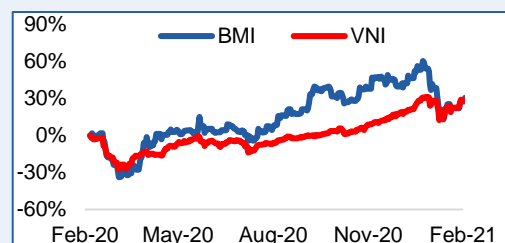


# Bao Minh Insurance (BMI) [OUTPERFORM +18.9%]

# Update Report

<b>Industry:</b>	<b>Insurance</b>		<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Report Date:</b>	<b>February 26, 2021</b>	Direct premium y/y	7.8%	4.5%	9.4%	9.7%
Current Price:	VND25,400	Net premium y/y	6.8%	5.4%	9.4%	11.0%
Current Target Price:	VND29,200	NPAT y/y	6.2%	11.6%	14.8%	26.4%
Last Target Price:	VND31,000	EPS growth y/y	6.3%	12.9%	14.8%	26.4%
Upside to TP:	15.0%	Portfolio/equity (x)	1.32x	1.34x	1.43x	1.45x
Dividend Yield:	3.9%	Net ROI	6.7%	5.4%	5.7%	5.4%
TSR:	18.9%	Combined ratio	99.4%	98.3%	97.9%	97.0%



Market Cap:	USD101mn		<b>BMI</b>	<b>Peers</b>	<b>VNI</b>
Foreign Room:	USD14mn	P/E (ttm)	12.1x	9.8x	18.0x
ADTV30D:	USD0.3mn	P/B (curr)	1.0x	1.0x	2.4x
State Ownership:	50.7%	ROE	8.5%	11.9%	13.7%
Outstanding Shares:	91 mn	ROA	3.1%	3.6%	2.2%
Fully Diluted Shares:	91 mn				

## Company overview

BMI was founded in 1994 as a product of a spin-off from Bao Viet's largest branch. It operates in three main segments: non-life insurance, reinsurance and financial investments. As of 2020, BMI was the fourth-largest non-life insurance company in Vietnam with 7.6% market share.

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## AGM to shed light on divestment and credit insurance

- We trim our target price (TP) by 5.8% but upgrade our rating from MARKET PERFORM to OUTPERFORM as BMI's share price has decreased by 16.7% in the last three months. Our lower TP is mainly due to a 4.1% average decrease in our 2021-2025F net income.
- We trim our 2021/22/23F NPAT-MI by 3.2%/8.9%/3.6% mainly due to an 8.0% three-year average increase in net claims that is partly offset by (1) a 17.3% three-year average increase in net financial income, (2) 1.4% three-year average decrease in underwriting expenses and (3) 0.7% three-year average increase in net earned premiums.
- Upside catalyst: Divestment by SCIC and AXA for a total combined 67.3% stake.
- Main risks: (1) Natural hazards could push claims to a higher level; (2) a decline in the stock market and further cuts to deposit rates would adversely affect net financial income.

**We maintain our projection for 2021F direct premium growth at 4.5%.** The establishment of HD Insurance in May 2020 — a related entity of HD Saison (currently a partner of BMI in selling credit insurance products) — raised our concern regarding the growth prospects of the credit insurance segment at BMI as this segment experienced the most impressive growth among all segments in the last two years, accounting for 14.8% of BMI's direct premium as of H1 2020. We are awaiting the upcoming AGM for further information about the current position of the contract between BMI and HD Saison to inform further adjustments. In this Update Report, we remain conservative and maintain our assumption that the credit insurance segment will decline by 50% in 2021, which causes our 2021F direct premium growth to slow to 4.5% from 7.8% in 2020 despite our outlook for a general recovery in the non-life insurance sector as economic growth recovers from the disruptions caused by the COVID-19 pandemic in 2020.

**We increase our projection for 2021F net financial income by 15.3% mainly due to our 27.9% cut in 2021F financial expense.** Though there is no breakdown for financial expense available in Q4 2020 financial statements, we attribute the 29.1% decline in 2020 financial expense mainly to the reversal for provision for investment impairment following an uptrend in the Vietnamese stock market for the year. With our positive house view on the stock market in 2021, we believe the company will continue to maintain a low level of provision for investment impairment in 2021. Therefore, we trim our projection for investment provision by 15.1%. In addition, our 27.9% cut in 2021 financial expense was driven by a 6.3% cut in our forecast for investment activity expenses.

**We await the upcoming AGM for a further update on the divestment by SCIC and AXA.** At 2019's AGM, BMI received shareholder approval to increase its FOL from 49% to 100%. However, BMI has not yet received regulatory approval to increase its FOL to facilitate SCIC and AXA proceeding further with their divestment plan. In our view, if there is no update regarding the FOL increase at the upcoming AGM, we then believe the divestment will be unlikely to materialize in 2021.

## 2020 recap: Growth in underwriting expense pushes combined ratio close to breakeven

Figure 1: BMI's 2020 results

VND bn	2019	2020	YoY	% of VCSC's 2020F	VCSC comments
<b>Direct premium</b>	<b>3,874</b>	<b>4,176</b>	<b>7.8%</b>	<b>101.3%</b>	* 2020 direct premium growth slowed to 7.8%; however, this growth was still positive compared to sector growth of 3.2% (according to Insurance Supervisory Authority of the Ministry of Finance) amid the impact of COVID-19. We attribute the slowdown in 2020 direct premium growth vis-à-vis 2019 to the negative effect of COVID-19 on BMI's clients as well as the establishment of HD Insurance making it difficult for the company to rollover and/or sign new insurance policies. However, we will have to wait for audited financial reports to confirm our view on the dynamics of credit insurance.
Inward reinsurance premium	501	470	-6.2%	91.2%	
<b>Gross written premium</b>	<b>4,376</b>	<b>4,646</b>	<b>6.2%</b>	<b>100.2%</b>	
Outward reinsurance premium	(1,032)	(1,075)	4.2%	98.6%	
<b>Net written premium</b>	<b>3,344</b>	<b>3,571</b>	<b>6.8%</b>	<b>100.7%</b>	* 2020 net written premium was VND3.6bn (+6.8% YoY), implying a retention ratio of 76.9% (+45 bps YoY).
Unearned premium reserve	(100)	(106)	6.6%	166.7%	
<b>Net earned premium</b>	<b>3,244</b>	<b>3,465</b>	<b>6.8%</b>	<b>99.5%</b>	
Other premiums earned	186	201	8.5%	101.5%	
Claims and reserves	(1,268)	(1,235)	-2.6%	103.6%	* 2020 net reserves surged by ~2x YoY to VND112bn mainly due to (1) the impact of severe floods in central Vietnam in October 2020 and (2) reserves for claims arising from CJ Foods Vietnam and Fushine Furniture, according to BMI's disclosures. * Meanwhile, 2020 net claims decreased by 8.8% YoY to VND1.1tn following BMI's focus on improving risk management in insurance activities. * Overall loss ratio dropped by 3.5 ppts YoY to 35.6% in 2020.
- of which net claims	(1,230)	(1,122)	-8.8%	97.5%	
Underwriting expense	(1,955)	(2,276)	16.4%	99.1%	* 2020 underwriting expense growth of 16.4% YoY was mainly derived from (1) a 1.1% YoY increase in commission expenses, (2) 43.3% YoY increase in transaction expenses, (3) 25.0% in expenses for training and supporting agencies and (4) 8.1% YoY increase in other expenses (including salary expenses). * 2020 expense ratio inched up by 5.3 ppts, bringing the overall combined ratio up by 1.8 ppts YoY.
G&A expense	(121)	(121)	-0.4%	94.0%	* G&A expense over NWP dropped by 24 bps to 3.4% from 3.6% in 2019.
<b>Operating income</b>	<b>85</b>	<b>35</b>	<b>-59.1%</b>	<b>55.5%</b>	
Financial income	205	247	20.7%	99.6%	* 2020 financial income of VND247bn was broadly in line with our expectation. There was no specific breakdown for this category; however, we believe that the increase in financial income could be driven by higher income from securities trading activities following an uptrend of the stock market in H2 2020, higher income from bonds and higher income from deposits on the back of higher a deposit balance and flat deposit yields.
Financial expense	(79)	(56)	-29.1%	69.0%	* We attribute a 29.1% YoY decrease in 2020 financial expense mainly to the reversal of provision for investment impairment following a surge in the Vietnamese stock market in H2 2020.
<b>Net financial income</b>	<b>126</b>	<b>192</b>	<b>51.7%</b>	<b>114.4%</b>	
PBT	221	231	4.6%	96.5%	
<b>NPAT</b>	<b>181</b>	<b>193</b>	<b>6.2%</b>	<b>98.2%</b>	
Combined ratio	97.6%	99.4%	1.8 ppts		
ROAA (TTM)	3.2%	3.1%	-0.1 ppts		
ROAE (TTM)	8.0%	8.5%	0.4 ppts		

Source: BMI, VCSC

## 2021 outlook: Higher expectation for claims expense is biggest factor in lowering our profit expectation

Figure 2: VCSC's 2021 forecast

VND bn	2020	2021F New	2021F Old	2021F New vs 2020	VCSC comments
<b>Direct premium</b>	<b>4,176</b>	<b>4,363</b>	<b>4,306</b>	<b>4.5%</b>	* We maintain our forecast for 2021 direct premium growth a 4.5% following our assumption that BMI's credit insurance premium will drop by 50% YoY in 2021 due to the encroachment of HD Insurance — a recently established entity that is related to HD Saison (currently a partner of BMI in selling credit insurance products). We are awaiting the upcoming AGM for a further update on the current position of the contract between BMI and HD Saison before making any adjustments.
Inward reinsurance premium	470	567	560	20.7%	
<b>Gross written premium</b>	<b>4,646</b>	<b>4,931</b>	<b>4,866</b>	<b>6.1%</b>	
Outward reinsurance premium	(1,075)	(1,183)	(1,192)	10.1%	* Our assumption for the 2021 retention ratio is 76.0%.
<b>Net written premium</b>	<b>3,571</b>	<b>3,747</b>	<b>3,674</b>	<b>4.9%</b>	
Unearned premium reserve	(106)	(94)	(37)	-11.9%	
<b>Net earned premium</b>	<b>3,465</b>	<b>3,654</b>	<b>3,637</b>	<b>5.4%</b>	
Other premiums earned	201	212	211	5.2%	
Claims and reserves	(1,235)	(1,298)	(1,199)	5.2%	
- of which net claims	(1,122)	(1,230)	(1,147)	9.6%	* We raise our projection for 2021 net claims by 7.2% as we believe the increase in reserves in 2020 will translate into an increase in 2021 claims.
Underwriting expense	(2,276)	(2,351)	(2,401)	3.3%	* We lower our assumption for 2021 underwriting expense by 2.1% to VND2.35tn as 2020 underwriting expense was lower than our expectation. We believe that if BMI loses its partnership with HD Saison in 2021, then its underwriting expense will contract as management explained at the 2019 AGM that expense for selling credit insurance products was relatively high.
G&A expense	(121)	(131)	(133)	8.6%	
<b>Operating income</b>	<b>35</b>	<b>85</b>	<b>116</b>	<b>144.0%</b>	
Financial income	247	230	231	-7.0%	
Financial expense	(56)	(61)	(85)	9.4%	* We lower our assumption for 2021 financial expense by 27.9% as we (1) cut our forecast for investment activity expenses by 6.3% and (2) lower our projection for provision for investment impairment by 15.1% following our positive house view for the prospects of the Vietnamese stock market in 2021.
<b>Net financial income</b>	<b>192</b>	<b>169</b>	<b>147</b>	<b>-11.8%</b>	
PBT	231	262	271	13.6%	
<b>NPAT</b>	<b>193</b>	<b>215</b>	<b>222</b>	<b>11.6%</b>	
<b>NPAT-MI</b>	<b>193</b>	<b>215</b>	<b>222</b>	<b>11.6%</b>	
Combined ratio	99.4%	98.3%	98.3%	-109 bps	
ROAA	3.1%	3.2%	3.6%	13 bps	
ROAE	8.5%	9.3%	9.4%	82 bps	

Source: BMI, VCSC

## Summary of Financial Metrics

Figure 3: GWP (VND tn)

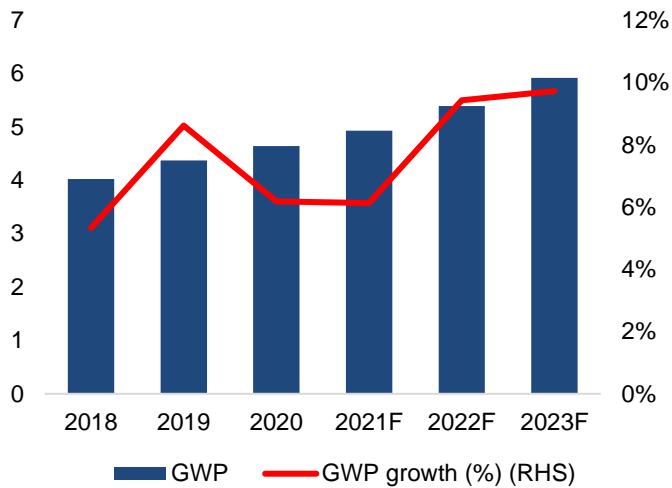
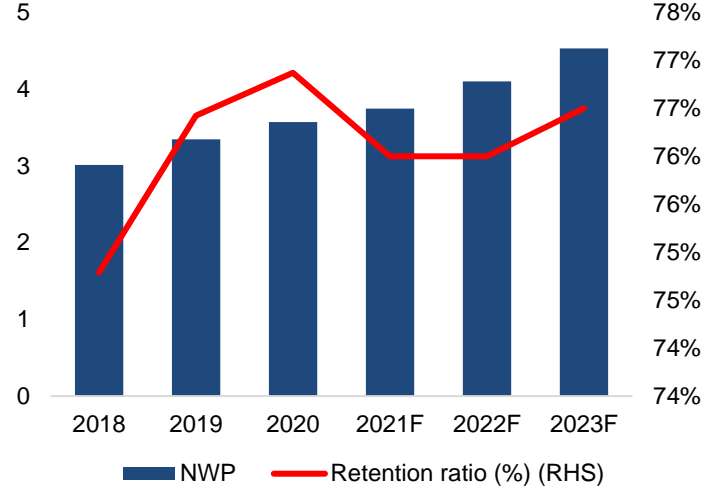


Figure 4: NWP (VND tn), retention ratio



Source: BMI, VCSC

Figure 5: Total cost structure

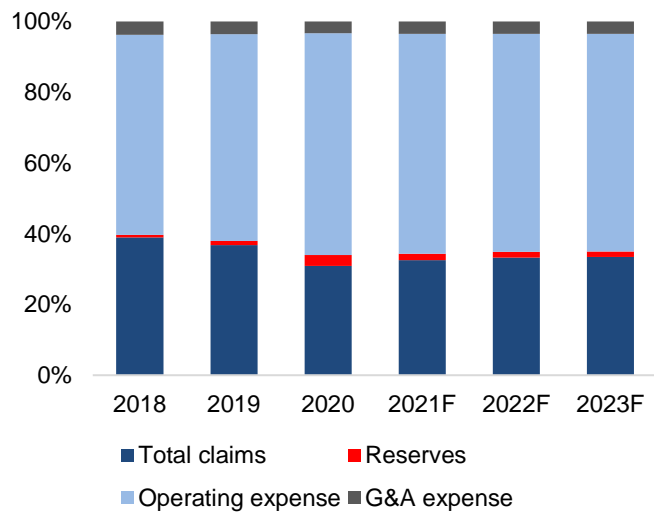
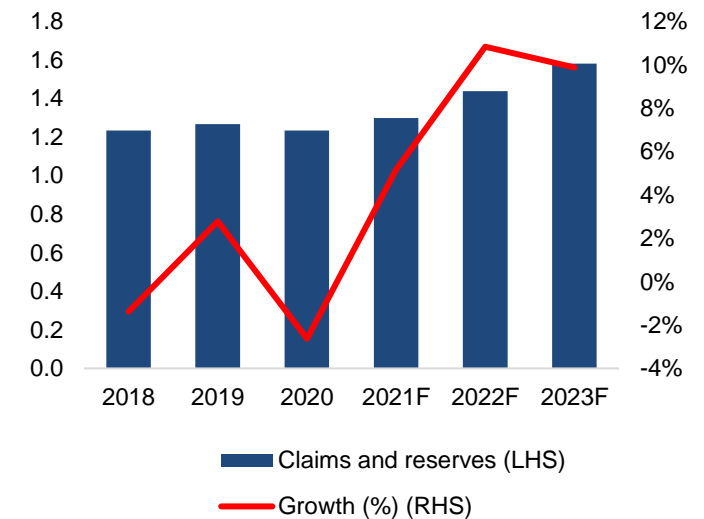


Figure 6: Total claims and reserves (VND tn)



Source: BMI, VCSC

Figure 7: G&A expense (VND bn) and % NWP

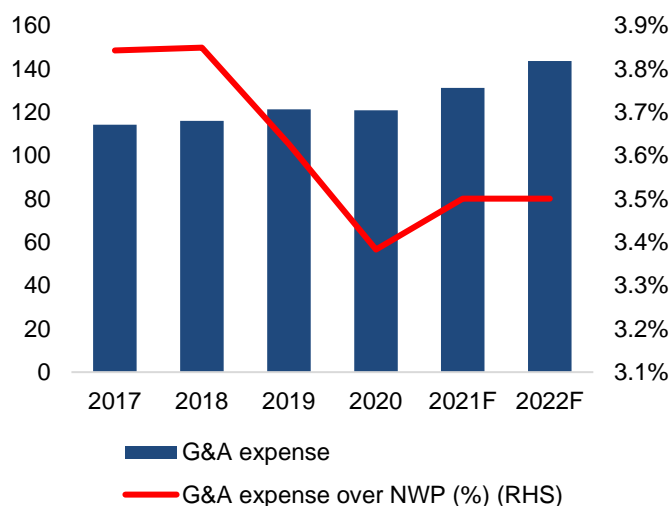
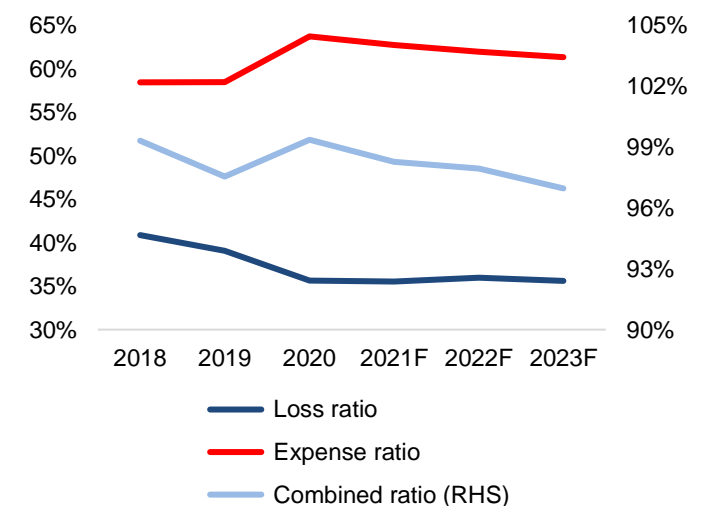


Figure 8: Loss, expense and combined ratio



Source: BMI, VCSC

Figure 9: Gross and net investment income (VND tn)

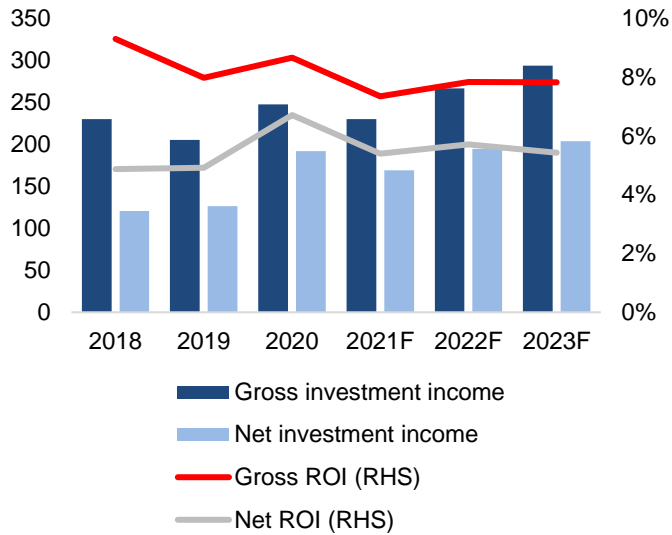
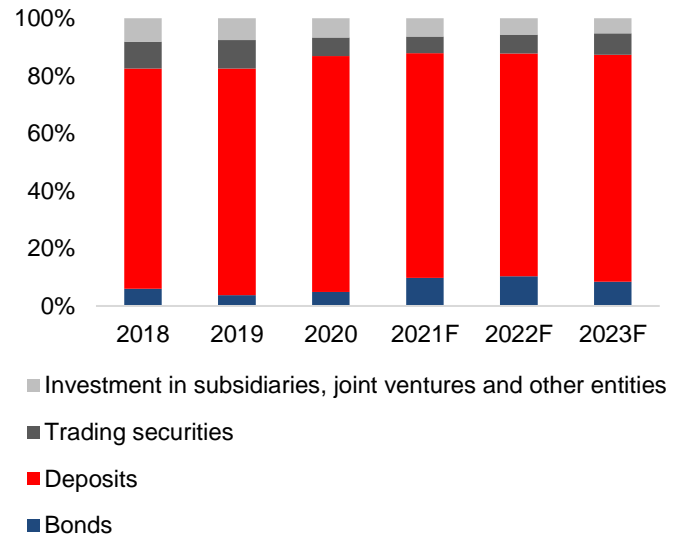


Figure 10: Investment portfolio



Source: BMI, VCSC

Figure 11: EPS (VND) and EPS growth

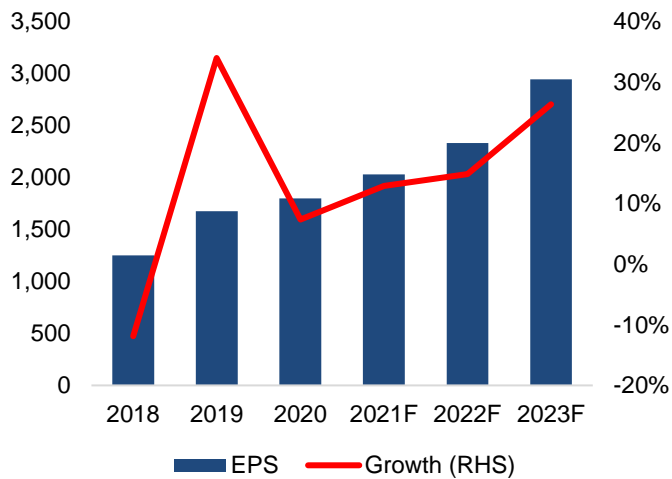
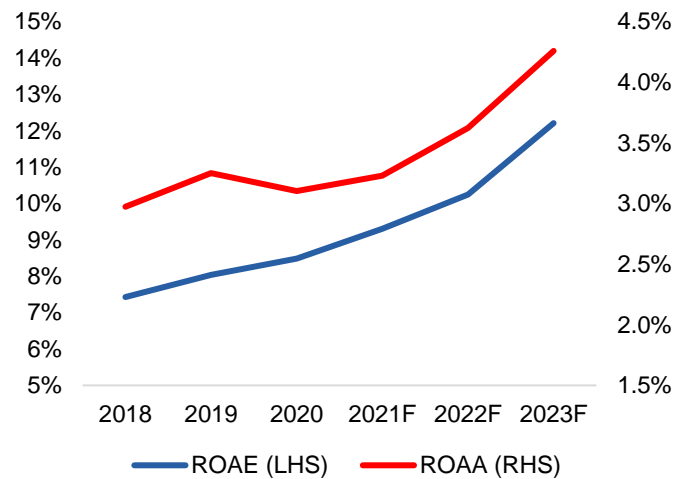


Figure 12: ROAE, ROAA



Source: BMI, VCSC

Figure 13: Technical reserve over NWP

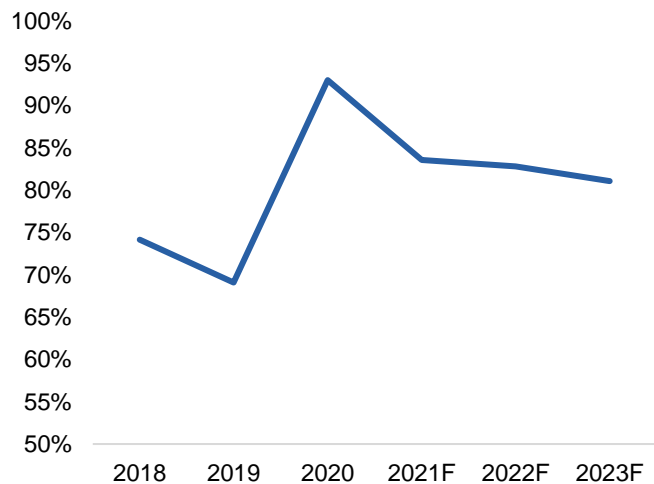
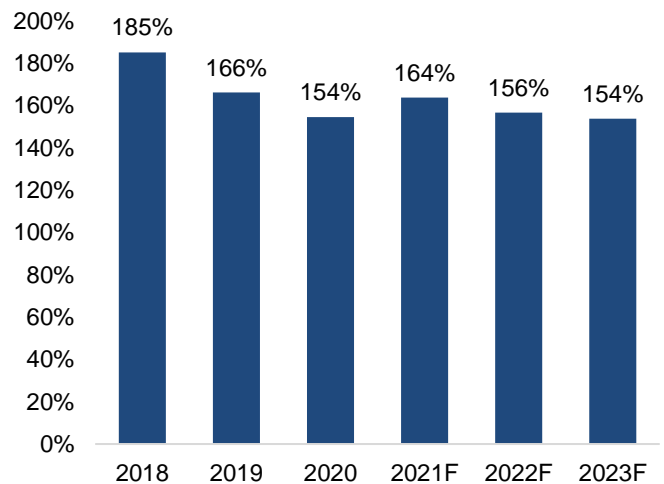


Figure 14: Solvency ratio



Source: BMI, VCSC



## Valuation

We utilize two valuation methods to derive our target price for the end of 2021 — FCFE and P/B — with a 50% weighting for each method, which results in a TP of VND29,200/share and implies a projected total shareholder return of 18.9%. Our assumption for the 2020 cash dividend remains unchanged at VND1,000/share.

Our valuation from the FCFE method is 10.7% lower than in our previous report due to a 4.1% average decrease in 2021-2025F net income, which is mainly driven by a 4.9% average increase in net claims that is partly offset by (1) a 0.3% average increase in net earned premium, (2) 0.4% average decrease in underwriting expense and (3) 11.6% average increase in net financial income.

We maintain our target PB for BMI at 1.2x. However, our target price from the PB method is 1.3% lower than our previous report due to a 3.2% cut in our projection for 2021 NPAT.

**Figure 15: Valuation summary**

VND per share	Fair value ps	Weighting	Contribution
Number of outstanding shares (million)			91
FCFE	27,349	50%	13,675
Target P/B @ 1.2x	31,000	50%	15,500
<b>Target price</b>			<b>29,200</b>
Current price			25,400
Upside			15.0%
Dividend yield			3.9%
TSR			18.9%
<b>2021F P/B at TP</b>			<b>1.13x</b>
<b>Rating</b>			<b>OUTPERFORM</b>

Source: VCSC

## FCFE method

**Figure 16: FCFE model**

VND bn	2021F	2022F	2023F	2024F	2025F
<b>Net income</b>	<b>215</b>	<b>247</b>	<b>312</b>	<b>354</b>	<b>374</b>
Non-cash charges (excluding change in reserves)	0	0	0	0	0
(Increase)/Decrease in net working capital	-12	-14	-11	-19	-16
CapEx = increase in required capital	44	88	107	110	105
Net borrowing	-	-	-	-	-
<b>FCFE</b>	<b>183</b>	<b>172</b>	<b>215</b>	<b>262</b>	<b>285</b>
<b>PV of FCFE</b>	<b>162</b>	<b>135</b>	<b>149</b>	<b>161</b>	<b>155</b>
<b>Invested capital</b>	<b>44</b>	<b>88</b>	<b>107</b>	<b>110</b>	<b>105</b>
Reinvestment rate	20%	36%	34%	31%	28%
<b>Beginning capital</b>	<b>2,273</b>	<b>2,349</b>	<b>2,470</b>	<b>2,639</b>	<b>2,825</b>
ROE (on beginning capital)	9.5%	10.5%	12.6%	13.4%	13.2%
<b>Free cash flow growth rate</b>					
During forecast horizon	1.9%	3.8%	4.3%	4.2%	3.7%
Beyond forecast horizon					3.7%
PV of FCFE (2021F-2025F)					761
Terminal value					3,183
PV of terminal value					1,727
<b>Market value of equity</b>					<b>2,489</b>
Number of outstanding shares (mn)					91
<b>Value per share (VND)</b>					<b>27,349</b>
Implied 2021F P/B					1.06x

Source: VCSC



**Figure 17: Cost of equity**

Cost of equity	
Risk free rate* (%)	3.1
Beta	1.0
Market risk premium (%)	9.9
COE (%)	13.0

Source: VCSC; (\*) 12-month trailing average of Vietnam's 10-year Government bond yield.

## P/B method

**Figure 18: P/B model**

P/B valuation	
2021F equity value (VND bn)	2,349
Target market value of equity (VND bn)	2,819
Number of outstanding shares (million)	91
2021F book value per share (BVPS) (VND)	25,811
Target P/B	1.2x
<b>Value per share (VND)</b>	<b>31,000</b>

Source: VCSC

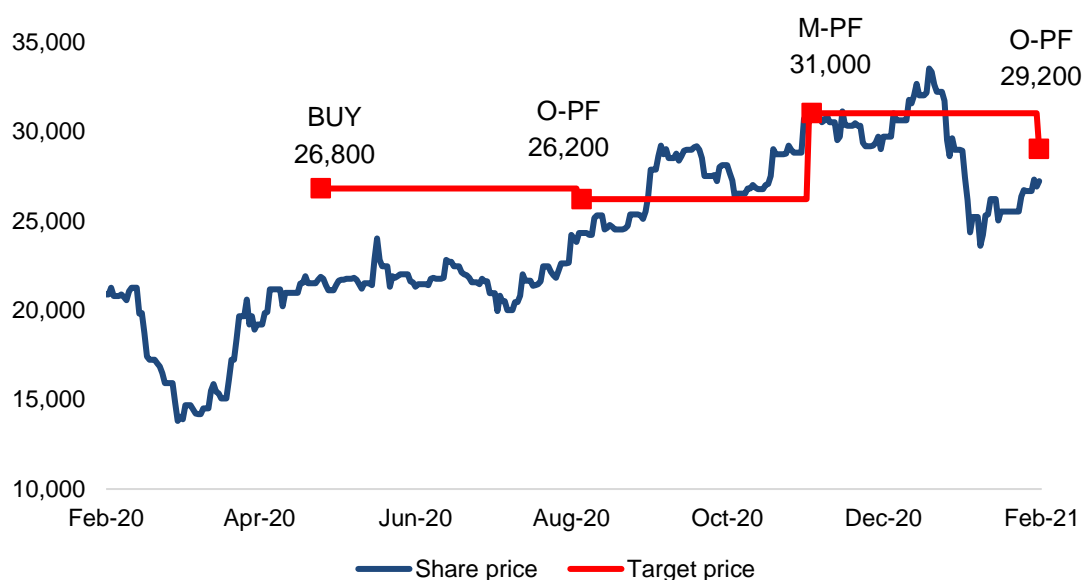
**Figure 19: Comparable peers**

Ticker	Country	Mkt Cap (USD mn)	2020 Net D/E	2020 ROE	2020 ROA	2020 P/E	2020 P/B
PVI Holdings	Vietnam	311	-15.9%	10.8%	3.6%	9.7	1.0
BIDV Insurance Corp	Vietnam	107	-4.1%	12.3%	5.0%	8.7	1.0
Bao Long Insurance Corp	Vietnam	31	-51.5%	5.9%	2.2%	17.9	1.1
Military Insurance Corp	Vietnam	96	-0.8%	12.9%	3.7%	11.4	1.4
Agriculture Bank Insurance Corp	Vietnam	65	-5.4%	29.6%	10.3%	6.2	1.7
Petrolimex Insurance Corp	Vietnam	77	-7.4%	11.6%	2.9%	10.2	1.2
Post & Telecom JS Insurance Corp	Vietnam	90	-14.4%	12.1%	3.0%	8.9	1.0
<b>Average</b>		<b>111</b>	<b>-14.2%</b>	<b>13.7%</b>	<b>4.4%</b>	<b>10.3</b>	<b>1.2</b>
<b>Median</b>		<b>90</b>	<b>-7.4%</b>	<b>11.9%</b>	<b>3.6%</b>	<b>9.3</b>	<b>1.1</b>
<b>Baominh Insurance Corp</b>	<b>Vietnam</b>	<b>105</b>	<b>-6.6%</b>	<b>8.5%</b>	<b>3.1%</b>	<b>14.1</b>	<b>1.1</b>

Source: Bloomberg as of February 24, 2021, VCSC

## Historical recommendations

**Figure 20: Historical target prices (VND/share)**



Source: Bloomberg, VCSC

## Financial Statements

P&L (VND bn)	2020	2021F	2022F	2023F
<b>Direct premium</b>	<b>4,176</b>	<b>4,363</b>	<b>4,775</b>	<b>5,240</b>
Inward reinsurance premium	470	567	621	681
<b>Gross written premium</b>	<b>4,646</b>	<b>4,931</b>	<b>5,396</b>	<b>5,921</b>
Outward reinsurance premium	(1,075)	(1,183)	(1,295)	(1,391)
<b>Net written premium</b>	<b>3,571</b>	<b>3,747</b>	<b>4,101</b>	<b>4,529</b>
Net UEP* reserve	(106)	(94)	(103)	(91)
<b>Net earned premium</b>	<b>3,465</b>	<b>3,654</b>	<b>3,998</b>	<b>4,439</b>
Other premiums earned	201	212	224	249
Claims and losses	(1,235)	(1,298)	(1,439)	(1,581)
- of which net claims	(1,122)	(1,230)	(1,373)	(1,511)
Underwriting expense	(2,276)	(2,351)	(2,541)	(2,778)
G&A expense	(121)	(131)	(144)	(159)
<b>Operating profit</b>	<b>35</b>	<b>85</b>	<b>99</b>	<b>169</b>
Financial income	247	230	266	294
Financial expense	(56)	(61)	(72)	(90)
<b>Net financial income</b>	<b>192</b>	<b>169</b>	<b>194</b>	<b>204</b>
Profits from investment properties	6	6	5	5
Other income	(2)	2	2	2
<b>PBT</b>	<b>231</b>	<b>262</b>	<b>301</b>	<b>380</b>
Income tax expense	(38)	(47)	(54)	(68)
<b>NPAT</b>	<b>193</b>	<b>215</b>	<b>247</b>	<b>312</b>
Minority interest	-	-	-	-
<b>NPAT-MI</b>	<b>193</b>	<b>215</b>	<b>247</b>	<b>312</b>

<b>EPS (VND)</b>	<b>1,797</b>	<b>2,029</b>	<b>2,330</b>	<b>2,944</b>
<b>DPS (VND)</b>	<b>1,000</b>	<b>1,100</b>	<b>1,300</b>	<b>1,500</b>

RATIOS	2020	2021F	2022F	2023F
<b>Efficiency</b>				
Loss ratio	35.6%	35.5%	36.0%	35.6%
Expense ratio	63.7%	62.7%	62.0%	61.3%
Combined ratio	99.4%	98.3%	97.9%	97.0%
Retention ratio	76.9%	76.0%	76.0%	76.5%
<b>Balance sheet</b>				
Investment portfolio/equity	1.32	1.34	1.43	1.45
Investment portfolio/reserves	0.90	1.01	1.04	1.04
Assets/equity	2.96	2.80	2.85	2.88

B/S (VND bn)	2020	2021F	2022F	2023F
Cash & equivalents	150	252	190	248
ST investments	2,413	2,327	2,615	2,962
LT investments	589	829	916	864
Net Receivables	1,002	922	981	1,044
Net Fixed Assets	400	416	433	455
Other Assets	2,183	1,826	1,915	2,026
<b>Total assets</b>	<b>6,737</b>	<b>6,573</b>	<b>7,050</b>	<b>7,598</b>
Trade account payables	870	801	874	948
ST & LT borrowing	-	-	-	-
Other short-term liabilities	273	291	311	340
<b>Technical reserve</b>	<b>3,321</b>	<b>3,131</b>	<b>3,395</b>	<b>3,672</b>
UEP reserve for direct and inward reinsurance	1,384	1,443	1,524	1,613
Claims premium reserve for direct and inward reinsurance	1,810	1,533	1,688	1,847
Catastrophe reserve	127	155	182	212
Other long-term liabilities	0	0	0	0
<b>Total liabilities</b>	<b>4,464</b>	<b>4,224</b>	<b>4,580</b>	<b>4,961</b>
Shareholders' equity	2,273	2,349	2,470	2,639
Minority interest	-	-	-	-
<b>Total liabilities and equity</b>	<b>6,737</b>	<b>6,573</b>	<b>7,050</b>	<b>7,599</b>
Y/E shares out (mn)	91	91	91	91

<b>BVPS (VND)</b>	<b>24,882</b>	<b>25,711</b>	<b>27,041</b>	<b>28,885</b>
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RATIOS	2020	2021F	2022F	2023F
<b>Profitability</b>				
ROAA	3.1%	3.2%	3.6%	4.3%
ROAE	8.5%	9.3%	10.2%	12.2%
<b>Investment performance</b>				
Gross ROI	8.7%	7.3%	7.8%	7.8%
Net ROI	6.7%	5.4%	5.7%	5.4%
<b>Liquidity</b>				
Solvency (estimated)	154%	164%	156%	154%

Source: BMI, VCSC; \* UEP = Unearned Premium





## 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.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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