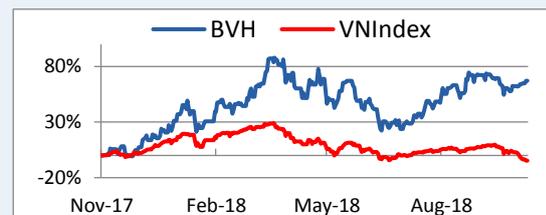


Industry:	Insurance		<u>2017</u>	<u>9M/18</u>	<u>2018F</u>
Report Date:	October 31, 2018	Net premia (y/y)	25%	24%	30%
Current Price:	VND98,100	Reserves/Assets	60%	63%	63%
Last Target Price:	VND85,790	Financial			
		Income/PBT	3.7x	5.4x	3.9x
		Life/Total premia	67%	68%	68%
		EPS growth (y/y)	39%	-26%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

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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
Gross Premium	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%	
Net Premium	16,539	20,527	24.1%	66.0%
Total claims	(12,538)	(18,868)	50.5%	78.9%
- Increase in Math reserve expenses	(6,803)	(11,323)	42.3%	78.5%
Total direct insurance operating expense	(16,386)	(23,317)	42.3%	73.9%
Gross profit from insurance	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%
PBT	1,536	1,128	-26.5%	43.5%
Income tax expense	(261)	(172)	-34.0%	
NPAT	1,270	942	-25.8%	44.3%
Minority interest	36	37		
NPATMI	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.

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