May, 2020

PETROLIMEX INSURANCE CORPORATION (HSX :PGI)

Impacts of COVID-19 becomes evident in 2Q

(VND bn)	Q1-FY20	Q4-FY19	+/- QoQ	Q1-FY19	+/- yoy
Net revenue	669	754	-11.2%	592	13.1%
PAT	42	48	-11.7%	35	20.2%
EBIT	53	60	-11.7%	44	20.2%
EBIT margin	7.9%	8.0%	-0.1pps	7.4%	0.5pps

Source: PGI, Rong Viet Securities

1Q2020: Health insurance revenue skyrocketed; investment profits rose slightly

Direct written premium reached VND 861 bn, up 29.2% YoY, mainly due to strong increase in health insurance. Claim settlement expenses dropped 6.6% YoY as customers reduced social interaction. However, underwriting expenses surged 43.2% YoY due to the high growth in premium of health insurance and accident insurance – the segment that has the highest expenses. Hence, the loss ratio fell to 43.5% (1Q2019: 52.4%) and the expense ratio increased sharply to 45.5% (1Q2019: 40.9%).

Profit from financial and real estate investments increased by 8.3% YoY amid the stock market plunged due to the reversal of provision for investment in subsidiaries. Investment return rate was 6.1%/year (1Q2019: 5.4%/year). PAT reached VND 42 bn, up 20.2% YoY.

FY2020: Insurance business and investment are adversely affected by the pandemic

Direct written premium may drop 15.3% YoY to VND 2,596 bn.

Gross profit from insurance will be lower by 5.9% YoY, reaching VND 485 bn due to (1) claim settlement expenses should only decrease by 1.8% YoY to VND 1,083 bn due to payments for contracts signed last year. The loss ratio, therefore, will rise to 49.6% (2019: 48.9%) and (2) risks of fraudulence from customers may increase due to difficulties in doing business during the pandemic, leading to an increase in risk assessment and prevention expenses. This could cause underwriting expenses to be reduced by only 3.8% and the expense ratio could hit 44.4% (2019: 44.8%).

Uncertainty about the stock market and lower deposit interest rates following the Government's economic support policies will result in a decline of 38.9% YoY return on investment to VND 34 bn, equivalent to a return rate of 4.6%/year (2019: 6.9%/year). PAT comes at VND 131 bn, down 21.2%. EPS is VND 1,474.

Valuation and recommendation

COVID-19 creates systemic risks that prevents insurers from adapting through risk diversification. Therefore, the insurance business will inevitably face obstacles. However, the impact on revenue may occur only in the short term until the pandemic is contained, particularly by the end of 2Q2020, according to our expectation. In the long term, PGI's business performance will still be positive due to many factors including Good B+ credit rating, the ability to reduce costs thanks to the application of information technology and the support from major shareholders in expanding its high quality customer base. A prudent investment portfolio with 90% in bank deposits is also a plus to ensure stable profit growth.

*Using methods of EVA, P/E and P/B, we revise down PGI's target price by 8% to **VND 17,500/share** compared to the latest valuation in the 2020 Strategic Report. With an expected cash dividend within the next 12 months of VND 1,300/share, we have an **ACCUMULATE** with a total return of 18% based on the closing price of May 20th, 2020.*

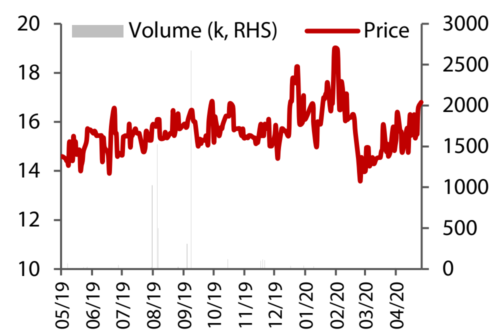
ACCUMULATE +18%

Target price (VND)	17,500
Current market price (VND)	15,900
Cash dividend (VND)*	1,300
*within next 12 months	

Stock Info	
Sector	Insurance
Market Cap (VND billion)	1,371
Current Shares O/S	88.7
Beta	0.3
Free float (%)	51.5
52 weeks High	20,250
52 weeks Low	13,600
Avg. Daily Volume (in 20 sessions)	2,629

	FY2019	Current
EPS	1,871	1,933
EPS Growth (%)	17.2	3.3
Diluted EPS	1,871	1,933
P/E	8.4	8.0
P/B	0.9	0.9
EV/EBITDA	5.7	5.7
Cash dividend yield (%)	7.1	8.0
ROE (%)	10.7	11.5

Price performance



Major Shareholders (%)	
Viet Nam National Petroleum Group	41.0
Samsung Fire and Marine Insurance	20.0
Bank for Foreign Trade of Vietnam	8.0
Vietnam National Reinsurance Corporation	7.0
Foreign ownership room left (%)	29.0

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Exhibit 1: Q1/2019 Results

(VND Bn)	Q1-FY20	Q4-FY19	+/-(qoq)	Q1-FY19	+/-(yoy)
Net revenue	669	754	-11.2%	592	13.1%
Gross profit	144	158	-8.9%	130	11.0%
SG&A	101	112	-9.7%	87	15.9%
Operating income	43	46	-7.1%	43	1.0%
EBITDA	64	63	2.1%	46	40.7%
EBIT	53	60	-11.7%	44	20.2%
Financial expenses	6	6	-1.2%	12	-49.9%
- Interest Expenses	0	0		0	
Dep. and amortization	12	3	242.5%	2	515.6%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	53	60	-11.7%	44	20.2%
PAT	42	48	-12.5%	35	20.2%
(*) Adjusted PAT	42	48	-12.5%	35	20.2%

Source: PGI, Rong Viet Securities

Exhibit 2: Q1/2019 Performance Analysis

Particulars	Q1-FY20	Q4-FY19	+/-(qoq)	Q1-FY19	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	21.6%	21.0%	0.6pps	22.0%	-0.4pps
EBITDA Margin	9.6%	8.4%	1.2pps	7.7%	1.9pps
EBIT Margin	7.9%	7.9%	0.0pps	7.4%	0.5pps
Net Margin	6.3%	6.3%	0.0pps	5.9%	0.4pps
Adjusted Net Margin					
Efficiency (%)					
-Loss ratio	43.5%	45.0%	-1.5pps	52.4%	-8.9pps
-Expense ratio	45.5%	49.9%	-4.4pps	40.9%	4.6pps
-Combined ratio	88.9%	95.0%	-6.1pps	93.2%	-4.3pps
Leverage (%)					
Total Debt/ Equity	0.0%	0.0%	0.0pps	0.0%	0.0pps

Source: Rong Viet Securities

Exhibit 3: Q2/2020 Performance Forecast

Particulars (VND Bn)	Q2-FY20	+/- qoq	+/- yoy
Revenue	449	-33.0%	-30.0%
Gross profit	85	-41.3%	-33,8%
EBIT	31	-40.5%	-31.1%
NPAT	24	-42.7%	-33.7%

Source: Rong Viet Securities

Main assumptions:

- Direct written premium down 30% YoY due to pandemic prevention measures, which causes a reduction in the demand for insurance.

- Loss ratio of 50.5% because of the increase in activities of individuals (medical examination and travel) and businesses (transportation of goods) and premium decline.

- Expense ratio at 44.5%.

- Lower deposit rates following the Government's policies to support the economy.

Update

1Q2020 – Health insurance revenue skyrocketed and investment profits increased slightly

Table 1: 1Q2020 business result

(VND billion)	1Q2020	1Q2019	% change
Direct written premium	**861**	**666**	**29.2%**
Gross written premium	573	513	11.7%
Net sales from insurance business	**669**	**592**	**13.1%**
Total insurance claim settlement expenses	-256	-274	-6.6%
Underwriting expenses	-269	-188	43.2%
COGS of insurance business	**-525**	**-462**	**13.7%**
Gross profit from insurance business	**144**	**130**	11.0%
Income from financial activities and real estate investment	17	18	-9.0%
Financial expenses and real estate investment costs	-7	-13	-44.0%
Net profit from financial activities and real estate investment	**9**	**5**	**8.3%**
G&A expenses	-101	-87	15.9%
Profit before tax	**53**	**44**	**20.2%**
Profit after tax	**42**	**40**	**6.1%**

Source: PGI, Rong Viet Securities

Direct written insurance premium reached VND 861 bn, up 29.2% YoY mainly due to health insurance, property, damage and motor vehicle insurance. Meanwhile, cargo transportation insurance premiums dropped significantly.

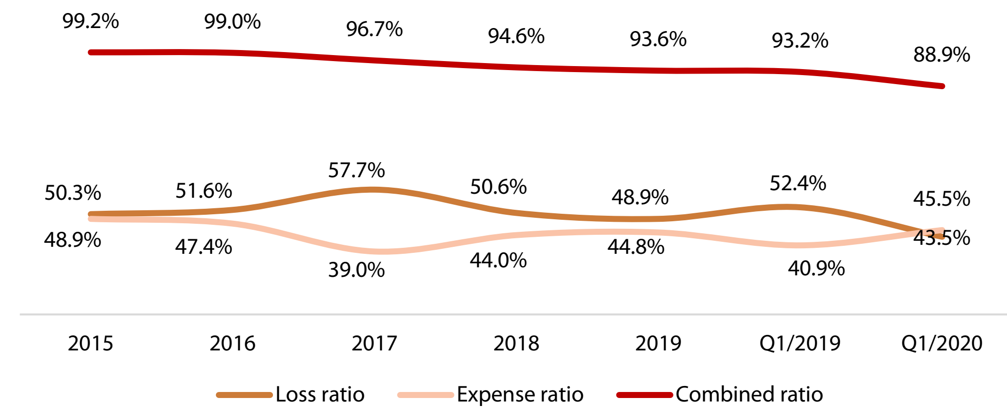
Table 2: Growth of direct written premium of the main insurance segments

VND bn	Q1/2020	Q1/2019	+/-YoY (%)	Note
Health and accident insurance	208	70	+195.6	Direct written premium of life insurance for credit line insurance grew by more than 200%
Asset and damage insurance	88	78	+12.8	Good B+ credit rating and large asset value of large customers PLX and BSR
Cargo transportation insurance	62	72	-14.1	Mainly insurance for PLX's petroleum products. Falling oil price reduced contract values, indirectly lowering insurance premiums
Motor vehicle insurance	335	294	+13.9	Demand stimulation to share difficulties with customers via a 30% discount on premium
Total	**693**	**514**		

Source: PGI, Rong Viet Securities

Claim settlement expenses decreased by 6.6% YoY while insurance premiums increased sharply, forcing the loss ratio to drop sharply to 43.5% compared to 52.4% in 1Q2019. However, this is just a technical and temporary improvement and did not imply that the company's insurance business has made great progress. We believe that the reduction of social interaction of customers due to fear of the pandemic contagion has caused lower claim payment expenses. Particularly, customers postponed regular medical checks and reduced travelling, resulting in less medical examination and treatment costs or accidents. Businesses reducing operations led to lower probability of a fire and goods damaged or lost on the way of transport, and less assets used should cause less damage.

Figure 1: Loss ratio, expense ratio and combined ratio



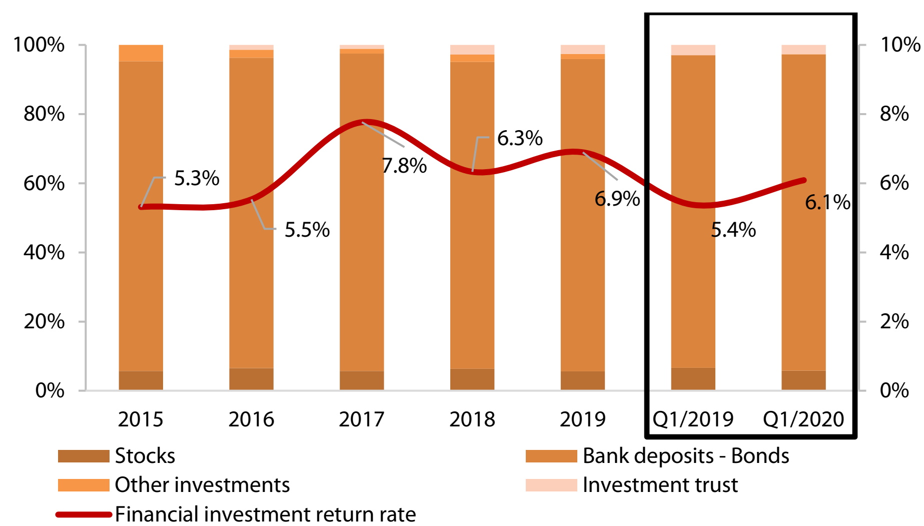
Combined ratio = Loss ratio + Expense ratio

Source: PGI, Rong Viet Securities

However, underwriting expenses increased sharply by 43.2% YoY, mainly due to credit line insurance, which is the product that has the highest underwriting expense. As a result, the expense ratio increased to 45.5% from 40.9% in 1Q2019.

Profit from financial and real estate investments increased by 8.3% YoY. The stock market fell sharply in 1Q2020, causing the company to set aside VND 13 bn for provisions for stock price devaluation. However, thanks to the reversal of provisions for investment in subsidiaries of VND 7 bn, the total financial expense was recorded at VND 6 bn, down 44% YoY. Investment return rate reached 6.1%/year, higher than 5.4%/year in 1Q2019.

Figure 2: Investment portfolio struture and investment return rate



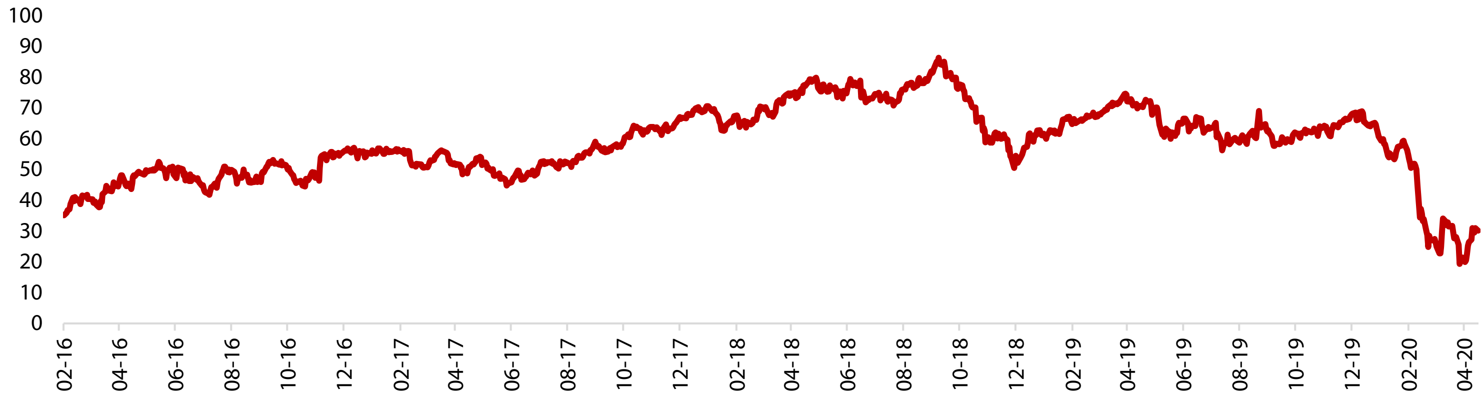
Source: PGI, Rong Viet Securities

2020 forecast

Considering the negative, broad and unpredictable effects of COVID-19 on the domestic and global economy, we believe that the insurance industry will be one of the most affected sectors. In particular, social distancing measures, travel restrictions and business suspensions in Vietnam and many countries which are key trade partners will reduce the demand for almost all insurance products.

In addition, a sharp drop in oil prices will also be a disadvantage for PGI. Among PGI's main product groups, cargo transportation insurance, of which the majority is insurance for petroleum products, may be hit hardest. On the one hand, the decline in oil and gas transport demand due to weakening economic activities will reduce the number of insurance contracts. On the other hand, low oil prices could cause insurance premiums to plummet, as they are calculated as a percentage of the value of the cargo.

Figure 3: Oil price (USD/bbl)



Source: Bloomberg

For 2020, we forecast that PGI's direct written premium will decrease by 15.3% YoY to VND 2,596 bn. Claim payment expenses could be VND 1,083 bn, down by only 1.8% YoY due to payments for contracts signed in the previous year. Loss ratio, therefore, increases to 49.6% compared to 48.9% in 2019. Difficulties in doing business after the pandemic may add more risks of fraudulence from customers, making the company spend more on risk assessment and prevention activities. Therefore, the expense ratio could reach 44.4%, compared to 44.8% in 2019. Underwriting expenses will decrease slight by 3.8% to VND 972 bn, slower than the fall in direct written premiums. The combined ratio comes at 94.1%, higher than 93.6% in 2019 and gross profit from the insurance business will fall 5.9% YoY to VND 485 bn.

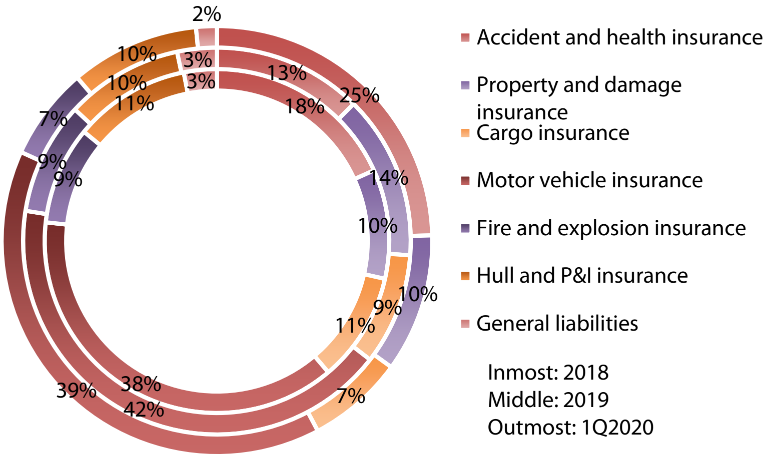
Office leasing revenue drops 15% amid many businesses trying to cut office rental costs.

The gloomy picture for the economic growth of Vietnam and the world is increasing the volatility of the stock market. We believe that stock prices could decrease significantly compared to the end of last year, leading to the provision for devaluation of investment. Deposit interest rates also declined following the Government's economic support policies. As a result, profit from financial investment and real estate will decrease 38.9% YoY to VND 34 bn. Investment return rate drops to 4.6%/year, significantly lower than 6.9%/year of 2019.

In total, PAT arrives at VND 131 bn, down 21.2% YoY.

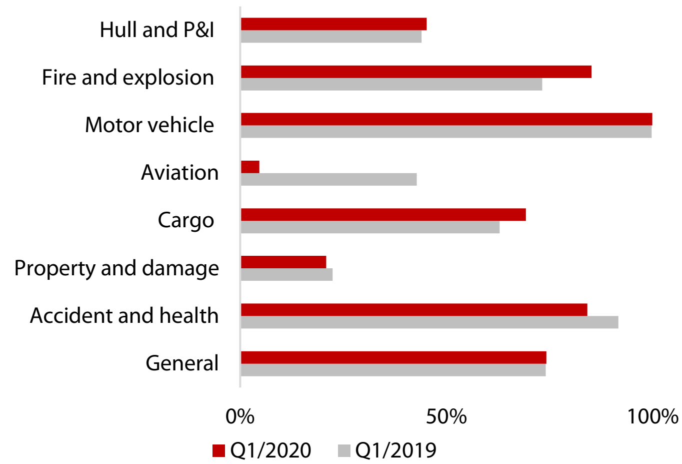
In 2021, we expect the insurance business to grow strongly following the recovery of the Vietnamese economy with direct written premium surging 15.9% YoY to VND 3,009 bn. The loss ratio may decrease to 48.4% thanks to the strong growth of premiums. The expense ratio reaches 45.8%. Investment activities should be supported by optimistic sentiment in the stock market, bringing the return rate of 6.7%/year. PAT is VND 192 bn, up 46.5% YoY.

Figure 4: Direct premium written structure



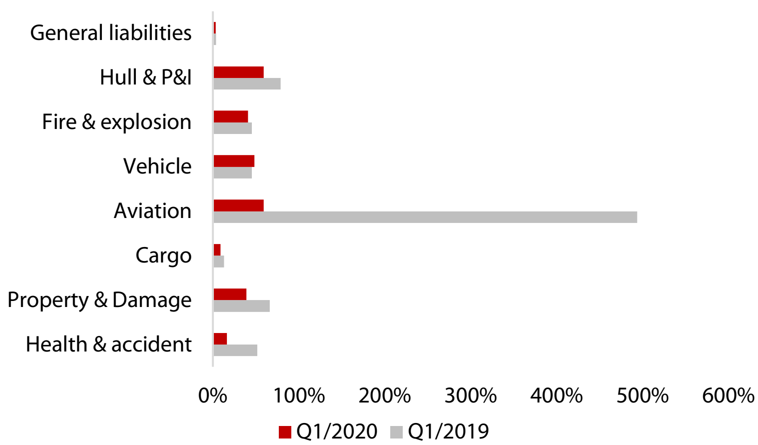
Source: PGI, Rong Viet Securities

Figure 5: Retention ratio



Source: PGI, Rong Viet Securities

Figure 6: Loss ratio on direct written premium



Source: PGI, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Net sale from insurance business	2,413	2,606	2,436	2,444
Total direct insurance operating expenses	1,929	2,091	1,951	1,965
Gross profit	**485**	**515**	**485**	**479**
Selling Expense	0	0	0	0
G&A Expense	369	371	356	352
Finance Income	98	71	67	111
Finance Expense	43	19	35	3
Other profits	5	5	3	5
PBT	**175**	**201**	**163**	**239**
Prov. of Tax	34	35	33	48
Minority's Interest	0	0	0	0
PAT to Equity S/H	**142**	**166**	**131**	**192**
EBIT	175	201	163	239
EBITDA	246	222	195	270

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth				
Revenue	3.4	8.0	-6.5	11.1
Operating Income	168.6	125.0	89.5	98.4
EBITDA	20.8	14.6	-18.6	46.5
PAT	22.1	17.2	-21.2	46.5
Total Assets	6.8	9.0	-8.7	11.3
Equity	1.5	3.4	1.2	4.5
Profitability				
Gross margin	20.1	19.8	19.9	19.6
EBITDA margin	10.2	8.5	8.0	11.1
EBIT margin	7.3	7.7	6.7	9.8
Net margin	5.9	6.4	5.4	7.8
ROA	2.7	3.0	2.3	3.4
ROE	9.6	11.0	8.4	12.0
Efficiency				
Loss ratio	50.6	48.9	49.6	48.4
Expense ratio	44.0	44.8	44.5	45.8
Combined ratio	94.6	93.6	94.1	94.2
Liquidity				(times)
Current	1.2	1.2	1.2	1.2
Quick	1.2	1.2	1.2	1.2
Finance Structure				
Total Debt/Equity	259.8	279.2	242.0	264.4
Current Debt/Equity	0.0	0.0	0.0	0.0
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	177	101	160	178
Short-term investments	2,515	2,739	2,629	2,949
Accounts receivable	483	568	484	531
Inventories	7	6	7	6
Other current assets	1,342	1,575	1,291	1,525
Property, plant & equipment	262	267	219	204
Acquired intangible assets	174	171	157	143
Long-term investments	283	277	258	273
Other non-current assets	15	22	15	17
Total assets	**5,361**	**5,483**	**5,335**	**5,940**
Accounts payable	3,828	4,262	3,737	4,265
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other non-current liabilities	43	40	38	45
Bonus and Welfare fund	0	0	0	0
Technology-science, dev. fund	0	0	0	0
Total liabilities	**3,871**	**4,302**	**3,775**	**4,310**
Common stock and APIC	887	887	887	887
Treasury stock	0	0	0	0
Retained earnings	135	169	171	228
Statutory reserve	57	57	57	57
Reserves for Investment & Development	51	68	85	98
Total equity	**5,361**	**5,843**	**5,335**	**5,940**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	1,468	1,721	1,356	1,986
P/E (x)	11.6	9.9	12.0	8.6
BV (dong)	16,792	17,369	17,583	18,373
P/B (x)	1.0	1.0	0.9	0.9
DPS (dong/cp)	1,200	1,300	1,300	1,300
Dividend yield (%)	7.1	7.1	8.0	8.0

VALUATION MODEL	Price	Weight	Average
EVA	21,354	30%	6,406
P/E	13,559	30%	4,068
P/BV	17,583	40%	7,033
Target price (VND)			**17,507**

VALUATION HISTORY	Price	Recommendation	Period
02/2018	24,900	Buy	Mid term
11/2018	20,100	Buy	Mid term
5/2019	20.100	Buy	Mid term
12/2019	19.100	Buy	Mid 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%

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