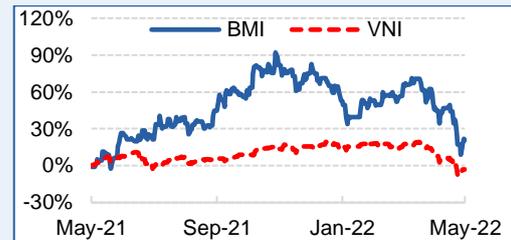


Industry:	Insurance		2021	2022F	2023F	2024F
Report Date:	May 24, 2022	Direct premium y/y	4.6%	15.0%	10.6%	10.0%
Current Price:	VND31,000	Net premium y/y	0.7%	16.3%	12.6%	12.0%
Current Target Price:	VND39,100	NPAT y/y	28.3%	24.0%	23.4%	18.7%
Last Target Price:	VND39,200	EPS growth y/y	29.8%	24.0%	23.4%	18.4%
Upside to TP:	+26.1%	Portfolio/equity (x)	1.55x	1.63x	1.79x	1.76x
Dividend Yield:	<u>4.8%</u>	Net ROI	6.7%	6.8%	7.0%	6.8%
TSR:	+30.9%	Combined ratio	98.6%	98.0%	97.6%	97.4%



Market Cap:	USD147mn		<u>BMI</u>	<u>Peers</u>	<u>VNI</u>	<u>Company overview</u>
Foreign Room:	USD26mn	P/E (ttm)	13.5x	13.4x	13.4x	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 2021, BMI was the fourth-largest non-life insurance company in Vietnam as it had a 7.8% market share.
ADTV30D:	USD1mn	P/B (curr)	1.5x	1.7x	2.1x	
State Ownership:	50.70%	ROE	10.9%	15.0%	15.8%	
Outstanding Shares:	110 mn	ROA	3.5%	4.0%	2.6%	
Fully Diluted Shares:	110 mn					

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Investment income to pick up in H2 2022

- We upgrade our rating for BMI from MARKET PERFORM to BUY despite cutting our target price (TP) by 0.3% to VND39,100 as the company's share price has dropped by 21% over the past three months.
- Our TP cut reflects (1) a lower valuation produced from using only the target P/B method vs previously using two valuation methods, which outweighs (2) our aggregate increase in 2022-2023F NPAT by 4.6% and (3) the positive impact of rolling our TP to mid-2023.
- The 4.6% aggregate increase in 2022-2023F net income was mainly due to a 7.4% aggregate increase in operating profit on the back of a 0.4-ppt decrease in the 2023F combined ratio and 3.5% aggregate increase in net financial income.
- We expect BMI will pay a cash dividend of VND1,500/share per year (equivalent to a 4.8% dividend yield) in 2022-2024F.
- Divestment by the State Capital Investment Corporation (SCIC) and AXA is still awaiting regulatory approval. Additionally, BMI is waiting for the State Securities Commission (SSC) to approve the new FOL at 100%.
- Upside risks: Divestment by the SCIC and AXA of a total 67.3% stake; higher-than-expected deposit rates.
- Downside risks: (1) Natural hazards hitting major population centers, which could push claims higher; (2) share price weakness in the stock market; (3) higher-than-expected operating cost.

We believe the loss ratio will increase from a low level in Q1 2022. The loss ratio was 32.0% in Q1 2022 (-5.3 ppts YoY and -12 ppts QoQ), which was driven by (1) a 4.9% YoY decrease in claim expenses and (2) 10.8% YoY increase in net earned premium. We believe the low claim expense level is not sustainable as (1) claim cases will likely increase amid normal mobility conditions and (2) demand for vehicle and fire & explosion insurance will likely rebound in 2022. Therefore, we forecast a 2022F loss ratio of 36.2% vs 36.6% in 2021. While we expect an uptrend in the loss ratio toward the end of the year, we expect the 2022F loss ratio will be lower vs 2021 as (1) we forecast a higher retention ratio of 75.5% vs 74.0% in 2021 as the company focuses on growing lower risk product lines and (2) higher premium growth of 15% in 2022F vs 4.6% in 2021.

We expect a lagged impact of rising deposit rates on BMI's 2022F bottom line. We forecast BMI's investment return to improve following our banking team's forecast for term deposit rates to edge up by approximately 50 bps in 2022 (bank deposits accounted for 90% of BMI's total investments as of 2021). However, we expect the impact will be moderate and not be clear until the second half of 2022. We forecast 2022F net financial income of VND264bn (+10.2% YoY) with Q1 2022 contributing only 15% of this full-year forecast. We also note that BMI usually receives dividend income from its long-term investments in Q2 or Q3.

Q1 2022 Recap: Rebound in premium growth in line with expectations

Figure 1: BMI's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	% of VCSC's 2022F	VCSC comments
Direct premium	1,075	1,251	16.3%	24%	* In Q1 2022 BMI delivered its first double-digit YoY direct premium growth since Q4 2020. In 2021, BMI's total direct premium growth ranged from 2.2% YoY to 6.9% YoY when measured by quarter. In Q1 2022, total direct premium growth was 16.3% YoY, which is in line with our expectation that 2022F will experience direct premium growth of 15% YoY vs only 4.6% YoY in 2021.
Inward reinsurance premium	123	135	9.2%	20%	
Gross written premium	1,199	1,385	15.6%	24%	
Outward reinsurance premium	(321)	(333)	3.7%	23%	
Net written premium	878	1,053	19.9%	24%	* Q1 2022 net written premium (NWP) was VND1.1tn (USD46mn; +19.9% YoY), implying a retention ratio of 76.0% vs 74.0% in 2021 and fulfilling 24% of our full-year forecast.
Unearned premium reserve	(71)	(159)	122.6%	181%	
Net earned premium	806	894	10.8%	21%	
Other premiums earned	45	49	10.1%	20%	
Claims and reserves	(301)	(286)	-4.9%	19%	
- of which net claims	(283)	(317)	11.9%	23%	
Underwriting expense	(498)	(581)	16.8%	21%	* Underwriting expenses increased 16.8% YoY, which was due to (1) a 10% YoY increase in commission expenses and (2) 120% YoY surge in agent management expenses.
G&A expense	(30)	(27)	-10.0%	18%	
Operating income	22	48	118.7%	42%	
Financial income	81	57	-29.1%	17%	
Financial expense	(17)	(18)	6.0%	24%	
Net financial income	63	39	-38.6%	15%	* Q1 2022 net financial income plunged 38.6% YoY from a high base in Q1 2021, representing 55% of Q1 2022 PBT (vs 74% in 2021). We believe (1) the rising stock market and (2) higher dividends from long-term investments created a high base for BMI's net financial income in Q1 2021.
PBT	88	89	1.6%	23%	
NPAT	70	71	1.5%	23%	
Combined ratio	94.0%	87.2%	-6.8 ppts	-63 bps	* Q1 2022 combined ratio continued to track down. * The expense ratio was 55.2% in Q1 2022 (-1.5 ppts YoY and -1.4ppts QoQ). * The loss ratio was 32.0% in Q1 2022 (-5.3 ppts YoY and -12 ppts QoQ), which was driven by (1) a 4.9% YoY decrease in claim expenses and (2) 10.8% YoY increase in net earned premium. In Q4 2021, claims increased while the loss ratio increased 14 ppts QoQ as life in Vietnam reverted back to normal, partly reflecting pent-up claims from Q3 2021 due to social distancing. Therefore, the QoQ decrease in the Q1 2022 loss ratio is directionally within our expectation. However, the Q1 2022 loss ratio of 32.0% is still lower than the 2021 loss ratio of 36.6%, which we believe could be due to (1) a strong increase in the premium contribution from healthcare & personal accident insurance and (2) decreased premiums from vehicle insurance throughout 2021.
ROAA (TTM)	3.5%	3.6%	0.1 ppt	47 bps	
ROAE (TTM)	9.6%	10.8%	1.2 ppt	222 bps	

Source: BMI, VCSC

2022 Outlook: Combined ratio to decline despite higher forecast claim expenses

Figure 2: VCSC's 2022 forecast

VND bn	2021	2022F New	2022F Old	2022F New vs 2021	VCSC comments
Direct premium	4,493	5,168	5,168	15.0%	* We maintain our 2022F direct premium growth of 15% YoY as the Q1 2022 result was in line with our forecast. We expect no material impact from decreasing revenue from HD Saison due to its increasing alignment with HD Insurance as this result is within management's expectation.
Inward reinsurance premium	524	568	672	8.4%	
Gross written premium	5,018	5,736	5,839	14.3%	
Outward reinsurance premium	(1,307)	(1,405)	(1,460)	7.5%	* Our assumption for the 2022F retention ratio is 75.5% vs 75.0% in our previous forecast as Q1 2022 inward reinsurance premium tracked behind our previous forecast. According to management, reinsurance is one of the segments with high loss ratio; BMI is also focusing on profit margin improvement.
Net written premium	3,711	4,331	4,379	16.7%	
Unearned premium reserve	(99)	(130)	(88)	31.4%	
Net earned premium	3,612	4,201	4,292	16.3%	
Other premiums earned	199	235	240	18.1%	
Claims and reserves	(1,322)	(1,520)	(1,508)	15.0%	* Even though (1) the loss ratio was well controlled at 32% in Q1 2022 and (2) management guides for improvement in the combined ratio in 2022F, we believe loss ratio will increase toward the end of the year to 36.2% (-0.4 ppt YoY) as we expect (1) an increase in vehicle insurance premium and (2) potentially higher claim expenses vs 2021F due to the return of normal mobility conditions.
- of which net claims	(1,113)	(1,357)	(1,374)	22.0%	
Underwriting expense	(2,303)	(2,678)	(2,755)	16.3%	* We cut our 2022F expense ratio forecast by 1.1 ppts to 62.9% following a lower-than-expected Q1 2022 expense ratio as underwriting expenses tracked slightly behind our previous forecast. We believe underwriting expenses will accelerate toward year-end.
G&A expense	(132)	(130)	(153)	-1.9%	
Operating income	54	108	116	99.4%	
Financial income	314	342	340	8.9%	
Financial expense	(75)	(79)	(77)	4.8%	
Net financial income	239	264	262	10.2%	* The increase in our 2022F net financial income forecast is on the back of our banking team's forecast for a ~50-bp increase in term deposit rates in 2022. * We believe the impact of rising deposit rates on BMI's investment income will be clearer in future quarters.
PBT	301	379	385	26.0%	
Income tax expense	50	68	69	36.2%	
NPAT	251	311	315	24.0%	
Combined ratio	98.6%	98.0%	98.0%	-63 bps	
ROAA	3.6%	4.1%	4.1%	47 bps	
ROAE	10.8%	13.0%	13.2%	222 bps	

Source: BMI, VCSC

Summary of financial metrics

Figure 3: GWP (VND tn)

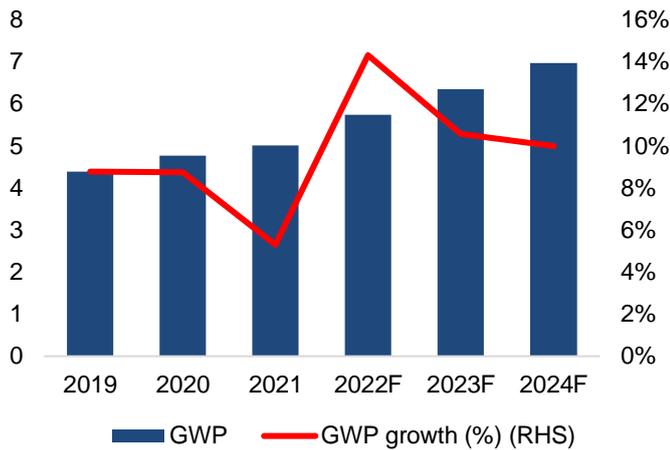
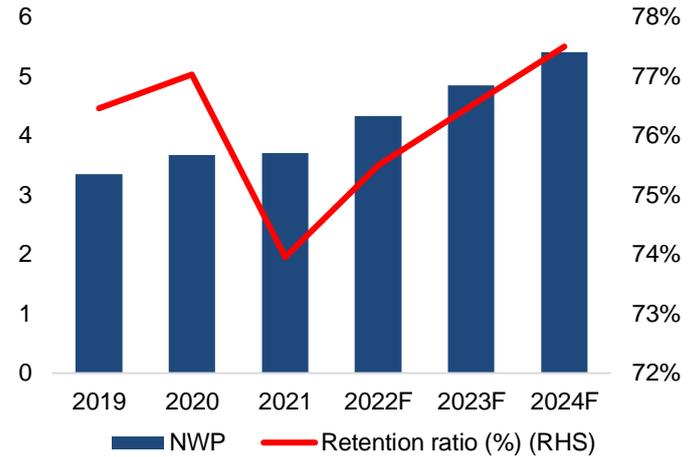


Figure 4: NWP (VND tn), retention ratio



Source: BMI, VCSC

Figure 5: Total cost structure

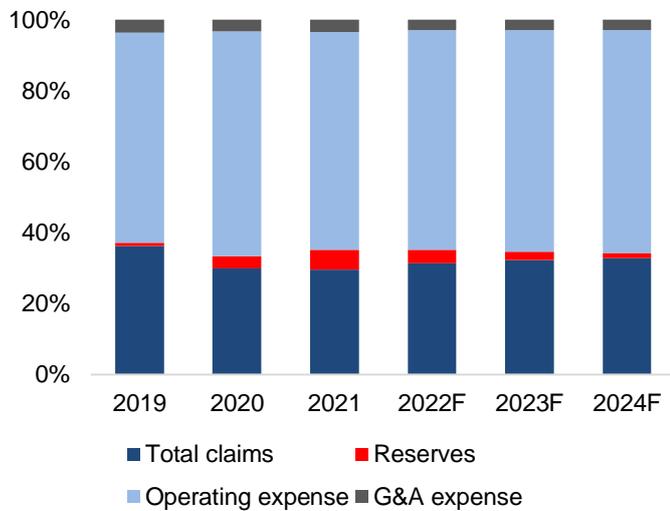
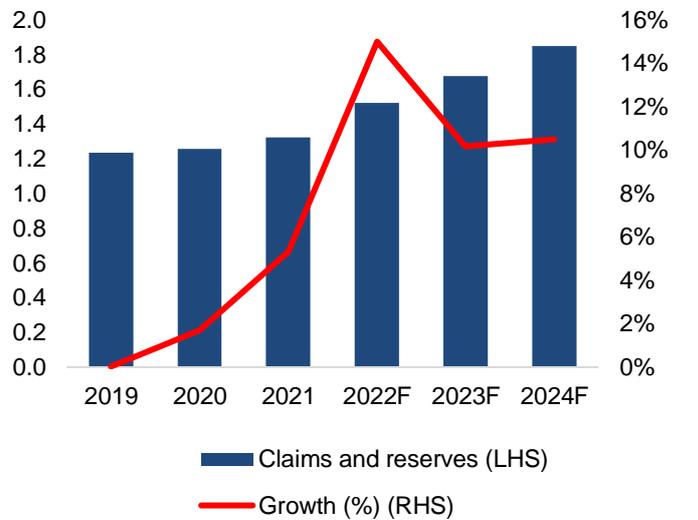


Figure 6: Total claims and reserves (VND tn)



Source: BMI, VCSC

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

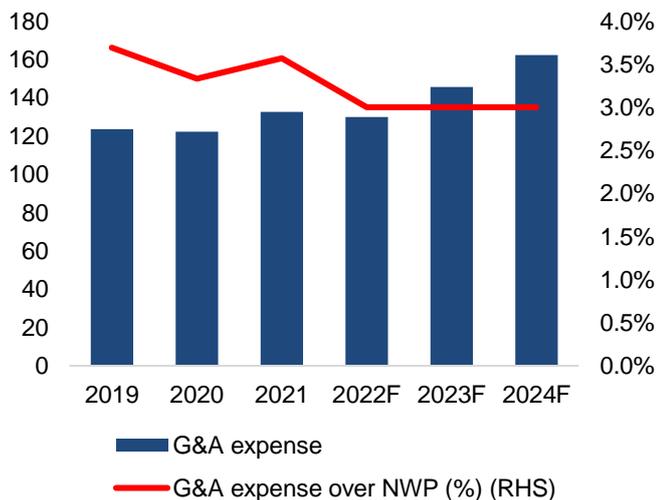
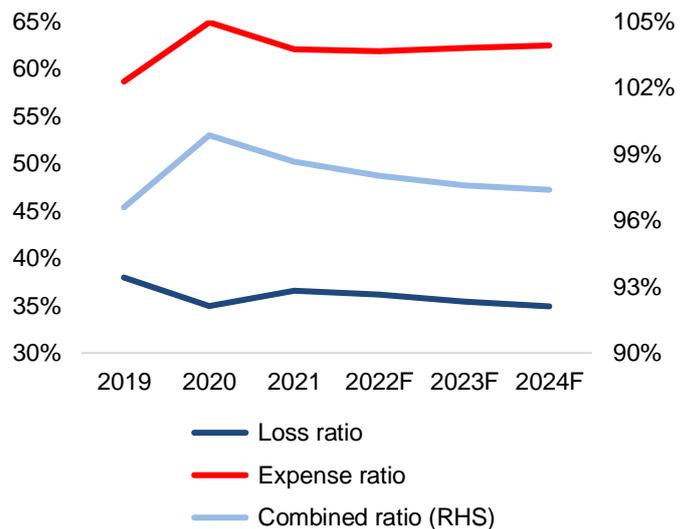


Figure 8: Loss, expense and combined ratio



Source: BMI, VCSC

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

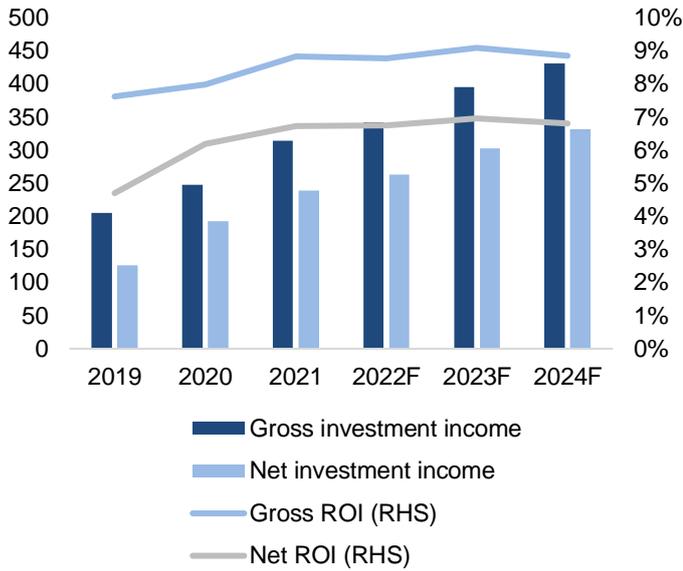
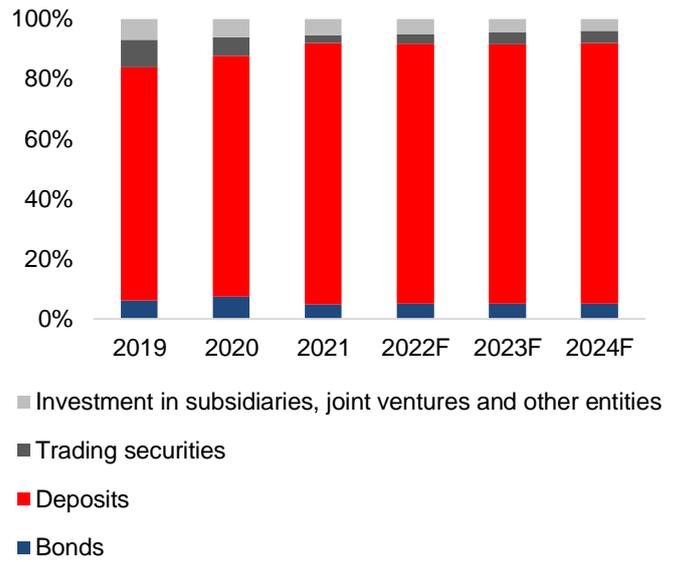


Figure 10: Investment portfolio



Source: BMI, VCSC

Figure 11: EPS (VND) and EPS growth

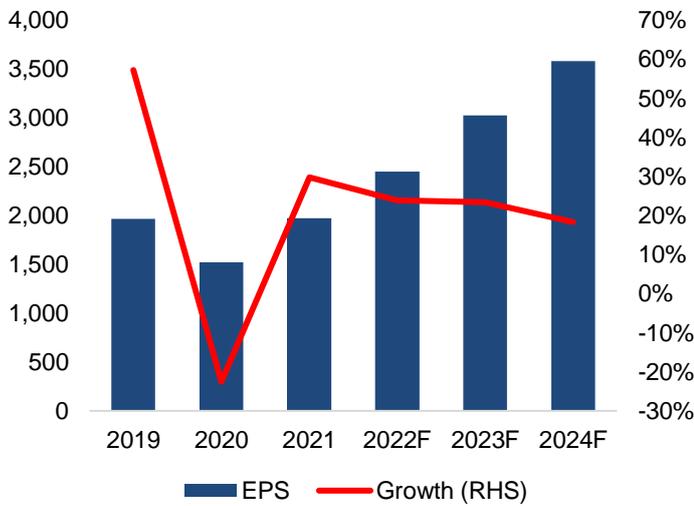
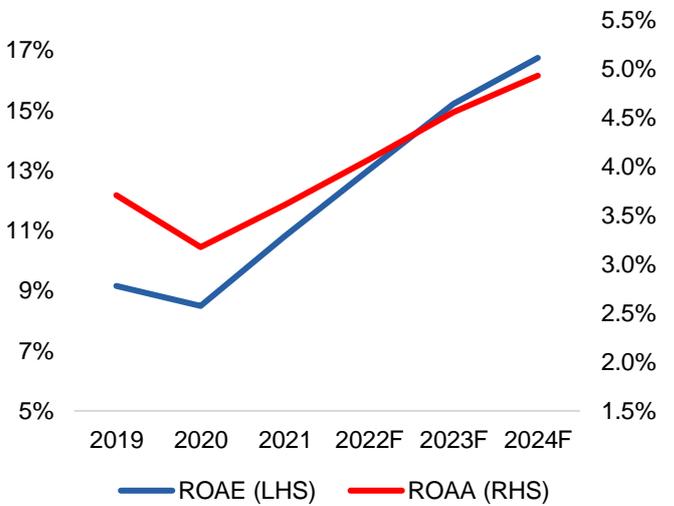


Figure 12: ROAE, ROAA



Source: BMI, VCSC

Figure 13: Technical reserve over NWP

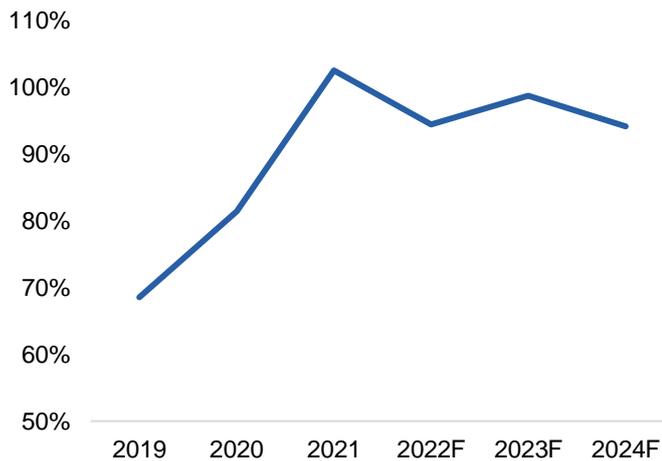
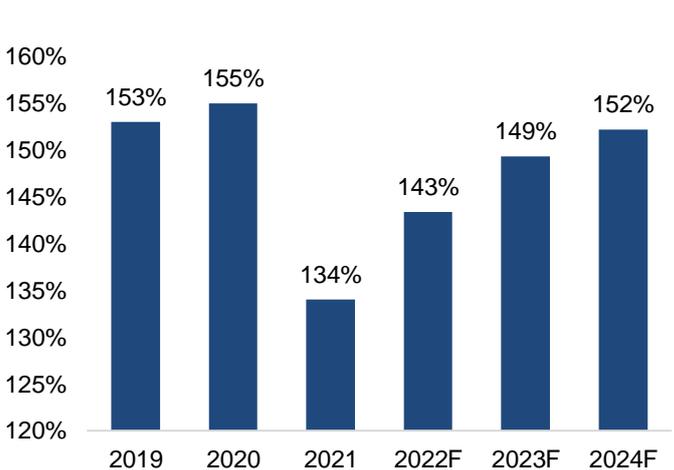


Figure 14: Solvency ratio



Source: BMI, VCSC

Valuation

In this Update Report, we change our methodology to derive our target price (TP) for BMI. Previously, we used two valuation methods to derive our target price — FCFE and P/B — with a 50% weighting for each method; however, we now opt to use only the P/B approach. We think that the FCFE method is less suitable as it is not feasible for us to estimate BMI's net working capital based on forecast current liabilities. We believe the current liabilities presented in the financial statements do not fully reflect the potential liabilities of an insurer even though regulation requires an amount should be set aside. The uncertainty mainly arises from incurred-but-not-reported claim cases, in our view. Furthermore, the sum insured of some insurance product lines such as property and fire & explosion insurance is large, which we believe makes the liabilities of insurers become more volatile.

As of May 24, 2022, BMI traded at a 17.7% discount to its peer median trailing P/B of 1.7x (**Figure 16**). However, we believe BMI should trade on par with its peers as (1) it is the fourth largest non-life insurance company in Vietnam and has a strong foothold in the growing health & personal accident insurance segment, thus supporting the company's profit margin, and (2) while the top two leaders — BVH and PVI — lost their market shares over the course of 2021, BMI successfully defended its market share at 7.8%. Taken together, we maintain our target P/B at 1.7x, which results in a TP of VND39,100/share.

We decrease our TP by 0.3% due to (1) our lower valuation produced from using only the target P/B method vs previously using two valuation methods, which outweighs (2) our aggregate increase in 2022-2026F NPAT-MI by 4.6% and (3) the positive impact of rolling our TP to mid-2023.

At BMI's recent AGM, shareholders approved a cash dividend for FY2021 at 15% of par value (VND1,500/share). BMI also proposed a dividend of 15% for FY2022. In this Update Report, we therefore revise our assumption for the 2022F/2023F/2024F cash dividend to VND1,500/share per year vs VND1,100/share, VND1,200/share and VND1,300/share, respectively, in our previous Update Report.

Figure 15: Valuation summary

	Fair value
Target P/B (x)	1.70
Mid-2023F equity value (VND bn)	2,519
Target market value of equity	4,282
Number of outstanding shares (billion)	110
Mid-2023F BVPS (VND)	22,978
Target Price, TP (VND)	39,100
Current share price (VND)	31,000
Upside	26.1%
Dividend yield	4.8%
TSR	30.9%
Rating	BUY

Source: VCSC

Figure 16: Comparable peers

Ticker	Country	Mkt Cap (USD mn)	2021 Net D/E	TTM ROE*	TTM ROA*	TTM P/E*	LQ P/B*
PVI Holdings	Vietnam	490	-10%	11.1%	3.5%	13.3	1.5
BIDV Insurance Corp	Vietnam	135	-1%	15.4%	6.4%	8.0	1.2
Bao Long Insurance Corp	Vietnam	46	-92%	11.1%	3.6%	13.2	1.4
Military Insurance Corp	Vietnam	161	0%	15.0%	4.0%	14.7	2.1
Agriculture Bank Insurance Corp	Vietnam	88	-5%	18.0%	8.6%	10.0	1.7
Petrolimex Insurance Corp	Vietnam	132	-6%	21.6%	5.4%	8.4	1.7
Post & Telecom JS Insurance Corp	Vietnam	220	-7%	11.7%	3.2%	20.9	2.3
Average		182	-17%	14.8%	5.0%	12.6	1.7
Median		135	-6%	15.0%	4.0%	13.2	1.7
Bao Minh Insurance Corp	Vietnam	147	-9%	9.6%	3.6%	16.0	1.4

Source: Bloomberg as of May 24, 2022, VCSC (* except Bao Long Insurance and Agriculture Bank Insurance, which are 2020 data).

Figure 17: BMI's one-year forward P/B ratio (Bloomberg consensus)



Source: Bloomberg, VCSC

Historical Recommendations

Figure 18: Historical target prices (VND/share)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Direct premium	4,493	5,168	5,713	6,285
Inward reinsurance premium	524	568	628	691
Gross written premium	5,018	5,736	6,342	6,976
Outward reinsurance premium	(1,307)	(1,405)	(1,490)	(1,570)
Net written premium	3,711	4,331	4,852	5,406
Net UEP* reserve	(99)	(130)	(121)	(108)
Net earned premium	3,612	4,201	4,730	5,298
Other premiums earned	199	235	265	307
Claims and losses	(1,322)	(1,520)	(1,675)	(1,850)
- of which net claims	(1,113)	(1,357)	(1,561)	(1,764)
Underwriting expense	(2,303)	(2,678)	(3,017)	(3,376)
G&A expense	(132)	(130)	(146)	(162)
Operating profit	54	108	158	217
Financial income	314	342	396	431
Financial expense	(75)	(79)	(93)	(100)
Net financial income	239	264	303	332
Profits from investment properties	6	6	6	5
Other income	1	1	1	1
PBT	301	379	468	555
Income tax expense	(50)	(68)	(84)	(100)
NPAT	251	311	383	455
Minority interest	-	-	-	-
NPAT-MI	251	311	383	455
EPS (VND)	1,646	2,041	2,519	2,983
DPS (VND)	1,500	1,500	1,500	1,500

RATIOS	2021	2022F	2023F	2024F
Efficiency				
Loss ratio	36.6%	36.2%	35.4%	34.9%
Expense ratio	62.1%	61.8%	62.2%	62.5%
Combined ratio	98.6%	98.0%	97.6%	97.4%
Retention ratio	74.0%	75.5%	76.5%	77.5%
Balance sheet				
Investment portfolio/equity	1.55	1.63	1.79	1.76
Investment portfolio/reserves	0.95	0.97	0.97	0.98
Assets/equity	3.15	3.25	3.42	3.37

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	221	216	25	187
ST investments	3,061	3,366	4,031	4,335
LT investments	416	611	634	661
Net Receivables	714	796	823	862
Net Fixed Assets	301	313	329	345
Other Assets	2,627	2,606	3,062	3,156
Total assets	7,341	7,909	8,903	9,546
Trade account payables	808	944	1,019	1,090
ST & LT borrowing	-	-	-	-
Other short-term liabilities	399	444	494	537
Technical reserve	3,801	4,085	4,788	5,088
UEP reserve for direct and inward reinsurance	1,547	1,719	1,814	1,919
Claims premium reserve for direct and inward reinsurance	2,090	2,159	2,719	2,862
Catastrophe reserve	165	207	254	307
Other long-term liabilities	1	1	1	1
Total liabilities	5,009	5,474	6,301	6,715
Shareholders' equity	2,331	2,435	2,602	2,831
Minority interest	-	-	-	-
Total liabilities and equity	7,341	7,909	8,903	9,546
Y/E shares out (mn)	110	110	110	110
BVPS (VND)	17,723	18,514	19,783	21,524

RATIOS	2021	2022F	2023F	2024F
Profitability				
ROAA	3.6%	4.1%	4.6%	4.9%
ROAE	10.8%	13.0%	15.2%	16.7%
Investment performance				
Gross ROI	8.8%	8.8%	9.1%	8.9%
Net ROI	6.7%	6.8%	7.0%	6.8%
Liquidity				
Solvency (estimated)	134%	143%	149%	152%

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
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

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.

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

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