

Insurance business

Recommendations BUY Bao Minh Corporation (HSX: BMI)
Prospect of divestment

Current price:	36,800	Date of writing the report:	08/02/2022	Shareholder structure	
Target price	47,000	Outstanding Shares (Million)	109.624	SCIC	50.70%
Dividend yield	won	Market cap (billion VND)	4.165	AXA	16.65%
Upside	5%	Average liquidity 6M:	12,837,910	Chevalier	5.65%
	27.7%	Foreign ownership	30.19%	Nguyen The Nang	0.02%

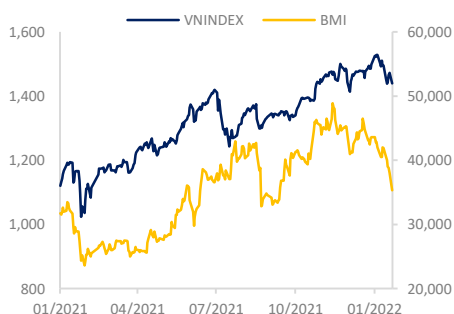
Industry Analyst:

Duong Quang Minh
(Petroleum, Fertilizer, Insurance)
minhdq@bsc.com.vn

Technical Analyst:

Le Quoc Trung
Trunglq@bsc.com.vn
Target price: 46,000 VND
Stop loss price: 35,000 VND

CP price comparison table and VN-Index



P/E and VN index comparison table



Valuation

BSC recommends **BUY** BMI stock with the recommended price of **47,000 VND/share** (equivalent to **27.7% upside** compared to the closing price on February 7, 2022 of 36,800 VND/share) with the target PB = 2.1x .

Forecasting business results

BSC forecasts that BMI's net profit and net profit in 2022 will reach VND 4,737 billion (+12.8% yoy) and VND 268 billion (+7.1% yoy), EPS FW = VND 2,448/share with the assumption (1) Premium revenue will reach VND 5,329 billion (+10.1% yoy); (2) The combined ratio increased to 98.9%, of which the loss ratio was 34%; and (3) The gross and net return on investment of investment assets are 9.7% and 7.4%, respectively.

Investment theme

- Non-life insurance premium revenue is expected to grow again after the epidemic ;
- BMI maintains a stable market share, with a nationwide branch network ;

Catalyst

- The divestment at SCIC can help BMI be valued higher in the near future .

Risk

- The prolonged epidemic affects the growth of insurance premium revenue.
- Falling interest rates reduce BMI's financial returns.

Business Update

- In 2021, **BMI's net revenue and NPAT will reach VND 3,612 billion (+0.7% yoy) and VND 251 billion (+28.3% yoy) respectively** due to (1) insurance business expenses -0.3% yoy, (2) expenses compensation and reserves -1% yoy, and (3) finance revenue +62.7% yoy .

	2020	2021	2022F	Peer
Comp. reserve	-29.6%	-29.2%	-29.6%	32.0%
Expense ratio	67.0%	64.9%	64.9%	61.0%
Combined ratio	99.1%	98.6%	98.9%	94.0%
ROE (%)	8.5%	10.7%	10.3%	14.5%
ROA (%)	3.0%	3.4%	3.4%	3.0%
BVPS	23.084	19,542	22,268	22,996

	2019	2020	2021	2022F
Net Revenue	3.437	3.792	3,811	4,304
Gross profit	238	156	187	193
NPAT	208	195	251	268
EPS	1,940	1.813	2,326	2.448
EPS growth	27%	-7%	28%	5%
Debt/Equity	1.5	1.8	2.1	2.0

BUSINESS UPDATE

In Q4/2021, **BMI's net revenue reached VND 1,080 billion (23.4% yoy), and EAT reached VND 62 billion (+77.1% yoy)** . In the whole year of 2021, BMI's net revenue and NPAT will reach VND 3,612 billion (+0.7% yoy) and VND 251 billion (+28.3% yoy) respectively, completing 89% and 110% of the whole year plan. The positive growth in profit in 2021 over the same period was due to (1) insurance operating expenses -0.3% yoy, (2) compensation and reserve expenses -1% yoy, and (3) financial revenue. +62.7% yoy.

Table 1: Update of BMI Q4 and full year 2021

(billion VND)	Q4/2021	Q4/2020	%yoy	2021	2020	%yoy
Original premium	1,315.5	1,067.2	23.3%	4,493.4	4,295.3	4.6%
Reinsurance transfer fee	130.4	99.2	31.5%	524.4	469.9	11.6%
Gross premium revenue	1,485.6	1,131.9	31.2%	4,844.9	4,720.1	2.6%
Reinsurance transfer fee	-337.6	-233.0	44.9%	-1,306.9	-1,094.4	19.4%
Net premium revenue	1,080.1	875.0	23.4%	3,612.1	3,588.0	0.7%
Total cost of compensation and contingency	-465.6	-341.3	36.4%	-1,284.5	-1,218.2	5.4%
Net compensation cost	-559.1	-416.9	34.1%	-1,616.9	-1,500.6	7.7%
Other expenses for original insurance business activities	-629.2	-559.4	12.5%	-2,302.8	-2,381.1	-3.3%
Management costs	-40.0	-28.9	38.3%	-132.4	-122.2	8.4%
Income from business activities	-14.2	-10.9	29.8%	54.4	33.4	62.7%
Investment income	105.0	52.6	99.7%	314.2	247.6	26.9%
Financial expenses	-24.1	0.1		-75.0	-55.3	35.7%
Net financial income	80.9	52.7	53.5%	239.1	192.3	24.4%
Profit before tax	69.0	43.6	58.2%	300.6	233.2	28.9%
NPAT	62.1	35.1	77.1%	250.6	195.2	28.3%
EPS				2,326	1,813	
Payout rate	28.8%	36.8%		33.7%	32.1%	
Cost ratio	68.2%	64.4%		64.9%	67.0%	
Combination rate	97.0%	101.2%		98.6%	99.1%	

Source: BMI, BSC research

BUSINESS PROSPECTS IN 2022

Growth of the non-life insurance industry decelerates in 2021 due to the impact of the epidemic. Total fee revenue in the whole market is estimated at VND 57,802 billion (+2.0% yoy). This is the lowest growth rate of non-life insurance in recent years, because the two main lines of motor vehicle insurance (-10% yoy) and health insurance (+0.2% yoy) both recorded unsatisfactory growth. As for BMI, in 2021 BMI's gross premium will only grow by 3.1% yoy. In which, the business that accounted for the largest proportion of BMI's revenue was health insurance, down 4.3% yoy, besides motor vehicle insurance also grew only 1.1% yoy.

Figure 1: BMI gộp Gross Premium

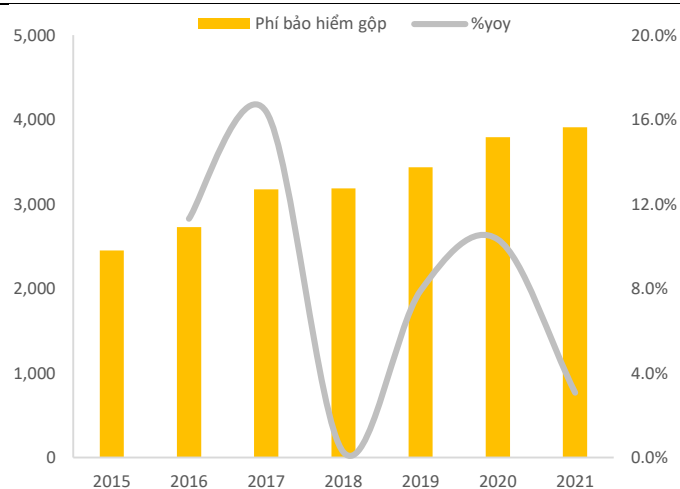
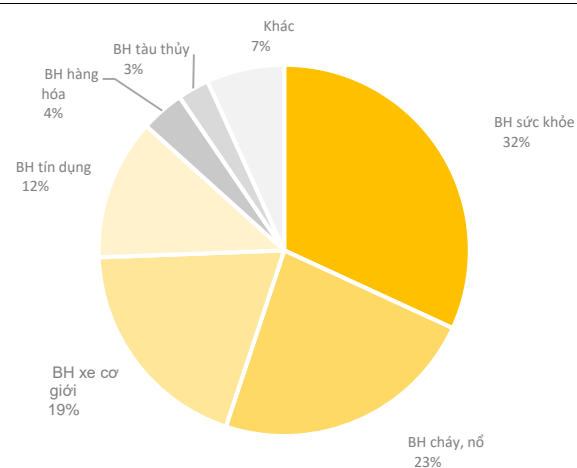


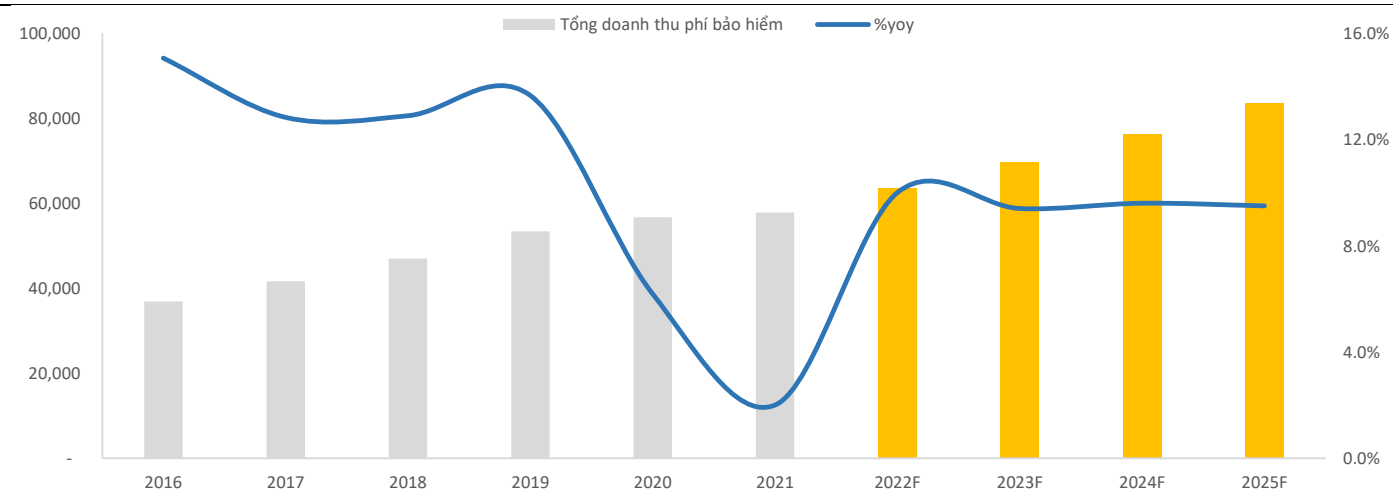
Figure 2: BMI's premium revenue structure



Source: BMI, BSC Research

We believe that BMI and the industry's premium will grow again in 2022. Vietnam's VPCP 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 VA in Vietnam in relatively low level (0.9% compared to the average 3-4% in the region). BSC expects that, after the epidemic is under control, non-life insurance premium growth is forecast to return to 9-10% in the period 2022-2025.

Figure 3: Total market premiums for life insurance premiums are expected to grow by about 10% per year in the period from 2022 to 2025

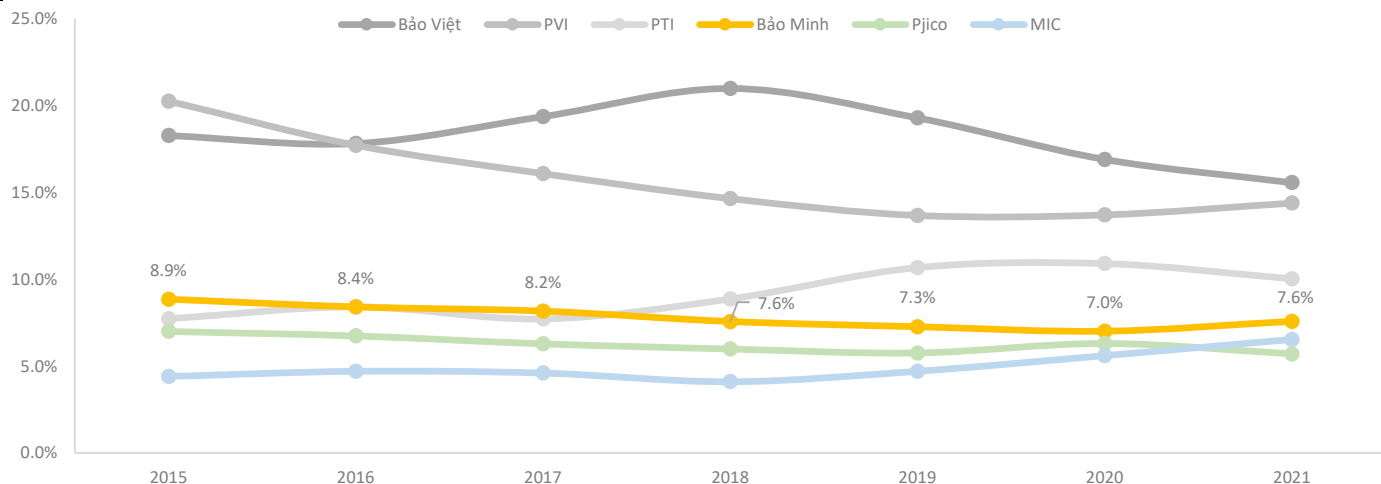


Source: AVI, BSC Research

BMI owns a stable market share with a nationwide branch network. Since its establishment, BMI has always been in the top 4 non-life insurance companies, with a market share of premium revenue of over 7%. We estimate that, although

the competition in the industry will become more and more fierce in the coming time, BMI's market share will remain stable at around 7% thanks to (1) the extensive branch network nationwide with 62 affiliated companies, and more than 3,700 professional insurance sales agents; and (2) a reputable brand that has been built for many years.

Figure 4: BMI's market share has always remained in the top 4 of the industry



Source: AVI, BSC Research

The combined ratio of BMI fell in 2021, but could rise again from 2022 . BMI's combined ratio in 2021 reached 98.6%, down 0.5 percentage points over the same period, mainly due to the expense ratio decreasing 2.1 percentage points to 64.9%. The combined ratio of BMI decreased thanks to (1) Social distancing indirectly reduced the industry-wide compensation rate (from 34.4% to 31.2%), and (2) BMI focused on the efficiency of alternative operations. because of fee competition, to gain more market share in higher risk transactions. BSC believes that, when social activities gradually return to normal, insurance claims costs will tend to increase, and forecast that the combined ratio of BMI may increase slightly to 98.9% in 2022 .

Figure 5: BMI's total insurance claims

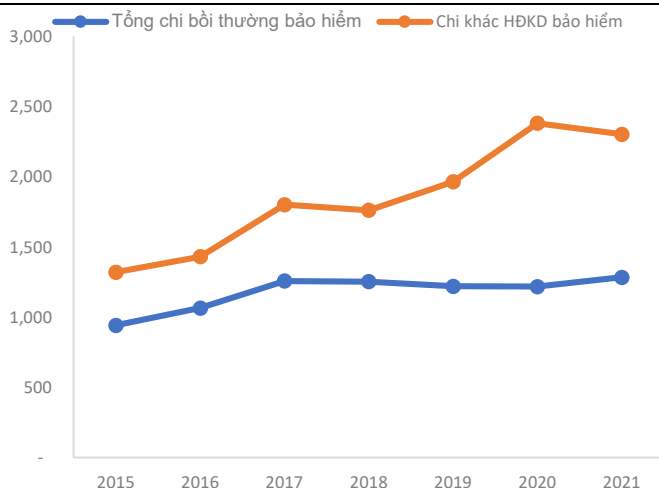
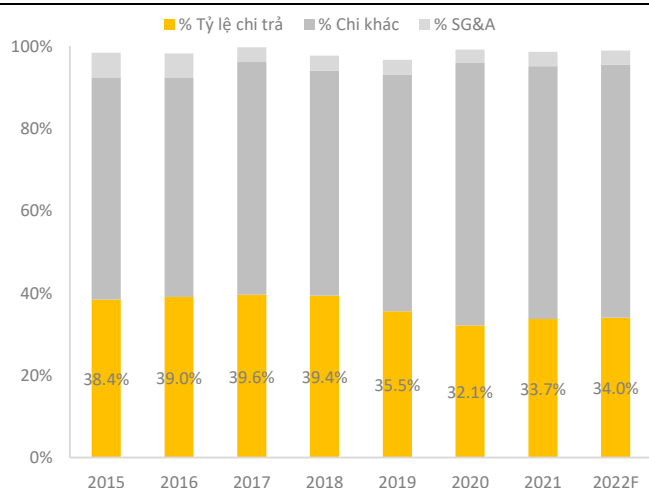


Figure 6: Combined ratio of BMI



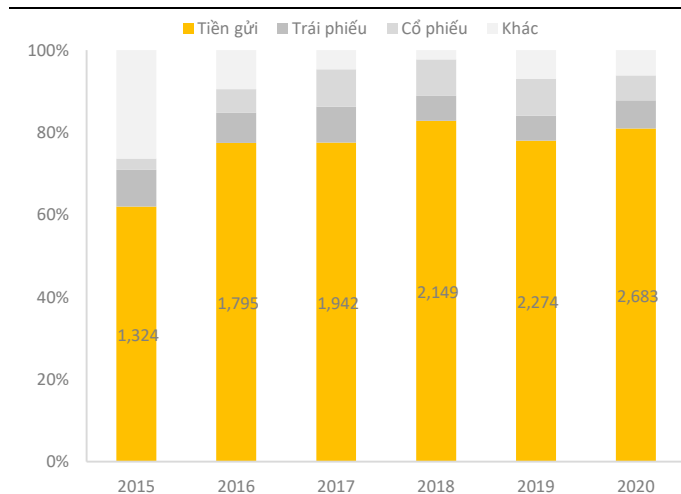
Source: BMI, BSC Research

Regarding financial investment activities, **most of BMI's portfolio is held-to-maturity assets** (deposits, bonds, certificates of deposit). This reflects the prudent policy of BMI in particular and insurance companies in general. In fact, when considering BMI's stock portfolio as of mid-2021, in general, BMI's stock investment is not effective.

Investment yields are expected to be flat in 2022. Although the macro situation witnessed quite a lot of fluctuations related to exchange rates, the Fed's policy of increasing interest rates, and inflation trends, in general, interest rates are raised. activity in Vietnam next year is forecasted to remain at a stable level. Therefore, BSC forecasts BMI's gross investment return and net investment return to remain unchanged at 9.7% and 7.4% in 2022, respectively.

Figure 7: Deposits make up most of BMI's financial portfolio

Table 2: BMI's stock portfolio (as of September 30, 2021)

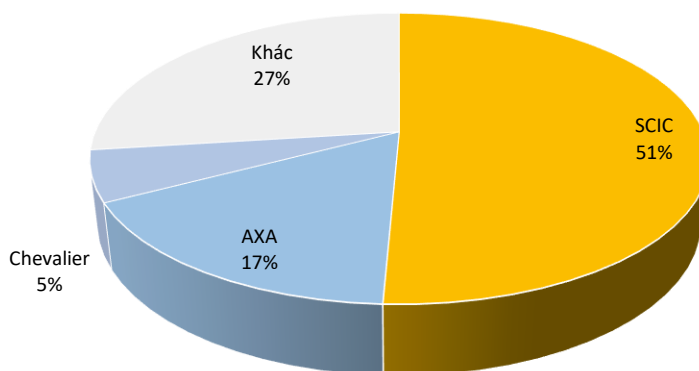


Category	Original price (billion VND)	Market price	Profit and Loss
NOS	20.0	2.4	(17.6)
KSB	7.4	5.6	(1.7)
NTP	14.3	13.4	(0.9)
CII	11.6	6.5	(5.1)
SKG	9.9	4.5	(5.3)
NCT	9.7	6.9	(2.7)
DRH	8.7	4.0	(4.7)
VNM	10.0	9.8	(0.2)

Source: BMI, BSC Research

The divestment is expected to happen in 2022. Recently, BMI approved a plan to increase foreign room to 100% to pave the way for the divestment of all state capital in enterprises, and submitted it to the Ministry of Finance. this room expansion plan. Currently, BMI's shareholder structure includes SCIC holding approximately 51%, AXA Group (France) and other major foreign shareholders owning over 20%. If BMI's capital is successfully transferred to foreign investors, this will be the first deal a non-life insurance enterprise participates in with the right to control capital of a foreign enterprise. According to BSC, the possibility of this deal being implemented in 2022 is quite large, and if the divestment is successful, **BMI will have the potential to be re-evaluated in the short term** . In the long term, with the private sector, especially foreign investors, taking control, BMI is expected to have an improvement in management and operational efficiency .

Figure 8: Shareholder structure of BMI



Source: BMI, BSC Research

FORECAST OF BUSINESS RESULTS

BSC forecasts that BMI's net revenue and net profit in 2022 will be VND 4,737 billion (+12.8% yoy) and VND 268 billion (+7.1% yoy), EPS FW = VND 2,448/share , assuming:

- Insurance premium revenue reached 5,329 billion VND (+10.1% yoy)
- The combined rate increases to 98.9%, where the loss ratio is 34% .
- Gross return on investment and net return on investment of investment assets are 9.7% and 7.4%, respectively.

Table 3: Forecast BMI

(billion VND)	2019	2020	2021	2022F
Original premium	3,881	4,295	4,493	4,737
Reinsurance transfer fee	501	470	524	593
Gross premium revenue	4,349	4,720	4,845	5,329
Reinsurance transfer fee	(1,032)	(1,094)	(1,307)	(1,328)
Net premium revenue	3,251	3,588	3,612	4,076
Total cost of compensation and contingency	(1,221)	(1,218)	(1,285)	(1,464)
Net compensation cost	(1,726)	(1,501)	(1,617)	(1,880)
Other expenses for original insurance business activities	(1,964)	(2,381)	(2,303)	(2,605)
Management costs	(124)	(122)	(132)	(145)
Income from business activities	115	33	54	48
Investment income	205	248	314	350
Financial expenses	(79)	(55)	(75)	(83)
Net financial income	126	192	239	267
Profit before tax	254	233	301	326
NPAT	208	195	251	268
EPS	1,940	1,813	2,326	2,448

Source: BMI, BSC Research

VALUATION

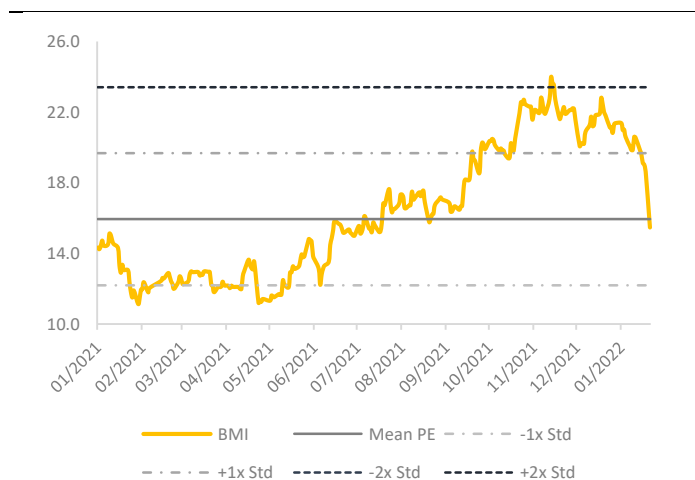
Using the P/B valuation method, **BSC estimates the fair value per share of BMI at VND 47,000**, with a target PB of 2.1x, BVPS in 2022 is estimated at VND 22,268. We expect that if BMI divests successfully, the company's stock can reach a higher valuation in the near future.

Table 4: Comparison of valuation of insurance companies

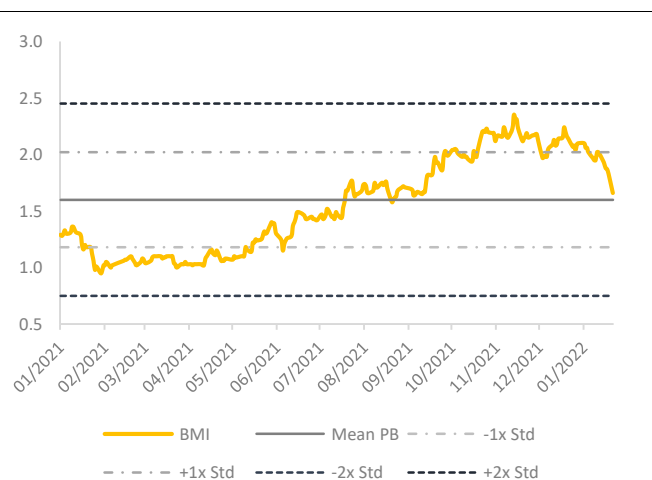
Company	Market capitalization (billion VND)	P/E	P/O	ROE
PVI	10,752	12.3	1.4	11.2%
PTI	4,743	17.6	2.2	13.1%
VNR	4,070	11.6	1.3	11.1%
BIC	3,225	9.6	1.3	13.8%
MIG	2,910	11.9	1.7	15.2%
HOLD	2,511	8.4	1.5	19.1%
ABI	2,359	8.8	1.9	24.0%
PRE	1,259	9.7	1.4	14.2%
BLI	1,020	15.3	1.3	9.2%
Average	3,650	11.7	1.6	14.5%
Median	2,910	11.6	1.4	13.8%
BMI	3,875	14.4	1.6	10.8%

Source: Fiinpro, BSC Research

Stock PE



Stock PB



Source: Bloomberg, BSC Research

APPENDIX

Business results (Billion VND)	2019	2020	2021	2022F
Gross premium	4,349	4,720	4,845	5,329
- Discounts on insurance premiums	(1,098)	(1,132)	(1,233)	(1,253)
Net premium	3,251	3,588	3,612	4,076
Receipt of reinsurance	186	204	199	228
Revenue from business activities insurance	3,437	3,792	3,811	4,304
Total cost of insurance claims	(1,221)	(1,218)	(1,285)	(1,464)
- Compensation under the responsibility to retain	(1,206)	(1,122)	(1,113)	(1,313)
- Increase/decrease in compensation provision	(14)	(96)	-	-
Provision for large fluctuations	(13)	(37)	(37)	(42)
Other expenses	(1,964)	(2,381)	(2,303)	(2,605)
Total direct expenses from insurance business activities	(3,198)	(3,636)	(3,624)	(4,111)
Profit from insurance business	238	156	187	193
Management costs	(124)	(122)	(132)	(145)
Profit from insurance business activities	115	33	54	48
Profit from financial activities	126	192	239	267
Other profits	7	1	1	3
Profit from CTLK	-	-	-	-
EBT	254	233	301	326
Tax	(46)	(38)	(50)	(57)
NPAT	208	195	251	268
Owner's benefits	-	-	-	-
NPAT after shareholder benefits	208	195	251	268
EPS	1,940	1,813	2,326	2,448

Targets	2019	2020	2021	2022F
Operational capacity				
Compensation rate	35.5%	32.1%	33.7%	34.0%
Corporate Governance Shares/Net Insurance Fees	57.5%	63.8%	61.4%	61.5%
Total cost of compensation	3.6%	3.2%	3.5%	3.4%
Combination rate	96.7%	99.1%	98.6%	98.9%
Investment situation				
Gross return on investment	8.2%	8.9%	9.7%	9.7%
Net return on investment	5.1%	6.9%	7.4%	7.4%

Balance Sheet (Billion VND)	2019	2020	2021	2022F
Cash and cash equivalents	236	150	221	518
Short term investment	2,108	2,434	3,061	3,351
Account receivables	1,129	1,100	699	1,045
Other current assets	315	318	475	363
Reinsurance asset	964	1,438	1,947	1,679
Total current assets	4,756	5,445	6,408	6,961
Long-term receivables	14	16	15	15
Fixed Assets	292	286	273	252
Long term investment	466	568	416	403
Other non-current assets	35	56	43	48
Total non-current assets	983	1,107	932	872
Total Assets	5,739	6,552	7,341	7,833
Liabilities must pay	3,444	4,249	5,009	5,220
Unimplemented revenue	24	42	43	43
Insurance reserve	2,296	2,985	3,801	4,007
Short-term debt	3,443	4,249	5,009	5,220
Long-term liabilities	0	0	1	0
Total liabilities	3,444	4,249	5,009	5,220
Paid-in capital	914	914	1,096	1,096
Capital surplus	-	-	-	-
Retained earnings	287	295	311	579
Total Equity	2,295	2,303	2,331	2,613
Total capital	5,739	6,552	7,341	7,833
Number of shares outstanding (million)	91	91	110	110

Targets	2019	2020	2021	2022F
Profitability				
ROA	4%	3%	3%	3%
ROE	9%	8%	11%	10%
Property structure				
Short-term assets/Total assets	83%	83%	87%	89%
Short-term debt/Total assets	60%	65%	68%	67%
BVPS	22,949	23,084	19,542	22,268

Source: BMI, BSC Research

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BSC Headquarters

10th & 11th Floor BIDV Tower
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84439352722
Fax: +84422200669

BSC Ho Chi Minh Branch

9th floor, Building 146 Nguyen Cong Tru
District 1, Ho Chi Minh City
Tel: +84838218885
Fax: +84838218510

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