PetroVietnam Insurance JSC

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This leading non-life insurer is cheap and growing fast

BUY - Price target: VND25,000

PVI is currently the second biggest non-life insurer in Vietnam (21% market share in 2010, nipping at Bao Viet on 24%; PVI had 18% in 2006, 19% in 2008, and 20% in 2009), but it is growing strongly to become the number one player on the back of its enviable relationship with PetroVietnam Group and many other state-owned corporations. PVI has virtually an absolute monopoly in oil & gas insurance (99.8% market share); and is also market leader in construction and fire & explosion insurance (40% share), and hull and protection & indemnity insurance (P&I) (30%). Currently, PVI is aggressively diversifying its business into motor vehicle, health, and cargo insurance. PVI is the only Vietnamese insurer currently underwriting reinsurance policies to overseas counterparties in the oil & gas sector, and has access to Lloyds insurance market in London. Moreover, PVI is also the only financial institution in Vietnam to be rated “B+” by A.M. Best (a global insurance rating and information agency) for its good financial position.

Given its market position and based on recent written policies, PVI will be able to maintain strong top-line growth (27%% pa to be conservative) through 2012, higher than overall sector growth (25% forecast by the Association of Vietnam Insurers). Vietnam’s non-life insurance sector has sustained premium growth of 25.2% CAGR during 2005-2010, and is set to continue its steady growth in the next decade on account of low penetration (premiums/GDP: Vietnam slightly over 0.7%, Thailand 1.5%, S Korea 3.7%, whole world 2.1%) and rising awareness among businesses of the benefits of being insured. Many non-life segments, such as motor vehicle, construction, health and cargo are bound to grow strongly in excess of the overall GDP growth rate.

Steady growth in direct and reinsurance premiums and a higher retention rate will drive strong growth in net premiums, which will in turn boost underwriting profit. In addition, expansion of total investments with enhanced yield on the back of a more dynamic approach (i.e. shifting from trust investments with fixed and low rate to project investments; thereby addressing a key company weak point) is a potential catalyst boosting PVI’s profitability. Net profit grew by 50% in 2010, and in 2011 we forecast the net profit growth at 7% (not due to business slowdown, but rather due to the impact of full corporate income tax); and in 2012 growth will get back onto a high growth track of 31% YoY.

PVI is trading at a 2011 PBR and PER of 0.8x and 10.6x respectively, versus historical averages of 1.2x and 13x, which are the same as regional (Asia-Pacific emerging) current averages. The dividend is a supporting factor; additionally, being a liquid stock with a good growth story, PVI will benefit from a rising Vietnamese equity market that we expect from mid-2011.

VNDbn except where stated	2008	2009	2010	2011F	2012F
Direct premium	2,021	2,770	3,512	4,460	5,665
Retained premium	838	1,262	1,658	2,171	2,848
Underwriting profit	5	19	37	54	85
Investment profit	166	200	298	367	465
Earning before tax (EBT)	172	220	336	422	550
Net profit	172	198	297	316	413
Direct premium growth (%)	26.4%	37.1%	26.8%	27.0%	27.0%
Net profit growth (%)	-31.3%	15.5%	49.6%	6.6%	30.5%
ROA (%)	3.6%	3.7%	4.8%	4.7%	5.4%
ROE (%)	8.5%	8.4%	9.9%	8.7%	11.1%
EPS - adjusted (VND)	1,399	1,471	2,015	1,742	2,274
EPS growth (%)		5.1%	37.0%	-13.5%	30.5%
BVPS (VND)	22,060	23,329	22,587	22,924	23,599
DPS (VND)*	700	300	1,900	1,500	1,500
Dividend yield (%)			10.3%	8.2%	8.2%
PER (x)	13.1	12.5	9.1	10.6	8.1
PBR (x)	0.8	0.8	0.8	0.8	0.8

** DPS indicates dividends paid out during the year in question (i.e. partially in respect of previous year).*

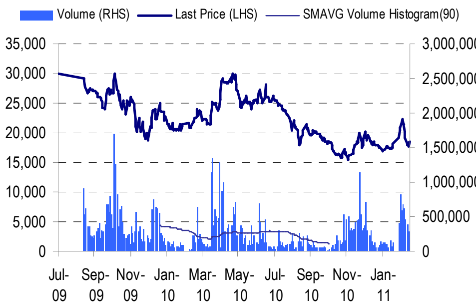
Company report

Recommendation	BUY
	HOSE:PVI
	Non-life Insurance
Price (VND)	**18,400**
Price Target (VND)	**25,000**
Expected share price return (%)	35.9
Expected dividend yield (%)	8.2
Expected total return (%)	**44.1**

Source: Bloomberg, Mekong Securities

Stock performance (%)	YTD	1m	3m	6m
Abs	2.8	1.6	2.8	1.6
Rel	17.6	10.3	6.9	19.3

Source: Bloomberg



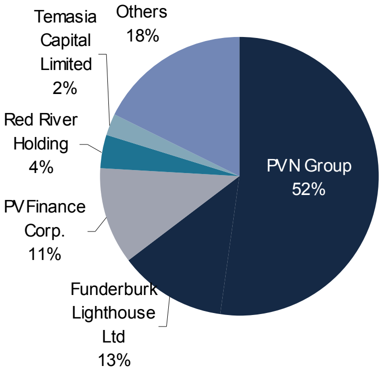
Ownership structure	
State (PetroVietnam)	**52.1%**
Foreigners	**24.9%**
Funderburk Lighthouse Ltd (Oman Inv Fund)	13.3%
Red River Holdings	3.9%
Temasia Capital Ltd	2.4%
Others	**23.0%**

Stock Statistics	01 Mar 2011
Bloomberg code	**PVI VN**
Last price (VND)	**18,400**
52-week range (VND)	**15,500 – 29,900**
Shares O/S (m)	**159.7**
Mkt cap (VNDbn)	**2,939**
Mkt cap (USDm)	**140**
Est. free float (m)	**54.3**
3m avg daily vol (shrs)	**246,000**
VND/USD	**21,000**
Index: VNIndex/HNX	**461 / 96**

Source: Bloomberg

Overview

Figure 1: PVI's ownership structure



Source: PVI, Mekong Securities

Company background: Established in 1996 as a subsidiary of PetroVietnam Group and listed on the Hanoi stock exchange in 2007, PVI has now grown into the second largest non-life insurer in Vietnam in terms of direct premiums written. As of September 2010, PVI had 25 branches, 90 offices and over 600 agents throughout Vietnam, providing various non-life products including: energy (oil & gas), motor vehicle, fire & explosion and all risk property, hull and P&I, health, aviation, and advisory and reinsurance services. PVI is a recognized market-leader in oil & gas (virtually 100% market share), hull & PI (30%), and fire & explosion and all risk property (40%).

As of June 2010, there were 28 non-life insurers in Vietnam, of which seven were foreign, three joint ventures, and 18 domestic. The top five had a 75% share of insurance premiums in 1H2010. PVI has in recent years grown faster than the market, with a lower expense ratio; and has a lower loss ratio (endemic to its speciality in high-value contracts). 80% of its premiums are in the high-growth market segments: oil & gas, construction, hull & PI, and fire & explosion. PVI often reinsures its larger contracts with the international reinsurance majors.

Core business: PVI's revenues come from direct insurance premiums, reinsurance premiums & commissions, and financial investment income. Insurance premiums (both direct and reinsured) account for 90% of total revenue, but only 10%-20% of pre-tax profit. Financial investment has been the main driver of bottom-line earnings in the past years.

Figure 2: PVI's major business lines

Main lines of insurance premium	(% of total premiums)		Growth (%)	Market share (1H2010)	Market position
	2008	1H2010	2008/09/1H10		
Oil&gas	24.8%	37%	na / 71% / 24%	99.8%	Virtual monopoly
Hull and P&I; Cargo	20.3%	14%	28%/ 11% / 11%	30%	Market leader
Construction	17.5%	12%	na / na / 32%	23%	
Fire&Explosion and Property	6.6%	14%	700%/ 58% / 33%	21%	
Motor vehicle	19.9%	15%	70%/ 32% / 28%	12%	After BaoViet, BaoMinh, PJICO
Health & Personal accident	4.8%	5%	145%/ 35%/ na	na	
TOTAL			26%/38% / 30%	24%	

Source: PVI, Mekong Securities

As a member of PetroVietnam Group (PVN), PVI has unrivalled competitiveness in oil and gas insurance. It dominates the market segment with 99.8% market share, having exclusive access to energy insurance contracts written to PVN and its foreign partners like Premier Oil, KNOC, Talisman and Vietgazprom. PVI is the only Vietnamese insurer currently underwriting reinsurance policies in the oil and gas sector to overseas counterparties. PVN's international connections and access to Lloyd's international insurance market (London) assist PVI in winning insurance policies with foreign oil explorers and producers.

With an aim to reduce the reliance on PVN and sustain long-term growth, PVI is diversifying its business into other sectors such as construction, fire & explosion and property, hull & marine, motor vehicle, and health & personal accident. The construction of oil refinery and other petrochemical installations in Vietnam in recent years has strengthened PVI's leadership in construction, fire & explosion and property insurance (40% market share). Additionally, its close relationship with PVN's affiliates in the shipping sector has enabled PVI to gain 30% of the hull and P&I insurance market. With these business diversifications, PVI indirectly gets exposure to the construction and consumer sectors, which are poised to grow robustly in the coming decade.

Earnings projections

Non-life insurance sector has large room for growth

The sector has potential to sustain high growth of 25% through 2012

Vietnam's non-life insurance sector has enjoyed sustained premium growth at 26.6% CAGR during 2002-2009 and 24.6% in 2010. The sector has potential to continue its high growth for a long time, with 25% pa the consensus growth forecast through 2012.

In addition to very low existing penetration rates and rising awareness of the benefits of being insured, mandatory insurance in rapidly growing sectors like motor vehicle and construction will be strong premium drivers. A study by the Ministry of Planning and Investment in 2006 showed that in the construction sector, while 90% of foreign-invested projects were insured, only 7% of government or ODA funded projects and only 41% in the gas and oil industry were. According to the Insurance Supervision and Regulation Department - MOF, though being mandatory, participation rates in motor vehicle (33% - 30% for motorcycles and 68% for cars) and fire & explosion insurance (40%) remained very low.

Figure 3: Major non-life insurance business lines

Lines (2009)	**Market size**	**Share**	**Growth 2009 / 9M10**	**Loss ratio 2008-2009**	**Market leaders**
Motor vehicle (car 90%)	4.375	32.1%	37.5% / 19.7%	58% - 47.7%	BaoViet, PJICO, BaoMinh, PVI, MIC
Health and Personal accident	1.960	14.4%	22.8% / 28.7%	53% - 46.8%	BaoViet, BaoMinh, PVI, PJICO
Construction	1.572	11.5%	15.3% / 28.3%	34%-22%	PVI
Hull and P&I	1.545	11.3%	22.0% / 20.8%	48% - 28.3%	PVI, BVH,BMI, PJICO, GIC
Fire&Explosion and all risks	1.165	8.5%	13.1% / 34.5%	21% - 46.8%	PVI, BMI, BVH, PJICO, UIC, SVI
Cargo	953	7.0%	-1.9% / 38.5%	38% - 51.9%	BVH, PJICO, BMI, BaoLong, PVI
Oil & gas	755	5.5%	50.6% / 47%	na - na historical 10-year avg 22%-25%	PVI

Figure 4: Non-life insurance premium growth (2002-2012F)

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011F**	**2012F**
Direct premiums (VNDbn)	3,815	4,768	5,535	6,381	8,360	10,879	13,644	17,000	21,250	26,563
Growth (%)	45.4%	25.0%	16.1%	15.3%	31.0%	30.1%	25.4%	24.6%	25%	25%
GDP growth (%)	7.34%	7.79%	8.44%	8.23%	8.46%	6.18%	5.32%	6.78%	7.0%	7.5%
Penetration rate (%)	0.62%	0.67%	0.66%	0.65%	0.73%	0.74%	0.83%	0.86%	0.9%	9.5%

Figure 5: PVI's core business growth and market shares

Main lines	(% total premium)			Growth (%)	Market share
	2008	2009	1H2010	2008/09/1H10	(1H2010)
Oil&gas	24.8%	27%	37%	na / 71% / 24%	99.8%
Hull and P&I; Cargo	20.3%	17%	14%	28%/ 11% / 11%	30%
Construction	17.5%	15%	12%	na / na / 32%	23%
Fire&Explosion and Property	6.6%	11%	14%	700%/ 58% / 33%	21%
Motor vehicle	19.9%	19%	15%	70%/ 32% / 28%	12%
Health & Personal accident	4.8%	5%	5%	145%/ 35% / na	na
TOTAL				26%/38% / 30%	24%

Sources: PVI, Mekong Securities, Assn of Vietnam Insurers

The PVI top line: direct premiums to continue brisk growth pace...

PVI's direct premiums written grew steadily at CAGR 37.9% during 2005-2010 and at 26.8% in 2010 alone. For 2011-2012, we conservatively estimate PVI can maintain direct premium growth at 27% pa. Insurance policies and agreements recently signed by PVI support our growth forecast: cooperating with SOGAZ (the second largest Russian insurer) on non-life and reinsurance business; $1.3bn underwriting insurance for the 2010-15 oil exploitation project "Bien Dong 1-Con Son"; and underwriting property and health insurance for Vietsovpetro worth VND6bn for the period 2010-2013. Additionally, PVI is backed by PVN to venture into the international energy insurance market, eg in Russia, and its new major shareholder Funderburk Lighthouse should also be helpful in this effort.

Figure 6: PVI's direct premiums keep growing robustly

	2005	2006	2007	2008	2009	2010	2011E	2012E
Direct premium (VNDbn)	703	1,164	1,599	2,021	2,770	3,512	4,460	5,665
Growth	27.4%	65.5%	37.4%	26.4%	37.1%	26.8%	27.0%	27.0%

Source: PVI, Mekong Securities

... + Higher retention rates, well controlled costs = strong underwriting profits

PVI is the only non-life insurer maintaining positive profit from insurance business

PVI is among very few non-life insurers in Vietnam that have maintained positive profit from insurance business (underwriting profit) through the period 2003-2010. For example, in 2008, PVI was among nine insurers making profit while another 17 players made a total loss of VND163bn; in 2009, PVI was among ten profit makers while 18 others made a total loss of VND200bn.

PVI's underwriting profit has recovered steadily from 2009 after tumbling by 90% in 2008 (due to a 134% rise in insurance claims and charges in a year of heavy disasters, such as flooding in Hanoi).

A higher retention rate (net premiums / gross premiums) on the back of better capitalization, lower loss ratio (insurance claims / net premium), and quite stable operating expenses growth helped PVI's underwriting profit recover strongly in 2009 (up 313% YoY) and 2010 (up 94% YoY). Profit margin of the insurance business thus improved from 0.6% (2008) to 2.3% (2010).

Figure 7: PVI's underwriting profit growth 2005-2012F

	2005	2006	2007	2008	2009	2010	2011F	2012F
Gross premium (VND bn)	742	1,213	1,685	2,147	2,969	3,829	4,935	6,329
Net retained premium (VND bn)	186	307	503	838	1,262	1,658	2,171	2,848
Retention rate (%)	*25.1%*	*25.3%*	*29.8%*	*39.1%*	*42.5%*	*43.3%*	*44.0%*	*45.0%*
Loss ratio (%)		*25.0%*	*30.2%*	*42.3%*	*36.9%*	*36.6%*	*37.0%*	*37.0%*
Expenses ratio (%)		*72.9%*	*60.3%*	*57.2%*	*61.6%*	*61.1%*	*60.5%*	*60.0%*
Underwriting profit (VND bn)	**16.3**	**6.4**	**47.9**	**4.7**	**19.3**	**37.4**	**54.3**	**85.4**
Growth (%)	18.5%	-60.7%	647.6%	-90.3%	313.4%	94.3%	45.0%	57.4%
Profit margin (%)	8.7%	2.1%	9.5%	0.6%	1.5%	2.3%	2.5%	3.0%

Source: PVI, Mekong Securities

For the period 2011-2012, we forecast PVI is likely to continue making positive profit from insurance business, with more premiums retained due to (a) higher capitalization and risk management expertise while (b) loss and expense ratios remain quite stable and manageable. As such, underwriting profit growth will benefit from strong top-line growth and improved margin:

Rather conservative retention rate and less exposure to predatory-competitive segment help PVI control loss ratio better than other peers

(a) Growing capital base supporting higher premium retention rate: Thanks to its successful IPO in 2007 and additional share issuance in 2008 and 2010, PVI has increased its equity base by 5 times during 2006-2010. As such, PVI has managed to increase the premium retention rate from 25% (2005-2006) to 43% (2010), which remains lower than the overall non-life industry's average of about 75%.

(b) Loss and costs control: PVI's major insurance line has less competition, which results in lower selling expenses and loss compared to the unhealthy competition seen in some other segments. Three business lines which PVI currently dominates have loss ratios lower than the industry average (39% in 2009): oil & gas (22%), hull and P&I (28%), and construction (22%). According to the statistics methodology used by the Association of Vietnam Insurers, PVI's loss ratio was 43.3% in 2009 while BaoMinh (BMI) had the highest loss ratio at 50.5% and BaoViet 48%; for 9M2010 it was BaoViet 40%, BMI 36.8% and PVI 34%.

Expanded portfolio and improved investment yield: a key catalyst

Like other Vietnamese non-life insurers, PVI currently makes major profit from financial investments, which account for over 88% of total earnings before tax.

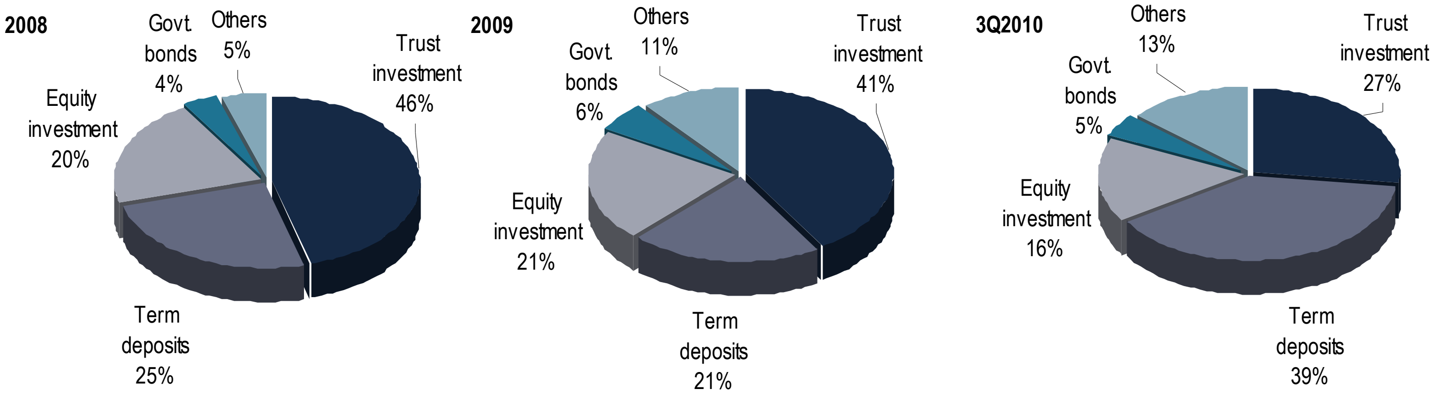
PVI possesses the largest investment portfolio among domestic non-life insurers. This portfolio keeps growing along with the expansion of capital base, including equity base, technical reserves, and other funding (i.e. PVI plans to issue VND1500bn of convertible bonds, details to be announced later in 2011).

Figure 8: PVI has the largest investment portfolio among domestic non-life insurers

Unit: VND bn	PVI	BVH	BMI	PJICO
Financial investments (31/12/2009)	3,400	2,499	2,267	646
Financial investments (30/9/2010)	**4,422**	**3,233**	**2,022**	**na**
Short-term financial investments	78%		43%	
Long-term financial investments	22%		57%	
Profit from financial activities (3Q2010)	**192**	**153**	**92**	**na**
Average return in 3Q2010	4.9%	5.3%	5.7%	na
Average return (2009)	6.0%	10.4%	10.9%	9.7%

However, looking at investment yields, it's notable that PVI hasn't been using capital effectively. Before 2010, PVI kept a significant part of its portfolio as trust investments to PVI Invest and PVI Finance, whereby PVI earned fixed rates of interest but bore no risk. Therefore, PVI didn't enjoy profitable opportunities from the bond market in 2008 or stock market rise in 2009.

Figure 9: PVI's investment portfolio structure



Source: PVI, Mekong Securities

We saw a change in 3Q2010 when PVI reduced trust investments and shifted to term-deposits to capitalize on high bank deposit rates in 2010, which helped to improve PVI's overall investment yield to 7.6% in 2010 (see Figure 10 below).

***Key issue:* Are the investment returns going to improve majorly, or are they not?**

Looking at PVI's investment portfolio as at the end of 2010, we see that PVI's management are still rather ploddish in managing their capital: 37.9% in bank deposits, 19.3% in short-term trust investments (fixed rate), 12.2% in stocks (mainly long-term holdings), 9.7% in Government bonds, and 5.6% in private equity investment. PVI's management said a year ago they would shift towards equity investment and project financing to improve the investment return. But we haven't seen that move in 2010. 2011 will be a challenging year for PVI to significantly improve investment returns with such a portfolio structure. Therefore, in our financial modelling, we forecast investment return earned by PVI stays around 7.5% in 2011 and improves to 8.5% in 2012. Inefficient capital utilization shown by poor investment return is a fair criticism made by investors about PVI, but we also see that any improvement in investment return will be a potential catalyst upgrading PVI's profitability outlook.

Figure 10: PVI's investment profit

	2005	2006	2007	2008	2009	2010	2011F	2012F
Total assets (VND bn)	462	1,195	4,519	4,918	5,922	6,453	7,098	8,163
Growth (%)	*17%*	*159%*	*278%*	*9%*	*20%*	*9%*	*10%*	*15%*
Investment portfolio (VND bn)		755	2,704	3,322	3,400	4,482	4,898	5,469
% of total assets		*63%*	*60%*	*68%*	*57%*	*69%*	*69%*	*67%*
Investment profit	**24**	**54**	**198**	**166**	**200**	**298**	**367**	**465**
Growth (%)	11%	126%	267%	-16%	20%	49%	23%	27%
Avg return (%)		7.1%	11.4%	5.5%	6.0%	7.6%	7.5%	8.5%

Source: PVI, Mekong Securities

Tax effect hits 2011 growth in net profit, but underlying momentum stays strong

As from 2011, PVI will have to pay full corporate tax rate (25%) instead of 12.5% as in 2009-2010, which impacts net profit growth in 2011

2011 EPS takes full dilution impact of private placement done in mid 2010 and the impact of full corporate income tax

EPS adjusted: (i) "bonus funds" stripped out; (ii) rights/bonus issue adjustment for bonus factor.

Figure 11: PVI's profitability

Income Statement (VND bn)	2007	2008	2009	2010	2011E	2012E
Underwriting profit	**48**	**5**	**19**	**37**	**54**	**85**
Growth (%)	*647%*	*-90%*	*313%*	*94%*	*45%*	*57%*
Investment income	**198**	**166**	**200**	**298**	**367**	**465**
Growth (%)	*267%*	*-16%*	*20%*	*49%*	*23%*	*27%*
Return on investments (%)	*11.4%*	*5.5%*	*6.0%*	*7.6%*	*7.5%*	*8.5%*
Profit before tax	**250**	**172**	**220**	**336**	**422**	**550**
Growth (%)	*315%*	*-31%*	*28%*	*53%*	*26%*	*30%*
Tax expenses	(0)	-	22	39	105	138
Corporate income tax rate (%)	*0%*	*0%*	*12.5%*	*12.5%*	*25%*	*25%*
Net profit	**250**	**172**	**198**	**297**	**316**	**413**
Growth (%)	*468%*	*-31%*	*16%*	*50%*	*7%*	*31%*
Adjusted for contributions to bonus funds (12%)	*25*	*9*	*14*	*31*	*38*	*50*
Net profit to common equity	**225**	**163**	**184**	**265**	**278**	**363**
Net profit margin (%) - unadj.	49.7%	20.5%	15.7%	17.9%	14.6%	14.5%
ROAA (%) - unadj.	8.8%	3.6%	3.7%	4.8%	4.7%	5.4%
ROAE (%) - unadj.	20.2%	8.5%	8.4%	9.9%	8.7%	11.1%
EPS (VND)	3,740	1,808	1,915	2,189	1,980	2,584
EPS adjusted (VND)		1,399	1,471	2,015	1,742	2,274
BVPS (VND)	19,584	22,060	23,329	22,587	22,924	23,599
DPS (VND)	700	700	300	1,900	1,500	1,500

We estimate pre-tax profits earned by PVI will continue to grow robustly in 2011-2012, ranging from 26% to 30%. However, as from 2011 PVI has to pay full corporate income tax (25%) instead of preferential rate (0%-12.5% applied during 2007-2009 for a newly-equitized corporation), the net profit growth in 2011 may moderate to c. 7% before regaining its growth momentum in 2012 at c. 31%.

It's notable that many Vietnamese companies including PVI haven't taken into account the "contributions to bonus fund" as operating cost. Thus, we make adjustments to net profit to reflect true profits belonging to shareholders, and compute an EPS figure adjusted for this. EPS estimated for 2011 is lower due to material impact of full corporate income tax on earnings, and full dilution impact of the 12.6% private placement to Funderburk Lighthouse in mid-2010.

ROAE (unadjusted) has been improving slightly, but remains quite low, which remains a source of criticism and concern for investors. PVI's management really need to show its actions to improve investment return as a way to improve its ROE. A higher multiple valuation on the stock would ultimately follow such action as investors appreciated a move in direction away from the current shareholder value destruction currently occurring – as shown by ROAA lagging badly behind WACC.

PVI plans to further increase its chartered capital (shareholders equity at par) from the current VND1,597bn to VND1,800bn in 2011. The detailed plan is not available yet, but we guess it may be in the form of dividend stock funded by capital surplus, which stood at VND1.622bn at the end of 2010. Moreover, the company also plans to issue convertible bonds worth VND1,500bn.

Valuation

At its current price of VND18,400 (USD0.88) per share, PVI is trading at a 2011 PBR and PER of 0.8x and 10.6x respectively, versus historical averages of 1.2x and 13x, which are the same as regional (Asia-Pacific emerging) current averages.

This currently low PBR reflects the market's criticism of PVI's inefficient capital utilization. PVI's investment portfolio is safe but also generates a rather low return. We are looking for real actions by PVI's management to take a more dynamic investment approach to improve investment return, which would be a strong catalyst upgrading PVI's profitability outlook and the valuation of PVI stock.

The blended valuation approach gives us a price target of VND25,000 (USD1.2), which is based on the average of:

Our valuation points to a price target of VND25,000 (USD1.2) per share

- VND27,500 for PBR valuation, which uses the PB multiple of 1.2x against the company's 2011E BVPS of VND22,924.
- VND22,600 for PER valuation, which is based on the average PE multiple of 13x to its expected adjusted EPS in 2011E of VND1,742.

	minus 1 STDEV	Average	Plus 1 STDEV
PE (PVI)	8	13	17
Price on PE (2011EPS)	13,939	22,651	29,620
PB (PVI)	0.9	1.2	1.5
Price on PB (2011BVPS)	20,631	27,508	34,385
Average pricing	**17,285**	**25,080**	**32,003**

The price target of VND25,000 is 35.9% higher than the current price of VND18,400, and provides a 12-month expected total return (including expected cash dividend) of 44.1%. We recommend accumulating PVI at the current price. The dividend is a supporting factor; additionally, being a liquid stock with a good growth story, PVI will benefit from a rising Vietnamese equity market that we expect from mid-2011.

Financials

Income Statement (VND bn)	2006	2007	2008	2009	2010	2011E	2012E
Direct premium written	1,164	1,599	2,021	2,770	3,512	4,460	5,665
Reinsurance income	50	86	126	199	316	475	664
Net retained premium	**307**	**503**	**838**	**1,262**	**1,658**	**2,171**	**2,848**
Claims & charges	*77*	*152*	*355*	*465*	*607*	*803*	*1,054*
Reserves and other underwriting expenses	*102*	*63*	*99*	*209*	*224*	*282*	*370*
Selling and G&A expenses	*122*	*240*	*380*	*568*	*790*	*1,031*	*1,339*
Total operating expenses	300	455	834	1,243	1,621	2,117	2,763
Underwriting profit	**6**	**48**	**5**	**19**	**37**	**54**	**85**
Investment profit	**54**	**198**	**166**	**200**	**298**	**367**	**465**
Profit before tax	**60**	**250**	**172**	**220**	**336**	**422**	**550**
Tax expenses	16	(0)	-	22	39	105	138
Net profit	**44**	**250**	**172**	**198**	**297**	**316**	**413**
Net profit to common equity (adjusted)	**44**	**225**	**163**	**184**	**265**	**278**	**363**

Key ratios and per-share value	2006	2007	2008	2009	2010	2011E	2012E
Direct premium growth (%)	65.5%	37.4%	26.4%	37.1%	26.8%	27.0%	27.0%
Reinsurance income growth (%)	28.0%	74.1%	45.8%	57.7%	59.2%	50.0%	40.0%
Underwriting profit growth (%)	-60.7%	647.6%	-90.3%	313.4%	94.3%	45.0%	57.4%
Net profit growth (%)	52.5%	467.7%	-31.3%	15.5%	49.6%	6.6%	30.5%
Retention rate (%)	25.3%	29.8%	39.1%	42.5%	43.3%	44.0%	45.0%
Loss ratio (%)	25.0%	30.2%	42.3%	36.9%	36.6%	37.0%	37.0%
Combined ratio (%)	97.9%	90.5%	99.4%	98.5%	97.7%	97.5%	97.0%
Underwriting profit margin (%)	2.1%	9.5%	0.6%	1.5%	2.3%	2.5%	3.0%
Investment yield (%)		11.4%	5.5%	6.0%	7.6%	7.5%	8.5%
Net profit margin (%)	14.4%	49.7%	20.5%	15.7%	17.9%	14.6%	14.5%
ROAA (%)	5.3%	8.8%	3.6%	3.7%	4.8%	4.7%	5.4%
ROAE (%)	12.3%	20.3%	8.5%	8.4%	9.9%	8.7%	11.1%
EPS (VND)	1,610	3,740	1,808	1,915	2,189	1,980	2,584
EPS adjusted (VND)			1,399	1,471	2,015	1,742	2,274
BVPS (VND)	16,007	19,584	22,060	23,329	22,587	22,924	23,599
DPS (VND)	-	700	700	300	1,900	1,500	1,500

Source: PVI, Mekong Securities

Financials

Balance Sheet (VND bn)	2006	2007	2008	2009	2010	2011E	2012E
Cash & Equivalents	60	1,159	834	1,479	561	864	1,004
Short-term investment	582	2,173	2,261	2,139	3,173	3,372	3,755
Long-term investment	173	531	1,061	1,261	1,310	1,526	1,714
Fixed assets	259	272	285	86	89	109	196
Total assets	**1,195**	**4,519**	**4,918**	**5,922**	**6,453**	**7,098**	**8,163**
Current liabilities	131	2,347	1,974	2,614	1,656	1,905	2,286
Technical reserves	346	428	658	890	1,187	1,580	2,139
Unearned premium reserve	-	*243*	*473*	*623*	*856*	*1,160*	*1,573*
Claim reserve	-	*44*	*120*	*202*	*263*	*350*	*492*
Catastrophe reserve	-	*141*	*64*	*65*	*68*	*70*	*73*
Total liabilities	**479**	**2,776**	**2,634**	**3,507**	**2,846**	**3,437**	**4,394**
Total equity	**716**	**1,743**	**2,284**	**2,416**	**3,607**	**3,661**	**3,769**
Chartered capital	447	890	1,036	1,036	1,597	1,597	1,597
Retained earnings	-	177	114	180	196	216	319

Key ratios	2006	2007	2008	2009	2010	2011E	2012E
Total asset growth (%)	158.5%	278.1%	8.8%	20.4%	9.0%	10.0%	15.0%
Total equity growth (%)		143.4%	31.1%	5.8%	49.3%	1.5%	2.9%
Total investment growth (%)		258.1%	22.8%	2.4%	31.8%	9.3%	11.7%
Total investments/Total assets	63.2%	59.8%	67.5%	57.4%	69.5%	69.0%	67.0%
Equity/Total assets (%)	59.9%	38.6%	46.4%	40.8%	55.9%	51.6%	46.2%
Retained premium/Equity (%)	42.8%	28.9%	36.7%	52.2%	46.0%	59.3%	75.6%
Total reserves/Claims (x)	4.51	2.82	1.85	1.91	1.96	1.97	2.03

Source: PVI, Mekong Securities

Mekong Securities' Rating System

We currently use a three-tier recommendation system for the stocks in our formal coverage: BUY, HOLD, or SELL.

A **BUY** is applied when the expected total return over the next twelve months is at least 10%.
A **HOLD** is applied when the expected total return over the next twelve months ranges between -10% to 10%.
A **SELL** is applied when the expected total return over the next twelve months is -10% or worse.
These benchmarks are subject to change.

Expected Total Return (12 months) = [(Target Price - Current Price)/Current Price] + Forecast 12-month Dividend Yield.

Our Analyst's Methodology

Target price and expected total return

Initially, an analyst derives an expected 12-month target price using multiple valuation methodologies. Different valuation methods have been used, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA).

Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

Once analysts derive a risk-adjusted valuation for a company under review, its current market price is then compared with the target price to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.

Disclaimer

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