



Company Report: Phu Nhuan Jewelry JSC (PNJ)

Research Department

14/10/2024

Quarter 4 - The Golden Season of PNJ

INVESTMENT THESIS

1/ Business outlook remains positive as the jewelry retail market enters its peak season. The industry outlook is optimistic, with an expected growth rate of 5.9% in 2024.

PNJ is a highly seasonal business, with its revenue seeing a strong surge from October to February of the following year – the wedding and festival season that significantly drives up jewelry demand. Therefore, we expect the upcoming final quarter to be the ideal time for PNJ's explosive growth.

2/ PNJ is a renowned and long-established jewelry brand with the leading market coverage in Vietnam: Currently, PNJ has over 400 stores across 57 out of 63 provinces, with significant room for expansion in the northern market.

3/ The business results of key sectors: retail and wholesale are both promising: PNJ continuously launches new collections to meet customer preferences; dealers are turning to reputable brands for orders. As of August 2024, net revenue reached 26.866 trillion VND (+27.2% yoy), net profit reached 1.281 trillion VND (+2.8% yoy), completing 72% and 61% of the annual targets, respectively.

4/ Abundant cash flow with record-low debt levels: In Q2 2024, financial debt was 252 billion VND, a reduction of over 2.1 trillion VND compared to the beginning of the year due to aggressive debt repayment. Nevertheless, net cash flow during the period remained positive at 646 billion VND, cash maintaining a high level of 1.544 trillion VND.

RECOMMENDATION

In fluctuating economic conditions impacting the jewelry market and PNJ in particular, the company expects positive revenue growth of 23% yoy in 2024 and 15% yoy in 2025. We recommend "Accumulate" for PNJ, with a target price of 105,000 VND per share over the next 6-18 months, representing a 10% upside.

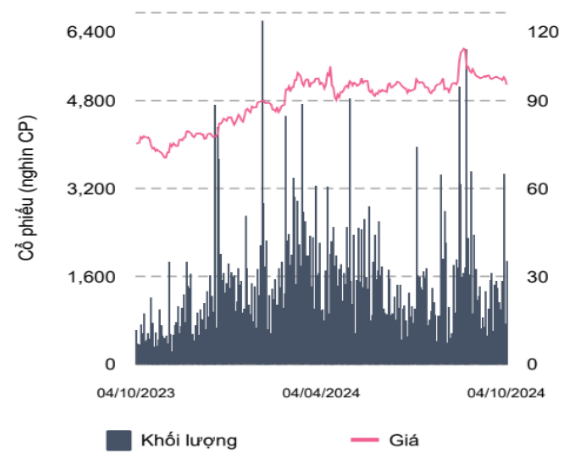
RISKS: 1/ Consumption demand is lower than expected; 2/ The pace of store expansion is slower than anticipated; 3/ Gold supply remains constrained.

Recommendation: **Accumulate**

6-18m TP: **105,000**

Current price: **95,400 VND**

Price performance



| Price changes | 1 M | 3 M | 1Y |
|-----------------------|--------|--------|--------|
| % | -2.8% | -1.6% | 23.4% |
| Compared with VNindex | 2.7% | 0.4% | 12.8% |
| Avg. prce (VND) | 97,300 | 97,400 | 90,200 |

Source: FiinX, Guotai Junan (VN)

| 12/31 | Net rev. (VND b) | Net rev. (Δ %) | Net Profit (VND b) | EPS (VND) | EPS (Δ %) | ROE (%) | ROA (%) |
|-----------------------------|------------------|----------------|------------------------|-----------|---------------------------|---------|---------|
| 2021A | 19,547 | 11.6% | 1,029 | 4,508 | -5.1% | 18.3% | 10.8% |
| 2022A | 33,876 | 73.3% | 1,811 | 5,583 | 23.8% | 25.1% | 15.1% |
| 2023A | 33,137 | -2.2% | 1,971 | 5,975 | 7.0% | 21.6% | 14.2% |
| 2024F | 40,866 | 23.3% | 2,043 | 7,300 | 22% | 19.0% | 16.0% |
| Shares in issue (m) | 337.9 | | Major shareholders (%) | | Dragon Capital | | 9.65% |
| Market cap (VND b) | 31,898 | | | | Sprucegrove Invst Mgt Ltd | | 5.06% |
| 3-month average vol. ('000) | 1,584 | | Debt/Assets (%) | | | | 2.01% |
| 52w high/low (VND) | 107,747/ 70,558 | | Free float (%) | | | | 85% |

COMPANY OVERVIEW

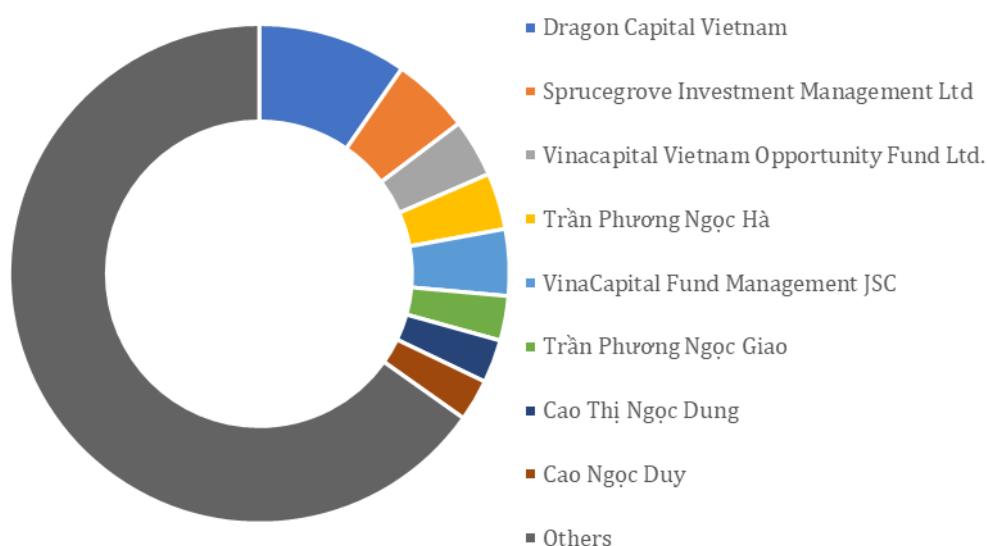
Phu Nhuan Jewelry Joint Stock Company (PNJ) is the only enterprise in the jewelry and gemstone industry listed on the stock exchange. Additionally, PNJ is one of the major players in the jewelry retail and manufacturing sector in Vietnam. Established in 1988, PNJ currently operates 405 stores nationwide and has achieved impressive milestones throughout its operations, such as being ranked among the top 5 companies with the best corporate governance on the HOSE in 2022 and being in the top 10 sustainable development companies assessed and ranked by VCCI for six consecutive years until 2017. According to the company's sustainable development report, its production capacity currently reaches 4 million products per year, making PNJ the only company in the Vietnamese jewelry sector to be recognized in the ASEAN Outstanding Enterprises Awards in 2017.

PNJ's Leadership and Ownership Structure

Ms. Cao Thi Ngoc Dung is currently the Chairwoman of the Board of Directors at PNJ and is a prominent Vietnamese businesswoman. Born in October 1957, she graduated with a bachelor's degree in commerce from the University of Economics in Ho Chi Minh City. In 2016, Forbes magazine recognized her as one of the most powerful businesswomen in Asia, highlighting her significant contributions and achievements in the fields of business and management. On September 21, at the JWA 2023 awards in Hong Kong, Ms. Cao Thi Ngoc Dung, Chairwoman of PNJ, was the only Vietnamese honoree named among the 40 Extraordinary Icons in the global jewelry industry.

In the current ownership structure of PNJ, the largest stake belongs to Dragon Capital, with a total ownership percentage of over 9.65%. The relatively high proportion of shares held by various funds can be explained by the company's annual report, which shows that PNJ has maintained a consistent dividend payout ratio, ranging from 14% to 20% per year over the past four years. Notably, the lowest dividend payout ratio of 14% occurred during the peak of the pandemic in 2021, a feat that few companies were able to achieve at that time.

Ownership structure of PNJ



Source: FiinX, GTJAS VN

BUSINESS RESULTS UPDATE AS OF AUGUST 2024

| Aspect (billion VND) | Aug.2024 | YoY | 8M2024 | YoY | Comments |
|----------------------|--------------|---------------|---------------|---------------|--|
| Revenue | 2,245 | -2.5% | 26,866 | +27.2% | |
| 24K Gold | 311 | -55.8% | 9,913 | +52.8% | The cumulative revenue from 24K gold has seen a significant increase due to the surge in gold prices in Q2 this year, people rushed to buy gold. In Q3, the government tightened control over the supply, resulting in no transactions of gold bullion across the entire PNJ system |
| Retail jewelry | 1,559 | +15.7% | 14,239 | +15.1% | The core business segment has seen positive growth thanks to PNJ's continuous efforts to launch new collections align with customer preferences, consistently expand its distribution network, and implement effective marketing campaigns |
| Wholesale jewelry | 329 | +58.9% | 2,472 | +28.2% | PNJ effectively meets the needs of wholesale customers as they are shifting towards formal, reputable manufacturers due to the government's tightened regulations on gold sourcing |
| Gross profit | 414 | +5.6% | 4,464 | +13.9% | |
| Net profit | 63 | -17.1% | 1,281 | +2.8% | The significant increase in gold prices has impacted the input costs of jewelry manufacturing, which is PNJ's main business segment. Meanwhile, the 24K gold segment, which has a very low profit margin (around 1%), accounts for a larger proportion compared to the same period last year |

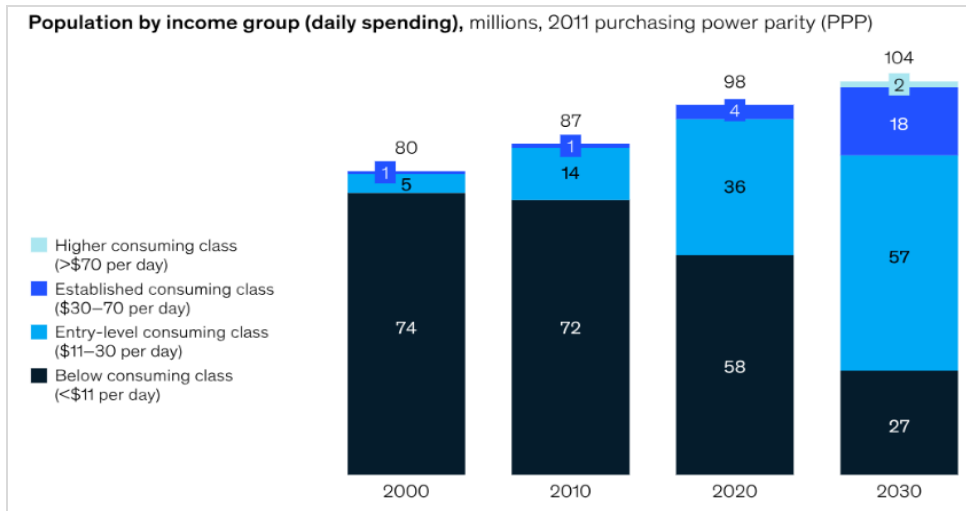
Source: PNJ, GTJAS VN

1/ The jewelry retail market is entering its peak season at the end of the year

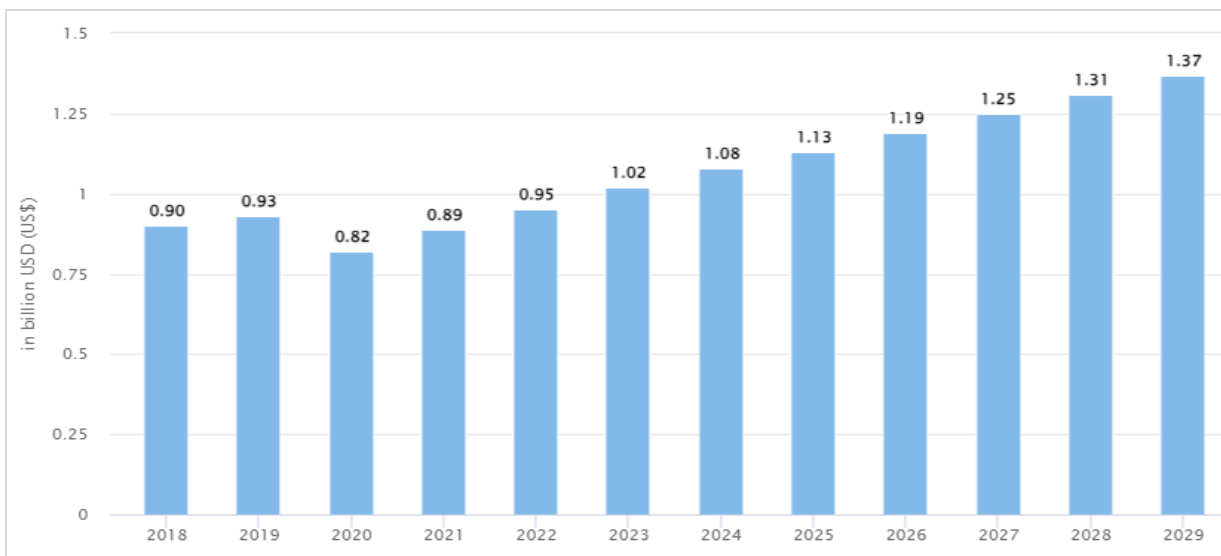
According to the World Gold Council's report on Gold Demand Trends, Vietnam ranks among the top 10 gold-consuming markets globally and is the largest market in Southeast Asia. The jewelry gold market is still relatively small (~15.1 tons/year); however, it has experienced strong growth over the past 10 years, driven by rising incomes and an increasing trend of spending on luxury items.

Benefiting from the continued growth of the middle class in Vietnam

PNJ's main customer base consists of the middle and upper-class segments, with increasing emphasis on retail over the years, indicating that PNJ aims to attract the younger, income-earning demographic. PNJ has been and continues to diversify its product offerings to reach a broader audience. We believe that the two generations, Millennials and Gen Z, represent a potential market with significant growth opportunities, especially as PNJ undergoes a transformation, diversifying its products and expanding its growth scale.

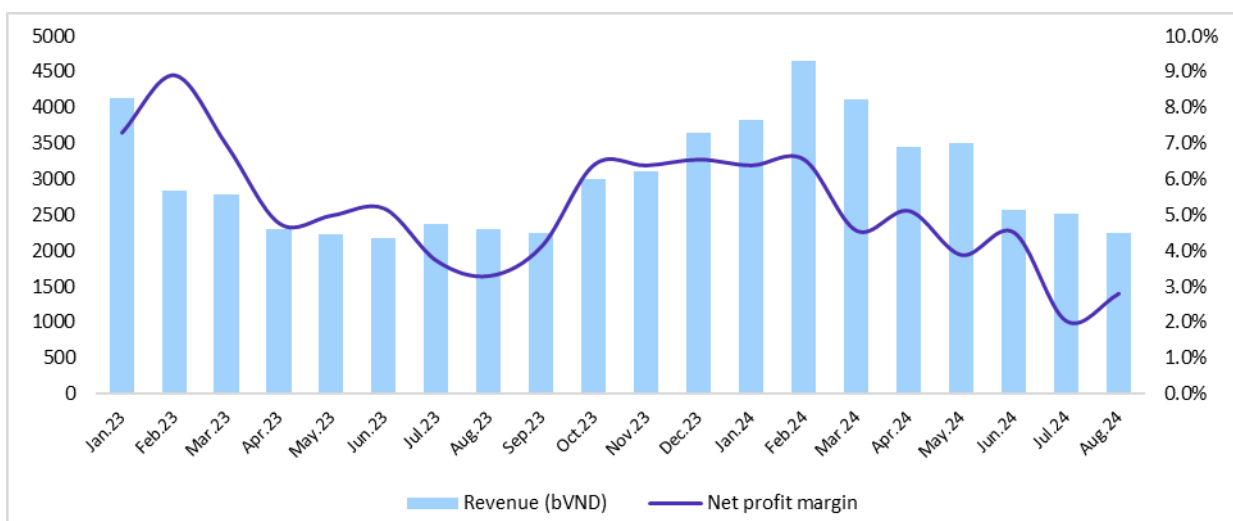


The jewelry market in Vietnam is expected to grow at a CAGR of 4.7% from 2024 to 2029



Source: Statista

PNJ is a highly seasonal business, with its revenue experiencing a significant surge from October to February of the following year—the wedding and festival season that drives strong jewelry demand. Q2 and Q3 are typically the low seasons for business results; therefore, we anticipate that the upcoming final quarter of the year will be the ideal time for PNJ's explosive growth.

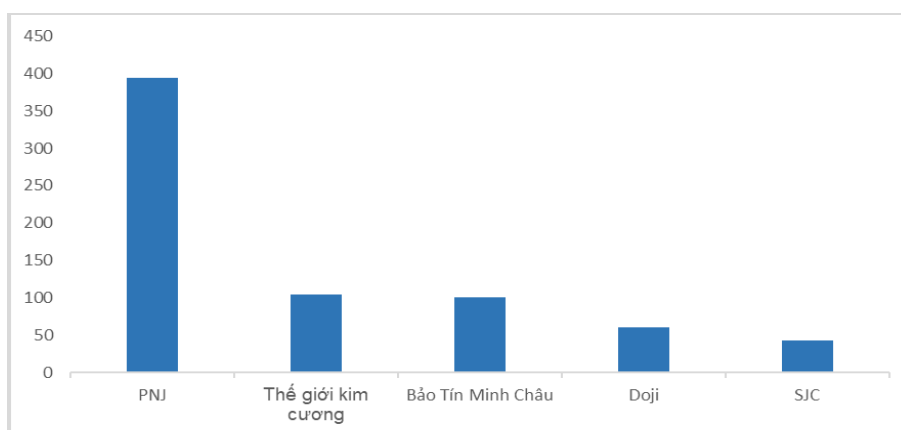


Source: PNJ, GTJAS VN

2/ PNJ is a long-established and renowned jewelry brand with leading market coverage in Vietnam

As of August 2024, PNJ operates 414 stores across 57 out of 63 provinces and cities, with significant room for expansion in the northern market, which has maintained the strongest purchasing power among the three regions. Meanwhile, the number of stores in the Red River Delta, the northern mountainous areas, and the North Central region remains low. Despite the general challenges in the retail industry, PNJ has maintained a much faster store expansion rate compared to other jewelry brands in 2023, opening 36 new stores, while four major competitors in the industry opened a total of only 18 new stores. The rapid expansion into second- and third-tier cities has significantly enhanced the company's brand recognition.

The number of stores for leading jewelry brands in Vietnam (2023)

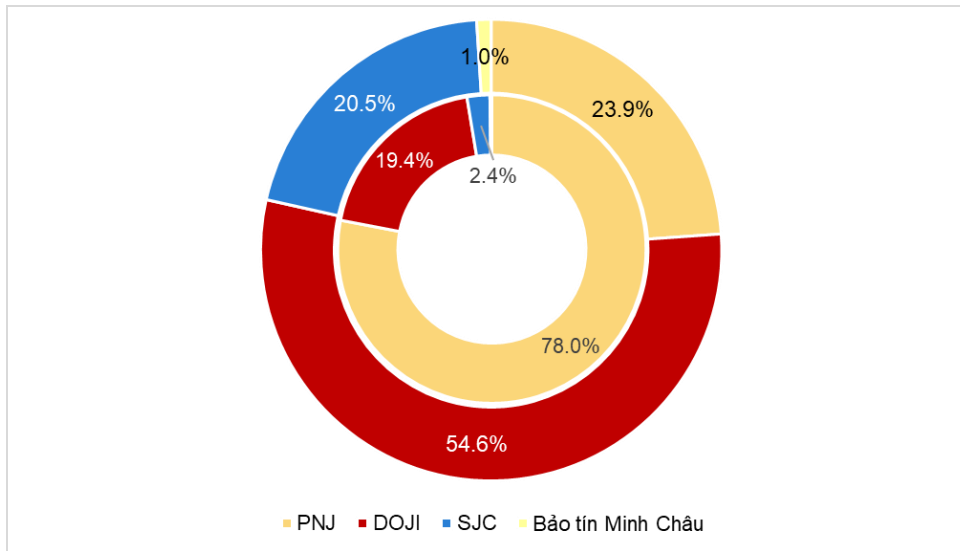


Source: PNJ, Thế giới kim cương, Bảo Tín Minh Châu, Doji, SJC, GTJA VN

In the first two quarters of this year, the number of new stores opened by PNJ has stabilized, with signs of stronger expansion beginning at the end of Q3. This somewhat reflects the management's expectations for a brighter business outlook in the upcoming final months of the year, as the overall retail industry is projected to become more vibrant again.

PNJ's opportunities not only come from the overall market recovery but also from capturing market share from smaller retailers. Currently, PNJ holds up to 55% of the market share in the branded jewelry segment, according to the management's report. Furthermore, the branded segment currently constitutes only a small portion of the overall jewelry retail market, with the majority comprising unbranded jewelry.

Market shares of revenue (outside) and net profit (inside) of major players (2023)



Source: Companies, GTJAS VN

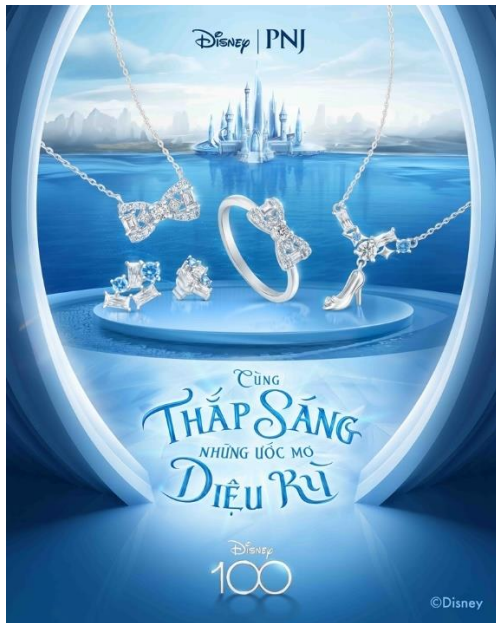
Compared to other reputable competitors, PNJ stands out with superior profit margins. The main reason SJC and DOJI generate high revenues but minimal profits is that the profit margins in the gold bullion segment are only around 0.1% to 0.5%, while PNJ's profits primarily come from jewelry manufacturing and sales. Additionally, PNJ has developed a retail model with both online and offline channels, helping to reduce sales management costs and overall operating expenses. This approach has contributed to the company's improved profitability year after year.

3/ The business results for the key sectors of retail and wholesale are both promising

PNJ continuously launches new collections that align with customer preferences, contributing to the steady revenue growth in the retail segment. The wholesale jewelry segment also reports stable growth as dealers increasingly seek out reputable brands for orders following the gold traceability inspections.



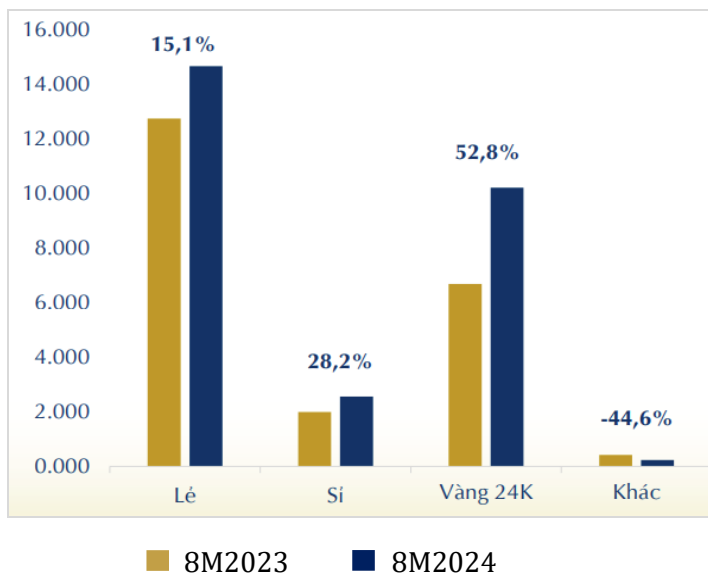
PNJ launched its "Trầu Cau" wedding jewelry collection ahead of the peak wedding season at the end of 2023. This collection is designed to capture the essence of traditional Vietnamese wedding culture, appealing to couples during this high-demand period. (Source: PNJ)



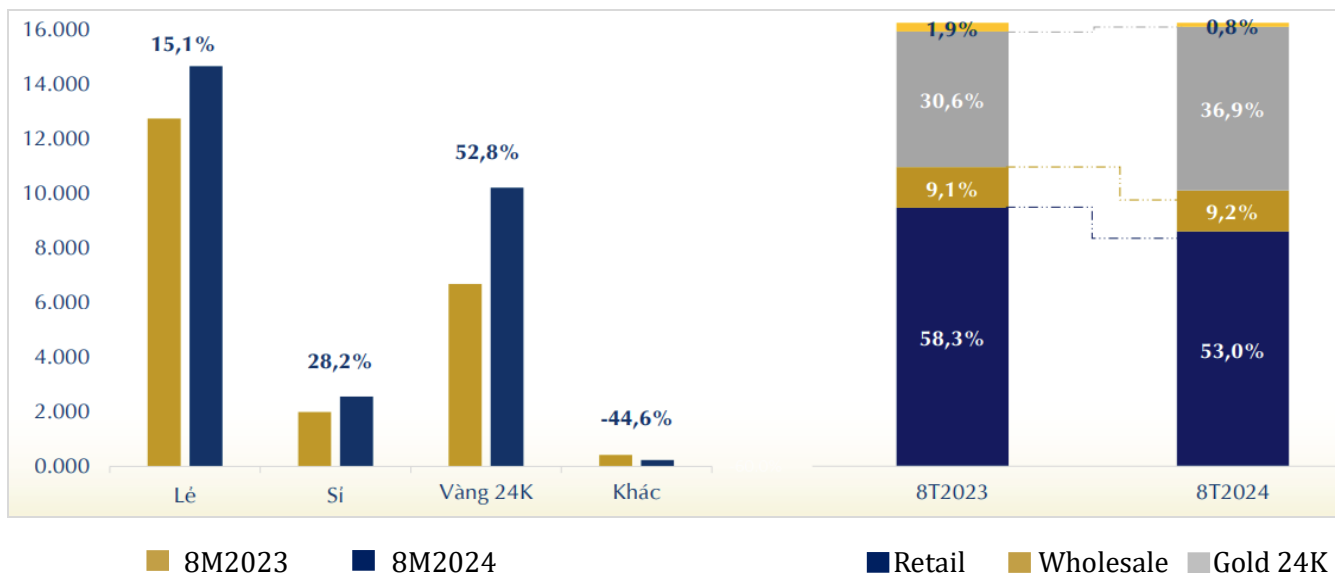
BST Disney, Hello Kitty (Source: PNJ)

As of the end of August 2024, PNJ reported net revenue of 26,866 trillion VND (+27.2% year-on-year), and net profit after tax reached 1,281 trillion VND (+2.8% year-on-year), completing 72% and 61% of the annual targets, respectively. We anticipate that the company's net profit will see even stronger growth towards the end of the year as the revenue structure gradually returns to its traditional balance, with jewelry sales leading and the proportion of 24K gold decreasing.

8 months revenue growth (yoy)

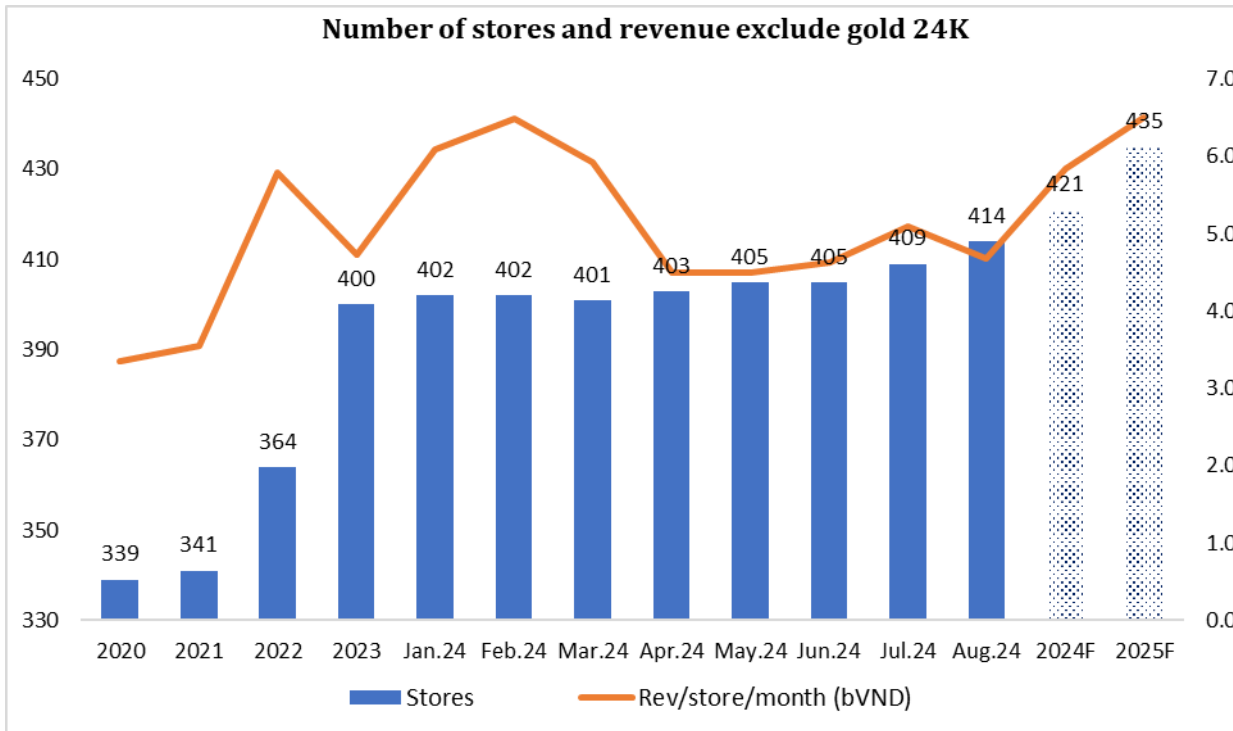


Revenue structure in 8 months



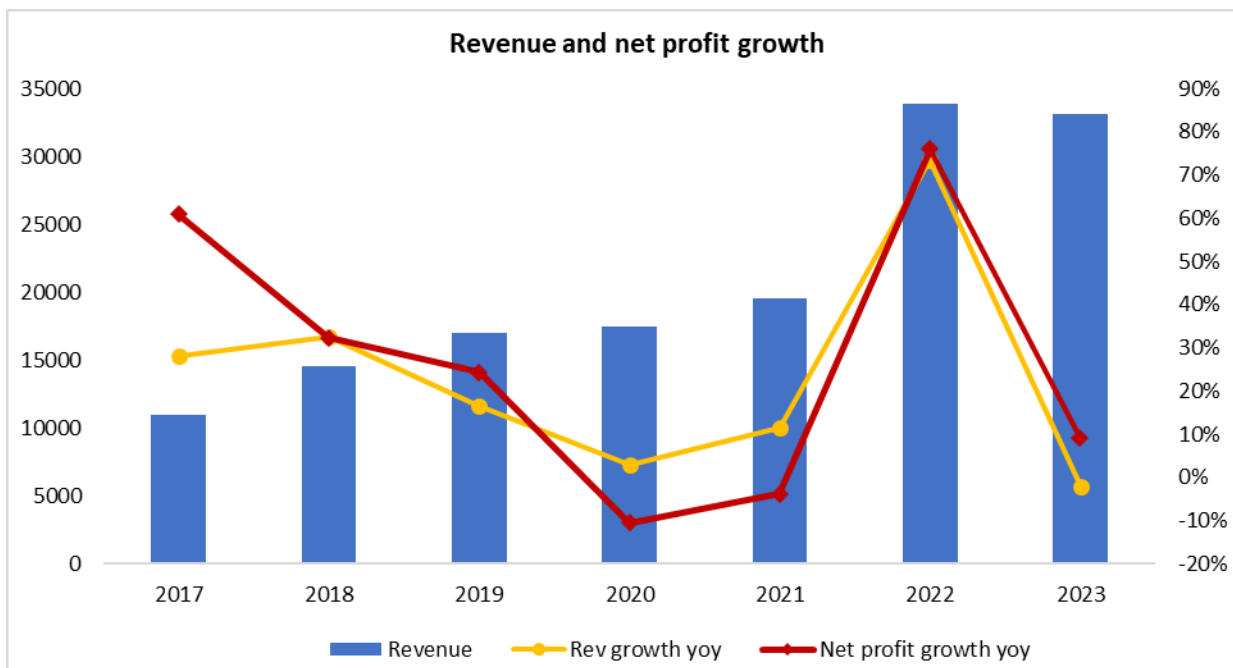
Source: PNJ

PNJ's average revenue per store saw a strong increase during the jewelry industry's peak season earlier this year, primarily driven by 24K gold sales. However, by Q3, due to the government's tightening of gold supply, revenue from 24K gold bullion transactions at PNJ was significantly restricted and dropped compared to the surge in the previous two quarters. Based on average revenue growth in past years, we estimate that same-store sales growth (SSSG) will reach approximately 20% in 2024F and 15% in 2025F.

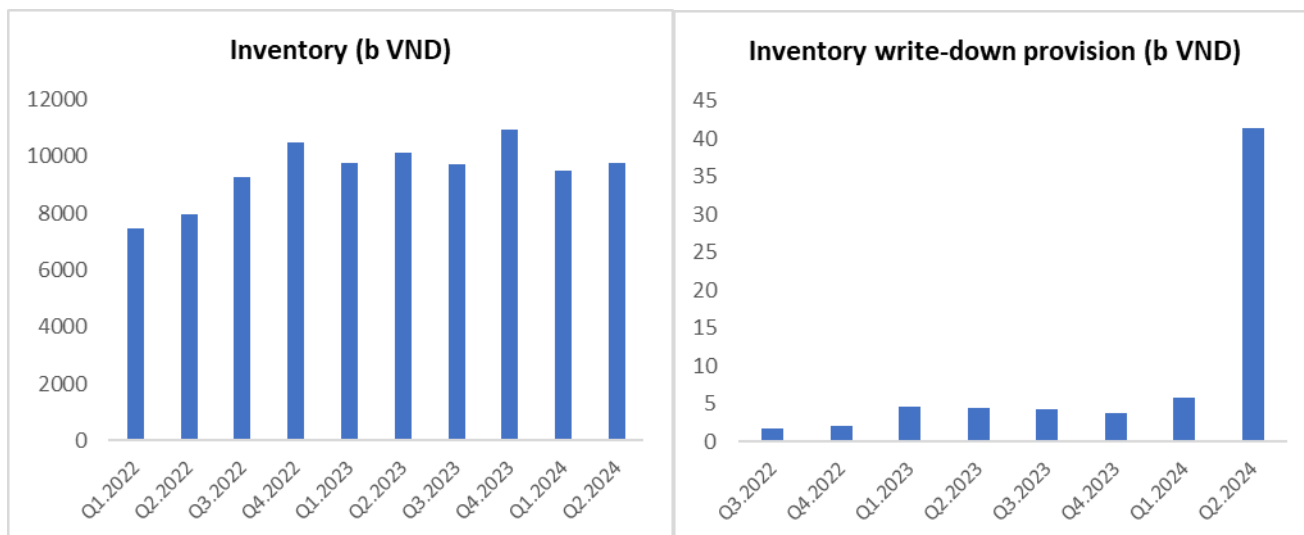


Source: PNJ, GTJAS VN

From 2017 to 2023, PNJ achieved an average annual revenue growth rate of 23%, while its average annual net profit growth reached 27%. Both figures significantly outpaced the industry's average growth, where revenue typically increased by around 5% per year.



A notable point in PNJ's inventory structure for Q2/2024 is the sharp increase in the value of provisioning, approximately seven times higher than in previous quarters, despite little change in inventory value. This likely reflects the company's concerns about the significant surge in gold prices during Q2, which continued to peak in Q3, posing a risk of price declines after such sharp increases. However, we believe gold prices will remain high due to escalating political tensions, which could potentially lead to a future reversal of these provisions for PNJ.



Source: FiinX, GTJAS VN

Global gold prices continued to rise sharply in Q2, driven by escalating geopolitical tensions and central banks' increased gold reserves. This upward trend in gold prices has persisted to the present



Source: Tradingview

4/ Abundant cash flow with record-low debt levels

In Q2 2024, the company's financial debt was 252 billion VND, a reduction of over 2.1 trillion VND compared to the beginning of the year due to aggressive debt repayment. Nevertheless, net cash flow during the period remained positive at nearly 646 billion VND, and cash maintained a high level of 1,544 trillion VND.

In the context of domestic gold prices continuously hitting new highs, the price of gold rings has reached an all-time high, with a listing price of 83 million VND per tael, compared to 63 million VND per tael at the beginning of the year, marking an increase of over 32%. Additionally, following government directives, the use of electronic invoices for gold transactions has been mandatory since June 15, 2024. These regulations,

combined with the fluctuating gold prices, have resulted in increasingly scarce raw gold supplies in the market. Moreover, materials such as gold, silver, and gemstones account for approximately 60% of the cost of goods sold. However, for PNJ in the long term, the significant increase in gold prices is not a major concern, as large enterprises can adjust product prices or modify designs to offset rising cost of goods.

FORECAST, VALUATION, AND RECOMMENDATION

Average revenue per store has consistently increased compared to the same period last year. We estimate that revenue per store per year could reach 7.2 billion VND in 2024 (+5% year-on-year) and 7.7 billion VND in 2025 (+5% year-on-year).

Using the FCFE valuation method, we recommend “**Accumulate**” PNJ shares with a target price of **105,000 VND per share** (an upside of 10% compared to the closing price on October 11, 2024).

| Summary of FCFE valuation (in thousand VND) | |
|---|-------------------|
| <i>Assumptions:</i> | |
| Free cash flow at year 5 | 3,078,021 |
| <i>WACC ~13%;</i> | |
| <i>Perpetuity growth rate ~2.0%</i> | |
| Perpetuity at the end of year 5 | 49,314,540 |
| Present value of Perpetuity | 27,982,394 |
| Present value of FCF | 6,039,356 |
| Enterprise value | 34,021,750 |
| + Cash | 1,600,000 |
| -In debt | 260,000 |
| Equity value | 35,361,750 |
| Total number of shares | 338,000 |
| Value per share (VND) | 105,000 |
| Upside expected | 10% |

Source: Bloomberg, GTJAVN Research

COMPANY RATING DEFINITION

Benchmark: VN – Index . Time Horizon: 6 to 18 months

| Rating | Definition |
|-------------------|--|
| Buy | Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable |
| Accumulate | Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable |
| Neutral | Relative Performance is -5% to 5% Or the fundamental outlook of the company or sector is neutral |
| Reduce | Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable |
| Sell | Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable |

SECTOR RATING DEFINITION

Benchmark: VN – Index Time Horizon: 6 to 18 months

| Rating | Definition |
|---------------------|--|
| Outperform | Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable |
| Neutral | Relative Performance is -5% to 5% Or the fundamental outlook of the sector is neutral |
| Underperform | Relative Performance is lower than -5% Or T he Fundamental outlook of the sector is unfavorable |

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