

PHU NHUAN JEWELLERY (PNJ VN)

Watch this space

Not Rated

Current price: VND 92,400

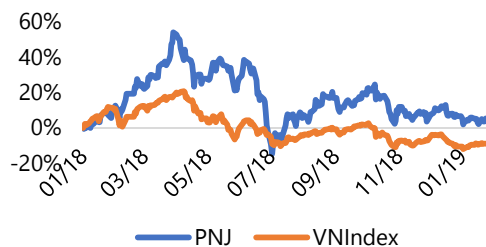
Target price: N/A

Upside: N/A

We attended PNJ's 4Q18 analyst meeting on January 22. The company reported strong 2018A sales and revenue growth which it attributed largely to the gold jewelry segment. The company also presented guidance for 2019E, and management discussed their wristwatch retailing strategy as a potential driver in light of the impending maturity of gold jewelry in Vietnam.

52-week Price Range (VND)	Market Capitalization	FY18A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
71,000-118,000	USD676.2mn	2.2%	0%	30.6%	USD1.5mn

Price performance



Key takeaways

- FY18 revenues (+33% YoY) and NPAT (+32% YoY).
- FY19E guidance for mid-20s percentage growth YoY.
- Wristwatch segment: a potential future growth driver.

Risks

- Slowdown in gold jewelry industry
- Watch retailing is still a sideline, but bears monitoring.

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Company profile: PNJ is a leader in the fragmented jewelry market, with gold products contributing 80% of sales and 92% of profits. The company has the largest gold jewelry retail network in Vietnam, with 257 stores.

PNJ FY18 results and FY19 guidance

USD Bn	FY2018	FY2019 guidance	YoY growth
Net revenues	14,573	18,100	24%
Gross profit	3,440	2,779	24%
Profit after tax	1,184	960	23%

Source: PNJ

Strong FY18 results. PNJ reported 2018A sales growth of 33% YoY and NPAT growth of 32% YoY. The key gold jewelry segment saw same-store sales growth of 20% YoY and 55 new stores in 2018. PNJ said that its gross margin also improved from 17.4% in 2017A to 19.1% in 2018A due to a higher contribution from the gold jewelry segment and an increase in premium product launches during the year.

FY19 guidance. PNJ guided for 24% YoY revenue growth and 23% YoY NPAT growth in 2019E. Management expects gold jewelry segment same-store sales growth of 18% YoY and plans to open another 40 new stores in 2019E. PNJ intends to extend its focus more toward Tier-2 and Tier-3 cities and to promote its watch segment more aggressively as it prepares for maturity in its current major business.

Watches: the next growth catalyst? Management discussed the watch segment as a potential future growth driver. PNJ has been a watch retailer for many years, but largely as a sideline. Given the segment's small scale, PNJ purchases products from distributors rather than from brands, which results in thin profit margins.

Our view: We don't cover PNJ and have no investment view on the stock. However, Vietnam's gold jewelry market remains highly fragmented, with traditional independent stores accounting for 80% of market share. As such, the industry appears ripe for consolidation. Also, PNJ's strategy to scale up its wristwatch retailing network should be a key area of investor interest. The stock trades at 16x 2018A PE, but given the stock's full FOL, foreign investors are likely to be asked to pay a 10-20% premium to purchase a PNJ block.

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Ratings	Expected return within the next 12 months – excluding dividend
BUY	Above 20%
HOLD	Between -20% to +20%
SELL	Below 20%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD-Outperform: In our view, the stock’s fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile.

HOLD-Underperform: In our view, the stock’s fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

Note: Yuanta research coverage with a Target Price is based on an investment period of 12 months. Greater China Discovery Series coverage does not have a formal 12 month Target Price and the recommendation is based on an investment period specified by the analyst in the report.

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