

## Company Report

Bao Viet Holding  
HoSE symbol: BVH

Our valuation of BVH share is much lower than the current market price. We recommend SELL on this ticker.

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**ACBS Research Center**  
**June 16, 2011**



## RESTRUCTURING PROCESS

*In 2010, besides its efforts to achieve profitability targets, BVH focused on implementing its strategy to build new foundations and a united Bao Viet brand. BVH and HSBC have cooperated under the Technical Support and Capability Transfer Agreement. This agreement includes cooperation in all areas at BVH including corporate governance, risk management, finance, technology, marketing and communication, bancassurance, and human resources.*

*BVH has invested around US\$ 25 million in information technology projects. In 2010, BVH introduced professional softwares in life insurance, securities, banking and accounting, delivering a consistent IT infrastructure within the group. Actually, the key projects in non-life insurance, fund management and infrastructure are being speedily implemented. The IT development plan is important to create necessary conditions in terms of technology to transform the business model towards centralized management.*

## STABLE INSURANCE BUSINESS

*In 2010, the revenue from insurance activities (life and non-life) was VND 8,551 billion, increasing by 12% compared to 2009. Insurance is the core business, which accounts for 66% of the total consolidated revenue. Although the market share of Bao Viet has decreased over the year, Bao Viet Insurance successfully keeps the leading position in Vietnam's non-life insurance market with 25% market share while Bao Viet Life maintains its second position in the life insurance market with 29% market share in terms of revenue.*

## OVERPRICED STOCK

*BVH has good business performance, stable revenue growth in insurance and banking activities. However, the risk of fluctuation of the stock market might strongly affect the investment and securities businesses. After cautious consideration, we value BVH at the price of VND 46,129 per share, 45% lower than the current market price. Besides, the dividend payout is low so that BVH is not attractive to investors looking at dividend income. Therefore, we give a Sell recommendation on BVH stock if investors do not have a specific strategic investment purpose in the company.*

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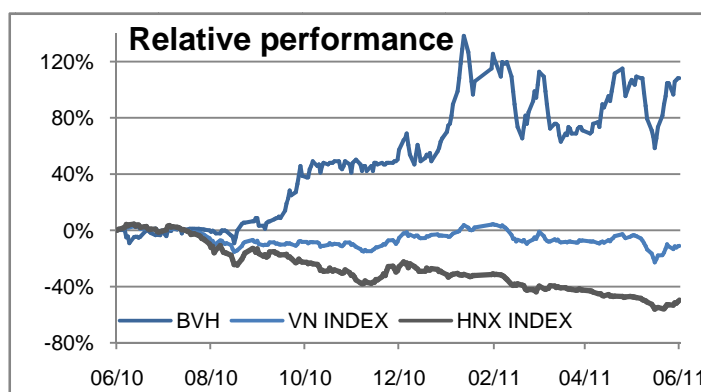
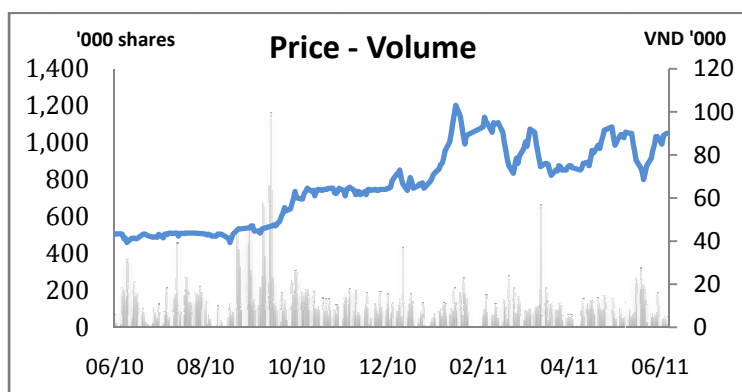
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## KEY STATISTICS



Performance	
Current Price (VND)	84,000
Market Cap (VND bil)	61,242
52wk High (VND)	106,000
52wk Low (VND)	39,248
Average Volume (100 days)	112,543
1 Month Return	3.14%
3 Month Return	8.66%
6 Month Return	40.43%
12 Month Return	111.14%

Shareholders structure	
Share Outstanding	680,471,424
Major shareholders	88.91%
Domestic shareholders	74.97%
Foreign shareholders	25.03%

	Current	2010	2009
PE High	59.80	49.92	21.21
PE Low	58.48	19.28	19.67
PE Close	59.47	43.55	19.67

P/B High	5.31	5.18	2.20
P/B Low	5.19	2.00	2.04
P/B Close	5.28	4.12	2.04

Dividend yield High	1.36	2.63	N/A
Dividend yield Low	1.32	1.42	N/A
Dividend yield Close	1.33	1.60	N/A

Major Shareholders	Number of shares	Stake
Ministry of Finance	482,509,800	70.91%
HSBC	122,509,091	18.00%

Income statement (VND bil)	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F
Net revenue of insurance activities	5,193	6,443	7,053	7,811	8,742	9,817	11,061	12,504
Total expenses insurance activities	(4,774)	(5,467)	(5,842)	(6,465)	(7,188)	(8,026)	(9,000)	(10,133)
Gross profit from insurance activities	419	975	1,211	1,346	1,554	1,791	2,061	2,371
Income from banking activities	355	957	1,582	1,955	2,511	3,293	4,399	5,914
Expenses from banking activities	(126)	(539)	(1,229)	(1,502)	(1,909)	(2,504)	(3,304)	(4,391)
Net operating income banking activities	229	419	353	452	602	790	1,095	1,524
Revenue from other activities	144	198	218	240	264	290	319	351
Expenses from other activities	(56)	(156)	(172)	(189)	(208)	(229)	(252)	(277)
Net operating income from other activities	89	42	46	51	56	61	68	74
Selling expenses	(122)	(143)	(160)	(179)	(202)	(228)	(258)	(293)
Administration expenses	(1,454)	(1,724)	(1,910)	(2,118)	(2,349)	(2,608)	(2,897)	(3,221)
Net operating income	(838)	(431)	(460)	(448)	(339)	(193)	68	455
Financial profit	2,062	1,611	2,203	2,693	2,963	3,267	3,858	3,990
Other profit	14	22	23	24	25	26	28	29
Share of the profit in associates	13	54	54	54	54	54	54	54
Profit before tax	1,250	1,255	1,820	2,323	2,704	3,155	4,009	4,529
Equalisation reserve	(5)	(6)	(8)	(11)	(13)	(15)	(19)	(21)
Income tax	(234)	(275)	(453)	(578)	(673)	(785)	(998)	(1,127)
Profit after tax	1,012	974	1,359	1,734	2,019	2,355	2,993	3,381
Minority interest	120	22	30	39	45	52	67	75
Net profit	892	953	1,329	1,696	1,974	2,303	2,926	3,305

Balance sheet (VND bil)	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F
<b>Current assets</b>	<b>13,673</b>	<b>18,279</b>	<b>20,592</b>	<b>23,507</b>	<b>26,850</b>	<b>30,685</b>	<b>35,084</b>	<b>40,132</b>
Cash and cash equivalents	2,533	5,845	6,653	7,651	8,798	10,118	11,636	13,381
Short-term investments	8,576	9,032	10,387	11,945	13,737	15,797	18,167	20,892
Short-term receivables	2,428	3,207	3,331	3,667	4,045	4,470	4,949	5,489
<b>Loans &amp; Advances to customers</b>	<b>2,625</b>	<b>5,889</b>	<b>6,950</b>	<b>9,198</b>	<b>12,232</b>	<b>16,915</b>	<b>23,470</b>	<b>32,648</b>
<b>Non-current assets</b>	<b>17,417</b>	<b>20,600</b>	<b>21,598</b>	<b>22,970</b>	<b>24,460</b>	<b>26,080</b>	<b>28,095</b>	<b>30,021</b>
Fixed assets	1,703	1,938	2,189	2,479	2,812	3,194	3,633	4,137
Long-term investments	15,630	18,544	19,302	20,379	21,529	22,758	24,323	25,731
<b>TOTAL ASSET</b>	<b>33,715</b>	<b>44,768</b>	<b>49,140</b>	<b>55,675</b>	<b>63,543</b>	<b>73,680</b>	<b>86,649</b>	<b>102,801</b>
<b>Liabilities</b>	<b>23,777</b>	<b>32,753</b>	<b>36,012</b>	<b>41,209</b>	<b>47,596</b>	<b>56,068</b>	<b>66,913</b>	<b>80,781</b>
Current liabilities	2,451	6,221	5,799	6,363	6,962	7,601	8,267	8,788
Amount due to customers	3,787	7,598	9,502	11,997	15,283	20,190	26,940	36,257
Reserves	17,466	18,853	20,628	22,764	25,263	28,186	31,613	35,640
<b>Equity</b>	<b>8,589</b>	<b>10,668</b>	<b>11,750</b>	<b>13,049</b>	<b>14,486</b>	<b>16,098</b>	<b>18,155</b>	<b>20,364</b>
Contributed capital	5,730	6,267	6,805	7,485	8,234	9,057	9,963	10,959
Share premium	1,735	3,077	3,184	3,184	3,184	3,184	3,184	3,184
Undistributed earnings	886	1,093	1,481	2,031	2,632	3,319	4,352	5,414
<b>Minority interests</b>	<b>1,349</b>	<b>1,348</b>	<b>1,378</b>	<b>1,416</b>	<b>1,461</b>	<b>1,514</b>	<b>1,581</b>	<b>1,656</b>
<b>TOTAL RESOURCES</b>	<b>33,715</b>	<b>44,768</b>	<b>49,140</b>	<b>55,675</b>	<b>63,543</b>	<b>73,680</b>	<b>86,649</b>	<b>102,801</b>

## BUSINESS ANALYSIS

### BUSINESS PORTFOLIO

*A diversified business portfolio.*

Bao Viet Holding (BVH) is the first corporation in Vietnam that has the full-line of financial services including commercial bank (Bao Viet Bank), investment bank (Bao Viet Securities and Bao Viet Fund), insurance activities (Bao Viet Life and Bao Viet Insurance) and real-estate (Bao Viet Invest). At the corporate level, this diversified business portfolio benefits BVH with economies of scope and potentially creates unique competitive advantages. However, the complicated structure also generates challenges on the management and technological sides.

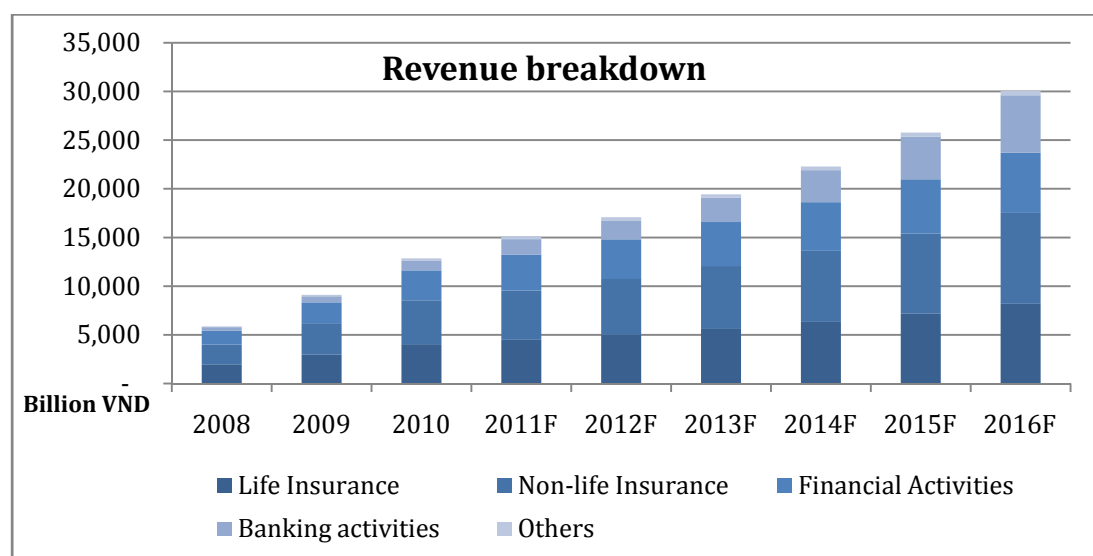
Subsidiaries	Charter capital (VND)
Bao Viet Insurance	1,500,000,000,000
Bao Viet Life	1,500,000,000,000
Bao Viet Bank	1,500,000,000,000
Bao Viet Securities	722,339,370,000
Bao Viet Fund Management	50,000,000,000
Bao Viet Invest	100,000,000,000

Source: BVH

In 2010, the Vietnamese economy posted a growth rate of 6.7%, relatively high compared to the average rate of the world economy. However, the banking, financial and investment markets still saw many risks and abnormal fluctuations.

*Total consolidated revenue in 2010 increased by 21.8% compared to 2009.*

In this environment, BVH has recorded a positive performance with a total consolidated revenue of VND 12,683 billion in 2010, growing by 21.8% compared to 2009. Of which, the revenue from insurance activities (life and non-life) was VND 8,551 billion, increasing by 12%, and the revenue from financial activities was VND 3,079 billion, increasing by 28%. The consolidated profit before tax was VND 1,255 billion, up only 0.39% in comparison with 2009.



Source: BVH, ACBS forecasts

The revenue from insurance activities made up 55% of the total consolidated revenue of the company. This ratio decreased from the figure of 72% in 2009, due to the increasing contribution from banking and financial activities.

**Revenue from financial investment accounted for 47% of the total revenue of the holding.**

Besides the positive results of insurance and banking activities, its investment banking business saw a difficult year in 2010, posting a loss after tax of VND 93 billion.

In the revenue structure of the parent company, the revenue from financial investments reached VND 591 billion, growing by 51% and accounting for 47% of the total revenue. This strong growth was due to the additional investment capital after the private placement of HSBC.

In Q1/2011, the consolidated revenue of the group was VND 3,354 billion, increasing by VND 586 billion (+21%). BVH posted a profit before tax of VND 345 billion, 9% higher than in Q1/2010. The result was mainly driven by the high growth of revenue from general insurance (up 18% in comparison with Q1/2010). Besides, profit from banking business amounted to VND 102 billion in Q1/2011, increasing by 30% compared to the same period last year.

## RESTRUCTURING PROCESS

In 2010, besides its efforts to achieve the profitability targets, BVH focused on implementing its strategy to build new foundations and a united Bao Viet brand.

**BVH and HSBC have cooperated under the Technical Support and Capability Transfer Agreement.**

Over the last three years, BVH and HSBC have cooperated under the Technical Support and Capability Transfer Agreement. This agreement includes cooperation in all areas at BVH including corporate governance, risk management, finance, technology, marketing and communication, bancassurance, and human resources. Phase III of this agreement is being carried out. This will help to improve and enhance management quality in key areas including insurance, banking, fund management, securities, information technology and human resources to meet sustainable growth targets of the group in the future.

### *Improvements in corporate governance*

**The ALCO was established to promote the effectiveness in financial management.**

BVH continues to develop a management system in the Holding and its subsidiaries following international standards. The Audit Committee has been strengthened to support the BOD in risk control. The ALCO was established to promote the effectiveness of the financial management and investment in the group.

In 2010, HSBC executives helped BVH to successfully prepare and issue financial statements according to the IFRS standards in order to improve the transparency and quality of the financial reporting.

### *Innovation in information technology*

**BVH has invested US\$ 25 million in IT projects.**

BVH has invested around US\$ 25 million in information technology projects in the period of 2009 - 2011. In 2010, BVH introduced centralized information systems in life insurance, securities, banking and accounting, delivering a consistent IT infrastructure within the group. Currently, the key projects in non-life insurance, fund management and infrastructure are being speedily implemented. The IT development plan is important to create the necessary conditions in terms of technology to transform the business model towards a centralized management. The centralized and modern information system is expected to be basically completed by the end of 2011.

**BVH raised its charter capital to VND 6,804 billion.**

## Enhancement of financial capacity

BVH successfully raised some capital twice in 2010, including the private placement for HSBC and the share issuance to existing shareholders. The company then raised its charter capital from VND 5,730 billion to VND 6,804 billion. The financial resources from these two issuances have been used to increase the charter capital of the non-life insurance business from VND 1,000 billion to VND 1,500 billion, and will also be used to increase the financial capacity of the core businesses as well as for additional investments in the IT system.

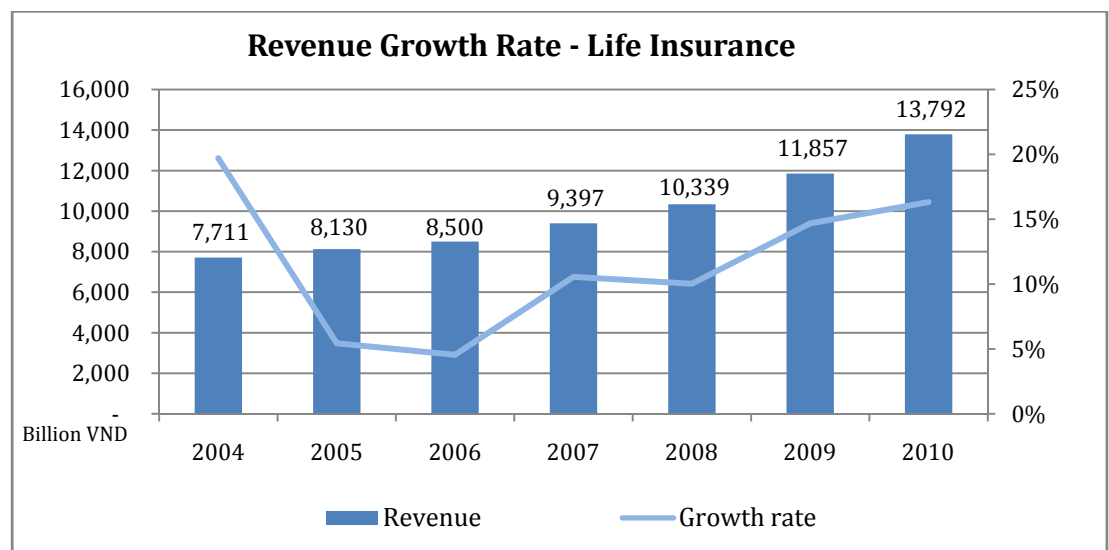
## BAO VIET LIFE

### Underdeveloped Life Insurance Market

Vietnam's insurance market, one of the fastest growing markets in the world, has expanded rapidly over the last few years. Despite being still young, Vietnam's life insurance market has overtaken some neighboring countries in terms of number and size of the companies that are providing life insurance services.

**As at the end of 2010, there were more than 200,000 insurance agencies.**

As at the end of 2010, there were more than 200,000 insurance agents and the total owner's equity of life insurance's companies was VND 10,600 billion. The number of new insurance policies in 2010 was 822,946, increasing by 22% compared to 2009.



Source: Association of Vietnamese Insurers

**Annual average growth of 11.6% from 2004 to 2010.**

From 2004 to 2010, the life insurance market grew by 11.6% annually on average. In 2010, life insurance premiums amounted to VND 13,792 billion, in which premiums from new policies accounted for VND 3,743 billion. From these premium resources, the life insurance sector has invested a large amount of capital into the economy.

However, both Vietnam's life and non-life insurance markets have not developed to their full potential yet. The revenue from the insurance sector currently makes up just about 1.7% of the GDP while the ratio in developed countries is usually 8-15%. This indicates that Vietnam's insurance market is still very promising with a great potential. In 2011, revenue from life insurance in Vietnam is expected to reach VND 15,434 billion, increasing by 12% compared to 2010. For a long-term outlook, the growth rate is forecasted to be 15-20% on average in the next five years.

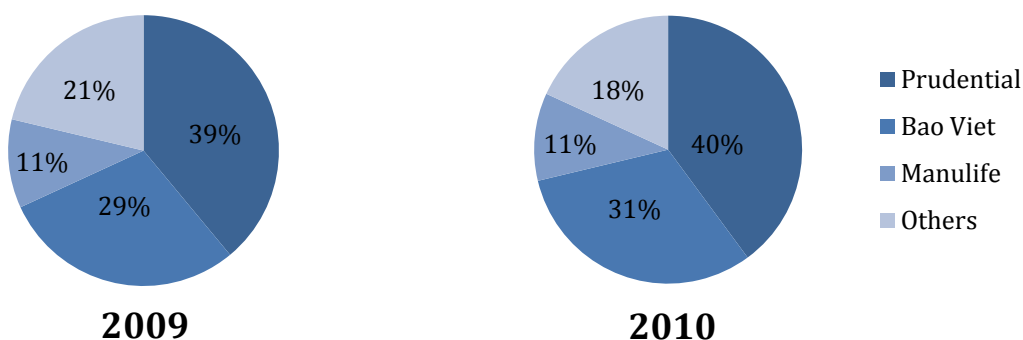


## High competition

*Among the 12 life insurers in Vietnam, 11 are foreign companies.*

Currently, 12 life insurance companies, including 11 foreign-capital invested companies, have been granted a license to operate in Vietnam. The leaders in the market include Prudential, Bao Viet Life and Manulife. By the end of 2010, Prudential accounted for 39% of the market share, followed by Bao Viet Life with 29% and Manulife with 11% of the market share in terms of revenue.

## Vietnam's Life Insurance Market Share



Source: Association of Vietnamese Insurers

The market share in terms of new policies also did not see much changes compared to 2009. The three leaders were still Prudential with 30%, Bao Viet Life with 25% and Manulife with 11% of the market share. This market share structure might change when the small players are striving to raise their rank.

*Not only big old players but also new insurers are racing to get some market share.*

Besides the old names, the market in the recent years has welcome new insurers such as Korea Life Insurance, Great Eastern Insurance. Not only big old players but also new insurers are racing to get some market share. With a growth of 113% in 2010, Korea Life Vietnam quickly made up 3% of the market share in terms of premiums from new insurance contracts, ranking amongst the life insurers with a high growth in 2010.

Moreover, life insurers also face the competition from other financial institutions in attracting idle capital from the households. The current high deposit interest rates affect the life insurance business. A number of people might terminate their fixed rate contracts which were signed in the previous years before the maturity date to switch to bank deposits for higher interest earnings.

In general, with high operating expenses, profit from the core business of insurance does not account for the main portion of the total profit of insurance companies. Some insurance companies even suffer losses from the business line of insurance. Most of the companies' profit comes from financial activities.

## Changing product structure

While the competition between life insurers on the current products continues to be stiff, many firms have been creating new products to attract customers. Previously, only the traditional products were seen on Vietnam's life insurance market. In the recent years, products with investment component such as universal life insurance and unit-linked insurance plans have appeared. These are mixed products offering both investment returns and insurance protection.

***The portion of endowment insurance products has reduced while that of investment products has increased.***

***BVL's market share has decreased from 34.58% in 2007 to 29.17% in 2010.***

***In 2010, the revenue from life insurance business has risen by 9.2%.***

With the appearance of such mixed investment products, the product structure of life insurance companies has also changed. The revenue from endowment insurances made up 75.9% of the total revenue of the whole market in 2010, while revenue from unit-linked insurance plans made up 16.5%. Although the portion of endowment insurance products has reduced in comparison with 2009, it still made up a big portion of the revenue structure in the whole market while the market share of the investment products has increased.

## *Declining Market Share*

Bao Viet Life is the first and the only local life insurer in Vietnam. With a fierce market competition, Bao Viet Life has lost some market share to other foreign players over the years. Although Bao Viet Life still ranks second in the market, its market share has decreased gradually from 34.58% in 2007 to 29.17% in 2010.

In 2010, the revenue from the life insurance business has risen by 9.2% in comparison with 2009, to VND 4,046 billion, accounting for 31% of the total consolidated revenue of the group. The biggest subsector in the life insurance business is endowment insurance, whose revenue reached VND 3,388 billion. As the general trend of the market, revenue from traditional products in 2010 decreased by 1% compared to 2009 while the revenue from investment products (such as universal life) increased 2.5 times to VND 507 billion in 2010. Profit from life insurance transferred to the parent company grew by 23% over the prior year to VND 402 billion. These positive results could be attributable to customer care programs, new product developments and quality improvement of the distribution system.

With the support, strategic and technical expertise of HSBC, Bao Viet's sole strategic foreign partner, the company has continued to invest in projects that will deliver long-term growth and development, according to international standards. These projects include the establishment of a modern and transparent corporate governance system, investments in technology projects to enable and drive business transformation and growth, the gradual move to centralized management business model, enhanced investment in people management and brand development, and the promotion of cross-subsidiary cooperation. Bao Viet aims to utilize the sum of its strengths to provide customers with comprehensive financial-insurance products and services. However, due to the weakness of Bao Viet Bank and Bao Viet Securities, the deployment of combined products might face difficulties. Hopefully, with its efforts and HSBC's help, Bao Viet can change the current situation and increase its market share in the long-term.

## *Business Operation*

Bao Viet Life is a subsidiary 100% owned by Bao Viet Holdings. Bao Viet Life is the first life insurer and the second biggest life insurer in Vietnam, managing 60 branches and over 600 customer centers nationwide.

***Significant changes were implemented in the organizational model.***

Significant changes were implemented in the organizational model of Bao Viet Life in 2010 to enhance its competitiveness. This included a restructuring of the life business to a centralized management model, improvements in training and the professionalism of the distribution network; improvements in customer service quality and the development of the information technology systems to support business activities.



## Future Perspective

Actually, only 5% of the Vietnamese population has purchased life insurance policies. This rate is much lower than that of other developing countries. Hence, Vietnam represents a promising life insurance market with a great potential. The Vietnamese economy is predicted to be one of the fastest growing ones among the ASEAN countries in the coming decade. This means that there will be an emerging middle class with higher disposable incomes, so the demand for life insurance will increase.

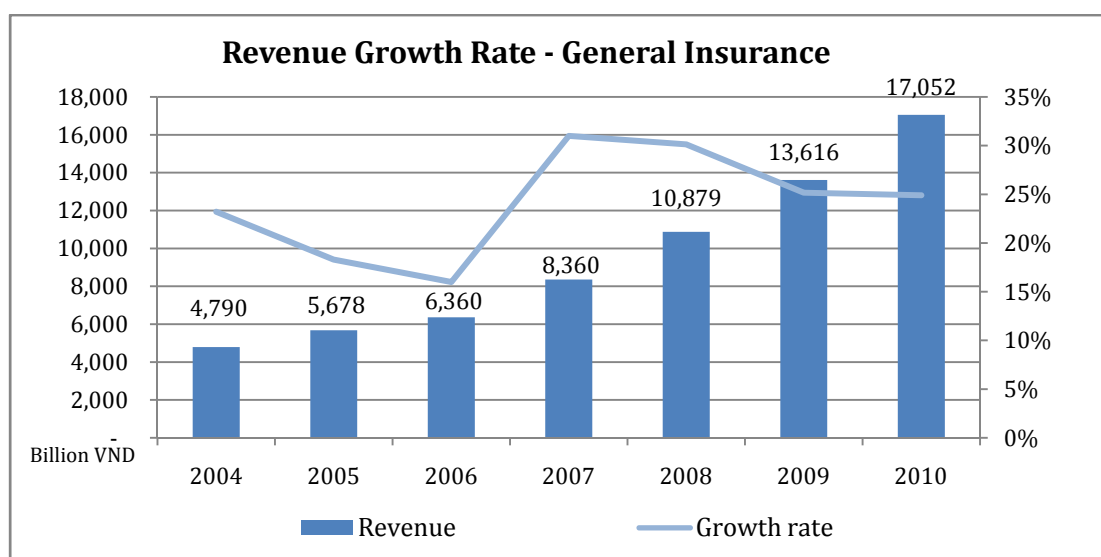
**Growth target of 12% in 2011.**

According to the Insurance Supervisory Authority, the life insurance market in 2011 should maintain its growth momentum as seen previously, with total premiums of about VND 15,434 billion, growing by 12% compared to 2010, of which, the revenue from new contracts is expected to reach 21.5%.

In its 2011 business plan, Bao Viet Life has set out to reach the targets of 30% market share and a total revenue of nearly VND 4,400 billion (up 6.5%), of which revenue from new underwriting business is expected to grow by 25%, higher than the expected growth rate of the life insurance market in terms of new contracts.

## BAO VIET INSURANCE

### Fast Growth Pace



Source: Association of Vietnamese Insurers

Before 2007, the total market revenue from non-life insurance was lower than that of life insurance. However, from 2007 onwards, non-life insurance has passed life insurance in terms of revenue.

**Average annual growth of 25% over the last 5 years.**

Despite the macroeconomic fluctuation and financial crisis, the general insurance market continued to achieve impressive growth. Over the last five years, the general insurance market grew by 25% annually on average, over 1.5 times the nominal GDP growth rate in the same period.

In 2010, the total market revenue from non-life insurance amounted to VND 17,052 billion, up 24.9% compared to 2009. Nevertheless, the contribution to the GDP is still small with only about 1%, much less than the ratio of other developing countries.

## Tough Competitors

**70% of the market share held by the Top 5 insurers.**

In Vietnam, the competition is fierce, not only in the life insurance market but also in the general insurance market. As of the end of 2010, there were 30 general insurance companies operating in Vietnam. The Top 5 leaders, Bao Viet, PVI, Bao Minh, PJICO and PTI, have held about 70% of the market share in terms of revenue over the years. Bao Viet is the leader with 25%, followed by PVI with 21% and Bao Minh with 11% of the market share.

In the recent years, the competition has always been stiff. Many firms cut their premiums and widen their coverage to attract new customers. These are among the factors that made several non-life insurers suffer losses. However, the competition to lower premiums will not last for long; rather, service improvement, risk management and cost savings will be the critical success factors for the general insurance businesses in the future.

Bao Viet, the insurance firm with the longest experience on the Vietnamese market, has held the first position in terms of revenue for many years. In 2010, the revenue from non-life insurance business reached VND 4,574 billion, increasing by 14.7% compared to 2009 and accounting for 53% of the group's total revenue from insurance activities. Bao Viet Insurance has successfully implemented a risk appraisal process and managed claims to derive profit in the insurance business with a combined ratio of 94.2%.

**Its market share in non-life insurance has decreased.**

As for life insurance, the market share of Bao Viet in the non-life insurance market, in terms of primary insurance premium, has gradually decreased from 27% in 2009 to 25% in 2010. In the first two months of 2011, PVI has passed Bao Viet to take the leading position.

## Future Perspective

**Vietnam is a strong potential market for insurance companies.**

According to the Insurance Supervisory Authority, with an average GDP growth rate in recent years of about 6.5%, a young population structure of over 86 million people, Vietnam is a strong potential market for insurance companies. Besides, from July 2011, the effectiveness of the amended Insurance Business Law will make the legal environment solid for the insurance market to develop sustainably and stably.

Together with the development of the economy, many industries have shown a high growth such as shipbuilding, tourism, aviation, etc. This will stimulate the development of related general insurance subsectors. Besides, households' income is increasing year-on-year. Hence, demand for automobile insurance and health insurance plans is expected to continue increasing.

**Total revenue is expected to grow by 16% in 2011.**

In its 2011 plan, Bao Viet Insurance expects to gain a total revenue of over VND 5,792 billion, up by 16% compared to 2010. The profit after tax is set to increase by over 25.4%. In the long-term, Bao Viet Insurance aims to maintain its position as the leading non-life insurer in Vietnam until 2015, and strive for an average annual growth rate of 16% in terms of primary premium revenue during this period.

## BAO VIET BANK

### *Newly Born*

***BVB counted only 26 POS as of Dec 31, 2010 - very small compared to other banks.***

Bao Viet Bank (BVB) was established in December 2008 and officially started to operate in Jan 2009. BVH holds a 52% stake in BVB. As of 31 December 2010, its charter capital was VND 1,500 billion and the number of POS reached only 26, which is very small compared to other banks with the same level of charter capital such as Nam Viet Bank, or Nam A Bank.

Due to its young age and a small scale of business, BVH lacks of economies of scale for its banking operations. In terms of total client deposits and loans, BVB is currently behind some other banks with the same level of charter capital.

***Very low ROE compared to industry benchmarks.***

In 2010, BVB posted a profit after tax of VND 132 billion, increasing by 110% compared to 2009, and a ROA and ROE of 1.3% and 8.7% respectively. ROE is really low compared to the industry benchmarks. It can be explained by the fact that BVB is still in the first stage of this business; hence, the costs to strengthen its operational structure, widen its network, look for new customers and develop its technology are high.

### *Unclear Competitive Edges*

***BVB has no clear competitive edge.***

Even with the strong support from its parent company, BVB has not yet made a clear competitive edge compared to other banks. Its bancassurance offering, thanks to Bao Viet Insurance and Bao Viet Life, has been welcome and became a hallmark on the market. However, this is not the unique product of BVB. The bank has to face the competition from several other banks that are also developing and offering combined bank and insurance products.

### *Information technology*

***BVB has deployed and completed a T24 core banking system.***

Aware of the importance of IT for a bank's development, BVB has deployed and completed the T24 core banking system before starting its operation. Besides, BVB has also speedily carried out many IT projects, including those on the Financial Switching & CMS system, the SMS banking and Internet banking. The IT system not only enables the centralization of transaction data and risk management but also helps to provide better customer services. Clients can do their transaction at any POS and either use Internet banking or mobile banking services. With a high Internet penetration rate and busier lifestyles, these products are more and more strategic.

Although the T24 is among the best information systems, it is not only used by BVB. Many other banks in Vietnam such as Techcombank, Military Bank, VPBank or ABBank etc are also using this core banking system. Therefore, the use of the T24 system is not really a strength compared to the others. Currently, BVB counts only a small number of 29 ATMs nationwide, so developing the ATM network is a critical requirement to be able to compete with other banks in the future.

### *Changing Legal Environment*

After the financial crisis, the SBV acknowledged the systematic risk reality of the banking system and tried to enhance the sector's financial health. The efforts of the SBV to implement Basel II and force commercial banks to increase their charter capital are parts of the action plan.

**BVB has to double its charter capital in 2011.**

By the end of 2010, there were still a lot of banks that did not have the required charter capital. The SBV extended the time for banks to fulfill the minimum capital requirement of VND 3 trillion by the end of 2011. Up to now, the charter capital of BVB is VND 1.5 trillion, which does not meet the requirement yet. It means that BVB has to double its capital in 2011. However, it is very challenging for BVB since the founder – CMC, who currently holds a 9.9% stake, intended to withdraw its capital investment from BVB. Besides, raising capital with the current situation on the Vietnamese stock market is quite hard for all businesses, not only BVB.

**Banks' credit growth must not exceed 20% in 2011.**

Moreover, as per the Government's regulations, banks must limit their credit growth under 20% in 2011, focusing on loans for production and decreasing loans for real estate and securities to the minimum. For small banks such as BVB, it has become very difficult to make an optimal use of the mobilized funds for their business operations. Most banks have to reduce and adjust their planned credit growth in 2011 from 70-80%, even from a three-digit ratio to only 20%.

## Future Perspective

As mentioned above, with the advantages of the full-line of financial services from BVH, BVB could utilize the strengths of other members in the group to provide customers with combined financial products and services.

**BVB expects a 13% profit growth, before and after tax.**

For 2011, BVB aims to maintain the strong growth demonstrated in 2010 in terms of business efficiency and scale. It planned a 39% growth of its total assets, up to VND 19,000 billion compared to 2010, and a profit before and after tax up by 13%.

In the long-term, BVB's goal is to become the leading retail bank in terms of service quality. The profit after tax is expected to reach VND 1,350 billion by the end of 2015, but it will be very challenging for BVB to achieve its plan according to the current economic situation in Vietnam.

## SECURITIES

### High Competition

The competition between securities companies in the market is very high, especially in the core area of brokerage, also quite unprofitable. At the end of 2010, there were 102 securities companies operating in Vietnam. In Q1-2011, the Top 10 brokers account for 51.59% of the brokerage market share on HOSE and 44.34% on HNX. On the Ho Chi Minh Stock Exchange (HoSE), SSI holds the first position with 11.74% market share, followed by TLS with 8.85% and HSC with 6.38%. Moreover, with the current low liquidity of the market, many securities companies had to reduce their brokerage fee in order to compete with the others to attract customers. This also affects their revenue from brokerage.

Bao Viet Securities Company (BVSC) is the first securities joint stock company incorporated in Vietnam with the initial charter capital of VND 49 billion. Up to now, BVSC's charter capital has reached VND 722 billion, in which BVH holds a 59.92% stake. In Q1-2011, BVSC stood at the 7<sup>th</sup> position in terms of brokerage market share on HoSE.

Previously, BVSC's competitive edge was its financial advisory services. As a subsidiary of a state-owned company, BVSC was the choice of several state-owned businesses for

**The Top 10 brokers account for 51.59% of the market share on HoSE and 44.34% on the HNX.**

**The competitive edge of BVSC in financial advisory services has declined.**

their equitization and listing process in terms of financial consulting services. However, in the recent years, this competitive edge has declined as the state-owned companies that have been equitized and listed on the stock exchange have no longer accounted for a large portion in the whole market.

## Equity Market Downturn

In general, 2010 was a challenging year for the stock market. The market remained quiet during most of the time last year. The VN-Index decreased and the liquidity was volatile. The VN-Index closed 2010 at 478.75, decreasing by 2.04% while the HNX-Index closed 2010 at 114.24, decreasing by 32.07% compared to the beginning of the year. Due to the strong macroeconomic instability (high interest rates, inflation, volatility of the forex market, tight monetary policy, control of the SBV on capital investment in securities), investors' cash flows into the stock market have strongly decreased.

**BVSC posted a loss of VND 93 billion in 2010.**

According to the SSC, in 2010, 20 out of the 102 securities companies suffered losses. The market was not as attractive to investors as in the previous years so many of them left the stock market, leading to a strong decrease of the brokerage fees. Besides, due to the downturn of the market, returns from investment activities also significantly shrunk. Many companies had to make provision for impairment of investments. In this situation, BVSC posted a loss of VND 93 billion and was the only member in the group in that situation in 2010.

## Future Perspective

**2011 EBT set at VND 100 billion.**

In a context of stiff competition among the securities companies in the core sectors of brokerage and advisory services, BVSC still set positive targets for 2011, with a revenue growth of over 4% and earnings before tax of VND 100 billion. BVSC will actively cooperate with the other members in the group in order to widen its distribution channel, share investment information, and provide its clients with comprehensive financial products.

However, according to the financial report of BVSC, in Q1-2011, the loss after tax amounted to VND 54 billion while for the same period in 2010, the company posted a profit after tax of VND 9.6 billion. With the current status of the Vietnamese stock market, the target of BVSC is really ambitious.

## FUND MANAGEMENT

### Dependent Business Operation

**Most of the assets under management are managed on behalf of Bao Viet Life and Bao Viet Insurance.**

Bao Viet Fund Management is a subsidiary wholly owned by BVH. The current Fund's financial assets under management have increased steadily, giving the company the position of the top two fund management companies in Vietnam by the asset size. Almost 86% of the total assets are managed on behalf of Bao Viet Life and 8% on behalf of Bao Viet Insurance. Hence the Fund strongly depends on these two members of the group.

### Investment Effectiveness

**In 2010, total revenue of VND 56 billion, equivalent to 83% of that in 2009.**

2010 has been a challenging year for investment and for the stock market in general. As of 31 December 2010, BVF's charter capital was VND 50 billion. In 2010, the total managed assets amounted to VND 20,261 billion and the total revenue reached VND 46



billion, equivalent to 83% of that in 2009. Profit after tax was VND 21 billion, decreasing by 43% compared to 2009. The return on equity was 26.9% and return on asset was 22.0%. According to the Fund, the performance in 2010 exceeded all customers' requirements and the portfolio's structure was in-line with the expectations.

In 2010, BVF closely cooperated with HSBC executives to strengthen the new organizational structure, arrange human resources and form the functional committees that help to enhance the management effectiveness and the cooperation among departments within the company.

## OTHER ACTIVITIES

Besides operating in the fields of insurance, banking, securities and fund management, BVH also operates in the field of real estate (property investment, trading and management services) via its subsidiary, Bao Viet Invest (BVI). This subsidiary was established in 2009 with the charter capital of VND 100 billion. Because of its young age and a relative small capital, BVI faces several difficulties in its business operations. Although its profit after tax in 2010 increased by 71%, it reached only VND 2.4 billion, with a ROE of 2.4%.

In addition to its investing activities in property projects and property trading, BVI also operates in the field of trading construction equipments and construction machines. In terms of building management, BVI has applied advanced management techniques and methods to upgrade the management quality at Bao Viet buildings to international standards.

In its 2011 plan, BVI has set out a revenue growth target of over 200% and earnings before tax are expected to increase 8 times compared to 2010.

## CORPORATE GOVERNANCE

### THE BOD & BOM

Five out of the seven members in the BOD are representatives of the Ministry of Finance (MOF). The two remaining members are from SCIC and HSBC, the major shareholders. At the Annual General Shareholders Meeting this year, two new comers have been elected in the BOD. The new members include Mr. Duong Duc Chuyen (Chief Investment - Strategy Officer of BVH) and Mr. Charles Gregory (Chief Representative of HSBC Insurance in Vietnam). There is no independent member in the BOD. The board structure, which shows the controlling power of the MOF, might not really ensure the protection of minority shareholders' interests.

BVH has a strong and experienced Board of Management of six members. Ms. Nguyen Thi Phuc Lam, a member of the BOD is also the CEO of the company. The other five members include the Chief Information Technology Officer, the Chief Human Resources Officer, the Chief Risk Management Officer, the Chief Investment – Strategy Officer and the Chief Financial & Real Estate Management Officer. All of the members of the BOM have management experience in the related fields.

We appreciate the ability of the BOD and the BOM in taking good business decisions. It has been proven by the success of BVH over the years.

*Bao Viet Invest operates in property investment, trading and supporting services.*

*The BOD's structure shows the controlling power of MOF.*

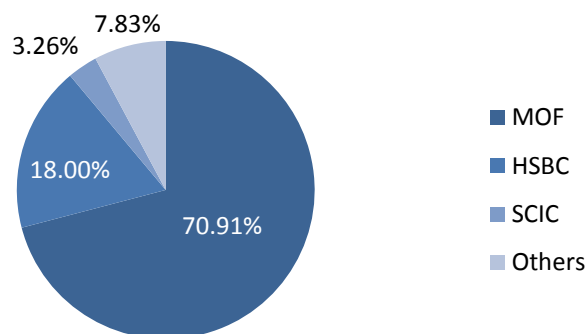
*A strong and experienced BOM.*



## THE SUPERVISORY BOARD

The Supervisory Board comprises five members, of which three have been working for a long time at BVH. Hence, they have an extensive knowledge of BVH's business. One member is from HSBC while the other one is the CEO of SEA Bank.

## SHAREHOLDERS STRUCTURE



Source: BVH

**MOF holds a 70.91% stake.**

Although being equitized in 2007, BVH is still a state-owned company in which the MOF holds a 70.91% stake. Hence, the MOF has a significant influence on BVH's business operation.

**HSBC's stake increased from 10.32% to 18% after the private placement.**

In 2010, the successful private placement to its strategic partner, HSBC, and the share issuance to existing shareholders, have contributed to an increase of the charter capital of BVH, from VND 5,730 billion to VND 6,804 billion. After the private placement, HSBC's stake in BVH increased from 10.32% to 18%.

## FINANCIAL ANALYSIS

### REPORTING ISSUES

BVH's financial reports are well constructed and helpful for investors to interpret the financial situation of the company and its earning quality. Moreover, Ernst & Young has been the auditor for the company since its equitization and has helped to enhance the report comparability and understandability.

**Some inconsistencies between balance sheet data and income statement data.**

However, as BVH is a newly formed entity which was created under a large restructuring process, the historical data are not very comparable. Firstly, the 2007 financial statements cannot be used for comparison purposes due to the change of the entity nature. Secondly, we found some inconsistencies between the balance sheet data and the income statement data in the 2008 and 2010 financial statements. Hence, only the 2009 financial statements can be fully used for analysis. This limits our interpretation toward the changes, in particular regarding the claims reserve account, and made us to be very conservative in our forecast of the future business operations and financial structure.

## EXTRAORDINARY FINANCIAL ITEMS

### Claims reserve

As mentioned above, the 2008 and 2010 financial reports show some inconsistencies between the movement of the amount of claims reserve related to the insurance business in the balance sheet, and the amount of claims reserve expenses recorded to the income statement, generating a difficult analysis.

### Long-term loans and entrusted loans

**Provision of VND 43 billion made for overdue long-term loans and entrusted loans.**

As of 31 December 2010, BVH had a total of VND 43 billion worth of overdue long-term loans and entrusted loans, provided to Greenline Limited Company and Orion Hanel Company. The borrowers are unable to pay back these loans so BVH has made the full provision for this amount.

### Investments

One has to note that, in the investment portfolio of BVH, there is around VND 1,000 billion worth of debt of non guaranteed government bonds of Vinashin and time deposits at Vinashin. BVH has not made the provision for these amounts yet. Therefore, in the coming years, if the competent authorities decide to record provisions for the loans and bonds related to Vinashin and if there is a default and consequent haircut on bonds, this will affect the financial results of BVH.

### Other payables

**Other payables increased by 49% in comparison with 2009.**

At the end of 2010, the other payables increased by 49% to VND 1,106 billion in comparison with 2009. This mainly came from the subscription money of VND 647 billion received from the existing shareholders when they exercised their rights in January 2011. We excluded this extraordinary item in our projection.

## FINANCIAL RATIOS

### Liquidity

	2008	2009	2010
Current ratio	8.89	5.58	2.94
Quick ratio	8.87	5.53	2.92
Cash ratio	6.77	4.53	2.39

Source: BVH, ACBS Research

Although current ratio, quick ratio and cash ratio have a declining trend, they have been maintained above 1 over the years. They reflect BHV's good liquidity.

### Solvency

	2008	2009	2010
Total debt to asset	0.65	0.71	0.73
Total debt to equity	1.99	2.77	3.07
Financial leverage	3.05	3.93	4.20

Source: BVH, ACBS Research

**Insurance reserves made up a large portion of the total liabilities.**

The solvency ratios of BVH are quite high and increased y-o-y. However, the insurance reserves made up a large portion in the group's total liabilities (more than 50%). The big amount of reserves assures the payment capacity of BVH for claims and losses that might occur in the future. Hence, the high solvency ratios here do not really mean that BVH has high financial risks.

## Profitability

	2008	2009	2010
Gross profit margin (%)	11.16	12.95	18.90
Operating profit margin (%)	-14.07	-14.73	-5.67
Net profit margin (%)	5.34	17.77	12.82
ROA (%)	N/A	3.43	2.23
ROE (%)	N/A	11.98	9.19

Source: BVH, ACBS Research

As many other Vietnamese insurance firms, most of the company's profit comes from financial activities. Insurance is not the main activity that contributes to the total profit, and can even generate losses. This explains the negative operating profit margin of BVH over the years. However, gross and operating profit margins have been gradually improving.

**Relative low profit compared to the scale of equity.**

In contrast with the improvement of the gross and operating profit margins, the net profit margin, ROA and ROE in 2010 were worse compared to 2009. In general, the profit of BVH is relatively low compared to the scale of equity.

## VALUATION

### PROJECTION BASIS

**Revenue from life and non-life insurance grow 8-15% and 10-15% per year respectively.**

- Revenue of insurance activities is projected in our model by considering growth of the industry and business plan of BVH for the coming years. Revenue from life insurance is expected to grow 8-15% per year during the projection period, from 2011 to 2016. Especially, due to the changes of the product structure on the market, with the increase of investment products, the revenue growth from universal life is expected to be higher at 30% per year. Revenue from non-life insurance is forecasted to grow 10-15% per year.
- In 2011, due to the regulation of the Government, the credit growth is limited at 20%. However, in the following years, the credit growth is expected to be higher. The growth rate of deposits is projected as per the group's plan. The revenue from banking services and forex trading will grow by 20% per year.
- Other operations grow as they did in the past years.
- To be prudent, we consider making provision for bonds and deposits at Vinashin in our projection.
- The extraordinary item of other payables referring to the subscription money received from existing shareholders who exercised their rights will not continue in the future.
- The cost of employment increases 15-20% per year.

**The credit growth in 2011 is limited at 20% per year.**

## VALUATION METHOD DISCUSSION

Due to the complicated structure of BVH, it is quite difficult to choose an appropriate valuation method. With the intrinsic value method, DDM cannot be applied because of the low dividend payment given the scale growth of the group.

With the relative method, since BVH is the only company in Vietnam that has such a diversified financial business portfolio, we applied the average P/E and P/B of the global companies in the financial industry that have the same level of market capitalization with BVH as the benchmark.

With the FCFE method, we estimated the growth rate at the end of the projection period of 8% and we used the required rate of return of 17%.

## VALUATION RESULTS

With the above assumptions, we value the price of BVH at **VND 46,129/share**, compared to its current market price of VND 84,000.

Method	Benchmark	Price	%
P/E	26.72	52,162	25%
P/B	2.22	38,276	25%
FCFE		47,039	50%
<b>Valuated price</b>		<b>46,129</b>	<b>100%</b>

Source: Bloomberg, ACBS

The current price of BVH is far from its intrinsic value. This might be explained by the small number of free floating BVH shares in the market (about 75 million shares) and because of the high weight of BVH in the VNIndex, the investors can use BVH to replicate easily the index's performance. If the MOF decides to decrease its stake in BVH, or the index composition will be changed to reflect only free floating weights, then the price can decrease but we believe that it will take a long time for the market price to approach the intrinsic value.

## RECOMMENDATION

### RISK ASSESSMENT

**Low business fluctuation risk.**

BVH is a blue-chip with the average transaction volume of about 135,000 shares per session (the last 12 months). However, as mentioned above, the free floating shares of BVH are quite small. Hence, investors may face some little liquidity risks by investing in BVH's stocks but it is not remarkable at the moment.

Despite the stability of the insurance and banking sectors, the business related to investment and securities is strongly affected by the fluctuations of the stock market. However, the profit from fund management activity and securities business contributed a small portion to the total profit of BVH. Besides, in BVH's investments portfolio, the time deposits and government bonds accounted for the main portion (31/12/2010: 71%). Hence, we estimate that the risks of business fluctuations related to an investment in BVH are quite low in short and medium term.

*Protection of minority shareholder's interest might be the highest risk for long-term investors.*

Due to the controlling power of the Ministry of Finance in the company, the highest risk for long-term investors might be related to the protection of minority shareholders interest.

Short-term price volatility is quite high at the moment due to the impacts of macroeconomic factors.

## RECOMMENDATION

*We give a Sell recommendation.*

*BVH has good business performance, stable revenue growth from insurance and banking activities. However, the risk of fluctuation of the stock market might strongly affect the investment and securities businesses.*

*After cautious consideration, we value BVH at the price of VND 46,129 per share, 45% lower than the current market price. Besides, the dividend payout is low so that BVH is not attractive to investors looking for dividend incomes.*

*Therefore, we recommend Selling if investors do not have any specific long term strategy investment purpose in the company.*

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