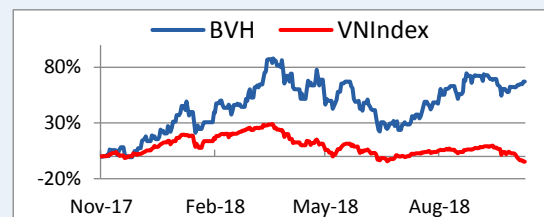




# Bao Viet Holdings (BVH)

# Earnings Flash

<b>Industry:</b>	<b>Insurance</b>		<u>2017</u>	<u>9M/18</u>	<u>2018F</u>
<b>Report Date:</b>	<b>October 31, 2018</b>	Net premia (y/y)	25%	24%	30%
<b>Current Price:</b>	VND98,100	Reserves/Assets	60%	63%	63%
<b>Last Target Price:</b>	VND85,790	Financial			
		Income/PBT	3.7x	5.4x	3.9x
		Life/Total premia	67%	68%	68%
		EPS growth (y/y)	39%	-26%	30%



			<u>BVH</u>	<u>*Peers</u>	<u>VNI</u>
Market Cap:	\$2.8bn	P/E (ttm)	52.2	10.3	15.7x
Foreign Room:	\$688mn	P/B (curr)	4.4	1.54	2.4x
ADTV30D:	\$341k	ROE	8.4%	19.6%	15.3%
State Ownership:	72%	ROA	1.3%	3.6%	2.4%
Outstanding Shares:	700.9 mn	Loss ratio	46%	45%	
Fully Diluted Shares:	700.9 mn	Combined ratio	98%	96%	

## 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 and banking fund management. BVH has the largest market share in life and non-life in Vietnam.

Cameron Joyce, CFA

Manager

[cameron.joyce@vcsc.com.vn](mailto:cameron.joyce@vcsc.com.vn)

+84 28 3914 3588 ext. 163

## Earnings still weighed down by math provisioning

BVH continued to post strong top-line growth across life and non-life insurance, only slightly shy of our expectations, with 9M 2018 gross written premium reaching 70.9% of our FY estimate. Earnings continued to disappoint on heavy math reserve provisioning. The company reported a decline in NPAT-MI of 26.7% YoY for 9M 2018, achieving only 43.6% of our FY2018 estimate.

**Bao Viet reaffirms top spot and expands market share YTD.** Overall insurance premium expanded 26% YoY in 9M 2018 to VND22.3tn (USD957mn), which compares to 24.6% growth for the overall industry, leaving BVH with a 23.8% market share for life and non-life combined. This is despite continued aggressive moves by foreign insurers who have, in contrast to BVH, signed extensive bancassurance deals. The general liability, motor and health insurance segments achieved YoY growth of 36%, 33% and 30%, respectively.

**Tail wind from the bond market rally has come to an end.** The company booked an annualized net return on investments of 10.1% for 9M 2018. However, this is significantly boosted by VND2.8tn (USD118mn) in gains from the sale of shorter term debt prior to its re-investment into longer term tenors. The majority of the gains came in H1 2018 in line with a sharp bond market rally. Excluding the gain from net investment income would suggest an annualized underlying investment float return of 5.5%, which is in line with shorter term deposit rates. The investment float, excluding cash and equivalents, grew 17% YoY to VND84tn (USD3.6bn) by the end of Q3.

**Math reserve expenses may have peaked in Q2, potential end in sight.** The company booked a mathematical reserve expense of VND3.5bn (USD151mn) in Q3 and VND11.3tn (USD486mn) YTD. Life insurance companies are currently required to discount their liabilities at 0.7x the prevailing primary 10-year Government bond yield. It could be argued that this is too conservative, and our understanding is that the industry is in consultation with the MOF to increase the ratio to as high as 0.9x. If successful, the heavy provisioning burden that has been placed on BVH may be eased in 2019. Another issue is the precedent of using primary yields which can be up to 50 bps lower than equivalent secondary yields in Vietnam, but we do not think that this issue will be addressed imminently. Total mathematical reserves now equate to 57% of total assets compared to 50% for the same period last year.

**Figure 1: BVH's 9M 2018 results**

VND bn	9M 2017	9M 2018	YoY growth	% of VCSC FY forecast
<b>Gross Premium</b>	17,653	22,296	26.3%	70.9%
- Life	12,285	15,498	26.2%	68.0%
- Non-life	5,821	7,276	25.0%	71.3%
Reinsurance premium ceded	(1,114)	(1,769)	58.8%	
<b>Net Premium</b>	16,539	20,527	24.1%	66.0%
<b>Total claims</b>	(12,538)	(18,868)	50.5%	78.9%
- Increase in Math reserve expenses	(6,803)	(11,323)	42.3%	78.5%
<b>Total direct insurance operating expense</b>	(16,386)	(23,317)	42.3%	73.9%
<b>Gross profit from insurance</b>	525	(2,417)		
G&A	(2,329)	(2,634)	13.1%	
Financial income	4,273	7,251	69.7%	85.2%
Financial expenses	(1,070)	(1,207)	12.9%	71.9%
<b>PBT</b>	1,536	1,128	-26.5%	43.5%
Income tax expense	(261)	(172)	-34.0%	
<b>NPAT</b>	1,270	942	-25.8%	44.3%
Minority interest	36	37		
<b>NPATMI</b>	1,234	905	-26.7%	43.6%

Source: BVH, VCSC

## VCSC Rating and Valuation Methodology

**Absolute, long term (fundamental) rating:** The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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	A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

**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.



## Disclaimer

### Analyst Certification of Independence

I, Cameron Joyce, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). VCSC may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Copyright 2013 Viet Capital Securities Company "VCSC". All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of VCSC in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.

**U.K. and European Economic Area (EEA):** Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by VCSC issued by VCSC has been prepared in accordance with VCSC's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by VCSC in Australia to "wholesale clients" only. VCSC does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of VCSC. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, VCSC will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between VCSC and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of VCSC. **Singapore:** VCSC and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by VCSC in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. VCSC does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of VCSC. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by VCSC is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if VCSC Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and VCSC is permitted to provide research material concerning investment to you under relevant legislation and regulations.



## Contacts

### Corporate

[www.vcsc.com.vn](http://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](mailto:research@vcsc.com.vn)

#### Banks and Securities

##### Long Ngo, Associate Director, ext 123

- Nghia Dien, Analyst, ext 138
- Son Tong, Analyst, ext 116
- Anh Dinh, Analyst, ext 139

#### Macro and Insurance

##### Cameron Joyce, Manager, ext 163

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

#### Real Estate, Construction and Materials

##### Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

#### Industrials and Transportation

##### Lucy Huynh, Senior Manager, ext 130

- Phu Pham, Analyst, ext 124
- Dang Thai, Analyst, ext 149

#### 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](mailto:alastair.macdonald@vcsc.com.vn)

#### Consumer and Pharma

##### Phap Dang, Senior Manager, ext 143

- Dao Nguyen, Senior Analyst, ext 185
- Nghia Le, Analyst, ext 181

#### Oil & Gas and Power

##### Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Nam Hoang, Analyst, ext 196

#### Retail Client Research

##### Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Ninh Chu, Analyst, ext 129

### Institutional Sales and Brokerage

& Foreign Individuals

#### Head of Institutional Sales

Michel Tosto, M. Sc.  
+84 28 3914 3588 ext 102  
[michel.tosto@vcsc.com.vn](mailto:michel.tosto@vcsc.com.vn)

#### Vietnamese Sales

Dung Nguyen  
+84 28 3914 3588 ext 136  
[dung.nguyen@vcsc.com.vn](mailto: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](mailto:quynh.chau@vcsc.com.vn)

#### Hanoi

Quang Nguyen  
+84 24 6262 6999, ext 312  
[quang.nguyen@vcsc.com.vn](mailto:quang.nguyen@vcsc.com.vn)