

Preliminary 2H2020 outlook

August 2020

INSURANCE INDUSTRY: Non-life sector to outpace life sector post-pandemic

Tam Pham – tam.ptt@vdsc.com.vn

Covid-19 to add pressure on declining growth

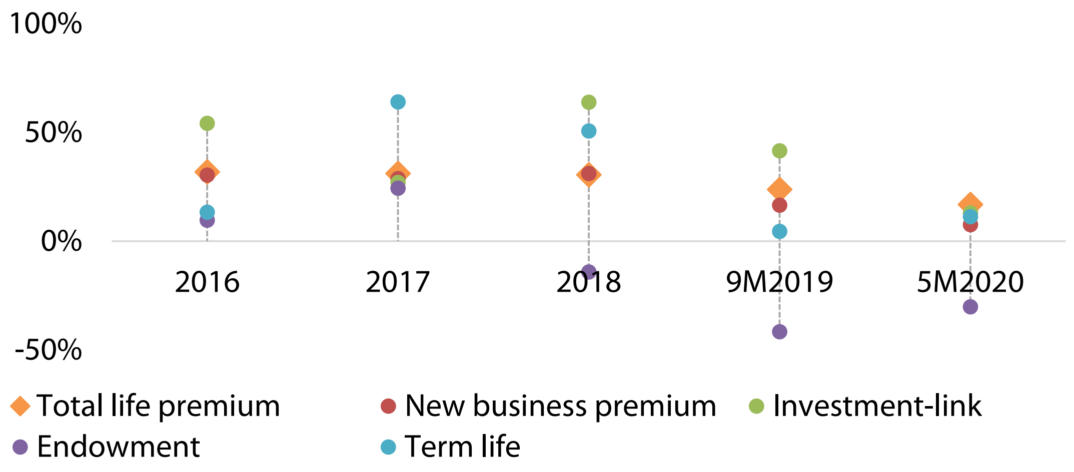
Slowing down growth

- Total direct written premiums in 4M2020 were VND 33,475 bn (+17% YoY), lower than the growth rate of 2x-3x% of in the last consecutive seven years. Sales grew weakly as companies had to canceled new consultant recruitment and training activities, sale events and marketing programs due to social distancing orders. Disruptions in business also reduced clients' income, leading to delays in premium payments. The pandemic has added pressures on the declining growth of new business premiums. Since 2H2018 top players have changed their strategy towards profitability rather than market share. This signals slower growth of total premiums in the coming years.

Investment-link insurance continues to dominate sales

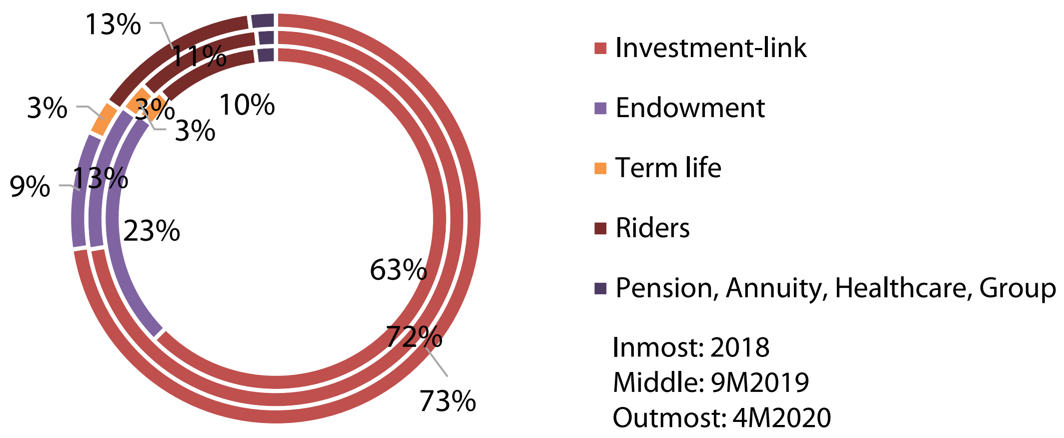
- New business premiums in 4M2020 were VND 10,012 bn, growing 8% YoY (4M2019: 20% YoY), the lowest growth rate in the last seven years. Investment-link insurance products registered a growth rate of 13% YoY as government bond yields bottomed out in 1H2020. New business premium of endowment plummeted 30% YoY. As this product has interest-sharing term, decreasing sales of this product can reduce mathematical provision expense.

Figure 1: 4M2020 sector growth



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

Figure 2: Product mix of new business premiums



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

Healthcare insurance thrived on the anxiety about health problems

Non-life direct written premiums in 4M2020 came at VND 17,920 bn, +9% YoY, of which healthcare insurance surged 19.5% YoY, boosted by the rising concerns of the pandemic. We believe this will be the major trend for the non-life insurance sector in the future.

Meanwhile, premiums of other major products fell or grew weakly following disruptions in social-economic activities. Motor vehicle insurance minus 2.2% YoY, cargo transportation insurance slumped 14.6% while asset and damage insurance and fire and explosion insurance increased marginally 9.5% and 6.8%, respectively.

In 2H2020, sales of these products could recover substantially as (1) the pandemic is being strictly-controlled in Vietnam and social-economic activities are returning to normal, (2) investments are flowing into the domestic economy from the government's public investment programs as well as the wave of shifting processing and manufacturing centers of multinational corporations from China to Vietnam, (3) Decree No. 70/2020 / ND-CP on reduction of 50% of registration fee for cars, trailers or semi-trailers; and Decree 57/2020/ND-CP on exemption of import tax for auto parts that cannot be domestically produced.

Market shares of top 5 companies continued to shrink.

Figure 3: 4M2020 sector growth

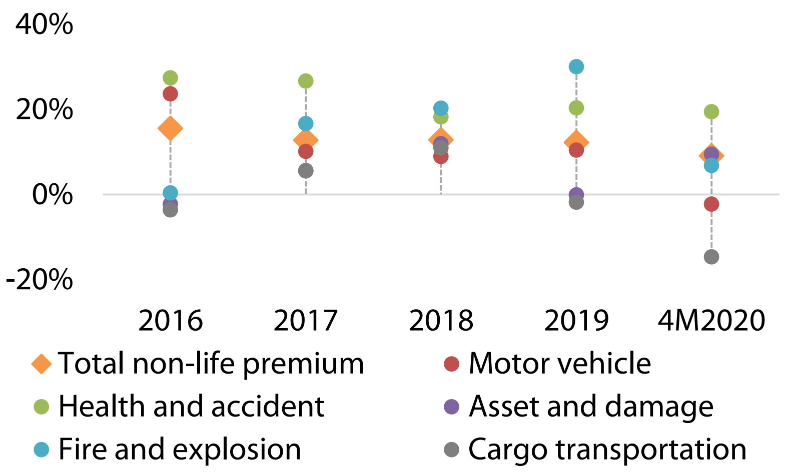


Figure 4: Product mix

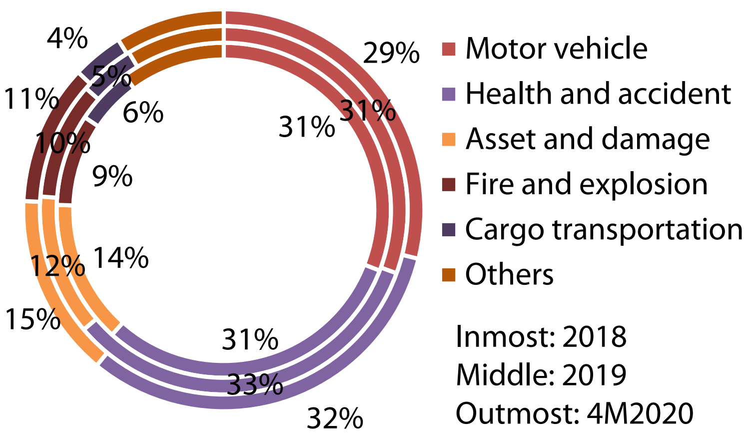
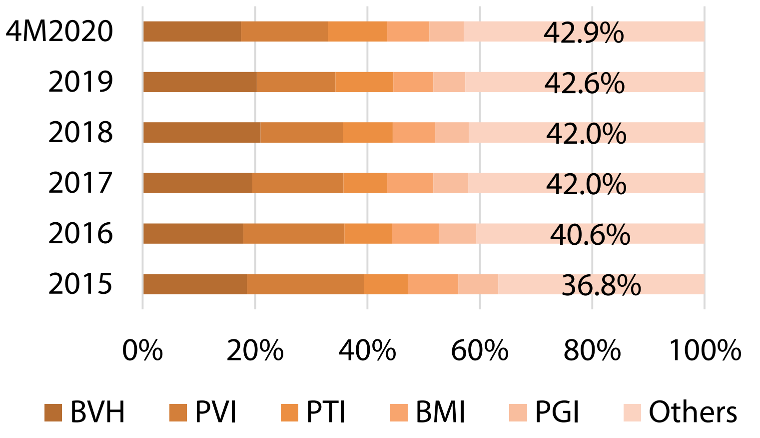


Figure 5: Market shares of 5 largest players are shrinking

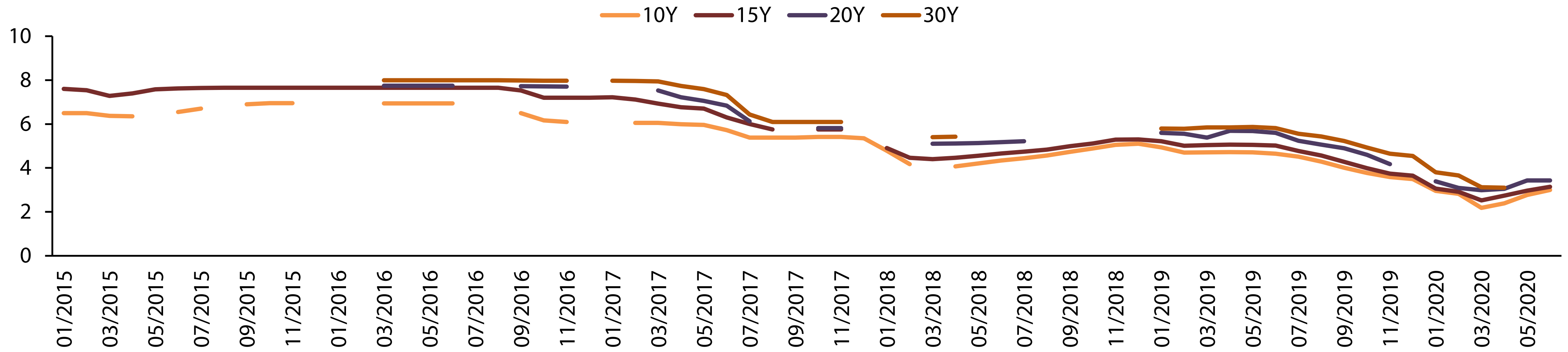


Source: ISA, RongViet Securities

Post-pandemic, non-life insurance to outpace life insurance in profitability

- Companies (both life and non-life insurers) are struggling with investment activities, which traditionally is the major profit generator. Low deposit interest rates and bond yields, and a less supportive stock market are factors that drive down investment yields.
- A recent research by the US National Bureau of Economic Research (NBER) found that real interest rates post pandemics "substantially depress" returns for decades, before returning back to the pre-pandemic levels, due to the relative lack of labor and higher savings. This leads us toexpect that life insures are highly likely to see a low growth of life insurance premiums in the coming years. A substantial proportion are investment-linked products, in order to minimize the mismatch effect between investment interest received in the future and interest committed to clients pre-COVID-19.
- For non-life insurers, the situation could be more comfortable: Sales of non-life insurance will recover once economic activities return to normal. In addition, as most of non-life insurance policies only last for one year and they do not contain interest sharing terms, the risk of mismatch is near zero. As a result, non-life insurers could boost growth of the insurance business to compensate for the low investment yield.

Figure 6: Vietnam government bond yields (%/year)



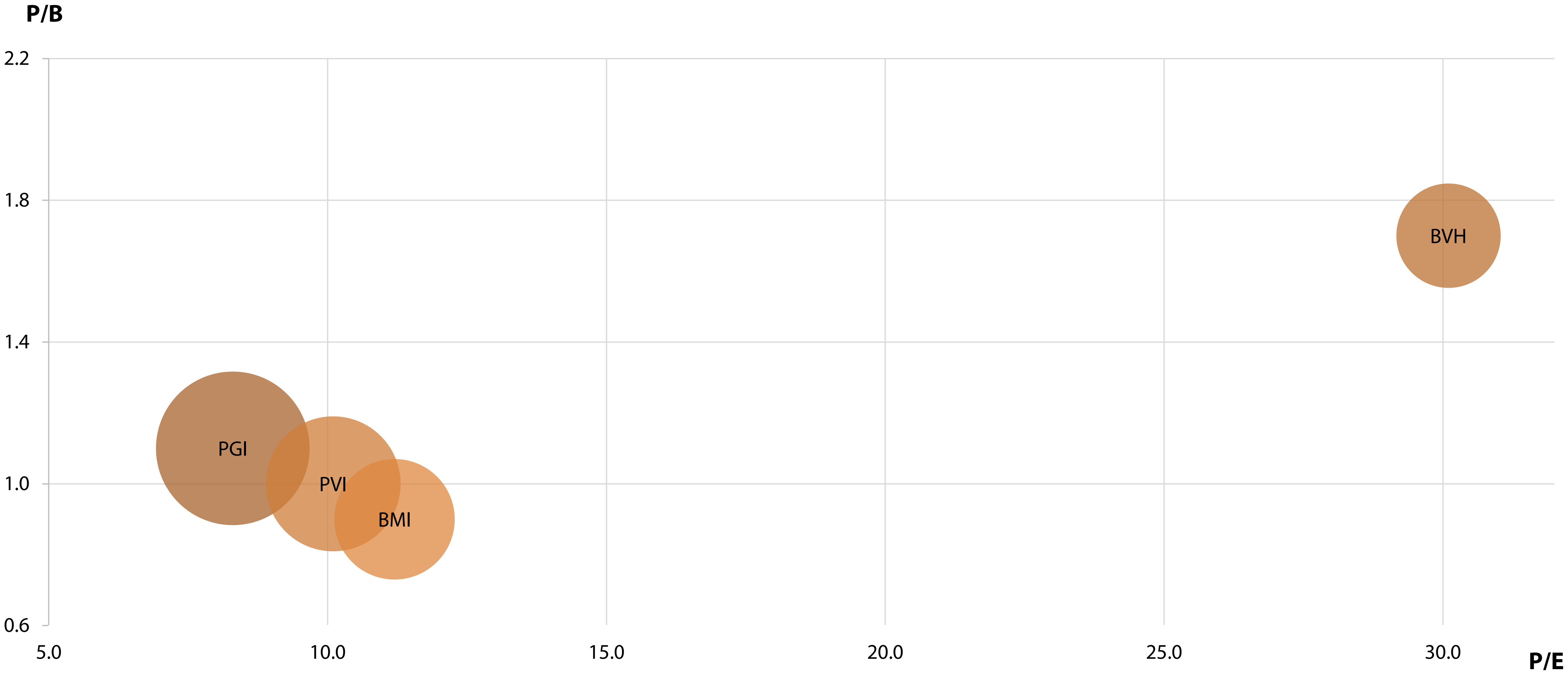
Source: HNX, RongViet Securities

Industry comparables (TTM)

Ticker	Market cap (USD mn)	Target price (VND)	Sales growth(% YoY)	EBITDA growth(% YoY)	EBITDA margin (%)	Operating income margin (%)	Net income growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
PGI	71	19,600	13.6	15.1	8.9	6.3	26.3	6.2	3.3	13.1	6.5	8.3	1.1
BVH	1,439	N/A	9.6	30.5	7.9	4.0	-6.1	3.3	0.8	5.6	1.8	30.1	1.7
PVI	298	N/A	-33.0	-17.5	19.2	7.5	-3.2	17.5	3.1	9.8	7.5	10.1	1.0
BMI	108	N/A	18.1	20.1	5.2	1.8	-5.9	4.4	3.0	7.9	4.5	11.2	0.9

Source: Bloomberg, RongViet Securities. Share price as of Aug 7, 2020.

Industry comparables



Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 07 Aug 2020.

PGI – HEALTH INSURANCE TO BE THE NEW GROWTH DRIVER

INVESTMENT RATIONALE

- **Health insurance to be the new growth driver**
  - Concerns of health problems rise in and post the pandemic boosted sales of health insurance (+190% YoY in 1H2020). Health insurance will be the major trend of the non-life insurance sector in the future. Other products will rally quickly in 2H2020, following the recovery of the economy.
  - Health insurance has the highest underwriting expense among all the product lines. As a result, the expense ratio will increase.
  - Insurance premiums growth is likely to be kept high in the coming years to make up for the fall in investment income.
- **Good credit rating of B+ and business relation with PLX (the largest shareholder) with large corporations assure sales of asset and damage insurance**
- **Healthy and safe investment portfolio ensures timely claim settlement but long-lasting low deposit interest rates may lead to lower investment yields**
  - 85-86% in short term bank deposits, higher than the industry average (70%). 5-6% in stocks that have strong fundamentals.
  - Low deposit interest rates and lower stock market amid the gloomy macro-economy are factors that drive down investment yield.

RISKS TO OUR CALL

- Natural disasters that are more severe than expected.
- The pandemic becomes more complicated than expected, resulting to lockdowns globally

ACCUMULATE +13%

CMP (VND)	**18,450**
Target price (VND)	**19,600**
Cash dividend in 12 months	*1,300*

STOCK INFO	
Sector	Financials
Market Cap ($ mn)	71
Current Shares O/S (mn shares)	89
3M Avg. Volume (K)	5
3M Avg. Trading Value ($ mn)	0.0
Foreign Ownership (%)	28.3
State Ownership (%)	13.6-20.3

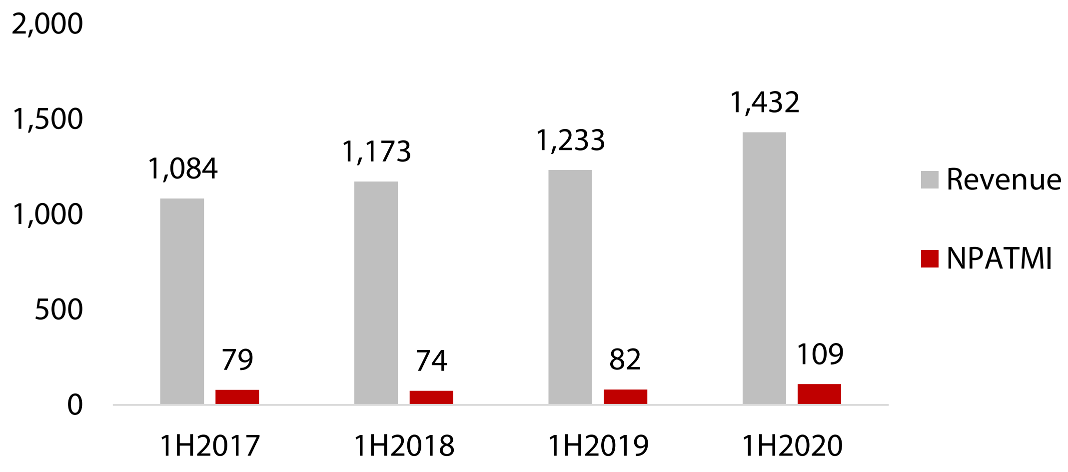
FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**2,413**	**2,606**	**3,110**	**3,651**
Growth (%)	*3.4*	*8.0*	*19.3*	*17.4*
NPATMI (VND bn)	**142**	**166**	**168**	**197**
Growth (%)	*22.1*	*17.2*	*0.9*	*17.5*
ROA (%)	2.7	3.0	2.7	2.8
ROE (%)	9.6	11.0	10.7	12.1
EPS (VND)	1,468	1,721	1,738	2,041
Book Value (VND)	16,792	17,369	17,956	18,842
Cash dividend (VND)	1,200	1,300	1,300	1,300
P/E (x) (*)	11.6	9.9	10.6	8.3
P/B (x) (*)	1.0	1.0	1.0	1.0

(*) Share price as of Aug 7th, 2020.

PGI – Health insurance to be the new growth driver

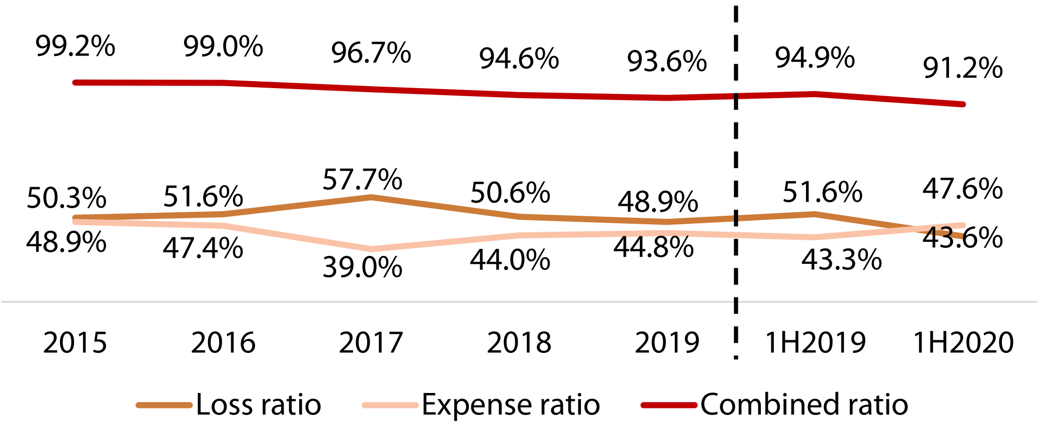
RONGVIET SECURITIES

Figure 1: 1H2020 revenue and NPATMI (VND bn)



Source: PGI, Rong Viet Securities

Figure 2: Loss ratio, expenses and combined ratio



Source: PGI, Rong Viet Securities

1H2020: The pandemic has caused divergence in product lines. Combined ratio reduced thanks to high premium growth. Investment business was stable.

- Health insurance sales rocketed 191% YoY, driven by the rising concerns of severe and unpredictable health problems. Asset and damage insurance maintained a growth of 20% YoY due to the company's good credit rating (B+) and the business relations of the largest shareholder (PLX) with corporations. Cargo transportation insurance and fire and explosion insurance sales fell deeply by 23% and 18% YoY, respectively, because of quarantine measures in April and weak exports.
- The surge in premiums led to the temporary improvement of the loss ratio from 48.9% in 2019 to 43.6%, besides the slight drop of 3% in claim payment. However, the expense ratio climbed from 44.8% to 47.6% as health insurance is the product that has the highest underwriting expense.
- The investment portfolio structure remained unchanged from last year. Investment yield: 7.2%/year. Excluding the reversal of provisions for investment in subsidiaries of USD 0.3 mn, the investment yield was 6.7%/year (1H2019: 6.6%/year)

2H2020: Health insurance to be the new growth driver. Investment yield is likely to be lower than in 1H, driven down by declining deposit interest rates and the gloomy macro-economic situation.

- For 2020, we forecast gross written premiums at VND 3,110 bn (+19.3% YoY), NPATMI VND 168 bn (+0.9% YoY). The combined ratio should reach 94%, slightly rising from 93.6% in 2019. The investment yield will fall to 5.8%/year (2019: 6.9%/year).

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Energy
- Construction

Tung Do
Senior Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Retails
- F&B

Tam Pham
Senior Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Textiles
- Fishery
- Fertilizer

Anh Nguyen
Senior Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking
- Insurance

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)
- Market Strategy
- Construction materials

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Automobile and spares
- Agriculture
- Industrial Park

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Steel
- Phamarceutical

Thao Nguyen
Analyst
thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Utilities

Kiet Tran
Analyst
kiet.tht@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Real Estate
- Market Strategy

Son Nguyen
Analyst
son.nlt@vdsc.com.vn
+ 84 28 6299 2006 (1529)
- Logistics
- Aviation
- Technology

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)