

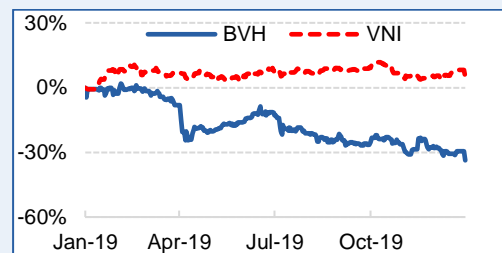
Bao Viet Holdings (BVH)

Earnings Flash

Industry:	Insurance		2018	2019
Report Date:	January 30, 2020	GWP y/y	22.6%	13.8%
Current Price:	VND63,100	NEP y/y	21.2%	15.7%
Current Target Price:	VND86,300	Life/total premia	68.6%	71.2%
Upside	36.8%	Portfolio/equity	6.23	5.70
Dividend Yield:	1.4%	Claim ratio	34.2%	36.3%
TSR	38.2%	Reserve ratio	96.6%	91.6%
Rating:	BUY	EPS growth y/y	-31.3%	-6.5%

Market Cap:	USD2.0bn		BVH	Peers	VNI
Foreign Room:	USD396mn	P/E (ttm)	43.1x	12.2x	15.3x
ADTV30D:	USD0.4mn	P/B (curr)	2.5x	1.6x	2.2x
State Ownership:	68.0%	ROE (ttm)	6.0%	10.2%	14.8%
Outstanding Shares:	742mn	ROA (ttm)	0.9%	0.9%	2.5%

Note: regional life and health peers, median values



Company overview

BVH is a diversified financial group founded in 1965 as a wholly State-owned company in the general insurance industry. It began selling life insurance in 1996 and subsequently opened other subsidiaries and associates in brokerage, banking and fund management.

Slow premium growth and weak stock market hits results

Truc Ngo
Analyst
truc.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 116

Long Ngo
Associate Director
long.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 123

BVH released unaudited results for FY2019 with gross written premium of VND36tn (USD1.5bn, +14.0% YoY) and NPAT-MI of VND1.1tn (USD47.8mn, -3.3% YoY). These results trailed our forecast by 4.5% and 19.3%, respectively, mainly due to (1) a slowdown in both life and non-life premium growth and (2) a 22.8% drop in profits from financial activities derived from lower bond yields and volatility of the stock market.

- 2019 total direct premium was reported at VND36tn, in which life premium reached VND25.4tn and non-life premium reached VND10.3tn (up 18.3% YoY and 4.5% YoY, respectively). Direct premium in Q4 alone stood at VND9.7tn (5.2% QoQ, 13.6% YoY) with life premium at VND7.3tn (+13.0% QoQ, +20.7% YoY) and non-life premium at VND2.5tn (-12.4% QoQ, -2.9% YoY).
- 2019 net written premium was VND32.7tn (+15.7% YoY), implying a retention ratio of 91.1%.
- The claims ratio and reserve ratio were 36.3% and 91.6%, respectively, in 2019.
- 2019 profits from financial activities reached VND5.6tn (-22.8% YoY).
- 2019 charter capital and additional capital increased to VND7.4tn and VND7.3tn from VND7.0tn and VND3.7tn, respectively, after the completion of capital raising via private placement in Q4.
- 2019 ROAA stood at 0.9%, down 0.1 ppts YoY; 2019 ROAE stood at 6.0%, down 1.6 ppts YoY.

New business premium numbers await IAV report; however, BVH's total business premium growth signals a slowdown of this metric. BVH recorded 2019 total direct premium growth of 14.0% (-9.0 ppts YoY) of which life premium growth reached 18.3% (-4.7 ppts YoY) and non-life premium growth reached 4.5% (-17.5 ppts YoY), respectively. However, BVH has succeeded in maintaining its market share of around 20% as a slowdown in premium growth was witnessed in the whole insurance sector. According to the Ministry of Finance (MOF), in 2019, the total direct premium growth of Vietnam's insurance sector dropped by 3.2 ppts YoY to 20.3%, in which life premium growth decelerated by 5.0 ppts YoY to 25.1% and non-life premium growth decreased by 1.3 ppts YoY to 11.6%.

Claim ratio inched up while reserve ratio decreased. As a result of its strategy to expand market share from 2016 to 2020, BVH's claim ratio continued to increase by 2.1 ppts YoY to 36.3%. Meanwhile the reserve ratio declined by 5.0 ppts to 91.6%. We believe this drop was a consequence of Circular 01/2019/TT-BTC, which lifted the technical interest rate in mathematical reserve calculation and drove BVH's mathematical reserve ratio to drop by 3 ppts YoY to 46.8%.

The downtrend of bond yields and the stock market profoundly affected BVH's bottom line. As of 2019, interest from investments in BVH's bonds stood at VND2.5tn (-9.5% YoY). Gains from

securities trading fell by 93.8% from VND2.8tn in 2018 to VND178bn in 2019. In total, financial income in 2019 dropped by 12.9% YoY to VND7.8tn, which along with a 29.8% increase in financial expenses to VND2.2tn, resulted in 22.8% drop in profits from financial activities.

Figure 1: BVH's FY 2019 consolidated results

VND bn	FY 2019	FY 2018	Y-o-Y	Q4 2019	Q4 2019	Y-o-Y
Direct premium	35,753	31,365	14.0%	9,761	8,592	13.6%
of which - Life	25,452	21,507	18.3%	7,255	6,009	20.7%
of which - Non-life	10,301	9,858	4.5%	2,507	2,582	-2.9%
Inward reinsurance premium	224	246	-8.9%	43	59	-26.1%
Gross written premium	35,977	31,611	13.8%	9,805	8,650	13.3%
Outward reinsurance premium	(3,301)	(3,180)	3.8%	(910)	(291)	212.4%
Net written premium	32,676	28,431	14.9%	8,895	8,359	6.4%
Unearned premium reserve	90	(104)	-	199	84	138.1%
Net earned premium	32,766	28,328	15.7%	9,094	8,443	7.7%
Other premiums earned	540	736	-26.6%	227	363	-37.5%
Claims and losses	(27,762)	(25,373)	9.4%	(8,057)	(6,506)	23.8%
of which - math expense	(15,334)	(14,104)	8.7%	(4,833)	(2,781)	73.8%
Underwriting expense	(6,463)	(6,259)	3.3%	(1,768)	(1,808)	-2.2%
G&A expense	(3,560)	(3,459)	2.9%	(897)	(825)	8.7%
Operating income	(4,372)	(6,049)	-27.7%	(1,397)	(1,032)	35.4%
Investment income	7,873	9,044	-12.9%	2,128	1,782	19.4%
Financial expense	(2,201)	(1,696)	29.8%	(633)	(496)	27.8%
Net financial income	5,672	7,348	-22.8%	1,495	1,286	16.2%
Income from affiliates	65	101	-36.1%	15	34	-55.2%
Other income	28	23	22.3%	15	7	103.6%
PBT	1,392	1,422	-2.1%	128	296	-56.8%
Income tax expense	(249)	(247)	0.8%	(22)	(59)	-63.2%
NPAT	1,143	1,175	-2.7%	106	237	-55.2%
Minority interest	54	49	10.5%	16	6	165.2%
NPAT-MI	1,088	1,126	-3.3%	90	231	-61.1%

Source: BVH, VCSC



VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Nghia Dien, Senior Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Truc Ngo, Analyst, ext 116

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Ha Dao, Analyst, ext 194
- Vinh Bui, Analyst, ext 191

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Vy Nguyen, Senior Analyst, ext 147
- Duc Pham, Analyst, ext 174

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Nghia Le, Analyst, ext 181
- Tra Vuong, Analyst, ext 365
- Trung Nguyen, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Dung Nguyen

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Senior Analyst, ext 173
- Duc Le, Analyst, ext 196

Industrials and Transportation

- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn