PETROLIMEX INSURANCE CORPORATION (HNX :PGI)

Stable outlook

(VND bn)	Q1-FY19	Q4-FY18	+/- QoQ	Q1-FY18	+/- yoy
Net revenue	592	685	-13.6%	555	6.7%
PAT	40	36	11.1%	35	13.3%
EBIT	44	43	2.3%	43	2.3%
EBIT margin	7.4%	6.3%	110 bps	7.7%	-30 bps

Source: PGI, Rong Viet Securities

1Q2019 – Positive result due to customer and product restructuring

Net profit from the insurance business reached VND 43 billion (+37% YoY) owing to changes in customer and product structure. Net sales from the insurance business grew 6.7% YoY while total direct insurance operating expenses as well as selling and management expenses increased only 5.7% YoY and 0.8% YoY, respectively. The loss ratio and combined ratio are estimated at 52.36% and 93.23%. Adjusted net profit from financial and real estate investments decreased by 16% YoY because PGI realized capital gains from investments in MBB and HPG in Q1/2018. Q1/2019 PAT reached VND 40 billion, up 13.3% compared to Q1/2018.

FY2019 outlook - Prudent growth to ensure profitability and maintain market share

We forecast that PGI's gross insurance premium may reach VND 2,985 billion, +6.2% YoY, a suitable growth rate to ensure profitability and maintain its top 5 position in the market. The loss ratio may come in at 50.45%, slightly lower than 50.64% in 2018 despite pressure to increase sales in order to maintain market share. The expense ratio would increase slightly to 44.63%, compared to the average of 43.47% in the last 3 years, mainly due to the development of its online sales channel. The combined ratio in 2019 is expected to reach 95.2%, higher than 94.61% last year while net profit from the insurance business is forecast to reduce by 2.6% YoY to VND 112 billion. Profit from investment to reach VND 73 billion (+21.7% YoY) mainly due to rising deposit interest rates. Investment yield is expected to reach 6.37%, PAT VND 153 billion (+8% YoY) and EPS VND 1,585 (+8% YoY).

Valuation and recommendation

The B+ (Good) credit rating by A.M.Best will support PGI in customer acquisition and entering premium insurance markets while the loss ratio will continue to improve. In the near future, aviation insurance is going to play a promotional role for the company rather than make a profit. New distribution channels (websites, mobile applications) can help reduce operating costs in the long term but will incur costs in the early stages. As for investment business, we expect the investment yield to remain stable around 6.2% per year. PATs of 2019 and 2020 are forecasted to reach VND 153 billion and VND 167 billion, corresponding to growth rates of 8% and 9.2% YoY, respectively.

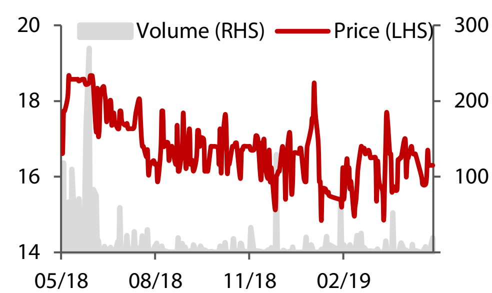
We keep our target price at VND **20,100** with an expected cash dividend of **VND 1,200/share**, we recommend **BUY** with a total expected return of **24%** based on the May 15, 2019 closing price of VND 17,200/share.

BUY	+24%
Target price (VND)	20,100
Current market price (VND)	17,200
Cash dividend (VND)*	1,200
*within next 12 months	

Stock Info	
Sector	Insurance
Market Cap (VND billion)	1,482
Current Shares O/S	87.7
Beta	0.26
Free float (%)	43.4
52 weeks High	18,480
52 weeks Low	14,840
Avg. Daily Volume (in 20 sessions)	1,990

	FY2018	Current
EPS	1,596	1,649
EPS Growth (%)	-3.5	+3.3
Diluted EPS	1,468	1,517
P/E	10.7	9.9
P/B	1.2	1.0
EV/EBITDA	5.4	4.1
Cash dividend yield (%)	7.1	7.5
ROE (%)	9.1	10.1

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-FY19	Q4-FY18	+/-(qoq)	Q1-FY18	+/-(yoy)
Net revenue	592	685	-13.4%	555	6.7%
Gross profit	130	152	-14.5%	118	10.2%
SG&A	87	116	-25.0%	87	0.0%
Operating income	43	36	19.4%	31	38.7%
EBITDA	46	71	-35.2%	50	-8.0%
EBIT	44	43	2.3%	43	2.3%
Financial expenses	11	10	10.0%	16	-31.3%
- Interest Expenses	0	0	0.0%	0	0.0%
Dep. and amortization	2	28	-92.9%	7	-71.4%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	44	43	2.3%	43	2.3%
PAT	40	36	11.1%	35	14.3%
(*) Adjusted PAT					

Source: PGI, Rong Viet Securities

Exhibit 2: Q1/2019 Performance Analysis

Particulars	Q1-FY19	Q4-FY18	+/-(qoq)	Q1-FY18	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	22.0	22.1	-10 bps	21.3	70 bps
EBITDA Margin	7.8	2.2	560 bps	9.0	-120 bps
EBIT Margin	7.4	6.3	110 bps	7.7	-30 bps
Net Margin	6.8	5.0	180 bps	6.3	-50 bps
Adjusted Net Margin					
Efficiency (%)	52.4	50.7	170 bps	53.5	-110 bps
-Loss ratio	40.9	42.5	-160 bps	39.4	150 bps
-Expense ratio	93.2	93.1	10 bps	93.0	20 bps
-Combined ratio					
Leverage (%)	276.3	259.0	173 bps	258.1	182 bps
Total Debt/ Equity	22.0	22.1	-10 bps	21.3	70 bps

Source: Rong Viet Securities

Exhibit 3: Q2/2019 Performance Forecast

Particulars (VND Bn)	Q2-FY19	+/- qoq	+/- yoy
Revenue	661	11.6%	-6.9%
Gross profit	129	-0.8%	7.5%
EBIT	49	-10.2%	2.1%
NPAT	39	-2.5%	0.0%

Source: Rong Viet Securities

Update

Profit of insurance business grew strongly

Net revenue of insurance premium in Q1/2019 reached VND 513 billion (+4.9% YoY), of which the gross written premium was VND 666 billion (+6.7% YoY), reinsurance premium assumed reached VND 33 billion VND (+3.1% YoY) and reinsurance premium ceded was VND 179 billion (+22.6% YoY). Gross written premium increased the most in property and damage insurance, fire and explosion insurance and motor vehicle insurance while reduced sharply in accident and health insurance and remained flat in cargo transportation insurance. However, we believe that the developments in sales of these segments are temporary and the company will stick with its proposed product restructuring strategy: 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).

Table 1: Gross written premium growth

VND bn	Q1/2019	Q1/2018	+/-YoY (%)	2018	2017	+/- YoY (%)
Health and accident insurance	70	130	-46,0	512	377	+35,7
Asset and damage insurance	78	50	+57,3	288	223	+29
Fire and explosion insurance	58	43	+33,2	259	187	+38,5
Cargo transportation insurance	72	73	-1,4	289	244	+18,5
Motor vehicle insurance	294	253	+16,4	1.064	1.085	-1,9
Hull and P&I insurance	81	68	+18,9	307	412	-25,4
Aviation insurance	3	0		6	0	

Source: PGI, Rong Viet Securities

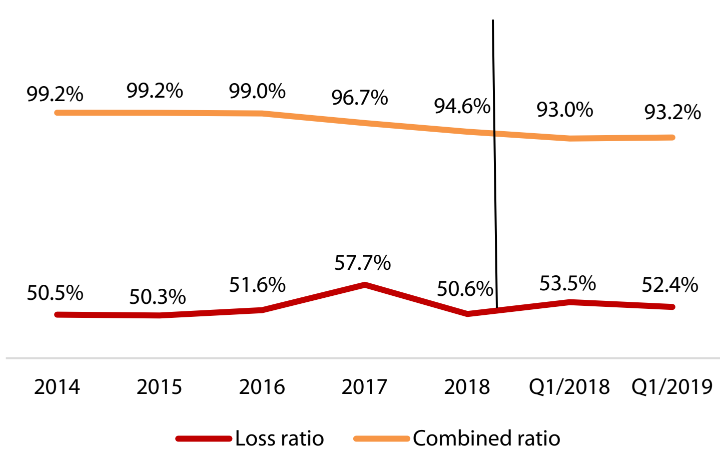
In the second half of 2018, aviation insurance recorded a gross written premium of VND 6 billion for the first time due to the air plane physical damage insurance contract for Vietjet Air. Sales of this segment in Q1/2019 were still very modest at VND 3 billion of gross written premium. However, we appreciate PGI's efforts in expanding into new markets, especially high-end and complicated markets like the aviation insurance market, which requires large capital, high competence in ceding and good relationship in the sector.

By choosing efficiency rather than market share expansion, PGI's market share in the non-life insurance market dropped to 6.2% at the end of 2018, from 6.5% at the end of the year 2017 but the company remains in the top 5 non-life insurance companies.

Net sales from the insurance business grew by 6.7% while total direct insurance operating expenses as well as selling and management expenses rose by only 5.7% and 0.8%, respectively. As a result, net operating profit from insurance operation came at VND 43 billion, a strong increase of 37% compared to the same period last year.

The loss ratio was estimated at 52.36%, an improvement compared to the 53.49% in Q1/2018. The combined ratio reached 93.23%, slightly up compared to 92.96% in Q1/2018.

Figure 1: Loss ratio and Combined ratio



Source: PGI, Rong Viet Securities

The claim settlement situation in Q1/2019 improved thanks to the impact of the following factors:

- *Limiting premium assumed while increasing premium ceded*: the share of reinsurance premium assumed in total insurance premium decreased from 4.9% in Q1/2018 to 4.7% in Q1/2019. Meanwhile, the share of premium ceded increased to 25.9% from 22.7% in the same period last year. A good credit rating will enhance PGI's position in negotiating the terms and conditions of obligatory reinsurance contracts, reducing reinsurance via facultative contracts, thereby reducing time and costs while still being able to control claim settlement expenses for the company.
- *Restructuring major insurance products:* promoting life insurance to borrowers (loss ratio is only about 20-25%), cutting student insurance (loss ratio is 38- 40%); cutting insurance for cars of less than VND 500 million, trucks and taxis, and boosting insurance for official and business cars because customers are highly aware of risks prevention.

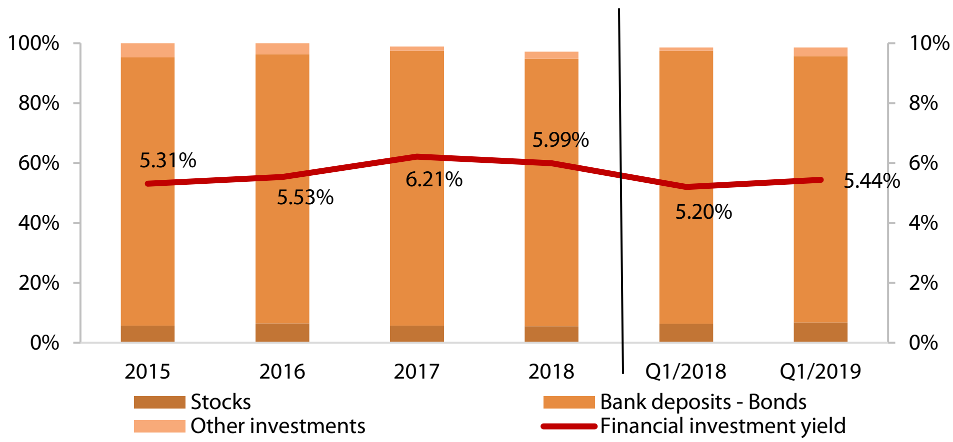
Investment profit fell slightly as the company did not realize capital gains from equity investment in Q1/2019

Profit from financial investment and real estate reached VND 5.5 billion, -55% YoY. Adding the deposit interest from policy holder fund (recorded in other incomes of insurance business), the investment profit decreased 16% YoY.

In Q1/2018, PGI realized capital gains from investments in MBB and HPG with a profit of around VND 9.2 billion. Excluding this profit, income from financial activities in Q1/2019 (including interest from depositing policyholders' fund) decreased -4.1% YoY. Financial expenses, on the other hand, dropped sharply by -26.5% YoY. In sum, profit from financial activities (adjusted for one-offs) increased by 7.1% YoY.

The investment structure was pretty much unchanged with about 86% of the portfolio in short-term bank deposits. Financial investment yield in Q1/2019 was estimated at 5.4%, higher than 5.2% in the same period last year (excluding profit from selling MBB and HPG).

Figure 2: Investment structure



Source : PGI, Rong Viet Securities

2019 forecast

The fierce competition in non-life insurance persists. In 2019, we forecast that the gross written premium of PGI may rise 6.2% YoY, lower than the 7.6% growth in 2018. In addition to focusing on health, accident insurance and cargo transportation insurance, PGI plans to expand its market share in aviation insurance through cooperation with Vietjet Air, Bamboo Airways and Vietnam Airlines. The company sets the sales target for aviation insurance in 2019 at VND 12 billion (+100% YoY), mostly from air plane physical damage insurance. However, as the share of aviation insurance in PGI's total gross written premium is less than 1% and retention rates for this product are very low (up to 0.5% of the total aviation gross written premium), we believe that this business is mainly for marketing purposes.

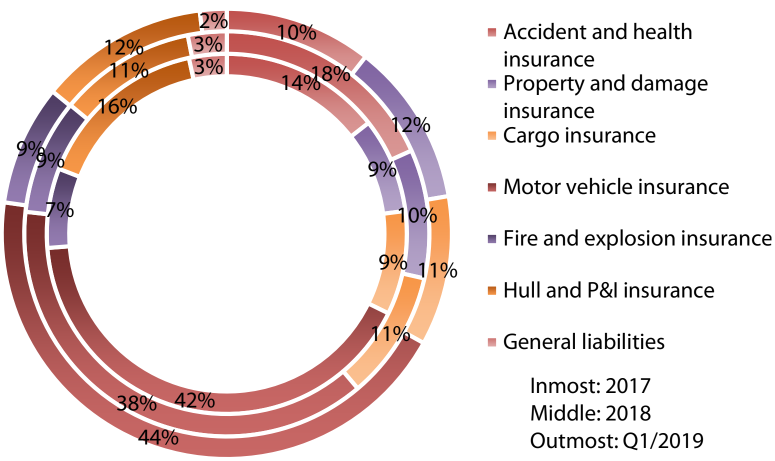
Loss ratio reaches 50.24%, down from 50.64% in 2018 thanks to PGI's restructuring. However, the decrease is not significant because PGI wishes to maintain its top 5 position.

From 2016, the insurance market has seen several unfavorable new factors that lead to higher risks, such as rapid climate change, more serious environmental pollution, unsafe food. Such situation has resulted in increasing expenses related to risk assessment and prevention. Also, new channels such as telesales, websites and mobile phone applications will require large investment in the near future. Therefore, we forecast that the expense ratio in 2019 could increase to 44.8%, compared to an average of 43.47% in the last 3 years. The combined ratio in 2019 is 95.04%, up from 94.61% in 2018. Therefore, net profit from the insurance business is expected to reach VND 112 billion, down 2.6% YoY.

In terms of investment operation, we forecast the investment yield to reach 6.38%, mainly due to the increase in deposit interest rates. Profit from financial investment and real estate to come at VND 73 billion, up 21.7% YoY.

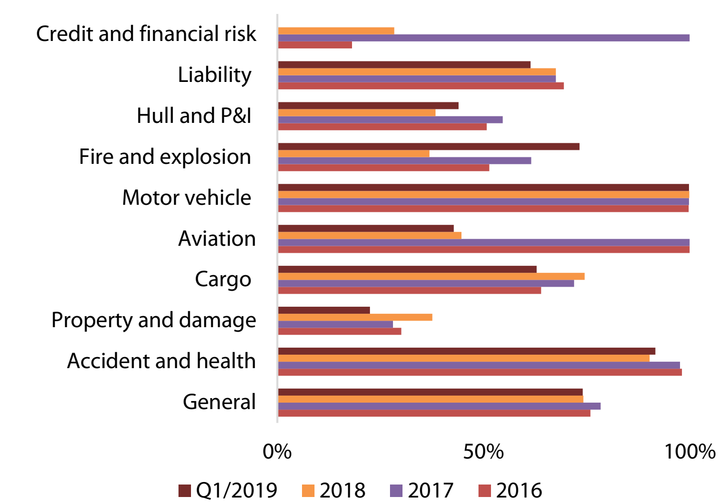
In summary, PAT is VND 153 billion (+8% YoY). EPS 2019 is VND 1,584 (+8% YoY).

Figure 3: Product struture



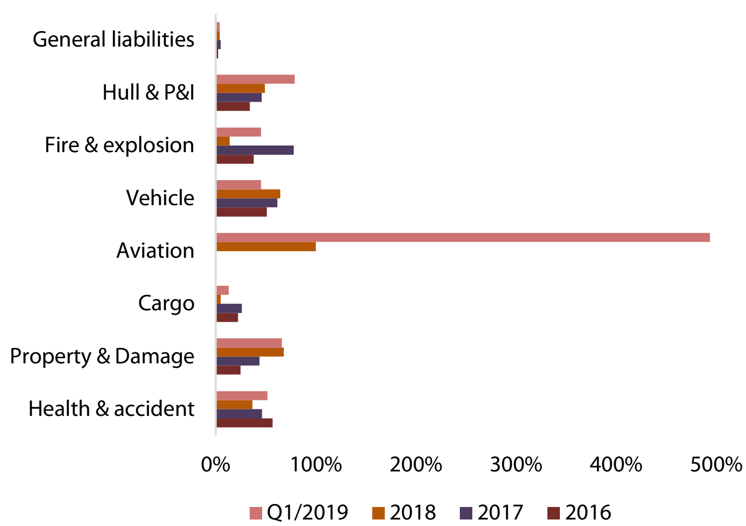
Source: PGI, Rong Viet Securities

Figure 4: Retention ratios



Source: PGI, Rong Viet Securities

Figure 5: Loss ratio on gross written premium



Source: PGI, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	2,335	2,413	2,545	2,703
COGS	1,927	1,929	2,049	2,163
Gross profit	**408**	**485**	**496**	**540**
Selling Expense	0	0	0	0
G&A Expense	340	369	384	408
Finance Income	87	98	93	99
Finance Expense	12	43	25	32
Other profits	8	0	4	3
PBT	**145**	**175**	**189**	**207**
Prov. of Tax	29	34	36	40
Minority's Interest	0	0	0	0
PAT to Equity S/H	**116**	**142**	**153**	**167**
EBIT	145	175	189	207
EBITDA	176	270	234	260

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth				
Revenue	13.0	3.4	5.5	6.2
Operating Income	356.5	168.6	97.2	118.0
EBITDA	15.6	15.6	7.9	9.5
PAT	13.7	15.6	7.9	9.1
Total Assets	16.9	6.8	3.3	6.3
Equity	60.6	1.5	1.5	3.9
Profitability				
Gross margin	17.5	20.1	19.5	20.0
EBITDA margin	7.5	10.9	9.2	9.6
EBIT margin	6.2	6.9	7.4	7.6
Net margin	5.0	5.6	6.0	6.2
ROA	2.5	2.6	2.8	2.9
ROE	9.7	9.1	10.2	10.8
Efficiency				
Loss ratio	57.7	50.6	50.2	49.9
Expense ratio	39.0	44.0	44.8	44.6
Combined ratio	96.7	94.6	95.0	94.5
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	242.0	259.8	266.2	274.5
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	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	142	177	208	231
Short-term investments	2,484	2,515	2,657	2,823
Accounts receivable	576	483	448	475
Inventories	7	7	8	7
Other current assets	1,109	1,342	1,343	1,418
Property, plant & equipment	242	262	260	263
Acquired intangible assets	147	174	217	270
Long-term investments	186	283	286	289
Other non-current assets	8	15	9	11
Total assets	**5,019**	**5,361**	**5,537**	**5,885**
Accounts payable	3,532	3,828	3,994	4,278
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other non-current liabilities	17	22	21	23
Bonus and Welfare fund	40	41	45	47
Technology-science, dev. fund	15	20	20	21
Total liabilities	**3,552**	**3,871**	**4,025**	**4,314**
Common stock and APIC	887	887	887	887
Treasury stock	0	0	0	0
Retained earnings	121	135	158	208
Statutory reserve	50	57	56	64
Reserves for Investment & Development	50	51	51	53
Total equity	**5,019**	**5,361**	**5,537**	**5,885**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	1,218	1,468	1,584	1,728
P/E (x)	15.6	11.6	10.7	9.8
BV (dong)	16,546	16,792	17,042	17,711
P/B (x)	1.3	1.0	1.0	1.0
DPS (dong/cp)	1,200	1,200	1,200	1,200
Dividend yield (%)	5.6	7.1	6.0	6.0

VALUATION MODEL	Price	Weight	Average
EVA	18,940	30%	5,682
P/E	23,002	30%	6,901
P/BV	18,808	40%	7,523
Target price (VND)			**20,106**

VALUATION HISTORY	Price	Recommendation	Period
09/2016	20,526	Hold	Long term
01/2017	22,780	Accumulate	Mid term
02/2018	24,900	Buy	Mid term
11/2018	20,100	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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