March, 2016

Post and Telecommunication Joint Stock Insurance Corp (HNX- PTI)

Impressive growth

- Switch from extraordinary growth to sustainable growth
- New expectation in Dongbu Insurance
- 2015 earnings result updates and 2016 earnings forecast

Outlook and valuation:

Branding, distribution channels and leading position in motor & vehicle segment (top 2) are unique competitiveness of PTI. On insurance operation aspect, PTI is targeting stable growth at 2 digits after overheating growth to battle for market share in previous years. For investment activities, PTI is taking advantage of excess cash from strategic issuance to restructure its portfolio, in which the company shall increase the proportion of fixed income assets to benefit from higher interest rates as well as to improve the solvency margin. Another catalyst for future growth of PTI is the participation of Dongbu Insurance, which is the new strategic partner. Dongbu is well experienced in worldwide insurance market; therefore, Dongbu Insurance could support PTI to expand the operation not only in Vietnam but also in South East Asian region. However, similar to other Insurance sector stocks, liquidity of PTI is a consideration.

*Using DDM, P/E and P/B valuation methods, we believe PTI shall be fairly valued at **VND28,500**. Therefore, we recommend investors to **"ACCUMULATE"** the share for "**LONG-TERM**" horizon.*

Key financials

Y/E Dec (VND bn)	FY2014	FY2015	FY2016E	FY2017F
Net revenues	1,441.5	1,892.9	2,301.6	2,635.9
% chg	9.0%	31.3%	21.6%	14.5%
PAT	67.4	162.1	204.1	227.5
% chg	22.9%	140.6%	25.9%	11.4%
Net profit margin (%)	4.7%	8.6%	8.9%	8.6%
ROA (%)	3.0%	4.8%	4.3%	4.2%
ROE (%)	10.1%	12.9%	10.8%	11.3%
EPS (VND)	1,337	2,500	2,539	2,830
Adjusted EPS (VND)	838	1,709	2,539	2,830
Book value (VND)	13,375	22,925	24,238	25,853
Cash dividend (VND)	1,100	1,200	1,200	1,200
P/E (x)	6.7	6.2	9.0	8.1
P/BV (x)	0.7	0.7	0.9	0.9

Source: PTI, RongViet Research

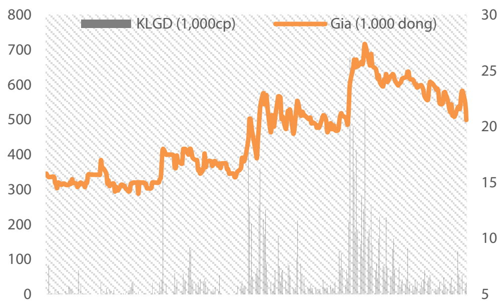
ACCUMULATE

CMP (VND)	22,500
Target Price (VND)	28,500
Investment Period	LONG-TERM

Stock info

Sector	Non-life insurance
Market Cap (VND bn)	1,849
Current Shares O/S	80,395,709
Beta	0.9
Free Float (%)	15
52 weeks High*	27,400
52 weeks Low*	14,000
Avg. Daily Volume (in 20 sessions)	29,702

**Adjusted price*



Performance (%)

	3M	1Y	3Y
PTI	-6	37	130
Insurance	-1	44	92
VN30 Index	-1.9	-14	5
VNIndex	-2.3	-5.6	18

Major Shareholders (%)*

Dongbu Insurance	37.32
Vietnam Post Corporations	22.67
VNDIRECT Securities JSC	7.6
Bao Minh Insurance Corporation	5.53
FOL	49

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Company profile

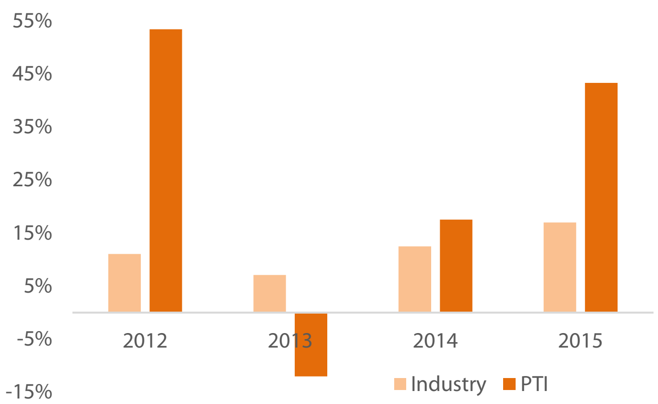
Post and Telecommunication Joint Stock Insurance Corporation (HNX – PTI) was established in 1998. PTI provide 4 major insurance services, which include motor vehicle, health and personal accident, technical property and marine insurance. The company has always achieved faster growth than other players in the industry throughout its history. In 2015, the company made its move to take the 4th place in market share.

Switch from extraordinary growth to sustainable growth

The fastest growing company in non-life sector

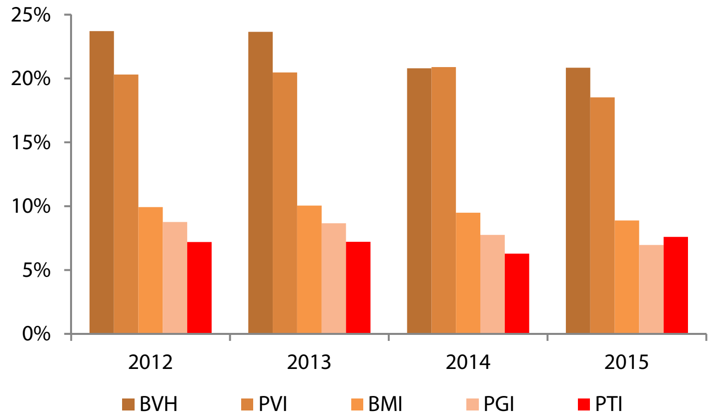
From 2010 – 2014, PTI's premium witness outstanding growth rate compared to those of other competitors

Figure: Higher growth of PTI's premium compared to the sector



Source: MOF, Agency for Insurance Supervisory and Management

Figure: The gap between PTI and BMI is narrowing

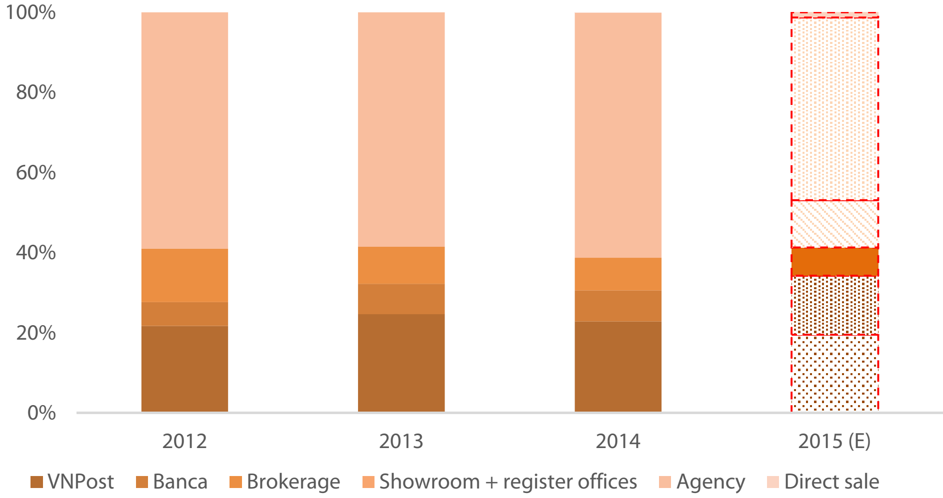


Source: MOF, Agency for Insurance Supervisory and Management

PTI has experienced a surge of premiums over 50% in 2010-2012 period. Overheating growth has significantly supported PTI improving in its market share, thanks to that, PTI has made it to the top 5 in the insurance market. However, claims payment and other operation expenses of PTI increased rapidly in this period, which squeezed all profit from insurance operation. After having sacrificed profit to preserve market share, PTI is currently adjusting its strategy on sustainable growth and effective risk management.

2013 was the first time ever PTI perceived a negative growth of 12% as the whole industry underwent harsh time. Quickly after then, 1 year later, the non-life insurance sector recovered and post two-digit growth whereas PTI took the lead with 17% higher in insurance premiums. PTI's competitive edge in comparison with top 5 companies is beyond distribution channels of traditional traditional products through agencies, PTI can be able to take advantage of selling network by the relationships between the company and major shareholder named VNPost. VNPost owns 12,738 branches, 11,278 of which PTI can use to approach its customers promptly and economically. Furthermore, the company could avail itself of communal cultural post offices to get in touch with clients in rural areas. As far as we concern, people in rural areas account for 70% of total population across the country; hence, such market is potential for players in this industry.

Figure: Gross premium structure by distribution channels

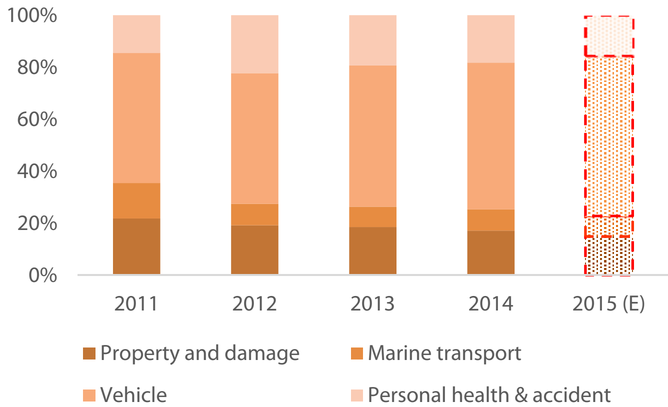


Source: PTI

In 2015, PTI has officially replaced PGI to take 4th position out of top 5 non-life insurance companies. PTI is targeting for top 3 in term of market share from now till 2018. Better growth rate than that of average industry and narrowing gap with BMI are indicators that prove the goal into top 3 companies is achievable.

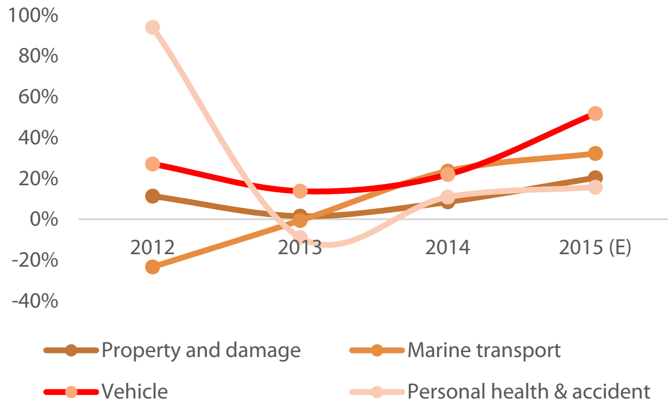
Growth driver comes from motor vehicle operation

Figure: Gross premium structure by products



Source: PTI

Figure: Growth of gross premium



Source: PTI

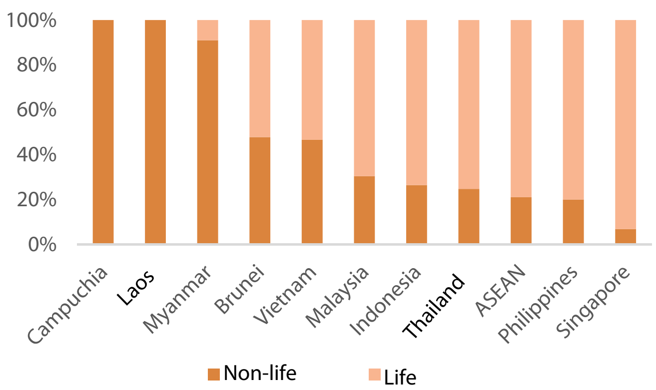
PTI has always ranked No.2 in motor vehicle insurance business with market share around 12.6%. This division contributed 61% of revenue for the PTI written premiums and remained high growth in the past years. We believe motor vehicle insurance will continue to experience encouraging results thanks to 3 drivers. Firstly, according to VAMA, market might witness a 10% growth of new vehicles. Secondly, premium fee per car will increase from 1.3% to 1.5% over the total value. Lastly, Ministry of Transport has published Decision 356/QĐ-TTg, which sets the target of 3.2 to 3.5 million cars in 2020; thus, the annual growth rate shall be 10%.

As this is the core business of PTI, the company shows its expertise in managing loss ratio to fluctuate around 35% to 40%. Indeed, firstly, PTI tries to enhance the risk assessment before granting the application and defies customer classification to draw up suitable contract. In case facing with customers that tend to have high loss ratio, PTI will negotiate to increase the fees. Then, upon the occurrence of damage, PTI will conduct careful inspection to minimize the possibility of insurance fraud. Moreover, PTI is the leading insurer in applying information technology in business operations. The company has already equipped most of its employees with smartphones to promptly locate and assess the damage, proceeded the compensation procedures via web-based apps and messages etc. Finally yet importantly, PTI regularly updates the cost of repairment to make timely adjustments to compensation policies.

Seek for overseas markets

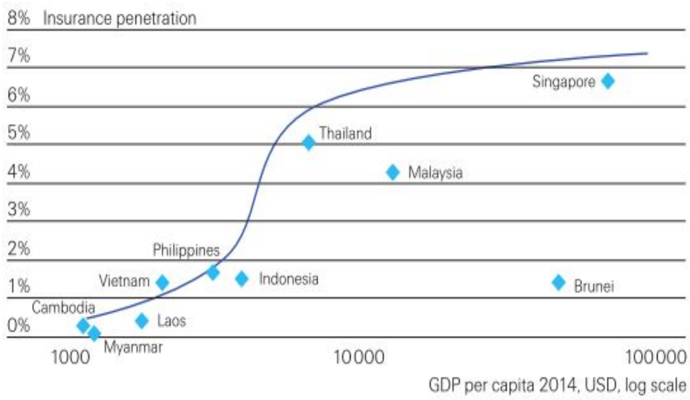
To integrate with international insurers, PTI is ready for opportunities in overseas markets. Among ASEAN countries, PTI picks Laos, Cambodia and Myanmar as the most potential markets. To stay consistency with stable growth strategy, PTI will expand majorly its motor vehicle insurance operations into these countries.

Figure: Contribution of life and non-life insurance premium in ASEAN countries



Source: Swiss Re

Figure: Insurance penetration in ASEAN countries



Source: Swiss Re

From above figures, we could explain why PTI is aiming at those markets. In emerging markets, non-life insurance still plays major role in the sector while the other life insurance takes the lead in developed markets. In Cambodia, Laos and Myanmar, premiums from non-life segment account for at least 92% of total insurance market premiums. Therefore, citizens in these countries show great concern on non-life insurance products. Besides, insurance penetrations in such countries are relatively low (less than 1%) if compared to those in more developed markets. Lastly, there are few insurers in Cambodia, Myanmar and Laos. In addition, capital structure requirements for insurance firms in 3 countries are same as requirements in Vietnam.

Except for Laos market where PTI has already contributed capital with Laos Bank of Development to establish Lane Xang Joint Stock Insurance Corp, the rest 2 markets are still in research phase. If PTI could succeed, we believe strong growth of these markets like Vietnam will significantly contribute revenue to PTI's operation.

Table: Number of insurance firms and capital structure requirement in some ASEAN countries

Nation	Number of insurance firms		Required capital structure
	Non-life	Life	
Cambodia	6	5	Minimum solvency margin
Laos	6	4	Minimum solvency margin
Myanmar	10	13	Minimum solvency margin
Vietnam	29	17	Minimum solvency margin

Source: RongViet Research

New expectation in Dongbu Insurance strategic investor

On the date 9/7/2015, PTI has issued 30 million individual shares for Dongbu Insurance strategic investors and gain VND1,077 billion. Therefore, the chartered capital of 300 billion increased to 803 billion and Dongbu holds 37% in the ownership structure of the PTI. Beside technical, financial and risk management support for PTI, the appearance of Dongbu Insurance shall open opportunities for PTI to approach potential Korean customer segment and Myanmar market. Moreover, with a new fund from this private placement, PTI flexibly restructure its investment portfolio in a more conservative orientation.

Opportunities for PTI to approach potential Korean customers and Myanmar Market

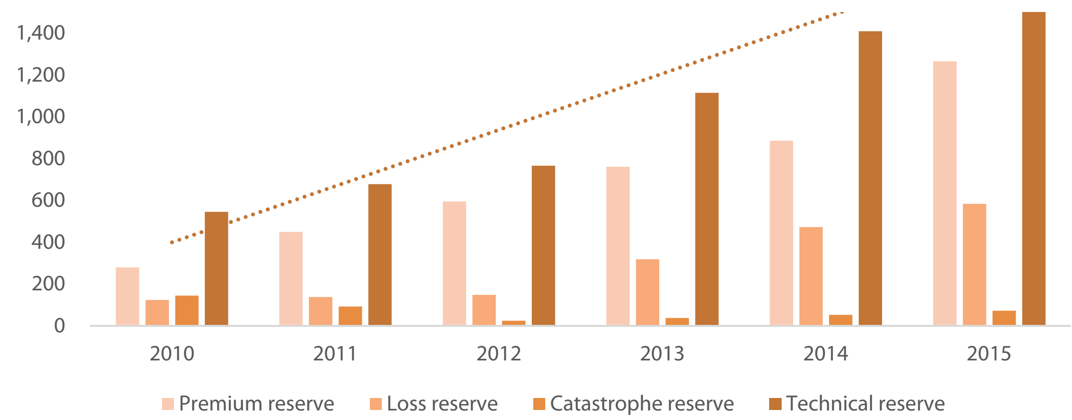
By November 2015, Korea is a leading country with highest FDI capital flowing into Vietnam with the percentage of 31.6% in total of investment capital. Thus, Dongbu Insurance will open opportunities to approach a large number of Korean customers, to which PTI could sell its property insurance product, especially the tradition product named electronics insurance. Loyal customers of PTI, who are Vinaphone, Mobiphone and VNPost, are the largest players in Vietnam telecommunication sector. In order to expand the electronics segment, PTI needs to expand its customer base to foreign ones, specifically Korean enterprises. Besides its ability to expand its network PTI customers, Dongbu Insurance also pledged technical support, financial and risk management for PTI.

For the aspect of market expansion to other regional countries, Myanmar is an attractive market since the government allowed foreign insurers to involve in domestic market. Currently, the number of corporate non-life insurance in this country is still modest at 10 companies. Meanwhile, according to Reuter's calculations, Myanmar market size could bring more than USD1.6 billion annually for insurance companies. The penetration rate followingly could reach 1.4%, equivalent to Vietnam currently. With the presence of Dongbu Insurance in Myanmar since 2015, PTI is expected to more easily advance in this prospective market.

Safer investment portfolio thanks to additional capital from strategic partner

Between 2012 and 2014, PTI only allocated in deposits (65%), equities (11%) including listed stocks (6.5%) and unlisted stocks (4.5%), and other instruments (24%). Since mid of 2015, more capital raised from strategic issuance has enabled PTI to restructure its portfolio, in which the company allocates 80% of total assets into deposits and secured corporate bonds. The firm expects to invest mainly in these financial assets to improve return from fixed-income instruments and to better control cash inflow from investment activities. There are 2 current advantages for PTI new investment strategy: (1) higher interest rate and the new policy since Nov 2015 enabling government to issue bonds with tenor less than 5 years, which are more appropriate for investment activities of non-life insurers, especially for companies that have yet invested in government bonds like PTI.

Figure: Technical reserve



Source: PTI

Also, we believe that portfolio restructuring will improve solvency margin of PTI. Currently, Vietnamese insurers are constrained by "minimum solvency margin" capital structure. Under the regulation, a qualified insurance firm must have the solvency margin higher than the minimum one after adequately set aside the technical reserves. The higher the ratio of solvency margin/minimum solvency margin, the healthier the company is.

Low interest rate caused the solvency ratio of PTI to drop from 134% in 2013 to 120% in 2014. Hence. To maintain at a safe level, PTI would better (1) lower investment allocation to risky assets such as stocks and (2) seek for higher rate of return financial instruments for better investment yield. PTI is flexibly achieving both targets thanks to exceed cash from private placement for Dongbu Insurance.

2015 earnings result updates and 2016 earnings forecast

In 2015, PTI recorded gross premium at VND2,461 billion (+43.27% y-o-y), exceeding 12% of initial plan. Loss ratio is estimated around 43,71% and the combined ratio followingly was calculated at 100.13% (+0.53% compared with 2014). Investment activites saw a significant growth 185% y-o-y, equivalent to VND194 billion thanks to excess cash from private placement for Dongbu Insurance. Hence, earning result was an impressive growth whereas EBT and EAT were booked VND204 billion (+113% y-o-y) and VND162 billion (+141% y-o-y). FY2015 EPS of PTI respectively was VND2,500/share.

2016 is predicted to be a favorable year of insurance industry. We expect PTI to perform higher growth compared with other competitors in the industry. Gross premium is forecasted at VND2,960 billion. Loss and combined ratios are controlled around 44% and 99.7%. EBT and EAT are followingly projected at VND229 billion and VND204 billion, giving an EPS of VND2,539/share.

Outlook and valuation

Branding, distribution channels and leading position in motor & vehicle segment (top 2) are unique competitiveness of PTI. On insurance operation aspect, PTI is targeting stable growth at 2 digits after overheating growth to battle for market share in previous years. For investment activities, PTI is taking advantage of excess cash from strategic issuance to restructure its portfolio, in which the company shall increase the proportion of fixed income assets to benefit from higher interest rates as well as to improve the solvency margin. Another catalyst for future growth of PTI is the participation of Dongbu Insurance, which is the new strategic partner. Dongbu is well experienced in worldwide insurance market; therefore, PTI is expected to be supported from Dongbu Insurance to expand the operation not only in Vietnam but also in South East Asian region. However, similar to other Insurance sector stocks, liquidity of PTI is a consideration.

Using **DDM**, **P/E** and **P/B** valuation methods, we believe PTI shall be fairly valued at VND28,500. So. we recommend investors to **"ACCUMULATE"** the share for **"LONG-TERM"** horizon.

Valuation metrics

Method	Price (Unit: VND)	Weight	Average(Unit: VND)
DDM	28,899	80%	23,120
P_0/E_0	28,295	10%	2,830
P/BV	25,853	10%	2,585
Target Price		**100%**	**28,534**

Source: RongViet Research

Appendix: PTI in comparison with other listed insurance companies in HSX and HNX

Ticker	Chartered capital (Unit: billion VND)	Market cap (Unit: billion VND)	Foreign ownership	ROE	ROA	P/E	P/B
ABI	380	502	1.85%	15.03%	6.71%	6.14	0.90
BIC	1,173	2,568	44.27%	7.72%	3.06%	15.96	1.29
BMI	830	2,176	42.75%	6.24%	2.62%	15.73	0.97
BVH	6,805	37,426	24.58%	8.84%	2.12%	33.29	2.98
PGI	710	1,183	0.46%	11.25%	2.53%	12.70	1.48
PTI	804	1,841	37.99%	12.88%	4.79%	9.78	1.00
PVI	2,342	6,141	49.00%	9.29%	3.55%	10.27	0.94
VNR	1,311	2,464	35.25%	9.79%	4.03%	9.49	0.92

Source: RongViet Research

Unit: billion VND

PERFORMANCE	FY2014	FY2015	FY2016E	FY2017F
Revenue	1,441.5	1,892.9	2,301.6	2,635.9
COGS	1,072.5	1,495.7	1,853.9	2,146.0
Gross profit	**369.0**	**397.2**	**447.8**	**490.0**
Selling Expense	2.5	2.2	2.0	1.7
G&A Expense	360.1	397.5	438.9	484.5
Finance Income	**68.3**	**194.3**	**209.6**	**236.5**
Other profits	0.7	-0.9	-0.4	-0.3
PBT	**85.6**	**204.6**	**228.9**	**253.2**
Prov. of Tax	18.2	42.4	24.7	25.7
Minority's Interest	-0.1	0.1	0.1	0.0
NPAT	**67.4**	**162.1**	**204.1**	**227.5**
EBIT	**85.6**	**204.7**	**228.9**	**253.2**
EBITDA	67.1	186.3	228.9	253.2

Unit:%

FINANCIAL RATIO	FY2014	FY2015	FY2016E	FY2017F
Growth				
Revenue	9.0%	31.3%	21.6%	14.5%
Operating Income	N/A	N/A	N/A	N/A
EBITDA	46.5%	187.8%	18.4%	10.6%
EBIT	18.9%	139.0%	11.8%	10.6%
PAT	22.9%	140.6%	25.9%	11.4%
Total Assets	22.9%	73.1%	19.7%	12.1%
Equity	2.3%	173.4%	5.7%	6.7%
Internal growth rate	1.0%	5.2%	5.7%	6.5%
Profitability				
Gross profit/Revenue	25.6%	21.0%	19.5%	18.6%
Operating profit/ Revenue	0.4%	-0.1%	0.3%	0.1%
EBITDA/ Revenue	4.7%	10.2%	9.9%	9.6%
EBITDA/ Revenue	5.9%	10.8%	9.9%	9.6%
Net margin	4.7%	8.6%	8.9%	8.6%
ROAA	3.0%	4.8%	4.3%	4.2%
ROIC or RONA	12.0%	15.5%	11.6%	12.0%
ROAE	10.1%	12.9%	10.8%	11.3%
Efficiency (x)				
Receivable Turnover	4.1	3.9	4.2	4.6
Inventory Turnover	128.5	168.6	163.6	156.5
Payable Turnover	3.9	3.8	3.5	3.5
Liquidity (x)				
Current	0.9	1.5	1.3	1.3
Quick	0.9	1.5	1.3	1.3
Solvency				
Total Debt/Equity	267.3%	132.5%	163.1%	176.4%
Current Debt/Equity	0.1%	0.1%	0.0%	0.0%
Long-term Debt/ Equity	0.0%	0.0%	0.0%	0.0%

Unit: billion VND

BALANCE SHEET	FY2014	FY2015	FY2016E	FY2017F
Cash and equivalents	42	308	261	385
Short-term investment	681	2,003	2,391	2,739
Receivables	382	584	513	623
Inventories	8	10	13	14
Other current assets	521	655	825	804
Total Current Asset	**1,634**	**3,560**	**4,003**	**4,566**
Tangible Fixed Assets	46	57	136	136
Intangible Fixed Assets	46	3	-3	-4
Construction in Progress	126	26	26	26
Investment Property	7	90	89	88
Long-term Investment	587	517	846	903
Other long-term assets	27	30	29	29
Goodwill	3	3	3	3
Long-term Asset	**842**	**726**	**1,125**	**1,181**
Total Asset	**2,476**	**4,286**	**5,129**	**5,747**
Payables	215	306	401	390
Other current liabilities	1,536	2,058	2,692	3,176
Current Debt	1	2	0	0
Long-term Debt	0	0	0	0
Other long-term liabilities	50	77	86	102
Total Liability	**1,801**	**2,442**	**3,179**	**3,667**
Owner's Equity	**674**	**1,843**	**1,949**	**2,078**
Capital	504	804	804	804
Retained Earnings	64	165	262	382
Funds & Reverses	46	47	55	65
Others	**0**	**0**	**0**	**0**
Total Equity	**674**	**1,843**	**1,949**	**2,078**
Minority's Interest	1	1	1	1
TOTAL RESOURCES	**2,476**	**4,286**	**5,129**	**5,747**

CASHFLOWSTATEMENT	FY2014	FY2015	FY2016E	FY2017F
Pretax Income	85.6	228.9	253.2	299.8
-Depreciation	18.4	30.5	32.2	34.7
-Adjustments	*0.0*	*0.0*	*0.0*	*0.0*
+/- Working capital	158.9	612.1	371.8	288.8
Net Operating CF	**262.9**	**871.5**	**657.2**	**623.4**
+/- Fixed Asset	-32.9	-101.7	-30.0	-39.7
+/- Deposit, equity investment	-125.7	-327.8	-57.8	-97.1
Interest, cash dividend, shared profits received	0.0	0.0	0.0	0.0
Net Investing CF	**-158.6**	**-429.6**	**-87.9**	**-136.8**
+/- Capital	0.0	-3.0	0.0	0.0
+/- Debt	-2.8	-2.0	0.0	0.0
Dividend paid + Other exp. from retained profits	-105.7	-481.2	-445.0	-689.9
Net Financing CF	**-108.5**	**-486.2**	**-445.0**	**-689.9**
+/- cash & equivalents	-4.2	-44.3	124.3	-203.2
Beginning cash & equivalents	**46.3**	**308.5**	**261.2**	**385.5**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**42.1**	**261.2**	**385.5**	**182.2**

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.

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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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