June, 2020

PHU NHUAN JEWELRY (HSX: PNJ)

The bottom has not arrived yet

BUY	**25%**
Target price (VND)	73,000
Current market price (VND)	59,200

(VND bn)	Q1-FY20	Q4-FY19	+/- qoq	Q1-FY19	+/- yoy
Net revenue	5,001	5,321	-6%	4,783	5%
PAT	408	385	6%	429	-5%
EBIT	553	521	6%	567	-2%
EBIT margin	11.1%	9.8%	130bps	11.8%	-80bps

Source: MWG, Rong Viet Securities

Q1/20 – Negative earning's growth amid the Covid-19 pandemic

Revenue and NPAT reached VND 5,047 bn (+4.5% YoY) and VND 408 bn (-4.8% YoY), respectively. The Covid-19 pandemic began to impact PNJ right after the Lunar New Year holiday, thus damaging severely sales of God of Wealth day, Valentine and Women day. In March, NPAT plummeted by 33% YoY mostly due to weak performance of the retail segment.

In the last week of March, PNJ gradually closed 85% of its stores, which are mostly located in HCMC and HN, in order to comply with the Government's instructions amid escalation of the pandemic. As of April 23rd, PNJ has gradually reopened most of those closed stores as some social-distancing measures have eased.

FY2020 prospects are not so bright

We project SSSG to decline by 17% YoY and gross margin to narrow by 75bps YoY in gold jewelry retailing. In addition, wholesale will drop by 25% while gold bar sales will surge by 15%. Cost optimization will become the most important task for PNJ in 2020. We expect operating expenses to drop by -6% YoY.

In our base case scenario we expect that the Covid-19 pandemic will be well controlled by Q2-2020. Thus, projecting 2020's revenue and NPAT will be at VND 15,470 bn (-9% YoY) and VND 896 bn (-25% YoY), respectively.

Valuation and recommendation

The pandemic is raising a huge concern over PNJ's growth prospect as its main profit driver – retail jewelries is suffering severely (gold retail jewelries contributed almost 90% of the company's gross profit in 2019). Even after the pandemic ends, the negative impact on consumer's disposable income will continue hurting jewelries sales.

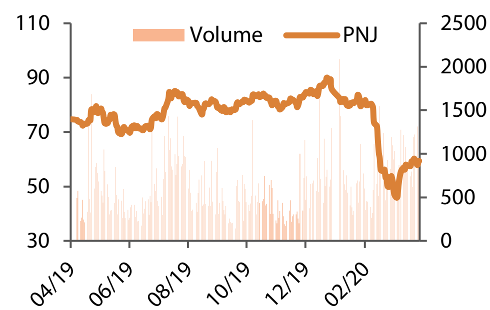
We believed PNJ will be able to overcome the abovementioned challenges thanks to its healthy balance sheet and improvement in operation as new ERP rolled out last year. The long-term outlook remains bright as PNJ maintains its undisputed leading position in Vietnam's jewelry industry and potential from the rising middle class is abundant. We issue a BUY recommendation on PNJ with at target price of VND 73,000/share, which is 25% lower than our previous TP due to the impact of Covid-19. PNJ will also maintain a dividend payment of VND 1,800 per share in 2020, thus implying a total upside of 25% from the closing price of June 15th 2020. PNJ is trading at a 2020 PER forward of 16.1x.

Stock Info

Sector	Retail
Market Cap (VND billion)	12,864
Current Shares O/S	216,203,000
Avg. Daily Volume (in 20 sessions)	894,411
Free float (%)	49
52 weeks High	90,000
52 weeks Low	45,900
Beta	1.25

	FY2018	Current
EPS	5,868	5,070
EPS Growth (%)	32	24
Diluted EPS	4,186	5,190
P/E	16.2	16.3
P/B	4.2	4.3
EV/EBITDA		
Cash dividend yield (%)		
ROE (%)	34.1	33

Price performance



Major Shareholders (%)

Mrs. Dung Cao	9.03
VEIL – Dragon Capital	3.51
Foreign ownership room (%)	0

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Exhibit 1: Q1/2020 Results

(VND Bn)	Q1-FY20	Q4-FY19	+/- (qoq)	Q1-FY19	+/- (yoy)
Net revenue	5,001	5,321	-6.0%	4,783	4.5%
Gross profit	1,050	1,023	2.6%	1,049	0.0%
SG&A	240	234	2.5%	252	-4.6%
Operating income	810	789	2.7%	798	1.5%
EBITDA	571	538	6.0%	580	-1.6%
EBIT	553	521	6.2%	567	-2.3%
Financial expenses	46	41	10.5%	24	87.3%
- Interest Expenses	*40*	*41*	*-1.5%*	*24*	*68.2%*
Dep. and amortization	17	17	2.3%	14	26.7%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	512	481	6.3%	543	-5.8%
PAT	408	385	6.1%	429	-4.8%
(*) Adjusted PAT	408	385	6.1%	429	-4.8%

Source: PNJ, Rong Viet Securities

Exhibit 2: Q1/2020 Performance Analysis

Particulars	Q1-FY20	Q4-FY19	*+/- (qoq)*	Q1-FY19	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	21.0%	19.2%	180bps	21.9%	-90bps
EBITDA Margin	11.4%	10.1%	130bps	12.1%	-70bps
EBIT Margin	11.1%	9.8%	130bps	11.8%	-80bps
Net Margin	8.2%	7.2%	90bps	9.0%	-80bps
Adjusted Net Margin	8.2%	7.2%	90bps	9.0%	-80bps
Turnover *(x)					
-Inventories	2	3	-0.3	3	-0.8
-Receivables	144.1	90.9	53.2	87.1	57.0
-Payables	14	14	0.2	16	-1.8
Leverage (%)					
Total Debt/ Equity	68.1%	87.9%	-19.7%	5,190bps	1,620bps

Source: Rong Viet Securities

Exhibit 3: Q2/2020 Performance Forecast

(VND Bn)	Q2-FY20	+/- qoq	+/- yoy
Revenue	2,449	-51%	-17%
Gross profit	418	-61%	-34%
EBIT	83	-86%	-64%
NPAT	61	-85%	-64%

Source: Rong Viet Securities

Q2/2020 comment

- Retail sales slumped by 29% YoY due to temporary store closures and weaker consumer spending. On the other hand, gold bar sales surged amid volatility in the gold market.
- SGA expenses decrease by 17% YoY as PNJ deployed cost-cutting measures while gross profit dropped due to lower contribution from the retail segment, resulting in a steep plunge in NPAT.

Update Q1-2020

PNJ was hit severely by the Covid-19 pandemic

Revenue and NPAT reached VND 5,047 bn (+4.5% YoY) and VND 408 bn (-4.8% YoY), respectively in Q1 2020. Covid-19 pandemic began to impact PNJ right after the Lunar New Year holiday, thus damaging severely sales on God of Wealth day, Valentine and Women day.

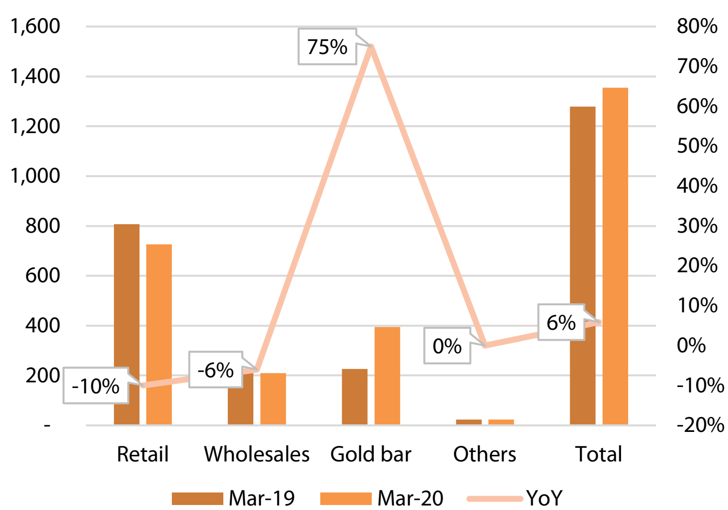
Demand on God of Wealth day, Valentine and Women day dropped significantly, which resulted in a -4% YoY decline in same-store-sale growth (SSSG) (Figure 3). In Q1-2020, PNJ's retail segment plummeted by -10% YoY mostly due to (1) sluggish jewelries demand as disposable income dropped and unemployment rose and (2) temporarily store closure and social distancing that dented retail demand. On the other hand, gold bar sales saw a steep surge in March (+75% YoY). As a result, PNJ's Q1-2020 revenue still looks fine despite weak performance from the retail business.

However, net profit tanked because of thinner gross margin and higher SGA expenses. The Q1-2020's gross margin contracted by 20 bps from the Q1-2019's level of 21.7%, mostly due to weaker performance from the retail segment (PNJ's main profit driver). In addition, higher contribution of gold bar to total revenue also depressed the overall gross margin. Meanwhile, higher GA expenses was mostly due to the roll-out of new ERP system as since April-2019, which requires more infrastructure investment and IT headcounts. Per management, the company has operated 85% module of the new ERP system after nearly one year deploying it. We believe ERP is helping PNJ better manage its inventory (i.e. PNJ adjusted its product mix to cater changes in jewelry consumption amid Covid-19) and operations, thus minimizing the impact of Covid-19.

In the last week of March, PNJ temporarily shut 85% of total stores down to comply with Government's instruction amid Covid-19 escalation (Figure 4). We note that all of the stores in HN and HCM are closed. Those contribute up to 55% of PNJ's normal revenue (i.e. as if Covid-19 did not happened). To deal with that, PNJ is promoting its online channel. Thus online sales surged 137% YoY in Q1-20 and 164% YoY in March/2020 alone. However, because online sales accounts for just around 1% of total sales, we do not think it will make a big contribution to offset huge revenue loss in offline sales. While store shutdowns definitely affect jewelries retail sales, gold bar sales may not have any problems thanks to its high liquidity characteristic, which enables PNJ to sell them easily via either B2B or B2C channel. As of April 23rd, PNJ has gradually reopened most of closed stores as Government pulled back some of social-distancing measures.

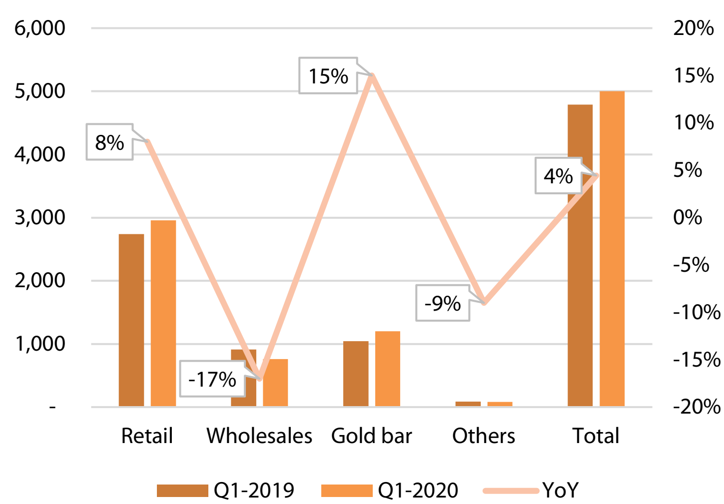
Meanwhile, sluggish jewelry demand also caused the wholesale segment saw sales dropping by -6% YoY in Q1-2020. As a result, PNJProduction is receiving less orders from customers and operations have been suspended for the first half of April.

Figure 1: Sales by segment in March-2020 (VND bn)



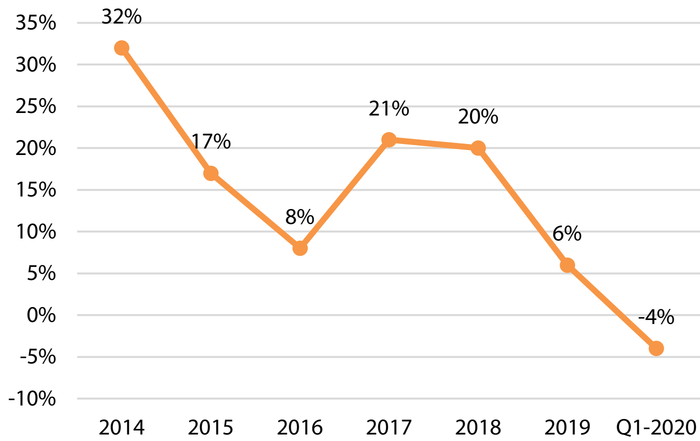
Sources: PNJ

Figure 2: Sales by segment in Q1-2020 (VND bn)



Sources: PNJ

Figure 3: Gold, same-store-sales growth



Sources: PNJ, Rong Viet Securities

Figure 4: Number of closed stores at the beginning of April

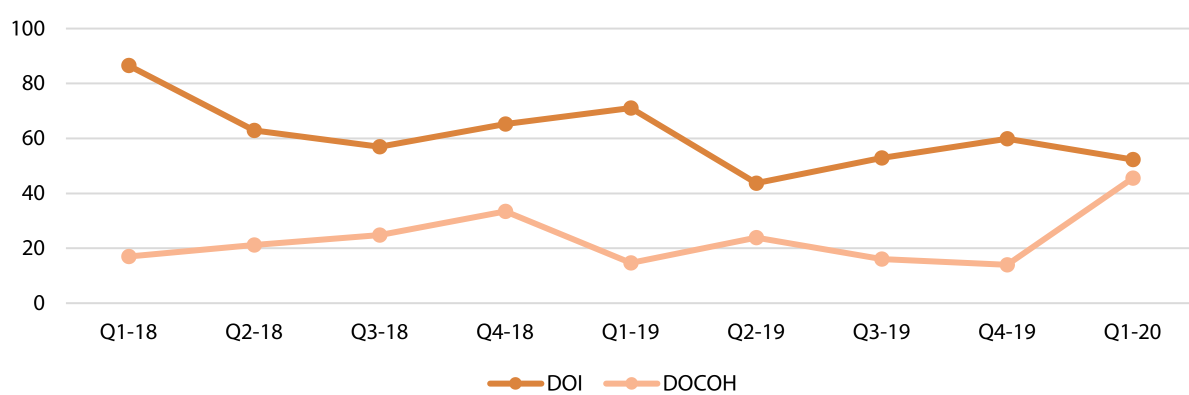
Sources: PNJ, Rong Viet Securities

PNJ's liquidity improved before heading to a tough second quarter

At the end of Q1-2020, the company has strengthened its cash position to VND 302 bn (vs. VND 95 bn in Q4-19) and reduced its short-term debt to VND 2,418 bn (vs. VND 2,610 bn in Q4-19). Per our estimation, the current cash pile can secure up to 1.5 months of operations even without any revenue (Figure 6).

In addition, PNJ restructured its inventory to increase more gold bar and high gold-content jewelries, while lowering the amount of diamond and gemstone jewelries, that is to capture increasing demand for high gold content products as a store of value amid anticipating a poor economic outlook. As a result, current inventory is more easily converted to cash if needed. PNJ also postponed new inventory purchases and slowed down store expansion to preserve its financially stability and wait for spending to pick up. Ultimately, we think PNJ will not have any liquidity issues in Q2.

Figure 5: Days of Inventory (seasonally adjusted) and days of cash on hand



Sources: PNJ, Rong Viet Securities

Our 2020 forecast

Due to wages dropping and unemployment rising amid the economy disruption, we believe that consumer spending may not be as strong as it was, and may take quite a time to regain its usual pace.

In addition, consumers are preferring jewelries with high gold content to jewelries with diamond and gemstone, as people tend to find ways to store their wealth rather than keep up with fashion trends. Ultimately, PNJ's margin will narrow as high gold content jewelries usually carry less profit.

The unexpected Covid-19 pandemic has put a dent on PNJ's growth prospects for the upcoming years. Therefore, we have revised our forecast and valuation to take into account these impacts. Specifically:

- **Base case**: Vietnam's Government rolls back social-distancing measures in May-2020. Therefore, we expect the economy will recover from this point onward.
- **Bear case:** Vietnam's Government rolls back social-distancing measures in May-2020, however, we do not exclude the probability that the pandemic may come back. Thus, the Government would reimpose social-lockdown directives for at least two months from September-2020.

Table 1: Our assumptions for 2020

Assumption in our forecast for 2020	2019	2020 Base case	2020 Bear case	Rationales
Revenue growth (%)				
Retail	+18%	-11%	-28%	It is mostly due to a -17% SSSG (Base case) caused by (1) sluggish spending and (2) social distancing that disrupted store operations. In the Bear case, prolonged pandemic will delay people's wedding plans, thus hurt sales for the 2020 peak season (which begins from Sep 18th 2020)
Wholesale	-2%	-25%	-35%	We believe the entire jewelries market is struggling like PNJ, as a result, PNJProduction will receive less orders from customers.
Gold bar trading	+38%	+15%	+35%	Gold bar demand to surge as gold became a store of value amid the economic uncertainty.
Gross margin (%)				
Gold jewelry retail	31.8%	30.8%	30.3%	We believe PNJ may reduce its selling price a bit to promote sales amid weakening demand. In addition, larger sales contribution of high gold content jewelries will depress the overall margin.
Gold bar trading	3%*	3%	3%	
Wholesale	3.6%	3.6%	3.6%	Excluding material cost which is often pre-paid by customers, this segment provides an ample 37% gross margin. Therefore, we expect aggregate wholesale margin to stay flat in 2020.
Store opening	32	20	12	PNJ halted its store expansion to (1) preserve its financial stability and (2) wait for spending to recover.
SGA expense (VND bn/as percent to sales)	1,841/ 10.8%	1,724/ 10.9%	1,617/ 11.3%	At the beginning of Q2-20, management volunteered to cut their salaries by 50%. Other employees had to take 2 days unpaid leave per week. The company uses these 2 days for internal training. Further, PNJ attempted to renegotiate its rent. By now, 40% of total landlords are accepting a rent cut of over 15%. We also see that PNJ is taking advantage of more locations with attractive rent payment to open up new stores.

** Rong Viet Securities*

Table 2: Gold jewelry same-store-sale growth

2020 Gold stores SSSG	April	May	June	July	August	September	October	November	December	2020 vs.2019
BASE CASE										
2020 weighted SSSG (YoY)	-76%	-15%	-20%	-25%	-25%	-20%	-15%	-15%	-15%	**-17%**
2020 SSSG for open store	-55%	-15%	-20%	-25%	-25%	-20%	-15%	-15%	-15%	
2020 SSSG for close store	-80%									
Number of Open stores	44	292	292	292	292	292	292	292	292	
Number of Close stores	248									
BEAR CASE										
2020 weighted SSSG (YoY)	-76%	-15%	-20%	-25%	-25%	-92%	-92%	-30%	-30%	**-33%**
2020 SSSG for open store	-55%	-15%	-20%	-25%	-25%	-55%	-55%	-30%	-30%	
2020 SSSG for close store	-80%					-99%	-99%			
Number of Open stores	44	292	292	292	292	44	44	292	292	
Number of Close stores	248					248	248			

Table 3: Our detailed forecast

Income statement			BASE CASE		BEAR CASE	
	FY2018	FY2019	FY2020E	FY2021E	FY2020E	FY2021E
Revenue	**14,573**	**17,001**	**15,470**	**18,547**	**14,239**	**17,488**
COGS	11,794	13,540	12,476	14,839	11,768	14,294
Gross profit	**2,779**	**3,461**	**2,994**	**3,707**	**2,472**	**3,194**
Selling expenses	1,171	1,363	1,293	1,598	1,209	1,362
G&A expenses	346	479	431	556	407	525
Financial income	7	2	10	18	12	12
Financial expense	66	119	161	177	161	177
Other income/loss	3	0	0	0	0	0
Gain/(loss) from joint ventures	0	0	0	0	0	0
PBT	1,206	1,503	1,121	1,394	707	1,143
Tax expense	246	312	224	279	141	229
Minority interests	0	0	0	0	0	0
PAT to Shareholders	**960**	**1,191**	**896**	**1,115**	**566**	**915**
EBIT	1,263	1,619	1,270	1,553	855	1,308
EBITDA	1,305	1,675	1,398	1,705	980	1,456

Valuation

In summary, the pandemic is raising a huge concern to PNJ's growth prospect as its main profit driver – retail jewelries is suffering severely (gold retail jewelries contributed almost 90% of company's gross profit in 2019). Even after the pandemic ends, negative impact on consumer's disposable income will continue to hit jewelries sales.

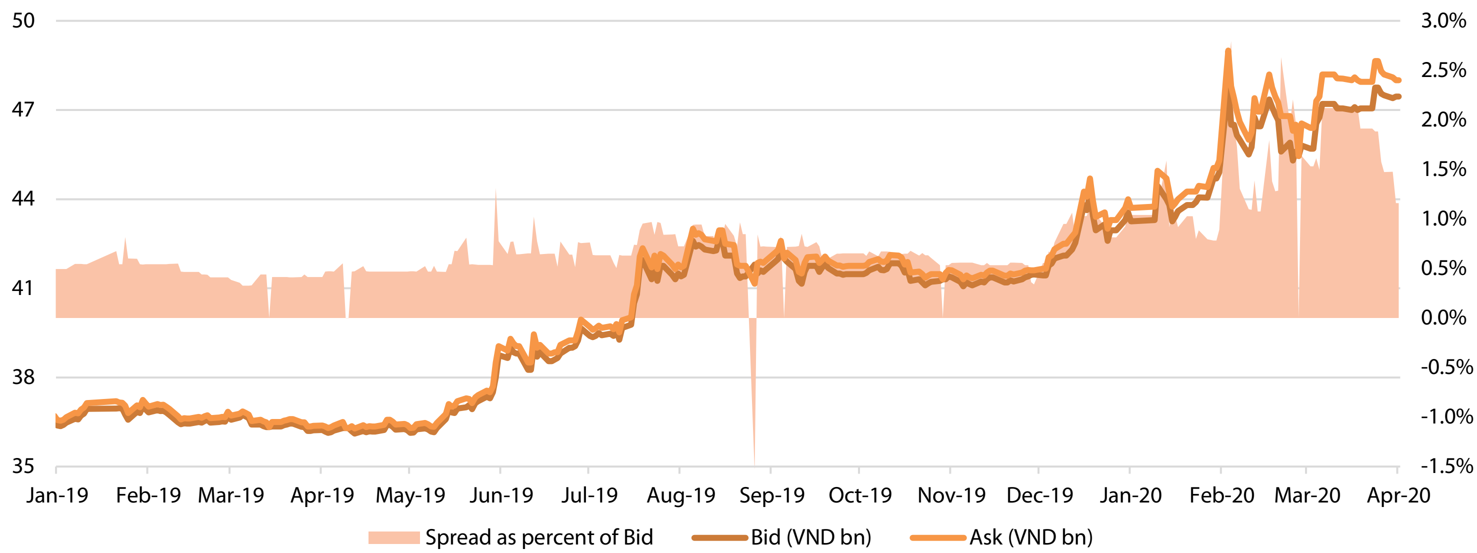
Despite short-to-medium term struggles, we are still bullish on PNJ's prospect in the long run: The company remains the undisputed leader in the Vietnam's jewelry industry and potential from the rising middle class is abundant.

We derive a fair price for PNJ using the 5Y-DCF method:

	BASE CASE	BEAR CASE
PV of 5Y FCFF	3,861	2,890
Terminal value in year 5	23,633	20,992
Terminal growth rate	5%	5%
WACC	10.0%	10.4%
TP	**73,000**	**59,000**

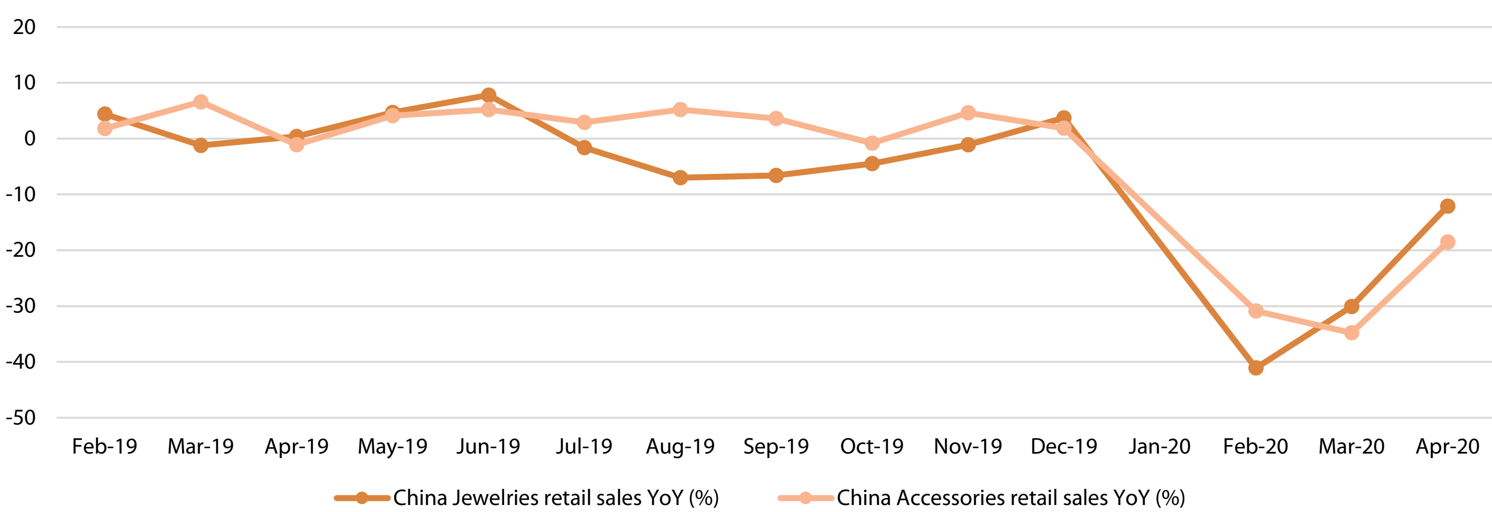
Appendix

Figure 6: Volatile gold price and wider Bid-Ask spread give PNJ more leverage in its gold trading segment, but also creates higher risk



Sources: SJC, Finnpro, Rong Viet Securities

Figure 7: Jewelries and accessories retail in China struggled to recover despite lockdowns and travel bans been gradually lifted since mid-February



Sources: Bloomberg, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020E	FY2021E
Revenue	**14,573**	**17,001**	**15,470**	**18,547**
COGS	11,794	13,540	12,476	14,839
Gross profit	**2,779**	**3,461**	**2,994**	**3,707**
Selling Expense	1,171	1,363	1,293	1,598
G&A Expense	346	479	431	556
Finance Income	7	2	10	18
Finance Expense	66	119	161	177
Other profits	3	0	0	0
PBT	**1,206**	**1,503**	**1,121**	**1,394**
Prov. of Tax	246	312	224	279
Minority's Interest	0	0	0	0
PAT to Equity S/H	**960**	**1,191**	**896**	**1,115**
EBIT	1,263	1,619	1,270	1,553
EBITDA	1,305	1,675	1,398	1,705

%

FINANCIAL RATIO	FY2018	FY2019	FY2020E	FY2021E
Growth (%)				
Revenue	32.8%	16.7%	-9.0%	19.9%
Operating Income	32.0%	28.4%	-16.5%	21.9%
EBITDA	33.0%	28.2%	-21.5%	22.2%
PAT	32.5%	24.0%	-24.7%	24.4%
Total Assets	43.3%	33.6%	-0.5%	10.7%
Equity	36.0%	27.9%	13.5%	16.2%
Profitability (%)				
Gross margin	19.1%	20.4%	19.4%	20.0%
EBITDA margin	9.0%	9.9%	9.0%	9.2%
EBIT margin	8.7%	9.5%	8.2%	8.4%
Net margin	6.6%	7.0%	5.8%	6.0%
ROA	14.9%	13.8%	10.5%	11.8%
ROE	33.0%	34.6%	29.9%	31.3%
Efficiency				
Receivable Turnover	93.9	122.7	100.0	100.0
Inventory Turnover	2.4	1.9	1.8	1.9
Payable Turnover	11.2	10.3	11.4	11.4
Liquidity				
Current	2.1	1.9	1.7	1.9
Quick	0.2	0.1	0.1	0.1
Finance Structure (%)				
Total Debt/Equity	55.5%	72.5%	78.5%	67.6%
Current Debt/Equity	55.3%	72.4%	78.4%	67.5%
Long-term Debt/Equity	0.3%	0.1%	0.1%	0.1%

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020	FY2021
Cash and cash equivalents	207	95	250	346
Short-term investments	0	0	0	0
Accounts receivable	155	139	155	185
Inventories	4,968	7,019	6,986	7,865
Other current assets	75	78	82	86
Property, plant & equipment	297	292	236	191
Acquired intangible assets	493	660	628	581
Long-term investments	0	0	0	0
Other non-current assets	243	317	218	218
Total assets	**6,438**	**8,600**	**8,556**	**9,472**
Accounts payable	1,056	1,317	1,093	1,300
Short-term borrowings	1,558	2,611	3,211	3,211
Long-term borrowings	8	4	4	4
Other non-current liabilities	8	4	4	5
Bonus and Welfare fund	63	91	150	195
Technology-science, dev. fund	0	0	0	0
Total liabilities	**2,693**	**4,026**	**4,462**	**4,714**
Common stock and APIC	1,670	2,253	2,276	2,304
Treasury stock (enter as -)	0	-2	-2	-2
Retained earnings	885	1,042	1,433	2,013
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	265	313	387	442
Total equity	**2,820**	**3,606**	**4,094**	**4,758**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2018	FY2019	FY2020	FY2021
EPS (dong)	5,686	5,162	3,677	4,645
P/E (x)	16.2	16.3	16.1	12.7
BV (dong)	16,884	16,006	17,984	20,648
P/B (x)	4.2	4.3	3.4	2.9
DPS (dong/cp)	1,800	1,800	1,800	1,800
Dividend yield (%)			3%	3%

VALUATION MODEL	Price	Weight	Average
FCFF	73,000	100%	73,000

Target price (VND) **73,000**

VALUATION HISTORY	Price	Recommendation	Period
2019/12/31	110,000	Buy	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

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.

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