Phu Nhuan Jewellery JSC (PNJ – HSX)

Growth Momentum Remains

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- qoq	Q1-FY16	+/- yoy
Net revenue	3,131.0	2,644.3	18%	2.330.0	34%
PAT	248.7	94.3	164%	123.8	101%
EBIT	292.8	127.0	131%	133.8	119%
EBIT margin	9.4%	4.8%	455bps	5.7%	361bps

Sources: PNJ, RongViet Research

Earnings Result Grew Better Than Expectation. In the first four months of FY2017, PNJ's revenue rose by 36.2% YoY and achieved 40% of 2017 guidance. All product segments including gold jewelry, silver and gold bar experienced impressive growth rates of 31.2%, 42.5% and 55.4% YoY respectively. It is notable that about 54% of gold bar (VND 490 billion) sales came from products for the God of Wealth day.

In general, GP margins in the first four months improved slightly, especially in gold jewelry. However, the proportion of gold bars in sales increased sharply from 20% to 23%, causing the company's gross margin to slightly decline by 0.3 percentage points over the same period last year. EBT also jumped 56% and reached 50% of the year plan. Excluding extraordinary items, EBT still rose 32.6% in the first four months of this year.

Compared to the company report in July 2016, we increase our revenue forecast for 2017 by 16.2%, with sales of gold jewelry, silver and gold bar to improve by 31%, 35%, and 30% respectively. However, SG&A/sales ratio might rise by addition of ~1.5% from the previous forecast and gross margin would be only 17.0% (instead of 17.4%). As a result, the adjusted PAT for 2017 will be just equivalent to the old one.

The Expansion of the Retail System Continues to Be the Main Driver of Growth for 2017. Up to now, PNJ has 236 retail outlets in 47 provinces across the country. If excluding four closed stores, PNJ has opened 20 new gold stores this year. PNJ will increase its retail system by 40 to 50 stores per year in 2017 and 2018 and be able to complete the target of 300 stores by 2018, instead of 2022.

The average breakeven period for new stores has been reduced from 18 months to just 12-15 months. Therefore, most of the stores opened in 2015 and early 2016 has contributed to PNJ's profit. Along with the growth of old stores (28%), jewelry retail sales increased by 45.7% while silver jewelry also rose 43.5%. The expansion of distribution system will continue to contribute to the growth of retail sales. Cash flow from the issuance of 9.8 million shares could finance PNJ to open additional 56 new stores.

Recommendation and Valuation:

We maintain positive outlook on PNJ's long term business prospects with improved revenue and gross margin. Financial expenses are estimated to be lower than 2016 as the Company has made provision for investments in Dong A Bank and a lower outstanding loan when PNJ has additional cash from issuance. We estimate that net sales and EAT in 2017 could reach VND11,399 and 736 billion respectively, equivalent to EPS of VND6,796. Therefore, we recommend investors to **ACCUMULATE** this stock for **LONG TERM** with the target price of 114,000 dong/share.

ACCUMULATE

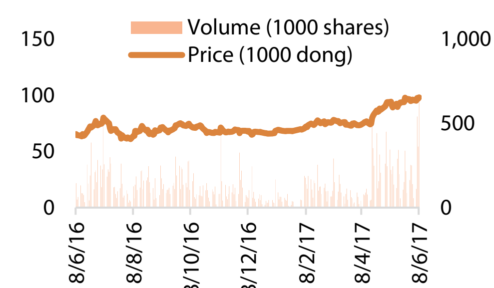
CMP (VND)	98,200
Target Price (VND)	114,000
Investment Period	Long-term

Stock Info

Sector	Personal Goods
Market Cap (VND bn)	9,650
Current Shares O/S	98.3
Beta	0.71
Free float (%)	89,86
52 weeks High	98,200
52 weeks Low	61,600
Avg. Daily Volume (in 20 sessions)	233,135

	FY15	Current
EPS	4,580	5,286
EPS Growth	240.0%	319.5%
Diluted EPS	4,580	5,286
P/E	14.5	14.2
P/B	4.36	4.21
EV/EBITDA	1.2%	1.1%
Cash dividend (on par)	31.1%	32.9%
ROE	4.580	5.286

Price performance



Major Shareholders (%)

Cao Thi Ngoc Dung	10.14
LGM Investment Ltd	4.98
Dragon Capital	3.99
VOF Investment Limited	3.91
Remaining Foreign Investor Room (%)	0

Huong Pham

(084) 08- 6299 2006 – Ext 1314

huong.pt@vdsc.com.vn

Exhibit 1: 1QFY2017 and YTD Results

Particulars (VND bn)	**Q1-FY17**	**Q4-FY16**	***+/- (qoq)***	**Q1-FY16**	***+/- (yoy)***	**YTD**	***+/-(yoy)***
Net Revenues	3,131.0	2,644.3	18.4	2,330.0	34.4	3,131.0	34.4
Gross profits	550.9	381.2	44.5	421.4	30.7	550.9	30.7
SG&AC	-222.6	-199.9	11.3	-159.8	39.2	-222.6	39.2
Operating Income	311.2	144.6	115.3	154.6	101.3	311.2	101.3
EBITDA	338.9	172.1	96.9	184.7	83.5	338.9	83.5
EBIT	329.4	163.0	102.0	176.4	86.7	329.4	86.7
Financial expenses	-19.0	-39.7	-52.1	-106.6	-82.2	-19.0	-82.2
- Interest Expenses	-18.3	-18.0	1.5	-21.3	-14.2	-18.3	-14.2
Dep. and amortization	9.5	9.1	4.8	8.2	16.0	9.5	16.0
Non-recurring Items (*)							
Extraordinary Items (*)				-84.5			
PBT	311.1	145.0	114.5	155.1	100.5	311.1	*100.5*
PAT	248.7	94.3	163.7	123.8	100.9	248.7	*100.9*
(*) Adjusted PAT	248.7	94.3	163.7	191.4	30.0	316.5	*30.0*

Sources: PNJ, RongViet Research

Exhibit 2: 1QFY2017 performance analysis

Particulars	**Q1-FY17**	**Q4-FY16**	***+/- (qoq)***	**Q1-FY16**	***+/- (yoy)***
Profitability Ratios (%)					
Gross Margin	17.6	14.4	318bps	18.1	-49bps
EBITDA Margin	10.8	6.5	431bps	7.9	290bps
EBIT Margin	10.5	6.2	435bps	7.6	295bps
Net Margin	7.9	3.6	438bps	5.3	263bps
Adjusted Net Margin	7.9	3.6	438bps	8.2	-27bps
Turnover *(x)					
-Inventories	3.6	3.4	0.2	3.5	0.2
-Receivables	165.3	142.8	22.5	161.9	3.4
-Payables	6.7	6.0	0.7	6.3	0.3
Leverage (%)	48.0	48.7	-0.7	49.6	-1.6
Total Debt/ Equity					

Sources: (*) Annualized turnover

Exhibit 3: 2QFY2017 Forecast

Particulars (VND bn)	Q2-FY17	+/- qoq	+/- yoy
Net Revenues	2,327	-26%	45%
Gross profits	414	-25%	42%
EBIT	170	-48%	1%
PAT	121	-51%	0%
Adjusted PAT	121	-51%	39,3%*

*Source: PNJ, RongViet Research; *In Q 2/2016, PNJ had an extraordinary gain from land transfering of about VND34 billion*

UPDATED INFORMATION

PNJ Plans to Make Private Placement of 9.8 Million Shares in 2017

After the approval of shareholders, PNJ completed the procedure to submit to State Securities Commission (SSC) for the private placement of 9.8 million shares. The purpose of this issuance is to finance the core business. The minimum price will not be 10-15% lower than the closing price on the date that PNJ receives the letter of approval form SSC. Because the room for foreign investors has reached the threshold of 49%, this issuance will provide the opportunity for foreign investors to join or increase the ownership in PNJ.

We expect PNJ to issue new shares at the average price higher than current market price. Total gain is estimated at around VND900 bn. With high leverage ratio (D/E: 1.1x), capital from new shares will finance the open of new stores, creating growth momentum for upcoming years. Even when PNJ cannot utilize new capital immediately, improvement in profit thanks to decline in interest expense and increase in interest income will be nearly enough for PNJ to maintain the similar EPS of no-issuance scenario. PNJ will host a roadshow to announce the detailed information in 6/2017.

Revenue of jewelry and gold bars experienced strong growth. Since 10/2013, PNJ restructured the silver segment with differentiation strategy and continuously added more collections (Juice me up, My Princess, My feeling, Amazing Garden, Charm, Destiny…) which is consistent with consumer tastes. Moreover, customer base has also extended. The age of female customer widens from 18-25 to 18-35 along with exclusive collection for children (Juice baby). PNJ also plans to announce the collection for men. As a result, revenue of this segment has strongly improved in 2016 and early 2017.

Table 1: Revenue Growth Rate by Segments

	2012	2013	2014	2015	2016	4T2017
Gold	3.0%	14.7%	21.9%	17.3%	13.3%	31.2%
Silver	-5.5%	-15.6%	15.9%	1.5%	22.2%	42.5%
Gold bars	-69.8%	25.2%	-38.2%	-18.1%	3.7%	55.8%
Others	-99.7%	24.2%	-399.8%	-148.6%	5.0%	1.6%

Source: PNJ

Revenue of gold bars also surged after years of deterioration. Even though 54% of gold bar revenue came from Tai Loc (Q1/2017), growth rate in Q4 2017 still achieved positive results with 75% YoY. Regard of this segment, PNJ mainly distributes SJC products and the purchasing price from consumers is VND10,000 higher and selling price is equivalent to SJC gold. Moreover, PNJ also has Phuong Hoang product that was from the cooperation with Dong A bank. However, the proportion of this product in revenue is low and breadth between selling and purchasing prices is relatively higher than SJC standard. In addition to this, gross margin of this segment is low (0.5-0.8%), therefore it can only contribute more than 1% to PNJ's gross profit.

Table 2: Revenue Structure by Segments

	2011	2012	2013	2014	2015	2016	4T2017
Gold	20.4%	56.7%	55.0%	70.7%	77.7%	77.8%	74.9%
Silver	1.0%	2.4%	1.7%	2.1%	2.0%	2.2%	2.0%
Gold bars	49.8%	40.6%	43.0%	28.0%	21.5%	19.7%	22.8%
Others	28.8%	0.2%	0.3%	-0.8%	0.4%	0.3%	0.3%

Source: PNJ

Number of stores significantly increased in 04/2017. Since 04/2017, PNJ boosts the expansion of distribution system with 8 and 13 new stores in April and May respectively, higher than five new stores in Q1 2017. If we exclude four closed stores (mostly in Q1 2017), PNJ currently has 236 stores in 47 cities/provinces. PNJ will continue to expand with new stores in Q2 and Q3 in order to prepare for wedding seasons with many important events during the second half of this year. With advantage of distribution channel, tightening policies about the quality of gold products will positively improve PNJ's market share.

Table 3: New/Closing Stores in the First 4 Months of 2017

No.	Name	Location	Type
New			
1	Hau Giang 2	Ho Chi Minh	Gold + Silver
2	Coop Chau Doc	An Giang	Gold + Silver
3	77 Quoc lo 50	Long An	Gold + Silver
4	Vincom Tra Vinh	Tra Vinh	Gold + Silver
5	Big C Tan Thành	Ho Chi Minh	Gold + Silver
6	Big C Le Trong Tan	Hanoi	Silver
7	Vincom Chi Linh	Hai Duong	Gold + Silver
8	103 Tran Hung Doo Kontum	Kontum	Gold + Silver
9	Long Khanh	Dong Nai	Gold + Silver
10	Vincom Pham Ngọc Thach	Ho Chi Minh	Gold + Silver
11	Vincom Vinh Long	Vinh Long	Gold
12	Vincom Saigonrex	Ho Chi Minh	Gold + Silver
13	Vincom Kien Giang	Kien Giang	Gold + Silver
14	123 Hung Vuong	Long An	Gold
15	213 Ngọc Lam	Hanoi	Silver
16	171 Nguyen Thai Học	Quy Nhon	Gold + Silver
17	Vincom Nam Long	Ho Chi Minh	Gold + Silver
18	Vincom Hau Giang	Hau Giang	Gold + Silver
19	Vincom Plaza Tuyen Quang	Tuyen Quang	Gold + Silver
20	Shophouse Tran Hung Dao	Quang Ninh	Gold + Silver
21	PNJ Vincom	Kien Giang	Gold + Silver
Closed			
1	Big C	Ho Chi Minh	Gold
2	Big C	Ho Chi Minh	Silver
3	88A Mau Than	Can Tho	Silver
4	345 Ngoc Lam	Hanoi	Silver

Source: RongViet Research

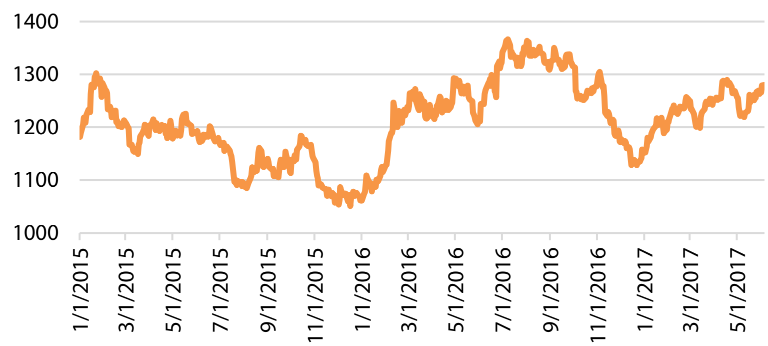
Based on region, majority of PNJ's stores is located in the Southern area. Specifically, Ho Chi Minh City is leading in term of number of stores with 40% of total PNJ's stores. PNJ is facing difficulty to penetrate Northern region due to several strong brands (Bao Tin Minh Chau, Phu Quy, Bao Tin Manh Hai), issues with store grounds (not meet the criteria and high rates) and human problems. Therefore, PNJ is focusing more on Middle and Southern regions at this moment.

Table 4: Number of Stores Based on Regions

Region	At the end of 2016	31/05/2017
Ho Chi Minh City	89	92
South West	32	38
South East (excluding HCM)	28	30
Highlands	12	13
Central	21	22
Northern provinces	37	41
Total	**219**	**236**

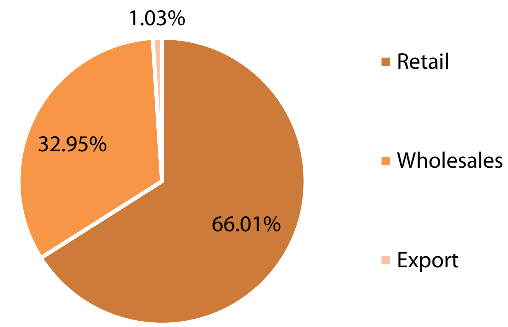
Source: RongViet Research

World gold price (USD per Ounce)



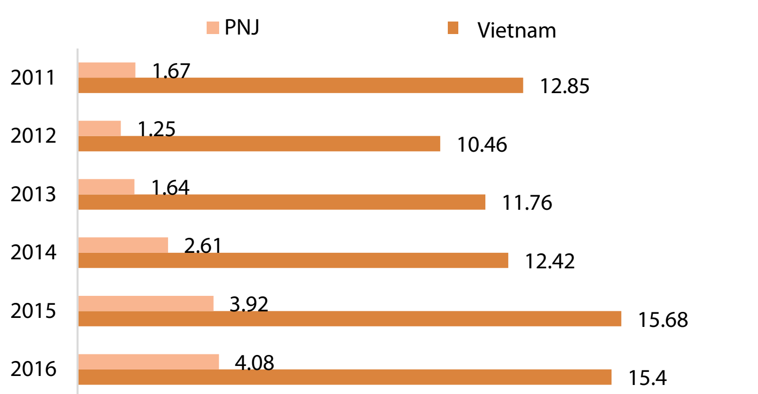
Source: Bloomberg

Revenue by selling channels in the first 4 months



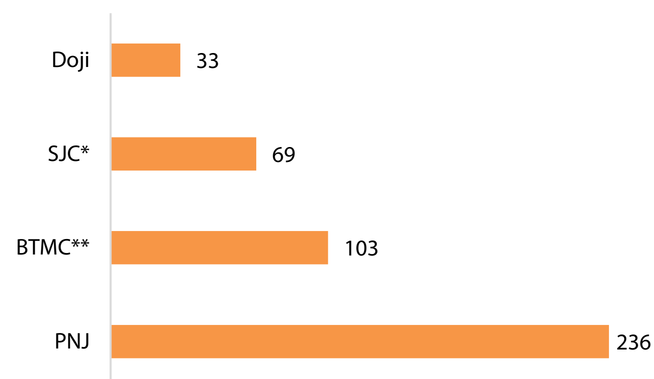
Source: PNJ

Gold volume for producing jewellry (Unit: ton)



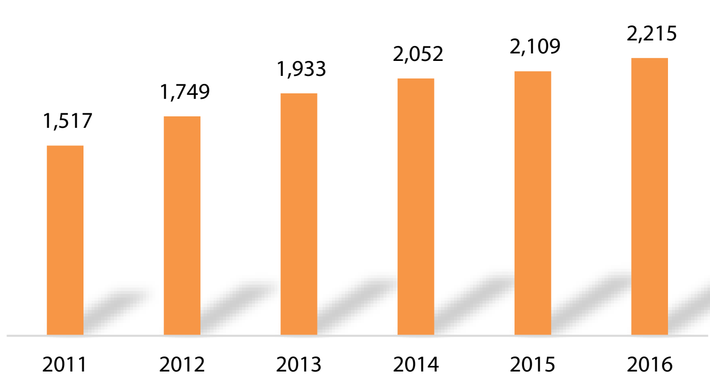
Source: WGC, PNJ

The number of stores



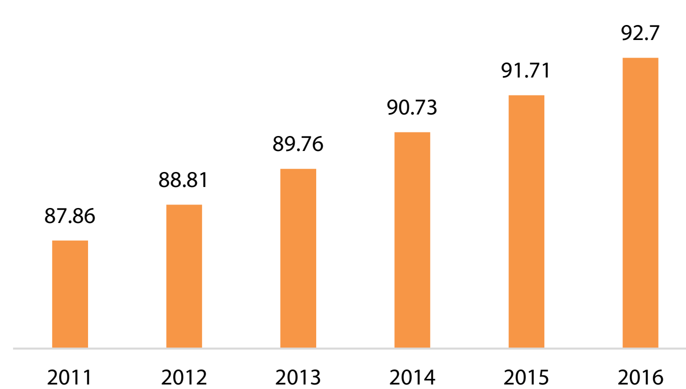
*Source: RongViet Research, *including 16 agencies; ** BTMC only owns 6 official stores, the remaining 97 stores are franchises*

Income per capita (Unit: USD/person/year



Source: GSO

Growth in population



Source: GSO

VND billion

INCOME STATEMENT	FY2015	FY2016	FY2017E	FY2018F
Revenue	7,708	8,565	11,399	13,882
COGS	6,538	7,153	9,464	11,466
Gross profit	**1,170**	**1,411**	**1,935**	**2,416**
Selling Expense	424	554	735	895
G&A Expense	118	133	165	201
Finance Income	1	5	1	1
Finance Expense	431	182	116	138
Other profits	-3	43	0	0
PBT	**197**	**591**	**919**	**1,182**
Prov. of Tax	45	141	184	236
Minority's Interest	0	0	0	0
PAT to Equity Shareholder	**152**	**450**	**736**	**946**
EBIT	278	664	**1,032**	**1,316**
EBITDA	248	630	1,072	1,367

%

FINANCIAL RATIO	FY2015	FY2016	FY2017E	FY2018F
Growth				
Revenue	-16.2	11.1	33.1	21.8
Operating Income	-92.9	296.6	-76.4	-1.4
EBITDA	-35.4	153.9	70.3	27.5
PAT	-37.2	195.5	63.4	28.6
Total Assets	5.2	20.8	22.8	24.0
Equity	13.3	7.6	30.6	30.0
Internal growth rate	-12.4	25.7	32.3	28.9
Profitability				
Gross profit/Revenue	15.2	16.5	17.0	17.4
Operating profit/ Revenue	2.6	6.4	8.1	8.5
EBITDA/ Revenue	3.2	7.4	9.4	9.8
Net margin	2.0	5.3	6.5	6.8
ROAA	5.2	13.7	18.4	19.1
ROAE	11.6	31.1	57.5	56.7
Efficiency				
Receivable Turnover	130.1	148.5	145.1	136.9
Inventory Turnover	3.7	2.9	3.0	3.0
Payable Turnover	22.7	16.1	17.4	20.6
Liquidity				
Current	1.51	1.53	1.60	1.68
Quick	0.09	0.13	0.13	0.22
Solvency				
Total Debt/Equity	113.4	139.5	125.2	114.7
Current Debt/Equity	85.3	96.6	96.0	88.3
Long-term Debt/ Equity	5.2	3.9	2.9	2.2

VND billion

BALANCE SHEET	FY2015	FY2016	FY2017E	FY2018F
Cash and short-term investment	38	155	185	451
Receivables	47	68	89	114
Inventories	2,135	2,839	3,502	4.185
Other current assets	45	46	48	53
Total Current Asset	**2,265**	**3,108**	**3,823**	**4.803**
Fixed Assets	486	416	517	586
Construction in Progress	6	8	8	10
Long-term Investment	167	0	0	0
Other long-term assets	51	62	63	71
Long-term Asset	**710**	**485**	**588**	**667**
Total Asset	**2,975**	**3,593**	**4,411**	**5.470**
Payables	211	388	312	367
Current Debt	1,189	1,449	1,881	2.249
Long-term Debt	72	59	56	56
Other long-term liabilities	7	7	8	10
Total Liability	**1,581**	**2,093**	**2,452**	**2.923**
Owner's Equity	**1,394**	**1,501**	**1,959**	**2.547**
Capital	983	983	983	983
Retained Earnings	192	373	674	1.041
Funds & Reverses	220	145	302	523
Others	**0**	**0**	**0**	**0**
Total Equity	**1,394**	**1,501**	**1,959**	**2.547**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**2,975**	**3,593**	**4,411**	**5.470**

VALUATION RATIO	FY2015	FY2016	FY2017E	FY2018F
EPS (dong)	1,179	4,580	6,796	8.506
P/E (x)	33.9	14.5	14.5	11.0
BV (dong)	14,188	15,269	19,937	25.918
P/B (x)	2.81	4.36	4.93	3.79
DPS (dong/cp)	3,200	800	1,800	3.000
Dividend yield (%)	8.0%	1.2%	1.8%	3.1%

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFE	126,132	50%	63,066
P/E	101,936	50%	50,968
Target price (dong/share)		**100%**	**114,034**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
04/07/2016	101,000	Buy	Long-term

DISCLAIMERS

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. (“VDSC”), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York, NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through VDSC. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not ‘beneficially own,’ as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

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 which 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 / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

Network

Headquarter

Address: Floor 1-2-3-4-5, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.