

Insurance Sector – ICB 8530
July 11th 2016

Company Research Report

Bao Minh Insurance Corporation - BMI



STOCK MOVEMENTS



INVESTMENT RECOMMENDATION

Recommendation	BUY
Target price (VND)	31,800
Market price (July 11 th 2016)	26,700
3 month prospects	Increase
6 month prospects	Increase
12 month prospects	Increase

THÔNG TIN GIAO DỊCH

# of outstanding shares (Mil)	83.0
Market cap (VND Bil)	2,209.3
Book value per share	27,090
Foreign ownership	42.9%
Market price	26,700
Average 10 day liquidity	225,507
52W lowest	17,800
52 W highest	28,200
+/- % 7 day	+6.8%
+/- % 1 month	+13.2%

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INVESTMENT HIGHLIGHTS

We recommend **BUY** to BMI for medium and long-term investment, with 1-year target price of VND 31,800 / share, upside 19.2% compared with the closing price on July 11th 2016, based on PB and PE valuation methods

In 1st quarter 2016, BMI recognized VND 779.3 billion of insurance gross written premium (+ 15.8% yoy), and VND 38.6 billion of PAT (+ 19% yoy). The main contributor to the profit growth was underwriting profit, which reached 26.8 billion (+ 336% yoy). The effective cost management reduced combined ratio of BMI to the lowest of the sector at 95.6%, although the claim ratio increased strongly. Investment activity was negatively influenced by the expenses related to the conversion of SDF to MBB in 1st Quarter, thus fell by 56.4% and profited at VND11.5 billion.

For 2016 and the coming years, we believe that BMI business outlook is positive:

- Sustainable development orientation are showing good results in the insurance operation:** BMI has the lowest combined ratio in the sector for many years, although its main product, fire insurance, usually yields higher risk.
- Restructuring investment activities.** Bao Minh is restructuring its investment portfolio, handling inefficient investments, and recorded profit from some long-term investments. The restructuring activities will help the companies record a significant growth of profit in 2016, and help reduce the burden of provisioning in the coming years. We expect to see a significant increase in financial income in the 2Q 2016.

2016 earnings forecast: We forecast that gross written insurance premium will reach VND 3,089 billion (+ 9.5% Yoy). The company's PAT is estimated at VND 189.2 billion (+ 46% Yoy), corresponding to 2016 EPS of VND 2,226. Dividends are expected to remain at 10% / year.

Financial highlights	2012	2013	2014	2015	Q1 2016
Revenue (VND bil)	1,787	1,952	2,170	2,452	613
% yoy	3.5%	9.2%	11.2%	13.0%	18.2%
Total Asset (VND Bil)	3,869	3,968	5,341	5,120	5,299
Equity (VND Bil)	2,185	2,166	2,185	2,307	2,247
Chartered Capital (VND Bil)	755	755	755	830.5	830.5
Net profit (vnd bil)	65	76	123	131	37.3
Net profit margin	3.63%	3.90%	5.65%	5.36%	14.57%
PAT (vnd bil)	93	83	120	129	39
% yoy	-37.5%	-10.6%	45.5%	7.4%	19.0%
EPS (VND/cp)	1,225	1,095	1,594	1,556	1,595
ROE	4.23%	3.82%	5.51%	5.60%	5.89%
ROA	2.39%	2.08%	2.25%	2.52%	2.50%
ROS	5.18%	4.24%	5.54%	5.27%	6.30%

Source: BCTC BMI

BMI OVERVIEW

Company Name	Bao Minh Insurance Corporation
Address	26 Tôn Thất Đạm, TP Hồ Chí Minh
Phone	+84 (8) 382-94180
Fax	+84 (4) 382-94185
Website	www.baominh.com.vn
Chartered Capital	804 VND Bil
Business fields	Non life insurance Reinsurance Investment

History

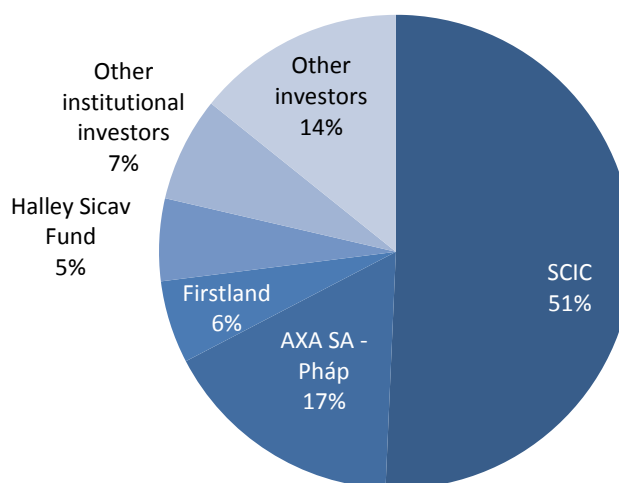
- Bao Minh Insurance Corporation was established on 1994 with 100% state capital owned by the Ministry of Finance.
- 2004: Bao Minh officially operate under Joint Stock Company Model with charter capital of VND 434 billion
- 2006: BMI shares officially listed on HNX
- 2007: Increased capital from VND 434 billion to VND 755 billion, and succeeded in finding a foreign strategic investor - AXA Group.
- 2008: Establishment of Joint Stock Company Bao Minh Securities (BMSC). BMI listing shares on HOSE.
- 2014: The charter capital of the company was vnd 830.5 billion.

Major shareholders

Shareholders	# shares (mil)	%
State Capital Investment Corporation (SCIC)	38.3	50.7%
AXA Insurance group	12.57	16.65%
Firstland Company Ltd.	4.27	5.65%
Quỹ Halley Sicav	4.25	5.63%

The shareholder structure of the company is quite concentrated, with major shareholders and insiders accounted for 86.22% of the company ownership. The State Capital Investment Corporation (SCIC) seized control of the company with 50.7% of total ownership. Besides, the company also has a strategic partnership - the AXA SA Group from France, which owns 16.65% of stake. The company's customers as Song Da Corporation, Vietnam Chemicals Corporation, Vietnam Tobacco Corporation, VINACONEX and Agricultural Supplies Corporation own more than 1% of the shares of Bao Minh for each company.

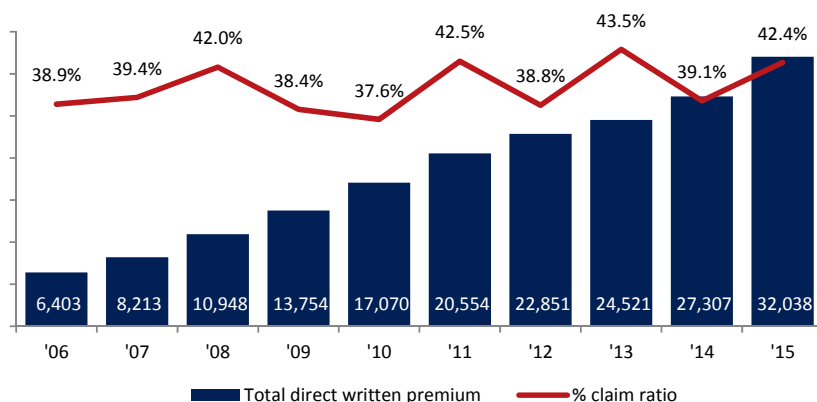
Shareholder structure



NON – LIFE INSURANCE SECTOR OUTLOOK

Non-life insurance sector of Vietnam has an outstanding growth compared to the region. Total gross written premiums revenue CAGR of the sector reached 16.4% over the past decade. In 2015, the gross written premiums rose by 17.3%, while of other countries in SEA reached only 4-6% / year. The claim ratio in period 2009-2015 was 40.3% in average, and the insurance sector only reached the breakeven point for underwriting profit in this period. Accordingly, our report will use this rate as the maximum level of claim ratio for insurance business to reach breakeven point.

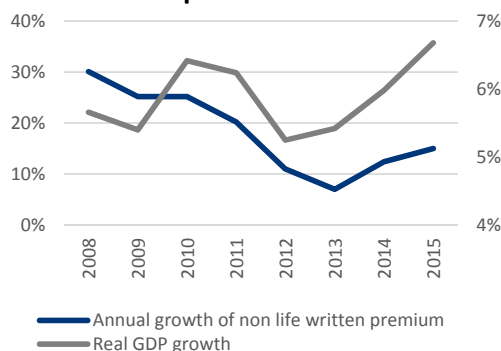
Vietnam non life insurance sector



Source: Department of Insurance Supervision – Ministry of Finance

Prospects for 2016 and the coming years of non-life insurance sector is positive, with growth of insurance premiums estimated at 15% per year for the next 3 years, due to the following factors:

Non life insurance sector depends on GDP



Nguồn: Bloomberg

The overall growth of the economy:

According to ANZ's forecast, GDP growth of Vietnam is at a high and stable level of around 6.5%, the 2nd highest level worldwide. When the economy flourishes, the construction and manufacturing activities increased, which raises to the demand for property damage insurance, cargo insurance, and fire insurance. In addition, favorable business performance will result in higher income, thus increasing demand for automobile insurance and health insurance.

The enhancement in insurance and financial capability of leading enterprises through capital raising process: BIC, BMI, PTI, PGI have either already raised capital or are planning to, with orientation of seeking foreign strategic shareholders. Initially, the raise in charter capital will help businesses enhance its position, its ability to retain insurance premium, and motivate revenue growth. In longer term, the participation of foreign strategic shareholders

could make a significant change in Vietnam's insurance sector, as they bring in experience in management, technology, and training programs for Vietnam insurance companies.

Changes in law policies supporting the insurance sector: **(1)** regulations on accounting standards for insurers increase the transparency and the uniform in the accounting of listed companies; **(2)** apply ceiling level to commission rate and a floor level to motor vehicle insurance rate in order to limit unfair competition; **(3)** require mandatory fire insurance for resident and office building, which motivate the growth of fire insurance through the higher participation of people and entities; and **(4)** the draft of the Criminal Code supplemented insurance fraud as a criminal offense, which can be fined and even imprisoned.

Growth prospects for major product segments:

The prospects for motor vehicles segment is positive, thanks to:

- **High automobile consumption growth.** According to the Vietnam Automobile Manufacturers' Association (VAMA), automobile consumption grew significantly by 55% yoy, up to 245,000 vehicles. In the first 5 months of the year, car sales growth is positive at a level of 31% yoy. The improvement in income per capita, low interest rates, along with the low level of gasoline prices are a few factors supporting the growth of passenger cars. In contrast, the strict rules of loading and the tax policy are the main drivers for the growth of the commercial vehicles segment. Automobile consumption growth in 2016 is expected to motivate the motor vehicle insurance segment.
- **The legislation provides floor level for automobile insurance and criminalizes insurance fraud, which will help enhance the quality of insurance market.** In 2015, Ministry of Finance decided to impose a mandatory floor charge for cars of 1.5%, creating an average increase of about 20% in written premiums in the market. Besides, the proposal to charge insurance fraud as a criminal offense, if adopted, will significantly change the current situation of insurance fraud in the motor vehicles segment. In addition, the Circular 22/2016/TT-BTC of The Ministry of Finance applied higher insurance premium for 13 automobile models with high accident rates by 10% to 20%, applicable from April 1st 2016.

Health insurance growth drivers come from strong rise in per capita income, and the health consciousness of Vietnamese. High population, growth in income along with the economy growth, and the improvement in health awareness are favorable factors for the health insurance segment in coming years.

Property damage insurance:

- **Mandatory fire and explosion insurance:** The Joint Circular 214 required condominium investors and apartment owners to buy fire insurance in February 2014. However, the number of apartment owners insured is still at a low level due to the perceived problem of people and the public communication have not been promoted. In 2015, The Ministry of Finance worked with Vietnam Insurance Association to make a plans for propagating and promoting the awareness of the people for fire insurance.
- **The real estate market warmed up:** According to Savills, about 65,600 apartments from 102 projects will enter the HCMC market from 2015 to 2017, and about 14,200 apartments from 25 projects will be open for sale in Hanoi by the end of 2016. We

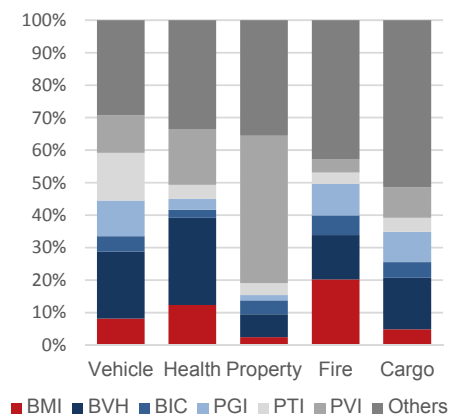
believe that in 2016, the property damage segment, and especially the fire insurance segment, will maintain good growth, thanks to the focus on policy and the recovery of real estate market.

BAO MINH INSURANCE CORPORATION- BMI

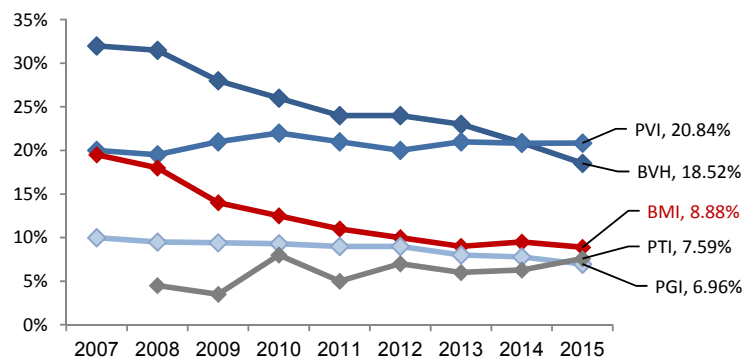
BMI POSITION

Bao Minh Insurance Corporation was established in 1994, equitized in 2004, and listed on HNX in 2006, then switched to HSX from 2008. Charter capital of the company is VND 830.5 billion. BMI operates in 2 main fields: non-life insurance services and financial investment. According to Vietnam Insurance Association, during 2007-2015, BMI market share decreased from 19.5% to 8.88%, partly due to the change to sustainable development in 2010. BMI primary product segments of the company include fire insurance (20.2% market share in 6M2015); health insurance (12.3% market share); and motor vehicle insurance (8.2% market share).

Market share by product segment



Change in market share in non life insurance market

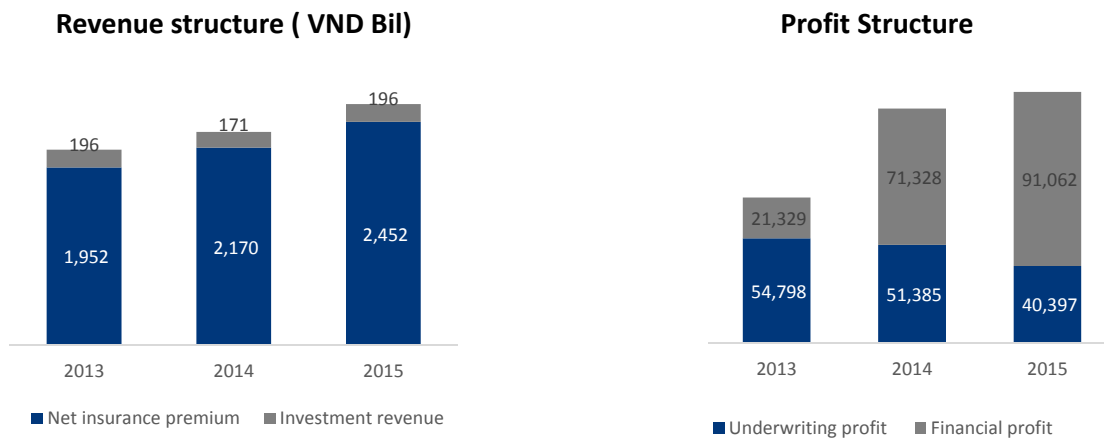


Source: Department of Insurance Supervision – Ministry of Finance

BMI's largest shareholder with 50.7% of stake is SCIC. In 2015, SCIC announced its intention to divest from BMI but there had been no specific plan. The divestment will bring great opportunities for BMI to get exposure to foreign investors who wish to participate in Vietnam's insurance market or increase their impact on Vietnam insurance market of Vietnam. 3 years ago, AXA SA Group, a strategic partner of BMI back then, has expressed interest in raising the ownership percentage to take control of BMI, but not implemented.

The support from major shareholder AXA SA - France. According to data from Forbes magazine, AXA SA Group from France is the largest insurance company in the world by total asset value, and the second largest by premium revenue. The group operates in 56 countries around the world, and invested in Bao Minh with 16.7% of ownership since 2007. Having AXA as a major shareholder is the platform for positive changes of Bao Minh in risk management, human resource management and technology.

BUSINESS PERFORMANCE



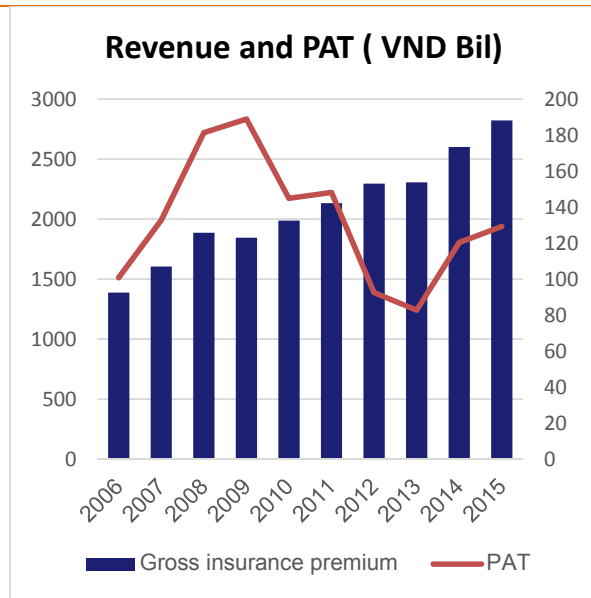
Nguồn: BCTC BMI,

In 2015, BMI recognized VND 2,822 billion of gross written premium (+ 8.5% yoy), and VND 129.2 billion of PAT (+7.4% yoy). In particular, underwriting net profit contributed VND 40.4 billion, corresponding to margin of 1.6%, down sharply from 2.4% in 2014, as the result of many fire accidents in 2015 increasing claim ratio of BMI. Investment activities yielded more positive developments with gross margin of VND 91 billion (+ 28% yoy).

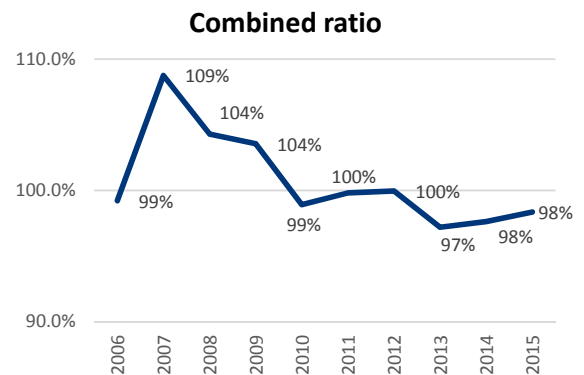
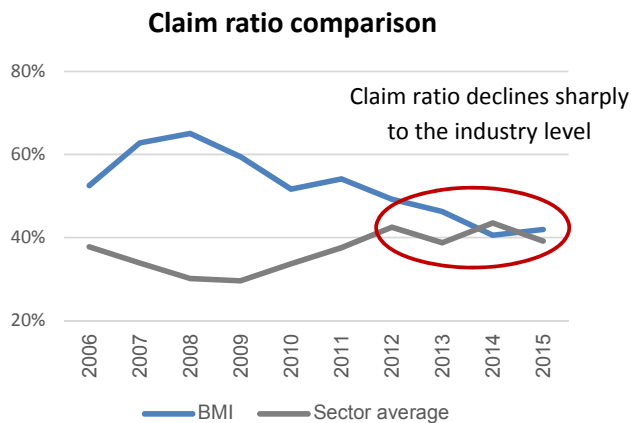
In 1st quarter 2016, BMI recognized VND 779.3 billion of insurance gross written premium (+ 15.8% yoy), and VND 38.6 billion of PAT (+ 19% yoy). The main contributor to the profit growth was underwriting profit, which reached 26.8 billion (+ 336% yoy). The effective cost management reduced combined ratio of BMI to the lowest of the sector at 95.6%, although the claim ratio increased strongly. Investment activity was negatively influenced by the expenses related to the conversion of SDF to MBB in 1st Quarter, thus fell by 56.4% and profited at VND11.5 billion.

BMI has 2 main revenue sources, including (1) the insurance activities and (2) investment activities. In the period from 2013 to 2015, insurance activities contributed on average 92.2% of total revenue, and 39.4% of PBT. The contribution of insurance activities in PBT of BMI is significantly higher than the average at 10% of the industry, since BMI maintains a good profit margin for insurance operations while investment activities were inefficient over the past few years.

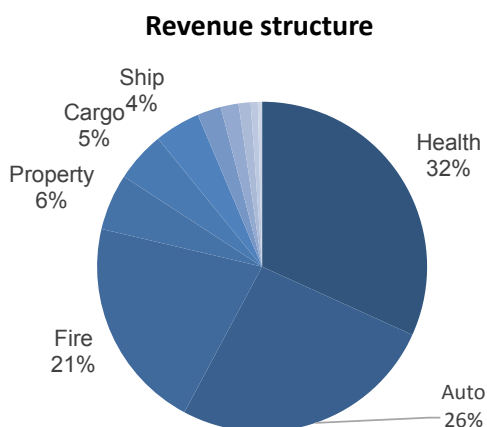
UNDERWRITING BUSINESS



BMI aimed sustainable growth from 2010. The revenue growth is stable in period 2006-2015 with CAGR of 8.2%. This figure is much lower than the overall non-life insurance premium growth of 14.2%. However, BMI actively aims to develop sustainable growth and focuses on risk management, and not care much about revenue growth or market share. In terms of insurance operations, this is the right direction, which leads to lower claim rate in recent years significantly from around 60% in the period 2008 - 2009 to approximately 40% at present. The current claim rate is comparable with the overall sector, even though the main product of BMI, fire insurance, has had high claim rate over the last few years. Accordingly, BMI has begun to recognize underwriting profits since 2010.

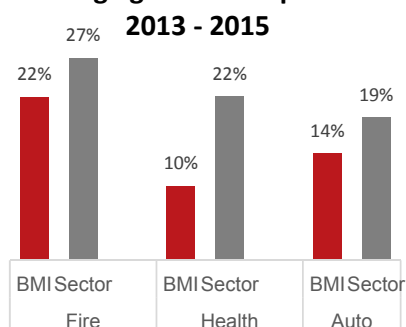


Source: Financial Statement BMI, Department of Insurance Supervision – Ministry of Finance

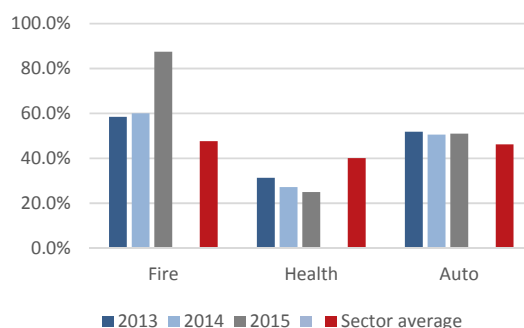


The structure of gross written premium of BMI has 3 major product segments, contributing 79%, including: health, motor vehicles, and fire insurance. All major product segments has revenue growth much lower than the industry average, which is the result of the sustainable orientation of the company. Claim ratios significantly differentiate among the product segments: BMI fire insurance's claim rate is much higher than the industry average, while health insurance's is lower and motor insurance's is equivalent to the industry average.

Average growth comparison



Claim ratio



Source: Financial Statement BMI, Department of Insurance Supervision – Ministry of Finance

Health Insurance

Health insurance is the largest product segment of BMI, contributing 32% of total revenue.

The gross written premium growth in period 2013 – 2015 is 10%, much lower than the overall growth 22% of the sector. Claim rate of this segment is well controlled, continuously decreased in the period and was at about 25% in 2015, significantly lower than the claim ratio of 40.1% of the sector. With low and stable claim ratio, health insurance segment contributed substantially to the profits of the BMI insurance activities.

Prospects for health insurance segment is neutral. BSC forecasts the revenue growth is 7% in 2016 due to (1) the orientation towards sustainable development of BMI. In 2016 - 2020, the company is expected to continue the orientation at 7 -8% growth. (2) The impact of student insurance. The document No. 4660 of the Ministry of Education and Training published on Sep 10th 2015, insurers could no longer let schools collect insurance premium from students, effected from the academic year of 2014-2015. The new policy has hindered insurers in approaching and introducing products to students, and therefore, affect the insurance premium for health segment as a whole. The claim ratio is forecasted to stabilize at 26%, the average of the last 2 years.

Motor vehicle insurance

This product segment contributes 26% of total revenue, and accounted for 8.2% of market share in 2016. Revenue from motor vehicle insurance grew at 14% in the period from 2013 to 2015, lower than the sector average of 19.2%. Particularly in 2015, motor vehicle insurance premium grew by 15%, the biggest increase among BMI's segments. However, compared to the phenomenal growth at 24.7% of motor vehicle insurance sector, this increase showed more clearly the sustainable development orientation of BMI.

Claim rate of motor vehicle insurance segment remained at 51%, higher than the average sector of 46%. However, we note that the lower claim rate of the sector is partly resulted from the strong growth in motor vehicle premium in 2015. As the revenue growth slowed, the difference between the claim rate of BMI and the average for this product segment is expected to be narrow down.

BSC forecast revenue growth of the motor vehicle insurance segment of BMI would be at 10-12%, lower than the expected growth of the sector at 15 -20%. The growth of motor vehicles consumption in general will be a good motivation for the motor vehicle insurance

segment of BMI, which helps the company maintain sustainable growth and set out rigorous criteria for risk management. The claim rate is expected to remain at current levels.

Fire Insurance

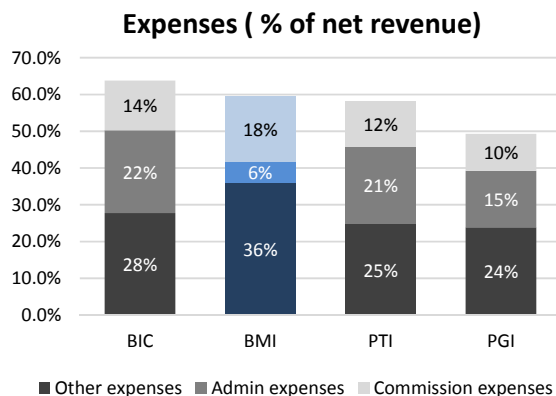
Fire insurance contributed 21% of total revenue, and is one of BMI's strength with the largest market share of 20.2%. It is also the segment with the best growth among BMI's product segments for the period 2013-2015 with CAGR of 22%, though still much lower than 27% of sector average. In 2014, the Joint Circular 214 required the condominium investors and apartment owners to buy fire insurance in February 2014, which contributed to the strong growth of 35% in BMI for this segment. In 2015, it slowed down to 10%.

Claim rate of this segment is usually high, approximately at 60%. Particularly in 2015, claim rate is 88%, due to the sudden increase of fire accidents. Some prominent cases include fire losses in Ha Nam textile factory (VND 60 billion); 2014 turmoil in Ha Tinh, Binh Duong (VND80 billion), Ngan Son Tobacco (VND 50 billion), Sambo shoes (\$500,000).

BSC forecast revenue growth of fire insurance segment will be at 10%, equivalent to 2015. Prospects for fire insurance segment largely depends on the upward momentum of the real estate market. BSC expects claim rate to be at the previous year average of 60%.

Cost management

Claim costs dropped sharply starting in 2010 to the industry level in 2015, thanks to the orientation of focus on risk management focus of BMI. Note that fire insurance claim cost is usually high, which dragged BMI's claim costs up. However, the majority of fire insurance have been ceded, so the actual claim expenses of BMI is only 40.7%.



Source: Financial statements of PTI, BIC, BMI, PGI

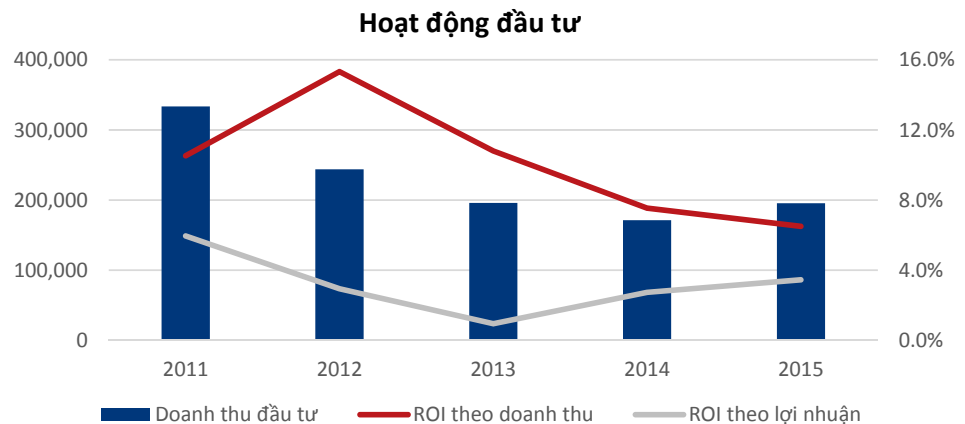
Besides the claim cost, other expenses also affect the underwriting profit. Examples of other expenses are commission costs, business administration expenses and other expenses. In total, these costs account for 60% of net revenue of BMI in 2015, the 2nd high among leading enterprises, only ranked after BIC. The costs of BMI tended to rise, from 54% in 2013, mainly in other expenses of insurance activities, including expenses related to insurance exploiting activities as staff salaries, cost of customer meeting, cost of insurance management... The percentage on net revenue of these costs increased from 33% in 2013 to 39% in 2014-2015, reflecting the high competition of Vietnam insurance market in recent years

Positive prospects from sustainable insurance activities. We highly appreciate the effectiveness of sustainable development orientation of BMI. The company has significantly reduced the claim rate, maintaining the lowest combined ratio in the sector, and having an effective cost management. Good growth from the sector will also help the company recorded a reasonable growth, while still apply fairly strict selection for better risk management. In the coming years, we expect the insurance activities continued to be stable and sustainable.

INVESTMENT ACTIVITIES

Investment capital of insurance companies are from (1) capital raised from insurance premium, and (2) from shareholders' equity. Since underwriting profit is limited, investment activities determine the result of insurance companies, with the average contribution to gross profit of 90%. For BMI, the contribution is 70% in 2015. The investment activities of BMI had faced difficulties over the last few years, but we expect to have better performance in 2016 thanks to high profit from some divestments from long term investments.

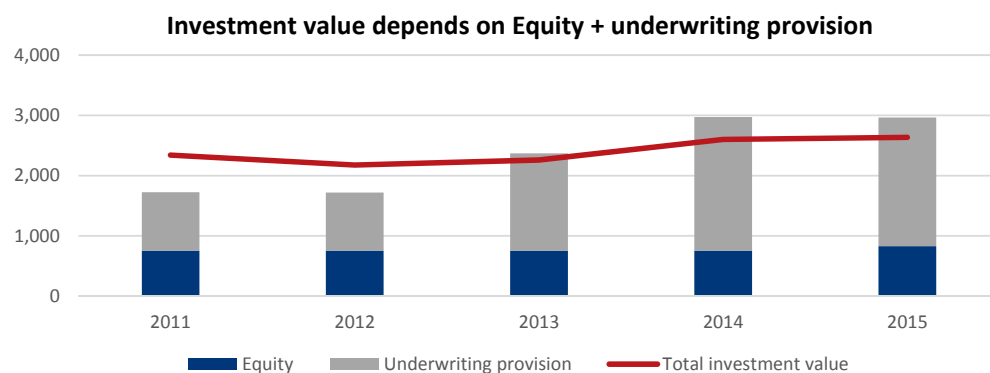
BMI's investment income continuously declined in period 2011 - 2014, and increased slightly in 2015. The company continuously recognized the provision of investment impairments, resulting in low ROI calculated on investment profit, average at 3.5% 2011-2015. ROI calculated on investment revenue constantly declined from 15.3% in 2012 to 6.5% in 2015, which is lower than sector average of 7%. Investment activity is determined by the total investment value, and the investment structure.



Nguồn: BCTC BMI

Total investment value

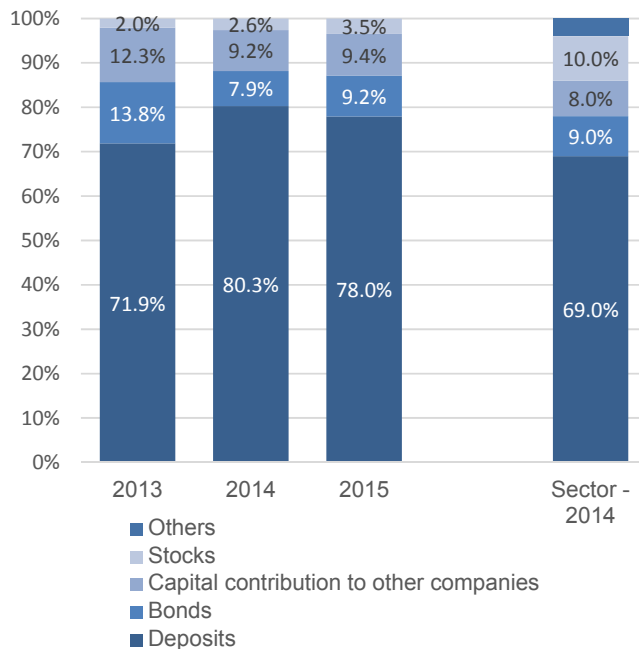
The total investment value of the BMI reached VND 2,633.5 billion at the end of 2015, a slight increase of 1.3% Yoy. The investment sources of insurance companies come from (1) equity (2) funds from the revenue after deducting the related cash expenses (equivalent to insurance reserves). In 2015, the written premiums grew only 8.5% at sustainable level, while BMI had to pay out a large amount of claim for damages related to fire. Accordingly, investment value of the company yielded a considerable lower growth compared with the average increase of 9% in 2013 and 2014.



Source: BMI Financial Statements

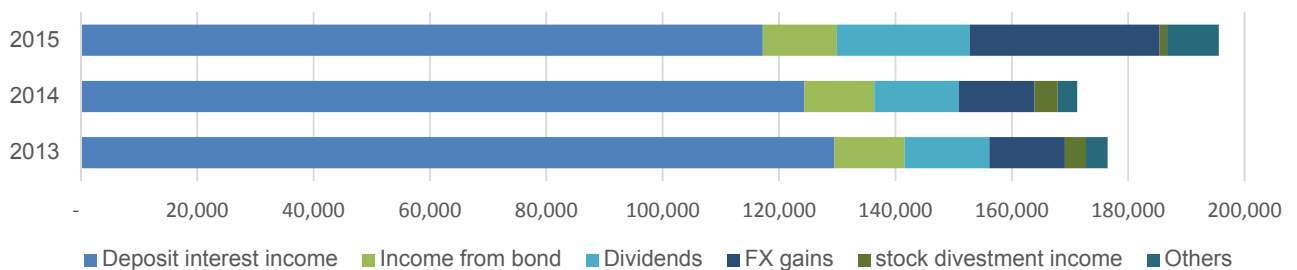
Investment structure

Investment portfolio



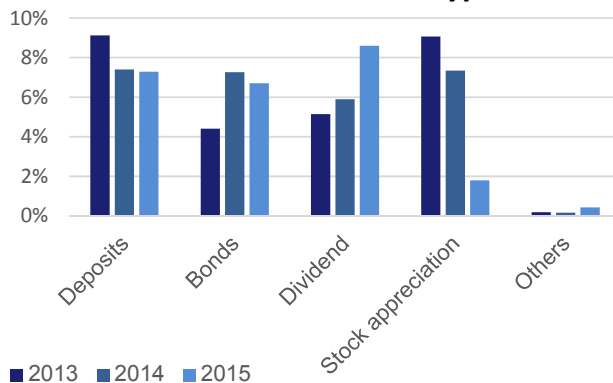
The investment structure of BMI is quite stable, and aims to a prudent investment orientation. In 2013-2015 period, the proportion of bank deposits in investment portfolio rose sharply from the sector average level of 71% up to 78%. Besides, the proportion of equity investment was only at 3.5%, much lower than the 10% of market, although having increased from 2.0% of 2013. In context of the decreasing trend of interest rates, the high weight of deposits and underweight in equity reduced BMI's ROI. In contrast, long-term investments of the company are currently being recognized at cost, but the market values are considerably higher and will help BMI to recognized extraordinary profits when divesting. Due to the stable investment structure over the years, BSC forecasts BMI will maintain this structure in the coming years.

Investment Revenue structure



Source: BMI Financial statements

Yields on investment types



Source: BMI Financial statements

In 2015, the biggest change in the structure of BMI's investment income is the increase of gaining from revaluation of monetary items dominated in foreign currencies. Bao Minh has large ceded premium, related to the amount of fire insurance, so the fluctuations of exchange rates could affect the amounts of claim the company received. In 2015, as the VND was devalued for few times, the company recognized 32.6 billion of gaining from revaluation of monetary items dominated in foreign currencies (+ 151.7%). Note that we do not include FX gains/losses our model of BMI.

BMI's ROI was quite stable over the years. However, the equity portfolio did not bring substantial profits as dividend yields and investment securities yields are just approximate or less than the deposit interest rate.

Investment portfolio

The short-term portfolio of BMI is ineffective. The inefficiency of timing in investment has caused large provision for short-term investment (VND 23 billion of provision in total of 59 VND billion cost). The biggest investment is the investment in Northern Shipping Joint Stock Company (NOS), which worth VND 20 billion, but has been provisioned and recorded at fair value of only VND 1.2 billion.

List of stocks invested (as of 1Q 2016)	Cost (VND bil)	Price as of De 31 st 2015	Gain/loss
VNM	6,206	6,400	194
VTH	984	996	12
CNG	2,937	2,666	(271)
DPM	7,368	5,820	(1,548)
NTL	3,789	3,000	(789)
MBB	2,925	2,920	(5)
NOS	20,000	1,200	(18,800)
FPT	5,185	4,830	(355)
TCT CP TV Thiết kế dầu khí	6,762	4,882	(1,880)
CTCP ĐLGNTXD Tân Cảng	2,794	2,760	(34)
Total	58,951	35,476	(23,475)

The long-term investments in equities of BMI include 3 large investments: VNR, PTI and SDF.

The investments of VNR and PTI have a market value much greater than the book value. The SDF investment were converted into shares of MBB and transferred to the short-term investment portfolio in the quarter 1/2016. PTI investment were sold, it is projected to recognize a VND 76 bil profit in quarter 2/2016.

Long term invested stock (2015)	Ticker	31/12/2014	31/12/2015	31/3/2016	# of stock	Market price
CTCP Bảo hiểm Bưu điện	PTI	48,020	48,020	48,020	4,445,280	124,468
CTCP Cấp nước Thủ Đức	TDW	1,278	1,278	1,278		1,278
CTCP Thương mại và Dịch vụ Dầu khí Vũng Tàu	VMG	211	211			-
CTCP Khách sạn Hạ Long		6,000	6,000	6,000		6,000
CTCP Khách sạn Sài Gòn Kim Liên		7,618	7,618	7,618		7,618
CTCP Xi măng Hà Tiên	HT1	779	779	779		779
CTCP Tái bảo hiểm Việt Nam	VNR	43,218	43,218	43,218	8,427,510	171,921
Quỹ Đầu tư tăng trưởng VN	VF2	4,927	4,927	4,927		4,927
CTCP Rượu bia và nước giải khát Sài Gòn		7,000	7,000	7,000		7,000
CT tài chính cổ phần Sông Đà	SDF	80,000	80,000	-		-
Tổng		199,665	199,056	118,340		323,991

The investments in joint venture (Union Insurance Company UIC) were worth 254 billion at 31/12/2015, BMI hold 48.5% stake. UIC was established as a joint venture between BMI and two partners from Japan and South Korea, specializes in providing insurance services to companies from Japan and Korea. Annually, this joint venture still brings a profit of about VND 20-30 billion for BMI.

Bond investments: At the end of 2014, the total value of bonds in the long-term portfolio of BMI is 221 billion, including 55 billion of provision for diminution in value of Vinashin's bonds and Song Da Thang Long company's bonds. At the end of 2015, these provisions have been processed and removed from the balance sheet, the total bond investment value of the company dropped to 140 billion.

Positive outlook for investment activities

We believe that the investment activities will have positive evolution from 2016 due to:

(1) Provision has been extracted and processed for the most inefficient investments such as SDF, Vinashin bonds and Song Da Thang Long bonds. The treatment helps improve asset quality, reduces book value to the market value. This also helps to reduce the provision pressure in the coming years, and bring ROI of BMI closer to the sector average level.

(2) The extraordinary profits from divestments. In quarter 2/2016, BMI has sold the entire shares of PTI, bringing extraordinary revenue and a pre-tax profit of about VND 76 billion. The company also has a resolution to divest from Bao Minh Securities JSC (BMSC) by auction with starting price of 11,000 VND / share. This starting price corresponds to approximately 20 billion in profit. However, since the divestment is not yet finished, we do not include this profits into our valuation model. These extraordinary proceeds will help to enhance the book value of BMI as closer to the real value, provide money to invest more effectively, support investment activities of the coming years.

(3) Benefit from the expecting rise of interest rates level.

CORPORATE FINANCE

	2013	2014	2015	Q1 2016	TB ngành - 2015
Asset structure					
% Short term assets	60.32%	55.11%	57.21%	71.87%	75.00%
% Long term assets	39.68%	44.89%	42.79%	28.13%	25.00%
Capital structure					
% short term debt	38.45%	56.99%	56.65%	55.68%	63.20%
% underwriting provision	24.94%	40.64%	41.51%	39.34%	50.80%
% long term debt	0.01%	0.01%	0.81%	0.06%	1.30%
% Equity	61.53%	43.00%	42.54%	44.26%	35.50%
Profitability ratio					
% underwriting profit margin	2.98%	2.47%	1.74%	3.00%	1.00%
PBT margin	5%	7%	6%	6.90%	7.00%
ROA	2.00%	3.00%	3.18%	2.70%	3.0%
ROE	3.76%	5.31%	5.47%	6.30%	8.20%
Operation ratios					
Net claim ratio	46.24%	40.56%	41.92%	41.53%	41.70%
Combined ratio (*)	97.02%	97.53%	98.26%	97.00%	99.00%
Claim provision /net premium	19.49%	36.81%	30.16%	27.20%	40.90%

(*) Industry average is estimated as the average value of PTI, PGI, BMI và BIC

Source: BSC Research

To evaluate the corporate finance of BMI, we focus on analyzing the three following main points: (1) Structure of assets, (2) Profitability, and (3) Operational capacity.

Asset allocation gradually shifts into short-term assets, closer to the sector average. This trend will be maintained in the future, due to the divestment activities of the company, as well as the treatment of ineffective investments.

Higher profitability compared to the sector. The insurance activity of Bao Minh is at a good level compared with the sector, with average gross margin of insurance activities is 2.55%, compared with the average of 1% of the sector. In contrast, the inefficiency of investment activities has caused lower ROE and ROA of BMI compared with the average. We believe that these rates will be significantly improved in 2016 thanks to the extraordinary profits from divestments during the year. We expect the profitability of BMI will shift gradually to get closer with the average when the restructuring of investment activities completed.

Good operation ability: BMI's claim rate is equivalent to the sector. This is a positive result because the company has a lower revenue growth compared with the average, and reflects the effectiveness in claim ratio management of BMI. The combined ratio of BMI is also lower than the average, showed the ability to manage costs related is recorded profit from insurance activities.

The rate of claim provision is low. Compared with other insurance companies, provision of BMI is still low, as the total reserve value accounts for only 40% of total assets (compared with 50% of the average) and claim reserves value is 30% (compared with 40% of the industry). This may be the result of (1) the ability to resolve claim quickly help reducing the backlog claim records, or (2) Not full provision of future risk. With sustainable development orientation applied early (from 2010), we are leaning towards the possibility 1.

BUSINESS RESULTS FORECASTS

In 2016: We estimate that the gross written premium could reach VND 3,089 billion (+ 9.5% yoy). Underwriting profit margin is forecasted at 2.2%, a slight increase from 1.6% in 2015 and equivalent to the average margin of the 2013-2015 period. Profit from investment activities increase strongly by 60% in estimate, as the company recognized extraordinary profits in 2015. Income/loss from exchange rates influence were excluded in the valuation of BMI.

Period of 2017-2020: With sustainable development orientation, the premium CAGR is forecasted to reach 8.4% for 2016-2020. The claim rate is expected to decrease to 38%, equivalent to the average of BMI in the last 2 years. Underwriting margin will remain at 1.9%. ROI is forecasted to improve significantly, after completing the portfolio restructuring.

Factor	Assumption
Gross written premium	
Automobile	Growth at 13.5% in 2016 and decline to the stable level of 10% in 2020
Health	Increase by 7% in 2016 và reduced to 6% vào 2020
Property & Casualty	Grew at 5% in 2016 và increase to 8% in 2020
Others	Stable growth at 5-7%
Claim ratio	
Automobile	Maintain at the current rate of 51%
Health	At 28% in 2016 and reduced to 26%
Property & Casualty	Averaged at 32%
Others	At the average level of previous years
Investment	
Interest rate	Deposit interest rate at from 1% - 7% for 2016, and slightly increase to 1.5% - 9%
Cost	
Admin cost	Maintain at 6.1%

Dividend

Dividend Maintain at 10%

VALUATION AND INVESTMENT RECOMMENDATION

Investment recommendation: We recommend BUY BMI for medium and long term with 1-year target price of 31.800 VND / share, an increase of 19.2% compared with the closing price on July 11th 2016 with the two valuation methods of PB and PE.

The report uses the P/B and P/E of Vietnam enterprises and regional enterprises which have similar insurance activities to BMI.

P/B valuation method:

- BV of BMI in 2016 is estimated at 30.383 VND / share. This value has been adjusted in accordance with the unrecognized profit from the long-term securities portfolio (VNR).

P/B Model	
Equity (VND bil)	2,377
Adjustment for market value of long term investments	128.7
Adjusted Equity	2,506.0
Adjusted BVPS	30,383

- P/B estimate is 1.1, the median value of enterprises in the country and the region.

=> Reasonable price per share of BMI according to P/B method is 33,318 VND/share.

P/E valuation method:

- Adjusted EPS 2016, which reflects EPS from regular activities and eliminates extraordinary profit from investment activities and gains or losses from exchange rates influence, is estimated at 1.778 VND / share.

- P/E estimate is 15.95, the average value of the enterprises in the country and the region.

=> Reasonable price per share BMI under P/E method is 28,370 VND/share.

Synthetic the two valuation methods: Because insurance enterprises usually have volatility in EPS so P/B method has higher reliability than the P/E method:

Valuation Model	Reasonable price	Weight	Target price
P/B	33,318	70%	31,834
P/E	28,370	30%	

Index

Income statement 2015-2019

(triệu đồng)	2015	2016	2017	2018	2019	2020
Gross written premium	3,139	3,354	3,681	4,008	4,333	4,678
Ceded premium	-823	-850	-951	-1,038	-1,124	-1,214
Net premium	2,078	2,316	2,504	2,731	2,970	3,209
Commission and others	136	128	144	159	173	190
Net revenue	2,452	2,633	2,875	3,129	3,383	3,653
Net Claim expenses	-971	-983	-1,064	-1,141	-1,225	-1,311
Decrease (increase) in claim provision	106	-42	-86	-83	-84	-91
Increase in ceded claim provision	-91	23	85	73	72	76
Total claim expenses	-942	-979	-1,039	-1,122	-1,207	-1,293
Increase (decrease) in provision for catastrophe	-3	-26	-29	-31	-33	-36
Other expenses	-1,320	-1,408	-1,553	-1,708	-1,863	-2,011
Total underwriting expenses	-2,412	-2,575	-2,794	-3,051	-3,308	-3,562
Underwriting profit	40	58	81	78	75	91
Gross investment profit	91	146	108	123	129	137
Net profit	131	204	189	201	204	228
Other profit	-2	1	1	1	1	1
Profit before tax	154	226	211	223	226	250
EPS/share ('000 VND)	1,520	2,226	2,080	2,200	2,229	2,468

Balance sheet forecast 2016 – 2019

(Tỷ đồng)	2015	2016	2017	2018	2019	2020
TÀI SẢN NGẮN HẠN	3,680	4,346	4,698	5,043	5,404	5,822
Cash and Equivalent	341	874	944	1,012	1,101	1,224
ST investments	1,372	1,360	1,421	1,492	1,558	1,633
ST receivables	609	651	714	777	841	907
Inventory	4	4	5	5	6	6
Other ST assets	344	377	412	446	482	520
Reinsurance assets	1,009	1,081	1,202	1,311	1,418	1,532
LONG TERM ASSETS	1,441	1,275	1,307	1,341	1,373	1,409
Fixed assets	439	460	465	468	470	473
Long term investments	920	745	773	805	836	871
Others	82	70	69	68	67	66
Total Assets	5,120	5,621	6,005	6,384	6,777	7,232
Liabilities	2,814	3,238	3,555	3,859	4,168	4,529
ST Liabilities	2,813	3,227	3,541	3,842	4,158	4,516
LT Liabilities	0	11	14	17	10	13
Equity	2,307	2,384	2,450	2,525	2,609	2,703
Total Capital	5,120	5,621	6,005	6,384	6,777	7,232
BVPS ('VND)	27,779	28,833	29,668	30,603	31,542	32,697

List of comparable companies

Ticker	Mkt Cap (VND)	P/E	ROE	P/B
Median	3,342,330.77	15.95	10.55	1.10
Average	18,662,395.74	16.98	13.73	1.52
BVH VN Equity	42,529,464.63	37.05	9.01	3.30
2816 TT Equity	1,752,821.51	34.20	2.04	0.72
AHAP IJ Equity	279,306.20	24.19	4.51	0.88
BIC VN Equity	2,849,828.55	19.46	8.18	1.40
MHBS MK Equity	3,227,538.12	18.69	4.03	0.75
2852 TT Equity	2,354,346.38	18.45	3.70	0.68
MPHB MK Equity	5,483,284.98	18.12	3.75	0.62
NRCP PM Equity	945,529.87	17.90	1.83	0.39
MREI IJ Equity	3,408,432.80	17.14	19.53	3.09
BKI TB Equity	24,225,214.49	17.06	6.95	1.10
000400 KS Equity	6,566,202.45	16.78	4.64	0.71
ABDA IJ Equity	7,491,995.08	16.46	22.57	3.37
LPI MK Equity	29,606,582.58	16.30	20.12	3.26
HICL PA Equity	428,613.51	15.95	14.60	2.29
BMI VN Equity	2,209,127.02	15.51	6.38	0.98
2851 TT Equity	5,305,680.49	14.64	5.49	0.82
TIH MK Equity	6,057,026.36	14.61	16.74	2.33
000810 KS Equity	237,544,429.88	14.24	7.18	0.99
5878 TT Equity	696,671.46	13.69	17.59	2.34
HASU SL Equity	445,034.94	13.60	10.22	1.42
CHARAN TB Equity	252,882.53	12.99	5.16	0.66
AGIC PA Equity	223,728.02	12.86	15.96	1.90
NSI TB Equity	748,823.83	12.33	7.66	0.99
PGI VN Equity	1,149,782.33	12.02	11.22	1.37
SMK TB Equity	6,211,149.80	11.70	18.45	2.06
CYAN PA Equity	807,546.51	11.32	9.43	1.51
VNR VN Equity	2,673,949.11	11.16	8.92	1.00

Source: Bloomberg

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.

Valuation Methodology: The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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