

Recommend BUY **PVI REINSURANCE JOINT STOCK COMPANY (HNX: PRE)**
THE FUTURE OF REINSURANCE INDUSTRY

Current price:	19,900	Date:	25/12/2020	Shareholder structure	
Target price:	22,000	Outstanding shares (Millions)	72.8	PVI HOLDINGS	73.1%
Dividend yield	8.0%	IPO Price	20,000	NGUYEN PHUC ANH	9.9%
Upside	18.6%	Market Cap (Billion VND)	1,456	Others	18.0%
		% owned by foreigners	0.03%		

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Valuation

- BSC issues a **BUY** recommendation on PRE stocks with a target price of **VND 22,000/share** for 2021 based on P/B method with the target P/B ratio = 1.7x.

Forecast of business performance

- In 2020, revenue from insurance activities is estimated at VND 809 billion (+17.7% yoy), EBT will reach VND 183 billion (+7.4% yoy), equivalent to BVPS at VND 12,189/share.
- In 2021, BSC forecasts revenue from insurance activities is estimated at VND 912 billion (+12.7% yoy), PBT will reach VND201 billion (+9.9% yoy) with the assumption: Premium collection grows 5.3% YoY. The gross and net return on investment of investment assets are 8.3% and 8.1%, respectively. The combined ratio is 89.4%, the loss ratio is 46%, the expense ratio is 43.3%.



PVI Reinsurance Corporation (HNX: PRE) was established in 2011, under PVI Holdings. In 2013, PRE equitized under the model of a Joint Stock Corporation with 66.8 million shares. The enterprise operates in the field of reinsurance, in which property insurance and technical insurance account for the largest proportion of the Company's premium structure.

Investment thesis

- The reinsurance market is expected to grow 10% - 15%/year following the growth momentum of the non-life insurance industry.
- PRE is one of the leading companies in the field of reinsurance.
- PRE performs better with a better combined ratio than other players in the industry.

Investment risks

- Interest rates in the coming time may be decreased to an 1-year average VNIBOR ~5.5%, affecting the PRE's financial income.
- The complicated development of the Covid-19 epidemic makes the property and technical insurance sector may not have a strong growth rate.

Items	2017	2018	2019	2020E
Combined ratio	80.4%	85.3%	89.3%	89.6%
Expenses ratio	46.5%	49.6%	51.5%	48.3%
Loss ratio	33.8%	35.7%	37.8%	41.3%
ROE (%)	3%	3%	3%	3%
ROA (%)	15%	15%	16%	17%

IS	2017	2018	2019	2020E
Net revenue	601	588	687	809
Profit margin	108	85	74	90
NPAT	117	126	141	151
BVPS	11,567	11,817	12,189	12,756

BUSINESS DESCRIPTION

PVI Reinsurance Corporation (HNX: PRE) - under PVI Holdings - is an enterprise operating in the field of reinsurance. PRE is expected to start trading on HNX from December 24, 2020, with a reference price of 20,000 VND/share. With the above price, PRE is valued at nearly VND 1,500 billion.

CAPITAL INCREASE HISTORY

In 2021, PRE plans to increase its charter capital to VND 1,044 billion via IPO to (1) improve the retention rate, (2) raise the credit rating to A- and (3) the development of receiving foreign reinsurance.

Figure 1: PRE's capital raising history

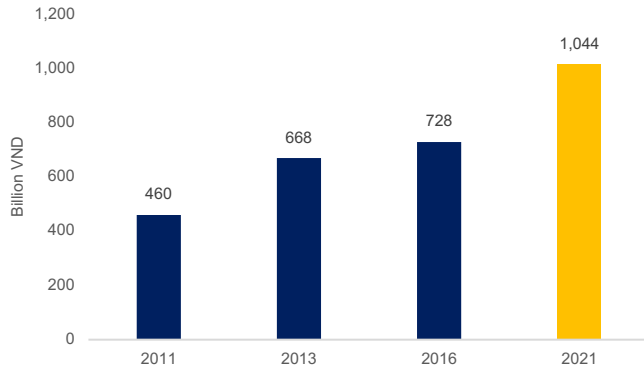
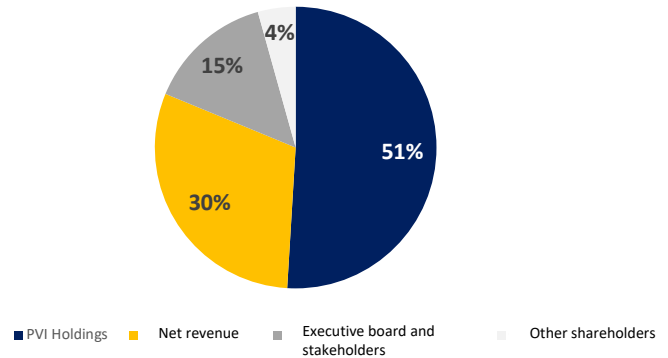


Figure 2: PRE shareholder structure after capital increase



Source: PRE, BSC Research

REVENUE STRUCTURE-PROPERTY AND TECHNICAL INSURANCE (49.6%)

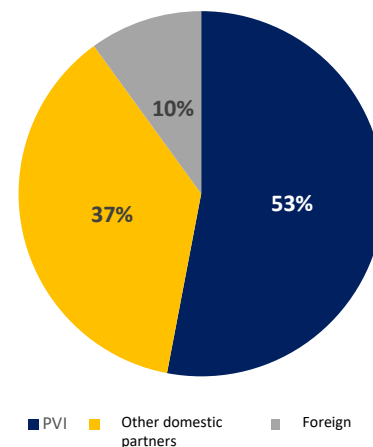
PVIRe currently participates in reinsurance of all types of products on the market, in which **Property Insurance and Technical Insurance are the two product segments that account for the largest proportion** in the Company's premium structure. PVI-related revenue accounts for 53% of PRE's revenue.

PRE's premium for reinsurance from the international market accounts for a small proportion, however, the Company intends to increase it in the future to diversify its business portfolio.

Table 1: PRE reinsurance fee structure 2019

Major	Value (billion VND)	%
Property insurance	498.1	32.9%
Technical insurance	252.2	16.7%
Hull and P&I insurance	177.5	11.7%
Fire insurance	153.1	10.1%
Other insurances	142.7	9.4%
Cargo insurance	139.8	9.3%
Motor vehicle insurance	78.3	5.2%
Energy insurance	64.7	4.3%
Aviation insurance	4	0.3%
Personal insurance	2.1	0.1%
Total	1,513	100%

Figure3 : Most of PRE's revenue comes from the domestic market



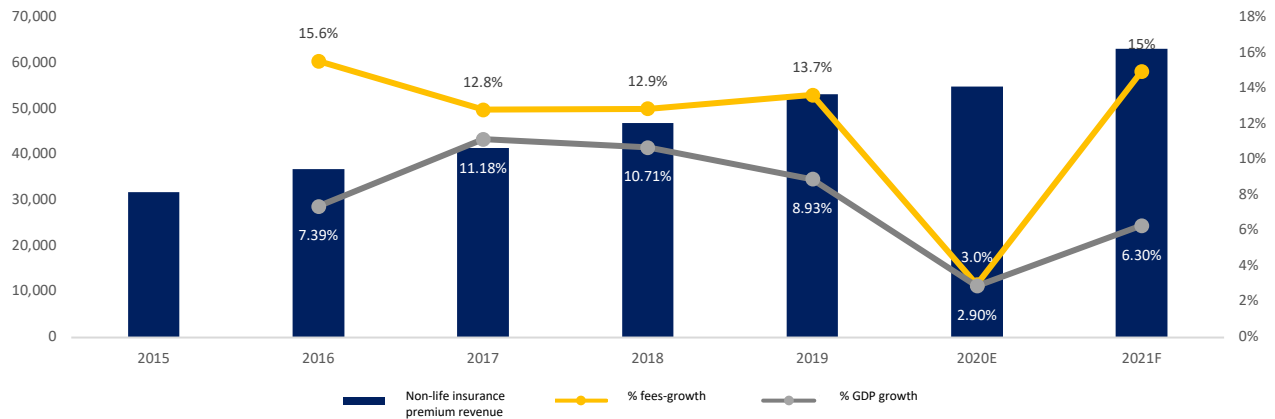
Source: PRE, BSC Research

INDUSTRY OVERVIEW

NON-LIFE INSURANCE INDUSTRY – HIGH COMPETITION

As of October 2020, the non-life insurance market grew +5.1% YoY. According to the Vietnam Insurance Association, the life insurance market revenue in 10M2020 is estimated at VND 45,802 billion (+5.1% yoy). The Covid-19 epidemic has negatively impacted transportation and trade activities, thereby reducing the demand for life insurance in 2020. However, the successful control of the epidemic also helps Vietnam's economy recover quickly. more than in 2021. **Therefore, BSC believes that the life insurance industry will grow slowly in 2020 but will increase strongly again from 2021.**

Figure 4: Growth of life insurance premium revenue is associated with economic growth



Source: General Statistic Office, Insurance Yearbook, BSC Research

Vietnam's non-life insurance industry still has a lot of growth potential due to (1) the population structure of working-age accounts for nearly 70% and GDP growth of 6-7%/year and (2) the rate of use of non-life insurance in Vietnam in a relatively low level (0.88% compared to the average 3-4% in the region). According to BSC's forecast, non-life insurance premium revenue in 2020 will reach VND 55,000 billion (+3.0% yoy) due to the impact of the Covid-19 epidemic. In 2021, BSC expects the recovery of the economy will help the demand for non-life insurance return to 10-15% growth rate as in the period 2015-2019, equivalent to fee revenue of VND 60-63,000 billion.

Figure 5: Vietnam's insurance penetration rate is low compared to other countries in the region

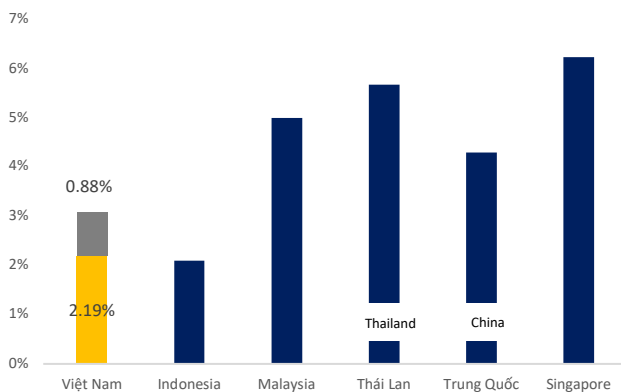
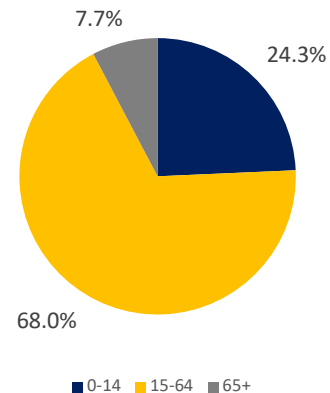


Figure 6: Population structure of working-age is high



Source: Insurance Yearbook, Swiss Re, BSC Research

The market share of the top 5 companies continued to decline. The market share of fee revenue of the top 5 (including PVI, Bao Viet, Bao Minh, PTI and PJICO) decreased significantly due to competitive pressure to increase market share from new businesses and leading enterprises aiming at the target profits and a more cautious development. BSC believes that the total market share of leading enterprises **may continue to fall below 50% shortly**, similar to other markets in Asia.

Figure 5: Market share of the top 5 companies gradually decreasing

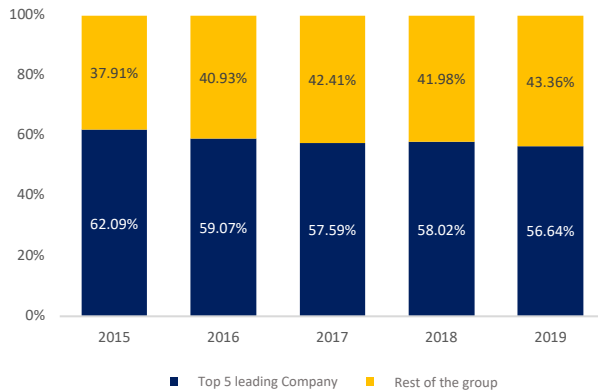
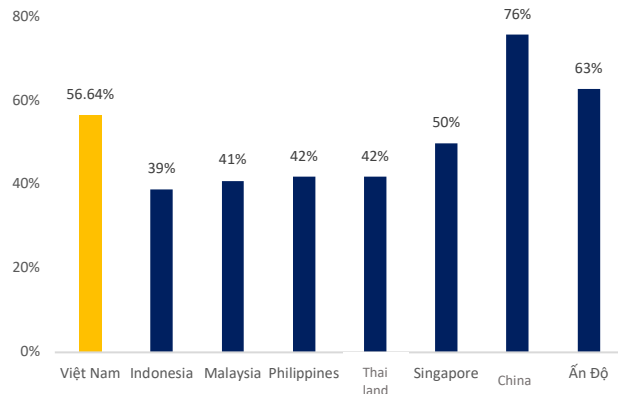


Figure 8: Market share of top 5 life insurance companies in different countries



Source: Insurance Yearbook, BSC Research

The individual customer segment accounts for the main proportion in the structure of non-life insurance products. The proportion of health insurance and motor vehicle products accounts for over 30% of the product structure, showing that non-life insurance products penetrate quite well into the individual customer market. BSC believes that the **health insurance segment can reach the 35-40% shortly** due to:

- (1) The complicated and prolonged epidemic situation makes people buy health insurance products to prevent more risks;
- (2) A rapidly growing middle class (currently 13% of the population) with increased awareness of insurance also boosts demand for health insurance.

Figure 10: Health insurance & motor vehicles account for a large proportion of the product structure

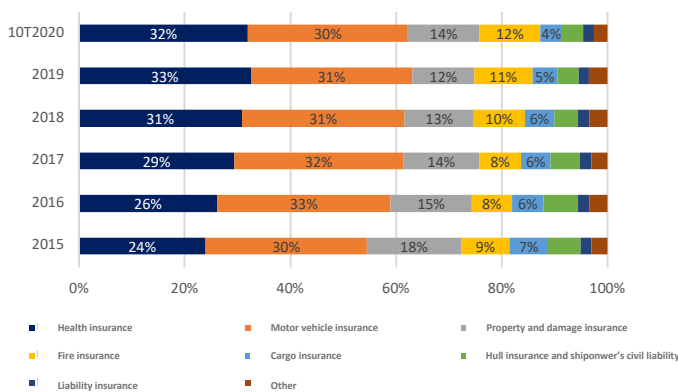
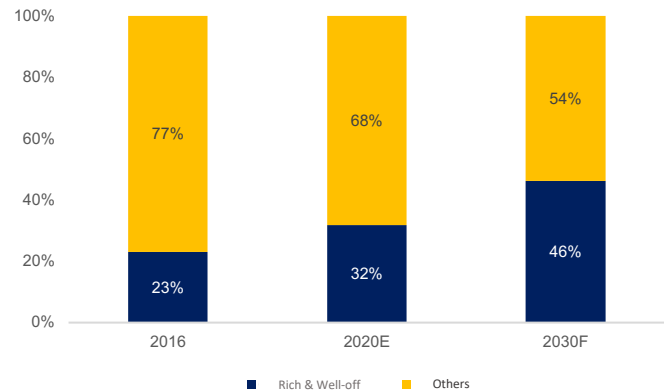


Figure 11: Wealthy and well-to-do classes increase sharply in the next 10 years

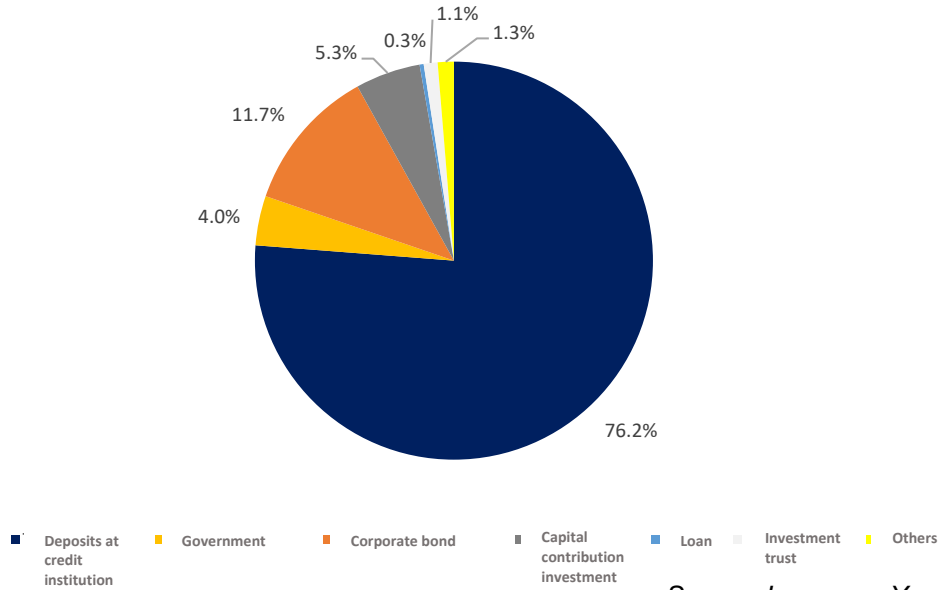


Source: Insurance Yearbook, BSC Research

Investment activities of non-life insurance enterprises focus on deposits with a high proportion to meet liquidity and compensation needs. According to BSC's forecast, **the interest rate level soon may continue to remain at the average VNIBOR level of about 5.5%, down 1.3% compared to the beginning of 2020.** Therefore, the

financial profit in 2021 of companies in the industry will be significantly affected because deposits in 2020 will enjoy lower interest rates compared to previous years.

Figure 12: Financial profit depends on mainly on deposit and credit institution

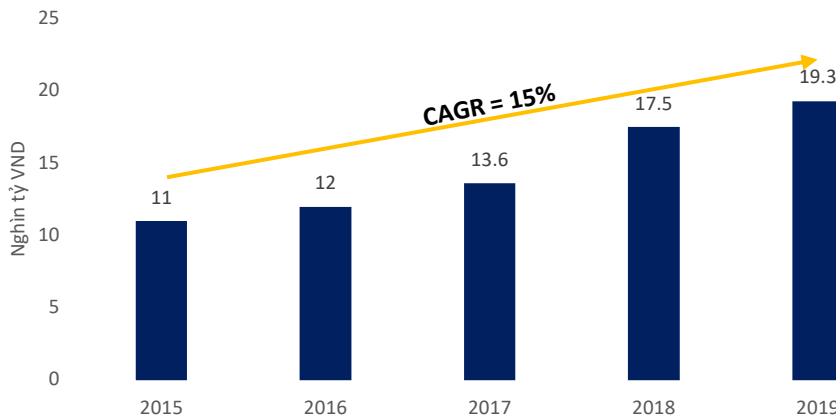


Source: Insurance Yearbook, BSC Research

REINSURANCE MARKET – BIG GROWTH POTENTIAL

The size of the reinsurance market achieved strong growth of +15% CAGR 2015-2019. Because the level of liability that insurers can retain per individual risk/loss is no more than 10% of equity, thanks to the increasing trend in demand for insurance products, the reinsurance market achieved impressive growth of +15% CAGR 2015-2019. BSC expects the reinsurance market to continue to grow at 10%-15% in the future thanks to the increasing demand for non-life insurance products.

Figure 12: Strong growth in reinsurance market



Source: BSC Research

PRE and VINARE – the only two reinsurance companies in Vietnam have a total market share of 17%. With the characteristics of small scale that cannot take on large value contracts and low retention rate, PRE and VINARE only account for 7% and 10% of the market share, respectively, the remaining 83% of the market share belongs to foreign reinsurer companies. Many reinsurance companies in the world faced difficulties, bankruptcy and their ratings being downgraded due to COVID-19. On the other hand, PRE and VINARE successfully maintained its credit rating at B++ (Good) and have the opportunity to be upgraded to A- in the short term. BSC

assesses that 2 Vietnamese reinsurance companies will have the opportunity to increase market share in the future. Some comparative indicators of PRE and VINARE are shown in the following table:

Figure 13: PVIRE and VINARE still have plenty of room to grow their market share

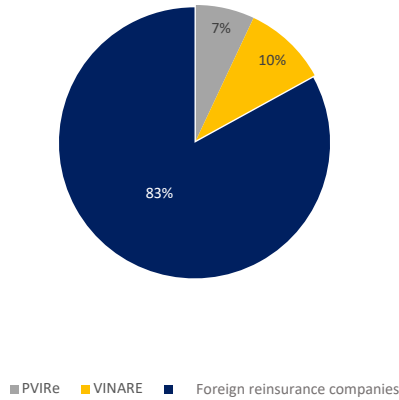


Table 2: Comparison between PRE and VINARE

	PRE	VINARE
Equity	860	2,921
Combined ratio (%)	89%	97%
Investment return/ Total profit	72%	90%
Rating A.M.Best	- Financial capacity: B++ - Credit capacity: bbb	- Financial capacity: B++ - Credit capacity: bbb+

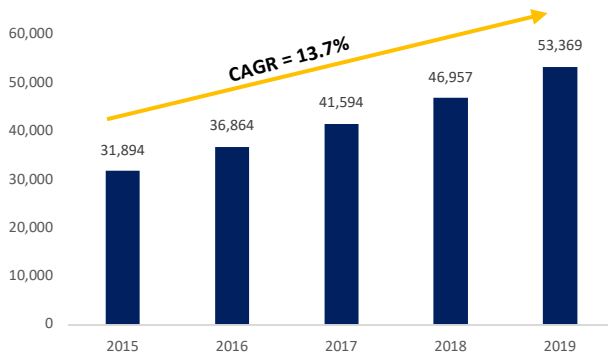
Source: PRE, BSC Research

INVESTMENT THESIS

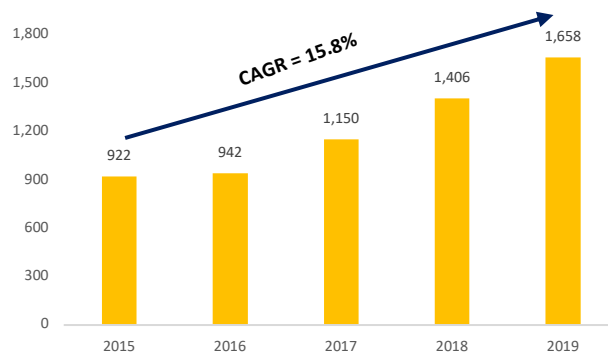
THESIS 1: The reinsurance market is expected to continue to grow by 10% - 15% per year following the growth momentum of the non-life insurance industry

Non-life insurance premium revenue grew on average 13.7%/year in the period 2015-2019, higher than Vietnam's GDP growth rate of 6.8%/year in the same period. Along with that, the average insurance premium per capita increased by 15.8%.

Hình 14: Doanh thu phí BH PNT tăng trưởng CAGR 13.7%/năm (đơn vị: tỷ đồng)



Hình 15: Phí BH PNT bình quân đầu người tăng trưởng CAGR 15.8%/năm (đơn vị: nghìn đồng)



Source: Statistical Yearbook, BSC tổng hợp

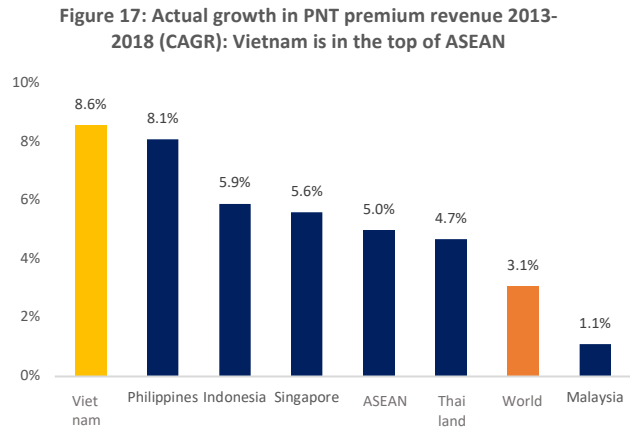
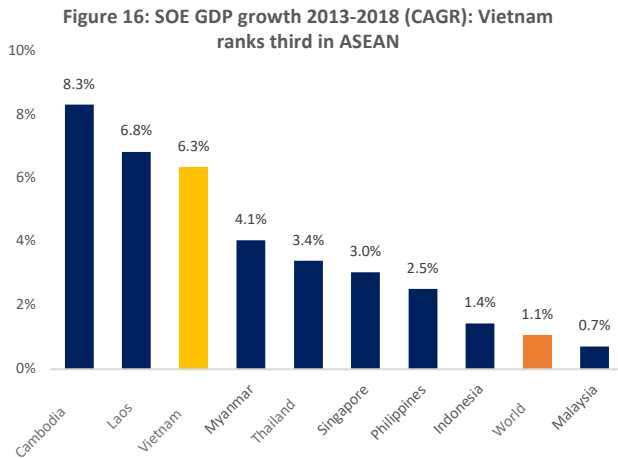
Vietnam's non-life insurance premium revenue growth is among the highest in Southeast Asia, mainly due to:

- (1) With Strong economic growth, the middle class is getting richer (Vietnam's GDP per capita increased by an average of 6.3% per year in the period 2013-2018, ranking third in ASEAN)
- (2) Positive changes in the legal framework in the field of compulsory insurance promote the growth of several insurance segments such as:

- Health insurance growth averaged 27%/year in 10 years 2009-2019

- Motor vehicle insurance has an average growth rate of 18%/year in 10 years 2009-2019
- Fire and explosion insurance grew 30% in 2019

(3) Increase sales of personal accident insurance through banking channels.

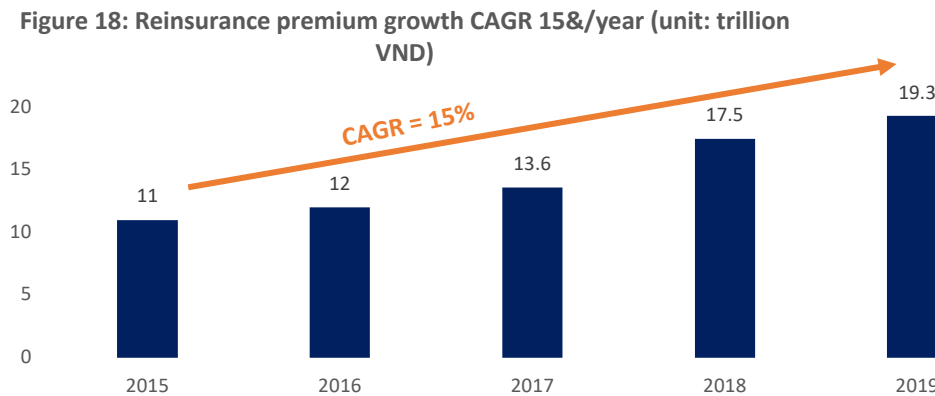


Source: The World Bank data, Swiss Re sigma data, BSC Compiled

Meanwhile, **the non-life insurance penetration rate of the Vietnamese market remains low, at only 0.8% of GDP in 2019**, compared with the penetration rate of the entire Asia-Pacific region of 2.1%. It shows that the room for growth potential of Vietnam's non-life insurance market is really large.

Along with the strong development of the non-life insurance industry, **reinsurance premium revenue grew by an average of 15% per year in the period 2015-2019** due to the Law on Insurance Business that stipulates the maximum liability per person individual risk/loss not more than:

- 5% equity for insurance enterprises, branches of foreign non-life insurance enterprises
- 10% equity for reinsurance business



Source: Statistical Yearbook, BSC compiled

BSC believes that Vietnam's non-life insurance premium revenue will continue to grow by 10% - 15% per year in the coming period, thanks to:

- (1) The increasing need to protect personal property and health of the middle class (as property and vehicle ownership levels rise)
- (2) The shift of FDI companies from China to Vietnam due to US-China trade tensions create more jobs, increases demand for health, property, and fire and disaster insurance

(3) The low penetration rate shows that there is still great room for industry development

We consider this to be an attractive growth compared to the whole Vietnamese market as well as other markets in the region. Along with that, **the reinsurance market will also enjoy a growth rate of 10% - 15%/year.**

THESIS 2: PRE is one of the leading reinsurance companies in Vietnam

In the field of reinsurance alone, **only two companies in Vietnam directly participate in reinsurance**, namely Vietnam National Reinsurance Corporation (VNR) and PRE. In which, PRE holds 7% market share, VNR holds 10%, and the remaining 83% belongs to foreign reinsurance companies (such as Swiss Re, Munich Re). We believe that, with the development of the non-life insurance market in general and reinsurance in particular, **PRE still has a lot of room to expand and develop, as well as increase market share.**

Figure 21: Reinsurance premium market share in 2019

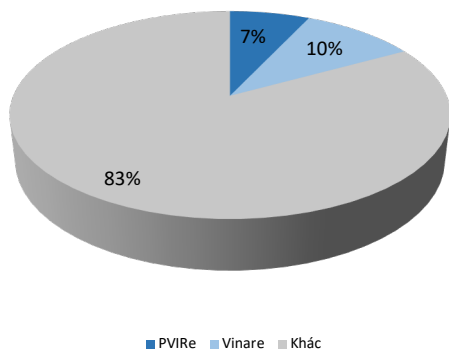
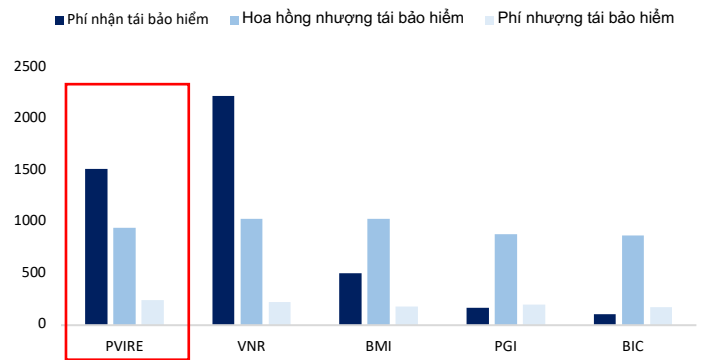


Figure 22: Reinsurance business at some insurers in 2019



Source: BSC Research

PRE is more efficient than most other players in the industry. The combined ratio of PRE is at 89%, lower than the average rate of about 97% of listed insurance companies, thereby helping the company maintain the proportion of operating income thanks to better core dynamics. Because the company always maintains a prudent policy, the claim ratio is kept at a stable level (about 30% of total revenue), helping to keep the reinsurance business profitable. We expect PRE's combined ratio to remain positive in the coming period.

Source: BSC Research

Figure 23: PRE's compensation payout ratio is stable over the years

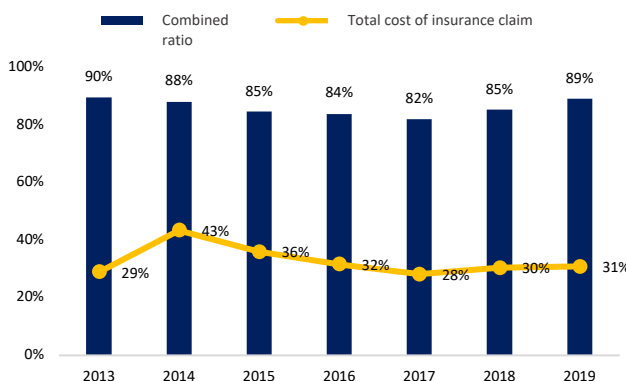
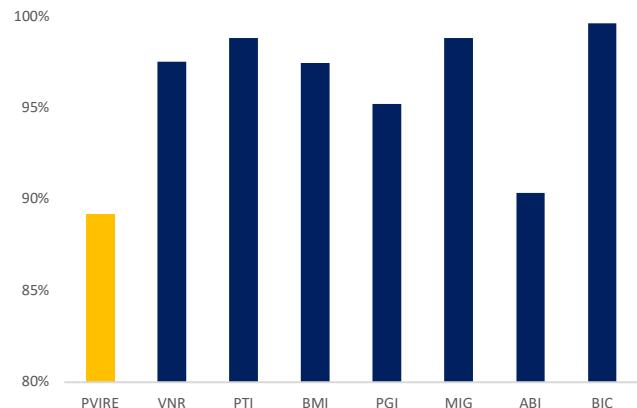


Figure 24: PRE's comined ratio is lower than most peers



THESIS 3: High and stable cash dividend, plan to pay 16% dividend in the next 5 years

From the time of equitization in October 2013, **PRE has always maintained a high and stable cash dividend rate of over 10%, with 3 consecutive years 2017-2019 paying a dividend rate of 16%. PRE plans to maintain a dividend rate of 16% for the next 3 years, equivalent to a dividend yield of 8%/year based on the expected offering price in December 2020 of VND 20,000.**

With steady and steady growth in NPAT, BSC assesses that PRE's ability to fulfill this commitment is very high. At the same time, we also consider this to be an attractive dividend yield in the market.

Figure 25: High and stable dividend yield (based on the expected floor price of 20,000VND/share)

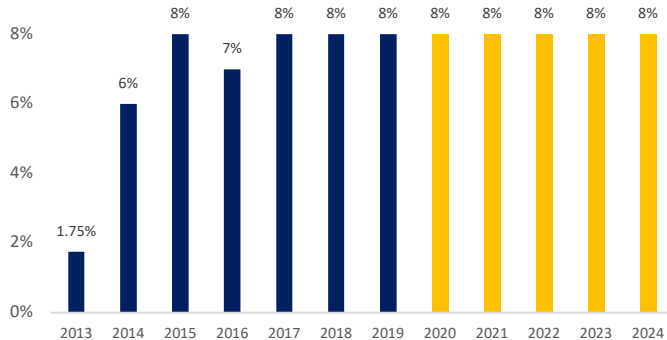
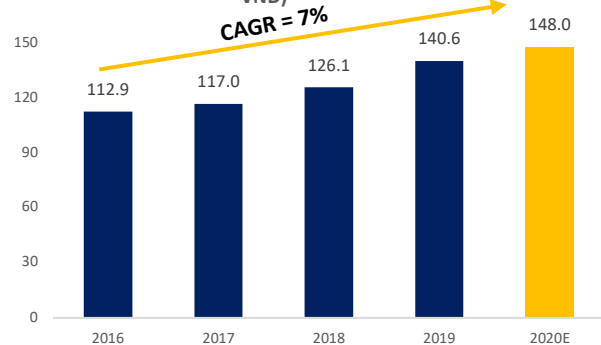


Figure 26: NPAT grew steadily and steadily (unit: billion VND)

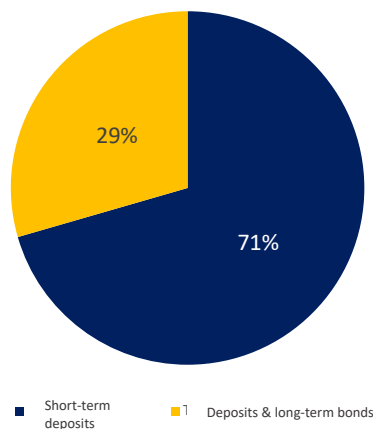


Source: BSC Research

RISK

- (1) The complicated developments of the Covid-19 epidemic in foreign markets made the economic recovery process after the epidemic difficult. This can pose a risk for PRE **in developing strong businesses such as property and engineering insurance.**
- (2) Interest rates in the coming time may be reduced to the 1-year average VNIBOR ~5.5%, down 1.3% compared to the beginning of 2020. As short-term deposits account for more than 70% of PRE's financial portfolio, BSC expects that PRE's financial profit may decrease by about 16 billion dong, equivalent to 8.8% of expected EBT in 2021. However, BSC believes that PRE will restructure its investment portfolio and add profitable investment assets. interest rate higher than bank deposits (such as bonds) in 2021 to reduce this risk. Therefore, we rate this risk as low.

Figure 27: Structure of PRE's financial portfolio in Q2/2020



Source: PRE, BSC Research

FORECAST & VALUATION

In 2020, revenue from insurance activities is estimated at 809 billion VND (+17.7% yoy), EBT is VND 183 billion (+7.4% yoy), equivalent to its BVPS is around 12,189 VND/share.

In 2021, BSC forecasts revenue from insurance activities is estimated at VND 912 billion (+12.7% yoy), EBT will reach 201 billion VND (+9.9% yoy) with the assumption that 2021 business results are as follows:

- Premium revenue grew by 5.3% YoY.
- Gross return on investment and net return on investment of investment assets are 8.3% and 8.1% respectively.
- Combined ratio is 89.4%, loss ratio is 46%, expense ratio is 43.3%.

We note that the capital increase of PRE in 2021 has not been reflected in the forecast for 2021. We expect that if PRE successfully raises capital next year, financial profit can contribute an additional VND 20 - 30 billion VND into EBT.

BSC uses the valuation method $P/B = 1.7x$, BVPS in 2021 is estimated at 12,756 VND. The fair value of each PRE share is VND 22,000/share.

APPENDIX

IS (billion VND)	2018	2019	2020F	2021F
Gross premium	1,229	1,382	1,510	1,678
- Discounts on insurance premium	(856)	(949)	(981)	(1,074)
Net premium	373	433	529	604
Receipt of reinsurance	215	255	280	308
Net revenue from insurance business activities	588	687	809	912
Total cost of insurance claims	(179)	(212)	(244)	(273)
Including: - Compensation under the responsibility to retain	(147)	(155)	(223)	(250)
- Increase/decrease compensation provision	(32)	(57)	(21)	(24)
Provision for large fluctuations	(11)	(17)	(19)	(21)
Other expenses	(313)	(384)	(457)	(502)
Total direct expense from insurance business activities	(502)	(613)	(720)	(796)
Gross profit from insurance business	85	74	90	115
Administrative expense	(29)	(26)	(32)	(36)
Profit from insurance business	56	48	57	79
Profits from financing activities	99	123	126	122
Other profits	0	0	0	0
Profits/losses from affiliates	0	0	0	0
NPAT	155	170	183	201
Tax payment	(29)	(30)	(32)	(35)
Net profit after tax	126	141	151	166
Minority interest	-	-	-	-
Net profit after tax-minority interest	126	141	151	166

Ratios	2018	2019	2020F	2021F
Efficiency ratios				
Combined ratio	85.3%	89.3%	89.6%	89.4%
Loss ratio	49.6%	51.5%	48.3%	46.0%
Cost ratio	35.7%	37.8%	41.3%	43.3%
Investment situation				
Gross return on investment	8%	9%	9%	8%
Net return on investment	7%	8%	8%	8%

BS (billion VND)	2018	2019	2020F	2021F
Cash & cash equivalent	77	85	67	51
Short-term investment	1,020	629	550	326
Account receivable	442	589	598	656
Other current assets	139	191	206	201
Reinsurance asset	1,677	2,090	2,299	2,437
Current asset	3,354	3,584	3,721	3,670
Long-term receivables	8	8	8	8
Fixed asset	6	4	10	14
Long-term investment	409	871	908	1,118
Other non-current assets	19	23	42	48
Non-current asset	442	905	968	1,188
Total asset	3,796	4,490	4,689	4,858
Account payable	562	611	683	775
Deferred revenue	112	116	128	132
Insurance reserve	2,281	2,903	2,991	3,022
Current liabilities	2,954	3,629	3,802	3,929
Non-current liabilities	-	-	-	-
Total liabilities	2,954	3,629	3,802	3,929
Paid-in capital	728	728	728	728
Other equity	33	40	57	78
Retained earnings	82	93	102	122
Owner's equity	842	860	887	929
Total resources	3,796	4,490	4,689	4,858
Outstanding shares (millions)	66.8	72.8	72.8	72.8

Ratios	2018	2019	2020F	2021F
Profitability ratios				
ROA	3%	3%	3%	3%
ROE	15%	16%	17%	18%
Solvency ratios				
Current asset/Total asset	88%	80%	79%	76%
Current liabilities/Total asset	78%	81%	81%	81%
BVPS	11,567	11,817	12,189	12,756

Source: BSC Research

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

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