is expected to improve to 20.5% (+300 bps QoQ) mainly due to less discount offerings in the low season and smaller gold bar contribution.
EBIT	293	-56%	233%	Projected EBIT margin stands at 8.3%, -100 bps QoQ since Q2 is the quarter of low margin.
NPAT	206	-60%	551%	We arrive at a projected net margin of 5.9%. Last year's low-base still provides a profound effect on this quarter's earnings growth rate.

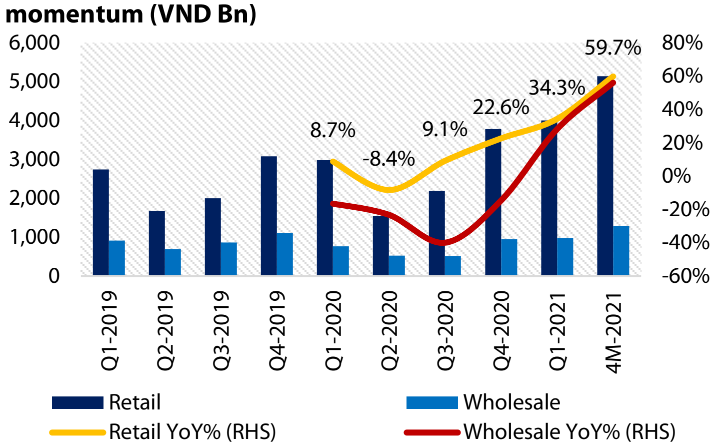
Source: Rong Viet Securities

Update

Year-to-date results are solid as market demand improved. 4M-2021 revenue reached VND9.0Tn (or USD389Mn, +64% YoY) while NPAT nearly doubled to VND598Bn (or USD26Mn). These upbeat results were primarily supported by considerably strong retail sales. 4M-2021 retail sales extended their soaring growth streak since Q3-2020, posting a growth rate of 60% YoY. We attribute the robust retail sales growth to the low comparative base in 2020 when the pandemic started to take its toll on PNJ's operations and, more importantly, improved market demand coupled with tailored marketing messages and customer positioning. As a result of this outstanding sales performance, days of inventory on hand figure has significantly improved (Figure 2).

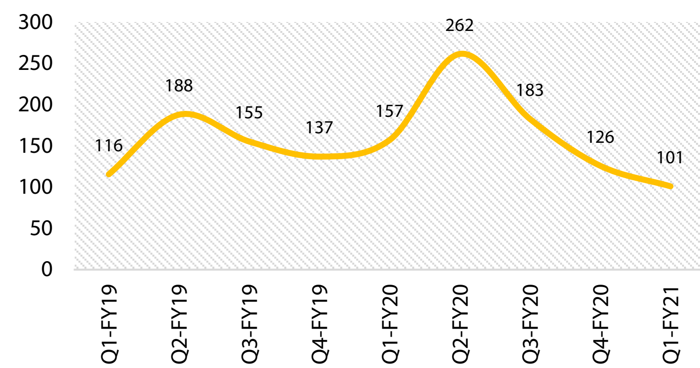
Vietnam gold jewelry consumption has surpassed pre-covid level in Q1-2021, as data points from WGC show in Figure 3. We believe this surging demand was largely driven by better macro-economic factors and discretionary spending diverted from leisure travel, dining at restaurants or entertainment since either those activities were partly hindered by measures to contain covid spread or consumers are more cautious about public spaces. Furthermore, we believe that jewelry demand should continue its recovery in the near-term as hinted by gemstones and precious metals imports surging in recent months . Data from Vietnam Customs showed that imports of those products from January through the first half of May 2021 reached USD344Mn, a 65% YoY increase and a 44% hike over the same period in 2019, with March and April imports posted the highest ever value, averaging USD92Mn.

Figure 1: Retail sales and wholesale segment is gaining momentum (VND Bn)



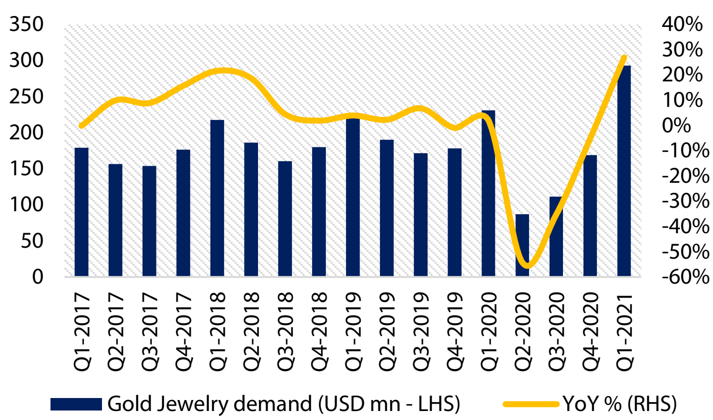
Source: PNJ, Rong Viet Securities

Figure 2: Improved days of inventory on hand



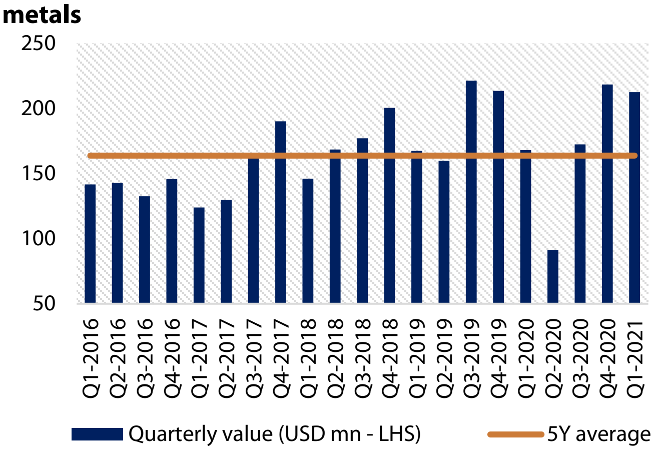
Source: PNJ, Rong Viet Securities

Figure 3: Quarterly gold jewelry consumption in Vietnam



Source: WGC, Rong Viet Securities

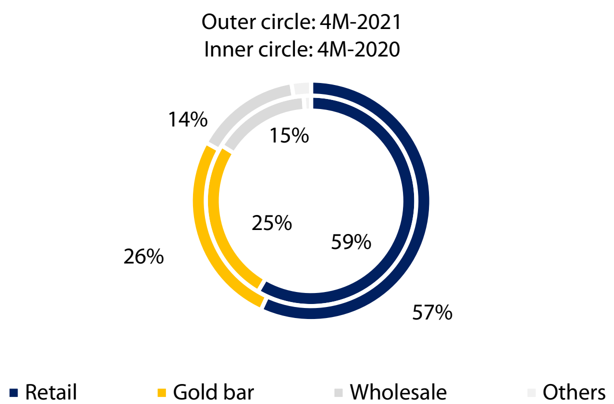
Figure 4: Vietnam's import value of gemstones and precious metals



Source: Vietnam Custom, Rong Viet Securities

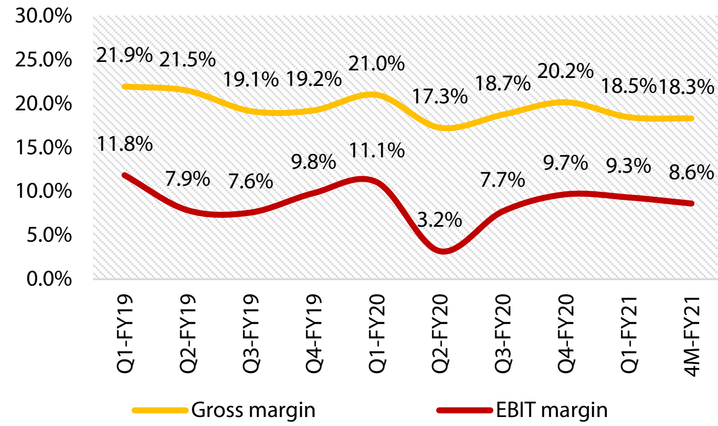
To capture this improved market condition, PNJ has proactively offered a variety of discounts and promotions to reignite demand and lure customers in the recent holiday season. Coupled with higher shares of gold bar sales in the product mix, 4M-2021 GPM contracted by 150bps YoY.

Figure 5: Sales channel mix



Source: PNJ, Rong Viet Securities

Figure 6: Profit margins

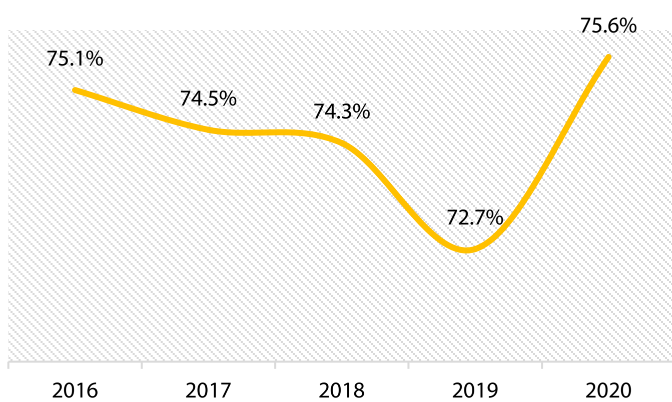


Source: PNJ, Rong Viet Securities

Cooperation with Pandora shows PNJ's orientation on expanding products offering in the affordable yet high-margin jewelry segment. Accordingly, PNJ will officially distribute Pandora's charm and bracelet products at three of its flagship stores under franchise model by the end of May 2021. PNJ aims to open 12-15 Pandora shop-in-shop points of sales this year, besides Pandora's current eight third party stores. As Pandora is well known by its iconic customized collectible charm bracelets products targeting young buyers with affordable segment positioning (most of their products are priced under USD100), which is in line with 'Style by PNJ' brand's proposition. We believe this step indicates PNJ's further looking to extend younger as well as affluent consumer at attractive price points.

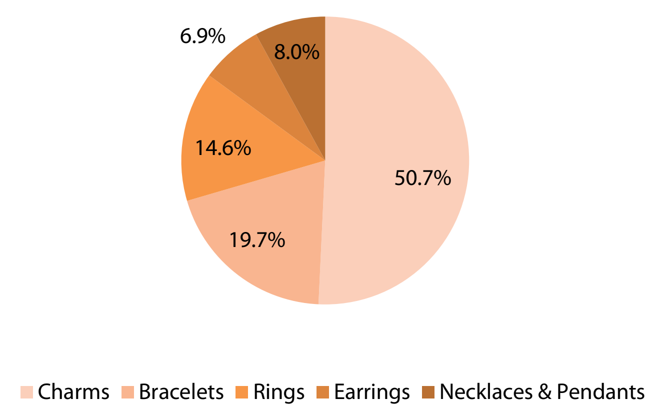
Despite the reasonable price range, Pandora's products are highly profitable with GPM ranging around 73%-76%, which is a tad higher than our estimated GPM for PNJ's silver product line of around 70%. By providing more SKU choice in that segment with upcoming ramp up of 'Style by PNJ' (15-20 outlets for 2021F) and Pandora shop-in-shop sale points, PNJ's product mix would become more favorable and provide some cushion to retail GPM by compensating for pressure from tactical promotions that are expected to be widely offered going forward.

Figure 7: Pandora's profit margins



Source: Pandora, Rong Viet Securities

Figure 8: Pandora's 2020 revenue by products



Source: Pandora, Rong Viet Securities

2021 Forecast

Table 1: 2021F Forecast revision

Unit: VND bn	2020	2021F Old	2021F New	% change	YoY %	Comments
Total revenue	**17,542**	**19,276**	**22,694**	**18%**	**29%**	
1. Retail revenue	10,474	11,827	13,394	13%	28%	We revise up our assumption on SSSG from 5% to 15% due to better-than-expected performance of the retail segment recently. Net store opening in 2021 is estimated at 28 (40 new gold stores opening and 12 closures)
2. Wholesale revenue	2,752	2,618	3,577	37%	30%	We raise wholesale revenue forecast after taking into account solid market demand improvement in Q1-2021.
3. Gold bar	3,899	4,602	5,263	14%	35%	
Gross profit	3,435	3,817	4,437	16%	29%	
SG&A expenses	1,926	2043	2,622	28%	36%	
EBIT	1,509	1,774	1,815	2%	20%	
NPAT-MI	**1,069**	**1,278**	**1,355**	**6%**	**27%**	
EPS (VND)	4,627	5,532	5,866	6%	27%	
Profit margins						
GPM	19.6%	19.8%	19.6%	-25 bps	-3 bps	We project GPM to remain relatively unchanged as we believe that the product mix enhancement and dense discounting offers should even out.
SG&A/Sales	11.0%	10.6%	11.6%	95 bps	57 bps	We believe that PNJ will roll out significant promotion and marketing campaigns in 2021 to cement brand traction and reposition its branding among younger customers.
EBIT margin	8.6%	9.2%	8.0%	-121 bps	-60 bps	
Net margin	6.1%	6.6%	6.0%	-63 bps	-13 bps	While EBIT margin is projected to decrease due to higher selling expenses, we estimate its net margin to be flat owing to a 37% decline in interest expenses to VND115Bn, a result of better cash flow.

Source: Rong Viet Securities

Valuation

Our one-year target price of VND115,100 is based on a 20x forward P/E and FCFE methodology (cost of equity 11.5%, terminal growth 3.2%). We believe the target P/E multiple, which is a 25% premium to the average during 2017-20 is justified, as we expect PNJ to deliver strong 3Y CAGR in NPAT over 2021F-24F of 27% (vs a 3Y CAGR of 14% during 2017-20).

Table 2: Valuation summary

Methodology	Weights	Price (VND)
5Y FCFE (CE 11.5%, terminal growth 3.2%)	50%	112,700
P/E @ 20x 2021 EPS of VND 5,866	50%	117 ,300
Target price		**115,000**
Implied 2021F P/E		19.6x
Implied 2022F P/E		15.7x

Source: Rong Viet Securities

Table 3: FCFE projection

Unit: VND Bn	2021F	2022F	2023F	2024F	2025F
Net income	**1,355**	**1,721**	**2,290**	**2,802**	**3,293**
+ Depreciation	81	94	107	121	136
- Changes in working capital	140	1	500	819	726
- CAPEX	213	160	171	183	196
+ Net borrowings	170	(241)	(477)	(358)	116
FCFE	**1,251**	**1,412**	**1,244**	**1,556**	**2,608**

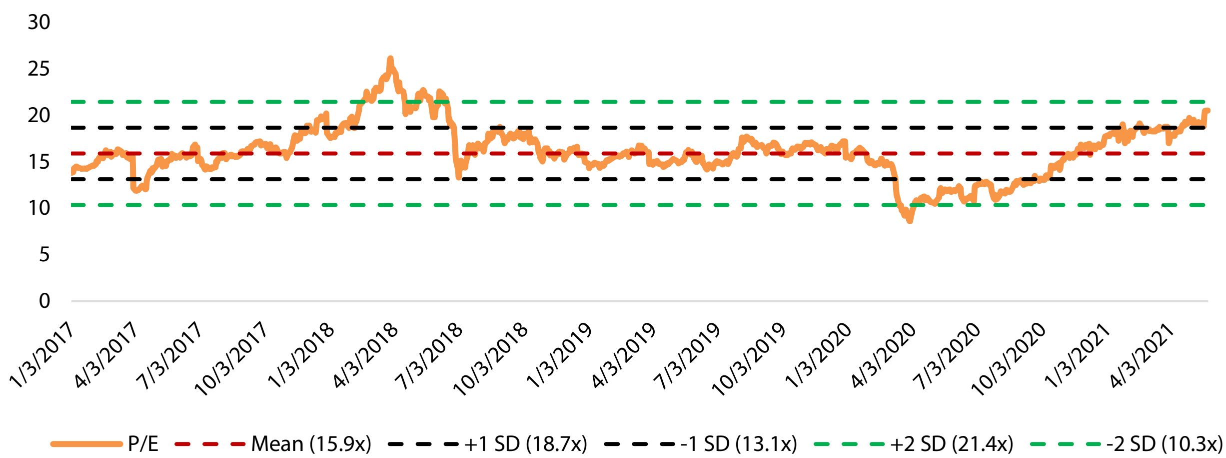
Source: Rong Viet Securities

Table 4: DCF Summary

Unit: VND Bn			
Risk-free rate	2.3%	PV of cumulative FCFE	6,449
Equity risk premium	9.2%	PV of Terminal Value	19,585
Adjusted Beta	1.0	Equity Value	26,034
Cost of Equity	**11.5%**	Number of outstanding shares (million)	231.0
Terminal growth	3.2%	**Target price (VND)**	**112,700**

Source: Rong Viet Securities

Figure 7: PNJ's historical P/E



Source: Bloomberg, Rong Viet Securities

Table 3: Industry peers

Company	Country	Market cap (USD mn)	2020 Sales (USD mn)	2020 Sales Growth (%)	2020 PAT (USD mn)	2020 NPAT Growth (%)	2020 GPM (%)	2020 Net margin (%)	2020 ROE (%)	P/B Trailing (x)	P/E Trailing (x)	P/E Forward (x)
PNJ	**VN**	**994.0**	**753.7**	**14.4**	**46.0**	**0.0**	**19.6**	**5.1**	**21.0**	**4.0**	**20.3**	**17.5**
Chow Tai Fook	HK	18,010.1	7,260.4	-22.0	382.7	-14.8	28.4	5.3	13.2	5.0	38.9	27.4
Luk Fook Holdings	HK	1,607.3	1,437.2	-42.2	91.0	-78.7	29.6	6.3	3.0	1.2	18.8	15.0
Chow Sang Sang	HK	1,179.9	1,938.1	-15.2	134.4	25.2	27.6	6.9	9.2	0.8	16.8	9.1
Lao Feng Xiang	CH	3,568.5	7,503.8	10.8	231.6	17.2	8.2	3.1	20.6	1.2	5.5	5.6
Chow Tai Seng	CH	3,265.9	737.6	10.8	144.8	27.7	41.0	19.6	21.6	3.7	17.9	16.3
Guangdong Chj	CH	771.6	466.5	16.3	19.8	116.7	35.8	4.2	7.6	1.4	18.0	18.8
Leysen Jewelry	CH	471.7	178.1	33.7	15.1	138.5	58.3	8.5	6.6	1.3	19.5	n.a
Pandora A/S	DE	13,104.5	2,911.6	-8.9	405.2	-22.5	76.5	13.9	52.9	10.0	30.3	19.8
Titan Co Ltd	IN	19,443.6	2,706.3	-3.3	131.1	-34.2	n.a	4.8	13.7	18.9	145.4	72.2
Rajesh Exports Ltd	IN	2,125.6	27,598.2	11.3	170.1	-6.8	n.a	0.6	12.4	1.5	12.8	n.a
Vaibhav Global Ltd	IN	1,858.0	342.2	27.9	36.6	43.6	n.a	10.7	31.7	14.0	49.5	n.a
Median		**1,991.8**	**1,687.7**	**10.8**	**132.8**	**8.6**	**29.6**	**6.0**	**13.5**	**2.6**	**19.2**	**17.5**
Average		**5,533.4**	**4,486.1**	**2.8**	**150.7**	**17.7**	**36.1**	**7.5**	**17.8**	**5.2**	**32.8**	**22.4**

Source: Bloomberg, as of May 26th, 2021

VND Billion

INCOME STATEMENT	FY2019	FY2020	FY2021F	FY2022F
Revenue	**17,001**	**17,511**	**22,654**	**26,454**
COGS	13,540	14,076	18,225	21,171
Gross profit	**3,461**	**3,435**	**4,429**	**5,282**
Selling Expense	1,363	1,421	1,963	2,240
G&A Expense	479	506	659	779
Finance Income	2	3	2	2
Finance Expense	119	162	115	113
Other profits	0	-3	0	0
PBT	**1,503**	**1,346**	**1,694**	**2,152**
Prov. of Tax	312	277	339	430
Minority's Interest	0	0	0	0
PAT to Equity S/H	**1,191**	**1,069**	**1,355**	**1,721**
EBIT	1,619	1,508	1,807	2,263
EBITDA	1,675	1,578	1,888	2,357

%

FINANCIAL RATIO	FY2019	FY2020	FY2021F	FY2022F
Growth (%)				
Revenue	16.7	3.0	29.4	16.8
Operating Income	28.4	-5.8	19.6	24.8
EBITDA	28.2	-6.8	19.8	25.2
PAT	24.0	-10.2	26.7	27.0
Total Assets	33.6	-1.4	2.3	12.9
Equity	27.9	17.9	18.8	22.2
Profitability (%)				
Gross margin	20.4	19.6	19.6	20.0
EBITDA margin	9.9	9.0	8.3	8.9
EBIT margin	9.5	8.6	8.0	8.6
Net margin	7.0	6.1	6.0	6.5
ROA	13.8	12.6	15.6	17.6
ROE	33.0	25.2	26.8	27.9
Efficiency				(times)
Receivable Turnover	122.7	174.5	182.5	182.5
Inventory Turnover	1.9	2.2	2.6	3.0
Payable Turnover	10.3	11.0	12.2	12.2
Liquidity				(times)
Current	1.9	2.3	2.0	2.3
Quick	0.1	0.2	0.1	0.3
Finance Structure (%)				
Total Debt/Equity	72.5	43.3	39.8	28.7
Current Debt/Equity	72.4	43.3	39.8	28.7
Long-term Debt/Equity	0.1	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2019	FY2020	FY2021F	FY2022F
Cash and cash equivalents	**95**	**422**	**-4**	**737**
Short-term investments	0	0	0	0
Accounts receivable	**139**	**100**	**124**	**145**
Inventories	7,019	6,545	6,882	7,104
Other current assets	78	77	99	117
Property, plant & equipment	292	314	459	538
Acquired intangible assets	660	650	637	591
Long-term investments	0	0	0	0
Other non-current assets	317	375	483	572
Total assets	**8,600**	**8,483**	**8,681**	**9,805**
Accounts payable	1,317	1,277	1,498	1,740
Short-term borrowings	2,611	1,839	2,009	1,768
Long-term borrowings	4	0	0	0
Other non-current liabilities	4	9	9	9
Bonus and Welfare fund	91	116	116	116
Technology-science, dev. fund	0	0	0	0
Total liabilities	**4,026**	**3,242**	**3,632**	**3,633**
Common stock and APIC	2,253	2,276	2,310	2,345
Treasury stock (enter as -)	-2	-3	-3	-3
Retained earnings	1,042	1,605	2,370	3,457
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	313	373	373	373
Total equity	**3,606**	**4,251**	**5,049**	**6,171**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2019	FY2020	FY2021F	FY2022F
EPS (VND)	5,285	4,698	5,866	7,341
P/E (x)	15.9	17.9	17.4	13.9
BV (dong)	16,006	18,675	21,855	26,317
P/B (x)	4.1	3.7	4.7	3.9
DPS (dong/cp)	1,800	2,000	2,000	2,000
Dividend yield (%)	2.1%	2.4%	2.0%	2.0%

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFE	112,700	50%	56,350
P/E	117 ,300	50%	58,650
Target price (VND)			**115,000**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
2021 April 22nd	100,000	Accumulate	Long-term
2020 Dec 29th	94,000	Buy	Long-term
2020 Nov 17th	77,000	Accumulate	Long-term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

ABOUT US

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