Bao Minh Insurance Corporation (HSX- BMI)

Solid base for a bright future

- Strong recoveries of non-life insurance market in 2014
- Established brand name, extensive customer network and relatively large market share are BMI's core competitiveness
- Cautious but brighter business operations
- Regular cash dividend and acceptable dividend yield

Outlook:

Established brand name, extensive customer network and relatively large market share are BMI's core competitiveness. In addition, the company is looking to expand its business beyond Vietnamese border by cooperating with foreign insurance partners. As the market condition recovers, BMI is focusing on controlling brokerage commissions, advertising expenses and loss ratio in order to increase operation effectiveness. In fact, net revenue from insurance business saw an increase in 2014 while loss ratio was effectively kept in check. On the other hand, BMI is seen to allocate more of its investment portfolio in long-term time deposit to both improve interest income and marginal solvency ratio.

Besides, BMI's steady annual cash dividend payment (dividend yield around 6%) is another plus for value investors. However, like most of other non-life insurance companies, share trading liquidity remains a consideration for potential investors.

Combining two valuation methods of DDM and relative valuation (P/E and P/B) we determine the appropriate price for BMI's share as **VND22,800/share.** Therefore, we recommend **ACCUMULATE** BMI in the **LONG-TERM**.

Key financials

EoY (VND bn)	FY2013	FY2014	FY2015F	FY2016F
Net Revenue	1,951.9	2,170.4	2,407.1	2,721.9
% chg	*9.2*	*11.2*	*10.9*	*13.1*
NPAT	89.5	116.1	175.5	187.3
% chg	*3.4*	*29.7*	*51.2*	*6.8*
NPAT margin (%)	4.6	5.3	7.3	6.9
ROA (%)	2.1	2.3	3.2	3.3
ROE (%)	4.1	5.3	7.8	8.0
EPS (VND)	1,185	1,537	2,325	2,481
Adjusted EPS (VND)	1,185	1,537	2,325	2,481
Book value (VND)	28,687	28,947	30,327	31,906
Cash dividend (VND)	1,200	1,000	1,000	1,000
P/E (x)	8.9	10.2	10.0	9.0
P/BV (x)	0.4	0.5	0.9	0.9

Source: BMI, RongViet Research

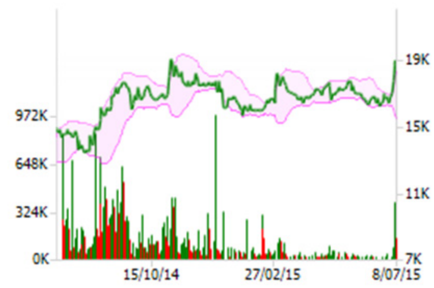
ACCUMULATE

Market price (VND)	18.700
Target price (VND)	22.800
Investment period	LONG-TERM

Stock Info

Sector	Non-life insurance
Market Cap (VND bn)	1,412
Current Shares O/S	75,500,000
Beta	0.7
Free float (%)	8.9
52 weeks High*	19,900
52 weeks Low*	12,600
Avg. Daily Volume (20 sessions)	66,370

**Adjusted price*



Price performance (%)

	3T	1N	3N
BMI	16.9	35.5	156.0
Insurance	49.0	32	107.0
VN30 Index	12.1	1.5	31.6
VNIndex	13.8	5.4	50.0

Major Shareholders (%)*

SCIC	50.7
AXA Group	16.6
Firstland Company Limited	5.6
Chevalier Group	5.6
Halley Sicav – Halley Asian Prosperity	5.0
Foreigner investor room (%)	42.1

**As of 08/07/2015*

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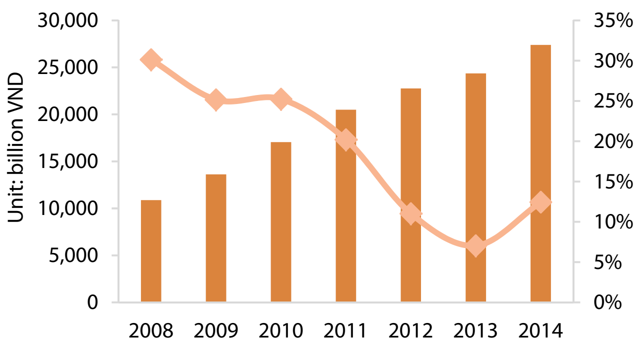
The non-life insurance market has seen strong recoveries since 2014; fiercer competition leads to changes in the industry landscape.

After experiencing three consecutive years of declining from 2011 to 2013, the insurance market's gross premium returned to positive growth in 2014. That recovery was attributed to the recovery of the overall economy and efforts to restructure operation of non-life insurance companies themselves.

Motor vehicle, property, health and personal accident insurances remain the largest contributors in the total gross premium (more than 70%) and are expected to sustain that momentum from 2015 onwards. In particulars, the main driver for motor vehicle insurance is the expected strong growth in the number of vehicles, especially new cars. According to VAMA, since the start of this year, the market has seen a sharp growth in new car purchases of 69.8%. Besides, insurance premiums for motor vehicle have been raised to1.5% from 1.3% of asset value.

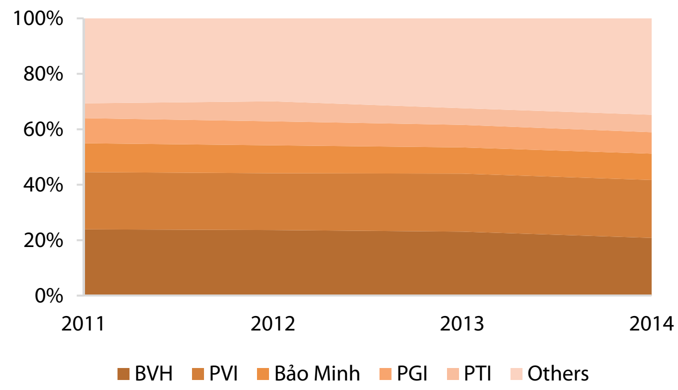
Property, health and personal accident insurances recorded positive growth from the recovery of real estate market and construction activities nationwide. The Agency for Management of Housing and Real Estate Market – Ministry of Construction has recently estimated that in the first 6 months, there are 7,500 successful real estate transactions in Ha Noi and 7,050 in Ho Chi Minh City (up respectively 2.5 times and 2.8 times y-o-y). Moreover, free trade agreements, such as the FTA Viet Nam-South Korea (May 2015) and the FTA Viet Nam- Economic Alliance of Asia-Europe (May 2015) plus the highly anticipated TPP deal are expected to encourage both domestic and foreign invested enterprises to expand factories and machinery capacity. That, hence, would benefit the growth of property and damage insurance.

Figure 1: Premiums growth of non-life insurance market



Source: ISA, RongViet Research

Figure 2: Market shares of top 5 biggest non-life insurance companies



Source: ISA, RongViet Research

Viet Nam currently has 29 operating non-life insurance companies, including joint stock companies, foreign companies and joint ventures. In general, dominant players in domestic insurance market continue to be state-owned insurance firms. In fact, 65%-70% of the market share are being served by the so-called "big five" including Bao Viet, PVI, Bao Minh, PJICO and PTI.

Apart from striving for high revenue growth such as BVH (+18.83%), PVI (18.16%), BMI (11.23%), etc.; non-life insurance firms have been observed to pay greater focus on risk management activities, sustainable development operation through better compensation ratio control (compensation for retained liabilities). Lower loss compensation ratio also means higher risk assessment and classification capability of insurance firms.

Table 1: Loss ratio of top 5 non-life insurance companies (Unit: %)

	2013	2014
BVH	51.7	43.8
PVI	37.8	38.6
BMI	44.7	41.2
PGI	45.5	39.1
PTI	43.5	43.5

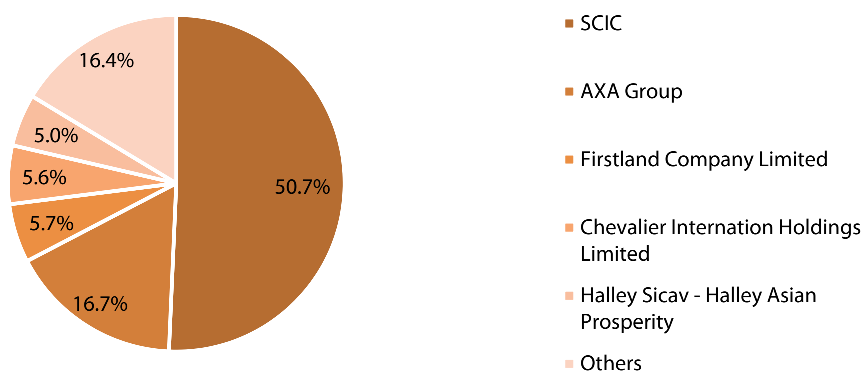
Source: financial reports, RongViet Research

Established brand name and relatively large market share are BMI's competitive advantages

20-year experience in the non-life insurance industry helps the company create a strong footprint and recognition in the domestic market to both individual and enterprise clients. To now, the company's operation network consists of 59 member companies, 550 transaction offices and 3,699 agencies. Hence, market experience and extensive network help BMI to sustain its position in top 5 non-life insurance companies over the years. In 2014, BMI ranked 3rd among the five biggest companies in the industry commanding 9.49% market share. For the three main non-life insurance products (motor vehicle, health and personal, property and damage insurance), BMI constantly appears in the top 3 positions in term of market share.

Having large institutional shareholders such as SCIC (50.7%), AXA (16.67%), Firstland Co.Ltd. (5.5%), and Chevalier (5.6%) is another plus for BMI. In details, AXA Financial Group is a French multinational company specializing in insurance and financial investment for 198 years. On top of that, AXA also commits to support BMI in technology, financial capacity and risk management. Given the nature of the insurance industry highly relied on trust, the presence of highly credible institutional shareholder would greatly support the company in building the BMI brand name.

Figure 3: Shareholder structure of BMI

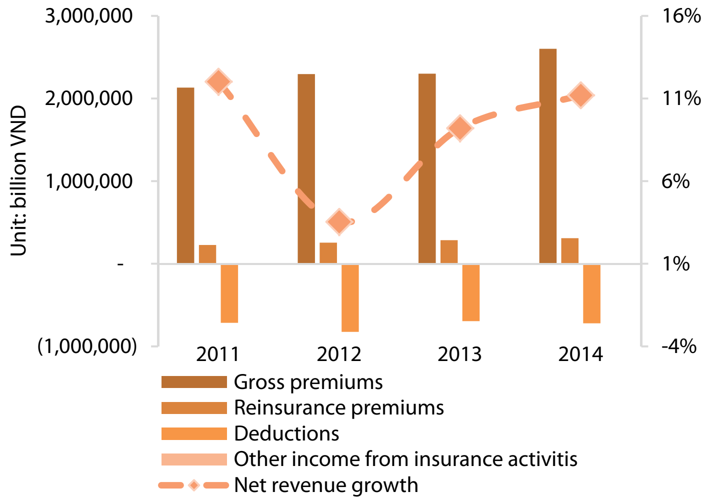


Source: BMI, RongViet Research

BMI has been leveraging on its accumulated insurance operation experience, large market share and credibility to gain a competitive edge in many important projects. From 2011 to 2014, Bao Viet (BVH) and BMI were the only to be selected by the Government in the trial phase of agribusiness insurance program. In February 2015, BMI, PetroVietnam Insurance (PVI) and Post & Telecommunication Joint Stock Insurance Corporation (PTI) participated in a co-insurance contract for VNREDSAT-1A satellite worth USD71.8 million. Furthermore, BMI is highly rated by foreign insurers. In May 2015, BMI signed an agreement to partner with DHIPAYA insurance company – the largest Thai insurance company and Korean insurance brokerage firm ENC Plus. This is considered as a strategic step in expanding market share outside Vietnam territory.

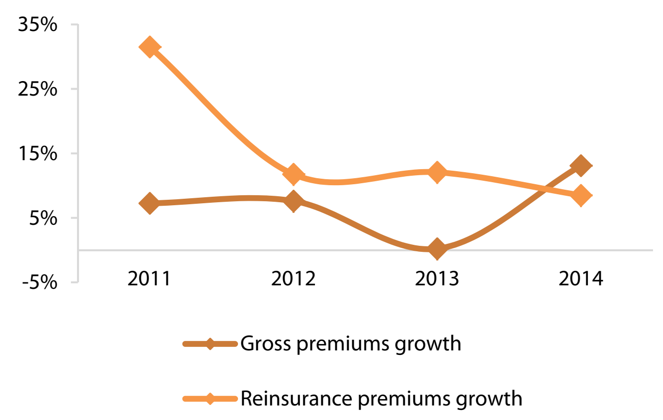
Cautious but brighter business operations

Figure 4: Structure of net revenue from insurance business



Source: BMI, RongViet Research

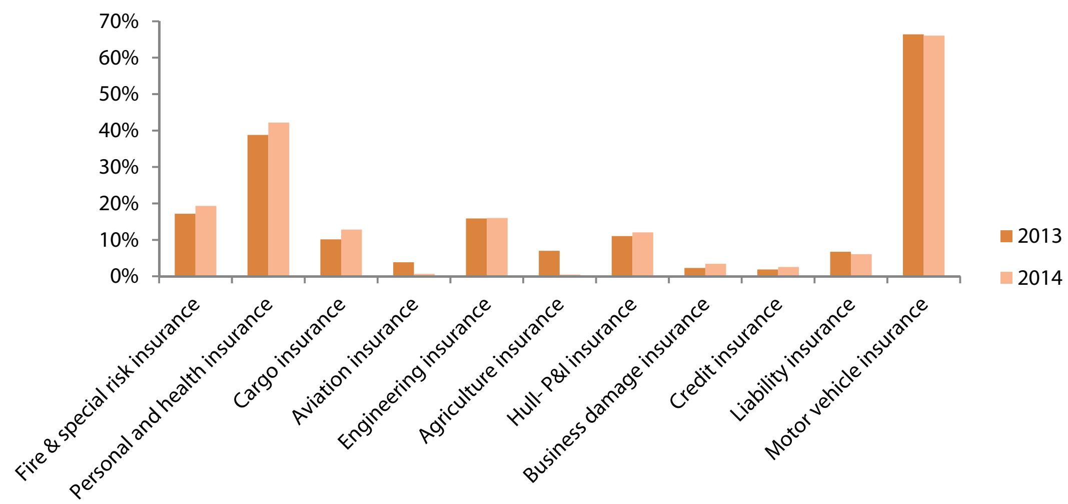
Figure 5: Gross and reinsurance premiums growth



Source: BMI, RongViet Research

Net revenue from insurance business achieved positive growth in three consecutive years from 2012 to 2014. In 2014, large scale health and personal accident (34.02%), motor vehicles (23.51%) and fire insurance (19.32%) risks accounted for a substantial share of gross non-life premiums. As to previous discussion, these operations carry high growth potential in 2015 and onwards.

Figure 6: Structure of gross premiums

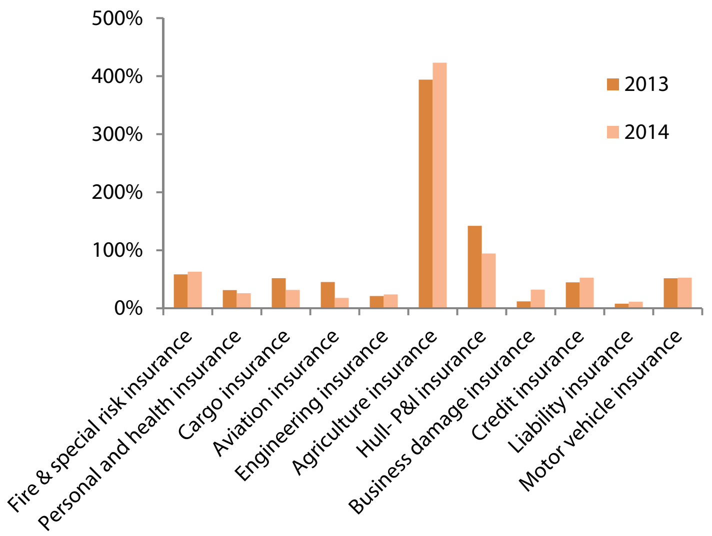


Source: BMI, RongViet Research

BMI effectively managed to control the amount of claims reflected by decreasing claims/gross premiums and loss ratios (Figure 8). Among non-life claims, agricultural insurance has the highest claim/gross premium ratio (over 400%) given the limited number of participating localities and BMI's fledging experience in this particular sector (Figure 7). In the near future, the claims in agribusiness are expected to go down as the company's risk appraiser team accumulates more experience in this sector and the expanding number of farmers participating in this type of insurance (rule of "large number" in insurance business).

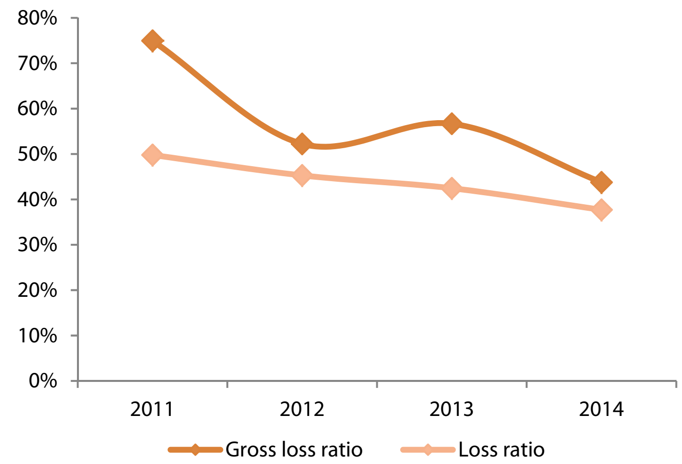
Overall, instead of competing on insurance premiums, BMI strives towards sustainable business by setting up an effective claim risk management program to improve operating profitability. Since 2014, the company has focused on training compensation appraisal staffs, assigning experienced employees to perform this task and tightening contractual terms in efforts to reduce moral hazard risks. Indeed, BMI has obtained an encourage result with a sharp decline in loss ratio (-3.5% y-o-y). Prospects from higher insurance premiums and a well-controlled claims ratio would help BMI's gross profit margin in the coming years.

Figure 7: Gross loss ratio of specific insurance operations



Source: BMI, RongViet Research

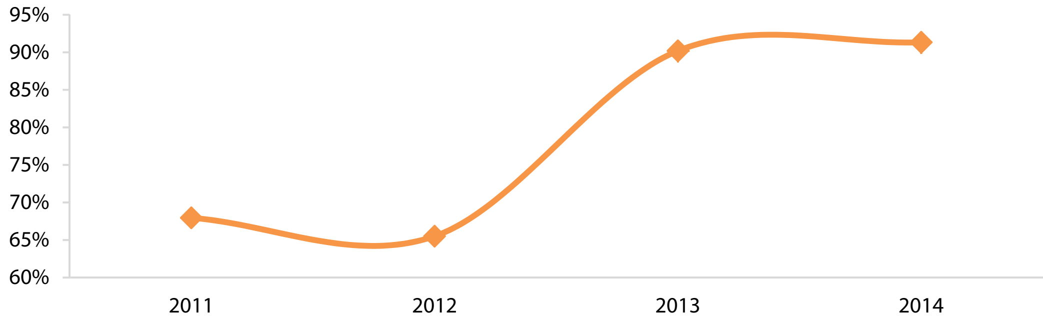
Figure 8: Gross loss ratio and loss ratio of BMI



Source: BMI, RongViet Research

Apart from the loss ratio, the ratio (calculated based on claims and expenses relating to insurance business) is also a measure of non-life insurance business effectiveness. This ratio of BMI slightly dropped 2% in 2011 – 2012 but bounced back in 2013 – 2014. The practice of transferring brokerage fees from administrative to operating expenses to comply with the new accounting standards for insurance firms is blamed for the high combined ratios in 2013 and 2014; hence, that made last year's gross profit fell sharply. To reduce the cost of brokerage commissions and advertising expenses, BMI has gradually streamlined intermediary business process and upgraded its insurance agencies operation to maximize the cost management benefit.

Figure 9: Combined ratio of BMI

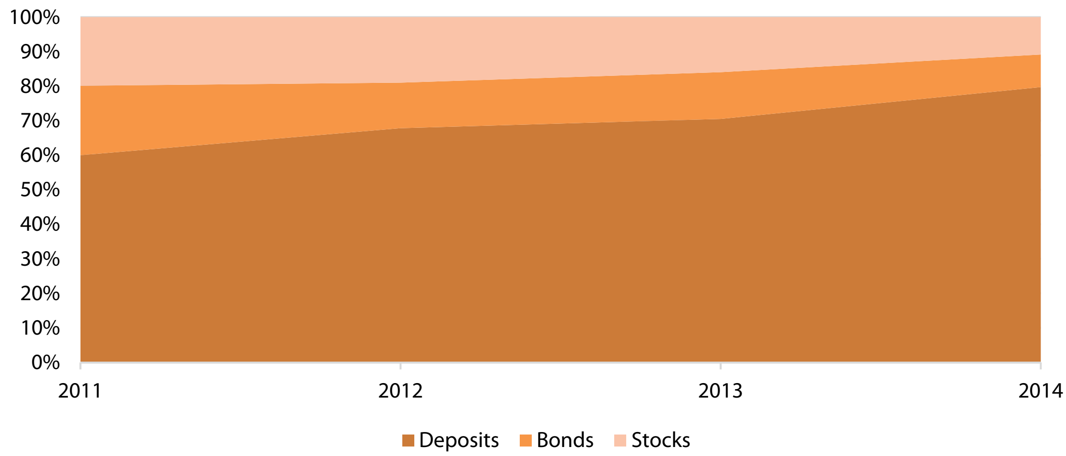


Source: BMI, RongViet Research

Prudent restructuring of investment portfolio creates room for insurance business growth

BMI has stayed cautious in financial investment activities with bank deposits accounting for 50% to 80% of the total portfolio. Foreseeing the unattractive return from equity investment (estimated at 7.7% in 2013 and 5.74% in 2014) enabled the firm to scale down the relative proportion from 15.96% to 10.84%. Those rebalancing moves effectively helped BMI to halve trading cost and the 2014 financial expenses; while financial profit more rised to VND71 billion (up 2.34x to that of 2013). BMI expects to keep 90% of investment portfolio in long-term deposits and government bonds to maximize interest income in the context of low interest rates.

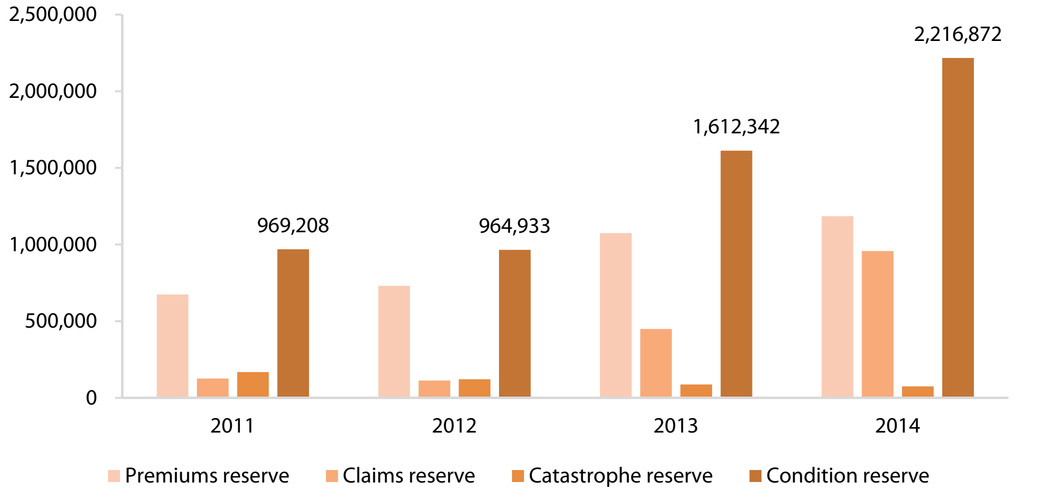
Figure 10: Investment portfolio of BMI



Source: BMI, RongViet Research

We appreciate the company's move in rebalancing its portfolio to improve the marginal solvency ratio. On the one hand, the minimum requirement on marginal solvency is calculated based on retained premiums. On the other hand, risky investment instruments such as stocks and corporate bonds are partially excluded from the calculation value. In 2013, the ratio between marginal solvency and minimum requirement marginal solvency was 226% and dropped to 181% mainly due to BMI recording additional 37.4% in conditional reserves, included unearned premiums reserve, claims reserve and catastrophes reserve. Therefore, reducing investment in equity will allow BMI to maintain the gap between these two marginal solvency ratios; hence, pursue premiums growth and harmonize between profitability and risk management, marginal solvency ratios; thence, pursue premiums growth and harmonize between profitability and risk management.

Figure 11: Conditional reserve 2011 – 2014



Source: BMI, RongViet Research

Increase charter capital to improve competitiveness, though the dividend rate is maintained at attractive level

According to 2015 AGM resolutions, BMI will increase charter capital by VND75.5 billion from capital surplus. According to previous plan, BMI's charter capital was supposed to reach VND1,100 billion in 2010. However, that plan just did not materialize given many difficulties facing insurance business at that time. As the business of insurance recovers, BMI's shareholders finally agreed to increase the charter capital to VND830.5 billion at the latest AGM. The implication of this would lie with the company to increase its business effectiveness to maintain the dividend rate for its shareholders.

Also, other non-life insurance companies are seen making moves to consolidate their financial capability. For examples, PTI has upped its charter capital from VND700 billion to VND1,000 billion and BIC's new charter capital increased to VND693 billion from VND660 billion. Thus, that would enable BMI to compete in larger value insurance deals. More importantly, the dilution risk for BMI shareholders is not of great concern since the additional issue is relatively small in size (only 7.5 million shares) and funded from capital surplus source. Since listed, BMI has been able to maintain an annual cash dividend payment of 10% - 15%. However, difficult business conditions in the last two years have prompted the company to slightly reduce the dividend rate in an attempt to reserve an appropriate equity level. In 1Q2015, BMI recorded a significant balance of cash and cash equivalents (VND363 billion) after deducting all condition reserves. Therefore, BMI would be able to maintain a current cash dividend of10% as agreed in the latest AGM resolution.

Outlook and valuation

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Besides, BMI's steady annual cash dividend payment (dividend yield around 6%) is another plus for value investors. However, like most of other non-life insurance companies, share trading liquidity remains a consideration for potential investors.

Combining two valuation methods of DDM and relative valuation (P/E and P/B) we determine the appropriate price for BMI's share as **VND22,800/share.** Therefore, we recommend **ACCUMULATE** BMI in the **LONG-TERM**.

Table 2: Valuation matrix

Valuation method	Price (VND)	Weigh	Average (VND)
DDM	17,722	30%	5,317
P/E	23,245	40%	9,298
P/B	27,294	30%	8,188
Fair value			**22,803**

Source: RongViet Research

Unit: billion VND

INCOME STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Revenue	1,951.9	2,170.4	2,407.1	2,721.9
COGS	1,760.4	1,982.2	2,144.4	2,448.1
Gross profit	**191.5**	**188.2**	**262.7**	**273.7**
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	136.7	136.9	136.8	136.8
Finance Income	196.0	171.2	158.2	155.0
Finance Expense	174.7	99.9	96.5	87.3
Other profits	3.6	2.1	2.9	2.5
PBT	**105.3**	**144.9**	**217.1**	**232.1**
Prov. of Tax	14.5	24.6	36.9	40.7
Minority's Interest	1.3	43	4.7	4.1
NPAT	**89.5**	**116.1**	**175.5**	**187.3**
EBIT	**105.5**	**144.9**	**217.1**	**232.1**
EBITDA	79.3	126.5	217.1	232.1

Unit:%

FINANCIAL RATIO	FY2013	FY2014	FY2015E	FY2016F
Growth				
Revenue	9.2	11.2	10.9	13.1
Operating Income	0.0	0.0	0.0	0.0
EBITDA	-3.4	59.4	71.7	-8.5
EBIT	-2.2	37.3	49.8	-8.5
PAT	3.4	29.7	51.2	-8.1
Total Assets	19.0	16.0	4.7	5.4
Equity	-0.9	0.9	4.8	4.1
Internal growth rate	-0.1	1.9	4.5	3.7
Profitability				
Gross profit/Revenue	9.8	8.7	10.9	8.8
Operating profit/ Revenue	2.8	2.4	5.2	3.8
EBITDA/ Revenue	4.1	5.8	9.0	7.3
EBITDA/ Revenue	5.4	6.7	9.0	7.3
Net margin	4.6	5.3	7.3	5.9
ROAA	2.1	2.3	3.2	2.8
ROIC or RONA	2.9	3.4	4.6	4.0
ROAE	4.1	5.3	7.8	6.9
Efficiency (x)				
Receivable Turnover	2.0	2.5	2.9	3.0
Inventory Turnover	385.8	437.8	391.5	388.2
Payable Turnover	2.7	2.6	2.7	3.0
Liquidity (x)				
Current	4.4	3.8	3.9	3.8
Quick	4.3	3.8	3.9	3.8
Solvency				
Total Debt/Equity	108.2	140.0	140.0	143.1
Current Debt/Equity	0.0	0.0	0.0	0.0
Long-term Debt/ Equity	0.0	0.0	0.0	0.0

Unit: billion VND

BALANCE SHEET	FY2013	FY2014	FY2015E	FY2016F
Cash and equivalents	239	285	378	486
Short-term investment	982	590	485	473
Receivables	968	763	909	935
Inventories	4	5	6	6
Other current assets	843	1,413	1,341	1,458
Total Current Asset	**3,036**	**3,055**	**3,119**	**3,359**
Tangible Fixed Assets	87	98	102	115
Intangible Fixed Assets	318	316	313	311
Construction in Progress	37	44	38	40
Investment Property	25	37	37	41
Long-term Investment	1,039	1,724	1,922	1,987
Other long-term assets	62	66	60	63
Goodwill	0	0	0	0
Long-term Asset	**1,569**	**2,285**	**2,472**	**2,557**
Total Asset	**4,605**	**5,341**	**5,591**	**5,916**
Payables	535	575	541	589
Other current liabilities	162	224	252	280
Current Debt	0	0	0	0
Long-term Debt	0	0	0	0
Other long-term liabilities	1,647	2,260	2,412	2,542
Total Liability	**2,344**	**3,059**	**3,205**	**3,410**
Owner's Equity	**2,166**	**2,185**	**2,290**	**2,409**
Capital	755	755	755	755
Retained Earnings	192	200	291	394
Funds & Reverses	85	97	110	127
Others	**0**	**0**	**0**	0
Total Equity	**2,166**	**2,185**	**2,290**	**2,409**
Minority's Interest	95	96	96	96
TOTAL RESOURCES	**4,605**	**5,341**	**5,591**	**5,916**

CASHFLOWSTATEMENT	FY2013	FY2014	FY2015E	FY2016F
Pretax Income	105.3	144.9	217.1	232.1
-Depreciation	26.2	18.4	40.5	59.4
-Adjustments	*0.0*	*0.0*	*0.0*	0.0
+/- Working capital	-31.9	322.1	40.3	18.0
Net Operating CF	**99.6**	**485.5**	**297.9**	**309.6**
+/- Fixed Asset	-21.4	-45.5	-36.3	-76.3
+/- Deposit, equity investment	-38.7	-686.4	-196.9	-64.9
Interest, cash dividend, shared profits received	0.0	0.0	0.0	0.0
Net Investing CF	**-60.2**	**-731.9**	**-233.2**	**-141.2**
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-3.0	0.0	0.0	0.0
Dividend paid + Other exp. from retained profits	-42.2	292.7	28.5	-60.5
Net Financing CF	**-45.2**	**292.7**	**28.5**	**-60.5**
+/- cash & equivalents	-5.8	46.3	93.2	107.8
Beginning cash & equivalents	**244.5**	**238.7**	**285.0**	**378.3**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**238.7**	**285.0**	**378.3**	**486.1**

COMPANY REPORT

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%

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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

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