RONG VIET SECURITIES

INSURANCE INDUSTRY: Conservative Growth

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LIFE INSURANCE SECTOR - REVIEW

Product mix is adjusted to adapt to low G-bond yield environment

Sector's life insurance premium growth is slowing down, affected by the biggest player, BVH

- Total gross premium in 5M2019 posted VND 36,853 bn (+25% YoY). The growth rate was dragged down by BVH's cautious growth (+18% YoY).

Changes in product mix of new business premium

- New business premium was VND 12,066 bn (+21% YoY). Universal life kept the role of the key growth driver of new business insurance with a growth rate of 52% YoY. This is mainly because of the effect of Decree 151/2018 (see next slide), beside the market demand.

- New business premium of endowment plummeted 38% YoY. As this product has interest-sharing term, decreasing sales of this product can reduce new mathematical provision expense in a declining G-bond winning yield environment.

Figure 1: 5M2019 Industry growth

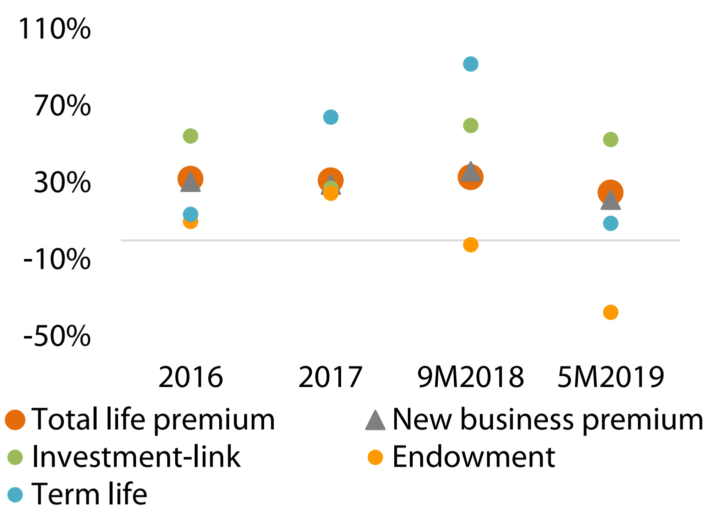


Figure 2: Product mix of new business premium

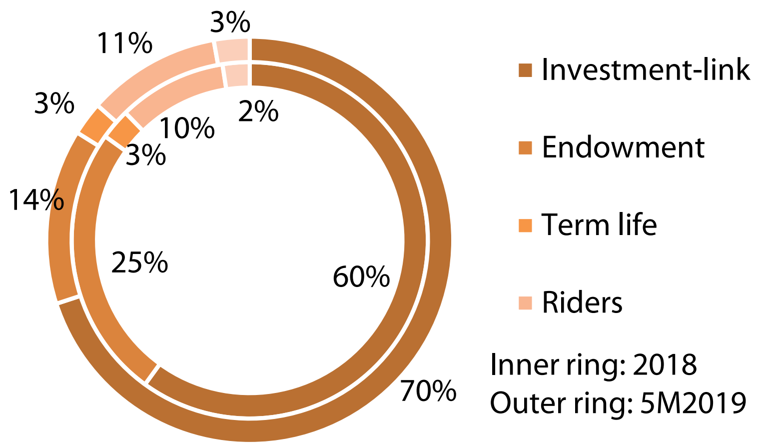
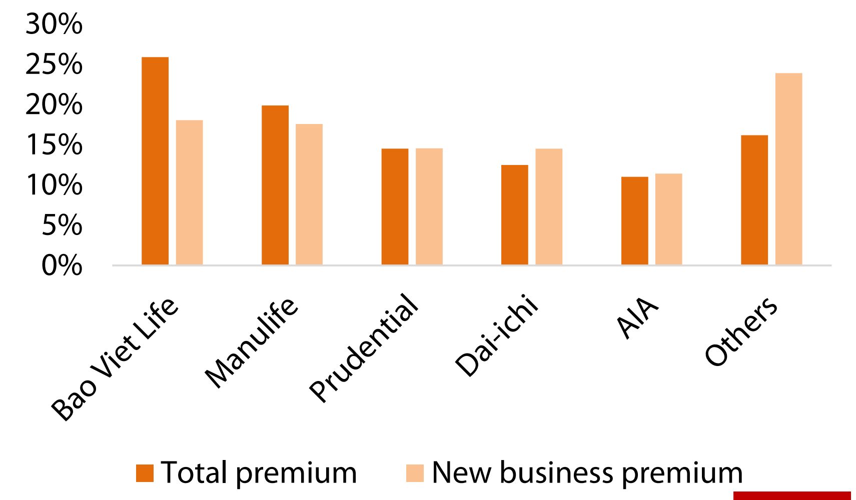


Figure 3: Market share of life insurers



Source: Insurance Supersision Agency (ISA), Rong Viet Securities

Product mix is adjusted to adapt to low G-bond yield environment

Changes in regulation facilitate business

- ***Circular 01/2019/TT-BTC***, amended some articles of Circular 50/2017/TT-BTC, lessens mathematical provision burden of life insurers: the formula of the discount rate in mathematical provision calculation (the higher the discount rate the lower mathematical provision), has been changed:
    - Circular 50/2017/TT-BTC: Discount rate = Average interest rate of G-bonds of the terms of 10 years or more issued within the last 6 months x 70%
    - Circular 01/2019/TT-BTC: Discount rate = Average interest rate of G-bonds of the terms of 10 years or more issued within the last 24 months x 80%
    - Given G-bond's winning yields has declined remarkably since the beginning of 2018, the adjustment in the averaging period from 6 months to 24 months could prevent large fluctuations in profit.
- ***Decree 151/2018/ ND-CP***, effective from Nov 2018, amended some articles of Decree 73/2016/ ND-CP and Decree 67/2014/ND-CP, revoked the requirement that agents must have experience in insurance advising or working in the finance, banking and insurance industry, to be qualified for universal life advising. This has supported the surge in 5M2019 new business premium of investment-link product.
- ***2019 Amended Law of Insurance Business***, effective from Nov 2019, promulgated legal framework for insurance supporting services (consultancy, actuary, risk assessment, loss assessment, etc.)

Diverged business strategy in an aggressively competitive market

Non-life premium came at VND 20,483 bn, +13.8% YoY, of which fire and explosion premium shot up 50% YoY thanks to Decree 23/2018/ND-CP on obligatory insurance for apartment buildings.

Market shares of top 5 companies are shrinking. While new and small companies compete for market share by boosting sales and ignoring risks, thus suffer large losses, large companies have been restructuring product mix and selecting customers for profit orientation.

State divestment is arousing M&A activities

- Non-life insurance products are virtually similar in all domestic companies. Foreign insurers, who can offer distinctive products for better profits, are eyeing the Vietnam market. The young and fiercely competitive market makes the partnership model with a local insurers the fastest way for foreign insurers to enter the market.
- Potential deals in 2019: HDI Global could buy major stake at PVI from PVN and BMI is attractive to foreign insurers when SCIC and AXA want to sell their stakes. Historically, foreign insurers usually paid a premium to become minor shareholders in Vietnamese non-life insurance companies.

Figure 4: 5M2019 Industry growth

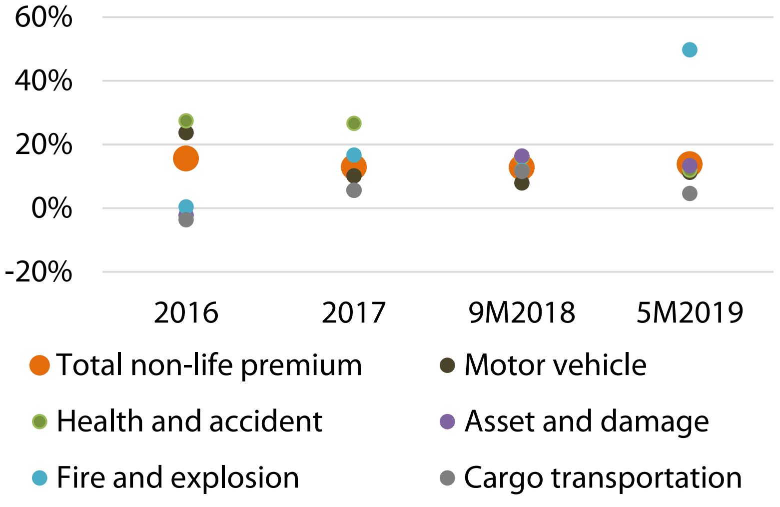


Figure 5: Product mix

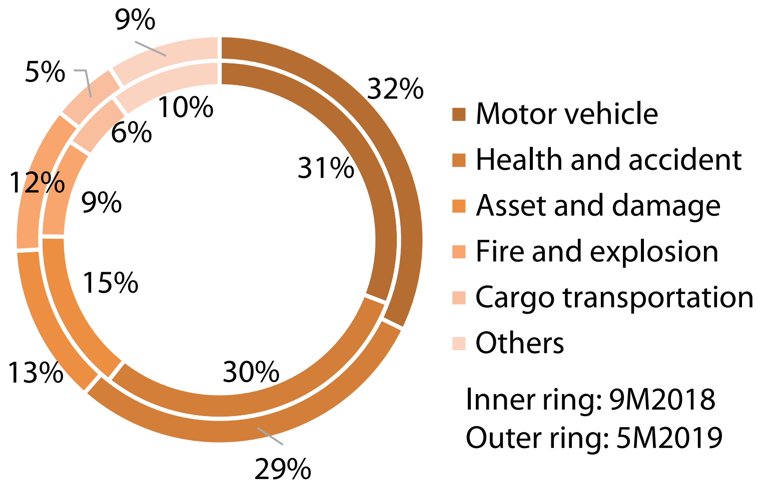
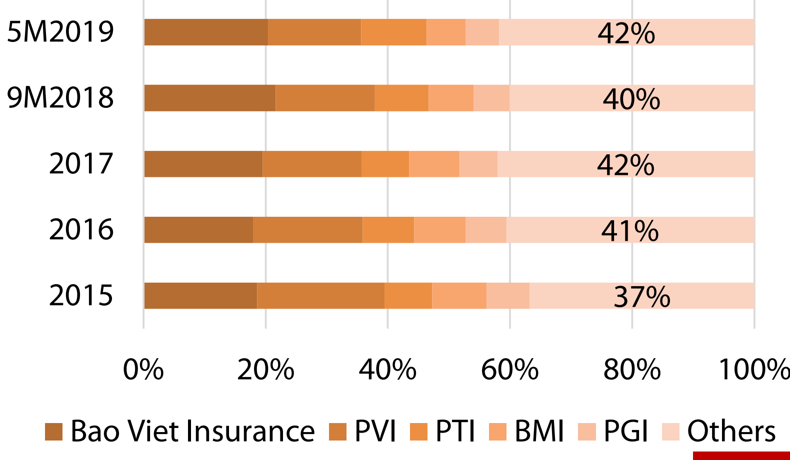


Figure 6: Market shares of 5 largest players are shrinking



Source: ISA, RongViet Securities

Industry comparables (TTM)

Ticker	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	Capex/Sales (%)	Return on Invested Capital	Return on Assets	Return on Equity
BVH	16.2	-21.9	-13.5	5.5	-19.9	2.8	0.4	15.8	0.9	6.8
PVI	38.3	69.1	15.6	15.8	59.1	10.6	0.0	10.2	3.5	10.7
BMI	-1.9	-32.2	12.1	5.9	-37.9	3.9	0.2	-4.7	2.2	5.6
PGI	2.1	22.4	8.8	8.0	21.9	5.8	1.7	12.8	2.8	10.4
PTI	23.1	-97.1	0.1	-1.6	-92.0	0.3	5.6	19.7	0.2	0.6

Source: Bloomberg, RongViet Securities

PGI – STABLE OUTLOOK

INVESTMENT RATIONALES

- **Prudent revenue growth to ensure profitability and maintain market share**
  - Product restructuring: focusing on products with low loss ratio (personal insurance, cargo transportation insurance) and limiting the growth of high loss products (motor vehicle insurance, hull and P&I insurance)
  - Loss ratio 50.24% (2018: 50.64%)
- **Good credit rating of B+ enhance PGI's negotiation strength to reinsurers and customers**
  - Using more obligatory reinsurance contracts, reducing reinsurance via facultative contracts
  - Thereby reducing time and costs while still being able to control claim settlement expenses
- **The digital system will make it more efficient in distribution and management in long term**
  - Large investment in short term in telesale and advertisement to get customers familiar with the system.
  - Expense ratio 44.8%, compared to an average of 43.47% in the last 3 years
- **Healthy and safe investment portfolio ensures timely claim settlement**
  - 85-86% in short term bank deposits, higher than the industry average (70%)
  - 5-6% in stocks that have strong fundamentals

RISKS TO OUR CALLS

- Natural disasters that are more severe than expected.

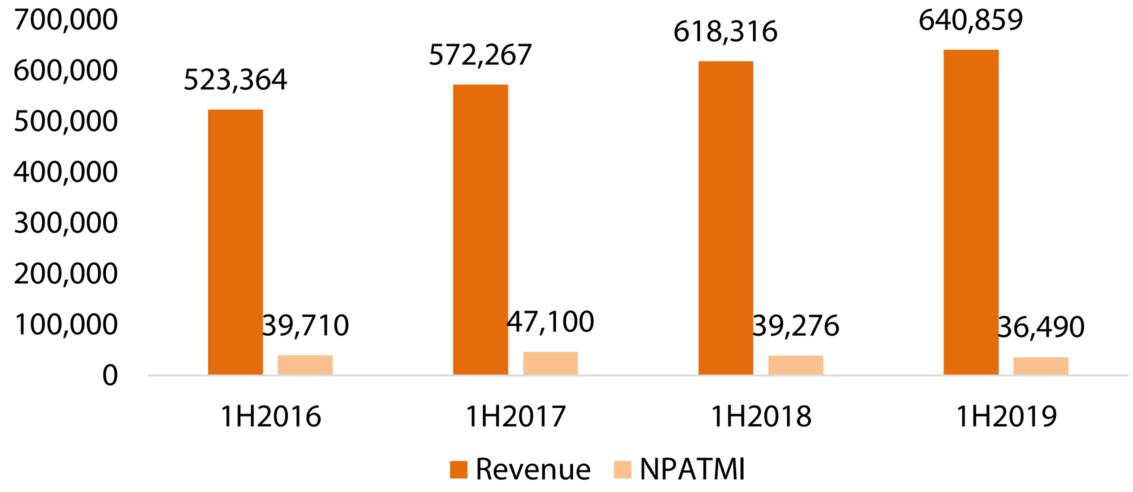
BUY +22%

CMP (VND)	**17,400**
Target price (VND)	**20,100**
Cash dividend in 12 months	*1,200*

STOCK INFO	
Sector	Insurance
Market Cap ($ mn)	66
Current Shares O/S (mn shares)	89
3M Avg. Volume (K)	77
3M Avg. Trading Value (VND Bn)	1.4
Foreign Ownership (%)	20.8
State Ownership (%)	44.6

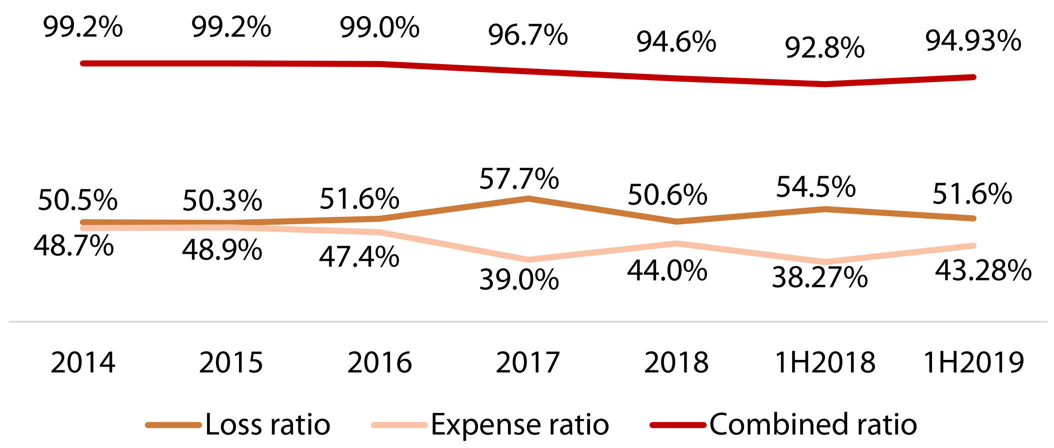
FORECAST	2017A	2018A	2019F	2020F
Revenue	2,335	2,413	2,545	2,703
Growth (%)	*13.0*	*3.4*	*5.5*	*6.2*
NPATMI	127	142	153	167
Growth (%)	*24.9*	*11.2*	*8.0*	*9.2*
ROA (%)	2.7	2.7	2.8	2.9
ROE (%)	10.7	9.6	10.2	10.8
EPS (VND)	1,436	2,527	1,584	1,728
Book Value (VND)	16,546	16,792	17,042	17,711
Cash dividend (VND)	1,200	1,200	1,200	1,200
P/E (x)	12.1	11.8	12.7	11.6
P/B (x)	1.1	1.0	1.2	1.1

Figure 1: 1H 2019 revenue and NPATMI (VND mn)



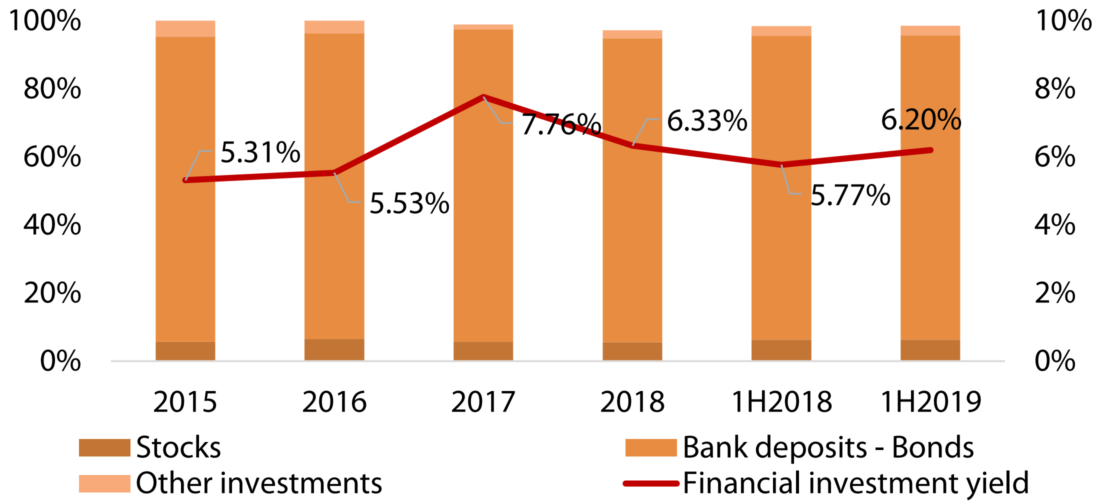
Source: PGI, Rong Viet Securities

Figure 2: Combined ratio



Source: PGI, Rong Viet Securities

Figure 3: Investment structure



Source: PGI, Rong Viet Securities

Better loss control by limiting premium assumed while increasing premium ceded

- Retention ratio reduced to 73.2%, from 77% in 1H2018, leading to a lower loss ratio 51.6% (1H2018: 54.5%).

Investment benefits from higher interest rate

- Share of bank deposits rose slightly from 85.7% to 86.1% and average deposit interest rate increased from 6.4%/year to 6.5%.
- Investment yield reached 6.2% from 5.8% of 1H2018

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