

Sector: Insurance

Recommendations BUY PVI Joint Stock Company (HNX: PVI)
Strong position in Non-life Insurance

Current price:	49,200	Date of writing the report:	07/02/2022	Shareholder structure	
Target price	59,300	Outstanding Shares (Million)	234.242	HDI Global SE	37.99%
Dividend yield	5%	Market cap (billion VND)	10,798	PVN	35.00%
Upside	20.5%	Average liquidity 6M:	301,610	Funderburk Lighthouse Ltd	11.70%
		Foreign ownership	55.69%	IFC Emerging Asia Fund	2.10%

Industry Analyst:

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Valuation

BSC recommends **BUY** PVI shares with the recommended price of **59,300 VND/share** (equivalent to **20.5% upside** compared to the closing price on January 28, 2022 at 49,200 VND/share) with a target PB = 1.6x .

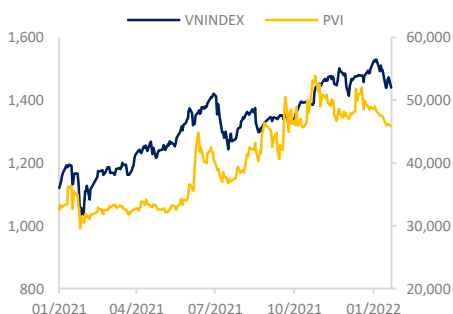
Technical Analyst:

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Target price: 54,000 VND
Stop loss price: 45,000 VND

Forecasting business results

BSC forecasts PVI's revenue and net profit in 2022 to reach VND 4,511 billion (+11.8% yoy) and VND 951 billion (+8.1% yoy), EPS FW = 3,824 VND/share assuming (1) Insurance premium revenue original insurance growth 10.1% yoy ; (2) The combined ratio increased to 95.3%, of which the loss ratio increased to 32.1% ; and (3) The gross and net return on investment of investment assets are 8.4% and 7.5%, respectively. (increase by 0.1 percentage point and 0.4 point % respectively) .

CP price comparison table and VN-Index



Investment perspective

- PVI's non-life insurance premium is expected to grow by 10.1% in 2022 ;
- PVI maintains a stable market share of over 15%, with a nationwide network of branches and a large customer base of the PVN system ;
- Financial profit improved thanks to increased proportion of bond investment.

Catalyst

- PVIRE raises capital to help raise retention rate & credit rating
- The divestment from PVN may help PVI be valued at a higher price in the near future .

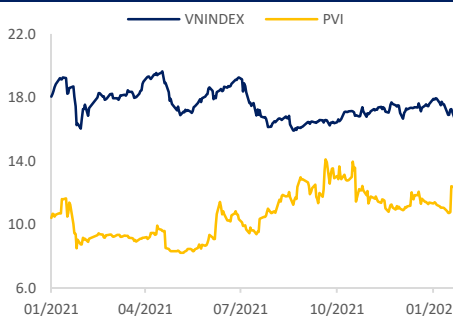
Risk

- The prolonged epidemic affects the growth of insurance premium revenue.
- Lower interest rates reduce PVI's financial profit.

Business Update

- In 2021, **PVI's revenue and NPAT will reach VND3,606 billion (-4.9% yoy) and VND245 billion (+26% yoy) respectively** due to (1) insurance business expenses down 1.2% yoy, (2) expenses claims and reserves decreased 6.7% yoy, and (3) finance revenue increased 7.3% yoy .

P/E and VN index comparison table



	2020	2021	2022F	Peer
Comp. reserve	-30%	-30%	-31%	32%
Expense ratio	63%	64%	64%	61%
Combined ratio	96%	94%	95%	94%
ROE (%)	12%	11%	11%	14%
ROA (%)	4%	4%	4%	3%
BVPS	30,553	33,326	37,074	22,996

	2019	2020	2021	2022F
Insurance premium	7,997	8,160	9,323	10,265
EBIT	142	196	292	248
NPAT	702	849	881	951
EPS	2,623	3,393	3,528	3,824
EPS growth	19%	29%	4%	8%
Debt/Equity	2.1	2.1	2.1	2.0

UPDATE BUSINESS RESULTS OF 2021

In Q4/2021, PVI's insurance premium reached VND 2,250 billion (+22.7% yoy), and net profit reached VND 73 billion (-64% yoy). In the whole year of 2021, PVI's net revenue and NPAT reached 9,323 billion VND (+14.3% yoy) and 881 billion VND (+3.8% yoy) respectively, completing 108% and 121% of the whole year plan. Although insurance premiums grew by 12% yoy, with the total cost of claims and provisions -3.5% yoy, profit from investment activities of PVI decreased by 4.4% yoy, so NPAT in 2021 only grew by 3.8. % yoy.

Table 1: Updated PVI Q4 and full year 2021 results

(billion VND)	Q4/2021	Q4/2020	%yoy	2021	2020	%yoy
Original premium	2,007	1,699	18.1%	8,288	7,402	12.0%
Reinsurance transfer fee	243	135	79.9%	1,036	758	36.6%
Gross premium revenue	2,250	1,834	22.7%	9,323	8,160	14.3%
Reinsurance transfer fee	-1,394	-1,119	24.5%	-4,715	-4,348	8.5%
Net premium revenue	1,003	1,005	-0.3%	4,046	3,814	6.1%
Total cost of compensation and contingency	-398	-420	-5.3%	-1,443	-1,495	-3.5%
Net compensation cost	-1,479	-1,668	-11.4%	-3,498	-3,661	-4.5%
Other expenses for original insurance business activities	-600	-530	13.1%	-2,057	-1,875	9.7%
Management costs	-316	-283	11.9%	-666	-624	6.7%
Income from business activities	-118	-85	37.7%	292	196	49.5%
Investment income	272	284	-4.2%	852	828	2.9%
Financial expenses	-47	27		-118	-60	97.2%
Net financial income	225	311	-27.6%	735	768	-4.4%
Profit before tax	115	246	-53.3%	1,105	1,060	4.3%
NPAT	73	204	-64.0%	881	849	3.8%
EPS				3,528	3,393	
Loss ratio	33.0%	35.2%		30.3%	33.0%	
Cost ratio	83.5%	75.6%		63.6%	62.7%	
Combine ratio	116.5%	110.8%		93.9%	95.7%	

Source: PVI, BSC research

BUSINESS PROSPECTS IN 2022

Through subsidiaries directly owned by PVI, We classify PVI's main activities into 3 segments: Non-life insurance, reinsurance, and financial investment.

Table 2: Subsidiaries of PVI

Company	Ownership rate	Main activities
PVI Insurance Corporation	100%	Non-life insurance
PVI Reinsurance Corporation (PVIRe)	seventy three%	Reinsurance
PVI Fund Management JSC (PVIAM)	89%	Investment fund management

Source: PVI, BSC Research

Non-life insurance segment: Improvement in market share and management efficiency

PVI recorded a growth in premium that outperformed the entire non-life insurance industry. In 2021, PVI's premium will reach VND 9,323 billion (+14.3% yoy). Meanwhile, total insurance premium in the whole market recorded the lowest growth rate in many years, estimated at VND 57,802 billion (+2.0% yoy). This impressive revenue growth of PVI compared to the whole industry comes from (1) proactively conducting digital transformation, building platforms to promote online insurance sales channel (pvionline.com.vn), (2) change the KPI calculation mechanism, attach income, reward and penalty mechanism to the performance results in order to boost sales.

Figure 1: PVI's insurance premium

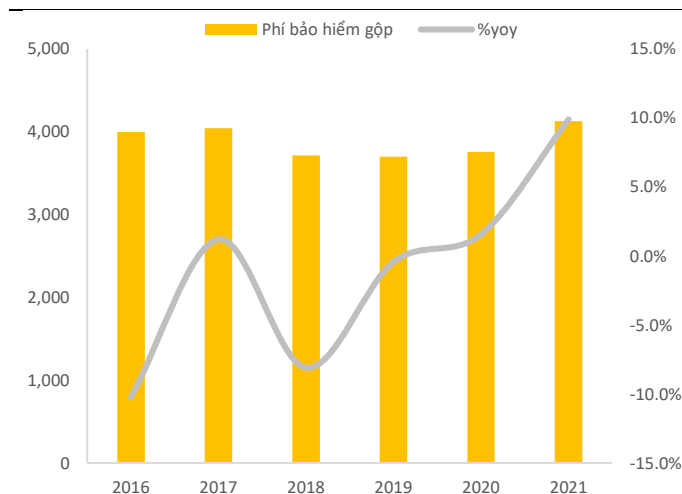
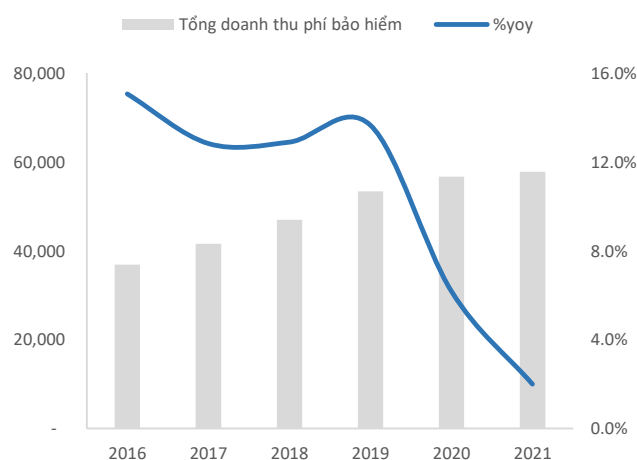


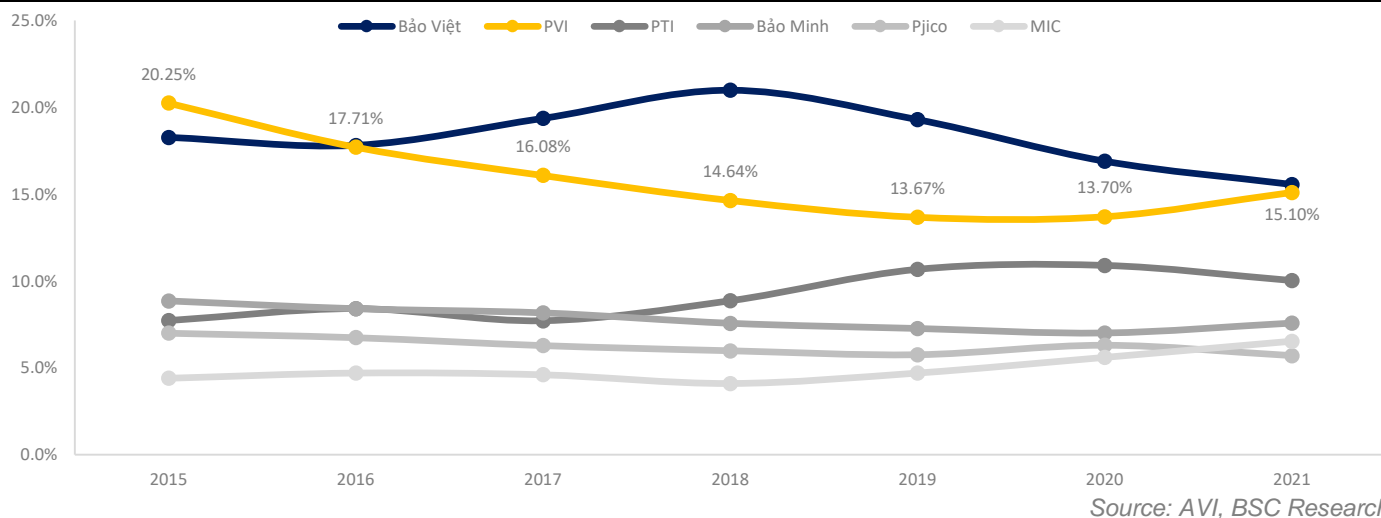
Figure 2: Total revenue of life insurance premiums in the whole market



Source: PVI, BSC Research

Thanks to positive changes in business model management/operation, **PVI's market share in 2021 has been significantly improved to over 15%**. PVI's rise has narrowed the gap in market share with Baoviet sharply. BSC assesses that, although competition in the industry will become more and more fierce in the coming time, PVI's market share will still remain stable at over 15%, possibly even reaching the top 1 in the industry thanks to 1) a nationwide branch network, with a large customer base belonging to PVN's system, (2) a reputable brand that has been built for many years, and (3) a competitive business and management strategy more competition from the new leadership team.

Figure 3: PVI's market share increases sharply in 2021



BSC expects PVI's non-life insurance premium revenue to grow 10.1% in 2022. We assess that the life insurance industry in Vietnam still has a lot of growth potential due to (1) the golden population structure (working age population accounts for nearly 70%) along with a sharp increase in the middle class and (2) a relatively low rate of VA use in Vietnam (0.9% compared to 3-4% average in the region.). BSC expects that, after the epidemic is under control, non-life insurance premium revenue growth is forecast to return to 9-10% in the period 2022-2025.

PVI's combined ratio fell in 2021, but could rise again from 2022. PVI's combined ratio in 2021 reached 93.6%, down 2.1 percentage points year-on-year, mainly due to a decrease in payout ratio of 1.6 percentage points to 31.4%. PVI's combined ratio decreased thanks to (1) the situation of social distancing indirectly reduced the compensation rate of the whole industry (from 34.4% to 31.2%), and (2) PVI focused on efficiency of communication operations through input risk control & cost control. BSC believes that, when social activities gradually return to normal, insurance claim costs will increase again, and forecast PVI's combined ratio may increase to 94.7% in 2022.

Figure 4: PVI's total insurance claims

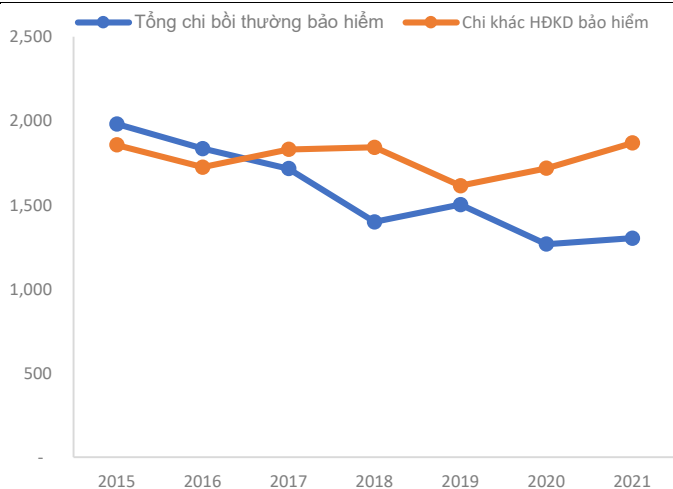
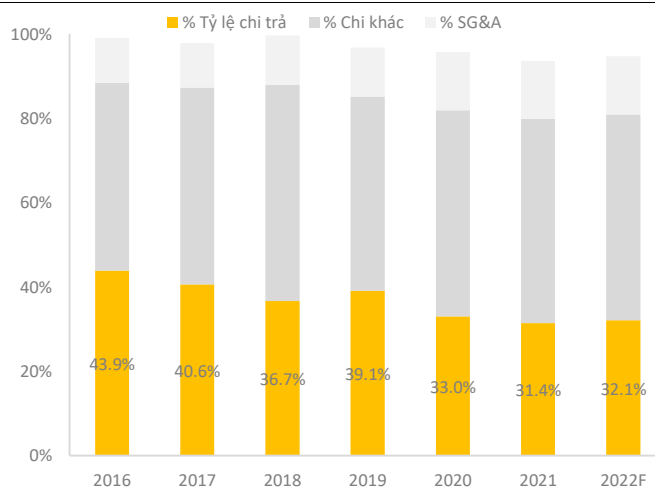


Figure 5: Combined ratio of PVI



Source: PVI, BSC Research

Reinsurance segment: Lots of potential, potential for capital growth

Reinsurance premium revenue grew at an average rate of 13.4% in the period 2015-2020. Due to the provisions of the insurance business law on the level of liability, reinsurance premium revenue also grows year-on-year along with the growth of life insurance policy. Therefore, BSC believes that reinsurance premium in Vietnam will continue to grow at an average of 12-15% per year in the coming time. In 2021, PVIRE's premium will reach VND 1,544 billion (+4.4% yoy), of which 53% of revenue is related to PVI.

In terms of market share, **PVIRE and Vinare are the only two reinsurers in Vietnam**, with market shares of 7% and 12% respectively, the rest belongs to foreign reinsurers. In general, reinsurance companies in Vietnam still face many limitations in terms of capital size, as well as credit ratings compared to foreign enterprises. However, BSC believes that, with the development of the non-life insurance market in general and reinsurance in particular, PVIRE still has numerous room to expand and develop, as well as increase its market share.

Figure 6: Total domestic reinsurance premium

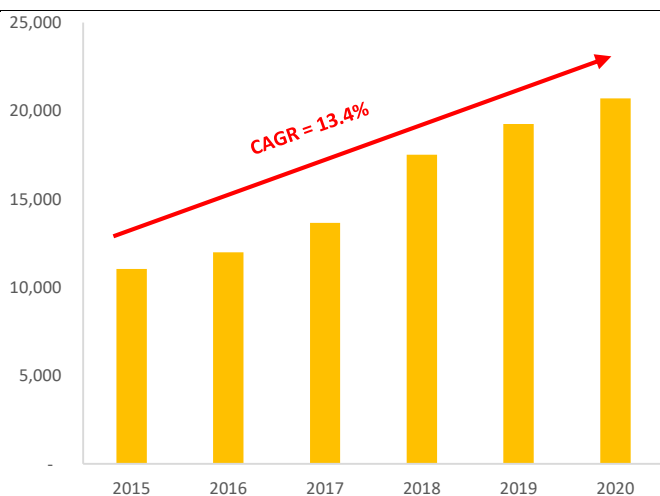
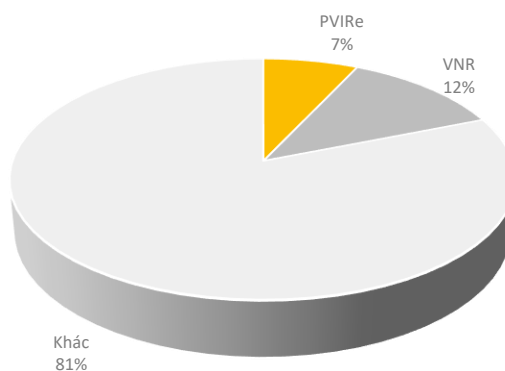


Figure 7: Domestic reinsurance market share



Source: PVI, BSC Research

In 2022, PVIRE plans to increase its charter capital to VND 1,044 billion by offering it to the public. Currently, PVI owns 73% shares of PVIRE, if the capital increase goes as planned, PVI's ownership ratio will be diluted to 51%. The increase in charter capital will support PVIRE to improve its operations including (1) improving its retention rate, (2) raising its credit rating to A- and (3) developing foreign reinsurance.

Figure 8: PVIRE's capital increase history (billion VND)

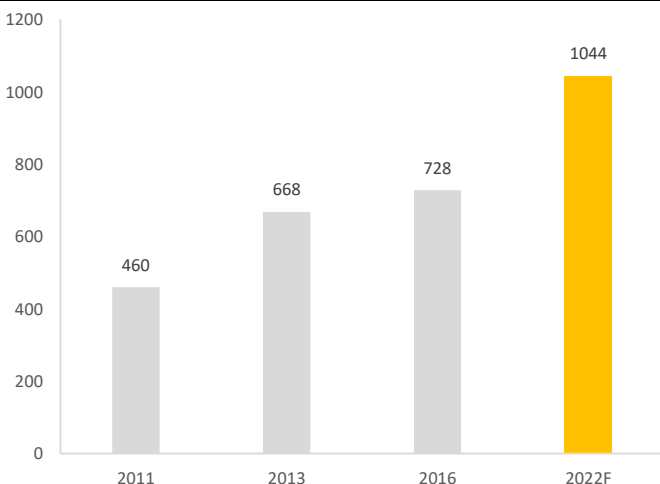
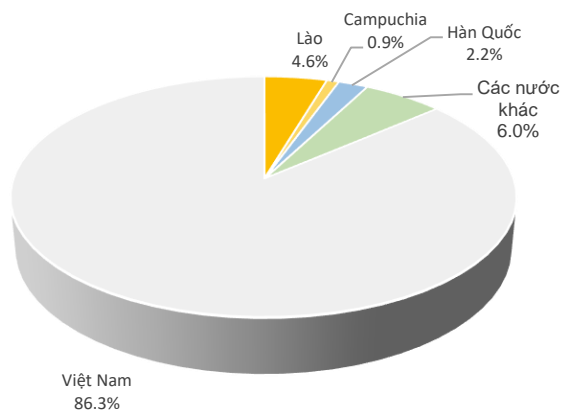


Figure 9: Active PVIRE markets



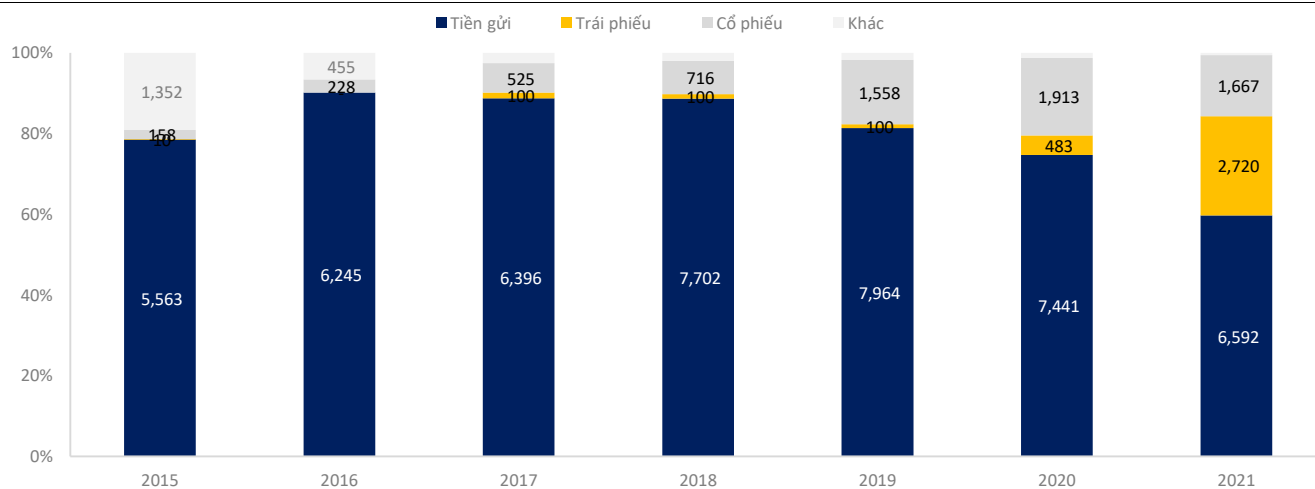
Source: PVI, BSC Research

Financial investment segment: Gradually increasing the proportion of bonds

Regarding financial investment activities, **most of PVI's investment portfolio is held-to-maturity assets** (deposits, bonds, certificates of deposit). This reflects the prudent policy of PVI in particular and insurance companies in general.

PVI is transforming its portfolio structure from deposits to bonds to increase financial investment efficiency. We assess that this strategy of PVI will help the company increase financial profit by 5-10% yoy, in the context that the deposit interest rate in 2022 is forecasted to remain at a stable level.

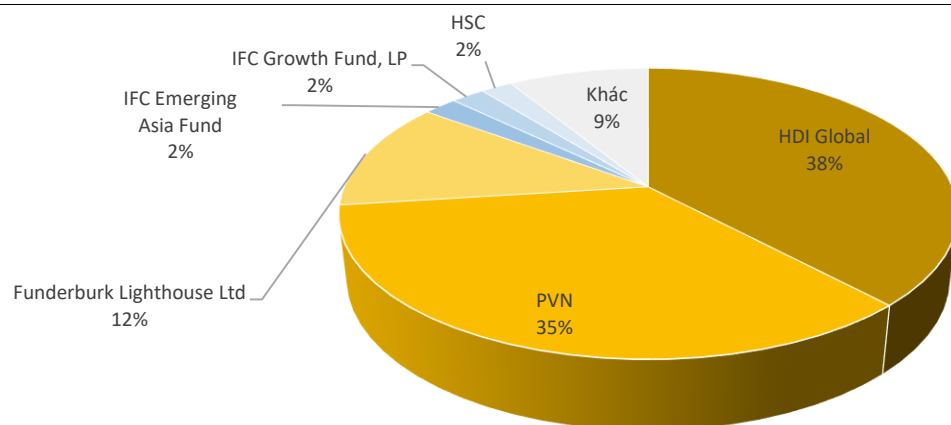
Figure 10: The proportion of bonds in PVI's portfolio tends to increase



Source: PVI, BSC Research

The divestment of PVN will not be carried out in 2022. In the last investor meeting, PVI management said that the preliminary valuation has been completed since 2019, but the divestment process is temporarily suspended under the restructuring project of PVN. We will continue to monitor the developments of this divestment deal, and will update more in the near future.

Figure 11: PVI's shareholder structure



Source: PVI, BSC Research

FORECASTING BUSINESS RESULTS

BSC forecasts that PVI's net revenue and net profit in 2022 will be VND 4,511 billion (+11.8% yoy) and VND 951 billion (+8.1% yoy), EPS FW = 3,824 VND/share , assuming:

- Original premium revenue grew by 10.1% yoy
- Combined ratio increased to 95.3%, of which loss ratio was 31.4% (same period reached 30.3%)
- Gross return on investment and net return on investment of investment assets are 8.4% and 7.5%, respectively. (increase by 0.1% and 0.4% respectively)

Table 3: Forecast PVI

(billion VND)	2019	2020	2021	2022F
Original premium	7,295	7,402	8,288	9,125
Reinsurance transfer fee	702	758	1,036	1,140
Gross premium revenue	7,997	8,160	9,323	10,265
Reinsurance transfer fee	(4,187)	(4,348)	(4,715)	(5,191)
Net premium revenue	3,594	3,814	4,046	4,511
Total cost of compensation and contingency	(1,713)	(1,495)	(1,443)	(1,671)
Net compensation cost	(3,303)	(3,661)	(3,498)	(4,001)
Other expenses for original insurance business activities	(1,777)	(1,875)	(2,057)	(2,325)
Management costs	(512)	(624)	(666)	(743)
Income from business activities	142	196	292	248
Investment income	770	828	852	936
Financial expenses	(135)	(60)	(118)	(96)
Net financial income	635	768	735	841
Profit before tax	874	1,060	1,105	1,189
NPAT	702	849	881	951
EPS	2,623	3,393	3,528	3,824

Source: PVI, BSC Research

VALUATION

Using the P/B valuation method, **BSC estimates the fair value of each PVI share at 59,300 VND**, with a target PB of 1.6x, BVPS in 2022 is estimated at 37,074 VND. We consider PVI to be the leading company in the non-life insurance industry, with the potential to rise to the top 1 in terms of market share in the near future, with increasingly improved management and governance capabilities.

Table 4: Comparison of valuation of insurance companies

Company	Market cap (billion VND)	P/E	P/B	ROE
PTI	4,743	17.6	2.2	13.1%
VNR	4,070	11.6	1.3	11.1%
BMI	3,875	14.4	1.6	10.8%
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%
PVI	10,752	12.3	1.4	11.2%

Source: Fiinpro, BSC Research

Stock PE

Stock PB



Source: Bloomberg, BSC Research

APPENDIX

Business results (Billion VND)	2019	2020	2021	2022F
Gross premium	7,997	8,160	9,323	10,265
- Discounts on insurance premiums	(4,403)	(4,346)	(5,278)	(5,754)
Net premium	3,594	3,814	4,046	4,511
Receipt of reinsurance	791	714	721	804
Revenue from business activities insurance	4,385	4,528	4,767	5,316
Total cost of insurance claims	(1,713)	(1,495)	(1,443)	(1,671)
- Compensation under the responsibility to retain	(1,501)	(1,365)	(1,452)	(1,646)
- Increase/decrease in compensation provision	(212)	(131)	10	(25)
Provision for large fluctuations	(116)	(119)	(128)	(143)
Other expenses	(1,998)	(2,155)	(2,342)	(2,615)
Total direct expenses from insurance business activities	(3,731)	(3,708)	(3,808)	(4,324)
Profit from insurance business	654	820	959	991
Management costs	(512)	(624)	(666)	(743)
Profit from insurance business activities	142	196	292	248
Profit from financial activities	635	768	735	841
Other profits	1	(3)	(12)	(0)
Profit from CTLK	-	-	-	-
EBT	874	1,060	1,105	1,189
Tax	(172)	(211)	(224)	(238)
NPAT	702	849	881	951
Minority interest	43	41	40	40
Profit after tax - Minority interest	659	807	840	911
EPS	2,623	3,393	3,528	3,824

Targets	2019	2020	2021	2022F
Operational capacity				
Compensation rate	39.1%	33.0%	30.3%	31.4%
Corporate Governance Shares/Net Insurance Fees	46.0%	48.9%	49.6%	49.9%
Total cost of compensation	11.7%	13.8%	14.0%	14.0%
Combine Ratio	96.8%	95.7%	93.9%	95.3%
Investment situation				
Gross return on investment	8.4%	8.5%	8.3%	8.4%
Net return on investment	7.0%	7.9%	7.1%	7.5%

Balance Sheet (Billion VND)	2019	2020	2021	2022F
Cash and cash equivalents	493	1,144	1,015	1,905
Short term investment	7,795	7,420	9,048	9,733
Account receivables	9,944	9,243	10,537	10,465
Other current assets	368	413	524	632
Reinsurance asset	-	-	-	-
Total current assets	18,601	18,220	21,125	22,737
Long-term receivables	25	24	24	25
Fixed Assets	353	358	331	340
Long term investment	1,867	2,465	1,649	1,976
Other non-current assets	85	125	108	122
Total non-current assets	3,486	4,056	3,165	3,479
Total Assets	22,087	22,276	24,290	26,216
Liabilities must pay	14,910	15,071	16,440	17,501
Unimplemented revenue	14	11	30	30
Insurance reserve	11,115	10,592	12,012	13,226
Short-term debt	14,838	15,010	16,373	17,443
Long-term liabilities	71	61	67	57
Total liabilities	14,910	15,071	16,440	17,501
Paid-in capital	2,342	2,342	2,342	2,342
Capital surplus	(57)	(290)	-	-
Retained earnings	738	940	1,073	1,939
Total Equity	7,177	7,205	7,850	8,715
Total capital	22,087	22,276	24,290	26,216
Number of shares outstanding (million)	234	234	234	234

Targets	2019	2020	2021	2022F
Profitability				
ROA	3%	4%	4%	4%
ROE	10%	12%	11%	11%
Property structure				
Short-term assets/Total assets	84%	82%	87%	87%
Short-term debt/Total assets	67%	67%	67%	67%
BVPS	30,386	30,553	33,326	37,074

Source: PVI, BSC Research

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