Petrolimex Insurance Corporation (HSX: PGI)

Positive outlook due to good credit rating

(VND Mn)	Q3-FY18	Q2-FY18	+/- QoQ	Q3-FY17	+/- YoY
Net revenue	554,399	618,316	-10.3%	511,868	8.3%
PAT	31,250	39,276	-20.4%	18,827	66.0%
EBIT	39,242	47,611	-17.6%	23,665	65.8%
EBIT margin	7.1%	7.7%	-8.1%	4.6%	53.1%

Source: PGI, Rong Viet Securities

9M2018 business results

Direct written premiums came at VND 2,012 bn, up 11% YoY and fulfilling 74% of the year target. Total claim payment was VND 817 bn, down by 8% YoY. The loss ratio on direct written premiums was estimated to be 53.5%, the espense ratio was 46.7% (adjusted for the effect of Circular 50/2017/TT-BTC (Circular 50))*. As a result, 9M2018 PBT was VND 131 bn, 8% higher than that of 9M2017 and fulfilled 77% of the year plan.

2018 and 2019 result forecast

For 2018, PGI's direct written premiums may increase by 5.7% compared to 2017's. The loss ratio is 53.75%, not down compared to 2017's due to the claim payment of motor vehicles undergoing adverse impacts. Specifically, the prices of spare parts increased while the volume of cars sold decreased sharply. The expense ratio improved significantly to 46.6%, compared to the average of 49.8% in the past three years. Thus, the combined ratio of 2018 is 100.4%. The insurance business suffers from a slight technical loss. Deposit interest rates are rising and the stock market usually rally at the end of the year, which are expected to yield an investment return of 7.4%, as the company has increased the portion of stock in its portfolio. 2018 EPS is expected to reach VND 1,593.

For 2019, we expect the original cost of sales will increase by 7.8% YoY. The loss ratio forecasted is 53.55%, mainly due to the fact that spare parts prices will continue rising. The expense ratio and combined ratio are estimated at 46.4% and 99.9%, respectively. The investment business is expected to yield 7.7%. EPS arrives at VND 1,966.

Opinion and valuation

The insurance business shows a positive outlook as the company has achieved good credit ratings and its product mix focuses more on effective lines. Higher pare part prices will not likely to affect much the insurance business because PGI will reduce the sales of automobile insurance. For the investment business, the increasing deposit interest rates should support income in the coming years.

*We revise our target price to **VND 20,100/share**, down 19% from the recent valuation, mainly due to the stock's low liquidity. With cash dividend expected in the next 12 months **at VND 1,200/share**, we recommend **ACCUMULATE** with the total expected return of **20%**, based on the closing price of VND 17,800/share on December 4th, 2018.*

(*)Circular 50/2017/TT-BTC requires the separate recognition of investment revenue and expenses using technical reserves, no recognition in the same line with investment revenue and expenses using equity as before.

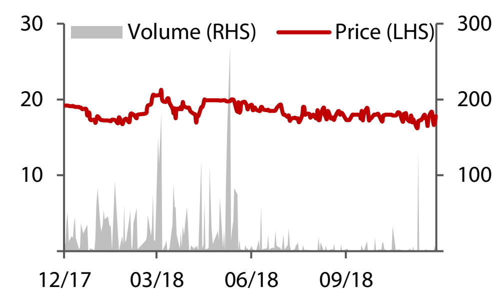
ACCUMULATE	+20%
Target price (VND)	20,100
Current market price (VND)	17,800
Cash dividend (VND)*	1,200

(*) Expected in next 12 months

Stock Info	
Sector	Insurance
Market Cap (VND billion)	1,477
Current Shares O/S	88,718
Avg. Daily Volume (in 20 sessions)	-0.07
Free float (%)	50.5
52 weeks High	21,266
52 weeks Low	16,200
Beta	7,313

	FY17	Hiện tại
EPS	1,654	1,521
EPS Growth (%)	-1.5	14.1
Diluted EPS	-	-
P/E	12.9	11.6
P/B	1.2	1.1
EV/EBITDA	-	-
Cash dividend yield (%)	5.6	6.8
ROE (%)	10.7	9.4

Price performance



Major Shareholders (%)	
Viet Nam National Petroleum Group	40,9
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: 3Q 2018 Results

(VND Mn)	Q3-FY18	Q2-FY18	+/-(qoq)	Q3-FY17	+/-(yoy)
Net revenue	554,399	618,316	-10.3%	511,868	8.3%
Gross profit	94,766	119,848	-20.9%	62,508	51.6%
Adjusted gross profit (*)	67,899	93,008	-27.0%	62,508	8.6%
SG&A	83,235	83,282	-0.1%	78,352	6.2%
Operating income	11,531	36,566	-68.5%	(15,844)	-172.8%
EBITDA	31,433	40,276	-22.0%	16,708	88.1%
EBIT	39,242	47,611	-17.6%	23,665	65.8%
Financial expenses	-	-		-	
- Interest Expenses	-	-		-	
Dep. and amortization	7,809	7,336	6.5%	6,957	12.2%
Non-recurring items (**)	-	-		-	
Extraordinary items (**)					
PBT	39,242	47,611	-17.6%	23,665	65.8%
PAT	31,250	39,276	-20.4%	18,827	66.0%
(**) Adjusted PAT	31,250	39,276	-20.4%	18,827	66.0%

Source: PGI, Rong Viet Securities

Exhibit 2: 3Q 2018 Performance Analysis

Particulars	3Q-FY18	2Q-FY18	+/-(qoq)	3Q-FY17	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	17.1	19.4	-2.3 bps	12.2	4.9 bps
EBITDA Margin	5.7	6.5	-0.8 bps	3.3	2.4 bps
EBIT Margin	7.1	7.7	-0.6 bps	4.6	2.5 bps
Net Margin	5.6	6.4	-0.7 bps	3.7	2.0 bps
Adjusted Net Margin	5.6	6.4	-0.7 bps	3.7	2.0 bps
Turnover *(x)					
-Inventories	270.4	302.6		194.9	
-Receivables	4.0	4.3		4.1	
-Payables	2.7	3.0		3.4	
Leverage (%)					
Total Debt/ Equity	267	270	-2.7 bps	232	35.1 bps

Source: Rong Viet Securities

Exhibit 3: 4Q 2018 Performance Forecast

Particulars (VND Mn)	Q4-FY18	+/- qoq	+/- yoy
Revenue	683,550	23.3%	-7.1%
Gross profit	127,802	34.9%	-31.6%
Adjusted Gross profit (*)	97,328	43.3%	26.6%
EBIT	43,123	9.9%	21.6%
Adjust EBIT (*)	9,782	-21.0%	-113.1%
NPAT	35,846	14.7%	23.3%

Source: Rong Viet Securities

(*) Adjusting to remove effects of Circular 50/2017/TT-BTC on Gross profit

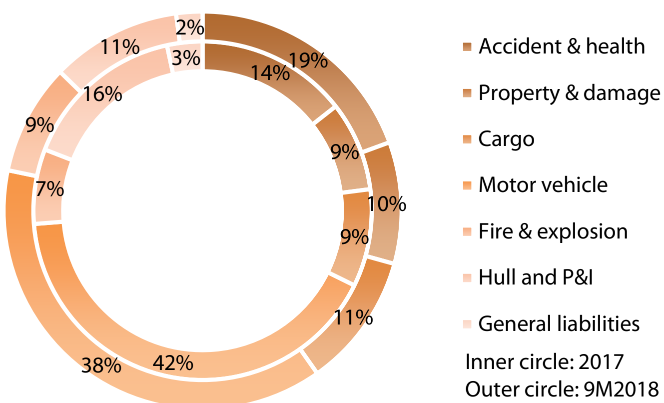
Update

Restructuring continues: Promoting health care and accident insurance while reducing vehicle insurance

The company continues to focus on the retail segment. Automobile insurance reached VND 765 bn, health care and accident insurance came at VND 390 bn, with growth rates of -6% YoY and 72% YoY respectively, accounting for 38% and 19% of total direct written premiums. In the same period of 2017, the proportion of these two segments in direct written premiums were 44% and 12.5% respectively. The reason of changes in the product mix is that PGI is restructuring its business to boosts health and accident insurance (due to low loss ratio) while scaling down automobile insurance (due to high loss ratio). Automobile insurance is planned to be reduced gradually but maintained at 35% of total direct premiums.

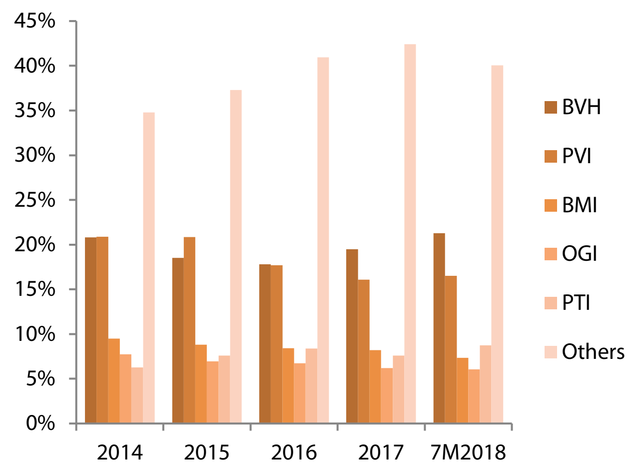
Other segments such as property insurance, cargo insurance and hull and P&I insurance and fire and explosion insurance accounted for 10%, 11%, 10% and 9% in 9M2018.

Figure 1 : Products



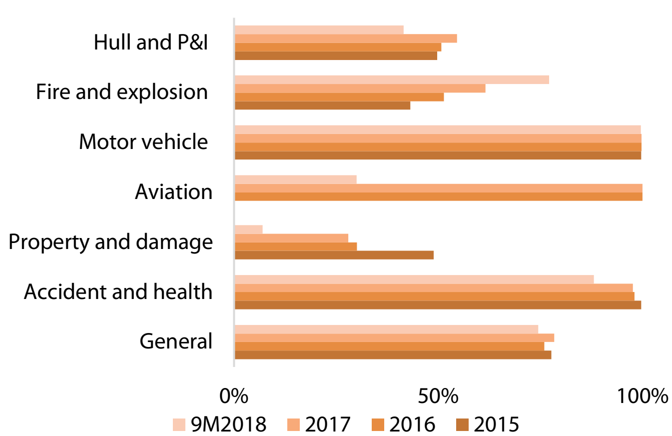
Source : PGI, Rong Viet Securities

Figure 2 : Market share of insurance companies



Source : PGI, Rong Viet Securities

Figure 3 : Retention ratios



Source : PGI, Rong Viet Securities

PGI's market share has continuously declined compared to the end of 2017 due to fierce competition. The industry's total direct written premiums rose by 13% YoY (according to Insurance Association of Vietnam), while PGI's increased by just 11% YoY.

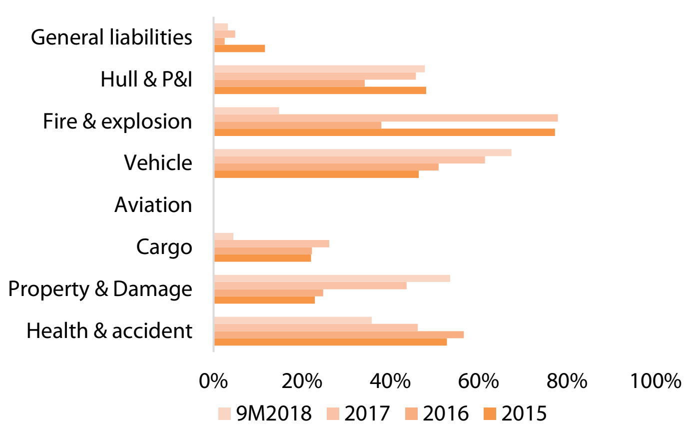
Reducing compensation and better cost management

9M2018 total claim payments were VND 817 bn, decreasing by 8% YoY. However, as the company increases ceding this year (9M2018 retention ratio was 75%, compared to 77% of 9M2017), the loss ratio of 9M2018 reached 53.5%, while it was at 53.7% in 2017.

- Automobile insurance: Loss ratio on direct written premiums was estimated to be 67.4%, increased by 6% from 61.4% in 2017. The reason is that the ATIGA Trade Agreement has caused car buyers to wait for car prices to decline, forcing car sales to drop significantly, which has led to a sharp drop in direct written premiums. Also, the cost of car maintenance has risen due to a strong rise of spare part prices. According to experts in the automotive industry, the possibility of spare parts prices falling is very low. As a result, we assume that the compensation for automobile insurance has reached a new high. Because the company said it would not increase its premiums charged for automobile insurance, we expect that the compensation in the following years will be higher.
- Health care and accident insurance: Loss ratio on direct written premiums fell sharply to 35.8% from 46.2% of 2017 because the company has boosted sales of the life insurance for unsecured loan borrowers (of which the loss ratio is only about 20-25%) via banks and consumer finance companies and reduced student insurance (loss ratio was estimated at 38-40%).
- Cargo insurance: Sales recorded a strong increase of 23% YoY due to an increase of 8.3% in gasoline price in 9M2018. Another supporting factor is that PGI has won contracts for cargo insurance of 40% of the value of Binh Son Oil Refinery's cargo. As a result, the loss ratio on direct written premiums of this segment fell strongly from 26% of 2017 to 4.5%.

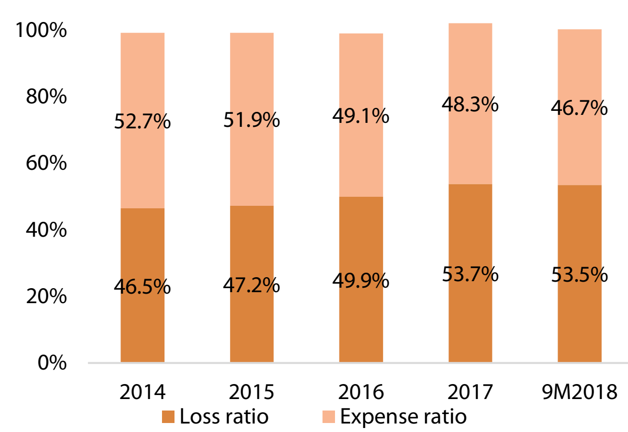
The 9M2018 expense ratio was 41%, improving from 43% in 2017. The loss ratio of PGI in 2017 and nine months of 2018 is 48.3% and 46.7%, respectively (adjusted to remove the effect of Circular 50). Compared to previous years, the expense ratio has constantly improved. From July 2018, the company has applied the Core Insurance software system for risk management, control and reduce costs, in addition to customer data management function for sales strategies. As a result, we believe the ability to reduce operating costs will be improved in the upcoming years.

Figure 4: Loss ratios on direct written premiums



Source : PGI, Rong Viet Securities

Figure 5: Loss ratio and expense ratio (adjusted for the effect of Circular 50)



Source : PGI, Rong Viet Securities

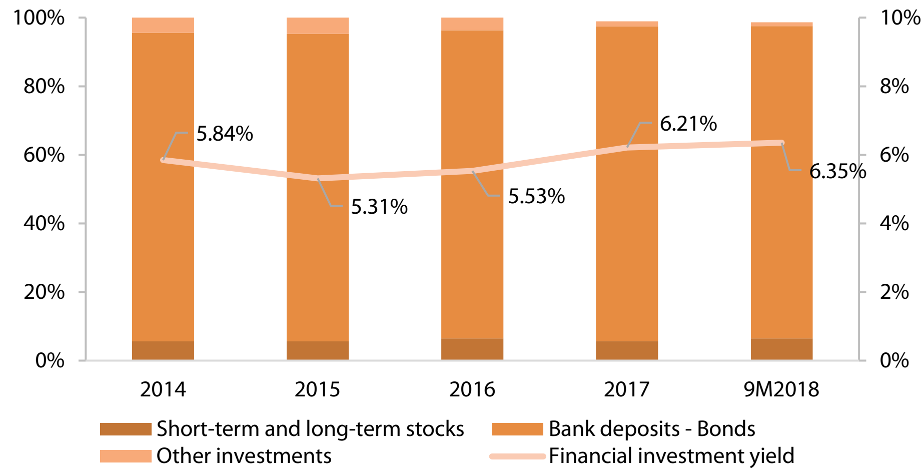
Investment profits still increase due to high deposit interest despite the gloomy stock market

Profits from financial and real estate investments reached VND 51.5 bn, down 60% YoY. However, when adjusting for the profit generated by investing technical reserves (recorded in Income from other activities), investment profit increased by 7% YoY.

During the same period of 2017, the company realized a total profit of VND 37 bn due to investments in Sabeco and one piece of land in Binh Duong with. Excluding these extraordinary gains from 9M2017, investment profit of 9M2018 grew by 49% YoY. The reason is that the deposit interest increased in 9M2018. The average deposit rate of 6M2018 is estimated to be 6.5%/year, slightly up from 6.3% /year of 6M2017, while the average deposit balance of 9T2018 increased sharply by 16% YoY. For stock investment, the provision for devaluation of stocks in 9M2018 increased VND 10.6 bn while the company reversed VND 12.6 bn in provisions in the same period last year.

The investment yield of 9M2018 is 6.4%, higher than 6.2% in 2017 (excluded one-offs).

Figure 6: Investment structure



Short-term stocks: stocks hold for trading within a year. Long-term stocks: stocks hold for more than a year.

Source: PGI, Rong Viet Securities

In summary, while net revenue of insurance premiums increased by 2.9% YoY, total direct insurance operating expenses rose by 1.5% YoY, which led to an increase of 11.5% YoY in gross insurance operating profit. At the same time, gross margin of investment increased by 7% YoY. As a result, pre-tax profit reached VND 131 bn, increasing by 8% YoY and fulfilling 77% of the company's target and 75% of our forecast.

Positive outlook due to good credit rating and the support of strategic partner Samsung Fire and Marine Insurance (SFMI)

In September 2018, PGI was rated B+ (Good) for financial strength and bbb- (Good) for long-term issuer credit from A.M. Best[1]. This is the result of a long process of restructuring its lines of product and management toward ensuring profitability, as well as inhanced capital strength due to the participation of SFMI from the end of August 2017.

Beside its stronger competition ability, the company is able to provide cross-border insurance and reinsurance. Accordingly, from 4Q/2018, PGI will start providing insurance for Korean companies operating in Vietnam, which are subsidiaries of Samsung and Koreans who are working in Vietnam. In addition, the company will also start providing reinsurance overseas. We expect that these new businesses will help the company continue to reduce its loss ratio as foreigners have better perception of insurance and better awareness of risk prevention than domestic customers.

SFMI will play the role of staff trainer, assisting PGI to develop online sales channels, product marketing and information technology application in management and loss control. We expect PGI to have positive developments similar to those of BIC and PTI when they started to be supported by strategic partners since 2015 (please refer to previous PGI update reports).

2018 and 2019 result forecast

Based on PGI's 9M2018 results, we forecast the 2018 and 2019's earnings as follows:

In 2018, direct written premiums may increase by 5.7% over 2017. The loss ratio is 53.75%, which is approximately equal to that of 2017. The loss ratio should not decrease as the claim payments of automobile insurance is negatively affected by higher spare parts prices and a lower the number of cars sold. The expense ratio improves significantly to 46.6% (adjusted for the impact of Circular 50), compared to the average of 49.8% in the last 3 years. Thus, the combined ratio [2]in 2018 is 100.4% and the insurance business will suffer from a slight technical loss, but that has improved significantly compared to 2017. Last year the company had to pay for claims of insurance events that occurred in previous years, making the combined ratio increased to 102%. Regarding the investment business, we project an investment yield of 7.4%,

[1] A.M. Best is the only global credit rating agency with focusing on the insurance industry. A.M. Best ratings are recognized indicators of insurers' financial strength and creditworthiness.

[2] Combined ratio is the total of loss ratio and expense ratio

thanks to rising interest rates and the fact that the stock market usually rally in the end of the year. PGI has increased the portion of stocks in its portfolio to 6.5% from 5.7% in 2017. Investment return increased by 16% YoY. EPS will reach VND 1,593.

In 2019, we expect to see a 7.8% increase YoY in direct written premiums. The loss ratio should be 53.55%, mainly due to the fact that spare parts prices are forecast to continue rising. Expense ratio and combined ratio are 46.4% and 99.9%, respectively (adjusted for the impact of Circular 50). Investment yield is expected to reach 7.7%. As such, the 2019 EPS is expected to come at VND 1,966.

Valuation

Table 1: Valuation of PGI

Valuation model	Price	Weight	Average
EVA	39,440	30%	11,832
P/E	14,931	30%	4,479
P/BV	12,695	40%	5,078
Target price (VND/share)			**20,105**

Source: Rong Viet Securities

We value PGI shares using a combination of EVA and P/E and P/B valuation methods. With the EVA method, the WACC used is 8.7%. EVA is a commonly used method in the world to price non-life insurance companies.

For P/E and P/B methods, we calculate the average P/E and P/B of non-life insurance companies which have the same capitalization, asset size and product structure in Asia due to similarities with the Vietnamese insurance market. At the same time, we also calculate the average P/E and P/B of the insurance industry in Vietnam to reflect the sector's current valuation relative to the region's.

Table 2: Some similar companies in Asia

Name	Ticker	Country	Market Cap (VND bn)	Revenue (VND bn)	ROE (%)	P/E	P/B
Navakij Insurance Pub Co Ltd	NKI TB Equity	Thailand	1,449	1,657,667	2.7	20.3	0.9
Equity Development Investment	GSMF IJ Equity	Indonesia	1,291	N/A	5.0	11.1	0.6
Pakistan Reinsurance Co	PAKRI PA Equity	Pakistan	1,849	1,132,889	5.5	19.9	1.0
Green Delta Insurance Co Ltd	GREEND BD Equity	Bangladesh	1,283	112,334	6.0	12.1	0.7
Reliance Insurance Ltd	RELIAN BD Equity	Bangladesh	1,159	197,816	9.2	9.1	0.7
Lippo General Insurance Pt	LPGI IJ Equity	Indonesia	1,076	1,937,275	6.7	7.9	0.7
Average						**14.2**	**0.8**

Source: Bloomberg, Rong Viet Securities

Table 3: Average P/E and P/B of Vietnamese insurance sector (excluding BVH)

Ticker	Name	Market Cap (VND bn)	ROE (%)	TTM P/E	TTM P/B
PGI	**Petrolimex Insurance Corporation**	**1,508**	**9.4**	**11.2**	**1.0**
BLI	Bao Long Insurance Corporation	380	3.7	7.4	0.5
ABI	Agriculture Bank Insurance Joint Stock Corporation	978	20.4	9.3	1.4
BMI	Bao Minh Insurance Corporation	1,900	8.2	10.4	0.8
MIG	Military Insurance Company	1,072	5.1	18.1	1.1
PTI	Post - Telecommunication Joint - Stock Insurance Corporation	1,286	6.5	10.4	0.7
BIC	BIDV Insurance Corporation	2,826	8.3	15.8	1.3
PVI	PVI Holdings	7,603	7.3	13.1	1.1
Sector average (excluding BVH)				**13.0**	**1.1**
Average of companies of the similar market cap (BMI, MIG and PTI)				**12.3**	**0.9**

Source: Fiinpro, Rong Viet Securities

We average the PER and PBR of both the region and the domestic same market cap companies to come at a PER of 13.3 and a PBR of 0.9. Due to the poor liquidity of PGI, we discount 20% for these PER and PBR (13x and 1.1x). Accordingly, PER and PBR used are 11.1x and 0.8x, respectively.

Accordingly, the target price reduced to **VND 20,105/share**, 19% lower the the target price in our latest update. With a cash dividend expected in the next 12 months of **VND 1,200/share**, the total return is 20**%** compared to the closing price of PGI stock as of Dec 4th 2018. We recommend an **ACCUMULATE** on PGI.

VND Million

INCOME STATEMENT	FY2016	FY2017	FY2018F	FY2019F
Revenue	2,066,759	2,335,094	2,411,258	2,562,909
COGS	1,731,050	1,926,751	1,950,990	2,066,126
Gross profit	**335,709**	**408,343**	**460,268**	**496,783**
Selling Expense				
G&A Expense	316,538	340,003	351,712	368,339
Finance Income	144,038	87,333	94,250	103,332
Finance Expense	39,033	11,785	38,697	26,379
Other profits	(173)	8,001	4,629	3,534
PBT	**125,396**	**156,354**	**173,546**	**214,098**
CIT	23,424	28,991	32,179	39,698
Minority's Interest	0	0	0	0
PAT to Equity S/H	**101,972**	**127,363**	**141,367**	**174,400**
EBIT	125,396	156,354	173,546	214,098
EBITDA	159,525	187,367	209,228	256,273

%

FINANCIAL RATIO	FY2016	FY2017	FY2018F	FY2019F
Growth (%)				
Revenue	9.0	13.0	3.3	6.3
Operating Income	128.0	356.5	158.8	118.3
EBITDA	9.1	24.7	11.0	23.4
PAT	9.5	24.9	11.0	23.4
Total Assets	15.6	16.9	4.5	5.7
Equity	14.3	60.6	2.3	4.3
Profitability (%)				
Gross margin	16.2	17.5	19.1	19.4
EBITDA margin	7.7	8.0	8.7	10.0
EBIT margin	6.1	6.7	7.2	8.4
Net margin	4.9	5.5	5.9	6.8
ROA	2.55	2.74	2.75	3.2
ROE	11.90	10.7	9.5	11.4
Efficiency				(times)
Receivable Turnover	5.5	4.9	4.9	5.9
Inventory Turnover	160.8	234.9	263.7	264.9
Payable Turnover	3.5	3.4	3.3	3.7
Liquidity				(times)
Current	1.09	1.22	1.19	1.18
Quick	1.08	1.22	1.19	1.18
Finance Structure (%)				
Total Debt/Equity	369.6	242.0	249.3	253.8
Current Debt/Equity	0.0	0.0	0.0	0.0
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Million

BALANCE SHEET	FY2016	FY2017	FY2018F	FY2019F
Cash and cash equivalents	142,518	142,200	211,755	161,540
Short-term investments	1,924,004	2,483,516	2,535,242	2,697,145
Accounts receivable	384,948	576,070	417,189	447,386
Inventories	9,808	6,595	8,202	7,398
Other current assets	1,192,671	1,108,624	1,267,081	1,357,370
Property, plant & equipment	235,731	242,252	266,163	269,608
Acquired intangible assets	111,762	147,121	193,380	254,826
Long-term investments	175,484	186,035	223,316	226,483
Other non-current assets	5,707	7,959	6,833	7,396
Total assets	**4,293,071**	**5,019,473**	**5,246,045**	**5,543,989**
Accounts payable	3,362,747	3,532,308	3,727,475	3,957,894
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other non-current liabilities	16,063	19,274	16,894	19,123
Bonus and Welfare fund				
Technology-science, dev. fund				
Total liabilities	**3,378,810**	**3,551,582**	**3,744,370**	**3,977,017**
Common stock and APIC	709,742	887,178	887,178	887,178
Treasury stock (enter as -)	0	0	0	0
Retained earnings	100,439	120,994	144,591	198,577
Statutory reserve	43,734	50,101	56,469	63,538
Reserves for Investment & Development	47,095	50,154	53,975	58,216
Total equity	**4,293,073**	**5,019,472**	**5,246,045**	**5,543,989**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2016	FY2017	FY2018F	FY2019F
EPS (VND)	1,446	1,654	1,593	1,966
P/E (x)	14.1	12.9	12.4	9.9
BV (VND)	12,882	16,546	16,926	17,662
P/B (x)	1.58	1.23	1.21	1.15
DPS (VND/share)	1,100	1,200	1,200	1,200
Dividend yield (%)	5.4	5.6	6.7	6.7

VALUATION MODEL	*Price*	*Weight*	*Average*
EVA	39,440	30%	11,832
P/E	14,931	30%	4,479
P/BV	12,695	40%	5,078
Target price (VND)			**20,105**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
09/2016	20,526	Neutral	Long term
01/2017	22,780	Accumulate	Medium term
02/2018	24,900	Buy	Medium 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%

ABOUT US

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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