September 09th, 2016

Petrolimex Insurance Corporation (PGI – HSX)

Strong financial status with improving business results

Outlook

PGI is the fifth largest insurance company, which currently holds 5.96% market share in term of gross premium. The company has come through tough time in 2012 – 2013 and its core business has been improving since then. As PGI is aiming to sustainable development, it keeps the insurance business at an ample growth rate while strictly controls loss and expenses ratios. Besides, PGI also has a very strong balance sheet: safe investment asset allocation with adequate technical reserves. Last but not least, PGI is the only large listed insurer which has yet found a foreign strategy partner. At this moment, PGI is pushing forward the process to look for and issue 20% its chartered capital for strategy shareholder. After the appearance of a foreign shareholder, the company will set up plan to increase its equity capital till 2018. The more capital it can raise; the higher competitive edges will be. Last but not least, PGI has always been paying cash dividend gradually with stable payout ratio of 10% of par value. Hence, PGI is believed to be suitable for long-term and risk-averse investors.

At the closed price of VND20,700/share as of 07/09/2016, PGI is traded at P/E forward 12.94x and P/B forward 1.75x. The average P/E and P/B of listed insurers (excluding the extreme values of BVH) are 14.32x and 1.19x. We think the company is relatively traded at fair price compared to its peers. Hence, we rate **NEUTRAL** for this stock.

Year end-Dec (bn VND)	FY2014	FY2015	FY2016E	FY2017F (**)
Net income from insurance activities	1,745	1,896	2,040	2,279
% growth	-0.4	8.6	7.6	11.7
Claim settlements of earned premium	-776	-836	-888	-1,016
Investment income	93	95	120	134
% growth	-23.7	2.3	26.6	11.7
NPAT	88	93	113	130
% growth	33.3	5.7	21.5	15.0
NPAT margin (%)	5.1	4.9	5.6	5.7
ROA (%)	2.9	2.5	3.0	3.2
ROE (%)	10.5	11.2	13.8	15.0
EPS (VND)	1,040	1,121	1,599	1,837
Adjusted EPS (VND)	1,040	1,121	1,599	1,837
BVPS (VND)	12,058	11,271	11,841	12,654
Cash dividend (VND)	1,100	1,200	1,000	1,000
P/E (x)*	8.7	13.9	12.9	11.3
P/BV (x)*	0.7	1.4	1.3	1.2

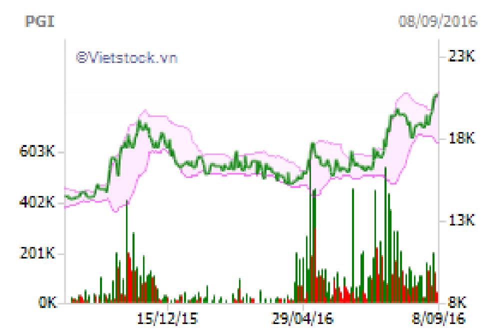
*Source:RongViet Research, *price as of 07/09/2016, **not include the effect of private issuance*

NEUTRAL

CMP (VND)	20,700
Target Price (VND)	20,526
Investment Period	Long term

Stock Info

Sector	Insurance
Market Cap (VND bn)	1,469
Current Shares O/S	70,974,218
Beta	0.26
Free float (%)	26
52 weeks High	20,700
52 weeks Low	13,600
Avg. Daily Volume (in 20 sessions)	88,767



Source: Vietstock

Performance (%)

	3M	6M	1Y
PGI	27.3	26.2	54.7
Insurance	6.5	13.8	39.1
VN30 Index	4.8	12.2	13.9
VNIndex	7.2	16.3	16.3

Major Shareholders (%)

Vietnam National Petroleum Group	51.1
Joint Stock Commercial Bank for Foreign Trade of Vietnam.	10.0
Vietnam National Reinsurance Corporation (Vinare)	8.8
Foreigner Investor Room (%)	49

Thien Bui

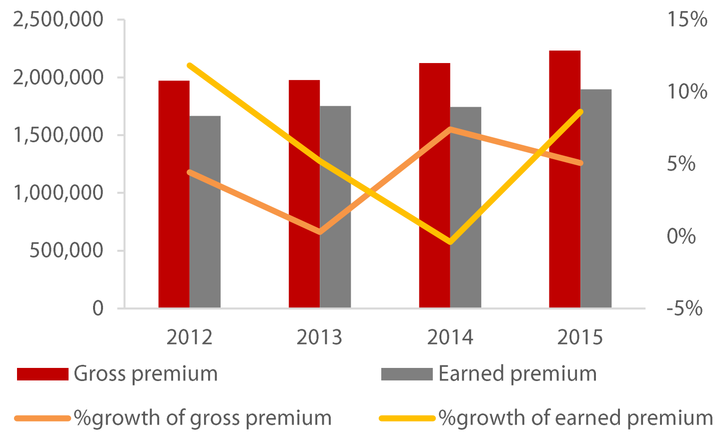
(084) 08- 6299 2006 – Ext: 1321

Thien.bv@vdsc.com.vn

Moderate growth, competitive pressures pulled the market share down; however, insurance business profitability is improving

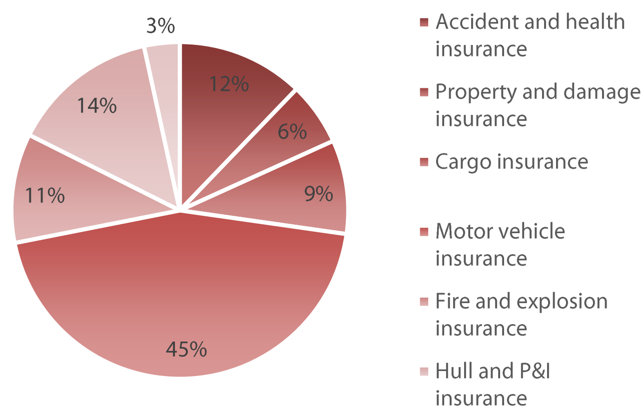
Recently, fierce competition from the small-sized insurance companies such as BIC and MIC attributed to the decline in market share of four among five leading enterprises (PVI, BVH, BMI, PGI, except PTI). For PGI, the average growth rate from 2013 to 2015 was 4.1%, lower than the industry average of 9.5%. PGI's market share in non-life insurance segment decreased from 7,35% at the end of 2014 to 6.55% at the end of 2015.

Figure: Gross and earned premium (unit: mn VND)



Source: PGI's financial reports, RongViet Research

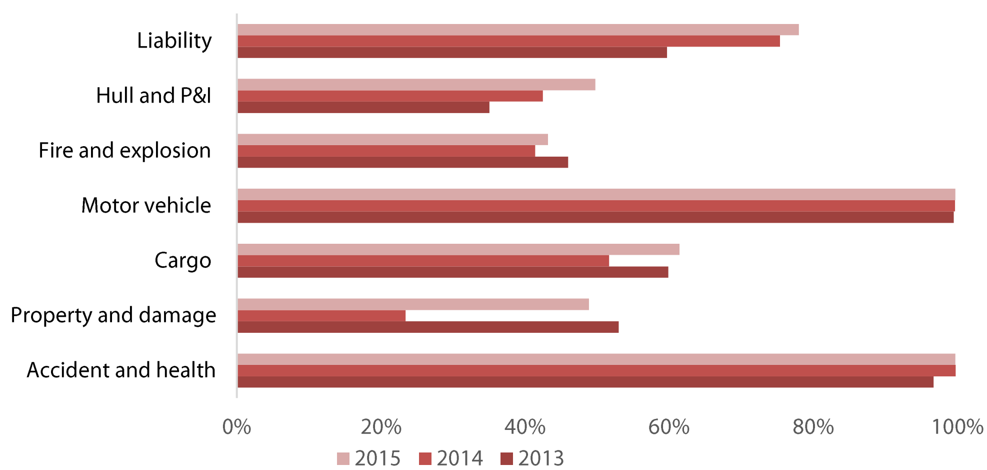
Figure: Gross premium structure of PGI



Source: PGI's financial reports, RongViet Research

The segments accounted for large proportion in PGI's organic revenue were motor vehicle (45%), hull and P&I (14%), health and accident (12%) and fire and explosion insurance (11%). Among these services, hull and P&I gained the highest growth rate of 24.1%, followed by health and accident insurance with an upsurge of 9.2%. Motor vehicle insurance which explained high fraction in revenue had only a moderate growth of 4.8% while fire and explosion insurance saw a strong decline of 10.9% after the significant advance of 70.6% in 2014.

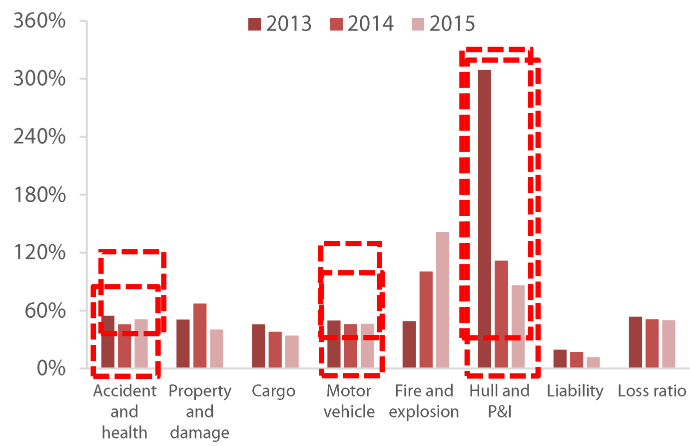
Figure: Retention rate of PGI's premium



Source: PGI's financial reports, RongViet Research

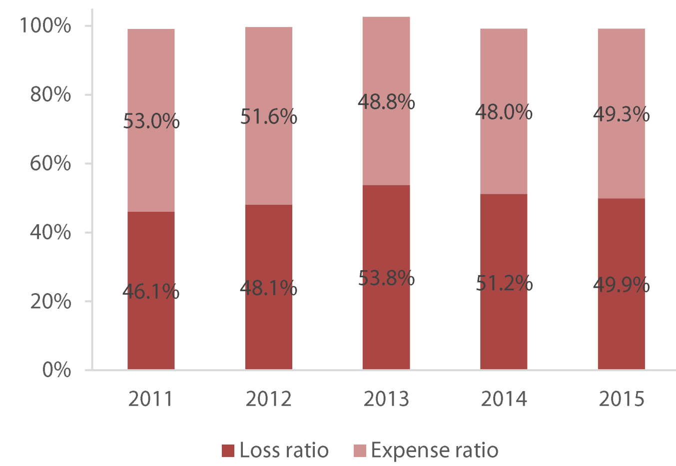
PGI's earned premium ratio ranged from 74% to 77%, similar to that of other retail insurance companies. Motor vehicle insurance and health and accident insurance had the highest retained premium rate of 99%. This ratio was quite low, from 43% to 49%, for other services such as asset insurance, fire and explosion insurance, hull insurance due to the risky characteristics (the insurance companies usually classify risk into group 4-5, the riskiest group). The reasonable retained premium ratio for each service helped PGI control its loss ratio.

Figure: Loss ratios of different segments



Source: PGI's financial reports, RongViet Research

Figure: Loss and expense ratios

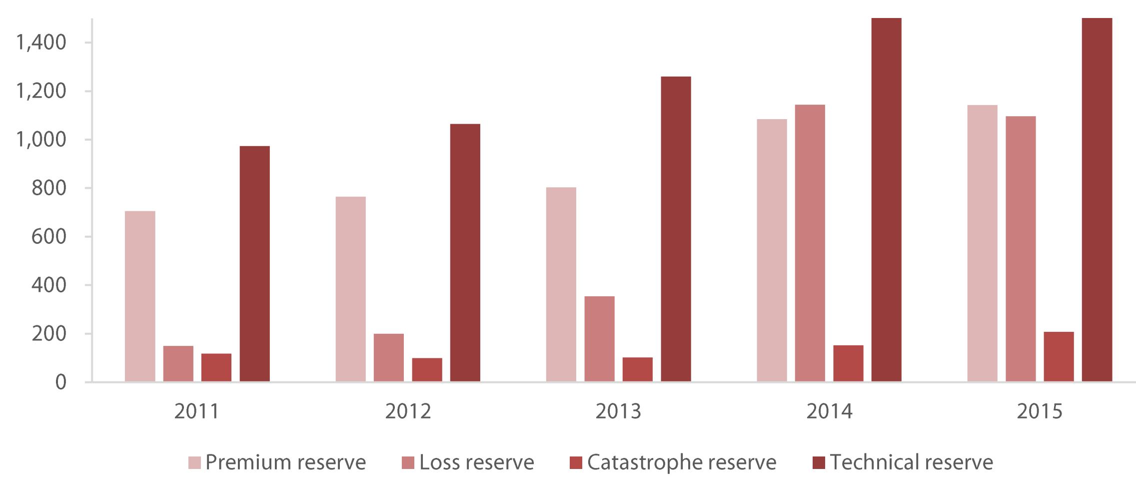


Source: PGI's financial reports, RongViet Research

Net earned premium slightly increased 8.6% but loss and expense ratios were well controlled. Except for fire & explosion products, which had loss ratio significantly climb from 100.5% in 2014 to 141.6% in 2015, other business lines had deteriorated loss ratios. Some of them have encouraged results such as cargo insurance having loss ratio decrease from 45.6% in 2013 to 34.1% till 2015; hull and P&I insurance even witnessed more impressive result as it saw considerable downturn in loss ratio from 309.1% in 2013 to only 86% in 2015. Two major products of PGI, which are health & accident and motor vehicle insurance, saw stable loss ratio of 51% and 46% consecutively.

Thanks to austere compensation management at major products, loss ratio of PGI has reduced in the period of 2013 – 2015 from 53.8% to 49.9%. Expense ratio also fluctuated between a narrow range from 53% - 54% (before 2013) and 50% - 51% (from 2013 – 2015). Therefore, combined ratio remained at 99.2% in 2014 and 2015. As a result, PGI recorded an increase of 9.7% in net income from insurance activities.

Figure: Technical reserves (unit: bn VND)

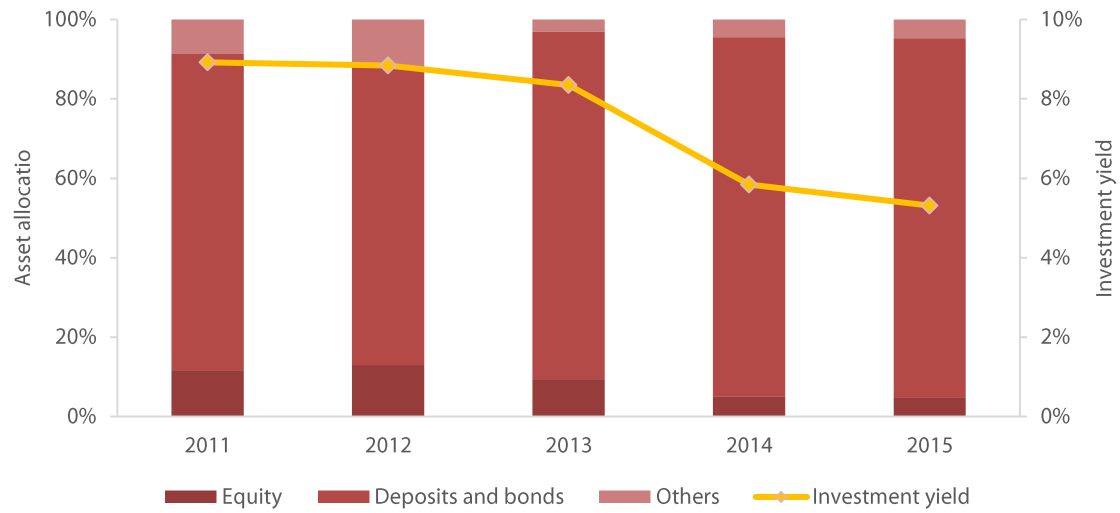


Source: PGI's financial reports, RongViet Research

Risk management at PGI is also reflected in the company's high technical provision. Loss reserve surged from 20% in 2013 to 50% and 46% in 2014 and 2015. Besides, PGI chooses the highest catastrophe reserve provision level, which is equivalent to 3% of earned premium (the ratio is regulated by MoF to vary between 1% and 3%). More profit could be revealed if PGI choose smaller reserve ratio. Assuming the company use the benchmark 1% of earned premium, we notice that PGI could earn a surplus amount of VND37.1 billion compared to FY2015 PBT. One could argue that after heavy damages in 2014 due to riots in Bind Duong and Dong Nai Province, PGI believes aggressive provision policies could help it minimize risks if surprises catastrophes like these events happen again in future. In brief, there are 2 major impacts of PGI's current provision: (1) it should decrease the BVPS and (2) reduce the profit but (3) guarantee a strong balance sheet of PGI.

Stable investment income

Figure: Asset allocation and investment yield



Source: PGI's financial reports, RongViet Research

Financial Investment places an important role which contributed 85% of operating profit.

FY15's total investment increased by VND168 billion. Safety continues to be PGI's priority with 88.64% portfolio allocation in deposits in which the proportion of term deposits (under 1 year) and non-term deposits were 97% and 3% respectively. In 2012, PGI's solvency margin was 137.84% higher than minimum solvency margin but significantly declined in 2013 (reached 112.58%) as PGI added VND195 billion into reserve (+18.32% compared with 2012). PGI continued to stick with its stable development orientation so the company preferred high provision in 2014 and 2015. Hence, PGI increased the proportion of deposits to maintain solvency margin/minimum solvency margin ratio. With PGI's portfolio allocation, general business was guaranteed to be safe but maintained modest investment efficiency as only 5.84% and 5, 31% in 2014 and 2015 respectively while VND interest rates in last 2 years were quite low, about 6.4%-6.5%. 2H16 interest rates tend to slightly increase (+0.5%-0.7%) compared with 2015. Therefore, with the portfolio allocation which is forecasted continuing to maintain high proportion of deposits, PGI's investment activities may be slightly improved.

Capital raising schedule may complete in 3Q2016

Similar to other companies in the industry, PGI set a plan to increase its charter capital to VND1,000 billion in 2016-2018 with the goals of improving its financial ability then improving its competitiveness. Specifically, at the 2015 AGM, BOD approved to issue 20% for strategic shareholder which was scheduled to finish at the end of 2015, raising PGI's charter capital to VND887 billion. However, this plan could not complete in 2015 and was expected to fulfill in 2016. This inflow cash flow is expected to finance for building branch at Ho Chi Minh city to encourage insurance business. Recall that revenue from Ho Chi Minh accounted for 22% of PGI's total revenue in recent years.

PGI 1H2016's update and FY16's forecast result

1H2016 gross revenue reached VND1,170 billion (+7.6% compared with 1H15) and completed 50% of FY16's schedule. Gross loss ratio on insurance services was 37.5% of 2015. Profit before tax attained VND78 billion, increased by 20% compared with 1H15 and fulfill 65% of profit schedule. We expected PGI FY16's gross revenue raises 8.1% compared to FY15. Loss ratio will slightly improve, reach 48.02% while expense ratio will maintain at 51%. Besides, combined ratio is forecasted to reach 99.12% so PGI will continue to get profit form insurance services. Investment rate is expected to attain 6.62% so investment activities revenue can increase 25.56% compared with 2015. Hence, FY16 profit before tax is forecasted to approximate VND140 billion (+21.74% compared with FY15) and excess 16.67% of 2016 schedule. FY16 EPS is expected to attain VND1,551 per share. With current price of VND20,700 per share, PGI is trading at PER of 12.94x and P/B of 1.75x.

Table: P/B, P/E of listed insurers (excluding BVH)

No.	Tickers	Companies' names	P/E	P/B
1	ABI	Agriculture Bank Insurance Joint – Stock Corporation	7.47	1,22
2	BIC	BIDV Insurance Corporatio	26.68	2.05
3	BLI	Bao Long Insurance Corporation	16.43	0.58
4	BMI	Bao Minh Insurance Corporation	16.17	1.08
7	PTI	Post & Telecommunicatons Insurance JSC	7.76	1.28
8	PVI	PVI Holdings	11.45	0.94
		Average	14.32	1.19

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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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Network

Headquarter

Address: Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ